

TOWN OF BLOWING ROCK
Blowing Rock, North Carolina
Financial Statements
June 30, 2016

COMBS, 
TENNANT & CARPENTER, P.C.
Certified Public Accountants

Town of Blowing Rock, North Carolina
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6/30/2016

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TOWN OF BLOWING ROCK
June 30, 2016

Mayor

J.B. Lawrence

Board of Commissioners

Doug Matheson

Ray Pickett

Jim Steele

Sue Sweeting

Albert Yount

Town Manager

Scott Fogleman

Finance Officer

Nicole Norman

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
Of the Town Council
Town of Blowing Rock, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Blowing Rock, North Carolina, as of and for the year ended June 30, 2016, 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.

Auditors' 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 *Governmental 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 of material misstatement. The financial statements of the Town of Blowing Rock ABC Board and the Town of Blowing Rock Tourism Development Authority were not audited in accordance with *Governmental 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 auditors' judgment, including 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 financial statement presentation of the financial statements.

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Blowing Rock, North Carolina as of June 30, 2016, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity 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 Law Enforcement Officers' Special Separation Allowance's Schedule of Funding Progress, on page 53, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 54 and 55, respectively, 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, economic, or historical context. We and the other auditors 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 and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Blowing Rock, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules as well as the accompanying schedule of expenditures of federal and state awards as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act 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, budgetary schedules, other schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relates 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund statements, budgetary schedules, other schedules and the schedules of expenditures of federal and state awards 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 October 28, 2016 on our consideration of Town of Blowing Rock'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 Blowing Rock's internal control over financial reporting and compliance.

COMBS, TENNANT + CARPENTER, P.C.

COMBS, TENNANT & CARPENTER, P.C.
Certified Public Accountants
Boone, NC

October 28, 2016

Basic Financial Statements

Management's Discussion and Analysis

As management of the Town of Blowing Rock, we offer readers of the Town of Blowing Rock's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. We encourage readers to review the information presented here in conjunction with additional information furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

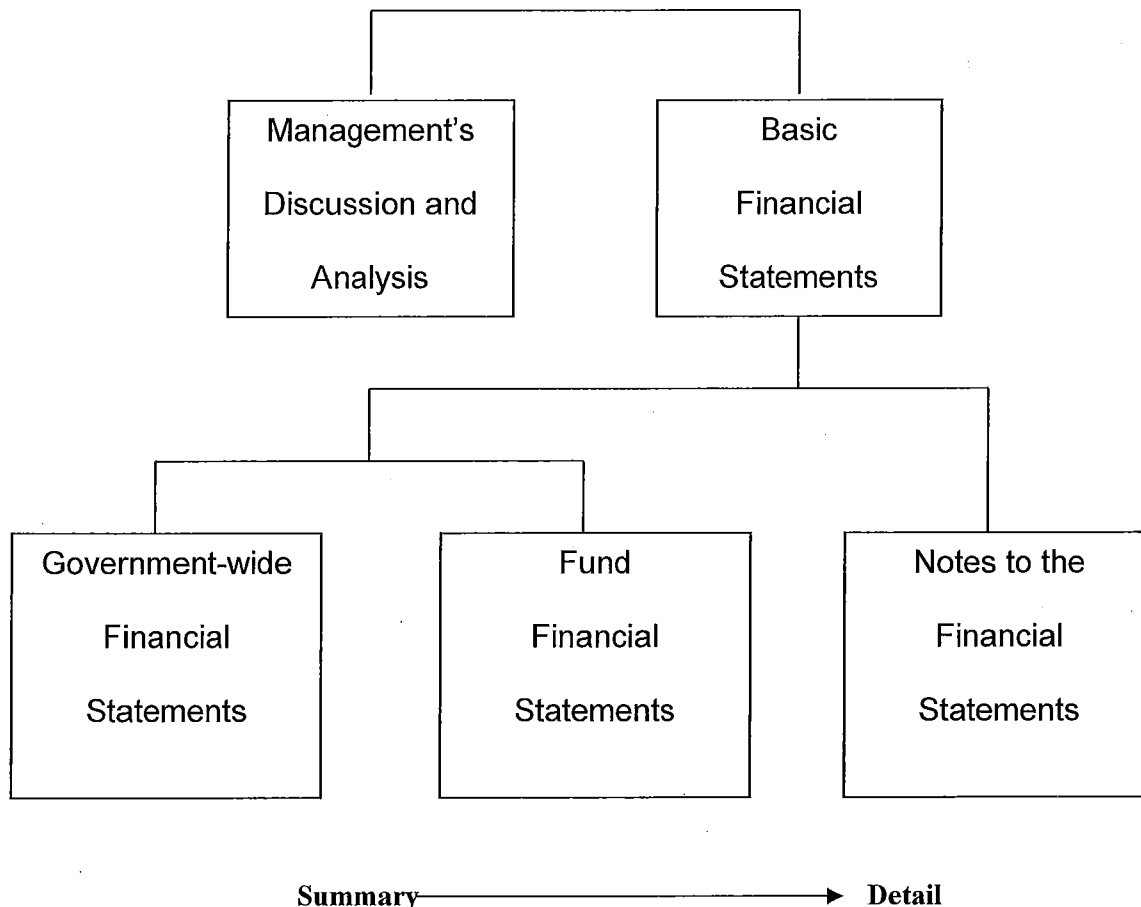
- The assets and deferred outflows of resources of the Town of Blowing Rock exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$31,083,514 (*net position*).
- The government's total net position increased by \$2,371,234 with the increase attributable to governmental-type and business-type activities.
- As of the close of the fiscal year, the Town of Blowing Rock's General fund reported ending fund balances of \$4,101,355 a decrease of \$955,693 in comparison with the prior year, although cash on hand increased by 28% or \$802,609, and restricted cash decreased by 83% or \$1,165,348, primarily attributable to the transfer of loan proceeds on hand at the end of the previous fiscal year associated with the Public Works Warehouse Facility construction project from the General Fund to the General Capital projects fund.
- At the end of the current fiscal year, the unassigned (available for spending at the government's discretion) fund balance for the General Fund was \$3,073,923 or 49.30% of total general fund expenditures for the fiscal year, up \$743,020 or 31.9% from \$2,330,903 at the end of last fiscal year.
- This year, the Town sold General Obligation bonds on the public market totaling \$4,635,000. This was the first of three planned issuances for projects in the following categories: street improvements, park improvements, water line and system improvements, and sewer line and system improvements. The grand total of all issuances is currently planned to equal \$13,000,000. The bond referendum was originally passed by voters on November 4, 2014. Borrowing is planned to continue through fiscal year 2020.
- The Town of Blowing Rock's total long-term debt increased by \$4,330,739 (64.14%) during the current fiscal year mostly attributable to new debt for capital equipment.
- The Town of Blowing Rock earned a AA+ long-term credit rating from Standard and Poor's on its first general obligation bond issuance in February 2016. An obligation rated AA differs from the highest rated obligations only to a small degree. The obligator's capacity to meet its financial commitment on the obligation is very strong.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) 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 3 through 9) 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 to the Financial Statements**. 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.

Management Discussion and Analysis
Town of Blowing Rock

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, and is similar in format to the financial statements 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 total liabilities. 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 public safety, parks and recreation, and general administration. Property taxes, sales taxes and state-shared revenues such as gas tax or utility franchise tax 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 Blowing Rock. The final category is the component unit, of which the Town has the ABC Board and the Tourism Development Authority (TDA). Although legally separate from the Town, the ABC Board is important to the Town as the Town exercises control over the Board by appointing its members and because the Board is required to distribute a portion of its profits to the Town. The TDA functions much the same as the ABC in that it is a separate entity with the Town Council appointing the Board and the TDA uses one-third of the occupancy tax dollars collected to support Town infrastructure.

The government-wide financial statements are shown in Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements 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 Blowing Rock, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinances. All of the Town's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for 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 be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the coming fiscal 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 can help him or her determine if more or less financial resources are 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 part of the fund financial statements.

The Town of Blowing Rock adopts an annual budget for its General Fund, as required by General Statutes. The budget is a legally adopted document that incorporates input from citizens, Town management, as well as decisions made by the Town Council 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

Management Discussion and Analysis
Town of Blowing Rock

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 provided for in the adopted budget. 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 Blowing Rock has one proprietary, or *Enterprise Fund*, which is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses one enterprise fund to account for its water and sewer activity. This fund functions in the same way as those 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 follow the “Basic Financial Statements” section of this report.

Government-Wide Financial Analysis

Town of Blowing Rock’s Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 8,155,663	\$ 5,592,850	\$ 3,617,688	\$ 2,589,531	\$ 11,773,351	\$ 8,182,381
Noncurrent assets	18,047,338	16,302,118	14,059,952	12,487,864	32,107,290	28,789,982
Deferred outflows of resources	138,759	129,013	20,070	23,454	158,829	152,467
Total assets and deferred outflows of resources	26,341,760	22,023,981	17,697,710	15,100,849	44,039,470	36,972,363
Long-term liabilities outstanding	8,694,543	5,302,631	2,829,272	1,643,752	11,523,815	6,946,383
Other liabilities	689,054	520,908	616,934	351,304	1,305,988	872,212
Deferred inflows of resources	116,771	505,118	9,382	88,837	126,153	593,955
Total liabilities and deferred inflows of resources	9,500,368	6,328,657	3,455,588	2,083,893	12,955,956	8,412,550
Net position:						
Net investment in capital assets	13,105,408	9,571,054	12,353,131	10,864,960	25,458,539	20,436,014
Restricted	937,177	3,134,695	-	-	937,177	3,134,695
Unrestricted	2,798,807	2,989,575	1,888,991	2,151,996	4,687,798	5,141,571
Total net position	\$ 16,841,392	\$ 15,695,324	\$ 14,242,122	\$ 13,016,956	\$ 31,083,514	\$ 28,712,280

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 of Blowing Rock exceeded liabilities and deferred inflows by 31,083,514 as of June 30, 2016. The Town’s net position increased by \$2,371,234 for the fiscal year ended June 30, 2016. However, the largest portion (81.90%) reflects the Town’s net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Blowing Rock uses these

Management Discussion and Analysis
Town of Blowing Rock

capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Blowing Rock'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, \$937,177 (3.02%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,687,798 is unrestricted.

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

- Utilization of a Financial Operating Policy which maximizes cash management.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.94%, a slight increase from last year's rate of 98.86%.
- Continued utilization of a capital improvement plan for managing capital expenditures with a Ten-year Comprehensive Plan, Five-year Capital Improvement Plan, Capital Fleet Replacement Plan, Street Pavement Plan, Park and Recreation Master Plan, and Storm Water Master Plan, and availability of the \$13,000,000 General Obligation Bonds approved by voters on November 4, 2014.

