

# **TOWN OF BANNER ELK, NORTH CAROLINA**

## **FINANCIAL STATEMENTS**

**JUNE 30, 2019**

### **TOWN COUNCIL MEMBERS**

Allen R. Bollick

Mike Dunn

David C. Lecka

Robert Tufts

Charles B. VonCanon

Brenda Lyerly, Mayor

Rick Owen, Town Manager

# TOWN OF BANNER ELK, NORTH CAROLINA

## AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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# TOWN OF BANNER ELK, NORTH CAROLINA

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**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, 2019, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly in all material respects the

respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina, as of June 30, 2019, 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***

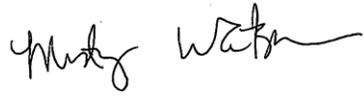
#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Post-Employment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, 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.

#### *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, based on our audit, the procedures as described above, 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.

A handwritten signature in black ink, appearing to read "Misty Watson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Misty D Watson, CPA, PA  
Boone, North Carolina  
October 23, 2019

## 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, 2019. 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

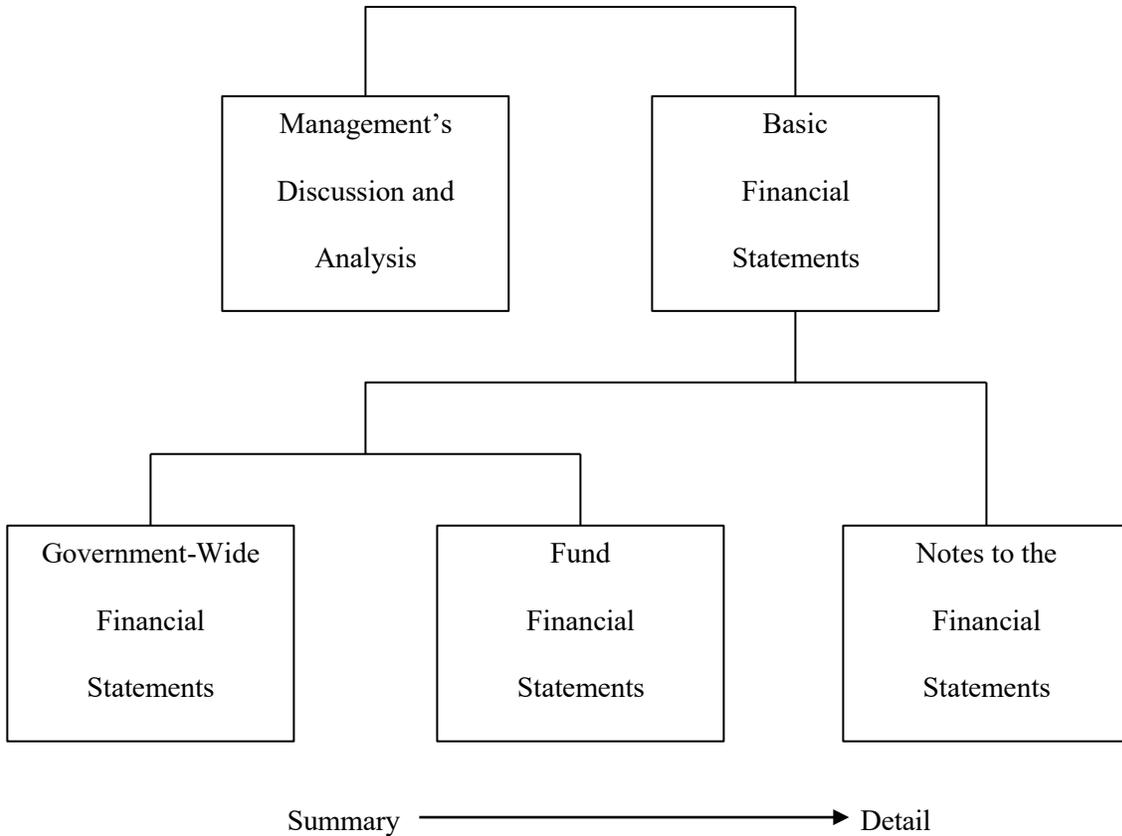
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$10,492,387 (*net position*).
- The government's total net position increased by \$556,110 primarily due to governmental fund related activities.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$3,076,513, an increase of \$107,916 in comparison with the prior year. Approximately 8% of this total amount, or \$263,444, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,076,894, or 105%, 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 22 of this report.

**Other Information.** Combining and individual fund statements and schedules can be found beginning on page 55 of this report. Required supplementary information can be found beginning on page 50.

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

**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Assets:</b>						
Current and other assets	\$3,220,856	3,068,397	\$1,465,689	\$1,313,321	\$4,686,545	\$4,381,718
Capital assets	4,941,369	4,745,281	2,768,203	2,818,851	7,709,572	7,564,132
Deferred outflows of resources	275,339	204,332	46,822	30,377	322,161	234,709
Total assets and deferred outflows of resources	8,437,564	8,018,010	4,280,714	4,162,549	12,718,278	12,180,559
<b>Liabilities:</b>						
Long-term liabilities outstanding	1,742,469	1,812,299	225,851	251,536	1,968,320	2,063,835
Other liabilities	126,280	78,343	71,234	72,997	197,514	151,340
Deferred inflows of resources	55,985	24,708	4,072	4,399	60,057	29,107
Total liabilities and deferred inflows of resources	1,924,734	1,915,330	301,157	328,932	2,225,891	2,244,282
<b>Net Position:</b>						
Net investment in capital assets	3,788,401	3,592,313	2,619,723	2,640,851	6,408,124	6,233,164
Restricted	263,444	245,476	-	-	263,444	245,476
Unrestricted	2,460,985	2,264,871	1,359,834	1,192,766	3,820,819	3,457,637
Total net position	\$6,512,830	\$6,102,660	3,979,557	3,833,617	10,492,387	9,936,277

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 \$10,492,387 as of June 30, 2019. The Town's net position increased by \$556,110 for the fiscal year ended June 30, 2019. However, the largest portion (61.1%) 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, \$263,444, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,820,819 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 local options sales tax and water and sewer collections.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.95%.

## Town of Banner Elk Changes in Net Position

**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 166,270	\$ 153,866	\$ 944,685	\$ 862,278	\$ 1,110,955	\$ 1,016,144
Operating grants and contributions	83,168	198,336	-	-	83,168	198,336
Capital grants and contributions	176,015	238,699	-	-	176,015	238,699
General Revenues:						
Property taxes	1,257,226	1,210,865	-	-	1,257,226	1,210,865
Other taxes	697,122	674,796	-	-	697,122	674,796
Investment earnings	82,479	42,733	2,872	2,141	85,351	44,874
Sale of capital assets	4,143	17,263	-	-	4,143	17,263
Other	24,584	28,588	-	-	24,584	28,588
<b>Total revenues</b>	<b>2,491,007</b>	<b>2,565,146</b>	<b>947,557</b>	<b>864,419</b>	<b>3,438,564</b>	<b>3,429,565</b>
<b>Expenses:</b>						
General government	481,085	527,500	-	-	481,085	527,500
Public Safety	789,373	738,701	-	-	789,373	738,701
Transportation	724,364	368,818	-	-	724,364	368,818
Cultural and recreation	70,182	139,114	-	-	70,182	139,114
Interest on long-term debt	15,833	14,841	5,812	7,938	21,645	22,779
Water and sewer	-	-	795,805	744,632	795,805	744,632
<b>Total expenses</b>	<b>2,080,837</b>	<b>1,788,974</b>	<b>801,167</b>	<b>752,570</b>	<b>2,882,454</b>	<b>2,541,544</b>
Increase (decrease) in net position	410,170	776,172	145,940	111,849	556,110	888,021
Net position, beginning	6,105,660	5,314,632	3,833,617	3,721,768	9,936,277	9,036,400
Prior period adjustment	-	11,856	-	-	-	11,856
Net position, restated	6,102,660	5,326,488	3,833,617	3,721,768	9,936,277	9,048,256
Net position, June 30	\$ 6,512,830	\$ 6,102,660	\$ 3,979,557	\$ 3,833,617	\$10,492,387	\$9,936,277

**Governmental Activities.** Governmental activities increased the Town’s net position by \$410,170. Key elements of this increase are as follows:

- Property tax collections exceeded expectations.
- Town management closely monitored expenditures.
- Increased collections from local option sales tax.

