

# **TOWN OF BANNER ELK**

**BANNER ELK, NORTH CAROLINA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2009**

**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

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# TOWN OF BANNER ELK, NORTH CAROLINA

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# 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Banner Elk's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Banner Elk Tourism Development Authority. Those financial statements were audited by other auditors whose 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina, as of June 30, 2009, 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 August 12, 2009, 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  
August 12, 2009

## 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, 2009. 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 \$6,891,229 (*net assets*).
- The government's total net assets increased by \$219,438, primarily due to property tax growth in the General Fund.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$1,490,183 an increase of \$42,336 in comparison with the prior year. Approximately 90 percent of this total amount, or \$1,344,147, 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 \$425,684, or 25 percent of total General Fund expenditures and transfers out for the fiscal year.
- The Town of Banner Elk's total debt decreased by \$54,730 (5%) during the current fiscal year.

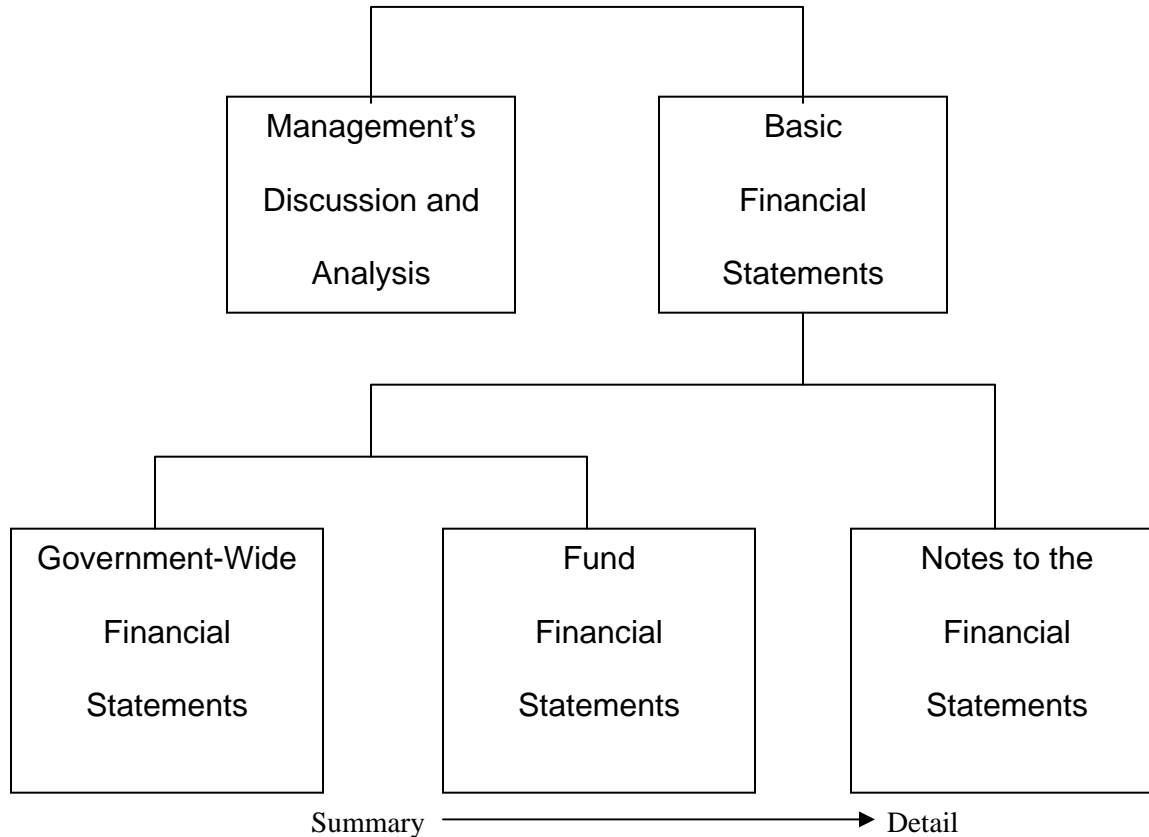
### Overview of the Financial Statements

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 federal and State grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Banner Elk. The final category is the component unit. Although legally separate from the Town, the TDA is important to the Town because the Town exercises control over the Authority by appointing its members.

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

## **Fund Financial Statements**

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

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

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

**Proprietary Funds** – 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 24 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	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Current and other assets	\$ 1,683,198	\$ 1,561,064	\$ 543,342	\$ 191,116	\$ 2,226,540	\$ 1,752,180
Capital assets	<u>1,480,384</u>	<u>1,712,078</u>	<u>4,289,821</u>	<u>4,514,219</u>	<u>5,770,205</u>	<u>6,226,297</u>
Total assets	<u>3,163,582</u>	<u>3,273,142</u>	<u>4,833,163</u>	<u>4,705,335</u>	<u>7,996,745</u>	<u>7,978,477</u>
Long-term liabilities						
outstanding	323,916	330,540	746,826	685,472	1,070,742	1,016,012
Other liabilities	<u>215,169</u>	<u>32,436</u>	<u>39,043</u>	<u>38,800</u>	<u>254,212</u>	<u>71,236</u>
Total liabilities	<u>539,085</u>	<u>362,976</u>	<u>785,869</u>	<u>724,272</u>	<u>1,324,954</u>	<u>1,087,248</u>
Net assets:						
Invested in capital assets, net of related debt	1,192,042	1,426,995	3,553,720	3,846,219	4,745,762	5,273,214
Restricted	26,791	42,066	-	-	26,791	42,066
Unrestricted	<u>1,405,664</u>	<u>1,441,105</u>	<u>493,574</u>	<u>134,844</u>	<u>1,899,238</u>	<u>1,575,949</u>
Total net assets	<u>\$ 2,624,497</u>	<u>\$ 2,910,166</u>	<u>\$ 4,047,294</u>	<u>\$ 3,981,063</u>	<u>\$ 6,671,791</u>	<u>\$ 6,891,229</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 \$6,891,229 as of June 30, 2009. The Town's net assets increased by \$219,438 for the fiscal year ended June 30, 2009. However, the largest portion (77%) 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 \$42,066 (<1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,575,949 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 97%.
- 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	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 255,093	\$ 194,499	\$ 771,416	\$ 688,014	\$ 1,026,509	\$ 882,513
Operating grants and contributions	183,433	177,750	-	-	183,433	177,750
Capital grants and contributions	18,700	214,538	-	-	18,700	214,538
<b>General revenues:</b>						
Property taxes	911,614	770,049	-	-	911,614	770,049
Other taxes	392,236	419,873	-	-	392,236	419,873
Investment earnings	23,210	53,506	2,768	18,995	25,978	72,501
<b>Total revenues</b>	<u>1,784,286</u>	<u>1,830,215</u>	<u>774,184</u>	<u>707,009</u>	<u>2,558,470</u>	<u>2,537,224</u>
<b>Expenses:</b>						
General government	418,954	359,902	-	-	418,954	359,902
Public safety	654,709	585,015	-	-	654,709	585,015
Transportation	165,069	154,370	-	-	165,069	154,370
Environmental protection	84,903	92,334	-	-	84,903	92,334
Culture and recreation	85,542	89,739	-	-	85,542	89,739
Interest on long-term debt	13,337	13,481	-	-	13,337	13,481
Water and sewer	-	-	916,518	926,405	916,518	926,405
<b>Total expenses</b>	<u>1,422,514</u>	<u>1,294,841</u>	<u>916,518</u>	<u>926,405</u>	<u>2,339,032</u>	<u>2,221,246</u>
<b>Increase in net assets before transfers</b>	361,772	535,374	(142,334)	(219,396)	219,438	315,978
Transfers	(76,103)	16,596	76,103	(16,596)	-	-
<b>Increase in net assets</b>	285,669	551,970	(66,231)	(235,992)	219,438	315,978
<b>Net assets, July 1</b>	<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>
<b>Net assets, June 30</b>	<u>\$ 2,910,166</u>	<u>\$ 2,624,497</u>	<u>\$ 3,981,063</u>	<u>\$ 4,047,294</u>	<u>\$ 6,891,229</u>	<u>\$ 6,671,791</u>

**Governmental Activities.** Governmental activities increased the Town's net assets by \$285,669. Key elements of this decrease are as follows:

- Property tax revenues increased due to factors previously discussed.

