

**TOWN OF BANNER ELK
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

**MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.**

"A Professional Association of Certified Public Accountants and Management Consultants"

TOWN COUNCIL MEMBERS

Gail Draughon

Herbert “Bud” Hahn

Brenda Lyerly

Robert Tufts

TOWN MANAGER

Rick Owen

TOWN CLERK AND FINANCE OFFICER

Steven Smith

TOWN OF BANNER ELK, NORTH CAROLINA

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INDEPENDENT AUDITORS' REPORT

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

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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Banner Elk's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Banner Elk Tourism Development Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Banner Elk Tourism Development Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements for the Town of Banner Elk Tourism Development Authority were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audit and the report of other auditors, 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, 2011, the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2011, on our consideration of the Town of Banner Elk's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 assurance. Management has omitted the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employers Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a 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, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of the Town of Banner Elk, North Carolina as a whole. 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 was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
September 29, 2011

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, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

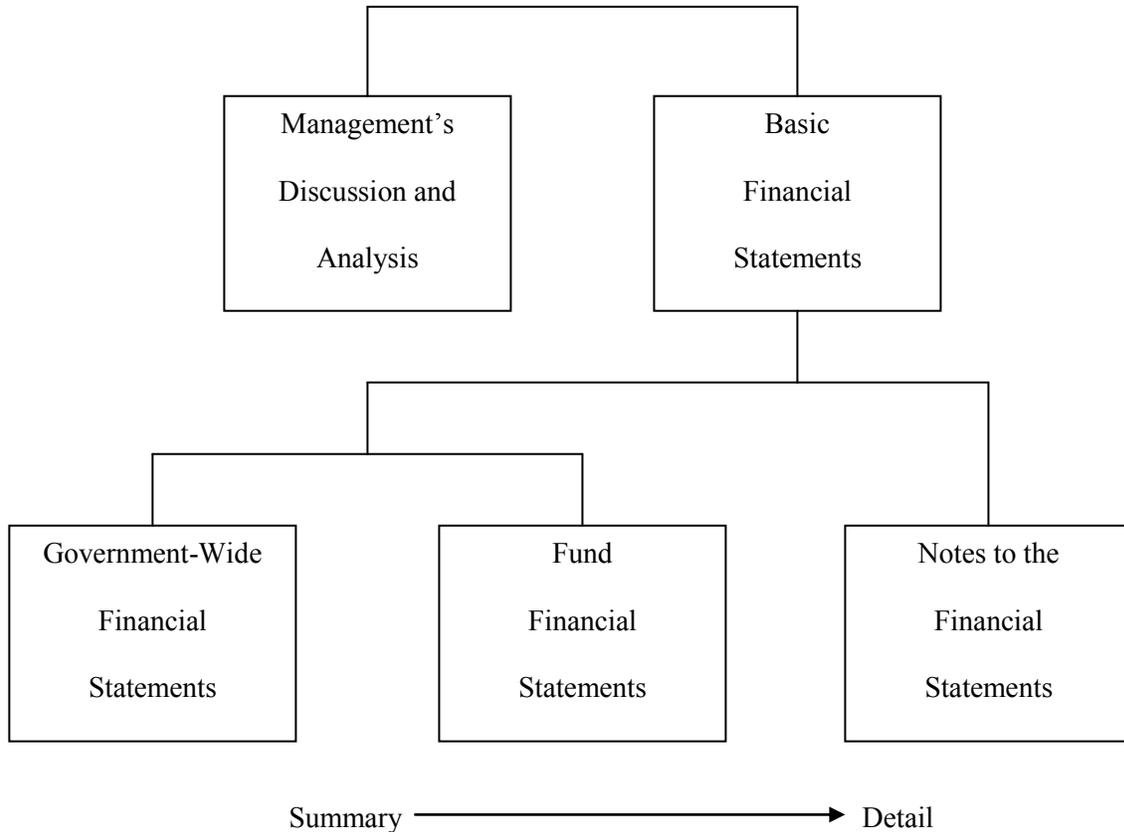
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$7,390,551 (*net assets*).
- The government's total net assets increased by \$476,181, primarily due to governmental related activities.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$1,497,670 a decrease of \$25,080 in comparison with the prior year. Approximately 13 percent of this total amount, or \$195,866, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$456,925, or 30 percent of total General Fund expenditures and transfers out for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to 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 assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets 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 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 Assets 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 Assets 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 44 of this report.

Government-Wide Financial Analysis

Town of Banner Elk's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$ 1,604,690	\$ 1,615,148	\$ 401,114	\$ 325,907	\$ 2,005,804	\$ 1,941,055
Capital assets	<u>2,338,702</u>	<u>1,746,896</u>	<u>4,066,625</u>	<u>4,296,368</u>	<u>6,405,327</u>	<u>6,043,264</u>
Total assets	<u>3,943,392</u>	<u>3,362,044</u>	<u>4,467,739</u>	<u>4,622,275</u>	<u>8,411,131</u>	<u>7,984,319</u>
Liabilities:						
Long-term liabilities outstanding	335,609	347,832	519,278	638,569	854,887	986,401
Other liabilities	<u>64,705</u>	<u>46,947</u>	<u>100,988</u>	<u>36,601</u>	<u>165,693</u>	<u>83,548</u>
Total liabilities	<u>400,314</u>	<u>394,779</u>	<u>620,266</u>	<u>675,170</u>	<u>1,020,580</u>	<u>1,069,949</u>
Net Assets:						
Invested in capital assets, net of related debt	2,060,597	1,465,223	3,500,625	3,678,368	5,561,222	5,143,591
Restricted	195,866	65,641	-	-	195,866	65,641
Unrestricted	<u>1,286,615</u>	<u>1,436,401</u>	<u>346,848</u>	<u>268,737</u>	<u>1,633,463</u>	<u>1,705,138</u>
Total net assets	<u>\$ 3,543,078</u>	<u>\$ 2,967,265</u>	<u>\$ 3,847,473</u>	<u>\$ 3,947,105</u>	<u>\$ 7,390,551</u>	<u>\$ 6,914,370</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Banner Elk exceeded liabilities by \$7,390,551 as of June 30, 2011. The Town's net assets increased by \$476,181 for the fiscal year ended June 30, 2011. However, the largest portion (75%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. 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 investment in its 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 assets \$195,866 (2.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,633,463 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 95.60%.
- Property values within the Town limits continued to increase as a result of further residential development.

Town of Banner Elk Changes in Net Assets

Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 26,980	\$ 56,726	\$ 555,586	\$ 664,960	\$ 582,566	\$ 721,686
Operating grants and contributions	244,878	200,178	-	-	244,878	200,178
Capital grants and contributions	398,987	15,500	-	-	398,987	15,500
General revenues:						
Property taxes	966,103	912,637	-	-	966,103	912,637
Other taxes	369,384	369,414	-	-	369,384	369,414
Investment earnings	2,703	3,920	1,477	989	4,180	4,909
Total revenues	<u>2,009,035</u>	<u>1,558,375</u>	<u>557,063</u>	<u>665,949</u>	<u>2,566,098</u>	<u>2,224,324</u>
Expenses:						
General government	297,260	429,176	-	-	297,260	429,176
Public safety	718,428	778,341	-	-	718,428	778,341
Public works	141,844	-	-	-	141,844	-
Transportation	186,804	186,073	-	-	186,804	186,073
Environmental protection	-	(2,207)	-	-	-	(2,207)
Culture and recreation	75,498	96,707	-	-	75,498	96,707
Interest on long-term debt	13,388	13,186	-	-	13,388	13,186
Water and sewer	-	-	656,695	699,907	656,695	699,907
Total expenses	<u>1,433,222</u>	<u>1,501,276</u>	<u>656,695</u>	<u>699,907</u>	<u>2,089,917</u>	<u>2,201,183</u>
Increase (decrease) in net assets	575,813	57,099	(99,632)	(33,958)	476,181	23,141
Net Assets:						
Beginning of year, July 1	<u>2,967,265</u>	<u>2,910,166</u>	<u>3,947,105</u>	<u>3,981,063</u>	<u>6,914,370</u>	<u>6,891,229</u>
End of year, June 30	<u>\$ 3,543,078</u>	<u>\$ 2,967,265</u>	<u>\$ 3,847,473</u>	<u>\$ 3,947,105</u>	<u>\$ 7,390,551</u>	<u>\$ 6,914,370</u>

