

**TOWN OF BANNER ELK
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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

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

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TOWN COUNCIL MEMBERS

Allan R. Bollick

Gail Draughon

David C. Lecka

Robert Tufts

Charles B. VonCanon

Mayor

Brenda Lyerly

TOWN MANAGER

Rick Owen

TOWN CLERK AND FINANCE OFFICER

Steven Smith

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TOWN OF BANNER ELK, NORTH CAROLINA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Law Enforcement Officers Special Separation Allowance Schedules of Funding Process that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Other Information

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

The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to

the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 on our consideration of the Town of Banner Elk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Banner Elk's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 30, 2013

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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, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

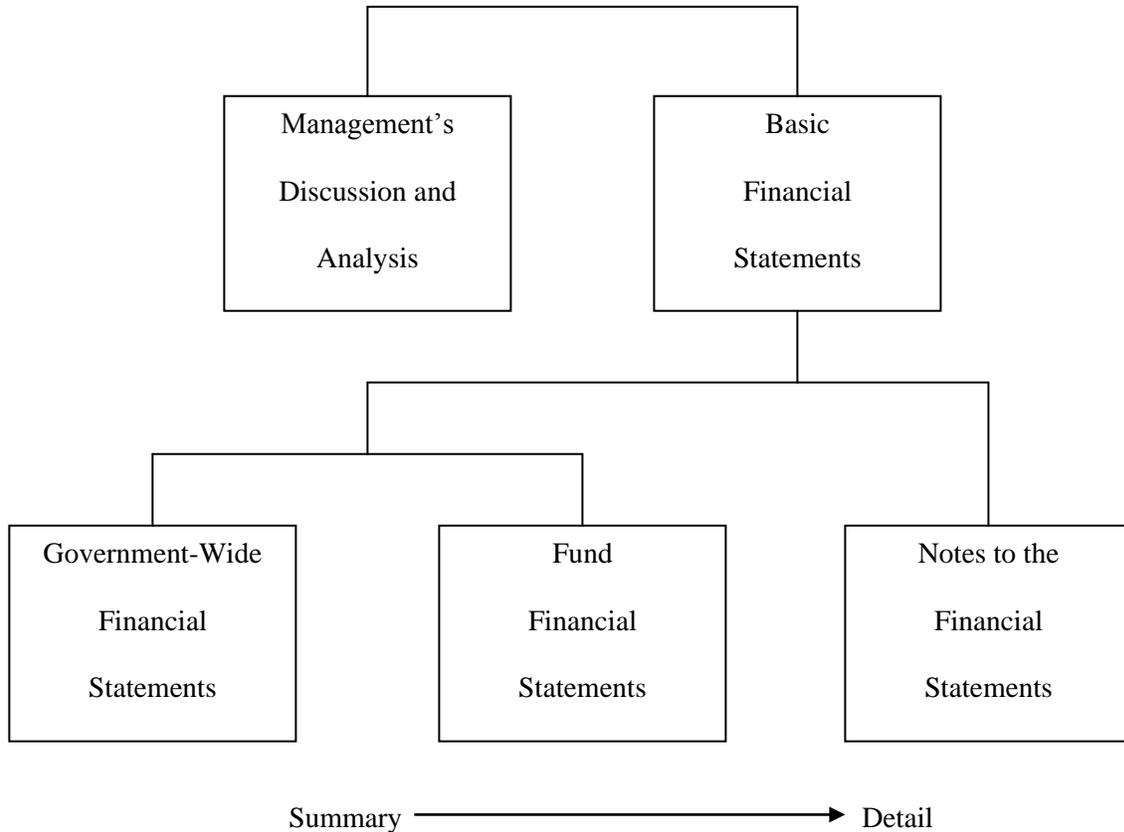
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$7,196,708(*net position*).
- The government's total net position decreased by \$139,133, primarily due to Water and Sewer Fund related activities.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$1,503,367, an increase of \$41,195 in comparison with the prior year. Approximately 17 percent of this total amount, or \$186,432, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$688,277, or 47 percent, of total General Fund expenditures and transfers out for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.

Other Information. Combining and individual fund statements and schedules can be found beginning on page 46 of this report. Required Supplementary Information concerning the progress of funding other post-employment benefits can be found on page 45.

Government-Wide Financial Analysis

Town of Banner Elk's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 1,614,454	\$ 1,649,749	\$ 460,222	\$ 490,763	\$ 2,074,676	\$ 2,140,512
Capital assets	<u>2,449,910</u>	<u>2,417,099</u>	<u>3,639,192</u>	<u>3,838,465</u>	<u>6,089,102</u>	<u>6,255,564</u>
Total assets	<u>4,064,364</u>	<u>4,066,848</u>	<u>4,099,414</u>	<u>4,329,228</u>	<u>8,163,778</u>	<u>8,396,076</u>
Liabilities:						
Long-term liabilities outstanding	408,485	378,735	475,434	526,957	883,919	905,692
Other liabilities	<u>35,790</u>	<u>95,693</u>	<u>47,361</u>	<u>58,850</u>	<u>83,151</u>	<u>154,543</u>
Total liabilities	<u>444,275</u>	<u>474,428</u>	<u>522,795</u>	<u>585,807</u>	<u>967,070</u>	<u>1,060,235</u>
Net Position:						
Net investment in capital assets	2,179,443	2,142,727	3,183,192	3,326,465	5,362,635	5,469,192
Restricted	186,432	214,440	-	-	186,432	214,440
Unrestricted	<u>1,254,214</u>	<u>1,235,253</u>	<u>393,427</u>	<u>416,956</u>	<u>1,647,641</u>	<u>1,652,209</u>
Total position	<u>\$ 3,620,089</u>	<u>\$ 3,592,420</u>	<u>\$ 3,576,619</u>	<u>\$ 3,743,421</u>	<u>\$ 7,196,708</u>	<u>\$ 7,335,841</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Banner Elk exceeded liabilities by \$7,196,708 as of June 30, 2013. The Town's net position decreased by \$139,133 for the fiscal year ended June 30, 2013. However, the largest portion (75%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Banner Elk uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Banner Elk's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Banner Elk's net position \$186,432 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,647,641 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.71%.
- Property values within the Town limits remain stagnant as a result of a depressed economy.

Town of Banner Elk Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 51,622	\$ 44,325	\$ 540,707	\$ 606,788	\$ 592,329	\$ 651,113
Operating grants and contributions	142,797	198,509	-	-	142,797	198,509
Capital grants and contributions	31,500	31,625	-	-	31,500	31,625
General revenues:						
Property taxes	966,702	973,130	-	-	966,702	973,130
Other taxes	428,937	387,265	-	-	428,937	387,265
Investment earnings	2,510	1,200	535	1,198	3,045	2,398
Total revenues	<u>1,624,068</u>	<u>1,636,054</u>	<u>541,242</u>	<u>607,986</u>	<u>2,165,310</u>	<u>2,244,040</u>
Expenses:						
General government	450,653	483,883	-	-	450,653	483,883
Public safety	761,431	745,508	-	-	761,431	745,508
Public works	-	39,356	-	-	-	39,356
Transportation	257,728	236,748	-	-	257,728	236,748
Culture and recreation	113,896	68,354	-	-	113,896	68,354
Interest on long-term debt	12,691	12,863	-	-	12,691	12,863
Water and sewer	-	-	708,044	712,038	708,044	712,038
Total expenses	<u>1,596,399</u>	<u>1,586,712</u>	<u>708,044</u>	<u>712,038</u>	<u>2,304,443</u>	<u>2,298,750</u>
Increase (decrease) in net position	27,669	49,342	(166,802)	(104,052)	(139,133)	(54,710)
Net Position:						
Beginning of year, July 1	<u>3,592,420</u>	<u>3,543,078</u>	<u>3,743,421</u>	<u>3,847,473</u>	<u>7,335,841</u>	<u>7,390,551</u>
End of year, June 30	<u>\$ 3,620,089</u>	<u>\$ 3,592,420</u>	<u>\$ 3,576,619</u>	<u>\$ 3,743,421</u>	<u>\$ 7,196,708</u>	<u>\$ 7,335,841</u>

Governmental Activities. Governmental activities increased the Town's net position by \$27,669. Key elements of this increase are as follows:

- Property tax revenues remain relatively unchanged.

