

TOWN OF BANNER ELK, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2020

TOWN COUNCIL MEMBERS

Allen R. Bolick

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, 2020

TABLE OF CONTENTS

| <u>Exhibit</u> | | <u>Page</u> |
|-----------------------|--|--------------------|
| | Independent Auditor's Report | 1-3 |
| | Management Discussion and Analysis | 4-12 |
| | Basic Financial Statements: | |
| | Government-Wide Financial Statements: | |
| 1 | Statement of Net Position | 13 |
| 2 | Statement of Activities | 14 |
| | Fund Financial Statements: | |
| 3 | Balance Sheet - Governmental Funds | 15 |
| 4 | Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 16 |
| | Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to the Statement of Activities | 17 |
| 5 | General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 18 |
| 6 | Statement of Fund Net Position - Proprietary Fund | 19 |
| 7 | Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund | 20 |
| 8 | Statement of Cash Flows - Proprietary Fund | 21 |
| | Notes to the Financial Statements | 22-49 |

TOWN OF BANNER ELK, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

| <u>Schedule</u> | | <u>Page</u> |
|-----------------|---|-------------|
| | Required Supplementary Information: | |
| A-1 | Schedule of Changes in the Total OPEB Liability and Related Ratios | 50 |
| A-2 | Schedule of Proportionate Share of Net Pension Liability (Asset) - LGERS | 51 |
| A-3 | Schedule of Employer Contributions - LGERS | 52 |
| A-4 | Schedule of Changes in Total Pension Liability – Law Enforcement Officers’ Special Separation Allowance | 53 |
| A-5 | Schedule of Total Pension Liability as a Percentage of Covered Payroll | 54 |
| | Governmental Activities: | |
| 1 | General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 55-56 |
| 2 | Capital Improvement Plan - Capital Improvement Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 57 |
| 3 | Combining Balance Sheet - Nonmajor Governmental Funds | 58 |
| 4 | Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds | 59 |
| 5 | Streets and Sidewalks Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 60 |
| 6 | Police Special Revenue Fund - Nonmajor Special Revenue Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 61 |

TOWN OF BANNER ELK, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

| <u>Schedule</u> | | <u>Page</u> |
|-----------------|--|-------------|
| | Business-Type Activities: | |
| 7 | Cops Golf Tournament Special Revenue Fund - Nonmajor Special Revenue Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 62 |
| 8 | Historic Banner Elk School Special Revenue Fund - Nonmajor Special Revenue Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 63 |
| 9 | Enterprise Fund - Water and Sewer Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) | 64-65 |
| 10 | Capital Improvement Plan - Water and Sewer Capital Improvement Plan Fund - Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) | 66 |
| | Supplemental Financial Data: | |
| 11 | Schedule of Ad Valorem Taxes Receivable | 67 |
| 12 | Analysis of Current Year Levy - Town-Wide Levy | 68 |

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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, 2020, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2020, 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

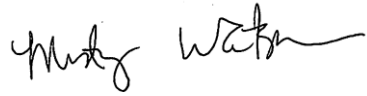
Required Supplementary Information

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

Supplementary Other Information

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

The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures as described above, the combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Misty Watson". The signature is written in a cursive style with a long horizontal flourish at the end.

Misty D Watson, CPA, PA
Boone, North Carolina
September 26, 2020

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, 2020. 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

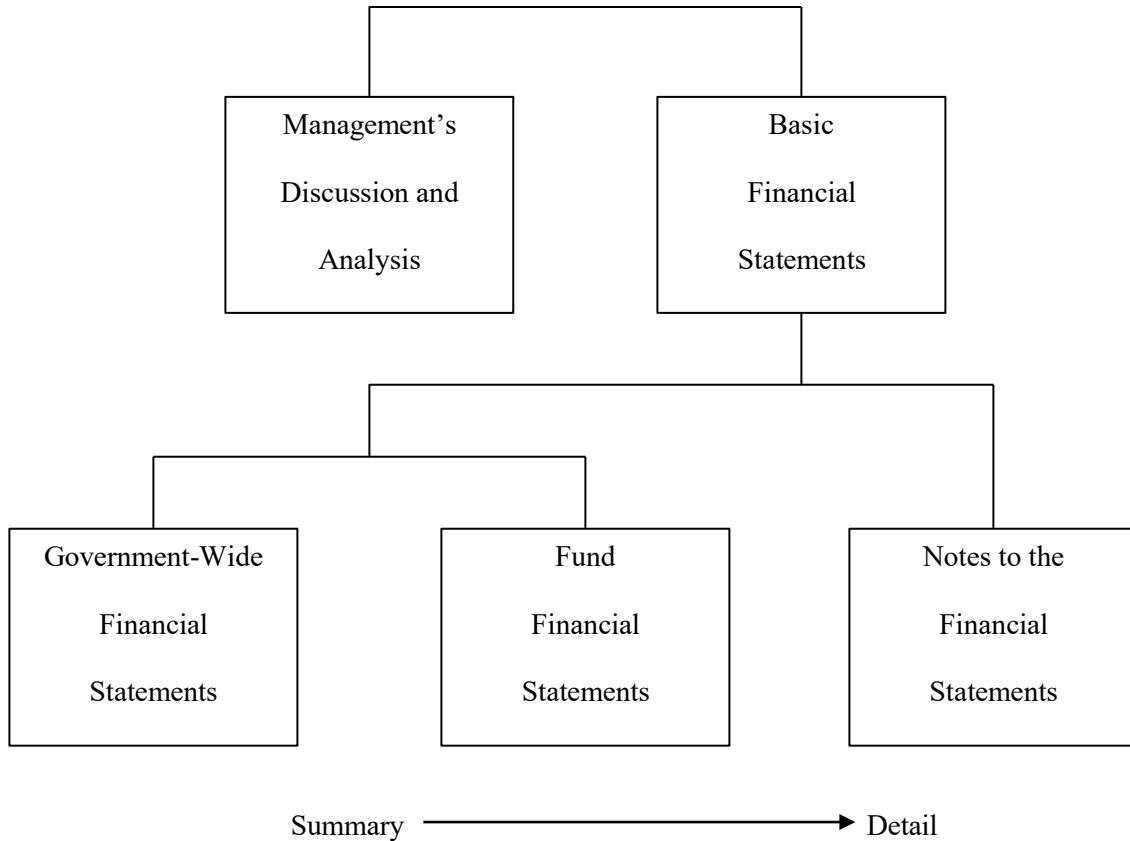
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$11,034,475 (*net position*).
- The government's total net position increased by \$542,088 primarily due to governmental fund related activities.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$3,267,823, an increase of \$191,310 in comparison with the prior year. Approximately 8.3% of this total amount, or \$269,810, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,888,409, or 87.6%, of total General Fund expenditures and transfers out for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

Other Information. Combining and individual fund statements and schedules can be found beginning on page 55 of this report. Required supplementary information can be found beginning on page 50.

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

Figure 2

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|-------------|--------------------------|-------------|-------------|-------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Assets: | | | | | | |
| Current and other assets | \$3,394,363 | \$3,220,856 | \$1,755,560 | \$1,465,689 | \$5,149,923 | \$4,686,545 |
| Capital assets | 5,087,330 | 4,941,369 | 2,601,566 | 2,768,203 | 7,688,896 | 7,709,572 |
| Deferred outflows of resources | 287,199 | 275,339 | 43,208 | 46,822 | 330,407 | 322,161 |
| Total assets and deferred outflows of resources | 8,768,892 | 8,437,564 | 4,400,334 | 4,280,714 | 13,169,226 | 12,718,278 |
| Liabilities: | | | | | | |
| Long-term liabilities outstanding | 1,761,405 | 1,742,469 | 151,449 | 225,851 | 1,912,854 | 1,968,320 |
| Other liabilities | 103,391 | 126,280 | 77,371 | 71,234 | 180,762 | 197,514 |
| Deferred inflows of resources | 38,698 | 55,985 | 2,437 | 4,072 | 41,135 | 60,057 |
| Total liabilities and deferred inflows of resources | 1,903,494 | 1,924,734 | 231,257 | 301,157 | 2,134,751 | 2,225,891 |
| Net Position: | | | | | | |
| Net investment in capital assets | 4,071,546 | 3,788,401 | 2,546,519 | 2,619,723 | 6,618,065 | 6,408,124 |
| Restricted | 269,810 | 263,444 | - | - | 269,810 | 263,444 |
| Unrestricted | 2,524,042 | 2,460,985 | 1,622,558 | 1,359,834 | 4,146,600 | 3,820,819 |
| Total net position | \$6,865,398 | \$6,512,830 | 4,169,077 | 3,979,557 | 11,034,475 | 10,492,387 |

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 \$11,034,475 as of June 30, 2020. The Town's net position increased by \$542,088 for the fiscal year ended June 30, 2020. However, the largest portion (60%) 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, \$269,810, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,146,600 is unrestricted.

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

- In the current year, there was an increase in local options sales tax and water and sewer collections.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.52%.

