

TOWN OF BANNER ELK

BANNER ELK, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

TOWN OF BANNER ELK

BANNER ELK, NORTH CAROLINA

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

MAYOR

Deka Tate

TOWN COUNCIL MEMBERS

Gail Draughon

Herbert "Bud" Hahn

Brenda Lyerly

John Phillips

Robert Tufts

TOWN MANAGER

John Mejaski

TOWN CLERK AND FINANCE OFFICER

Steven Smith

TOWN OF BANNER ELK, NORTH CAROLINA

Basic Financial Statements For the Fiscal Year Ended June 30, 2008

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditors' Report	1-2
	Management Discussion and Analysis	3-11
	Basic Financial Statements:	
	Government-wide Financial Statements:	
A	Statement of Net Assets	12
B	Statement of Activities	13-14
	Fund Financial Statements:	
C	Balance Sheet - Governmental Funds	15
D	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
E	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	17
F	General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	18
G	Statement of Net Assets - Proprietary Funds	19
H	Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	20
I	Statement of Cash Flows - Proprietary Funds	21-22
	Notes to the Financial Statements	23-41

TOWN OF BANNER ELK, NORTH CAROLINA

Basic Financial Statements For the Fiscal Year Ended June 30, 2008

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Supplementary Information:	
	Governmental Activities:	
1	General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	42-45
2	Capital Improvement Plan - Governmental Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	46
3	Combining Balance Sheet - Nonmajor Governmental Funds	47
4	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	48
5	Streets and Sidewalks Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	49
6	Special Police Fund - Nonmajor Special Revenue Fund - Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	50
7	Cops Golf Tournament Fund - Nonmajor Special Revenue Fund - Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	51
	Business-Type Activities:	
8	Enterprise Fund - Water and Sewer Fund - Schedule of Revenues, Expenditures, and Other Financing Sources (Uses) - Budget and Actual (Non-GAAP)	52-54
9	Capital Improvement Plan - Water and Sewer Capital Project Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP)	55

TOWN OF BANNER ELK, NORTH CAROLINA
Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

TABLE OF CONTENTS

<u>Schedule</u>		<u>Page</u>
	Statistical Section:	
10	Schedule of Ad Valorem Taxes Receivable	56
11	Analysis of Current Year Levy - Town-Wide Levy	57



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2008, 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, North Carolina'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 reports thereon have 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 reports 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina as of June 30, 2008, 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 October 30, 2008, on our consideration of 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Banner Elk, North Carolina. The budget to actual comparison statements for major funds, combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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.
Hickory, NC
October 30, 2008

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, 2008. 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

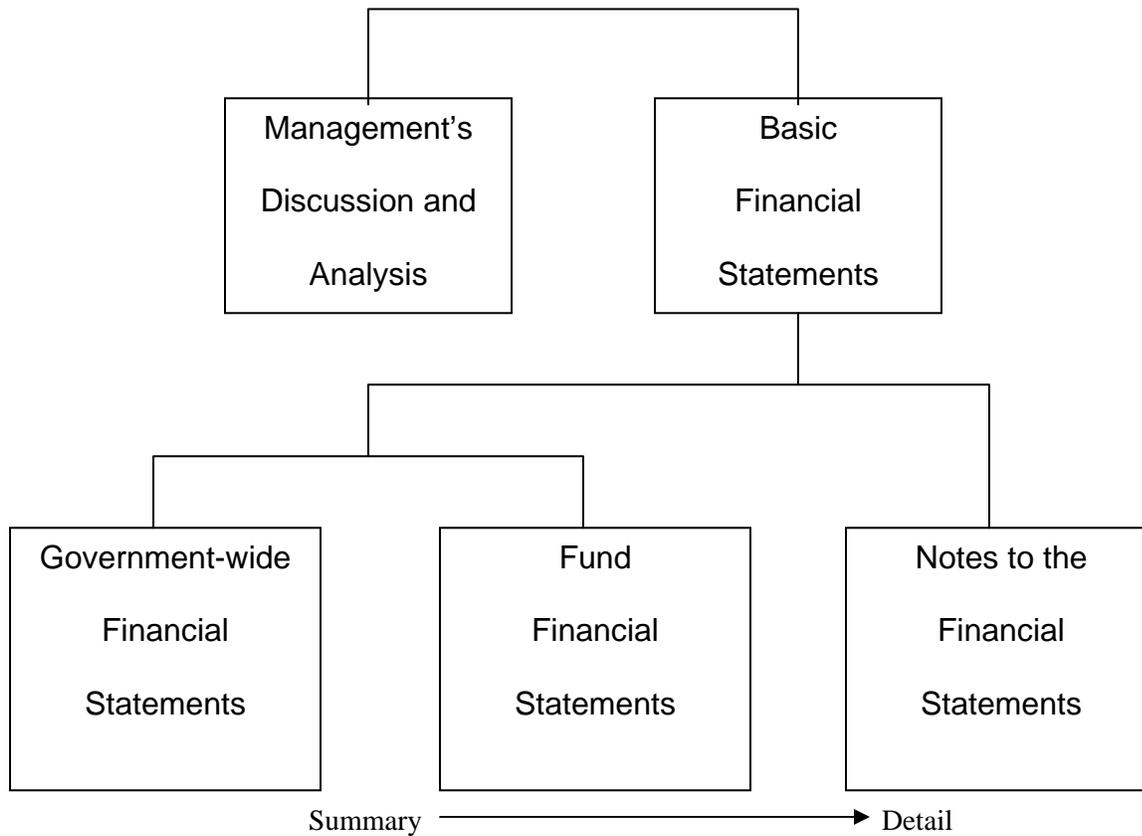
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$6,671,791 (*net assets*).
- The government's total net assets increased by \$315,978, primarily due to sales tax growth in the General Fund and capital grants to the Water and Sewer Fund.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$1,447,847 an increase of \$408,598 in comparison with the prior year. Approximately 91 percent of this total amount, or \$1,318,514, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$526,313, or 24 percent of total general fund expenditures and transfers out for the fiscal year.
- The Town of Banner Elk's total debt decreased by \$131,876 (11%) during the current 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 H) 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 state and federal 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 – 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. 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 23 of this report.

Other Information – Combining and individual fund statements and schedules can be found on pages 42 through 57 of this report.

Government-Wide Financial Analysis

Town of Banner Elk's Net Assets

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and other assets	\$ 1,095,789	\$ 1,683,198	\$ 777,321	\$ 543,342	\$ 1,873,110	\$ 2,226,540
Capital assets	<u>1,335,892</u>	<u>1,480,384</u>	<u>4,457,714</u>	<u>4,289,821</u>	<u>5,793,606</u>	<u>5,770,205</u>
Total assets	<u>2,431,681</u>	<u>3,163,582</u>	<u>5,235,035</u>	<u>4,833,163</u>	<u>7,666,716</u>	<u>7,996,745</u>
Long-term liabilities outstanding	319,537	323,916	884,825	746,826	1,204,362	1,070,742
Other liabilities	<u>39,617</u>	<u>215,169</u>	<u>66,924</u>	<u>39,043</u>	<u>106,541</u>	<u>254,212</u>
Total liabilities	<u>359,154</u>	<u>539,085</u>	<u>951,749</u>	<u>785,869</u>	<u>1,310,903</u>	<u>1,324,954</u>
Net assets:						
Invested in capital assets, net of related debt	1,044,435	1,192,042	3,588,889	3,553,720	4,633,324	4,745,762
Restricted	11,519	26,791	-	-	11,519	26,791
Unrestricted	<u>1,016,573</u>	<u>1,405,664</u>	<u>694,397</u>	<u>493,574</u>	<u>1,710,970</u>	<u>1,899,238</u>
Total net assets	<u>\$ 2,072,527</u>	<u>\$ 2,624,497</u>	<u>\$ 4,283,286</u>	<u>\$ 4,047,294</u>	<u>\$ 6,355,813</u>	<u>\$ 6,671,791</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 \$6,671,791 as of June 30, 2008. The Town's net assets increased by \$315,978 for the fiscal year ended June 30, 2008. However, the largest portion (71%) 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 \$26,791 (<1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,899,238 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 99.66%.
- 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

