

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
Brady L. Combs, CPA
Tanya L. Singleton, CPA
Harry B. Cardwell IV, CPA

October 28, 2014

To the Honorable Mayor and the
Board of Commissioners of the
Town of Blowing Rock, NC

We have audited the financial statements of the governmental activities of the Town of Blowing Rock, NC for the year ended June 30, 2014, and have issued our report thereon dated October 28, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 3, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 18, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Town of Blowing Rock, NC are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates for the year ended June 30, 2014.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Mistakes

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 28, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of The Town of Blowing Rock, NC and management of The Town of Blowing Rock, NC, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

COMBS, TENNANT & CARPENTER, P.C.

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

TOWN OF BLOWING ROCK

Blowing Rock, North Carolina
Financial Statements
June 30, 2014

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

Town of Blowing Rock, North Carolina
Table of Contents
6/30/2014

Exhibit		Page
	Financial Section:	
	Board of Commissioners	
	Independent Auditors' Report	1 - 3
	Management's Discussion and Analysis	4 - 13
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	14
2	Statement of Activities	15 - 16
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	17
3	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
6	Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual – General Fund	20
7	Statement of Fund Net Position – Proprietary Funds	21
8	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	22
9	Statement of Cash Flows – Proprietary Funds	23 - 24
	Notes to the Financial Statements	25 - 47
	Required Supplementary Financial Data	
	Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	48
	Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions	49
	Law Enforcement Officers' Special Separation Allowance – Notes to the Required Schedules	49

Individual Fund Statements and Schedules:

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	50 - 53
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – From Inception - Capital Projects Fund	54
Balance Sheet for Non-Major Governmental Fund	55
Statement of Revenues, Expenditures, and Changes in Fund Balances for Non-Major Governmental Fund	56
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
Appearance Advisory Commission	57
Water and Sewer Fund	58 - 60
Water and Sewer Capital Project Fund	61

Other Schedules:

Schedule of Ad Valorem Taxes Receivable	62
Analysis of Current Tax Levy – Town-Wide Levy	63

Compliance Section:

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	64 - 65
---	---------

TOWN OF BLOWING ROCK
June 30, 2014

Mayor

J.B. Lawrence

Mayor Pro Tem

Albert Yount

Board of Commissioners

Doug Matheson

Ray Pickett

Dan Phillips

Sue Sweeting

Town Manager

Scott Fogleman

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
Brady L. Combs, 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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the Town of Blowing Rock, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Blowing Rock ABC Board and the Town of Blowing Rock Tourism Development Authority were not audited in accordance with *Governmental Auditing Standards*.

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

the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the Town of Blowing Rock, North Carolina as of June 30, 2014, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's Schedules of Funding Progress and Schedules of Employer Contributions, on pages 48 and 49, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Blowing Rock, North Carolina. The combining and individual fund statements, budgetary schedules, and other schedules are presented for purposed of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014 on our consideration of Town of Blowing Rock's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Blowing Rock's internal control over financial reporting and compliance.

COMBS, TENNANT & CARPENTER, P.C.

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

October 28, 2014

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, 2014. 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 and deferred outflows of resources of the Town of Blowing Rock exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$27,491,233 (*net position*).
- The government's total net position increased by \$816,936 with the increase primarily in the governmental-type activities.
- As of the close of the current fiscal year, the Town of Blowing Rock's governmental funds reported combined ending fund balances of \$3,629,721 an increase of \$298,163 in comparison with the prior year. This is primarily attributable to additional sales tax revenue received due to a change in sales tax allocation method from per capita to ad valorem in Watauga County.
- At the end of the current fiscal year, unassigned (available for spending at the government's discretion) fund balance for the General Fund was \$2,681,184 or 50.22% of total general fund expenditures for the fiscal year.
- This year the Town added a special revenue fund to account for the operations of the Blowing Rock Appearance Advisory Commission (BRAAC). This commission of the Town accomplishes a variety of Town beautification projects through memorial hanging basket dedications and general donations.
- The Town of Blowing Rock's total long-term liabilities decreased by \$709,908 (11.11%) during the current fiscal year mostly attributable to debt retirements via payments being made on the Fire/Rescue Building, American Legion Parking Facility & Water Interconnect Line.
- The Town of Blowing Rock maintained a NC Municipal Bond rating of 80 for the eleventh consecutive year. The Town also maintained an improved Moody's Investor bond rating of A2 for the fourth consecutive year, having previously maintained an A3 rating for seven consecutive years, as a result of financial planning & capital debt management.