Town of Banner Elk Changes in Net Position

Figure 3

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------------|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 122,701 | \$ 166,270 | \$ 991,405 | \$ 944,685 | \$ 1,114,106 | \$ 1,110,955 |
| Operating grants and contributions | 69,720 | 83,168 | - | - | 69,720 | 83,168 |
| Capital grants and contributions | 38,431 | 176,015 | - | - | 38,431 | 176,015 |
| General Revenues: | | | | | | |
| Property taxes | 1,320,259 | 1,257,226 | - | - | 1,320,259 | 1,257,226 |
| Other taxes | 759,711 | 697,122 | - | - | 759,711 | 697,122 |
| Investment earnings | 54,248 | 82,479 | 2,427 | 2,872 | 56,675 | 85,351 |
| Sale of capital assets | 23,254 | 4,143 | - | - | 23,254 | 4,143 |
| Other | 39,157 | 24,584 | - | - | 39,157 | 24,584 |
| Total revenues | 2,427,481 | 2,491,007 | 993,832 | 947,557 | 3,421,313 | 3,438,564 |
| Expenses: | | | | | | |
| General government | 554,940 | 481,085 | - | - | 554,940 | 481,085 |
| Public Safety | 853,451 | 789,373 | - | - | 853,451 | 789,373 |
| Transportation | 353,124 | 724,364 | - | - | 353,124 | 724,364 |
| Cultural and recreation | 297,875 | 70,182 | - | - | 297,875 | 70,182 |
| Interest on long-term debt | 15,523 | 15,833 | 5,336 | 5,812 | 20,859 | 21,645 |
| Water and sewer | - | - | 798,976 | 795,805 | 798,976 | 795,805 |
| Total expenses | 2,074,913 | 2,080,837 | 804,312 | 801,617 | 2,879,225 | 2,882,454 |
| Increase (decrease) in net position | 352,568 | 410,170 | 189,520 | 145,940 | 542,088 | 556,110 |
| Net position, beginning | 6,512,830 | 6,102,660 | 3,979,557 | 3,833,617 | 10,492,387 | 9,936,277 |
| Net position, June 30 | \$ 6,865,398 | \$ 6,512,830 | \$ 4,169,077 | \$ 3,979,557 | \$11,034,475 | \$10,492,387 |

Governmental Activities. Governmental activities increased the Town’s net position by \$352,568. Key elements of this increase are as follows:

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

Business-Type Activities. Business-type activities increased the Town of Banner Elk’s net position by \$189,520. Key element of this increase are as follows:

- Increased collections from water and sewer charges.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Banner Elk. At the end of the current fiscal year, fund balance available in the General Fund was \$1,888,409 while total fund balance reached \$2,482,307.

At June 30, 2020, the governmental funds of the Town of Banner Elk reported a combined fund balance of \$3,267,823, an 6.2% increase over last year. Included in this change in fund balance is an increase in the General Fund of \$241,913, a decrease in the Capital Improvement Capital Project Fund of \$57,982, and a net increase in non-major funds of \$7,379.

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.

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 \$1,622,558. The change in net position was an increase of \$189,520. 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, 2020, totals \$7,688,896 (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 equipment | \$386,571 |
| • Governmental infrastructure | \$31,765 |
| • Business-type furniture and maintenance equipment | \$9,248 |

Town of Banner Elk's Capital Assets

Figure 4

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------|----------------------------|---------------------|-----------------------------|--------------------|---------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Land | \$ 1,334,233 | \$ 1,334,233 | \$ 23,466 | \$ 23,466 | \$1,357,769 | \$ 1,357,699 |
| Construction in progress | - | - | - | - | - | - |
| Infrastructure | 2,735,127 | 2,703,361 | - | - | 2,735,127 | 2,703,361 |
| Buildings | 1,546,902 | 1,546,902 | - | - | 1,546,902 | 1,546,902 |
| Plant | - | - | 6,560,228 | 6,560,228 | 6,560,228 | 6,560,228 |
| Equipment and furniture | 1,305,895 | 945,991 | 766,138 | 756,890 | 2,072,033 | 1,702,881 |
| Total | 6,922,157 | 6,530,487 | 7,349,832 | 7,340,584 | 14,271,989 | 13,871,071 |
| Less: accumulated depreciation | (1,834,827) | (1,589,119) | (4,748,264) | (4,572,379) | (6,583,091) | (6,161,498) |
| Net capital assets | \$ 5,087,330 | \$ 4,941,368 | \$2,601,568 | \$2,768,205 | \$ 7,688,898 | \$ 7,709,573 |

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, 2020, the Town of Banner Elk had total debt outstanding of \$1,912,854.

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

Figure 5

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------|----------------------------|---------------------|-----------------------------|-------------------|---------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| General obligation bonds | \$ - | \$ - | \$ - | \$ 73,000 | \$ - | 73,000 |
| Compensated absences | 63,641 | 63,066 | 22,183 | 17,512 | 85,824 | 80,578 |
| Other post-employment benefits | 36,707 | 62,447 | - | - | 36,707 | 62,447 |
| Net pension liability (LGERS) | 342,520 | 272,506 | 74,219 | 59,859 | 416,739 | 332,365 |
| Total pension liability (LEO) | 302,753 | 283,833 | - | - | 302,753 | 283,833 |
| Installment purchases | 1,015,784 | 1,060,617 | 55,047 | 75,480 | 1,070,831 | 1,136,097 |
| Total | \$1,761,405 | \$ 1,742,469 | \$ 151,449 | \$ 225,851 | \$ 1,912,854 | \$ 1,968,320 |

The Town of Banner Elk's total long-term liabilities decreased by \$55,466 during the past fiscal year, due to principal payments.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Banner Elk is \$17,721,626.

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:

- Impacts from COVID-19
- Potential of decrease in sales tax
- Potential for decrease in tourism
- Viability of businesses due to economic conditions

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities. Property tax revenues are expected to remain steady with some increase the prior year based on new development. State shared revenues are budgeted lower due to the uncertainties related to COVID-19. It is anticipated that sales tax collections will be lower than the current year.

Budgeted expenditures in the General Fund are expected to remain constant.

Business-Type Activities. The water and sewer revenues in the Town are expected to remain stable. However, there is uncertainty surrounding the affects COVID-19 will continue to play on users. There is potential for dramatic reductions due to changes in business operations and Lees-McRae College operations in response to COVID-19 restrictions or outbreaks.

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, 2020

| | <u>Primary Government</u> | | | Town of Banner Elk Tourism Development Authority |
|---|------------------------------------|-------------------------------------|----------------------|---|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 3,211,500 | \$ 1,545,392 | \$ 4,756,892 | \$ 583,270 |
| Taxes receivable, net | 21,735 | - | 21,735 | - |
| Accrued interest | 1,414 | - | 1,414 | - |
| Accounts receivable, net | - | 100,772 | 100,772 | - |
| Due from other governments | 159,714 | 9,364 | 169,078 | 13,271 |
| Inventories | - | 55,418 | 55,418 | - |
| Restricted cash and cash equivalents | - | 44,614 | 44,614 | - |
| Total current assets | <u>3,394,363</u> | <u>1,755,560</u> | <u>5,149,923</u> | <u>596,541</u> |
| Non-current assets: | | | | |
| Capital assets (Note 4): | | | | |
| Land, non-depreciable improvements, and construction in progress | 1,334,233 | 23,465 | 1,357,698 | - |
| Other capital assets, net of depreciation | <u>3,753,097</u> | <u>2,578,101</u> | <u>6,331,198</u> | <u>-</u> |
| Total capital assets | <u>5,087,330</u> | <u>2,601,566</u> | <u>7,688,896</u> | <u>-</u> |
| Total assets | <u>8,481,693</u> | <u>4,357,126</u> | <u>12,838,819</u> | <u>596,541</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension deferrals | 280,299 | 43,208 | 323,507 | - |
| OPEB deferral | 6,900 | - | 6,900 | - |
| Total deferred outflows of resources | <u>287,199</u> | <u>43,208</u> | <u>330,407</u> | <u>-</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 103,391 | 32,757 | 136,148 | 2,600 |
| Current portion of long-term liabilities | 170,624 | 21,115 | 191,739 | - |
| Payable from restricted assets | - | 44,614 | 44,614 | - |
| Total current liabilities | <u>274,015</u> | <u>98,486</u> | <u>372,501</u> | <u>2,600</u> |
| Long-term liabilities: | | | | |
| Net pension liability | 342,520 | 74,219 | 416,739 | - |
| Total pension liability | 302,753 | - | 302,753 | - |
| Total OPEB liability | 36,707 | - | 36,707 | - |
| Due in more than one year | 908,801 | 56,115 | 964,916 | - |
| Total liabilities | <u>1,864,796</u> | <u>228,820</u> | <u>2,093,616</u> | <u>2,600</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension deferrals | 38,698 | 2,437 | 41,135 | - |
| Total deferred inflows of resources | <u>38,698</u> | <u>2,437</u> | <u>41,135</u> | <u>-</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 4,071,546 | 2,546,519 | 6,618,065 | - |
| Restricted for: | | | | |
| Public safety | 110,096 | - | 110,096 | - |
| Stabilization by State Statute | 159,714 | - | 159,714 | 13,271 |
| Tourism | - | - | - | 580,670 |
| Unrestricted | <u>2,524,042</u> | <u>1,622,558</u> | <u>4,146,600</u> | <u>-</u> |
| Total net position | <u>\$ 6,865,398</u> | <u>\$ 4,169,077</u> | <u>\$ 11,034,475</u> | <u>\$ 593,941</u> |