Business-Type Activities. Business-type activities decreased the Town of Banner Elk's net position by \$166,802. Key elements of this decrease are as follows:

- There was a large increase in the allowance for doubtful accounts due to management's estimations of accounts that will not be received.
- Charges for services decreased in the current year.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Banner Elk. At the end of the current fiscal year, fund balance available in the General Fund was \$703,167, while total fund balance reached \$800,192.

At June 30, 2013, the governmental funds of Town of Banner Elk reported a combined fund balance of \$1,503,367, a 3% increase over last year. Included in this change in fund balance are an increase in the General Fund of \$148,777, a decrease in the Capital Improvement Capital Project Fund of \$93,768, and a net decrease in other nonmajor funds of \$13,814.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues exceeded budgeted amounts due to conservative estimates.

Proprietary Funds. The Town of Banner Elk's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$393,427. The change in net position was a decrease of \$166,802. 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 net investment in capital assets for its governmental and business-type activities as of June 30, 2013 totals \$6,089,102 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Governmental building improvements \$19,350
- Governmental equipment \$27,976
- Governmental construction in progress \$96,703

Town of Banner Elk's Capital Assets

Figure 4

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Land	\$ 223,019	\$ 223,019	\$ 23,466	\$ 23,466	\$ 246,485	\$ 246,485
Construction in progress	163,703	67,000	-	-	163,703	67,000
Infrastructure	1,725,924	1,725,924	-	-	1,725,924	1,725,924
Buildings	558,345	538,995	-	-	558,345	538,995
Plant	-	-	6,467,948	6,467,948	6,467,948	6,467,948
Equipment and furniture	<u>608,845</u>	<u>626,398</u>	<u>647,613</u>	<u>647,613</u>	<u>1,256,458</u>	<u>1,274,011</u>
Total	3,279,836	3,181,336	7,139,027	7,139,027	10,418,863	10,320,363
Less: accumulated depreciation	<u>(829,926)</u>	<u>(764,237)</u>	<u>(3,499,835)</u>	<u>(3,300,562)</u>	<u>(4,329,761)</u>	<u>(4,064,799)</u>
Net capital assets	<u>\$ 2,449,910</u>	<u>\$ 2,417,099</u>	<u>\$ 3,639,192</u>	<u>\$ 3,838,465</u>	<u>\$ 6,089,102</u>	<u>\$ 6,255,564</u>

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

Long-Term Debt. As of June 30, 2013, the Town of Banner Elk had total bonded debt outstanding of \$456,000. Of this, \$456,000 is debt backed by the full faith and credit of the Town.

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

Figure 5

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ -	\$ -	\$ 456,000	\$ 512,000	\$ 456,000	\$ 512,000
Compensated absences	63,832	49,240	19,434	14,957	83,266	64,197
Other post-employment benefits	74,186	55,123	-	-	74,186	55,123
Installment purchases	<u>270,467</u>	<u>274,372</u>	<u>-</u>	<u>-</u>	<u>270,467</u>	<u>274,372</u>
Total	<u>\$ 408,485</u>	<u>\$ 378,735</u>	<u>\$ 475,434</u>	<u>\$ 526,957</u>	<u>\$ 883,919</u>	<u>\$ 905,692</u>

The Town of Banner Elk's total long-term liabilities decreased by \$21,773 during the past fiscal year, due to the scheduled repayment of existing debt in the governmental funds and the Water and Sewer Fund.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Banner Elk is \$20,686,896.

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

Economic Factors and Next Year's Budgets and Rates

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

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

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities. Property tax revenues are expected to remain unchanged from prior year due to a continued weak economy. State shared revenues are expected to remain unchanged due to the factors impacting the State's economy.

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

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

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

Requests for Information

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

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TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2013

	Primary Government			Town of Banner Elk Tourism Development Authority
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 1,423,773	\$ 284,447	\$ 1,708,220	\$ 111,347
Restricted cash	14,890	37,698	52,588	-
Taxes receivable, net	75,297	-	75,297	-
Accounts receivable, net	1,603	67,267	68,870	22,100
Due from other governments	98,891	11,321	110,212	-
Inventories	-	59,489	59,489	-
Capital assets, non-depreciable	386,722	23,466	410,188	-
Capital assets, net	<u>2,063,188</u>	<u>3,615,726</u>	<u>5,678,914</u>	-
Total assets	<u>4,064,364</u>	<u>4,099,414</u>	<u>8,163,778</u>	<u>133,447</u>
Liabilities:				
Accounts payable and accrued liabilities	35,790	9,663	45,453	-
Customer deposits	-	37,698	37,698	-
Long-term liabilities:				
Due within one year	16,413	61,974	78,387	-
Due in more than one year	<u>392,072</u>	<u>413,460</u>	<u>805,532</u>	-
Total liabilities	<u>444,275</u>	<u>522,795</u>	<u>967,070</u>	-
Net Position:				
Net investment in capital assets	2,179,443	3,183,192	5,362,635	-
Restricted for:				
Stabilization by State statute	100,494	-	100,494	22,100
Transportation	14,890	-	14,890	-
Public safety	71,048	-	71,048	-
Tourism	-	-	-	111,347
Unrestricted	<u>1,254,214</u>	<u>393,427</u>	<u>1,647,641</u>	-
Total net position	<u>\$ 3,620,089</u>	<u>\$ 3,576,619</u>	<u>\$ 7,196,708</u>	<u>\$ 133,447</u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 450,653	\$ 22,054	\$ -	\$ -
Public safety	761,431	26,719	101,612	-
Public works	-	-	-	30,000
Transportation	257,728	-	41,185	-
Environmental protection	-	497	-	-
Cultural and recreation	113,896	2,352	-	1,500
Interest on long-term debt	12,691	-	-	-
Total governmental activities	<u>1,596,399</u>	<u>51,622</u>	<u>142,797</u>	<u>31,500</u>
Business-Type Activities:				
Water and sewer	<u>708,044</u>	<u>540,707</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>708,044</u>	<u>540,707</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 2,304,443</u>	<u>\$ 592,329</u>	<u>\$ 142,797</u>	<u>\$ 31,500</u>
Component Unit				
Tourism Development Authority (TDA)	<u>\$ 127,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

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

Change in net position

Net Position:

