

TOWN OF BANNER ELK, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2015

TOWN COUNCIL MEMBERS

Allan 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, 2015

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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, 2015, 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, 2015, 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.

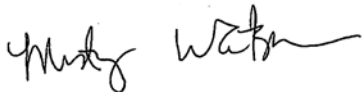
Supplementary Other Information

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, 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 October 13, 2015, 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
October 13, 2015

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, 2015. 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

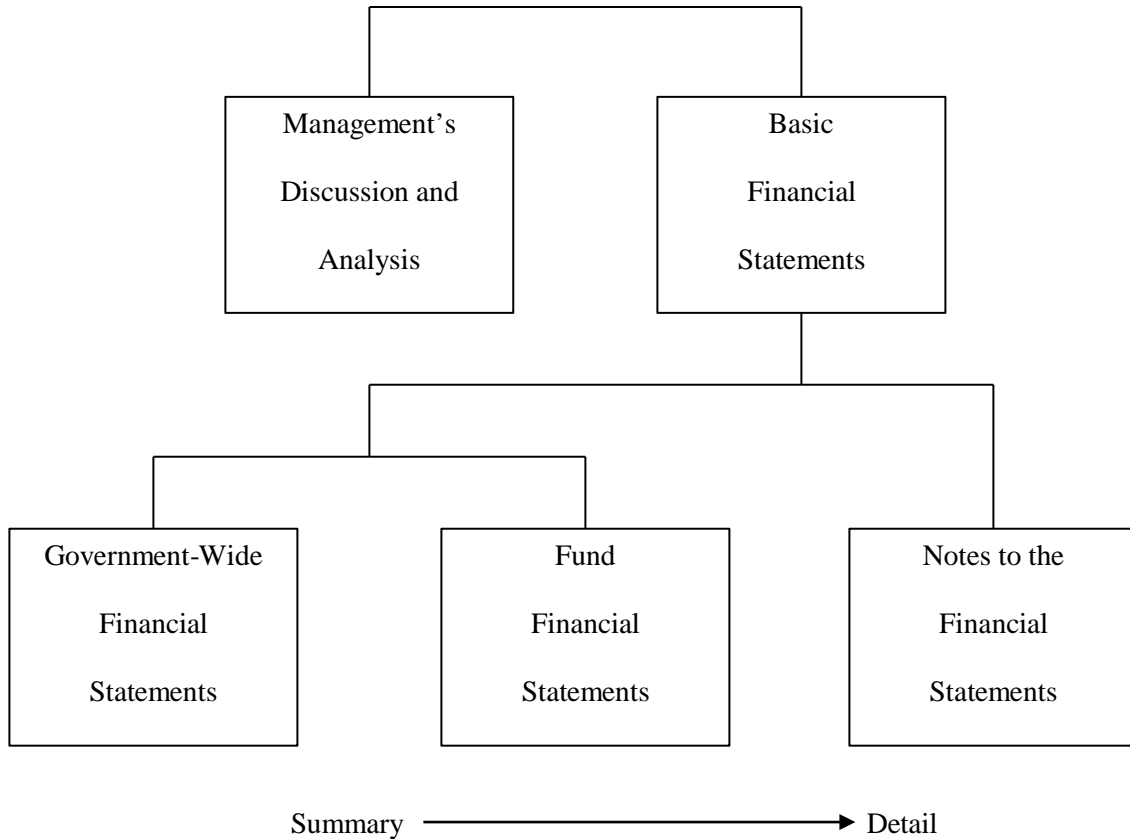
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$7,455,618 (*net position*).
- The government's total net position increased by \$605,364, primarily due to governmental fund related activities.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$1,853,101, an increase of \$394,814 in comparison with the prior year. Approximately 10% of this total amount, or \$181,958, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,121,639, or 44%, 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 23 of this report.

Other Information. Combining and individual fund statements and schedules can be found beginning on page 55 of this report. Required supplementary information can be found beginning on page 51.

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

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and other assets	\$ 2,066,632	\$ 1,603,696	\$746,568	\$ 603,462	\$ 2,813,200	\$ 2,207,158
Capital assets	4,123,876	2,866,511	3,294,229	3,456,754	7,418,105	6,323,265
Deferred outflows of resources	59,777	--	11,134	--	70,911	--
Total assets and deferred outflows of resources	<u>6,250,285</u>	<u>4,470,207</u>	<u>4,051,931</u>	<u>4,060,216</u>	<u>10,302,216</u>	<u>8,530,423</u>
Liabilities:						
Long-term liabilities outstanding	2,107,894	724,428	361,565	421,849	2,469,459	1,146,277
Other liabilities	84,337	113,770	61,531	63,428	145,868	177,198
Deferred inflows of resources	194,960	--	36,311	--	231,271	--
Total liabilities and deferred inflows of resources	<u>2,387,191</u>	<u>838,198</u>	<u>459,407</u>	<u>485,277</u>	<u>2,846,598</u>	<u>1,323,475</u>
Net Position:						
Net investment in capital assets	2,598,080	2,389,201	2,956,229	3,058,754	5,554,309	5,447,955
Restricted	181,958	193,116	--	--	181,958	193,116
Unrestricted	1,083,056	1,049,692	636,295	516,185	1,719,351	1,565,877
Total net position	<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>

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 \$7,455,618 as of June 30, 2015. The Town's net position increased by \$605,364 for the fiscal year ended June 30, 2015. However, the largest portion (74%) 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, \$181,958, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,719,351 is unrestricted. Also, the Town of Banner Elk implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$117,923. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Banner Elk's management.

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 property tax rate of twelve cents per hundred dollars of valuation.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.77%.

