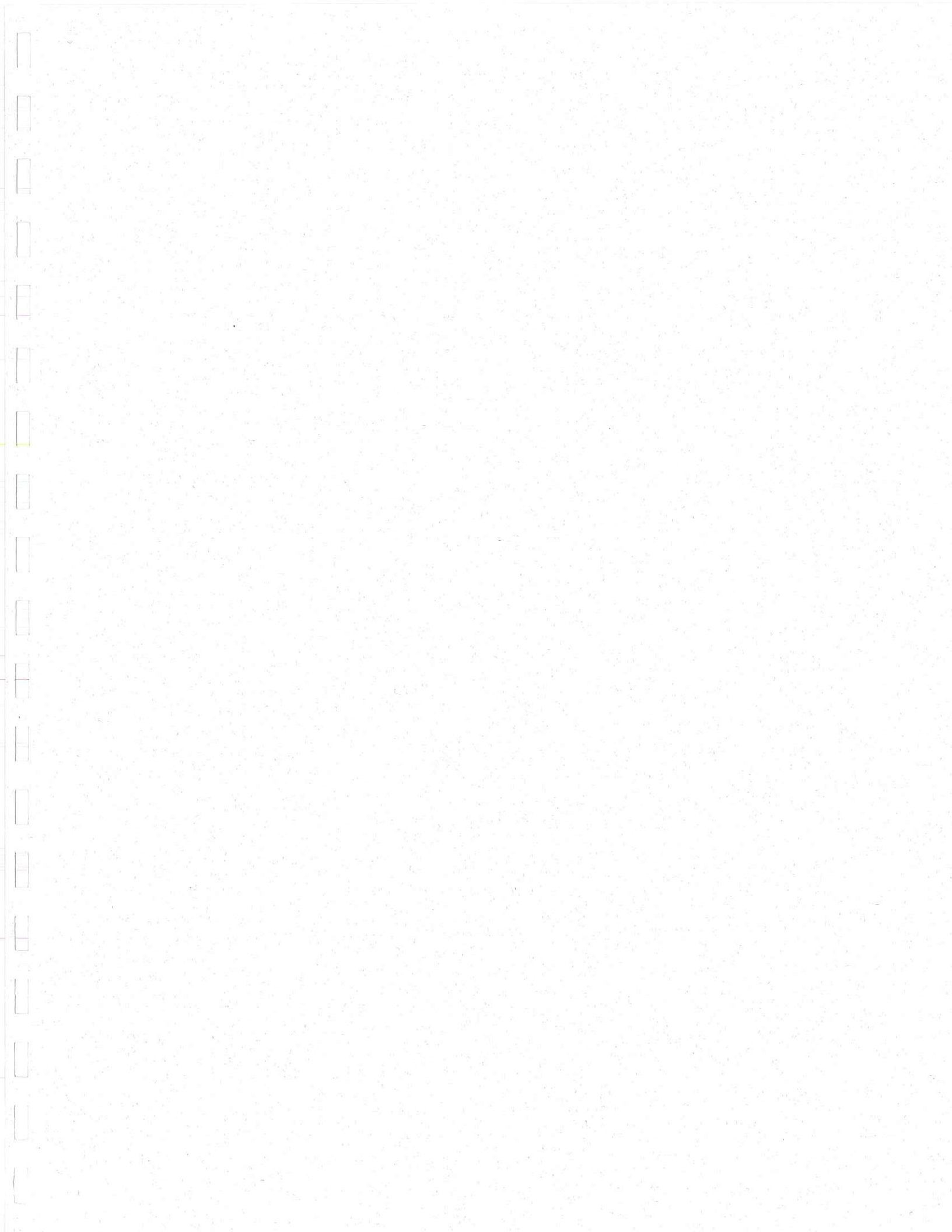


TOWN OF BLOWING ROCK
BLOWING ROCK, NORTH CAROLINA
FINANCIAL STATEMENTS

June 30, 2007



Town of Blowing Rock, North Carolina
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6/30/2007

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TOWN OF BLOWING ROCK
June 30, 2007

Mayor

J.B. Lawrence

Board of Commissioners

Barbara W. Ball

Terry D. Lentz

Keith Tester

Rita M. Wiseman

Tommy Klutz

Town Manager

Scott Hildebran

Town Clerk and Finance Officer

Margaret Pierce

COMBS,
TENNANT & CARPENTER, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units and each major fund of the Town of Blowing Rock, North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Blowing Rock's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Blowing Rock ABC Board and the Blowing Rock Tourism Development Authority were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units and each major fund of the Town of Blowing Rock, North Carolina as of June 30, 2007, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007 on our consideration of Town of Blowing Rock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of Blowing Rock, North Carolina, taken as a whole. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMBS, TENNANT & CARPENTER, P.C.

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

September 28, 2007

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, 2007. 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 \$18,060,174 (*net assets*).
- The government's total net assets increased by \$2,452,925 with the increase divided fairly equally between the governmental-type activities and business-type activities net assets. The governmental-type activities increase in net assets is primarily due to the addition of two new fire trucks and other capital assets.
- As of the close of the current fiscal year, the Town of Blowing Rock's governmental funds reported combined ending fund balances of \$3,279,403 an increase of \$937,041 in comparison with the prior year. Approximately 91.03 percent of this total amount, or \$2,985,400, is available for spending at the government's discretion (*unreserved fund balance*), however \$976,930 has been appropriated by the board for capital projects in progress.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,008,470, or 55.92 percent of total general fund expenditures for the fiscal year, an increase of \$550,657 over the prior year due in part to a major reduction in the reserve balances needed for prepaid items.
- The Board of Commissioners approved an amendment June 12, 2007, to the Town's Financial Policy reserving any undesignated general fund balance in excess of 50% of the next fiscal year's expenditure budget for capital reserve purposes.
- The Town of Blowing Rock's total debt increased by \$4,130,077 (153.97%) during the current fiscal year with the Fire and Rescue Building construction.
- The Town of Blowing Rock maintained its NC Municipal Bond rating at 80 and its A3 Moody's Investor bond rating for the sixth consecutive year.

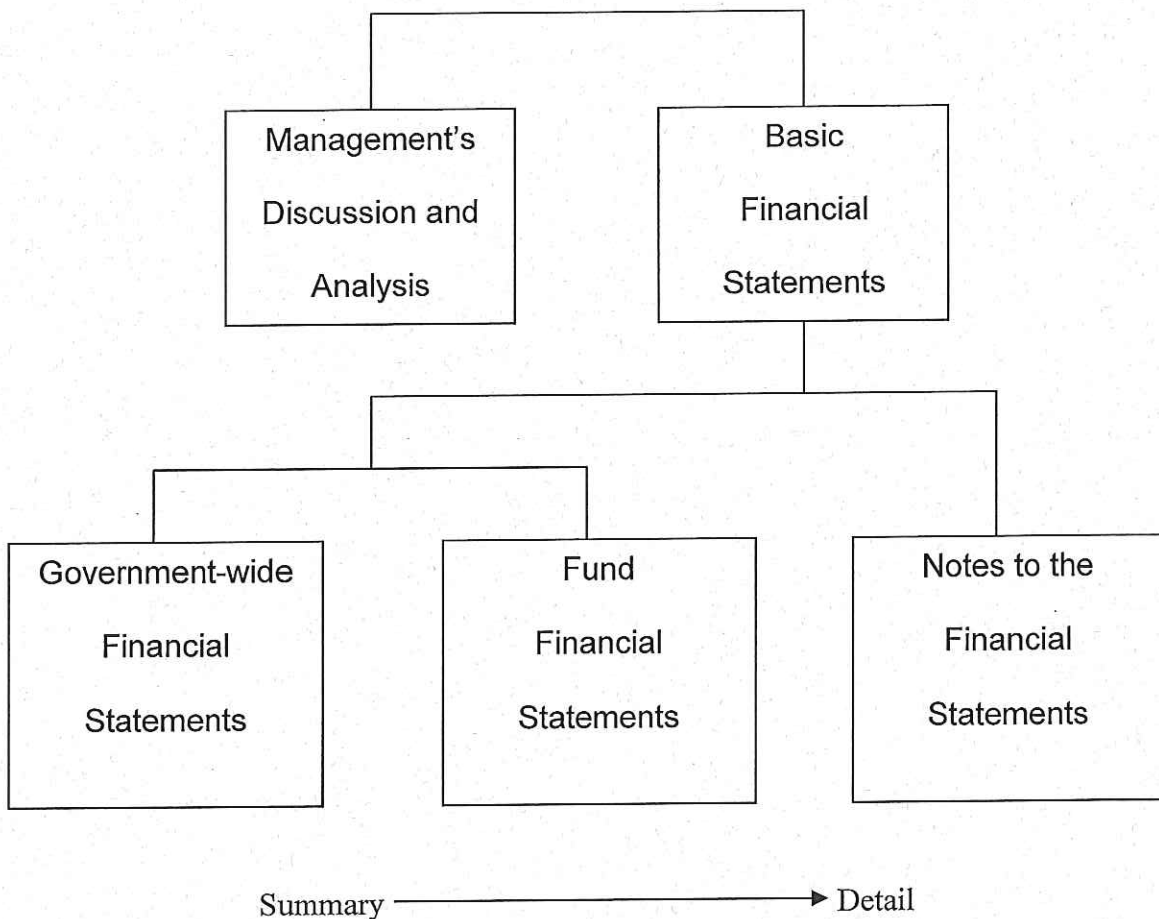
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Blowing Rock's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains

other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Blowing Rock.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. 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 assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets 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 state-shared revenue such as, street tax, or utility franchise tax finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Blowing Rock. The final category is the component unit, of which the Town has the ABC Board and the Tourism Development Authority (TDA). Although legally separate from the Town, the ABC Board is important to the Town as the Town exercises control over the Board by appointing its members and because the Board is required to distribute a portion of its profits to the Town. The TDA functions much the same as the ABC in that it is a separate entity with the Town Council appointing the Board and the TDA uses one-third of the occupancy tax dollars collected to support Town infrastructure.

The government-wide financial statements are on Exhibits 1 and 2 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 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 Assets 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 – 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. 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 Assets 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 12 of this report.

Government-Wide Financial Analysis

Town of Blowing Rock's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	6,874,631	2,553,840	1,715,261	1,272,696	8,589,892	3,826,536
Capital assets	8,087,182	6,041,877	8,732,111	8,847,061	16,819,293	14,888,938
Total assets	14,961,813	8,595,717	10,447,372	10,119,757	25,409,185	18,715,474
Long-term liabilities outstanding	5,772,165	1,409,590	1,040,315	1,272,813	6,812,480	2,682,403
Other liabilities	321,441	196,892	215,090	228,930	536,531	425,822
Total liabilities	6,093,606	1,606,482	1,255,405	1,501,743	7,349,011	3,108,225
Net assets:						
Invested in capital assets, net of related debt	2,450,131	4,747,222	7,709,452	7,592,834	10,159,583	12,340,056
Restricted	980,701	466,067	-	-	980,701	466,067
Unrestricted	5,437,375	1,775,946	1,482,515	1,025,180	6,919,890	2,801,126
Total net assets	8,868,207	6,989,235	9,191,967	8,618,014	18,060,174	15,607,249

As noted earlier, net assets 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 \$18,060,174 as of June 30, 2007. The Town's net assets increased by \$2,452,925 for the fiscal year ended June 30, 2007. However, the largest portion (56.25%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. 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 investment in its 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 assets \$980,701 (5.43%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,919,870 is unrestricted.

Management Discussion and Analysis
Town of Blowing Rock (Page 6 of 12)

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

- Utilization of a Financial Operating Policy which maximizes cash management and resulted in interest income above projections.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.04%, which combined with the Watauga County property revaluation in 2006 caused greater than expected tax revenues overall.
- Continued low cost of debt due to the Town's high bond rating.
- Utilization of a capital improvement plan for managing capital expenditures with five year capital improvement plan, seven year fleet plan, Street Pavement Plan, Park and Recreation master plan, and Water/Sewer capital improvement plan.
- Diligence by management in review of franchise vendors which resulted in three year reimbursement on utilities of \$67,815 and cablevision franchise fee increase along with revenue audit resulting in additional revenues in excess of \$28,000.
- Decrease in the reserves for prepaid expenditures of over \$100,000 with new payable procedures in place.

Management Discussion and Analysis
Town of Blowing Rock (Page 7 of 12)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 397,360	\$ 399,800	\$ 1,372,467	\$ 1,337,801	\$ 1,769,827	\$ 1,737,601
Operating grants and contributions	107,337	14,492	-	-	107,337	14,492
Capital grants and contributions	60,000	184,993	-	-	60,000	184,993
General revenues:						
Property taxes	2,944,860	2,474,568	-	-	2,944,860	2,474,568
Other taxes	334,350	316,421	-	-	334,350	316,421
Grants and contributions not restricted to specific programs	835,451	714,136	-	-	835,451	714,136
Other	1,013,304	169,765	62,405	42,358	1,075,709	212,123
Total revenues	5,692,662	4,274,175	1,434,872	1,380,159	7,127,534	5,654,334
Expenses:						
General government	651,831	615,985	-	-	651,831	615,985
Public safety	1,426,366	1,304,202	-	-	1,426,366	1,304,202
Transportation	823,438	825,863	-	-	823,438	825,863
Environmental protection	291,134	248,776	-	-	291,134	248,776
Economic development	-	-	-	-	-	-
Culture and recreation	365,252	492,394	-	-	365,252	492,394
Interest on long-term debt	41,217	85,084	-	-	41,217	85,084
Water and sewer	-	-	1,075,371	1,117,821	1,075,371	1,117,821
Total expenses	3,599,238	3,572,304	1,075,371	1,117,821	4,674,609	4,690,125
Increase in net assets before transfers	2,093,424	701,871	359,501	262,338	2,452,925	964,209
Transfers	(214,452)	(205,000)	214,452	205,000	-	-
Cumulative effect of change in application of capitalization policy	-	-	-	-	-	-
Increase in net assets	1,878,972	496,871	573,953	467,338	2,452,925	964,209
Net assets, July 1 (as reported)	6,989,235	6,492,364	8,618,014	8,150,676	15,607,249	14,643,040
Prior period adjustment (Note III.D)	-	-	-	-	-	-
Net assets, July 1 (as restated)	6,989,235	6,492,364	8,618,014	8,150,676	15,607,249	14,643,040

Governmental activities. Governmental activities increased the Town's net assets by \$1,878,792, thereby accounting for 76.60% of the total growth in the net assets of the Town of Blowing Rock. Key elements of this increase are as follows:

- Tax revenues increased due to fewer Watauga County revaluation appeals than expected.
- Higher interest rates on investments resulting in additional interest revenue.
- Increase in revenues for building and zoning permits assisted in the increase in net assets.

- Unexpected revenue from change in state law on cablevision revenue and an increase by the Town of 2% on the franchise fee for 6 months of the fiscal year.

Business-type activities: Business-type activities increased the Town of Blowing Rock's net assets by \$573,953 accounting for 23.40% of the total growth in the Town's net assets. Key elements of this increase are as follows:

- The Town continued upgrading facilities and equipment in the Water and Sewer Treatment Plants in conjunction with the Water and Sewer Capital Improvement Plan approved February 14, 2006.

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, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Blowing Rock. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,008,470, while total fund balance reached \$2,298,702. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 55.92 percent of total General Fund expenditures, while total fund balance represents 64.00 percent of that same amount.

At June 30, 2007, the governmental funds of Town of Blowing Rock reported a combined fund balance of \$3,279,403, a 40.00 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Capital Projects Funds.

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 were more than the budgeted amounts primarily because tax collections were higher than expected due to revaluation appeals less than expected, sales tax collections

Management Discussion and Analysis
Town of Blowing Rock (Page 9 of 12)

higher than expected with economic factors considered at budget time, interest income and also permits for renovations higher than expected. Expenditures were below budget in all areas, particularly in Public Works and Police Departments due to employment vacancies.

