

**TOWN OF BLOWING ROCK**  
BLOWING ROCK, NORTH CAROLINA  
FINANCIAL STATEMENTS

June 30, 2011



**Town of Blowing Rock, North Carolina**  
**Table of Contents**  
**6/30/2011**

**Exhibit**

**Page**

**Financial Section:**

**Board of Commissioners**

**Independent Auditors' Report**

**Management's Discussion and Analysis**

**Basic Financial Statements:**

Government-wide Financial Statements:

<b>1</b>	Statement of Net Assets	<b>1</b>
<b>2</b>	Statement of Activities	<b>2-3</b>

Fund Financial Statements:

<b>3</b>	Balance Sheet – Governmental Funds	<b>4</b>
<b>3</b>	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	<b>4</b>
<b>4</b>	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	<b>5</b>
<b>5</b>	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	<b>6</b>
<b>6</b>	Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual – General Fund	<b>7</b>
<b>7</b>	Statement of Fund Net Assets – Proprietary Funds	<b>8</b>
<b>8</b>	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	<b>9</b>
<b>9</b>	Statement of Cash Flows – Proprietary Funds	<b>10-11</b>

<b>Notes to the Financial Statements</b>	<b>12-28</b>
--	--------------

**Required Supplementary Financial Data**

Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	<b>29</b>
Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions	<b>30</b>

Law Enforcement Officers' Special Separation Allowance – Notes to the Required Schedules	30
--	----

**Individual Fund Statements and Schedules:**

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	31-34
--	-------

Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – From Inception - Capital Projects Fund	35
--	----

Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
--	--

Water and Sewer Fund	36-38
----------------------	-------

Water and Sewer Capital Project Fund	39
--------------------------------------	----

**Other Schedules:**

Schedule of Ad Valorem Taxes Receivable	40
---	----

Analysis of Current Tax Levy – Town-Wide Levy	41
---	----

**Compliance Section:**

Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	42-43
---	-------

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	44-45
--	-------

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	46-47
---	-------

Schedule of Findings and Questioned Costs	48-50
---	-------

Corrective Action Plan	51
------------------------	----

Summary of Prior Year Audit Findings	52
--------------------------------------	----

**Schedules:**

Schedule of Expenditures of Federal and State Awards	53
--	----

**TOWN OF BLOWING ROCK**  
**June 30, 2011**

**Mayor**

J.B. Lawrence

**Mayor Pro Tem**

Albert Yount

**Board of Commissioners**

Tommy Klutz

Doug Matheson

Phil Pickett

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  
Harry B. Cardwell IV, 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, 2011, 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, 2011, 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, 2011 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 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, 2011

## 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, 2011. 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 \$26,061,103 (*net assets*).
- The government's total net assets increased by \$1,546,571 with the increase primarily in the business-type activities. This increase is mainly due to the completion of capital projects such as the Blowing Rock / Boone water line as well as other various sewer improvements.
- As of the close of the current fiscal year, the Town of Blowing Rock's governmental funds reported combined ending fund balances of \$3,606,215 a decrease of \$430,333 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, as well as funds on hand for debt service payments for the American Legion Parking facility and Emergency Services Building. Approximately 69.65% of this total amount, or \$2,511,642, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,511,642 or 50.78% of total general fund expenditures for the fiscal year, an increase of \$317,465 over the prior year. This increase is the result of final FEMA funds received for the 2009 Ice Storm debris cleanup as well as accomplished thorough vigilant monitoring of expenditures during a time of continued economic uncertainty.
- The Town of Blowing Rock's total debt decreased by \$751,769 (9.28%) during the current fiscal year mostly attributable to debt retirements via payments being made on the Fire/Rescue Building, American Legion Parking Facility & Sewer Bonds as well as the payoff of Visitor Center building debt due to the purchase of the building by the NCDOT for the widening of US Highway 321
- 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.

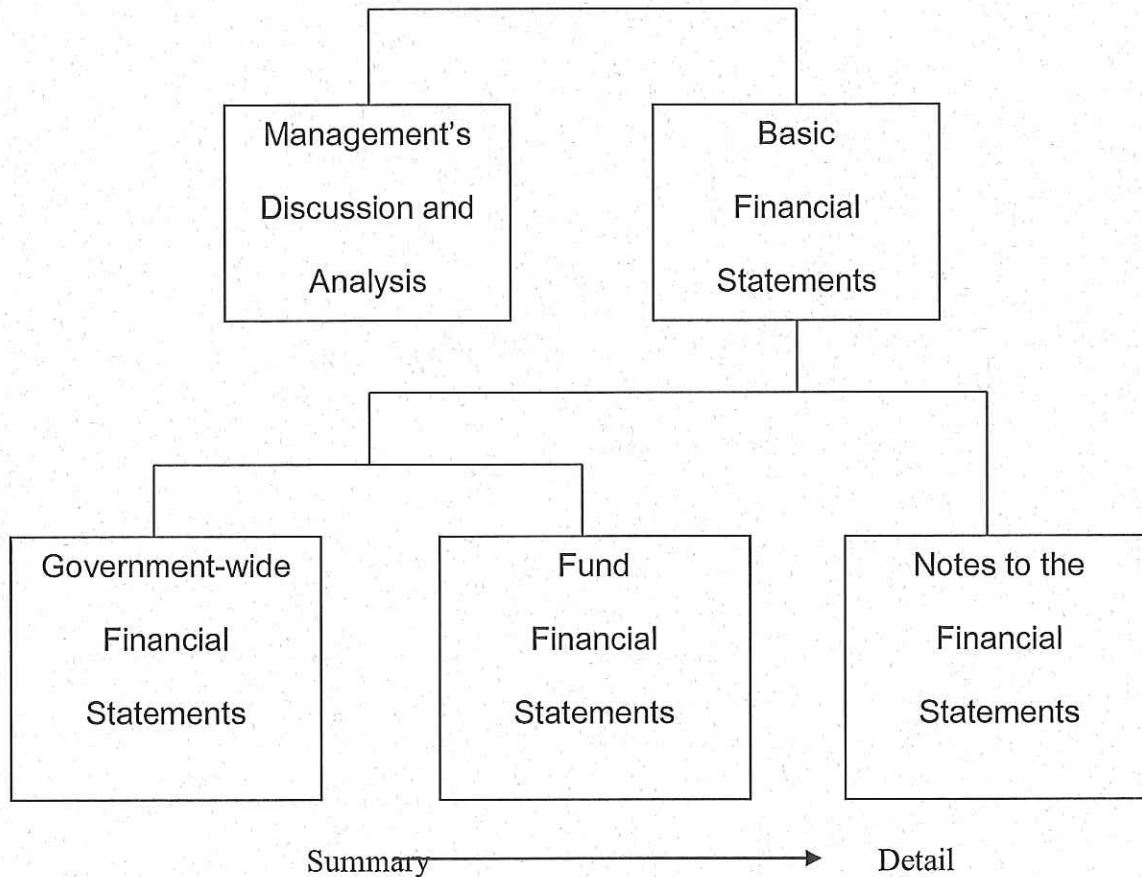


### Overview of the Financial Statements

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 gas tax or utility franchise tax finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Blowing Rock. The final category is the component unit, of which the Town has the ABC Board and the Tourism Development Authority (TDA). Although legally separate from the Town, the ABC Board is important to the Town as the Town exercises control over the Board by appointing its members and because the Board is required to distribute a portion of its profits to the Town. The TDA functions much the same as the ABC in that it is a separate entity with the Town Council appointing the Board and the TDA uses one-third of the occupancy tax dollars collected to support Town infrastructure.

