

TOWN OF BLOWING ROCK, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2017

TOWN COUNCIL MEMBERS

Doug Matheson

Ray Pickett

Jim Steele

Sue Sweeting

J.B. Lawrence, Mayor

Albert Yount, Mayor Pro-Term

Ed Evans, Town Manager

Nicole Norman, Finance Officer

TOWN OF BLOWING ROCK, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To 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 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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Blowing Rock ABC Board and the Town of Blowing Rock Tourism Development Authority, which represents 100 percent of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Town of Blowing Rock ABC Board and the Town of Blowing Rock Tourism Development Authority is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Town of Blowing Rock ABC Board and the Town of Blowing Rock Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Blowing Rock, North Carolina, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

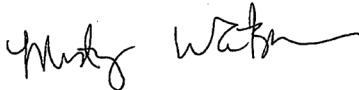
Supplementary Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Blowing Rock's basic financial statements. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures as described above, the combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2017, on our consideration of the 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 grant agreements, and other matters. The purpose of that 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 the Town of Blowing Rock's internal control over financial reporting and compliance.



Misty D Watson, CPA, PA
Boone, North Carolina
September 13, 2017

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 of Blowing Rock for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

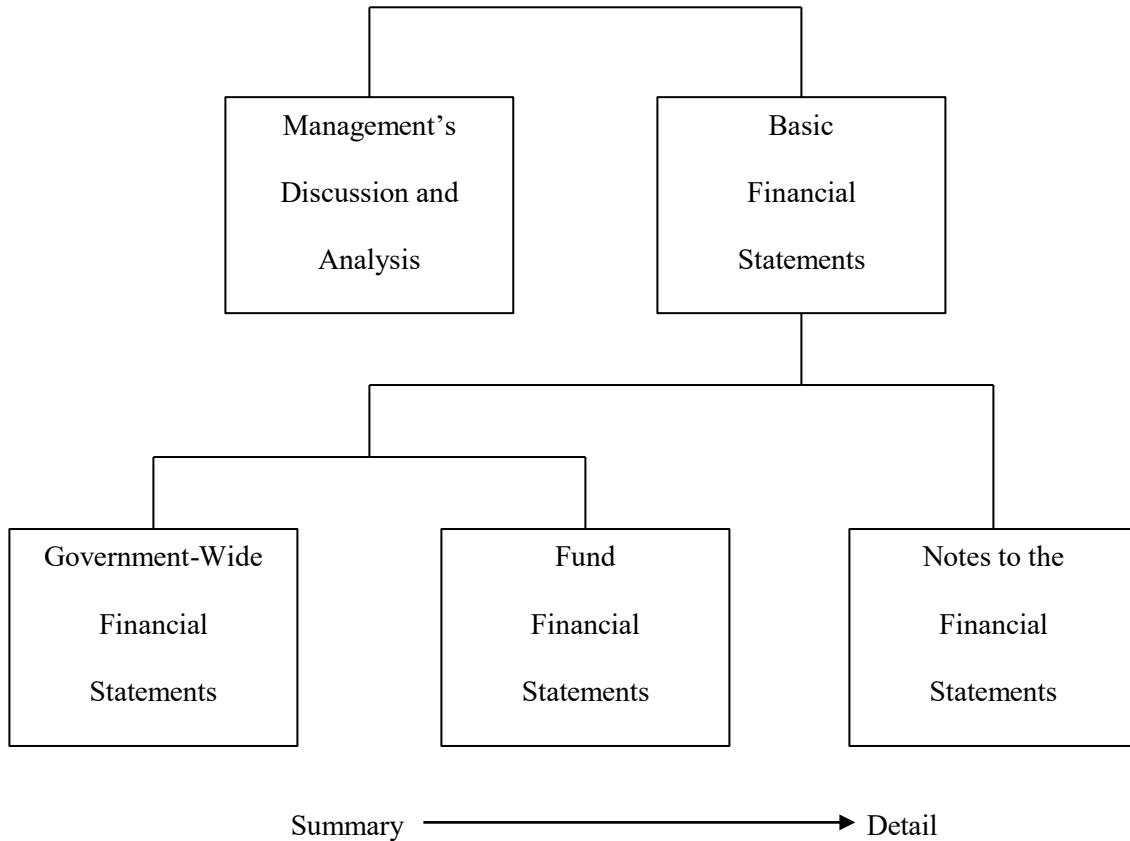
- The assets of the Town of Blowing Rock exceeded its liabilities at the close of the fiscal year by \$31,732,063 (*net position*).
- The government's total net position increased by \$831,849, primarily due to governmental fund related activities.
- As of the close of the current fiscal year, the Town of Blowing Rock's governmental funds reported combined ending fund balances of \$5,494,824, a decrease of \$1,891,528 in comparison with the prior year. Approximately 42% of this total amount, or \$2,796,459, is restricted. The combined fund balance decrease of \$1,891,528 consists of a decrease in the General Capital Projects Fund of \$2,389,377 due to the expenditure of General Obligation Bonds proceeds recognized in the fiscal year 2016-2017, offset by an increase in the General Fund balance of \$497,903 and a \$54 decrease in the Appearance Advisory Commission Fund (BRAAC).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,139,885, or 47%, of total General Fund expenditures and transfers out for the fiscal year.
- The Town of Blowing Rock earned a AA+ long-term debt 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 is intended to serve as an introduction to the 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 A and B) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short- and long-term information about the Town's financial status.

The next statements (Exhibits C through I) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short- and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net positions is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and Federal and State grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Blowing Rock. The final category is the component unit. Although legally separate from the Town, the TDA is important to the Town because the Town exercises control over the Authority by appointing its members.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Blowing Rock, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Blowing Rock can be divided into two categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed, short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Blowing Rock adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds. The Town of Blowing Rock has one proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Blowing Rock uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

Other Information. Combining and individual fund statements and schedules can be found beginning on page 53 of this report. Required supplementary information can be found beginning on page 49.

**Government-Wide Financial Analysis
Town of B**

Blowing Rock's Net Position Figure

2

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	6,564,470	\$8,155,663	\$3,352,226	\$3,617,688	\$9,916,696	\$11,773,351
Capital assets	20,360,042	18,047,338	13,868,951	14,059,952	34,228,993	32,107,290
Deferred outflows of resources	612,852	138,759	130,459	20,070	743,311	158,829
Total assets and deferred outflows of resources	27,537,364	26,341,760	17,351,636	17,697,710	44,889,000	44,039,470
Liabilities:						
Long-term liabilities outstanding	8,840,984	8,694,543	2,506,154	2,829,272	11,347,138	11,523,815
Other liabilities	1,170,458	689,054	580,190	616,934	1,750,648	1,305,988
Deferred inflows of resources	54,328	116,771	4,823	9,382	59,151	126,153
Total liabilities and deferred inflows of resources	10,065,770	9,500,368	3,091,167	3,455,588	13,156,937	12,955,956
Net Position:						
Net investment in capital assets	14,294,368	13,105,408	12,784,711	12,353,131	27,079,079	25,458,539
Restricted	2,796,459	937,177	-	-	2,796,459	937,177
Unrestricted	380,767	2,798,807	1,475,758	1,888,991	1,856,525	4,687,798
Total net position	17,471,594	16,841,392	14,260,469	14,242,122	31,732,063	31,083,514

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Blowing Rock exceeded liabilities by \$31,732,063 as of June 30, 2017. The Town's net position increased by \$831,849 for the fiscal year ended June 30, 2017. However, the largest portion (85%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment). The Town of Blowing Rock uses these 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 of Blowing Rock's net position, \$2,796,459, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,856,525 is unrestricted.

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

- In the current year, there was an increase in local options sales tax and water and sewer collections.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.15%.