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 assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,482,515. The change in net assets was \$573,953. 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 investment in capital assets for its governmental and business-type activities as of June 30, 2007, totals \$16,819,293 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions):

- Construction in progress for water and sewer capital assets of \$130,668.
- Construction in progress of \$1,755,574 in governmental-type activities for the new Fire and Rescue Building due to be completed in fiscal year 2007-08.
- Purchases of equipment and furniture of \$515,100 in the governmental funds.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 3,178,831	\$ 3,178,831	\$ 81,521	\$ 81,521	\$ 3,260,352	\$ 3,260,352
Construction in progress	1,967,434	211,860	263,003	132,335	2,230,437	344,195
Infrastructure	774,066	790,366	-	-	774,066	790,366
Buildings	1,000,235	1,028,156	-	-	1,000,235	1,028,156
Plant	-	-	8,264,493	8,498,018	8,264,493	8,498,018
Equipment and furniture	961,279	613,639	123,094	135,187	1,084,373	748,826
Vehicles	188,438	189,020	-	-	188,438	189,020
Computers	16,899	30,005	-	-	16,899	30,005
Total	\$ 8,087,182	\$ 6,041,877	\$ 8,732,111	\$ 8,847,061	\$ 16,819,293	\$ 14,888,938

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

Long-term Debt. As of June 30, 2007, the Town of Blowing Rock had total bonded debt outstanding of \$1,010,000. Of this, \$1,010,000 is debt backed by the full faith and credit of the Town.

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

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ -	\$ -	\$ 1,010,000	\$ 1,195,000	\$ 1,010,000	\$ 1,195,000
Compensated absences	97,671	79,366	17,656	18,586	115,327	97,952
Pension obligation	37,443	35,569	-	-	37,443	35,569
Installment purchases	5,637,051	1,294,655	12,659	59,227	5,649,710	1,353,882
Total	\$ 5,772,165	\$ 1,409,590	\$ 1,040,315	\$ 1,272,813	\$ 6,812,480	\$ 2,682,403

The Town of Blowing Rock's total debt increased by \$4,130,077 (153.97%) during the past fiscal year, primarily due to the Fire and Rescue Building construction loan. Payments for this debt service were addressed with a \$.03 tax increase.

As mentioned in the financial highlights section of this document, the Town of Blowing Rock maintained for the sixth consecutive year its A3 bond rating from Moody's Investor Service and its rating from the NC Municipal Council of 80 which equates to the A3 rating from Moody's. These bond ratings are a clear indication of the sound financial condition of Town of Blowing Rock. This achievement is a primary factor in keeping interest costs low on the Town's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Blowing Rock is \$78,299,703.

Additional information regarding the Town of Blowing Rock's long-term debt can be found in note III.B.6 beginning on page 26 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- Low unemployment. The Watauga County unemployment rate of 2.3% is well below the NC state average of 4.79% for calendar year 2006.
- Housing construction and renovation activity increased slightly for the year.
- Continued tourism growth in the area as shown by increased consumer travel and purchasing reflected in occupancy tax increases and sales tax increases.
- Increase in property valuations.

Budget Highlights for the Fiscal Year Ending June 30, 2008

Governmental Activities: Property taxes revenues and revenues from franchise fees and sales tax are expected to lead the mild increase in budgeted revenue. The Town will use these increases in revenues to finance programs currently in place and capital improvements in various areas.

Budgeted expenditures in the General Fund may increase due to rising costs of employee compensation, including funding compensation and benefits adjustments. Funding of capital projects will affect the overall expenditure of the General Fund with interfund transfer increases.

Business – type Activities: The water and sewer impact rates in the Town increased, primarily to cover increased costs of capital construction. General operating expenses may increase to cover increased costs of personnel, materials, supplies, and other operating expenses, including funding for the Water and Sewer Capital Improvements Plan.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Town of Blowing Rock, P.O. Box 47, Blowing Rock, NC 28605.

Basic Financial Statements

Town of Blowing Rock, North Carolina
Statement of Net Assets
June 30, 2007

	Primary Government			Town of Blowing Rock Tourism Development Authority		Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government	Town of Blowing Rock ABC Board	Development Authority	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,329,911	\$ 971,622	\$ 3,301,533	\$ 178,043	\$ 330,776	\$ 3,810,352
Taxes receivable (net)	23,793	-	23,793	-	90,577	114,370
Accrued interest receivable on taxes	4,233	-	4,233	-	-	4,233
Accounts receivable (net)	165,899	302,011	467,910	-	-	467,910
Due from other governments	45,190	-	45,190	-	-	45,190
Due from component units	33,002	-	33,002	-	-	33,002
Due from primary government	-	-	-	-	-	-
Inventories	10,839	70,091	80,930	218,986	-	299,916
Prepaid items	39,073	6,121	45,194	-	-	45,194
Total current assets	2,651,940	1,349,845	4,001,785	397,029	421,353	4,820,167
Restricted assets:						
Cash and cash equivalents	4,222,691	365,416	4,588,107	221,982	-	4,810,089
Capital assets (Note 4):						
Land, non-depreciable improvements, and construction in progress	5,146,265	344,524	5,490,789	96,275	-	5,587,064
Other capital assets, net of depreciation	2,940,917	8,387,587	11,328,504	100,689	12,153	11,441,346
Total capital assets	8,087,182	8,732,111	16,819,293	196,964	12,153	17,028,410
Total assets	\$ 14,961,813	\$ 10,447,372	\$ 25,409,185	\$ 815,975	\$ 433,506	\$ 26,658,666
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 90,457	\$ 2,018	\$ 92,475	\$ 74,523	\$ 11,452	\$ 178,450
Unearned revenue	230,984	1,998	232,982	-	-	232,982
Accrued salaries	-	11,608	11,608	-	-	11,608
Customer deposits	-	199,466	199,466	-	-	199,466
Due to primary government	-	-	-	33,002	-	33,002
Due to other governments	-	-	-	-	-	-
Long-term liabilities:						
Due within one year	420,494	204,954	625,448	-	-	625,448
Due in more than one year	5,351,671	835,361	6,187,032	-	-	6,187,032
Total liabilities	6,093,606	1,255,405	7,349,011	107,525	11,452	7,467,988
NET ASSETS						
Invested in capital assets, net of related debt	2,450,131	7,709,452	10,159,583	196,964	12,153	10,368,700
Restricted for:						
Capital projects	980,701	-	980,701	221,982	-	1,202,683
Culture and recreation	-	-	-	-	-	-
Working capital	-	-	-	51,454	-	51,454
Unrestricted	5,437,375	1,482,515	6,919,890	238,050	409,901	7,567,841
Total net assets	\$ 8,868,207	\$ 9,191,967	\$ 18,060,174	\$ 708,450	\$ 422,054	\$ 19,190,678

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

Net (Expense) Revenue and Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Total	Town of Blowing Rock ABC Board	Blowing Rock Tourism Development Authority	Total Reporting Unit
\$ (625,193)	\$ -	\$ (625,193)	\$ -	\$ -	\$ (625,193)
(1,260,071)	-	(1,260,071)	-	-	(1,260,071)
(723,726)	-	(723,726)	-	-	(723,726)
(179,959)	-	(179,959)	-	-	(179,959)
(204,375)	-	(204,375)	-	-	(204,375)
(41,217)	-	(41,217)	-	-	(41,217)
(3,034,541)	-	(3,034,541)	-	-	(3,034,541)
-	297,096	297,096	-	-	297,096
-	-	-	-	-	-
-	297,096	297,096	-	-	297,096
(3,034,541)	297,096	(2,737,445)	-	-	(2,737,445)
-	-	-	47,516	-	47,516
-	-	-	-	(652,262)	(652,262)
-	-	-	47,516	(652,262)	(604,746)
2,944,860	-	2,944,860	-	-	2,944,860
334,350	-	334,350	-	777,956	1,112,306
835,451	-	835,451	-	-	835,451
156,961	59,509	216,470	-	18,495	234,965
856,343	2,896	859,239	-	2,116	861,355
(214,452)	214,452	-	-	-	-
4,913,513	276,857	5,190,370	-	798,567	5,988,937
-	-	-	-	-	-
1,878,972	573,953	2,452,925	47,516	146,305	2,646,746
6,989,235	8,618,014	15,607,249	660,934	275,749	16,543,932
\$ 8,868,207	\$ 9,191,967	\$ 18,060,174	\$ 708,450	\$ 422,054	\$ 19,190,678

