

REVIEWED

By SLGFD at 3:53 pm, Dec 17, 2021

TOWN OF BANNER ELK, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2021

TOWN COUNCIL MEMBERS

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, 2021

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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, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Town of Banner Elk Tourism Development Authority were not audited in accordance with Government Auditing Standards.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Banner Elk, North Carolina, as of June 30, 2021, 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.

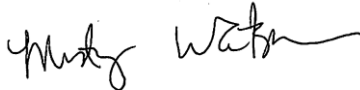
Supplementary Other Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2021 on our consideration of Town of Banner Elk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of Banner Elk's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Misty Watson", with a stylized, flowing script.

Misty D Watson, CPA, PA
Boone, North Carolina
November 13, 2021

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, 2021. 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

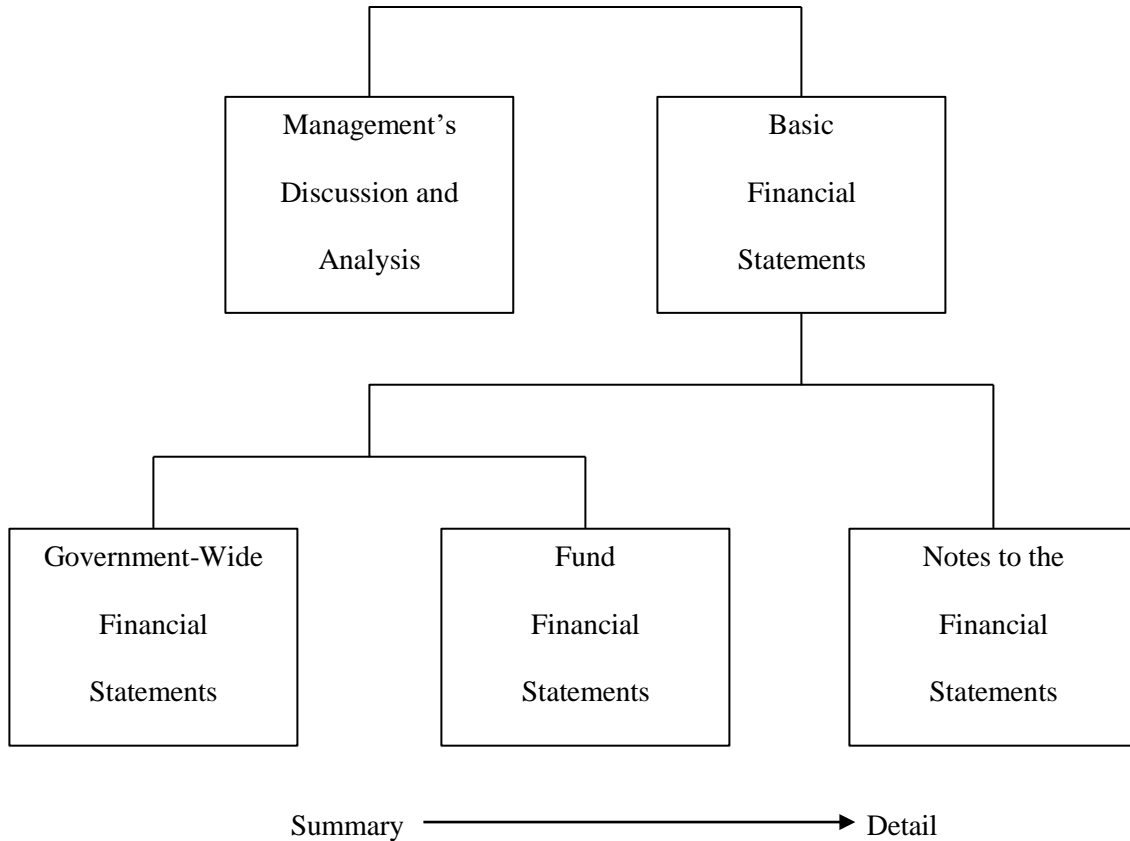
- The assets of the Town of Banner Elk exceeded its liabilities at the close of the fiscal year by \$11,490,946 (*net position*).
- The government's total net position increased by \$456,471 primarily due to governmental fund related activities.
- As of the close of the current fiscal year, the Town of Banner Elk's governmental funds reported combined ending fund balances of \$3,602,992, an increase of \$335,169 in comparison with the prior year. Approximately 7.1% of this total amount, or \$257,295, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,224,804, or 108%, 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 54 of this report. Required supplementary information can be found beginning on page 49.

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

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets:						
Current and other assets	\$3,852,076	\$3,394,363	\$2,200,487	\$1,755,560	\$6,052,563	\$5,149,923
Capital assets	4,880,208	5,087,330	2,430,829	2,601,566	7,311,037	7,688,896
Deferred outflows of resources	385,811	287,199	49,838	43,208	435,649	330,407
Total assets and deferred outflows of resources	9,118,095	8,768,892	4,681,154	4,400,334	13,799,249	13,169,226
Liabilities:						
Long-term liabilities outstanding	1,745,160	1,761,405	147,979	151,449	1,893,139	1,912,854
Other liabilities	220,501	103,391	152,522	77,371	373,023	180,762
Deferred inflows of resources	37,885	38,698	4,256	2,437	42,141	41,135
Total liabilities and deferred inflows of resources	2,003,546	1,903,494	304,757	231,257	2,308,303	2,134,751
Net Position:						
Net investment in capital assets	4,035,048	4,071,546	2,396,897	2,546,519	6,431,945	6,618,065
Restricted	257,295	269,810	-	-	257,295	269,810
Unrestricted	2,822,206	2,524,042	1,979,500	1,622,558	4,801,706	4,146,600
Total net position	\$7,114,549	\$6,865,398	4,376,397	4,169,077	11,490,946	11,034,475

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 \$11,40,946 as of June 30, 2021. The Town's net position increased by \$456,471 for the fiscal year ended June 30, 2021. However, the largest portion (56%) 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, \$257,295, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,801,706 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 99.0%.

