

**TOWN OF BANNER ELK  
NORTH CAROLINA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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

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



**TOWN COUNCIL MEMBERS**

Allan R. Bollick

Mike Dunn

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

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

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina, as of and for the year ended June 30, 2014, 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. The financial statements of the Banner Elk Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

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, 2014, 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, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the 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, economical, 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 16, 2014, 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 16, 2014

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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, 2014. 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

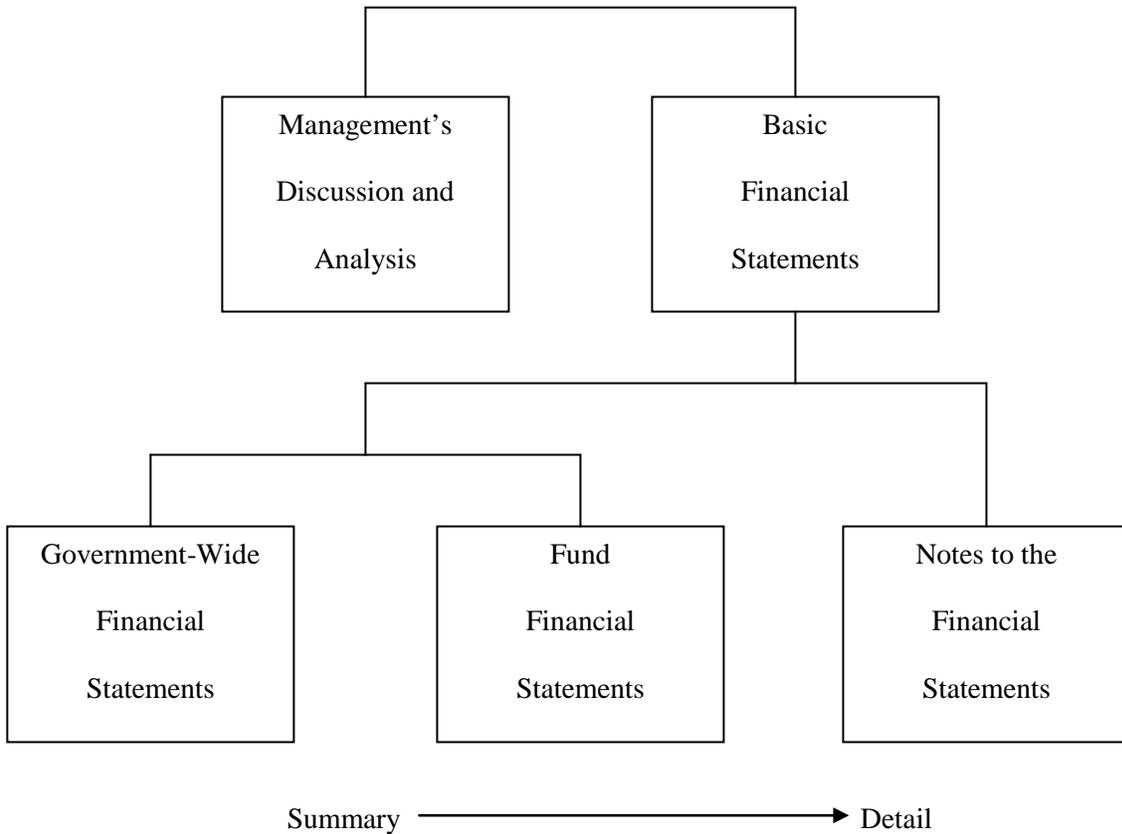
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$7,206,948 (*net position*).
- The government's total net position increased by \$10,240, primarily due to governmental fund related activities.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$1,458,287, a decrease of \$45,080 in comparison with the prior year. Approximately 21% of this total amount, or \$301,387, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$832,986, or 52%, of total General Fund expenditures and transfers out for the fiscal year.

### Overview of the Financial Statements

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

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

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

## **Government-Wide Financial Statements**

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

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

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

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

## **Fund Financial Statements**

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

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

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

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

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

**Other Information.** Combining and individual fund statements and schedules can be found beginning on page 49 of this report. Required supplementary information concerning the progress of funding other post-employment benefits can be found on page 48.

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

**Figure 2**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Assets:</b>						
Current and other assets	\$ 1,603,696	\$ 1,614,454	\$ 603,462	\$ 460,222	\$ 2,207,158	\$ 2,074,676
Capital assets	<u>2,866,511</u>	<u>2,449,910</u>	<u>3,456,754</u>	<u>3,639,192</u>	<u>6,323,265</u>	<u>6,089,102</u>
Total assets	<u>4,470,207</u>	<u>4,064,364</u>	<u>4,060,216</u>	<u>4,099,414</u>	<u>8,530,423</u>	<u>8,163,778</u>
<b>Liabilities:</b>						
Long-term liabilities outstanding	724,428	408,485	421,849	475,434	1,146,277	883,919
Other liabilities	<u>113,770</u>	<u>35,790</u>	<u>63,428</u>	<u>47,361</u>	<u>177,198</u>	<u>83,151</u>
Total liabilities	<u>838,198</u>	<u>444,275</u>	<u>485,277</u>	<u>522,795</u>	<u>1,323,475</u>	<u>967,070</u>
<b>Net Position:</b>						
Net investment in capital assets	2,389,201	2,179,443	3,058,754	3,183,192	5,447,955	5,362,635
Restricted	193,116	186,432	-	-	193,116	186,432
Unrestricted	<u>1,049,692</u>	<u>1,254,214</u>	<u>516,185</u>	<u>393,427</u>	<u>1,565,877</u>	<u>1,647,641</u>
Total net position	<u>\$ 3,632,009</u>	<u>\$ 3,620,089</u>	<u>\$ 3,574,939</u>	<u>\$ 3,576,619</u>	<u>\$ 7,206,948</u>	<u>\$ 7,196,708</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 \$7,206,948 as of June 30, 2014. The Town's net position increased by \$10,240 for the fiscal year ended June 30, 2014. However, the largest portion (76%) 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, \$193,116, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,565,877 is unrestricted.

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

- In the current year, there was an increase in property tax rate of four cents per hundred dollars of valuation.
- The Town experienced a small increase in investment growth with the development of real property.

## Town of Banner Elk Changes in Net Position

**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 41,830	\$ 51,622	\$ 629,301	\$ 540,707	\$ 671,131	\$ 592,329
Operating grants and contributions	162,107	142,797	-	-	162,107	142,797
Capital grants and contributions	116,000	31,500	-	-	116,000	31,500
General revenues:						
Property taxes	1,068,610	966,702	-	-	1,068,610	966,702
Other taxes	419,446	428,937	-	-	419,446	428,937
Investment earnings	2,613	2,510	277	535	2,890	3,045
Total revenues	<u>1,810,606</u>	<u>1,624,068</u>	<u>629,578</u>	<u>541,242</u>	<u>2,440,184</u>	<u>2,165,310</u>
<b>Expenses:</b>						
General government	433,234	450,653	-	-	433,234	450,653
Public safety	765,705	761,431	-	-	765,705	761,431
Transportation	428,324	257,728	-	-	428,324	257,728
Cultural and recreation	158,913	113,896	-	-	158,913	113,896
Interest on long-term debt	12,510	12,691	-	-	12,510	12,691
Water and sewer	-	-	631,258	708,044	631,258	708,044
Total expenses	<u>1,798,686</u>	<u>1,596,399</u>	<u>631,258</u>	<u>708,044</u>	<u>2,429,944</u>	<u>2,304,443</u>
Change in net position	11,920	27,669	(1,680)	(166,802)	10,240	(139,133)
<b>Net Position:</b>						
Beginning of year - July 1	<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>
End of year - June 30	<u>\$ 3,632,009</u>	<u>\$ 3,620,089</u>	<u>\$ 3,574,939</u>	<u>\$ 3,576,619</u>	<u>\$ 7,206,948</u>	<u>\$ 7,196,708</u>

**Governmental Activities.** Governmental activities increased the Town's net position by \$11,920. Key elements of this increase are as follows:

- Property tax revenues increased due to an increase in property tax rates of four cents per hundred dollars of valuation in the current year.