Town of Banner Elk, North Carolina
Statement of Activities
June 30, 2020

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | Town of Banner Elk Tourism Development Authority |
| Governmental Activities: | | | | | | | |
| General government | \$ 554,940 | \$ 6,028 | \$ 23,284 | \$ - | \$ (525,628) | \$ - | \$ (525,628) |
| Public safety | 853,451 | 24,735 | 2,398 | - | (826,318) | - | (826,318) |
| Transportation | 353,124 | - | 41,038 | - | (312,086) | - | (312,086) |
| Cultural and recreation | 297,875 | 91,938 | 3,000 | 38,431 | (164,506) | - | (164,506) |
| Interest on long-term debt | 15,523 | - | - | - | (15,523) | - | (15,523) |
| Total governmental activities (See Note 1) | 2,074,913 | 122,701 | 69,720 | 38,431 | (1,844,061) | - | (1,844,061) |
| Business-type activities: | | | | | | | |
| Water and sewer | 804,312 | 991,405 | - | - | - | \$ 187,093 | \$ 187,093 |
| Total business-type activities | 804,312 | 991,405 | - | - | - | 187,093 | 187,093 |
| Total primary government | \$ 2,879,225 | \$ 1,114,106 | \$ 69,720 | \$ 38,431 | \$ (1,844,061) | \$ 187,093 | \$ (1,656,968) |
| Component unit: | | | | | | | |
| Town of Banner Elk Tourism Development Authority | \$ 162,064 | - | - | - | - | - | (162,064) |
| Total component unit | \$ 162,064 | - | - | - | - | - | (162,064) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purpose | | | | | 1,320,259 | - | 1,320,259 |
| Other taxes | | | | | 283,379 | - | 283,379 |
| Local option sales tax | | | | | 476,332 | - | 476,332 |
| Unrestricted investment earnings | | | | | 54,248 | 2,427 | 56,675 |
| Miscellaneous revenues | | | | | 39,157 | - | 39,157 |
| Gain on sale of capital assets | | | | | 23,254 | - | 23,254 |
| Total general revenues and transfers | | | | | 2,196,629 | 2,427 | 2,199,056 |
| Change in net position | | | | | 352,568 | 189,520 | 542,088 |
| Net position, beginning | | | | | 6,512,830 | 3,979,557 | 10,492,387 |
| Net position, ending | | | | | \$ 6,865,398 | \$ 4,169,077 | \$ 11,034,475 |

Town of Banner Elk, North Carolina
Balance Sheet
Governmental Funds
June 30, 2020

| | <u>Major Funds</u> | | | Total Governmental Funds |
|--|---------------------|---|-----------------------------------|---|
| | General | Capital Project Reserve Fund | Total Non- Major Funds | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,426,509 | \$ 354,714 | \$ 430,277 | \$ 3,211,500 |
| Receivables, net: | | | | |
| Taxes | 21,735 | - | - | 21,735 |
| Due from other governments | 159,078 | - | 636 | 159,714 |
| Total assets | <u>2,607,322</u> | <u>354,714</u> | <u>430,913</u> | <u>3,392,949</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | 103,280 | - | 111 | 103,391 |
| Total liabilities | <u>103,280</u> | <u>-</u> | <u>111</u> | <u>103,391</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Property taxes receivable | 21,735 | - | - | 21,735 |
| Total deferred inflows of resources | <u>21,735</u> | <u>-</u> | <u>-</u> | <u>21,735</u> |
| FUND BALANCES | | | | |
| Restricted | | | | |
| Stabilization by State Statute | 159,078 | - | 636 | 159,714 |
| Public Safety | - | - | 110,096 | 110,096 |
| Assigned | | | | |
| Capital projects | - | 280,881 | 76,571 | 357,452 |
| Subsequent years expenditures | 434,820 | 73,833 | - | 508,653 |
| Cultural and recreation | - | - | 243,499 | 243,499 |
| Committed | | | | |
| Capital projects | - | - | - | - |
| Unassigned | 1,888,409 | - | - | 1,888,409 |
| Total fund balances | <u>2,482,307</u> | <u>354,714</u> | <u>430,802</u> | <u>3,267,823</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 2,607,322</u> | <u>\$ 354,714</u> | <u>\$ 430,913</u> | |

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

| | |
|---|---------------------|
| Total Fund Balance, Governmental Funds | 3,267,823 |
| Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds. | 1,414 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Gross capital assets at historical cost | \$ 6,922,157 |
| Accumulated depreciation | <u>(1,834,827)</u> |
| Deferred outflows of resources related to pensions are not reported in the funds | 280,299 |
| Earned revenues considered deferred inflows of resources in fund statements. | 21,735 |
| Net pension liability | (342,520) |
| Total pension liability | (302,753) |
| Total OPEB liability | (36,707) |
| Gross long-term debt | (1,079,425) |
| Deferred outflows of resources related to OPEB are not reported in the funds | 6,900 |
| Deferred inflows of resources related to pensions are not reported in the funds | <u>(38,698)</u> |
| Net position of governmental activities | <u>\$ 6,865,398</u> |

Town of Banner Elk, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2020

| | Major Funds | | | Total Governmental Funds |
|---|---------------------|---|----------------------------------|---|
| | General Fund | Capital Project Reserve Fund | Total Non-Major Funds | |
| REVENUES | | | | |
| Ad valorem taxes | \$ 1,314,597 | \$ - | \$ - | \$ 1,314,597 |
| Other taxes and licenses | 1,135 | - | - | 1,135 |
| Unrestricted intergovernmental | 758,576 | - | - | 758,576 |
| Restricted intergovernmental | 66,720 | - | - | 66,720 |
| Permits and fees | 6,414 | - | - | 6,414 |
| Sales and services | 36,470 | - | 86,231 | 122,701 |
| Donations | 3,000 | - | - | 3,000 |
| Investment earnings | 41,290 | 11,851 | 1,107 | 54,248 |
| Miscellaneous | 45,695 | - | 25,478 | 71,173 |
| Total revenues | 2,273,897 | 11,851 | 112,816 | 2,398,564 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 559,969 | - | - | 559,969 |
| Public safety | 827,362 | - | 14,023 | 841,385 |
| Transportation | 567,552 | - | - | 567,552 |
| Culture and recreation | 123,331 | - | 77,914 | 201,245 |
| Debt service: | | | | |
| Principal | 61,501 | - | 83,333 | 144,834 |
| Interest and other charges | 15,523 | - | - | 15,523 |
| Total expenditures | 2,155,238 | - | 175,270 | 2,330,508 |
| Excess (deficiency) of revenues over expenditures | 118,659 | 11,851 | (62,454) | 68,056 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from other funds | - | - | 69,833 | 69,833 |
| Transfers to other funds | - | (69,833) | - | (69,833) |
| Proceeds from long-term debt | 100,000 | - | - | 100,000 |
| Sales of capital assets | 23,254 | - | - | 23,254 |
| Total other financing sources (uses) | 123,254 | (69,833) | 69,833 | 123,254 |
| Net change in fund balance | 241,913 | (57,982) | 7,379 | 191,310 |
| Fund balances, beginning | 2,240,394 | 412,696 | 423,423 | 3,076,513 |
| Fund balances, ending | \$ 2,482,307 | \$ 354,714 | \$ 430,802 | \$ 3,267,823 |

Town of Banner Elk, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2020

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

| | | |
|---|------------------|-------------------|
| Net changes in fund balances - total governmental funds | \$ | 191,310 |
| <p>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</p> | | |
| Capital outlay expenditures which were capitalized | \$ 418,337 | |
| Depreciation expense for governmental assets | <u>(272,375)</u> | 145,962 |
| <p>Contributions to the pension plan in the current fiscal year not included in the Statement of Activities</p> | | |
| | | 69,975 |
| <p>Benefit payments paid and administrative expense for OPEB are not included on the Statement of Activities</p> | | |
| | | 6,900 |
| <p>Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position</p> | | |
| | | 43,166 |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| <p>Change in unavailable revenue for tax revenues</p> | | |
| | | 5,616 |
| <p>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.</p> | | |
| Proceeds from long-term debt | (100,000) | |
| Principal payments on long-term debt | <u>144,834</u> | 44,834 |
| <p>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.</p> | | |
| Compensated absences | (1,150) | |
| OPEB plan expense (income) | 18,840 | |
| Pension expense | <u>(172,885)</u> | (155,195) |
| Total changes in net position of governmental activities | | <u>\$ 352,568</u> |

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, 2020

| | General Fund | | | |
|--|---------------------|----------------|-------------------|---|
| | Budget - Original | Budget - Final | Actual Amounts | Variance with Final Budget - Positive (Negative) |
| Revenues: | | | | |
| Ad valorem taxes | \$ 1,277,351 | \$ 1,277,351 | \$ 1,314,597 | \$ 37,246 |
| Other taxes and licenses | 200 | 200 | 1,135 | 935 |
| Unrestricted intergovernmental | 601,596 | 601,596 | 758,576 | 156,980 |
| Restricted intergovernmental | 41,500 | 41,500 | 66,720 | 25,220 |
| Permits and fees | 4,000 | 4,000 | 6,414 | 2,414 |
| Sales and services | 25,500 | 25,500 | 36,470 | 10,970 |
| Investment earnings | 40,000 | 40,000 | 41,290 | 1,290 |
| Donations | - | - | 3,000 | 3,000 |
| Miscellaneous | 10,002 | 67,043 | 45,695 | (21,348) |
| Total revenues | 2,000,149 | 2,057,190 | 2,273,897 | 216,707 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 590,808 | 629,092 | 559,969 | 69,123 |
| Public safety | 824,346 | 846,846 | 827,362 | 19,484 |
| Transportation | 811,309 | 1,011,309 | 644,576 | 366,733 |
| Cultural and recreation | 169,222 | 176,222 | 123,331 | 52,891 |
| Total expenditures | 2,395,685 | 2,663,469 | 2,155,238 | 508,231 |
| Revenues over (under) expenditures | (395,536) | (606,279) | 118,659 | 724,938 |
| Other financing sources (uses): | | | | |
| Proceeds from long-term debt | 100,000 | 200,000 | 100,000 | (100,000) |
| Sales of capital assets | 2,500 | 2,500 | 23,254 | 20,754 |
| Total other financing sources (uses) | 102,500 | 202,500 | 123,254 | (79,246) |
| Fund balance appropriated | 293,036 | 403,779 | - | 403,779 |
| Net change in fund balance | \$ - | \$ - | 241,913 | \$ 241,913 |
| Fund balances, beginning | | | 2,240,394 | |
| Fund balances, ending | | | \$ 2,482,307 | |