Town of Banner Elk Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 78,910	\$ 122,701	\$ 985,874	\$ 991,405	\$ 1,064,784	\$ 1,114,106
Operating grants and contributions	103,461	69,720	-	-	103,461	69,720
Capital grants and contributions	38,528	38,431	-	-	38,528	38,431
General Revenues:						
Property taxes	1,374,151	1,320,259	-	-	1,374,151	1,320,259
Other taxes	894,972	759,711	-	-	894,972	759,711
Investment earnings	1,202	54,248	74	2,427	1,276	56,675
Sale of capital assets	5,675	23,254	736	-	6,411	23,254
Other	15,891	39,157	-	-	15,891	39,157
Total revenues	2,512,790	2,427,481	986,684	993,832	3,499,474	3,421,313
Expenses:						
General government	554,216	554,940	-	-	554,216	554,940
Public Safety	864,205	853,451	-	-	864,205	853,451
Transportation	630,845	353,124	-	-	630,845	353,124
Cultural and recreation	197,981	297,875	-	-	197,981	297,875
Interest on long-term debt	16,392	15,523	1,894	5,336	18,286	20,859
Water and sewer	-	-	777,470	798,976	777,470	798,976
Total expenses	2,263,639	2,074,913	779,364	804,312	3,043,003	2,879,225
Increase (decrease) in net position	249,151	352,568	207,320	189,520	456,471	542,088
Net position, beginning	6,865,398	6,512,830	4,169,077	3,979,557	11,034,475	10,492,387
Net position, June 30	\$ 7,114,549	\$ 6,865,398	\$ 4,376,397	\$ 4,169,077	\$11,490,946	\$11,034,475

Governmental Activities. Governmental activities increased the Town's net position by \$249,151. 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 \$207,320. Key element of this increase are as follows:

- Water and sewer collections exceeded budgeted amounts.

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 \$2,224,804 while total fund balance reached \$2,848,590.

At June 30, 2021, the governmental funds of the Town of Banner Elk reported a combined fund balance of \$3,602,992, an 10.3% increase over last year. Included in this change in fund balance is an increase in the General Fund of \$366,283, an increase in the Capital Improvement Capital Project Fund of \$144, and a net decrease in non-major funds of \$31,258.

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 \$1,979,500. The change in net position was an increase of \$207,320. 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, 2021, totals \$7,311,037 (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 equipment | \$38,274 |
| • Business-type furniture and maintenance equipment | \$5,500 |

Town of Banner Elk's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 1,334,233	\$ 1,334,233	\$ 23,466	\$ 23,466	\$1,357,699	\$ 1,357,699
Construction in progress	-	-	-	-	-	-
Infrastructure	2,735,127	2,735,127	-	-	2,735,127	2,735,127
Buildings	1,546,902	1,546,902	-	-	1,546,902	1,546,902
Plant	-	-	6,560,228	6,560,228	6,560,228	6,560,228
Equipment and furniture	1,239,382	1,305,895	638,536	766,138	1,877,918	2,072,033
Total	6,855,644	6,922,157	7,222,230	7,349,832	14,077,874	14,271,989
Less: accumulated depreciation	(1,975,436)	(1,834,827)	(4,791,401)	(4,748,264)	(6,766,837)	(6,583,091)
Net capital assets	\$ 4,880,208	\$ 5,087,330	\$2,430,829	\$2,601,568	\$7,311,037	\$ 7,688,898

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, 2021, the Town of Banner Elk had total debt outstanding of \$1,893,139.

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

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
General obligation bonds	\$ -	\$ -	\$ -	\$ -	-	\$ -
Compensated absences	58,738	63,641	22,355	22,183	81,093	85,824
Other post-employment benefits	31,929	36,707	-	-	31,929	36,707
Net pension liability (LGERS)	420,023	342,520	91,692	74,219	511,895	416,739
Total pension liability (LEO)	389,310	302,753	-	-	389,310	302,753
Installment purchases	845,160	1,015,784	33,932	55,047	879,092	1,070,831
Total	\$1,745,160	\$ 1,761,405	\$ 147,979	\$ 151,449	\$ 1,893,139	\$ 1,912,854

The Town of Banner Elk's total long-term liabilities increased by \$19,715 during the past fiscal year due to the Net pension (LGERS) and the Total pension (LEO) liabilities.

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 \$18,644,579.

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:

- Continued impacts from COVID-19
- Potential of increases in sales tax
- Potential for increase in tourism
- Continued viability of businesses due to economic conditions

Budget Highlights for the Fiscal Year Ending June 30, 2022

Governmental Activities. Property tax revenues are expected to remain steady with some increase to the prior year based on new development. State shared revenues are budgeted higher due to the increase in travel and development in the area.

Budgeted expenditures in the General Fund are expected to remain constant.

Business-Type Activities. The water and sewer revenues and expenditures in the Town are expected to remain stable.

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, 2021

	Primary Government			Town of Banner Elk Tourism Development Authority
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,664,076	\$ 1,987,943	\$ 5,652,019	\$ 802,260
Taxes receivable, net	24,646	-	24,646	-
Accrued interest	3,937	-	3,937	-
Accounts receivable, net	-	108,294	108,294	-
Due from other governments	159,417	7,148	166,565	52,630
Inventories	-	51,019	51,019	-
Restricted cash and cash equivalents	-	46,083	46,083	-
Total current assets	3,852,076	2,200,487	6,052,563	854,890
Non-current assets:				
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	1,334,233	23,466	1,357,699	-
Other capital assets, net of depreciation	3,545,975	2,407,363	5,953,338	-
Total capital assets	4,880,208	2,430,829	7,311,037	-
Total assets	8,732,284	4,631,316	13,363,600	854,890
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	376,611	49,838	426,449	-
OPEB deferral	9,200	-	9,200	-
Total deferred outflows of resources	385,811	49,838	435,649	-
LIABILITIES				
Current liabilities:				
Accounts payable	220,501	64,166	284,667	5,935
Current portion of long-term liabilities	139,955	20,914	160,869	-
Water and sewer reserve	-	42,273	-	-
Payable from restricted assets	-	46,083	46,083	-
Total current liabilities	360,456	173,436	491,619	5,935
Long-term liabilities:				
Net pension liability	420,023	91,692	511,715	-
Total pension liability	389,310	-	389,310	-
Total OPEB liability	31,929	-	31,929	-
Due in more than one year	763,943	35,373	799,316	-
Total liabilities	1,965,661	300,501	2,223,889	5,935
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	37,885	4,256	42,141	-
Total deferred inflows of resources	37,885	4,256	42,141	-
NET POSITION				
Net investment in capital assets	4,035,048	2,396,897	6,431,945	-
Restricted for:				
Public safety	97,878	-	97,878	-
Stabilization by State Statute	159,417	-	159,417	52,630
Tourism	-	-	-	796,325
Unrestricted	2,822,206	1,979,500	4,801,706	-
Total net position	\$ 7,114,549	\$ 4,376,397	\$ 11,490,946	\$ 848,955

