

TOWN OF BLOWING ROCK
BLOWING ROCK, NORTH CAROLINA
FINANCIAL STATEMENTS

June 30, 2010

Town of Blowing Rock, North Carolina
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6/30/2010

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TOWN OF BLOWING ROCK
June 30, 2010

Mayor

J.B. Lawrence

Mayor Pro Tem

Albert Yount

Board of Commissioners

Tommy Klutz

Doug Matheson

Phil Picket

Jim Steele

Town Manager

Scott Hildebran

Finance Officer

Nicole Norman

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

2348 Hwy. 105, Suite 5
P.O. Box 1098
Boone, NC 28607
828-264-6700
Fax: 828-264-7756

311 Linville Street
P.O. Box 1480
Newland, NC 28657
828-733-0066
Fax: 828-733-8689

Billy G. Combs, CPA
Douglas M. Tennant, CPA
Jason D. Carpenter, CPA
Tanya L. Singleton, CPA

INDEPENDENT AUDITORS' 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 aggregate 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, 2010, 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 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 Town of Blowing Rock Board of Alcoholic Beverage Control 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 aggregate discretely presented component units and each major fund of the Town of Blowing Rock, North Carolina as of June 30, 2010, 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 October 14, 2010 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 agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 and Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 29 and 30 are 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 financial statements that collectively comprise the basic financial statements of the Town of Blowing Rock, North Carolina. The introductory information, combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are

not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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

October 14, 2010

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, 2010. 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

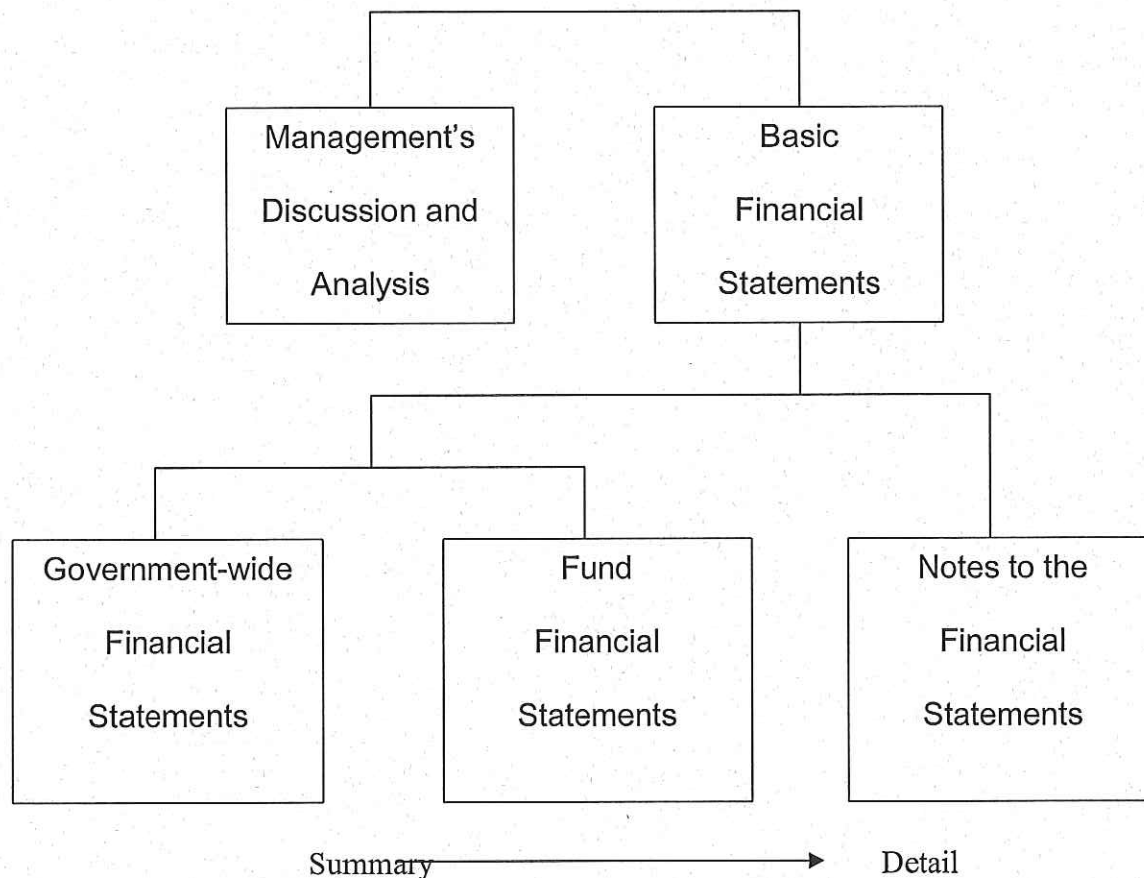
- The assets of the Town of Blowing Rock exceeded its liabilities at the close of the fiscal year by \$24,514,532 (*net assets*).
- The government's total net assets increased by \$1,693,215 with the increase primarily in the governmental-type activities. This increase is mainly due to the completion of capital projects; the completion of the new Robbins Pool at Broyhill Park as well as Phase I of the Downtown Streetscape.
- As of the close of the current fiscal year, the Town of Blowing Rock's governmental funds reported combined ending fund balances of \$4,036,548 a decrease of \$271,439 in comparison with the prior year. This is attributable to the expenditure of loan proceeds on hand to construct the Blowing Rock Art & History Museum Parking Facility and the expenditure of funds on hand for the completion of both Phase I of the Downtown Streetscape and Robbins Pool at Broyhill Park. Approximately 85.89% of this total amount, or \$3,467,056, is available for spending at the government's discretion (*unreserved fund balance*), however \$1,272,879 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 \$2,194,177, or 47.05% of total general fund expenditures for the fiscal year, a decrease of \$131,771 over the prior year. This decrease is the result of the 2009 Ice Storm which required \$155,052 in expenses to clean up debris. The Town of Blowing Rock received a Federal declaration and has been approved to receive full reimbursement for these cost, however, as of the close of the fiscal year \$138,984 had not yet been reimbursed. Once received this would result in an unreserved fund balance of \$2,333,161 or 50.03%, an increase of \$7,213 or 0.31% over prior year.
- The Town of Blowing Rock's total debt increased by \$500,105 (6.58%) during the current fiscal year with the majority of new debt being the Blowing Rock Art and History Museum Parking Facility offset by debt retirements via payments being made on the Fire/Rescue Building, American Legion Parking Facility & Sewer Bonds.
- The Town of Blowing Rock maintained a NC Municipal Bond rating of 80 for the ninth consecutive year. The Town also maintained an improved Moody's Investor bond rating of A2 for the second consecutive year, having previously maintained an A3 rating for seven consecutive years, as a result of financial planning & capital debt management.

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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 4,510,672	\$ 4,858,277	\$ 2,408,921	\$ 2,206,899	\$ 6,919,593	\$ 7,065,176
Capital assets	15,520,907	13,777,983	11,214,111	10,460,489	26,735,018	24,238,472
Total assets	20,031,579	18,636,260	13,623,032	12,667,388	33,654,611	31,303,648
Long-term liabilities outstanding	6,336,922	5,833,255	1,765,824	1,769,386	8,102,746	7,602,641
Other liabilities	418,456	515,404	618,877	364,286	1,037,333	879,690
Total liabilities	6,755,378	6,348,659	2,384,701	2,133,672	9,140,079	8,482,331
Net assets:						
Invested in capital assets, net of related debt	9,318,614	8,079,746	9,472,891	8,713,124	18,791,505	16,792,870
Restricted	1,287,907	1,572,027	-	-	1,287,907	1,572,027
Unrestricted	2,669,680	2,635,828	1,765,440	1,820,592	4,435,120	4,456,420
Total net assets	\$ 13,276,201	\$ 12,287,601	\$ 11,238,331	\$ 10,533,716	\$ 24,514,532	\$ 22,821,317

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 \$24,514,532 as of June 30, 2010. The Town's net assets increased by \$1,693,215 for the fiscal year ended June 30, 2010. However, the largest portion (76.65%) 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, \$1,287,907 (5.25%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,435,120 is unrestricted.