**Business-Type Activities:** Business-type activities decreased the Town of Banner Elk's net assets by \$66,231. Key elements of this decrease are as follows:

- The purchase of water and sewer equipment

## **Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Banner Elk's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Banner Elk's financing requirements. Specifically, 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 \$425,684, while total fund balance reached \$571,720. The unreserved fund balance decreased \$100,629 from 2008, and the total fund balance decreased \$83,926 from 2008. 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 32 percent of total General Fund expenditures, (compared to 44% in 2008), while total fund balance represents 42 percent of that same amount (compared to 55% in 2008).

At June 30, 2009, the governmental funds of Town of Banner Elk reported a combined fund balance of \$1,490,183, a 3% percent increase over last year. Included in this change in fund balance are a decrease in the General Fund of \$83,926, an increase in the Capital Project funds of \$91,968 and increases in other nonmajor funds of \$34,294.

**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 \$134,844. The change in net assets was a decrease of \$66,231. 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, 2009 totals \$6,226,297 (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 \$110,329
- Governmental buildings \$143,253
- Water/Sewer equipment \$481,747

### Town of Banner Elk's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 223,019	\$ 223,019	\$ 23,466	\$ 23,466	\$ 246,485	\$ 246,485
Construction in progress	-	-	1,500	61,625	1,500	61,625
Infrastructure	980,309	869,980	-	-	980,309	869,980
Buildings	514,979	371,726	-	-	514,979	371,726
Plant	-	-	6,582,075	6,100,328	6,582,075	6,100,328
Equipment and furniture	492,696	438,592	527,753	504,004	1,020,449	942,596
Total	2,211,003	1,903,317	7,134,794	6,689,423	9,345,797	8,592,740
Less accumulated depreciation	(498,925)	(422,933)	(2,620,575)	(2,399,602)	(3,119,500)	(2,822,535)
Net capital assets	<u>\$1,712,078</u>	<u>\$ 1,480,384</u>	<u>\$4,514,219</u>	<u>\$ 4,289,821</u>	<u>\$6,226,297</u>	<u>\$ 5,770,205</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, 2009, the Town of Banner Elk had total bonded debt outstanding of \$668,000. Of this, \$668,000 is debt backed by the full faith and credit of the Town.

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

**Figure 5**

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General obligation bonds	\$ -	\$ -	\$ 668,000	\$ 717,000	\$ 668,000	\$ 717,000
Compensated absences	45,457	35,574	17,472	10,725	62,929	46,299
Installment purchases	<u>285,083</u>	<u>288,342</u>	<u>-</u>	<u>19,101</u>	<u>285,083</u>	<u>307,443</u>
<b>Total</b>	<u><u>\$ 330,540</u></u>	<u><u>\$ 323,916</u></u>	<u><u>\$ 685,472</u></u>	<u><u>\$ 746,826</u></u>	<u><u>\$ 1,016,012</u></u>	<u><u>\$ 1,070,742</u></u>

The Town of Banner Elk’s total debt decreased by \$54,730 (5%) 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 \$17,592,232.

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 stability and prosperity of the Town:

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

**Budget Highlights for the Fiscal Year Ending June 30, 2010**

**Governmental Activities:** Property tax revenues are expected to increase from the prior year due to continued growth in land development. State shared revenues are expected to decrease due to economic factors severely impacting the State’s budget.

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



**Business–Type Activities:** The water and sewer revenues in the Town should increase, primarily due to a rate increase and continued growth in the customer base due to residential construction. General operating expenses are expected to decrease due to cost saving measures instituted.

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

### **Requests for Information**

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

## TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF NET ASSETS  
JUNE 30, 2009

	Primary Government			Town of Banner Elk Tourism Development Commission
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,407,810	\$ 58,231	\$ 1,466,041	\$ 209,141
Taxes receivable, net	37,649	-	37,649	-
Accounts receivable, net	1,796	95,902	97,698	-
Due from other governments	112,351	9,358	121,709	90
Prepaid items	1,458	1,458	2,916	-
Inventories	-	26,167	26,167	-
Capital assets, non-depreciable	223,019	24,966	247,985	-
Capital assets, net	1,489,059	4,489,253	5,978,312	-
<b>Total assets</b>	<b>\$ 3,273,142</b>	<b>\$ 4,705,335</b>	<b>\$ 7,978,477</b>	<b>\$ 209,231</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 30,978	\$ 2,251	\$ 33,229	\$ 10,046
Unearned revenues	1,458	2,259	3,717	-
Customer deposits	-	34,290	34,290	-
Long-term liabilities:				
Due within one year	14,774	54,368	69,142	-
Due in more than one year	315,766	631,104	946,870	-
<b>Total liabilities</b>	<b>362,976</b>	<b>724,272</b>	<b>1,087,248</b>	<b>10,046</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,426,995	3,846,219	5,273,214	-
Restricted for:				
Streets	42,066	-	42,066	-
Unrestricted	1,441,105	134,844	1,575,949	199,185
<b>Total net assets</b>	<b>\$ 2,910,166</b>	<b>\$ 3,981,063</b>	<b>\$ 6,891,229</b>	<b>\$ 199,185</b>

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, 2009**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Functions/Programs</b>				
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 418,954	\$ 21,284	\$ -	\$ -
Public safety	654,709	41,905	141,367	-
Public works	-	86,631	-	18,700
Transportation	165,069	14,398	42,066	-
Environmental protection	84,903	84,864	-	-
Cultural and recreation	85,542	6,011	-	-
Interest on long-term debt	13,337	-	-	-
Total governmental activities	<u>1,422,514</u>	<u>255,093</u>	<u>183,433</u>	<u>18,700</u>
<b>Business-Type Activities</b>				
Water and sewer	<u>916,518</u>	<u>771,416</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>916,518</u>	<u>771,416</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 2,339,032</u>	<u>\$ 1,026,509</u>	<u>\$ 183,433</u>	<u>\$ 18,700</u>
<b>Component Unit</b>				
Tourism Development Authority (TDA)	<u>\$ 192,164</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**