Town of Banner Elk, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2020

| | Water and Sewer Fund |
|---|---------------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,545,392 |
| Accounts receivable, net | 100,772 |
| Due from other governments | 9,364 |
| Inventories | 55,418 |
| Restricted cash and cash equivalents | 44,614 |
| Total current assets | 1,755,560 |
| Noncurrent assets: | |
| Capital assets: | |
| Land and construction in progress | 23,465 |
| Other capital assets, net of depreciation | 2,578,101 |
| Capital assets | 2,601,566 |
| Total assets | 4,357,126 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension deferrals | 43,208 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 32,757 |
| Current portion of long-term debt | 21,115 |
| Liabilities payable from restricted assets: | |
| Customer deposits | 44,614 |
| Total current liabilities | 98,486 |
| Noncurrent liabilities: | |
| Compensated absences | 22,183 |
| Notes and bonds payable | 33,932 |
| Net pension liability | 74,219 |
| Total noncurrent liabilities | 130,334 |
| Total liabilities | 228,820 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension deferrals | 2,437 |
| NET POSITION | |
| Net investment in capital assets | 2,546,519 |
| Unrestricted | 1,622,558 |
| Total net position | \$ 4,169,077 |

Town of Banner Elk, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2020

| | Water and Sewer Fund |
|--|---------------------------------|
| OPERATING REVENUES | |
| Charges for services | \$ 952,404 |
| Water and sewer taps | 34,300 |
| Other operating revenues | 4,701 |
| Total operating revenues | 991,405 |
| OPERATING EXPENSES | |
| Water and sewer operations | 623,091 |
| Depreciation | 175,885 |
| Total operating expenses | 798,976 |
| Operating income (loss) | 192,429 |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment earnings | 2,427 |
| Interest and other charges | (5,336) |
| Total nonoperating revenue (expenses) | (2,909) |
| Change in net position | 189,520 |
| Total net position, beginning | 3,979,557 |
| Total net position, ending | 4,169,077 |

Town of Banner Elk, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

| | Water and Sewer Fund |
|--|-------------------------------------|
| | |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 984,124 |
| Cash paid for goods and services | (388,805) |
| Cash paid to employees | (213,452) |
| Customer deposits received | 4,875 |
| Customer deposits returned | (3,056) |
| Net cash provided (used) by operating activities | 383,686 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal paid on long-term debt | (93,433) |
| Acquisition of capital assets | (9,248) |
| Interest and other charges | (5,336) |
| Net cash provided (used) by capital and related financing activities | (108,017) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends | 2,427 |
| Net cash provided (used) by investing activities | 2,427 |
| Net increase (decrease) in cash and cash equivalents | 278,096 |
| Balances, beginning | 1,311,910 |
| Balances, ending | \$ 1,590,006 |
| Reconciliation of operating income to net cash provided by operating activities | |
| Operating income | \$ 192,429 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 175,885 |
| Changes in assets, deferred outflows of resources, and liabilities: | |
| (Increase) decrease in accounts receivable, net | (12,052) |
| (Increase) decrease in due from other governments | 4,772 |
| (Increase) decrease in inventories | (4,495) |
| Increase in net pension liability | 14,360 |
| Increase (decrease) in accounts payable and accrued liabilities | 4,318 |
| Increase (decrease) in customer deposits | 1,819 |
| Increase (decrease) in compensated absences | 4,671 |
| Increase (decrease) in deferred inflows of resources for pensions | (1,635) |
| (Increase) decrease in deferred outflows of resources for pensions | 3,614 |
| Total adjustments | 191,257 |
| Net cash provided by operating activities | \$ 383,686 |

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Banner Elk Tourism Development Authority (TDA)

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

B. Basis of Presentation

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

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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

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

The Town maintains the following major governmental funds:

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

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

The Town maintains the following nonmajor governmental funds:

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

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

Historic Banner Elk School Special Revenue Fund. This fund is used to account for activity for the Historic Banner Elk School. The Town utilizes fundraising activities to cover the debt payment and property improvements.

Capital Project Fund Special Revenue Fund. This fund is used to account for special capital projects including sidewalk extensions.

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,

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

accountability, or other purposes. The Water and Sewer Fund is the only enterprise fund of the Town.

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

C. Measurement Focus and Basis of Accounting

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

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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, Historic Banner Elk School Special Revenue Fund, Sidewalk Projects Special Revenue Fund, Water and Sewer Fund, and Water and Sewer Capital Improvement Plan Fund. All annual appropriations lapse at the fiscal year-end.

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.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State 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 NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2020, The Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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

2. 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.

3. 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, 2020, consist of the following:

Business-Type Activities:

| | |
|---|-----------|
| Water and Sewer Fund: Customer deposits | \$ 44,614 |
|---|-----------|

| | |
|-------|-----------|
| Total | \$ 44,614 |
|-------|-----------|

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2016.

5. Allowances for Doubtful Accounts

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

6. Inventory 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 are 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.

7. Capital Assets

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

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

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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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 |

8. Compensated Absences

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

9. 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 one item that meet this criterion, pension deferrals.

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

10. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or the proprietary fund type Statement of Net Position. Debt issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In the fund financial statements, governmental fund types recognized bond premiums and

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

Restricted for 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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

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

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

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

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

The Town has not officially adopted a fund balance policy.

12. 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.

13. 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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

estimates. Significant areas where estimates made are: allowance for doubtful accounts and depreciation lives.

14. Defined Benefit Cost- Sharing Plans

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.

II. 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, 2020, the Town's deposits had a carrying amount of \$470,020 and a bank balance of \$564,436. Of the bank balance, \$250,000 was covered by FDIC. The Town held \$1,731 in petty cash as of June 30, 2020.

At June 30, 2020, the TDA's deposits had a carrying amount of \$583,270 and a bank balance of \$586,770. Of the bank balance, \$250,000 was covered by the FDIC.s

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

2. Investments

At June 30, 2020, the Town's investments balances were as follows:

| Investment Type | Valuation Measurement Method | Book Value At 6/30/2020 | Maturity | Rating |
|---|---|------------------------------------|-----------------|---------------|
| NC Capital Management Trust – Government Portfolio | Fair Value 1 | \$ 3,027,734 | N/A | AAAm |
| NC Capital Management Trust – Term Portfolio | Fair Value Level 1 | <u>1,302,021</u> | .15 years | Unrated |
| Total: | | <u>\$ 4,329,755</u> | | |

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

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

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

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2020. 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.

3. 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:

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| | Taxes | Due from other governments | Total |
|-----------------------------------|-----------|----------------------------------|------------|
| Governmental Activities: | | | |
| Property taxes | \$ 26,187 | - | \$ 26,187 |
| Local options sales/franchise tax | - | 94,966 | 94,966 |
| ABC revenues - unrestricted | - | 50,000 | 50,000 |
| Sales tax refunds due | - | 9,344 | 9,344 |
| Motor vehicle taxes | - | 5,404 | 5,404 |
| Allowance for doubtful accounts | (4,452) | - | (4,452) |
| Total governmental activities | \$ 21,735 | 159,714 | \$ 181,449 |

Capital Assets

4. Governmental Capital Assets

The capital assets of the government fund of the Town at June 30, 2020, were as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|-----------|-----------|--------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$1,334,233 | - | \$ - | \$1,334,233 |
| Construction in progress | - | - | - | - |
| Total capital assets not being depreciated | 1,334,233 | - | - | 1,334,233 |
| Capital assets being depreciated: | | | | |
| Buildings | 1,546,902 | - | - | 1,546,902 |
| Equipment and furniture | 945,991 | 386,571 | 26,667 | 1,305,895 |
| Infrastructure | 2,703,361 | 31,765 | - | 2,735,127 |
| Total capital assets being depreciated | 5,196,254 | 418,336 | 26,667 | 5,587,924 |
| Less accumulated depreciation for: | | | | |
| Buildings | 365,467 | 32,751 | - | 398,218 |
| Equipment and furniture | 733,479 | 167,019 | 26,667 | 873,831 |
| Infrastructure | 490,173 | 72,605 | - | 562,778 |
| Total accumulated depreciation | 1,589,119 | 272,375 | 26,667 | 1,834,827 |
| Total capital assets being depreciated, net | 3,607,136 | | | 3,753,097 |
| Governmental activity capital assets, net | \$4,941,367 | | | \$5,087,330 |

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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Governmental Activities:

| | |
|-------------------------|--------------------------|
| General government | \$ 24,500 |
| Public safety | 57,500 |
| Transportation | 92,450 |
| Cultural and recreation | <u>97,925</u> |
| Total | <u><u>\$ 272,375</u></u> |