	Governmental Activities		Business-type Activities		Total	Total
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 194,499	\$ 172,566	\$ 688,014	\$ 894,662	\$ 882,513	\$ 1,067,228
Operating grants and contributions	177,750	163,923	-	-	177,750	163,923
Capital grants and contributions	214,538	272,301	-	226,717	214,538	499,018
General revenues:						
Property taxes	770,049	757,796	-	-	770,049	757,796
Other taxes	419,873	405,273	-	-	419,873	405,273
Investment earnings	53,506	60,628	18,995	28,292	72,501	88,920
Total revenues	<u>1,830,215</u>	<u>1,832,487</u>	<u>707,009</u>	<u>1,149,671</u>	<u>2,537,224</u>	<u>2,982,158</u>
Expenses:						
General government	359,902	320,682	-	-	359,902	320,682
Public safety	585,015	478,253	-	-	585,015	478,253
Public works	-	97,076	-	-	-	97,076
Transportation	154,370	134,056	-	-	154,370	134,056
Environmental protection	92,334	134,249	-	-	92,334	134,249
Culture and recreation	89,739	36,264	-	-	89,739	36,264
Interest on long-term debt	13,481	14,202	-	-	13,481	14,202
Water and sewer	-	-	926,405	875,219	926,405	875,219
Total expenses	<u>1,294,841</u>	<u>1,214,782</u>	<u>926,405</u>	<u>875,219</u>	<u>2,221,246</u>	<u>2,090,001</u>
Increase in net assets before transfers	535,374	617,705	(219,396)	274,452	315,978	892,157
Transfers	16,596	-	(16,596)	-	-	-
Increase in net assets	551,970	617,705	(235,992)	274,452	315,978	892,157
Net assets, July 1	<u>2,072,527</u>	<u>1,454,822</u>	<u>4,283,286</u>	<u>4,008,834</u>	<u>6,355,813</u>	<u>5,463,656</u>
Net assets, June 30	<u>\$ 2,624,497</u>	<u>\$ 2,072,527</u>	<u>\$ 4,047,294</u>	<u>\$ 4,283,286</u>	<u>\$ 6,671,791</u>	<u>\$ 6,355,813</u>

Governmental Activities. Governmental activities increased the Town's net assets by \$551,970. Key elements of this decrease are as follows:

- Property tax and sales tax revenues increased due to factors previously discussed.

Business-type Activities: Business-type activities decreased the Town of Banner Elk's net assets by \$235,992. Key elements of this increase 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, unreserved 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, unreserved fund balance of the General Fund was \$526,313, while total fund balance reached \$655,646. The unreserved fund balance decreased \$354,974 from 2007 and the total fund balance decreased \$622,786 from 2007. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 44 percent of total General Fund expenditures, (compared to 86% in 2007) while total fund balance represents 55 percent of that same amount (compared to 124.1% in 2007).

At June 30, 2008, the governmental funds of Town of Banner Elk reported a combined fund balance of \$1,447,847, a 39% percent increase over last year. Included in this change in fund balance are a decrease in the General Fund of \$622,786, an increase in the Capital Project funds of \$1,022,958, and increases in other nonmajor funds of \$8,426.

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 higher than the budgeted amounts primarily because sales tax revenue was greater 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 \$694,397. The change in net assets was \$274,452. 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, 2008, totals \$5,770,205 (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 \$146,294
- Governmental equipment and furniture \$ 66,722
- Water/Sewer equipment \$ 86,764

Town of Banner Elk's Capital Assets

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 223,019	\$ 223,019	\$ 23,466	\$ 23,466	\$ 246,485	\$ 246,485
Construction in progress	-	-	61,625	54,027	61,625	54,027
Infrastructure	869,980	723,686	-	-	869,980	723,686
Buildings	371,726	371,726	-	-	371,726	371,726
Plant	-	-	6,100,328	6,100,328	6,100,328	6,100,328
Equipment and furniture	438,592	371,870	504,004	551,157	942,596	923,027
Total	1,903,317	1,690,301	6,689,423	6,728,978	8,592,740	8,419,279
Less accumulated depreciation	(422,933)	(354,409)	(2,399,602)	(2,217,237)	(2,822,535)	(2,571,646)
Net capital assets	<u>\$ 1,480,384</u>	<u>\$ 1,335,892</u>	<u>\$ 4,289,821</u>	<u>\$ 4,511,741</u>	<u>\$ 5,770,205</u>	<u>\$ 5,847,633</u>

Additional information on the Town's capital assets can be found in note 4 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2008, the Town of Banner Elk had total bonded debt outstanding of \$717,000. Of this, \$717,000 is debt backed by the full faith and credit of the Town.

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

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ -	\$ -	\$ 717,000	\$ 764,000	\$ 717,000	\$ 764,000
Compensated absences	35,574	28,080	10,725	19,963	46,299	48,043
Installment purchases	288,342	291,457	19,101	100,862	307,443	392,319
Total	<u>\$ 323,916</u>	<u>\$ 319,537</u>	<u>\$ 746,826</u>	<u>\$ 884,825</u>	<u>\$ 1,070,742</u>	<u>\$ 1,204,362</u>

The Town of Banner Elk's total debt decreased by \$131,876 (11%) 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 Town of Banner Elk is \$7,973,000.

Additional information regarding the Town of Banner Elk's long-term debt can be found in note 9 of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth 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, 2009

Governmental Activities: Property tax revenues are expected to increase from the prior year due to continued growth in land development.

Budgeted expenditures in the General Fund are expected to increase due to the increase in cost of fuel and employee expenses.

Business-type Activities: The water and sewer revenues in the Town may increase, primarily due to continued growth in the customer base due to increased residential construction. General operating expenses are expected to remain consistent.

Capital outlays relating to the water and sewer fund are expected to increase due to the Town planning for needed improvement projects.

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, NC 28604.