**Business-Type Activities.** Business-type activities increased the Town of Banner Elk’s net position by \$145,940. Key element of this increase are as follows:

- Increased collections from water and sewer charges.

## 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 \$2,076,894 while total fund balance reached \$2,240,394.

At June 30, 2019, the governmental funds of the Town of Banner Elk reported a combined fund balance of \$3,076,513, an 3.5% increase over last year. Included in this change in fund balance is an increase in the General Fund of \$31,791, a decrease in the Capital Improvement Capital Project Fund of \$51,382, an increase in the Corner Project and Mill Pond Sidewalk Extension of \$35,157, and a net increase in other nonmajor funds of \$92,350.

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

Revenues exceeded budgeted amounts due to conservative estimates.

**Proprietary Funds.** The Town of Banner Elk's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,359,834. The change in net position was an increase of \$145,940. 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, 2019, totals \$7,709,572 (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 buildings	\$112,929
• Governmental equipment	\$92,469
• Governmental infrastructure	\$453,908
• Governmental land	\$361,214
• Business-type plant	\$55,553
• Business-type furniture and maintenance equipment	\$98,854

## Town of Banner Elk's Capital Assets

**Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,334,238	\$ 973,019	\$ 23,466	\$ 23,466	\$1,357,704	\$ 996,485
Construction in progress	-	633,546	-	-	-	633,546
Infrastructure	2,703,361	2,249,453	-	-	2,703,361	2,249,453
Buildings	1,546,902	1,433,973	-	-	1,546,902	1,433,973
Plant	-	-	6,560,228	6,504,675	6,560,228	6,504,675
Equipment and furniture	945,991	917,973	756,890	658,036	1,702,881	1,576,009
Total	6,530,492	6,207,964	7,340,584	7,186,177	13,871,076	13,394,141
Less: accumulated depreciation	(1,589,117)	(1,462,683)	(4,572,377)	(4,367,326)	(6,161,494)	(5,830,009)
Net capital assets	\$ 4,941,367	\$ 4,745,281	\$2,768,203	\$2,818,851	\$ 7,709,572	\$ 7,564,132

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, 2019, the Town of Banner Elk had total bond debt outstanding of \$73,000. Of this, \$73,000 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	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ -	\$ -	\$ 73,000	\$ 143,000	\$ 73,000	\$ 143,000
Compensated absences	63,066	57,252	17,512	32,617	80,578	89,869
Other post-employment benefits	62,447	67,878	-	-	62,447	67,878
Net pension liability (LGERS)	272,506	186,406	59,859	40,919	332,365	227,325
Total pension liability (LEO)	283,833	347,795	-	-	283,833	347,795
Installment purchases	1,060,617	1,152,968	75,480	35,000	1,136,097	1,187,968
Total	\$1,742,469	\$ 1,812,299	\$ 225,881	\$ 251,536	\$ 1,968,320	\$ 2,063,835

The Town of Banner Elk's total long-term liabilities decreased by \$95,000 during the past fiscal year, due to principal payments.

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 \$17,140,008.

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.
- The Town has seen investment from private business owners into their properties.
- Housing construction activity continues steadily but is still below historical highs.

### **Budget Highlights for the Fiscal Year Ending June 30, 2020**

**Governmental Activities.** Property tax revenues are expected to increase slightly from the prior year based on the revaluation, growth and a tax rate of fifty-six cents per hundred dollars. 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.

**Business-Type Activities.** The water and sewer revenues in the Town are expected to increase due to a rate increase.

The Water and Sewer Fund is continuing to build reserves for future capital improvement projects.

### **Requests for Information**

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

**Town of Banner Elk, North Carolina**  
**Statement of Net Position**  
**June 30, 2019**

	<u>Primary Government</u>			<b>Town of Banner Elk Tourism Development Authority</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,037,567	\$ 1,269,115	\$ 4,306,682	\$ 490,539
Taxes receivable, net	16,118	-	16,118	-
Accrued interest	1,945	-	1,945	-
Accounts receivable, net	-	88,720	88,720	-
Due from other governments	165,226	14,136	179,362	7,472
Inventories	-	50,923	50,923	-
Restricted cash and cash equivalents	-	42,795	42,795	-
Total current assets	<u>3,220,856</u>	<u>1,465,689</u>	<u>4,686,545</u>	<u>498,011</u>
Non-current assets:				
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	1,334,233	23,465	1,357,698	-
Other capital assets, net of depreciation	3,607,136	2,744,738	6,351,874	-
Total capital assets	<u>4,941,369</u>	<u>2,768,203</u>	<u>7,709,572</u>	<u>-</u>
Total assets	<u>8,162,225</u>	<u>4,233,892</u>	<u>12,396,117</u>	<u>498,011</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension deferrals	268,439	46,822	315,261	-
OPEB deferral	6,900	-	6,900	-
Total deferred outflows of resources	<u>275,339</u>	<u>46,822</u>	<u>322,161</u>	<u>-</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	126,280	28,439	154,719	4,577
Current portion of long-term liabilities	144,834	93,433	238,267	-
Payable from restricted assets	-	42,795	42,795	-
Total current liabilities	<u>271,114</u>	<u>164,667</u>	<u>435,781</u>	<u>4,577</u>
Long-term liabilities:				
Net pension liability	272,506	59,859	332,365	-
Total pension liability	283,833	-	283,833	-
Total OPEB liability	62,447	-	62,447	-
Due in more than one year	978,849	72,559	1,051,408	-
Total liabilities	<u>1,868,749</u>	<u>297,085</u>	<u>2,165,834</u>	<u>4,577</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	55,985	4,072	60,057	-
Total deferred inflows of resources	<u>55,985</u>	<u>4,072</u>	<u>60,057</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	3,788,401	2,619,723	6,408,124	-
Restricted for:				
Public safety	98,218	-	98,218	-
Stabilization by State Statute	165,226	-	165,226	7,472
Tourism	-	-	-	485,962
Unrestricted	2,460,985	1,359,834	3,820,819	-
Total net position	<u>\$ 6,512,830</u>	<u>\$ 3,979,557</u>	<u>\$ 10,492,387</u>	<u>\$ 493,434</u>

The accompanying notes are an integral part of these financial statements

**Town of Banner Elk, North Carolina**  
**Statement of Activities**  
**June 30, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							<b>Town of Banner Elk Tourism Development Authority</b>
Governmental Activities:							
General government	\$ 481,085	\$ 6,000	\$ -	\$ -	\$ (475,085)	\$ -	\$ (475,085)
Public safety	789,373	25,848	42,408	-	(721,117)	-	(721,117)
Transportation	724,364	-	40,760	30,034	(653,570)	-	(653,570)
Cultural and recreation	70,182	134,422	-	145,981	210,221	-	210,221
Interest on long-term debt	15,833	-	-	-	(15,833)	-	(15,833)
Total governmental activities (See Note 1)	2,080,837	166,270	83,168	176,015	(1,655,384)	-	(1,655,384)
Business-type activities:							
Water and sewer	801,617	944,685	-	-	-	\$ 143,068	143,068
Total business-type activities	801,617	944,685	-	-	-	143,068	143,068
Total primary government	\$ 2,882,454	\$ 1,110,955	\$ 83,168	\$ 176,015	(1,655,384)	143,068	(1,512,316)
Component unit:							
Town of Banner Elk Tourism Development Authority	\$ 158,630	-	-	-	-	-	(158,630)
Total component unit	\$ 158,630	-	-	-	-	-	(158,630)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,257,226	-	1,257,226
Other taxes					243,638	-	243,638
Local option sales tax					453,484	-	453,484
Unrestricted investment earnings					82,479	2,872	85,351
Miscellaneous revenues					24,584	-	24,584
Gain on sale of capital assets					4,143	-	4,143
Total general revenues and transfers					2,065,554	2,872	2,068,426
Change in net position					410,170	145,940	556,110
Net position, beginning					6,102,660	3,833,617	9,936,277
Net position, ending					\$ 6,512,830	\$ 3,979,557	\$ 10,492,387