**Business-Type Activities.** Business-type activities decreased the Town of Banner Elk's net position by \$1,680. Key element of this decrease are as follows:

- A rate increase for water and sewer services went into effect for the fiscal year which increased charges for services. However, expenses still exceeded revenues during the year, although there was a significant decrease in expenses from the prior 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 \$832,986, while total fund balance reached \$945,763.

At June 30, 2014, the governmental funds of the Town of Banner Elk reported a combined fund balance of \$1,458,287, a 3.09% decrease over last year. Included in this change in fund balance is an increase in the General Fund of \$145,571, a decrease in the Capital Improvement Capital Project Fund of \$197,475, and a net increase in other nonmajor funds of \$6,824.

**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.

**Capital Improvement Capital Project Fund.** There were several reasons the Town revised its budget through the year. The Town received some unrestricted intergovernmental funds that became available for distribution in 2014. Several budget amendments were required to comply with budgetary requirements to account for unexpected capital outlay expenditures.

**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 \$516,185. The change in net position was a decrease of \$1,680. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Banner Elk's business-type activities.

## Capital Asset and Debt Administration

**Capital Assets.** The Town of Banner Elk's capital assets for its governmental and business-type activities as of June 30, 2014, totals \$6,323,265 (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 | \$490,700 |
| • Governmental equipment             | \$11,280  |
| • Governmental vehicles              | \$118,040 |

## Town of Banner Elk's Capital Assets

**Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 223,019	\$ 223,019	\$ 23,466	\$ 23,466	\$ 246,485	\$ 246,485
Construction in progress	76,755	163,703	-	-	76,755	163,703
Infrastructure	1,725,924	1,725,924	-	-	1,725,924	1,725,924
Buildings	1,049,045	558,345	-	-	1,049,045	558,345
Plant	-	-	6,465,739	6,467,948	6,465,739	6,467,948
Equipment and furniture	738,165	608,845	597,109	647,613	1,335,274	1,256,458
Total	3,812,908	3,279,836	7,086,314	7,139,027	10,899,222	10,418,863
Less: accumulated depreciation	(946,397)	(829,926)	(3,629,560)	(3,499,835)	(4,575,957)	(4,329,761)
Net capital assets	<u>\$ 2,866,511</u>	<u>\$ 2,449,910</u>	<u>\$ 3,456,754</u>	<u>\$ 3,639,192</u>	<u>\$ 6,323,265</u>	<u>\$ 6,089,102</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, 2014, the Town of Banner Elk had total bonded debt outstanding of \$398,000. Of this, \$398,000 is debt backed by the full-faith and credit of the Town.

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

**Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ -	\$ -	\$ 398,000	\$ 456,000	\$ 398,000	\$ 456,000
Compensated absences	62,770	63,832	23,849	19,434	86,619	83,266
Other post-employment benefits	76,077	74,186	-	-	76,077	74,186
Installment purchases	585,581	270,467	-	-	585,581	270,467
Total	<u>\$ 724,428</u>	<u>\$ 408,485</u>	<u>\$ 421,849</u>	<u>\$ 475,434</u>	<u>\$ 1,146,277</u>	<u>\$ 883,919</u>

The Town of Banner Elk's total long-term liabilities increased by \$262,358 during the past fiscal year, due to two installment loans being issued in the current year for a snow plow and Stormwater and Bridge Repair projects.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Banner Elk is \$20,861,110.

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, 2015**

**Governmental Activities.** Property tax revenues are expected to increase twelve cents per hundred dollars of valuation from the prior year due to a revaluation. This rate is expected to be revenue neutral. State shared revenues are expected to increase slightly due to an improving State economy.

Budgeted expenditures in the General Fund are expected to remain constant 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 due to rate increases. General operating revenues are expected to increase due to rate increases instituted in order to grow reserves. Water and sewer expenditures will also increase as will the amounts being applied to the reserve fund.

Capital outlays relating to the Water and Sewer Fund are expected to remain at or near zero 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, 2014

	Primary Government			Town of Banner Elk Tourism Development Authority
	Governmental Activities	Business-Type Activities	Total	
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,348,766	\$ 413,621	\$ 1,762,387	\$ 124,058
Restricted cash	108,271	38,398	146,669	-
Taxes receivable, net	31,639	-	31,639	-
Accounts receivable, net	1,396	71,543	72,939	292
Due from other governments	113,624	1,991	115,615	-
Inventories	-	77,909	77,909	-
Capital assets, non-depreciable	299,774	23,466	323,240	-
Capital assets, net	<u>2,566,737</u>	<u>3,433,288</u>	<u>6,000,025</u>	-
Total assets	<u>4,470,207</u>	<u>4,060,216</u>	<u>8,530,423</u>	<u>124,350</u>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	113,770	25,030	138,800	-
Amounts payable from restricted assets:				
Customer deposits	-	38,398	38,398	-
Long-term liabilities:				
Due within one year	72,450	64,470	136,920	-
Due in more than one year	<u>651,978</u>	<u>357,379</u>	<u>1,009,357</u>	-
Total liabilities	<u>838,198</u>	<u>485,277</u>	<u>1,323,475</u>	-
<b>Net Position:</b>				
Net investment in capital assets	2,389,201	3,058,754	5,447,955	-
Restricted for:				
Stabilization by State statute	115,020	-	115,020	292
Public safety	78,096	-	78,096	-
Tourism	-	-	-	124,058
Unrestricted	<u>1,049,692</u>	<u>516,185</u>	<u>1,565,877</u>	-
Total net position	<u>\$ 3,632,009</u>	<u>\$ 3,574,939</u>	<u>\$ 7,206,948</u>	<u>\$ 124,350</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, 2014**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 433,234	\$ 12,256	\$ 26,500	\$ -
Public safety	765,705	24,671	94,537	-
Public works	-	-	-	50,000
Transportation	428,324	-	41,070	-
Cultural and recreation	158,913	4,903	-	66,000
Interest on long-term debt	12,510	-	-	-
Total governmental activities	<u>1,798,686</u>	<u>41,830</u>	<u>162,107</u>	<u>116,000</u>
<b>Business-Type Activities:</b>				
Water and sewer	<u>631,258</u>	<u>629,301</u>	-	-
Total primary government	<u>\$ 2,429,944</u>	<u>\$ 671,131</u>	<u>\$ 162,107</u>	<u>\$ 116,000</u>
<b>Component Unit</b>				
Tourism Development Authority (TDA)	<u>\$ 152,350</u>	<u>\$ 5,544</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**