Beginning of year - July 1

End of year - June 30

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

Exhibit B

Net (Expense) Revenue and Changes in Net Position

<u>Primary Government</u>		<u>Banner Elk Tourism Development Authority</u>	
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
\$ (428,599)	\$ -	\$ (428,599)	\$ -
(633,100)	-	(633,100)	-
30,000	-	30,000	-
(216,543)	-	(216,543)	-
497	-	497	-
(110,044)	-	(110,044)	-
(12,691)	-	(12,691)	-
<u>(1,370,480)</u>	<u>-</u>	<u>(1,370,480)</u>	<u>-</u>
-	(167,337)	(167,337)	-
-	(167,337)	(167,337)	-
<u>(1,370,480)</u>	<u>(167,337)</u>	<u>(1,537,817)</u>	<u>-</u>
-	-	-	(127,797)
966,702	-	966,702	-
290,668	-	290,668	-
138,269	-	138,269	127,953
2,510	535	3,045	406
<u>1,398,149</u>	<u>535</u>	<u>1,398,684</u>	<u>128,359</u>
27,669	(166,802)	(139,133)	562
<u>3,592,420</u>	<u>3,743,421</u>	<u>7,335,841</u>	<u>132,885</u>
<u>\$ 3,620,089</u>	<u>\$ 3,576,619</u>	<u>\$ 7,196,708</u>	<u>\$ 133,447</u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Capital Improvement Capital Project Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 724,029	\$ 592,917	\$ 106,827	\$ 1,423,773
Restricted cash	14,890	-	-	14,890
Taxes receivable, net	75,297	-	-	75,297
Accounts receivable, net	1,603	-	-	1,603
Due from other governments	95,422	2,771	698	98,891
Total assets	<u>\$ 911,241</u>	<u>\$ 595,688</u>	<u>\$ 107,525</u>	<u>\$ 1,614,454</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 35,752	\$ -	\$ 38	\$ 35,790
Total liabilities	<u>35,752</u>	<u>-</u>	<u>38</u>	<u>35,790</u>
Deferred Inflows of Resources:				
Property taxes receivable	75,297	-	-	75,297
Total deferred inflows of resources	<u>75,297</u>	<u>-</u>	<u>-</u>	<u>75,297</u>
Fund Balances:				
Restricted:				
Stabilization by State statute	97,025	2,771	698	100,494
Transportation	14,890	-	-	14,890
Public safety	-	-	71,048	71,048
Assigned:				
Capital projects - transportation	-	-	35,741	35,741
Capital projects - cultural and recreation	-	592,917	-	592,917
Unassigned	688,277	-	-	688,277
Total fund balances	<u>800,192</u>	<u>595,688</u>	<u>107,487</u>	<u>1,503,367</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 911,241</u>	<u>\$ 595,688</u>	<u>\$ 107,525</u>	

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

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	2,449,910
Liabilities for earned revenues considered deferred inflows of resources in fund statements	75,297
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(408,485)</u>
Net position of governmental activities	<u>\$ 3,620,089</u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Improvement Capital Project Fund</u>	<u>Nonmajor Funds</u>	
Revenues:				
Ad valorem taxes	\$ 983,289	\$ -	\$ -	\$ 983,289
Other taxes and licenses	4,043	-	-	4,043
Unrestricted intergovernmental revenues	424,894	-	-	424,894
Restricted intergovernmental revenues	153,242	1,500	-	154,742
Permits and fees	5,568	-	-	5,568
Sales and services	2,352	-	17,539	19,891
Interest earned on investments	1,075	1,435	-	2,510
Miscellaneous	26,163	-	19,555	45,718
Total revenues	<u>1,600,626</u>	<u>2,935</u>	<u>37,094</u>	<u>1,640,655</u>
Expenditures:				
Current:				
General government	404,574	-	-	404,574
Public safety	718,834	-	50,758	769,592
Public works	-	7,500	-	7,500
Transportation	215,832	-	150	215,982
Cultural and recreation	96,013	89,203	-	185,216
Debt service:				
Principal repayments	3,905	-	-	3,905
Interest	12,691	-	-	12,691
Total expenditures	<u>1,451,849</u>	<u>96,703</u>	<u>50,908</u>	<u>1,599,460</u>
Net change in fund balances	148,777	(93,768)	(13,814)	41,195
Fund Balances:				
Beginning of year - July 1	<u>651,415</u>	<u>689,456</u>	<u>121,301</u>	<u>1,462,172</u>
End of year - June 30	<u>\$ 800,192</u>	<u>\$ 595,688</u>	<u>\$ 107,487</u>	<u>\$ 1,503,367</u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

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

Net change in fund balances - total governmental funds (Exhibit D)	\$ 41,195
<p>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:</p>	
Property taxes	(16,587)
Expenses related to compensated absences and law enforcement officers' separation allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(33,655)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	144,029
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statements.	(111,218)
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>3,905</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 27,669</u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 935,330	\$ 935,330	\$ 983,289	\$ 47,959
Other taxes and licenses	2,000	2,000	4,043	2,043
Unrestricted intergovernmental revenues	396,796	396,796	424,894	28,098
Restricted intergovernmental revenues	187,000	187,000	153,242	(33,758)
Permits and fees	2,500	2,500	5,568	3,068
Sales and services	6,736	6,736	2,352	(4,384)
Interest earned on investments	500	500	1,075	575
Miscellaneous	11,000	11,000	26,163	15,163
Total revenues	<u>1,541,862</u>	<u>1,541,862</u>	<u>1,600,626</u>	<u>58,764</u>
Expenditures:				
General government	403,847	421,219	404,574	16,645
Public safety	727,950	727,950	718,834	9,116
Transportation	252,061	252,061	215,832	36,229
Cultural and recreation	96,454	99,454	96,013	3,441
Debt service	-	-	3,905	(3,905)
Interest and other charges	16,596	16,596	12,691	3,905
Total expenditures	<u>1,496,908</u>	<u>1,517,280</u>	<u>1,451,849</u>	<u>65,431</u>
Revenues over (under) expenditures	<u>44,954</u>	<u>24,582</u>	<u>148,777</u>	<u>124,195</u>
Other Financing Sources (Uses):				
Appropriated fund balance	-	17,372	-	(17,372)
Transfers to other funds	(44,954)	(41,954)	-	41,954
Total other financing sources (uses)	<u>(44,954)</u>	<u>(24,582)</u>	<u>-</u>	<u>24,582</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>148,777</u>	<u>\$ 148,777</u>
Fund Balance:				
Beginning of year - July 1			<u>651,415</u>	
End of year - June 30			<u>\$ 800,192</u>	