**Town of Blowing Rock
Balance Sheet
Governmental Funds
June 30, 2007**

	Major Funds		Total Governmental Funds
	General	Capital Projects	
ASSETS			
Cash and cash equivalents	\$ 2,329,911	\$ 4,222,691	\$ 6,552,602
Receivables, net:			
Taxes	23,793	-	23,793
Accounts	195,130	3,771	198,901
Due from other governments	45,190	-	45,190
Prepaid Expenses	39,073	-	39,073
Inventories	10,839	-	10,839
Total assets	<u>\$ 2,643,936</u>	<u>\$ 4,226,462</u>	<u>\$ 6,870,398</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 90,457	\$ -	\$ 90,457
Due to other funds	-	-	-
Deferred revenue	23,793	-	23,793
Unearned revenue	230,984	-	230,984
Liabilities payable from restricted assets:			
Accounts payable	-	3,245,761	3,245,761
Total liabilities	<u>345,234</u>	<u>3,245,761</u>	<u>3,590,995</u>
Fund balances:			
Reserved for:			
Inventories	10,839	-	10,839
Prepays	39,073	-	39,073
State statute	240,320	3,771	244,091
Streets-Powell bill	-	-	-
Unreserved, General Fund	2,008,470	-	2,008,470
Unreserved, reported in:			
Capital Projects Fund	-	976,930	976,930
Total fund balances	<u>2,298,702</u>	<u>980,701</u>	<u>3,279,403</u>
Total liabilities and fund balances	<u>\$ 2,643,936</u>	<u>\$ 4,226,462</u>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,087,182
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	4,233
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	-
Liabilities for earned but deferred revenues in fund statements.	23,793
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note III).	<u>\$ (2,526,404)</u>
Net assets of governmental activities	<u>\$ 8,868,207</u>

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

Town of Blowing Rock
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2007

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects	
REVENUES			
Ad valorem taxes	\$ 2,931,420	\$ -	\$ 2,931,420
Other taxes and licenses	334,350	-	334,350
Unrestricted intergovernmental	835,451	-	835,451
Restricted intergovernmental	107,337	60,000	167,337
Permits and fees	95,135	-	95,135
Sales and services	167,697	-	167,697
Investment earnings	100,034	56,927	156,961
Miscellaneous	177,485	313,700	491,185
Total revenues	4,748,909	430,627	5,179,536
EXPENDITURES			
Current:			
General government	607,243	-	607,243
Public safety	1,319,495	-	1,319,495
Transportation	815,823	-	815,823
Economic and physical development	-	-	-
Environmental protection	257,545	-	257,545
Culture and recreation	349,919	-	349,919
Debt service:			
Principal	196,604	-	196,604
Interest and other charges	41,217	-	41,217
Capital outlay	-	1,990,574	1,990,574
Total expenditures	3,587,846	1,990,574	5,578,420
Excess (deficiency) of revenues over expenditures	1,161,063	(1,559,947)	(398,884)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	620,342	620,342
Transfers to other funds	(820,342)	-	(820,342)
Sales of capital assets	7,686	-	7,686
Installment purchase obligations issued	74,000	1,454,239	1,528,239
Capital lease obligations issued	-	-	-
Total other financing sources (uses)	(738,656)	2,074,581	1,335,925
Net change in fund balance	422,407	514,634	937,041
Fund balances, beginning as previously reported	1,876,295	466,067	2,342,362
Prior period adjustment	-	-	-
Fund balances, beginning as restated	1,876,295	466,067	2,342,362
Change in reserve for inventories	-	-	-
Fund balances, ending	\$ 2,298,702	\$ 980,701	\$ 3,279,403

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

Town of Blowing Rock
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2007

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

Net changes in fund balances - total governmental funds	\$ 937,041
Change in fund balance due to change in reserve for inventory	-

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	1,569,180
Net book value of assets sold	-

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Amount of donated assets	477,548
Change in deferred revenue for tax revenues	12,017

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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,096,635)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Transfer of capital asset	-
Compensated absences	(18,305)
Net pension obligation	<u>(1,874)</u>

Total changes in net assets of governmental activities	<u>\$ 1,878,972</u>
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Town of Blowing Rock
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 2,804,000	\$ 2,804,000	\$ 2,931,420	\$ 127,420
Other taxes and licenses	292,380	328,130	334,350	6,220
Unrestricted intergovernmental	614,800	708,362	835,451	127,089
Restricted intergovernmental	86,000	107,200	107,337	137
Permits and fees	-	81,500	95,135	13,635
Sales and services	313,000	153,040	167,697	14,657
Investment earnings	-	91,185	100,034	8,849
Miscellaneous	215,415	189,750	177,485	(12,265)
Total revenues	4,325,595	4,463,167	4,748,909	285,742
Expenditures:				
Current:				
General government	1,122,665	633,695	607,243	26,452
Public safety	1,378,175	1,321,190	1,319,495	1,695
Transportation	904,485	834,725	815,823	18,902
Environmental protection	304,405	275,875	257,545	18,330
Cultural and recreation	415,865	357,670	349,919	7,751
Debt service:				
Principal retirement	-	257,820	196,604	61,216
Interest and other charges	-	42,000	41,217	783
Total expenditures	4,125,595	3,722,975	3,587,846	135,129
Revenues over (under) expenditures	200,000	740,192	1,161,063	420,871
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	(200,000)	(820,342)	(820,342)	-
Sale of assets	-	6,150	7,686	1,536
Appropriated fund balance	-	-	-	-
Proceeds from installment purchase	-	74,000	74,000	-
Total other financing sources (uses)	(200,000)	(740,192)	(738,656)	1,536
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	422,407	\$ 422,407
Fund balances, beginning as previously reported			1,876,295	
Prior period adjustment			-	
Fund balances, beginning as restated			1,876,295	
Change in reserve for inventories			-	
Fund balances, ending			\$ 2,298,702	

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

Exhibit 7

**Town of Blowing Rock
Statement of Net Assets
Proprietary Funds
June 30, 2007**

	Water and Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 971,622	\$ 971,622
Accounts receivable (net) - billed	302,011	302,011
Due from other governments	-	-
Inventories	70,091	70,091
Prepaid items	6,121	6,121
Total current assets	1,349,845	1,349,845
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	365,416	365,416
Capital assets:		
Land and other non-depreciable assets	344,524	344,524
Other capital assets, net of depreciation	8,387,587	8,387,587
Capital assets (net)	8,732,111	8,732,111
Total noncurrent assets	9,097,527	9,097,527
Total assets	\$ 10,447,372	\$ 10,447,372
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,018	\$ 2,018
Accrued salaries	11,608	11,608
Customer deposits	199,466	199,466
Unearned revenue	1,998	1,998
Compensated absences - current	2,295	2,295
General obligation bonds payable-current	190,000	190,000
Installment purchase-current	12,659	12,659
Bond anticipation notes payable	-	-
Total current liabilities	420,044	420,044
Noncurrent liabilities:		
Liabilities payable from restricted assets:		
Accounts payable	-	-
Other noncurrent liabilities:		
Compensated absences	15,361	15,361
General obligation bonds payable-noncurrent (net)	820,000	820,000
Installment purchase-noncurrent	-	-
Total noncurrent liabilities	835,361	835,361
Total liabilities	1,255,405	1,255,405
NET ASSETS		
Invested in capital assets, net of related debt	7,709,452	7,709,452
Unrestricted	1,482,515	1,482,515
Total net assets	\$ 9,191,967	\$ 9,191,967

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

Exhibit 8

Town of Blowing Rock
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 1,339,871	\$ 1,339,871
Water and sewer taps	17,103	17,103
Other operating revenues	15,493	15,493
Total operating revenues	1,372,467	1,372,467
OPERATING EXPENSES		
Administration	81,906	81,906
Water/Sewer plant operations	430,205	430,205
Water/Sewer field operations	256,955	256,955
Depreciation	268,270	268,270
Total operating expenses	1,037,336	1,037,336
Operating income (loss)	335,131	335,131
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	59,509	59,509
Sale of fixed assets	2,896	2,896
Interest and other charges	(38,035)	(38,035)
Bond issuance costs	-	-
Total nonoperating revenue (expenses)	24,370	24,370
Income (loss) before contributions and transfers	359,501	359,501
Capital contributions	-	-
Public contributions	-	-
Transfers from other funds	214,452	214,452
Transfers to other funds	-	-
Total income (loss) after contributions and transfers	573,953	573,953
Cumulative change in application of capitalization policy	-	-
Change in net assets	573,953	573,953
Total net assets, beginning as restated	8,618,014	8,618,014
Total net assets, ending	\$ 9,191,967	\$ 9,191,967