Town of Banner Elk Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 32,654	41,830	684,908	629,301	717,562	671,131
Operating grants and contributions	87,192	162,107	--	--	87,192	162,107
Capital grants and contributions	253,500	116,000	--	--	253,500	116,000
General Revenues:						
Property taxes	1,147,816	1,068,610	--	--	1,147,816	1,068,610
Other taxes	578,352	419,446	--	--	578,352	419,444
Investment earnings	2,030	2,613	544	277	2,574	2,890
Sale of capital assets	21,990	--	--	--	21,990	--
Other	35,408	--	--	--	35,408	--
Total revenues	2,158,942	1,810,606	685,452	629,578	2,844,394	2,440,184
Expenses:						
General government	442,745	433,234	--	--	442,745	433,234
Public Safety	726,786	765,705	--	--	771,085	765,705
Transportation	263,279	428,324	--	--	218,980	428,324
Cultural and recreation	138,041	158,913	--	--	138,041	158,913
Interest on long-term debt	19,002	12,510	15,044	17,237	34,046	29,747
Water and sewer	--	--	634,133	614,021	634,133	614,021
Total expenses	1,589,853	1,798,686	649,177	631,258	2,239,030	2,429,944
Increase (decrease) in net position	569,089	11,920	36,275	(1,680)	605,364	10,240
Net position, beginning	3,632,009	3,620,089	3,574,939	3,576,619	7,206,948	7,196,708
Prior period adjustment	(238,771)	--	--	--	(238,771)	--
Net position, restated	3,294,005	3,620,089	3,556,249	--	6,850,254	7,196,708
Net position, June 30	\$ 3,863,094	3,632,009	3,592,524	3,574,939	7,455,618	7,206,948

Governmental Activities. Governmental activities increased the Town's net position by \$569,089. Key elements of this increase are as follows:

- Property tax revenues increased due to an increase in property tax rates of twelve cents per hundred dollars of valuation in the current year.
- Proceeds received from Part F grant.

Business-Type Activities. Business-type activities increased the Town of Banner Elk's net position by \$36,275. Key element of this increase are as follows:

- A rate increase for water and sewer services went into effect for the fiscal year which increased charges for services.

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 \$1,121,639, while total fund balance reached \$1,249,122.

At June 30, 2015, the governmental funds of the Town of Banner Elk reported a combined fund balance of \$1,853,101, a 27% increase over last year. Included in this change in fund balance is an increase in the General Fund of \$303,359, an increase in the Capital Improvement Capital Project Fund of \$86,636, and a net increase in other nonmajor funds of \$4,819.

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 2015. 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 \$636,295. The change in net position was an increase of \$36,275. 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, 2015, totals \$7,418,105 (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 and land \$1,000,000
- Governmental infrastructure \$159,860
- Governmental equipment \$30,012
- Governmental vehicles \$70,966

Town of Banner Elk's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 973,019	\$ 223,019	\$ 23,466	\$ 23,466	\$ 996,485	\$ 246,485
Construction in progress	-	76,755	-	-	-	76,755
Infrastructure	2,099,453	1,939,593	-	-	2,099,453	1,725,924
Buildings	1,299,045	1,049,045	-	-	1,299,045	1,049,04
Plant	-	-	6,485,665	6,465,739	6,485,665	6,465,739
Equipment and furniture	778,849	738,165	597,109	597,109	1,375,958	1,335,274
Total	5,150,366	4,026,577	7,106,240	7,086,314	12,256,606	10,899,222
Less: accumulated depreciation	(1,026,490)	(946,397)	(3,812,011)	(3,629,560)	(4,838,501)	(4,575,957)
Net capital assets	\$ 4,123,876	\$ 3,080,180	\$ 3,294,229	\$ 3,456,754	\$ 7,418,105	\$ 6,323,265

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, 2015, the Town of Banner Elk had total bonded debt outstanding of \$338,000. Of this, \$338,000 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	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ -	\$ -	\$ 338,000	\$ 398,000	\$ 338,000	\$ 398,000
Compensated absences	56,223	62,770	23,565	23,849	79,788	86,619
Other post-employment benefits	525,875	76,077	-	-	525,875	76,077
Installment purchases	1,525,796	585,581	-	-	1,525,796	585,581
Total	\$ 2,107,894	\$ 724,428	\$ 361,565	\$ 421,849	\$ 2,469,459	\$ 1,146,277

The Town of Banner Elk's total long-term liabilities increased by \$1,323,182 during the past fiscal year, due to one installment loan being issued in the current year for purchase of the Old Banner Elk School and for the law enforcement special separation allowance.

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 15,068,752.

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, 2016

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 should see a slight increase due to a water and sewer rate increase.

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, 2015

	Primary Government			Town of Banner Elk Tourism Development Authority
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,806,162	\$ 546,400	\$ 2,352,562	\$ 172,175
Taxes receivables, net	49,202	-	49,202	-
Accounts receivable, net	433	74,042	74,475	-
Due from other governments	114,218	5,936	120,154	15,037
Inventories	-	66,699	66,699	-
Prepaid items	16,625	-	16,625	-
Restricted cash and cash equivalents	-	38,593	38,593	-
Total current assets	<u>1,986,640</u>	<u>731,670</u>	<u>2,718,310</u>	<u>187,212</u>
Non-current assets:				
Net pension asset	79,992	14,898	94,890	-
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	973,019	23,466	996,485	-
Other capital assets, net of depreciation	3,150,857	3,270,763	6,421,620	-
Total capital assets	<u>4,123,876</u>	<u>3,294,229</u>	<u>7,418,105</u>	<u>-</u>
Total assets	<u>6,190,508</u>	<u>4,040,797</u>	<u>10,231,305</u>	<u>187,212</u>
DEFERRED OUTFLOWS OF RESOURCES				
Changes in proportion and differences between Town contributions and proportionate share of contributions				
	8,571	1,597	10,168	-
Contributions to pension plan in current fiscal year				
	51,206	9,537	60,743	-
Total deferred outflows of resources	<u>59,777</u>	<u>11,134</u>	<u>70,911</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Accounts payable	84,337	22,938	107,275	42
Current portion of long-term liabilities	144,470	63,000	207,470	-
Payable from restricted assets	-	38,593	38,593	-
Total current liabilities	<u>228,807</u>	<u>124,531</u>	<u>353,338</u>	<u>42</u>
Long-term liabilities:				
Due in more than one year	1,963,424	298,565	2,261,989	-
Total liabilities	<u>2,192,231</u>	<u>423,096</u>	<u>2,615,327</u>	<u>42</u>
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	194,960	36,311	231,271	-
Total deferred inflows of resources	<u>194,960</u>	<u>36,311</u>	<u>231,271</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	2,598,080	2,956,229	5,554,309	-
Restricted for:				
Public safety	68,264	-	68,264	-
Stabilization by State Statute	113,694	-	113,694	15,037
Tourism	-	-	-	172,133
Unrestricted	1,083,056	636,295	1,719,351	-
Total net position	<u>\$ 3,863,094</u>	<u>\$ 3,592,524</u>	<u>\$ 7,455,618</u>	<u>\$ 187,170</u>