Management Discussion and Analysis
Town of Blowing Rock (Page 6 of 10)

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.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.99%, a slight decrease of .72% from last year's rate.
- Utilization of a capital improvement plan for managing capital expenditures with five-year Capital Improvement Plan, Capital Fleet Replacement Plan, Street Pavement Plan, Park and Recreation Master Plan, and Storm Water Master Plan.
- Preventative measures, such as diligent monitoring of expenditures and continued prioritization of Capital Projects, attributed to the Town's stability during global recessionary times.

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 372,273	\$ 400,501	\$ 1,353,136	\$ 1,473,085	\$ 1,725,409	\$ 1,873,586
Operating grants and contributions	902,453	106,916	-	-	902,453	106,916
Capital grants and contributions	-	60,000	396,220	8,844	396,220	68,844
General revenues:						
Property taxes	3,064,673	3,036,741	-	-	3,064,673	3,036,741
Other taxes	291,703	321,064	-	-	291,703	321,064
Grants and contributions not restricted to specific programs	784,580	2,488,385	-	-	784,580	2,488,385
Other	78,691	324,437	6,906	42,087	85,597	366,524
Total revenues	5,494,373	6,738,044	1,756,262	1,524,016	7,250,635	8,262,060
Expenditures:						
General government	753,621	799,686	-	-	753,621	799,686
Public safety	1,495,357	1,720,665	-	-	1,495,357	1,720,665
Transportation	1,113,487	813,175	-	-	1,113,487	813,175
Environmental protection	291,927	194,160	-	-	291,927	194,160
Economic development	-	-	-	-	-	-
Culture and recreation	390,836	393,786	-	-	390,836	393,786
Interest on long-term debt	260,545	409,628	-	-	260,545	409,628
Water and sewer	-	-	1,251,647	1,228,217	1,251,647	1,228,217
Total expenses	4,305,773	4,331,100	1,251,647	1,228,217	5,557,420	5,559,317
Increase in net assets before transfers	1,188,600	2,406,944	504,615	295,799	1,693,215	2,702,743
Transfers	(200,000)	(206,293)	200,000	206,293	-	-
Cumulative effect of change in application of capitalization policy	-	-	-	-	-	-
Increase in net assets	988,600	2,200,651	704,615	502,092	1,693,215	2,702,743
Net assets, July 1	12,287,601	10,086,950	10,533,716	10,031,624	22,821,317	20,118,574
Net assets, June 30	\$ 13,276,201	\$ 12,287,601	\$ 11,238,331	\$ 10,533,716	\$ 24,514,532	\$ 22,821,317

Governmental activities. Governmental activities increased the Town's net assets by \$988,600, thereby accounting for 58.39% of the total growth in the net assets of the Town of Blowing Rock. Key elements of this increase are as follows:

- Blowing Rock Fire & Rescue's donation and the Town's acceptance of title to several Fire vehicles throughout the year.
- Completion of Robbins Pool at Broyhill Park and Phase I of the Downtown Streetscape.
- Tax revenue exceeding budgeted amounts due to conservative budgeting measures.

Business-type activities: Business-type activities increased the Town of Blowing Rock's net assets by \$704,615 accounting for 41.61% 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.

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 \$2,194,177, while total fund balance reached \$2,748,641. 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 47.05% of total General Fund expenditures, while total fund balance represents 58.94% of that same amount.

At June 30, 2010, the governmental funds of Town of Blowing Rock reported a combined fund balance of \$4,036,548, a 6.30% decrease from last year. Attributing to this decrease is the expenditure of Loan Proceeds on hand for the construction of the Blowing Rock Art & History Museum Parking Facility and the expenditure of funds on hand for the completion of both Phase I of the Downtown Streetscape and Robbins Pool at Broyhill Park.

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

**Management Discussion and Analysis
Town of Blowing Rock (Page 8 of 10)**

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.

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

Proprietary Funds. The Town of Blowing Rock’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,765,440. The change in net assets was \$704,615. 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, 2010, totals \$26,735,018 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

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

- Construction in progress of \$1,726,420 in governmental-type activities for ongoing projects such as the Blowing Rock Art & History Museum Parking Facility.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 3,178,831	\$ 3,178,831	\$ 81,521	\$ 81,521	\$ 3,260,352	\$ 3,260,352
Construction in progress	1,726,420	1,230,605	835,857	1,678,256	2,562,277	2,908,861
Infrastructure	2,249,313	2,104,957	-	-	2,249,313	2,104,957
Buildings	6,978,543	5,890,556	-	-	6,978,543	5,890,556
Plant	-	-	10,179,999	8,553,672	10,179,999	8,553,672
Equipment and furniture	570,158	673,311	116,734	147,040	686,892	820,351
Vehicles	817,107	698,823	-	-	817,107	698,823
Computers	535	899	-	-	535	899
Total	\$ 15,520,907	\$ 13,777,982	\$ 11,214,111	\$ 10,460,489	\$ 26,735,018	\$ 24,238,471

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, 2010, the Town of Blowing Rock had total bonded debt outstanding of \$415,000. Of this, \$415,000 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	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ -	\$ -	\$ 415,000	\$ 620,000	\$ 415,000	\$ 620,000
Compensated absences	84,318	95,972	24,604	22,021	108,922	117,993
Pension obligation	50,311	39,046	-	-	50,311	39,046
Installment purchases	6,202,293	5,698,237	1,326,220	1,127,365	7,528,513	6,825,602
Total	\$ 6,336,922	\$ 5,833,255	\$ 1,765,824	\$ 1,769,386	\$ 8,102,746	\$ 7,602,641

- As mentioned previously, the Town of Blowing Rock's total debt increased by \$500,105 (6.58%) during the past fiscal year, with the majority of new debt being the Blowing Rock Art and History Museum Parking Facility offset by debt retirements via payments being made on the Fire/Rescue Building, American Legion Parking Facility & Sewer Bonds.

As mentioned in the financial highlights section of this document, Moody's Investor Service maintained the Town of Blowing Rock's improved bond rating of an A2 for the second consecutive year following seven consecutive years of maintaining an A3 rating. Blowing Rock also maintained its rating from the NC Municipal Council of 80, for the ninth consecutive year. 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% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Blowing Rock is \$80,299,816.

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 financial condition of the Town.

- Unemployment continues to be lower in comparison to state rate. The Watauga County unemployment rate decreased from 7.18% in July 2009 to 7.00% in July 2010, substantially below the NC state rate of 11.00% in July 2009 and 9.80% in July 2010.
- New housing construction remains stagnant with renovation activity showing modest improvement for the year.
- Though experiencing several years of decline, the tourism market is now showing some signs of improvement.
- Both Watauga & Caldwell County have delayed their revaluations to tax year 2012 and 2013 respectively.

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities: Property tax collections and revenues from franchise fees and sales tax are projected to remain relatively flat. The Town will use these revenues to maintain existing programs and fund planned capital improvements.

Budgeted expenditures in the General Fund may increase somewhat, as a result of rising costs of employee retirement and health insurance, as well as increases in operation & maintenance costs.

Business – type Activities: Water and sewer user rates in the Town increased \$1.00 each, per month, with the Water Interconnection Fee decreasing \$2.00 per month. General operating expenses may increase to cover increased costs of employee retirement and health insurance, materials, supplies, and other operating expenses, including funding for the Water and Sewer Capital Improvements Plan.

Other: The Town experienced several increases in employee benefit costs, including:

- Increase in contribution of 0.4% of total full time salaries to the State Retirement Fund to cover the Town's Other Post Employment Benefits (OPEB) liability.
- Increase in the required Local Government Employee's Retirement System contribution of 1.9% of total full time salaries, the first increase since 1983. Future increases are expected.
- Increase of 8.9% in health insurance premiums.