The accompanying notes are an integral part of these statements

Town of Banner Elk, North Carolina
Statement of Activities
June 30, 2021

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position				
			Primary Government				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Town of Banner Elk Tourism Development Authority
Primary government:							
Governmental Activities:							
General government	\$ 554,216	\$ 18,861	\$ 39,185	\$ -	\$ (496,170)	\$ -	\$ -
Public safety	864,205	950	26,657	-	(836,598)	-	-
Transportation	630,845	-	37,619	-	(593,226)	-	-
Cultural and recreation	197,981	59,099	-	38,528	(100,354)	-	-
Interest on long-term debt	16,392	-	-	-	(16,392)	-	-
Total governmental activities (See Note 1)	2,263,639	78,910	103,461	38,528	(2,042,740)	-	(2,042,740)
Business-type activities:							
Water and sewer	779,364	985,874	-	-	-	206,510	206,510
Total business-type activities	779,364	985,874	-	-	-	206,510	206,510
Total primary government	\$ 3,043,003	\$ 1,064,784	\$ 103,461	\$ 38,528	(2,042,740)	206,510	(1,836,230)
Component unit:							
Town of Banner Elk Tourism Development Authority	\$ 193,612	-	21,500	-	-	-	(172,112)
Total component unit	\$ 193,612	-	21,500	-	-	-	(172,112)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,374,151	-	1,374,151
Other taxes					319,825	-	319,825
Local option sales tax					575,147	-	575,147
Unrestricted investment earnings					1,202	74	1,276
Miscellaneous revenues					15,891	-	15,891
Gain on sale of capital assets					5,675	736	6,411
Total general revenues and transfers					2,291,891	810	2,292,701
Change in net position					249,151	207,320	456,471
Net position, beginning					6,865,398	4,169,077	11,034,475
Net position, ending					\$ 7,114,549	\$ 4,376,397	\$ 11,490,946
							\$ 848,955

The accompanying notes are an integral part of this statement

Town of Banner Elk, North Carolina
Balance Sheet
Governmental Funds
June 30, 2021

	<u>Major Funds</u>			Total
	General	Capital Project Reserve Fund	Total Non- Major Funds	Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,907,722	\$ 354,858	\$ 401,496	\$ 3,664,076
Receivables, net:				
Taxes	24,646	-	-	24,646
Due from other governments	158,635	-	782	159,417
Total assets	<u>3,091,003</u>	<u>354,858</u>	<u>402,278</u>	<u>3,848,139</u>
LIABILITIES				
Accounts payable and accrued liabilities	217,767	-	2,734	220,501
Total liabilities	<u>217,767</u>	<u>-</u>	<u>2,734</u>	<u>220,501</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	24,646	-	-	24,646
Total deferred inflows of resources	<u>24,646</u>	<u>-</u>	<u>-</u>	<u>24,646</u>
FUND BALANCES				
Restricted				
Stabilization by State Statute	158,635	-	782	159,417
Public Safety	-	-	97,878	97,878
Assigned				
Capital projects	-	281,025	76,576	357,601
Subsequent years expenditures	465,151	73,833	5,000	543,984
Cultural and recreation	-	-	219,308	219,308
Committed				
Capital projects	-	-	-	-
Unassigned	<u>2,224,804</u>	<u>-</u>	<u>-</u>	<u>2,224,804</u>
Total fund balances	<u>2,848,590</u>	<u>354,858</u>	<u>399,544</u>	<u>3,602,992</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,091,003</u>	<u>\$ 354,858</u>	<u>\$ 402,278</u>	

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

Total Fund Balance, Governmental Funds	3,602,992
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.	3,937
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	\$ 6,855,644
Accumulated depreciation	<u>(1,975,436)</u>
Deferred outflows of resources related to pensions are not reported in the funds	376,611
Earned revenues considered deferred inflows of resources in fund statements.	24,646
Net pension liability	(420,023)
Total pension liability	(389,310)
Total OPEB liability	(31,929)
Gross long-term debt	(903,898)
Deferred outflows of resources related to OPEB are not reported in the funds	9,200
Deferred inflows of resources related to pensions are not reported in the funds	(37,885)
Net position of governmental activities	<u>\$ 7,114,549</u>

The accompanying notes are an integral part of these statements

Town of Banner Elk, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2021

	Major Funds			Total
	General Fund	Capital Project Reserve Fund	Total Non-Major Funds	Governmental Funds
REVENUES				
Ad valorem taxes	\$ 1,368,717	\$ -	\$ -	\$ 1,368,717
Other taxes and licenses	1,239	-	-	1,239
Unrestricted intergovernmental	893,733	-	-	893,733
Restricted intergovernmental	103,461	-	-	103,461
Permits and fees	13,461	-	-	13,461
Sales and services	21,794	-	43,655	65,449
Donations	-	-	-	-
Investment earnings	1,044	144	14	1,202
Miscellaneous	15,892	-	38,528	54,420
Total revenues	2,419,341	144	82,197	2,501,682
EXPENDITURES				
Current:				
General government	516,890	-	-	516,890
Public safety	808,495	-	12,453	820,948
Transportation	477,924	-	-	477,924
Culture and recreation	151,741	-	17,669	169,410
Debt service:				
Principal	87,291	-	83,333	170,624
Interest and other charges	16,392	-	-	16,392
Total expenditures	2,058,733	-	113,455	2,172,188
Excess (deficiency) of revenues over expenditures	360,608	144	(31,258)	329,494
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	-	-
Transfers to other funds	-	-	-	-
Sales of capital assets	5,675	-	-	5,675
Total other financing sources (uses)	5,675	-	-	5,675
Net change in fund balance	366,283	144	(31,258)	335,169
Fund balances, beginning	2,482,307	354,714	430,802	3,267,823
Fund balances, ending	\$ 2,848,590	\$ 354,858	\$ 399,544	\$ 3,602,992

Town of Banner Elk, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2021

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

Net changes in fund balances - total governmental funds	\$	335,169
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		
Capital outlay expenditures which were capitalized	\$ 38,274	
Depreciation expense for governmental assets	<u>(245,396)</u>	(207,122)
Contributions to the pension plan in the current fiscal year not included in the Statement of Activities		81,552
Benefit payments paid and administrative expense for OPEB are not included on the Statement of Activities		9,200
Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position		32,879
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenues		2,911
Change in accrued interest on taxes		2,523
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.		
Proceeds from long-term debt	-	
Principal payments on long-term debt	<u>170,624</u>	170,624
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.		
Compensated absences	4,903	
OPEB plan expense (income)	(2,122)	
Pension expense - LEOSSA	(46,324)	
Pension expense - LGERS	<u>(135,042)</u>	(178,585)
Total changes in net position of governmental activities	<u>\$</u>	<u>249,151</u>