The accompanying notes are an integral part of the financial statements

Town of Banner Elk, North Carolina
Statement of Activities
June 30, 2015

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	Primary Government			Total	
					Governmental Activities	Business-type Activities			
Primary government:									
Governmental Activities:									
General government	\$ 442,745	\$ 12,780	\$ -	\$ -	\$ (429,965)	\$ -	\$ (429,965)	\$ -	\$ -
Public safety	726,786	-	16,903	-	(709,883)	-	(709,883)	-	-
Transportation	263,279	-	56,408	-	(206,871)	-	(206,871)	-	-
Cultural and recreation	138,041	19,874	13,881	213,500	109,214	-	109,214	-	-
Public works	-	-	-	40,000	40,000	-	40,000	-	-
Interest on long-term debt	19,002	-	-	-	(19,002)	-	(19,002)	-	-
Total governmental activities (See Note 1)	1,589,853	32,654	87,192	253,500	(1,216,507)	-	(1,216,507)	-	-
Business-type activities:									
Water and sewer	649,177	684,908	-	-	-	\$ 35,731	35,731	-	-
Total business-type activities	649,177	684,908	-	-	-	35,731	35,731	-	-
Total primary government	\$ 2,239,030	\$ 717,562	\$ 87,192	\$ 253,500	(1,216,507)	35,731	(1,180,776)	-	-
Component unit:									
Town of Banner Elk Tourism Development Authority									
Total component unit	\$ 85,462	-	-	-	-	-	-	(85,462)	(85,462)
General revenues:									
Taxes:									
Property taxes, levied for general purpose					1,147,816	-	1,147,816	-	-
Other taxes					232,361	-	232,361	145,638	-
Local option sales tax					345,991	-	345,991	-	-
Unrestricted investment earnings					2,030	544	2,574	480	-
Gain on sale of capital assets					21,990	-	21,990	-	-
Miscellaneous					35,408	-	35,408	2,164	-
Total general revenues not including transfers					1,785,596	544	1,786,140	148,282	-
Transfers					-	-	-	-	-
Total general revenues and transfers					1,785,596	544	1,786,140	148,282	-
Change in net position					569,089	36,275	605,364	62,820	-
Net position, beginning, previously reported					3,632,009	3,574,939	7,206,948	124,350	-
Prior period adjustment					(238,771)	-	(238,771)	-	-
Restatement					(99,233)	(18,690)	(117,923)	-	-
Net position, beginning, restated					3,294,005	3,556,249	6,850,254	124,350	-
Net position, ending					\$ 3,863,094	\$ 3,592,524	\$ 7,455,618	\$ 187,170	-

The accompanying notes are an integral part of the financial statements

Town of Banner Elk, North Carolina
Balance Sheet
Governmental Funds
June 30, 2015

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Improvement Capital Project Fund</u>	<u>Total Non- Major Funds</u>	
ASSETS				
Cash and cash equivalents	\$ 1,201,623	\$ 482,993	\$ 121,546	\$ 1,806,162
Receivables, net:				
Taxes	49,202	-	-	49,202
Accounts	433	-	-	433
Due from other governments	110,425	1,856	1,937	114,218
Prepaid expenses	16,625	-	-	16,625
Total assets	<u>1,378,308</u>	<u>484,849</u>	<u>123,483</u>	<u>1,986,640</u>
LIABILITIES				
Accounts payable and accrued liabilities	79,984	-	4,353	84,337
Total liabilities	<u>79,984</u>	<u>-</u>	<u>4,353</u>	<u>84,337</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	49,202	-	-	49,202
Total deferred inflows of resources	<u>49,202</u>	<u>-</u>	<u>-</u>	<u>49,202</u>
FUND BALANCES				
NonSpendable				
Prepaid expenses	16,625	-	-	16,625
Restricted				
Stabilization by State Statute	110,858	1,856	980	113,694
Public Safety	-	-	68,264	68,264
Assigned				
Capital projects	-	482,993	-	482,993
Cultural and recreation	-	-	13,881	13,881
Committed				
Capital projects	-	-	36,005	36,005
Unassigned	1,121,639	-	-	1,121,639
Total fund balances	<u>1,249,122</u>	<u>484,849</u>	<u>119,130</u>	<u>1,853,101</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,378,308</u>	<u>\$ 484,849</u>	<u>\$ 123,483</u>	

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

Total Fund Balance, Governmental Funds	1,853,101
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	\$ 5,150,366
Accumulated depreciation	<u>(1,026,490)</u>
Net pension asset	79,992
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	51,206
Changes in proportion and differences between Town contributions and proportionate share of contributions in fund statements.	8,571
Gross long-term debt	(2,107,894)
Pension related deferrals	(194,960)
Net position of governmental activities	<u>\$ 3,863,094</u>

The accompanying notes are an integral part of the financial statements

Town of Banner Elk, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2015

	Major Funds			
	General Fund	Capital Improvement Capital Project Fund	Total Non-Major Funds	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$ 1,130,253	\$ -	\$ -	\$ 1,130,253
Other taxes and licenses	1,864	-	-	1,864
Unrestricted intergovernmental	573,335	-	-	573,335
Restricted intergovernmental	107,658	213,500	-	321,158
Permits and fees	3,153	-	-	3,153
Sales and services	12,780	-	19,874	32,654
Investment earnings	1,480	540	10	2,030
Miscellaneous	35,084	-	19,857	54,941
Total revenues	<u>1,865,607</u>	<u>214,040</u>	<u>39,741</u>	<u>2,119,388</u>
EXPENDITURES				
Current:				
General government	412,620	-	-	412,620
Public safety	733,800	26,667	34,778	795,245
Transportation	217,329	44,299	144	261,772
Public works	-	83,105	-	83,105
Culture and recreation	1,115,035	-	-	1,115,035
Debt service:				
Principal	55,509	-	4,276	59,785
Interest and other charges	6,682	-	12,320	19,002
Total expenditures	<u>2,540,975</u>	<u>154,071</u>	<u>51,518</u>	<u>2,746,564</u>
Excess (deficiency) of revenues over expenditures	<u>(675,368)</u>	<u>59,969</u>	<u>(11,777)</u>	<u>(627,176)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	26,667	16,596	43,263
Transfers to other funds	(43,263)	-	-	(43,263)
Sales of capital assets	21,990	-	-	21,990
Installment purchase obligations issued	1,000,000	-	-	1,000,000
Total other financing sources (uses)	<u>978,727</u>	<u>26,667</u>	<u>16,596</u>	<u>1,021,990</u>
Net change in fund balance	<u>303,359</u>	<u>86,636</u>	<u>4,819</u>	<u>394,814</u>
Fund balances, beginning as	945,763	398,213	114,311	1,458,287
Fund balances, ending	<u>\$ 1,249,122</u>	<u>\$ 484,849</u>	<u>\$ 119,130</u>	<u>\$ 1,853,101</u>

The accompanying notes are an integral part of the financial statements

Town of Banner Elk, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2015

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

Net changes in fund balances - total governmental funds	\$	394,814
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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	\$ 1,184,083	
Depreciation expense for governmental assets	(140,387)	1,043,696
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		51,206

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		17,563
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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.