**Management Discussion and Analysis
Town of Blowing Rock**

**Town of Blowing Rock Changes in Net Position
Figure 3**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 393,509	\$ 362,629	\$ 1,536,784	\$ 1,441,608	\$ 1,930,293	\$ 1,804,237
Operating grants and contributions	120,997	237,020	-	-	120,997	237,020
Capital grants and contributions	97,625	481,594	1,122,440	10,000	1,220,065	491,594
General revenues:						
Property taxes	3,716,631	3,444,483	-	-	3,716,631	3,444,483
Other taxes	347,502	329,861	-	-	347,502	329,861
Grants and contributions not restricted to specific programs						
	2,046,556	1,840,656	-	-	2,046,556	1,840,656
Other	345,950	270,562	3,569	184	349,519	270,746
Total revenues	7,068,770	6,966,805	2,662,793	1,451,792	9,731,563	8,418,597
Expenditures:						
General government	1,504,714	1,391,840	-	-	1,504,714	1,391,840
Public safety	2,114,178	1,972,405	-	-	2,114,178	1,972,405
Transportation	978,537	1,101,616	-	-	978,537	1,101,616
Environmental protection	377,848	290,192	-	-	377,848	290,192
Economic development	-	-	-	-	-	-
Culture and recreation	567,405	534,588	-	-	567,405	534,588
Interest on long-term debt	204,186	163,012	-	-	204,186	163,012
Water and sewer	-	-	1,613,461	1,425,917	1,613,461	1,425,917
Total expenses	5,746,868	5,453,653	1,613,461	1,425,917	7,360,329	6,879,570
Increase in net position before transfers	1,321,902	1,513,152	1,049,332	25,875	2,371,234	1,539,027
Transfers	(175,834)	-	175,834	-	-	-
Increase in net position	1,146,068	1,513,152	1,225,166	25,875	2,371,234	1,539,027
Net position, July 1	15,695,324	14,450,611	13,016,956	13,040,622	28,712,280	27,491,233
Net position, beginning, restated	15,695,324	14,182,172	13,016,956	12,991,081	28,712,280	26,674,297
Net position, June 30	\$ 16,841,392	\$ 15,965,763	\$ 14,242,122	\$ 13,016,956	\$ 31,083,514	\$ 28,213,324

Governmental activities. Governmental activities increased the Town's net position by \$1,146,068. Key elements of this increase are as follows:

- The presence of loan proceeds on hand of \$1,404,531 in the General Fund and \$425,146 in the Water/Sewer Fund associated with the Public Works Warehouse Facility construction project at the end of fiscal year 2015, that were transferred to the General and Water/Sewer Capital Funds in fiscal year 2016. This project began on May 4, 2015 and was substantially complete by June 30, 2016, with only punch list items remaining to be completed at the end of fiscal year 2016.
- Utility Franchise Tax revenue exceeding budgeted amounts by \$121,846.
- Sales tax revenue exceeded budgeted amounts by \$93,628 or 6.9% due to stronger than anticipated revenue growth during the fiscal year.

**Management Discussion and Analysis
Town of Blowing Rock**

Business-type activities: Business-type activities increased the Town of Blowing Rock's net position by \$1,225,166.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Blowing Rock'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, the unreserved 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 Blowing Rock. At the end of the current fiscal year, the Town's fund balance available for spending in the General Fund was \$3,073,923, while total fund balance reached \$4,101,355. The governing body of the Town of Blowing Rock has determined the Town should have the goal of maintaining an available fund balance of 50% of general fund expenditures to provide for unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 49.30% of general fund expenditures, while total fund balance represents 65.78% of the same amount.

At June 30, 2016, the governmental funds of the Town of Blowing Rock reported a combined fund balance of \$7,386,352, a 49.16% increase from last year. Attributing to this increase is restricted bond proceeds on hand in the General Capital Projects fund at the end of the year.

General Fund Budgetary Highlights: The Town revised the budget on several occasions throughout the year. 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 updated 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.

Conservative revenue estimation and diligent monitoring of expenditures contributed to budget stability and continued sound financial condition for the Town.

Proprietary Funds. The Town of Blowing Rock'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 \$1,888,991. The change in net position was an increase of \$1,225,166. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Blowing Rock's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$32,107,290 (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):

- Construction in progress of \$2,036,195 in governmental-type activities for ongoing projects associated with the first issuance of the 2014 General Obligation bonds, such as the final phase of

**Management Discussion and Analysis
Town of Blowing Rock**

streetscape improvements, road resurfacing, ditch line improvements, memorial park improvements, as well as water and sewer line repair projects.

**Town of Blowing Rock's Capital Assets
(net of depreciation)**

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 3,061,253	\$ 3,061,253	\$ 100,504	\$ 100,504	\$ 3,161,757	\$ 3,161,757
Construction in progress	2,036,195	817,548	1,869,645	161,303	3,905,840	978,851
Infrastructure	5,601,824	5,558,566	-	-	5,601,824	5,558,566
Buildings	6,355,274	5,911,034	-	-	6,355,274	5,911,034
Plant	-	-	11,697,420	11,921,140	11,697,420	11,921,140
Equipment and furniture	434,110	255,676	392,383	268,467	826,493	524,143
Vehicles	460,703	366,290	-	-	460,703	366,290
Computers	97,979	134,248	-	-	97,979	134,248
Total	\$ 18,047,338	\$ 16,104,615	\$ 14,059,952	\$ 12,451,414	\$ 32,107,290	\$ 28,556,029

Additional information on the Town's capital assets can be found in note III.A.4 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2016, the Town of Blowing Rock's long term debt consisted of the following:

**Town of Blowing Rock's Outstanding Debt
General Obligation Bonds and Other Long-Term Liabilities**

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 3,500,000	\$ -	\$ 1,135,000	\$ -	\$ 4,635,000	\$ -
Installment purchases	4,818,235	5,129,030	1,629,438	1,622,904	6,447,673	6,751,934
Total	\$ 8,318,235	\$ 5,129,030	\$ 2,764,438	\$ 1,622,904	\$ 11,082,673	\$ 6,751,934

- As mentioned previously, the Town of Blowing Rock's total debt increased by \$4,330,739 (64.14%) during the past fiscal year, mostly attributable to new debt for capital equipment.

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 Town of Blowing Rock is \$80,964,976. Even if the Town's recently approved \$13,000,000 General Obligation Bond Referendum had already been issued completely, the Town would still be well within the legal debt margin.

**Management Discussion and Analysis
Town of Blowing Rock**

Additional information regarding the Town of Blowing Rock's long-term debt can be found in note III.B.6 beginning on page 48 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the financial condition of the Town:

- Unemployment is in line with the state rate. The Watauga County unemployment rate decreased from 5.60% in July 2015 to 4.50% in July 2016. This is consistent with the historically higher NC state rate that also decreased from 6.30% in July 2015 to 4.90% in July 2016 (unadjusted rates as reported by the North Carolina Department of Commerce North Carolina Labor and Economic Analysis Division).
- Continued increased interest in new housing and development in the area.
- Tourism market continues to show modest improvement with occupancy taxes reported increasing 11.71% in Fiscal Year 2016 over Fiscal Year 2015.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities: Property tax collections and revenues from sales tax are projected to increase as the fiscal year 2017 ad valorem tax base is projected to grow by approximately 0.3% or approximately \$3.65 million, a budgeted tax rate increase of one cent to .34 cents and the continuation of the ad valorem method of sales tax distribution set by Watauga County for the fourth consecutive year. The Town will use these revenues to maintain existing programs and fund planned capital improvements as well as fund General Obligation Bond debt service payments.

Budgeted expenditures in the General Fund are expected to increase slightly, as a result of rising costs of employee retirement and health insurance, as well as increases in operation & maintenance costs to help support increasing workloads associated in part with bond project planning and execution.

General Obligation Bond Activities: In March of 2016, the Town sold voter approved General Obligation bonds on the public market. Due in part to the very positive bond rating of AA+ and a favorable rate environment from Standard and Poor's, the Town was successful in obtaining an interest rate of 2.0% versus 5.0% anticipated during the bond planning stages. These favorable rate results generated a tax rate increase below the originally anticipated 0.4% increase needed. The general obligation bond debt service requirement in the general fund is \$250,740. With each penny of the tax rate expected to generate \$111,162, the portion of the tax rate required is 2.26 cents, therefore, a tax increase of 0.26 along with the two cents already in place is expected to be sufficient to fund the debt service associated with the first of three phases of the bond issuance plan totaling \$4.6 million. The borrowing has been allocated to capital project categories as follows:

- Transportation - \$3.1 million
- Parks & Recreation - \$0.4 million
- Water - \$0.5 million
- Sewer - \$0.6 million

Business – type Activities: In terms of utility rates, the customer demand for water has been gradually declining over the past decade and the utility customer base has remained steady, offering fewer gallons among which to spread the largely fixed costs of providing dependable water and sewer services. To help ensure the system is able to recover its costs and not be subsidized by tax revenues when absorbing debt

**Management Discussion and Analysis
Town of Blowing Rock**

service costs associated with the water and sewer capital improvements planned, a \$2.00 base increase for both water and sewer is being recommended along with a \$0.25 increase in the per thousand gallon rate for gallons consumed greater than 5,000 per two month billing period. These impacts are expected to increase a typical customer's bill by 5% in the coming year. General operating expenses are expected to increase to cover rising costs of employee retirement and health insurance, materials, supplies, and other operating expenses, including funding for the Water and Sewer Capital Improvements Plan.

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 Finance Officer, Town of Blowing Rock, P.O. Box 47, Blowing Rock, NC 28605.