Town of Banner Elk, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2021

	General Fund			
	Budget - Original	Budget - Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,296,280	\$ 1,296,280	\$ 1,368,717	\$ 72,437
Other taxes and licenses	600	600	1,239	639
Unrestricted intergovernmental	545,596	545,596	893,733	348,137
Restricted intergovernmental	33,900	97,094	103,461	6,367
Permits and fees	4,000	4,000	13,461	9,461
Sales and services	25,500	25,500	21,794	(3,706)
Investment earnings	30,000	30,000	1,044	(28,956)
Miscellaneous	10,000	10,000	15,892	5,892
Total revenues	1,945,876	2,009,070	2,419,341	410,271
Expenditures:				
Current:				
General government	542,079	620,923	516,890	104,033
Public safety	843,091	870,941	808,495	62,446
Transportation	822,345	870,345	581,607	288,738
Cultural and recreation	175,681	175,681	151,741	23,940
Total expenditures	2,383,196	2,537,890	2,058,733	479,157
Revenues over (under) expenditures	(437,320)	(528,820)	360,608	889,428
Other financing sources (uses):				
Sales of capital assets	2,500	2,500	5,675	3,175
Total other financing sources (uses)	2,500	2,500	5,675	3,175
Fund balance appropriated	434,820	526,320	-	526,320
Net change in fund balance	\$ -	\$ -	366,283	\$ 366,283
Fund balances, beginning			2,482,307	
Fund balances, ending			<u>\$ 2,848,590</u>	

Town of Banner Elk, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2021

	Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,987,943
Accounts receivable, net	108,294
Due from other governments	7,148
Inventories	51,019
Restricted cash and cash equivalents	46,083
Total current assets	<u>2,200,487</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	23,466
Other capital assets, net of depreciation	2,407,363
Capital assets	<u>2,430,829</u>
Total assets	<u>2,430,829</u>
	<u>4,631,316</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	<u>49,838</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	64,166
Current portion of long-term debt	20,914
Water and sewer reserve	42,273
Liabilities payable from restricted assets:	
Customer deposits	46,083
Total current liabilities	<u>173,436</u>
Noncurrent liabilities:	
Compensated absences	22,355
Notes and bonds payable	13,018
Net pension liability	91,692
Total noncurrent liabilities	<u>127,065</u>
Total liabilities	<u>300,501</u>
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	<u>4,256</u>
NET POSITION	
Net investment in capital assets	2,396,897
Unrestricted	1,979,500
Total net position	<u>\$ 4,376,397</u>

Town of Banner Elk, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2021

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 931,880
Water and sewer taps	47,114
Other operating revenues	6,880
Total operating revenues	<u>985,874</u>
OPERATING EXPENSES	
Water and sewer operations	601,232
Depreciation	176,238
Total operating expenses	<u>777,470</u>
Operating income (loss)	<u>208,404</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	74
Sale of fixed assets	736
Interest and other charges	(1,894)
Total nonoperating revenue (expenses)	<u>(1,084)</u>
Change in net position	207,320
Total net position, beginning	<u>4,169,077</u>
Total net position, ending	<u><u>4,376,397</u></u>

Town of Banner Elk, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2021

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,022,841
Cash paid for goods and services	(316,184)
Cash paid to employees	(236,407)
Customer deposits received (returned)	1,469
Net cash provided (used) by operating activities	471,719
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(21,115)
Acquisition of capital assets	(5,500)
Interest and other charges	(1,894)
Sale of fixed assets	736
Net cash provided (used) by capital and related financing activities	(27,773)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	74
Net cash provided (used) by investing activities	74
Net increase (decrease) in cash and cash equivalents	444,020
Balances, beginning	1,590,006
Balances, ending	\$ 2,034,026
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 208,404
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	176,238
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable, net	(7,522)
(Increase) decrease in due from other governments	2,216
(Increase) decrease in inventories	4,399
Increase in net pension liability	17,473
Increase (decrease) in accounts payable and accrued liabilities	31,408
Increase (decrease) in customer deposits	1,469
Increase (decrease) in unearned revenue	42,273
Increase (decrease) in compensated absences	172
Increase (decrease) in deferred inflows of resources for pensions	1,819
(Increase) decrease in deferred outflows of resources for pensions	(6,630)
Total adjustments	263,315
Net cash provided by operating activities	\$ 471,719

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

I. 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, 2021

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 Town has no fiduciary funds to report. 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.

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.

Capital Project Fund Special Revenue Fund. This fund is used to account for special capital projects including sidewalk extensions.

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, 2021

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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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, Historic Banner Elk School Special Revenue Fund, Sidewalk Projects Special Revenue 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.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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

1. 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). Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it 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) money market mutual fund, is measured at fair value.

2. 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.

3. 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, 2021, consist of the following:

Business-Type Activities:

Water and Sewer Fund: Customer deposits	\$ 46,083
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Total	<u>\$ 46,083</u>
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TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2020.

5. 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.

6. 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.

7. 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.

TOWN OF BANNER ELK, NORTH CAROLINA
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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

8. 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.

9. 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.

10. 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.

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

11. 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.

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

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.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

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.

12. Interfund Transactions

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

**TOWN OF BANNER ELK, NORTH CAROLINA
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FOR THE YEAR ENDED JUNE 30, 2021**

13. 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.

14. Defined Benefit Cost- Sharing Plans

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.

II. 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.

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At June 30, 2021, the Town's deposits had a carrying amount of \$894,134 and a bank balance of \$929,286. Of the bank balance, \$250,000 was covered by FDIC. The Town held \$1,732 in petty cash as of June 30, 2021.

At June 30, 2021, the TDA's deposits had a carrying amount of \$802,260 and a bank balance of \$802,275. Of the bank balance, \$250,000 was covered by the FDIC.s

2. Investments

At June 30, 2021, the Town's investments balances were as follows:

Investment Type	Valuation	Book Value	Maturity	Rating
	Measurement Method	At 6/30/2021		
NC Capital Management Trust – Government Portfolio	Fair Value 1	\$ 4,802,236	N/A	AAAm
Total:		<u>\$ 4,802,236</u>		

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 and AAAm-mf by Moddys Investors Services as of June 30, 2021.