New long-term debt issued	(1,000,000)	
Principal payments on long-term debt	59,785	(940,215)

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	6,547	
Pension expense	(7,164)	
Other postemployment benefits	2,642	2,025

Total changes in net position of governmental activities	\$	<u>569,089</u>
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The accompanying notes are an integral part of the financial statements

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, 2015

	General Fund			Variance with Final Budget - Positive (Negative)
	Budget - Original	Budget - Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,072,141	\$ 1,072,141	\$ 1,130,253	\$ 58,112
Other taxes and licenses	4,000	4,000	1,864	(2,136)
Unrestricted intergovernmental	490,096	490,096	573,335	83,239
Restricted intergovernmental	91,625	91,625	107,658	16,033
Permits and fees	5,000	5,000	3,153	(1,847)
Sales and services	6,736	6,736	12,780	6,044
Investment earnings	1,000	1,000	1,480	480
Miscellaneous	10,500	10,500	35,084	24,584
Total revenues	<u>1,681,098</u>	<u>1,681,098</u>	<u>1,865,607</u>	<u>184,509</u>
Expenditures:				
Current:				
General government	433,301	435,205	412,620	22,585
Public safety	783,017	783,017	733,800	49,217
Transportation	324,020	324,020	279,520	44,500
Cultural and recreation	110,760	123,260	1,115,035	(991,775)
Contingency	-	-	-	-
Total expenditures	<u>1,651,098</u>	<u>1,665,502</u>	<u>2,540,975</u>	<u>(875,473)</u>
Revenues over (under) expenditures	<u>30,000</u>	<u>15,596</u>	<u>(675,368)</u>	<u>(690,964)</u>
Other financing sources (uses):				
Transfers from other funds				-
Transfers to other funds	(30,000)	(46,596)	(43,263)	3,333
Sales of capital assets	-	-	21,990	21,990
Installment purchase obligations issued	-	-	1,000,000	1,000,000
Total other financing sources (uses)	<u>(30,000)</u>	<u>(46,596)</u>	<u>978,727</u>	<u>1,025,323</u>
Fund balance appropriated	-	31,000	-	31,000
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>303,359</u>	<u>\$ 303,359</u>
Fund balances, beginning			945,763	
Fund balances, ending			<u>\$ 1,249,122</u>	

The accompanying notes are an integral part of the financial statements

Town of Banner Elk, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2015

	Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 546,400
Accounts receivable, net	74,042
Due from other governments	5,936
Inventories	66,699
Restricted cash and cash equivalents	38,593
Total current assets	731,670
Noncurrent assets:	
Net pension asset	14,898
Capital assets:	
Land and construction in progress	23,466
Other capital assets, net of depreciation	3,270,763
Capital assets	3,294,229
Total noncurrent assets	3,309,127
Total assets	\$ 4,040,797
DEFERRED OUTFLOWS OF RESOURCES	
Changes in proportion and differences between Town contributions and proportionate share of contributions	\$ 1,597
Contributions to pension plan	9,537
Total deferred outflows of resources	11,134
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	22,938
Current portion of long-term debt	63,000
Liabilities payable from restricted assets:	
Customer deposits	38,593
Total current liabilities	124,531
Noncurrent liabilities:	
Compensated absences	23,565
Notes and bonds payable	275,000
Total noncurrent liabilities	298,565
Total liabilities	423,096
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	36,311
NET POSITION	
Net investment in capital assets	2,956,229
Unrestricted	636,295
Total net position	\$ 3,592,524

The accompanying notes are an integral part of the 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, 2015

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 664,774
Water and sewer taps	8,223
Other operating revenues	11,911
Total operating revenues	684,908
OPERATING EXPENSES	
Water and sewer operations	451,682
Depreciation	182,451
Total operating expenses	634,133
Operating income (loss)	50,775
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	544
Interest and other charges	(15,044)
Total nonoperating revenue (expenses)	(14,500)
Change in net position	36,275
Total net position, previously reported	3,574,939
Restatement	(18,690)
Total net position, restated	3,556,249
Total net position, ending	\$ 3,592,524

The accompanying notes are an integral part of the financial statements

Town of Banner Elk, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 678,464
Cash paid for goods and services	(293,366)
Cash paid to employees	(157,893)
Customer deposits received	3,025
Customer deposits returned	(2,830)
Net cash provided (used) by operating activities	227,400
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(19,926)
Principal paid on long-term debt	(60,000)
Interest and other charges	(15,044)
Net cash provided (used) by capital and related financing activities	(94,970)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	544
Net increase (decrease) in cash and cash equivalents	132,974
Balances, beginning	452,019
Balances, ending	\$ 584,993
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 50,775
 Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	182,451
Pension expense	2,722
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable, net	(2,499)
(Increase) decrease in due from other governments	(3,945)
(Increase) decrease in inventories	11,210
Increase (decrease) in accounts payable and accrued liabilities	(2,092)
Increase (decrease) in customer deposits	196
Increase (decrease) in compensated absences	(284)
(Increase) decrease in deferred outflows of resources for pensions	(11,134)
Total adjustments	176,625
Net cash provided by operating activities	\$ 227,400

The accompanying notes are an integral part of the financial statements

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Banner Elk, North Carolina, and (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, 2015

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 Improvement Capital Project 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.

The Town maintains the following nonmajor governmental funds:

Streets and Sidewalks Capital Project Fund. The Streets and Sidewalk Capital Project Fund is used to account for the construction and major maintenance of streets and sidewalks owned by the Town.

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.

Old Banner Elk Elementary School. This fund is used to account for activity for the Banner Elk Elementary School.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 governmental-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, 2015

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
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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 as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, and SEC-registered (2a-7) money market mutual fund, are valued at fair value, 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.

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FOR THE YEAR ENDED JUNE 30, 2015

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, 2015, consist of the following:

Business-Type Activities:

Water and Sewer Fund: Customer deposits	<u>\$38,593</u>
Total restricted cash	<u>\$38,593</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, 2014.

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.

TOWN OF BANNER ELK, NORTH CAROLINA
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 FOR THE YEAR ENDED JUNE 30, 2015

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. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.

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. 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 relieved 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.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 meets this criterion, contributions made to the pension plan in the 2015 fiscal year and pension related deferrals.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to 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 fund 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 represent 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:

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Non-Spendable 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 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.

TOWN OF BANNER ELK, NORTH CAROLINA
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FOR THE YEAR ENDED JUNE 30, 2015

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.