The accompanying notes are an integral part of these financial statements

**Town of Banner Elk, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2019**

	Major Funds				Total Governmental Funds
	General	Capital Project Reserve Fund	Corner Project and Mill Pond Sidewalk Extension	Total Non- Major Funds	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,201,477	\$ 412,696	\$ 76,805	\$ 346,589	\$ 3,037,567
Receivables, net:					
Taxes	16,118	-	-	-	16,118
Due from other governments	163,500	-	569	1,157	165,226
Total assets	<u>2,381,095</u>	<u>412,696</u>	<u>77,374</u>	<u>347,746</u>	<u>3,218,911</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	124,583	-	1,285	412	126,280
Total liabilities	<u>124,583</u>	<u>-</u>	<u>1,285</u>	<u>412</u>	<u>126,280</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes receivable	16,118	-	-	-	16,118
Total deferred inflows of resources	<u>16,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,118</u>
<b>FUND BALANCES</b>					
Restricted					
Stabilization by State Statute	163,500	-	569	1,157	165,226
Public Safety	-	-	-	98,218	98,218
Assigned					
Capital projects	-	412,696	-	-	412,696
Cultural and recreation	-	-	-	247,959	247,959
Committed					
Capital projects	-	-	75,520	-	75,520
Unassigned	2,076,894	-	-	-	2,076,894
Total fund balances	<u>2,240,394</u>	<u>412,696</u>	<u>76,089</u>	<u>347,334</u>	<u>3,076,513</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,381,095</u>	<u>\$ 412,696</u>	<u>\$ 77,374</u>	<u>\$ 347,746</u>	

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total Fund Balance, Governmental Funds	3,076,513
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds.	1,945
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	\$ 6,530,487
Accumulated depreciation	<u>(1,589,118)</u>
Deferred outflows of resources related to pensions are not reported in the funds	268,439
Earned revenues considered deferred inflows of resources in fund statements.	16,118
Net pension liability	(272,506)
Total pension liability	(283,833)
Total OPEB liability	(62,447)
Gross long-term debt	(1,123,683)
Deferred outflows of resources related to OPEB are not reported in the funds	6,900
Deferred inflows of resources related to pensions are not reported in the funds	(55,985)
Net position of governmental activities	<u>\$ 6,512,830</u>

The accompanying notes are an integral part of these financial statements

**Town of Banner Elk, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**June 30, 2019**

	Major Funds				Total Governmental Funds
	General Fund	Capital Project Reserve Fund	Corner Project and Mill Pond Sidewalk Extension	Total Non-Major Funds	
<b>REVENUES</b>					
Ad valorem taxes	\$ 1,260,621	\$ -	\$ -	\$ -	\$ 1,260,621
Other taxes and licenses	1,244	-	-	-	1,244
Unrestricted intergovernmental	736,638	-	-	-	736,638
Restricted intergovernmental	42,408	-	-	-	42,408
Permits and fees	6,203	-	-	-	6,203
Sales and services	27,539	-	-	138,731	166,270
Donations	16,034	-	-	-	16,034
Investment earnings	62,304	18,451	751	973	82,479
Miscellaneous	16,381	-	16,000	145,981	178,362
Total revenues	2,169,372	18,451	16,751	285,685	2,490,259
<b>EXPENDITURES</b>					
Current:					
General government	456,605	-	-	-	456,605
Public safety	759,606	-	-	20,632	780,238
Transportation	551,723	-	181,594	-	733,317
Culture and recreation	148,939	-	-	159,203	308,142
Debt service:					
Principal	51,924	-	-	83,333	135,257
Interest and other charges	15,833	-	-	-	15,833
Total expenditures	1,984,630	-	181,594	263,168	2,429,392
Excess (deficiency) of revenues over expenditures	184,742	18,451	(164,843)	22,517	60,867
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds	-	-	200,000	69,833	269,833
Transfers to other funds	(200,000)	(69,833)	-	-	(269,833)
Proceeds from long-term debt	42,906	-	-	-	42,906
Sales of capital assets	4,143	-	-	-	4,143
Total other financing sources (uses)	(152,951)	(69,833)	200,000	69,833	47,049
Net change in fund balance	31,791	(51,382)	35,157	92,350	107,916
Fund balances, beginning	2,208,603	464,078	40,932	254,984	2,968,597
Fund balances, ending	\$ 2,240,394	\$ 412,696	\$ 76,089	\$ 347,334	\$ 3,076,513

The accompanying notes are an integral part of these financial statements

**Town of Banner Elk, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**June 30, 2019**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	107,916
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p>		
Capital outlay expenditures which were capitalized	\$ 386,974	
Depreciation expense for governmental assets	<u>(190,886)</u>	196,088
<p>Contributions to the pension plan in the current fiscal year not included in the Statement of Activities</p>		
		61,394
<p>Benefit payments paid and administrative expense for OPEB are not included on the Statement of Activities</p>		
		6,900
<p>Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position</p>		
		42,351
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
<p>Change in unavailable revenue for tax revenues</p>		
		(2,459)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Proceeds from long-term debt	(42,906)	
Principal payments on long-term debt	<u>135,257</u>	92,351
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences	(5,814)	
OPEB plan expense	(1,469)	
Pension expense	<u>(87,088)</u>	(94,371)
		<u>                    </u>
Total changes in net position of governmental activities	\$	<u>410,170</u>

The accompanying notes are an integral part of these 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, 2019**

	<b>General Fund</b>			Variance with Final Budget - Positive (Negative)
	Budget - Original	Budget - Final	Actual Amounts	
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,228,279	\$ 1,228,279	\$ 1,260,621	\$ 32,342
Other taxes and licenses	300	300	1,244	944
Unrestricted intergovernmental	559,096	559,096	736,638	177,542
Restricted intergovernmental	42,750	42,750	42,408	(342)
Permits and fees	2,500	2,500	6,203	3,703
Sales and services	26,000	26,000	27,539	1,539
Investment earnings	15,000	15,000	62,304	47,304
Donations	-	-	16,034	16,034
Miscellaneous	10,500	10,500	16,381	5,881
Total revenues	<u>1,884,425</u>	<u>1,884,425</u>	<u>2,169,372</u>	<u>284,947</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	515,693	528,193	456,605	71,588
Public safety	810,238	810,238	759,606	50,632
Transportation	572,976	645,800	619,480	26,320
Cultural and recreation	150,717	166,923	148,939	17,984
Total expenditures	<u>2,049,624</u>	<u>2,151,154</u>	<u>1,984,630</u>	<u>166,524</u>
Revenues over (under) expenditures	<u>(165,199)</u>	<u>(266,729)</u>	<u>184,742</u>	<u>451,471</u>
<b>Other financing sources (uses):</b>				
Proceeds from long-term debt	-	42,906	42,906	-
Transfer to other funds	-	(200,000)	(200,000)	-
Sales of capital assets	5,000	5,000	4,143	(857)
Total other financing sources (uses)	<u>5,000</u>	<u>(152,094)</u>	<u>(152,951)</u>	<u>(857)</u>
Fund balance appropriated	<u>160,199</u>	<u>418,823</u>	<u>-</u>	<u>418,823</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>31,791</u>	<u>\$ 31,791</u>
Fund balances, beginning			2,208,603	
Fund balances, ending			<u>\$ 2,240,394</u>	