Town of Blowing Rock Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$399,472	\$ 393,509	\$1,678,467	\$ 1,536,784	\$2,077,939	\$ 1,930,293
Operating grants and contributions	220,774	120,997	-	-	220,774	120,997
Capital grants and contributions	154,584	97,625	-	1,122,440	154,584	1,220,065
General Revenues:						
Property taxes	3,815,216	3,716,631	-	-	3,815,216	3,716,631
Other taxes	321,376	347,502	-	-	321,376	347,052
Investment earnings	20,307	-	8,122	-	28,429	
Grants and contributions not restricted to specific programs	2,145,710	2,046,556	-	-	2,145,710	2,046,556
Sale of capital assets	11,662	-	-	-	11,662	
Other	223,532	345,950	-	3,569	223,532	349,519
Total revenues	7,312,633	7,068,770	1,686,589	2,662,793	8,999,222	9,731,563
Expenses:						
General government	1,729,126	1,504,714	-	-	1,729,126	1,504,714
Public Safety	2,270,204	2,114,178	-	-	2,270,204	2,114,178
Transportation	1,212,456	978,537	-	-	1,212,456	978,537
Environmental protection	410,232	377,848	-	-	410,232	377,848
Cultural and recreation	558,949	567,405	-	-	558,949	567,405
Interest on long-term debt	243,164	204,186	-	-	243,164	204,186
Water and sewer	-	-	1,743,242	1,613,461	1,743,242	1,613,461
Total expenses	6,424,131	5,746,868	1,743,242	1,613,461	8,167,373	7,360,329
Increase (decrease) in net position before transfers	888,502	1,321,902	(56,653)	1,049,332	831,849	2,371,234
Transfers	(75,000)	(175,834)	75,000	175,834	-	-
Increase in net position	813,502	1,146,068	18,347	1,225,166	831,849	2,371,234
Net position, restated	16,658,092	15,695,324	14,242,122	13,016,956	30,900,214	28,712,280
Net position, June 30	17,471,594	16,841,392	\$14,260,469	\$ 14,242,122	\$31,732,063	\$ 31,083,514

Governmental Activities. Governmental activities increased the Town’s net position by \$813,502. Key elements of this increase are as follows:

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

Business-Type Activities. Business-type activities increased the Town of Blowing Rock’s net position by

\$18,347. Key element of this increase are as follows:

- Increased collections from water and sewer charges.

Financial Analysis of the Town's Funds

As noted earlier, the Town of 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 of Blowing Rock's financing requirements. Specifically, available fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Blowing Rock. At the end of the current fiscal year, fund balance available in the General Fund was \$3,139,885 while total fund balance reached \$4,599,258.

At June 30, 2017, the governmental funds of the Town of Blowing Rock reported a combined fund balance of \$5,494,824, a 26% decrease over last year. Included in this change in fund balance is an increase in the General Fund of \$497,903, a decrease in the Capital Project Fund of \$2,389,377, and a decrease in other nonmajor funds of \$54.

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

Revenues exceeded budgeted amounts due to conservative estimates.

Capital Project Fund. Several budget amendments were required to comply with budgetary requirements to account for unexpected capital outlay expenditures.

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 \$1,475,758. The change in net position was an increase of \$18,347. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Blowing Rock's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Blowing Rock's capital assets for its governmental and business-type activities as of June 30, 2017, totals \$34,228,993 (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:

- | | |
|--|-----------|
| • Governmental buildings | \$71,644 |
| • Governmental equipment and furniture | \$17,396 |
| • Governmental vehicles | \$239,309 |
| • Governmental computers | \$57,409 |

- Governmental infrastructure \$3,129,193

The Town continues various ongoing capital projects.

The Town sold various equipment and vehicles during the year.

Town of Blowing Rock's Capital Assets

Figure 4

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Land	\$ 3,061,253	\$ 3,061,253	\$ 100,504	\$ 100,504	\$ 3,161,757	\$ 3,161,757
Construction in progress	1,447,392	2,036,195	461,820	1,869,645	1,909,212	3,905,840
Infrastructure	8,568,243	5,601,824	-	-	8,568,243	5,601,824
Buildings	6,268,630	6,355,274	-	-	6,268,630	6,355,274
Plant	-	-	12,964,873	11,697,420	12,964,873	11,697,420
Vehicles	522,636	460,703	-	-	522,636	460,703
Computers	116,635	97,979	-	-	116,635	97,979
Equipment and furniture	375,253	434,110	341,754	392,383	717,007	826,493
Net capital assets	\$ 20,360,042	\$ 18,047,338	\$ 13,868,951	\$ 14,059,952	\$ 34,228,993	\$ 32,107,290

Additional information on the Town's capital assets can be found in note 2 of the basic financial statements.

Long-Term Debt.

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

Figure 5

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$3,320,000	\$ 3,500,000	\$1,080,000	\$ 1,135,000	\$4,400,000	\$4,635,000
Compensated absences	148,191	137,606	33,727	33,561	181,918	171,167
Total pension liability	280,786	86,014	-	-	280,786	86,014
Net pension liability	698,290	152,688	154,464	31,275	852,754	183,963
Installment purchases	4,541,908	4,818,235	1,478,929	1,629,438	6,020,837	6,447,673
Total	\$ 8,989,175	\$8,694,543	\$ 2,747,120	\$2,829,274	\$11,736,295	\$11,523,817

The Town of Blowing Rock's total long-term liabilities decreased by \$661,836 during the past fiscal year, due to principal payments in the amount \$973,836 and the issuance of an installment note in the amount \$312,000.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Blowing Rock is \$79,216,295.

Additional information regarding the Town of Blowing Rock's long-term debt can be found in note 2 of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the stability and prosperity of the Town:

- Tourism continues to be a source of strength for the Town during the current year.
- Housing construction activity continues to grow steadily.

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities. Property tax revenues are expected to increase over prior year at thirty-seven cents per hundred dollars. State shared revenues are expected to increase slightly due to an improving State economy.

Budgeted expenditures in the General Fund are expected to increase approximately 18% due to increased staffing, partially offset by outside funding provided by Blowing Rock Fire and Rescue, as well as funding of the final phasing of the class and pay study and market adjustments to employee pay levels. A debt service reserve fund is also planned to help fund future increases in debt service associated with additional General Obligation Bond issuances.

Business-Type Activities. The water and sewer revenues in the Town are expected to increase in comparison with the prior year. This is mainly to fund a planned Automated Meter Infrastructure meter, reading technology improvement and build a reserve to help fund future increases in debt service associated with additional General Obligation Bond issuances.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Blowing Rock, 1036 Main Street, Blowing Rock, North Carolina 28605.

Town of Blowing Rock, North Carolina
Statement of Net Position
June 30, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Town of Blowing Rock Board of Alcoholic Beverage Control	Town of Blowing Rock Tourism Development Authority
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 3,686,268	\$ 1,247,856	\$ 4,934,124	\$ 241,643	\$ 847,175
Taxes receivable, net	58,758	-	58,758	-	19,164
Accrued interest receivable on taxes	8,245	-	8,245	-	-
Accounts receivable, net	121,524	326,629	448,153	-	-
Due from other funds		17,833	17,833	-	-
Due from other governments	882,225	192	882,417	-	-
Inventories	2,700	88,894	91,594	236,898	-
Prepaid expenses	12,040	-	12,040	4,570	-
Restricted cash and cash equivalents	1,792,710	1,670,822	3,463,532	144,591	-
Total current assets	<u>6,564,470</u>	<u>3,352,226</u>	<u>9,916,696</u>	<u>627,702</u>	<u>866,339</u>
Non-current assets:					
Capital assets (Note 4):					
Land, non-depreciable improvements, and construction in progress	4,508,645	562,324	5,070,969	-	-
Other capital assets, net of depreciation	15,851,397	13,306,627	29,158,024	220,735	83,672
Total capital assets	<u>20,360,042</u>	<u>13,868,951</u>	<u>34,228,993</u>	<u>220,735</u>	<u>83,672</u>
Total assets	<u>26,924,512</u>	<u>17,221,177</u>	<u>44,145,689</u>	<u>848,437</u>	<u>950,011</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charges on bond issuance	3,524	1,201	4,725	-	-
Pension deferrals	609,328	129,258	738,586	23,793	39,351
Total deferred outflows of resources	<u>612,852</u>	<u>130,459</u>	<u>743,311</u>	<u>23,793</u>	<u>39,351</u>
LIABILITIES					
Current liabilities:					
Accounts payable	981,979	122,632	1,104,611	142,858	204,781
Accrued interest payable	22,455	7,007	29,462	-	-
Due to other governments	17,833	-	17,833	-	-
Unearned revenue	-	12,253	12,253	-	-
Compensated absences	148,191	33,727	181,918	1,518	-
Current portion of long-term liabilities	833,913	207,237	1,041,150	-	-
Payable from restricted assets	-	197,334	197,334	-	-
Total current liabilities	<u>2,004,371</u>	<u>580,190</u>	<u>2,584,561</u>	<u>144,376</u>	<u>204,781</u>
Long-term liabilities:					
Net pension liability	698,290	154,464	852,754	25,680	46,055
Net OPEB obligation	-	-	-	16,520	-
Total pension liability	280,786	-	280,786	-	-
Due in more than one year	7,027,995	2,351,690	9,379,685	-	10,458
Total liabilities	<u>10,011,442</u>	<u>3,086,344</u>	<u>13,097,786</u>	<u>186,576</u>	<u>261,294</u>
DEFERRED INFLOWS OF RESOURCES					
Prepaid taxes	2,731	-	2,731	-	-
Pension deferrals	51,597	4,823	56,420	900	4,178
Total deferred inflows of resources	<u>54,328</u>	<u>4,823</u>	<u>59,151</u>	<u>900</u>	<u>4,178</u>
NET POSITION					
Net investment in capital assets	14,294,368	12,784,711	27,079,079	220,735	83,672
Restricted for:					
Capital projects	1,792,710	-	1,792,710	144,591	-
Working capital	-	-	-	48,725	-
Stabilization by State Statute	1,003,749	-	1,003,749	-	19,164
Unrestricted	380,767	1,475,758	1,856,525	270,703	621,054
Total net position	<u>\$ 17,471,594</u>	<u>\$ 14,260,469</u>	<u>\$ 31,732,063</u>	<u>\$ 684,754</u>	<u>\$ 723,890</u>