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.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 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, 2015, the Town's deposits had a carrying amount of \$504,074 and a bank balance of \$538,356. Of the bank balance, \$250,000 was covered by FDIC. The Town held \$1,881 in petty cash as of June 30, 2015.

At June 30, 2015, the TDA's deposits had a carrying amount of \$172,175 and a bank balance of \$185,902. Of the bank balance, \$185,092 was covered by the FDIC.

2. Investments

At June 30, 2015, the Town's investments balances were as follows:

Investment Type	Fair Value	Maturity	Rating
NC Capital Management Trust – Cash Portfolio	\$ 664,335	N/A	AAAm
NC Capital Management Trust – Term Portfolio	1,220,865	.19 years	Unrated
Total:	<u>\$ 1,885,200</u>		

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Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk. The Town does not have a formal investment policy. Also, 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, 2015. 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.

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:				
Garbage fees	\$ 433	-	-	\$ 433
Property taxes	-	54,668	-	54,668
Local options sales/franchise tax	-	-	77,619	77,619
ABC revenues - unrestricted	-	-	21,250	21,250
ABC revenues law enforcement - restricted	-	-	3,490	3,490
Sales tax refunds due	-	-	11,859	11,859
Allowance for doubtful accounts	-	(5,466)	-	(5,466)
Total governmental activities	\$ 433	49,202	114,218	\$ 163,853

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

Capital Assets

Governmental Capital Assets

A summary of changes in the Town's governmental capital assets follows:

	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
By Asset Type:				
Non-Depreciable Assets:				
Land	\$ 223,019	750,000	-	\$973,019
Construction in progress	76,755	83,105	159,860	-
Total non-depreciable assets	<u>299,774</u>	<u>833,105</u>	<u>159,860</u>	<u>973,019</u>
Depreciable Assets:				
Infrastructure	1,939,593	159,860	-	2,099,453
Buildings	1,049,045	250,000	-	1,299,045
Equipment and furniture	738,165	100,978	60,294	778,849
Total depreciable assets	<u>3,726,803</u>	<u>510,838</u>	<u>60,294</u>	<u>4,177,347</u>
Less Accumulated Depreciation:				
Infrastructure	217,763	44,952	-	262,715
Buildings	219,036	27,410	-	246,446
Equipment and furniture	509,598	68,025	60,294	517,329
Total accumulated depreciation	<u>946,397</u>	<u>\$140,387</u>	<u>\$60,294</u>	<u>1,026,490</u>
Capital assets, net	<u>\$ 3,080,180</u>			<u>\$ 4,123,876</u>

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

Governmental Activities:

General government	\$ 30,137
Public safety	34,941
Transportation	50,602
Cultural and recreation	<u>24,707</u>
Total	<u>\$ 140,387</u>

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Proprietary Capital Assets

The capital assets of the proprietary fund of the Town at June 30, 2015, were as follows:

	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Business-Type Activities:				
Water/Sewer Fund:				
Non-Depreciable Assets:				
Land	\$ 23,466	-	-	\$ 23,466
Total non-depreciable assets	<u>23,466</u>	<u>-</u>	<u>-</u>	<u>23,466</u>
Depreciable Assets:				
Plant	6,465,739	19,926	-	6,485,665
Equipment	597,109	-	-	597,109
Total depreciable assets	<u>7,062,848</u>	<u>19,926</u>	<u>-</u>	<u>7,082,774</u>
Less Accumulated Depreciation:				
Plant	3,080,952	169,224	-	3,250,176
Equipment	548,608	13,227	-	561,835
Total accumulated depreciation	<u>3,629,560</u>	<u>182,451</u>	<u>-</u>	<u>3,812,011</u>
Capital assets, net	<u>\$ 3,456,754</u>			<u>\$ 3,294,229</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.

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. 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, 2015, was 7.41% of compensation for law enforcement officers and 7.07% 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 \$60,743 for the year ended June 30, 2015.

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

TOWN OF BANNER ELK, NORTH CAROLINA
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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Town reported an asset of \$94,890 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 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, 2014, the Town's proportion was 0.016%, which was a decrease of 0.001% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$8,498. At June 30, 2015, 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	\$ -	\$ 10,368
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	220,902
Changes in proportion and differences between Town contributions and proportionate share of contributions	10,168	-
Town contributions subsequent to the measurement date	60,743	-
Total	<u>\$ 70,911</u>	<u>\$ 231,270</u>

\$60,743 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset 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	\$ (55,276)
2017	(55,276)
2018	(55,276)
2019	(55,275)
2020	-
Thereafter	-

TOWN OF BANNER ELK, NORTH CAROLINA
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Actuarial Assumptions. The total pension liability in the December 31, 2013 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

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, 2013 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	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

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 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

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 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)	\$ 322,098	\$ (94,890)	\$ (445,981)

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

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	10
Total	12

A separate report was not issued for the plan.

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, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% 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, 2013 was 16 years.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 OPEB obligation		22,622
Adjustment to annual required contribution		(39,759)
Annual OPEB cost (expense)		19,442
Contributions made		30,887
Increase (decrease) in net OPEB obligation		(11,445)
Net OPEB obligation, beginning of year		452,440
Net OPEB obligation, end of year	\$	440,995

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, 2013, 2014, and 2015 is as follows:

3 Year Trend Information			
For the Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	19,721	20.54%	460,753
2014	19,128	143.46%	452,440
2015	19,442	158.87%	440,995

Funding Status and Funding Progress. As of December 31, 2014, the plan was not funded. The actuarial accrued liability for benefits and, thus the unfunded actuarial accrued liability (UAAL) was \$312,938. The covered payroll (annual payroll of active employees covered by the plan) was \$423,028, and the ratio of the UAAL to the covered payroll was 73.98%.

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.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015, were \$45,089 which consisted of \$22,989 from the Town and \$22,100 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	

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 retire. 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 \$13,554. There is no annual covered payroll due to closure of the plan. For fiscal year 2015, the Town contributed \$0. Contributions by employees for the fiscal year ended June 30, 2015, were \$0. The Town’s obligation to contribute to the post-retirement benefit plan is established and was be amended by the Town Council January 2013.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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)	8,803
Contributions made	-
Increase(decrease)in net OPEB obligation	8,803
Net OPEB obligation, beginning of year	76,077
Net OPEB obligation, end of year	\$ 84,880

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 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.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 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 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.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer had contributed as of December 31, 2010, was established by the State. The Town contributed more than 20 years and was relieved for three years. Contributions from the Town will resume in the fiscal year beginning July 1, 2015.