3. 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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	Taxes	Due from other governments	Total
Governmental Activities:			
Property taxes	\$ 27,875	-	\$ 27,875
Local options sales/franchise tax	-	123,278	123,278
ABC revenues - unrestricted	-	25,000	25,000
Sales tax refunds due	-	7,720	7,720
Motor vehicle taxes	-	3,419	3,419
Allowance for doubtful accounts	(3,229)	-	(3,229)
Total governmental activities	\$ 24,646	159,417	\$ 184,063

Capital Assets

4. Governmental Capital Assets

The capital assets of the government fund of the Town at June 30, 2021, were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$1,334,233	-	-	\$1,334,233
Construction in progress	-	-	-	-
Total capital assets not being depreciated	1,334,233	-	-	1,334,233
Capital assets being depreciated:				
Buildings	1,546,902	-	-	1,546,902
Equipment and furniture	1,305,895	38,274	104,787	1,239,382
Infrastructure	2,735,127	-	-	2,735,127
Total capital assets being depreciated	5,587,924	38,274	104,787	5,521,411
Less accumulated depreciation for:				
Buildings	398,218	32,751	-	430,969
Equipment and furniture	873,831	140,040	104,787	909,084
Infrastructure	562,778	72,605	-	635,383
Total accumulated depreciation	1,834,827	245,396	104,787	1,975,436
Total capital assets being depreciated, net	3,753,097			3,545,975
Governmental activity capital assets, net	<u>\$5,087,330</u>			<u>\$4,880,208</u>

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

Governmental Activities:	
General government	\$ 31,538
Public safety	40,795
Transportation	148,101
Cultural and recreation	24,962
Total	<u>\$ 245,396</u>

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Proprietary Capital Assets

The capital assets of the proprietary fund of the Town at June 30, 2021, 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	23,466	-	-	23,466
Capital assets being depreciated:				
Plant	6,560,228	-	-	6,560,228
Furniture and maintenance equipment	766,138	5,500	133,102	638,536
Total capital assets being depreciated	7,326,366	5,500	133,102	7,198,763
Less accumulated depreciation for:				
Plant	4,092,083	154,987	-	4,247,070
Furniture and maintenance equipment	656,181	21,251	133,102	544,330
Total accumulated depreciation	4,748,264	176,238	133,102	4,791,401
Total capital assets being depreciated, net	2,578,102			2,407,362
Water and Sewer fund capital assets, net	<u>\$ 2,601,568</u>			<u>\$ 2,430,829</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. 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 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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report 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.

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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, 2021, was 10.9% of compensation for law enforcement officers and 10.15% 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 \$99,694 for the year ended June 30, 2021.

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

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

At June 30, 2021, the Town reported a liability of \$511,715 for its proportionate share of the net pension asset. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 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, 2020, the Town's proportion was 0.01432%, which was a decrease of 0.00094% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$165,811. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 64,621	-
Changes of assumptions	38,082	-
Net difference between projected and actual earnings on pension plan investments	72,010	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	3,728	23,751
Town contributions subsequent to the measurement date	99,694	-
Total	\$ 278,135	\$ 23,751

\$99,694 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, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2022	\$ 40,496
2023	58,916
2024	33,966
2025	21,311
2026	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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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, 2019 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, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 for the 2019 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.

**TOWN OF BANNER ELK, NORTH CAROLINA
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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:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Town's proportionate share of the net pension liability (asset)	\$ 1,038,213	\$ 511,715	\$ 74,157

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

b. Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town of Banner Elk administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers 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, 2019, the Separation Allowance's membership consisted of:

Inactive members currently receiving benefits	3
Active plan members	8
Total	<u>11</u>

**TOWN OF BANNER ELK, NORTH CAROLINA
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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, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 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 Pub-2020 amount-weighted tables.

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 \$32,524 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, 2021, the Town reported a total pension liability of \$389,310. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the Town recognized pension expense of \$46,324.

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	Deferred Outflows of Resources	Deferred Inflows of
Differences between expected and actual experience	\$ 22,146	\$ 13,124
Changes of assumptions	93,289	5,266
Town benefit payments and plan administrative expense made subsequent to the measurement date	32,879	-
Total	<u>\$ 148,314</u>	<u>\$ 18,390</u>

\$32,879 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, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2022	\$ 20,033
2023	18,649
2024	23,976
2025	21,446
2026	12,941
Thereafter	-

\$32,524 paid as benefits came due and \$355 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 1.93 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 (0.93 percent) or 1-percentage-point higher (2.93 percent) than the current rate:

	1% Decrease (0.93%)	Discount Rate (1.93%)	1% Increase (2.93%)
Total pension liability	\$ 432,183	\$ 389,310	\$ 350,679

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

	2021
Beginning balance	\$ 302,753
Service Cost	13,252
Interest on the total pension liability	9,238
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	3,626
Changes of assumptions or other inputs	99,180
Benefit payments	(38,739)
Other changes	-
Ending balance of the total pension liability	<u>\$ 389,310</u>

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, 2019 valuation were based on the results of an actuarial experience study for period January 1, 2020, 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:

	LGERS	LEOSSA	Total
Pension Expense	\$165,811	\$ 46,324	\$ 212,135
Pension Liability	511,715	389,310	901,025
Proportionate share of the net pension liability	0.01432%	N/A	

Deferred of Outflows of Resources

Differences between expected and actual experience	64,621	22,146	86,767
Changes of assumptions	38,082	93,289	131,371
Net difference between projected and actual earnings on plan investments	72,010	-	72,010
Changes in proportion and differences between contributions and proportionate share of contributions	3,728	-	3,728
Benefit payments and administrative costs paid subsequent to the measurement date	99,694	32,879	132,573

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Deferred of Inflows of Resources

Differences between expected and actual experience	-	13,124	13,124
Changes of assumptions	-	5,266	5,266
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	23,751	-	23,751

c. 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 Annual Comprehensive Financial Report for the State of North Carolina. The State’s Annual Comprehensive Financial Report 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 \$41,840 for the reporting year. No amounts were forfeited.

2. 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
FOR THE YEAR ENDED JUNE 30, 2021**

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 \$31,929 was measured as of June 30, 2020 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2020 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	3.50%
Measurement date	2.21%
Health care cost trends	None

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

	Total OPEB Liability
Balance at 6/30/2020	\$ 36,707
Changes for the year	
Service cost	-
Interest	1,165
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	957
Benefit payments	(6,900)
Net changes	(4,778)
Balance at 6/30/2021	\$ 31,929

Changes in assumptions and other inputs reflect a change in the discount rate from 3.50% to 2.21%.

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

The actuarial assumptions used in the June 30, 2020 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 (1.21 percent) or 1-percentage-point higher (3.21 percent) than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate (2.21%)</u>	<u>1% Increase</u>
Total OPEB liability	\$ 32,707	\$ 31,929	\$ 31,182

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:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB liability	\$ 31,929	\$ 31,929	\$ 31,929

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

For the year ended June 30, 2021, the Town recognized OPEB expense of \$2,122. At June 30, 2021, 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	9,200	-
Total	<u>\$ 9,200</u>	<u>\$ -</u>

\$9,200 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, 2022. 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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

Measurement Period Ended

Year ended June 30:

2022	-
2023	-
2024	-
2025	-
2026	-
Thereafter	-

3. 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	\$ 99,694
Benefit payments made and administrative expenses for LEOSSA	32,879
Differences between expected and actual	86,767
Changes of assumptions	131,371
expenses for OPEB subsequent to measurement date	9,200
Net difference between projected and actual earnings on pension plan investments	72,010
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,728
Total	<u>\$ 435,649</u>

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)	\$ -	\$ 24,646
Changes in assumptions	5,266	-
Differences between expected and actual experience	13,124	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,751	-
Total	<u>\$ 42,141</u>	<u>\$ 24,646</u>

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

4. 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.