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

**Town of Blowing Rock
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2007**

	<u>Water and Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,318,986	\$ 1,318,986
Cash paid for goods and services	(424,032)	(424,032)
Cash paid to or on behalf of employees for services	(377,169)	(377,169)
Customer deposits received (returned)	9,884	9,884
Other operating revenues	-	-
Net cash provided (used) by operating activities	<u>527,669</u>	<u>527,669</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	200,000	200,000
Transfers to other funds	-	-
Public contributions	-	-
Total cash flows from noncapital financing activities	<u>200,000</u>	<u>200,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond anticipation notes issued	-	-
Acquisition and construction of capital assets	(136,394)	(136,394)
Principal paid on bond maturities and equipment contracts	(231,568)	(231,568)
Proceeds from installment purchase	-	-
Interest paid on bond maturities and equipment contracts	(38,035)	(38,035)
Sale of fixed assets	2,896	2,896
Capital contributions-Federal grant	-	-
Net cash provided (used) by capital and related financing activities	<u>(403,101)</u>	<u>(403,101)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>59,509</u>	<u>59,509</u>
Net increase (decrease) in cash and cash equivalents	384,077	384,077
Balances, beginning	952,961	952,961
Balances, ending	<u>\$ 1,337,038</u>	<u>\$ 1,337,038</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	<u>\$ 335,131</u>	<u>\$ 335,131</u>

**Town of Blowing Rock
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2007**

	Water and Sewer Fund	Totals
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	268,270	268,270
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(53,481)	(53,481)
Increase (decrease) in allowance for doubtful accounts	-	-
(Increase) decrease in inventory	(20,709)	(20,709)
(Increase) in prepaid items	15,702	15,702
(Increase) in due from other funds	-	-
Increase (decrease) in accounts payable and accrued liabilities	(21,250)	(21,250)
Increase (decrease) in unearned revenue	(2,474)	(2,474)
Increase (decrease) in customer deposits	7,410	7,410
Increase (decrease) in accrued vacation pay	(930)	(930)
Total adjustments	192,538	192,538
Net cash provided by operating activities	\$ 527,669	\$ 527,669

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

Town of Blowing Rock, North Carolina

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2007

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Blowing Rock is a municipal corporation that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component units, legally separate entities for which the Town is financially accountable. The discretely presented component units presented below are reported in separate columns in the Town's financial statements in order to emphasize that they are legally separate from the Town.

Town of Blowing Rock ABC Board

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

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

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

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

The Town reports the following major governmental funds:

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

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

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting,

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and

services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Watauga County and Caldwell County are responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Blowing Rock. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Watauga County and Caldwell County from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets 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.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual 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 immaterial 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, and Fund Equity

1. Deposits and Investments

All deposits of the Town, the ABC Board, and the Authority are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town, the ABC Board, and the Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town, the ABC Board, and the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town, the ABC Board, and the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; the North Carolina Capital Management Trust (NCCMT). The Town's, the ABC Board's, and the Authority's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT- Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

The Town's, the ABC Board's, and the Authority's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

2. Cash and Cash Equivalents

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

3. Restricted Assets

The unexpended bond proceeds of Water and Sewer Fund serial bonds issued by the Town are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the bonds were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2006.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

The inventories of the Town's enterprise funds and those of the ABC Board consist of materials and supplies held for subsequent use and merchandise held for resale. The cost of materials and supplies inventories is expensed when used rather than when purchased. The cost of merchandise held for resale is expensed when sold rather than when purchased. The Authority had no inventory on hand at June 30, 2007.

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

7. Capital Assets

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

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

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

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	50
Furniture and Equipment	10
Computer Equipment	5

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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 are reported as deferred charges and amortized over the term of the related debt.

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

9. Compensated Absences

The vacation policies of the Town provide for the accumulation of twenty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds an expense and a liability for compensated absences and salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets / Fund Balances

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, or imposed by law through state statute.

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

RESERVED

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for encumbrances - portion of fund balance available to pay for any commitments related to purchase orders and contracts which remain unperformed at year-end.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which are not offset by deferred revenues.

Reserved for streets – Powell Bill – portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

UNRESERVED

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated for the adopted 2007 – 2008 budget ordinance.

Undesignated - portion of total fund balance available for appropriation, which is uncommitted at year-end.

II. Stewardship, Compliance and Accountability

Our audit for the fiscal year ended June 30, 2007 disclosed no Material Violations of Finance-Related Legal and Contractual Provisions.

III. Detail Notes on All Funds

A. Assets

1. Deposits

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

At June 30, 2007, the Town's deposits had a carrying amount of \$5,789,640 and a bank balance of \$5,907,310. Of the bank balance, \$300,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$280,982 and the bank balance was \$282,792. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the Authority was \$130,776 and the bank balance was

\$168,350. All of the bank balance was covered by federal depository insurance. At June 30, 2007, the Town's petty cash fund totaled \$450.

2. Investments

At June 30, 2007, the Town, the ABC Board, and the Authority had \$2,100,000, \$117,842, and \$200,000 respectively, invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM with Standard and Poor's. The Town, the ABC Board, and the Authority have no policy regarding credit risk.

3. Receivables – Allowances for Doubtful Accounts

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

Fund	6/30/2007
General Fund:	
Taxes Receivable	\$ 36,736

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,178,831	\$ -	\$ -	\$ 3,178,831
Construction in progress	211,860	1,755,574	-	1,967,434
Total capital assets not being depreciated	<u>3,390,691</u>	<u>1,755,574</u>	<u>-</u>	<u>5,146,265</u>
Capital assets being depreciated:				
Infrastructure	815,014	-	-	815,014
Buildings	1,461,038	-	-	1,461,038
Equipment and furniture	2,583,886	515,100	-	3,098,986
Vehicles	761,275	96,156	(58,319)	799,112
Computers	127,356	-	(900)	126,456
Total capital assets being depreciated	<u>5,748,569</u>	<u>611,256</u>	<u>(59,219)</u>	<u>6,300,606</u>
Less accumulated depreciation for:				
Infrastructure	24,648	16,300	-	40,948
Buildings	432,882	27,921	-	460,803
Equipment and furniture	1,970,247	167,460	-	2,137,707
Vehicles	572,255	61,945	(23,526)	610,674
Computers	97,351	13,106	(900)	109,557
Total accumulated depreciation	<u>3,097,383</u>	<u>\$ 286,732</u>	<u>\$ (24,426)</u>	<u>3,359,689</u>
Total capital assets being depreciated, net	<u>2,651,186</u>			<u>2,940,917</u>
Governmental activity capital assets, net	<u>\$ 6,041,877</u>			<u>\$ 8,087,182</u>

Depreciation was charged to governmental functions as follows:

General Government	\$ 40,292
Public Safety	153,978
Transportation	14,628
Environmental protection	33,335
Cultural & recreation	44,499
Unallocated depreciation	-
	<u>\$ 286,732</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water/Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 81,521	\$ -	\$ -	\$ 81,521
Construction in progress	132,335	130,668	-	263,003
Total capital assets not being depreciated	<u>213,856</u>	<u>130,668</u>	<u>-</u>	<u>344,524</u>
Capital assets being depreciated:				
Plant	13,083,856	-	-	13,083,856
Equipment	882,446	31,019	(20,341)	893,124
Total capital assets being depreciated	<u>13,966,302</u>	<u>31,019</u>	<u>(20,341)</u>	<u>13,976,980</u>
Less accumulated depreciation for:				
Plant	4,585,838	233,525	-	4,819,363
Equipment	747,259	34,745	(11,974)	770,030
Total accumulated depreciation	<u>5,333,097</u>	<u>\$ 268,270</u>	<u>\$ (11,974)</u>	<u>5,589,393</u>
Water/Sewer capital assets, net	8,847,061			8,387,587
Business-type activities capital assets, net	<u>\$ 8,847,061</u>			<u>\$ 8,732,111</u>