Proprietary Capital Assets

The capital assets of the proprietary fund of the Town at June 30, 2020, were as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|----------------------------|----------------|-----------|----------------------------|
| Business-type activities: | | | | |
| Water and Sewer Fund | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 23,466 | \$ - | \$ - | \$ 23,466 |
| Construction in progress | - | - | - | - |
| Total capital assets not being depreciated | <u>23,466</u> | <u>-</u> | <u>-</u> | <u>23,466</u> |
| Capital assets being depreciated: | | | | |
| Plant | 6,560,228 | - | - | 6,560,228 |
| Furniture and maintenance equipment | 756,890 | 9,248 | - | 766,138 |
| Total capital assets being depreciated | <u>7,317,118</u> | <u>9,248</u> | <u>-</u> | <u>7,326,366</u> |
| Less accumulated depreciation for: | | | | |
| Plant | 3,936,899 | 155,184 | - | 4,092,083 |
| Furniture and maintenance equipment | 635,480 | 20,701 | - | 656,181 |
| Total accumulated depreciation | <u>4,572,379</u> | <u>175,885</u> | <u>-</u> | <u>4,748,264</u> |
| Total capital assets being depreciated, net | <u>2,744,379</u> | | | <u>2,578,102</u> |
| Water and Sewer fund capital assets, net | <u><u>\$ 2,768,205</u></u> | | | <u><u>\$ 2,601,568</u></u> |

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. 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

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are 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, 2020, was 9.7% of compensation for law enforcement officers and 8.95% 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 \$84,328 for the year ended June 30, 2020.

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

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2020, the Town reported a liability of \$416,739 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 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, 2019, the Town's proportion was 0.01526%, which was a decrease of 0.00125% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$180,546. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 71,356 | - |
| Changes of assumptions | 67,921 | - |
| Net difference between projected and actual earnings on pension plan investments | 10,165 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 4,970 | 13,216 |
| Town contributions subsequent to the measurement date | 84,328 | - |
| Total | \$ 238,740 | \$ 13,216 |

\$84,328 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------------|-----------|
| 2021 | \$ 68,865 |
| 2022 | 20,026 |
| 2023 | 39,515 |
| 2024 | 12,790 |
| 2025 | - |
| Thereafter | - |

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.0 percent |
| Salary increases | 3.50 to 8.10 percent, including inflation and productivity factor |
| Investment rate of return | 7.0 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, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed Income | 29.0% | 1.4% |
| Global Equity | 42.0% | 5.3% |
| Real Estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation Protection | 6.0% | 4.0% |
| Total | <u>100%</u> | |

The information above is based on 30-year expectations developed with the consulting actuary

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

for the 2018 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.0%. 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 7.0 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 (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

| | 1% Decrease (6.0%) | Discount Rate (7.0%) | 1% Increase (8.0%) |
|---|-----------------------------------|---------------------------------|-----------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 953,158 | \$ 416,739 | \$ (29,134) |

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.

b. Law Enforcement Officers’ Special Separation Allowance

Plan Description. The Town of Banner Elk administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance’s membership consisted of:

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| | |
|---|----|
| Inactive members currently receiving benefits | 3 |
| Active plan members | 8 |
| Total | 11 |

Summary of Significant Accounting Policies

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

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

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2018 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------|---|
| Inflation | 2.50 percent |
| Salary increases | 3.50 to 7.35 percent, including inflation and productivity factor |
| Discount rate | 3.26 percent |

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

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

Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$43,166 as benefits came due for the reporting period.

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

At June 30, 2020, the Town reported a total pension liability of \$302,753. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$23,073.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| | Deferred Outflows of Resources | Deferred Inflows of |
|--|---|--------------------------------|
| Differences between expected and actual experience | \$ 24,856 | \$ 19,227 |
| Changes of assumptions | 16,745 | 8,692 |
| Town benefit payments and plan administrative expense made subsequent to the measurement date | 43,166 | - |
| Total | \$ 84,767 | \$ 27,919 |

\$43,166 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------------|----------|
| 2021 | \$ 1,470 |
| 2022 | 2,060 |
| 2023 | 676 |
| 2024 | 6,003 |
| 2025 | 3,473 |
| Thereafter | - |

\$43,166 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.26 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

| | 1% Decrease (2.26%) | Discount Rate (3.26%) | 1% Increase (4.26%) |
|-------------------------|------------------------------------|----------------------------------|--------------------------------|
| Total pension liability | \$ 331,877 | \$ 302,753 | \$ 276,634 |

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

| | 2020 |
|--|-------------|
| Beginning balance | \$ 283,833 |
| Service Cost | 12,042 |
| Interest on the total pension liability | 9,561 |
| Changes of benefit terms | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 29,399 |
| Changes of assumptions or other inputs | 10,269 |
| Benefit payments | (42,351) |
| Other changes | - |
| Ending balance of the total pension liability | \$ 302,753 |

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2014.

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

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

| | LGERS | LEOSSA | Total |
|--|--------------|---------------|--------------|
| Pension Expense | \$180,546 | \$ 23,073 | \$ 203,619 |
| Pension Liability | 416,739 | 302,753 | 719,492 |
| Proportionate share of the net pension liability | 0.01526% | N/A | |

Deferred of Outflows of Resources

| | | | |
|--|--------|--------|---------|
| Differences between expected and actual experience | 71,356 | 24,856 | 96,212 |
| Changes of assumptions | 67,921 | 16,745 | 84,666 |
| Net difference between projected and actual earnings on plan investments | 10,165 | - | 10,165 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 4,970 | - | 4,970 |
| Benefit payments and administrative costs paid subsequent to the measurement date | 84,328 | 43,166 | 127,494 |

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Deferred of Inflows of Resources

| | | | |
|--|--------|--------|--------|
| Differences between expected and actual experience | - | 19,227 | 19,227 |
| Changes of assumptions | - | 8,692 | 8,692 |
| Net difference between projected and actual earnings on plan investments | - | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 13,216 | - | 13,216 |

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Town made contributions of \$42,606 for the reporting year. No amounts were forfeited.

2. Other Post-Employment Benefits

Post-employment Healthcare 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.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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.

Total OPEB Liability

The Town's total OPEB liability of \$36,707 was measured as of June 31, 2019 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

| | |
|--|--------------|
| Inflation | 2.50 percent |
| Real wage growth | 1.00 percent |
| Wage inflation | 3.50 percent |
| Salary increases, including wage inflation | 3.50-7.75% |
| Municipal Bond Index Rate | |
| Prior measurement date | 3.89% |
| Measurement date | 3.50% |
| Health care cost trends | None |

The discount rate is based on the yield of the Municipal Bond Index rate as of the measurement date.

Changes in the Total OPEB Liability

| | |
|--|-----------------------------|
| | Total OPEB Liability |
| Balance at 6/30/2019 | \$ 62,447 |
| Changes for the year | |
| Service cost | - |
| Interest | 2,296 |
| Changes of benefit terms | (10,609) |
| Differences between expected and actual experience | (11,605) |
| Changes in assumptions or other inputs | 1,078 |
| Benefit payments | (6,900) |
| Net changes | (25,740) |
| Balance at 6/30/2020 | \$ 36,707 |

Changes in assumptions and other inputs reflect a change in the discount rate from 3.89% to 3.50%.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5 percent) or 1-percentage-point higher (4.5 percent) than the current discount rate:

| | 1% Decrease | Discount Rate (3.5%) | 1% Increase |
|----------------------|--------------------|-----------------------------|--------------------|
| Total OPEB liability | \$ 37,751 | \$ 36,707 | \$ 35,710 |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current | 1% Increase |
|----------------------|--------------------|----------------|--------------------|
| Total OPEB liability | \$ 36,707 | \$ 36,707 | \$ 36,707 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the Town recognized OPEB expense of (\$18,440). At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | - | - |
| Benefit payments and administrative costs made subsequent to the measurement date | 6,900 | - |
| Total | \$ 6,900 | \$ - |

\$6,900 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

Measurement Period Ended

Year ended June 30:

| | |
|------------|---|
| 2021 | - |
| 2022 | - |
| 2023 | - |
| 2024 | - |
| 2025 | - |
| Thereafter | - |

3. Deferred Inflows and Outflows of Resources

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

| Source | Amount |
|---|--------------------------|
| Contributions to pension plan in current fiscal year | \$ 84,328 |
| Benefit payments made and administrative expenses for LEOSSA | 43,166 |
| Differences between expected and actual Changes of assumptions | 96,212 |
| expenses for OPEB subsequent to measurement date | 84,666 |
| Net difference between projected and actual earnings on pension plan investments | 6,900 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 10,165 |
| | <u>4,970</u> |
| Total | <u>\$ 330,407</u> |

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

| | Statement of Net Position | General Fund Balance Sheet |
|---|------------------------------|-------------------------------|
| Taxes Receivable, less penalties (General Fund) | \$ - | \$ 21,735 |
| Changes in assumptions | 8,692 | - |
| Differences between expected and actual experience | 19,227 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 13,216 | - |
| Total | <u>\$ 41,135</u> | <u>\$ 21,735</u> |

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

4. 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 of the Town's funds at any given time of the Town's funds are performance bonded through a commercial surety bond with a \$50,000 coverage limit per incident. The Finance Officer and Tax Collector are each individually bonded for \$100,000 each.