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, 2010

	<u>Primary Government</u>			Town of Blowing Rock ABC Board	Town of Blowing Rock Tourism Development Authority	Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government			
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 3,985,512	\$ 1,201,237	\$ 5,186,749	\$ 113,774	\$ 192,094	\$ 5,492,617
Taxes receivable (net)	50,020	-	50,020	-	73,422	123,442
Accrued interest receivable on taxes	5,648	-	5,648	-	-	5,648
Accounts receivable (net)	369,507	1,116,032	1,485,539	-	-	1,485,539
Due from other governments	91,604	-	91,604	-	-	91,604
Due from component units	-	-	-	-	-	-
Due from primary government	-	-	-	-	-	-
Inventories	6,235	91,652	97,887	220,774	-	318,661
Prepaid items	2,146	-	2,146	-	-	2,146
Restricted cash and cash equivalents	-	-	-	145,589	-	145,589
Total current assets	<u>4,510,672</u>	<u>2,408,921</u>	<u>6,919,593</u>	<u>480,137</u>	<u>265,516</u>	<u>7,665,246</u>
Capital assets (Note 4):						
Land, non-depreciable improvements, and construction in progress	4,905,251	917,378	5,822,629	96,275	-	5,918,904
Other capital assets, net of depreciation	10,615,656	10,296,733	20,912,389	197,461	7,342	21,117,192
Total capital assets	<u>15,520,907</u>	<u>11,214,111</u>	<u>26,735,018</u>	<u>293,736</u>	<u>7,342</u>	<u>27,036,096</u>
Total assets	<u>\$ 20,031,579</u>	<u>\$ 13,623,032</u>	<u>\$ 33,654,611</u>	<u>\$ 773,873</u>	<u>\$ 272,858</u>	<u>\$ 34,701,342</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 283,080	\$ 396,708	\$ 679,788	\$ 135,904	\$ 49,118	\$ 864,810
Unearned revenue	135,376	2,982	138,358	-	-	138,358
Accrued salaries	-	11,619	11,619	-	-	11,619
Customer deposits	-	207,568	207,568	-	-	207,568
Due to primary government	-	-	-	31,236	-	31,236
Due to other governments	-	-	-	-	-	-
Long-term liabilities:						
Due within one year	580,662	415,777	996,439	-	-	996,439
Due in more than one year	5,756,260	1,350,047	7,106,307	1,855	-	7,108,162
Total liabilities	<u>6,755,378</u>	<u>2,384,701</u>	<u>9,140,079</u>	<u>168,995</u>	<u>49,118</u>	<u>9,358,192</u>
NET ASSETS						
Invested in capital assets, net of related debt	9,318,614	9,472,891	18,791,505	293,736	7,342	19,092,583
Restricted for:						
Capital projects	1,287,907	-	1,287,907	145,589	-	1,433,496
Culture and recreation	-	-	-	-	-	-
Working capital	-	-	-	39,636	-	39,636
Unrestricted	2,669,680	1,765,440	4,435,120	125,917	216,398	4,777,435
Total net assets	<u>\$ 13,276,201</u>	<u>\$ 11,238,331</u>	<u>\$ 24,514,532</u>	<u>\$ 604,878</u>	<u>\$ 223,740</u>	<u>\$ 25,343,150</u>

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

Town of Blowing Rock, North Carolina
Statement of Activities
For the Year Ended June 30, 2010

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 753,621	\$ 83,367	\$ -	\$ -
Public safety	1,495,357	65,740	3,733	-
Transportation	1,113,487	9,204	253,200	-
Environmental protection	291,927	110,282	-	-
Cultural and recreation	390,836	103,680	645,520	-
Interest on long-term debt	260,545	-	-	-
Total governmental activities (See Note 1)	4,305,773	372,273	902,453	-
Business-type activities:				
Water and sewer	1,251,647	1,353,136	-	396,220
Electric	-	-	-	-
Total business-type activities	1,251,647	1,353,136	-	396,220
Total primary government	\$ 5,557,420	\$ 1,725,409	\$ 902,453	\$ 396,220
Component units:				
ABC Board	\$ 1,430,494	\$ 1,358,852	\$ -	\$ -
Blowing Rock Tourism Development Authority	703,554	22,630	-	-
Total component unit	\$ 2,134,048	\$ 1,381,482	\$ -	\$ -

General revenues:

Taxes:

Property taxes, levied for general purpose

Other taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Cumulative change in application of capitalization policy

Change in net assets

Net assets, beginning

Net assets, ending

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

Exhibit 2

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
\$ (670,254)	\$ -	\$ (670,254)	\$ -	\$ -	\$ (670,254)
(1,425,884)	-	(1,425,884)	-	-	(1,425,884)
(851,083)	-	(851,083)	-	-	(851,083)
(181,645)	-	(181,645)	-	-	(181,645)
358,364	-	358,364	-	-	358,364
(260,545)	-	(260,545)	-	-	(260,545)
(3,031,047)	-	(3,031,047)	-	-	(3,031,047)
-	497,709	497,709	-	-	497,709
-	-	-	-	-	-
-	497,709	497,709	-	-	497,709
(3,031,047)	497,709	(2,533,338)	-	-	(2,533,338)
-	-	-	(71,642)	-	(71,642)
-	-	-	-	(680,924)	(680,924)
-	-	-	(71,642)	(680,924)	(752,566)
3,064,673	-	3,064,673	-	-	3,064,673
291,703	-	291,703	-	609,590	901,293
784,580	-	784,580	-	-	784,580
22,433	6,906	29,339	4,464	955	34,758
56,258	-	56,258	-	1,342	57,600
(200,000)	200,000	-	-	-	-
4,019,647	206,906	4,226,553	4,464	611,887	4,842,904
-	-	-	-	-	-
988,600	704,615	1,693,215	(67,178)	(69,037)	1,557,000
12,287,601	10,533,716	22,821,317	672,056	292,777	23,786,150
\$ 13,276,201	\$ 11,238,331	\$ 24,514,532	\$ 604,878	\$ 223,740	\$ 25,343,150

**Town of Blowing Rock
Balance Sheet
Governmental Funds
June 30, 2010**

	Major Funds		Total Governmental Funds
	General	Capital Projects	
ASSETS			
Cash and cash equivalents	\$ 2,624,161	\$ 1,361,351	\$ 3,985,512
Receivables, net:			
Taxes	50,020	-	50,020
Accounts	354,479	15,028	369,507
Due from other governments	91,604	-	91,604
Prepaid Expenses	2,146	-	2,146
Inventories	6,235	-	6,235
Total assets	<u>\$ 3,128,645</u>	<u>\$ 1,376,379</u>	<u>\$ 4,505,024</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 194,608	\$ 88,472	\$ 283,080
Due to other funds	-	-	-
Deferred revenue	50,020	-	50,020
Unearned revenue	135,376	-	135,376
Liabilities payable from restricted assets:			
Accounts payable	-	-	-
Total liabilities	<u>380,004</u>	<u>88,472</u>	<u>468,476</u>
Fund balances:			
Reserved for:			
Subsequent year's expenditures	100,000	-	100,000
Inventories	6,235	-	6,235
Prepays	2,146	-	2,146
State statute	446,083	15,028	461,111
Streets-Powell bill	-	-	-
Unreserved, General Fund	2,194,177	-	2,194,177
Unreserved, reported in:			
Capital Projects Fund	-	1,272,879	1,272,879
Total fund balances	<u>2,748,641</u>	<u>1,287,907</u>	<u>4,036,548</u>
Total liabilities and fund balances	<u>\$ 3,128,645</u>	<u>\$ 1,376,379</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.	15,520,907
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.	5,648
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.	50,020
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>\$ (6,336,922)</u>
Net assets of governmental activities	<u>\$ 13,276,201</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, 2010