5. 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; annual installments of \$16,595, including interest; beginning August final payment due August 2043; secured by real estate	\$ 231,972
0.0% note for \$1,000,000, payable to Avery County issued March 2015; annual installments of \$83,333; beginning July 2015 with final payment due January 2026; secured by real estate	500,000
2.72% note for \$65,000, payable to BB&T issued December 2017; semi-annual installments with varying amounts beginning July 2018 payment due June 2022; secured by equipment	14,773
3.7% note for \$42,906 payable to Highlands Union Bank issued June 2019 payable in annual installments with varying amounts beginning final payment due June 2023; secured by equipment.	22,454
2.62% note for \$100,000 payable to BB&T issued September	

TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

2019; payable in annual installments with varying amounts

2020; final payment due September 2023; secured by equipment.

75,961
\$ 845,160

Installment Note:

2.72% note for \$35,000, 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 \$ 8,515

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.

25,417
\$ 33,932

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

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 139,955	\$ 13,961	\$ 20,914	\$ 1,194
2023	125,998	11,938	13,018	494
2024	115,733	10,854	-	-
2025	90,052	9,877	-	-
2026	90,362	9,566	-	-
2027-2031	123,667	42,641	-	-
2032-2036	50,564	32,411	-	-
2037-2041	63,390	19,585	-	-
2042-2044	45,439	4,273	-	-
	<u>\$ 845,160</u>	<u>\$ 155,106</u>	<u>\$ 33,932</u>	<u>\$ 1,688</u>

	Beginning			Ending	Current
	Balances	Increases	Decreases	Balances	portion of balance
Governmental activities					
Notes payable	\$ 1,015,784	\$ -	\$ 170,624	\$ 845,160	\$ 139,955
Net pension liability (LGERS)	342,520	77,503	-	420,023	-
Total pension liability (LEO)	302,753	86,557	-	389,310	-
Compensated absences	63,641	28,804	33,707	58,738	-
Total OPEB liability	36,707	-	4,778	31,929	-
Governmental activity long-term liabilities	<u>\$ 1,761,405</u>	<u>\$ 192,864</u>	<u>\$ 209,109</u>	<u>\$ 1,745,160</u>	<u>\$ 139,955</u>

**TOWN OF BANNER ELK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

	Beginning Balances	Increases	Decreases	Ending Balances	Current portion of balance
Business-type activities					
Notes payable	\$ 55,047	\$ -	\$ 21,115	\$ 33,932	\$ 20,914
Net pension liability (LGRS)	74,219	17,473	-	91,692	-
Compensated absences	22,183	10,887	10,715	22,355	-
Business-type activities long- term liabilities	\$ 151,449	\$ 28,360	\$ 31,830	\$ 147,979	\$ 20,914

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, 2021, the Town had a legal debt margin of \$18,644,579.

C. Interfund Transactions

Transfers to/from Other Funds at June 30, 2021 consists of the following:

None

D. 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.

III. 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.

IV. Fund Balance

Total fund balance – General Fund	\$2,848,590
Less:	
Stabilization by State Statute	158,635
Subsequent years expenditures	465,151
Remaining fund balance	2,224,804

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

	2021		2020		2019		2018	
Total OPEB Liability								
Service cost	\$	-	\$	-	\$	-	\$	-
Interest		1,165		2,296		2,295		2,171
Changes of benefit terms		-		(10,609)		-		-
Differences between expected and actual experience		-		(11,605)		(86)		820
Changes of assumptions		957		1,078		(740)		(1,573)
Benefit payments		(6,900)		(6,900)		(6,900)		(11,240)
Net change in total OPEB liability		(4,778)		(25,740)		(5,431)		(9,822)
Total OPEB liability - beginning		36,707		62,447		67,878		77,700
Total OPEB liability - ending	\$	31,929	\$	36,707	\$	62,447	\$	67,878

Covered payroll N/A *

Total OPEB liability as a percentage of covered payroll 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%
2020	3.50%
2021	2.21%

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

Local Government Employees' Retirement System

		2021	2020	2019	2018	2017	2016	2015	2014
Banner Elk's proportion of the net pension liability (asset) (%)		0.01432%	0.01526%	0.01401%	0.01488%	0.01567%	0.01663%	0.01609%	0.01470%
Banner Elk's proportion of the net pension liability (asset) (\$)	\$	511,715	\$ 416,739	\$ 332,365	\$ 227,325	332,570	\$ 74,633	(94,890)	\$ 177,191
Banner Elk's covered-employee payroll	\$	905,868	\$ 932,242	\$ 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		56.49%	44.70%	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%	99.07%	102.64%	94.35%	96.45%

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

Local Government Employees' Retirement System

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 99,694	\$ 84,328	\$ 74,881	\$ 65,486	\$ 64,618	\$ 56,874	\$ 60,743	\$ 59,477
Contributions in relation to the contractually required contribution	99,694	84,328	74,881	65,486	64,618	56,874	60,743	59,477
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Banner Elk's covered-employee payroll	\$ 953,954	\$ 905,868	\$ 932,242	\$ 817,079	\$ 847,875	\$ 824,874	\$ 830,250	\$ 830,250
Contributions as a percentage of covered-employee payroll	10.45%	9.31%	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,				
	2021	2020	2019	2018	2017
Beginning balance	\$ 302,753	\$ 283,833	\$ 347,795	\$ 345,161	\$ 359,409
Service Cost	13,252	12,042	10,385	11,128	11,653
Interest on the total pension liability	9,238	9,561	10,321	12,523	12,280
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	3,626	29,399	(31,433)	1,833	-
Changes of assumptions or other inputs	99,180	10,269	(10,878)	18,619	(7,294)
Benefit payments	(38,739)	(42,351)	(42,357)	(41,469)	(30,887)
Other changes	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 389,310</u>	<u>\$ 302,753</u>	<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 December 31.

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,

	2021		2020		2019		2018		2017	
Total pension liability	\$	389,310	\$	302,753	\$	283,833	\$	347,795	\$	345,161
Covered payroll		414,177		402,784		303,676		397,110		388,163
Total pension liability as a percentage of covered payroll		94.00%		75.17%		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 related benefits.