The accompanying notes are an integral part of these financial statements

**Town of Banner Elk, North Carolina**  
**Statement of Fund Net Position**  
**Proprietary Fund**  
**June 30, 2019**

	<b>Water and Sewer Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 1,269,115
Accounts receivable, net	88,720
Due from other governments	14,136
Inventories	50,923
Restricted cash and cash equivalents	42,795
Total current assets	1,465,689
Noncurrent assets:	
Capital assets:	
Land and construction in progress	23,465
Other capital assets, net of depreciation	2,744,738
Capital assets	2,768,203
Total assets	4,233,892
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension deferrals	46,822
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	28,439
Current portion of long-term debt	93,433
Liabilities payable from restricted assets:	
Customer deposits	42,795
Total current liabilities	164,667
Noncurrent liabilities:	
Compensated absences	17,512
Notes and bonds payable	55,047
Net pension liability	59,859
Total noncurrent liabilities	132,418
Total liabilities	297,085
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	4,072
<b>NET POSITION</b>	
Net investment in capital assets	2,619,723
Unrestricted	1,359,834
Total net position	\$ 3,979,557

The accompanying notes are an integral part of these 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, 2019**

	<b>Water and Sewer Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 867,667
Water and sewer taps	31,600
Other operating revenues	45,418
<b>Total operating revenues</b>	<b>944,685</b>
<b>OPERATING EXPENSES</b>	
Water and sewer operations	590,752
Depreciation	205,053
<b>Total operating expenses</b>	<b>795,805</b>
<b>Operating income (loss)</b>	<b>148,880</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	2,872
Interest and other charges	(5,812)
<b>Total nonoperating revenue (expenses)</b>	<b>(2,940)</b>
<b>Change in net position</b>	145,940
<b>Total net position, beginning</b>	3,833,617
<b>Total net position, ending</b>	<b>3,979,557</b>

The accompanying notes are an integral part of these financial statements

**Town of Banner Elk, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2019**

	<b>Water and Sewer Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 936,455
Cash paid for goods and services	(361,452)
Cash paid to employees	(233,723)
Customer deposits received	4,859
Customer deposits returned	(3,331)
Net cash provided (used) by operating activities	342,808
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal paid on long-term debt	(78,946)
Proceeds from long-term debt	49,426
Acquisition of capital assets	(154,407)
Interest and other charges	(5,812)
Net cash provided (used) by capital and related financing activities	(189,739)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	2,872
Net cash provided (used) by investing activities	2,872
Net increase (decrease) in cash and cash equivalents	155,941
Balances, beginning	1,155,969
Balances, ending	\$ 1,311,910
 <b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 148,880
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	205,053
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable, net	(3,806)
(Increase) decrease in due from other governments	(4,424)
(Increase) decrease in inventories	11,803
Increase in net pension liability	18,940
Increase (decrease) in accounts payable and accrued liabilities	(3,289)
Increase (decrease) in customer deposits	1,528
Increase (decrease) in compensated absences	(15,105)
Increase (decrease) in deferred inflows of resources for pensions	(327)
(Increase) decrease in deferred outflows of resources for pensions	(16,445)
Total adjustments	193,928
Net cash provided by operating activities	\$ 342,808

The accompanying notes are an integral part of these financial statements

**TOWN OF BANNER ELK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**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, 2019**

*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 and street maintenance and construction.

**Capital Project Reserve 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.

**Capital Project Fund.** The Corner Project and Mill Pond Sidewalk Extension Project Fund is used to account for the construction and major maintenance of a sidewalk extension and corner project owned by the Town.

The Town maintains the following nonmajor governmental funds:

**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.

**Historic Banner Elk School Special Revenue Fund.** This fund is used to account for activity for the Historic Banner Elk School. The Town utilizes fundraising activities to cover the debt payment and property improvements.

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

**TOWN OF BANNER ELK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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 government-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.

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

**TOWN OF BANNER ELK, NORTH CAROLINA**  
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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, 2014, 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. Sales taxes are considered a shared revenue for the Town of Banner Elk because the tax is levied by Avery County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Capital Improvement 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.

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**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 NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

The Town's investments are reported at fair value. The NCCMT-Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

**Cash and Cash Equivalents**

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

**Restricted Cash**

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, 2019, consist of the following:

Business-Type Activities:

Water and Sewer Fund: Customer deposits	\$ 42,795
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Total	<u><u>\$ 42,795</u></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, 2016.

**Allowances for Doubtful Accounts**

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

**Inventory and Prepaid Items**

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The costs of these inventories are expensed when consumed rather than when purchased.

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

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost greater than \$5,000 and an estimated useful life greater than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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.

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

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

**Compensated Absences**

Town employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation days up to a maximum of thirty days. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. Vacation pay taken is reduced 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 one item that meet this criterion, pension deferrals.

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 two items that meets this criterion – property taxes receivable and pension deferrals.

**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 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

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discounts, as well as debt issuance costs, during the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

**Net Position/Fund Balances Net**

**Position**

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents 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:

**Nonspendable 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* – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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

**Committed Fund Balance:** This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Banner Elk's governing body (highest level of decision making authority, the Town Council).

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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.

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

*Restricted for Cultural and Recreational* – portion of fund balance that is restricted by revenue source for cultural and recreational expenditures.

**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.

**Interfund Transactions**

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

**Use of Estimates**

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

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**Pensions**

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Banner Elk's employer contributions are recognized when due and the Town of Banner Elk has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**2. Detail Notes on All Funds**

**A. Assets**

**1. Deposits**

All the deposits of the Town and TDA 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 or TDA's agents in the units' 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 and TDA, these deposits are considered to be held by the Town's and TDA'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 and TDA or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town and TDA under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and TDA 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 and TDA complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$420,504 and a bank balance

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of \$481,389. Of the bank balance, \$250,000 was covered by FDIC. The Town held \$1,882 in petty cash as of June 30, 2019.

At June 30, 2019, the TDA's deposits had a carrying amount of \$490,539 and a bank balance of \$454,005. Of the bank balance, \$250,000 was covered by the FDIC.

**2. Investments**

At June 30, 2019, the Town's investments balances were as follows:

<b>Investment Type</b>	<b>Valuation Measurement Method</b>	<b>Book Value At 6/30/2019</b>	<b>Maturity</b>	<b>Rating</b>
NC Capital Management Trust – Government Portfolio	Fair Value 1	\$ 2,645,150	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level 1	1,281,941	.11 years	Unrated
Total:		\$ 3,927,091		

All investments are measured using the market approach; using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

*Interest Rate Risk.* The Town has no formal investment policy regarding interest rate risk. The Town does not have a formal investment policy. However, 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 Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2019. 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.

**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:

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	<b>Taxes</b>	<b>Due from other governments</b>		<b>Total</b>
<b>Governmental Activities:</b>				
Property taxes	\$ 19,308	-	\$	19,308
Local options sales/franchise tax	-	108,195		108,195
ABC revenues - unrestricted	-	41,250		41,250
Sales tax refunds due	-	9,187		9,187
Motor vehicle taxes	-	6,594		6,594
Allowance for doubtful accounts	(3,190)	-		(3,190)
<b>Total governmental activities</b>	<b>\$ 16,118</b>	<b>165,226</b>	<b>\$</b>	<b>181,344</b>

**Capital Assets**

**Governmental Capital Assets**

The capital assets of the government fund of the Town at June 30, 2019, were as follows:

	Beginning Balances	Increases	Decreases		Ending Balances
<b>Governmental activities:</b>					
<b>Capital assets not being depreciated:</b>					
Land	\$ 973,019	361,214	\$ -		\$1,334,233
Construction in progress	633,546	-	633,546		-
<b>Total capital assets not being depreciated</b>	<b>1,606,565</b>	<b>361,214</b>	<b>633,546</b>		<b>1,334,233</b>
<b>Capital assets being depreciated:</b>					
Buildings	1,433,973	112,929	-		1,546,902
Equipment and furniture	917,973	92,469	64,451		945,991
Infrastructure	2,249,453	453,908	-		2,703,361
<b>Total capital assets being depreciated</b>	<b>4,601,399</b>	<b>659,306</b>	<b>64,451</b>		<b>5,196,254</b>
<b>Less accumulated depreciation for:</b>					
Buildings	332,717	32,751	-		365,467
Equipment and furniture	711,128	86,800	64,451		733,479
Infrastructure	418,838	71,335	-		490,173
<b>Total accumulated depreciation</b>	<b>1,462,683</b>	<b>190,886</b>	<b>64,451</b>		<b>1,589,119</b>
<b>Total capital assets being depreciated, net</b>	<b>3,138,716</b>				<b>3,607,136</b>
<b>Governmental activity capital assets, net</b>	<b>\$4,745,281</b>				<b>\$4,941,367</b>

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

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**Governmental Activities:**

General government	\$ 24,200
Public safety	56,401
Transportation	71,335
Cultural and recreation	<u>38,950</u>
Total	<u><u>\$ 190,886</u></u>

**Proprietary Capital Assets**

The capital assets of the proprietary fund of the Town at June 30, 2019, were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 23,466	\$ -	\$ -	\$ 23,466
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>23,466</u>	<u>-</u>	<u>-</u>	<u>23,466</u>
Capital assets being depreciated:				
Plant	6,504,675	55,553	-	6,560,228
Furniture and maintenance equipment	658,036	98,854	-	756,890
Total capital assets being depreciated	<u>7,162,711</u>	<u>154,407</u>	<u>-</u>	<u>7,317,118</u>
Less accumulated depreciation for:				
Plant	3,759,849	177,050	-	3,936,899
Furniture and maintenance equipment	607,477	28,003	-	635,480
Total accumulated depreciation	<u>4,367,326</u>	<u>205,053</u>	<u>-</u>	<u>4,572,379</u>
Total capital assets being depreciated, net	<u>2,795,385</u>			<u>2,744,379</u>
Water and Sewer fund capital assets, net	<u><u>\$ 2,818,851</u></u>			<u><u>\$ 2,768,205</u></u>

**B. Liabilities**

**Pension Plan and Postemployment Obligations**

**Local Governmental Employees' Retirement System**

*Plan Description.* The Town of Banner Elk is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine

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appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Banner Elk employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Banner Elk's contractually required contribution rate for the year ended June 30, 2019, was 8.5% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Banner Elk were \$74,881 for the year ended June 30, 2019.

*Refunds of Contributions* – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance

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of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2019, the Town reported a liability of \$332,365 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.01401%, which was a decrease of 0.00087% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$87,088. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 51,276	1,721
Changes of assumptions	88,197	-
Net difference between projected and actual earnings on pension plan investments	45,624	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	20,888
Town contributions subsequent to the measurement date	74,881	-
Total	<u>\$ 259,978</u>	<u>\$ 22,609</u>

\$74,881 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2019	\$ 80,907
2020	50,922
2021	6,297
2022	24,363
2023	-
Thereafter	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2017 actuarial

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valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary

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for the 2017 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town’s proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town’s proportionate share of the net pension asset calculated using the discount rate of 7.0 percent, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	<b>1% Decrease (6.0%)</b>	<b>Discount Rate (7.0%)</b>	<b>1% Increase (8.0%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 798,370	\$ 332,365	\$ (57,036)

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**Law Enforcement Officers’ Special Separation Allowance**

**Plan Description.** The Town of Banner Elk administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance’s membership consisted of:

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Inactive members currently receiving benefits	3
Active plan members	6
Total	9

***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. Benefits are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

***Actuarial Assumptions***

The entry age actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

***3. Contributions.***

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$42,351 as benefits came due for the reporting period.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2019, the Town reported a total pension liability of \$283,833. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$14,937.

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ 1,159	\$ 25,330
Changes of assumptions	11,773	12,118
Town benefit payments and plan administrative expense made subsequent to the measurement date	42,351	-
Total	<u>\$ 55,283</u>	<u>\$ 37,448</u>

\$42,351 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2019	\$ 9,529
2020	9,529
2021	8,939
2022	8,215
2023	1,236
Thereafter	-

\$42,351 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

*Sensitivity of the Town's total pension liability to changes in the discount rate.* The following presents the Town's total pension liability calculated using the discount rate of 3.64 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	<u>1% Decrease (2.64%)</u>	<u>Discount Rate (3.64%)</u>	<u>1% Increase (4.64%)</u>
Total pension liability	\$ 307,143	\$ 283,833	\$ 262,920

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	<b>2019</b>
Beginning balance	\$ 347,795
Service Cost	10,385
Interest on the total pension liability	10,321
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(31,433)
Changes of assumptions or other inputs	(10,878)
Benefit payments	(42,357)
Other changes	-
Ending balance of the total pension liability	\$ 283,833

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

***Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources of Related to Pensions***

Following is information related to the proportionate share of pension expense for all pension plans:

	<b>LGERS</b>	<b>LEOSSA</b>	<b>Total</b>
Pension Expense	\$ 87,088	\$ 14,937	\$ 102,025
Pension Liability	332,365	283,833	616,198
Proportionate share of the net pension liability	0.01401%	N/A	

**Deferred of Outflows of Resources**

Differences between expected and actual experience	51,276	1,159	52,435
Changes of assumptions	88,197	11,773	99,970
Net difference between projected and actual earnings on plan investments	45,624	-	45,624
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	74,881	42,351	117,232

**TOWN OF BANNER ELK, NORTH CAROLINA  
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**Deferred of Inflows of Resources**

Differences between expected and actual experience	1,721	25,330	27,051
Changes of assumptions	-	12,118	12,118
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	20,888	-	20,888

**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 that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 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. The Town made contributions of \$36,695 for the reporting year. No amounts were forfeited.

**Other Post-Employment Benefits**

*Post-employment Healthcare 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.

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

**Total OPEB Liability**

The Town's total OPEB liability of \$62,447 was measured as of June 31, 2018 and was determined by an actuarial valuation as of that date.

*Actuarial assumptions and other inputs.* The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Real wage growth	1.00 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50-7.75%
Municipal Bond Index Rate	
Prior measurement date	3.56%
Measurement date	3.89%
Health care cost trends	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023

The discount rate is based on the yield of the Municipal Bond Index rate as of the measurement date.

**Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
<b>Balance at 6/30/2018</b>	\$ 67,878
<b>Changes for the year</b>	
Service cost	-
Interest	2,295
Changes of benefit terms	-
Differences between expected and actual experience	(86)
Changes in assumptions or other inputs	(740)
Benefit payments	(6,900)
<b>Net changes</b>	<b>(5,431)</b>
<b>Balance at 6/30/2019</b>	<b>\$ 62,447</b>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.56% to 3.89%.

**TOWN OF BANNER ELK, NORTH CAROLINA  
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Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	<b>1% Decrease</b>	<b>Discount Rate (3.89%)</b>	<b>1% Increase</b>
Total OPEB liability	\$ 64,734	\$ 62,447	\$ 60,284

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
Total OPEB liability	\$ 60,032	\$ 62,447	\$ 64,958

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2019, the Town recognized OPEB expense of \$1,469. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Benefit payments and administrative costs made subsequent to the measurement date	6,900	-
Total	\$ 6,900	\$ -

\$6,900 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**TOWN OF BANNER ELK, NORTH CAROLINA  
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**Measurement Period Ended**

**Year ended June 30:**

2019	-
2020	-
2021	-
2022	-
2023	-
Thereafter	-

**Deferred Inflows and Outflows of Resources**

The Town has several deferred outflows of resources. Deferred outflows of resources are comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 74,881
Benefit payments made and administrative expenses for LEOSSA	42,351
Differences between expected and actual Changes of assumptions	52,435
expenses for OPEB subsequent to measurement date	99,970
Net difference between projected and actual earnings on pension plan investments	6,900
Changes in proportion and differences between employer contributions and proportionate share of contributions	-
<b>Total</b>	<b>\$ 322,161</b>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 16,118
Changes in assumptions	12,118	-
Differences between expected and actual experience	27,051	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,888	-
<b>Total</b>	<b>\$ 60,057</b>	<b>\$ 16,118</b>

**TOWN OF BANNER ELK, NORTH CAROLINA  
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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.