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Primary Government</u>			<u>Town of Banner Elk Tourism Development Commission</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
Assets				
Cash and cash equivalents	\$ 1,558,510	\$ 456,915	\$ 2,015,425	\$ 196,579
Taxes receivable, net	11,201	-	11,201	-
Accounts receivable, net	8,981	46,358	55,339	-
Due from other governments	101,763	10,402	112,165	79,729
Prepaid items	2,743	-	2,743	-
Inventories	-	29,667	29,667	-
Capital assets, non-depreciable	223,019	85,091	308,110	-
Capital assets, net	<u>1,257,365</u>	<u>4,204,730</u>	<u>5,462,095</u>	-
Total assets	<u>\$ 3,163,582</u>	<u>\$ 4,833,163</u>	<u>\$ 7,996,745</u>	<u>\$ 276,308</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 212,425	\$ 5,493	\$ 217,918	\$ 8,540
Unearned revenues	2,744	3,445	6,189	-
Customer deposits	-	30,105	30,105	-
Long-term liabilities:				
Due within one year	13,259	78,826	92,085	-
Due in more than one year	<u>310,657</u>	<u>668,000</u>	<u>978,657</u>	-
Total liabilities	<u>539,085</u>	<u>785,869</u>	<u>1,324,954</u>	<u>8,540</u>
Net Assets				
Invested in capital assets, net of related debt	1,192,042	3,553,720	4,745,762	79,729
Restricted for:				
Streets	26,791	-	26,791	-
Unrestricted	<u>1,405,664</u>	<u>493,574</u>	<u>1,899,238</u>	<u>188,039</u>
Total net assets	<u>\$ 2,624,497</u>	<u>\$ 4,047,294</u>	<u>\$ 6,671,791</u>	<u>\$ 267,768</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, 2008**

	<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	\$ 359,902	\$ 30,194	\$ -	\$ -
Public safety	585,015	31,235	132,413	-
Public works	-	18,960	-	214,538
Transportation	154,370	8,732	45,337	-
Environmental protection	92,334	96,973	-	-
Cultural and recreation	89,739	8,405	-	-
Interest on long-term debt	13,481	-	-	-
Total governmental activities	<u>1,294,841</u>	<u>194,499</u>	<u>177,750</u>	<u>214,538</u>
Business-Type Activities				
Water and sewer	<u>926,405</u>	<u>688,014</u>	-	-
Total business-type activities	<u>926,405</u>	<u>688,014</u>	-	-
Total primary government	<u>\$ 2,221,246</u>	<u>\$ 882,513</u>	<u>\$ 177,750</u>	<u>\$ 214,538</u>
Component Unit				
Tourism Development Authority (TDA)	<u>\$ 75,406</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues

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

Transfers

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
Governmental Activities	Business-Type Activities	Total	Tourism Development Authority
\$ (329,708)	\$ -	\$ (329,708)	\$ -
(421,367)	-	(421,367)	-
233,498	-	233,498	-
(100,301)	-	(100,301)	-
4,639	-	4,639	-
(81,334)	-	(81,334)	-
(13,481)	-	(13,481)	-
<u>(708,054)</u>	<u>-</u>	<u>(708,054)</u>	<u>-</u>
-	(238,391)	(238,391)	-
-	(238,391)	(238,391)	-
<u>(708,054)</u>	<u>(238,391)</u>	<u>(946,445)</u>	<u>-</u>
			(75,406)
770,049	-	770,049	-
308,883	-	308,883	-
110,990	-	110,990	146,675
53,506	18,995	72,501	2,979
<u>1,243,428</u>	<u>18,995</u>	<u>1,262,423</u>	<u>149,654</u>
<u>16,596</u>	<u>(16,596)</u>	<u>-</u>	<u>-</u>
<u>1,260,024</u>	<u>2,399</u>	<u>1,262,423</u>	<u>149,654</u>
551,970	(235,992)	315,978	74,248
<u>2,072,527</u>	<u>4,283,286</u>	<u>6,355,813</u>	<u>193,520</u>
<u>\$ 2,624,497</u>	<u>\$ 4,047,294</u>	<u>\$ 6,671,791</u>	<u>\$ 267,768</u>

TOWN OF BANNER ELK, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008

	Major Funds			Total Governmental Funds
	General	Capital Improvement Capital Project Fund	Nonmajor Funds	
Assets				
Cash and cash equivalents	\$ 658,095	\$ 871,161	\$ 29,254	\$ 1,558,510
Taxes receivable, net	11,201	-	-	11,201
Accounts receivable, net	8,981	-	-	8,981
Due from other governments	99,799	1,731	233	101,763
Prepaid items	2,743	-	-	2,743
Total assets	<u>\$ 780,819</u>	<u>\$ 872,892</u>	<u>\$ 29,487</u>	<u>\$ 1,683,198</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued liabilities	\$ 102,247	\$ 110,098	\$ 80	\$ 212,425
Deferred revenue	22,926	-	-	22,926
Total liabilities	<u>125,173</u>	<u>110,098</u>	<u>80</u>	<u>235,351</u>
Fund Balances				
Reserved for prepaid items	2,743	-	-	2,743
Reserved for State statute	99,799	-	-	99,799
Reserved for streets-Powell bill	26,791	-	-	26,791
Unreserved, General Fund	526,313	-	-	526,313
Unreserved, reported in:				
Special Revenue Funds	-	-	10,118	10,118
Capital Projects Funds	-	762,794	19,289	782,083
Total fund balances	<u>655,646</u>	<u>762,794</u>	<u>29,407</u>	<u>1,447,847</u>
Total liabilities and fund balances	<u>\$ 780,819</u>	<u>\$ 872,892</u>	<u>\$ 29,487</u>	

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds. 1,480,384

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. 20,182

Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. (323,916)

Net assets of governmental activities \$ 2,624,497

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, 2008

	Major Funds			Total Governmental Funds
	General	Capital Improvement Capital Project Fund	Nonmajor Funds	
Revenues				
Ad valorem taxes	\$ 767,781	\$ -	\$ -	\$ 767,781
Other taxes and licenses	2,579	-	-	2,579
Unrestricted intergovernmental revenues	417,294	-	-	417,294
Restricted intergovernmental revenues	196,450	195,838	-	392,288
Permits and fees	10,374	-	-	10,374
Sales and services	104,387	-	23,042	127,429
Interest earned on investments	34,753	18,753	-	53,506
Miscellaneous	25,717	18,960	11,028	55,705
Total revenues	<u>1,559,335</u>	<u>233,551</u>	<u>34,070</u>	<u>1,826,956</u>
Expenditures				
Current:				
General government	338,703	-	-	338,703
Public safety	540,615	27,616	23,844	592,075
Public works	-	177,993	-	177,993
Transportation	128,587	-	1,800	130,387
Environmental protection	92,334	-	-	92,334
Cultural and recreation	75,880	10,986	-	86,866
Debt service:				
Principal repayments	3,115	-	-	3,115
Interest	13,481	-	-	13,481
Total expenditures	<u>1,192,715</u>	<u>216,595</u>	<u>25,644</u>	<u>1,434,954</u>
Revenues over (under) expenditures	<u>366,620</u>	<u>16,956</u>	<u>8,426</u>	<u>392,002</u>
Other Financing Sources (Uses)				
Transfers from other funds	16,596	1,006,002	-	1,022,598
Transfers to other funds	<u>(1,006,002)</u>	<u>-</u>	<u>-</u>	<u>(1,006,002)</u>
Total other financing sources (uses)	<u>(989,406)</u>	<u>1,006,002</u>	<u>-</u>	<u>16,596</u>
Net change in fund balances	<u>(622,786)</u>	<u>1,022,958</u>	<u>8,426</u>	<u>408,598</u>
Fund Balances				
Beginning of year - July 1	<u>1,278,432</u>	<u>(260,164)</u>	<u>20,981</u>	<u>1,039,249</u>
End of year - June 30	<u>\$ 655,646</u>	<u>\$ 762,794</u>	<u>\$ 29,407</u>	<u>\$ 1,447,847</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 BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (Exhibit D) \$ 408,598

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	2,268
Garbage fees	991

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 fund statement.	(7,494)
---	---------

Capital outlays are reported as expenditures in the governmental fund statement. However, in the statement of activities, capital outlay is not an expense, rather it is an increase in capital assets.	213,016
---	---------

Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental fund statements.	(68,524)
---	----------

Principal repayments are reported as expenditures in the governmental fund statement. However, in the statement of activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>3,115</u>
--	--------------