5. 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 final payment due August 2043; secured by real estate | \$ 237,579 |
| 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 | 30,723 |
| 0.0% note for \$1,000,000, payable to Avery County issued March 2015; annual installments of \$83,333; beginning July 2015 with final payment due January 2026; secured by real estate | 583,333 |
| 2.72% note for \$65,000, payable to BB&T issued December 2017; payable semi-annual installments with varying amounts beginning July 2018 with payment due June 2022; secured by equipment | 31,278 |

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

3.7% note for \$42,906 payable to Highlands Union Bank issued June 2019 payable in annual installments with varying amounts beginning final payment due June 2023; secured by equipment. 32,871

2.62% note for \$100,000 payable to BB&T issued September 2019; payable in annual installments with varying amounts beginning 2020; final payment due September 2023; secured by equipment. 100,000
\$ 1,015,784

Installment Note:

2.72% note for \$35,000, payable to BB&T issued December 2017; payable in semi-annual installments with varying amounts beginning July 2018 with final payment due June 2022; secured by equipment \$ 17,402

3.7% note for \$49,426 payable to Highlands Union Bank issued June 2019 payable in annual installments with varying amounts beginning June 2020 with final payment due June 2023; secured by equipment. 37,645
\$ 55,047

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

| Year Ending June 30 | Governmental Activities | | Business-Type Activities | |
|---------------------|-------------------------|-------------------|--------------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2021 | \$ 170,624 | \$ 16,390 | \$ 21,115 | \$ 1,894 |
| 2022 | 139,955 | 13,961 | 21,202 | 1,194 |
| 2023 | 125,998 | 11,938 | 12,730 | 494 |
| 2024 | 115,733 | 10,854 | - | - |
| 2025 | 90,052 | 9,877 | - | - |
| 2026-2030 | 205,217 | 44,424 | - | - |
| 2031-2035 | 48,329 | 34,646 | - | - |
| 2035-2039 | 60,588 | 22,387 | - | - |
| 2040-2044 | 59,288 | 7,019 | - | - |
| | <u>\$ 1,015,784</u> | <u>\$ 171,496</u> | <u>\$ 55,047</u> | <u>\$ 3,582</u> |

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

| | Beginning Balances | Increases | Decreases | Ending Balances | Current portion of balance |
|---|-----------------------|-------------------|-------------------|---------------------|----------------------------------|
| Governmental activities | | | | | |
| Notes payable | \$ 1,060,617 | \$ 100,000 | \$ 144,833 | \$ 1,015,784 | \$ 170,624 |
| Net pension liability (LGERS) | 272,506 | 70,014 | - | 342,520 | - |
| Total pension liability (LEO) | 283,833 | 18,920 | - | 302,753 | - |
| Compensated absences | 63,066 | 21,557 | 20,982 | 63,641 | - |
| Total OPEB liability | 62,447 | - | 25,740 | 36,707 | - |
| Governmental activity long- term liabilities | <u>\$ 1,742,469</u> | <u>\$ 210,491</u> | <u>\$ 191,555</u> | <u>\$ 1,761,405</u> | <u>\$ 170,624</u> |

| | Beginning Balances | Increases | Decreases | Ending Balances | Current portion of balance |
|--|-----------------------|------------------|------------------|--------------------|----------------------------------|
| Business-type activities | | | | | |
| Notes payable | \$ 75,480 | \$ - | \$ 20,433 | \$ 55,047 | \$ 21,115 |
| General obligation bonds | 73,000 | - | 73,000 | - | - |
| Net pension liability (LGERS) | 59,859 | 14,360 | - | 74,219 | - |
| Compensated absences | 17,512 | 10,334 | 5,663 | 22,183 | - |
| Business-type activities long- term liabilities | <u>\$ 225,851</u> | <u>\$ 24,694</u> | <u>\$ 99,096</u> | <u>\$ 151,449</u> | <u>\$ 21,115</u> |

Other post-employment benefits and compensated absences typically have been liquidated in the General Fund. Compensated absences are accounted for on a FIFO basis, assuming that the employees are taking leave time as it is earned. At June 30, 2020, the Town had a legal debt margin of \$17,721,626.

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

C. Interfund Transactions

Transfers to/from Other Funds at June 30, 2020 consists of the following:

Transfer from the Capital Project Fund to the Historic Banner Elk School Special

Revenue Fund \$69,833

D. Jointly Governed Organizations

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

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

III. 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.

IV. Fund Balance

| | |
|-----------------------------------|-------------|
| Total fund balance – General Fund | \$2,482,307 |
| Less: | |
| Stabilization by State Statute | 159,078 |
| Subsequent years expenditures | 434,820 |
| Remaining fund balance | 1,888,409 |

Town of Banner Elk Rock, North Carolina
Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30,

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|------------------|
| Total OPEB Liability | | | |
| Service cost | \$ - | \$ - | \$ - |
| Interest | 2,296 | 2,295 | 2,171 |
| Changes of benefit terms | (10,609) | - | - |
| Differences between expected and actual experience | (11,605) | (86) | 820 |
| Changes of assumptions | 1,078 | (740) | (1,573) |
| Benefit payments | (6,900) | (6,900) | (11,240) |
| Net change in total OPEB liability | (25,740) | (5,431) | (9,822) |
| Total OPEB liability - beginning | 62,447 | 67,878 | 77,700 |
| Total OPEB liability - ending | \$ 36,707 | \$ 62,447 | \$ 67,878 |
| Covered payroll | N/A * | | |
| Total OPEB liability as a percentage of covered payroll | N/A * | | |

* Covered employee payroll is not provided since there are fewer than 10 Participants in the Plan

Notes to Schedule

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

| <u>Fiscal year</u> | <u>Rate</u> |
|--------------------|-------------|
| 2018 | 3.56% |
| 2019 | 3.89% |
| 2020 | 3.50% |

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

Local Government Employees' Retirement System

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Banner Elk's proportion of the net pension liability (asset) (%) | 0.01526% | 0.01401% | 0.01488% | 0.01567% | 0.01663% | 0.01609% | 0.01470% |
| Banner Elk's proportion of the net pension liability (asset) (\$) | \$ 416,739 | \$ 332,365 | \$ 227,325 | 332,570 | \$ 74,633 | (94,890) | \$ 177,191 |
| Banner Elk's covered-employee payroll | \$ 932,242 | \$ 817,079 | \$ 847,875 | 824,874 | \$ 824,874 | 841,796 | \$ 830,250 |
| Banner Elk's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 44.70% | 40.68% | 26.81% | 40.32% | 9.05% | (11.27%) | 21.34% |
| Plan fiduciary net position as a percentage of the total pension liability | 91.63% | 94.18% | 94.18% | 98.09% | 99.07% | 102.64% | 94.35% |

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

Local Government Employees' Retirement System

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------------|------------|------------|------------|------------|------------|------------|
| Contractually required contribution | \$ 84,328 | \$ 74,881 | \$ 65,486 | \$ 64,618 | \$ 56,874 | \$ 60,743 | \$ 59,477 |
| Contributions in relation to the contractually required contribution | 84,328 | 74,881 | 65,486 | 64,618 | 56,874 | 60,743 | 59,477 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Banner Elk's covered-employee payroll | \$ 905,868 | \$ 932,242 | \$ 817,079 | \$ 847,875 | \$ 824,874 | \$ 830,250 | \$ 830,250 |
| Contributions as a percentage of covered-employee payroll | 9.31% | 8.03% | 8.01% | 7.62% | 6.89% | 7.32% | 7.16% |

Town of Banner Elk, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2020

| | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|-------------------|
| Beginning balance | \$ 283,833 | \$ 347,795 | \$ 345,161 | \$ 359,409 |
| Service Cost | 12,042 | 10,385 | 11,128 | 11,653 |
| Interest on the total pension liability | 9,561 | 10,321 | 12,523 | 12,280 |
| Changes of benefit terms | - | - | - | |
| Differences between expected and actual experience in the measurement of the total pension liability | 29,399 | (31,433) | 1,833 | |
| Changes of assumptions or other inputs | 10,269 | (10,878) | 18,619 | (7,294) |
| Benefit payments | (42,351) | (42,357) | (41,469) | (30,887) |
| Other changes | - | - | - | |
| Ending balance of the total pension liability | <u>\$ 302,753</u> | <u>\$ 283,833</u> | <u>\$ 347,795</u> | <u>\$ 345,161</u> |

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

Town of Banner Elk, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
For the Year Ended June 30, 2020

| | 2020 | 2019 | 2018 | 2017 |
|--|-------------|-------------|-------------|-------------|
| Total pension liability | \$ 302,753 | \$ 283,833 | \$ 347,795 | \$ 345,161 |
| Covered payroll | 402,784 | 303,676 | 397,110 | 388,163 |
| Total pension liability as a percentage of covered payroll | 75.17% | 93.47% | 87.58% | 88.92% |

Notes to the schedules:

Town of Banner Elk has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related