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 of the Town's funds 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	\$ 242,717
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	60,761
0.0% note for \$1,000,000, payable to Avery County issued March 2015; payable in annual installments of \$83,333; beginning July 2015 with final payment due January 2026; secured by real estate	666,667
2.72% note for \$65,000, payable to BB&T issued December 2017; payable in semi-annual installments with varying amounts beginning July 2018 with final payment due June 2022; secured by equipment	47,566

**TOWN OF BANNER ELK, NORTH CAROLINA  
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3.7% note for \$42,906 payable to Highlands Union Bank issued June 2019; payable in annual installments with varying amounts beginning June 2020 with final payment due June 2023; secured by equipment.

42,906  
\$ 1,060,617

**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 \$ 73,000

**Installment Note:**

2.72% note for \$65,000, payable to BB&T issued December 2017; payable in semi-annual installments with varying amounts beginning July 2018 with final payment due June 2022; secured by equipment

26,054

3.7% note for \$49,426 payable to Highlands Union Bank issued June 2019 payable in annual installments with varying amounts beginning June 2020 with final payment due June 2023; secured by equipment.

49,426  
\$ 148,480

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

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 144,834	\$ 15,520	\$ 93,433	\$ 5,336
2021	146,585	13,670	21,115	1,894
2022	114,999	11,971	21,202	1,194
2023	101,117	10,878	12,730	494
2024	89,754	10,174	-	-
2025-2029	286,848	46,128	-	-
2030-2034	46,192	36,782	-	-
2035-2039	57,909	25,065	-	-
2040-2044	72,379	10,376	-	-
	<u>\$ 1,060,617</u>	<u>\$ 180,564</u>	<u>\$ 148,480</u>	<u>\$ 8,918</u>

**TOWN OF BANNER ELK, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	Beginning Balances	Increases	Decreases	Ending Balances	Current portion of balance
Governmental activities					
Notes payable	\$ 1,152,968	\$ 42,906	\$ 135,257	\$ 1,060,617	\$ 144,834
Net pension liability (LGERS)	186,406	86,100	-	272,506	-
Total pension liability (LEO)	347,795	-	63,962	283,833	-
Compensated absences	57,252	27,966	22,152	63,066	-
Total OPEB liability	67,878	-	5,431	62,447	-
Governmental activity long- term liabilities	<u>\$ 1,812,299</u>	<u>\$ 156,972</u>	<u>\$ 226,802</u>	<u>\$ 1,742,469</u>	<u>\$ 144,834</u>

	Beginning Balances	Increases	Decreases	Ending Balances	Current portion of balance
Business-type activities					
Notes payable	\$ 35,000	\$ 49,426	\$ 8,946	\$ 75,480	\$ 20,433
General obligation bonds	143,000	-	70,000	73,000	73,000
Net pension liability (LGERS)	40,919	18,940	-	59,859	-
Compensated absences	32,617	4,900	20,005	17,512	-
Business-type activities long- term liabilities	<u>\$ 251,536</u>	<u>\$ 73,266</u>	<u>\$ 98,951</u>	<u>\$ 225,851</u>	<u>\$ 93,433</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, 2019, the Town had a legal debt margin of \$17,140,008.

**TOWN OF BANNER ELK, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**Interfund Transactions**

Transfers to/from Other Funds at June 30, 2019 consists of the following:

Transfer from the General Fund to the Corner Project and Mill Pond Sidewalk Extension

\$200,000

Transfer from the Capital Project Fund to the Historic Banner Elk School Special

Revenue Fund \$69,833

**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, in conjunction with the Town of Seven Devils and the Village of Sugar Mountain, merged to form the High Country Municipal Alcoholic Beverage Control Board. Profits from the High Country Municipal Alcoholic Beverage Control Board are distributed pursuant to an agreement signed by the three Towns. Each Town appoints one member to serve on the High Country Municipal Alcoholic Beverage Control Board.

**3. 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.

**4. Fund Balance**

Total fund balance – General Fund	\$2,240,394
Less:	
Stabilization by State Statute	163,500
Remaining fund balance	2,076,894

**Town of Banner Elk Rock, North Carolina**  
**Schedule of Changes in the Total OPEB Liability and Related Ratios**  
**June 30,**

	<b>2019</b>	<b>2018</b>
<b>Total OPEB Liability</b>		
Service cost	\$ -	\$ -
Interest	2,295	2,171
Changes of benefit terms	-	-
Differences between expected and actual experienc	(86)	820
Changes of assumptions	(740)	(1,573)
Benefit payments	(6,900)	(11,240)
<b>Net change in total OPEB liability</b>	(5,431)	(9,822)
<b>Total OPEB liability - beginning</b>	67,878	77,700
<b>Total OPEB liability - ending</b>	\$ 62,447	\$ 67,878
<b>Covered payroll</b>		N/A *
<b>Total OPEB liability as a percentage of covered payroll</b>		N/A *

\* Covered employee payroll is not provided since there are fewer than 10 Participants in the Plan  
**Notes to Schedule**

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal year</u>	<u>Rate</u>
2018	3.56%
2019	3.89%

**Town of Banner Elk, North Carolina**  
**Town of Banner Elk's Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Four Fiscal Years**

**Local Government Employees' Retirement System**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Banner Elk's proportion of the net pension liability (asset) (%)	0.01401%	0.01488%	0.01567%	0.01663%	0.01609%	0.01470%
Banner Elk's proportion of the net pension liability (asset) (\$)	\$ 332,365	\$ 227,325	332,570	\$ 74,633	(94,890)	\$ 177,191
Banner Elk's covered-employee payroll	\$ 817,079	\$ 847,875	824,874	\$ 824,874	841,796	\$ 830,250
Banner Elk's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.68%	26.81%	40.32%	9.05%	( 11.27%)	21.34%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

**Town of Banner Elk, North Carolina  
Town of Banner Elk's Contributions  
Required Supplementary Information  
Last Four Fiscal Years**

**Local Government Employees' Retirement System**

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 74,881	\$ 65,486	\$ 64,618	\$ 56,874	\$ 60,743	\$ 59,477
Contributions in relation to the contractually required contribution	74,881	65,486	64,618	56,874	60,743	59,477
Contribution deficiency (excess)	<u>\$ -</u>					
Banner Elk's covered-employee payroll	\$ 932,242	\$ 817,079	\$ 847,875	\$ 824,874	\$ 830,250	\$ 830,250
Contributions as a percentage of covered-employee payroll	8.03%	8.01%	7.62%	6.89%	7.32%	7.16%

**Town of Banner Elk, North Carolina**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2019**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 347,795	\$ 345,161	\$ 359,409
Service Cost	10,385	11,128	11,653
Interest on the total pension liability	10,321	12,523	12,280
Changes of benefit terms	-	-	
Differences between expected and actual experience in the measurement of the total pension liability	(31,433)	1,833	
Changes of assumptions or other inputs	(10,878)	18,619	(7,294)
Benefit payments	(42,357)	(41,469)	(30,887)
Other changes	-	-	
Ending balance of the total pension liability	<u>\$ 283,833</u>	<u>\$ 347,795</u>	<u>\$ 345,161</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending

**Town of Banner Elk, North Carolina**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**For the Year Ended June 30, 2019**

	2019		2018		2017
Total pension liability	\$ 283,833	\$	347,795	\$	345,161
Covered payroll	303,676		397,110		388,163
Total pension liability as a percentage of covered payroll	93.47%		87.58%		88.92%