Town of Blowing Rock, North Carolina
Statement of Net Position
June 30, 2016

	Primary Government			Town of Blowing Rock ABC Board	Town of Blowing Rock Tourism Development Authority	Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government			
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 3,767,677	\$ 1,144,235	\$ 4,911,912	\$ 182,575	\$ 419,229	\$ 5,513,716
Taxes receivable (net)	70,360	-	70,360	-	210,271	280,631
Accrued interest receivable on taxes	8,167	-	8,167	-	-	8,167
Accounts receivable (net)	828,279	346,633	1,174,912	-	-	1,174,912
Due from other funds	(17,833)	17,833	-	-	-	-
Due from other governments	108,898	762,442	871,340	-	-	871,340
Due from component units	-	-	-	-	-	-
Due from primary government	-	-	-	-	-	-
Inventories	2,700	83,646	86,346	209,145	-	295,491
Prepaid items	11,110	-	11,110	2,627	794	14,531
Restricted cash and cash equivalents	3,376,305	1,262,899	4,639,204	144,555	-	4,783,759
Total current assets	8,155,663	3,617,688	11,773,351	538,902	630,294	12,942,547
Non-current assets:						
Net pension asset	-	-	-	-	-	-
Capital assets (Note 4):						
Land, non-depreciable improvements, and construction in progress	5,097,448	1,970,149	7,067,597	96,275	-	7,163,872
Other capital assets, net of depreciation	12,949,890	12,089,803	25,039,693	143,441	-	25,183,134
Total non-current assets	18,047,338	14,059,952	32,107,290	239,716	-	32,347,006
Total assets	\$ 26,203,001	\$ 17,677,640	\$ 43,880,641	\$ 778,618	\$ 630,294	\$ 45,289,553
DEFERRED OUTFLOWS OF RESOURCES						
Contributions to pension plan in current fiscal year	\$ 135,050	\$ 18,849	\$ 153,899	\$ 6,715	\$ 8,472	\$ 169,086
Deferred charges on bond issuance	3,709	1,221	4,930	-	-	4,930
Total deferred outflows of resources	138,759	20,070	158,829	6,715	8,472	174,016
LIABILITIES						
Current liabilities:						
Accounts payable	667,448	381,041	1,048,489	124,066	42,919	1,215,474
Accrued interest payable	21,606	7,007	28,613	-	-	28,613
Cash overdraft	-	-	-	-	-	-
Unearned revenue	-	7,778	7,778	-	-	7,778
Accrued salaries	-	15,826	15,826	-	-	15,826
Customer deposits	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Due to primary government	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Liabilities payable from restricted assets:						
Customer deposits	-	205,282	205,282	-	-	205,282
Long-term liabilities:						
Net pension liability	238,702	31,273	269,975	-	10,412	280,387
Due within one year	906,606	239,070	1,145,676	-	-	1,145,676
Due in more than one year	7,549,235	2,558,929	10,108,164	24,448	7,132	10,139,744
Total liabilities	9,383,597	3,446,206	12,829,803	148,514	60,463	13,038,780
DEFERRED INFLOWS OF RESOURCES						
Prepaid taxes	23,336	-	23,336	-	-	23,336
Pension deferrals	93,435	9,382	102,817	2,753	7,813	113,383
Total deferred inflows of resources	116,771	9,382	126,153	2,753	7,813	136,719
NET POSITION						
Net investment in capital assets	13,105,408	12,353,131	25,458,539	239,716	-	25,698,255
Restricted for:						
Capital projects	-	-	-	144,555	-	144,555
Stabilization by State Statute	937,177	-	937,177	-	210,271	1,147,448
Culture and recreation	-	-	-	-	-	-
Working capital	-	-	-	44,368	-	44,368
Unrestricted	2,798,807	1,888,991	4,687,798	205,427	360,219	5,253,444
Total net position	\$ 16,841,392	\$ 14,242,122	\$ 31,083,514	\$ 634,066	\$ 570,490	\$ 32,288,070

The notes to the financial statements are an integral part of this statement.

Town of Blowing Rock, North Carolina
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:				
Governmental Activities:				
General government	\$ 1,504,714	\$ 36,542	\$ -	\$ -
Public safety	2,114,178	85,559	8,500	-
Transportation	978,537	-	86,652	97,625
Environmental protection	377,848	130,541	815	-
Cultural and recreation	567,405	140,867	25,030	-
Interest on long-term debt	204,186	-	-	-
Total governmental activities (See Note 1)	5,746,868	393,509	120,997	97,625
Business-type activities:				
Water and sewer	1,613,461	1,536,784	-	1,122,440
Electric	-	-	-	-
Total business-type activities	1,613,461	1,536,784	-	1,122,440
Total primary government	\$ 7,360,329	\$ 1,930,293	\$ 120,997	\$ 1,220,065
Component units:				
ABC Board	\$ 1,572,383	\$ 1,532,727	\$ -	\$ -
Blowing Rock Tourism Development Authority	792,742	-	-	-
Total component unit	\$ 2,365,125	\$ 1,532,727	\$ -	\$ -

General revenues:

- Taxes:
 - Property taxes, levied for general purpose
 - Other taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Miscellaneous
- Transfers
 - Total general revenues and transfers

Cumulative change in application of capitalization policy

Change in net position

Net position, beginning

Net position, ending

The notes to the financial statements are an integral part of this statement.

Town of Blowing Rock, North Carolina
Statement of Activities
For the Year Ended June 30, 2016

Net (Expense) Revenue and Changes in Net Position

Primary Government						
Governmental Activities	Business-type Activities	Total	Town of Blowing Rock ABC Board	Blowing Rock Tourism Development Authority	Total Reporting Unit	
\$ (1,468,172)	\$ -	\$ (1,468,172)	\$ -	\$ -	\$ (1,468,172)	
(2,020,119)	-	(2,020,119)	-	-	(2,020,119)	
(794,260)	-	(794,260)	-	-	(794,260)	
(246,492)	-	(246,492)	-	-	(246,492)	
(401,508)	-	(401,508)	-	-	(401,508)	
(204,186)	-	(204,186)	-	-	(204,186)	
(5,134,737)	-	(5,134,737)	-	-	(5,134,737)	
-	1,045,763	1,045,763	-	-	1,045,763	
-	-	-	-	-	-	
-	1,045,763	1,045,763	-	-	1,045,763	
(5,134,737)	1,045,763	(4,088,974)	-	-	(4,088,974)	
-	-	-	(39,656)	-	(39,656)	
-	-	-	-	(792,742)	(792,742)	
-	-	-	(39,656)	(792,742)	(832,398)	
3,716,631	-	3,716,631	-	-	3,716,631	
347,502	-	347,502	-	940,868	1,288,370	
2,046,556	-	2,046,556	-	-	2,046,556	
10,361	3,569	13,930	543	253	14,726	
335,589	-	335,589	271	379	336,239	
(175,834)	175,834	-	-	-	-	
6,280,805	179,403	6,460,208	814	941,500	7,402,522	
-	-	-	-	-	-	
1,146,068	1,225,166	2,371,234	(38,842)	148,758	2,481,150	
15,695,324	13,016,956	28,712,280	672,908	421,732	29,806,920	
\$ 16,841,392	\$ 14,242,122	\$ 31,083,514	\$ 634,066	\$ 570,490	\$ 32,288,070	

The notes to the financial statements are an integral part of this statement.

**Town of Blowing Rock
Balance Sheet
Governmental Funds
June 30, 2016**

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	Capital Projects		
ASSETS				
Cash and cash equivalents	\$ 3,652,637	\$ 91,066	\$ 23,974	\$ 3,767,677
Receivables, net:				
Taxes	70,360	-	-	70,360
Accounts	665,541	162,738	-	828,279
Due from other governments	108,898	-	-	108,898
Due from other funds	-	-	-	-
Prepaid Expenses	11,110	-	-	11,110
Inventories	2,700	-	-	2,700
Restricted cash	239,183	3,137,122	-	3,376,305
Total assets	<u>\$ 4,750,429</u>	<u>\$ 3,390,926</u>	<u>\$ 23,974</u>	<u>\$ 8,165,329</u>
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 555,378	\$ 103,926	\$ 8,143	\$ 667,447
Cash overdraft	-	-	-	-
Due to other funds	-	17,834	-	17,834
Deferred revenue	-	-	-	-
Unearned revenue	-	-	-	-
Liabilities payable from restricted assets:				
Accounts payable	-	-	-	-
Total liabilities	<u>555,378</u>	<u>121,760</u>	<u>8,143</u>	<u>685,281</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	70,360	-	-	70,360
Prepaid taxes	23,336	-	-	23,336
Total deferred inflows of resources	<u>93,696</u>	<u>-</u>	<u>-</u>	<u>93,696</u>
FUND BALANCES				
Non Spendable				
Inventories	2,700	-	-	2,700
Prepays	11,110	-	-	11,110
Restricted				
Stabilization by State Statute	774,439	162,738	-	937,177
Streets	-	-	-	-
Capital Projects	239,183	3,137,122	-	3,376,305
Assigned				
Capital Projects	-	(30,694)	-	(30,694)
Subsequent year's expenditures	-	-	-	-
Unassigned	3,073,923	-	15,831	3,089,754
Total fund balances	<u>4,101,355</u>	<u>3,269,166</u>	<u>15,831</u>	<u>7,386,352</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,750,429</u>	<u>\$ 3,390,926</u>	<u>\$ 23,974</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,047,338
Net pension asset	-
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	135,050
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	8,167
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	-
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	70,360
Pension related deferrals	(93,435)
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)	(8,712,440)
Net position of governmental activities	<u>\$ 16,841,392</u>

The notes to the financial statements are an integral part of this statement.

Town of Blowing Rock
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General Fund	Capital Projects		
REVENUES				
Ad valorem taxes	\$ 3,734,327	\$ -	\$ -	\$ 3,734,327
Other taxes and licenses	347,502	-	-	347,502
Unrestricted intergovernmental	2,046,556	-	-	2,046,556
Restricted intergovernmental	95,967	97,625	-	193,592
Permits and fees	84,986	-	-	84,986
Sales and services	204,497	-	-	204,497
Investment earnings	6,448	3,913	-	10,361
Miscellaneous	374,896	30,000	25,030	429,926
Total revenues	6,895,179	131,538	25,030	7,051,747
EXPENDITURES				
Current:				
General government	1,438,200	-	21,967	1,460,167
Public safety	1,972,826	-	-	1,972,826
Transportation	1,008,466	-	-	1,008,466
Economic and physical development	-	-	-	-
Environmental protection	451,675	-	-	451,675
Culture and recreation	594,211	-	-	594,211
Debt service:				
Principal	586,914	-	-	586,914
Interest and other charges	182,524	-	-	182,524
Capital outlay	-	1,995,150	-	1,995,150
Total expenditures	6,234,816	1,995,150	21,967	8,251,933
Excess (deficiency) of revenues over expenditures	660,363	(1,863,612)	3,063	(1,200,186)
OTHER FINANCING SOURCES (USES)				
Transfers (to)/from other funds	(1,930,229)	1,757,395	(3,000)	(175,834)
Sales of capital assets	38,054	-	-	38,054
Installment purchase obligations issued	276,119	3,500,000	-	3,776,119
Discount on debt issued	-	(3,764)	-	(3,764)
Total other financing sources (uses)	(1,616,056)	5,253,631	(3,000)	3,634,575
Net change in fund balance	(955,693)	3,390,019	63	2,434,389
Fund balances, beginning	5,057,048	(120,853)	15,768	4,951,963
Change in reserve for inventories	-	-	-	-
Fund balances, ending	\$ 4,101,355	\$ 3,269,166	\$ 15,831	\$ 7,386,352

The notes to the financial statements are an integral part of this statement.

Town of Blowing Rock
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

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

Net changes in fund balances - total governmental funds	\$ 2,434,389
Change in fund balance due to change in reserve for inventory	-

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

Book value assets disposed	1,946,059
----------------------------	-----------

	(3,335)
--	---------

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities

	130,795
--	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Amount of donated assets

	-
--	---

Change in unavailable revenue for tax revenues

	(17,696)
--	----------

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.

	(3,189,205)
--	-------------

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.

Transfer of capital asset

	-
--	---

Compensated absences

	(33,852)
--	----------

Change in pension deferrals (LGERS)

	(104,920)
--	-----------

Change in pension deferrals (LEOSSA)

	(16,167)
--	----------

Total changes in net position of governmental activities

	\$ 1,146,068
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The notes to the financial statements are an integral part of this statement.