Discretely Presented component units

Activity for the ABC Board for the year ended June 30, 2007, was as follows:

	Useful Life	Cost	Accumulated Depreciation	Net Amount
Land		\$ 96,275	\$ -	\$ 96,275
Building and improvements	20 years	176,192	102,833	73,359
Furniture and equipment	10 years	57,722	30,604	27,118
Computer equipment	5 years	25,775	25,563	212
		<u>\$ 355,964</u>	<u>\$ 159,000</u>	<u>\$ 196,964</u>

Activity for the Authority for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 15,702	\$ -	\$ -	\$ 15,702
Total capital assets being depreciated	15,702	-	-	15,702
Less accumulated depreciation for:				
Furniture and equipment	1,929	1,620	-	3,549
Total accumulated depreciation	1,929	\$ 1,620	\$ -	3,549
Total capital assets being depreciated, net	13,773			12,153
Governmental activity capital assets, net	<u>\$ 13,773</u>			<u>\$ 12,153</u>
Economic and Physical Development		<u>\$ 1,620</u>		
Total depreciation expense		<u>\$ 1,620</u>		

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Blowing Rock contributes to 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 provides retirement benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.89% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Blowing Rock are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$84,263, \$79,746, and \$76,307, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$2,614, \$1,965, and \$1,646, respectively. The Authority's contributions to LGERS for the year ended June 30, 2007, 2006, and 2005 were \$3,121, \$2,223 and \$1,424, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description.

The Town of Blowing Rock administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2006, the Separation Allowance's membership consisted of:

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

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

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

3. Contributions.

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

The annual required contribution for the current year was determined as part of the December 31, 2006 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5 – 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

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

Employer annual required contribution	\$ 9,300
Interest on net pension obligation	2,579
Adjustment to annual required contribution	<u>(2,093)</u>
Annual pension cost	\$ 9,786
Employer contributions made for fiscal year ending 6/30/2006	<u>(7,912)</u>
Increase (decrease) in net pension obligation	\$ 1,874
Net pension obligation beginning of fiscal year	<u>35,569</u>
Net pension obligation end of fiscal year	\$ 37,443

Fiscal Year Ending	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost	Percentage of APC Contributed	
6/30/2005	\$ 12,572	0.00%	\$ 24,459
6/30/2006	11,110	0.00%	35,569
6/30/2007	9,785	80.85%	37,443

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to 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.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2007 were \$21,494, which consisted of \$17,983 from the Town and \$3,510 from the law enforcement officers.

d. Other Post-employment Benefits

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. The Town pays the full cost of coverage for these benefits. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. Currently four retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2007, the Town made payments for post-employment health benefit premiums of \$25,762. The Town obtains health care coverage through private insurers.

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of

contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 and may not be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2007, the Town made contributions to the State for death benefits of \$1,763. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .09% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

3. Deferred / Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Taxes receivable (General Fund), less penalties	\$ 23,793	\$ -
Prepaid licenses (General Fund)	-	230,984
	<u>\$ 23,793</u>	<u>\$ 230,984</u>

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2007, the Town was not involved in any lawsuits.

6. Long-Term Obligations

a. Installment Purchase

The Town has entered into various installment purchase contracts. The first agreement was executed January 16, 2002 for the purchase of equipment and requires monthly payments of \$1,120 including interest at 4.45%. The second agreement was executed January 17, 2003 for the purchase of land and requires quarterly payments of \$12,917 plus interest at 4.35%. The third agreement was executed March 24, 2003 for the purchase of playground equipment and requires an annual payment of \$11,505 including interest at 4.24%. The fourth agreement was executed March 10, 2004 for the purchase of equipment and requires monthly payments of \$3,663 including interest at 2.46%. The fifth agreement was executed August 23, 2004 for the purchase of vehicles and requires annual payments of \$42,233 including interest at 2.64%. The sixth agreement was executed February 10, 2005 for the purchase of buildings and requires semiannual payments of \$17,500 plus interest at 3.79%. The seventh agreement was executed September 14, 2005 for the purchase of equipment and requires annual payments of \$38,520 including interest at 3.40%. The eighth agreement was executed September 14, 2005 for the purchase of equipment and requires annual payments of \$19,077 including interest at 3.45%. The ninth agreement was executed August 23, 2006 for the purchase of vehicles and requires annual payments of \$25,213 including interest at 4.08%. The tenth agreement was executed October 10, 2006 for the construction of a building and requires annual principal payments of \$235,000 plus interest at 4.22%.

The future minimum payments of the installment purchase as of June 30, 2007 are as follows:

Year	General		Water/Sewer	
	Principal	Interest	Principal	Interest
2007-2008	\$ 405,494	\$ 234,051	\$ 12,659	\$ 438
2008-2009	363,649	217,547	-	-
2009-2010	339,992	202,493	-	-
2010-2011	321,667	188,241	-	-
2011-2012	321,667	174,742	-	-
2012-2017	1,608,333	671,130	-	-
2017-2022	1,336,250	354,909	-	-
2022-2027	940,000	99,170	-	-
Total	\$ 5,637,051	\$ 2,142,282	\$ 12,659	\$ 438

b. General Obligation Indebtedness

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

Bonds payable at June 30, 2007 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the Water / Sewer Fund:

Bonds issued October 1, 2002 for the purpose of retiring two issues of sewer bonds, interest rates ranging from 2.5% to 3.25%, with various annual maturities through 2012.

\$ 1,010,000

Annual debt service requirements to maturity for general obligation bonds, including interest of \$90,305, are as follows:

Year	Water/Sewer	
	Principal	Interest
2007-2008	\$ 190,000	\$ 31,440
2008-2009	200,000	25,740
2009-2010	205,000	19,740
2010-2011	205,000	13,385
2011-2012	210,000	-
Total	\$ 1,010,000	\$ 90,305

c. Changes in Long-Term Liabilities

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion
Government activities:					
Installment purchases	1,294,655	4,774,000	(431,604)	5,637,051	405,494
Compensated absences	79,366	32,764	(14,459)	97,671	15,000
Pension Obligation	35,569	9,786	(7,912)	37,443	-
Governmental activity long-term debt	1,409,590	4,816,550	(453,975)	5,772,165	420,494
Business activities:					
Installment purchases	59,227	-	(46,568)	12,659	12,659
General obligation bonds	1,195,000	-	(185,000)	1,010,000	190,000
Compensated absences	18,586	1,528	(2,458)	17,656	2,295
Business-type activity long-term debt	1,272,813	1,528	(234,026)	1,040,315	204,954

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

C. Interfund Activity

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2007 consist of the following:

From the General Fund to the Capital Projects Fund	\$620,342
From the General Fund to the Water/Sewer Capital Projects Fund	\$214,452

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

During the 2007 fiscal year, the Town made transfers to the General Capital Project Funds for the following: \$300,000 for the Emergency Services Building debt service; \$19,600 to the Sidewalk Reserve for future projects; \$51,330 to the Parking Facility Reserve for future building renovations; \$63,000 for funding the Parks and Recreation Master Plan; \$10,000 for Storm Water Projects; \$50,000 for engineering and architect fees on the new Emergency Services Building Project; \$67,812 for sidewalk renovations; \$58,600 for other future capital projects; and \$200,000 to the Water and Sewer Capital Projects Fund for the Water and Sewer Capital Improvement Plan funding.

IV. Jointly Governed Organization

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D High Country Council of Government (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$480 to the Council during the fiscal year ended June 30, 2007.

V. Related Organization

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

VI. Summary Disclosure of Significant Contingencies

1. Federal and State Assisted Programs

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

Supplementary Statements

This section contains additional statements required by the Local Government Commission in North Carolina.

General Fund

The General Fund is the principal operating fund for Town of Blowing Rock
mandated by State law as the Local Current Expense Fund.