Change in net assets of governmental activities per Exhibit B	<u><u>\$ 551,970</u></u>
---	--------------------------

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 BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Ad valorem taxes	\$ 773,760	\$ 773,760	\$ 767,781	\$ (5,979)
Other taxes and licenses	2,000	2,000	2,579	579
Unrestricted intergovernmental revenues	366,296	366,296	417,294	50,998
Restricted intergovernmental revenues	175,000	175,000	196,450	21,450
Permits and fees	14,000	14,000	10,374	(3,626)
Sales and services	101,800	101,800	104,387	2,587
Interest earned on investments	36,000	36,000	34,753	(1,247)
Miscellaneous	5,000	5,000	25,717	20,717
Total revenues	<u>1,473,856</u>	<u>1,473,856</u>	<u>1,559,335</u>	<u>85,479</u>
Expenditures				
General government	392,695	369,695	338,703	30,992
Public safety	538,585	543,585	540,615	2,970
Transportation	102,818	117,818	128,587	(10,769)
Environmental protection	89,632	92,632	92,334	298
Cultural and recreation	98,629	98,629	75,880	22,749
Debt service	3,115	3,115	3,115	-
Interest and other charges	13,481	13,481	13,481	-
Total expenditures	<u>1,238,955</u>	<u>1,238,955</u>	<u>1,192,715</u>	<u>46,240</u>
Revenues over (under) expenditures	<u>234,901</u>	<u>234,901</u>	<u>366,620</u>	<u>131,719</u>
Other Financing Sources (Uses)				
Appropriated fund balance	771,101	771,101	-	(771,101)
Transfers from other funds	-	-	16,596	16,596
Transfers to other funds	(1,006,002)	(1,006,002)	(1,006,002)	-
Total other financing sources (uses)	<u>(234,901)</u>	<u>(234,901)</u>	<u>(989,406)</u>	<u>(754,505)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(622,786)</u>	<u>\$ (622,786)</u>
Fund Balances				
Beginning of year - July 1			<u>1,278,432</u>	
End of year - June 30			<u>\$ 655,646</u>	

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

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	<u>Water and Sewer Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 456,915
Accounts receivable, net	46,358
Due from other governments	10,402
Inventory	<u>29,667</u>
Total current assets	<u>543,342</u>
Capital Assets	
Land	23,466
Construction in progress	61,625
Other capital assets, net	<u>4,204,730</u>
Total capital assets	<u>4,289,821</u>
Total assets	<u>4,833,163</u>
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	5,493
Customer deposits	30,105
Unearned revenues	3,445
Compensated absences - current	10,725
Current portion of long-term debt	<u>68,101</u>
Total current liabilities	<u>117,869</u>
Noncurrent liabilities	
Notes and bonds payable	<u>668,000</u>
Total noncurrent liabilities	<u>668,000</u>
Total liabilities	<u>785,869</u>
Net Assets	
Invested in capital assets, net of related debt	3,553,720
Unrestricted	<u>493,574</u>
Total net assets	<u>\$ 4,047,294</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 FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Water and Sewer Fund
Operating Revenues	
Charges for services	\$ 578,009
Water and sewer taps	46,000
Other operating revenues	11,795
Total operating revenues	<u>635,804</u>
Operating Expenses	
Water/Sewer operations	670,440
Depreciation	218,155
Total operating expenses	<u>888,595</u>
Operating Income	<u>(252,791)</u>
Non-operating Revenues (Expenses)	
Investment earnings	18,995
Interest and other charges	(37,810)
Gain on disposal of capital assets	52,210
Total non-operating revenues (expenses)	<u>33,395</u>
Income (loss) before transfers	<u>(219,396)</u>
Transfers to other funds	<u>(16,596)</u>
Change in net assets	(235,992)
Net Assets	
Beginning of year - July 1	<u>4,283,286</u>
End of year - June 30	<u>\$ 4,047,294</u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Water and Sewer Fund</u>
Cash Flows From Operating Activities	
Cash received from customers	\$ 648,110
Cash paid for goods and services	(411,787)
Cash paid to employees	<u>(266,801)</u>
Net cash provided (used) by operating activities	<u>(30,478)</u>
 Cash Flows From Noncapital Financing Activities	
Transfers out	<u>(16,596)</u>
Net cash provided (used) by noncapital financing activities	<u>(16,596)</u>
 Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(86,052)
Proceeds from sale of capital assets	88,000
Principal paid on long-term debt	(128,761)
Interest and other charges	<u>(37,810)</u>
Net cash provided (used) by capital and related financing activities	<u>(164,623)</u>
 Cash Flows From Investing Activities	
Interest received	<u>18,995</u>
 Net increase (decrease) in cash, cash equivalents, and investments	<u>(192,702)</u>
 Cash and cash equivalents	
Beginning of year - July 1	<u>649,617</u>
 End of year - June 30	<u><u>\$ 456,915</u></u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Water and Sewer Fund</u>
Reconciliation of operating income to cash flows from operating activities	
Operating income	\$ (252,791)
Depreciation and amortization	218,155
 Change in assets and liabilities	
Decrease in accounts receivables	9,049
Increase in inventories	32,228
Decrease in accounts payable and accrued liabilities	(32,788)
Increase in customer deposits and unearned revenues	4,907
Increase in accrued vacation pay	(9,238)
Net cash provided by operating activities	<u>\$ (30,478)</u>

Noncash Items:

A capital asset with a historical cost of \$126,319 and accumulated depreciation of \$90,529 was sold in 2008 for \$88,000, resulting in a gain on sale of \$52,210.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Banner Elk, North Carolina 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 of Banner Elk 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 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 Town of Banner Elk TDA, PO Box 2049, Banner Elk, NC 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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. Nonoperating 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, 2008.

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.

The government-wide financial statements 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.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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 subsequent year. 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 2007 through February 2008 apply to the fiscal year ended June 30, 2008. 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 revenue are not susceptible to accrual because they are generally not measurable until received in cash.

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.

Capital Project Fund – Capital Improvement Plan

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Capital Project Fund – Streets and Sidewalks Fund

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

Special Police 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

Enterprise Fund – Water and Sewer Fund

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

Capital Project Fund – 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.

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. All annual appropriations lapse at the fiscal-year end. A project ordinance is adopted for the Streets and Sidewalk Fund. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

F. 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, a 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.

G. Cash and Cash Equivalents

The Town pools money 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.

H. 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.

Any unexpended debt proceeds of the Capital Project Funds are classified as restricted assets within their respective funds because their use is completely restricted to the purpose for which the debt was originally issued.

I. 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, 2007.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

J. 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.

K. 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 cost 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.

L. Capital Assets

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

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

In conjunction with implementing GASB 34, "The New Reporting Model", the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town's capitalization threshold of \$5,000 will be reported as capital assets in the Statement of Net 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 includes assets purchased after July 1, 2003.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

	Estimated Useful Lives
Infrastructure	50
Buildings and Improvements	50
Furniture and Equipment	10
Vehicles	5
Computer Equipment	5

M. 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 nonvesting accumulating rights to receive sick pay benefits.

N. 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. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

O. 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 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.

P. Fund Equity

Reservations or restrictions of equity represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved by State Statute - Portion of fund balance not available for appropriation under State statutes.

Reserved for Prepaid Items -Portion of fund balance not available for appropriation because it represents the year-end fund balance of ending inventories and prepaid items, which are not expendable, available resources.

Reserved for Streets - Portion of fund balance available for appropriation but legally segregated for street expenditures. This amount represents the balance of total unexpended Powell Bill funds.