Town of Blowing Rock
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2016

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 3,694,439	\$ 3,691,939	\$ 3,734,327	\$ 42,388
Other taxes and licenses	1,666,541	332,056	347,502	15,446
Unrestricted intergovernmental	539,956	1,799,351	2,046,556	247,205
Restricted intergovernmental	120,664	95,200	95,967	767
Permits and fees	131,000	65,000	84,986	19,986
Sales and services	102,200	173,150	204,497	31,347
Investment earnings	2,500	2,500	6,448	3,948
Miscellaneous	166,792	354,856	374,896	20,040
Total revenues	6,424,092	6,514,052	6,895,179	381,127
Expenditures:				
Current:				
General government	2,722,940	1,501,532	1,438,200	63,332
Public safety	2,014,674	1,995,580	1,972,826	22,754
Transportation	1,052,634	1,013,957	1,008,466	5,491
Environmental protection	434,401	474,875	451,675	23,200
Cultural and recreation	576,063	637,545	594,211	43,334
Debt service:				
Principal retirement	-	586,914	586,914	-
Interest and other charges	-	186,151	182,524	3,627
Total expenditures	6,800,712	6,396,554	6,234,816	161,738
Revenues over (under) expenditures	(376,620)	117,498	660,363	542,865
Other financing sources (uses):				
Transfers to other funds	-	(1,933,768)	(1,933,229)	539
Transfers from other funds	63,000	3,000	3,000	-
Sale of assets	10,000	17,900	38,054	20,154
Appropriated fund balance	-	1,424,008	-	(1,424,008)
Proceeds from installment purchase	303,620	371,362	276,119	(95,243)
Total other financing sources (uses)	376,620	(117,498)	(1,616,056)	(1,498,558)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	(955,693)	\$ (955,693)
Fund balances, beginning			5,057,048	
Change in reserve for inventories			-	
Fund balances, ending			\$ 4,101,355	

The notes to the financial statements are an integral part of this statement.

Exhibit 7

**Town of Blowing Rock
Statement of Net Position
Proprietary Funds
June 30, 2016**

	Water and Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,144,235	\$ 1,144,235
Accounts receivable (net) - billed	346,633	346,633
Due from other governments	762,442	762,442
Due from other funds	17,833	17,833
Inventories	83,646	83,646
Prepaid items	-	-
Restricted cash and cash equivalents	1,262,899	1,262,899
Total current assets	3,617,688	3,617,688
Noncurrent assets:		
Net pension asset		
Capital assets (net)	-	-
Land and other non-depreciable assets	1,970,149	1,970,149
Other capital assets, net of depreciation	12,089,803	12,089,803
Capital assets (net)	14,059,952	14,059,952
Total noncurrent assets	14,059,952	14,059,952
Total assets	\$ 17,677,640	\$ 17,677,640
DEFERRED OUTFLOWS OF RESOURCES		
Contributions to the pension plan	\$ 18,849	\$ 18,849
Deferred charges on bond issuance	1,221	1,221
Total deferred outflows of resources	20,070	20,070
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	381,041	381,041
Accrued salaries	15,826	15,826
Unearned revenue	7,778	7,778
Compensated absences - current	33,561	33,561
Accrued interest	7,007	7,007
General obligation bonds payable-current	55,000	55,000
Installment purchase-current	150,509	150,509
Liabilities payable from restricted assets:		
Customer deposits	205,282	205,282
Total current liabilities	856,004	856,004
Noncurrent liabilities:		
Net pension liability	31,273	31,273
Compensated absences	-	-
General obligation bonds payable-noncurrent (net)	1,080,000	1,080,000
Installment purchase-noncurrent	1,478,929	1,478,929
Total noncurrent liabilities	2,590,202	2,590,202
Total liabilities	3,446,206	3,446,206
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	9,382	9,382
Total deferred inflows of resources	9,382	9,382
NET POSITION		
Net investment in capital assets	12,353,131	12,353,131
Unrestricted	1,888,991	1,888,991
Total net position	\$ 14,242,122	\$ 14,242,122

The notes to the financial statements are an integral part of this statement.

Exhibit 8

Town of Blowing Rock
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 1,532,952	\$ 1,532,952
Water and sewer taps	554	554
Other operating revenues	3,278	3,278
Total operating revenues	1,536,784	1,536,784
OPERATING EXPENSES		
Administration	332,528	332,528
Water/Sewer plant operations	577,321	577,321
Water/Sewer field operations	276,819	276,819
Depreciation	402,926	402,926
Total operating expenses	1,589,594	1,589,594
Operating income (loss)	(52,810)	(52,810)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	3,569	3,569
Sale of fixed assets	-	-
Interest and other charges	(23,867)	(23,867)
Bond issuance costs	-	-
Total nonoperating revenue (expenses)	(20,298)	(20,298)
Income (loss) before contributions and transfers	(73,108)	(73,108)
Contributions and grant proceeds	1,122,440	1,122,440
Interconnect assets transferred	-	-
Transfers from other funds	175,834	175,834
Transfers to other funds	-	-
Total income (loss) after contributions and transfers	1,225,166	1,225,166
Cumulative change in application of capitalization policy	-	-
Change in net position	1,225,166	1,225,166
Total net position, beginning	13,016,956	13,016,956
Total net position, ending	\$ 14,242,122	\$ 14,242,122

The notes to the financial statements are an integral part of this statement.

Town of Blowing Rock
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Water and Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 755,296	\$ 755,296
Cash paid for goods and services	(271,006)	(271,006)
Cash paid to or on behalf of employees for services	(660,224)	(660,224)
Customer deposits received (returned)	3,708	3,708
Other operating revenues	3,278	3,278
Net cash provided (used) by operating activities	<u>(191,400)</u>	<u>(191,400)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	175,834	175,834
Transfers to other funds	-	-
Grants and contributions	1,122,440	1,122,440
Total cash flows from noncapital financing activities	<u>1,298,274</u>	<u>1,298,274</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond anticipation notes issued	1,135,000	1,135,000
Acquisition and construction of capital assets	(2,011,464)	(2,011,464)
Principal paid on bond maturities and equipment contracts	(119,612)	(119,612)
Proceeds from installment purchase	126,146	126,146
Interest paid on bond maturities and equipment contracts	(30,288)	(30,288)
Sale of fixed assets	-	-
Capital contributions-Federal grant	-	-
Net cash provided (used) by capital and related financing activities	<u>(900,218)</u>	<u>(900,218)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>3,569</u>	<u>3,569</u>
Net increase (decrease) in cash and cash equivalents	210,225	210,225
Balances, beginning	2,196,909	2,196,909
Balances, ending	<u>\$ 2,407,134</u>	<u>\$ 2,407,134</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 9

**Town of Blowing Rock
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016**

	<u>Water and Sewer Fund</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ (52,810)	\$ (52,810)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	402,926	402,926
 Changes in assets, deferred outflows of resources and liabilities:		
(Increase) decrease in accounts receivable	(789,266)	(789,266)
(Increase) in due from other funds	(17,833)	(17,833)
(Increase) decrease in inventory	(14,417)	(14,417)
(Increase) decrease in prepaid items	3,584	3,584
Decrease in net pension asset	36,450	36,450
(Increase) decrease in deferred outflows of resources	3,384	3,384
 Increase (decrease) in accounts payable and accrued liabilities	253,989	253,989
Increase (decrease) in unearned revenue	7,778	7,778
Increase (decrease) in customer deposits	3,708	3,708
Increase (decrease) in accrued interest	7,007	7,007
Increase (decrease) in accrued vacation payable	12,282	12,282
Increase in net pension liability	31,273	31,273
Increase (decrease) in deferred inflows of resources	(79,455)	(79,455)
Total adjustments	(138,590)	(138,590)
Net cash provided by operating activities	<u>\$ (191,400)</u>	<u>\$ (191,400)</u>

The notes to the financial statements are an integral part of this statement.

Town of Blowing Rock, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2016

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Blowing Rock and its discretely presented component units 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 of Blowing Rock 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 units, legally separate entities for which the Town is financially accountable. The discretely presented component units presented below are reported in separate columns in the Town's financial statements in order to emphasize that they are legally separate from the Town.

Town of Blowing Rock ABC Board

The Town appoints the members of the ABC Board's governing board. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Blowing Rock ABC Board, 7960 Valley Boulevard, Blowing Rock, NC 28605.

Town of Blowing Rock Tourism Development Authority (the "Authority")

The Town appoints the members of the Authority's governing board. The Town collects room occupancy tax for the Authority, which is their main source of revenue. The Authority, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). Complete financial statements for the Authority may be obtained from the entity's financial offices at: Blowing Rock Tourism Development Authority, P.O. Box 47, Blowing Rock, NC 28605.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component units. 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.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major 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 and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

Capital Projects Fund. The Capital Projects Fund accounts for construction of various town buildings, infrastructure, etc.

The Town reports the following non-major governmental fund:

Appearance Advisory Commission: The Appearance Advisory Commission Fund is used to account for the activities of the Appearance Advisory Commission.

The Town reports the following major enterprise fund:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations.

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 and 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 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 water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset

acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a 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. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes 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 Blowing Rock because the tax is levied by Watauga 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. Grant revenues which are unearned at year-end are recorded as unearned revenues. 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 are 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 and the Enterprise Funds. All annual operating budget appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects Special Revenue Fund, the Capital Projects Fund, and the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. 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. 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. 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 to allow for previously unanticipated work to take place.

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

1. Deposits and Investments

All deposits of the Town, the ABC Board, and the Authority are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town, the ABC Board, and the Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town, the ABC Board, and the Authority 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, the ABC Board, and the Authority 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; the North Carolina Capital Management Trust (NCCMT). The Town's, the ABC Board's, and the Authority's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money 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. The ABC Board and the Authority consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Unexpended bond proceeds of the General Fund and Water and Sewer Fund general obligation bonds issued by the Town are classified as restricted assets for those funds because their use is completely restricted to the purpose for which the bonds were originally issued.

Governmental Activities	
General Fund - unexpended debt proceeds	\$ 239,183
General Capital Projects Fund - unexpended debt proceeds	<u>3,137,122</u>
Total governmental activities	3,376,305
Business-type activities	
Water and Sewer Fund - customer deposits	205,282
Water and Sewer Fund - unexpended debt proceeds	<u>1,057,617</u>
Total Business-type Activities	<u>1,262,899</u>
Total Restricted Cash	<u>\$ 4,639,204</u>

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, 2015 (Caldwell County) and January 1, 2015 (Watauga County).

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, the ABC Board, and the Authority are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's enterprise funds and those of the ABC Board consist of materials and supplies held for subsequent use and merchandise held for resale. The cost of materials and supplies inventories is expensed when used rather than when purchased. The cost of merchandise held for resale is expensed when sold rather than when purchased. The Authority had no inventory on hand at June 30, 2016.