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects	
REVENUES			
Ad valorem taxes	\$ 3,043,892	\$ -	\$ 3,043,892
Other taxes and licenses	291,703	-	291,703
Unrestricted intergovernmental	784,580	-	784,580
Restricted intergovernmental	275,943	607,520	883,463
Permits and fees	65,740	-	65,740
Sales and services	176,406	-	176,406
Investment earnings	18,662	3,771	22,433
Miscellaneous	185,366	20,000	205,366
Total revenues	<u>4,842,292</u>	<u>631,291</u>	<u>5,473,583</u>
EXPENDITURES			
Current:			
General government	694,059	-	694,059
Public safety	1,472,143	-	1,472,143
Transportation	1,075,318	-	1,075,318
Economic and physical development	-	-	-
Environmental protection	256,663	-	256,663
Culture and recreation	376,591	-	376,591
Debt service:			
Principal	528,144	-	528,144
Interest and other charges	260,545	-	260,545
Capital outlay	-	1,929,321	1,929,321
Total expenditures	<u>4,663,463</u>	<u>1,929,321</u>	<u>6,592,784</u>
Excess (deficiency) of revenues over expenditures	<u>178,829</u>	<u>(1,298,030)</u>	<u>(1,119,201)</u>
OTHER FINANCING SOURCES (USES)			
Transfers (to)/from other funds	(213,910)	13,910	(200,000)
Sales of capital assets	15,553	-	15,553
Installment purchase obligations issued	32,209	1,000,000	1,032,209
Capital lease obligations issued	-	-	-
Total other financing sources (uses)	<u>(166,148)</u>	<u>1,013,910</u>	<u>847,762</u>
Net change in fund balance	12,681	(284,120)	(271,439)
Fund balances, beginning	2,735,960	1,572,027	4,307,987
Change in reserve for inventories	-	-	-
Fund balances, ending	<u>\$ 2,748,641</u>	<u>\$ 1,287,907</u>	<u>\$ 4,036,548</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, 2010

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

Net changes in fund balances - total governmental funds	\$ (271,439)
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

	1,891,819
Book value assets disposed	(148,894)

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

Amount of donated assets	-
Change in deferred revenue for tax revenues	20,781

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.

	(504,056)
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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	11,654
Net pension obligation	(11,265)
	(11,265)

Total changes in net assets of governmental activities	\$ 988,600
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Exhibit 6

**Town of Blowing Rock
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2010**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 2,979,800	\$ 2,979,800	\$ 3,043,892	\$ 64,092
Other taxes and licenses	342,685	342,685	291,703	(50,982)
Unrestricted intergovernmental	749,750	799,750	784,580	(15,170)
Restricted intergovernmental	93,000	262,755	275,943	13,188
Permits and fees	80,000	80,000	65,740	(14,260)
Sales and services	164,450	164,450	176,406	11,956
Investment earnings	40,000	40,000	18,662	(21,338)
Miscellaneous	173,500	190,455	185,366	(5,089)
Total revenues	<u>4,623,185</u>	<u>4,859,895</u>	<u>4,842,292</u>	<u>(17,603)</u>
Expenditures:				
Current:				
General government	679,675	727,255	694,059	33,196
Public safety	1,572,770	1,528,490	1,472,143	56,347
Transportation	898,885	1,090,535	1,075,318	15,217
Environmental protection	271,600	268,370	256,663	11,707
Cultural and recreation	390,050	388,170	376,591	11,579
Debt service:				
Principal retirement	756,295	528,144	528,144	-
Interest and other charges		260,561	260,545	16
Total expenditures	<u>4,569,275</u>	<u>4,791,525</u>	<u>4,663,463</u>	<u>128,062</u>
Revenues over (under) expenditures	<u>53,910</u>	<u>68,370</u>	<u>178,829</u>	<u>110,459</u>
Other financing sources (uses):				
Transfers to other funds	(161,410)	(213,910)	(213,910)	-
Sale of assets	7,500	13,330	15,553	2,223
Appropriated fund balance	100,000	100,000	-	(100,000)
Proceeds from installment purchase	-	32,210	32,209	(1)
Total other financing sources (uses)	<u>(53,910)</u>	<u>(68,370)</u>	<u>(166,148)</u>	<u>(97,778)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>12,681</u>	<u>\$ 12,681</u>
Fund balances, beginning			2,735,960	
Change in reserve for inventories			-	
Fund balances, ending			<u>\$ 2,748,641</u>	

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, 2010**

	Water and Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,201,237	\$ 1,201,237
Accounts receivable (net) - billed	1,116,032	1,116,032
Due from other governments	-	-
Inventories	91,652	91,652
Prepaid items	-	-
Restricted cash and cash equivalents	-	-
Total current assets	<u>2,408,921</u>	<u>2,408,921</u>
Capital assets:		
Land and other non-depreciable assets	917,378	917,378
Other capital assets, net of depreciation	10,296,733	10,296,733
Capital assets (net)	<u>11,214,111</u>	<u>11,214,111</u>
Total assets	<u>\$ 13,623,032</u>	<u>\$ 13,623,032</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 396,708	\$ 396,708
Accrued salaries	11,619	11,619
Customer deposits	207,568	207,568
Unearned revenue	2,982	2,982
Compensated absences - current	24,604	24,604
General obligation bonds payable-current	205,000	205,000
Installment purchase-current	186,173	186,173
Bond anticipation notes payable	-	-
Total current liabilities	<u>1,034,654</u>	<u>1,034,654</u>
Noncurrent liabilities:		
Liabilities payable from restricted assets:		
Accounts payable	-	-
Other noncurrent liabilities:		
Compensated absences	-	-
General obligation bonds payable-noncurrent (net)	210,000	210,000
Installment purchase-noncurrent	1,140,047	1,140,047
Total noncurrent liabilities	<u>1,350,047</u>	<u>1,350,047</u>
Total liabilities	<u>2,384,701</u>	<u>2,384,701</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,472,891	9,472,891
Unrestricted	1,765,440	1,765,440
Total net assets	<u>\$ 11,238,331</u>	<u>\$ 11,238,331</u>

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, 2010

	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 1,333,645	\$ 1,333,645
Water and sewer taps	3,291	3,291
Other operating revenues	16,200	16,200
Total operating revenues	1,353,136	1,353,136
OPERATING EXPENSES		
Administration	132,499	132,499
Water/Sewer plant operations	478,899	478,899
Water/Sewer field operations	286,722	286,722
Depreciation	300,639	300,639
Total operating expenses	1,198,759	1,198,759
Operating income (loss)	154,377	154,377
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	6,906	6,906
Sale of fixed assets	-	-
Interest and other charges	(52,888)	(52,888)
Bond issuance costs	-	-
Total nonoperating revenue (expenses)	(45,982)	(45,982)
Income (loss) before contributions and transfers	108,395	108,395
Grant proceeds	396,220	396,220
Public contributions	-	-
Transfers from other funds	200,000	200,000
Transfers to other funds	-	-
Total income (loss) after contributions and transfers	704,615	704,615
Cumulative change in application of capitalization policy	-	-
Change in net assets	704,615	704,615
Total net assets, beginning	10,533,716	10,533,716
Total net assets, ending	\$ 11,238,331	\$ 11,238,331

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, 2010

	<u>Water and Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,343,494	\$ 1,343,494
Cash paid for goods and services	(1,023,494)	(1,023,494)
Cash paid to or on behalf of employees for services	(426,603)	(426,603)
Customer deposits received (returned)	7,062	7,062
Other operating revenues	-	-
Net cash provided (used) by operating activities	<u>(99,541)</u>	<u>(99,541)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	200,000	200,000
Transfers to other funds	-	-
Grant proceeds	396,220	396,220
Total cash flows from noncapital financing activities	<u>596,220</u>	<u>596,220</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond anticipation notes issued	-	-
Acquisition and construction of capital assets	(1,054,262)	(1,054,262)
Principal paid on bond maturities and equipment contracts	(402,365)	(402,365)
Proceeds from installment purchase	396,220	396,220
Interest paid on bond maturities and equipment contracts	(52,888)	(52,888)
Sale of fixed assets	-	-
Capital contributions-Federal grant	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,113,295)</u>	<u>(1,113,295)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>6,906</u>	<u>6,906</u>
Net increase (decrease) in cash and cash equivalents	(609,710)	(609,710)
Balances, beginning	1,810,947	1,810,947
Balances, ending	<u>\$ 1,201,237</u>	<u>\$ 1,201,237</u>

Town of Blowing Rock
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	<u>Water and Sewer Fund</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 154,377	\$ 154,377
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	300,639	300,639
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(802,082)	(802,082)
Increase (decrease) in allowance for doubtful accounts	-	-
(Increase) decrease in inventory	(9,650)	(9,650)
(Increase) in prepaid items	-	-
(Increase) in due from other funds	-	-
Increase (decrease) in accounts payable and accrued liabilities	246,956	246,956
Increase (decrease) in unearned revenue	574	574
Increase (decrease) in customer deposits	7,062	7,062
Increase (decrease) in accrued vacation pay	2,583	2,583
Total adjustments	<u>(253,918)</u>	<u>(253,918)</u>
Net cash provided by operating activities	<u>\$ (99,541)</u>	<u>\$ (99,541)</u>

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

Town of Blowing Rock, North Carolina

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2010

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 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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 note proceeds of the Water and Sewer Fund and the Capital Projects Fund are classified as restricted assets because their use is completely restricted to the purpose for which the notes were originally issued.