Q. 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.

R. Use of Estimates

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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 are made are: allowance for doubtful accounts and depreciation lives.

2. Deposits and Investments

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 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 under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town 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, 2008, the Town's deposits had a carrying amount of \$235,671 and a bank balance of \$360,135. Of the bank balance, \$100,000 was covered by federal depository insurance and \$260,135 was covered by collateral held under the pooling method. The Town held \$400 in petty cash as of June 30, 2008.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Investments

At June 30, 2008, the Town had \$1,779,354 invested with the North Carolina Capital Management Trust's Cash Portfolio. The Town does not have a formal investment policy. The Town's investment in the NCCMT carried a credit rating of AAAM by Standard and Poor's as of June 30, 2008.

3. 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	\$ 8,981	\$ -	\$ -	\$ 8,981
Property taxes	-	16,201	-	16,201
Local options sales/franchise tax	-	-	97,339	97,339
Sales tax refunds due	-	-	4,424	4,424
Allowance for doubtful accounts	-	(5,000)	-	(5,000)
Total governmental activities	<u>\$ 8,981</u>	<u>\$ 11,201</u>	<u>\$ 101,763</u>	<u>\$ 121,945</u>
Business-Type Activities:				
Water and Sewer	<u>\$ 46,358</u>	<u>\$ -</u>	<u>\$ 10,402</u>	<u>\$ 56,760</u>
Total business type activities	<u><u>\$ 46,358</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,402</u></u>	<u><u>\$ 56,760</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

4. Capital Assets

Primary Government Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 223,019	\$ -	\$ -	\$ 223,019
Capital assets being depreciated:				
Infrastructure	723,686	146,294	-	869,980
Buildings	371,726	-	-	371,726
Equipment and furniture	371,870	66,722	-	438,592
Total capital assets being depreciated	<u>1,467,282</u>	<u>213,016</u>	<u>-</u>	<u>1,680,298</u>
Less accumulated depreciation for:				
Infrastructure	4,806	15,247	-	20,053
Buildings	142,485	7,920	-	150,405
Equipment and furniture	207,118	45,357	-	252,475
Total accumulated depreciation	<u>354,409</u>	<u>\$ 68,524</u>	<u>\$ -</u>	<u>422,933</u>
Governmental activity capital assets, net	<u>\$ 1,335,892</u>			<u>\$ 1,480,384</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 13,705
Public safety	20,557
Transportation	23,983
Cultural & recreation	<u>10,279</u>
Total	<u>\$ 68,524</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Proprietary Capital Assets

The capital assets of the Proprietary Fund of the Town at June 30, 2008 were as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
Business-Type Activities:				
Water/Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 23,466	\$ -	\$ -	\$ 23,466
Construction in progress	<u>54,027</u>	<u>7,598</u>	<u>-</u>	<u>61,625</u>
Total capital assets not being depreciated	<u>77,493</u>	<u>7,598</u>	<u>-</u>	<u>85,091</u>
Capital assets being depreciated:				
Plant	6,100,328	-	-	6,100,328
Equipment	<u>551,157</u>	<u>79,166</u>	<u>126,319</u>	<u>504,004</u>
Total capital assets being depreciated	<u>6,651,485</u>	<u>79,166</u>	<u>126,319</u>	<u>6,604,332</u>
Less accumulated depreciation for:				
Plant	1,959,545	158,038	-	2,117,583
Equipment	<u>257,692</u>	<u>60,117</u>	<u>35,790</u>	<u>282,019</u>
Total accumulated depreciation	<u>2,217,237</u>	<u>\$ 218,155</u>	<u>\$ 35,790</u>	<u>2,399,602</u>
Business-type activities capital assets, net	<u>\$ 4,511,741</u>			<u>\$ 4,289,821</u>

5. Accounts Payable and Accrued Liabilities

Payables at Exhibit A at June 30, 2008 were as follows:

	<u>Vendors</u>	<u>Accrued</u> <u>Liabilities</u>	<u>Total</u>
Governmental Activities:			
General	\$ 93,916	\$ 8,331	\$ 102,247
Capital Improvement	110,098	-	110,098
Cops Golf	<u>80</u>	<u>-</u>	<u>80</u>
Total	<u>\$ 204,094</u>	<u>\$ 8,331</u>	<u>\$ 212,425</u>
Business-Type Activities:			
Water and Sewer	<u>\$ 4,650</u>	<u>\$ 843</u>	<u>\$ 5,493</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

6. Pension Plan Obligations

A. Local Governmental Employees' Retirement System

Plan Description. The Town of Banner Elk 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 Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, 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 4.80% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Banner Elk are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were \$34,903, \$32,133, and \$27,372, respectively. The contributions made by the Town equaled the required contributions for each year.

B. Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Banner Elk administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. 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, 2007, the Separation Allowance's membership consisted of:

Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>8</u>
Total	<u><u>11</u></u>

A separate report was not issued for the plan.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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, 2008 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.

C. 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 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, 2008 were \$49,707, which consisted of \$20,678 from the Town and \$29,029 from the law enforcement officers.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

7. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Governmental Funds/Activities:		
Taxes receivable (General Fund)	\$ 11,201	\$ -
Garbage fees receivable	8,981	-
Prepaid property taxes	2,744	2,744
Total governmental funds	\$ 22,926	\$ 2,744
 Business-Type/Enterprise Activities:		
Prepaid water/sewer fees	\$ -	\$ 3,445

8. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

9. 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 \$ 288,342

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 \$ 717,000

Notes Payable

4.25% note, payable to vendor issued July 2005; payable in annual installments of \$19,912 including interest; final payment due July 2008; secured by equipment 19,101

Total long-term debt, business-type activities \$ 736,101

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 3,259	\$ 13,336	\$ 16,595	\$ 68,101	\$ 27,914	\$ 96,015
2010	3,410	13,185	16,595	50,000	24,530	74,530
2011	3,568	13,027	16,595	52,000	23,360	75,360
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
2014-2018	22,408	60,567	82,975	313,000	63,392	376,392
2019-2023	28,092	54,883	82,975	143,000	8,166	151,166
2024-2028	35,216	47,759	82,975	-	-	-
2029-2033	44,151	38,824	82,975	-	-	-
2034-2038	55,349	27,626	82,975	-	-	-
2039-2043	69,388	13,587	82,975	-	-	-
2044	15,863	733	16,596	-	-	-
Total	\$ 288,342	\$ 309,079	\$ 597,421	\$ 736,101	\$ 188,112	\$ 924,213

Changes in long-term debt were as follows:

	Balance			Balance	Current
	July 1, 2007	Increases	Decreases	June 30, 2008	Portion
Government Activities:					
Notes payable	\$ 291,457	\$ -	\$ (3,115)	\$ 288,342	\$ 3,259
Compensated absences	28,080	17,494	(10,000)	35,574	10,000
Governmental activity long-term debt	<u>\$ 319,537</u>	<u>\$ 17,494</u>	<u>\$ (13,115)</u>	<u>\$ 323,916</u>	<u>\$ 13,259</u>
Business-Type Activities:					
General obligation bonds	\$ 764,000	\$ -	\$ (47,000)	\$ 717,000	\$ 49,000
Notes payable	100,862	-	(81,761)	19,101	19,101
Compensated absences	19,963	1,762	(11,000)	10,725	10,725
Business-type activity long-term debt	<u>\$ 884,825</u>	<u>\$ 1,762</u>	<u>\$ (139,761)</u>	<u>\$ 746,826</u>	<u>\$ 78,826</u>

Compensated absences typically have been liquidated in the general fund and are accounted for on a FIFO basis, assuming that the employees are taking leave time as it is earned. At June 30, 2008, the Town of Banner Elk had a legal debt margin of \$7,973,000.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

10. 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	Governmental CP Fund	\$ 1,006,002	Fund future capital needs
Water and Sewer	General Fund	16,596	Debt service fund
Water and Sewer	Water and Sewer CP Fund	\$ 69,765	Intrafund transfer for capital

11. Jointly Governed Organization

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 \$480 to the Council during the fiscal year ended June 30, 2008.