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Primary Government</b>			<b>Banner Elk</b>
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Tourism Development Authority</b>
\$ (397,670)	\$ -	\$ (397,670)	\$ -
(471,437)	-	(471,437)	-
105,331	-	105,331	-
(108,605)	-	(108,605)	-
(39)	-	(39)	-
(79,531)	-	(79,531)	-
(13,337)	-	(13,337)	-
<u>(965,288)</u>	<u>-</u>	<u>(965,288)</u>	<u>-</u>
-	(145,102)	(145,102)	-
-	(145,102)	(145,102)	-
<u>(965,288)</u>	<u>(145,102)</u>	<u>(1,110,390)</u>	<u>-</u>
			(192,164)
911,614	-	911,614	-
266,037	-	266,037	-
126,199	-	126,199	119,381
23,210	2,768	25,978	4,200
<u>1,327,060</u>	<u>2,768</u>	<u>1,329,828</u>	<u>123,581</u>
<u>(76,103)</u>	<u>76,103</u>	<u>-</u>	<u>-</u>
<u>1,250,957</u>	<u>78,871</u>	<u>1,329,828</u>	<u>123,581</u>
285,669	(66,231)	219,438	(68,583)
<u>2,624,497</u>	<u>4,047,294</u>	<u>6,671,791</u>	<u>267,768</u>
<u>\$ 2,910,166</u>	<u>\$ 3,981,063</u>	<u>\$ 6,891,229</u>	<u>\$ 199,185</u>

## TOWN OF BANNER ELK, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2009

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Improvement Capital Project Fund</u>	<u>Nonmajor Funds</u>	
<b>Assets</b>				
Cash and cash equivalents	\$ 497,954	\$ 844,485	\$ 65,371	\$ 1,407,810
Taxes receivable, net	37,649	-	-	37,649
Accounts receivable, net	1,796	-	-	1,796
Due from other governments	101,512	10,559	280	112,351
Prepaid items	1,458	-	-	1,458
<b>Total assets</b>	<u>\$ 640,369</u>	<u>\$ 855,044</u>	<u>\$ 65,651</u>	<u>\$ 1,561,064</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 28,746	\$ 282	\$ 1,950	\$ 30,978
Deferred revenue	39,903	-	-	39,903
<b>Total liabilities</b>	<u>68,649</u>	<u>282</u>	<u>1,950</u>	<u>70,881</u>
<b>Fund Balances</b>				
Reserved for prepaid items	1,458	-	-	1,458
Reserved for State statute	102,512	-	-	102,512
Reserved for streets - Powell Bill	42,066	-	-	42,066
Unreserved, General Fund	425,684	-	-	425,684
Unreserved, reported in:				
Special Revenue Funds	-	-	30,462	30,462
Capital Projects Funds	-	854,762	33,239	888,001
<b>Total fund balances</b>	<u>571,720</u>	<u>854,762</u>	<u>63,701</u>	<u>1,490,183</u>
<b>Total liabilities and fund balances</b>	<u>\$ 640,369</u>	<u>\$ 855,044</u>	<u>\$ 65,651</u>	

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds. 1,712,078

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. 38,445

Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. (330,540)

Net assets of governmental activities \$ 2,910,166

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, 2009

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Improvement Capital Project Fund</u>	<u>Nonmajor Funds</u>	
<b>Revenues</b>				
Ad valorem taxes	\$ 885,166	\$ -	\$ -	\$ 885,166
Other taxes and licenses	4,101	-	-	4,101
Unrestricted intergovernmental revenues	388,135	-	-	388,135
Restricted intergovernmental revenues	202,133	-	-	202,133
Permits and fees	9,281	-	-	9,281
Sales and services	98,764	-	21,811	120,575
Interest earned on investments	11,159	12,051	-	23,210
Miscellaneous	18,910	86,631	27,881	133,422
Total revenues	<u>1,617,649</u>	<u>98,682</u>	<u>49,692</u>	<u>1,766,023</u>
<b>Expenditures</b>				
Current:				
General government	392,033	-	-	392,033
Public safety	642,605	154,536	14,950	812,091
Public works	-	41,129	-	41,129
Transportation	136,204	-	448	136,652
Environmental protection	84,903	-	-	84,903
Cultural and recreation	78,613	85,567	-	164,180
Debt service:				
Principal repayments	3,259	-	-	3,259
Interest	13,337	-	-	13,337
Total expenditures	<u>1,350,954</u>	<u>281,232</u>	<u>15,398</u>	<u>1,647,584</u>
<b>Revenues over (under) expenditures</b>	<u>266,695</u>	<u>(182,550)</u>	<u>34,294</u>	<u>118,439</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from other funds	(76,103)	274,518	-	198,415
Transfers to other funds	(274,518)	-	-	(274,518)
Total other financing sources (uses)	<u>(350,621)</u>	<u>274,518</u>	<u>-</u>	<u>(76,103)</u>
<b>Net change in fund balances</b>	(83,926)	91,968	34,294	42,336
<b>Fund Balances</b>				
Beginning of year - July 1	<u>655,646</u>	<u>762,794</u>	<u>29,407</u>	<u>1,447,847</u>
End of year - June 30	<u>\$ 571,720</u>	<u>\$ 854,762</u>	<u>\$ 63,701</u>	<u>\$ 1,490,183</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, 2009**

Net change in fund balances - total governmental funds (Exhibit D) \$ 42,336

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	26,448
Garbage fees	(8,185)

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.	(9,883)
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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.	313,686
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Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental fund statements.	(81,192)
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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>3,259</u>
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Change in net assets of governmental activities per Exhibit B	<u>\$ 285,669</u>
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*The accompanying notes are an integral part of the financial statements.*

**TOWN OF BANNER ELK, NORTH CAROLINA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Ad valorem taxes	\$ 922,983	\$ 922,983	\$ 885,166	\$ (37,817)
Other taxes and licenses	1,600	1,600	4,101	2,501
Unrestricted intergovernmental revenues	432,911	432,911	388,135	(44,776)
Restricted intergovernmental revenues	192,770	192,770	202,133	9,363
Permits and fees	9,000	9,000	9,281	281
Sales and services	97,800	97,800	98,764	964
Interest earned on investments	25,500	25,500	11,159	(14,341)
Miscellaneous	9,500	9,500	18,910	9,410
Total revenues	<u>1,692,064</u>	<u>1,692,064</u>	<u>1,617,649</u>	<u>(74,415)</u>
<b>Expenditures</b>				
General government	397,094	399,314	392,033	7,281
Public safety	656,836	663,836	642,605	21,231
Transportation	128,371	125,371	136,204	(10,833)
Environmental protection	93,500	93,500	84,903	8,597
Cultural and recreation	49,271	88,021	78,613	9,408
Debt service	3,259	3,259	3,259	-
Interest and other charges	13,337	13,337	13,337	-
Total expenditures	<u>1,341,668</u>	<u>1,386,638</u>	<u>1,350,954</u>	<u>35,684</u>
<b>Revenues over (under) expenditures</b>	<u>350,396</u>	<u>305,426</u>	<u>266,695</u>	<u>(38,731)</u>
<b>Other Financing Sources (Uses)</b>				
Appropriated fund balance	-	44,970	-	(44,970)
Transfers from other funds	-	-	(76,103)	(76,103)
Transfers to other funds	<u>(350,396)</u>	<u>(350,396)</u>	<u>(274,518)</u>	<u>75,878</u>
Total other financing sources (uses)	<u>(350,396)</u>	<u>(305,426)</u>	<u>(350,621)</u>	<u>(45,195)</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(83,926)</u>	<u>\$ (83,926)</u>
<b>Fund Balances</b>				
Beginning of year - July 1			<u>655,646</u>	
End of year - June 30			<u>\$ 571,720</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, 2009