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, 2020

| | Budget | Actual | Variance Positive (Negative) |
|---|------------------|------------------|------------------------------------|
| Revenues: | | | |
| Ad valorem taxes: | | | |
| Taxes | \$ | \$ 1,311,644 | \$ |
| Interest | | 2,953 | |
| Total | <u>1,277,351</u> | <u>1,314,597</u> | <u>37,246</u> |
| Other taxes and licenses: | | | |
| Solid waste disposal tax | | 875 | |
| Privilege licenses | | 260 | |
| Total | <u>200</u> | <u>1,135</u> | <u>935</u> |
| Unrestricted intergovernmental: | | | |
| Local option sales taxes | | 476,332 | |
| Utilities franchise tax | | 113,022 | |
| Beer and wine tax | | 4,981 | |
| TDA admin fee | | 24,241 | |
| ABC profit distribution | | 140,000 | |
| Total | <u>601,596</u> | <u>758,576</u> | <u>156,980</u> |
| Restricted intergovernmental: | | | |
| Powell Bill allocation | | 41,038 | |
| Other local grants and matching contributions | | 25,682 | |
| Total | <u>41,500</u> | <u>66,720</u> | <u>25,220</u> |
| Permits and fees: | | | |
| Building permits | | 6,414 | |
| Total | <u>4,000</u> | <u>6,414</u> | <u>2,414</u> |
| Sales and services: | | | |
| Rental income | 25,500 | 36,470 | 10,970 |
| Investment earnings | 40,000 | 41,290 | 1,290 |
| Donations | - | 3,000 | 3,000 |
| Miscellaneous | 67,043 | 45,695 | (21,348) |
| Total revenues | <u>2,057,190</u> | <u>2,273,897</u> | <u>216,707</u> |
| Expenditures: | | | |
| Governing body: | | | |
| Salaries and employee benefits | | 13,564 | |
| Operating expenditures | | 39,571 | |
| Total | | <u>53,135</u> | |
| Administration: | | | |
| Salaries and employee benefits | | 180,027 | |
| Operating expenditures | | 71,488 | |
| Capital outlay | | 46,026 | |
| Total | | <u>297,541</u> | |
| Finance: | | | |
| Salaries and employee benefits | | 20,531 | |
| Operating expenditures | | 28,873 | |
| Total | | <u>49,404</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, 2020

| | Budget | Actual | Variance Positive (Negative) |
|------------------------------------|-------------------|---------------------|------------------------------------|
| Planning | | | |
| Salaries and employee benefits | | 82,746 | |
| Operating expenditures | | 17,615 | |
| Total | | <u>100,361</u> | |
| Public buildings: | | | |
| Operating expenditures | | 59,528 | |
| Total | | <u>59,528</u> | |
| Total general government | <u>629,092</u> | <u>559,969</u> | <u>69,123</u> |
| Public safety: | | | |
| Police: | | | |
| Salaries and employee benefits | | 667,775 | |
| Operating expenditures | | 86,263 | |
| Capital outlay | | 73,324 | |
| Total | | <u>827,362</u> | |
| Total public safety | <u>846,846</u> | <u>827,362</u> | <u>19,484</u> |
| Transportation: | | | |
| Streets and highways: | | | |
| Salaries and employee benefits | | 84,968 | |
| Operating expenditures | | 246,361 | |
| Capital outlay | | 313,247 | |
| Total transportation | <u>1,011,309</u> | <u>644,576</u> | <u>366,733</u> |
| Cultural and recreation: | | | |
| Parks and recreation: | | | |
| Salaries and employee benefits | | 44,635 | |
| Other operating expenditures | | 78,696 | |
| Total culture and recreation | <u>176,222</u> | <u>123,331</u> | <u>52,891</u> |
| Total expenditures | <u>2,663,469</u> | <u>2,155,238</u> | <u>508,231</u> |
| Revenues over (under) expenditures | (606,279) | 118,659 | 724,938 |
| Other financing sources (uses): | | | |
| Proceeds from long-term debt | 200,000 | 100,000 | (100,000) |
| Sale of capital assets | 2,500 | 23,254 | 20,754 |
| Total | <u>\$ 202,500</u> | <u>123,254</u> | <u>\$ (79,246)</u> |
| Fund balance appropriated | 403,779 | - | (403,779) |
| Net change in fund balance | <u>\$ -</u> | 241,913 | <u>\$ 241,913</u> |
| Fund balances, beginning | | 2,240,394 | |
| Fund balances, ending | | <u>\$ 2,482,307</u> | |

Town of Banner Elk, North Carolina
Capital Improvement Plan - Capital Improvement Capital Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2020

| | Budget | Actual | Variance Positive (Negative) |
|---|----------|-------------|------------------------------------|
| Revenues | | | |
| Restricted intergovernmental: | | | |
| Miscellaneous: | | | |
| Miscellaneous | \$ - | \$ - | \$ - |
| Investment income | - | 11,851 | 11,851 |
| Total revenues | - | 11,851 | 11,851 |
| Revenues under expenditures | - | 11,851 | 11,851 |
| Other financing sources (uses): | | | |
| Transfer to Historic Banner Elk School Fund | (69,833) | (69,833) | - |
| Total | (69,833) | (69,833) | - |
| Fund balance appropriated | 69,833 | - | (69,833) |
| Net change in fund balance | \$ - | \$ (57,982) | \$ (57,982) |
| Fund balances, beginning | | 412,696 | |
| Fund balances, ending | | \$ 354,714 | |

Town of Banner Elk, North Carolina
Combining Balance Sheets
Nonmajor Governmental Funds
For the Year Ended June 30, 2020

| | Police Special Revenue Fund | Cops Golf Tournament Special Revenue Fund | Historic Banner Elk School Special Revenue Fund | Sidewalk Projects Special Revenue Fund | Total Nonmajor Governmental Funds |
|--|--------------------------------------|--|--|---|---|
| Assets | | | | | |
| Cash and cash equivalents | \$ 40,080 | 70,016 | 243,610 | 76,571 | \$ 430,277 |
| Due from other governments | - | 25 | 611 | - | 636 |
| Total assets | \$ 40,080 | 70,041 | 244,221 | 76,571 | \$ 430,913 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ - | - | 111 | - | \$ 111 |
| Fund balances: | | | | | |
| Restricted: | | | | | |
| Stabilization by State Statute | \$ - | 25 | 611 | - | \$ 636 |
| Public safety | 40,080 | 70,016 | - | - | 110,096 |
| Committed: | | | | | |
| Capital projects | | | | 76,571 | 76,571 |
| Assigned: | | | | | |
| Cultural and recreation | - | - | 243,499 | - | 243,499 |
| Total fund balances | 40,080 | 70,041 | 244,110 | 76,571 | 430,802 |
| Total liabilities and fund balances | \$ 40,080 | \$ 70,041 | \$ 244,221 | \$ 76,571 | \$ 430,913 |

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, 2020

| | Police Special Revenue Fund | Cops Golf Tournament Special Revenue Fund | Historic Banner Elk School Special Revenue Fund | Sidewalk Projects Special Revenue Fund | Total Nonmajor Governmental Funds |
|---------------------------------|--------------------------------------|--|--|---|---|
| Revenues: | | | | | |
| Sales and services | \$ - | 24,735 | 61,496 | - | \$ 86,231 |
| Capital donations | - | - | 25,431 | - | 25,431 |
| Interest | - | 625 | - | 482 | 1,107 |
| Miscellaneous | 47 | - | - | - | 47 |
| Total revenues | 47 | 25,360 | 86,927 | 482 | 112,816 |
| Expenditures: | | | | | |
| Public safety | 150 | 13,873 | - | - | 14,023 |
| Cultural and recreation | - | - | 77,914 | - | 77,914 |
| Debt service: | | | | | |
| Principal repayments | - | - | 83,333 | - | 83,333 |
| Interest | - | - | - | - | - |
| Total expenditures | 150 | 13,873 | 161,247 | - | 175,270 |
| Revenues over expenditures | (103) | 11,487 | (74,320) | 482 | (62,936) |
| Other Financing Sources (Uses): | | | | | |
| Transfers in | - | - | 69,833 | - | 69,833 |
| Net change in fund balance | (103) | 11,487 | (4,487) | 482 | 7,379 |
| Fund balance, beginning | 40,183 | 58,554 | 248,597 | 76,089 | 423,423 |
| Fund balance, ending | \$ 40,080 | \$ 70,041 | \$ 244,110 | \$ 76,571 | \$ 430,802 |

Town of Banner Elk, North Carolina
Sidewalk Projects - Nonmajor Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2020

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|-------------------------------|---------------|------------------|---|
| Revenues | | | |
| Miscellaneous: | | | |
| Contributions | - | - | \$ - |
| Investment income | - | 482 | 482 |
| Total revenues | <u>-</u> | <u>482</u> | <u>482</u> |
| Expenditures | | | |
| Capital outlay: | | | |
| Sidewalk projects | | | |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> |
| Revenues under expenditures | <u>-</u> | <u>482</u> | <u>482</u> |
| Appropriated fund balance | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>482</u> | <u>\$ 482</u> |
| Fund balance, beginning | | <u>76,089</u> | |
| Fund balance, ending | | <u>\$ 76,571</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, 2020

| | Budget | Actual | Variance Positive (Negative) |
|------------------------------|----------|-----------|------------------------------------|
| Revenues: | | | |
| Miscellaneous | \$ 5,500 | 47 | \$ (5,453) |
| Expenditures: | | | |
| Public safety: | | | |
| Other | 5,500 | 150 | 5,350 |
| Revenues over expenditures | - | (103) | (103) |
| Other financing (uses): | | | |
| Appropriated fund balance | - | - | - |
| Total other financing (uses) | - | - | - |
| Net change in fund balance | \$ - | (103) | \$ (103) |
| Fund balance, beginning | | 40,183 | |
| Fund balance, Ending | | \$ 40,080 | |

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, 2020

| | Budget | Actual | Variance Positive (Negative) |
|----------------------------|---------------|------------------|------------------------------------|
| Revenues: | | | |
| Golf tournament revenues | \$ 21,000 | 24,735 | \$ 3,735 |
| Interest | - | 625 | 625 |
| Total revenues | <u>21,000</u> | <u>25,360</u> | <u>4,360</u> |
| Expenditures: | | | |
| Public safety: | | | |
| Golf tournament | <u>21,000</u> | <u>13,873</u> | <u>7,127</u> |
| | | | |
| Net change in fund balance | <u>\$ -</u> | 11,487 | <u>\$ 11,487</u> |
| | | | |
| Fund balance, beginning | | <u>58,554</u> | |
| Fund balance, Ending | | <u>\$ 70,041</u> | |