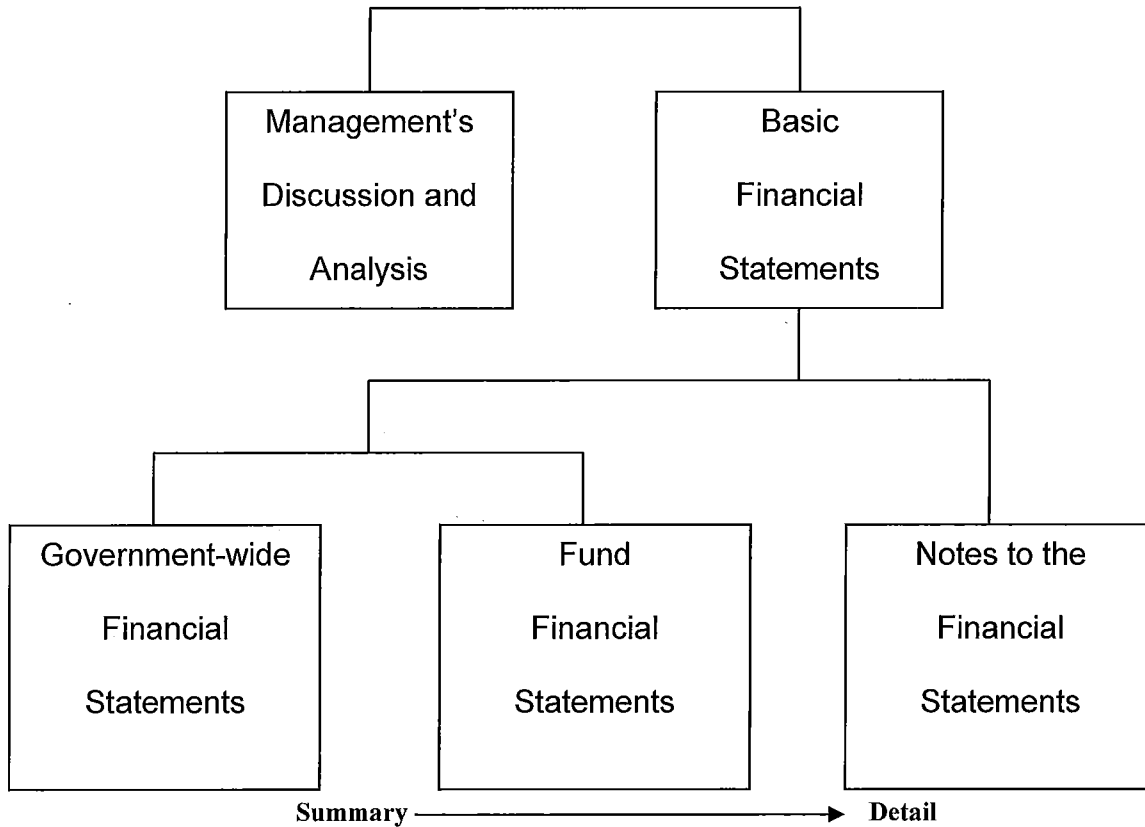
Overview of the Financial Statements

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

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

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



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.

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

Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes 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

Management Discussion and Analysis
Town of Blowing Rock

for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

Proprietary Funds – 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 Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25 of this report.

Government-Wide Financial Analysis

Town of Blowing Rock's Net Position

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 4,083,770	\$ 3,700,071	\$ 2,429,945	\$ 2,301,813	\$ 6,513,715	\$ 6,001,884
Capital assets	15,004,389	15,159,528	12,339,465	12,601,205	27,343,854	27,760,733
Total assets	19,088,159	18,859,599	14,769,410	14,903,018	33,857,569	33,762,617
Long-term liabilities outstanding	4,295,259	4,731,099	1,384,336	1,658,404	5,679,595	6,389,503
Other liabilities	324,266	310,266	344,452	369,048	668,718	679,314
Deferred inflows of resources	18,023	19,503	-	-	18,023	19,503
Total liabilities	4,637,548	5,060,868	1,728,788	2,027,452	6,366,336	7,088,320
Net position:						
Net investment in capital assets	10,859,754	10,586,014	10,976,408	10,962,519	21,836,162	21,548,533
Restricted	944,116	824,896	-	-	944,116	824,896
Unrestricted	2,646,741	2,387,821	2,064,214	1,913,047	4,710,955	4,300,868
Total net position	\$ 14,450,611	\$ 13,798,731	\$ 13,040,622	\$ 12,875,566	\$ 27,491,233	\$ 26,674,297

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Blowing Rock exceeded liabilities and deferred inflows by \$27,491,233 as of June 30, 2014. The Town's net position increased by \$816,936 for the fiscal year ended June 30, 2014. However, the largest portion (79.43%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Blowing Rock uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Blowing Rock's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Blowing Rock's net position, \$1,038,668 (3.78%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,616,403 is unrestricted.

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

- Utilization of a Financial Operating Policy which maximizes cash management.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.30%, a slight decrease from last year's rate of 98.88%.
- Utilization of a capital improvement plan for managing capital expenditures with a ten-year Comprehensive Plan, five-year Capital Improvement Plan, Capital Fleet Replacement

Management Discussion and Analysis
Town of Blowing Rock

Plan, Street Pavement Plan, Park and Recreation Master Plan, and Storm Water Master Plan, with an update to the ten year Comprehensive Plan adopted this year.