	<b>Water and Sewer Fund</b>
	<u>                    </u>
<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 58,231
Accounts receivable, net	95,902
Due from other governments	9,358
Inventory	26,167
Prepays	1,458
Total current assets	<u>191,116</u>
<b>Capital Assets</b>	
Land	23,466
Construction in progress	1,500
Other capital assets, net	4,489,253
Total capital assets	<u>4,514,219</u>
<b>Total assets</b>	<u>4,705,335</u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	2,251
Customer deposits	34,290
Unearned revenues	2,259
Compensated absences - current	4,368
Current portion of long-term debt	50,000
Total current liabilities	<u>93,168</u>
<b>Noncurrent liabilities</b>	
Compensated absences	13,104
Notes and bonds payable	618,000
Total noncurrent liabilities	<u>631,104</u>
<b>Total liabilities</b>	<u>724,272</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	3,846,219
Unrestricted	134,844
<b>Total net assets</b>	<u>\$ 3,981,063</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, 2009

	<b>Water and Sewer Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 653,979
Water and sewer taps	8,157
Other operating revenues	14,543
Total operating revenues	<u>676,679</u>
<b>Operating Expenses</b>	
Water/sewer operations	667,632
Depreciation	220,973
Total operating expenses	<u>888,605</u>
<b>Operating Income</b>	<u>(211,926)</u>
<b>Non-operating Revenues (Expenses)</b>	
Investment earnings	2,768
Interest and other charges	(27,913)
Capital reimbursement	94,737
Total non-operating revenues (expenses)	<u>69,592</u>
<b>Income (loss) before transfers</b>	<u>(142,334)</u>
Transfers from other funds	76,103
Total contributions and transfers	<u>76,103</u>
<b>Change in net assets</b>	(66,231)
<b>Net Assets</b>	
Beginning of year - July 1	<u>4,047,294</u>
End of year - June 30	<u>\$ 3,981,063</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, 2009**

	<b>Water and Sewer Fund</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 630,134
Cash paid for goods and services	(362,133)
Cash paid to employees	(298,908)
<b>Net cash provided (used) by operating activities</b>	<b>(30,907)</b>
 <b>Cash Flows from Non-Capital Financing Activities</b>	
Transfers In	76,103
<b>Net cash provided (used) by noncapital financing activities</b>	<b>76,103</b>
 <b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	(445,371)
Principal paid on long-term debt	(68,101)
Interest and other charges	(27,913)
Capital contribution	94,737
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(446,648)</b>
 <b>Cash Flows from Investing Activities</b>	
Interest received	2,768
<b>Net increase (decrease) in cash, cash equivalents, and investments</b>	<b>(398,684)</b>
 <b>Cash and cash equivalents</b>	
Beginning of year - July 1	456,915
End of year - June 30	<b>\$ 58,231</b>

*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, 2009**

	<u>Water and Sewer Fund</u>
<b>Reconciliation of operating income to cash flows from operating activities</b>	
Operating income	\$ (211,926)
Depreciation and amortization	220,973
<b>Change in assets and liabilities</b>	
Increase (decrease) in accounts receivables	(48,500)
Increase (decrease) in inventories	3,500
Increase (decrease) in accounts payable and accrued liabilities	(3,242)
Increase (decrease) in customer deposits and unearned revenues	2,999
Increase (decrease) in accrued vacation pay	<u>6,747</u>
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ (30,907)</u></u>

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

# TOWN OF BANNER ELK

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

##### **Town of Banner Elk Tourism Development Authority (TDA)**

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

#### B. Government-Wide and Fund Financial Statements

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

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

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

**TOWN OF BANNER ELK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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

The General Fund, Capital Improvement Capital Project Fund, and Water and Sewer Fund are the major funds of the Town for the year ended June 30, 2009.

**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.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as

# **TOWN OF BANNER ELK**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009**

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the 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 2008 through February 2009 apply to the fiscal year ended June 30, 2009. 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.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, then by general revenues.

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

**TOWN OF BANNER ELK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**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.

**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.



**TOWN OF BANNER ELK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**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.

**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.

**TOWN OF BANNER ELK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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, 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.

**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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 include assets purchased after July 1, 2003.

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

	<b>Estimated Useful Lives</b>
	<hr/>
Infrastructure	50
Buildings and improvements	50
Furniture and equipment	10
Vehicles	5
Computer equipment	5

**TOWN OF BANNER ELK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**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.

**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.

**TOWN OF BANNER ELK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**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**

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.

# TOWN OF BANNER ELK

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

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

At June 30, 2009, the Town's deposits had a carrying amount of \$87,370 and a bank balance of \$119,967. Of the bank balance, \$119,967 was covered by federal. The Town held \$1,881 in petty cash as of June 30, 2009.

#### **Investments**

At June 30, 2009, the Town had \$1,376,790 invested with the North Carolina Capital Management Trust's Cash Portfolio. The Town does not have a formal investment policy or policy regarding credit risk. The Town's investment in the NCCMT carried a credit rating of AAAm by Standard and Poor's as of June 30, 2009.

**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**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>
<b>Governmental Activities:</b>				
Garbage fees	\$ 1,796	\$ -	\$ -	\$ 1,796
TDA	-	-	10,046	-
Property taxes	-	42,649	-	42,649
Local options sales/franchise tax	-	-	98,440	98,440
Sales tax refunds due	-	-	3,865	3,865
Allowance for doubtful accounts	-	(5,000)	-	(5,000)
Total governmental activities	<u>\$ 1,796</u>	<u>\$ 37,649</u>	<u>\$ 112,351</u>	<u>\$ 141,750</u>
<b>Business-Type Activities:</b>				
Water and sewer	\$ 95,902	\$ -	\$ 9,358	\$ 105,260
Total business-type activities	<u>\$ 95,902</u>	<u>\$ -</u>	<u>\$ 9,358</u>	<u>\$ 105,260</u>

**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**4. Capital Assets**

**Primary Government Capital Assets**

Capital asset activity for the primary government for the year ended June 30, 2009 was as follows:

	<u>Balance July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 223,019	\$ -	\$ -	\$ 223,019
<b>Capital assets being depreciated:</b>				
Infrastructure	869,980	110,329	-	980,309
Buildings	371,726	143,253	-	514,979
Equipment and furniture	438,592	60,104	6,000	492,696
Total capital assets being depreciated	<u>1,680,298</u>	<u>313,686</u>	<u>6,000</u>	<u>1,987,984</u>
<b>Less accumulated depreciation for:</b>				
Infrastructure	20,053	20,653	-	40,706
Buildings	150,405	8,894	-	159,299
Equipment and furniture	252,475	51,645	5,200	298,920
Total accumulated depreciation	<u>422,933</u>	<u>\$ 81,192</u>	<u>\$ 5,200</u>	<u>498,925</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 1,480,384</u>			<u>\$ 1,712,078</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 16,238
Public safety	24,358
Transportation	28,417
Cultural and recreation	<u>12,179</u>
Total	<u>\$ 81,192</u>



**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**Proprietary Capital Assets**

The capital assets of the proprietary fund of the Town at June 30, 2009 were as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
<b>Business-Type Activities:</b>				
<b>Water/Sewer Fund:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 23,466	\$ -	\$ -	\$ 23,466
Construction in progress	<u>61,625</u>	-	<u>60,125</u>	<u>1,500</u>
Total capital assets not being depreciated	<u>85,091</u>	-	<u>60,125</u>	<u>24,966</u>
<b>Capital assets being depreciated:</b>				
Plant	6,100,328	481,747	-	6,582,075
Equipment	<u>504,004</u>	<u>23,749</u>	-	<u>527,753</u>
Total capital assets being depreciated	<u>6,604,332</u>	<u>505,496</u>	-	<u>7,109,828</u>
<b>Less accumulated depreciation for:</b>				
Plant	2,117,583	154,120	-	2,271,703
Equipment	<u>282,019</u>	<u>66,853</u>	-	<u>348,872</u>
Total accumulated depreciation	<u>2,399,602</u>	<u>\$ 220,973</u>	<u>\$ -</u>	<u>2,620,575</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 4,289,821</u>			<u>\$ 4,514,219</u>

