

# Management's Discussion and Analysis



## Management's Discussion and Analysis

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, 2015. 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

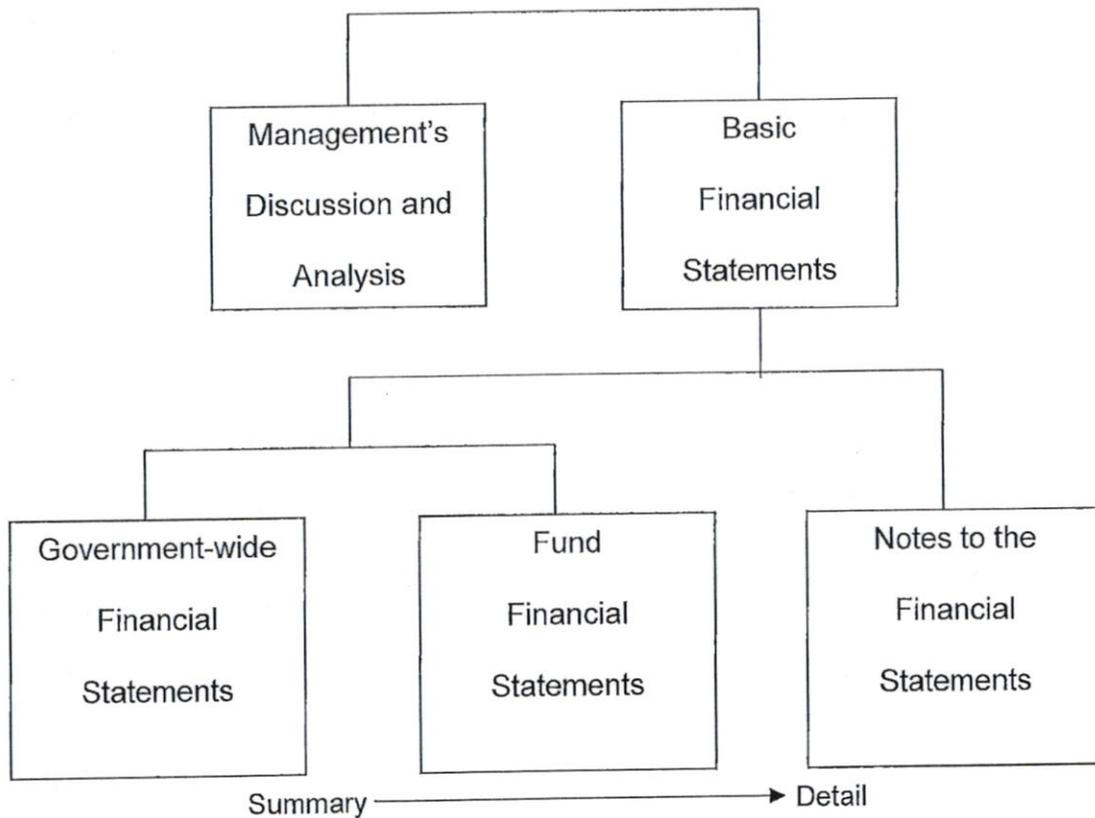
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$67,485,094 (*net position*).
- The government's total net position increased by \$3,217,470 primarily due to increases in both the governmental and 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 \$15,236,133 with a net decrease of (\$219,169) in fund balance. Approximately 28.56% of this total amount or \$4,350,844 is restricted, committed, or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$10,885,289 or 77.68% of total General Fund expenditures for the fiscal year.
- The Town's total long-term liabilities decreased by \$453,608 (9.74%) 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 - 66 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 67 – 70 of this report.

## Government-Wide Financial Analysis

### The Town of Boone's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	17,320,969	17,475,340	19,770,685	16,819,503	37,091,654	34,294,843
Noncurrent assets	12,101,281	11,421,842	24,903,886	25,282,840	37,005,167	36,704,682
Deferred outflows of resources	1,049,110	517,487	150,584	39,628	1,199,694	557,115
Total assets and deferred outflows of resources	30,471,360	29,414,669	44,825,155	42,141,971	75,296,515	71,556,640
Long-term liabilities outstanding	1,505,398	1,409,785	2,119,215	2,531,741	3,624,613	3,941,526
Other liabilities	1,059,310	1,058,910	1,340,416	1,151,139	2,399,726	2,210,049
Deferred inflows of resources	1,509,854	-	464,393	-	1,974,247	-
Total liabilities and deferred inflows of resources	4,074,562	2,468,695	3,924,024	3,682,880	7,998,586	6,151,575
Net position:						
Net investment in capital assets	11,076,730	10,959,829	22,983,886	22,722,840	34,060,616	33,682,669
Restricted	2,890,844	2,197,487	-	-	2,890,844	2,197,487
Unrestricted	12,429,224	13,788,658	18,104,410	15,736,251	30,533,634	29,524,909
Total net position	26,396,798	26,945,974	41,088,296	38,459,091	67,485,094	65,405,065

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 \$67,485,094 as of June 30, 2015. The Town's net position increased by \$3,217,470 for the fiscal year ended June 30, 2015. However, the largest portion (50.47%) 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, \$2,890,844, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$30,533,634 is unrestricted. Also, the Town of Boone implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$1,137,441. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Boone's management.

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 99.3%
- Reevaluation effective January 2014 (performed on a 4 year basis) created additional property tax revenue, as well as discovery billings throughout the Fiscal year
- Conservative budgeting and spending.