- Preventative measures, such as diligent monitoring of expenditures and continued prioritization of Capital Projects, attributed to the Town's stability during continued slow economic recovery.

Town of Blowing Rock Changes in Net Position
Figure 2

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 412,179	\$ 316,113	\$ 1,394,195	\$ 1,375,061	\$ 1,806,374	\$ 1,691,174
Operating grants and contributions	90,023	118,947	-	-	90,023	118,947
Capital grants and contributions	-	-	10,000	16,600	10,000	16,600
General revenues:						
Property taxes	3,311,247	3,122,218	-	-	3,311,247	3,122,218
Other taxes	325,932	315,970	-	-	325,932	315,970
Grants and contributions not restricted to specific programs	1,520,785	846,988	-	-	1,520,785	846,988
Other	339,728	191,908	132	3,317	339,860	195,225
Total revenues	5,999,894	4,912,144	1,404,327	1,394,978	7,404,221	6,307,122
Expenditures:						
General government	1,386,218	811,540	-	-	1,386,218	811,540
Public safety	2,036,566	1,932,355	-	-	2,036,566	1,932,355
Transportation	948,742	800,587	-	-	948,742	800,587
Environmental protection	237,302	278,394	-	-	237,302	278,394
Economic development	-	-	-	-	-	-
Culture and recreation	491,811	457,224	-	-	491,811	457,224
Interest on long-term debt	182,375	203,215	-	-	182,375	203,215
Water and sewer	-	-	1,304,271	1,269,220	1,304,271	1,269,220
Total expenses	5,283,014	4,483,315	1,304,271	1,269,220	6,587,285	5,752,535
Increase in net position before transfers	716,880	428,829	100,056	125,758	816,936	554,587
Transfers	(65,000)	(100,000)	65,000	100,000	-	-
Cumulative effect of change in application of capitalization policy	-	-	-	-	-	-
Increase in net position	651,880	328,829	165,056	225,758	816,936	554,587
Net position, July 1	13,798,731	13,469,902	12,875,566	12,649,808	26,674,297	26,119,710
Net position, June 30	\$ 14,450,611	\$ 13,798,731	\$ 13,040,622	\$ 12,875,566	\$ 27,491,233	\$ 26,674,297

Management Discussion and Analysis
Town of Blowing Rock

Governmental activities. Governmental activities increased the Town's net position by \$651,880. Key elements of this increase are as follows:

- Tax revenue exceeding budgeted amounts by \$294,322.
- Sales tax revenue exceeded budgeted amounts by \$35,770 due to unallocated additional funds received due to the distribution change from per capita to ad valorem in Watauga County.

Business-type activities: Business-type activities increased the Town of Blowing Rock's net position by \$165,056.

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, Town of Blowing Rock's fund balance available for spending in the General Fund was \$2,681,184, while total fund balance reached \$3,475,333. The Governing Body of the Town of Blowing Rock has determined that the Town should maintain an available fund balance of 50% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 50.22% of general fund expenditures, while total fund balance represents 65.10% of the same amount.

At June 30, 2014, the governmental funds of Town of Blowing Rock reported a combined fund balance of \$3,629,721, an 8.95% increase 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.

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

Proprietary Funds. The Town of Blowing Rock’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$2,064,214. The change in net position was an increase of \$165,056. 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, 2014, totals \$27,343,854 (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 \$253,018 in governmental-type activities for ongoing projects such as the public works land purchase, Wonderland Trail Road Repairs & sidewalk and paving projects.

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

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 3,061,253	\$ 3,032,025	\$ 100,504	\$ 81,521	\$ 3,161,757	\$ 3,113,546
Construction in progress	253,018	284,959	132,925	106,005	385,943	390,964
Infrastructure	4,937,726	4,930,571	-	-	4,937,726	4,930,571
Buildings	6,056,652	6,202,270	-	-	6,056,652	6,202,270
Plant	-	-	11,983,848	12,259,835	11,983,848	12,259,835
Equipment and furniture	330,793	382,008	122,188	153,844	452,981	535,852
Vehicles	334,111	285,986	-	-	334,111	285,986
Computers	30,836	41,709	-	-	30,836	41,709
Total	\$ 15,004,389	\$ 15,159,528	\$ 12,339,465	\$ 12,601,205	\$ 27,343,854	\$ 27,760,733

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, 2014, the Town of Blowing Rock’s long term liabilities consisted of the following:

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated absences	85,613	93,155	21,279	19,718	106,892	112,873
Pension obligation	65,011	64,430	-	-	65,011	64,430
Installment purchases	4,144,635	4,573,514	1,363,057	1,638,686	5,507,692	6,212,200
Total	\$ 4,295,259	\$ 4,731,099	\$ 1,384,336	\$ 1,658,404	\$ 5,679,595	\$ 6,389,503

- As mentioned previously, the Town of Blowing Rock’s total debt decreased by \$709,908 (11.11%) 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 & Water Interconnect Line being made.

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 fourth 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 eleventh 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 \$88,706,049.