Governmental Activities. Governmental activities increased the Town's net assets by \$575,813. Key elements of this increase are as follows:

- Property tax revenues increased due to factors previously discussed
- Capital grant for cultural and recreation capital project

Business-Type Activities. Business-type activities decreased the Town of Banner Elk's net assets by \$99,632. Key elements of this decrease are as follows:

- The purchase of water and sewer equipment

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 \$489,666, while total fund balance reached \$575,801.

At June 30, 2011, the governmental funds of Town of Banner Elk reported a combined fund balance of \$1,497,670, a 2% percent decrease over last year. Included in this change in fund balance are a decrease in the General Fund of \$1,412, a decrease in the Capital Improvement Capital Project Fund of \$71,278, and a net increase in other nonmajor funds of \$47,610.

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 were lower than the budgeted amounts primarily because local option sales tax revenue was lower than originally expected. Also, expenditures were held below the budgeted amounts and the Town was able to increase its fund balance.

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 assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$346,848. The change in net assets was a decrease of \$99,632. 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 investment in capital assets for its governmental and business-type activities as of June 30, 2011 totals \$6,405,327 (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 infrastructure \$642,527
- Governmental equipment \$32,800

Town of Banner Elk's Capital Assets

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 223,019	\$ 223,019	\$ 23,466	\$ 23,466	\$ 246,485	\$ 246,485
Construction in progress	3,497	3,497	1,500	1,500	4,997	4,997
Infrastructure	1,702,327	1,059,800	-	-	1,702,327	1,059,800
Buildings	514,979	514,979	-	-	514,979	514,979
Plant	-	-	6,601,365	6,601,365	6,601,365	6,601,365
Equipment and furniture	560,222	527,422	533,814	531,784	1,094,036	1,059,206
Total	<u>3,004,044</u>	<u>2,328,717</u>	<u>7,160,145</u>	<u>7,158,115</u>	<u>10,164,189</u>	<u>9,486,832</u>
Less: accumulated depreciation	<u>(665,342)</u>	<u>(581,821)</u>	<u>(3,093,520)</u>	<u>(2,861,747)</u>	<u>(3,758,862)</u>	<u>(3,443,568)</u>
Net capital assets	<u>\$ 2,338,702</u>	<u>\$ 1,746,896</u>	<u>\$ 4,066,625</u>	<u>\$ 4,296,368</u>	<u>\$ 6,405,327</u>	<u>\$ 6,043,264</u>

Additional information on the Town's capital assets can be found in note 2A of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2011, the Town of Banner Elk had total bonded debt outstanding of \$566,000. Of this, \$566,000 is debt backed by the full faith and credit of the Town.

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

Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ -	\$ -	\$ 566,000	\$ 618,000	\$ 566,000	\$ 618,000
Compensated absences	50,147	48,077	9,704	20,569	59,851	68,646
Other post-employment benefits	36,164	18,082	-	-	-	-
Installment purchases	278,105	281,673	-	-	278,105	281,673
Total	<u>\$ 364,416</u>	<u>\$ 347,832</u>	<u>\$ 575,704</u>	<u>\$ 638,569</u>	<u>\$ 940,120</u>	<u>\$ 986,401</u>

The Town of Banner Elk's total long-term liabilities decreased by \$46,281 during the past fiscal year, due to the scheduled repayment of existing debt in the governmental funds and the Water and Sewer Fund.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent 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 \$19,761,663.

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

Economic Factors and Next Year's Budgets and Rates

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

- Tourism continues to be a source of strength for the Town during the current year.
- Housing construction activity continues but has fallen off historical highs.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities. Property tax revenues are expected to increase from the prior year due to revaluation of assessed values and continued growth in land development. State shared revenues are expected to decrease due to economic factors severely impacting the State's budget.

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

Business-Type Activities. The water and sewer revenues in the Town should see a modest increase over the past year. General operating expenses are expected to decrease due to cost saving measures instituted in order to grow reserves.

Capital outlays relating to the Water and Sewer Fund are expected to decrease due to continuing economic factors and the need to build reserves for future growth.

Requests for Information

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

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		Total	Town of Banner Elk Tourism Development Authority
	Governmental Activities	Business-Type Activities		
Assets:				
Cash and cash equivalents	\$ 1,414,672	\$ 280,011	\$ 1,694,683	\$ 98,578
Restricted cash	32,741	36,098	68,839	-
Taxes receivable, net	70,326	-	70,326	-
Accounts receivable, net	1,396	56,297	57,693	17,162
Due from other governments	85,555	2,541	88,096	-
Inventories	-	26,167	26,167	-
Capital assets, non-depreciable	226,516	24,966	251,482	-
Capital assets, net	2,112,186	4,041,659	6,153,845	-
Total assets	<u>3,943,392</u>	<u>4,467,739</u>	<u>8,411,131</u>	<u>115,740</u>
Liabilities:				
Accounts payable and accrued liabilities	31,351	8,464	39,815	15,950
Unearned revenues	4,547	-	4,547	-
Customer deposits	-	36,098	36,098	-
Long-term liabilities:				
Due within one year	28,807	56,426	85,233	-
Due in more than one year	<u>335,609</u>	<u>519,278</u>	<u>854,887</u>	<u>-</u>
Total liabilities	<u>400,314</u>	<u>620,266</u>	<u>1,020,580</u>	<u>15,950</u>
Net Assets:				
Invested in capital assets, net of related debt	2,060,597	3,500,625	5,561,222	-
Restricted for:				
Stabilization by State statute	86,155	-	86,155	17,162
Transportation	32,741	-	32,741	-
Public safety	76,970	-	76,970	-
Unrestricted	<u>1,286,615</u>	<u>346,848</u>	<u>1,633,463</u>	<u>82,628</u>
Total net assets	<u>\$ 3,543,078</u>	<u>\$ 3,847,473</u>	<u>\$ 7,390,551</u>	<u>\$ 99,790</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 297,260	\$ 18,519	\$ 49,781	\$ -
Public safety	718,428	4,305	82,860	-
Public works	141,844	-	-	31,987
Transportation	186,804	-	42,338	-
Environmental protection	-	172	-	-
Cultural and recreation	75,498	3,984	69,899	367,000
Interest on long-term debt	13,388	-	-	-
Total governmental activities	<u>1,433,223</u>	<u>26,980</u>	<u>244,878</u>	<u>398,987</u>
Business-Type Activities:				
Water and sewer	<u>656,695</u>	<u>555,586</u>	-	-
Total business-type activities	<u>656,695</u>	<u>555,586</u>	-	-
Total primary government	<u>\$ 2,089,918</u>	<u>\$ 582,566</u>	<u>\$ 244,878</u>	<u>\$ 398,987</u>
Component Unit				
Tourism Development Authority (TDA)	<u>\$ 184,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Ad valorem taxes
Local option sales tax
Other taxes
Miscellaneous
Investment earnings
Total general revenues