Town of Blowing Rock, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 2,920,145	\$
Interest		11,275	
Total	<u>2,804,000</u>	<u>2,931,420</u>	<u>127,420</u>
Other taxes and licenses:			
Occupancy tax		318,289	
Privilege licenses		16,061	
Total	<u>328,130</u>	<u>334,350</u>	<u>6,220</u>
Unrestricted intergovernmental:			
Local option sales taxes		400,031	
Cablevision franchise		33,502	
Telecommunications sales tax		44,272	
Video Programming Tax		37,279	
Utility franchise tax		193,471	
Hold harmless sales		448	
Beer and wine tax		6,448	
ABC profit distribution		120,000	
Total	<u>708,362</u>	<u>835,451</u>	<u>127,089</u>
Restricted intergovernmental:			
Powell Bill allocation		84,700	
Snow removal		11,477	
ABC Revenue for law enforcement		11,160	
NC Highway Safety Grant		-	
Total	<u>107,200</u>	<u>107,337</u>	<u>137</u>
Permits and fees:			
Building permits		95,135	
Total	<u>81,500</u>	<u>95,135</u>	<u>13,635</u>
Sales and services:			
Recreation department fees		99,177	
Recycling revenue		3,285	
Park lease/rental income		61,700	
Parking fees		3,535	
Total	<u>153,040</u>	<u>167,697</u>	<u>14,657</u>
Investment earnings	<u>91,185</u>	<u>100,034</u>	<u>8,849</u>
Miscellaneous:			
Miscellaneous		42,957	
Cemetary revenue		8,450	

Town of Blowing Rock, North Carolina
 General Fund
 Statement of Revenues, Expenditures, and
 Changes in Fund Balances - Budget and Actual
 For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Solid waste fees		107,890	
Zoning fees		18,188	
Total	189,750	177,485	(12,265)
Total revenues	4,463,167	4,748,909	285,742
Expenditures:			
General government:			
Salaries		-	
Employee benefits		-	
Professional services		57,201	
Other operating expenditures		128,766	
Capital outlay		-	
Total		185,967	
Governing body:			
Salaries		15,600	
Employee benefits		29,205	
Other operating expenditures		4,361	
Total		49,166	
Finance:			
Salaries		215,007	
Employee benefits		57,800	
Other operating expenditures		28,507	
Capital outlay		9,443	
Total		310,757	
Public buildings:			
Salaries		7,175	
Employee benefits		549	
Other operating expenditures		31,780	
Capital outlay		21,849	
Total		61,353	
Total general government	633,695	607,243	26,452
Public safety:			
Police:			
Salaries		513,604	
Employee benefits		172,826	
Vehicle maintenance		38,142	
Other operating expenditures		47,229	
Capital outlay		64,170	
Total		835,971	

Town of Blowing Rock, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Fire:			
Salaries		195,631	
Employee benefits		52,627	
Other operating expenditures		26,145	
Capital outlay		5,404	
Total		<u>279,807</u>	
Inspections:			
Salaries		130,016	
Employee benefits		32,418	
Vehicle maintenance		921	
Other operating expenditures		32,660	
Capital outlay		7,702	
Total		<u>203,717</u>	
Total public safety	<u>1,321,190</u>	<u>1,319,495</u>	<u>1,695</u>
Transportation:			
Streets and highways:			
Salaries		237,779	
Employee benefits		76,287	
Sidewalk construction		4,130	
Vehicle maintenance		50,069	
Street Lights		91,131	
Other operating expenditures		311,423	
Capital outlay		45,004	
Total transportation	<u>834,725</u>	<u>815,823</u>	<u>18,902</u>
Environmental protection:			
Solid waste:			
Salaries		88,334	
Employee benefits		32,856	
Vehicle maintenance		28,322	
Other operating expenditures		104,038	
Capital outlay		3,995	
Total environmental protection	<u>275,875</u>	<u>257,545</u>	<u>18,330</u>
Culture and recreation:			
Parks and recreation:			
Salaries		180,796	
Employee benefits		41,076	
Other operating expenditures		110,789	
Capital outlay		2,258	
Total		<u>334,919</u>	
Community donations:			
Contributions		<u>15,000</u>	

Town of Blowing Rock, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Total		15,000	
Total cultural and recreational	357,670	349,919	7,751
Debt service:			
Principal retirement		196,604	
Interest and other charges		41,217	
Total debt service	299,820	237,821	61,999
Total expenditures	3,722,975	3,587,846	135,129
Revenues over (under) expenditures	740,192	1,161,063	420,871
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Funds	-	-	-
Transfers to other funds:			
Capital Projects Fund	(620,342)	(620,342)	-
Enterprise Fund	-	-	-
Enterprise Capital Projects Fund	(200,000)	(200,000)	-
Sale of assets	6,150	7,686	1,536
Proceeds from installment purchase	74,000	74,000	-
Appropriated fund balance	-	-	-
Total	\$ (740,192)	(738,656)	\$ 1,536
Revenues and other financing sources over expenditures and other financing uses	\$ -	422,407	\$ 422,407
Fund balances, beginning as previously reported		1,876,295	
Prior period adjustment		-	
Fund balances, beginning as restated		1,876,295	
Change in reserve for inventories		-	
Fund balances, ending		\$ 2,298,702	

Town of Blowing Rock, North Carolina
Capital Projects Fund - Various Projects
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2007

	Project Author - ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Year	Current Year		
Revenues					
Restricted intergovernmental:					
Storm water connection	\$ 10,145	\$ 10,145	\$ -	\$ 10,145	\$ -
Emergency service building contributions	220,000	160,000	60,000	220,000	-
Total	<u>230,145</u>	<u>170,145</u>	<u>60,000</u>	<u>230,145</u>	<u>-</u>
Other revenues:					
Investment earnings	31,000	37,271	56,927	94,198	63,198
Miscellaneous	435,756	45,104	313,700	358,804	(76,952)
Total	<u>466,756</u>	<u>82,375</u>	<u>370,627</u>	<u>453,002</u>	<u>(13,754)</u>
Total revenues	<u>696,901</u>	<u>252,520</u>	<u>430,627</u>	<u>683,147</u>	<u>(13,754)</u>
Expenditures					
Recreation Project:					
Capital outlay:					
Culture and recreation	441,755	31,058	16,380	47,438	394,317
Total	<u>441,755</u>	<u>31,058</u>	<u>16,380</u>	<u>47,438</u>	<u>394,317</u>
Streets and sidewalks Project:					
Capital outlay:					
Transportation	560,505	82,589	69,223	151,812	408,693
Total	<u>560,505</u>	<u>82,589</u>	<u>69,223</u>	<u>151,812</u>	<u>408,693</u>
Emergency services project:					
Capital outlay:					
Public safety	5,372,579	98,213	1,904,971	2,003,184	3,369,395
Total	<u>5,372,579</u>	<u>98,213</u>	<u>1,904,971</u>	<u>2,003,184</u>	<u>3,369,395</u>
Total expenditures	<u>6,374,839</u>	<u>211,860</u>	<u>1,990,574</u>	<u>2,202,434</u>	<u>4,172,405</u>
Revenues under expenditures	<u>(5,677,938)</u>	<u>40,660</u>	<u>(1,559,947)</u>	<u>(1,519,287)</u>	<u>4,158,651</u>
Other Financing Sources					
Various projects:					
Operating transfers in:					
General Fund	977,938	425,407	620,342	1,045,749	67,811
Installment purchase obligations issued	4,700,000	-	1,454,239	1,454,239	(3,245,761)
Total other financing sources	<u>5,677,938</u>	<u>425,407</u>	<u>2,074,581</u>	<u>2,499,988</u>	<u>(3,177,950)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 466,067</u>	<u>\$ 514,634</u>	<u>\$ 980,701</u>	<u>\$ 980,701</u>

Town of Blowing Rock, North Carolina
 Water and Sewer Fund
 Schedule of Revenues and Expenditures
 Budget and Actual (Non - GAAP)
 For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales:			
Residential	\$ -	\$ 672,125	\$ -
Impact fees		42,012	
Municipal usage		-	
Total	<u>695,000</u>	<u>714,137</u>	<u>19,137</u>
Sewer charges:			
Residential		531,072	
Impact fees		94,662	
Total	<u>615,330</u>	<u>625,734</u>	<u>10,404</u>
Water and sewer taps	<u>12,000</u>	<u>17,103</u>	<u>5,103</u>
Other operating revenues	<u>13,700</u>	<u>15,493</u>	<u>1,793</u>
Total operating revenues	<u>1,336,030</u>	<u>1,372,467</u>	<u>36,437</u>
Nonoperating revenues:			
Interest earnings	<u>33,000</u>	<u>42,600</u>	<u>9,600</u>
Total revenues	<u>1,369,030</u>	<u>1,415,067</u>	<u>46,037</u>
Expenditures:			
Water and sewer administration:			
Salaries		27,057	
Employee benefits		9,814	
Travel		-	
Supplies		-	
Insurance		34,966	
Vehicle maintenance		-	
Other operating expenditures		7,724	
Engineering services		2,345	
Total water and sewer administration	<u>115,065</u>	<u>81,906</u>	<u>33,159</u>