Additional information regarding the Town of Blowing Rock’s long-term debt can be found in note III.B.6 beginning on page 44 of this report.

Economic Factors and Next Year’s Budgets and Rates

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

- Unemployment is in line with the state rate. The Watauga County unemployment rate decreased from 7.60% in July 2013 to 6.50% in July 2014. This is consistent with the historically higher NC state rate that also decreased from 8.4% in July 2013 to 6.90% in

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

July 2014 (unadjusted rates as reported by the North Carolina Department of Commerce North Carolina Labor and Economic Analysis Division).

- Increased interest in new housing and development.
- Tourism market continues to show modest improvement with occupancy taxes reported increasing 2.03% in Fiscal Year 2014 over Fiscal Year 2013.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Property Tax Revaluation: Watauga County conducted a property revaluation for 2014 property taxes. As a result, the law requires that a revenue-neutral tax rate be calculated and published by the Town of Blowing Rock. With the Fiscal Year 2014 tax rate being 0.28 per \$100 of taxable property, the Town expected to generate an estimated tax levy of \$3,146,742. After the revaluation, the Town of Blowing Rock would require a tax rate of \$0.2839 to produce an equivalent tax levy. Furthermore, a revenue-neutral tax rate, adjusting for an average annual growth rate of 1.1% since the last property revaluation in Fiscal Year 2007, results in the Town having a tax rate of \$0.2870 per \$100 of taxable property to remain revenue neutral following the revaluation process.

Governmental Activities: Property tax collections and revenues from sales tax are projected to increase due to a budgeted tax rate increase to .31 cents and the continuation of the ad valorem method of sales tax distribution set by Watauga county for the second consecutive year. The Town will use these revenues to maintain existing programs and fund planned capital improvements.

Budgeted expenditures in the General Fund may increase slightly, 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 \$.25 each in the per 1,000 gallon over the minimum rate, and also increased \$2.00 each in the base rate per month, with the Water Interconnection Fee decreasing \$.50 per month. General operating expenses increased 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.

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 Position
June 30, 2014

	<u>Primary Government</u>			<u>Town of Blowing Rock ABC Board</u>	<u>Town of Blowing Rock Tourism Development Authority</u>	<u>Total Reporting Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>			
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 3,059,065	\$ 1,799,498	\$ 4,858,563	\$ 208,336	\$ 515,452	\$ 5,582,351
Taxes receivable (net)	101,657	-	101,657	-	123,647	225,304
Accrued interest receivable on taxes	10,103	-	10,103	-	-	10,103
Accounts receivable (net)	759,829	351,011	1,110,840	11,375	-	1,122,215
Due from other governments	30,579	-	30,579	-	-	30,579
Due from component units	116,196	-	116,196	-	-	116,196
Due from primary government	-	-	-	-	-	-
Inventories	2,700	77,862	80,562	216,904	-	297,466
Prepaid items	3,641	-	3,641	6,410	295	10,346
Restricted cash and cash equivalents	-	201,574	201,574	144,537	-	346,111
Total current assets	<u>4,083,770</u>	<u>2,429,945</u>	<u>6,513,715</u>	<u>587,562</u>	<u>639,394</u>	<u>7,740,671</u>
Non-current assets:						
Capital assets (Note 4):						
Land, non-depreciable improvements, and construction in progress	3,314,271	233,429	3,547,700	96,275	-	3,643,975
Other capital assets, net of depreciation	11,690,118	12,106,036	23,796,154	180,186	1,062	23,977,402
Total capital assets	<u>15,004,389</u>	<u>12,339,465</u>	<u>27,343,854</u>	<u>276,461</u>	<u>1,062</u>	<u>27,621,377</u>
Total assets	<u>\$ 19,088,159</u>	<u>\$ 14,769,410</u>	<u>\$ 33,857,569</u>	<u>\$ 864,023</u>	<u>\$ 640,456</u>	<u>\$ 35,362,048</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 307,196	\$ 135,634	\$ 442,830	\$ 146,552	\$ 183,844	\$ 773,226
Cash overdraft	17,070	-	17,070	-	-	17,070
Unearned revenue	-	-	-	-	-	-
Accrued salaries	-	7,244	7,244	-	-	7,244
Customer deposits	-	-	-	-	-	-
Due to primary government	-	-	-	34,188	82,008	116,196
Due to other governments	-	-	-	-	-	-
Liabilities payable from restricted assets:						
Customer deposits	-	201,574	201,574	-	-	201,574
Long-term liabilities:						
Due within one year	671,965	249,045	921,010	-	-	921,010
Due in more than one year	3,623,294	1,135,291	4,758,585	12,951	1,957	4,773,493
Total liabilities	<u>4,619,525</u>	<u>1,728,788</u>	<u>6,348,313</u>	<u>193,691</u>	<u>267,809</u>	<u>6,809,813</u>
DEFERRED INFLOWS OF RESOURCES						
Prepaid taxes	18,023	-	18,023	-	-	18,023
Total deferred inflows of resources	<u>18,023</u>	<u>-</u>	<u>18,023</u>	<u>-</u>	<u>-</u>	<u>18,023</u>
NET POSITION						
Net investment in capital assets	10,859,754	10,976,408	21,836,162	276,461	1,062	22,113,685
Restricted for:						
Capital projects	-	-	-	144,537	-	144,537
Stabilization by State Statute	944,116	-	944,116	-	123,647	1,067,763
Culture and recreation	-	-	-	-	-	-
Working capital	-	-	-	40,993	-	40,993
Unrestricted	2,646,741	2,064,214	4,710,955	208,341	247,938	5,167,234
Total net position	<u>\$ 14,450,611</u>	<u>\$ 13,040,622</u>	<u>\$ 27,491,233</u>	<u>\$ 670,332</u>	<u>\$ 372,647</u>	<u>\$ 28,534,212</u>