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Primary Government</b>		<b>Banner Elk Tourism Development Authority</b>	
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Authority</b>
\$ (394,478)	\$ -	\$ (394,478)	\$ -
(646,497)	-	(646,497)	-
50,000	-	50,000	-
(387,254)	-	(387,254)	-
(88,010)	-	(88,010)	-
(12,510)	-	(12,510)	-
(1,478,749)	-	(1,478,749)	-
-	(1,957)	(1,957)	-
(1,478,749)	(1,957)	(1,480,706)	-
-	-	-	(146,806)
1,068,610	-	1,068,610	-
299,871	-	299,871	-
119,575	-	119,575	137,249
2,613	277	2,890	460
1,490,669	277	1,490,946	137,709
11,920	(1,680)	10,240	(9,097)
3,620,089	3,576,619	7,196,708	133,447
\$ 3,632,009	\$ 3,574,939	\$ 7,206,948	\$ 124,350

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

**TOWN OF BANNER ELK, NORTH CAROLINA**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Capital Improvement Capital Project Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 903,435	\$ 331,309	\$ 114,022	\$ 1,348,766
Restricted cash	-	108,271	-	108,271
Taxes receivable, net	31,639	-	-	31,639
Accounts receivable, net	1,396	-	-	1,396
Due from other governments	111,381	1,854	389	113,624
Total assets	<u>\$ 1,047,851</u>	<u>\$ 441,434</u>	<u>\$ 114,411</u>	<u>\$ 1,603,696</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 70,449	\$ 43,221	\$ 100	\$ 113,770
<b>Deferred Inflows of Resources:</b>				
Property taxes receivable	31,639	-	-	31,639
<b>Fund Balances:</b>				
Restricted:				
Stabilization by State statute	112,777	1,854	389	115,020
Public safety	-	-	78,096	78,096
Future capital outlay	-	108,271	-	108,271
Committed:				
Capital projects - transportation	-	-	35,826	35,826
Assigned:				
Capital projects - cultural and recreation	-	288,088	-	288,088
Unassigned	832,986	-	-	832,986
Total fund balances	<u>945,763</u>	<u>398,213</u>	<u>114,311</u>	<u>1,458,287</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,047,851</u>	<u>\$ 441,434</u>	<u>\$ 114,411</u>	

Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) 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.	2,866,511
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	31,639
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(724,428)</u>
Net position of governmental activities	<u>\$ 3,632,009</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, 2014

	Major Funds			Total Governmental Funds
	General Fund	Capital Improvement Capital Project Fund	Nonmajor Funds	
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,112,268	\$ -	\$ -	\$ 1,112,268
Other taxes and licenses	3,235	-	-	3,235
Unrestricted intergovernmental revenues	416,211	-	-	416,211
Restricted intergovernmental revenues	204,394	66,000	-	270,394
Permits and fees	8,580	-	-	8,580
Sales and services	4,903	-	17,719	22,622
Interest earned on investments	1,538	1,075	-	2,613
Miscellaneous	10,628	-	7,713	18,341
Total revenues	<u>1,761,757</u>	<u>67,075</u>	<u>25,432</u>	<u>1,854,264</u>
<b>Expenditures:</b>				
Current:				
General government	409,210	-	-	409,210
Public safety	712,298	-	18,466	730,764
Public works	-	194,801	-	194,801
Transportation	387,348	-	142	387,490
Cultural and recreation	90,734	388,949	-	479,683
Debt service:				
Principal repayments	-	-	4,086	4,086
Interest	-	-	12,510	12,510
Total expenditures	<u>1,599,590</u>	<u>583,750</u>	<u>35,204</u>	<u>2,218,544</u>
Revenues over (under) expenditures	<u>162,167</u>	<u>(516,675)</u>	<u>(9,772)</u>	<u>(364,280)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	-	-	16,596	16,596
Transfers to other funds	(16,596)	-	-	(16,596)
Long-term debt issued	-	319,200	-	319,200
Total other financing sources (uses)	<u>(16,596)</u>	<u>319,200</u>	<u>16,596</u>	<u>319,200</u>
Net change in fund balances	145,571	(197,475)	6,824	(45,080)
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>800,192</u>	<u>595,688</u>	<u>107,487</u>	<u>1,503,367</u>
End of year - June 30	<u>\$ 945,763</u>	<u>\$ 398,213</u>	<u>\$ 114,311</u>	<u>\$ 1,458,287</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, 2014

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)	\$ (45,080)
<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	(43,658)
Expenses related to compensated absences and other post-employment benefits that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(829)
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.	533,072
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statements.	(116,471)
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.	4,086
Proceeds from issuance of debt are reported as revenues in the governmental fund statement. However, in the statement of activities, it is not a revenue, rather it is an increase in liabilities.	<u>(319,200)</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 11,920</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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,071,941	\$ 1,094,541	\$ 1,112,268	\$ 17,727
Other taxes and licenses	2,000	2,000	3,235	1,235
Unrestricted intergovernmental revenues	406,796	406,796	416,211	9,415
Restricted intergovernmental revenues	183,000	209,500	204,394	(5,106)
Permits and fees	2,500	2,500	8,580	6,080
Sales and services	6,736	6,736	4,903	(1,833)
Interest earned on investments	500	500	1,538	1,038
Miscellaneous	11,000	11,000	10,628	(372)
Total revenues	<u>1,684,473</u>	<u>1,733,573</u>	<u>1,761,757</u>	<u>28,184</u>
<b>Expenditures:</b>				
General government	406,883	428,483	409,210	19,273
Public safety	770,636	770,636	712,298	58,338
Transportation	340,718	390,718	387,348	3,370
Cultural and recreation	102,501	102,501	90,734	11,767
Total expenditures	<u>1,620,738</u>	<u>1,692,338</u>	<u>1,599,590</u>	<u>92,748</u>
Revenues over (under) expenditures	<u>63,735</u>	<u>41,235</u>	<u>162,167</u>	<u>120,932</u>
<b>Other Financing Sources (Uses):</b>				
Appropriated fund balance	-	17,500	-	(17,500)
Transfers to other funds	<u>(63,735)</u>	<u>(58,735)</u>	<u>(16,596)</u>	<u>42,139</u>
Total other financing sources (uses)	<u>(63,735)</u>	<u>(41,235)</u>	<u>(16,596)</u>	<u>24,639</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	145,571	<u>\$ 145,571</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>800,192</u>	
End of year - June 30			<u>\$ 945,763</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, 2014

	<u>Water and Sewer Fund</u>
<b>Assets:</b>	
Current assets:	
Cash and cash equivalents	\$ 413,621
Restricted cash	38,398
Accounts receivable, net	71,543
Due from other governments	1,991
Inventory	<u>77,909</u>
Total current assets	<u>603,462</u>
Capital assets:	
Land	23,466
Other capital assets, net	<u>3,433,288</u>
Total capital assets	<u>3,456,754</u>
Total assets	<u>4,060,216</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable and accrued liabilities	25,030
Amounts payable from restricted assets:	
Customer deposits	38,398
Compensated absences - current	4,470
Current portion of long-tem debt	<u>60,000</u>
Total current liabilities	<u>127,898</u>
Non-current liabilities:	
Compensated absences	19,379
Notes and bonds payable	<u>338,000</u>
Total non-current liabilities	<u>357,379</u>
Total liabilities	<u>485,277</u>
<b>Net Position:</b>	
Net investment in capital assets	3,058,754
Unrestricted	<u>516,185</u>
Total net position	<u>\$ 3,574,939</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, 2014**