Total general revenues, transfers, and special items

Change in net assets

Net Assets:

Beginning of year - July 1

End of year - June 30

The accompanying notes are an integral part of the financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Banner Elk Tourism Development Authority
Governmental Activities	Business-Type Activities	Total	
\$ (228,960)	\$ -	\$ (228,960)	\$ -
(631,263)	-	(631,263)	-
(109,857)	-	(109,857)	-
(144,466)	-	(144,466)	-
172	-	172	-
365,385	-	365,385	-
(13,388)	-	(13,388)	-
<u>(762,378)</u>	<u>-</u>	<u>(762,378)</u>	<u>-</u>
-	(101,109)	(101,109)	-
-	(101,109)	(101,109)	-
<u>(762,378)</u>	<u>(101,109)</u>	<u>(863,487)</u>	<u>-</u>
			(184,953)
966,103	-	966,103	-
246,888	-	246,888	-
122,497	-	122,497	128,418
-	-	-	28,263
2,703	1,477	4,180	520
<u>1,338,191</u>	<u>1,477</u>	<u>1,339,668</u>	<u>157,201</u>
<u>1,338,191</u>	<u>1,477</u>	<u>1,339,668</u>	<u>157,201</u>
575,813	(99,632)	476,181	(27,752)
<u>2,967,265</u>	<u>3,947,105</u>	<u>6,914,370</u>	<u>127,542</u>
<u>\$ 3,543,078</u>	<u>\$ 3,847,473</u>	<u>\$ 7,390,551</u>	<u>\$ 99,790</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Improvement Capital Project Fund</u>	<u>Nonmajor Funds</u>	
Assets:				
Cash and cash equivalents	\$ 492,823	\$ 810,908	\$ 110,941	\$ 1,414,672
Restricted cash	32,741	-	-	32,741
Taxes receivable, net	70,326	-	-	70,326
Accounts receivable, net	1,396	-	-	1,396
Due from other governments	85,535	20	-	85,555
Total assets	<u>\$ 682,821</u>	<u>\$ 810,928</u>	<u>\$ 110,941</u>	<u>\$ 1,604,690</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 31,351	\$ -	\$ -	\$ 31,351
Deferred revenue	75,669	-	-	75,669
Total liabilities	<u>107,020</u>	<u>-</u>	<u>-</u>	<u>107,020</u>
Fund Balances:				
Restricted:				
Stabilization by State statute	86,135	20	-	86,155
Transportation	32,741	-	-	32,741
Public safety	-	-	76,970	76,970
Assigned:				
Capital projects - transportation	-	-	33,971	33,971
Capital projects - cultural and recreation	-	810,908	-	810,908
Unassigned	456,925	-	-	456,925
Total fund balances	<u>575,801</u>	<u>810,928</u>	<u>110,941</u>	<u>1,497,670</u>
Total liabilities and fund balances	<u>\$ 682,821</u>	<u>\$ 810,928</u>	<u>\$ 110,941</u>	

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

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	2,338,702
Deferred revenues in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. These receivables are a component of net assets in the Statement of Net Assets.	71,122
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(364,416)</u>
Net assets of governmental activities	<u>\$ 3,543,078</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Improvement Capital Project Fund</u>	<u>Nonmajor Funds</u>	
Revenues:				
Ad valorem taxes	\$ 940,432	\$ -	\$ -	\$ 940,432
Other taxes and licenses	4,215	-	-	4,215
Unrestricted intergovernmental revenues	365,170	-	-	365,170
Restricted intergovernmental revenues	157,797	367,000	-	524,797
Permits and fees	1,890	-	-	1,890
Sales and services	3,959	-	21,888	25,847
Interest earned on investments	1,451	1,252	-	2,703
Miscellaneous	26,436	69,899	21,976	118,311
Total revenues	<u>1,501,350</u>	<u>438,151</u>	<u>43,864</u>	<u>1,983,365</u>
Expenditures:				
Current:				
General government	402,273	-	-	402,273
Public safety	704,801	-	19,229	724,030
Public works	-	141,844	-	141,844
Transportation	157,547	-	25	157,572
Cultural and recreation	62,970	502,800	-	565,770
Debt service:				
Principal repayments	3,568	-	-	3,568
Interest	13,388	-	-	13,388
Total expenditures	<u>1,344,547</u>	<u>644,644</u>	<u>19,254</u>	<u>2,008,445</u>
Revenues over (under) expenditures	<u>156,803</u>	<u>(206,493)</u>	<u>24,610</u>	<u>(25,080)</u>
Other Financing Sources (Uses):				
Transfers from other funds	-	135,215	23,000	158,215
Transfers to other funds	<u>(158,215)</u>	<u>-</u>	<u>-</u>	<u>(158,215)</u>
Total other financing sources (uses)	<u>(158,215)</u>	<u>135,215</u>	<u>23,000</u>	<u>-</u>
Net change in fund balances	(1,412)	(71,278)	47,610	(25,080)
Fund Balances:				
Beginning of year - July 1	<u>577,213</u>	<u>882,206</u>	<u>63,331</u>	<u>1,522,750</u>
End of year - June 30	<u>\$ 575,801</u>	<u>\$ 810,928</u>	<u>\$ 110,941</u>	<u>\$ 1,497,670</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D) \$ (25,080)

Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected or is expected to be collected within 60 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:

Property taxes 25,671

Expenses related to compensated absences and law enforcement officers' separation allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement. (20,152)

Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets. 675,327

Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statements. (83,521)

Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities. 3,568

Change in net assets of governmental activities per Exhibit B \$ 575,813

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 1,019,875	\$ 1,019,875	\$ 940,432	\$ (79,443)
Other taxes and licenses	3,500	3,500	4,215	715
Unrestricted intergovernmental revenues	378,610	378,610	365,170	(13,440)
Restricted intergovernmental revenues	165,000	165,000	157,797	(7,203)
Permits and fees	7,000	7,000	1,890	(5,110)
Sales and services	6,756	6,756	3,959	(2,797)
Interest earned on investments	2,500	2,500	1,451	(1,049)
Miscellaneous	9,750	9,750	26,436	16,686
Total revenues	<u>1,592,991</u>	<u>1,592,991</u>	<u>1,501,350</u>	<u>(91,641)</u>
Expenditures:				
General government	412,020	412,020	402,273	9,747
Public safety	702,555	702,555	704,801	(2,246)
Transportation	206,035	206,035	157,547	48,488
Cultural and recreation	88,570	88,570	62,970	25,600
Debt service	-	-	3,568	(3,568)
Interest and other charges	16,596	16,596	13,388	3,208
Total expenditures	<u>1,425,776</u>	<u>1,425,776</u>	<u>1,344,547</u>	<u>81,229</u>
Revenues over (under) expenditures	<u>167,215</u>	<u>167,215</u>	<u>156,803</u>	<u>(10,412)</u>
Other Financing Sources (Uses):				
Transfers to other funds	<u>(167,215)</u>	<u>(167,215)</u>	<u>(158,215)</u>	<u>9,000</u>
Total other financing sources (uses)	<u>(167,215)</u>	<u>(167,215)</u>	<u>(158,215)</u>	<u>9,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(1,412)</u>	<u>\$ (1,412)</u>
Fund Balance:				
Beginning of year - July 1			<u>577,213</u>	
End of year - June 30			<u>\$ 575,801</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 280,011
Restricted cash	36,098
Accounts receivable, net	56,297
Due from other governments	2,541
Inventory	<u>26,167</u>
Total current assets	<u>401,114</u>
Capital assets:	
Land	23,466
Construction in progress	1,500
Other capital assets, net	<u>4,041,659</u>
Total capital assets	<u>4,066,625</u>
Total assets	<u>4,467,739</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	8,464
Customer deposits	36,098
Compensated absences - current	2,426
Current portion of long-term debt	<u>54,000</u>
Total current liabilities	<u>100,988</u>
Non-current liabilities:	
Compensated absences	7,278
Notes and bonds payable	<u>512,000</u>
Total non-current liabilities	<u>519,278</u>
Total liabilities	<u>620,266</u>
Net Assets:	
Invested in capital assets, net of related debt	3,500,625
Unrestricted	<u>346,848</u>
Total net assets	<u>\$ 3,847,473</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 543,488
Water and sewer taps	12,098
Total operating revenues	<u>555,586</u>
Operating Expenses:	
Water/sewer operations	401,562
Depreciation	<u>231,773</u>
Total operating expenses	<u>633,335</u>
Operating income (loss)	<u>(77,749)</u>
Non-Operating Revenues (Expenses):	
Investment earnings	1,477
Interest and other charges	<u>(23,360)</u>
Total non-operating revenues (expenses)	<u>(21,883)</u>
Change in net assets	(99,632)
Net Assets:	
Beginning of year - July 1	<u>3,947,105</u>
End of year - June 30	<u><u>\$ 3,847,473</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 624,340
Cash paid for goods and services	(226,483)
Cash paid to employees	<u>(178,293)</u>
Net cash provided (used) by operating activities	<u>219,564</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(2,030)
Principal paid on long-term debt	(52,000)
Interest and other charges	<u>(23,360)</u>
Net cash provided (used) by capital and related financing activities	<u>(77,390)</u>
Cash Flows from Investing Activities:	
Interest received	<u>1,477</u>
Net increase (decrease) in cash, cash equivalents, and investments	143,651
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>172,458</u>
End of year - June 30	<u>\$ 316,109</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (77,749)
Depreciation and amortization	231,773
Change in assets and liabilities:	
Increase (decrease) in accounts receivables	68,444
Increase (decrease) in accounts payable and accrued liabilities	7,879
Increase (decrease) in customer deposits and unearned revenues	82
Increase (decrease) in accrued vacation pay	<u>(10,865)</u>
Net cash provided (used) by operating activities	<u>\$ 219,564</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Banner Elk Tourism Development Authority (TDA)

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (Exhibit A - Statement of Net Assets and Exhibit B - Statement of Activities) report information on all of the activities of the primary government and its component unit. The effect of interfund activity has been removed from these statements in all material areas. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for *governmental funds* and *proprietary funds*. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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 and investment earnings, result from non-exchange transactions or ancillary activities.

The General Fund, Capital Improvement Capital Project Fund, and Water and Sewer Fund are the major funds of the Town for the year ended June 30, 2011.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All funds of the Town are accounted for during the year using the modified accrual basis of accounting in accordance with the North Carolina General Statutes. The financial statements are reported at year-end as discussed below.

Government-Wide and Enterprise Fund Financial Statements. The government-wide and the enterprise funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Net assets are segregated into (1) investment in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. Operating statements for these funds present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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 Fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Long-term debt issued and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures in governmental funds.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Avery County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Banner Elk. For motor vehicles registered, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in the Town of Banner Elk from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenue.

Sales taxes collected and held by the State at year-end on behalf of the government are susceptible to accrual and are recognized as revenue. Other revenue considered susceptible to accrual includes grant revenue in which related expenditures have already been incurred, interest revenue, and charges for services. Licenses, fines, permits, and other revenues are not susceptible to accrual because they are generally 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 are both restricted and unrestricted net assets 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, then by general revenues.

All governmental and business-type activities and enterprise funds of the Town follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

D. Basis of Presentation - Fund Accounting

The government uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

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, street maintenance and construction, and sanitation services.

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

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

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

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

Proprietary Fund

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

Water and Sewer Improvement Plan. 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.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

E. 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 Plan Fund, Special Police Fund, Cops Golf Tournament Fund, Water and Sewer Fund, and Water and Sewer Improvement Plan Fund. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Streets and Sidewalk 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 governmental funds total expenditures for the Water and Sewer Fund 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 immaterial 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.

F. Assets, Liabilities, and Fund Equity

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

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

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first followed by unrestricted resources as they are needed. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Money in the Powell Bill funds are classified as restricted cash because it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

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, 2010.

Allowances for Doubtful Accounts

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

Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market.

The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The costs of these inventories is expensed when consumed rather than when purchased.

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

Capital Assets

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

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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 Assets. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Assets only include assets purchased after July 1, 2003.

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

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

Compensated Absences

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

Deferred/Unearned Revenues

In the fund financial statements, ad valorem taxes receivable are not accrued as revenue because they are not considered to be both "measurable and available." Ad valorem taxes receivable that are measurable but not available are recorded as deferred revenue in the fund financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

In addition, property taxes collected in advance of the fiscal year to which they apply are also recorded as unearned revenue in the government-wide financial statements and deferred revenue in the fund financial statements. Certain receivables are also recorded as deferred revenue in the fund financial statements because they are not considered to be available at year-end.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or the proprietary fund type fund Statement of Net Assets. Debt issuance costs are recognized as other assets and amortized over the life of the debt using the effective interest method.

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

Net Assets

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

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:

Non-Spendable Fund Balance

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

Prepaid – portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items, which are not spendable resources.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Restricted Fund Balance

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

Stabilization by State Statute – portion of fund balance that is not an available resource for appropriation in accordance with State law [G.S. 159-8(a)].

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

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 Town of Banner Elk's governing body (highest level of decision making authority, the Town Council). Any changes or removal of specific purpose restrictions requires majority action by the governing body.

Assigned Fund Balance

Assigned fund balance is the portion of fund balance that the Town of Banner Elk has budgeted.

Assigned for Capital Projects - Transportation – portion of fund balance that has been budgeted by the board for future expenditures within the Streets and Sidewalks Fund.

Assigned for Capital Projects - Cultural and Recreation – portion of fund balance that has been budgeted by the board for future expenditures within the Capital Improvements Fund.

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 funds, County funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

The Town has not officially adopted a fund balance policy.

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

Total fund balance - General Fund	\$ 575,801
Less:	
Stabilization by State Statute	<u>86,135</u>
Total available fund balance	<u>\$ 489,666</u>

Interfund Transactions

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

Use of Estimates

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

2. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the Town 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 agents in the unit's 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, these deposits are considered to be held by the Town'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

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, 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 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 complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Town's deposits had a carrying amount of \$90,502 and a bank balance of \$117,177. Of the bank balance, \$117,177 was covered by FDIC. The Town held \$1,881 in petty cash as of June 30, 2011.

Investments

At June 30, 2011, the Town had \$1,671,139 invested with the North Carolina Capital Management Trust's Cash Portfolio. The Town does not have a formal investment policy or policy regarding credit risk. The Town's investment in the NCCMT carried a credit rating of AAAM by Standard and Poor's as of June 30, 2011.

