Management's Discussion and Analysis

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As management of the Town of Boone, we offer readers of the Town of Boone's financial statements this narrative overview and analysis of the financial activities of the Town of Boone for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

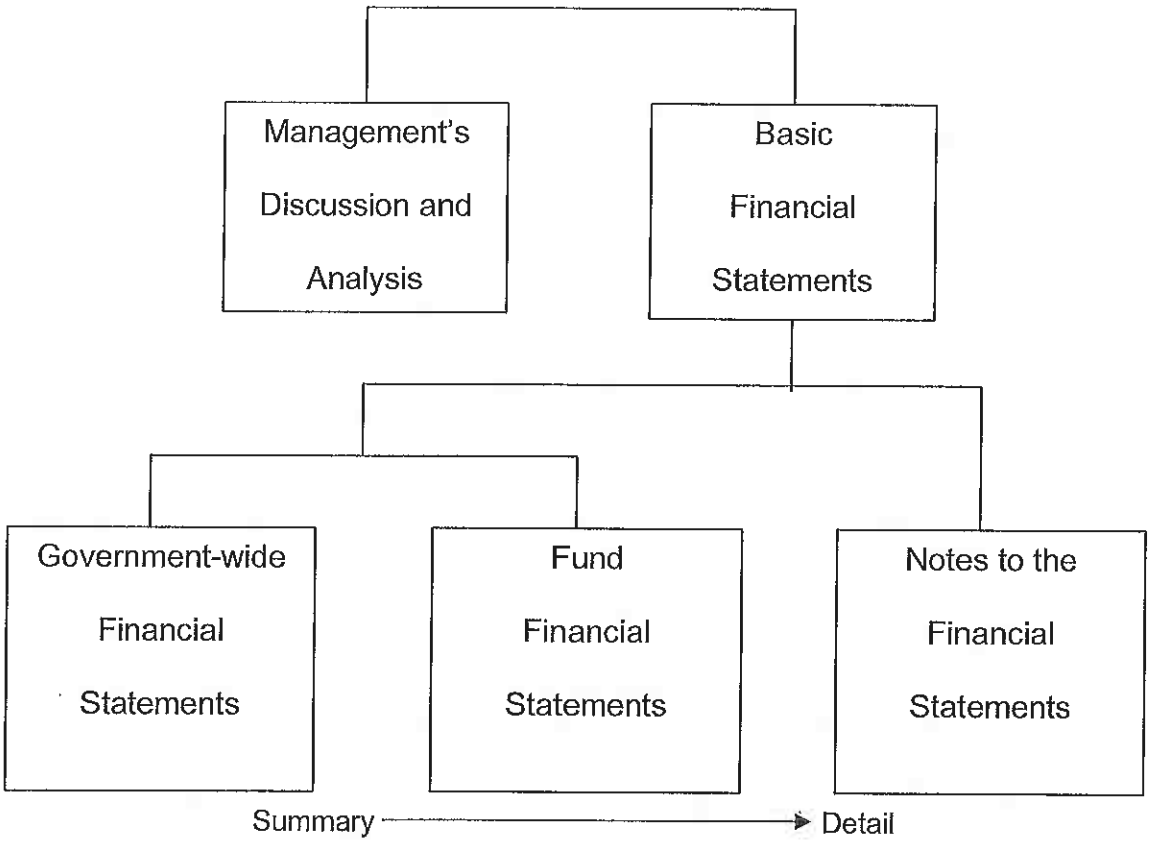
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $65,405,065 (*net position).*
- The government's total net position increased by $2,111,546 primarily due to increases in both the governmental and business type activities' net position.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of $15,455,302 with a net increase of $647,070 in fund balance. Approximately 35.25% of this total amount or $5,448,608 is restricted, committed, or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $10,006,694, or 76.87% of total General Fund expenditures for the fiscal year.
- The Town's total long-term liabilities decreased by $706,928 (18.96%) during the current fiscal year. This decrease was as a result of repayment of various debts.
- The Town no longer has a current bond rating as the Town has no outstanding bonded debt. The last ratings held by the town were an "A" bond rating from Standard & Poor's and "A2" from Moody's Investor Services.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town'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.

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 J) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 it has 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 position 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 general government, administration, public safety, transportation, public works, environmental protection, and community development. Property taxes and state and federal 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. The final category is component units. The Town has the following component units: ABC Board, Boone Housing Authority, Boone Tourism Development Authority, and Downtown Boone Development Association. Although legally separate from the Town, these entities are important to the Town because the Town exercises control by appointing their members. The ABC Board is required to distribute its profits to the Town. These entities are also fiscally dependent on the Town.