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, 2008.

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, 2010.

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:

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

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

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

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

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

8. 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 2010 – 2011 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, 2010 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, 2010, the Town's deposits had a carrying amount of \$4,524,138 and a bank balance of \$4,585,395. Of the bank balance, \$750,000 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 \$209,735 and the bank balance was \$233,798. All of the bank balance was covered by federal depository insurance. The carrying amount of deposits for the Authority was \$167,094 and the bank balance was \$168,831. All of the bank balance was covered by federal depository insurance. At June 30, 2010, the Town's and the ABC Board's petty cash fund totaled \$500 and \$1,200, respectively.

2. Investments

At June 30, 2010, the Town, the ABC Board, and the Authority had \$662,111, \$48,427, and \$25,000 respectively, invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM with Standard and Poor's. The Town, the ABC Board, and the Authority have no policy regarding credit risk.

3. Receivables – Allowances for Doubtful Accounts

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

Fund	6/30/2010
General Fund:	
Taxes Receivable	\$ 46,759

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2010, 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	1,230,605	1,929,321	(1,433,506)	1,726,420
Total capital assets not being depreciated	<u>4,409,436</u>	<u>1,929,321</u>	<u>(1,433,506)</u>	<u>4,905,251</u>
Capital assets being depreciated:				
Infrastructure	2,183,868	214,397	(27,667)	2,370,598
Buildings	6,508,401	1,218,887	(40,000)	7,687,288
Equipment and furniture	3,135,427	53,280	-	3,188,707
Vehicles	1,385,947	482,888	(212,508)	1,656,327
Computers	123,156	-	-	123,156
Total capital assets being depreciated	<u>13,336,799</u>	<u>1,969,452</u>	<u>(280,175)</u>	<u>15,026,076</u>
Less accumulated depreciation for:				
Infrastructure	78,911	43,481	(1,107)	121,285
Buildings	617,845	130,900	(40,000)	708,745
Equipment and furniture	2,462,116	156,433	-	2,618,549
Vehicles	687,124	242,270	(90,174)	839,220
Computers	122,257	364	-	122,621
Total accumulated depreciation	<u>3,968,253</u>	<u>\$ 573,448</u>	<u>\$ (131,281)</u>	<u>4,410,420</u>
Total capital assets being depreciated, net	<u>9,368,546</u>			<u>10,615,656</u>
Governmental activity capital assets, net	<u>\$ 13,777,982</u>			<u>\$ 15,520,907</u>

Depreciation was charged to governmental functions as follows:

General Government	\$	39,070
Public Safety		344,699
Transportation		52,737
Environmental protection		29,496
Cultural & recreation		13,054
Unallocated depreciation		-
	\$	<u>479,056</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Water/Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 81,521	\$ -	\$ -	\$ 81,521
Construction in progress	1,678,256	1,054,262	(1,896,661)	835,857
Total capital assets not being depreciated	<u>1,759,777</u>	<u>1,054,262</u>	<u>(1,896,661)</u>	<u>917,378</u>
Capital assets being depreciated:				
Plant	13,869,176	1,896,661	-	15,765,837
Equipment	1,002,469	-	-	1,002,469
Total capital assets being depreciated	<u>14,871,645</u>	<u>1,896,661</u>	<u>-</u>	<u>16,768,306</u>
Less accumulated depreciation for:				
Plant	5,315,504	270,334	-	5,585,838
Equipment	855,429	30,306	-	885,735
Total accumulated depreciation	<u>6,170,933</u>	<u>\$ 300,640</u>	<u>\$ -</u>	<u>6,471,573</u>
Total capital assets being depreciated, net	<u>10,460,489</u>			<u>10,296,733</u>
Business-type activities capital assets, net	<u>\$ 10,460,489</u>			<u>\$ 11,214,111</u>

Discretely Presented component units

Activity for the ABC Board for the year ended June 30, 2010, was as follows:

	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Land		\$ 96,275	\$ -	\$ 96,275
Building and improvements	20 years	301,831	122,919	178,912
Furniture and equipment	10 years	57,722	39,385	18,337
Computer equipment	5 years	25,775	25,563	212
		<u>\$ 481,603</u>	<u>\$ 187,867</u>	<u>\$ 293,736</u>

Activity for the Authority for the year ended June 30, 2010, 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	6,790	1,570	-	8,360
Total accumulated depreciation	6,790	\$ 1,570	\$ -	8,360
Total capital assets being depreciated, net	8,912			7,342
Governmental activity capital assets, net	<u>\$ 8,912</u>			<u>\$ 7,342</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 9.35% and 9.36%, 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, 2010, 2009, and 2008 were \$179,914, \$136,719, and \$88,938, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2010, 2009, and 2008 were \$3,278, \$3,208, and \$3,068, respectively. The Authority's contributions to LGERS for the year ended June 30, 2010, 2009, and 2008 were \$5,751, \$5,732 and \$5,755, 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, 2009, the Separation Allowance's membership consisted of:

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

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, 2009 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	\$ 15,357
Interest on net pension obligation	2,831
Adjustment to annual required contribution	<u>(2,460)</u>
Annual pension cost	\$ 15,728
Employer contributions made for fiscal year ending 6/30/2009	<u>(4,463)</u>
Increase (decrease) in net pension obligation	\$ 11,265
Net pension obligation beginning of fiscal year	<u>39,046</u>
Net pension obligation end of fiscal year	\$ 50,311

3 Year Trend Information			
Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	\$ 9,800	138.90%	\$ 33,680
6/30/2009	15,799	66.03%	39,046
6/30/2010	15,728	28.38%	50,311

4. Funded Status and Funding Progress.

As of December 31, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$138,389. The covered payroll (annual payroll of active employees covered by the plan) was \$365,575, and the ratio of the UAAL to the covered payroll was 37.86%.

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

c. Supplemental Retirement Income Plan 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. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute 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, 2010 were \$27,753, which consisted of \$17,888 from the Town and \$9,865 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. Participating in the State Health Plan, the Town pays for these benefits through a contribution to the State of 4.5% of the covered payroll of employees who are members of the Retirement system to fund its total liability for the year. The Town's retirees may also purchase coverage for their dependents through the State plan. For the fiscal year ended June 30, 2010, the Town made contributions for post-employment health benefits totaling \$86,581 to fund the Town's portion of OPEB liability for the year. Currently four retirees are receiving post-employment health benefits.

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest 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, 2010, the Town made contributions to the State for death benefits of \$1,294. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .05% 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	\$ 50,020	\$ -
Prepaid licenses (General Fund)		\$ 135,376
Prepaid charges (Water/Sewer Fund)	-	2,982
	<u>\$ 50,020</u>	<u>\$ 138,358</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.

There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2010, the Town was not involved in any lawsuit.

6. Long-Term Obligations

a. Installment Purchases

The Town has entered into various installment purchase contracts. The first agreement was executed January 17, 2003 for the purchase of land and requires quarterly payments of \$12,917 plus interest at 4.35%. The second agreement was executed February 10, 2005 for the purchase of buildings and requires semiannual payments of \$17,500 plus interest at 3.79%. The third agreement was executed September 14, 2005 for the purchase of equipment and requires annual payments of \$18,325 including interest at 3.45%. The fourth agreement was executed October 10, 2004 for the construction of a building and requires annual principal payments of \$235,000 plus interest at 4.22%. The fifth agreement was executed August 16, 2007 for the purchase of vehicles and equipment and requires annual principal payments of \$47,195 including interest at 3.77%. The sixth agreement was executed April 7, 2009 for the construction of a parking facility and for the water/sewer service capital improvements. This agreement requires annual principal payments of \$283,032 plus interest at 2.92%. The seventh agreement was executed October 15, 2008 for the purchase of vehicles and requires annual payments of \$36,536 including interest at 3.26%. The eighth agreement was executed October 15, 2008 for the purchase of a vehicle and requires annual payments of \$18,759 including interest at 3.49%. The ninth agreement was executed on July 7, 2009 for water infrastructure and requires annual payments of \$50,007 and is interest free.