**5. Accounts Payable and Accrued Liabilities**

Payables at Exhibit A at June 30, 2009 were as follows:

	<u>Vendors</u>	<u>Accrued</u> <u>Liabilities</u>	<u>Total</u>
<b>Governmental Activities:</b>			
General	\$ 19,984	\$ 8,762	\$ 28,746
Capital improvement	282	-	282
Police	<u>1,950</u>	-	<u>1,950</u>
Total	<u>\$ 22,216</u>	<u>\$ 8,762</u>	<u>\$ 30,978</u>
<b>Business-Type Activities:</b>			
Water and sewer	<u>\$ 1,501</u>	<u>\$ 750</u>	<u>\$ 2,251</u>

**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**6. Pension Plan Obligations**

**A. Local Governmental Employees' Retirement System**

*Plan Description.* The Town contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2009, 2008, and 2007 were \$44,085, \$34,903, and \$32,133, 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 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, 2008, the Separation Allowance's membership consisted of:

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

A separate report was not issued for the plan.

**TOWN OF BANNER ELK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**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, 2009 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, 2009 were \$50,506, which consisted of \$32,825 from the Town and \$17,681 from the law enforcement officers.

**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**7. Deferred/Unearned Revenues**

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

	<b>Deferred Revenue</b>	<b>Unearned Revenue</b>
<b>Governmental Funds/Activities:</b>		
Taxes receivable (General Fund)	\$ 37,649	\$ -
Garbage fees receivable	796	-
Prepaid expenses	1,458	1,458
Total governmental funds	\$ 39,903	\$ 1,458
 <b>Business-Type/Enterprise Activities:</b>		
Prepaid expenses	\$ -	\$ 2,259

**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. The finance officer and tax collector are each individually bonded for \$100,000 each.

**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**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 \$ 285,083

**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 \$ 668,000

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

Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
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	4,086	12,509	16,595	58,000	17,236	75,236
2015-2019	23,444	59,531	82,975	325,000	51,562	376,562
2020-2024	29,391	53,584	82,975	73,000	2,760	75,760
2025-2029	36,845	46,130	82,975	-	-	-
2030-2034	46,193	36,782	82,975	-	-	-
2035-2039	57,909	25,066	82,975	-	-	-
2040-2044	72,599	10,377	82,976	-	-	-
Total	<u>\$ 285,083</u>	<u>\$ 295,743</u>	<u>\$ 580,826</u>	<u>\$ 668,000</u>	<u>\$ 160,198</u>	<u>\$ 828,198</u>

**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

Changes in long-term debt were as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Current</u> <u>Portion</u>
<b>Government Activities:</b>					
Notes payable	\$ 288,342	\$ -	\$ 3,259	\$ 285,083	\$ 3,410
Compensated absences	35,574	21,247	11,364	45,457	11,364
Governmental activity long-term debt	<u>\$ 323,916</u>	<u>\$ 21,247</u>	<u>\$ 14,623</u>	<u>\$ 330,540</u>	<u>\$ 14,774</u>
<b>Business-Type Activities:</b>					
General obligation bonds	\$ 717,000	\$ -	\$ 49,000	\$ 668,000	\$ 50,000
Notes payable	19,101	-	19,101	-	-
Compensated absences	10,725	11,115	4,368	17,472	4,368
Business-type activity long-term debt	<u>\$ 746,826</u>	<u>\$ 11,115</u>	<u>\$ 72,469</u>	<u>\$ 685,472</u>	<u>\$ 54,368</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, 2009, the Town had a legal debt margin of \$17,592,232.

**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	\$ 274,518	Fund future capital needs
General Fund	Water and Sewer Fund	76,103	Debt service

**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 \$530 to the Council during the fiscal year ended June 30, 2009.

**TOWN OF BANNER ELK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2009**

**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 monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

**13. Stewardship Compliance and Accountability**

**Excess of Expenditures Over Appropriations**

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Variance</u>
General Fund:			
Transportation	<u>\$ 136,204</u>	<u>\$ 125,371</u>	<u>\$ (10,833)</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, 2009  
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008

	2009			Variance Over/Under	2008 Actual
	Original Budget	Final Budget	Actual		
<b>Revenues</b>					
<b>Ad Valorem Taxes</b>					
Taxes	\$ 920,983	\$ 920,983	\$ 883,491	\$ (37,492)	\$ 763,450
Penalties and interest	2,000	2,000	1,675	(325)	4,331
Total ad valorem taxes	922,983	922,983	885,166	(37,817)	767,781
<b>Other Taxes and Licenses</b>					
Privilege licenses	1,600	1,600	4,101	2,501	2,579
Total other taxes and licenses	1,600	1,600	4,101	2,501	2,579
<b>Unrestricted Intergovernmental Revenues</b>					
Local option sales tax	327,200	327,200	266,037	(61,163)	308,883
Utility franchise tax	79,000	79,000	97,421	18,421	82,460
Beer and wine tax	4,865	4,865	4,410	(455)	4,699
Contribution - TDA	21,846	21,846	20,267	(1,579)	21,252
Total unrestricted intergovernmental revenues	432,911	432,911	388,135	(44,776)	417,294
<b>Restricted Intergovernmental Revenues</b>					
Powell Bill allocation	43,070	43,070	42,066	(1,004)	45,337
Other local grants and matching contributions	22,700	22,700	18,700	(4,000)	18,700
ABC revenue for law enforcement	85,000	85,000	83,726	(1,274)	84,220
LLEBG grant	42,000	42,000	57,641	15,641	48,193
Total restricted intergovernmental revenues	192,770	192,770	202,133	9,363	196,450
<b>Permits and Fees</b>					
Building permits	9,000	9,000	9,281	281	10,374
Total permits and fees	9,000	9,000	9,281	281	10,374
<b>Sales and Services</b>					
Recycling revenue	90,000	90,000	92,753	2,753	95,982
Park lease/rental income	7,800	7,800	6,011	(1,789)	8,405
Total sales and services	97,800	97,800	98,764	964	104,387



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, 2009  
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008

	2009			Variance Over/Under	2008 Actual
	Original Budget	Final Budget	Actual		
Investment earnings	25,500	25,500	11,159	(14,341)	34,753
Miscellaneous	9,500	9,500	18,910	9,410	25,717
Total revenues	1,692,064	1,692,064	1,617,649	(74,415)	1,559,335
<b>Expenditures</b>					
<b>General Government</b>					
<b>Administration</b>					
Salaries and employee benefits	98,545	102,545	109,529	(6,984)	88,963
Operating expenses	58,210	87,362	80,145	7,217	63,834
Capital outlay	3,500	3,500	2,885	615	1,723
Total	160,255	193,407	192,559	848	154,520
<b>Governing Body</b>					
Salaries and employee benefits	13,564	13,564	13,805	(241)	13,564
Operating expenses	53,836	44,085	41,485	2,600	37,948
Total	67,400	57,649	55,290	2,359	51,512
<b>Finance</b>					
Salaries and employee benefits	45,771	45,771	45,781	(10)	41,698
Operating expenses	7,360	8,860	6,398	2,462	9,158
Capital outlay	1,000	1,000	1,138	(138)	105
Total	54,131	55,631	53,317	2,314	50,961
<b>Planning</b>					
Salaries and employee benefits	73,758	52,660	51,272	1,388	35,880
Operating expenses	11,250	11,167	11,540	(373)	13,375
Capital outlay	250	250	1,085	(835)	105
Total	85,258	64,077	63,897	180	49,360