The government-wide financial statements are 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	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 3,961,289	\$ 4,510,672	\$ 2,176,060	\$ 2,408,921	\$ 6,137,349	\$ 6,919,593
Capital assets	15,348,701	15,520,907	12,732,932	11,214,111	28,081,633	26,735,018
Total assets	19,309,990	20,031,579	14,908,992	13,623,032	34,218,982	33,654,611
Long-term liabilities outstanding	5,619,074	6,336,922	1,731,903	1,765,824	7,350,977	8,102,746
Other liabilities	280,536	418,456	526,366	618,877	806,902	1,037,333
Total liabilities	5,899,610	6,755,378	2,258,269	2,384,701	8,157,879	9,140,079
Net assets:						
Invested in capital assets, net of related debt	9,877,752	9,318,614	11,022,625	9,472,891	20,900,377	18,791,505
Restricted	274,500	1,287,907	-	-	274,500	1,287,907
Unrestricted	3,258,128	2,669,680	1,628,098	1,765,440	4,886,226	4,435,120
Total net assets	\$ 13,410,380	\$ 13,276,201	\$ 12,650,723	\$ 11,238,331	\$ 26,061,103	\$ 24,514,532

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 \$26,061,103 as of June 30, 2011. The Town's net assets increased by \$1,546,571 for the fiscal year ended June 30, 2011. However, the largest portion (80.20%) 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, \$274,500 (1.05%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,886,226 is unrestricted.

**Management Discussion and Analysis**  
**Town of Blowing Rock (Page 6 of 11)**

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 97.32%, a slight decrease of .67% 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.

Town of Blowing Rock Changes in Net Assets  
Figure 3

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 349,514	\$ 372,273	\$ 1,341,020	\$ 1,353,136	\$ 1,690,534	\$ 1,725,409
Operating grants and contributions	131,683	902,453	-	-	131,683	902,453
Capital grants and contributions	154,032	-	1,136,807	396,220	1,290,839	396,220
General revenues:						
Property taxes	3,087,377	3,064,673	-	-	3,087,377	3,064,673
Other taxes	307,723	291,703	-	-	307,723	291,703
Grants and contributions not restricted to specific programs	736,897	784,580	-	-	736,897	784,580
Other	127,737	78,691	3,145	6,906	130,882	85,597
<b>Total revenues</b>	<b>4,894,963</b>	<b>5,494,373</b>	<b>2,480,972</b>	<b>1,756,262</b>	<b>7,375,935</b>	<b>7,250,635</b>
<b>Expenditures:</b>						
General government	707,885	753,621	-	-	707,885	753,621
Public safety	2,001,435	1,495,357	-	-	2,001,435	1,495,357
Transportation	850,302	1,113,487	-	-	850,302	1,113,487
Environmental protection	326,994	291,927	-	-	326,994	291,927
Economic development	-	-	-	-	-	-
Culture and recreation	458,385	390,836	-	-	458,385	390,836
Interest on long-term debt	255,783	260,545	-	-	255,783	260,545
Water and sewer	-	-	1,228,580	1,251,647	1,228,580	1,251,647
<b>Total expenses</b>	<b>4,600,784</b>	<b>4,305,773</b>	<b>1,228,580</b>	<b>1,251,647</b>	<b>5,829,364</b>	<b>5,557,420</b>
Increase in net assets before transfers	294,179	1,188,600	1,252,392	504,615	1,546,571	1,693,215
Transfers	(160,000)	(200,000)	160,000	200,000	-	-
Cumulative effect of change in application of capitalization policy	-	-	-	-	-	-
Increase in net assets	134,179	988,600	1,412,392	704,615	1,546,571	1,693,215
Net assets, July 1	13,276,201	12,287,601	11,238,331	10,533,716	24,514,532	22,821,317
Net assets, June 30	\$ 13,410,380	\$ 13,276,201	\$ 12,650,723	\$ 11,238,331	\$ 26,061,103	\$ 24,514,532

**Governmental activities.** Governmental activities increased the Town's net assets by \$134,179, thereby accounting for 8.68% of the total growth in the net assets of the Town of Blowing Rock. Key elements of this increase are as follows:

- Tax revenue exceeding budgeted amounts due to conservative budgeting measures.
- Decreases in net assets due to the sale of the Visitor Center building were largely offset by the completion of the Blowing Rock/Boone water line netting an overall increase in total net assets.

**Business-type activities:** Business-type activities increased the Town of Blowing Rock's net assets by \$1,412,392 accounting for 91.32% 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 including the recently completed Blowing Rock/Boone water line.

### **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, unassigned fund balance of the General Fund was \$2,511,642, while total fund balance reached \$2,910,002. 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. Unassigned fund balance represents 50.78% of total General Fund expenditures, while total fund balance represents 58.84% of that same amount.

At June 30, 2011, the governmental funds of Town of Blowing Rock reported a combined fund balance of \$3,606,215, a 10.66% 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.

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

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 \$1,628,098. The change

in net assets was \$1,412,392. 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, 2011, totals \$28,081,633 (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 \$1,234,220 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	
	2011	2010	2011	2010	2011	2010
Land	\$ 3,032,025	\$ 3,178,831	\$ 81,521	\$ 81,521	\$ 3,113,546	\$ 3,260,352
Construction in progress	1,234,220	1,726,420	2,612,724	835,857	3,846,944	2,562,277
Infrastructure	3,447,097	2,249,313	-	-	3,447,097	2,249,313
Buildings	6,493,506	6,978,543	-	-	6,493,506	6,978,543
Plant	-	-	9,924,214	10,179,999	9,924,214	10,179,999
Equipment and furniture	484,576	570,158	114,473	116,734	599,049	686,892
Vehicles	656,742	817,107	-	-	656,742	817,107
Computers	535	535	-	-	535	535
<b>Total</b>	<b>\$ 15,348,701</b>	<b>\$ 15,520,907</b>	<b>\$ 12,732,932</b>	<b>\$ 11,214,111</b>	<b>\$ 28,081,633</b>	<b>\$ 26,735,018</b>

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, 2011, the Town of Blowing Rock had total bonded debt outstanding of \$210,000. Of this, \$210,000 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**



**Management Discussion and Analysis  
Town of Blowing Rock (Page 10 of 11)**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ -	\$ -	\$ 210,000	\$ 415,000	\$ 210,000	\$ 415,000
Compensated absences	92,761	84,318	21,596	24,604	114,357	108,922
Pension obligation	55,364	50,311	-	-	55,364	50,311
Installment purchases	5,470,949	6,202,293	1,500,307	1,326,220	6,971,256	7,528,513
<b>Total</b>	<b>\$ 5,619,074</b>	<b>\$ 6,336,922</b>	<b>\$ 1,731,903</b>	<b>\$ 1,765,824</b>	<b>\$ 7,350,977</b>	<b>\$ 8,102,746</b>

- As mentioned previously, the Town of Blowing Rock's total debt decreased by \$751,769 (9.28%) during the past fiscal year, with no major new debt being issued and debt retirements via payments being made on the Fire/Rescue Building, American Legion Parking Facility & Sewer Bonds being made. Visitor Center debt retirement consisting of a principal amount of \$332,500 was also a main contribution to the overall decrease in debt.

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 \$81,675,987.

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 increased from 7.00% in July 2010 to 8.00% in July 2011, substantially below the NC state rate of 9.80% in July 2010 and 10.10% in July 2011.
- 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, 2012**

**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 0.10% 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 0.53% of total full time salaries, the first increase since 1983. Future increases are expected.
- Increase of 4.0% 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, 2011**