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

**Town of Blowing Rock, North Carolina
Statement of Activities
June 30, 2017**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Town of Blowing Rock Board of Alcoholic Beverage Control	Town of Blowing Rock Tourism Development Authority
Primary government:									
Governmental Activities:									
General government	\$ 1,729,126	\$ 104,549	\$ 5,762	\$ 124,584	\$ (1,494,231)	\$ -	\$ (1,494,231)	\$ -	\$ -
Public safety	2,270,204	-	107,177	-	(2,163,027)	-	(2,163,027)	-	-
Transportation	1,212,456	-	76,589	-	(1,135,867)	-	(1,135,867)	-	-
Environmental protection	410,232	140,325	206	-	(269,701)	-	(269,701)	-	-
Cultural and recreation	558,949	154,598	31,040	30,000	(343,311)	-	(343,311)	-	-
Interest on long-term debt	243,164	-	-	-	(243,164)	-	(243,164)	-	-
Total governmental activities (See Note 1)	6,424,131	399,472	220,774	154,584	(5,649,301)	-	(5,649,301)	-	-
Business-type activities:									
Water and sewer	1,743,242	1,678,467	-	-	-	\$ (64,775)	(64,775)	-	-
Total business-type activities	1,743,242	1,678,467	-	-	-	(64,775)	(64,775)	-	-
Total primary government	\$ 8,167,373	\$ 2,077,939	\$ 220,774	\$ 154,584	(5,649,301)	(64,775)	(5,714,076)	-	-
Component units:									
Town of Blowing Rock Board of Alcoholic Beverage Control	\$ 1,624,496	\$ 1,674,055	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,559	\$ -
Town of Blowing Rock Tourism Development Authority	824,044	-	-	-	-	-	-	-	(824,044)
Total component unit	\$ 824,044	-	-	-	-	-	-	49,559	(824,044)
General revenues:									
Taxes:									
Property taxes, levied for general purpose					3,815,216	-	3,815,216	-	-
Other taxes					321,376	-	321,376	-	976,694
Grants and contributions not restricted to specific programs					2,145,710	-	2,145,710	-	-
Unrestricted investment earnings					20,307	8,122	28,429	419	449
Gain on sale of capital assets					11,662	-	11,662	-	-
Miscellaneous					223,532	-	223,532	710	301
Total general revenues not including transfers					6,537,803	8,122	6,545,925	1,129	977,444
Transfers					(75,000)	75,000	-	-	-
Total general revenues and transfers					6,462,803	83,122	6,545,925	1,129	977,444
Change in net position					813,502	18,347	831,849	50,688	153,400
Net position, beginning, previously stated					16,841,392	14,242,122	31,083,514	634,066	570,490
Restatement					(183,300)	-	(183,300)	-	-
Net position, beginning, restated					16,658,092	14,242,122	30,900,214	634,066	570,490
Net position, ending	\$ 17,471,594	\$ 14,260,469	\$ 31,732,063	\$ 684,754	\$ 723,890	-	-	-	-

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

Town of Blowing Rock, North Carolina
Balance Sheet
Governmental Funds
June 30, 2017

	<u>Major Funds</u>			Total Governmental Funds
	General	Capital Project Fund	Total Non-Major Funds	
ASSETS				
Cash and cash equivalents	\$ 3,669,180	\$ -	\$ 17,088	\$ 3,686,268
Receivables, net:				
Taxes	58,758	-	-	58,758
Accounts	121,524	-	-	121,524
Due from other governments	882,225	-	-	882,225
Inventory	2,700	-	-	2,700
Prepaid expenses	12,040	-	-	12,040
Restricted cash	440,884	1,351,826	-	1,792,710
Total assets	<u>5,187,311</u>	<u>1,351,826</u>	<u>17,088</u>	<u>6,556,225</u>
LIABILITIES				
Accounts payable and accrued liabilities	526,564	454,204	1,311	982,079
Due to other funds	-	17,833	-	17,833
Total liabilities	<u>526,564</u>	<u>472,037</u>	<u>1,311</u>	<u>999,912</u>
DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	2,731	-	-	2,731
Property taxes receivable	58,758	-	-	58,758
Total deferred inflows of resources	<u>61,489</u>	<u>-</u>	<u>-</u>	<u>61,489</u>
FUND BALANCES				
Restricted				
Stabilization by State Statute	1,003,749	-	-	1,003,749
Capital projects	440,884	1,351,826	-	1,792,710
Nonspendable				
Inventory	2,700	-	-	2,700
Prepaid expenses	12,040	-	-	12,040
Assigned				
Capital projects	-	(472,037)	-	(472,037)
Unassigned	3,139,885	-	15,777	3,155,662
Total fund balances	<u>4,599,258</u>	<u>879,789</u>	<u>15,777</u>	<u>5,494,824</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,187,311</u>	<u>\$ 1,351,826</u>	<u>\$ 17,088</u>	

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

Total Fund Balance, Governmental Funds	\$ 3,524
Charges related to advance refunding bond issue.	\$ 3,524
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	\$ 27,883,048
Accumulated depreciation	<u>(7,523,006)</u>
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds	8,245
Deferred outflows of resources related to pensions are not reported in the funds	609,328
Deferred inflows of resources related to pensions are not reported in the funds	(51,597)
Earned revenues considered deferred inflows of resources in fund statements.	58,758
Net pension liability	(698,290)
Total pension liability	(280,786)
Compensated absences	(148,191)
Gross long-term debt	(7,884,263)
Net position of governmental activities	<u>\$ 17,471,594</u>

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

Town of Blowing Rock, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2017

	Major Funds			Total Governmental Funds
	General Fund	Capital Project Fund	Total Non-Major Funds	
REVENUES				
Ad valorem taxes	\$ 3,826,740	\$ -	\$ -	\$ 3,826,740
Other taxes and licenses	321,376	-	-	321,376
Unrestricted intergovernmental	2,145,710	-	-	2,145,710
Restricted intergovernmental	92,031	154,584	-	246,615
Permits and fees	94,109	-	-	94,109
Sales and services	251,003	-	-	251,003
Investment earnings	8,643	11,664	-	20,307
Miscellaneous	375,308	287	31,040	406,635
Total revenues	<u>7,114,920</u>	<u>166,535</u>	<u>31,040</u>	<u>7,312,495</u>
EXPENDITURES				
Current:				
General government	1,639,239	349,763	-	1,989,002
Public safety	2,051,212	-	-	2,051,212
Transportation	952,995	2,337,265	-	3,290,260
Environmental protection	354,203	-	-	354,203
Culture and recreation	674,876	61,481	21,194	757,551
Debt service:				
Principal	768,327	-	-	768,327
Interest and other charges	242,130	-	-	242,130
Total expenditures	<u>6,682,982</u>	<u>2,748,509</u>	<u>21,194</u>	<u>9,452,685</u>
Excess (deficiency) of revenues over expenditures	<u>431,938</u>	<u>(2,581,974)</u>	<u>9,846</u>	<u>(2,140,190)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	66,900	192,597	-	259,497
Transfers to other funds	(324,597)	-	(9,900)	(334,497)
Installments purchase obligations	312,000	-	-	312,000
Sales of capital assets	11,662	-	-	11,662
Total other financing sources (uses)	<u>65,965</u>	<u>192,597</u>	<u>(9,900)</u>	<u>248,662</u>
Net change in fund balance	<u>497,903</u>	<u>(2,389,377)</u>	<u>(54)</u>	<u>(1,891,528)</u>
Fund balances, beginning	4,101,355	3,269,166	15,831	7,386,352
Fund balances, ending	<u>\$ 4,599,258</u>	<u>\$ 879,789</u>	<u>\$ 15,777</u>	<u>\$ 5,494,824</u>