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

Town of Blowing Rock, North Carolina
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:				
Governmental Activities:				
General government	\$ 1,386,218	\$ -	\$ -	\$ -
Public safety	2,036,566	148,798	12,378	-
Transportation	948,742	4,280	77,435	-
Environmental protection	237,302	140,620	210	-
Cultural and recreation	491,811	118,481	-	-
Interest on long-term debt	182,375	-	-	-
Total governmental activities (See Note 1)	5,283,014	412,179	90,023	-
Business-type activities:				
Water and sewer	1,304,271	1,394,195	-	10,000
Electric	-	-	-	-
Total business-type activities	1,304,271	1,394,195	-	10,000
Total primary government	\$ 6,587,285	\$ 1,806,374	\$ 90,023	\$ 10,000
Component units:				
ABC Board	\$ 1,361,998	\$ 1,421,688	\$ -	\$ -
Blowing Rock Tourism Development Authority	709,568	-	-	-
Total component unit	\$ 2,071,566	\$ 1,421,688	\$ -	\$ -

General revenues:

- Taxes:
 - Property taxes, levied for general purpose
 - Other taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Miscellaneous
- Transfers
 - Total general revenues and transfers
- Cumulative change in application of capitalization policy
- Change in net position

Net position, beginning
 Net position, ending

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

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities		Business-type Activities	Total	Town of Blowing Rock ABC Board	Blowing Rock Tourism Development Authority	Total Reporting Unit
\$	(1,386,218)	\$ -	\$ (1,386,218)	\$ -	\$ -	\$ (1,386,218)
	(1,875,390)	-	(1,875,390)	-	-	(1,875,390)
	(867,027)	-	(867,027)	-	-	(867,027)
	(96,472)	-	(96,472)	-	-	(96,472)
	(373,330)	-	(373,330)	-	-	(373,330)
	(182,375)	-	(182,375)	-	-	(182,375)
	(4,780,812)	-	(4,780,812)	-	-	(4,780,812)
	-	99,924	99,924	-	-	99,924
	-	-	-	-	-	-
	-	99,924	99,924	-	-	99,924
	(4,780,812)	99,924	(4,680,888)	-	-	(4,680,888)
	-	-	-	59,690	-	59,690
	-	-	-	-	(709,568)	(709,568)
	-	-	-	59,690	(709,568)	(649,878)
	3,311,247	-	3,311,247	-	-	3,311,247
	325,932	-	325,932	-	774,793	1,100,725
	1,520,785	-	1,520,785	-	-	1,520,785
	3,012	132	3,144	1,665	314	5,123
	336,716	-	336,716	476	1,677	338,869
	(65,000)	65,000	-	-	-	-
	5,432,692	65,132	5,497,824	2,141	776,784	6,276,749
	-	-	-	-	-	-
	651,880	165,056	816,936	61,831	67,216	945,983
	13,798,731	12,875,566	26,674,297	608,501	305,431	27,588,229
\$	14,450,611	\$ 13,040,622	\$ 27,491,233	\$ 670,332	\$ 372,647	\$ 28,534,212

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

**Town of Blowing Rock
Balance Sheet
Governmental Funds
June 30, 2014**

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	Capital Projects		
ASSETS				
Cash and cash equivalents	\$ 3,036,741	\$ -	\$ 22,324	\$ 3,059,065
Receivables, net:				
Taxes	101,657	-	-	101,657
Accounts	603,521	156,308	-	759,829
Due from other governments	146,775	-	-	146,775
Prepaid Expenses	3,641	-	-	3,641
Inventories	2,700	-	-	2,700
Total assets	<u>\$ 3,895,035</u>	<u>\$ 156,308</u>	<u>\$ 22,324</u>	<u>\$ 4,073,667</u>
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 300,022	\$ 7,174	\$ -	\$ 307,196
Cash overdraft	-	17,070	-	17,070
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Unearned revenue	-	-	-	-
Liabilities payable from restricted assets:				
Accounts payable	-	-	-	-
Total liabilities	<u>300,022</u>	<u>24,244</u>	<u>-</u>	<u>324,266</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	101,657	-	-	101,657
Prepaid taxes	18,023	-	-	18,023
Total deferred inflows of resources	<u>119,680</u>	<u>-</u>	<u>-</u>	<u>119,680</u>
FUND BALANCES				
Non Spendable				
Inventories	2,700	-	-	2,700
Prepays	3,641	-	-	3,641
Restricted				
Stabilization by State Statute	787,808	156,308	-	944,116
Streets	-	-	-	-
Capital Projects	-	-	-	-
Assigned				
Capital Projects	-	(24,244)	-	(24,244)
Subsequent year's expenditures	-	-	-	-
Unassigned	2,681,184	-	22,324	2,703,508
Total fund balances	<u>3,475,333</u>	<u>132,064</u>	<u>22,324</u>	<u>3,629,721</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,895,035</u>	<u>\$ 156,308</u>	<u>\$ 22,324</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 15,004,389