Notes to the schedules:

Town of Banner Elk has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay

**Town of Banner Elk, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$	\$ 1,256,961	\$
Interest		3,660	
Total	<u>1,228,279</u>	<u>1,260,621</u>	<u>32,342</u>
Other taxes and licenses:			
Solid waste disposal tax		794	
Privilege licenses		450	
Total	<u>300</u>	<u>1,244</u>	<u>944</u>
Unrestricted intergovernmental:			
Local option sales taxes		453,484	
Utilities franchise tax		133,275	
Beer and wine tax		4,865	
TDA admin fee		25,014	
ABC profit distribution		120,000	
Total	<u>559,096</u>	<u>736,638</u>	<u>177,542</u>
Restricted intergovernmental:			
Powell Bill allocation		40,760	
Other local grants and matching contributions		1,648	
Total	<u>42,750</u>	<u>42,408</u>	<u>(342)</u>
Permits and fees:			
Building permits		6,203	
Total	<u>2,500</u>	<u>6,203</u>	<u>3,703</u>
Sales and services:			
Rental income	<u>26,000</u>	<u>27,539</u>	<u>1,539</u>
Investment earnings	<u>15,000</u>	<u>62,304</u>	<u>47,304</u>
Donations	<u>-</u>	<u>16,034</u>	<u>16,034</u>
Miscellaneous	<u>10,500</u>	<u>16,381</u>	<u>5,881</u>
Total revenues	<u>1,884,425</u>	<u>2,169,372</u>	<u>284,947</u>
<b>Expenditures:</b>			
Governing body:			
Salaries and employee benefits		13,564	
Operating expenditures		29,976	
Total		<u>43,540</u>	
Administration:			
Salaries and employee benefits		152,994	
Operating expenditures		54,218	
Total		<u>207,212</u>	
Finance:			
Operating expenditures		46,253	
Total		<u>46,253</u>	

**Town of Banner Elk, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Planning			
Salaries and employee benefits		81,070	
Operating expenditures		23,783	
Total		<u>104,853</u>	
Public buildings:			
Operating expenditures		54,747	
Total		<u>54,747</u>	
Total general government	<u>528,193</u>	<u>456,605</u>	<u>71,588</u>
Public safety:			
Police:			
Salaries and employee benefits		649,874	
Operating expenditures		83,032	
Capital outlay		26,700	
Total		<u>759,606</u>	
Total public safety	<u>810,238</u>	<u>759,606</u>	<u>50,632</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits		112,740	
Operating expenditures		437,616	
Capital outlay		69,124	
Total transportation	<u>645,800</u>	<u>619,480</u>	<u>26,320</u>
Cultural and recreation:			
Parks and recreation:			
Salaries and employee benefits		78,440	
Other operating expenditures		70,499	
Total culture and recreation	<u>166,923</u>	<u>148,939</u>	<u>17,984</u>
Total expenditures	<u>2,151,154</u>	<u>1,984,630</u>	<u>166,524</u>
Revenues over (under) expenditures	(266,729)	184,742	451,471
Other financing sources (uses):			
Transfers to other funds:	(200,000)	(200,000)	-
Proceeds from long-term debt	42,906	42,906	-
Sale of capital assets	5,000	4,143	(857)
Total	<u>\$ (152,094)</u>	<u>\$ (152,951)</u>	<u>\$ (857)</u>
Fund balance appropriated	418,823	-	(418,823)
Net change in fund balance	<u>\$ -</u>	31,791	<u>\$ 31,791</u>
Fund balances, beginning		2,208,603	
Fund balances, ending		<u>\$ 2,240,394</u>	

**Town of Banner Elk, North Carolina**  
**Capital Improvement Plan - Capital Improvement Capital Project Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>Revenues</b>			
Restricted intergovernmental:			
Miscellaneous:			
Miscellaneous	\$ -	\$ -	\$ -
Investment income	-	18,451	18,451
Total revenues	<u>-</u>	<u>18,451</u>	<u>18,451</u>
Revenues under expenditures	<u>-</u>	<u>18,451</u>	<u>18,451</u>
Other financing sources (uses):			
Transfer to Historic Banner Elk School Fund	(69,833)	(69,833)	-
Transfer to Mill Pond Project 60	-	-	-
Total	<u>(69,833)</u>	<u>(69,833)</u>	<u>-</u>
Fund balance appropriated	69,833	-	(69,833)
Net change in fund balance	<u>\$ -</u>	<u>\$ (51,382)</u>	<u>\$ (51,382)</u>
Fund balances, beginning		<u>464,078</u>	
Fund balances, ending		<u>\$ 412,696</u>	

**Town of Banner Elk, North Carolina**  
**Combining Balance Sheets**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2019**

	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Historic Banner Elk School Special Revenue Fund	Total Nonmajor Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 40,183	58,035	248,371	\$ 346,589
Due from other governments	-	519	638	1,157
<b>Total assets</b>	<b>\$ 40,183</b>	<b>58,554</b>	<b>249,009</b>	<b>\$ 347,746</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ -	-	412	\$ 412
<b>Fund balances:</b>				
<b>Restricted:</b>				
Stabilization by State Statute	\$ -	519	638	\$ 1,157
Public safety	40,183	58,035	-	98,218
<b>Assigned:</b>				
Cultural and recreation	-	-	247,959	247,959
<b>Total fund balances</b>	<b>40,183</b>	<b>58,554</b>	<b>248,597</b>	<b>347,334</b>
<b>Total liabilities and fund balances</b>	<b>\$ 40,183</b>	<b>\$ 58,554</b>	<b>\$ 249,009</b>	<b>\$ 347,746</b>

**Town of Banner Elk, North Carolina**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2019**

	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Historic Banner Elk School Special Revenue Fund	Total Nonmajor Governmental Funds
Revenues:				
Sales and services	\$ -	25,848	112,883	\$ 138,731
Capital donations	-	-	145,981	145,981
Interest	-	973	-	973
Miscellaneous	-	-	-	-
Total revenues	-	26,821	258,864	285,685
Expenditures:				
Public safety	-	20,632	-	20,632
Cultural and recreation	-	-	159,203	159,203
Debt service:				
Principal repayments	-	-	83,333	83,333
Interest	-	-	-	-
Total expenditures	-	20,632	242,536	263,168
Revenues over expenditures	-	6,189	16,328	22,517
Other Financing Sources (Uses):				
Transfers in	-	-	69,833	69,833
Net change in fund balance	-	6,189	86,161	92,350
Fund balance, beginning	40,183	52,365	162,436	254,984
Fund balance, ending	\$ 40,183	\$ 58,554	\$ 248,597	\$ 347,334

**Town of Banner Elk, North Carolina**  
**Corner Project and Mill Pond Sidewalk Extension**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Year Ended June 30, 2019**

	Project Authorization	Actual		Total To Date
		Prior Years	Current Year	
<b>Revenues</b>				
Miscellaneous:				
Contributions	\$ 590,507	\$ 631,150	16,000	\$ 647,150
Investment income	-	723	751	1,474
Total revenues	<u>590,507</u>	<u>631,873</u>	<u>16,751</u>	<u>648,624</u>
<b>Expenditures</b>				
Capital outlay:				
Corner Project:				
Land purchase	312,440	312,437	-	312,437
Construction	232,560	118,929	169,263	288,192
Demolition	48,777	48,777	-	48,777
Miscellaneous project cost	9,230	2,668	8	2,676
Mill pond sidewalk extension	236,000	150,735	12,323	163,058
Total expenditures	<u>839,007</u>	<u>633,546</u>	<u>181,594</u>	<u>815,140</u>
Revenues under expenditures	<u>(248,500)</u>	<u>(1,673)</u>	<u>(164,843)</u>	<u>(166,516)</u>
<b>Other Financing Sources</b>				
Transfers from other funds:				
General Fund	200,000	-	200,000	200,000
Capital project reserve fund	36,000	6,600	-	6,600
Total other financing sources	<u>236,000</u>	<u>6,600</u>	<u>200,000</u>	<u>206,600</u>
Appropriated fund balance	<u>12,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 4,927</u>	35,157	<u>\$ 40,084</u>
Fund balance, beginning			40,932	
Fund balance, ending			<u>\$ 76,089</u>	