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

Town of Blowing Rock, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2017

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

Net changes in fund balances - total governmental funds	\$	(1,891,528)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p>		
Capital outlay expenditures which were capitalized	\$ 2,926,148	
Depreciation expense for governmental assets	(613,444)	2,312,704
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		179,484
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		11,773
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		(11,524)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Increase in accrued interest payable	(1,034)	
New long-term debt issued	(312,000)	
Principal payments on long-term debt	768,327	455,293
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences	(10,585)	
Pension expense	(232,115)	(242,700)
Total changes in net position of governmental activities	\$	<u>813,502</u>

Town of Blowing Rock, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2017

	General Fund			Variance with
	Budget - Original	Budget - Final	Actual Amounts	Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 3,825,091	\$ 3,825,091	\$ 3,826,740	\$ 1,649
Other taxes and licenses	380,907	380,907	321,376	(59,531)
Unrestricted intergovernmental	2,026,384	2,041,384	2,145,710	104,326
Restricted intergovernmental	82,785	82,785	92,031	9,246
Permits and fees	73,000	73,000	94,109	21,109
Sales and services	195,570	195,570	251,003	55,433
Investment earnings	2,500	2,500	8,643	6,143
Miscellaneous	373,886	337,589	375,308	37,719
Total revenues	<u>6,960,123</u>	<u>6,938,826</u>	<u>7,114,920</u>	<u>176,094</u>
Expenditures:				
Current:				
General government	2,521,246	2,606,246	2,502,202	104,044
Public safety	2,282,544	2,174,861	2,078,816	96,045
Transportation	1,135,667	1,103,917	1,022,428	81,489
Environmental protection	393,937	408,937	389,022	19,915
Cultural and recreation	687,489	704,639	690,514	14,125
Total expenditures	<u>7,020,883</u>	<u>6,998,600</u>	<u>6,682,982</u>	<u>315,618</u>
Revenues over (under) expenditures	<u>(60,760)</u>	<u>(59,774)</u>	<u>431,938</u>	<u>491,712</u>
Other financing sources (uses):				
Transfer from other funds				
Capital Projects Fund	60,000	60,000	60,000	-
BRAAC	3,000	6,900	6,900	-
Transfer to other funds				
Capital Projects Fund	(247,597)	(249,597)	(249,597)	-
Water and Sewer Capital Projects Fund	(75,000)	(75,000)	(75,000)	-
Installments purchase obligations	305,357	265,971	312,000	(46,029)
Sales of capital assets	15,000	15,000	11,662	3,338
Total other financing sources (uses)	<u>60,760</u>	<u>23,274</u>	<u>65,965</u>	<u>(42,691)</u>
Fund balance appropriated	-	36,500	-	36,500
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>497,903</u>	<u>\$ 497,903</u>
Fund balances, beginning			4,101,355	
Fund balances, ending			<u>\$ 4,599,258</u>	

Town of Blowing Rock, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2017

	Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	1,247,856
Accounts receivable, net	326,629
Prepaid expenses	192
Due from other funds	17,833
Inventories	88,894
Restricted cash and cash equivalents	1,670,822
Total current assets	3,352,226
Noncurrent assets:	
Capital assets:	
Land and construction in progress	562,324
Other capital assets, net of depreciation	13,306,627
Capital assets	13,868,951
Total assets	\$ 17,221,177
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	\$ 129,258
Deferred charges on bond issuance	1,201
Total deferred outflows of resources	130,459
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	122,632
Current portion of long-term debt	207,237
Accrued interest	7,007
Unearned revenue	12,253
Compensated absences	33,727
Liabilities payable from restricted assets:	
Customer deposits	197,334
Total current liabilities	580,190
Noncurrent liabilities:	
Notes and bonds payable	2,351,690
Net pension liability	154,464
Total noncurrent liabilities	2,506,154
Total liabilities	3,086,344
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	4,823
NET POSITION	
Net investment in capital assets	12,784,711
Unrestricted	1,475,758
Total net position	\$ 14,260,469

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

Town of Blowing Rock, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2017

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 1,660,081
Water and sewer taps	11,457
Other operating revenues	6,929
Total operating revenues	1,678,467
OPERATING EXPENSES	
Administration	301,468
Water and Sewer Plant Operations	648,347
Water and Sewer Field Operations	307,020
Depreciation	438,012
Total operating expenses	1,694,847
Operating income (loss)	(16,380)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	8,122
Interest and other charges	(48,395)
Total nonoperating revenue (expenses)	(40,273)
Income (loss) before contributions and transfers	(56,653)
Transfer from other funds	75,000
Total income (loss) after contributions and transfers	18,347
Total net position, beginning	14,242,122
Total net position, ending	\$ 14,260,469

Town of Blowing Rock, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,465,388
Cash paid for goods and services	(903,617)
Cash paid to employees	(624,486)
Customer deposits received	-
Customer deposits returned	(7,948)
Net cash provided (used) by operating activities	929,337
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	75,000
Net cash provided (used) by noncapital financing activities	75,000
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(205,509)
Interest and other charges	(48,395)
Acquisition and construction of capital assets	(247,011)
Net cash provided (used) by capital and related financing activities	(500,915)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	8,122
Net cash provided (used) by investing activities	8,122
Net increase (decrease) in cash and cash equivalents	511,544
Balances, beginning	2,407,134
Balances, ending	\$ 2,918,678
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ (16,380)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	438,012
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable, net	20,022
(Increase) decrease in due from other governments	762,442
(Increase) decrease in prepaid expenses	(192)
(Increase) decrease in inventories	(5,248)
(Increase) decrease in deferred outflows of resources for pensions	(110,409)
Increase in net pension liability	123,191
Increase (decrease) in accounts payable and accrued liabilities	(274,235)
Increase (decrease) in unearned revenue	4,475
Increase (decrease) in customer deposits	166
Increase (decrease) in compensated absences	(7,948)
Increase (decrease) in deferred inflows of resources for pensions	(4,559)
Total adjustments	945,717
Net cash provided by operating activities	\$ 929,337

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

TOWN OF BLOWING ROCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Blowing Rock, North Carolina, (the Town) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Mayor and a five-member Council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Blowing Rock ABC Board

The members of the ABC's governing board are appointed by the Town. 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 the Town of Blowing Rock ABC Board, 7960 Valley Boulevard, Blowing Rock North Carolina 28605.

Town of Blowing Rock Tourism Development Authority (TDA)

The members of the TDA's governing board are appointed by the Town. The TDA Board, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). Complete financial statements for the TDA Board may be obtained from the entity's administrative offices at the Town of Blowing Rock TDA, P.O. Box 47, Blowing Rock North Carolina 28605.

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and

TOWN OF BLOWING ROCK, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities, such as investment earnings.

The Town maintains the following major governmental funds:

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

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

The Town maintains the following nonmajor governmental funds:

Blowing Rock Appearance Advisory Commission (BRAAC). This 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. Enterprise funds account for those operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that the periodical determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water and Sewer Fund is the only enterprise fund of the Town.

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

TOWN OF BLOWING ROCK, NORTH CAROLINA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017

measurement focus. The government-wide proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. As of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2014, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax collected and held by the State at year-end on behalf of the Town, are recognized as revenue.

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Water and Sewer Fund. All annual 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. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Deposits and Investments

All deposits of the Town, the ABC Board and the TDA are made in board-designated official depositories and are secured as required by State statutes. The Town, the ABC Board and the TDA 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 TDA may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town, the ABC Board and the TDA to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT).

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

TOWN OF BLOWING ROCK, NORTH CAROLINA
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Cash and Cash Equivalents

The Town pools monies from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board and the TDA consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Cash

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 bonds were originally issued.

Restricted cash at June 30, 2017, consist of the following:

Governmental Activities:

General Fund - unexpended debt proceeds	\$	128,860
General Fund – unexpended project funds		312,024
General Capital Projects Fund - unexpended debt proceeds		<u>1,351,826</u>
Total governmental activities	\$	<u>1,792,710</u>

Business-Type Activities:

Water and Sewer Fund - customer deposits	\$	197,334
Water and Sewer Fund - unexpended debt proceeds		<u>1,473,488</u>
Total Business-Type Activities	\$	<u>1,670,822</u>
Total restricted cash	\$	<u>3,463,532</u>

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2016.

Allowances for Doubtful Accounts

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

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Inventory and Prepaid Items

The inventories of the Town, ABC Board and the TDA are valued at cost (first-in, first-out), which approximates market.

The inventories of the Town’s General Fund consist of expendable supplies that are recorded as expenditures as used rather than purchased.

The inventories of the Town’s enterprise funds and the ABC Board consist of materials and supplies held for subsequent use and merchandise held for resale. The costs of these inventories are expensed when consumed rather than when purchased. The cost of merchandise held for resale is expensed when sold rather than when purchased.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost greater than \$5,000 and an estimated useful life greater than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or significantly extend the asset’s life are not capitalized.

The Town capitalizes interest costs which are incurred during the construction period of capital assets.