	Primary Government			Town of Blowing Rock ABC Board	Town of Blowing Rock Tourism Development Authority	Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government			
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 3,588,363	\$ 1,561,777	\$ 5,150,140	\$ 59,941	\$ 155,753	\$ 5,365,834
Taxes receivable (net)	68,337	-	68,337	-	67,646	135,983
Accrued interest receivable on taxes	6,201	-	6,201	-	-	6,201
Accounts receivable (net)	187,119	316,248	503,367	-	-	503,367
Due from other governments	87,381	-	87,381	-	-	87,381
Due from component units	-	-	-	-	-	-
Due from primary government	-	-	-	-	-	-
Inventories	2,626	85,696	88,322	202,623	-	290,945
Prepaid items	21,262	3,750	25,012	5,184	294	30,490
Restricted cash and cash equivalents	-	208,589	208,589	145,649	-	354,238
Total current assets	3,961,289	2,176,060	6,137,349	413,397	223,693	6,774,439
<b>Capital assets (Note 4):</b>						
Land, non-depreciable improvements, and construction in progress	4,266,245	2,694,245	6,960,490	96,275	-	7,056,765
Other capital assets, net of depreciation	11,082,456	10,038,687	21,121,143	197,950	5,772	21,324,865
Total capital assets	15,348,701	12,732,932	28,081,633	294,225	5,772	28,381,630
Total assets	\$ 19,309,990	\$ 14,908,992	\$ 34,218,982	\$ 707,622	\$ 229,465	\$ 35,156,069
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ 211,764	\$ 311,320	\$ 523,084	\$ 73,813	\$ 7,297	\$ 604,194
Unearned revenue	68,772	6,457	75,229	-	-	75,229
Accrued salaries	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Due to primary government	-	-	-	31,205	-	31,205
Due to other governments	-	-	-	-	-	-
Liabilities payable from restricted assets:						
Customer deposits	-	208,589	208,589	-	-	208,589
Long-term liabilities:						
Due within one year	570,664	447,439	1,018,103	-	-	1,018,103
Due in more than one year	5,048,410	1,284,464	6,332,874	4,831	-	6,337,705
Total liabilities	5,899,610	2,258,269	8,157,879	109,849	7,297	8,275,025
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	9,877,752	11,022,625	20,900,377	294,225	5,772	21,200,374
Restricted for:						
Capital projects	-	-	-	145,649	-	145,649
Stabilization by State Statute	274,500	-	274,500	-	-	274,500
Culture and recreation	-	-	-	-	-	-
Working capital	-	-	-	39,453	-	39,453
Unrestricted	3,258,128	1,628,098	4,886,226	118,446	216,396	5,221,068
Total net assets	\$ 13,410,380	\$ 12,650,723	\$ 26,061,103	\$ 597,773	\$ 222,168	\$ 26,881,044

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, 2011**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 707,885	\$ -	\$ -	\$ -
Public safety	2,001,435	91,762	4,297	77,089
Transportation	850,302	5,057	25,109	76,943
Environmental protection	326,994	57,177	100,277	-
Cultural and recreation	458,385	195,518	2,000	-
Interest on long-term debt	255,783	-	-	-
Total governmental activities (See Note 1)	4,600,784	349,514	131,683	154,032
Business-type activities:				
Water and sewer	1,228,580	1,341,020	-	1,136,807
Electric	-	-	-	-
Total business-type activities	1,228,580	1,341,020	-	1,136,807
Total primary government	\$ 5,829,364	\$ 1,690,534	\$ 131,683	\$ 1,290,839
Component units:				
ABC Board	\$ 1,400,338	\$ 1,362,643	\$ -	\$ -
Blowing Rock Tourism Development Authority	703,298	16,380	-	-
Total component unit	\$ 2,103,636	\$ 1,379,023	\$ -	\$ -
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	
\$ (707,885)	\$ -	\$ (707,885)	\$ -	\$ -	\$ (707,885)	
(1,828,287)	-	(1,828,287)	-	-	(1,828,287)	
(743,193)	-	(743,193)	-	-	(743,193)	
(169,540)	-	(169,540)	-	-	(169,540)	
(260,867)	-	(260,867)	-	-	(260,867)	
(255,783)	-	(255,783)	-	-	(255,783)	
(3,965,555)	-	(3,965,555)	-	-	(3,965,555)	
-	1,249,247	1,249,247	-	-	1,249,247	
-	-	-	-	-	-	
-	1,249,247	1,249,247	-	-	1,249,247	
(3,965,555)	1,249,247	(2,716,308)	-	-	(2,716,308)	
-	-	-	(37,695)	-	(37,695)	
-	-	-	-	(686,918)	(686,918)	
-	-	-	(37,695)	(686,918)	(724,613)	
3,087,377	-	3,087,377	-	-	3,087,377	
307,723	-	307,723	-	683,304	991,027	
736,897	-	736,897	-	-	736,897	
9,220	3,145	12,365	3,840	461	16,666	
118,517	-	118,517	26,750	1,581	146,848	
(160,000)	160,000	-	-	-	-	
4,099,734	163,145	4,262,879	30,590	685,346	4,978,815	
-	-	-	-	-	-	
134,179	1,412,392	1,546,571	(7,105)	(1,572)	1,537,894	
13,276,201	11,238,331	24,514,532	604,878	223,740	25,343,150	
\$ 13,410,380	\$ 12,650,723	\$ 26,061,103	\$ 597,773	\$ 222,168	\$ 26,881,044	

## Exhibit 3

**Town of Blowing Rock  
Balance Sheet  
Governmental Funds  
June 30, 2011**

	Major Funds		Total Governmental Funds
	General	Capital Projects	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,889,403	\$ 698,960	\$ 3,588,363
Receivables, net:			
Taxes	68,337	-	68,337
Accounts	187,091	28	187,119
Due from other governments	87,381	-	87,381
Prepaid Expenses	21,262	-	21,262
Inventories	2,626	-	2,626
Total assets	<u>\$ 3,256,100</u>	<u>\$ 698,988</u>	<u>\$ 3,955,088</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 208,989	\$ 2,775	\$ 211,764
Due to other funds	-	-	-
Deferred revenue	68,337	-	68,337
Unearned revenue	68,772	-	68,772
Liabilities payable from restricted assets:			
Accounts payable	-	-	-
Total liabilities	<u>346,098</u>	<u>2,775</u>	<u>348,873</u>
Fund balances:			
Non Spendable			
Inventories	2,626	-	2,626
Prepays	21,262	-	21,262
Restricted			
Stabilization by State Statute	274,472	28	274,500
Streets	-	-	-
Capital Projects	-	-	-
Assigned			
Capital Projects	-	696,185	696,185
Subsequent year's expenditures	100,000	-	100,000
Unassigned	2,511,642	-	2,511,642
Total fund balances	<u>2,910,002</u>	<u>696,213</u>	<u>3,606,215</u>
Total liabilities and fund balances	<u>\$ 3,256,100</u>	<u>\$ 698,988</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.	15,348,701
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.	6,201
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.	68,337
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).	\$ (5,619,074)
Net assets of governmental activities	<u>\$ 13,410,380</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, 2011**

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects	
<b>REVENUES</b>			
Ad valorem taxes	\$ 3,068,507	\$ -	\$ 3,068,507
Other taxes and licenses	307,723	-	307,723
Unrestricted intergovernmental	736,897	-	736,897
Restricted intergovernmental	118,447	68,000	186,447
Permits and fees	88,261	-	88,261
Sales and services	257,752	-	257,752
Investment earnings	8,618	602	9,220
Miscellaneous	179,767	-	179,767
Total revenues	4,765,972	68,602	4,834,574
<b>EXPENDITURES</b>			
Current:			
General government	654,845	-	654,845
Public safety	1,624,129	-	1,624,129
Transportation	873,928	-	873,928
Economic and physical development	-	-	-
Environmental protection	303,499	-	303,499
Culture and recreation	422,459	-	422,459
Debt service:			
Principal	811,343	-	811,343
Interest and other charges	255,784	-	255,784
Capital outlay	-	766,826	766,826
Total expenditures	4,945,987	766,826	5,712,813
Excess (deficiency) of revenues over expenditures	(180,015)	(698,224)	(878,239)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers (to)/from other funds	(266,530)	106,530	(160,000)
Sales of capital assets	527,906	-	527,906
Installment purchase obligations issued	80,000	-	80,000
Capital lease obligations issued	-	-	-
Total other financing sources (uses)	341,376	106,530	447,906
Net change in fund balance	161,361	(591,694)	(430,333)
Fund balances, beginning	2,748,641	1,287,907	4,036,548
Change in reserve for inventories	-	-	-
Fund balances, ending	\$ 2,910,002	\$ 696,213	\$ 3,606,215

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, 2011**

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

Net changes in fund balances - total governmental funds	\$ (430,333)
Change in fund balance due to change in reserve for inventory	-

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

Book value assets disposed	314,181
----------------------------	---------

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	18,870

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.