The future minimum payments of the installment purchase as of June 30, 2010 are as follows:

Year	General		Water/Sewer	
	Principal	Interest	Principal	Interest
2010-2011	\$ 496,344	\$ 249,739	\$ 186,173	\$ 27,201
2011-2012	473,160	230,789	228,026	21,720
2012-2013	534,352	212,832	233,179	16,567
2013-2014	513,561	192,090	238,573	11,173
2014-2015	513,561	172,104	244,077	5,667
2015-2020	1,876,699	646,423	196,192	
2020-2025	1,559,616	198,340	-	-
2025-2030	235,000	9,917	-	-
Total	\$ 6,202,293	\$ 1,912,234	\$ 1,326,220	\$ 82,328

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, 2010 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.

\$ 415,000

Annual debt service requirements to maturity for general obligation bonds, including interest of \$13,385, are as follows:

Year	Water/Sewer	
	Principal	Interest
2010-2011	\$ 205,000	\$ 13,385
2011-2012	210,000	-
2012-2013	-	-
2013-2014	-	-
2014-2015	-	-
Total	<u>\$ 415,000</u>	<u>\$ 13,385</u>

At June 30, 2010 the Town of Blowing Rock had a legal debt margin of \$80,299,816.

c. Changes in Long-Term Liabilities

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Current Portion
Government activities:					
Installment purchases	5,698,237	1,032,200	(528,144)	6,202,293	496,344
Compensated absences	95,972	245,434	(257,088)	84,318	84,318
Pension Obligation	39,046	15,728	(4,463)	50,311	-
Governmental activity long-term debt	<u>5,833,255</u>	<u>1,293,362</u>	<u>(789,695)</u>	<u>6,336,922</u>	<u>580,662</u>
Business activities:					
Installment purchases	1,127,365	396,220	(197,365)	1,326,220	186,173
General obligation bonds	620,000	-	(205,000)	415,000	205,000
Compensated absences	22,021	50,369	(47,786)	24,604	24,604
Business-type activity long-term debt	<u>1,769,386</u>	<u>446,589</u>	<u>(450,151)</u>	<u>1,765,824</u>	<u>415,777</u>

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

C. Interfund Activity

Transfers to/from Other Funds

Net Transfers to/from other funds at June 30, 2010 consist of the following:

From the General Fund to the Capital Projects Fund	\$13,910
From the General Fund to the Water/Sewer Capital Projects Fund	\$200,000
From the Water/Sewer Fund to the Water/Sewer Capital Projects Fund	\$109,965

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 2010 fiscal year, the Town made transfers from the General Fund to the General Capital Project Funds for the following: \$50,000 to the Sidewalk Reserve for future projects, \$30,000 for funding the Pool Renovation Reserve, \$10,000 for Storm Water Projects, and \$52,500 for various projects. Transfers of \$25,000 from the parking reserve for American Legion Parking Facility Debt Service, \$60,000 from the N. Caldwell and Blowing Rock Fire Districts and \$43,590 from the Fire/Rescue Reserve for Fire/Rescue Building Debt Service were made to the General Fund from the General Capital Projects fund. The General Fund also transferred \$200,000 to the Water/Sewer Capital Projects Fund for the Water/Sewer Capital Improvement Plan funding. The Water/Sewer Fund transferred \$109,965 to the Water/Sewer Capital Projects Fund.

IV. Jointly Governed Organization

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D High Country Council of Government (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$510 to the Council during the fiscal year ended June 30, 2010.

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.

Required Supplementary Financial Data

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

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2003	-	100,524	100,524	0.00%	317,218	26.3%
12/31/2004	-	79,129	79,129	0.00%	341,243	29.3%
12/31/2005	-	68,223	68,223	0.00%	360,021	31.0%
12/31/2006	-	78,063	78,063	0.00%	331,529	32.7%
12/31/2007	-	132,313	132,313	0.00%	369,933	34.5%
12/31/2008	-	126,525	126,525	0.00%	332,179	38.1%
12/31/2009	-	138,389	138,389	0.00%	365,575	37.9%

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

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2008	9,800	138.39%
2009	15,799	66.03%
2010	15,728	28.38%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part actuarial valuation follows:

Valuation date	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.0%
Projected salary increases*	4.5 - 12.3%
*Includes inflation at	3.75%
Cost-of living adjustments	N/A

Supplementary Statements

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

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, 2010

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 3,031,707	\$
Interest		12,185	
Total	<u>2,979,800</u>	<u>3,043,892</u>	<u>64,092</u>
Other taxes and licenses:			
Occupancy tax		275,081	
Privilege licenses		16,622	
Total	<u>342,685</u>	<u>291,703</u>	<u>(50,982)</u>
Unrestricted intergovernmental:			
Local option sales taxes		345,710	
Cablevision franchise		-	
Telecommunications sales tax		52,400	
Video Programming Tax		62,088	
Utility franchise tax		142,489	
Hold harmless sales		9,779	
Beer and wine tax		2,114	
ABC profit distribution		170,000	
Total	<u>799,750</u>	<u>784,580</u>	<u>(15,170)</u>
Restricted intergovernmental:			
Powell Bill allocation		76,289	
Snow removal		23,059	
ABC Revenue for law enforcement		3,733	
Federal and State grants		171,852	
Solid waste disposal tax		1,010	
Total	<u>262,755</u>	<u>275,943</u>	<u>13,188</u>
Permits and fees:			
Building permits		65,740	
Total	<u>80,000</u>	<u>65,740</u>	<u>(14,260)</u>
Sales and services:			
Recreation department fees		103,680	
Recycling revenue		3,245	
Park lease/rental income		60,277	
Parking fees		9,204	
Total	<u>164,450</u>	<u>176,406</u>	<u>11,956</u>
Investment earnings	<u>40,000</u>	<u>18,662</u>	<u>(21,338)</u>
Miscellaneous:			

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, 2010

	Budget	Actual	Variance Positive (Negative)
Miscellaneous		56,249	
Cemetery revenue		15,500	
Solid waste fees		106,027	
Zoning fees		7,590	
Total	190,455	185,366	(5,089)
Total revenues	4,859,895	4,842,292	(17,603)
Expenditures:			
General government:			
Salaries		-	
Employee benefits		-	
Professional services		56,966	
Other operating expenditures		229,604	
Capital outlay		-	
Total		286,570	
Governing body:			
Salaries		15,600	
Employee benefits		18,719	
Other operating expenditures		6,144	
Total		40,463	
Finance:			
Salaries		228,872	
Employee benefits		67,101	
Other operating expenditures		24,450	
Capital outlay		3,732	
Total		324,155	
Public buildings:			
Salaries		7,449	
Employee benefits		574	
Other operating expenditures		31,254	
Capital outlay		3,594	
Total		42,871	
Total general government	727,255	694,059	33,196
Public safety:			
Police:			
Salaries		524,002	
Employee benefits		174,211	
Vehicle maintenance		41,045	
Other operating expenditures		66,275	

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, 2010

	Budget	Actual	Variance Positive (Negative)
Capital outlay		48,094	
Total		<u>853,627</u>	
Fire:			
Salaries		265,850	
Employee benefits		75,995	
Other operating expenditures		53,305	
Capital outlay		-	
Total		<u>395,150</u>	
Inspections:			
Salaries		147,852	
Employee benefits		41,315	
Vehicle maintenance		1,294	
Other operating expenditures		26,511	
Capital outlay		6,394	
Total		<u>223,366</u>	
Total public safety	<u>1,528,490</u>	<u>1,472,143</u>	<u>56,347</u>
Transportation:			
Streets and highways:			
Salaries		265,250	
Employee benefits		83,166	
Sidewalk construction		-	
Vehicle maintenance		52,133	
Street Lights		115,786	
Other operating expenditures		523,773	
Capital outlay		35,210	
Total transportation	<u>1,090,535</u>	<u>1,075,318</u>	<u>15,217</u>
Environmental protection:			
Solid waste:			
Salaries		96,787	
Employee benefits		36,356	
Vehicle maintenance		18,899	
Other operating expenditures		104,621	
Capital outlay		-	
Total environmental protection	<u>268,370</u>	<u>256,663</u>	<u>11,707</u>
Culture and recreation:			
Parks and recreation:			
Salaries		200,652	
Employee benefits		54,444	
Other operating expenditures		115,835	
Capital outlay		-	