**Town of Banner Elk, North Carolina**  
**Police Special Revenue Fund - Nonmajor Special Revenue Fund**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Miscellaneous	\$ 5,500	-	\$ (5,500)
Expenditures:			
Public safety:			
Other	5,500	-	5,500
Revenues over expenditures	-	-	-
Other financing (uses):			
Appropriated fund balance	-	-	-
Total other financing (uses)	-	-	-
Net change in fund balance	\$ -	-	\$ -
Fund balance, beginning		40,183	
Fund balance, Ending		\$ 40,183	

**Town of Banner Elk, North Carolina**  
**Golf Tournament Special Revenue Fund - Nonmajor Special Revenue Fund**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Golf tournament revenues	\$ 21,000	25,848	\$ 4,848
Interest	-	973	973
Total revenues	<u>21,000</u>	<u>26,821</u>	<u>5,821</u>
Expenditures:			
Public safety:			
Golf tournament	<u>21,000</u>	<u>20,632</u>	<u>368</u>
Net change in fund balance	<u>\$ -</u>	6,189	<u>\$ 6,189</u>
Fund balance, beginning		<u>52,365</u>	
Fund balance, Ending		<u>\$ 58,554</u>	

**Town of Banner Elk, North Carolina**  
**Historic Banner Elk School Special Revenue Fund - Nonmajor Special Revenue Fund**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Golf tournament revenues	27,000	75,521	48,521
Sales and services	20,000	37,362	17,362
Donations	121,927	145,981	24,054
Total revenues	<u>168,927</u>	<u>258,864</u>	<u>89,937</u>
Expenditures:			
Cultural and recreation:			
Other	146,927	139,161	7,766
Golf tournament expenses	20,500	20,042	458
Debt Service:			
Principal	83,333	83,333	-
Total	<u>250,760</u>	<u>242,536</u>	<u>8,224</u>
Revenues over expenditures	<u>(81,833)</u>	<u>16,328</u>	<u>98,161</u>
Other financing (uses):			
Transfer from Capital Project Fund	81,833	69,833	12,000
Total other financing (uses)	<u>81,833</u>	<u>69,833</u>	<u>12,000</u>
Net change in fund balance	<u>\$ -</u>	86,161	<u>\$ 86,161</u>
Fund balance, beginning		<u>162,436</u>	
Fund balance, Ending		<u>\$ 248,597</u>	

**Town of Banner Elk, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Water sales:			
Residential		342,121	
Impact fees		9,050	
Total	\$ 319,000	351,171	\$ 32,171
Sewer charges:			
Residential		505,387	
Sewer CIP surcharge		11,109	
Total	460,000	516,496	56,496
Water and sewer taps	5,150	31,600	26,450
Other operating revenues	12,000	45,418	33,418
Total operating revenues	796,150	944,685	148,535
Nonoperating revenues:			
Interest earnings	650	2,567	1,917
Total revenues	796,800	947,252	150,452
<b>Expenditures:</b>			
Water and sewer administration:			
Salaries and employee benefits		63,058	
Supplies		187	
Insurance		61	
Contracted services		2,628	
Other operating expenditures		11,090	
Total water and sewer administration	99,998	77,024	22,974
Wastewater treatment:			
Water treatment plant:			
Salaries and employee benefits		32,230	
Utilities		52,909	
Supplies		2,333	
Insurance		3,124	
Maintenance		14,928	
Other operating expenditures		8,170	
Contracted services		41,256	
Capital outlay		49,428	
Total	301,244	204,378	96,866
Water treatment:			
Water treatment plant:			
Salaries and employee benefits		32,704	
Utilities		34,914	
Supplies		10,748	
Insurance		1,674	
Maintenance		9,399	
Other operating expenditures		11,773	
Total	126,874	101,212	25,662
Distributions and collections:			
Salaries and employee benefits		105,731	
Utilities		6,413	
Supplies		24,409	
Insurance		7,690	
Maintenance		25,752	
Other operating expenditures		100,294	
Capital outlay		105,193	
Total	422,470	375,482	46,988
Subtotal water treatment and sewer expenses	950,586	758,096	192,490

**Town of Banner Elk, North Carolina**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Interest and other charges		5,812	-
Principal retirement		78,946	-
Total debt service	85,276	84,758	518
Revenues over(under) expenditures	(239,062)	104,398	343,460
Other financing sources and (uses)			
Proceeds from long-term debt	49,426	49,426	-
Fund balance appropriated	189,636	-	(189,636)
Revenues and other sources over expenditures and other uses	\$ -	153,824	\$ 153,824
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenues and other sources over expenditures and other uses		\$ 153,824	
Reconciling items:			
Principal retirement		78,946	
Change in accrued vacation pay		15,105	
Change in deferred outflows of resources - pensions		16,445	
Change in net pension liability		(18,940)	
Change in deferred inflows of resources - pensions		327	
Proceeds from long-term debt		(49,426)	
Capital outlay		154,407	
Depreciation		(205,053)	
Interest income from Water and Sewer Capital Projects Fund		305	
Total reconciling items		(7,884)	
Change in net position		\$ 145,940	

**Town of Banner Elk, North Carolina**  
**Capital Improvement Plan - Water and Sewer Capital Improvement Plan Fund**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)**  
**For the Year Ended June 30, 2018**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Investment earnings	\$ -	305	305
Total revenues	-	305	305
Revenues over (under) expenditures	-	305	305
Revenues over (under) expenditures and other financing sources	\$ -	305	305

**Town of Banner Elk, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2019**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019	\$ -	\$ 1,226,193	\$ 1,212,941	\$ 13,252
2017-2018	9,857	-	6,292	3,565
2016-2017	2,525	-	2,028	497
2015-2016	458	-	-	458
2014-2015	478	-	-	478
2013-2014	596	-	-	596
2012-2013	2	-	-	2
2011-2012	21	-	-	21
2010-2011	147	-	-	147
2009-2010	293	-	-	293
2008-2009	254	-	254	-
Motor Vehicles	<u>8,258</u>	<u>35,706</u>	<u>43,964</u>	<u>-</u>
	<u>\$ 22,889</u>	<u>\$ 1,261,899</u>	<u>\$ 1,265,479</u>	<u>19,309</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>3,190</u>
Ad valorem taxes receivable - net				<u>\$ 16,119</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 1,260,621
Reconciling items:				
Prior year releases				
Taxes written off				8,518
Penalties and interest				<u>(3,660)</u>
Subtotal				<u>4,858</u>
Total collections and credits				<u>\$ 1,265,479</u>

**Town of Banner Elk, North Carolina**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**June 30, 2019**

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 221,457,091	0.55	\$ 1,218,014	\$ 1,218,014	\$ -
Registered motor vehicles taxed	6,492,000	0.55	35,706	-	35,706
Penalties	-		398	398	-
Total	<u>227,949,091</u>		<u>1,254,118</u>	<u>1,218,412</u>	<u>35,706</u>
Discoveries:					
Current year taxes	<u>1,474,364</u>	0.55	<u>8,109</u>	<u>8,109</u>	<u>-</u>
Abatements	<u>(59,636)</u>	0.55	<u>(328)</u>	<u>(328)</u>	<u>-</u>
Total property valuation	<u>\$ 229,363,818</u>				
Net levy			1,261,899	1,226,193	35,706
Uncollected taxes at June 30, 2019			<u>(13,252)</u>	<u>(13,252)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 1,248,647</u>	<u>\$ 1,212,941</u>	<u>\$ 35,706</u>
Current levy collection percentage			<u>98.95%</u>	<u>98.92%</u>	<u>100.00%</u>