	731,344
--	---------

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	(8,443)
Net pension obligation	(5,053)

Total changes in net assets of governmental activities	\$ <u>134,179</u>
--	-------------------

## 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, 2011**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues:</b>				
Ad valorem taxes	\$ 3,007,650	\$ 3,007,650	\$ 3,068,507	\$ 60,857
Other taxes and licenses	307,600	307,600	307,723	123
Unrestricted intergovernmental	735,800	735,800	736,897	1,097
Restricted intergovernmental	93,000	103,030	118,447	15,417
Permits and fees	71,500	71,500	88,261	16,761
Sales and services	226,380	226,380	257,752	31,372
Investment earnings	30,000	30,000	8,618	(21,382)
Miscellaneous	180,500	391,090	179,767	(211,323)
<b>Total revenues</b>	<b>4,652,430</b>	<b>4,873,050</b>	<b>4,765,972</b>	<b>(107,078)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	684,855	698,415	654,845	43,570
Public safety	1,596,580	1,687,595	1,624,129	63,466
Transportation	913,680	901,880	873,928	27,952
Environmental protection	338,255	328,255	303,499	24,756
Cultural and recreation	397,915	436,575	422,459	14,116
<b>Debt service:</b>				
Principal retirement	476,315	811,343	811,343	-
Interest and other charges	269,800	269,772	255,784	13,988
<b>Total expenditures</b>	<b>4,677,400</b>	<b>5,133,835</b>	<b>4,945,987</b>	<b>187,848</b>
<b>Revenues over (under) expenditures</b>	<b>(24,970)</b>	<b>(260,785)</b>	<b>(180,015)</b>	<b>80,770</b>
<b>Other financing sources (uses):</b>				
Transfers to other funds	(82,530)	(280,275)	(266,530)	13,745
Sale of assets	7,500	361,060	527,906	166,846
Appropriated fund balance	100,000	100,000	-	(100,000)
Proceeds from installment purchase	-	80,000	80,000	-
<b>Total other financing sources (uses)</b>	<b>24,970</b>	<b>260,785</b>	<b>341,376</b>	<b>80,591</b>
<b>Revenues and other sources over (under) expenditures and other uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>161,361</b>	<b>\$ 161,361</b>
Fund balances, beginning			2,748,641	
Change in reserve for inventories			-	
<b>Fund balances, ending</b>			<b>\$ 2,910,002</b>	

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, 2011**

	<u>Water and Sewer Fund</u>		<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,561,777	\$	1,561,777
Accounts receivable (net) - billed	316,248		316,248
Due from other governments	-		-
Inventories	85,696		85,696
Prepaid items	3,750		3,750
Restricted cash and cash equivalents	208,589		208,589
Total current assets	<u>2,176,060</u>		<u>2,176,060</u>
Capital assets:			
Land and other non-depreciable assets	2,694,245		2,694,245
Other capital assets, net of depreciation	10,038,687		10,038,687
Capital assets (net)	<u>12,732,932</u>		<u>12,732,932</u>
Total assets	<u>\$ 14,908,992</u>	\$	<u>14,908,992</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 311,320	\$	311,320
Accrued salaries	-		-
Customer deposits	-		-
Unearned revenue	6,457		6,457
Compensated absences - current	21,596		21,596
General obligation bonds payable-current	210,000		210,000
Installment purchase-current	215,843		215,843
Liabilities payable from restricted assets:			
Customer deposits	208,589		208,589
Total current liabilities	<u>973,805</u>		<u>973,805</u>
Noncurrent liabilities:			
Compensated absences	-		-
General obligation bonds payable-noncurrent (net)	-		-
Installment purchase-noncurrent	1,284,464		1,284,464
Total noncurrent liabilities	<u>1,284,464</u>		<u>1,284,464</u>
Total liabilities	<u>2,258,269</u>		<u>2,258,269</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	11,022,625		11,022,625
Unrestricted	1,628,098		1,628,098
Total net assets	<u>\$ 12,650,723</u>	\$	<u>12,650,723</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, 2011**

	Water and Sewer Fund	Total
<b>OPERATING REVENUES</b>		
Charges for services	\$ 1,308,155	\$ 1,308,155
Water and sewer taps	11,712	11,712
Other operating revenues	21,153	21,153
<b>Total operating revenues</b>	<b>1,341,020</b>	<b>1,341,020</b>
<b>OPERATING EXPENSES</b>		
Administration	122,326	122,326
Water/Sewer plant operations	494,167	494,167
Water/Sewer field operations	262,807	262,807
Depreciation	308,694	308,694
<b>Total operating expenses</b>	<b>1,187,994</b>	<b>1,187,994</b>
<b>Operating income (loss)</b>	<b>153,026</b>	<b>153,026</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	3,145	3,145
Sale of fixed assets	-	-
Interest and other charges	(40,586)	(40,586)
Bond issuance costs	-	-
<b>Total nonoperating revenue (expenses)</b>	<b>(37,441)</b>	<b>(37,441)</b>
<b>Income (loss) before contributions and transfers</b>	<b>115,585</b>	<b>115,585</b>
Grant proceeds	1,136,807	1,136,807
Public contributions	-	-
Transfers from other funds	160,000	160,000
Transfers to other funds	-	-
<b>Total income (loss) after contributions and transfers</b>	<b>1,412,392</b>	<b>1,412,392</b>
<b>Cumulative change in application of capitalization policy</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>1,412,392</b>	<b>1,412,392</b>
<b>Total net assets, beginning</b>	<b>11,238,331</b>	<b>11,238,331</b>
<b>Total net assets, ending</b>	<b>\$ 12,650,723</b>	<b>\$ 12,650,723</b>

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

## Exhibit 9

**Town of Blowing Rock  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2011**

	<u>Water and Sewer Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 2,144,279	\$ 2,144,279
Cash paid for goods and services	(559,503)	(559,503)
Cash paid to or on behalf of employees for services	(417,606)	(417,606)
Customer deposits received (returned)	1,021	1,021
Other operating revenues	-	-
Net cash provided (used) by operating activities	<u>1,168,191</u>	<u>1,168,191</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from other funds	160,000	160,000
Transfers to other funds	-	-
Grant proceeds	<u>1,136,807</u>	<u>1,136,807</u>
Total cash flows from noncapital financing activities	<u>1,296,807</u>	<u>1,296,807</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Bond anticipation notes issued	-	-
Acquisition and construction of capital assets	(1,827,515)	(1,827,515)
Principal paid on bond maturities and equipment contracts	(391,173)	(391,173)
Proceeds from installment purchase	360,260	360,260
Interest paid on bond maturities and equipment contracts	(40,586)	(40,586)
Sale of fixed assets	-	-
Capital contributions-Federal grant	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,899,014)</u>	<u>(1,899,014)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends	<u>3,145</u>	<u>3,145</u>
Net increase (decrease) in cash and cash equivalents	569,129	569,129
Balances, beginning	<u>1,201,237</u>	<u>1,201,237</u>
Balances, ending	<u>\$ 1,770,366</u>	<u>\$ 1,770,366</u>

## Exhibit 9

**Town of Blowing Rock  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2011**

	<u>Water and Sewer Fund</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 153,026	\$ 153,026
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	308,694	308,694
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	799,784	799,784
Increase (decrease) in allowance for doubtful accounts	-	-
(Increase) decrease in inventory	5,956	5,956
(Increase) in prepaid items	(3,750)	(3,750)
(Increase) in due from other funds	-	-
Increase (decrease) in accounts payable and accrued liabilities	(97,007)	(97,007)
Increase (decrease) in unearned revenue	3,475	3,475
Increase (decrease) in customer deposits	1,021	1,021
Increase (decrease) in accrued vacation pay	(3,008)	(3,008)
Total adjustments	<u>1,015,165</u>	<u>1,015,165</u>
Net cash provided by operating activities	<u>\$ 1,168,191</u>	<u>\$ 1,168,191</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, 2011

**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 2010 through February 2011 apply to the fiscal year ended June 30, 2011. 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**

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

### **4. Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 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, 2011.