In conjunction with implementing GASB 34, “The New Reporting Model”, the Town began capitalizing public domain (“infrastructure”) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town’s capitalization threshold of \$5,000 will be reported as capital assets in the Statement of Net Position. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General governmental infrastructure assets acquired prior to July 1, 2003, were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Position only include assets purchased after July 1, 2003.

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

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

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Vehicles	5 years
Computer equipment	5 years

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

<u>Assets</u>	<u>Estimated Useful Lives</u>
Computer equipment	5 years
Buildings and improvements	20-25 years
Furniture and equipment	5-10 years

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

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

Compensated Absences

The vacation policies of the Town provide for accumulation of thirty days earned vacation leave with such leave being fully vested when earned. 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 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 of an unlimited accumulation of sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion, pension related deferrals and bond issuance costs.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to future period and so will not be recognized as revenues until then. The Town has three items that meets this criterion – property taxes receivable, prepaid taxes and pension related deferrals.

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NOTES TO THE FINANCIAL STATEMENTS
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Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or the proprietary fund type Statement of Net Position. 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 the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through State statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid expenses - portion of fund balance that is not an available resource because it represents prepaid items, which are not spendable resources.

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

Stabilization by State Statute - portion of fund balance that is not an available resource for appropriation in accordance with State law [G.S. 159-8(a)].

Restricted for Capital Projects - portion of fund balance that has been restricted by the Board for future expenditures within the Capital Project Fund.

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

Assigned Fund Balance: Assigned fund balance is the portion of fund balance that the Town of Blowing Rock has budgeted for specific purposes.

Assigned for Capital Projects - portion of fund balance that has been budgeted by the Board for future expenditures within the Capital Project Fund.

Unassigned Fund Balance: Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes or other funds.

The Town of Blowing Rock has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, Federal funds, State funds, local non-Town funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

The Town 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.

Interfund Transactions

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

Use of Estimates

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

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Pensions

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

2. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town, the ABC Board and TDA are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Town's or TDA's agents in the units' name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, the ABC Board and TDA, these deposits are considered to be held by the Town's and TDA's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board and TDA or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town, the ABC Board and TDA under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town, the ABC Board and TDA has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town, the ABC Board and TDA complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the Town's deposits had a carrying amount of \$3,614,173 and a bank balance of \$3,786,756. Of the bank balance, \$1,000,000 was covered by FDIC and the remainder was covered by collateral under the pooling method. The carrying amount of deposits for the ABC Board was \$377,678 and the bank balance was \$403,870. \$385,942 of the bank balance was covered by federal depository insurance and the remainder under the pooling method. The carrying amount of deposits for the Authority was \$822,175 and the bank balance was \$833,020. 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, 2017, the Town's petty cash fund totaled \$500.

TOWN OF BLOWING ROCK, NORTH CAROLINA
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2. Investments

Investment Type	Valuation Measurement Method	Book Value at 6/30/17	Maturity	Rating
NC Capital Management Trust – Government Portfolio	Amortized Cost	\$ 4,270,243	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level 1	512,740	.09 years	Unrated
Total:		<u>\$ 4,782,983</u>		

At June 30, 2017, the TDA had \$25,000 invested with the North Carolina Capital Management Trust’s Government Portfolio which carried a credit rating of AAAm with Standard and Poor’s. The ABC Board had \$8,556 invested with the NC Capital Management Trust – Term Portfolio, which is valued at a Fair Value Level 1 with a maturity of .09 years. The Town, the ABC Board and the Authority have no policy regarding credit risk.

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

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

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk. The Town does not have a formal investment policy. However, the Town’s internal management policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town’s investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town’s investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor’s as of June 30, 2017. The Town’s investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Receivables – Allowances for Doubtful Accounts:

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts:

Governmental Activities:	
Taxes receivable	\$ 58,758
Accounts receivable	121,524
Due from other governments	<u>882,225</u>
Total Governmental Funds	<u>\$ 1,062,507</u>

TOWN OF BLOWING ROCK, NORTH CAROLINA
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Enterprise Funds:

Accounts receivable	326,629
Due from other governments	192
Total Enterprise Funds	326,821
Total	\$ 1,389,328

Capital Assets

Governmental Capital Assets

The capital assets of the government fund of the Town at June 30, 2017, were 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	2,036,195	3,748,509	4,337,312	1,447,392
Total capital assets not being depreciated	5,097,448	3,748,509	4,337,312	4,508,645
Capital assets being depreciated:				
Buildings	7,902,638	71,644	-	7,974,282
Equipment and furniture	3,278,483	17,396	24,687	3,271,192
Vehicles	2,137,214	239,309	38,142	2,338,381
Computers	290,622	57,409	-	348,031
Infrastructure	6,313,324	3,129,193	-	9,442,517
Total capital assets being depreciated	19,922,281	3,514,951	62,829	23,374,403
Less accumulated depreciation for:				
Buildings	1,547,364	158,288	-	1,705,652
Equipment and furniture	2,844,373	76,253	24,687	2,895,939
Vehicles	1,676,511	177,376	38,142	1,815,745
Computers	192,643	38,753	-	231,396
Infrastructure	711,500	162,774	-	874,274
Total accumulated depreciation	6,972,391	613,444	62,829	7,523,006
Total capital assets being depreciated, net	12,949,890			15,851,397
Governmental activity capital assets, net	\$18,047,338			\$20,360,042

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

Governmental Activities:	
General government	\$ 83,953
Public safety	215,408
Transportation	192,280
Environmental protection	54,400
Cultural and recreation	<u>67,403</u>
Total	<u><u>\$ 613,444</u></u>

Proprietary Capital Assets

The capital assets of the proprietary fund of the Town at June 30, 2017, were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 100,504	\$ -	\$ -	\$ 100,504
Construction in progress	1,869,645	240,549	1,648,374	461,820
Total capital assets not being depreciated	<u>1,970,149</u>	<u>240,549</u>	<u>1,648,374</u>	<u>562,324</u>
Capital assets being depreciated:				
Plant	19,204,342	1,628,618	-	20,832,960
Equipment	1,440,004	26,217	-	1,466,222
Total capital assets being depreciated	<u>20,644,346</u>	<u>1,654,835</u>	<u>-</u>	<u>22,299,182</u>
Less accumulated depreciation for:				
Plant	7,506,922	361,165	-	7,868,087
Equipment	1,047,621	76,847	-	1,124,468
Total accumulated depreciation	<u>8,554,543</u>	<u>438,012</u>	<u>-</u>	<u>8,992,555</u>
Total capital assets being depreciated, net	<u>12,089,803</u>			<u>13,306,627</u>
Water and Sewer fund capital assets, net	<u><u>\$ 14,059,952</u></u>			<u><u>\$13,868,951</u></u>

TOWN OF BLOWING ROCK, NORTH CAROLINA
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Discretely Presented Component Units

Activity for the ABC Board for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 96,275	-	-	\$ 96,275
Total capital assets not being depreciated	<u>96,275</u>	<u>-</u>	<u>-</u>	<u>96,275</u>
Capital assets being depreciated:				
Building and improvements	317,923	-	-	317,923
Furniture and equipment	61,218	-	-	61,218
Computer equipment	55,668	-	-	55,668
Total capital assets being depreciated	<u>434,809</u>	<u>-</u>	<u>-</u>	<u>434,809</u>
Less accumulated depreciation for:				
Building and improvements	193,671	10,076	-	203,747
Furniture and equipment	54,619	1,914	-	56,533
Computer and furniture	43,078	6,991	-	50,069
Total accumulated depreciation	<u>291,368</u>	<u>18,981</u>	<u>-</u>	<u>310,349</u>
Total capital assets being depreciated, net	<u>143,441</u>			<u>124,460</u>
Governmental activity capital assets, net	<u>\$ 239,716</u>			<u>\$ 220,735</u>

Activity for the TDA for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets being depreciated:				
Equipment and furniture	\$ 15,702	88,557	-	\$ 104,259
Total capital assets being depreciated	<u>15,702</u>	<u>88,557</u>	<u>-</u>	<u>104,259</u>
Less accumulated depreciation for:				
Equipment and furniture	15,702	4,885	-	20,587
Total accumulated depreciation	<u>15,702</u>	<u>4,885</u>	<u>-</u>	<u>20,587</u>
Total capital assets being depreciated, net	<u>-</u>			<u>83,672</u>
Governmental activity capital assets, net	<u>\$ -</u>			<u>\$ 83,672</u>

TOWN OF BLOWING ROCK, NORTH CAROLINA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017

B. Liabilities

Pension Plan and Postemployment Obligations

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

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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, 2017, was 8.0% of compensation for law enforcement officers and 7.25% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Blowing Rock were \$179,484 for the year ended June 30, 2017.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2017, the Town reported a liability of \$852,754 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.04018%, which was a decrease of 0.00081% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$222,522. At June 30, 2017, 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	\$ 16,022	\$ 29,881
Changes of assumptions	58,406	-
Net difference between projected and actual earnings on pension plan investments	471,466	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	1,435	21,691
Town contributions subsequent to the measurement date	179,484	-
Total	<u>\$ 726,813</u>	<u>\$ 51,572</u>

\$179,484 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of

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resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$	72,931
2017		72,988
2018		218,031
2019		131,807
2020		-
Thereafter		-

Actuarial Assumptions. The total pension liability in the December 31, 2015 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 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 liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability 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>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 2,023,984	\$ 852,754	\$ (125,544)

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.