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, 2009  
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008

	2009			Variance Over/Under	2008 Actual
	Original Budget	Final Budget	Actual		
<b>Public Buildings</b>					
Operating expenses	30,050	28,550	26,970	1,580	32,350
Total	30,050	28,550	26,970	1,580	32,350
Total general government	397,094	399,314	392,033	7,281	338,703
<b>Public Safety</b>					
<b>Police</b>					
Salaries and employee benefits	492,238	499,238	499,261	(23)	406,937
Operating expenses	86,150	86,150	70,887	15,263	66,100
Capital outlay	5,000	5,000	3,922	1,078	4,967
Total	583,388	590,388	574,070	16,318	478,004
<b>Drug Task Force</b>					
Salaries and employee benefits	50,868	50,868	52,282	(1,414)	45,740
Operating expenses	20,580	20,580	14,537	6,043	14,903
Capital outlay	2,000	2,000	1,716	284	1,968
Total	73,448	73,448	68,535	4,913	62,611
Total public safety	656,836	663,836	642,605	21,231	540,615
<b>Transportation</b>					
<b>Streets and Highways</b>					
Salaries and employee benefits	44,311	41,311	30,233	11,078	38,219
Operating expenses	77,560	77,560	76,141	1,419	77,169
Capital outlay	6,500	6,500	29,830	(23,330)	13,199
Total transportation	128,371	125,371	136,204	(10,833)	128,587
<b>Environmental Protection</b>					
<b>Solid Waste</b>					
Operating expenses	93,500	93,500	84,903	8,597	92,334
Total environmental protection	93,500	93,500	84,903	8,597	92,334

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, 2009  
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008

	2009			Variance Over/Under	2008 Actual
	Original Budget	Final Budget	Actual		
<b>Cultural and Recreational</b>					
<b>Parks and Recreation</b>					
Salaries and employee benefits	17,196	17,196	17,875	(679)	28,918
Operating expenses	32,075	65,575	55,488	10,087	46,962
Capital outlay	-	5,250	5,250	-	-
Total cultural and recreational	<u>49,271</u>	<u>88,021</u>	<u>78,613</u>	<u>9,408</u>	<u>75,880</u>
<b>Debt Service</b>					
Principal retirement	3,259	3,259	3,259	-	-
Interest and fees	13,337	13,337	13,337	-	16,596
Total debt service	<u>16,596</u>	<u>16,596</u>	<u>16,596</u>	<u>-</u>	<u>16,596</u>
Total expenditures	<u>1,341,668</u>	<u>1,386,638</u>	<u>1,350,954</u>	<u>35,684</u>	<u>1,192,715</u>
<b>Revenues over (under) expenditures</b>	<u>350,396</u>	<u>305,426</u>	<u>266,695</u>	<u>(38,731)</u>	<u>366,620</u>
<b>Other Financing Sources (Uses)</b>					
Appropriated fund balance	-	44,970	-	44,970	-
Transfer in (out) - Enterprise Fund	(75,878)	(75,878)	(76,103)	225	16,596
Transfer in (out) - Capital Projects Fund	<u>(274,518)</u>	<u>(274,518)</u>	<u>(274,518)</u>	<u>-</u>	<u>(1,006,002)</u>
Total other financing sources (uses)	<u>(350,396)</u>	<u>(305,426)</u>	<u>(350,621)</u>	<u>45,195</u>	<u>(989,406)</u>
<b>Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(83,926)</u>	<u>\$ (83,926)</u>	<u>\$ (622,786)</u>
<b>Fund Balance:</b>					
Beginning of year - July 1			<u>655,646</u>		
End of year - June 30			<u>\$ 571,720</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, 2009**

	<u>Final Budget</u>	<u>Current Year</u>	<u>Variance Over/Under</u>
<b>Revenues</b>			
Miscellaneous revenues	\$ 76,585	\$ 86,631	\$ 10,046
Investment earnings	<u>11,836</u>	<u>12,051</u>	<u>215</u>
Total revenues	<u>88,421</u>	<u>98,682</u>	<u>10,261</u>
<b>Expenditures</b>			
Public safety	226,886	154,536	72,350
Public works	34,763	41,129	(6,366)
Parks and recreation	<u>101,290</u>	<u>85,567</u>	<u>15,723</u>
Total expenditures	<u>362,939</u>	<u>281,232</u>	<u>81,707</u>
<b>Revenues over (under) expenditures</b>	<u>(274,518)</u>	<u>(182,550)</u>	<u>91,968</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in/out:			
General fund	<u>274,518</u>	<u>274,518</u>	<u>-</u>
Total other financing sources (uses)	<u>274,518</u>	<u>274,518</u>	<u>-</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>91,968</u>	<u>\$ 91,968</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>762,794</u>	
End of year - June 30		<u>\$ 854,762</u>	

## TOWN OF BANNER ELK, NORTH CAROLINA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2009

	<b>Streets and Sidewalks Capital Project Fund</b>	<b>Police Special Revenue Fund</b>	<b>Cops Golf Tournament Special Revenue Fund</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 33,229	\$ 15,804	\$ 16,338	\$ 65,371
Due from other governments	10	-	270	280
Total assets	<u>\$ 33,239</u>	<u>\$ 15,804</u>	<u>\$ 16,608</u>	<u>\$ 65,651</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ 2,000	\$ (50)	\$ 1,950
Total liabilities	<u>-</u>	<u>2,000</u>	<u>(50)</u>	<u>1,950</u>
<b>Fund Balances</b>				
Unreserved, reported in:				
Special Revenue Funds	-	13,804	16,658	30,462
Capital Projects Funds	<u>33,239</u>	<u>-</u>	<u>-</u>	<u>33,239</u>
Total fund balances	<u>33,239</u>	<u>13,804</u>	<u>16,658</u>	<u>63,701</u>
Total liabilities and fund balances	<u>\$ 33,239</u>	<u>\$ 15,804</u>	<u>\$ 16,608</u>	<u>\$ 65,651</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, 2009

	<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>
<b>Revenues</b>				
Sales and services	\$ -	\$ -	\$ 21,811	\$ 21,811
Miscellaneous	<u>14,398</u>	<u>13,483</u>	<u>-</u>	<u>27,881</u>
Total revenues	<u>14,398</u>	<u>13,483</u>	<u>21,811</u>	<u>49,692</u>
<b>Expenditures</b>				
Public safety	-	6,114	8,836	14,950
Transportation	<u>448</u>	<u>-</u>	<u>-</u>	<u>448</u>
Total expenditures	<u>448</u>	<u>6,114</u>	<u>8,836</u>	<u>15,398</u>
<b>Revenues over (under) expenditures</b>	13,950	7,369	12,975	34,294
<b>Fund Balances</b>				
Beginning of year - July 1	<u>19,289</u>	<u>6,435</u>	<u>3,683</u>	<u>29,407</u>
End of year - June 30	<u>\$ 33,239</u>	<u>\$ 13,804</u>	<u>\$ 16,658</u>	<u>\$ 63,701</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, 2009**