TOWN OF BANNER ELK, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015

Deferred Inflows and Outflows of Resources

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

Source	Amount
Changes in proportion and differences between Town contributions and proportionate share of contributions	10,168
Contributions to pension plan in current fiscal year	60,743
	\$ 70,911
Deferred inflows of resources at year-end are comprised of the following:	
Taxes Receivable, less penalties (General Fund)	\$ 49,202
Pension deferrals	231,271

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.

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 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.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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	\$ 262,105
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	174,364
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	89,327
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	<u>1,000,000</u> <u>\$ 1,525,796</u>

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>\$ 338,000</u>
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TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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

Year Ended June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 144,470	17,648	162,118	63,000	12,776	75,776
2017	145,858	16,262	162,120	65,000	10,396	75,396
2018	147,281	14,840	162,121	67,000	7,940	74,940
2019	117,823	13,528	131,351	70,000	5,406	75,406
2020	118,730	12,621	131,351	73,000	2,760	75,760
2021-2025	478,137	52,925	531,062	-	-	-
2026-2030	205,220	44,425	249,645	-	-	-
2031-2035	48,329	34,646	82,975	-	-	-
2036-2040	60,587	22,388	82,975	-	-	-
2041-2045	59,361	7,018	66,379	-	-	-
Total	\$ 1,525,796	236,301	1,762,097	338,000	39,278	377,278

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Current Portion of Balance
Governmental activities:					
Notes payable	\$ 585,581	1,000,000	59,785	1,525,796	144,470
Compensated absences	62,770	39,507	46,054	56,223	-
Other post-employment benefits	528,517	-	2,642	525,875	-
Net pension liability (LGERS)	149,372	-	149,372	-	-
Governmental activity Long-term liabilities	\$ 1,326,240	1,039,507	257,853	2,107,894	144,470
Business-type activities:					
Installment purchase	\$ 398,000	-	60,000	338,000	63,000
Compensated absences	23,849	6,692	6,976	23,565	-
Net pension liability (LGERS)	23,451	-	23,451	-	-
Business-type activities Long-term liabilities	\$ 445,300	6,692	90,427	361,565	63,000

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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. The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year. At June 30, 2015, the Town had a legal debt margin of \$15,068,752.

C. Interfund Transactions

Transfers to/from Other Funds at June 30, 2015 consist of the following:

The General Fund transferred \$16,596 to the Debt Service Fund and \$26,667 to the Capital Project Fund.

3. 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.

4. 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.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

5. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations are in violation of state law. Violations as of June 30, 2015, are:

Capital Improvement Plan - Governmental Capital Project Fund: Public safety	\$ 26,667
Streets and Sidewalks Capital Project Fund: Sidewalks and streetscape	30,687
General Fund – Culture and recreation	997,775

The Town will be more diligent in the future in monitoring the budget and will make amendments as needed. The Finance Officer will report quarterly financial and budget information to the Town Council members at the regularly scheduled public meetings to ensure that all council members are aware of the expenditures and the importance of staying within budgetary guidelines.

B. Non-Compliance with North Carolina General Statutes

N.C. General Statute 159-29 requires anyone with access to assets must be bonded. The Town did not have Board members bonded that are check signers. The Town has since corrected the violation and the Board members are bonded as of June 30, 2015.

6. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$92,993 and \$18,690, respectively.

Also during the fiscal year ended June 30, 2015, the Town determined that certain asset transactions completed in prior years required restatement under the full accrual method. Adjustments were made to account for these transactions thereby decreasing net position for governmental activities by \$238,771.

**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
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%

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%

The Town of Banner Elk has not been in compliance since they have not had actuarial valuations at regular intervals beginning in 1996. In order to calculate the Annual Pension Cost and the Net Pension Obligation we have used the annual required contribution calculated as of December 31, 2014 to estimate the pervious years' annual required contributions.

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	12/31/2014
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortiz	16 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.25-7.85%
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 Two Fiscal Years *

Local Government Employees' Retirement System

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

* The amounts presented for each fiscal year were determined as of the prior fiscal year

** 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

	2015	2014
Contractually required contribution	\$ 60,743	\$ 59,477
Contributions in relation to the contractually required contribution	60,743	59,477
Contribution deficiency (excess)	\$ -	\$ -
Banner Elk's covered-employee payroll	\$ 841,796	\$ 830,250
Contributions as a percentage of covered-employee payroll	7.22%	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, 2015

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 1,123,886	\$
Interest		6,367	
Total	<u>1,072,141</u>	<u>1,130,253</u>	<u>58,112</u>
Other taxes and licenses:			
Privilege licenses		1,864	
Total	<u>4,000</u>	<u>1,864</u>	<u>(2,136)</u>
Unrestricted intergovernmental:			
Local option sales taxes		345,991	
Utilities franchise tax		115,283	
Beer and wine tax		5,346	
Contributions - TDA		20,965	
ABC profit distribution		85,750	
Total	<u>490,096</u>	<u>573,335</u>	<u>83,239</u>
Restricted intergovernmental:			
Powell Bill allocation		42,100	
Other local grants and matching contributions		40,000	
ABC Revenue for law enforcement		14,308	
Highway Safety Grant		11,250	
Total	<u>91,625</u>	<u>107,658</u>	<u>16,033</u>
Permits and fees:			
Building permits		3,153	
Total	<u>5,000</u>	<u>3,153</u>	<u>(1,847)</u>
Sales and services:			
Rental income	<u>6,736</u>	<u>12,780</u>	<u>6,044</u>
Investment earnings	<u>1,000</u>	<u>1,480</u>	<u>480</u>
Miscellaneous:	<u>10,500</u>	<u>35,084</u>	<u>24,584</u>
Total revenues	1,681,098	1,865,607	184,509
Expenditures:			
Governing body:			
Salaries and employee benefits		13,103	
Operating expenditures		32,860	
Total		<u>45,963</u>	
Administration:			
Salaries and employee benefits		99,230	
Operating expenditures		82,886	
Total		<u>182,116</u>	
Finance:			
Salaries and employee benefits		50,303	
Operating expenditures		22,542	
Total		<u>72,845</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, 2015