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Law Enforcement Officers’ Special Separation Allowance

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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance’s membership consisted of:

Inactive members	1
Active members	<u>10</u>
Total	<u>11</u>

Summary of Significant Accounting Policies.

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

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

Actuarial Assumptions. The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016.

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

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

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Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$11,604 as benefits came due for the reporting period.

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

At June 30, 2017, the Town reported a total pension liability of \$280,786. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$20,097.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	4,848
Town benefit payments and plan administrative expense made subsequent to the measurement date	11,773	-
Total	\$ 11,773	\$ 4,848

\$11,773 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$	940
2019		940
2020		940
2021		910
2022		940
Thereafter		148

\$11,604 paid as benefits came due and \$169 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

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	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total Pension Liability	301,338	280,786	261,872

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance**

	2017
Beginning balance	\$ 277,310
Service Cost	11,175
Interest on the total pension liability	9,693
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(5,788)
Benefit payments	(11,604)
Other changes	-
Ending balance of the total pension liability	\$ 280,786

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (the “Plan”), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute an amount equal to four percent of each general employee and five percent and five percent of each officer’s salary, and all amounts are vested immediately. Also, employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 for general employees and law enforcement officers, respectively, were \$121,141 and \$25,613, which consisted of

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\$98,255 from the Town and \$22,886 from general employees and \$21,835 from the Town and \$3,778 from the law enforcement officers.

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 5.6% 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, 2017, 2016, and 2015 were \$141,043, \$122,556, and \$112,776 respectively and fund the Town's portion of OPEB liability for each year. Currently eight retirees are receiving post-employment health benefits.

Deferred Inflows and Outflows of Resources

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

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Contributions to pension plan in current fiscal year	\$ 179,484
Benefit payments made and administrative expenses for LEOSSA	11,773
Differences between expected and actual experience	16,022
Changes of assumptions	58,406
Net difference between projected and actual earnings on pension plan investments	471,466
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,435
Deferred charges on bond issuance	4,725
Total	<u>\$ 743,311</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	-	58,758
Prepaid taxes	2,731	2,731
Changes in assumptions	4,848	-
Differences between expected and actual experience	29,881	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	21,691	-
Total	<u>\$ 59,151</u>	<u>\$ 61,489</u>

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 pools administered by the North Carolina League of Municipalities for workers 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. own purchases employee health insurance from a private insurance company. The health insurance plan is fully insured by the private carrier.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town does not carry flood insurance.

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In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time of the Town's funds are performance bonded through a commercial surety bond with a \$5,000 coverage limit per incident. The Finance Officer and Tax Collector are each individually bonded for \$100,000 each.

Claims, Judgments, and Contingent Liabilities

At June 30, 2017, the Town has no pending lawsuits.

Long-Term Obligations

The long-term obligations of the Town are as follows:

Governmental Activities:

4.35% note for \$775,000, issued January 2003; payable in quarterly installments of \$12,917, including interest; beginning January 17, 2003 with final payment due 2018	\$ 38,750
4.22% note for \$4,700,000, issued October 2006; payable in annual installments of \$235,000, including interest; beginning October 2006 with final payment due 2026	2,115,000
1.46% note for \$401,001, issued December 2014; payable in annual installments of \$98,651, including interest; beginning December 2014 with final payment due 2019	203,025
2.445% note for \$550,398, issued March 2012; payable in annual installments of \$27,519 beginning March 2012 with final payment due 2033	428,955
0% note for \$1,000,131, issued May 2010; payable in annual installments of \$37,824 beginning May 2010 with final payment due 2031	529,536
1.51% note for \$402,265, issued September 2015; payable in annual installments of \$104,529 beginning September 2015 with final payment due 2020	304,351
4.08% note for \$1,000,000; issued August 2009; payable in annual installments of \$76,923 beginning August 2009 with final payment due 2025	615,385
2.83% note for \$1,700,580, issued May 2015; payable in annual installments of \$113,372 beginning May 2015 with final payment due 2030	1,473,833
1.37% note for \$312,000, issued September 2016; payable in annual installments	

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of \$80,777 beginning November 2017 with final payment due in 2021; secured by various vehicles and equipment.

	312,000
Total installment purchases	6,020,835

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

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 653,913	\$ 155,952	\$ 152,237	\$ 23,218
2019	617,044	136,031	154,829	20,953
2020	546,251	117,361	125,970	18,525
2021	476,754	99,634	93,686	16,568
2022	396,952	83,193	93,686	15,092
2023-2027	1,595,902	187,183	464,885	52,557
2028-2032	255,087	12,633	370,372	17,319
2033-2037	-	-	23,262	656
Total	\$ 4,541,908	\$ 791,987	\$1,478,927	\$ 164,888

General Obligation Bonds:

2.0% bonds issued for \$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 \$3,320,000

2.0% bonds issued for \$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. 1,080,000
\$4,400,000

The future payments of the general obligation bonds are as follows:

Year Ending June 30	General		Water and Sewer	
	Principal	Interest	Principal	Interest
2018	\$ 180,000	70,002	55,000	22,810
2019	180,000	66,402	55,000	21,710
2020	180,000	62,802	55,000	20,610
2021	180,000	59,202	55,000	19,510
2022	180,000	55,602	55,000	18,410
2023-2027	890,000	224,111	285,000	75,450
2028-2032	875,000	135,836	300,000	45,990
2033-2037	655,000	39,074	220,000	12,929
Total	\$ 3,320,000	713,031	1,080,000	237,419

At June 30, 2017, the Town of Blowing Rock had a legal debt margin of \$79,216,295.

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	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 4,818,235	\$312,000	\$ 588,327	\$ 4,541,908	\$ 653,913
General obligation bonds	3,500,000	-	180,000	3,320,000	180,000
Net pension liability (LGERS)	152,688	545,602	-	698,290	-
Total pension liability (LEOSSA)	86,014	194,772	-	280,786	-
Compensated absences	137,606	44,616	34,031	148,191	148,191
Governmental activity long- term liabilities	\$ 8,694,543	\$1,096,990	\$ 802,358	\$ 8,989,175	\$ 982,104
Business-type activities:					
General obligation bonds	\$ 1,135,000	\$ -	\$ 55,000	\$ 1,080,000	\$ 55,000
Installment purchases	1,629,436	-	150,509	1,478,927	152,237
Net pension liability	31,275	123,189	-	154,464	-
Compensated absences	33,561	9,404	9,238	33,727	33,727
Water Sewer Fund long- term liabilities	\$ 2,829,272	\$ 132,593	\$ 214,747	\$ 2,747,118	\$ 240,964

Other post-employment benefits and compensated absences typically have been liquidated in the General Fund. Compensated absences are accounted for on a FIFO basis, assuming that the employees are taking leave time as it is earned.

3. Interfund Transactions

Transfers to/from Other Funds at June 30, 2017 consists of the following:

From the General Fund to the Water/Sewer Capital Project Fund in the amount \$75,000.

From the General Fund to the General Capital Project Fund in the amount \$189,597.

From the BRAAC Fund to the General Fund in the amount \$6,900.

From the BRAAC Fund to the General Capital Project Fund in the amount \$3,000.

Jointly Governed Organizations

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board.

TOWN OF BLOWING ROCK, NORTH CAROLINA
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Related Organization

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

3. Summary Disclosure of Significant Contingencies Federal and State-Assisted Programs

The Town has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

4. Fund Balance

Total fund balance - General Fund	\$ 4,599,258
Less:	
Nonspendable - Inventory	2,700
Nonspendable – Prepaid expenses	12,040
Restricted for capital projects	440,884
Stabilization by State Statute	1,003,749
Remaining fund balance	3,139,885

5. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$183,300.