	<u>Water and Sewer Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 556,277
Water and sewer taps	45,760
Other operating revenues	<u>27,264</u>
Total operating revenues	<u>629,301</u>
<b>Operating Expenses:</b>	
Water/sewer operations	431,583
Depreciation	<u>182,438</u>
Total operating expenses	<u>614,021</u>
Operating income (loss)	<u>15,280</u>
<b>Non-Operating Revenues (Expenses):</b>	
Investment earnings	277
Interest and other charges	<u>(17,237)</u>
Total non-operating revenues (expenses)	<u>(16,960)</u>
Change in net position	(1,680)
<b>Net Position:</b>	
Beginning of year - July 1	<u>3,576,619</u>
End of year - June 30	<u>\$ 3,574,939</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, 2014

	<u>Water and Sewer Fund</u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 621,611
Cash paid for goods and services	(223,149)
Cash paid to employees	(193,628)
Net cash provided (used) by operating activities	<u>204,834</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Principal paid on long-term debt	(58,000)
Interest and other charges	(17,237)
Net cash provided (used) by capital and related financing activities	<u>(75,237)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest received	<u>277</u>
Net increase (decrease) in cash, cash equivalents, and investments	129,874
<b>Cash and Cash Equivalents:</b>	
Beginning of year - July 1	<u>322,145</u>
End of year - June 30	<u>\$ 452,019</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ 15,280
Depreciation and amortization	182,438
Change in assets and liabilities:	
(Increase) decrease in accounts receivables	5,054
Increase (decrease) in accounts payable and accrued liabilities	19,481
Increase (decrease) in customer deposits and unearned revenues	(3,414)
Increase (decrease) in accrued vacation pay	4,415
Net cash provided (used) by operating activities	<u>\$ 204,834</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, 2014

### 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 governmental fund (discrete presentation). Complete financial statements for the TDA Board may be obtained from the entity’s administrative offices at the Town of Banner Elk TDA, P.O. Box 2049, Banner Elk, North Carolina 28604.

#### B. Basis of Presentation

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

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

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

The Town maintains the following major governmental funds:

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

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

The Town maintains the following nonmajor governmental funds:

**Streets and Sidewalks Capital Project Fund.** The Streets and Sidewalk Capital Project 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.

**Debt Service Fund.** The Debt Service Fund accounts for funds set aside to meet certain long-term debt requirements.

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The Town reports the following major enterprise fund:

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

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

### C. Measurement Focus and Basis of Accounting

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

*Government-Wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The 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, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax collected and held by the State at year-end on behalf of the Town, are recognized as revenue. 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.

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### **D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Improvement Capital Project Fund, Police Special Revenue Fund, Cops Golf Tournament Special Revenue Fund, Debt Service Fund, Water and Sewer Fund, and Water and Sewer Capital Improvement Plan Fund. All annual appropriations lapse at the fiscal year-end.

A project ordinance is adopted for the Streets and Sidewalk Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

### **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.

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Restricted Cash

The unexpended debt proceeds in the Capital Improvement Capital Project Fund are classified as restricted assets because their use is completely restricted for the purpose in which the debt was issued. Security deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Restricted cash at June 30, 2014, consist of the following:

#### Governmental Activities:

Capital Improvement Capital Project Fund:

Unexpended debt proceeds	<u>\$ 108,271</u>
Total governmental activities	<u>\$ 108,271</u>

#### Business-Type Activities:

Water and Sewer Fund:

Customer deposits	<u>\$ 38,398</u>
Total business-type activities	<u>\$ 38,398</u>

Total restricted cash	<u>\$ 146,669</u>
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### 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, 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.

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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.

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

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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.

### **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.

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 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)].

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

*Restricted for Future Capital Outlay* – portion of fund balance representing unspent debt proceeds that are legally restricted to the purpose for which the debt was issued.

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$108,271, as of June 30, 2014.

**Committed Fund Balance:** This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Banner Elk's governing body (highest level of decision making authority, the Town Council). Any changes or removal of specific purpose restrictions requires majority action by the governing body. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

*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 Capital Project 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.

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	\$ 945,763
<b>Less:</b>	
Stabilization by State statute	<u>112,777</u>
Total available fund balance	<u>\$ 832,986</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.

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Use of Estimates

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

## 2. Detail Notes on All Funds

### A. Assets

#### Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2014, the Town's deposits had a carrying amount of \$122,150 and a bank balance of \$176,999. Of the bank balance, \$176,999 was covered by FDIC. The Town held \$1,881 in petty cash as of June 30, 2014.

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Investments

At June 30, 2014, 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	\$ 782,192	N/A	AAAm
NC Capital Management Trust - term portfolio	1,002,833	0.23 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, 2014. 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, 2014**

**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>
<b>Governmental Activities:</b>				
Garbage fees	\$ 1,396	\$ -	\$ -	\$ 1,396
Property taxes	-	57,639	-	57,639
Local options sales/franchise tax	-	-	108,100	108,100
Sales tax refunds due	-	-	5,524	5,524
Allowance for doubtful accounts	-	(26,000)	-	(26,000)
Total governmental activities	<u>\$ 1,396</u>	<u>\$ 31,639</u>	<u>\$ 113,624</u>	<u>\$ 146,659</u>
<b>Business-Type Activities:</b>				
Water and sewer	\$ 109,877	\$ -	\$ 1,991	\$ 111,868
Allowance for doubtful accounts	<u>(38,334)</u>	<u>-</u>	<u>-</u>	<u>(38,334)</u>
Total business-type activities	<u>\$ 71,543</u>	<u>\$ -</u>	<u>\$ 1,991</u>	<u>\$ 73,534</u>

**TOWN OF BANNER ELK, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Capital Assets**

**Governmental Capital Assets**

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

	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
<b>By Asset Type:</b>				
<b>Non-Depreciable Assets:</b>				
Land	\$ 223,019	\$ -	\$ -	\$ 223,019
Construction in progress	<u>163,703</u>	<u>76,755</u>	<u>163,703</u>	<u>76,755</u>
Total non-depreciable assets	<u>386,722</u>	<u>76,755</u>	<u>163,703</u>	<u>299,774</u>
<b>Depreciable Assets:</b>				
Infrastructure	1,725,924	-	-	1,725,924
Buildings	558,345	490,700	-	1,049,045
Equipment and furniture	<u>608,845</u>	<u>129,320</u>	-	<u>738,165</u>
Total depreciable assets	<u>2,893,114</u>	<u>620,020</u>	-	<u>3,513,134</u>
<b>Less Accumulated Depreciation:</b>				
Infrastructure	177,084	40,679	-	217,763
Buildings	206,440	12,596	-	219,036
Equipment and furniture	<u>446,402</u>	<u>63,196</u>	-	<u>509,598</u>
Total accumulated depreciation	<u>829,926</u>	<u>\$ 116,471</u>	<u>\$ -</u>	<u>946,397</u>
Capital assets, net	<u>\$ 2,449,910</u>			<u>\$ 2,866,511</u>

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

**Governmental Activities:**

General government	\$ 23,294
Public safety	34,941
Transportation	40,765
Cultural and recreation	<u>17,471</u>
Total	<u>\$ 116,471</u>