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

The governmental fund types classify fund balances as follows:

**Nonspendable Fund Balance** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. As of June 30, 2011, there was \$23,888 in the nonspendable fund balance.

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

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

**Committed Fund Balance** – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Blowing Rock's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body. As of June 30, 2011, there were no funds in the committed fund balance.

**Assigned fund balance** – portion of fund balance that the Town intends to use for a specific purpose.

**Subsequent year's expenditures** – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

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

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

## II. Stewardship, Compliance and Accountability

Our audit for the fiscal year ended June 30, 2011 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, 2011, the Town's deposits had a carrying amount of \$4,596,118 and a bank balance of \$4,718,834. 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 \$156,744 and the bank balance was \$209,957. All of the bank balance was covered by federal depository insurance. The carrying amount of deposits for the Authority was \$130,753 and the bank balance was \$139,767. All of the bank balance was covered by federal depository insurance. At June 30, 2011, the Town's and the ABC Board's petty cash fund totaled \$500 and \$1,200, respectively.

## 2. Investments

At June 30, 2011, the Town, the ABC Board, and the Authority had \$762,111, \$48,846 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	6/30/2011
General Fund:	
Taxes Receivable	\$ 74,414

#### 4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,178,831	\$ -	\$ (146,806)	\$ 3,032,025
Construction in progress	1,726,420	766,826	(1,259,026)	1,234,220
Total capital assets not being depreciated	<u>4,905,251</u>	<u>766,826</u>	<u>(1,405,832)</u>	<u>4,266,245</u>
Capital assets being depreciated:				
Infrastructure	2,370,598	1,247,275	-	3,617,873
Buildings	7,687,288	-	(381,370)	7,305,918
Equipment and furniture	3,188,707	63,219	(86,030)	3,165,896
Vehicles	1,656,327	82,698	(59,374)	1,679,651
Computers	123,156	-	-	123,156
Total capital assets being depreciated	<u>15,026,076</u>	<u>1,393,192</u>	<u>(526,774)</u>	<u>15,892,494</u>
Less accumulated depreciation for:				
Infrastructure	121,285	49,491	-	170,776
Buildings	708,745	145,618	(41,951)	812,412
Equipment and furniture	2,618,549	148,801	(86,030)	2,681,320
Vehicles	839,220	242,901	(59,212)	1,022,909
Computers	122,621	-	-	122,621
Total accumulated depreciation	<u>4,410,420</u>	<u>\$ 586,811</u>	<u>\$ (187,193)</u>	<u>4,810,038</u>
Total capital assets being depreciated, net	<u>10,615,656</u>			<u>11,082,456</u>
Governmental activity capital assets, net	<u>\$ 15,520,907</u>			<u>\$ 15,348,701</u>

Depreciation was charged to governmental functions as follows:

General Government	\$ 50,315
Public Safety	427,773
Transportation	51,149
Environmental protection	24,540
Cultural & recreation	33,034
Unallocated depreciation	-
	<u>\$ 586,811</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water/Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 81,521	\$ -	\$ -	\$ 81,521
Construction in progress	835,857	1,821,574	(44,707)	2,612,724
Total capital assets not being depreciated	<u>917,378</u>	<u>1,821,574</u>	<u>(44,707)</u>	<u>2,694,245</u>
Capital assets being depreciated:				
Plant	15,765,837	24,720	-	15,790,557
Equipment	1,002,469	25,928	-	1,028,397
Total capital assets being depreciated	<u>16,768,306</u>	<u>50,648</u>	<u>-</u>	<u>16,818,954</u>
Less accumulated depreciation for:				
Plant	5,585,838	280,505	-	5,866,343
Equipment	885,735	28,189	-	913,924
Total accumulated depreciation	<u>6,471,573</u>	<u>\$ 308,694</u>	<u>\$ -</u>	<u>6,780,267</u>
Total capital assets being depreciated, net	<u>11,214,111</u>			<u>10,038,687</u>
Business-type activities capital assets, net	<u>\$ 11,214,111</u>			<u>\$ 12,732,932</u>

**Discretely Presented component units**

Activity for the ABC Board for the year ended June 30, 2011, was as follows:

	Useful Life	Cost	Accumulated Depreciation	Net Amount
Land		\$ 96,275	\$ -	\$ 96,275
Building and improvements	20 years	315,572	133,475	182,097
Furniture and equipment	10 years	57,722	42,082	15,640
Computer equipment	5 years	25,775	25,562	213
		<u>\$ 495,344</u>	<u>\$ 201,119</u>	<u>\$ 294,225</u>

Activity for the Authority for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities</b>				
<b>Capital assets being depreciated:</b>				
Furniture and equipment	\$ 15,702	\$ -	\$ -	\$ 15,702
Total capital assets being depreciated	15,702	-	-	15,702
<b>Less accumulated depreciation for:</b>				
Furniture and equipment	8,360	1,570	-	9,930
Total accumulated depreciation	8,360	\$ 1,570	\$ -	9,930
Total capital assets being depreciated, net	7,342			5,772
<b>Governmental activity capital assets, net</b>	<u>\$ 7,342</u>			<u>\$ 5,772</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 11.30% and 11.31%, respectively, of annual covered payroll, which began including a Retirement Health Plan contribution in 2009 with the Town's participation in the NC State Health Plan. 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, 2011, 2010, and 2009 were \$175,893,



\$179,914, and \$136,719, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$4,442, \$3,278, and \$3,208, respectively. The Authority's contributions to LGERS for the year ended June 30, 2011, 2010, and 2009 were \$7,490, \$5,751 and \$5,732, 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, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	12
Total	13

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, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25 – 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases.

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

Employer annual required contribution	\$ 17,281
Interest on net pension obligation	2,516
Adjustment to annual required contribution	<u>(2,693)</u>
Annual pension cost	\$ 17,104
Employer contributions made for fiscal year ending 6/30/2009	<u>(12,051)</u>
Increase (decrease) in net pension obligation	\$ 5,053
Net pension obligation beginning of fiscal year	<u>50,311</u>
Net pension obligation end of fiscal year	\$ 55,364

3 Year Trend Information			
Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	\$ 15,799	66.03%	\$ 39,046
6/30/2010	15,728	28.38%	50,311
6/30/2011	17,104	70.46%	55,364

#### *4. Funded Status and Funding Progress.*

As of December 31, 2010, 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 \$168,741. The covered payroll (annual payroll of active employees covered by the plan) was \$383,091, and the ratio of the UAAL to the covered payroll was 44.10%.

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, 2011 were \$28,677 which consisted of \$19,527 from the Town and \$9,150 from the law enforcement officers.

#### **d. Other Post-employment Benefits**

##### Post-employment Healthcare Benefits

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

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

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

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least ten years of creditable service with the Town and retire with full benefits under the System. Participating in the State Health Plan, the Town pays for these benefits through a contribution to the State of 4.9% 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, 2011, the Town made contributions for post-employment health benefits totaling \$95,253 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. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

### 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	\$ 68,337	\$ -
Prepaid licenses (General Fund)	-	68,772
Prepaid charges (Water/Sewer Fund)	-	6,457
	<u>\$ 68,337</u>	<u>\$ 75,229</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 a self-funded risk-financing pool administered by the North Carolina League of Municipalities for worker's compensation. The pool is reinsured through commercial companies for single occurrence claims in excess of \$300,000 up to statutory limits for workers' compensation. The Town obtains general liability and auto liability of \$1 million per occurrence and property coverage up to the total insurance values of the property policy through a private insurer.