**Town of Boone's Changes in Net Position**  
Figure 3

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,186,756	\$ 772,940	\$ 8,496,947	\$ 7,363,358	\$ 9,683,703	\$ 8,136,298
Operating grants and contributions	486,585	969,552	-	-	486,585	969,552
Capital grants and contributions	173,357	848,814	-	-	173,357	848,814
General revenues:						
Property taxes	6,758,765	6,296,989	-	-	6,758,765	6,296,989
Other taxes	3,118,783	2,698,637	-	-	3,118,783	2,698,637
Other	2,305,277	2,456,601	3,337	7,242	2,308,614	2,463,843
Total revenues	<u>14,029,523</u>	<u>14,043,533</u>	<u>8,500,284</u>	<u>7,370,600</u>	<u>22,529,807</u>	<u>21,414,133</u>
<b>Expenses:</b>						
General government	3,552,139	3,912,327	-	-	3,552,139	3,912,327
Public safety	6,112,170	5,834,847	-	-	6,112,170	5,834,847
Transportation	2,174,226	1,943,212	-	-	2,174,226	1,943,212
Environmental protection	344,495	332,913	-	-	344,495	332,913
Economic development	1,435,457	1,582,029	-	-	1,435,457	1,582,029
Culture and recreation	-	-	-	-	-	-
Interest on long-term debt	11,686	14,348	-	-	11,686	14,348
Water and sewer	-	-	5,682,164	5,682,911	5,682,164	5,682,911
Electric	-	-	-	-	-	-
Total expenses	<u>13,630,173</u>	<u>13,619,676</u>	<u>5,682,164</u>	<u>5,682,911</u>	<u>19,312,337</u>	<u>19,302,587</u>
Increase in net position before transfers	399,350	423,857	2,818,120	1,687,689	3,217,470	2,111,546
Transfers	(78,640)	225,000	78,640	(225,000)	-	-
Increase in net position	320,710	648,857	2,896,760	1,462,689	3,217,470	2,111,546
Net position, July 1	26,945,974	26,297,117	38,459,091	36,996,402	65,405,065	63,293,519
Net position, beginning, restated	26,076,088	26,297,117	38,191,536	36,996,402	64,267,624	63,293,519
Net position, June 30	<u>\$ 26,396,798</u>	<u>\$ 26,945,974</u>	<u>\$ 41,088,296</u>	<u>\$ 38,459,091</u>	<u>\$ 67,485,094</u>	<u>\$ 65,405,065</u>

**Governmental activities:** Governmental activities increased the Town's net position by \$320,710. Key elements are as follows:

- Tax revenues increased due to reevaluation in 2014, and due to discovery billings throughout the fiscal year. Tax collection percentages remained strong, reflecting an increase of 0.07% from FY 2013/2014.
- Local option sales tax increased by \$174,436 in comparison to FY 2013/2014, but remains disproportionate due to the 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 \$2,896,760, accounting for 90.03% 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 \$10,885,289 while total fund balance reached \$13,613,735. 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, 2015, the governmental funds of the Town reported a combined total fund balance of \$15,236,133.

**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 2013/2014 for goods and services which were either incomplete or were not received as of June 30, 2014. 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 2014-2015 are due to several factors. Revenues for ad valorem taxes were greater than expected due to revaluation and 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 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 \$17,659,234. The total growth in net position was \$2,868,417. 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, 2015, totals \$36,396,646 (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 miscellaneous equipment
- Overall capital outlay was minimal due to loss of sales tax revenue

### Town of Boone's Capital Assets

Figure  
4

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 3,159,713	\$ 3,159,713	\$ 1,926,028	\$ 1,784,365	\$ 5,085,741	\$ 4,944,078
Construction in progress	-	242,780	296,315	13,680	296,315	256,460
Buildings and system	3,925,632	3,783,311	-	-	3,925,632	3,783,311
Equipment, furniture and fixtures	701,886	447,996	269,077	294,287	970,963	742,283
Infrastructure	1,077,635	1,220,152	-	-	1,077,635	1,220,152
Vehicles	2,627,894	2,567,890	-	-	2,627,894	2,567,890
Plant and distribution systems	-	-	22,412,466	23,190,508	22,412,466	23,190,508
<b>Total</b>	<b>\$ 11,492,760</b>	<b>\$ 11,421,842</b>	<b>\$ 24,903,886</b>	<b>\$ 25,282,840</b>	<b>\$ 36,396,646</b>	<b>\$ 36,704,682</b>

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, 2015, the Town had no outstanding bonded debt.

**Town of Boone's Outstanding Debt  
Long-term Obligations**

**Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Notes payable	\$ 416,030	\$ 462,013	\$ 1,920,000	\$ 2,560,000	\$ 2,336,030	\$ 3,022,013
Bonds payable	-	-	-	-	-	-
	<u>\$ 416,030</u>	<u>\$ 462,013</u>	<u>\$ 1,920,000</u>	<u>\$ 2,560,000</u>	<u>\$ 2,336,030</u>	<u>\$ 3,022,013</u>

The Town's total debt decreased by \$685,983 (22.70%) during the 2014-2015 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 \$111,674,146. Additional information regarding the Town's long-term debt can be found in pages 62 – 63 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 5.3% 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, 2016**

**Governmental Activities:** Budgeted expenditures in the General Fund total \$15,054,205. 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 \$7,707,299. The water and sewer rates in the Town are 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.