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

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Blowing Rock's proportion of the net pension liability (asset) (%)	0.0402%	0.0401%	-0.0397%	0.0373%
Blowing Rock's proportion of the net pension liability (asset) (\$)	\$ 852,754	\$ 183,961	(233,953)	\$ 449,608
Blowing Rock's covered-employee payroll	\$ 2,235,534	\$ 2,056,654	1,851,048	\$ 1,930,820
Blowing Rock's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	38.15%	8.94%	(12.64%)	23.29%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	98.09%	102.64%	94.35%

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

Local Government Employees' Retirement System

	2017	2016	2015	2014
Contractually required contribution	\$ 179,484	\$ 151,742	\$ 149,590	\$ 131,628
Contributions in relation to the contractually required contribution	179,484	151,742	149,590	131,628
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Blowing Rock's covered-employee payroll	\$ 2,428,119	\$ 2,235,534	\$ 2,056,654	\$ 1,851,018
Contributions as a percentage of covered-employee payroll	7.39%	6.79%	7.27%	7.11%

**Town of Blowing Rock, North Carolina
 Schedule of Changes in Total Pension Liability
 Law Enforcement Officers' Special Separation Allowance
 June 30, 2017**

	2017
Beginning balance	\$ 277,310
Service Cost	11,175
Interest on the total pension liability	9,693
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(5,788)
Benefit payments	(11,604)
Other changes	-
Ending balance of the total pension liability	\$ 280,786

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

**Town of Blowing Rock, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
For the Year Ended June 30, 2017**

	<u>2017</u>
Total pension liability	\$ 280,786
Covered payroll	414,828
Total pension liability as a percentage of covered payroll	67.69%

Notes to the schedules:

Town of Blowing Rock has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 3,817,022	\$
Interest		9,718	
Total	<u>3,825,091</u>	<u>3,826,740</u>	<u>1,649</u>
Other taxes and licenses:			
Occupancy tax		321,376	
Total	<u>380,907</u>	<u>321,376</u>	<u>(59,531)</u>
Unrestricted intergovernmental:			
Local option sales taxes		1,659,114	
Utilities franchise tax		291,217	
Telecommunications tax		34,568	
Video programming tax		44,986	
Beer and wine tax		5,825	
ABC profit distribution		110,000	
Total	<u>2,041,384</u>	<u>2,145,710</u>	<u>104,326</u>
Restricted intergovernmental:			
Powell Bill allocation		76,589	
Snow removal		5,762	
Solid waste disposal tax		206	
ABC Revenue for law enforcement		9,474	
Total	<u>82,785</u>	<u>92,031</u>	<u>9,246</u>
Permits and fees:			
Building permits		94,109	
Total	<u>73,000</u>	<u>94,109</u>	<u>21,109</u>
Sales and services:			
Recreation department		154,598	
Recycling		86,538	
Parking fines		(573)	
Rental income	195,570	10,440	
Total	<u>195,570</u>	<u>251,003</u>	<u>55,433</u>
Investment earnings	2,500	8,643	6,143
Miscellaneous:			
Cemetery revenues		47,271	
Solid waste fees		54,360	
Zoning fees		13,333	
Fire department contribution		97,703	
Other		162,641	
	<u>337,589</u>	<u>375,308</u>	<u>37,719</u>
Total revenues	6,938,826	7,114,920	176,094
Expenditures:			
General government:			
Other operating expenditures		380,028	
Total		<u>380,028</u>	
Governing body:			
Salaries and employee benefits		44,974	
Operating expenditures		9,488	
Total		<u>54,462</u>	
Finance:			
Salaries and employee benefits		402,560	
Operating expenditures		717,068	
Total		<u>1,119,628</u>	

Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Public buildings:			
Operating expenditures		85,121	
Total		<u>85,121</u>	
Total general government	<u>1,743,283</u>	<u>1,639,239</u>	<u>104,044</u>
Public safety:			
Police:			
Salaries and employee benefits		713,194	
Operating expenditures		296,236	
Capital outlay		40,694	
Total		<u>1,050,124</u>	
Fire:			
Salaries and employee benefits		716,067	
Operating expenditures		47,871	
Total		<u>763,938</u>	
Inspections:			
Salaries and employee benefits		220,837	
Operating expenditures		16,313	
Total		<u>237,150</u>	
Total public safety	<u>2,147,257</u>	<u>2,051,212</u>	<u>96,045</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits		423,899	
Operating expenditures		357,062	
Capital outlay		172,034	
Total transportation	<u>1,034,484</u>	<u>952,995</u>	<u>81,489</u>
Environmental protection			
Solid waste:			
Salaries and employee benefits		193,035	
Operating expenditures		161,168	
Total environmental protection	<u>374,118</u>	<u>354,203</u>	<u>19,915</u>
Cultural and recreation:			
Parks and recreation:			
Salaries and employee benefits		411,526	
Other operating expenditures		209,328	
Capital outlay		54,022	
Total culture and recreation	<u>689,001</u>	<u>674,876</u>	<u>14,125</u>

Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

Debt service:			
Principal retirement		768,327	
Interest and other charges		242,130	
Total debt service	<u>1,010,457</u>	<u>1,010,457</u>	<u>-</u>
Total expenditures	6,998,600	6,682,982	315,618
Revenues over (under) expenditures	(59,774)	431,938	491,712
Other financing sources (uses):			
Transfer from other funds			
Capital Projects Fund	60,000	60,000	-
BRAAC	6,900	6,900	-
Transfer to other funds			
Water and Sewer Capital Projects Fund	(75,000)	(75,000)	-
Capital Projects Fund	(249,597)	(249,597)	-
Proceeds from long-term debt	265,971	312,000	46,029
Sale of capital assets	15,000	11,662	(3,338)
Total other finance sources (uses)	<u>\$ 23,274</u>	<u>65,965</u>	<u>\$ 42,691</u>
Fund balance appropriated	36,500	-	(36,500)
Net change in fund balance	<u>\$ -</u>	497,903	<u>\$ 497,903</u>
Fund balances, beginning		<u>4,101,355</u>	
Fund balances, ending		<u>\$ 4,599,258</u>	

Town of Blowing Rock, North Carolina
Capital Projects Fund- Various Projects
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	Project Authorization	Prior Year	Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Restricted intergovernmental:					
Contributions and grants	\$ 992,515	\$ 827,332	\$ 154,584	\$ 981,916	\$ (10,599)
Other revenues:					
Miscellaneous	111,225	16,599	287	16,886	(94,339)
Investment income	12,925	167,724	11,664	179,388	166,463
Total revenues	<u>1,116,665</u>	<u>1,011,655</u>	<u>166,535</u>	<u>1,178,190</u>	<u>61,525</u>
Expenditures					
Recreation projects:					
Capital outlay:					
Culture and recreation	391,068	184,642	61,481	246,123	144,945
Total	<u>391,068</u>	<u>184,642</u>	<u>61,481</u>	<u>246,123</u>	<u>144,945</u>
Streets and sidewalks projects:					
Capital outlay:					
Transportation	4,353,998	812,048	2,337,265	3,149,313	1,204,685
Total	<u>4,353,998</u>	<u>812,048</u>	<u>2,337,265</u>	<u>3,149,313</u>	<u>1,204,685</u>
Public works:					
Capital outlay:					
Public buildings and facilities	2,140,246	1,785,064	349,763	2,134,827	5,419
Total	<u>2,140,246</u>	<u>1,785,064</u>	<u>349,763</u>	<u>2,134,827</u>	<u>5,419</u>
Public safety projects:					
Capital outlay:					
Public safety	70,200	30,944	-	30,944	39,256
Total	<u>70,200</u>	<u>30,944</u>	<u>-</u>	<u>30,944</u>	<u>39,256</u>
Total expenditures	<u>6,955,512</u>	<u>2,812,698</u>	<u>2,748,509</u>	<u>5,561,207</u>	<u>1,394,305</u>
Revenues under expenditures	(5,838,847)	(1,801,043)	(2,581,974)	(4,383,017)	1,455,830
Other financing sources (uses):					
Operating transfers in:					
General Fund	2,252,360	1,568,973	189,597	1,758,570	(493,790)
BRAAC	8,000	5,000	3,000	8,000	-
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 (uses)	<u>5,838,847</u>	<u>5,070,209</u>	<u>192,597</u>	<u>5,262,806</u>	<u>(576,041)</u>
Revenue and other sources over expenditures	<u>\$ -</u>	3,269,166	(2,389,377)	879,789	879,789
Fund balances, beginning			3,269,166		
Fund balances, ending			<u>\$ 879,789</u>		

Town of Blowing Rock, North Carolina
Balance Sheet
Nonmajor Governmental Fund
For the Year Ended June 30, 2017