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

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

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

### 5. Claims, Judgments, and Contingent Liabilities

At June 30, 2011, the Town was defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

## 6. Long-Term Obligations

### a. Installment Purchases

Installment purchases at June 30, 2011 consists of the following:

Note payable, dated January 17, 2003, due 2018, face amount \$775,000, due in quarterly payments of \$12,917 plus interest at 4.35%, collateralized by land.	\$ 348,750
Note payable, dated October 10, 2006, due 2026, face amount \$4,700,000, due in annual payments of \$235,000 plus interest at 4.22%, collateralized by building and land.	3,525,000
Note payable, dated October 21, 2008, due 2015, face amount \$2,064,800, due in annual payments of \$287,939 plus interest at 2.92%, collateralized by a parking facility.	459,886
Note payable, dated April 7, 2008, due 2015, face amount \$1,260,000, due in annual payments of \$199,739 plus interest at 2.92%, for water/sewer improvements.	743,828
Note payable, dated October 15, 2008, due 2013, face amount \$100,000, due in annual payments of \$21,518 including interest at 3.49%, collateralized by vehicles.	40,882
Note payable, dated May 14, 2010, due 2031, face amount \$1,000,131, due in annual payments of \$37,824 including interest at 0.00%, for water interconnection. Funding was received through the NC Drinking Water and Revolving Loan and Grant Program and was matched 100% by American Reinvestment and Recovery Act grant funds.	756,480
Note payable, dated December 9, 2009, due 2012, face amount \$32,200, due in annual payments of \$15,769 including interest at 3.41%, collateralized by vehicles.	16,430
Note payable, dated August 25, 2009, due 2025, face amount \$1,000,000, due two annual interest payments of \$40,800 followed by annual payments of \$76,923 including interest at 4.08%, collateralized by a parking facility.	1,000,000
Note payable, dated April 20, 2011, due 2013, face amount \$80,000, due in annual payments of \$40,986, including interest at 1.81%, collateralized by vehicles.	<u>80,000</u>
Total Installment Purchases	<u>\$ 6,971,256</u>

The future minimum payments of the installment purchase as of June 30, 2011 are as follows:

Year	General		Water/Sewer	
	Principal	Interest	Principal	Interest
2011-2012	\$ 477,903	\$ 220,425	\$ 228,025	\$ 21,720
2012-2013	539,609	203,281	233,178	16,567
2013-2014	478,561	183,137	238,572	11,173
2014-2015	478,561	164,476	244,078	5,667
2015-2016	363,590	287,059	50,007	-
2016-2021	1,650,032	400,627	250,033	-
2021-2026	1,247,693	138,838	256,414	-
2026-2031	235,000	9,917	-	-
Total	<u>\$ 5,470,949</u>	<u>\$ 1,607,760</u>	<u>\$ 1,500,307</u>	<u>\$ 55,127</u>

**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, 2011 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.

\$ 210,000

Annual debt service requirements to maturity for general obligation bonds, including interest of \$6,825, are as follows:

Year	Water/Sewer	
	Principal	Interest
2011-2012	\$ 210,000	\$ 6,825
2012-2013	-	-
2013-2014	-	-
2014-2015	-	-
2015-2016	-	-
Total	\$ 210,000	\$ 6,825

At June 30, 2011 the Town of Blowing Rock had a legal debt margin of \$81,675,987.

**c. Changes in Long-Term Liabilities**

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
Government activities:					
Installment purchases	6,202,293	80,000	(811,344)	5,470,949	477,903
Compensated absences	84,318	109,641	(101,198)	92,761	92,761
Pension Obligation	50,311	17,104	(12,051)	55,364	-
Governmental activity long-term debt	6,336,922	206,745	(924,593)	5,619,074	570,664
Business activities:					
Installment purchases	1,326,220	360,260	(186,173)	1,500,307	228,025
General obligation bonds	415,000	-	(205,000)	210,000	210,000
Compensated absences	24,604	29,722	(32,730)	21,596	21,596
Business-type activity long-term debt	1,765,824	389,982	(423,903)	1,731,903	459,621

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, 2011 consist of the following:

From the General Fund to the Capital Projects Fund	\$106,530
From the General Fund to the Water/Sewer Capital Projects Fund	\$160,000
From the Water/Sewer Fund to the Water/Sewer Capital Projects Fund	\$89,747

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 2011 fiscal year, the Town made transfers from the General Fund to the General Capital Project Funds for the following: \$60,650 to the Sidewalk Reserve for future projects, \$10,000 for Storm Water Projects, \$173,350 toward the parking reserve, and \$12,000 for various Parks and Recreation projects. Transfers of \$55,800 from the parking reserve for American Legion Parking Facility Debt Service, \$60,000 from the N. Caldwell and Blowing Rock Fire Districts and \$33,670 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 \$160,000 to the Water/Sewer Capital Projects Fund for the Water/Sewer Capital Improvement Plan funding. The Water/Sewer Fund transferred \$89,747 to the Water/Sewer Capital Projects Fund.

#### **D. Fund Balance**

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

<b>Total fund balance - General Fund</b>		<b>\$ 2,910,002</b>
	Less:	
Stablization by State Statute		274,472
Prepays		21,262
Inventories		2,626
Appropriated Fund Balance in 2012 budget		<u>100,000</u>
Remaining fund balance		2,511,642

#### **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, 2011.

#### **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%
12/31/2010	-	168,741	168,741	0.00%	383,091	44.1%

**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>
2009	15,799	66.03%
2010	15,728	28.38%
2011	17,104	70.46%

---

**Notes to the Required Schedules:**

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

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.0%
Projected salary increases*	4.25 - 7.85%
*Includes inflation at	3.00%
Cost-of living adjustments	N/A

# Supplementary Statements

---

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

## **General Fund**

---

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

---

**Town of Blowing Rock, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$	\$ 3,052,893	\$
Interest		15,614	
Total	<u>3,007,650</u>	<u>3,068,507</u>	<u>60,857</u>
Other taxes and licenses:			
Occupancy tax		291,188	
Privilege licenses		16,535	
Total	<u>307,600</u>	<u>307,723</u>	<u>123</u>
Unrestricted intergovernmental:			
Local option sales taxes		343,937	
Cablevision franchise		-	
Telecommunications sales tax		49,641	
Video Programming Tax		61,646	
Utility franchise tax		144,498	
Hold harmless sales		10,612	
Beer and wine tax		6,563	
ABC profit distribution		120,000	
Total	<u>735,800</u>	<u>736,897</u>	<u>1,097</u>
Restricted intergovernmental:			
Powell Bill allocation		76,943	
Snow removal		25,109	
ABC Revenue for law enforcement		4,297	
Federal and State grants		11,089	
Solid waste disposal tax		1,009	
Total	<u>103,030</u>	<u>118,447</u>	<u>15,417</u>
Permits and fees:			
Building permits		88,261	
Total	<u>71,500</u>	<u>88,261</u>	<u>16,761</u>
Sales and services:			
Recreation department fees		131,958	
Recycling revenue		57,177	
Park lease/rental income		63,560	
Parking fees		5,057	
Total	<u>226,380</u>	<u>257,752</u>	<u>31,372</u>
Investment earnings	<u>30,000</u>	<u>8,618</u>	<u>(21,382)</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, 2011**

	Budget	Actual	Variance Positive (Negative)
Miscellaneous		70,623	
Cemetery revenue		6,375	
Solid waste fees		99,268	
Zoning fees		3,501	
Total	391,090	179,767	(211,323)
Total revenues	4,873,050	4,765,972	(107,078)
<b>Expenditures:</b>			
General government:			
Salaries		-	
Employee benefits		-	
Professional services		34,532	
Other operating expenditures		189,705	
Capital outlay		-	
Total		224,237	
Governing body:			
Salaries		15,600	
Employee benefits		20,921	
Other operating expenditures		3,869	
Total		40,390	
Finance:			
Salaries		223,464	
Employee benefits		72,665	
Other operating expenditures		27,884	
Capital outlay		5,772	
Total		329,785	
Public buildings:			
Salaries		7,373	
Employee benefits		585	
Other operating expenditures		40,300	
Capital outlay		12,175	
Total		60,433	
Total general government	698,415	654,845	43,570
Public safety:			
Police:			
Salaries		532,209	
Employee benefits		199,942	
Vehicle maintenance		59,263	
Other operating expenditures		67,737	