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

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 284,447
Restricted cash	37,698
Accounts receivable, net	67,267
Due from other governments	11,321
Inventory	<u>59,489</u>
Total current assets	<u>460,222</u>
Capital assets:	
Land	23,466
Other capital assets, net	<u>3,615,726</u>
Total capital assets	<u>3,639,192</u>
Total assets	<u>4,099,414</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	9,663
Customer deposits	37,698
Compensated absences - current	3,974
Current portion of long-term debt	<u>58,000</u>
Total current liabilities	<u>109,335</u>
Non-current liabilities:	
Compensated absences	15,460
Notes and bonds payable	<u>398,000</u>
Total non-current liabilities	<u>413,460</u>
Total liabilities	<u>522,795</u>
Net Position:	
Net investment in capital assets	3,183,192
Unrestricted	<u>393,427</u>
Total net position	<u>\$ 3,576,619</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 POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 452,571
Water and sewer taps	25,250
Other operating revenues	<u>62,886</u>
Total operating revenues	<u>540,707</u>
Operating Expenses:	
Water/sewer operations	489,417
Depreciation	<u>199,273</u>
Total operating expenses	<u>688,690</u>
Operating income (loss)	<u>(147,983)</u>
Non-Operating Revenues (Expenses):	
Investment earnings	535
Interest and other charges	<u>(19,354)</u>
Total non-operating revenues (expenses)	<u>(18,819)</u>
Change in net position	(166,802)
Net Position:	
Beginning of year - July 1	<u>3,743,421</u>
End of year - June 30	<u>\$ 3,576,619</u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 556,077
Cash paid for goods and services	(355,717)
Cash paid to employees	(176,781)
Net cash provided (used) by operating activities	<u>23,579</u>
Cash Flows from Capital and Related Financing Activities:	
Principal paid on long-term debt	(56,000)
Interest and other charges	(19,354)
Net cash provided (used) by capital and related financing activities	<u>(75,354)</u>
Cash Flows from Investing Activities:	
Interest received	<u>535</u>
Net increase (decrease) in cash, cash equivalents, and investments	(51,240)
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>373,385</u>
End of year - June 30	<u>\$ 322,145</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (147,983)
Depreciation and amortization	199,273
Change in assets and liabilities:	
(Increase) decrease in accounts receivables	12,623
(Increase) decrease in inventories	(33,322)
Increase (decrease) in accounts payable and accrued liabilities	(8,698)
Increase (decrease) in customer deposits and unearned revenues	(2,791)
Increase (decrease) in accrued vacation pay	<u>4,477</u>
Net cash provided (used) by operating activities	<u>\$ 23,579</u>

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

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Banner Elk Tourism Development Authority (TDA)

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

B. Basis of Presentation

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

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

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

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

The Town maintains the following major governmental funds:

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

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

The Town maintains the following nonmajor governmental funds:

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

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

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

To Town reports the following major enterprise fund:

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

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

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

C. Measurement Focus and Basis of Accounting

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

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

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

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. 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. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax collected and held by the State at year-end on behalf of the Town, are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Improvement Plan Fund, Special Police Fund, Cops Golf Tournament Fund, Water and Sewer Fund, and Water and Sewer Improvement Plan Fund. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Streets and Sidewalk Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted governmental funds total expenditures for the Water and Sewer Fund and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

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

Restricted Assets

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

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2012.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Allowances for Doubtful Accounts

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

Inventory

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

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

Capital Assets

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

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

In conjunction with implementing GASB 34, "The New Reporting Model", the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town's capitalization threshold of \$5,000 will be reported as capital assets in the Statement of Net Position. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Position only include assets purchased after July 1, 2003.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

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

Compensated Absences

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no such item at year end.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to future period and so will not be recognized as revenues until then. The Town has one item that meets this criterion – property taxes receivable.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Long-Term Obligations

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

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

Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

Restricted Fund Balance

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

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

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for Public Safety expenditures.

Committed Fund Balance

This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Banner Elk's governing body (highest level of decision making authority, the Town Council). Any changes or removal of specific purpose restrictions requires majority action by the governing body.

Assigned Fund Balance

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

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

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

Unassigned Fund Balance

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

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

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The Town has not officially adopted a fund balance policy.

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

Total fund balance - General Fund	\$ 800,192
Less:	
Stabilization by State statute	<u>97,025</u>
Total available fund balance	<u>\$ 703,167</u>

Interfund Transactions

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

Use of Estimates

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

2. Detail Notes On All Funds

Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering 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

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, the Town's deposits had a carrying amount of \$171,364 and a bank balance of \$236,726. Of the bank balance, \$236,726 was covered by FDIC and the remainder was covered by collateral held under the pooling method. The Town held \$1,878 in petty cash as of June 30, 2013.

Investments

At June 30, 2013, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust - Cash Portfolio	\$ 585,756	N/A	AAAm
NC Capital Management Trust - Term Portfolio	\$ 1,001,810	0.3 years	Unrated

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

Credit risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2013. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Receivables – Allowances for Doubtful Accounts

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

	<u>Accounts</u>	<u>Taxes</u>	<u>Due From Other Governments</u>	<u>Total</u>
Governmental Activities:				
Garbage fees	\$ 1,603	\$ -	\$ -	\$ 1,603
Property taxes	-	80,297	-	80,297
Local options sales/franchise tax	-	-	91,469	91,469
Sales tax refunds due	-	-	7,422	7,422
Allowance for doubtful accounts	-	(5,000)	-	(5,000)
Total governmental activities	<u>\$ 1,603</u>	<u>\$ 75,297</u>	<u>\$ 98,891</u>	<u>\$ 175,791</u>
Business-Type Activities:				
Water and sewer	\$ 105,601	\$ -	\$ 11,321	\$ 116,922
Allowance for doubtful accounts	<u>(38,334)</u>	<u>-</u>	<u>-</u>	<u>(38,334)</u>
Total business-type activities	<u>\$ 67,267</u>	<u>\$ -</u>	<u>\$ 11,321</u>	<u>\$ 78,588</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Capital Assets

Governmental Capital Assets

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

	<u>July 01, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
By Asset Type:				
Non-Depreciable Assets:				
Land	\$ 223,019	\$ -	\$ -	\$ 223,019
Construction in progress	<u>67,000</u>	<u>96,703</u>	<u>-</u>	<u>163,703</u>
Total non-depreciable assets	<u>290,019</u>	<u>96,703</u>	<u>-</u>	<u>386,722</u>
Depreciable Assets:				
Infrastructure	1,725,924	-	-	1,725,924
Buildings	538,995	19,350	-	558,345
Equipment and furniture	<u>626,398</u>	<u>27,976</u>	<u>45,529</u>	<u>608,845</u>
Total depreciable assets	<u>2,891,317</u>	<u>47,326</u>	<u>45,529</u>	<u>2,893,114</u>
Less Accumulated Depreciation:				
Infrastructure	136,405	40,679	-	177,084
Buildings	194,078	12,362	-	206,440
Equipment and furniture	<u>433,754</u>	<u>58,177</u>	<u>45,529</u>	<u>446,402</u>
Total accumulated depreciation	<u>764,237</u>	<u>\$ 111,218</u>	<u>\$ 45,529</u>	<u>829,926</u>
Capital assets, net	<u>\$ 2,417,099</u>			<u>\$ 2,449,910</u>

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

Governmental Activities:

General government	\$ 22,244
Public safety	33,365
Transportation	38,926
Cultural and recreation	<u>16,683</u>
Total	<u>\$ 111,218</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Proprietary Capital Assets

The capital assets of the proprietary fund of the Town at June 30, 2013 were as follows:

	<u>July 01, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Business-Type Activities:				
Water/Sewer Fund:				
Non-Depreciable Assets:				
Land	\$ 23,466	\$ -	\$ -	\$ 23,466
Total non-depreciable assets	<u>23,466</u>	<u>-</u>	<u>-</u>	<u>23,466</u>
Depreciable Assets:				
Plant	6,467,948	-	-	6,467,948
Equipment	<u>647,613</u>	<u>-</u>	<u>-</u>	<u>647,613</u>
Total depreciable assets	<u>7,115,561</u>	<u>-</u>	<u>-</u>	<u>7,115,561</u>
Less Accumulated Depreciation:				
Plant	2,744,757	169,193	-	2,913,950
Equipment	<u>555,805</u>	<u>30,080</u>	<u>-</u>	<u>585,885</u>
Total accumulated depreciation	<u>3,300,562</u>	<u>\$ 199,273</u>	<u>\$ -</u>	<u>3,499,835</u>
Capital assets, net	<u>\$ 3,838,465</u>			<u>\$ 3,639,192</u>