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. 10,103

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets. -

Liabilities for earned revenues considered deferred inflows of resources in fund statements. 101,657

Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.) (4,295,259)

Net position of governmental activities \$ 14,450,611

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, 2014

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General Fund	Capital Projects		
REVENUES				
Ad valorem taxes	\$ 3,238,232	\$ -	\$ -	\$ 3,238,232
Other taxes and licenses	325,932	-	-	325,932
Unrestricted intergovernmental	1,520,785	-	-	1,520,785
Restricted intergovernmental	90,023	156,530	-	246,553
Permits and fees	137,319	-	-	137,319
Sales and services	184,295	-	-	184,295
Investment earnings	3,001	11	-	3,012
Miscellaneous	240,217	-	23,475	263,692
Total revenues	5,739,804	156,541	23,475	5,919,820
EXPENDITURES				
Current:				
General government	1,339,712	-	12,468	1,352,180
Public safety	1,832,318	-	-	1,832,318
Transportation	682,049	-	-	682,049
Economic and physical development	-	-	-	-
Environmental protection	309,790	-	-	309,790
Culture and recreation	431,830	-	-	431,830
Debt service:				
Principal	560,344	-	-	560,344
Interest and other charges	182,375	-	-	182,375
Capital outlay	-	344,294	-	344,294
Total expenditures	5,338,418	344,294	12,468	5,695,180
Excess (deficiency) of revenues over expenditures	401,386	(187,753)	11,007	224,640
OTHER FINANCING SOURCES (USES)				
Transfers (to)/from other funds	(19,180)	(42,820)	(3,000)	(65,000)
Sales of capital assets	7,058	-	-	7,058
Installment purchase obligations issued	131,465	-	-	131,465
Capital lease obligations issued	-	-	-	-
Total other financing sources (uses)	119,343	(42,820)	(3,000)	73,523
Net change in fund balance	520,729	(230,573)	8,007	298,163
Fund balances, beginning	2,954,604	362,637	14,317	3,331,558
Change in reserve for inventories	-	-	-	-
Fund balances, ending	\$ 3,475,333	\$ 132,064	\$ 22,324	\$ 3,629,721

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, 2014

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

Net changes in fund balances - total governmental funds	\$	298,163
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		(155,138)
Book value assets disposed		-

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

Amount of donated assets		-
Change in unavailable revenue for tax revenues		73,015

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		428,879
--	--	---------

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		7,542
Net pension obligation		(581)

Total changes in net position of governmental activities	\$	<u>651,880</u>
--	----	----------------

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

Town of Blowing Rock
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2014

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 3,105,520	\$ 3,105,520	\$ 3,238,232	\$ 132,712
Other taxes and licenses	321,410	338,557	325,932	(12,625)
Unrestricted intergovernmental	618,500	1,204,856	1,520,785	315,929
Restricted intergovernmental	94,850	106,715	90,023	(16,692)
Permits and fees	65,000	65,000	137,319	72,319
Sales and services	209,200	209,200	184,295	(24,905)
Investment earnings	7,295	7,295	3,001	(4,294)
Miscellaneous	220,600	265,450	240,217	(25,233)
Total revenues	<u>4,642,375</u>	<u>5,302,593</u>	<u>5,739,804</u>	<u>437,211</u>
Expenditures:				
Current:				
General government	706,990	1,340,090	1,339,712	378
Public safety	1,642,795	2,105,349	1,832,318	273,031
Transportation	889,000	877,435	682,049	195,386
Environmental protection	343,575	326,575	309,790	16,785
Cultural and recreation	405,585	447,985	431,830	16,155
Debt service:				
Principal retirement	560,344	560,344	560,344	-
Interest and other charges	182,406	182,406	182,375	31
Total expenditures	<u>4,730,695</u>	<u>5,840,184</u>	<u>5,338,418</u>	<u>501,766</u>
Revenues over (under) expenditures	<u>(88,320)</u>	<u>(537,591)</u>	<u>401,386</u>	<u>938,977</u>
Other financing sources (uses):				
Transfers to other funds	(65,000)	(272,032)	(65,000)	207,032
Transfers from other funds	45,820	5,000	45,820	40,820
Sale of assets	7,500	7,500	7,058	(442)
Appropriated fund balance	100,000	404,368	-	(404,368)
Proceeds from installment purchase	-	392,755	131,465	(261,290)
Total other financing sources (uses)	<u>88,320</u>	<u>537,591</u>	<u>119,343</u>	<u>(418,248)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>520,729</u>	<u>\$ 520,729</u>
Fund balances, beginning			2,954,604	
Change in reserve for inventories			-	
Fund balances, ending			<u>\$ 3,475,333</u>	