Town of Banner Elk, North Carolina
Historic Banner Elk School Special Revenue Fund - Nonmajor Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2020

| | Budget | Actual | Variance Positive (Negative) |
|------------------------------------|------------------|-------------------|------------------------------------|
| Revenues: | | | |
| Golf tournament revenues | 25,500 | 53,181 | 27,681 |
| Sales and services | 10,000 | 8,315 | (1,685) |
| Donations | 20,500 | 25,431 | 4,931 |
| Total revenues | <u>56,000</u> | <u>86,927</u> | <u>30,927</u> |
| Expenditures: | | | |
| Cultural and recreation: | | | |
| Other | 60,300 | 57,872 | 2,428 |
| Golf tournament expenses | 25,500 | 20,042 | 5,458 |
| Debt Service: | | | |
| Principal | 83,333 | 83,333 | - |
| Total | <u>169,133</u> | <u>161,247</u> | <u>7,886</u> |
| Revenues over expenditures | <u>(113,133)</u> | <u>(74,320)</u> | <u>38,813</u> |
| Other financing (uses): | | | |
| Transfer from Capital Project Fund | 69,833 | 69,833 | 0 |
| Total other financing (uses) | <u>69,833</u> | <u>69,833</u> | <u>-</u> |
| Fund balance appropriated | 43,300 | - | (43,300) |
| Net change in fund balance | <u>\$ -</u> | (4,487) | <u>\$ (4,487)</u> |
| Fund balance, beginning | | 248,597 | |
| Fund balance, Ending | | <u>\$ 244,110</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, 2020

| | Budget | Actual | Variance Positive (Negative) |
|---|------------|---------|------------------------------------|
| Revenues: | | | |
| Water sales: | | | |
| Residential | | 376,402 | |
| Impact fees | | 30,750 | |
| Total | \$ 353,000 | 407,152 | \$ 54,152 |
| Sewer charges: | | | |
| Residential | | 533,927 | |
| Sewer CIP surcharge | | 11,325 | |
| Total | 515,000 | 545,252 | 30,252 |
| Water and sewer taps | 5,000 | 34,300 | 29,300 |
| Other operating revenues | 5,000 | 4,701 | (299) |
| Total operating revenues | 878,000 | 991,405 | 113,405 |
| Nonoperating revenues: | | | |
| Interest earnings | 1,500 | 2,073 | 573 |
| Total revenues | 879,500 | 993,478 | 113,978 |
| Expenditures: | | | |
| Water and sewer administration: | | | |
| Salaries and employee benefits | | 66,122 | |
| Supplies | | 1,003 | |
| Insurance | | 77 | |
| Contracted services | | 2,308 | |
| Other operating expenditures | | 19,095 | |
| Total water and sewer administration | 112,593 | 88,605 | 23,988 |
| Wastewater treatment: | | | |
| Water treatment plant: | | | |
| Salaries and employee benefits | | 34,490 | |
| Utilities | | 62,460 | |
| Supplies | | 1,486 | |
| Insurance | | 3,350 | |
| Maintenance | | 18,252 | |
| Other operating expenditures | | 16,937 | |
| Contracted services | | 22,958 | |
| Total | 184,952 | 159,933 | 25,019 |
| Water treatment: | | | |
| Water treatment plant: | | | |
| Salaries and employee benefits | | 34,992 | |
| Utilities | | 32,962 | |
| Supplies | | 8,487 | |
| Insurance | | 1,831 | |
| Maintenance | | 1,176 | |
| Other operating expenditures | | 13,039 | |
| Total | 137,537 | 92,487 | 45,050 |
| Distributions and collections: | | | |
| Salaries and employee benefits | | 77,848 | |
| Utilities | | 4,833 | |
| Supplies | | 17,923 | |
| Insurance | | 7,158 | |
| Maintenance | | 17,275 | |
| Other operating expenditures | | 113,740 | |
| Capital outlay | | 31,527 | |
| Total | 378,465 | 270,304 | 108,161 |
| Subtotal water treatment and sewer expenses | 813,547 | 611,329 | 202,218 |

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, 2020

| | Budget | Actual | Variance Positive (Negative) |
|--|----------|------------|------------------------------------|
| Debt service: | | | |
| Interest and other charges | | 5,336 | - |
| Principal retirement | | 93,433 | - |
| Total debt service | 99,053 | 98,769 | 284 |
| Revenues over(under) expenditures | (33,100) | 283,380 | 316,480 |
| Other financing sources and (uses) | | | |
| Proceeds from long-term debt | 33,100 | - | (33,100) |
| Fund balance appropriated | - | - | - |
| Revenues and other sources over expenditures and other uses | \$ - | 283,380 | \$ 283,380 |
| Reconciliation from budgetary basis (modified accrual) to full accrual: | | | |
| Revenues and other sources over expenditures and other uses | | \$ 283,380 | |
| Reconciling items: | | | |
| Principal retirement | | 93,433 | |
| Change in accrued vacation pay | | (4,671) | |
| Change in deferred outflows of resources - pensions | | (3,614) | |
| Change in net pension liability | | (14,360) | |
| Change in deferred inflows of resources - pensions | | 1,635 | |
| Proceeds from long-term debt | | - | |
| Capital outlay | | 9,248 | |
| Depreciation | | (175,885) | |
| Interest income from Water and Sewer Capital Projects Fund | | 354 | |
| Total reconciling items | | (93,860) | |
| Change in net position | | \$ 189,520 | |

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, 2020

| | Budget | Actual | Variance Positive (Negative) |
|---|--------|--------|------------------------------------|
| Revenues: | | | |
| Investment earnings | \$ - | 354 | 354 |
| Total revenues | - | 354 | 354 |
| Revenues over (under) expenditures | - | 354 | 354 |
| Revenues over (under) expenditures and other financing sources | \$ - | 354 | 354 |

Town of Banner Elk, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2020

| <u>Fiscal Year</u> | <u>Uncollected Balance June 30, 2019</u> | <u>Additions</u> | <u>Collections And Credits</u> | <u>Uncollected Balance June 30, 2020</u> |
|--------------------|--|---------------------|------------------------------------|--|
| 2019-2020 | \$ - | \$ 1,318,961 | \$ 1,299,424 | \$ 19,537 |
| 2018-2019 | 13,252 | - | 9,303 | 3,949 |
| 2017-2018 | 3,565 | - | 3,063 | 502 |
| 2016-2017 | 497 | - | - | 497 |
| 2015-2016 | 458 | - | - | 458 |
| 2014-2015 | 478 | - | - | 478 |
| 2013-2014 | 596 | - | - | 596 |
| 2012-2013 | 2 | - | - | 2 |
| 2011-2012 | 21 | - | - | 21 |
| 2010-2011 | 147 | - | - | 147 |
| 2009-2010 | 293 | - | 293 | - |
| | <u>\$ 19,309</u> | <u>\$ 1,318,961</u> | <u>\$ 1,312,083</u> | <u>26,187</u> |
| | Less: allowance for uncollectible accounts: | | | |
| | General Fund | | | <u>4,452</u> |
| | Ad valorem taxes receivable - net | | | <u>\$ 21,735</u> |
| | <u>Reconciliation to revenues:</u> | | | |
| | Ad valorem taxes - General Fund | | | \$ 1,314,597 |
| | Reconciling items: | | | |
| | Prior year releases | | | |
| | Taxes written off | | | 439 |
| | Penalties and interest | | | <u>(2,953)</u> |
| | Subtotal | | | <u>(2,514)</u> |
| | Total collections and credits | | | <u>\$ 1,312,083</u> |

Town of Banner Elk, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
June 30, 2020

| | Town - Wide | | Total Levy | | |
|------------------------------------|-----------------------|------|---------------------|--|---------------------------------|
| | Property Valuation | Rate | Total Levy | Property excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original levy: | | | | | |
| Property taxed at current rate | \$ 225,815,714 | 0.56 | \$ 1,264,568 | \$ 1,264,568 | \$ - |
| Registered motor vehicles taxed | 6,447,679 | 0.56 | 36,107 | - | 36,107 |
| Penalties | - | | 3,489 | 3,489 | - |
| Total | <u>232,263,393</u> | | <u>1,304,164</u> | <u>1,268,057</u> | <u>36,107</u> |
| Discoveries: | | | | | |
| Current year taxes | <u>2,961,429</u> | 0.56 | <u>16,584</u> | <u>16,584</u> | <u>-</u> |
| Abatements | <u>(319,107)</u> | 0.56 | <u>(1,787)</u> | <u>(1,787)</u> | <u>-</u> |
| Total property valuation | <u>\$ 234,905,714</u> | | | | |
| Net levy | | | 1,318,961 | 1,282,854 | 36,107 |
| Uncollected taxes at June 30, 2020 | | | <u>(19,537)</u> | <u>(19,537)</u> | <u>-</u> |
| Current year's taxes collected | | | <u>\$ 1,299,424</u> | <u>\$ 1,263,317</u> | <u>\$ 36,107</u> |
| Current levy collection percentage | | | <u>98.52%</u> | <u>98.48%</u> | <u>100.00%</u> |