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2013 is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Capital assets	\$ 2,449,910	\$ 3,639,192
Long-term debt	<u>(270,467)</u>	<u>(456,000)</u>
Net Investment in capital assets	<u>\$ 2,179,443</u>	<u>\$ 3,183,192</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Accounts Payable and Accrued Liabilities

Payables at Exhibit A at June 30, 2013 were as follows:

	Vendors	Accrued Liabilities	Total
Governmental Activities:			
Governmental	\$ 9,959	\$ 25,831	\$ 35,790
 Business-Type Activities:			
Water and Sewer	\$ 9,663	\$ -	\$ 9,663

Pension Plan Obligations

Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.35% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$55,674, \$55,594, and \$50,180, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2012, the Separation Allowance’s membership consisted of:

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

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

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

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. No actuarial valuation study was performed because the liability at June 30, 2013 was deemed immaterial.

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

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the 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

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013 were \$115,492, which consisted of \$63,131 from the Town and \$52,361 from the law enforcement officers.

Other Post-Employment Benefits

Plan Description. The Town (by local ordinance) administers a single employer defined benefit Healthcare Benefit Plan which provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and meet the following criteria. The employee must exercise their LGERS retirement have at least ten years of creditable service with the Town to remain on the Town's policy with the retiree paying the full cost. Or Twenty five years creditable service in which, the Town pays the full cost of coverage for these benefits for retirees. Retirees who do not meet the aforementioned criteria have the option to purchase basic medical insurance for themselves and their dependents through the Town for eighteen months. The entire cost of this insurance is borne by the retirees. The Town maintains healthcare coverage through a combination of self-insurance and private insurers (see Risk Management Note). A separate report was not issued for the plan.

Membership of the post-employment health benefit plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	-
Active members	<u>20</u>
Total	<u><u>20</u></u>

Funding Policy. The Town agrees to provide medical insurance to certain retired employees as an extended benefit. Eligible retirees who elect this coverage will be enrolled in the group health plan. For members that retire with at least 25 years of service, the Town pays 100% of the cost for pre-Medicare healthcare coverage for the retire. Years of service are considered years of creditable service with the Local Governmental Employees' Retirement System. Retirees will cease to be eligible for group health once they are Medicare eligible. The retiree will be responsible for paying the cost of dependent coverage if dependent coverage is elected. The Town has chosen to fund the health care benefits on a pay as you go basis.

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

The current annual required contribution rate (ARC) is 2.30% of annual covered payroll. For fiscal year 2013, the Town contributed \$0, or 0% of annual covered payroll. Contributions by employees for the fiscal year ended June 30, 2013, were \$0. The Town's obligation to contribute to the post-retirement benefit plan is established and may be amended by the Town Council.

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

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

Annual required contribution	\$	18,760
Interest on net OPEB obligation		2,205
Adjustment to annual required contribution		<u>(1,902)</u>
Annual OPEB cost (expense)		19,063
Contributions made		<u>-</u>
Increase (decrease) in net OPEB obligation		19,063
Net OPEB obligation, beginning of year		<u>55,123</u>
Net OPEB obligation, end of year	\$	<u><u>74,186</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Annual OPEB</u> <u>Cost</u> <u>(AOC)</u>	<u>Percentage</u> <u>of AOC</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2011	\$ 18,082	0.00%	\$ 36,164
2012	18,959	0.00%	55,123
2013	19,063	0.00%	74,186

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Funded Status and Funding Progress.

As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$242,316. The covered payroll (annual payroll of active employees covered by the plan) was \$814,296, and the ratio of the UAAL to the covered payroll was 29.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The annual required contribution for the current year was determined as part of the December 31, 2011, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4.00% investment rate of return (net of administrative expenses), which included an inflation component of 3.00% and (b) a 9.50% - 5.00% medical cost trend rate with 2018, the year of ultimate trend rate. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized as level percentage of pay on an open basis. The remaining amortization period at December 31, 2011, was 30 years.

Deferred Inflows of Resources

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

	<u>Unavailable Revenues</u>
Governmental Funds/Activities:	
Taxes receivable (General Fund)	<u>\$ 75,297</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. The Town purchases employee health insurance from a private insurance company. The health insurance plan is fully insured by the private carrier.

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

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

Long-Term Obligations

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

Governmental Activities:

4.625% note, payable to USDA issued August 2003; payable in annual installments of \$16,595, including interest; beginning August 2005 with final payment due August 2043; secured by real estate \$ 270,467

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 \$ 456,000

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

Year Ended June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 4,086	\$ 12,509	\$ 16,595	\$ 58,000	\$ 17,236	\$ 75,236
2015	4,275	12,320	16,595	60,000	15,044	75,044
2016	4,472	12,123	16,595	63,000	12,776	75,776
2017	4,679	11,916	16,595	65,000	10,396	75,396
2018	4,896	11,699	16,595	67,000	7,940	74,940
2019-2023	28,092	54,883	82,975	143,000	8,166	151,166
2024-2028	35,216	47,759	82,975	-	-	-
2029-2033	44,151	38,824	82,975	-	-	-
2034-2038	55,349	27,626	82,975	-	-	-
2039-2043	69,388	13,587	82,975	-	-	-
2044-2045	15,863	733	16,596	-	-	-
Total	<u>\$ 270,467</u>	<u>\$ 243,979</u>	<u>\$ 514,446</u>	<u>\$ 456,000</u>	<u>\$ 71,558</u>	<u>\$ 527,558</u>

Changes in long-term debt were as follows:

	July 01, 2012	Increases	Decreases	June 30, 2013	Current Maturities
Government Activities:					
Notes payable	\$ 274,372	\$ -	\$ 3,905	\$ 270,467	\$ 4,086
Other post-employment benefits	55,123	19,063	-	74,186	-
Compensated absences	49,240	39,212	24,620	63,832	12,327
Total governmental activities	<u>\$ 378,735</u>	<u>\$ 58,275</u>	<u>\$ 28,525</u>	<u>\$ 408,485</u>	<u>\$ 16,413</u>
Business-Type Activities:					
General obligation bonds	\$ 512,000	\$ -	\$ 56,000	\$ 456,000	\$ 58,000
Compensated absences	14,957	19,434	14,957	19,434	3,974
Total business-type activities	<u>\$ 526,957</u>	<u>\$ 19,434</u>	<u>\$ 70,957</u>	<u>\$ 475,434</u>	<u>\$ 61,974</u>

Other post-employment benefits and compensated absences typically have been liquidated in the General Fund. Compensated absences are accounted for on a FIFO basis, assuming that the employees are taking leave time as it is earned. At June 30, 2013, the Town had a legal debt margin of \$20,686,896.

TOWN OF BANNER ELK, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

3. Jointly Governed Organizations

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$510 along with \$270 for various projects to the Council during the fiscal year ended June 30, 2013.

4. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

5. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations are in violation of state law. Violations as of June 30, 2013 are:

Streets and Sidewalks Capital Project Fund:		
Sidewalks and streetscape	\$	86,651

6. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are not classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

TOWN OF BANNER ELK, NORTH CAROLINA

OTHER POST - EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial		Unfunded AAL (UAAL) (B - A)	Funded Ratio (A / B)	Covered Payroll (C)	UAAL as a Percentage Covered Payroll ((B - A) / C)
		Liability (AAL) -Projected Unit Credit (B)					
12/31/2011	\$ -	\$ 242,316		\$ 242,316	0.00%	\$ 814,296	29.80%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2011	\$ 18,082	0.00%
2012	18,760	0.00%
2013	18,760	0.00%

Notes to the Required Schedules:

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

Valuation date	12/31/2011	
Actuarial cost method	Projected unit credit	
Amortization method	Level percent of pay open	
Remaining amortization period	30 years	
Asset valuation method	Market value	
Actuarial assumptions:		
Investment rate of return *	4.00%	* Includes inflation at 3.00%
Medical cost trend rate	5% - 9.5%	
Year of Ultimate trend rate	2018	

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Final Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad Valorem Taxes:				
Taxes	\$ 932,330	\$ 975,888	\$ 43,558	\$ 946,981
Penalties and interest	3,000	7,401	4,401	5,387
Total	935,330	983,289	47,959	952,368
Other Taxes and Licenses:				
Privilege licenses	2,000	4,043	2,043	4,500
Total	2,000	4,043	2,043	4,500
Unrestricted Intergovernmental Revenues:				
Local option sales tax	289,000	290,668	1,668	268,943
Utility franchise tax	83,000	109,346	26,346	89,303
Beer and wine tax	4,200	4,445	245	4,454
Contribution - TDA	20,596	20,435	(161)	20,065
Total	396,796	424,894	28,098	382,765
Restricted Intergovernmental Revenues:				
Powell Bill allocation	75,000	41,185	(33,815)	38,976
Other local grants and matching contributions	30,000	30,000	-	30,000
ABC revenue for law enforcement	82,000	82,057	57	82,233
Total	187,000	153,242	(33,758)	151,209
Permits and Fees:				
Building permits	2,500	5,568	3,068	4,984
Total	2,500	5,568	3,068	4,984
Sales and Services:				
Park lease/rental income	6,736	2,352	(4,384)	4,602
Total	6,736	2,352	(4,384)	4,602
Investment Earnings	500	1,075	575	666
Miscellaneous	11,000	26,163	15,163	79,045
Total revenues	1,541,862	1,600,626	58,764	1,580,139

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Final Budget	Actual	Variance Over/Under	Actual
Expenditures:				
General Government:				
Administration:				
Salaries and employee benefits	94,457	93,998	459	90,079
Operating expenses	83,800	75,455	8,345	121,730
Capital outlay	-	-	-	4,345
Total	<u>178,257</u>	<u>169,453</u>	<u>8,804</u>	<u>216,154</u>
Governing Body:				
Salaries and employee benefits	13,426	13,564	(138)	10,000
Operating expenses	<u>52,551</u>	<u>41,859</u>	<u>10,692</u>	<u>46,055</u>
Total	<u>65,977</u>	<u>55,423</u>	<u>10,554</u>	<u>56,055</u>
Finance:				
Salaries and employee benefits	52,863	53,014	(151)	50,197
Operating expenses	<u>10,387</u>	<u>7,371</u>	<u>3,016</u>	<u>3,583</u>
Total	<u>63,250</u>	<u>60,385</u>	<u>2,865</u>	<u>53,780</u>
Planning:				
Salaries and employee benefits	58,626	59,015	(389)	57,995
Operating expenses	18,109	16,074	2,035	33,212
Capital outlay	<u>500</u>	<u>-</u>	<u>500</u>	<u>-</u>
Total	<u>77,235</u>	<u>75,089</u>	<u>2,146</u>	<u>91,207</u>
Public Buildings:				
Operating expenses	28,500	38,424	(9,924)	53,969
Capital outlay	<u>8,000</u>	<u>5,800</u>	<u>2,200</u>	<u>-</u>
Total	<u>36,500</u>	<u>44,224</u>	<u>(7,724)</u>	<u>53,969</u>
Total general government	<u>421,219</u>	<u>404,574</u>	<u>16,645</u>	<u>471,165</u>

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Final Budget	Actual	Variance Over/Under	Actual
Public Safety:				
Police:				
Salaries and employee benefits	580,010	579,858	152	550,066
Operating expenses	81,937	75,126	6,811	77,260
Capital outlay	-	-	-	35,420
Total	661,947	654,984	6,963	662,746
Drug Task Force:				
Salaries and employee benefits	57,941	57,256	685	56,922
Operating expenses	8,062	6,594	1,468	7,794
Total	66,003	63,850	2,153	64,716
Total public safety	727,950	718,834	9,116	727,462
Transportation:				
Streets and Highways:				
Salaries and employee benefits	100,987	87,648	13,339	93,675
Operating expenses	139,324	122,547	16,777	94,197
Capital outlay	11,750	5,637	6,113	10,470
Total transportation	252,061	215,832	36,229	198,342
Cultural and Recreational:				
Parks and Recreation:				
Salaries and employee benefits	64,427	62,873	1,554	57,736
Operating expenses	35,027	33,140	1,887	33,224
Total cultural and recreational	99,454	96,013	3,441	90,960
Debt Service:				
Principal retirement	-	3,905	(3,905)	3,733
Interest and fees	16,596	12,691	3,905	12,863
Total debt service	16,596	16,596	-	16,596
Total expenditures	1,517,280	1,451,849	65,431	1,504,525

TOWN OF BANNER ELK, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Final Budget	Actual	Variance Over/Under	Actual
Revenues over (under) expenditures	24,582	148,777	124,195	75,614
Other Financing Sources (Uses):				
Appropriated fund balance	17,372	-	17,372	-
Transfer in (out) - Capital Projects Fund	(41,954)	-	(41,954)	-
Total other financing sources (uses)	(24,582)	-	(24,582)	-
Net change in fund balance	\$ -	148,777	\$ 148,777	\$ 75,614
Fund Balance:				
Beginning of year - July 1		651,415		
End of year - June 30		\$ 800,192		

TOWN OF BANNER ELK, NORTH CAROLINA

CAPITAL IMPROVEMENT PLAN - GOVERNMENTAL CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Restricted intergovernmental	\$ -	\$ 1,500	\$ 1,500	\$ -
Investment earnings	-	1,435	1,435	534
Total revenues	-	2,935	2,935	534
Expenditures:				
Public safety	-	-	-	4,950
Public works	7,500	7,500	-	39,356
Parks and recreation	89,300	89,203	97	77,700
Total expenditures	96,800	96,703	97	122,006
Revenues over (under) expenditures	(96,800)	(93,768)	3,032	(121,472)
Other Financing Sources (Uses):				
Appropriated fund balance	96,800	-	(96,800)	(127,756)
Total other financing sources (uses)	96,800	-	(96,800)	-
Net change in fund balance	\$ -	(93,768)	\$ (93,768)	\$ (121,472)
Fund Balance:				
Beginning of year - July 1		689,456		
End of year - June 30		\$ 595,688		