	Budget	Actual	Variance Positive (Negative)
Planning			
Salaries and employee benefits		64,298	
Operating expenditures		20,364	
Total		84,662	
Public buildings:			
Operating expenditures		24,434	
Capital outlay		2,600	
Total		27,034	
Total general government	435,205	412,620	22,585
Public safety:			
Police:			
Salaries and employee benefits		576,723	
Operating expenditures		79,527	
Capital outlay		15,500	
Total		671,750	
Drug Task Force:			
Salaries and employee benefits		57,220	
Operating expenditures		4,830	
Total		62,050	
Total public safety	783,017	733,800	49,217
Transportation:			
Streets and highways:			
Salaries and employee benefits		94,418	
Operating expenditures		171,768	
Capital outlay		13,334	
Total transportation	324,020	279,520	44,500
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits		69,435	
Other operating expenditures		45,600	
Capital outlay		1,000,000	
Total culture and recreation	123,260	1,115,035	(991,775)
Total expenditures	1,665,502	2,540,975	(875,473)
Revenues over (under) expenditures	15,596	(675,368)	(690,964)
Other financing sources (uses):			
Transfers to other funds:			
Capital Projects Fund	(30,000)	(26,667)	3,333
Debt Service Fund	(16,596)	(16,596)	-
Installment purchase obligations issued	-	1,000,000	1,000,000
Sale of capital assets	-	21,990	21,990
Total	\$ (46,596)	978,727	\$ 1,025,323
Fund balance appropriated	31,000	-	(31,000)
Net change in fund balance	\$ -	303,359	\$ 303,359
Fund balances, beginning		945,763	
Fund balances, ending		\$ 1,249,122	

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
From Inception and For the Fiscal Year Ended June 30, 2015

	Budget	Actual	Variance Positive (Negative)
Revenues			
Restricted intergovernmental:	\$ 129,209	\$ 213,500	\$ 84,291
Miscellaneous:			
Investment income	450	540	90
Total revenues	<u>129,659</u>	<u>214,040</u>	<u>84,381</u>
Expenditures			
Capital outlay:			
Public safety	-	26,667	(26,667)
Public works	129,659	127,404	2,255
Total expenditures	<u>129,659</u>	<u>154,071</u>	<u>(24,412)</u>
Revenues under expenditures	<u>-</u>	<u>59,969</u>	<u>59,969</u>
Other financing sources (uses):			
Transfer from General Fund	<u>-</u>	<u>26,667</u>	<u>(26,667)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 86,636</u>	<u>\$ 86,636</u>
Fund balances, beginning		<u>398,213</u>	
Fund balances, ending		<u>\$ 484,849</u>	

Town of Banner Elk, North Carolina
Combining Balance Sheets
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Streets and Sidewalks Capital Project Fund	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Old Banner Elk Elementary School	Debt Service Fund	Total Nonmajor Governmental Funds
Assets						
Cash and cash equivalents	\$ 36,001	\$ 39,912	\$ 31,752	\$ 13,881	\$ -	\$ 121,546
Due from other governments	4	953	980	-	-	1,937
Total assets	\$ 36,005	\$ 40,865	\$ 32,732	\$ 13,881	\$ -	\$ 123,483
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 4,353	\$ -	\$ -	\$ 4,353
Fund balances:						
Restricted:						
Stabilization by State Statute	-	-	980	-	-	980
Public safety	-	40,865	27,399	-	-	68,264
Assigned:						
Cultural and recreation	-	-	-	13,881	-	13,881
Committed:						
Capital projects - transportation	36,005	-	-	-	-	36,005
Total fund balances	36,005	40,865	28,379	13,881	-	119,130
Total liabilities and fund balances	\$ 36,005	\$ 40,865	\$ 32,732	\$ 13,881	\$ -	\$ 123,483

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, 2015

	Streets and Sidewalks Capital Project Fund	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Banner Elk Elementary School	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:						
Sales and services	\$ -	\$ -	\$ 19,874	\$ -	\$ -	\$ 19,874
Interest	-	-	10	-	-	10.00
Miscellaneous	323	5,653	-	13,881	-	19,857
Total revenues	323	5,653	19,884	13,881	-	39,741
Expenditures:						
Public safety	-	15,847	18,931	-	-	34,778
Transportation	144	-	-	-	-	144
Debt service:						
Principal repayments	-	-	-	-	4,276	4,276
Interest	-	-	-	-	12,320	12,320
Total expenditures	144	15,847	18,931	-	16,596	51,518
Revenues over expenditures	179	(10,194)	953	13,881	(16,596)	(11,777)
Other Financing Sources (Uses):						
Transfers in	-	-	-	-	16,596	16,596
Net change in fund balance	179	(10,194)	953	13,881	-	4,819
Fund balance, beginning	35,826	51,059	27,426	-	-	114,311
Fund balance, ending	\$ 36,005	\$ 40,865	\$ 28,379	\$ 13,881	\$ -	\$ 119,130

Town of Banner Elk, North Carolina
Streets and Sidewalks Capital Project Fund - Nonmajor Capital Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2015

	Project Authorization	Prior Years	Actual Current Year	Total To Date
Revenues				
Restricted intergovernmental:				
Town of Banner Elk Tourism Development Authority	\$ 325,051	\$ 325,053	\$ -	\$ 325,053
Miscellaneous:				
Contributions	64,149	102,066	300	102,366
Investment income	8,100	9,352	23	9,375
Total revenues	<u>397,300</u>	<u>436,471</u>	<u>323</u>	<u>436,794</u>
Expenditures				
Capital outlay:				
Sidewalks and streetscape	791,971	855,601	144	855,745
Contingency	33,087	-	-	-
Total expenditures	<u>825,058</u>	<u>855,601</u>	<u>144</u>	<u>855,745</u>
Revenues under expenditures	<u>(427,758)</u>	<u>(419,130)</u>	<u>179</u>	<u>(418,951)</u>
Other Financing Sources				
Proceeds from long-term debt	300,000	300,000	-	300,000
Appropriated fund balance	56,250	-	-	-
Transfers from other funds:				
General Fund	71,508	154,956	-	154,956
Total other financing sources	<u>427,758</u>	<u>454,956</u>	<u>-</u>	<u>454,956</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 35,826</u>	<u>\$ 179</u>	<u>\$ 36,005</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, 2015

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Miscellaneous	10,000	5,653	(4,347)
Expenditures:			
Public safety:			
Other	20,000	15,847	4,153
Revenues over expenditures	(10,000)	(10,194)	(194)
Other financing (uses):			
Appropriated fund balance	10,000	-	(10,000)
Total other financing (uses)	10,000	-	(10,000)
Net change in fund balance	\$ -	(10,194)	\$ (10,194)
Fund Balance, beginning		51,059	
Fund Balance, Ending		\$ 40,865	