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

Exhibit 7

**Town of Blowing Rock
Statement of Net Position
Proprietary Funds
June 30, 2014**

	Water and Sewer Fund		Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,799,498	\$	1,799,498
Accounts receivable (net) - billed	351,011		351,011
Due from other governments	-		-
Inventories	77,862		77,862
Prepaid items	-		-
Restricted cash and cash equivalents	201,574		201,574
Total current assets	<u>2,429,945</u>		<u>2,429,945</u>
Capital assets:			
Land and other non-depreciable assets	233,429		233,429
Other capital assets, net of depreciation	12,106,036		12,106,036
Capital assets (net)	<u>12,339,465</u>		<u>12,339,465</u>
Total assets	<u>\$ 14,769,410</u>	\$	<u>14,769,410</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 135,634	\$	135,634
Accrued salaries	7,244		7,244
Customer deposits	-		-
Unearned revenue	-		-
Compensated absences - current	21,279		21,279
General obligation bonds payable-current	-		-
Installment purchase-current	227,766		227,766
Liabilities payable from restricted assets:			
Customer deposits	201,574		201,574
Total current liabilities	<u>593,497</u>		<u>593,497</u>
Noncurrent liabilities:			
Compensated absences	-		-
General obligation bonds payable-noncurrent (net)	-		-
Installment purchase-noncurrent	1,135,291		1,135,291
Total noncurrent liabilities	<u>1,135,291</u>		<u>1,135,291</u>
Total liabilities	<u>1,728,788</u>		<u>1,728,788</u>
NET POSITION			
Net investment in capital assets	10,976,408		10,976,408
Unrestricted	2,064,214		2,064,214
Total net position	<u>\$ 13,040,622</u>	\$	<u>13,040,622</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 Position
Proprietary Funds
For the Year Ended June 30, 2014

	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 1,375,252	\$ 1,375,252
Water and sewer taps	2,649	2,649
Other operating revenues	16,294	16,294
Total operating revenues	1,394,195	1,394,195
OPERATING EXPENSES		
Administration	124,015	124,015
Water/Sewer plant operations	499,473	499,473
Water/Sewer field operations	284,965	284,965
Depreciation	367,357	367,357
Total operating expenses	1,275,810	1,275,810
Operating income (loss)	118,385	118,385
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	132	132
Sale of fixed assets	-	-
Interest and other charges	(28,461)	(28,461)
Bond issuance costs	-	-
Total nonoperating revenue (expenses)	(28,329)	(28,329)
Income (loss) before contributions and transfers	90,056	90,056
Contributions	10,000	10,000
Interconnect assets transferred	-	-
Transfers from other funds	65,000	65,000
Transfers to other funds	-	-
Total income (loss) after contributions and transfers	165,056	165,056
Cumulative change in application of capitalization policy	-	-
Change in net position	165,056	165,056
Total net position, beginning	12,875,566	12,875,566
Total net position, ending	\$ 13,040,622	\$ 13,040,622

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, 2014**

	Water and Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,412,719	\$ 1,412,719
Cash paid for goods and services	(495,698)	(495,698)
Cash paid to or on behalf of employees for services	(426,002)	(426,002)
Customer deposits received (returned)	308	308
Other operating revenues	-	-
Net cash provided (used) by operating activities	<u>491,327</u>	<u>491,327</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	65,000	65,000
Transfers to other funds	-	-
Grant proceeds	10,000	10,000
Total cash flows from noncapital financing activities	<u>75,000</u>	<u>75,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond anticipation notes issued	-	-
Acquisition and construction of capital assets	(105,617)	(105,617)
Principal paid on bond maturities and equipment contracts	(275,629)	(275,629)
Proceeds from installment purchase	-	-
Interest paid on bond maturities and equipment contracts	(28,461)	(28,461)
Sale of fixed assets	-	-
Capital contributions-Federal grant	-	-
Net cash provided (used) by capital and related financing activities	<u>(409,707)</u>	<u>(409,707)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>132</u>	<u>132</u>
Net increase (decrease) in cash and cash equivalents	156,752	156,752
Balances, beginning	1,844,320	1,844,320
Balances, ending	<u>\$ 2,001,072</u>	<u>\$ 2,001,072</u>