## TOWN OF BANNER ELK, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

#### Proprietary Capital Assets

The capital assets of the proprietary fund of the Town at June 30, 2014, were as follows:

	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>
<b>Business-Type Activities:</b>				
<b>Water/Sewer Fund:</b>				
<b>Non-Depreciable Assets:</b>				
Land	\$ 23,466	\$ -	\$ -	\$ 23,466
Total non-depreciable assets	<u>23,466</u>	<u>-</u>	<u>-</u>	<u>23,466</u>
<b>Depreciable Assets:</b>				
Plant	6,467,948	-	2,209	6,465,739
Equipment	<u>647,613</u>	<u>-</u>	<u>50,504</u>	<u>597,109</u>
Total depreciable assets	<u>7,115,561</u>	<u>-</u>	<u>52,713</u>	<u>7,062,848</u>
<b>Less Accumulated Depreciation:</b>				
Plant	2,913,950	169,211	2,209	3,080,952
Equipment	<u>585,885</u>	<u>13,227</u>	<u>50,504</u>	<u>548,608</u>
Total accumulated depreciation	<u>3,499,835</u>	<u>\$ 182,438</u>	<u>\$ 52,713</u>	<u>3,629,560</u>
Capital assets, net	<u>\$ 3,639,192</u>			<u>\$ 3,456,754</u>

#### Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2014, is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 2,866,511	\$ 3,456,754
Long-term debt	(585,581)	(398,000)
Unexpended debt proceeds	<u>108,271</u>	<u>-</u>
Net Investment in capital assets	<u>\$ 2,389,201</u>	<u>\$ 3,058,754</u>

**TOWN OF BANNER ELK, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**B. Liabilities**

**Accounts Payable and Accrued Liabilities**

Payables at Exhibit A at June 30, 2014, were as follows:

	<u>Vendors</u>	<u>Accrued Liabilities</u>	<u>Total</u>
<b>Governmental Activities:</b>			
Governmental	\$ 83,574	\$ 30,196	\$ 113,770
<b>Business-Type Activities:</b>			
Water and sewer	\$ 25,030	\$ -	\$ 25,030

**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 6% 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 7.07% and 7.28%, 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, 2014, 2013, and 2012, were \$59,477, \$55,674, and \$55,594, respectively. The contributions made by the Town equaled the required contributions for each year.

**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

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Allowance is equal to .85% 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, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	9
Total	<u>11</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, 2014, 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 (the "Plan"), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014, were \$109,259, which consisted of \$59,477 from the Town and \$49,782 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 if they have at least ten years of creditable service with the Town to remain on the Town's policy with the retiree paying the full cost. If the employee has twenty-five years of creditable service with the Town, the Town will pay the full cost of coverage of these benefits for retirees. Retirees will cease to be eligible for group health once they are Medicare eligible. Retirees who do not meet the aforementioned criteria have the option to purchase basic medical insurance for themselves and their dependents through the Town for eighteen months. The entire cost of this insurance is borne by the retirees. The Town maintains healthcare coverage through a combination of self-insurance and private insurers (see Risk Management Note). The plan was eliminated for all active employees as of December 10, 2012. A separate report was not issued for the plan.

Membership of the post-employment health benefit plan consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	1
Active members	-
Total	<u>1</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 retiree. 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, 2014

The current annual required contribution rate (ARC) is \$13,554. There is no annual covered payroll due to closure of the plan. For fiscal year 2014, the Town contributed \$7,029. Contributions by employees for the fiscal year ended June 30, 2014, were \$0. The Town's obligation to contribute to the post-retirement benefit plan is established and was amended by the Town Council January 2013.

**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	\$	13,554
Interest on net OPEB obligation		2,967
Adjustment to annual required contribution		<u>(7,601)</u>
Annual OPEB cost (expense)		8,920
Contributions made		<u>7,029</u>
Increase (decrease) in net OPEB obligation		1,891
Net OPEB obligation, beginning of year		<u>74,186</u>
Net OPEB obligation, end of year	\$	<u><u>76,077</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 18,959	0.00%	\$ 55,123
2013	19,063	0.00%	74,186
2014	8,920	78.80%	76,077

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

**Funded Status and Funding Progress.** As of December 31, 2013, 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 \$132,294. The covered payroll (annual payroll of active employees covered by the plan) was \$0, and the ratio of the UAAL to the covered payroll was not applicable. 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, 2013, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4.0% investment rate of return (net of administrative expenses), which included an inflation component of 3.0% and (b) a 7.5% – 5.0% pre-Medicare trend rate with 2019, 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 dollar amount on a closed basis. The remaining amortization period at December 31, 2013, was 12 years.

### **Other Employment Benefits**

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one-year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no

**TOWN OF BANNER ELK, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer had contributed as of December 31, 2010, was established by the State. The Town contributed more than 20 years and was relieved for three years. Contributions from the Town will resume in the fiscal year beginning July 1, 2015.

**Deferred Inflows of Resources**

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

	<u>Unavailable Revenues</u>
<b>Governmental Funds/Activities:</b>	
Taxes receivable (General Fund)	\$ 31,639

**Risk Management**

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

# TOWN OF BANNER ELK, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 for \$300,000, 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 \$ 266,381

2.28% note for \$201,200, payable to BB&T issued May 2014; payable in annual installments of \$31,423, including interest; beginning May 2015 with final payment due May 2021; secured by real estate 201,200

1.89% note for \$118,000, payable to BB&T issued January 2014; payable in semi-annual installments of \$15,384, including interest; beginning July 2014 with final payment due January 2018; secured by equipment 118,000  
\$ 585,581

#### Business-Type Activities:

##### General Obligation Bonds:

3.98% bonds issued for \$865,000 in 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 \$ 398,000

## TOWN OF BANNER ELK, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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
2015	\$ 59,784	\$ 19,002	\$ 78,786	\$ 60,000	\$ 15,044	\$ 75,044
2016	61,137	17,650	78,787	63,000	12,776	75,776
2017	62,525	16,262	78,787	65,000	10,396	75,396
2018	63,948	14,840	78,788	67,000	7,940	74,940
2019	34,491	13,528	48,019	70,000	5,406	75,406
2020-2024	90,150	55,669	145,819	73,000	2,760	75,760
2025-2029	36,845	46,130	82,975	-	-	-
2030-2034	46,193	36,782	82,975	-	-	-
2035-2039	57,909	25,066	82,975	-	-	-
2040-2044	72,599	10,377	82,976	-	-	-
Total	<u>\$ 585,581</u>	<u>\$ 255,306</u>	<u>\$ 840,887</u>	<u>\$ 398,000</u>	<u>\$ 54,322</u>	<u>\$ 452,322</u>

Changes in long-term debt were as follows:

	July 1, 2013	Increases	Decreases	June 30, 2014	Current Maturities
<b>Government Activities:</b>					
Notes payable	\$ 270,467	\$ 319,200	\$ 4,086	\$ 585,581	\$ 59,784
Other post-employment benefits	74,186	1,891	-	76,077	-
Compensated absences	63,832	30,854	31,916	62,770	12,666
Total governmental activities	<u>\$ 408,485</u>	<u>\$ 351,945</u>	<u>\$ 36,002</u>	<u>\$ 724,428</u>	<u>\$ 72,450</u>
<b>Business-Type Activities:</b>					
General obligation bonds	\$ 456,000	\$ -	\$ 58,000	\$ 398,000	\$ 60,000
Compensated absences	19,434	23,849	19,434	23,849	4,470
Total business-type activities	<u>\$ 475,434</u>	<u>\$ 23,849</u>	<u>\$ 77,434</u>	<u>\$ 421,849</u>	<u>\$ 64,470</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, 2014, the Town had a legal debt margin of \$20,861,110.