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, 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 can be divided into two categories: governmental funds, proprietary funds, and fiduciary 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 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 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 has only one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer activity. This fund is the same as that function shown in the business-type activities in the Statement of Net Position and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of Town. The Town uses an internal service fund to account for its insurance fund. Because this operation benefits predominantly governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town has a fiduciary fund which is a pension trust fund.

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 are on pages 36 - 62 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension and postemployment healthcare benefits to its employees. Required supplementary information can be found on pages 63 – 64 of this report.

Government-Wide Financial Analysis

The Town of Boone's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	17,475,340	16,833,943	16,819,503	15,153,669	34,294,843	31,987,612
Capital assets	11,421,842	11,523,623	25,282,840	25,876,288	36,704,682	37,399,911
Deferred outflows of resources	517,487	534,303	39,628	52,839	557,115	587,142
Total assets and deferred outflows of resources	29,414,669	28,891,869	42,141,971	41,082,796	71,556,640	69,974,665
Long-term liabilities outstanding	1,409,785	1,432,396	2,531,741	2,995,323	3,941,526	4,427,719
Other liabilities	1,058,910	1,162,356	1,151,139	1,091,071	2,210,049	2,253,427
Deferred inflows of resources	-	-	-	-	-	-
Total liabilities and deferred inflows of resources	2,468,695	2,594,752	3,682,880	4,086,394	6,151,575	6,681,146
Net assets:						
Net investment in capital assets	10,959,829	10,994,682	22,722,840	22,676,288	33,682,669	33,670,970
Restricted	2,197,487	2,091,314	-	-	2,197,487	2,091,314
Unrestricted	13,788,658	13,211,121	15,736,251	14,320,114	29,524,909	27,531,235
Total net assets	26,945,974	26,297,117	38,459,091	36,996,402	65,405,065	63,293,519

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by $65,405,065 as of June 30, 2014. The Town's net position increased by $2,111,546 for the fiscal year ended June 30, 2014. However, the largest portion (51.50%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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's net position, $2,197,487, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $29,524,909 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.23%
- Reevaluation effective January 2006 (performed on a 4 year basis) created additional property tax revenue, as well as discovery billings throughout the

fiscal year. Due to instability in the economy Watauga County has delayed reevaluation until January 2014.

- Conservative budgeting and spending.

Town of Boone's Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 772,940	$ 758,428	$ 7,363,358	$ 6,949,431	$ 8,136,298	$ 7,707,859
Operating grants and contributions	969,552	1,488,304	-	-	969,552	1,488,304
Capital grants and contributions	848,814	-	-	217,072	848,814	217,072
General revenues:						
Property taxes	6,296,989	6,054,248	-	-	6,296,989	6,054,248
Other taxes	2,698,637	5,906,994	-	-	2,698,637	5,906,994
Other	2,456,601	412,075	7,242	21,046	2,463,843	433,121
Total revenues	14,043,533	14,620,049	7,370,600	7,187,549	21,414,133	21,807,598
Expenses:						
General government	3,912,327	3,618,463	-	-	3,912,327	3,618,463
Public safety	5,834,847	5,817,491	-	-	5,834,847	5,817,491
Transportation	1,943,212	1,857,882	-	-	1,943,212	1,857,882
Environmental protection	332,913	339,577	-	-	332,913	339,577
Economic development	1,582,029	1,818,165	-	-	1,582,029	1,818,165
Culture and recreation	-	-	-	-	-	-
Interest on long-term debt	14,348	6,935	-	-	14,348	6,935
Water and sewer	-	-	5,682,911	5,366,024	5,682,911	5,366,024
Electric	-	-	-	-	-	-
Total expenses	13,619,676	13,458,513	5,682,911	5,366,024	19,302,587	18,824,537
Increase in net assets before transfers	423,857	1,161,536	1,687,689	1,821,525	2,111,546	2,983,061
Transfers	225,000	45,000	(225,000)	(45,000)	-	-
Increase in net assets	648,857	1,206,536	1,462,689	1,776,525	2,111,546	2,983,061
Net assets, July 1	26,297,117	25,090,581	36,996,402	35,219,877	63,293,519	60,310,458
Net assets, June 30	$ 26,945,974	$ 26,297,117	$ 38,459,091	$ 36,996,402	$ 65,405,065	$ 63,293,519

Governmental activities: Governmental activities increased the Town's net position by $648,857, thereby accounting for 30.73% of the total growth in the net position of the Town. Key elements of this increase are as follows:

- Tax revenues increased due to reevaluation in 2006, and due to discovery billings throughout the fiscal year. Tax collection percentages remained strong, reflecting an increase of 0.76% from FY 2012/2013.
- Local option sales tax decreased by $1,575,074 in comparison to FY 2012/2013 due to a change in the distribution method which resulted in a significant loss of revenue.