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, 2010

	Budget	Actual	Variance Positive (Negative)
Total		370,931	
Community donations:			
Contributions		5,660	
Total		5,660	
Total cultural and recreational	388,170	376,591	11,579
Debt service:			
Principal retirement		528,144	
Interest and other charges		260,545	
Total debt service	788,705	788,689	16
 Total expenditures	 4,791,525	 4,663,463	 128,062
Revenues over (under) expenditures	68,370	178,829	110,459
Other financing sources (uses):			
Transfers (to)/from other funds:			
Capital Projects Fund	(13,910)	(13,910)	-
Enterprise Fund	-	-	-
Enterprise Capital Projects Fund	(200,000)	(200,000)	-
Sale of assets	13,330	15,553	2,223
Proceeds from installment purchase	32,210	32,209	(1)
Appropriated fund balance	100,000	-	(100,000)
Total	\$ (68,370)	(166,148)	\$ (97,778)
Revenues and other financing sources over expenditures and other financing uses	\$ -	12,681	\$ 12,681
Fund balances, beginning		2,735,960	
Change in reserve for inventories		-	
Fund balances, ending		\$ 2,748,641	

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, 2010

	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	\$ -
Contributions and grants	975,000	316,856	607,520	924,376	(50,624)
Total	985,145	327,001	607,520	934,521	(50,624)
Other revenues:					
Investment earnings	13,245	40,335	3,771	44,106	30,861
Miscellaneous	498,160	450,014	20,000	470,014	(28,146)
Total	511,405	490,349	23,771	514,120	2,715
Total revenues	1,496,550	817,350	631,291	1,448,641	(47,909)
Expenditures					
Recreation project:					
Capital outlay:					
Culture and recreation	2,449,415	72,110	1,149,500	1,221,610	1,227,805
Total	2,449,415	72,110	1,149,500	1,221,610	1,227,805
Streets and sidewalks project:					
Capital outlay:					
Transportation	450,315	166,193	227,359	393,552	56,763
Total	450,315	166,193	227,359	393,552	56,763
BRAHM project:					
Capital outlay:					
Culture and recreation	1,546,000	992,302	552,462	1,544,764	1,236
Total	1,546,000	992,302	552,462	1,544,764	1,236
Total expenditures	4,445,730	1,230,605	1,929,321	3,159,926	1,285,804
Revenues under expenditures	(2,949,180)	(413,255)	(1,298,030)	(1,711,285)	1,237,895
Other Financing Sources					
Various projects:					
Operating transfers in:					
General Fund	1,144,380	1,180,482	13,910	1,194,392	50,012
Installment purchase obligations issued	1,804,800	804,800	1,000,000	1,804,800	-
Total other financing sources	2,949,180	1,985,282	1,013,910	2,999,192	50,012
Revenues and other sources over expenditures	\$ -	\$ 1,572,027	\$ (284,120)	\$ 1,287,907	\$ 1,287,907

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, 2010

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales:			
Residential	\$ -	\$ 650,924	\$ -
Impact fees		9,750	
Interconnect charges		128,344	
Total	<u>846,000</u>	<u>789,018</u>	<u>(56,982)</u>
Sewer charges:			
Residential		524,062	
Impact fees		20,565	
Total	<u>612,000</u>	<u>544,627</u>	<u>(67,373)</u>
Water and sewer taps	<u>13,000</u>	<u>3,291</u>	<u>(9,709)</u>
Other operating revenues	<u>27,105</u>	<u>16,200</u>	<u>(10,905)</u>
Total operating revenues	<u>1,498,105</u>	<u>1,353,136</u>	<u>(144,969)</u>
Nonoperating revenues:			
Interest earnings	<u>20,000</u>	<u>3,863</u>	<u>(16,137)</u>
Total revenues	<u>1,518,105</u>	<u>1,356,999</u>	<u>(161,106)</u>
Expenditures:			
Water and sewer administration:			
Salaries		31,825	
Employee benefits		10,204	
Travel		-	
Supplies		-	
Insurance		46,231	
Vehicle maintenance		-	
Other operating expenditures		10,140	
Engineering services		33,932	
Total water and sewer administration	<u>132,355</u>	<u>132,332</u>	<u>23</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, 2010

	Budget	Actual	Variance Positive (Negative)
Water and sewer plant operations:			
Salaries		162,577	
Employee benefits		49,687	
Repairs and maintenance		37,358	
Supplies		10,663	
Other operating expenditures		30,081	
Utilities		141,757	
Sludge composting		45,600	
Total	<u>484,165</u>	<u>477,723</u>	<u>6,442</u>
Water and sewer field operations:			
Salaries		128,691	
Employee benefits		43,619	
Supplies		36,780	
Chemicals		42,835	
Other operating expenditures		33,557	
Total	<u>331,360</u>	<u>285,482</u>	<u>45,878</u>
Debt service:			
Bond issuance costs	-	-	-
Interest and other charges	52,895	52,888	7
Principal retirement	402,365	402,365	-
Total debt service	<u>455,260</u>	<u>455,253</u>	<u>7</u>
Capital outlay:			
Equipment	10,000	-	10,000
Water taps	-	-	-
Miscellaneous water	-	-	-
Sewer extensions	-	-	-
Sewer taps	-	-	-
Miscellaneous sewer	-	-	-
Total capital outlay	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total expenditures	<u>1,413,140</u>	<u>1,350,790</u>	<u>62,350</u>
Other financing sources (uses):			
Transfer (to)from other funds:			
General fund	-	-	-
Capital projects water and sewer	(109,965)	(109,965)	-
Proceeds from installment purchase	-	-	-
Sale of fixed assets	5,000	-	(5,000)
Appropriated fund balance	-	-	-
Total other financing sources (uses)	<u>(104,965)</u>	<u>(109,965)</u>	<u>(5,000)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>(103,756)</u>	<u>\$ (103,756)</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, 2010

	<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		\$ (103,756)	
Reconciling items:			
Principal retirement		402,365	
Capital outlay items capitalized		-	
Assets transferred from General Fund		-	
Decrease in bond interest accrued		-	
Increase in accrued vacation payable		(2,583)	
Depreciation		(300,639)	
Transfers to water and sewer capital projects		109,965	
Proceeds from installment purchase		-	
Grant Proceeds from Water and Sewer Capital Projects Fund		396,220	
Interest income from Water and Sewer Capital Projects Fund		3,043	
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>808,371</u>	
Net income		<u>\$ 704,615</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, 2010

	Project Author - ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Investment earnings	\$ 89,145	\$ 131,815	\$ 3,043	\$ 134,858	\$ 45,713
Grants & contributions	1,603,850	-	396,220	396,220	(1,207,630)
Miscellaneous income	33,750	-	-	-	(33,750)
Total	1,726,745	131,815	399,263	531,078	(1,195,667)
Total revenues	1,726,745	131,815	399,263	531,078	(1,195,667)
Expenditures					
Construction	6,256,565	1,678,254	1,054,262	2,732,516	3,524,049
Total	6,256,565	1,678,254	1,054,262	2,732,516	3,524,049
Revenues under expenditures	(4,529,820)	(1,546,439)	(654,999)	(2,201,438)	2,328,382
Other financing sources :					
Operating transfer from water and sewer fund	548,475	425,522	109,965	535,487	(12,988)
Transfer from general fund	721,085	521,087	200,000	721,087	2
Proceeds of long-term debt	3,260,260	1,260,000	396,220	1,656,220	(1,604,040)
Other contributions	-	8,844	-	8,844	8,844
Total other sources	4,529,820	2,215,453	706,185	2,921,638	(1,608,182)
Revenues and other sources over (under) expenditures	\$ -	\$ 669,014	\$ 51,186	\$ 720,200	\$ 720,200