Receivables – Allowances for Doubtful Accounts

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

	<u>Accounts</u>	<u>Taxes</u>	<u>Due From Other Governments</u>	<u>Total</u>
Governmental Activities:				
Garbage fees	\$ 1,396	\$ -	\$ -	\$ 1,396
Property taxes	-	75,326	-	75,326
Local options sales/franchise tax	-	-	83,415	83,415
Sales tax refunds due	-	-	2,140	2,140
Allowance for doubtful accounts	-	(5,000)	-	(5,000)
Total governmental activities	<u>\$ 1,396</u>	<u>\$ 70,326</u>	<u>\$ 85,555</u>	<u>\$ 157,277</u>
Business-Type Activities:				
Water and sewer	\$ 56,297	\$ -	\$ 2,541	\$ 58,838
Total business-type activities	<u>\$ 56,297</u>	<u>\$ -</u>	<u>\$ 2,541</u>	<u>\$ 58,838</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Capital Assets

Governmental Capital Assets

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

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
By Asset Type:				
Non-Depreciable Assets:				
Land	\$ 223,019	\$ -	\$ -	\$ 223,019
Construction in progress	<u>3,497</u>	<u>-</u>	<u>-</u>	<u>3,497</u>
Total non-depreciable assets	<u>226,516</u>	<u>-</u>	<u>-</u>	<u>226,516</u>
Depreciable Assets:				
Infrastructure	1,059,800	642,527	-	1,702,327
Buildings	514,979	-	-	514,979
Equipment and furniture	<u>527,422</u>	<u>32,800</u>	<u>-</u>	<u>560,222</u>
Total depreciable assets	<u>2,102,201</u>	<u>675,327</u>	<u>-</u>	<u>2,777,528</u>
Less Accumulated Depreciation:				
Infrastructure	65,870	29,991	-	95,861
Buildings	170,892	11,593	-	182,485
Equipment and furniture	<u>345,059</u>	<u>41,937</u>	<u>-</u>	<u>386,996</u>
Total accumulated depreciation	<u>581,821</u>	<u>\$ 83,521</u>	<u>\$ -</u>	<u>665,342</u>
Capital assets, net	<u>\$ 1,746,896</u>			<u>\$ 2,338,702</u>

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

Governmental Activities:	
General government	\$ 16,590
Public safety	24,952
Transportation	28,952
Cultural and recreation	<u>13,027</u>
Total	<u>\$ 83,521</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Proprietary Capital Assets

The capital assets of the proprietary fund of the Town at June 30, 2011 were as follows:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Business-Type Activities:				
Water/Sewer Fund:				
Non-Depreciable Assets:				
Land	\$ 23,466	\$ -	\$ -	\$ 23,466
Construction in progress	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Total non-depreciable assets	<u>24,966</u>	<u>-</u>	<u>-</u>	<u>24,966</u>
Depreciable Assets:				
Plant	6,601,365	-	-	6,601,365
Equipment	<u>531,784</u>	<u>2,030</u>	<u>-</u>	<u>533,814</u>
Total depreciable assets	<u>7,133,149</u>	<u>2,030</u>	<u>-</u>	<u>7,135,179</u>
Less Accumulated Depreciation:				
Plant	2,445,902	169,600	-	2,615,502
Equipment	<u>415,845</u>	<u>62,173</u>	<u>-</u>	<u>478,018</u>
Total accumulated depreciation	<u>2,861,747</u>	<u>\$ 231,773</u>	<u>\$ -</u>	<u>3,093,520</u>
Capital assets, net	<u>\$ 4,296,368</u>			<u>\$ 4,066,625</u>

Invested in Capital Assets, Net of Debt

The total invested in capital assets, net of related debt at June 30, 2011 is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 2,338,702	\$ 4,066,625
Long-term debt	(278,105)	(566,000)
Long-term debt for assets not owned by the County	<u>-</u>	<u>-</u>
Invested in capital assets, net of related debt	<u>\$ 2,060,597</u>	<u>\$ 3,500,625</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Accounts Payable and Accrued Liabilities

Payables at Exhibit A at June 30, 2011 were as follows:

	<u>Vendors</u>	<u>Accrued Liabilities</u>	<u>Total</u>
Governmental Activities:			
Governmental	\$ 13,748	\$ 17,603	\$ 31,351
Business-Type Activities:			
Water and Sewer	\$ 8,464	\$ -	\$ 8,464

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town contributes to 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 provides retirement benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS 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, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.35% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$50,180, \$40,937, and \$44,085, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 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 law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Terminated plan members entitled to, but not yet, receiving benefits	-
Active plan members	<u>9</u>
Total	<u><u>9</u></u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

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

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. No actuarial valuation study was performed because the liability at June 30, 2011 was deemed immaterial.

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

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the 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

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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 five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2011 were \$60,391, which consisted of \$40,088 from the Town and \$20,303 from the law enforcement officers.

Other Post-Employment Benefits

Plan Description. The Town (by local ordinance) 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 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. Or Twenty five years creditable service in which, the Town pays the full cost of coverage for these benefits for retirees. 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). A separate report was not issued for the plan.

Membership of the post-employment health benefit plan consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	-
Active members	<u>19</u>
	<u>19</u>

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.

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

The current annual required contribution rate (ARC) is 2.31% of annual covered payroll. For fiscal year 2011, the Town contributed \$0, or 0% of annual covered payroll. Contributions by employees for the fiscal year ended June 30, 2011, were \$0. The Town's obligation to contribute to the post-retirement benefit plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 18,082
Interest on net OPEB obligation	724
Adjustment to annual required contribution	<u>(724)</u>
Annual OPEB cost (expense)	18,082
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	18,082
Net OPEB obligation, beginning of year	<u>18,082</u>
Net OPEB obligation, end of year	<u><u>\$ 36,164</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 were as follows:

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
2010	\$ 18,082	0.00%	\$ 18,082
2011	18,082	0.00%	36,164

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

As of December 31, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$149,993. The covered payroll (annual payroll of active employees covered by the plan) was \$782,791, and the ratio of the UAAL to the covered payroll was 19.2%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

The annual required contribution for the current year was determined as part of the December 31, 2009, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4.00% investment rate of return, which included an inflation component of 3.75% and (b) a 10.50% - 5.00% medical cost trend rate with 2017, the year of ultimate trend rate. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized as level percentage of pay on an open basis. The remaining amortization period at December 31, 2009, was 30 years.

Deferred/Unearned Revenues

The balance in deferred/unearned revenues at year-end is composed of the following elements:

	<u>Deferred</u> <u>Revenues</u>	<u>Unearned</u> <u>Revenues</u>
Governmental Funds/Activities:		
Taxes receivable (General Fund)	\$ 70,326	\$ -
Garbage fees receivable	796	-
Prepaid expenses	<u>4,547</u>	<u>4,547</u>
Total governmental funds	<u>\$ 75,669</u>	<u>\$ 4,547</u>

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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 Town purchases employee health insurance from a private insurance company. The health insurance plan is fully insured by the private carrier.