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, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 1,365,200	\$
Interest		3,517	
Total	1,296,280	1,368,717	72,437
Other taxes and licenses:			
Solid waste disposal tax		839	
Privilege licenses		400	
Total	600	1,239	639
Unrestricted intergovernmental:			
Local option sales taxes		575,147	
Utilities franchise tax		119,190	
Beer and wine tax		4,674	
TDA admin fee		29,722	
ABC profit distribution		165,000	
Total	545,596	893,733	348,137
Restricted intergovernmental:			
Powell Bill allocation		37,619	
Other local grants and matching contributions		65,842	
Total	97,094	103,461	6,367
Permits and fees:			
Building permits		13,461	
Total	4,000	13,461	9,461
Sales and services:			
Rental income	25,500	21,794	(3,706)
Investment earnings	30,000	1,044	(28,956)
Miscellaneous	10,000	15,892	5,892
Total revenues	2,009,070	2,419,341	410,271
Expenditures:			
Governing body:			
Salaries and employee benefits		13,080	
Operating expenditures		44,243	
Total		57,323	
Administration:			
Salaries and employee benefits		183,643	
Operating expenditures		88,226	
Total		271,869	
Finance:			
Salaries and employee benefits		21,488	
Operating expenditures		29,431	
Total		50,919	

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, 2021

	Budget	Actual	Variance Positive (Negative)
Planning			
Salaries and employee benefits		83,713	
Operating expenditures		23,414	
Total		107,127	
Public buildings:			
Operating expenditures		29,652	
Total		29,652	
Total general government	620,923	516,890	104,033
Public safety:			
Police:			
Salaries and employee benefits		654,505	
Operating expenditures		115,716	
Capital outlay		38,274	
Total		808,495	
Total public safety	870,941	808,495	62,446
Transportation:			
Streets and highways:			
Salaries and employee benefits		99,922	
Operating expenditures		481,685	
Total transportation	870,345	581,607	288,738
Cultural and recreation:			
Parks and recreation:			
Salaries and employee benefits		73,404	
Other operating expenditures		78,337	
Total culture and recreation	175,681	151,741	23,940
Total expenditures	2,537,890	2,058,733	479,157
Revenues over (under) expenditures	(528,820)	360,608	889,428
Other financing sources (uses):			
Sale of capital assets	2,500	5,675	3,175
Total	\$ 2,500	\$ 5,675	\$ 3,175
Fund balance appropriated	526,320	-	(526,320)
Net change in fund balance	\$ -	366,283	\$ 366,283
Fund balances, beginning		2,482,307	
Fund balances, ending		\$ 2,848,590	

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, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues			
Restricted intergovernmental:			
Miscellaneous:			
Miscellaneous	\$ -	\$ -	\$ -
Investment income	-	144	144
Total revenues	-	144	144
Revenues under expenditures	-	144	144
Other financing sources (uses):			
Transfer to Historic Banner Elk School Fund	(73,833)	-	73,833
Total	(73,833)	-	73,833
Fund balance appropriated	73,833	-	(73,833)
Net change in fund balance	\$ -	\$ 144	\$ 144
Fund balances, beginning		354,714	
Fund balances, ending		\$ 354,858	

Town of Banner Elk, North Carolina
Combining Balance Sheets
Nonmajor Governmental Funds
For the Year Ended June 30, 2021

	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Historic Banner Elk School Special Revenue Fund	Sidewalk Projects Special Revenue Fund	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	\$ 40,080	57,798	227,042	76,576	\$ 401,496
Due from other governments	-	749	33	-	782
Total assets	\$ 40,080	58,547	227,075	76,576	\$ 402,278
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	-	2,734	-	\$ 2,734
Fund balances:					
Restricted:					
Stabilization by State Statute	\$ -	749	33	-	\$ 782
Public safety	40,080	57,798	-	-	97,878
Committed:					
Capital projects	-	-	-	76,576	76,576
Assigned:					
Subsequent years expenditures	-	-	5,000	-	5,000
Cultural and recreation	-	-	219,308	-	219,308
Total fund balances	40,080	58,547	224,341	76,576	399,544
Total liabilities and fund balances	\$ 40,080	\$ 58,547	\$ 227,075	\$ 76,576	\$ 402,278

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, 2021

	Police Special Revenue Fund	Cops Golf Tournament Special Revenue Fund	Historic Banner Elk School Special Revenue Fund	Sidewalk Projects Special Revenue Fund	Total Nonmajor Governmental Funds
Revenues:					
Sales and services	\$ -	950	42,705	-	\$ 43,655
Capital donations	-	-	38,528	-	38,528
Interest	-	9	-	5	14
Miscellaneous	-	-	-	-	-
Total revenues	-	959	81,233	5	82,197
Expenditures:					
Public safety	-	12,453	-	-	12,453
Cultural and recreation	-	-	17,669	-	17,669
Debt service:				-	-
Principal repayments	-	-	83,333	-	83,333
Interest	-	-	-	-	-
Total expenditures	-	12,453	101,002	-	113,455
Revenues over expenditures	-	(11,494)	(19,769)	5	(31,263)
Other Financing Sources (Uses):					
Transfers in	-	-	-	-	-
Net change in fund balance	-	(11,494)	(19,769)	5	(31,258)
Fund balance, beginning	40,080	70,041	244,110	76,571	430,802
Fund balance, ending	\$ 40,080	\$ 58,547	\$ 224,341	\$ 76,576	\$ 399,544

Schedule 5

Town of Banner Elk, North Carolina
Sidewalk Projects - Nonmajor Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues			
Miscellaneous:			
Contributions	-	-	\$ -
Investment income	-	5	5
Total revenues	-	5	5
Expenditures			
Capital outlay:			
Sidewalk projects			
Total expenditures	-	-	-
Revenues under expenditures	-	5	5
Appropriated fund balance	-	-	-
Net change in fund balance	\$ -	5	\$ 5
Fund balance, beginning		76,571	
Fund balance, ending		\$ 76,576	

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, 2021

	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		40,080	
Fund balance, Ending		\$ 40,080	