	Appearance Advisory Commission Fund	Total Nonmajor Governmental Funds
Assets	<hr/>	
Cash and cash equivalents	\$ 17,088	17,088
Total assets	<u>\$ 17,088</u>	<u>17,088</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,211	1,211
Fund balances:		
Unassigned	\$ 15,877	15,877
Total fund balances	<u>\$ 15,877</u>	<u>15,877</u>
Total liabilities and fund balances	<u>\$ 17,088</u>	<u>17,088</u>

Town of Blowing Rock, North Carolina
Special Revenue Fund - Appearance Advisory Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Fund
For the Year Ended June 30, 2017

Revenues:	Actual
Donations	\$ 27,185
Miscellaneous income	3,855
	<hr/>
Total revenues	31,040
	<hr/>
Expenditures:	
Cultural and recreational:	
Contracted services	8,530
Beautification	9,608
Miscellaneous	3,056
	<hr/>
Total expenditures	21,194
	<hr/>
Revenues over expenditures	9,846
Other Financing Sources (Uses):	
Transfers to General Fund	(6,900)
Transfer to Capital Project Fund	(3,000)
Total other financing sources (uses)	<hr/> (9,900) <hr/>
Appropriated fund balance	<hr/> - <hr/>
Revenue and other financing sources over expenditures and other financing sources	(54)
Fund balance, beginning	15,831
Fund balance, ending	<hr/> \$ 15,777 <hr/> <hr/>

Town of Blowing Rock, North Carolina
Special Revenue Fund - Appearance Advisory Commission
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Donations	\$ 25,800	27,185	1,385
Miscellaneous income	3,550	3,855	305
	<hr/>		
Total revenues	29,350	31,040	1,690
	<hr/>		
Expenditures:			
Cultural and recreational:			
Contracted services	8,836	8,530	306
Beautification	10,000	9,608	392
Miscellaneous	6,464	3,056	3,408
	<hr/>		
Total expenditures	25,300	21,194	4,106
	<hr/>		
Revenues over expenditures	4,050	9,846	5,796
	<hr/>		
Other Financing Sources (Uses):			
Transfers to General Fund	(6,900)	(6,900)	-
Transfer to Capital Project Fund	(3,000)	(3,000)	-
Total other financing sources (uses)	(9,900)	(9,900)	-
	<hr/>		
Appropriated fund balance	5,850	-	(5,850)
	<hr/>		
Revenue and other financing sources over expenditures and other financing sources	\$ -	(54)	(54)
	<hr/> <hr/>		
Fund balance, beginning		15,831	
Fund balance, ending		15,777	
	<hr/> <hr/>		

Town of Blowing Rock, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales:			
Residential		862,314	
Interconnect charges		13,458	
Impact fees		48,041	
Total	\$ 839,545	923,813	\$ 84,268
Sewer charges:			
Residential		683,768	
Sewer CIP surcharge		52,500	
Total	690,700	736,268	45,568
Water and sewer taps		11,457	11,457
Other operating revenues	40,124	6,647	(33,477)
Total operating revenues	1,570,369	1,678,185	107,816
Nonoperating revenues:			
Interest earnings	500	1,937	1,437
Total revenues	1,570,869	1,680,122	109,253
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits		99,225	
Other operating expenditures		202,007	
Total water and sewer administration	313,004	301,232	11,772
Water and sewer plant operations:			
Salaries and employee benefits		359,925	
Utilities		138,107	
Other operating expenditures		150,315	
Capital outlay		6,462	
Total	694,499	654,809	39,690
Water and sewer field operations:			
Salaries and employee benefits		157,681	
Other operating expenditures		149,302	
Total	308,456	306,983	1,473
Debt service:			
Interest and other charges		48,395	-
Principal retirement		205,509	-
Total debt service	254,910	253,904	1,006
Total expenditures	1,570,869	1,516,928	53,941
Revenues over(under) expenditures	-	163,194	55,312
Revenues and other sources over expenditures and other uses	\$ -	163,194	\$ 163,194
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 163,194	
Reconciling items:			
Principal retirement		205,509	
Capital outlay		6,462	
Increase in accrued vacation pay		7,948	
Increase in deferred outflows of resources - pensions		110,409	
Increase in net pension liability		(123,191)	
Decrease in deferred inflows of resources - pensions		4,559	
Depreciation		(438,012)	
Miscellaneous income from Water and Sewer Capital Projects Fund		283	
Interest income from Water and Sewer Capital Projects Fund		6,186	
Transfer in from General Fund to Water and Sewer Capital Projects Fund		75,000	
Total reconciling items		(144,847)	
Change in net position		\$ 18,347	

Town of Blowing Rock, North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2017

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Investment earnings	\$ 50,250	53,278	6,186	59,464	9,214
Contributions and grant proceeds	1,197,190	1,169,040	-	1,169,040	(28,150)
Miscellaneous income	-	250	283	533	533
Total revenues	<u>1,247,440</u>	<u>1,222,568</u>	<u>6,469</u>	<u>1,229,037</u>	<u>(18,403)</u>
Expenditures:					
Construction	4,490,559	1,988,340	240,549	2,228,889	2,261,670
Total expenditures	<u>4,490,559</u>	<u>1,988,340</u>	<u>240,549</u>	<u>2,228,889</u>	<u>2,261,670</u>
Revenues over (under) expenditures	<u>(3,243,119)</u>	<u>(765,772)</u>	<u>(234,080)</u>	<u>(999,852)</u>	<u>2,243,267</u>
Other financing sources:					
Transfer from water and sewer fund	1,235,264	1,573,404	-	1,573,404	338,140
Transfer from general fund	425,010	347,365	75,000	422,365	(2,645)
Proceeds from 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 financing sources	<u>3,243,119</u>	<u>3,063,392</u>	<u>75,000</u>	<u>3,138,392</u>	<u>(104,727)</u>
Revenues over (under) expenditures and other financing sources	<u>\$ -</u>	<u>2,297,620</u>	<u>(159,080)</u>	<u>2,138,540</u>	<u>2,138,540</u>

Town of Blowing Rock, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2017

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2016</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016-2017	\$ -	\$ 3,814,696	\$ 3,782,186	\$ 32,510
2015-2016	38,930	-	26,071	12,859
2014-2015	11,529	-	7,442	4,087
2013-2014	8,564	-	4,083	4,481
2012-2013	4,759	-	1,357	3,402
2011-2012	8,375	-	1,402	6,973
2010-2011	15,831	-	3,771	12,060
2009-2010	5,576	-	3,239	2,337
2008-2009	2,207	-	-	2,207
2007-2008	1,146	-	12	1,134
2006-2007	885	-	(885)	-
	<u>\$ 97,802</u>	<u>\$ 3,814,696</u>	<u>\$ 3,828,678</u>	<u>\$ 82,050</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>23,292</u>
Ad valorem taxes receivable - net				<u>\$ 58,758</u>
<u>Reconciliation to revenues:</u>				
Ad valorem taxes - General Fund				\$ 3,826,739
Reconciling items:				
Prior year releases				10,772
Amounts written off per statute of limitations				885
Penalties and interest				<u>(9,718)</u>
Subtotal				<u>1,939</u>
Total collections and credits				<u>\$ 3,828,678</u>

Town of Blowing Rock, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
June 30, 2017

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 1,094,457,941	0.34	\$ 3,721,157	\$ 3,721,157	\$ -
Registered motor vehicles taxed	21,235,294	0.34	72,200	-	72,200
Penalties	-		46	46	-
Total	<u>1,115,693,235</u>		<u>3,793,403</u>	<u>3,721,203</u>	<u>72,200</u>
Discoveries:					
Current year taxes	<u>9,415,332</u>	0.34	<u>37,084</u>	<u>37,084</u>	<u>-</u>
Abatements	<u>(4,644,412)</u>	0.34	<u>(15,791)</u>	<u>(15,791)</u>	<u>-</u>
Total property valuation	<u>\$ 1,120,464,156</u>				
Net levy			3,814,696	3,742,496	72,200
Uncollected taxes at June 30, 2017			<u>(32,510)</u>	<u>(32,510)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 3,782,186</u>	<u>\$ 3,709,986</u>	<u>\$ 72,200</u>
Current levy collection percentage			<u>99.15%</u>	<u>99.13%</u>	<u>100.00%</u>

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BOONE, NORTH CAROLINA 28607
TELEPHONE (828) 263-1100

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Blowing Rock, North Carolina, as of and for the year ended June 30, 2017, 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 September 13, 2017.

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's internal control.

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

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

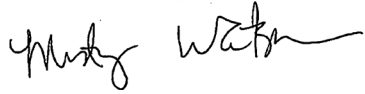
Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with

Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Misty D Watson, CPA, PA
Boone, NC
September 15, 2017

**TOWN OF BLOWING ROCK,
NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	None noted
• Significant deficiencies identified that are not considered to be material weaknesses?	None noted
Non-compliance material to financial statements noted?	No