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

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

Long-Term Obligations

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

Governmental Activities:

4.625% note, payable to USDA issued August 2003; payable in annual installments of \$16,595, including interest; beginning August 2005 with final payment due August 2045; secured by real estate \$ 278,105

Business-Type Activities:

General Obligation Bonds:

3.98% bonds issued October 2005 to refund water sewer bonds; serviced by the revenues of the Water and Sewer Fund with the full faith, credit, and taxing power of the Town pledged; interest payable semi-annual and annual principal payments ranging from \$56,000 to 73,000 with the final payment due 2020 \$ 566,000

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

Year Ended <u>June 30</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,733	\$ 12,862	\$ 16,595	\$ 54,000	\$ 21,396	\$ 75,396
2013	3,905	12,690	16,595	56,000	19,354	75,354
2014	4,086	12,509	16,595	58,000	17,236	75,236
2015	4,275	12,320	16,595	60,000	15,044	75,044
2016	4,472	12,123	16,595	63,000	12,776	75,776
2017-2021	25,663	57,312	82,975	275,000	26,502	301,502
2022-2026	32,172	50,803	82,975	-	-	-
2027-2031	40,333	42,642	82,975	-	-	-
2032-2036	50,564	32,411	82,975	-	-	-
2037-2041	63,389	19,586	82,975	-	-	-
2042-2044	45,513	7,019	52,532	-	-	-
Total	<u>\$ 278,105</u>	<u>\$ 272,277</u>	<u>\$ 550,382</u>	<u>\$ 566,000</u>	<u>\$ 112,308</u>	<u>\$ 678,308</u>

Changes in long-term debt were as follows:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>	<u>Current Maturities</u>
Government Activities:					
Notes payable	\$ 281,673	\$ -	\$ 3,568	\$ 278,105	\$ 3,733
Other post-employment benefits	18,082	18,082	-	36,164	-
Compensated absences	48,077	27,144	25,074	50,147	25,074
Total governmental activities	<u>\$ 347,832</u>	<u>\$ 45,226</u>	<u>\$ 28,642</u>	<u>\$ 364,416</u>	<u>\$ 28,807</u>
Business-Type Activities:					
General obligation bonds	\$ 618,000	\$ -	\$ 52,000	\$ 566,000	\$ 54,000
Compensated absences	20,569	9,704	20,569	9,704	2,426
Total business-type activities	<u>\$ 638,569</u>	<u>\$ 9,704</u>	<u>\$ 72,569</u>	<u>\$ 575,704</u>	<u>\$ 56,426</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, 2011, the Town had a legal debt margin of \$19,761,663.

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Interfund Balances and Activities

Transfers To/From Other Funds

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Improvement Plan	\$ 135,215	Fund future capital needs
General Fund	Cops Gold Fund	23,000	Transfer prior fund balance

3. Jointly Governed Organizations

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$510 to the Council during the fiscal year ended June 30, 2011.

4. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

TOWN OF BANNER ELK, NORTH CAROLINA

OTHER POST - EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability (AAL) -Projected Unit Credit B	Unfunded AAL (UAAL) B - A	Funded Ratio A / B	Covered Payroll C	UAAL as a Percentage Covered Payroll ((B - A) / C)
2009	\$ -	\$ 149,993	\$ 149,993	0.00%	\$ 782,791	19.2%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2010	\$ 18,082	0.00%
2011	18,082	0.00%

Notes to the Required Schedules:

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

Valuation date	12/31/2009	
Actuarial cost method	Projected unit credit	
Amortization method	Level percent of pay open	
Remaining amortization period	30 years	
Asset valuation method	Market value	
Actuarial assumptions:		
Investment rate of return *	4.00%	* Includes inflation at 3.75%
Medical cost trend rate	5% - 10.5%	
Year of Ultimate trend rate	2017	

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, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>			<u>2010</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Ad Valorem Taxes:				
Taxes	\$ 1,017,375	\$ 936,844	\$ (80,531)	\$ 900,862
Penalties and interest	2,500	3,588	1,088	4,769
Total	<u>1,019,875</u>	<u>940,432</u>	<u>(79,443)</u>	<u>905,631</u>
Other Taxes and Licenses:				
Privilege licenses	3,500	4,215	715	4,295
Total	<u>3,500</u>	<u>4,215</u>	<u>715</u>	<u>4,295</u>
Unrestricted Intergovernmental Revenues:				
Local option sales tax	268,314	246,888	(21,426)	255,571
Utility franchise tax	85,000	93,189	8,189	87,591
Beer and wine tax	4,400	4,284	(116)	1,492
Contribution - TDA	20,896	20,809	(87)	20,465
Total	<u>378,610</u>	<u>365,170</u>	<u>(13,440)</u>	<u>365,119</u>
Restricted Intergovernmental Revenues:				
Powell Bill allocation	39,000	37,033	(1,967)	38,221
Other local grants and matching contributions	44,000	31,987	(12,013)	15,500
ABC revenue for law enforcement	82,000	82,860	860	82,495
LLEBG Grant	-	-	-	47,846
FEMA reimbursement	-	5,917	5,917	7,616
Total	<u>165,000</u>	<u>157,797</u>	<u>(7,203)</u>	<u>191,678</u>
Permits and Fees:				
Building permits	7,000	1,890	(5,110)	4,328
Total	<u>7,000</u>	<u>1,890</u>	<u>(5,110)</u>	<u>4,328</u>
Sales and Services:				
Recycling revenue	-	-	-	(302)
Park lease/rental income	6,756	3,959	(2,797)	7,447
Total	<u>6,756</u>	<u>3,959</u>	<u>(2,797)</u>	<u>7,145</u>
Investment Earnings	<u>2,500</u>	<u>1,451</u>	<u>(1,049)</u>	<u>2,280</u>
Miscellaneous	<u>9,750</u>	<u>26,436</u>	<u>16,686</u>	<u>44,913</u>
Total revenues	<u>1,592,991</u>	<u>1,501,350</u>	<u>(91,641)</u>	<u>1,525,389</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, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011			2010
	Final Budget	Actual	Variance Over/Under	Actual
Expenditures:				
General Government:				
Administration:				
Salaries and employee benefits	93,249	87,533	5,716	100,826
Operating expenses	68,940	75,571	(6,631)	99,846
Capital outlay	3,500	3,983	(483)	4,639
Total	<u>165,689</u>	<u>167,087</u>	<u>(1,398)</u>	<u>205,311</u>
Governing Body:				
Salaries and employee benefits	13,564	10,981	2,583	13,564
Operating expenses	46,920	47,967	(1,047)	46,345
Total	<u>60,484</u>	<u>58,948</u>	<u>1,536</u>	<u>59,909</u>
Finance:				
Salaries and employee benefits	71,941	67,842	4,099	62,539
Operating expenses	6,622	6,238	384	10,604
Capital outlay	2,000	2,471	(471)	588
Total	<u>80,563</u>	<u>76,551</u>	<u>4,012</u>	<u>73,731</u>
Planning:				
Salaries and employee benefits	54,600	54,489	111	52,703
Operating expenses	9,952	8,079	1,873	12,461
Capital outlay	250	-	250	5,385
Total	<u>64,802</u>	<u>62,568</u>	<u>2,234</u>	<u>70,549</u>
Public Buildings:				
Operating expenses	40,482	37,119	3,363	30,755
Total	<u>40,482</u>	<u>37,119</u>	<u>3,363</u>	<u>30,755</u>
Total general government	<u>412,020</u>	<u>402,273</u>	<u>9,747</u>	<u>440,255</u>
Public Safety:				
Police:				
Salaries and employee benefits	544,495	527,941	16,554	527,412
Operating expenses	88,872	80,158	8,714	79,846
Capital outlay	8,000	35,713	(27,713)	4,440
Total	<u>641,367</u>	<u>643,812</u>	<u>(2,445)</u>	<u>611,698</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, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010
	Final Budget	Actual	Variance Over/Under	Actual
Drug Task Force:				
Salaries and employee benefits	54,188	53,450	738	51,718
Operating expenses	7,000	7,539	(539)	19,498
Capital outlay	-	-	-	97
Total	<u>61,188</u>	<u>60,989</u>	<u>199</u>	<u>71,313</u>
Total public safety	<u>702,555</u>	<u>704,801</u>	<u>(2,246)</u>	<u>683,011</u>
Transportation:				
Streets and Highways:				
Salaries and employee benefits	67,554	68,009	(455)	57,891
Operating expenses	126,731	76,370	50,361	85,301
Capital outlay	<u>11,750</u>	<u>13,168</u>	<u>(1,418)</u>	<u>13,680</u>
Total transportation	<u>206,035</u>	<u>157,547</u>	<u>48,488</u>	<u>156,872</u>
Environmental Protection:				
Solid Waste:				
Operating expenses	-	-	-	(2,207)
Total environmental protection	-	-	-	(2,207)
Cultural and Recreational:				
Parks and Recreation:				
Salaries and employee benefits	41,117	28,943	12,174	29,901
Operating expenses	44,953	32,489	12,464	57,872
Capital outlay	<u>2,500</u>	<u>1,538</u>	<u>962</u>	-
Total cultural and recreational	<u>88,570</u>	<u>62,970</u>	<u>25,600</u>	<u>87,773</u>
Debt Service:				
Principal retirement	-	3,568	(3,568)	3,410
Interest and fees	<u>16,596</u>	<u>13,388</u>	<u>3,208</u>	<u>13,186</u>
Total debt service	<u>16,596</u>	<u>16,956</u>	<u>(360)</u>	<u>16,596</u>
Total expenditures	<u>1,425,776</u>	<u>1,344,547</u>	<u>81,229</u>	<u>1,382,300</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, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	<u>2011</u>			<u>2010</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues over (under) expenditures	<u>167,215</u>	<u>156,803</u>	<u>(10,412)</u>	<u>143,089</u>
Other Financing Sources (Uses):				
Transfer in (out) - Cops Golf Fund	-	(23,000)	23,000	-
Transfer in (out) - Capital Projects Fund	<u>(167,215)</u>	<u>(135,215)</u>	<u>(32,000)</u>	<u>(137,596)</u>
Total other financing sources (uses)	<u>(167,215)</u>	<u>(158,215)</u>	<u>(9,000)</u>	<u>(137,596)</u>
Net change in fund balance	<u>\$ -</u>	<u>(1,412)</u>	<u>\$ (1,412)</u>	<u>\$ 5,493</u>
Fund Balance:				
Beginning of year - July 1		<u>577,213</u>		
End of year - June 30		<u>\$ 575,801</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