12. 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 moneys 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 moneys.

13. Stewardship Compliance and Accountability

Excess of Expenditures over Appropriations

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Variance</u>
General Fund:			
Streets and Highways	128,587	117,818	(10,769)
Police Special Revenue Fund:			
Public Safety	4,485	4,216	(269)
Cops Golf Tournament Special Revenue:			
Public Safety	\$ 19,359	\$ -	\$ (19,359)

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Compliance with General Statutes

General Statutes and local ordinances require a budget ordinance to be adopted for all funds of the Town. The Cops Golf Tournament Special Revenue Fund did not adopt an annual budget for the year ended June 30, 2008.

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007

	2008			2007 Actual
	Final Budget	Actual	Variance Over/Under	
Revenues				
Ad Valorem Taxes				
Taxes	\$ 772,260	\$ 763,450	\$ (8,810)	\$ 754,102
Penalties and interest	1,500	4,331	2,831	2,805
Total ad valorem taxes	<u>773,760</u>	<u>767,781</u>	<u>(5,979)</u>	<u>756,907</u>
Other Taxes and Licenses				
Privilege licenses	2,000	2,579	579	4,713
Total other taxes and licenses	<u>2,000</u>	<u>2,579</u>	<u>579</u>	<u>4,713</u>
Unrestricted Intergovernmental Revenues				
Local option sales tax	266,500	308,883	42,383	296,009
Utility franchise tax	74,000	82,460	8,460	78,768
Beer and wine tax	4,700	4,699	(1)	4,424
Contribution - TDA	21,096	21,252	156	21,358
Total unrestricted intergovernmental revenues	<u>366,296</u>	<u>417,294</u>	<u>50,998</u>	<u>400,559</u>
Restricted Intergovernmental Revenues				
Powell Bill allocation	43,000	45,337	2,337	41,018
Other local grants and matching contributions	10,000	18,700	8,700	10,000
ABC revenue for law enforcement	80,000	84,220	4,220	85,024
LLEBG grant	42,000	48,193	6,193	42,561
Total restricted intergovernmental revenues	<u>175,000</u>	<u>196,450</u>	<u>21,450</u>	<u>178,603</u>
Permits and Fees				
Building permits	14,000	10,374	(3,626)	13,688
Total permits and fees	<u>14,000</u>	<u>10,374</u>	<u>(3,626)</u>	<u>13,688</u>
Sales and Services				
Recycling revenue	88,000	95,982	7,982	88,485
Park lease/rental income	13,800	8,405	(5,395)	13,600
Total sales and services	<u>101,800</u>	<u>104,387</u>	<u>2,587</u>	<u>102,085</u>

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007

	2008			2007 Actual
	Final Budget	Actual	Variance Over/Under	
Investment Earnings	36,000	34,753	(1,247)	52,528
Miscellaneous	5,000	25,717	20,717	55,387
Total revenues	<u>1,473,856</u>	<u>1,559,335</u>	<u>85,479</u>	<u>1,564,470</u>
Expenditures				
General Government				
Administration				
Salaries and employee benefits	93,832	88,963	4,869	78,817
Operating expenses	69,545	63,834	5,711	68,861
Capital outlay	3,115	1,723	1,392	4,301
Total	<u>166,492</u>	<u>154,520</u>	<u>11,972</u>	<u>151,979</u>
Governing Body				
Salaries and employee benefits	13,564	13,564	-	10,084
Operating expenses	43,236	37,948	5,288	275
Total	<u>56,800</u>	<u>51,512</u>	<u>5,288</u>	<u>10,359</u>
Finance				
Salaries and employee benefits	41,698	41,698	-	55,078
Operating expenses	10,954	9,158	1,796	28,598
Capital outlay	-	105	(105)	(241)
Total	<u>52,652</u>	<u>50,961</u>	<u>1,691</u>	<u>83,435</u>
Planning				
Salaries and employee benefits	47,491	35,880	11,611	32,596
Operating expenses	8,950	13,375	(4,425)	8,764
Capital outlay	1,400	105	1,295	-
Total	<u>57,841</u>	<u>49,360</u>	<u>8,481</u>	<u>41,360</u>

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007

	2008			2007 Actual
	Final Budget	Actual	Variance Over/Under	
Public Buildings				
Operating expenses	35,910	32,350	3,560	36,127
Total	35,910	32,350	3,560	36,127
Total general government	369,695	338,703	30,992	323,260
Public Safety				
Police				
Salaries and employee benefits	405,385	406,937	(1,552)	340,773
Operating expenses	65,441	66,100	(659)	45,915
Capital outlay	5,615	4,967	648	21,972
Total	476,441	478,004	(1,563)	408,660
Drug Task Force				
Salaries and employee benefits	53,110	45,740	7,370	41,704
Operating expenses	11,584	14,903	(3,319)	7,932
Capital outlay	2,450	1,968	482	9
Total	67,144	62,611	4,533	49,645
Total public safety	543,585	540,615	2,970	458,305
Transportation				
Streets and Highways				
Salaries and employee benefits	38,154	38,219	(65)	-
Operating expenses	74,664	77,169	(2,505)	50,921
Total transportation	117,818	128,587	(10,769)	50,921
Environmental Protection				
Solid Waste				
Salaries and employee benefits	-	-	-	31,051
Operating expenses	92,632	92,334	298	101,507
Capital outlay	-	-	-	1,691
Total environmental protection	92,632	92,334	298	134,249

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007

	<u>2008</u>			<u>2007 Actual</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	
Cultural and Recreational				
Parks and Recreation				
Salaries and employee benefits	48,314	28,918	19,396	-
Operating expenses	<u>50,315</u>	<u>46,962</u>	<u>3,353</u>	<u>28,290</u>
Total cultural and recreational	<u>98,629</u>	<u>75,880</u>	<u>22,749</u>	<u>28,290</u>
Debt Service				
Principal retirement	3,115	3,115	-	-
Interest and fees	<u>13,481</u>	<u>13,481</u>	<u>-</u>	<u>34,969</u>
Total debt service	<u>16,596</u>	<u>16,596</u>	<u>-</u>	<u>34,969</u>
Total expenditures	<u>1,238,955</u>	<u>1,192,715</u>	<u>46,240</u>	<u>1,029,994</u>
Revenues over (under) expenditures	<u>234,901</u>	<u>366,620</u>	<u>131,719</u>	<u>534,476</u>
Other Financing Sources (Uses)				
Appropriated fund balance	771,101	-	771,101	-
Transfer in - Enterprise Fund	-	16,596	(16,596)	-
Transfer out - Capital Projects Fund	<u>(1,006,002)</u>	<u>(1,006,002)</u>	<u>-</u>	<u>(238,527)</u>
Total other financing sources (uses)	<u>(234,901)</u>	<u>(989,406)</u>	<u>754,505</u>	<u>(238,527)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(622,786)</u>	<u>\$ (622,786)</u>	<u>\$ 295,949</u>
Fund Balance:				
Beginning of year - July 1		<u>1,278,432</u>		
End of year - June 30		<u>\$ 655,646</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