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, 2015

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Golf tournament revenues	21,000	19,874	(1,126)
Interest	-	10	10
Total revenues	<u>21,000</u>	<u>19,884</u>	<u>(1,116)</u>
Expenditures:			
Public safety:			
Golf tournament	<u>21,000</u>	<u>18,931</u>	<u>2,069</u>
Net change in fund balance	<u>\$ -</u>	953	<u>\$ 953</u>
Fund Balance, beginning		27,426	
Fund Balance, Ending		<u>\$ 28,379</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, 2015

	Budget	Actual	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	<u>16,596</u>	<u>16,596</u>	-
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
Old Banner Elk Elementary 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, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Donations	-	13,881	13,881
Total revenues	<u>-</u>	<u>13,881</u>	<u>13,881</u>
Net change in fund balance	<u>\$ -</u>	13,881	<u>\$ 13,881</u>
Fund Balance, beginning		-	
Fund Balance, ending		<u>\$ 13,881</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, 2015

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales:			
Residential		\$ 262,731	
Impact fees		4,560	
Total	\$ 222,813	267,291	\$ 44,478
Sewer charges:			
Residential		386,829	
Sewer CIP surcharge		10,654	
Total	364,773	397,483	32,710
Water and sewer taps	25,500	8,223	(17,277)
Other operating revenues	20,000	11,911	(8,089)
Total operating revenues	633,086	684,908	51,822
Nonoperating revenues:			
Interest earnings	500	407	(93)
Total revenues	633,586	685,315	51,729
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits		64,067	
Utilities		1,604	
Supplies		1,395	
Insurance		1,000	
Contracted services		1,853	
Other operating expenditures		20,156	
Total water and sewer administration	91,504	90,075	1,429
Wastewater treatment:			
Water treatment plant:			
Salaries and employee benefits		22,775	
Utilities		57,692	
Supplies		2,424	
Insurance		2,140	
Maintenance		5,845	
Other operating expenditures		4,700	
Contracted services		19,395	
Total	135,241	114,971	20,270
Water treatment:			
Water treatment plant:			
Salaries and employee benefits		22,576	
Utilities		29,749	
Supplies		16,646	
Insurance		890	
Maintenance		749	
Other operating expenditures		840	
Contracted services		7,370	
Total	86,312	78,820	7,492
Distributions and collections:			
Salaries and employee benefits		89,190	
Utilities		2,911	
Supplies		21,411	
Insurance		4,543	
Maintenance		7,461	
Other operating expenditures		32,416	
Contracted services		8,000	
Total	168,077	165,932	2,145
Total water treatment and distribution	389,630	359,723	29,907

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, 2015

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Interest and other charges		15,044	-
Principal retirement		60,000	-
Total debt service	<u>75,044</u>	<u>75,044</u>	<u>-</u>
Capital outlay:			
Miscellaneous water and sewer	2,800	15,606	(12,806)
Total capital outlay	<u>2,800</u>	<u>15,606</u>	<u>(12,806)</u>
Total expenditures	<u>558,978</u>	<u>540,448</u>	<u>18,530</u>
Revenues over(under) expenditures	74,608	144,867	33,199
Other financing sources (uses):			
Transfer to other fund:			
Transfers out - Water Capital Project Fund	(74,608)	-	(74,608)
Total other financing sources (uses)	<u>(74,608)</u>	<u>-</u>	<u>(74,608)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>144,867</u>	<u>\$ 144,867</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 144,867	
Reconciling items:			
Principal retirement		60,000	
Capital outlay		5,026	
Increase in accrued vacation pay		284	
Deferred outflows of resources for contributions made to pension plan		11,134	
Pension expense		(2,722)	
Depreciation		(182,451)	
Interest income from Water and Sewer Capital Projects Fund		137	
Total reconciling items		<u>(108,592)</u>	
Change in net position		<u>\$ 36,275</u>	

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, 2015

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ -	137	137
Total revenues	<u>-</u>	<u>137</u>	<u>137</u>
Expenditures:			
Grandfather Home Sewer Line	14,900	14,900	-
Total expenditures	<u>14,900</u>	<u>14,900</u>	<u>-</u>
Revenues over (under expenditures)	(14,900)	(14,763)	137
Other Financing Sources;			
Appropriated fund balance	14,900	-	(14,900)
Total other financing sources	<u>14,900</u>	<u>-</u>	<u>(14,900)</u>
Revenues over (under expenditures) and other financing sources	<u>\$ -</u>	<u>(14,763)</u>	<u>(14,763)</u>

Town of Banner Elk, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2015

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014-2015	\$ -	\$ 1,087,282	\$ 1,051,045	\$ 36,237
2013-2014	24,859	-	17,715	7,144
2012-2013	11,839	-	10,290	1,549
2011-2012	6,497	-	6,041	456
2010-2011	4,350	-	3,768	582
2009-2010	293	-	27	266
2008-2009	252	-	85	167
2007-2008	19	-	19	-
2006-2007	9	-	-	9
2005-2006	-	-	-	-
Motor Vehicles	<u>9,521</u>	<u>33,633</u>	<u>34,896</u>	<u>8,258</u>
	<u>\$ 57,639</u>	<u>\$ 1,120,915</u>	<u>\$ 1,123,886</u>	<u>54,668</u>
				<u>5,466</u>
				<u>\$ 49,202</u>
				\$ 1,130,253
				<u>(6,367)</u>
				<u>(6,367)</u>
				<u>\$ 1,123,886</u>

Less: allowance for uncollectible accounts:

 General Fund

Ad valorem taxes receivable - net

Reconciliation to revenues:

Ad valorem taxes - General Fund

 Reconciling items:

 Penalties and interest

 Subtotal

Total collections and credits

Town of Banner Elk, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Year Ended June 30, 2015

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 194,295,741	0.54	\$ 1,049,197	\$ 1,049,197	\$ -
Registered motor vehicles taxed	6,228,333	0.54	33,633		33,633
Penalties	-		783	783	-
Total	<u>200,524,074</u>		<u>1,083,613</u>	<u>1,049,980</u>	<u>33,633</u>
Discoveries:					
Current year taxes	<u>8,420,185</u>	0.54	<u>45,469</u>	<u>45,469</u>	<u>-</u>
Abatements	<u>(1,512,407)</u>	0.54	<u>(8,167)</u>	<u>(8,167)</u>	<u>-</u>
Total property valuation	<u>\$ 207,431,852</u>				
Net levy			1,120,915	1,087,282	33,633
Uncollected taxes at June 30, 2015			<u>(36,237)</u>	<u>(36,237)</u>	<u>-</u>
Current year's taxes collected			<u>\$1,084,678</u>	<u>\$1,051,045</u>	<u>\$33,633</u>
Current levy collection percentage			<u>96.77%</u>	<u>96.67%</u>	<u>100.00%</u>