**CAPITAL IMPROVEMENT PLAN - GOVERNMENTAL CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Restricted intergovernmental	\$ 130,000	\$ 367,000	\$ 237,000	\$ -
Contributions	-	69,899	69,899	-
Investment earnings	-	1,252	1,252	1,640
Total revenues	<u>130,000</u>	<u>438,151</u>	<u>308,151</u>	<u>1,640</u>
Expenditures:				
Public safety	-	-	-	28,654
Public works	-	141,844	(141,844)	48,510
Parks and recreation	564,699	502,800	61,899	34,628
Total expenditures	<u>564,699</u>	<u>644,644</u>	<u>(79,945)</u>	<u>111,792</u>
Revenues over (under) expenditures	<u>(434,699)</u>	<u>(206,493)</u>	<u>228,206</u>	<u>(110,152)</u>
Other Financing Sources (Uses):				
Appropriated fund balance	284,699	-	(284,699)	
General Fund	150,000	135,215	(14,785)	137,596
Total other financing sources (uses)	<u>434,699</u>	<u>135,215</u>	<u>(299,484)</u>	<u>137,596</u>
Net change in fund balance	<u>\$ -</u>	<u>(71,278)</u>	<u>\$ (71,278)</u>	<u>\$ 27,444</u>
Fund Balance:				
Beginning of year - July 1		<u>882,206</u>		
End of year - June 30		<u>\$ 810,928</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2011

	<u>Streets and Sidewalks Capital Project Fund</u>	<u>Police Special Revenue Fund</u>	<u>Cops Golf Tournament Special Revenue Fund</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 33,971	\$ 24,834	\$ 52,136	\$ 110,941
Total assets	<u>\$ 33,971</u>	<u>\$ 24,834</u>	<u>\$ 52,136</u>	<u>\$ 110,941</u>
Fund Balances:				
Restricted:				
Public safety	\$ -	\$ 24,834	\$ 52,136	\$ 76,970
Assigned:				
Capital projects - transportation	<u>33,971</u>	<u>-</u>	<u>-</u>	<u>33,971</u>
Total fund balances	<u>\$ 33,971</u>	<u>\$ 24,834</u>	<u>\$ 52,136</u>	<u>\$ 110,941</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES -
 FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Streets and Sidewalks Capital Project Fund</u>	<u>Police Special Revenue Fund</u>	<u>Cops Golf Tournament Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Sales and services	\$ -	\$ -	\$ 21,888	\$ 21,888
Miscellaneous	207	21,769	-	21,976
Total revenues	<u>207</u>	<u>21,769</u>	<u>21,888</u>	<u>43,864</u>
Expenditures:				
Public safety	-	7,487	11,742	19,229
Transportation	25	-	-	25
Total expenditures	<u>25</u>	<u>7,487</u>	<u>11,742</u>	<u>19,254</u>
Revenues over (under) expenditures	182	14,282	10,146	24,610
Other Financing Sources (Uses):				
Transfers in	-	-	23,000	23,000
Net change in fund balances	182	14,282	33,146	47,610
Fund Balances:				
Beginning of year - July 1	<u>33,789</u>	<u>10,552</u>	<u>18,990</u>	<u>63,331</u>
End of year - June 30	<u>\$ 33,971</u>	<u>\$ 24,834</u>	<u>\$ 52,136</u>	<u>\$ 110,941</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**STREETS AND SIDEWALKS CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>
Revenues:				
Restricted intergovernmental:				
Town of Banner Elk Tourism				
Development Authority	\$ 325,051	\$ 325,053	\$ -	\$ 325,053
Miscellaneous:				
Contributions	64,149	99,436	155	99,591
Investment income	8,100	9,203	52	9,255
Total revenues	<u>397,300</u>	<u>433,692</u>	<u>207</u>	<u>433,899</u>
Expenditures:				
Capital outlay:				
Sidewalks and streetscape	740,721	854,859	25	854,884
Contingency	28,087	-	-	-
Total expenditures	<u>768,808</u>	<u>854,859</u>	<u>25</u>	<u>854,884</u>
Revenues over (under) expenditures	<u>(371,508)</u>	<u>(421,167)</u>	<u>182</u>	<u>(420,985)</u>
Other Financing Sources (Uses):				
Proceeds from long-term debt	300,000	300,000	-	300,000
Transfers	71,508	154,956	-	154,956
Total other financing sources (uses)	<u>371,508</u>	<u>454,956</u>	<u>-</u>	<u>454,956</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 33,789</u>	<u>\$ 182</u>	<u>\$ 33,971</u>

TOWN OF BANNER ELK, NORTH CAROLINA

POLICE SPECIAL REVENUE FUND - NONMAJOR SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Miscellaneous	\$ 7,500	\$ 21,769	\$ 14,269	\$ 4,748
Total revenues	<u>7,500</u>	<u>21,769</u>	<u>14,269</u>	<u>4,748</u>
Expenditures:				
Public safety:				
Other	<u>7,500</u>	<u>7,487</u>	<u>13</u>	<u>8,000</u>
Total expenditures	<u>7,500</u>	<u>7,487</u>	<u>13</u>	<u>8,000</u>
Revenues over (under) expenditures	<u>-</u>	<u>14,282</u>	<u>14,282</u>	<u>(3,252)</u>
Net change in fund balance	<u>\$ -</u>	<u>14,282</u>	<u>\$ 14,282</u>	<u>\$ (3,252)</u>
Fund Balance:				
Beginning of year - July 1		<u>10,552</u>		
End of year - June 30		<u>\$ 24,834</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