		<u>Actual</u>		
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>
<b>Revenues</b>				
Restricted intergovernmental:				
Town of Banner Elk Tourism				
Development Authority	\$ 325,051	\$ 325,053	\$ -	\$ 325,053
Miscellaneous:				
Contributions	64,149	84,456	14,280	98,736
Investment income	<u>8,100</u>	<u>9,048</u>	<u>118</u>	<u>9,166</u>
 Total revenues	 <u>397,300</u>	 <u>418,557</u>	 <u>14,398</u>	 <u>432,955</u>
 <b>Expenditures</b>				
Capital outlay:				
Sidewalks and streetscape	735,721	854,224	448	854,672
Contingency	<u>33,087</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenditures	 <u>768,808</u>	 <u>854,224</u>	 <u>448</u>	 <u>854,672</u>
 <b>Revenues over (under) expenditures</b>	 <u>(371,508)</u>	 <u>(435,667)</u>	 <u>13,950</u>	 <u>(421,717)</u>
 <b>Other Financing Sources (Uses)</b>				
Proceeds from long-term debt	300,000	300,000	-	300,000
Transfers	<u>71,508</u>	<u>154,956</u>	<u>-</u>	<u>154,956</u>
 Total other financing sources (uses)	 <u>371,508</u>	 <u>454,956</u>	 <u>-</u>	 <u>454,956</u>
 <b>Net change in fund balance</b>	 <u>\$ -</u>	 <u>\$ 19,289</u>	 <u>\$ 13,950</u>	 <u>\$ 33,239</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, 2009  
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008**

	<u>2009</u>			<u>2008 Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	
<b>Revenues</b>				
Miscellaneous	\$ 15,000	\$ 13,483	\$ (1,517)	\$ 2,296
<b>Expenditures</b>				
Public Safety:				
Other	15,000	6,114	8,886	4,485
<b>Revenues over (under) expenditures</b>	-	7,369	7,369	(2,189)
<b>Other Financing Sources (Uses)</b>				
Appropriated fund balance	-	-	-	8,624
<b>Net change in fund balance</b>	\$ -	7,369	\$ (7,369)	\$ 6,435
<b>Fund balance</b>				
Beginning of year - July 1		6,435		
End of year - June 30		\$ 13,804		



## 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, 2009**  
**WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008**

	<u>2009</u>			<u>2008</u> <u>Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over/Under</u>	
<b>Revenues</b>				
Golf tournament revenues	\$ 25,000	\$ 21,811	\$ (3,189)	\$ 23,042
Total revenues	<u>25,000</u>	<u>21,811</u>	<u>(3,189)</u>	<u>23,042</u>
<b>Expenditures</b>				
Public Safety:				
Golf tournament	<u>25,000</u>	<u>8,836</u>	<u>16,164</u>	<u>19,359</u>
Total expenditures	<u>25,000</u>	<u>8,836</u>	<u>16,164</u>	<u>19,359</u>
<b>Revenues over (under) expenditures</b>	<u>-</u>	<u>12,975</u>	<u>12,975</u>	<u>3,683</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>12,975</u>	<u>\$ (12,975)</u>	<u>\$ 3,683</u>
<b>Fund balance</b>				
Beginning of year - July 1		<u>3,683</u>		
End of year - June 30		<u>\$ 16,658</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, 2009  
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008

	2009			2008 Actual
	Budget	Actual	Variance Over/Under	
<b>Operating Revenues</b>				
Water sales:				
Residential		\$ 229,775		\$ 181,577
Impact fees		5,178		37,402
Total water sales		<u>234,953</u>		<u>218,979</u>
Sewer charges:				
Residential		419,026		359,030
Water and sewer taps		8,157		46,000
Other operating revenues		14,543		11,795
Total operating revenues		<u>676,679</u>		<u>635,804</u>
<b>Non-operating Revenues</b>				
Interest earnings		2,358		242
Sale of capital assets		-		88,000
Total non-operating revenues		<u>2,358</u>		<u>88,242</u>
Total revenues	\$ 678,771	<u>679,037</u>	\$ 266	<u>724,046</u>
<b>Expenditures</b>				
<b>Administration:</b>				
Salaries and employee benefits	34,568	43,093		26,691
Utilities	3,300	1,841		3,090
Supplies	6,000	4,263		6,782
Insurance	85	80		80
Other operating expenditures	46,700	41,450		25,469
Total administration	<u>90,653</u>	<u>90,727</u>	(74)	<u>62,112</u>
<b>Wastewater Treatment:</b>				
Salaries and employee benefits	65,343	74,299		41,762
Utilities	45,375	52,558		41,310
Supplies	14,000	12,041		16,258
Insurance	7,750	7,077		6,812

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, 2009  
WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008

	2009			2008 Actual
	Budget	Actual	Variance Over/Under	
Maintenance	15,600	6,729		19,540
Other operating expenditures	20,000	14,714		20,483
Contracted services	32,500	19,587		30,224
Total wastewater treatment	<u>200,568</u>	<u>187,005</u>	<u>13,563</u>	<u>176,389</u>
<b>Water Treatment:</b>				
Salaries and employee benefits	60,601	52,552		43,876
Utilities	15,900	26,283		15,738
Supplies	16,500	16,580		29,036
Insurance	7,850	7,727		7,005
Maintenance	6,250	6,871		13,736
Other operating expenditures	3,050	1,288		2,331
Contracted services	5,000	4,285		7,120
Total water treatment	<u>115,151</u>	<u>115,586</u>	<u>(435)</u>	<u>118,842</u>
<b>Distribution and Collections:</b>				
Salaries and employee benefits	132,584	135,711		145,234
Utilities	2,400	2,314		2,590
Supplies	37,000	64,483		48,001
Insurance	6,500	6,233		6,032
Maintenance	12,800	10,996		13,858
Other operating expenditures	29,750	14,719		27,791
Contracted services	-	660		15
Total distribution and collection	<u>221,034</u>	<u>235,116</u>	<u>(14,082)</u>	<u>243,521</u>
Total operating expenditures	627,406	628,434	(1,028)	600,864
<b>Debt Service:</b>				
Interest and other charges	27,913	27,913	-	37,810
Principal retirement	68,102	68,102	-	128,761
Capital outlay	<u>68,329</u>	<u>62,210</u>	<u>6,119</u>	<u>25,783</u>
Total expenditures	<u>791,750</u>	<u>786,659</u>	<u>5,091</u>	<u>793,218</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, 2009  
 WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008

	<u>2009</u>			<u>2008</u> <u>Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over/Under</u>	
<b>Revenues over (under) expenditures</b>	<u>(112,979)</u>	<u>(107,622)</u>	<u>5,357</u>	<u>(69,172)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in (out)	-	-	-	(16,596)
Transfers in (out) - water capital project fund	-	-	-	(69,795)
Transfers from General Fund	76,103	76,103	-	-
Appropriated fund balance	<u>36,876</u>	<u>-</u>	<u>(36,876)</u>	<u>-</u>
Total other financing sources (uses)	<u>112,979</u>	<u>76,103</u>	<u>(36,876)</u>	<u>(86,391)</u>
<b>Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)</b>	<u>\$ -</u>	<u>\$ (31,519)</u>	<u>\$ (31,519)</u>	<u>\$ (155,563)</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, 2009  
 WITH COMPARATIVE ACTUAL AMOUNTS FROM JUNE 30, 2008