TOWN OF BANNER ELK, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	<u>Streets and Sidewalks Capital Project Fund</u>	<u>Police Special Revenue Fund</u>	<u>Cops Golf Tournament Special Revenue Fund</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 35,779	\$ 44,837	\$ 26,211	\$ 106,827
Due from other governments	-	13	685	698
Total assets	<u>\$ 35,779</u>	<u>\$ 44,850</u>	<u>\$ 26,896</u>	<u>\$ 107,525</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	<u>\$ 38</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38</u>
Total liabilities	<u>38</u>	<u>-</u>	<u>-</u>	<u>38</u>
Fund Balances:				
Restricted:				
Stabilization by State statute	-	13	685	698
Public safety	-	44,837	26,211	71,048
Assigned:				
Capital projects - transportation	<u>35,741</u>	<u>-</u>	<u>-</u>	<u>35,741</u>
Total fund balances	<u>35,741</u>	<u>44,850</u>	<u>26,896</u>	<u>107,487</u>
Total liabilities and fund balances	<u>\$ 35,779</u>	<u>\$ 44,850</u>	<u>\$ 26,896</u>	<u>\$ 107,525</u>

TOWN OF BANNER ELK, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES -
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Streets and Sidewalks Capital Project Fund</u>	<u>Police Special Revenue Fund</u>	<u>Cops Golf Tournament Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Sales and services	\$ -	\$ -	\$ 17,539	\$ 17,539
Miscellaneous	720	18,835	-	19,555
Total revenues	<u>720</u>	<u>18,835</u>	<u>17,539</u>	<u>37,094</u>
Expenditures:				
Public safety	-	7,700	43,058	50,758
Transportation	150	-	-	150
Total expenditures	<u>150</u>	<u>7,700</u>	<u>43,058</u>	<u>50,908</u>
Net change in fund balance	570	11,135	(25,519)	(13,814)
Fund Balances:				
Beginning of year - July 1	<u>35,171</u>	<u>33,715</u>	<u>52,415</u>	<u>121,301</u>
End of year - June 30	<u>\$ 35,741</u>	<u>\$ 44,850</u>	<u>\$ 26,896</u>	<u>\$ 107,487</u>

TOWN OF BANNER ELK, NORTH CAROLINA

**STREETS AND SIDEWALKS CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total To Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Restricted intergovernmental:				
Town of Banner Elk Tourism				
Development Authority	\$ 325,051	\$ 325,053	\$ -	\$ 325,053
Miscellaneous:				
Contributions	64,149	101,191	675	101,866
Investment income	<u>8,100</u>	<u>9,280</u>	<u>45</u>	<u>9,325</u>
Total revenues	<u>397,300</u>	<u>435,524</u>	<u>720</u>	<u>436,244</u>
Expenditures:				
Capital outlay:				
Sidewalks and streetscape	740,721	855,309	150	855,459
Contingency	<u>28,087</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>768,808</u>	<u>855,309</u>	<u>150</u>	<u>855,459</u>
Revenues over (under) expenditures	<u>(371,508)</u>	<u>(419,785)</u>	<u>570</u>	<u>(419,215)</u>
Other Financing Sources (Uses):				
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>
Net change in fund balance	<u>\$ -</u>	<u>\$ 35,171</u>	<u>\$ 570</u>	<u>\$ 35,741</u>

TOWN OF BANNER ELK, NORTH CAROLINA

POLICE SPECIAL REVENUE FUND - NONMAJOR SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	<u>2013</u>			<u>2012</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Miscellaneous	\$ 10,000	\$ 18,835	\$ 8,835	\$ 13,245
Total revenues	<u>10,000</u>	<u>18,835</u>	<u>8,835</u>	<u>13,245</u>
Expenditures:				
Public safety:				
Other	<u>10,000</u>	<u>7,700</u>	<u>2,300</u>	<u>4,364</u>
Total expenditures	<u>10,000</u>	<u>7,700</u>	<u>2,300</u>	<u>4,364</u>
Net change in fund balance	<u>\$ -</u>	11,135	<u>\$ 11,135</u>	<u>\$ 8,881</u>
Fund Balance:				
Beginning of year - July 1		<u>33,715</u>		
End of year - June 30		<u>\$ 44,850</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

COPS GOLF TOURNAMENT FUND - NONMAJOR SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	<u>2013</u>			<u>2012</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Golf tournament revenues	\$ 43,058	\$ 17,539	\$ (25,519)	\$ 19,749
Total revenues	<u>43,058</u>	<u>17,539</u>	<u>(25,519)</u>	<u>19,749</u>
Expenditures:				
Public safety:				
Golf tournament	43,058	43,058	-	19,470
Total expenditures	<u>43,058</u>	<u>43,058</u>	<u>-</u>	<u>19,470</u>
Net change in fund balance	\$ <u>-</u>	(25,519)	\$ <u>(25,519)</u>	\$ <u>279</u>
Fund Balance:				
Beginning of year - July 1		<u>52,415</u>		
End of year - June 30		\$ <u>26,896</u>		

TOWN OF BANNER ELK, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013		Variance Over/Under	2012
	Budget	Actual		Actual
Operating Revenues:				
Water sales:				
Residential		\$ 147,249		\$ 194,444
Impact fees		1,921		9,196
Total water sales	\$ -	149,170	\$ -	203,640
Sewer charges:				
Residential	-	303,401	-	345,717
Water and sewer taps		25,250		34,366
Other operating revenues		62,886		23,065
Total operating revenues	-	540,707	-	606,788
Non-Operating Revenues:				
Interest earnings		176		690
Total non-operating revenues	-	176	-	690
Total revenues	588,230	540,883	(47,347)	607,478
Expenditures:				
Administration:				
Salaries and employee benefits	62,523	59,902		58,021
Utilities	1,700	3,270		2,117
Supplies	3,500	3,240		6,109
Insurance	230	230		128
Other operating expenditures	11,200	48,776		11,804
Total administration	79,153	115,418	(36,265)	78,179

TOWN OF BANNER ELK, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013		Variance Over/Under	2012
	Budget	Actual		Actual
Wastewater Treatment:				
Salaries and employee benefits	22,596	21,480		19,925
Utilities	58,000	57,482		55,747
Supplies	4,000	3,060		1,858
Insurance	3,864	3,289		3,296
Maintenance	7,000	9,748		6,329
Other operating expenditures	5,120	1,489		11,109
Contracted services	25,000	20,340		20,500
Total wastewater treatment	125,580	116,888	8,692	118,764
Water Treatment:				
Salaries and employee benefits	22,596	21,755		20,159
Utilities	26,000	29,258		26,590
Supplies	10,000	6,910		9,964
Insurance	1,704	1,585		1,626
Maintenance	11,200	10,965		1,835
Other operating expenditures	1,840	2,460		2,040
Contracted services	7,600	6,600		6,600
Total water treatment	80,940	79,533	1,407	68,814
Distribution and Collections:				
Salaries and employee benefits	74,446	78,121		75,811
Utilities	2,000	3,106		12,393
Supplies	45,750	20,102		28,647
Insurance	7,545	6,672		7,324
Maintenance	18,500	5,674		26,331
Other operating expenditures	50,684	53,828		45,221
Contracted services	500	-		-
Total distribution and collection	199,425	167,503	31,922	195,727
Total operating expenditures	485,098	479,342	5,756	461,484