COPS GOLF TOURNAMENT FUND - NONMAJOR SPECIAL REVENUE FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2011 WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Golf tournament revenues	\$ 21,000	\$ 21,888	\$ 888	\$ 18,855
Total revenues	<u>21,000</u>	<u>21,888</u>	<u>888</u>	<u>18,855</u>
Expenditures:				
Public safety:				
Golf tournament	<u>21,000</u>	<u>11,742</u>	<u>9,258</u>	<u>16,523</u>
Total expenditures	<u>21,000</u>	<u>11,742</u>	<u>9,258</u>	<u>16,523</u>
Revenues over (under) expenditures	-	10,146	10,146	2,332
Other Financing Sources (Uses)				
Transfers in (out)	<u>-</u>	<u>23,000</u>	<u>23,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>33,146</u>	<u>\$ 33,146</u>	<u>\$ 2,332</u>
Fund Balance:				
Beginning of year - July 1		<u>18,990</u>		
End of year - June 30		<u>\$ 52,136</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011		Variance Over/Under	2010
	Budget	Actual		Actual
Operating Revenues:				
Water sales:				
Residential		\$ 196,041		\$ 215,011
Impact fees		37,721		2,896
Total water sales	\$ -	233,762	\$ -	217,907
Sewer charges:				
Residential	-	309,726	-	385,454
Water and sewer taps		12,098		6,454
Other operating revenues		-		46,618
Total operating revenues	-	555,586	-	656,433
Non-Operating Revenues:				
Interest earnings		1,221		665
Total non-operating revenues	-	1,221	-	665
Total revenues	674,899	556,807	(118,092)	657,098
Expenditures:				
Administration:				
Salaries and employee benefits	51,600	41,393		41,949
Utilities	1,500	1,555		1,363
Supplies	5,500	4,185		4,509
Insurance	150	118		72
Other operating expenditures	10,300	20,421		12,769
Contracted services	500	225		-
Total administration	69,550	67,897	1,653	60,662

TOWN OF BANNER ELK, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011		Variance Over/Under	2010
	Budget	Actual		Actual
Wastewater Treatment:				
Salaries and employee benefits	32,281	24,162		30,452
Utilities	44,000	53,308		44,018
Supplies	6,500	4,210		4,055
Insurance	7,177	5,748		7,813
Maintenance	9,000	14,147		13,032
Other operating expenditures	2,250	2,480		1,616
Contracted services	19,700	17,860		15,216
Total wastewater treatment	120,908	121,915	(1,007)	116,202
Water Treatment:				
Salaries and employee benefits	32,281	23,965		29,860
Utilities	23,000	26,085		23,357
Supplies	13,500	23,438		12,762
Insurance	2,077	1,752		2,762
Maintenance	10,900	1,751		7,794
Other operating expenditures	1,500	840		1,830
Contracted services	5,500	6,135		3,575
Total water treatment	88,758	83,966	4,792	81,940
Distribution and Collections:				
Salaries and employee benefits	114,204	77,908		123,345
Utilities	2,000	2,189		2,019
Supplies	14,850	12,954		11,315
Insurance	5,999	5,436		5,062
Maintenance	7,250	11,724		6,032
Other operating expenditures	20,500	15,651		17,187
Contracted services	1,100	(140)		205
Total distribution and collection	165,903	125,722	40,181	165,165
Total operating expenditures	445,119	399,500	45,619	423,969

TOWN OF BANNER ELK, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011		Variance Over/Under	2010
	Budget	Actual		Actual
Debt Service:				
Interest and other charges	75,360	23,360	52,000	25,250
Principal retirement	-	52,000	(52,000)	50,000
Total debt service	<u>75,360</u>	<u>75,360</u>	<u>-</u>	<u>75,250</u>
Capital outlay	<u>14,000</u>	<u>4,092</u>	<u>9,908</u>	<u>32,838</u>
Total expenditures	<u>534,479</u>	<u>478,952</u>	<u>55,527</u>	<u>532,057</u>
Revenues over (under) expenditures	<u>140,420</u>	<u>77,855</u>	<u>(62,565)</u>	<u>125,041</u>
Other Financing Sources (Uses):				
Transfers in (out)	-	-	-	(109,843)
Transfers in (out) - Water Capital Project Fund	(135,420)	(63,629)	71,791	-
Appropriated fund balance	<u>(5,000)</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Total other financing sources (uses)	<u>(140,420)</u>	<u>(63,629)</u>	<u>76,791</u>	<u>(109,843)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 14,226</u>	<u>\$ 14,226</u>	<u>\$ 15,198</u>
Reconciliation from Modified Accrual Basis to Full Accrual Basis				
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 14,226		
Reconciling items:				
Principal retirement		52,000		
Capital outlay items capitalized		2,030		
Depreciation		(231,773)		
Interest income - construction in progress		256		
Intrafund transfers		<u>63,629</u>		
Change in net assets		<u>\$ (99,632)</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

CAPITAL IMPROVEMENT PLAN - WATER & SEWER CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Miscellaneous revenue	\$ -	\$ -	\$ -	\$ 8,527
Interest income	-	256	256	324
Total revenues	-	256	256	8,851
Expenditures:				
Infrastructure upgrades	135,000	-	135,000	-
Total expenditures	135,000	-	135,000	-
Revenues over (under) expenditures	(135,000)	256	135,256	8,851
Other Financing Sources (Uses):				
Transfers:				
Intrafund - Water and Sewer	135,000	63,629	(71,371)	109,843
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 63,885	\$ 63,885	\$ 118,694

TOWN OF BANNER ELK, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2011

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2010</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010-2011	\$ -	\$ 945,626	\$ 903,507	\$ 42,119
2009-2010	23,309	-	12,601	10,708
2008-2009	12,063	-	2,937	9,126
2007-2008	480	-	426	54
2006-2007	21	-	-	21
2005-2006	5	-	-	5
2004-2005	429	-	-	429
2003-2004	-	-	-	-
2002-2003	-	-	-	-
2001-2002	862	-	862	-
Motor vehicles	12,487	19,938	19,561	12,864
Total	<u>\$ 49,656</u>	<u>\$ 965,564</u>	<u>\$ 939,894</u>	<u>75,326</u>
Less: Allowance for uncollectible ad valorem taxes receivable				<u>5,000</u>
Ad valorem taxes receivable - net				<u>\$ 70,326</u>
Reconciliation with Revenues:				
Taxes - Ad valorem			\$ 940,432	
Penalties and interest			(3,588)	
Releases, refunds and other adjustments			2,188	
Amounts written off for tax years per statute of limitations			862	
Total collections and credit			<u>\$ 939,894</u>	

TOWN OF BANNER ELK, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY TOWN-WIDE LEVY FOR THE YEAR ENDED JUNE 30, 2011

	Town-Wide		Total Levy		
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 249,209,737	0.38	\$ 946,997	\$ 946,997	\$ -
Motor vehicle taxes levied	5,512,895	0.38	20,949	-	20,949
Total	254,722,632		967,946	946,997	20,949
Abatements	(626,842)	0.38	(2,382)	(1,371)	(1,011)
Total property valuation	\$ 254,095,790				
Net Levy			965,564	945,626	19,938
Uncollected taxes as of June 30, 2011			42,496	42,119	377
Current Year's Taxes Collected			\$ 923,068	\$ 903,507	\$ 19,561
Current Levy Collection Percentage			95.60%	95.55%	98.11%