**TOWN OF BANNER ELK, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**C. Interfund Transactions**

**Transfers**

In fiscal year 2014, the Town made the following transfers within its fund structure:

<u>Fund Name</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>
General Fund	\$ 16,596	\$ -	Debt service payments
Debt Service Fund	-	16,596	
Total	<u>\$ 16,596</u>	<u>\$ 16,596</u>	

**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 \$805 for various projects to the Council during the fiscal year ended June 30, 2014.

**4. Summary Disclosure of Significant Contingencies**

**Federal and State-Assisted Programs**

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

**TOWN OF BANNER ELK, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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, 2014, are:

Capital Improvement Plan - Governmental Capital Project Fund:	
Public works	\$ 38,750
Streets and Sidewalks Capital Project Fund:	
Sidewalks and streetscape	86,793

The Town will be more diligent in the future in monitoring the budget and will make amendments as needed. The Finance Officer will report quarterly financial and budget information to the Town Council members at the regularly scheduled public meetings to ensure that all council members are aware of the expenditures and the importance of staying within budgetary guidelines.

**B. Non-Compliance with North Carolina General Statutes**

N.C. General Statute 159-32 requires that cash receipts over \$250 be deposited on the same business day. Deposits are not being completed daily as required by State Statute. In the current year, the Town is not being making timely deposits if cash on hand is over \$250. The Town will be more diligent in the future in making timely deposits.

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## TOWN OF BANNER ELK, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2014

## Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL)		Unfunded AAL (UAAL) (B - A)	Funded Ratio (A / B)	Covered Payroll C	UAAL as a Percentage of Covered Payroll ((B - A) / C)
		Projected Unit Credit (B)					
12/31/2011	\$ -	\$ 242,316		\$ 242,316	0.00%	\$ 814,296	29.80%
12/31/2013*	-	132,294		132,294	0.00%	-	N/A

\*The Plan was eliminated for all active employees as of December 10, 2012. The covered payroll displayed excludes members who are ineligible for benefits due to the closure of the Plan.

## Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
	2012	\$ 18,760
2013	18,760	0.00%
2014	13,554	51.86%

## 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	12/31/2013	
Actuarial cost method	Projected unit credit	
Amortization method	Level dollar amount, closed	
Remaining amortization period	12 years	
Asset valuation method	Market value	
Actuarial assumptions:		
Investment rate of return **	4.00%	** Includes inflation at 3.00%
Pre-Medicare trend rate	5.00% - 7.50%	
Year of ultimate trend rate	2019	

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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Final Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
<b>Ad Valorem Taxes:</b>				
Taxes	\$ 1,091,541	\$ 1,102,562	\$ 11,021	\$ 975,888
Penalties and interest	3,000	9,706	6,706	7,401
Total	<u>1,094,541</u>	<u>1,112,268</u>	<u>17,727</u>	<u>983,289</u>
<b>Other Taxes and Licenses:</b>				
Privilege licenses	<u>2,000</u>	<u>3,235</u>	<u>1,235</u>	<u>4,043</u>
Total	<u>2,000</u>	<u>3,235</u>	<u>1,235</u>	<u>4,043</u>
<b>Unrestricted Intergovernmental Revenues:</b>				
Local option sales tax	299,000	299,871	871	290,668
Utility franchise tax	83,000	90,805	7,805	109,346
Beer and wine tax	4,200	4,694	494	4,445
Contribution - TDA	20,596	20,841	245	20,435
Total	<u>406,796</u>	<u>416,211</u>	<u>9,415</u>	<u>424,894</u>
<b>Restricted Intergovernmental Revenues:</b>				
Powell Bill allocation	41,000	41,070	70	41,185
Other local grants and matching contributions	55,000	50,000	(5,000)	30,000
ABC revenue for law enforcement	87,000	86,824	(176)	82,057
FEMA reimbursement	<u>26,500</u>	<u>26,500</u>	-	-
Total	<u>209,500</u>	<u>204,394</u>	<u>(5,106)</u>	<u>153,242</u>
<b>Permits and Fees:</b>				
Building permits	<u>2,500</u>	<u>8,580</u>	<u>6,080</u>	<u>5,568</u>
Total	<u>2,500</u>	<u>8,580</u>	<u>6,080</u>	<u>5,568</u>
<b>Sales and Services:</b>				
Park lease/rental income	<u>6,736</u>	<u>4,903</u>	<u>(1,833)</u>	<u>2,352</u>
Total	<u>6,736</u>	<u>4,903</u>	<u>(1,833)</u>	<u>2,352</u>
<b>Investment Earnings</b>	<u>500</u>	<u>1,538</u>	<u>1,038</u>	<u>1,075</u>
<b>Miscellaneous</b>	<u>11,000</u>	<u>10,628</u>	<u>(372)</u>	<u>26,163</u>
Total revenues	<u>1,733,573</u>	<u>1,761,757</u>	<u>28,184</u>	<u>1,600,626</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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Final Budget	Actual	Variance Over/Under	Actual
<b>Expenditures:</b>				
<b>General Government:</b>				
<b>Administration:</b>				
Salaries and employee benefits	110,390	104,764	5,626	93,998
Operating expenses	77,387	72,363	5,024	75,455
Total	187,777	177,127	10,650	169,453
<b>Governing Body:</b>				
Salaries and employee benefits	13,426	13,726	(300)	13,564
Operating expenses	38,801	37,848	953	41,859
Total	52,227	51,574	653	55,423
<b>Finance:</b>				
Salaries and employee benefits	53,558	53,166	392	53,014
Operating expenses	5,073	4,475	598	7,371
Total	58,631	57,641	990	60,385
<b>Planning:</b>				
Salaries and employee benefits	63,324	62,649	675	59,015
Operating expenses	30,024	24,780	5,244	16,074
Capital outlay	500	-	500	-
Total	93,848	87,429	6,419	75,089
<b>Public Buildings:</b>				
Operating expenses	28,000	35,439	(7,439)	38,424
Capital outlay	8,000	-	8,000	5,800
Total	36,000	35,439	561	44,224
Total general government	428,483	409,210	19,273	404,574

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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Final Budget	Actual	Variance Over/Under	Actual
<b>Public Safety:</b>				
<b>Police:</b>				
Salaries and employee benefits	615,879	568,781	47,098	579,858
Operating expenses	86,537	80,102	6,435	75,126
Total	702,416	648,883	53,533	654,984
<b>Drug Task Force:</b>				
Salaries and employee benefits	60,157	57,094	3,063	57,256
Operating expenses	8,063	6,321	1,742	6,594
Total	68,220	63,415	4,805	63,850
Total public safety	770,636	712,298	58,338	718,834
<b>Transportation:</b>				
<b>Streets and Highways:</b>				
Salaries and employee benefits	106,055	91,693	14,362	87,648
Operating expenses	191,623	202,354	(10,731)	122,547
Capital outlay	93,040	93,301	(261)	5,637
Total transportation	390,718	387,348	3,370	215,832
<b>Cultural and Recreation:</b>				
<b>Parks and Recreation:</b>				
Salaries and employee benefits	66,573	59,937	6,636	62,873
Operating expenses	35,928	30,797	5,131	33,140
Total cultural and recreational	102,501	90,734	11,767	96,013
<b>Debt Service:</b>				
Principal retirement	-	-	-	3,905
Interest and fees	-	-	-	12,691
Total debt service	-	-	-	16,596
Total expenditures	1,692,338	1,599,590	92,748	1,451,849