	<u>2009</u>			<u>2008</u> <u>Actual</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over/Under</u>	
<b>Reconciliation from modified accrual basis to full accrual basis</b>				
Revenues and other sources (uses) over (under) expenditures and other financing sources (uses)		\$ (31,519)		
Reconciling items:				
Principal retirement		68,102		
Capital outlay items capitalized		23,012		
Depreciation		(220,973)		
Capital contributions - CIP project		94,737		
Interest income - CIP		410		
CIP expenditures		(476,386)		
Capitalized CIP expenditures		<u>476,386</u>		
<b>Change in Net Assets, GAAP Basis</b>		<u>\$ (66,231)</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, 2009**

	<u>Final Budget</u>	<u>Current Year</u>	<u>Variance Over/Under</u>
<b>Revenues</b>			
Capital reimbursement	\$ 94,738	\$ 94,737	\$ (1)
Interest income	411	410	(1)
Total revenues	<u>95,149</u>	<u>95,147</u>	<u>(2)</u>
<b>Expenditures</b>			
Infrastructure upgrades	-	737	(737)
Sewer plant belt press	218,216	217,479	737
Colver Street water line extension	70,666	70,666	-
Grandfather Home sewer line	<u>187,504</u>	<u>187,504</u>	<u>-</u>
Total expenditures	<u>476,386</u>	<u>476,386</u>	<u>-</u>
<b>Revenues over (under) expenditures</b>	<u>(381,237)</u>	<u>(381,239)</u>	<u>(2)</u>
<b>Other Financing Sources (Uses)</b>			
Appropriated fund balance	<u>381,237</u>	-	<u>(381,237)</u>
Total other financing sources (uses)	<u>381,237</u>	<u>-</u>	<u>(381,237)</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ (381,239)</u>	<u>\$ (381,239)</u>

## TOWN OF BANNER ELK, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
FOR THE YEAR ENDED JUNE 30, 2009

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2008</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2009</u>
2008-2009	\$ -	\$ 836,569	815,481	\$ 21,088
2007-2008	2,083		1,556	527
2006-2007	923	-	902	21
2005-2006	5	-	-	5
2004-2005	429	-	-	429
2001-2002	537	-	-	537
2000-2001	325	-	-	325
1998-1999	164	-	164	-
Motor Vehicles	11,735	30,792	22,810	19,717
	<u>\$ 16,201</u>	<u>\$ 867,361</u>	<u>\$ 840,913</u>	<u>42,649</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>5,000</u>
Ad valorem taxes receivable - net				<u>\$ 37,649</u>
<b>Reconciliation with revenues</b>				
Taxes - ad valorem				\$ 885,166
Penalties and interest				(1,675)
Releases, refunds and other adjustments				(42,742)
Amounts written off for tax years per statute of limitations				<u>164</u>
Total collections and credit				<u>\$ 840,913</u>

## TOWN OF BANNER ELK, NORTH CAROLINA

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

	<u>County-Wide</u>			<u>Total Levy</u>	
	<u>Property</u>	<u>Rate</u>	<u>Amount</u>	<u>Property</u>	<u>Registered</u>
	<u>Valuation</u>			<u>Motor</u>	<u>Motor</u>
			<u>of Levy</u>	<u>Excluding</u>	<u>Registered</u>
				<u>Registered</u>	<u>Motor</u>
				<u>Vehicles</u>	<u>Vehicles</u>
<b>Original levy</b>					
Property taxed at current year's rate	\$ 220,643,947	0.51	\$ 838,447	\$ 838,447	\$ -
Motor vehicle taxes levied	<u>7,236,316</u>	0.51	<u>27,498</u>	<u>-</u>	<u>27,498</u>
Total	<u>227,880,263</u>		<u>865,945</u>	<u>838,447</u>	<u>27,498</u>
Discoveries	1,391,579	0.51	5,288	838	4,450
Abatements	<u>(1,018,947)</u>	0.51	<u>(3,872)</u>	<u>(2,716)</u>	<u>(1,156)</u>
Total property valuation	<u>\$ 228,252,895</u>				
<b>Net levy</b>			867,361	836,569	30,792
<b>Uncollected taxes as of June 30, 2008</b>			<u>29,070</u>	<u>21,088</u>	<u>7,982</u>
<b>Current year's taxes collected</b>			<u>\$ 838,291</u>	<u>\$ 815,481</u>	<u>\$ 22,810</u>
<b>Current levy collection percentage</b>			<u>96.65%</u>	<u>97.48%</u>	<u>74.08%</u>



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

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

## **Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregated remaining fund information of the Town of Banner Elk, North Carolina, as of and for the year ended June 30, 2009, not presented here which collectively comprises the Town of Banner Elk's basic financial statements, and have issued our report thereon dated August 12, 2009. We did not audit the financial statements of the Town of Banner Elk Tourism Development Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Banner Elk Tourism Development Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Town of Banner Elk Tourism Development Authority was not audited in accordance with Government Audited Standards.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Town of Banner Elk's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2009-01 and 2009-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-01 and 2009-02 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Banner Elk's financial statements are free of material misstatement, we performed tests of its compliance and other matters with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance and other matters with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instance of non-compliance or other matters that is required to be reported under *Government Auditing*.

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the Banner Elk Town Council, and federal and State awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, NC  
August 12, 2009

**TOWN OF BANNER ELK, NORTH CAROLINA**

**SUMMARY OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2009**

**Section I - Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness identified Yes
- Significant deficiency identified that is not considered to be a material weakness No

Non-compliance material to financial statements noted No

**Section II - Financial Statements Findings**

**Findings Related to the Audit of the Basic Financial Statements**

**Finding 09-1**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and Governmental Accounting Standards Board requires a level of technical expertise not possessed by the Town's personnel with regards to drafting full accrual, full disclosure financial statements.

**Recommendation:** The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears cost prohibitive. Therefore, the Town should exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

**Name of Contact Person:** Steve Smith

**Corrective Action:** Management is aware of the weakness but, due to the cost benefit analysis, they will continue to rely on the external auditor to draft the year-end financial statements. The Town will exercise due care in reviewing the financial statements drafted by the external auditor. They accept responsibility for the accuracy of the audited financial statements.

**TOWN OF BANNER ELK, NORTH CAROLINA**

**SUMMARY OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2009**

**Finding 09-2**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. The existence of such material adjustments indicates that the Town's system of controls did not detect and prevent such errors. We have provided management with a summary of these adjustments.

**Recommendation:** Management should examine the adjustments required as a result of our audit and assess the cost/benefit of improving the internal control system to prevent the adjustments in the future, given the units available financial and intellectual resources. Management should acknowledge inherent limitations in the internal control system caused by limited resources and modify their oversight function accordingly.

**Name of Contact Person:** Steve Smith

**Corrective Action/Management Response:** Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus reducing the number of audit adjustments required at year-end. In the areas where the cost/benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.

**TOWN OF BANNER ELK, NORTH CAROLINA**  
**SUMMARY OF SCHEDULE OF PRIOR YEAR FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**Finding 08-01:**

Status – see finding 09-01 for repeat finding

**Finding 08-02:**

Status – see finding 09-02 for repeat finding

**Finding 08-03:**

Status – Corrected - The Town is in compliance with General Statutes and adopted a budget ordinance for the Cops Golf Tournament Special Revenue Fund for the June 30, 2009 year.