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, 2010

Fiscal Year	Uncollected Balance June 30, 2009	Additions	Collections And Credits	Uncollected Balance June 30, 2010
2009-2010	\$ -	\$ 3,027,111	\$ 2,967,305	\$ 59,806
Vehicle Tax	-	46,880	44,801	2,079
2008-2009	35,918	-	23,855	12,063
Vehicle Tax	3,495	-	2,568	927
2007-2008	4,718	-	486	4,232
Vehicle Tax	734	-	112	622
2006-2007	3,256	-	507	2,749
Vehicle Tax	435	-	26	409
2005-2006	2,749	-	458	2,291
Vehicle Tax	858	-	4	854
2004-2005	2,271	-	601	1,670
Vehicle Tax	793	-	-	793
2003-2004	1,640	-	525	1,115
Vehicle Tax	534	-	5	529
2002-2003	2,858	-	-	2,858
Vehicle Tax	-	-	-	-
2001-2002	2,540	-	-	2,540
2000-2001	1,242	-	-	1,242
1999-2000	852	-	852	-
	<u>\$ 64,893</u>	<u>\$ 3,073,991</u>	<u>\$ 3,042,105</u>	<u>\$ 96,779</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>46,759</u>
Ad valorem taxes receivable - net				<u>\$ 50,020</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				\$ 3,043,892
Releases and refunds				9,028
Amounts written off per statute of limitations				<u>1,370</u>
Subtotal				3,054,290
Less interest collected				<u>(12,185)</u>
Total collections and credits				<u>\$ 3,042,105</u>

Town of Blowing Rock, North Carolina
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2010

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 1,097,681,303	0.280%	\$ 3,073,508	\$ 3,026,628	\$ 46,880
Penalties	-		-	-	-
Total	<u>1,097,681,303</u>		<u>3,073,508</u>	<u>3,026,628</u>	<u>46,880</u>
Discoveries:					
Current year taxes	172,813	0.280%	483	483	-
Prior year taxes	-	0.280%	-	-	-
Penalties	-	0.280%	-	-	-
	<u>172,813</u>		<u>483</u>	<u>483</u>	<u>-</u>
Abatements	-	0.280%	-	-	-
Total property valuation	<u>\$ 1,097,854,116</u>				
Net levy			3,073,991	3,027,111	46,880
Uncollected taxes at June 30, 2009			<u>61,885</u>	<u>59,806</u>	<u>2,079</u>
Current year's taxes collected			<u>\$3,012,106</u>	<u>\$2,967,305</u>	<u>\$44,801</u>
Current levy collection percentage			<u>97.99%</u>	<u>98.02%</u>	<u>95.57%</u>

Compliance Section

COMBS,
TENNANT & CARPENTER, P.C.

Certified Public Accountants

2348 Hwy. 105, Suite 5
P.O. Box 1098
Boone, NC 28607
828-264-6700
Fax: 828-264-7756

311 Linville Street
P.O. Box 1480
Newland, NC 28657
828-733-0066
Fax: 828-733-8689

Billy G. Combs, CPA
Douglas M. Tennant, CPA
Jason D. Carpenter, CPA
Tanya L. Singleton, CPA

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

To the Honorable Mayor and
Members of the 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 aggregate discretely presented component units, each major fund, and the aggregated remaining fund information of the Town of Blowing Rock, North Carolina, as of and for the year ended June 30, 2010, which collectively comprises the Town of Blowing Rock's basic financial statements, and have issued our report thereon dated October 14, 2010. 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.

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's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 management, others within the entity, members of the Board of Commissioners, 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 specified parties.

COMBS, TENNANT & CARPENTER, P.C.

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

October 14, 2010

COMBS,

 TENNANT & CARPENTER, P.C.

 Certified Public Accountants

2348 Hwy. 105, Suite 5
 P.O. Box 1098
 Boone, NC 28607
 828-264-6700
 Fax: 828-264-7756

311 Linville Street
 P.O. Box 1480
 Newland, NC 28657
 828-733-0066
 Fax: 828-733-8689

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**Report On Compliance With Requirements Applicable To Each Major Federal Program
 And Internal Control Over Compliance In Accordance With OMB Circular A-133 and the
 State Single Audit Implementation Act**

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

Compliance

We have audited the Town of Blowing Rock, North Carolina, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Blowing Rock's major federal programs for the year ended June 30, 2010. The Town of Blowing Rock's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Blowing Rock's management. Our responsibility is to express an opinion on the Town of Blowing Rock's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Blowing Rock's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Blowing Rock's compliance with those requirements.

In our opinion, the Town of Blowing Rock complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Town of Blowing Rock is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants

applicable to federal programs. In planning and performing our audit, we considered the Town of Blowing Rock's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, others within the entity, members of the Board of Commissioners, 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 specified parties.

COMBS, TENNANT & CARPENTER, P.C.

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October 14, 2010

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**Report On Compliance With Requirements Applicable To Each Major State Program And
 Internal Control Over Compliance In Accordance With Applicable Sections of OMB
 Circular A-133 and the State Single Audit Implementation Act**

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

Compliance

We have audited Town of Blowing Rock, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2010. The Town of Blowing Rock's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Blowing Rock's management. Our responsibility is to express an opinion on the Town of Blowing Rock's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Town of Blowing Rock's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Blowing Rock's compliance with those requirements.

In our opinion, the Town of Blowing Rock complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Town of Blowing Rock is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Blowing Rock's internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, others within the organization, members of the Board of Commissioners, 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 specified parties.

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Certified Public Accountants

October 14, 2010

**Town of Blowing Rock, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010**

Section I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(s) indentified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial financial statements noted _____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(s) indentified that are not considered to be material weaknesses? _____ yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Seciton 510(a) of Circular A-133 _____ yes X no

Identification of major federal programs:

CFDA No.	Names of Federal Program or Cluster
66.458	ARRA - NC Drinking Water State Revolving Fund and Grant program

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

**Town of Blowing Rock, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010**

State Awards

Internal control over major state programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(s) indentified that
are not considered to be material weaknesses? _____ yes X none reported

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

Any audit findings disclosed that are
required to be reported in accordance with the
State Single Audit Implementation Act _____ yes X no

Identification of major State programs:

Program Name

Park and Recreation Trust Fund

**Town of Blowing Rock, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010**

Section II. Financial Statement Findings

None Reported

Section III. Federal Award Findings and Questioned Costs

None Reported

Section IV. State Award Findings and Questioned Costs

None Reported

**Town of Blowing Rock, North Carolina
Corrective Action Plan
For the Fiscal Year Ended June 30, 2010**

Section II. Financial Statement Findings

None Reported

Section III. Federal Award Findings and Questioned Costs

None Reported

Section IV. State Award Findings and Questioned Costs

None Reported

**Town of Blowing Rock, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2010**

Prior Year Audit Findings

None Reported

Town of Blowing Rock, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2010

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures
Federal Grants:			
Cash Programs:			
U. S. Department of Homeland Security Passed-through N.C. Department of Crime Control and Public Safety: Hazard Mitigation Grants Program	97.039		\$ 116,528
Noncash Programs:			
Environmental Protection Agency Passed-through N.C. Department of Environment and Natural Resources ARRA - NC Drinking Water State Revolving Fund and Grant program(note 2)	66.458		792,440
Total assistance - federal programs			<u>908,968</u>
State Grants:			
Cash Assistance:			
N.C. Department of Cultural Resources: Park and Recreation Trust Fund		2009-488	500,000
N.C. Department of Crime Control and Public Safety N.C. Mitigation			38,843
N.C. Rural Economic Development Center Wine and Culinary Grant			18,000
N.C. Department of Transportation: Powell Bill		38570	76,289
Total assistance - State programs			<u>633,132</u>
Total assistance			<u>\$ 1,542,100</u>

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

- The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Blowing Rock and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
- Loans Outstanding
Town of Blowing Rock had the following loan balances outstanding at June 30, 2010. These loan balances outstanding are also included in the state expenditures presented in the schedule.

Program Title	CFDA Number	\$
N.C. Drinking Water Revolving Loan and Grant Program	66.458	396,220