**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, 2011**

	Budget	Actual	Variance Positive (Negative)
Capital outlay		128,357	
Total		987,508	
Fire:			
Salaries		280,531	
Employee benefits		84,206	
Other operating expenditures		58,394	
Capital outlay		-	
Total		423,131	
Inspections:			
Salaries		141,298	
Employee benefits		46,257	
Vehicle maintenance		1,570	
Other operating expenditures		16,760	
Capital outlay		7,605	
Total		213,490	
Total public safety	1,687,595	1,624,129	63,466
Transportation:			
Streets and highways:			
Salaries		243,997	
Employee benefits		88,018	
Sidewalk construction		-	
Vehicle maintenance		42,872	
Street Lights		116,701	
Other operating expenditures		353,604	
Capital outlay		28,736	
Total transportation	901,880	873,928	27,952
Environmental protection:			
Solid waste:			
Salaries		100,844	
Employee benefits		43,209	
Vehicle maintenance		19,094	
Other operating expenditures		140,352	
Capital outlay		-	
Total environmental protection	328,255	303,499	24,756
Culture and recreation:			
Parks and recreation:			
Salaries		221,432	
Employee benefits		61,415	
Other operating expenditures		128,487	
Capital outlay		6,157	

**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, 2011**

	Budget	Actual	Variance Positive (Negative)
Total		417,491	
Community donations:			
Contributions		4,968	
Total		4,968	
Total cultural and recreational	436,575	422,459	14,116
Debt service:			
Principal retirement		811,343	
Interest and other charges		255,784	
Total debt service	1,081,115	1,067,127	13,988
 Total expenditures	5,133,835	4,945,987	187,848
Revenues over (under) expenditures	(260,785)	(180,015)	80,770
Other financing sources (uses):			
Transfers (to)/from other funds:			
Capital Projects Fund	(120,275)	(106,530)	13,745
Enterprise Fund	-	-	-
Enterprise Capital Projects Fund	(160,000)	(160,000)	-
Sale of assets	361,060	527,906	166,846
Proceeds from installment purchase	80,000	80,000	-
Appropriated fund balance	100,000	-	(100,000)
Total	\$ 260,785	341,376	\$ 80,591
Revenues and other financing sources over expenditures and other financing uses	\$ -	161,361	\$ 161,361
Fund balances, beginning		2,748,641	
Change in reserve for inventories		-	
Fund balances, ending		\$ 2,910,002	



**Town of Blowing Rock, North Carolina**  
**Capital Projects Fund - Various Projects**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**From Inception and For the Fiscal Year Ended June 30, 2011**

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues</b>					
Restricted intergovernmental:					
Storm water connection	\$ 10,145	\$ 10,145	\$ -	\$ 10,145	\$ -
Contributions and grants	265,515	100,000	68,000	168,000	(97,515)
Total	<u>275,660</u>	<u>110,145</u>	<u>68,000</u>	<u>178,145</u>	<u>(97,515)</u>
Other revenues:					
Investment earnings	-	30,856	602	31,458	31,458
Miscellaneous	469,660	450,014	-	450,014	(19,646)
Total	<u>469,660</u>	<u>480,870</u>	<u>602</u>	<u>481,472</u>	<u>11,812</u>
Total revenues	<u>745,320</u>	<u>591,015</u>	<u>68,602</u>	<u>659,617</u>	<u>(85,703)</u>
<b>Expenditures</b>					
Recreation project:					
Capital outlay:					
Culture and recreation	418,350	-	33,501	33,501	384,849
Total	<u>418,350</u>	<u>-</u>	<u>33,501</u>	<u>33,501</u>	<u>384,849</u>
Streets and sidewalks project:					
Capital outlay:					
Transportation	386,470	181,656	63,458	245,114	141,356
Total	<u>386,470</u>	<u>181,656</u>	<u>63,458</u>	<u>245,114</u>	<u>141,356</u>
BRAHM project:					
Capital outlay:					
Culture and recreation	2,457,805	1,544,764	669,867	2,214,631	243,174
Total	<u>2,457,805</u>	<u>1,544,764</u>	<u>669,867</u>	<u>2,214,631</u>	<u>243,174</u>
Total expenditures	<u>3,262,625</u>	<u>1,726,420</u>	<u>766,826</u>	<u>2,493,246</u>	<u>769,379</u>
Revenues under expenditures	<u>(2,517,305)</u>	<u>(1,135,405)</u>	<u>(698,224)</u>	<u>(1,833,629)</u>	<u>683,676</u>
<b>Other Financing Sources</b>					
Various projects:					
Operating transfers in:					
General Fund	712,505	618,512	106,530	725,042	12,537
Installment purchase obligations issued	1,804,800	1,804,800	-	1,804,800	-
Total other financing sources	<u>2,517,305</u>	<u>2,423,312</u>	<u>106,530</u>	<u>2,529,842</u>	<u>12,537</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 1,287,907</u>	<u>\$ (591,694)</u>	<u>\$ 696,213</u>	<u>\$ 696,213</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, 2011**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Water sales:			
Residential	\$ -	\$ 668,440	\$ -
Impact fees		2,250	
Interconnect charges		99,297	
Total	<u>825,000</u>	<u>769,987</u>	<u>(55,013)</u>
Sewer charges:			
Residential		530,484	
Impact fees		7,684	
Total	<u>610,820</u>	<u>538,168</u>	<u>(72,652)</u>
Water and sewer taps	<u>13,000</u>	<u>11,712</u>	<u>(1,288)</u>
Other operating revenues	<u>26,120</u>	<u>21,153</u>	<u>(4,967)</u>
Total operating revenues	<u>1,474,940</u>	<u>1,341,020</u>	<u>(133,920)</u>
Nonoperating revenues:			
Interest earnings	<u>10,000</u>	<u>2,474</u>	<u>(7,526)</u>
Total revenues	<u>1,484,940</u>	<u>1,343,494</u>	<u>(141,446)</u>
<b>Expenditures:</b>			
Water and sewer administration:			
Salaries		31,261	
Employee benefits		11,551	
Travel		-	
Supplies		-	
Insurance		44,860	
Vehicle maintenance		-	
Other operating expenditures		10,520	
Engineering services		25,432	
Total water and sewer administration	<u>130,035</u>	<u>123,624</u>	<u>6,411</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, 2011**

	Budget	Actual	Variance Positive (Negative)
<b>Water and sewer plant operations:</b>			
Salaries		158,572	
Employee benefits		54,911	
Repairs and maintenance		57,593	
Supplies		16,076	
Other operating expenditures		34,906	
Utilities		137,815	
Sludge composting		32,400	
Total	<u>504,300</u>	<u>492,273</u>	<u>12,027</u>
<b>Water and sewer field operations:</b>			
Salaries		112,509	
Employee benefits		45,794	
Supplies		55,910	
Chemicals		33,993	
Other operating expenditures		18,205	
Total	<u>317,575</u>	<u>266,411</u>	<u>51,164</u>
<b>Debt service:</b>			
Bond issuance costs		-	
Interest and other charges		40,586	
Principal retirement		391,173	
Total debt service	<u>431,760</u>	<u>431,759</u>	<u>1</u>
<b>Capital outlay:</b>			
Equipment		-	
Water taps		-	
Miscellaneous water		-	
Sewer extensions		-	
Sewer taps		-	
Miscellaneous sewer		-	
Total capital outlay	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Total expenditures	<u>1,391,670</u>	<u>1,314,067</u>	<u>77,603</u>
<b>Other financing sources (uses):</b>			
<b>Transfer (to) from other funds:</b>			
General fund	-	-	-
Capital projects water and sewer	(98,270)	(89,747)	8,523
Proceeds from installment purchase	-	-	-
Sale of fixed assets	5,000	-	(5,000)
Appropriated fund balance	-	-	-
Total other financing sources (uses)	<u>(93,270)</u>	<u>(89,747)</u>	<u>3,523</u>
<b>Revenues and other sources over expenditures and other uses</b>	<u>\$ -</u>	<u>(60,320)</u>	<u>\$ (60,320)</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, 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenues and other sources over expenditures and other uses		\$ (60,320)	
Reconciling items:			
Principal retirement		391,173	
Capital outlay items capitalized		-	
Assets transferred from General Fund		-	
Decrease in bond interest accrued		-	
Increase in accrued vacation payable		3,008	
Depreciation		(308,694)	
Transfers to water and sewer capital projects		89,747	
Proceeds from installment purchase		-	
Grant Proceeds from Water and Sewer Capital Projects Fund		1,136,807	
Interest income from Water and Sewer Capital Projects Fund		671	
Transfer in from General Fund to Water and Sewer Capital Project Fund		160,000	
Capitalized interest on borrowings during construction:			
Interest costs		-	
Investment earnings on borrowed funds		-	
Cumulative change in application of capitalization policy		-	
Total reconciling items		<u>1,472,712</u>	
Net income		<u>\$ 1,412,392</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, 2011**