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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Final Budget	Actual	Variance Over/Under	Actual
Revenue over (under) expenditures	41,235	162,167	120,932	148,777
<b>Other Financing Sources (Uses):</b>				
Appropriated fund balance	17,500	-	17,500	-
Transfer in (out) - debt service	(16,596)	(16,596)	-	-
Transfer in (out) - Capital Projects Fund	(42,139)	-	(42,139)	-
Total other financing sources (uses)	(41,235)	(16,596)	(24,639)	-
Net change in fund balance	\$ -	145,571	\$ 145,571	\$ 148,777
<b>Fund Balance:</b>				
Beginning of year - July 1		800,192		
End of year - June 30		\$ 945,763		

## TOWN OF BANNER ELK, NORTH CAROLINA

**CAPITAL IMPROVEMENT PLAN - CAPITAL IMPROVEMENT CAPITAL PROJECT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	2014			2013
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Restricted intergovernmental	\$ 66,000	\$ 66,000	\$ -	\$ 1,500
Investment earnings	925	1,075	150	1,435
Total revenues	<u>66,925</u>	<u>67,075</u>	<u>150</u>	<u>2,935</u>
<b>Expenditures:</b>				
Public works	130,126	194,801	(64,675)	7,500
Parks and recreation	414,874	388,949	25,925	89,203
Total expenditures	<u>545,000</u>	<u>583,750</u>	<u>(38,750)</u>	<u>96,703</u>
Revenue over (under) expenditures	<u>(478,075)</u>	<u>(516,675)</u>	<u>(38,600)</u>	<u>(93,768)</u>
<b>Other Financing Sources (Uses):</b>				
Appropriated fund balance	360,075	-	(360,075)	-
Loan proceeds	118,000	319,200	201,200	-
Total other financing sources (uses)	<u>478,075</u>	<u>319,200</u>	<u>(158,875)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>(197,475)</u>	<u>\$ (197,475)</u>	<u>\$ (93,768)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1		<u>595,688</u>		
End of year - June 30		<u>\$ 398,213</u>		

## TOWN OF BANNER ELK, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014

	<b>Streets and Sidewalks Capital Project Fund</b>	<b>Police Special Revenue Fund</b>	<b>Cops Golf Tournament Special Revenue Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 35,926	\$ 51,059	\$ 27,037	\$ -	\$ 114,022
Due from other governments	-	-	389	-	389
Total assets	<u>\$ 35,926</u>	<u>\$ 51,059</u>	<u>\$ 27,426</u>	<u>\$ -</u>	<u>\$ 114,411</u>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 100	\$ -	\$ -	\$ -	\$ 100
Total liabilities	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
<b>Fund Balances:</b>					
Restricted:					
Stabilization by State statute	-	-	389	-	389
Public safety	-	51,059	27,037	-	78,096
Committed:					
Capital projects - transportation	<u>35,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,826</u>
Total fund balances	<u>35,826</u>	<u>51,059</u>	<u>27,426</u>	<u>-</u>	<u>114,311</u>
Total liabilities and fund balances	<u>\$ 35,926</u>	<u>\$ 51,059</u>	<u>\$ 27,426</u>	<u>\$ -</u>	<u>\$ 114,411</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, 2014

	Streets and Sidewalks Capital Project Fund	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Debt Service Fund	Total Governmental Funds
<b>Revenues:</b>					
Sales and services	\$ -	\$ -	\$ 17,719	\$ -	\$ 17,719
Miscellaneous	227	7,486	-	-	7,713
Total revenues	<u>227</u>	<u>7,486</u>	<u>17,719</u>	<u>-</u>	<u>25,432</u>
<b>Expenditures:</b>					
Public safety	-	1,277	17,189	-	18,466
Transportation	142	-	-	-	142
Debt Service:					
Principal repayments	-	-	-	4,086	4,086
Interest	-	-	-	12,510	12,510
Total expenditures	<u>142</u>	<u>1,277</u>	<u>17,189</u>	<u>16,596</u>	<u>35,204</u>
Revenue over (under) expenditures	<u>85</u>	<u>6,209</u>	<u>530</u>	<u>(16,596)</u>	<u>(9,772)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	-	-	16,596	16,596
Net change in fund balances	85	6,209	530	-	6,824
<b>Fund Balances:</b>					
Beginning of year - July 1	<u>35,741</u>	<u>44,850</u>	<u>26,896</u>	<u>-</u>	<u>107,487</u>
End of year - June 30	<u>\$ 35,826</u>	<u>\$ 51,059</u>	<u>\$ 27,426</u>	<u>\$ -</u>	<u>\$ 114,311</u>

## TOWN OF BANNER ELK, NORTH CAROLINA

**STREETS AND SIDEWALKS CAPITAL PROJECT FUND -  
NONMAJOR CAPITAL PROJECT FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total To Date</u>
<b>Revenues:</b>				
Restricted intergovernmental:				
Town of Banner Elk Tourism				
Development Authority	\$ 325,051	\$ 325,053	\$ -	\$ 325,053
Miscellaneous:				
Contributions	64,149	101,866	200	102,066
Investment income	<u>8,100</u>	<u>9,325</u>	<u>27</u>	<u>9,352</u>
Total revenues	<u>397,300</u>	<u>436,244</u>	<u>227</u>	<u>436,471</u>
<b>Expenditures:</b>				
Capital outlay:				
Sidewalks and streetscape	758,471	855,459	142	855,601
Contingency	<u>10,337</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>768,808</u>	<u>855,459</u>	<u>142</u>	<u>855,601</u>
Revenue over (under) expenditures	<u>(371,508)</u>	<u>(419,215)</u>	<u>85</u>	<u>(419,130)</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from long-term debt	300,000	300,000	-	300,000
Transfers	<u>71,508</u>	<u>154,956</u>	<u>-</u>	<u>154,956</u>
Total other financing sources (uses)	<u>371,508</u>	<u>454,956</u>	<u>-</u>	<u>454,956</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 35,741</u>	<u>\$ 85</u>	<u>\$ 35,826</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, 2014**  
**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2014</u>			<u>2013</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Revenues:</b>				
Miscellaneous	\$ 10,000	\$ 7,486	\$ (2,514)	\$ 18,835
<b>Expenditures:</b>				
Public safety:				
Other	10,000	1,277	8,723	7,700
Net change in fund balance	\$ -	6,209	\$ 6,209	\$ 11,135
<b>Fund Balance:</b>				
Beginning of year - July 1		44,850		
End of year - June 30		\$ 51,059		

## TOWN OF BANNER ELK, NORTH CAROLINA

**COPS GOLF TOURNAMENT 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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2014</u>			<u>2013</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Revenues:</b>				
Golf tournament revenues	\$ 21,000	\$ 17,719	\$ (3,281)	\$ 17,539
<b>Expenditures:</b>				
Public safety:				
Golf tournament	21,000	17,189	3,811	43,058
Net change in fund balance	<u>\$ -</u>	530	<u>\$ 530</u>	<u>\$ (25,519)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1		<u>26,896</u>		
End of year - June 30		<u>\$ 27,426</u>		