Town of Blowing Rock, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Water and sewer plant operations:			
Salaries		147,645	
Employee benefits		39,429	
Repairs and maintenance		22,840	
Supplies		14,775	
Other operating expenditures		27,635	
Utilities		121,311	
Sludge composting		57,500	
Total	<u>455,535</u>	<u>431,135</u>	<u>24,400</u>
Water and sewer field operations:			
Salaries		116,784	
Employee benefits		36,440	
Supplies		34,666	
Chemicals		42,016	
Other operating expenditures		16,684	
Total	<u>283,600</u>	<u>246,590</u>	<u>37,010</u>
Debt service:			
Bond issuance costs	-	-	-
Interest and other charges	38,062	38,035	27
Principal retirement	231,568	231,568	-
Total debt service	<u>269,630</u>	<u>269,603</u>	<u>27</u>
Capital outlay:			
Equipment	18,700	18,565	135
Water taps	-	-	-
Miscellaneous water	-	-	-
Sewer extensions	-	-	-
Sewer taps	-	-	-
Miscellaneous sewer	-	-	-
Total capital outlay	<u>18,700</u>	<u>18,565</u>	<u>135</u>
Total expenditures	<u>1,142,530</u>	<u>1,047,799</u>	<u>94,731</u>
Other financing sources (uses):			
Transfer (to) from other funds:			
General fund	-	-	-
Capital projects water and sewer	(230,000)	(230,000)	-
Proceeds from installment purchase	-	-	-
Sale of fixed assets	3,500	2,896	(604)
Appropriated fund balance	-	-	-
Total other financing sources (uses)	<u>(226,500)</u>	<u>(227,104)</u>	<u>(604)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>140,164</u>	<u>\$ 140,164</u>

Town of Blowing Rock, North Carolina
 Water and Sewer Fund
 Schedule of Revenues and Expenditures
 Budget and Actual (Non - GAAP)
 For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 140,164	
Reconciling items:			
Principal retirement		231,568	
Capital outlay items capitalized		8,200	
Assets transferred from General Fund		14,452	
Decrease in bond interest accrued		-	
Decrease in accrued vacation payable		930	
Depreciation		(268,270)	
Transfers to water and sewer capital projects		230,000	
Proceeds from installment purchase		-	
Capital contributions		-	
Interest income from Water and Sewer Capital Projects Fund		16,909	
Transfer in from General Fund to Water and Sewer Capital Project Fund		200,000	
Capitalized interest on borrowings during construction:			
Interest costs		-	
Investment earnings on borrowed funds		-	
Cumulative change in application of capitalization policy		-	
Total reconciling items		<u>433,789</u>	
Net income		<u>\$ 573,953</u>	-

Town of Blowing Rock, North Carolina
 Water and Sewer Capital Projects Fund
 Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
 From Inception and for the Fiscal Year Ended June 30, 2007

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Investment earnings	\$ 61,742	\$ 61,024	\$ 16,909	\$ 77,933	\$ (16,191)
Total	<u>61,742</u>	<u>61,024</u>	<u>16,909</u>	<u>77,933</u>	<u>(16,191)</u>
Total revenues	<u>61,742</u>	<u>61,024</u>	<u>16,909</u>	<u>77,933</u>	<u>(16,191)</u>
Expenditures					
Construction	2,815,696	132,334	130,669	263,003	2,552,693
Total	<u>2,815,696</u>	<u>132,334</u>	<u>130,669</u>	<u>263,003</u>	<u>2,552,693</u>
Revenues under expenditures	<u>(2,753,954)</u>	<u>(71,310)</u>	<u>(113,760)</u>	<u>(185,070)</u>	<u>(2,568,884)</u>
Other financing sources :					
Operating transfer from water and sewer fund	230,000	-	230,000	230,000	-
Transfer from general fund	321,954	121,954	200,000	321,954	-
Proceeds of long-term debt	2,202,000	-	-	-	(2,202,000)
Public contributions	-	-	-	-	-
Total other sources	<u>2,753,954</u>	<u>121,954</u>	<u>430,000</u>	<u>551,954</u>	<u>(2,202,000)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 50,644</u>	<u>\$ 316,240</u>	<u>\$ 366,884</u>	<u>\$ 366,884</u>

Other Schedules

This section contains additional information required on property taxes.

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Year Tax Levy

Town of Blowing Rock, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2007

Fiscal Year	Uncollected Balance June 30, 2006	Additions	Collections And Credits	Uncollected Balance June 30, 2007
2006-2007	\$ -	\$ 2,883,320	\$ 2,858,755	\$ 24,565
Vehicle Tax	-	54,716	51,155	3,561
2005-2006	9,223	-	3,569	5,654
Vehicle Tax	3,227	-	766	2,461
2004-2005	6,589	-	3,088	3,501
Vehicle Tax	2,502	-	325	2,177
2003-2004	4,210	-	771	3,439
Vehicle Tax	3,064	-	300	2,764
2002-2003	4,211	-	564	3,647
Vehicle Tax	1,406	-	1,406	-
2001-2002	3,026	-	343	2,683
Vehicle Tax	126	-	24	102
2000-2001	1,816	-	353	1,463
1999-2000	3,199	-	1,687	1,512
1998-1999	2,863	-	236	2,627
1997-1998	1,132	-	759	373
1996-1997	778	-	778	-
	<u>\$ 47,372</u>	<u>\$ 2,938,036</u>	<u>\$ 2,924,879</u>	<u>60,529</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>36,736</u>
Ad valorem taxes receivable - net				<u>\$ 23,793</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				\$ 2,931,420
Releases and refunds				3,956
Amounts written off per statute of limitations				<u>778</u>
Subtotal				2,936,154
Less interest collected				<u>(11,275)</u>
Total collections and credits				<u>\$ 2,924,879</u>

Town of Blowing Rock, North Carolina
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2007

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 1,043,521,015	0.280%	\$ 2,921,859	\$ 2,867,143	\$ 54,716
Penalties	-		249	249	-
Total	<u>1,043,521,015</u>		<u>2,922,108</u>	<u>2,867,392</u>	<u>54,716</u>
Discoveries:					
Current year taxes	7,823,108	0.280%	21,905	21,905	-
Prior year taxes	-	0.280%	-	-	-
Penalties	-	0.280%	-	-	-
	<u>7,823,108</u>		<u>21,905</u>	<u>21,905</u>	<u>-</u>
Abatements	(2,134,700)	0.280%	(5,977)	(5,977)	-
Total property valuation	<u>\$ 1,049,209,423</u>				
Net levy			2,938,036	2,883,320	54,716
Uncollected taxes at June 30, 2007			<u>28,126</u>	<u>24,565</u>	<u>3,561</u>
Current year's taxes collected			<u>\$2,909,910</u>	<u>\$2,858,755</u>	<u>\$51,155</u>
Current levy collection percentage			<u>99.04%</u>	<u>99.15%</u>	<u>93.49%</u>

Compliance Section

COMBS, 
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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

Honorable Mayor and members of
the Board of Commissioners
Town of Blowing Rock
Blowing Rock, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units and each major fund of the Town of Blowing Rock as of and for the year ended June 30, 2007, which collectively comprise the Town of Blowing Rock's basic financial statements and have issued our report thereon dated September 28, 2007. 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. The financial statements of the Blowing Rock ABC Board and the Blowing Rock Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Blowing Rock's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Blowing Rock's internal control over financial reporting.

A control deficiency 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 material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Blowing Rock's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Blowing Rock's financial statements that is more than inconsequential will not be prevented or detected by the Town of Blowing Rock's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Blowing Rock's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the Board of Trustees, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

COMBS, TENNANT & CARPENTER, P.C.

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