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, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Golf tournament revenues	\$ 21,000	950	\$ (20,050)
Interest	-	9	9
Total revenues	<u>21,000</u>	<u>959</u>	<u>(20,041)</u>
Expenditures:			
Public safety:			
Golf tournament	<u>30,000</u>	<u>12,453</u>	<u>17,547</u>
Other financing (uses):			
Appropriated fund balance	<u>9,000</u>	<u>-</u>	<u>(9,000)</u>
Total other financing (uses)	<u>9,000</u>	<u>-</u>	<u>(9,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>(11,494)</u>	<u>\$ (11,494)</u>
Fund balance, beginning		<u>70,041</u>	
Fund balance, Ending		<u>\$ 58,547</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, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Golf tournament revenues	10,250	7,428	(2,822)
Sales and services	10,500	35,280	24,780
Donations	15,500	38,525	23,025
Total revenues	36,250	81,233	44,983
Expenditures:			
Cultural and recreation:			
Other	30,150	17,649	12,501
Golf tournament expenses	10,000	20	9,980
Debt Service:			
Principal	83,333	83,333	-
Total	123,483	101,002	22,481
Revenues over expenditures	(87,233)	(19,769)	67,464
Other financing (uses):			
Transfer from Capital Project Fund	73,833	-	73,833
Total other financing (uses)	73,833	-	73,833
Fund balance appropriated	13,400	-	(13,400)
Net change in fund balance	\$ -	(19,769)	\$ (19,769)
Fund balance, beginning		244,110	
Fund balance, Ending		\$ 224,341	

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, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales:			
Residential		382,723	
Impact fees		9,156	
Total	\$ 309,250	391,879	\$ 82,629
Sewer charges:			
Residential		528,422	
Sewer CIP surcharge		11,579	
Total	426,250	540,001	113,751
Water and sewer taps	5,000	47,114	42,114
Other operating revenues	5,000	6,880	1,880
Total operating revenues	745,500	985,874	240,374
Nonoperating revenues:			
Interest earnings	1,500	72	(1,428)
Total revenues	747,000	985,946	238,946
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits		67,609	
Supplies		781	
Insurance		75	
Contracted services		2,912	
Other operating expenditures		30,199	
Total water and sewer administration	128,608	101,576	27,032
Wastewater treatment:			
Water treatment plant:			
Salaries and employee benefits		36,352	
Utilities		56,261	
Supplies		2,856	
Insurance		3,602	
Maintenance		13,990	
Other operating expenditures		20,655	
Contracted services		24,479	
Total	164,795	158,195	6,600
Water treatment:			
Water treatment plant:			
Salaries and employee benefits		36,894	
Utilities		36,886	
Supplies		16,393	
Insurance		2,058	
Maintenance		5,744	
Other operating expenditures		13,642	
Total	135,780	111,617	24,163
Distributions and collections:			
Salaries and employee benefits		94,019	
Utilities		4,950	
Supplies		19,733	
Insurance		6,835	
Maintenance		15,883	
Other operating expenditures		63,764	
Capital outlay		16,590	
Total	320,658	221,774	98,884
Subtotal water treatment and sewer expenses	749,841	593,162	156,679

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, 2021

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Interest and other charges		1,894	-
Principal retirement		21,115	-
Total debt service	23,009	23,009	-
Revenues over(under) expenditures	(25,850)	369,775	395,625
Other financing sources and (uses)			
Proceeds from long-term debt	-	-	-
Fund balance appropriated	25,850	-	(25,850)
Revenues and other sources over expenditures and other uses	\$ -	369,775	\$ 369,775
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 369,775	
Reconciling items:			
Principal retirement		21,115	
Change in accrued vacation pay		(172)	
Change in deferred outflows of resources - pensions		6,630	
Change in net pension liability		(17,473)	
Change in deferred inflows of resources - pensions		(1,819)	
Capital outlay		5,500	
Depreciation		(176,238)	
Interest income from Water and Sewer Capital Projects Fund		2	
Total reconciling items		(162,455)	
Change in net position		\$ 207,320	

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, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Investment earnings	\$ -	2	2
Total revenues	<u>-</u>	<u>2</u>	<u>2</u>
 Revenues over (under) expenditures	 <u>-</u>	 <u>2</u>	 <u>2</u>
 Revenues over (under) expenditures and other financing sources	 <u>\$ -</u>	 <u>2</u>	 <u>2</u>

Town of Banner Elk, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2021

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2020</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2021</u>
2020-2021	\$ -	\$ 1,367,031	\$ 1,353,308	\$ 13,723
2019-2020	19,537	-	9,509	10,028
2018-2019	3,949	-	2,379	1,570
2017-2018	502	-	-	502
2016-2017	497	-	-	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	-
	<u>\$ 26,187</u>	<u>\$ 1,367,031</u>	<u>\$ 1,365,343</u>	<u>27,875</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>3,229</u>
Ad valorem taxes receivable - net				<u>\$ 24,646</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 1,368,717
Reconciling items:				
Prior year releases				
Taxes written off				143
Penalties and interest				(3,517)
Subtotal				<u>(3,374)</u>
Total collections and credits				<u>\$ 1,365,343</u>

Town of Banner Elk, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
June 30, 2021

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 232,779,643	0.56	\$ 1,303,566	\$ 1,303,566	\$ -
Registered motor vehicles taxed	7,515,536	0.56	42,087	-	42,087
Penalties	-		374	374	-
Total	<u>240,295,179</u>		<u>1,346,027</u>	<u>1,303,940</u>	<u>42,087</u>
Discoveries:					
Current year taxes	<u>3,765,714</u>	0.56	<u>21,088</u>	<u>21,088</u>	<u>-</u>
Abatements	<u>(15,000)</u>	0.56	<u>(84)</u>	<u>(84)</u>	<u>-</u>
Total property valuation	<u>\$ 244,045,893</u>				
Net levy			1,367,031	1,324,944	42,087
Uncollected taxes at June 30, 2021			<u>(13,723)</u>	<u>(13,723)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 1,353,308</u>	<u>\$ 1,311,221</u>	<u>\$ 42,087</u>
Current levy collection percentage			<u>99.00%</u>	<u>98.96%</u>	<u>100.00%</u>

MISTY D WATSON, CPA, P.A.
CERTIFIED PUBLIC ACCOUNTANT
PO BOX 2122
BOONE, NORTH CAROLINA 28607

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, 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, 2021, and the related notes to the financial statements, which collectively comprise the Town of Banner Elk's basic financial statements, and have issued our report thereon dated November 13, 2021. The financial statements of the Town of Banner Elk Tourism Development Authority were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Town of Banner Elk Tourism Development Authority.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

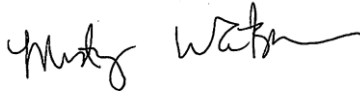
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Banner Elk's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Misty Watson", with a stylized, flowing script.

Misty D Watson, CPA, PA
Boone, NC
November 13, 2021

TOWN OF BANNER ELK, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021**

1. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance to GAAP:

Unmodified

Internal control over financial reporting:

- | | |
|--------------------------------------|---------------|
| • Material weakness identified? | No |
| • Significant deficiency identified? | None reported |

Non-compliance material to financial statements noted?	No
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