CAPITAL IMPROVEMENT PLAN - GOVERNMENTAL CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2008

	<u>Final Budget</u>	<u>Current Year</u>	<u>Variance Over/Under</u>
Revenues			
Restricted intergovernmental	\$ -	\$ 195,838	\$ 195,838
Miscellaneous revenues	-	18,960	18,960
Investment earnings	-	18,753	18,753
	<u>-</u>	<u>233,551</u>	<u>233,551</u>
Total revenues	<u>-</u>	<u>233,551</u>	<u>233,551</u>
Expenditures			
Public safety	26,000	27,616	(1,616)
Public works	270,000	177,993	92,007
Parks and recreation	-	10,986	(10,986)
	<u>296,000</u>	<u>216,595</u>	<u>79,405</u>
Total expenditures	<u>296,000</u>	<u>216,595</u>	<u>79,405</u>
Revenues over (under) expenditures	<u>(296,000)</u>	<u>16,956</u>	<u>312,956</u>
Other Financing Sources (Uses)			
Contingency	(609,091)	-	609,091
Transfers in/out:			
General fund	922,091	1,006,002	83,911
Debt service	(17,000)	-	17,000
	<u>296,000</u>	<u>1,006,002</u>	<u>710,002</u>
Total other financing sources (uses)	<u>296,000</u>	<u>1,006,002</u>	<u>710,002</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>1,022,958</u>	<u>\$ 1,022,958</u>
Fund Balance:			
Beginning of year - July 1		<u>(260,164)</u>	
End of year - June 30		<u>\$ 762,794</u>	

TOWN OF BANNER ELK, NORTH CAROLINA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Streets and Sidewalks Capital Project Fund	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Total
Assets				
Cash and cash equivalents	\$ 19,183	\$ 6,308	\$ 3,763	\$ 29,254
Due from other governments	<u>106</u>	<u>127</u>	<u>-</u>	<u>233</u>
Total assets	<u>\$ 19,289</u>	<u>\$ 6,435</u>	<u>\$ 3,763</u>	<u>\$ 29,487</u>
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 80	\$ 80
Total liabilities	<u>-</u>	<u>-</u>	<u>80</u>	<u>80</u>
Fund Balances				
Unreserved, reported in:				
Special Revenue Funds	-	6,435	3,683	10,118
Capital Projects Funds	<u>19,289</u>	<u>-</u>	<u>-</u>	<u>19,289</u>
Total fund balances	<u>19,289</u>	<u>6,435</u>	<u>3,683</u>	<u>29,407</u>
Total liabilities and fund balances	<u>\$ 19,289</u>	<u>\$ 6,435</u>	<u>\$ 3,763</u>	<u>\$ 29,487</u>

TOWN OF BANNER ELK, NORTH CAROLINA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<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	\$ -	\$ -	\$ 23,042	\$ 23,042
Miscellaneous	<u>8,732</u>	<u>2,296</u>	<u>-</u>	<u>11,028</u>
Total revenues	<u>8,732</u>	<u>2,296</u>	<u>23,042</u>	<u>34,070</u>
Expenditures				
Public safety	-	4,485	19,359	23,844
Transportation	<u>1,800</u>	<u>-</u>	<u>-</u>	<u>1,800</u>
Total expenditures	<u>1,800</u>	<u>4,485</u>	<u>19,359</u>	<u>25,644</u>
Revenues over (under) expenditures	6,932	(2,189)	3,683	8,426
Fund Balances				
Beginning of year - July 1	<u>12,357</u>	<u>8,624</u>	<u>-</u>	<u>20,981</u>
End of year - June 30	<u>\$ 19,289</u>	<u>\$ 6,435</u>	<u>\$ 3,683</u>	<u>\$ 29,407</u>

TOWN OF BANNER ELK, NORTH CAROLINA

STREETS AND SIDEWALKS CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>
Revenues				
Restricted intergovernmental:				
Banner Elk Tourism Development Authority	\$ 325,051	\$ 325,053	\$ -	\$ 325,053
Miscellaneous:				
Contributions	64,149	75,837	8,619	84,456
Investment income	8,100	8,935	113	9,048
Total revenues	<u>397,300</u>	<u>409,825</u>	<u>8,732</u>	<u>418,557</u>
Expenditures				
Capital outlay:				
Sidewalks and streetscape	735,721	852,424	1,800	854,224
Contingency	33,087	-	-	-
Total expenditures	<u>768,808</u>	<u>852,424</u>	<u>1,800</u>	<u>854,224</u>
Revenues over (under) expenditures	<u>(371,508)</u>	<u>(442,599)</u>	<u>6,932</u>	<u>(435,667)</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>\$ 12,357</u>	<u>\$ 6,932</u>	<u>\$ 19,289</u>

TOWN OF BANNER ELK, NORTH CAROLINA

SPECIAL POLICE FUND - NONMAJOR SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2008
 WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007

	<u>2008</u>			<u>2007 Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	
Revenues				
Miscellaneous	\$ -	\$ 2,296	\$ 2,296	\$ 2,500
Expenditures				
Public Safety:				
Other	4,216	4,485	(269)	4,000
Revenues over (under) expenditures	<u>(4,216)</u>	<u>(2,189)</u>	<u>2,027</u>	<u>(1,500)</u>
Other Financing Sources (Uses)				
Appropriated fund balance	4,216	-	(4,216)	10,124
Net change in fund balance	<u>\$ -</u>	<u>(2,189)</u>	<u>\$ 2,189</u>	<u>\$ 8,624</u>
Fund balance				
Beginning of year - July 1		8,624		
End of year - June 30		<u>\$ 6,435</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

COPS GOLF TOURNAMENT FUND - NONMAJOR SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2008
 WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007

	<u>2008</u>			<u>2007 Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	
Revenues				
Golf tournament revenues	\$ -	\$ 23,042	\$ 23,042	\$ -
Total revenues	-	23,042	23,042	-
Expenditures				
Public Safety:				
Golf tournament	-	19,359	(19,359)	-
Total expenditures	-	19,359	(19,359)	-
Revenues over (under) expenditures	-	3,683	3,683	-
Net change in fund balance	<u>\$ -</u>	3,683	<u>\$ (3,683)</u>	<u>\$ -</u>
Fund balance				
Beginning of year - July 1		-		
End of year - June 30		<u>\$ 3,683</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND OTHER FINANCING
SOURCES (USES) - BUDGET AND ACTUAL (NON-GAAP) - MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007**

	<u>2008</u>		<u>Variance Over/Under</u>	<u>2007 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Operating Revenues				
Water sales:				
Residential		\$ 181,577		\$ 192,267
Impact fees		37,402		206,354
Total water sales		<u>218,979</u>		<u>398,621</u>
Sewer charges:				
Residential		<u>359,030</u>		<u>344,805</u>
Water and sewer taps		46,000		125,607
Other operating revenues		<u>11,795</u>		<u>25,629</u>
Total operating revenues		<u>635,804</u>		<u>894,662</u>
Nonoperating Revenues				
Interest earnings		242		3,792
Sale of capital assets		<u>88,000</u>		<u>-</u>
Total nonoperating revenues		<u>88,242</u>		<u>3,792</u>
Total revenues	\$ 699,745	<u>724,046</u>	\$ 24,301	<u>898,454</u>
Expenditures				
Administration:				
Salaries and employee benefits	43,387	26,691		271,415
Utilities	3,090	3,090		56,449
Supplies	6,700	6,782		54,893
Insurance	390	80		7,531
Maintenance	-	-		7,954
Other operating expenditures	27,242	25,469		163,184
Contracted services	<u>1,934</u>	<u>-</u>		<u>14,726</u>
Total administration	<u>82,743</u>	<u>62,112</u>	<u>20,631</u>	<u>576,152</u>
Wastewater Treatment:				
Salaries and employee benefits	47,304	41,762		-
Utilities	47,325	41,310		-
Supplies	11,854	16,258		-
Insurance	5,853	6,812		-
Maintenance	11,550	19,540		-
Other operating expenditures	21,760	20,483		-
Contracted services	<u>26,500</u>	<u>30,224</u>		<u>-</u>
Total wastewater treatment	<u>172,146</u>	<u>176,389</u>	<u>(4,243)</u>	<u>-</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND OTHER FINANCING
SOURCES (USES) - BUDGET AND ACTUAL (NON-GAAP) - MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007**