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 are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of three years. Minimum capitalization costs are \$5,000 for all capital assets. 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 infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Infrastructure	50
Buildings and Improvements	50
Furniture and Equipment	5-10
Vehicles	5
Computer Equipment	5

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

Asset Class	Estimated Useful Lives
Buildings and Improvements	20-25
Furniture and Equipment	5-10
Computer Equipment	5

Capital assets of the Authority are depreciated over their useful lives on a straight-line basis as follows:

Asset Class	Estimated Useful Lives
Buildings and Improvements	50
Furniture and Equipment	10
Computer Equipment	5

8. 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. This 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 meets this criterion, contributions made to the pension plan in the 2016 fiscal year. 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 a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. 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 proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. 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 debt proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The vacation policies of the Town provide for the accumulation of twenty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. 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 an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position / Fund Balances

Net position in the 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, or the laws or regulations of other governments, or imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non-spendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes the amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Blowing Rock's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. 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.

Assigned fund balance – portion of fund balance that the Town intends to use 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. The governing body approves the appropriation.

Capital projects – portion of fund balance that is intended to be used for capital projects.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town of Blowing Rock has fund balance goal for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 50% of expenditures. Any portion of the general fund balance in excess of 50% of expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

12. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Blowing Rock's employer contributions are recognized when due and the Town of Blowing Rock 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. Stewardship, Compliance and Accountability

The audit for the fiscal year ended June 30, 2016 disclosed no Material Violations of Finance-Related Legal and Contractual Provisions.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town, the ABC Board, and the Authority are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, the ABC Board, and the Authority, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, the Authority, or with the escrow agent. Because of the inability to measure the exact

amount of collateral pledged for the Town, the ABC Board, or the Authority 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 has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board and the Authority have no policy regarding custodial credit risk for deposits.

At June 30, 2016, the Town's deposits had a carrying amount of \$2,686,646 and a bank balance of \$2,885,839. Of the bank balance, \$1,084,807 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$318,610 and the bank balance was \$317,410. All of the bank balance was covered by federal depository insurance. The carrying amount of deposits for the Authority was \$394,229 and the bank balance was \$408,841. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2016, the Town's petty cash fund totaled \$500.

2. Investments

At June 30, 2016, the Town, the ABC Board, and the Authority had \$6,864,470, \$8,520, and \$25,000 respectively, invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM with Standard and Poor's. The Town, the ABC Board, and the Authority have no policy regarding credit risk.

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:

Fund	6/30/2016
General Fund:	
Taxes Receivable	\$ 27,442

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,061,253	\$ -	\$ -	\$ 3,061,253
Construction in progress	817,548	1,995,150	(776,503)	2,036,195
Total capital assets not being depreciated	<u>3,878,801</u>	<u>1,995,150</u>	<u>(776,503)</u>	<u>5,097,448</u>
Capital assets being depreciated:				
Infrastructure	6,145,201	168,123	-	6,313,324
Buildings	7,305,918	596,720	-	7,902,638
Equipment and furniture	3,006,084	272,399	-	3,278,483
Vehicles	1,922,085	243,716	(28,587)	2,137,214
Computers	301,622	-	(11,000)	290,622
Total capital assets being depreciated	<u>18,680,910</u>	<u>1,280,958</u>	<u>(39,587)</u>	<u>19,922,281</u>
Less accumulated depreciation for:				
Infrastructure	586,635	124,865	-	711,500
Buildings	1,394,884	152,480	-	1,547,364
Equipment and furniture	2,750,408	93,965	-	2,844,373
Vehicles	1,555,795	145,967	(25,251)	1,676,511
Computers	167,374	36,269	(11,000)	192,643
Total accumulated depreciation	<u>6,455,096</u>	<u>\$ 553,546</u>	<u>\$ (36,251)</u>	<u>6,972,391</u>
Total capital assets being depreciated, net	<u>12,225,814</u>			<u>12,949,890</u>
Governmental activity capital assets, net	<u>\$ 16,104,615</u>			<u>\$ 18,047,338</u>

Depreciation was charged to governmental functions as follows:

General Government	\$ 70,321
Public Safety	243,325
Transportation	138,803
Environmental protection	52,311
Cultural & recreation	48,786
Unallocated depreciation	-
	<u>\$ 553,546</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water/Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 100,504	\$ -	\$ -	\$ 100,504
Construction in progress	161,303	1,827,037	(118,695)	1,869,645
Total capital assets not being depreciated	<u>261,807</u>	<u>1,827,037</u>	<u>(118,695)</u>	<u>1,970,149</u>
Capital assets being depreciated:				
Plant	19,085,647	118,695	-	19,204,342
Equipment	1,296,074	184,427	(40,497)	1,440,004
Total capital assets being depreciated	<u>20,381,721</u>	<u>303,122</u>	<u>(40,497)</u>	<u>20,644,346</u>
Less accumulated depreciation for:				
Plant	7,164,507	342,415	-	7,506,922
Equipment	1,027,607	60,511	(40,497)	1,047,621
Total accumulated depreciation	<u>8,192,114</u>	<u>\$ 402,926</u>	<u>\$ (40,497)</u>	<u>8,554,543</u>
Total capital assets being depreciated, net	<u>12,451,414</u>			<u>12,089,803</u>
Business-type activities capital assets, net	<u>\$ 12,451,414</u>			<u>\$ 14,059,952</u>

Discretely Presented component units

Activity for the ABC Board for the year ended June 30, 2016, was as follows:

	Useful Life	Cost	Accumulated Depreciation	Net Amount
Land		\$ 96,275	\$ -	\$ 96,275
Building and improvements	20 years	317,923	193,671	124,252
Furniture and equipment	10 years	61,218	54,619	6,599
Computer equipment	5 years	55,668	43,078	12,590
		<u>\$ 531,084</u>	<u>\$ 291,368</u>	<u>\$ 239,716</u>

Activity for the Authority for the year ended June 30, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 15,702	\$ -	\$ -	\$ 15,702
Total capital assets being depreciated	15,702	-	-	15,702
Less accumulated depreciation for:				
Furniture and equipment	15,702		-	15,702
Total accumulated depreciation	15,702	\$ -	\$ -	15,702
Total capital assets being depreciated, net	-			-
Governmental activity capital assets, net	<u>\$ -</u>			<u>\$ -</u>
Economic and Physical Development		<u>\$ -</u>		
Total depreciation expense		<u>\$ -</u>		

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Blowing Rock 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 Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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 Blowing Rock 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 Blowing Rock's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% 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. Total contributions to the pension plan from the Town of Blowing Rock were \$285,683 for the year ended June 30, 2016, comprised of \$133,941 contributed by employees and \$151,742 contributed by the Town.

Refunds of Contributions – Authority 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.

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

At June 30, 2016, the Town reported a liability of \$183,961 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability 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, 2015, the Town's proportion was 0.041%, which was an increase of 0.0798% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2015, the Town recognized pension expense of \$100,843. At June 30, 2016, 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	-	43,241
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	52,373
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,157	7,202
Employer contributions subsequent to the measurement date	151,742	
Total	\$ 153,899	\$ 102,816

\$151,742 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$	(62,188)
2018		(62,188)
2019		(62,129)
2020		85,846
2021		-
Thereafter		-
	\$	<u>(100,659)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 Percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 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, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. 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 7.25 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 (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	1,282,786	183,961	(741,774)

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description.

The Town of Blowing Rock administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers. The Separation Allowance is equal to .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 law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>10</u>
Total	<u>11</u>

A separate report was not issued for the plan.

2. 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 and refunds 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 following criteria which are outlined in GASB Statements 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operation budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases.

Annual Pension Cost and Net Pension Obligation. The Town's net pension obligation and changes thereto for the Separation Allowance for the current year were as follows:

Employer annual required contribution	\$ 30,417
Interest on net pension obligation	3,492
Adjustment to annual required contribution	<u>(6,138)</u>
Annual pension cost	27,771
Employer contributions made for fiscal year ending 6/30/2012	<u>(11,604)</u>
Increase (decrease) in net pension obligation	16,167
Net pension obligation beginning of fiscal year	<u>69,847</u>
Net pension obligation end of fiscal year	<u><u>\$ 86,014</u></u>

Fiscal Year Ending	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost	Percentage of APC Contributed	
6/30/2014	\$ 12,185	95.23%	\$ 65,091
6/30/2015	16,440	70.38%	69,847
6/30/2016	27,771	41.78%	86,014

4. Funded Status and Funding Progress.

As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$277,310. The covered payroll (annual payroll of active employees covered by the plan) was \$414,828, and the ratio of the UAAL to the covered payroll was 66.85%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to both law enforcement officers and general employees of 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 and General Employees is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for General Employees and 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 four percent of each general employee and five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2016 for general employees and law enforcement officers respectively were \$100,134 and \$27,974 which consisted of \$73,392 from the town and \$26,742 from general employees and \$22,287 from the Town and \$5,687 from the law enforcement officers.

d. Other Post-employment Benefits

Post-employment Healthcare Benefits

Plan Description. The post-employment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 13-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Major Comprehensive Major Medical (also, referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller's internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Funding Policy. The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriation act.

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least ten years of creditable service with the Town and retire with full benefits under the System. Participating in the State Health Plan, the Town pays for these benefits through a contribution to the State of 5.4% of the covered payroll of employees who are members of the Retirement system to fund its total liability for the year. The Town's retirees may also purchase coverage for their dependents through the State plan. The Town's contributions for post-employment health benefits for years ended June 30, 2016, 2015, and 2014 were \$122,556, \$112,776, and \$99,957 respectively and fund the Town's portion of OPEB liability for each year. Currently eight retirees are receiving post-employment health benefits.

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 and may not be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

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

<u>Source</u>	<u>Amount</u>
Contributions to the pension plan in the current fiscal year	\$ 153,899
Deferred charges on bond issuance	4,930
	<u>\$ 158,829</u>

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

Taxes receivable (General Fund), less penalties	\$ 70,360
Prepaid taxes	23,336
Pension deferrals	102,816

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 a self-funded risk-financing pool administered by the North Carolina League of Municipalities for worker's compensation. The pool is reinsured through commercial companies for single occurrence claims in excess of \$300,000 up to statutory limits for workers' compensation. The pool is audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The Town obtains general liability and auto liability of \$1 million per occurrence and property coverage up to the total insurance values of the property policy through a private insurer.

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. Town management explored opportunities for securing flood insurance and obtained bids for coverage. However, it was concluded that flood insurance was not cost effective.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded for \$5,000. The finance officer is bonded for \$100,000 and the tax collector is bonded for \$100,000.