## TOWN OF BANNER ELK, NORTH CAROLINA

## NONMAJOR DEBT SERVICE FUND

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

## IN FUND BALANCE - BUDGET AND ACTUAL

## FOR THE YEAR ENDED JUNE 30, 2014

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Budget	Actual	Variance Over/Under	Actual
<b>Expenditures:</b>				
Debt service:				
Principal repayments	\$ 4,086	\$ 4,086	\$ -	\$ -
Interest	12,510	12,510	-	-
Total expenditures	16,596	16,596	-	-
Revenue over (under) expenditures	(16,596)	(16,596)	-	-
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	16,596	16,596	-	-
Net change in fund balance	\$ -	-	\$ -	\$ -
<b>Fund Balance:</b>				
Beginning of year - July 1		-		
End of year - June 30		\$ -		

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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014		Variance Over/Under	2013
	Budget	Actual		Actual
<b>Operating Revenues:</b>				
Water sales:				
Residential		\$ 190,850		\$ 147,249
Impact fees		30,876		1,921
Total water sales		221,726		149,170
Sewer charges:				
Residential		334,551		303,401
Water and sewer taps		45,760		25,250
Other operating revenues		27,264		62,886
Total operating revenues		629,301		540,707
<b>Non-Operating Revenues:</b>				
Interest earnings		85		176
Total non-operating revenues		85		176
Total revenues	\$ 538,230	629,386	\$ 91,156	540,883
<b>Expenditures:</b>				
<b>Administration:</b>				
Salaries and employee benefits	65,965	64,507		59,902
Utilities	1,700	2,260		3,270
Supplies	5,500	(15,166)		3,240
Insurance	230	193		230
Other operating expenditures	11,200	12,445		48,776
Contracted services	-	292		-
Total administration	84,595	64,531	20,064	115,418

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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014		2013
	Budget	Actual	Actual
<b>Wastewater Treatment:</b>			
Salaries and employee benefits	26,911	21,400	21,480
Utilities	58,000	56,588	57,482
Supplies	4,000	859	3,060
Insurance	3,364	2,520	3,289
Maintenance	10,000	2,848	9,748
Other operating expenditures	5,620	19,100	1,489
Contracted services	20,500	20,340	20,340
Total wastewater treatment	128,395	123,655	116,888
<b>Water Treatment:</b>			
Salaries and employee benefits	26,911	21,640	21,755
Utilities	32,000	26,813	29,258
Supplies	10,000	13,173	6,910
Insurance	1,704	1,355	1,585
Maintenance	6,000	9,928	10,965
Other operating expenditures	1,840	840	2,460
Contracted services	7,600	12,320	6,600
Total water treatment	86,055	86,069	79,533
<b>Distribution and Collections:</b>			
Salaries and employee benefits	84,041	90,496	78,121
Utilities	3,000	3,343	3,106
Supplies	15,750	20,172	20,102
Insurance	7,545	6,175	6,672
Maintenance	15,500	11,618	5,674
Other operating expenditures	28,800	20,050	53,828
Contracted services	500	550	-
Total distribution and collections	155,136	152,404	167,503
Total operating expenditures	454,181	426,659	479,342

**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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2014</u>			<u>2013</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Debt Service:</b>				
Interest and other charges	17,237	17,237	-	19,354
Principal retirement	58,000	58,000	-	56,000
Total debt service	<u>75,237</u>	<u>75,237</u>	<u>-</u>	<u>75,354</u>
Capital outlay	<u>5,300</u>	<u>509</u>	<u>4,791</u>	<u>10,075</u>
Total expenditures	<u>534,718</u>	<u>502,405</u>	<u>32,313</u>	<u>564,771</u>
Revenues over (under) expenditures	<u>3,512</u>	<u>126,981</u>	<u>123,469</u>	<u>(23,888)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in (out) - Water Capital Project Fund	<u>(3,512)</u>	<u>-</u>	<u>3,512</u>	<u>-</u>
Total other financing sources (uses)	<u>(3,512)</u>	<u>-</u>	<u>3,512</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 126,981</u>	<u>\$ 126,981</u>	<u>\$ (23,888)</u>
<b>Reconciliation from Modified Accrual Basis to Full Accrual Basis:</b>				
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 126,981		
Reconciling items:				
Principal retirement		58,000		
Depreciation		(182,438)		
Change in compensated absences		(4,415)		
Interest income - construction in progress		<u>192</u>		
Change in net position		<u>\$ (1,680)</u>		

## TOWN OF BANNER ELK, NORTH CAROLINA

**CAPITAL IMPROVEMENT PLAN - WATER & SEWER CAPITAL IMPROVEMENT PLAN FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2014</u>			<u>2013</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Revenues:</b>				
Interest income	\$ -	\$ 192	\$ 192	\$ 359
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 192</u>	<u>\$ 192</u>	<u>\$ 359</u>

## TOWN OF BANNER ELK, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2014

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2013</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013-2014	\$ -	\$ 1,075,264	\$ 1,050,405	\$ 24,859
2012-2013	30,558	-	18,719	11,839
2011-2012	18,209	-	11,712	6,497
2010-2011	11,296	-	6,946	4,350
2009-2010	3,338	-	3,045	293
2008-2009	3,663	-	3,411	252
2007-2008	48	-	29	19
2006-2007	21	-	12	9
2005-2006	5	-	5	-
2004-2005	429	-	429	-
Motor vehicles	12,730	21,019	24,228	9,521
Total	<u>\$ 80,297</u>	<u>\$ 1,096,283</u>	<u>\$ 1,118,941</u>	<u>57,639</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>26,000</u>
Ad valorem taxes receivable, net				<u>\$ 31,639</u>
<b>Reconciliation with Revenues:</b>				
Taxes - ad valorem			\$ 1,112,268	
Penalties and interest			(9,706)	
Releases, refunds, and other adjustments			<u>16,379</u>	
Total collections and credit			<u>\$ 1,118,941</u>	

## TOWN OF BANNER ELK, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY  
TOWN-WIDE LEVY  
FOR THE YEAR ENDED JUNE 30, 2014

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 249,575,064	0.42	\$ 1,048,215	\$ 1,048,215	\$ -
Motor vehicle taxes levied	5,004,524	0.42	21,019	-	20,817
Penalties	-		951	951	-
Total	<u>254,579,588</u>		<u>1,070,185</u>	<u>1,049,166</u>	<u>20,817</u>
<b>Discoveries:</b>	<u>1,295,476</u>	0.42	<u>5,441</u>	<u>5,441</u>	<u>-</u>
<b>Abatements:</b>	<u>(86,190)</u>	0.42	<u>(362)</u>	<u>(362)</u>	<u>-</u>
Total property valuation	<u>\$ 255,788,874</u>				
<b>Net Levy</b>			1,075,264	1,054,245	20,817
Uncollected taxes as of June 30, 2014			<u>24,859</u>	<u>23,257</u>	<u>1,602</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 1,050,405</u>	<u>\$ 1,030,988</u>	<u>\$ 19,215</u>
<b>Current Levy Collection Percentage</b>			<u>97.69%</u>	<u>97.79%</u>	<u>92.30%</u>