	<u>2008</u>			<u>2007</u> <u>Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over/Under</u>	
Water Treatment:				
Salaries and employee benefits	47,304	43,876		-
Utilities	21,300	15,738		-
Supplies	27,324	29,036		-
Insurance	5,563	7,005		-
Maintenance	7,500	13,736		-
Other operating expenditures	3,500	2,331		-
Contracted services	6,500	7,120		-
Total water treatment	<u>118,991</u>	<u>118,842</u>	<u>149</u>	<u>-</u>
Distribution and Collections:				
Salaries and employee benefits	176,007	145,234		-
Utilities	6,237	2,590		-
Supplies	37,600	48,001		-
Insurance	14,090	6,032		-
Maintenance	11,950	13,858		-
Other operating expenditures	22,871	27,791		-
Contracted services	-	15		-
Total distribution and collection	<u>268,755</u>	<u>243,521</u>	<u>25,234</u>	<u>-</u>
Total operating expenditures	642,635	600,864	41,771	576,152
Debt service:				
Interest and other charges	37,810	37,810	-	64,080
Principal retirement	93,070	128,761	(35,691)	11,500
Capital outlay	<u>22,293</u>	<u>25,783</u>	<u>(3,490)</u>	<u>24,483</u>
Total expenditures	<u>795,808</u>	<u>793,218</u>	<u>2,590</u>	<u>676,215</u>
Revenues over (under) expenditures	<u>(96,063)</u>	<u>(69,172)</u>	<u>26,891</u>	<u>222,239</u>
Other Financing Sources (Uses)				
Transfers out	(16,596)	(16,596)	-	-
Transfers in (out) water capital project fund	(67,235)	(69,795)	(2,560)	(23,068)
Transfers in	113,880	-	(113,880)	-
Appropriated fund balance	<u>66,014</u>	<u>-</u>	<u>(66,014)</u>	<u>-</u>
Total other financing sources (uses)	<u>96,063</u>	<u>(86,391)</u>	<u>(182,454)</u>	<u>(23,068)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (155,563)</u>	<u>\$ (155,563)</u>	<u>\$ 199,171</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND OTHER FINANCING
SOURCES (USES) - BUDGET AND ACTUAL (NON-GAAP) - MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2007**

	<u>2008</u>			<u>2007</u> <u>Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over/Under</u>	
Reconciliation from modified accrual basis to full accrual basis				
Revenues and other sources over (under) expenditures and other financing uses		\$ (155,563)		
Reconciling items:				
Principal retirement		128,761		
Capital outlay items capitalized		8,875		
Depreciation		(218,155)		
Book value of capital asset sold		(35,790)		
Interest income - CIP		18,753		
CIP expenditures		(130,557)		
Capitalized CIP expenditures		77,889		
Intrafund transfers		<u>69,795</u>		
Change in Net Assets, GAAP Basis		<u><u>\$ (235,992)</u></u>		

TOWN OF BANNER ELK, NORTH CAROLINA

**CAPITAL IMPROVEMENT PLAN - WATER & SEWER CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL (NON-GAAP) - MODIFIED ACCRUAL BASIS
 FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Final Budget</u>	<u>Current Year</u>	<u>Variance Over/Under</u>
Revenues			
Restricted intergovernmental:			
Interest income	\$ -	\$ 18,753	\$ 18,753
Total revenues	<u>-</u>	<u>18,753</u>	<u>18,753</u>
Expenditures			
Heavy equipment replacement	-	39,106	(39,106)
Infrastructure upgrades	205,000	31,185	173,815
LMC Well site project	-	52,668	(52,668)
Colver Street water line extension	-	2,873	(2,873)
Well # 2 site	-	1,500	(1,500)
Grandfather Home sewer line	-	3,225	(3,225)
Total expenditures	<u>205,000</u>	<u>130,557</u>	<u>74,443</u>
Revenues over (under) expenditures	<u>(205,000)</u>	<u>(111,804)</u>	<u>93,196</u>
Other Financing Sources (Uses)			
Appropriated fund balance	203,582	-	(203,582)
Transfers:			
Intrafund - Water and Sewer	<u>1,418</u>	<u>69,795</u>	<u>68,377</u>
Total other financing sources (uses)	<u>205,000</u>	<u>69,795</u>	<u>(135,205)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ (42,009)</u>	<u>\$ (42,009)</u>

TOWN OF BANNER ELK, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2008

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2007</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2008</u>
2007-2008	\$ -	\$ 735,750	733,667	\$ 2,083
2006-2007	1,243	-	320	923
2005-2006	5	-	-	5
2004-2005	429	-	-	429
2003-2004	-	-	-	-
2002-2003	-	-	-	-
2001-2002	537	-	-	537
2000-2001	325	-	-	325
1999-2000	-	-	-	-
1998-1999	164	-	-	164
1997-1998	15	-	15	-
Motor Vehicles	<u>11,215</u>	<u>25,730</u>	<u>25,210</u>	<u>11,735</u>
	<u>\$ 13,933</u>	<u>\$ 761,480</u>	<u>\$ 759,212</u>	<u>16,201</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>5,000</u>
Ad valorem taxes receivable - net				<u>\$ 11,201</u>
Reconciliation with revenues				
Taxes-ad valorem				\$ 767,781
Penalties and interest				(4,331)
Releases, refunds and other adjustments				(4,252)
Amounts written off for tax years per statute of limitations				<u>15</u>
Total collections and credit				<u>\$ 759,213</u>

TOWN OF BANNER ELK, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2008

	County-Wide			Total Levy	
	Property	Rate	Amount of Levy	Property excluding	Registered
	Valuation			Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current year's rate	\$ 141,501,373	0.51	\$ 721,657	\$ 721,657	\$ -
Motor vehicle taxes levied	5,045,098	0.51	25,730	-	25,730
Penalties	-		-	-	-
Total	<u>105,862,774</u>		<u>747,387</u>	<u>721,657</u>	<u>25,730</u>
Discoveries	2,845,098	0.51	14,510	14,510	-
Abatements	<u>(81,727)</u>	0.51	<u>(417)</u>	<u>(417)</u>	<u>-</u>
Total property valuation	<u>\$ 108,626,145</u>				
Net levy			761,480	735,750	25,730
Uncollected taxes as of June 30, 2008			<u>2,602</u>	<u>2,082</u>	<u>520</u>
Current year's taxes collected			<u>\$ 758,878</u>	<u>\$ 733,668</u>	<u>\$ 25,210</u>
Current levy collection percentage			<u>99.66%</u>	<u>99.72%</u>	<u>97.98%</u>