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
<b>Revenues</b>					
Investment earnings	\$ 50,000	\$ 95,712	\$ 671	\$ 96,383	\$ 46,383
Grants & contributions	1,252,900	396,220	1,136,807	1,533,027	280,127
Miscellaneous income	33,750	-	-	-	(33,750)
Total	<u>1,336,650</u>	<u>491,932</u>	<u>1,137,478</u>	<u>1,629,410</u>	<u>292,760</u>
Total revenues	<u>1,336,650</u>	<u>491,932</u>	<u>1,137,478</u>	<u>1,629,410</u>	<u>292,760</u>
<b>Expenditures</b>					
Construction	3,817,065	835,855	1,821,574	2,657,429	1,159,636
Total	<u>3,817,065</u>	<u>835,855</u>	<u>1,821,574</u>	<u>2,657,429</u>	<u>1,159,636</u>
Revenues under expenditures	<u>(2,480,415)</u>	<u>(343,923)</u>	<u>(684,096)</u>	<u>(1,028,019)</u>	<u>1,452,396</u>
<b>Other financing sources :</b>					
Operating transfer from water and sewer fund	635,645	540,422	89,747	630,169	(5,476)
Transfer from general fund	294,670	118,636	160,000	278,636	(16,034)
Proceeds of long-term debt	1,550,100	396,220	360,260	756,480	(793,620)
Other contributions	-	8,844	-	8,844	8,844
Total other sources	<u>2,480,415</u>	<u>1,064,122</u>	<u>610,007</u>	<u>1,674,129</u>	<u>(806,286)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 720,199</u>	<u>\$ (74,089)</u>	<u>\$ 646,110</u>	<u>\$ 646,110</u>

## **Other Schedules**

---

This section contains additional information required on property taxes.

---

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Year Tax Levy

**Town of Blowing Rock, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2011**

Fiscal Year	Uncollected Balance June 30, 2010	Additions	Collections And Credits	Uncollected Balance June 30, 2011
2010-2011	\$ -	\$ 3,054,286	\$ 2,972,548	\$ 81,738
Vehicle Tax	-	48,368	44,206	4,162
2009-2010	59,806	-	29,007	30,799
Vehicle Tax	2,079	-	1,682	397
2008-2009	12,063	-	4,132	7,931
Vehicle Tax	927	-	275	652
2007-2008	4,232	-	1,518	2,714
Vehicle Tax	622	-	-	622
2006-2007	2,749	-	1,507	1,242
Vehicle Tax	409	-	-	409
2005-2006	2,291	-	551	1,740
Vehicle Tax	854	-	-	854
2004-2005	1,670	-	3	1,667
Vehicle Tax	793	-	-	793
2003-2004	1,115	-	-	1,115
Vehicle Tax	529	-	-	529
2002-2003	2,858	-	-	2,858
2001-2002	2,540	-	11	2,529
2000-2001	1,242	-	1,242	-
	<u>\$ 96,779</u>	<u>\$ 3,102,654</u>	<u>\$ 3,056,682</u>	<u>142,751</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>74,414</u>
Ad valorem taxes receivable - net				<u>\$ 68,337</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				\$ 3,068,507
Releases and refunds				2,547
Amounts written off per statute of limitations				<u>1,242</u>
Subtotal				3,072,296
Less interest collected				<u>(15,614)</u>
Total collections and credits				<u>\$ 3,056,682</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	\$ 1,099,417,215	0.280%	\$ 3,078,368	\$ 3,030,000	\$ 48,368
Penalties	-		-	-	-
Total	<u>1,099,417,215</u>		<u>3,078,368</u>	<u>3,030,000</u>	<u>48,368</u>
Discoveries:					
Current year taxes	10,096,456	0.280%	28,271	28,271	-
Prior year taxes	-	0.280%	-	-	-
Penalties	-	0.280%	-	-	-
	<u>10,096,456</u>		<u>28,271</u>	<u>28,271</u>	<u>-</u>
Abatements	<u>(1,423,128)</u>	0.280%	<u>(3,985)</u>	<u>(3,985)</u>	<u>-</u>
Total property valuation	\$ <u><u>1,108,090,543</u></u>				
Net levy			3,102,654	3,054,286	48,368
Uncollected taxes at June 30, 2009			<u>85,900</u>	<u>81,738</u>	<u>4,162</u>
Current year's taxes collected			<u>\$3,016,754</u>	<u>2,972,548</u>	<u>\$44,206</u>
Current levy collection percentage			<u>97.23%</u>	<u>97.32%</u>	<u>91.40%</u>



# **Compliance Section**

42

  
**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

Billy G. Combs, CPA  
Douglas M. Tennant, CPA  
Jason D. Carpenter, CPA  
Tanya L. Singleton, CPA  
Harry B. Cardwell IV, CPA

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

**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, 2011, which collectively comprises the Town of Blowing Rock's basic financial statements, and have issued our report thereon dated October 14, 2011. 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, 2011

44

  
**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  
Harry B. Cardwell IV, CPA

**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, 2011. 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, 2011.

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.*

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

October 14, 2011

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

Billy G. Combs, CPA  
 Douglas M. Tennant, CPA  
 Jason D. Carpenter, CPA  
 Tanya L. Singleton, CPA  
 Harry B. Cardwell IV, CPA

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

**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, 2011. 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, 2011.

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.

*COMBS, TENNANT + CARPENTER, P.C.*

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

October 14, 2011

**Town of Blowing Rock, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2011**

---

**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
23.002	Appalachian Regional Commission (ARC) - Interconnect Project Grant

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, 2011**

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

NC Drinking Water State Revolving Fund and Grant program

**Town of Blowing Rock, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2011**

---

**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, 2011**

---

**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, 2011**

---

**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, 2011**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct &amp; Pass-through) Expenditures</u>
<b>Federal Grants:</b>			
<b>Cash Programs:</b>			
<u>U. S. Department of Justice</u>			
Passed-through N.C. Department of Crime Control and Public Safety: Criminal Justice Improvements Grants Program	16.738		\$ 7,068
<u>U. S. Department of Agriculture</u>			
Appalachian Regional Development Center (ARC) Passed-through the USDA Rural Development Center	23.002		\$ 128,640
<u>Environmental Protection Agency</u>			
Passed-through N.C. Department of Environment and Natural Resources ARRA - NC Drinking Water State Revolving Fund and Grant program(note 2)	66.458		720,520
Total assistance - federal programs			<u>856,228</u>
<b>State Grants:</b>			
<b>Cash Assistance:</b>			
<u>N.C. Department of Crime Control and Public Safety</u>			
N.C. Mitigation			2,021
<u>N.C. Rural Economic Development Center</u>			
Wine and Culinary Grant			2,000
<u>N.C. Department of Transportation:</u>			
Powell Bill		38570	76,943
Total assistance - State programs			<u>80,964</u>
Total assistance			<u>\$ 937,192</u>

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

1. 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.

2. Loans Outstanding

Town of Blowing Rock had the following loan balances outstanding at June 30, 2011. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>\$</u>
N.C. Drinking Water Revolving Loan and Grant Program	66.458	756,480