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2016, the Town was defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Installment Purchases

Installment purchases at June 30, 2016 consists of the following:

Note payable, dated January 17, 2003, due 2018, face amount \$775,000, due in quarterly payments of \$12,917 plus interest at 4.35%, collateralized by land (Tiller Property).	\$ 90,416
Note payable, dated October 10, 2006, due 2026, face amount \$4,700,000, due in annual payments of \$235,000 plus interest at 4.22%, collateralized by building and land (Fire/Rescue Building).	2,350,000
Note payable, dated December 18, 2014, due 2019, face amount \$401,001, due in annual payments of \$98.651 plus interest at 1.46%, collateralized by equipment and vehicles.	302,350
Note payable, dated March 6, 2012, due 2033, face amount \$550,398, due in annual payments of \$27,519, plus interest at 2.445%, funding received through N.C. Dept. of Natural Resources (Wastewater Treatment Plant Improvements).	455,765
Note payable, dated May 14, 2010, due 2031, face amount \$1,000,131, due in annual payments of \$37,824 including interest at 0.00%, for water interconnection. Funding was received through the NC Drinking Water and Revolving Loan and Grant Program and was matched 100% by American Reinvestment and Recovery Act grant funds (Water Interconnect).	567,360
Note payable, dated September 30, 2015, due 2020, face amount \$402,265, due in annual payments of \$104,529 plus interest at 1.51%, collateralized by equipment and vehicles (Capital Equipment).	402,265
Note payable, dated August 25, 2009, due 2025, face amount \$1,000,000, due two annual interest payments of \$40,800 followed by annual payments of \$76,923 plus interest at 4.08%, collateralized by a parking facility (BRAHM Parking Facility).	692,308
Note payable, dated May 5, 2015, due 2030, face amount \$1,700,580, due in annual payments of \$113,372, plus interest at 2.83%, collateralized by a building. (Public Works Warehouse)	<u>1,587,209</u>
Total Installment Purchases	<u>\$ 6,447,673</u>

The future minimum payments of the installment purchase as of June 30, 2016 are as follows:

Year	General		Water/Sewer	
	Principal	Interest	Principal	Interest
2016-2017	\$ 588,327	\$ 171,387	\$ 150,509	\$ 25,004
2017-2018	577,862	151,226	151,527	23,364
2018-2019	539,499	132,799	154,120	22,465
2019-2020	467,642	115,191	125,260	19,735
2020-2021	396,952	98,656	92,977	17,800
2021-2025	1,907,837	261,353	464,883	67,134
2026-2030	340,116	21,657	436,540	30,694
2031-2035	-	-	53,622	3,933
Total	\$ 4,818,235	\$ 952,269	\$ 1,629,438	\$ 210,129

b. General obligation indebtedness

The Town's general obligation bonds serviced by the governmental and water sewer funds were issued for various capital projects. Those general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2016 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the General Fund:

\$3,500,000, Public Improvement, Series 2016 due on September 1 and March 1 in installments of \$180,000 plus interest through March 1, 2036; interest at 2.0% \$ 3,500,000

Serviced by the Water and Sewer Fund:

\$1,135,000, Public Improvement, Series 2016 due on September 1 and March 1 in installments of \$55,000 plus interest through March 1, 2036; interest at 2.0% 1,135,000

\$ 4,635,000

Annual debt service requirements to maturity for long-term obligations are as follows:

Year	General		Water/Sewer	
	Principal	Interest	Principal	Interest
2016-2017	\$ 180,000	\$ 70,740	\$ 55,000	\$ 22,980
2017-2018	180,000	70,003	55,000	22,810
2018-2019	180,000	66,403	55,000	21,710
2019-2020	180,000	62,803	55,000	20,610
2020-2021	180,000	59,203	55,000	19,510
2021-2025	895,000	242,015	280,000	81,050
2026-2030	875,000	153,513	300,000	52,050
2030-2035	830,000	59,100	280,000	19,680
Total	\$ 3,500,000	\$ 783,780	\$ 1,135,000	\$ 260,400

At June 30, 2016 the Town of Blowing Rock had bonds authorized but unissued of \$8,365,000 and a legal debt margin of \$80,964,976.

c. Changes in Long-Term Liabilities

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion
Government activities:					
Installment purchases	5,129,030	276,119	(586,914)	4,818,235	589,000
General obligation bonds	-	3,500,000	-	3,500,000	180,000
Compensated absences	103,754	283,278	(249,426)	137,606	137,606
Net pension liability (LGERS)	-	152,688	-	152,688	-
Pension Obligation (LEOSSA)	69,847	27,771	(11,604)	86,014	-
Governmental activity long-term debt	5,302,631	4,239,856	(847,944)	8,694,543	906,606
Business activities:					
Installment purchases	1,622,904	126,146	(119,612)	1,629,438	150,509
General obligation bonds	-	1,135,000	-	1,135,000	55,000
Net pension liability (LGERS)	-	31,273	-	31,275	-
Compensated absences	20,848	68,810	(56,097)	33,561	33,561
Business-type activity long-term debt	1,643,752	1,361,229	(175,709)	2,829,274	239,070

Compensated absences for governmental activities typically have been liquidated in the General Fund.

C. Interfund Activity

Transfers to/from Other Funds

Net Transfers to/from other funds at June 30, 2016 consist of the following:

From the General Fund to the Water/Sewer Capital Projects Fund:

\$ 115,834

From the Water/Sewer Fund to the Water/Sewer Capital Projects Fund:

\$ 553,226

From the General Fund to the Water/Sewer Fund:

\$ 60,000

From the BRAAC Fund to the General Fund:

\$ 3,000

From the General Fund to the General Capital Projects Fund:

\$ 1,757,395

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

During the 2016 fiscal year, the Town has made transfers from the Water/Sewer Capital projects Fund to the Water/Sewer Fund for the following: \$1,275,461 to transfer a portion (75%) of the Public Works Facility Project (previously booked in the general fund) to the General Capital Projects Fund, \$49,048 to reallocate General Obligation debt service funding not needed for payment towards General Obligation bond funded projects, \$150,000 in funding from TDA infrastructure towards the Gateway project, \$49,430 towards the Ice House renovation, \$35,000 towards the website re-design, \$122,021 to reallocate General Obligation debt service funding not needed for payment towards General Obligation bond funded projects \$6,900 towards Highway 321 Median Improvements, \$51,315 towards technology infrastructure, \$15,000 towards the replacement of a communications building at Green Hill and \$70,000 towards black aluminum fencing on Valley Boulevard. The Water/Sewer Fund also transferred funds to the Water/Sewer Capital Fund for the following: \$70,745 to allocate fund balance towards the Chestnut Ridge Water/Sewer Service project, \$415 to reallocated General Obligation debt service funding not needed for payment towards General Obligation bond funded projects, \$425,146 to transferring a portion (25%) of the Public Works Facility Project (previously booked in the water/sewer fund) to the Water/Sewer Capital Projects Fund and 56,920 also to reallocated General Obligation debt service funding not needed for payment towards General Obligation bond funded projects. The BRAAC Fund also transferred funds to the General Fund for the following: \$3,000 for watering service by Town staff. The General Fund also made transfers to the Water/Sewer Capital Projects Fund for the following: \$20,417 to Water Plant projects, \$20,417 to Wastewater Plant Projects and \$75,000 towards the Water Valve and Hydrant Maintenance Program and the Town also made transfers from the General Capital Projects Fund to the General Fund for the following: \$6,780 to allocate donations received for a police patrol golf cart for the purchase and \$60,000 for Emergency Services Building debt service.

D. Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

Total fund balance - General Fund	\$ 4,101,355
Less:	
Stablization by State Statute	774,439
Prepays	11,110
Inventories	2,700
Restricted for capital projects	239,183
Appropriated Fund Balance in 2016 budget	-
Remaining fund balance	<u>3,073,923</u>

The Town of Blowing Rock has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 50% of budgeted expenditures.

IV. Jointly Governed Organization

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D High Country Council of Government (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$510 to the Council during the fiscal year ended June 30, 2016.

V. Related Organization

The five-member board of the Blowing Rock Tourism Development Authority is appointed by the Town Council of the Town of Blowing Rock. The Town is accountable for the Tourism Development Authority because it appoints its governing board; however, the Town is not financially accountable for the Tourism Development Authority. Complete financial statements for the Tourism Development Authority can be obtained from the Authority's offices at Post Office Box 47, Blowing Rock, NC 28605.

VI. Significant Effects of Subsequent Events

Management has evaluated subsequent events through October 28, 2016 – the date the financial statements were available to be issued.

VII. Summary Disclosure of Significant Contingencies

1. 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 moneys 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 moneys.

Required Supplementary Financial Data

This section contains additional statements required by generally accepted accounting principles.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Local Government Employees' Retirement System's Schedule of the Proportionate Share of the Net Pension Liability (Asset)
- Local Government Employees' Retirement System's Schedule of Contributions

Town of Blowing Rock, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2003	-	100,524	100,524	0.00%	317,218	26.3%
12/31/2004	-	79,129	79,129	0.00%	341,243	29.3%
12/31/2005	-	68,223	68,223	0.00%	360,021	31.0%
12/31/2006	-	78,063	78,063	0.00%	331,529	32.7%
12/31/2007	-	132,313	132,313	0.00%	369,933	34.5%
12/31/2008	-	126,525	126,525	0.00%	332,179	38.1%
12/31/2009	-	138,389	138,389	0.00%	365,575	37.9%
12/31/2010	-	168,741	168,741	0.00%	383,091	44.1%
12/31/2011	-	149,511	149,511	0.00%	379,856	39.4%
12/31/2012	-	134,332	134,332	0.00%	323,992	41.5%
12/31/2013	-	142,810	142,810	0.00%	387,459	36.9%
12/31/2014	-	224,365	224,365	0.00%	513,608	43.7%
12/31/2015	-	277,310	277,310	0.00%	513,608	66.9%

Town of Blowing Rock's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Two Fiscal Years

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.0401%	(.0397%)	0.0373%
Town's proportion of the net pension liability (asset) (\$)	\$ 183,961	\$ (233,953)	\$ 449,608
Town's covered-employee payroll	\$ 2,056,654	\$ 1,851,048	\$ 1,930,820
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.94%	(10.89%)	23.29%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

**Town of Blowing Rock's Contributions
Required Supplementary Information
Last Two Fiscal Years**

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 151,742	\$ 149,590	\$ 131,628
Contributions in relation to the contractually required contribution	151,742	149,590	131,628
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered employee payroll	\$ 2,232,354	\$ 2,056,654	\$ 1,851,048
Contributions as a percentage of covered-employee payroll	6.80%	7.27%	7.11%

Individual Fund Statements and Schedules

Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 3,710,436	\$
Interest		23,891	
Total	<u>3,691,939</u>	<u>3,734,327</u>	<u>42,388</u>
Other taxes and licenses:			
Occupancy tax		346,143	
Privilege licenses		1,359	
Total	<u>332,056</u>	<u>347,502</u>	<u>15,446</u>
Unrestricted intergovernmental:			
Local option sales taxes		1,499,569	
Cablevision franchise		-	
Telecommunications sales tax		35,086	
Video Programming Tax		44,773	
Utility franchise tax		299,897	
Hold harmless sales		-	
Beer and wine tax		5,631	
ABC profit distribution		161,600	
Total	<u>1,799,351</u>	<u>2,046,556</u>	<u>247,205</u>
Restricted intergovernmental:			
Powell Bill allocation		77,365	
Snow removal		9,287	
ABC Revenue for law enforcement		8,500	
Federal and State grants		-	
Solid waste disposal tax		815	
Total	<u>95,200</u>	<u>95,967</u>	<u>767</u>
Permits and fees:			
Building permits		84,986	
Total	<u>65,000</u>	<u>84,986</u>	<u>19,986</u>
Sales and services:			
Recreation department fees		134,800	
Recycling revenue		63,057	
Park lease/rental income		6,067	
Parking fees		573	
Total	<u>173,150</u>	<u>204,497</u>	<u>31,347</u>
Investment earnings	<u>2,500</u>	<u>6,448</u>	<u>3,948</u>
Miscellaneous:			
Miscellaneous		261,838	

**Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

	Budget	Actual	Variance Positive (Negative)
Cemetary revenue		36,542	
Solid waste fees		67,484	
Zoning fees		9,032	
Total	354,856	374,896	20,040
Total revenues	6,514,052	6,895,179	381,127
Expenditures:			
General government:			
Salaries		-	
Employee benefits		-	
Professional services		29,553	
Other operating expenditures		299,161	
Capital outlay		-	
Total		328,714	
Governing body:			
Salaries		15,600	
Employee benefits		24,043	
Other operating expenditures		6,320	
Total		45,963	
Finance:			
Salaries		276,672	
Employee benefits		96,542	
Other operating expenditures		620,948	
Capital outlay		-	
Total		994,162	
Public buildings:			
Salaries		-	
Employee benefits		-	
Other operating expenditures		69,361	
Capital outlay		-	
Total		69,361	
Total general government	1,501,532	1,438,200	63,332
Public safety:			
Police:			
Salaries		489,218	
Employee benefits		188,210	
Vehicle maintenance		38,701	
Other operating expenditures		243,158	
Capital outlay		110,958	
Total		1,070,245	

**Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire:			
Salaries		477,448	
Employee benefits		141,449	
Other operating expenditures		46,883	
Capital outlay		-	
Total		<u>665,780</u>	
Inspections:			
Salaries		154,152	
Employee benefits		53,499	
Vehicle maintenance		739	
Other operating expenditures		28,411	
Capital outlay		-	
Total		<u>236,801</u>	
Total public safety	<u>1,995,580</u>	<u>1,972,826</u>	<u>22,754</u>
Transportation:			
Streets and highways:			
Salaries		317,942	
Employee benefits		119,189	
Sidewalk construction		-	
Vehicle maintenance		44,592	
Street Lights		131,641	
Other operating expenditures		211,869	
Capital outlay		183,233	
Total transportation	<u>1,013,957</u>	<u>1,008,466</u>	<u>5,491</u>
Environmental protection:			
Solid waste:			
Salaries		100,110	
Employee benefits		47,590	
Vehicle maintenance		28,512	
Other operating expenditures		141,879	
Capital outlay		133,584	
Total environmental protection	<u>474,875</u>	<u>451,675</u>	<u>23,200</u>
Culture and recreation:			
Parks and recreation:			
Salaries		276,882	
Employee benefits		77,083	
Other operating expenditures		150,886	
Capital outlay		67,916	
Total		<u>572,767</u>	
Community donations:			

Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Contributions		21,444	
Total		21,444	
Total cultural and recreational	637,545	594,211	43,334
Debt service:			
Principal retirement		586,914	
Interest and other charges		182,524	
Total debt service	773,065	769,438	3,627
Total expenditures	6,396,554	6,234,816	161,738
Revenues over (under) expenditures	117,498	660,363	542,865
Other financing sources (uses):			
Transfers (to)/from other funds:			
Capital Projects Fund	(1,757,934)	(1,757,395)	539
Water/Sewer Fund	(60,000)	(60,000)	-
Enterprise Fund	-	-	-
Enterprise Capital Projects Fund	(115,834)	(115,834)	-
BRAAC Fund Transfer In	3,000	3,000	-
Sale of assets	17,900	38,054	20,154
Proceeds from installment purchase	371,362	276,119	(95,243)
Appropriated fund balance	1,424,008	-	(1,424,008)
Total	\$ (117,498)	(1,616,056)	\$ (1,498,558)
Revenues and other financing sources over expenditures and other financing uses	\$ -	(955,693)	\$ (955,693)
Fund balances, beginning		5,057,048	
Change in reserve for inventories		-	
Fund balances, ending		\$ 4,101,355	

Town of Blowing Rock, North Carolina
Capital Projects Fund - Various Projects
Schedules of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2016

	Project Author - ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Year	Current Year		
Revenues					
Restricted intergovernmental:					
Storm water connection	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions and grants	1,355,128	729,707	97,625	827,332	(527,796)
Total	<u>1,355,128</u>	<u>729,707</u>	<u>97,625</u>	<u>827,332</u>	<u>(527,796)</u>
Other revenues:					
Investment earnings	12,925	12,686	3,913	16,599	3,674
Miscellaneous	111,225	137,724	30,000	167,724	56,499
Total	<u>124,150</u>	<u>150,410</u>	<u>33,913</u>	<u>184,323</u>	<u>60,173</u>
Total revenues	<u>1,479,278</u>	<u>880,117</u>	<u>131,538</u>	<u>1,011,655</u>	<u>(467,623)</u>
Expenditures					
Recreation projects:					
Capital outlay:					
Culture and recreation	400,285	39,039	145,603	184,642	215,643
Total	<u>400,285</u>	<u>39,039</u>	<u>145,603</u>	<u>184,642</u>	<u>215,643</u>
Streets and sidewalks projects:					
Capital outlay:					
Transportation	4,908,119	9,338	802,710	812,048	4,096,071
Total	<u>4,908,119</u>	<u>9,338</u>	<u>802,710</u>	<u>812,048</u>	<u>4,096,071</u>
Public Works					
Capital outlay:					
Public buildings & facilities	2,007,528	769,171	1,015,893	1,785,064	222,464
Total	<u>2,007,528</u>	<u>769,171</u>	<u>1,015,893</u>	<u>1,785,064</u>	<u>222,464</u>
Public safety projects:					
Capital outlay:					
Public safety	70,200	-	30,944	30,944	39,256
Total	<u>70,200</u>	<u>-</u>	<u>30,944</u>	<u>30,944</u>	<u>39,256</u>
Total expenditures	<u>7,386,132</u>	<u>817,548</u>	<u>1,995,150</u>	<u>2,812,698</u>	<u>4,573,434</u>
Revenues under expenditures	<u>(5,906,854)</u>	<u>62,569</u>	<u>(1,863,612)</u>	<u>(1,801,043)</u>	<u>4,105,811</u>
Other Financing Sources					
Various projects:					
Operating transfers in (out):					
General Fund	2,323,367	(188,422)	1,757,395	1,568,973	(754,394)
BRAAC	5,000	5,000	-	5,000	-
Proceeds from long term debt	3,582,287	-	3,500,000	3,500,000	(82,287)
Discounts on debt issued	(3,800)	-	(3,764)	(3,764)	36
Total other financing sources	<u>5,906,854</u>	<u>(183,422)</u>	<u>5,253,631</u>	<u>5,070,209</u>	<u>(836,645)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ (120,853)</u>	<u>\$ 3,390,019</u>	<u>\$ 3,269,166</u>	<u>\$ 3,269,166</u>

Town of Blowing Rock
Balance Sheet
Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2016

	Appearance Advisory Commission		Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 23,974	\$	23,974
Accounts receivable, net	-		-
Total assets	\$ 23,974	\$	23,974
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 8,143	\$	8,143
Fund balances:			
Restricted			
Stabilization by State Statute	-		-
Cultural & recreational	-		-
Unassigned	15,831		15,831
Total fund balances	15,831		15,831
Total liabilities and fund balances	\$ 23,974	\$	23,974

Town of Blowing Rock
Statement of Revenues, Expenditures, and Changes in Fund Balance
Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2016

	Appearance Advisory Commission	Total Non-Major Governmental Funds
REVENUES		
Donations	\$ 25,030	\$ 25,030
Miscellaneous	-	-
Total revenues	25,030	25,030
EXPENDITURES		
Current:		
General government	21,967	21,967
Total expenditures	21,967	21,967
Excess (deficiency) of revenues over expenditures	3,063	3,063
OTHER FINANCING SOURCES (USES)		
Transfers (to) from the General Fund	(3,000)	(3,000)
Transfers (to) from the General Capital Projects Fund	-	-
Total other financing sources (uses)	(3,000)	(3,000)
Net change in fund balances	63	63
Fund balances, beginning	15,768	15,768
Fund balances, ending	\$ 15,831	\$ 15,831

Town of Blowing Rock, North Carolina
Special Revenue Fund - Appearance Advisory Commission
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Donations	\$	\$ 25,030	\$
Grants		-	
Total	<u>33,850</u>	<u>25,030</u>	<u>(8,820)</u>
Expenditures:			
Cultural and recreational:			
Contracted services		4,070	
Beautification		7,354	
Miscellaneous		10,543	
Total	<u>30,850</u>	<u>21,967</u>	<u>8,883</u>
Revenues over expenditures	<u>3,000</u>	<u>3,063</u>	<u>63</u>
Other financing sources (uses):			
Transfers (to)/from General Fund	(3,000)	(3,000)	-
Transfers (to)/from General Capital Projects Fund			-
Total	<u>(3,000)</u>	<u>(3,000)</u>	<u>-</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>63</u>	<u>\$ 63</u>
Fund balances, beginning		<u>15,768</u>	
Fund balances, ending		<u>\$ 15,831</u>	

Town of Blowing Rock, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Water sales:			
Residential	\$ -	\$ 819,238	\$ -
Impact fees		24,070	
Interconnect charges		12,558	
Total	<u>822,900</u>	<u>855,866</u>	<u>32,966</u>
Sewer charges:			
Residential		654,966	
Impact fees		22,120	
Total	<u>659,500</u>	<u>677,086</u>	<u>17,586</u>
Water and sewer taps	<u>5,000</u>	<u>554</u>	<u>(4,446)</u>
Other operating revenues	<u>15,200</u>	<u>3,278</u>	<u>(11,922)</u>
Total operating revenues	<u>1,502,600</u>	<u>1,536,784</u>	<u>34,184</u>
Nonoperating revenues:			
Interest earnings	<u>500</u>	<u>1,271</u>	<u>771</u>
Total revenues	<u>1,503,100</u>	<u>1,538,055</u>	<u>34,955</u>
Expenditures:			
Water and sewer administration:			
Salaries		194,968	
Employee benefits		21,417	
Travel		-	
Supplies		-	
Insurance		75,076	
Vehicle maintenance		-	
Other operating expenditures		13,825	
Engineering services		19,714	
Total water and sewer administration	<u>393,022</u>	<u>325,000</u>	<u>68,022</u>