TOWN OF BANNER ELK, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	2013			2012
	Budget	Actual	Variance Over/Under	Actual
Debt Service:				
Interest and other charges	76,000	19,354	56,646	21,395
Principal retirement	-	56,000	(56,000)	54,000
Total debt service	<u>76,000</u>	<u>75,354</u>	<u>646</u>	<u>75,395</u>
Capital outlay	<u>5,300</u>	<u>10,075</u>	<u>(4,775)</u>	<u>3,803</u>
Total expenditures	<u>566,398</u>	<u>564,771</u>	<u>1,627</u>	<u>540,682</u>
Revenues over (under) expenditures	<u>21,832</u>	<u>(23,888)</u>	<u>(45,720)</u>	<u>66,796</u>
Other Financing Sources (Uses):				
Transfers in (out) - Water Capital Project Fund	<u>(21,832)</u>	<u>-</u>	<u>21,832</u>	<u>-</u>
Total other financing sources (uses)	<u>(21,832)</u>	<u>-</u>	<u>21,832</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (23,888)</u>	<u>\$ (23,888)</u>	<u>\$ 66,796</u>

**Reconciliation from Modified Accrual
Basis to Full Accrual Basis:**

Revenues and other financing sources over (under) expenditures and other financing uses	\$ (23,888)
Reconciling items:	
Principal retirement	56,000
Depreciation	(199,273)
Interest income - construction in progress	<u>359</u>
Change in net assets	<u>\$ (166,802)</u>

TOWN OF BANNER ELK, NORTH CAROLINA

CAPITAL IMPROVEMENT PLAN - WATER & SEWER CAPITAL PROJECT FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2012

	<u>2013</u>			<u>2012</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Interest income	\$ -	\$ 359	\$ 359	\$ 508
Total revenues	-	359	359	508
Revenues over (under) expenditures	-	359	359	508
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 359	\$ 359	\$ 508

TOWN OF BANNER ELK, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2013

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013	\$ -	\$ 941,044	\$ 910,486	\$ 30,558
2011-2012	50,505	-	32,296	18,209
2010-2011	17,022	-	5,726	11,296
2009-2010	7,096	-	3,758	3,338
2008-2009	7,746	-	4,083	3,663
2007-2008	48	-	-	48
2006-2007	21	-	-	21
2005-2006	5	-	-	5
2004-2005	429	-	-	429
Motor vehicles	<u>13,217</u>	<u>20,698</u>	<u>21,185</u>	<u>12,730</u>
Total	<u>\$ 96,089</u>	<u>\$ 961,742</u>	<u>\$ 977,534</u>	<u>80,297</u>
Less: Allowance for uncollectible ad valorem taxes receivable				<u>5,000</u>
Ad valorem taxes receivable - net				<u>\$ 75,297</u>
Reconciliation with Revenues:				
Taxes - Ad valorem				\$ 983,289
Penalties and interest				(7,401)
Releases, refunds and other adjustments				<u>1,646</u>
Total collections and credit				<u>\$ 977,534</u>

TOWN OF BANNER ELK, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2013

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 246,308,908	0.38	\$ 935,974	\$ 935,974	\$ -
Motor vehicle taxes levied	5,446,770	0.38	20,698	-	20,698
Penalties	-		774	774	-
Total	<u>251,755,678</u>		<u>957,446</u>	<u>936,748</u>	<u>20,698</u>
Discoveries:	<u>1,557,894</u>	0.38	<u>5,920</u>	<u>5,920</u>	<u>-</u>
Abatements:	<u>(427,368)</u>	0.38	<u>(1,624)</u>	<u>(1,624)</u>	<u>-</u>
Total property valuation	<u>\$ 252,886,204</u>				
Net Levy			961,742	941,044	20,698
Uncollected taxes as of June 30, 2013			<u>31,673</u>	<u>30,558</u>	<u>1,115</u>
Current Year's Taxes Collected			<u>\$ 930,069</u>	<u>\$ 910,486</u>	<u>\$ 19,583</u>
Current Levy Collection Percentage			<u>96.71%</u>	<u>96.75%</u>	<u>94.61%</u>

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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*

Independent Auditor's Report

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

We have audited, 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 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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Banner Elk's basic financial statements, and have issued our report thereon dated September 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Banner Elk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Banner Elk's internal control. Accordingly, we do not express an opinion on the effectiveness of Banner Elk's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies 2013-001, 2013-002, and 2013-003 described in the accompanying Schedule of Findings and Questioned Costs 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 with certain provisions of laws, regulations, contracts, and grants agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003.

Response to Findings

The Town of Banner Elk's responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Town of Banner Elk's responses and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 30, 2013

TOWN OF BANNER ELK, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(s) identified that are not considered to be material weaknesses?	No
Non-compliance material to financial statements noted?	Yes

2. Financial Statement Findings

Finding 2013-001 - Significant Audit Adjustments

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting. This includes identifying all necessary adjustments to the Town's general ledger to conform to accounting principles generally accepted in the United States of America and generally accepted governmental accounting standards.

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. Management relies on its external auditor to identify and propose entries to convert the modified accrual records to a basis of accounting consistent with generally accepted accounting principles.

Cause: Due to the relatively small size of the Town's Accounting Department, as well as the operational nature of the Town, the main focus of management is to account, monitor, and report financial resources and activities on the modified accrual or budgetary basis. Thus, use of full accrual financial statements and related disclosures is not utilized in the normal course of business.

Effect: There is a risk that financial statements might be inaccurate, incomplete, or lack proper disclosure.

Context: Significant audit adjustments were made with regards to accrual adjustments required by GAAP.

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 Town's 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.

TOWN OF BANNER ELK, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

Financial Statement Findings (continued)

Name of Contact Person: Steve Smith, Finance Officer

Corrective Action/Management's Response: 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. The Town acknowledges and accepts responsibility for the accuracy of the audited financial statements.

Finding 2013-002 - Controls Over Financial Reporting

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 the 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.

Cause: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above is cost prohibitive.

Effect: The Town requires assistance from the external auditor in drafting the financial statements.

Context: The Town personnel cannot draft full disclosure GAAP 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, Finance Officer

Corrective Action/Management's Response: 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. The Town acknowledges and accepts responsibility for the accuracy of the audited financial statements.

TOWN OF BANNER ELK, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Financial Statement Findings (continued)

Finding 2013-003:

Criteria: General Statutes require that all money received and expended by a local government should be included in the budget ordinance. The Statutes require that funds be appropriated before incurring the obligation for funds. These requirements imply the Town has a responsibility to design a system to monitor its compliance with the budget ordinance and the General Statutes pertaining to local government finance.

Condition: There are excessive over-expended items in the Streets and Sidewalks Capital Project Fund.

Cause: Lack of budgetary control.

Effect: Expenditures exceed budget.

Context: While performing audit procedures, we noted the condition described above.

Recommendation: Management and the Board should review the budget reports to ensure compliance in future years.

Name of Contact Person: Steve Smith, Finance Officer

Corrective Action: Management concurs. Management and the Board will more closely review the budget reports to ensure compliance in future years.

Name of Contact Person: Steve Smith, Finance Officer

Corrective Action/Management's Response: Management concurs. Management and the Board will more closely review the budget reports to ensure compliance in future years.

TOWN OF BANNER ELK, NORTH CAROLINA

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

Finding 2012-001 was repeated as 2013-001.

Finding 2012-002 was repeated as 2013-002.