Business-type activities: Business-type activities increased the Town's net position by $1,462,689, accounting for 69.27% of the total growth in the government's net position.

Financial Analysis of the Town's Funds

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

Governmental Funds: The focus of the Town'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's financing requirements. Specifically, unrestricted 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. At the end of the current fiscal year, unassigned fund balance of the General Fund was $10,006,694 while total fund balance reached $14,310,317. As a measure of the general fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Increase of General Fund fund balance is attributed to the receipt of revenues greater than originally projected. Conservative budgeting and spending also contributed to the increase in General Fund fund balance. Additional revenues were also realized for sales tax, property tax, and utility franchise fees.

At June 30, 2014, the governmental funds of the Town reported a combined total fund balance of $15,455,302.

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; and 3) increases in appropriations that become necessary to maintain services.

Variances between the original and amended budgets are primarily associated with the carrying forward of funds from Fiscal Year 2012/2013 for goods and services which were either incomplete or were not received as of June 30, 2013. Fund balance was also appropriated throughout the fiscal year to accommodate special needs and projects.

Differences between the amended budget and actual revenues and expenditures for Fiscal Year 2013-2014 are due to several factors. Revenues for ad valorem taxes were greater than expected due to discovery billings during the course of the fiscal year, and the continuation of strong collection percentages. Line items not fully expended are associated with large projects (Greenway expansion, USPS King Street Building, and the King Street Widening Project NCDOT U-4020) which are in the final stages of process. Examples of other under expended line items are related to staff vacancies resulting in less salary and fringe benefit expenditures.

Proprietary Funds: The Town'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 $15,319,418. The total growth in net position was $1,416,724. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business–type activities as of June 30, 2014, totals $36,704,682 (net of related 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):

- Purchase of vehicles and equipment
- Overall capital outlay was minimal due to economic conditions

Town of Boone's Capital Assets

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	$ 3,159,713	$ 3,159,713	$ 1,784,365	$ 1,784,365	$ 4,944,078	$ 4,944,078
Construction in progress	242,780	242,780	13,680	7,600	256,460	250,380
Buildings and system	3,783,311	3,807,252	-	-	3,783,311	3,807,252
Equipment, furniture and fixtures	447,996	523,727	294,287	374,970	742,283	898,697
Infrastructure	1,220,152	1,362,669	-	-	1,220,152	1,362,669
Vehicles	2,567,890	2,427,482	-	-	2,567,890	2,427,482
Plant and distribution systems	-	-	23,190,508	23,709,353	23,190,508	23,709,353
Total	$ 11,421,842	$ 11,523,623	$ 25,282,840	$ 25,876,288	$ 36,704,682	$ 37,399,911

Additional information on the Town's capital assets can be found on pages 47 - 48 of this report.

Long-term Debt: As of June 30, 2014, the Town had no outstanding bonded debt.

Town of Boone's Outstanding Debt
Long-term Obligations

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Notes payable	$ 462,013	$ 528,941	$ 2,560,000	$ 3,200,000	$ 3,022,013	$ 3,728,941
Bonds payable	-	-	-	-	-	-
Total	$ 462,013	$ 528,941	$ 2,560,000	$ 3,200,000	$ 3,022,013	$ 3,728,941

The Town's total debt decreased by $706,928 (18.96%) during the 2013-2014 fiscal year.

As mentioned in the financial highlights section, the Town no longer has a current bond rating as the Town has no outstanding bonded debt. The last ratings held by the town were an "A" bond rating from Standard & Poor's and "A2" from Moody's Investor Services.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue up to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town is $114,019,889. Additional information regarding the Town's long-term debt can be found in pages 58 – 59 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- Low unemployment. The Town's unemployment rate of 6.57% is well below the State average.
- The Town has an active central business district which draws customers because of its unique shops, friendly atmosphere and beauty.
- Appalachian State University provides numerous jobs and cultural activities which greatly enhances the economy of Boone.
- Although there has been economic downturn in other areas, the Town has retained its thriving tourism business.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities: Budgeted expenditures in the General Fund total $15,754,597. The largest increments include funding allocated for various projects, and continuation of funding reserves for long term needs. Projects in the final stages of completion include Downtown upgrades, Town facility needs, expansion of the Greenway, and USPS King Street Building renovation. Meetings are planned to set priorities and discuss additional funding options.

Business – type Activities: Budgeted expenditures in the Water and Sewer Fund total $7,364,160. The water and sewer rates in the Town are now calculated according to a tiered rated schedule designed to promote water conservation. Residential and commercial consumption/usage rates were increased.

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 Boone, 567 West King Street, P.O. Drawer 192, Boone, NC 28607.