Town of Blowing Rock, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Water and sewer plant operations:			
Salaries		212,600	
Employee benefits		75,265	
Repairs and maintenance		18,739	
Supplies		31,185	
Other operating expenditures		32,345	
Utilities		136,821	
Sludge composting		71,805	
Total	<u>610,419</u>	<u>578,760</u>	<u>31,659</u>
Water and sewer field operations:			
Salaries		116,902	
Employee benefits		51,354	
Supplies		61,315	
Chemicals		33,408	
Other operating expenditures		19,687	
Total	<u>332,260</u>	<u>282,666</u>	<u>49,594</u>
Debt service:			
Interest and other charges		23,867	
Principal retirement		119,612	
Total debt service	<u>145,639</u>	<u>143,479</u>	<u>2,160</u>
Capital outlay:			
Equipment		186,496	
Water taps		-	
Miscellaneous water		-	
Sewer extensions		-	
Sewer taps		-	
Miscellaneous sewer		-	
Total capital outlay	<u>214,989</u>	<u>186,496</u>	<u>28,493</u>
Total expenditures	<u>1,696,329</u>	<u>1,516,401</u>	<u>179,928</u>
Other financing sources (uses):			
Transfer (to) from other funds:			
General fund	60,000	60,000	-
Capital projects water and sewer	(554,156)	(553,226)	930
Proceeds from installment purchase	163,455	126,146	(37,309)
Sale of fixed assets	-	-	-
Appropriated fund balance	<u>523,930</u>	<u>-</u>	<u>(523,930)</u>
Total other financing sources (uses)	<u>193,229</u>	<u>(367,080)</u>	<u>(560,309)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>(345,426)</u>	<u>\$ (345,426)</u>

Town of Blowing Rock, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ (345,426)	
Reconciling items:			
Principal retirement		119,612	
Capital outlay items capitalized		184,427	
Assets transferred from General Fund		-	
(Increase) decrease in bond interest accrued		-	
(Increase) decrease in accrued vacation payable		(12,713)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		20,947	
Pension expense		(13,821)	
Depreciation		(402,926)	
Transfers to/from water and sewer capital projects		553,226	
Proceeds from installment purchase		(126,146)	
Contributions & grant proceeds from Water and Sewer Capital Projects Fund		1,122,440	
Interest income from Water and Sewer Capital Projects Fund		2,298	
Miscellaneous income from Water and Sewer Capital Projects Fund		-	
Transfer in from General Fund to Water and Sewer Capital Project Fund		115,834	
Capitalized interest on borrowings during construction:			
Interest costs		-	
Investment earnings on borrowed funds		-	
Increase (decrease) in inventory		14,417	
Deferred charges on bond issuance		-	
Interest and amortization expense		(7,003)	
Total reconciling items		<u>1,570,592</u>	
Net income		<u>\$ 1,225,166</u>	

Town of Blowing Rock, North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
From Inception and for the Fiscal Year Ended June 30, 2016

	Project Author - ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Investment earnings	\$ 50,250	\$ 50,980	\$ 2,298	\$ 53,278	\$ 3,028
Contributions & grant proceeds	1,197,190	46,600	1,122,440	1,169,040	(28,150)
Miscellaneous income	-	250	-	250	250
Total	<u>1,247,440</u>	<u>97,830</u>	<u>1,124,738</u>	<u>1,222,568</u>	<u>(24,872)</u>
Total revenues	1,247,440	97,830	1,124,738	1,222,568	(24,872)
Expenditures					
Construction	<u>4,678,304</u>	<u>161,302</u>	<u>1,827,038</u>	<u>1,988,340</u>	<u>2,689,964</u>
Total	<u>4,678,304</u>	<u>161,302</u>	<u>1,827,038</u>	<u>1,988,340</u>	<u>2,689,964</u>
Revenues under expenditures	<u>(3,430,864)</u>	<u>(63,472)</u>	<u>(702,300)</u>	<u>(765,772)</u>	<u>2,665,092</u>
Other financing sources :					
Operating transfer from water and sewer fund	1,445,264	1,020,178	553,226	1,573,404	128,140
Transfer from general fund	402,755	231,531	115,834	347,365	(55,390)
Proceeds of long-term debt	1,560,145	-	1,135,000	1,135,000	(425,145)
Discount on debt issuance	(1,500)	-	(1,221)	(1,221)	279
Other contributions	-	8,844	-	8,844	8,844
Appropriated fund balance	24,200	-	-	-	(24,200)
Total other sources	<u>3,430,864</u>	<u>1,260,553</u>	<u>1,802,839</u>	<u>3,063,392</u>	<u>(367,472)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 1,197,081</u>	<u>\$ 1,100,539</u>	<u>\$ 2,297,620</u>	<u>\$ 2,297,620</u>

Other Schedules

This section contains additional information required on property taxes.

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Year Tax Levy

Town of Blowing Rock, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2016

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections And Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 3,615,424	\$ 3,576,494	\$ 38,930
Vehicle Tax	-	67,508	67,508	-
2014-2015	39,222	-	27,693	11,529
Vehicle Tax	-	-	-	-
2013-2014	16,416	-	8,206	8,210
Vehicle Tax	354	-	-	354
2012-2013	7,948	-	3,642	4,306
Vehicle Tax	453	-	-	453
2011-2012	22,285	-	14,215	8,070
Vehicle Tax	305	-	-	305
2010-2011	27,941	-	12,607	15,334
Vehicle Tax	497	-	-	497
2009-2010	5,237	-	3	5,234
Vehicle Tax	342	-	-	342
2008-2009	1,763	-	2	1,761
Vehicle Tax	446	-	-	446
2007-2008	637	-	-	637
Vehicle Tax	573	-	64	509
2006-2007	522	-	2	520
Vehicle Tax	365	-	-	365
2005-2006	1,283	-	1,283	-
Vehicle Tax	822	-	822	-
	<u>\$ 127,411</u>	<u>\$ 3,682,932</u>	<u>\$ 3,712,541</u>	<u>97,802</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>(27,442)</u>
Ad valorem taxes receivable - net				<u>\$ 70,360</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				\$ 3,734,327
Releases and refunds				-
Amounts written off per statute of limitations				<u>2,106</u>
Subtotal				3,736,433
Less penalties and interest collected				<u>(23,892)</u>
Total collections and credits				<u>\$ 3,712,541</u>

Town of Blowing Rock, North Carolina
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2016

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 1,117,506,898	0.330%	\$ 3,687,772	\$ 3,620,264	\$ 67,508
Penalties	-		-	-	-
Total	<u>1,117,506,898</u>		<u>3,687,772</u>	<u>3,620,264</u>	<u>67,508</u>
Discoveries:					
Current year taxes	292,900	0.330%	967	967	-
Prior year taxes	-	0.330%	-	-	-
Penalties	-	0.330%	-	-	-
	<u>292,900</u>		<u>967</u>	<u>967</u>	<u>-</u>
Abatements	(1,759,660)	0.330%	(5,807)	(5,807)	-
Total property valuation	<u>\$ 1,116,040,138</u>				
Net levy			3,682,932	3,615,424	67,508
Uncollected taxes at June 30, 2016			<u>38,930</u>	<u>38,930</u>	<u>-</u>
Current year's taxes collected			<u>\$3,644,002</u>	<u>\$3,576,494</u>	<u>\$67,508</u>
Current levy collection percentage			<u>98.94%</u>	<u>98.92%</u>	<u>100.00%</u>

Compliance Section

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**INDEPENDENT AUDITORS' 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***

To the Honorable Mayor and
Members of the Town Council
Town of Blowing Rock, North Carolina

We have audited, in accordance with the 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Blowing Rock, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Blowing Rock's basic financial statements, and have issued our report thereon dated October 28, 2016. The financial statements of the Town of Blowing Rock ABC Board and the Town of Blowing Rock Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Blowing Rock'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 Blowing Rock's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Blowing Rock'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 to be 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 Blowing Rock's financial statements are free from 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 results 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.

COMBS, TENNANT & CARPENTER, P.C.

COMBS, TENNANT & CARPENTER, P.C.
Certified Public Accountants
Boone, North Carolina

October 28, 2016

COMBS, 
TENNANT & CARPENTER, P.C.
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Independent Auditors' Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance; In Accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act

To the Honorable Mayor and
Members of the Town Council
Town of Blowing Rock, North Carolina

Report on Compliance for Each Major State Program

We have audited the compliance of the Town of Blowing Rock with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Blowing Rock's major state programs for the year ended June 30, 2016. The Town of Blowing Rock's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Blowing Rock's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Blowing Rock's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town of Blowing Rock's compliance.

Opinion on Each Major State Program

In our opinion, the Town of Blowing Rock complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Town of Blowing Rock is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Blowing Rock's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Blowing Rock's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

COMBS, TENNANT & CARPENTER, P.C.

COMBS, TENNANT & CARPENTER, P.C.
Boone, North Carolina
October 28, 2016

**Town of Blowing Rock, North Carolina
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2016**

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	_____ <u>X</u> no
Significant deficiency(s) indentified that are not considered to be material weaknesses?	_____ yes	_____ <u>X</u> none reported
Noncompliance material to financial statements noted	_____ yes	_____ <u>X</u> no

State Awards

Internal control over major state programs:

Material weakness(es) identified?	_____ yes	_____ <u>X</u> no
Significant deficiency(s) indentified that are not considered to be material weaknesses?	_____ yes	_____ <u>X</u> none reported

Type of auditor's report issued on compliance for major state programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act	_____ yes	_____ <u>X</u> no
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Identification of major State programs:

Rural Economic Development Center - Hospital Services Expansion Project

Section II. Financial Statement Findings

None Reported

Section III. State Award Findings and Questioned Costs

None Reported

**Town of Blowing Rock, North Carolina
Corrective Action Plan
For the Fiscal Year Ended June 30, 2016**

Section I. Financial Statement Findings

None Reported

Section II. State Award Findings and Questioned Costs

None Reported

**Town of Blowing Rock, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2016**

Prior Year Audit Findings

Finding: **2015-1**
Status: Management has implemented procedures to adopt and maintain compliance with reporting requirements of Powell Bill funding. The Powell Bill report was timely submitted for the fiscal year ended June 30, 2016.

Town of Blowing Rock, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2016

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>
Federal Grants:			
Cash Programs:			
<u>U. S. Department of Commerce</u>			
Passed-through U.S. Economic Development Association Investments for Public Works and Economic Development Facilities	11.300		\$ 426,945
Total assistance - federal programs			426,945
State Grants:			
Cash Assistance:			
<u>N.C. Department of Transportation:</u>			
Powell Bill			77,365
<u>N.C. Department of Cultural and Natural Resources:</u>			
Parks and Recreation Trust Fund			13,675
<u>N.C. General Assembly:</u>			
Golden LEAF Foundation			100,000
<u>N.C. Department of Commerce:</u>			
N.C. Economic Infrastructure Program Supplemental Grant		2012-254-4041-107	585,495
Total assistance - State programs			\$ 776,535

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

1. The accompanying schedule of expenditures of Federal and State awards (SEFSA) includes the Federal and State grant activity of the Town of Blowing Rock under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Blowing Rock, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Blowing Rock.
2. Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. The Town of Blowing Rock has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.