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

**Town of Blowing Rock
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2014**

	<u>Water and Sewer Fund</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 118,385	\$ 118,385
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	367,357	367,357
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	18,524	18,524
Increase (decrease) in allowance for doubtful accounts	-	-
(Increase) decrease in inventory	10,096	10,096
(Increase) in prepaid items	-	-
(Increase) in due from other funds	-	-
Increase (decrease) in accounts payable and accrued liabilities	(24,904)	(24,904)
Increase (decrease) in unearned revenue	-	-
Increase (decrease) in customer deposits	308	308
Increase (decrease) in accrued vacation pay	1,561	1,561
Total adjustments	<u>372,942</u>	<u>372,942</u>
Net cash provided by operating activities	<u>\$ 491,327</u>	<u>\$ 491,327</u>

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

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, 2014

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Blowing Rock ABC Board

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

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

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

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other

non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

The Town reports the following major governmental funds:

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

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

The Town reports the following non-major governmental fund:

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

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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 non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual operating budget appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects Special Revenue Fund, the Capital Projects Fund, and the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary to allow for previously unanticipated work to take place.

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

1. Deposits and Investments

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

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

<u>Town of Blowing Rock Restricted Cash</u>	
Governmental Activities	
General Fund	\$ -
Total governmental activities	<u>\$ -</u>
Business-type activities	
Water and Sewer Fund Customer Deposits	\$ 201,574
Total Business-type Activities	<u>\$ 201,574</u>
Total Restricted Cash	<u>\$ 201,574</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2013 (Caldwell County) and January 1, 2013 (Watauga County).

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

The inventories of the Town's enterprise funds and those of the ABC Board consist of materials and supplies held for subsequent use and merchandise held for resale. The cost of materials and supplies inventories is expensed when used rather than when purchased. The cost of merchandise held for resale is expensed when sold rather than when purchased. The Authority had no inventory on hand at June 30, 2014.

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an

expense or expenditure until then. The Town has no item that meets this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only two items that meet the criterion for this category - prepaid taxes and property taxes receivable.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, 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, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

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

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

11. Net Position / Fund Balances

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

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

The governmental fund types classify fund balances as follows:

Non-spendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. As of June 30, 2014, there was \$6,341 in the non-spendable 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, 2014, there were no funds in the committed fund balance.

Assigned fund balance – portion of fund balance that the Town intends to use for specific purposes.

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

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

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

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

II. Stewardship, Compliance and Accountability

The audit for the fiscal year ended June 30, 2014 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, 2014, the Town's deposits had a carrying amount of \$2,393,852 and a bank balance of \$2,445,494. Of the bank balance, \$812,646 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 \$344,374 and the bank balance was \$371,066. All of the bank balance was covered by federal depository insurance. The carrying amount of deposits for the Authority was \$490,452 and the bank balance was \$500,500. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2014, the Town's petty cash fund totaled \$500.

2. Investments

At June 30, 2014, the Town, the ABC Board, and the Authority had \$2,665,785, \$8,499, and \$25,000 respectively, invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAm with Standard and Poor's. The Town, the ABC Board, and the Authority have no policy regarding credit risk.

3. Receivables – Allowances for Doubtful Accounts

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

Fund	6/30/2014
General Fund:	
Taxes Receivable	\$ 41,329

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,032,025	\$ 29,228	\$ -	\$ 3,061,253
Construction in progress	284,959	344,293	(376,234)	253,018
Total capital assets not being depreciated	<u>3,316,984</u>	<u>373,521</u>	<u>(376,234)</u>	<u>3,314,271</u>
Capital assets being depreciated:				
Infrastructure	5,294,589	114,232	-	5,408,821
Buildings	7,305,918	-	-	7,305,918
Equipment and furniture	3,072,822	36,221	(2,500)	3,106,543
Vehicles	1,674,865	238,321	(115,302)	1,797,884
Computers	177,519	-	-	177,519
Total capital assets being depreciated	<u>17,525,713</u>	<u>388,774</u>	<u>(117,802)</u>	<u>17,796,685</u>
Less accumulated depreciation for:				
Infrastructure	364,018	107,077	-	471,095
Buildings	1,103,648	145,618	-	1,249,266
Equipment and furniture	2,690,814	87,436	(2,500)	2,775,750
Vehicles	1,388,879	190,196	(115,302)	1,463,773
Computers	135,810	10,873	-	146,683
Total accumulated depreciation	<u>5,683,169</u>	<u>\$ 541,200</u>	<u>\$ (117,802)</u>	<u>6,106,567</u>
Total capital assets being depreciated, net	<u>11,842,544</u>			<u>11,690,118</u>
Governmental activity capital assets, net	<u>\$ 15,159,528</u>			<u>\$ 15,004,389</u>

Depreciation was charged to governmental functions as follows:

General Government	\$ 47,359
Public Safety	338,883
Transportation	107,333
Environmental protection	14,626
Cultural & recreation	32,999
Unallocated depreciation	-
	<u>\$ 541,200</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water/Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 81,521	\$ 18,983	\$ -	\$ 100,504
Construction in progress	106,005	99,788	(72,868)	132,925
Total capital assets not being depreciated	<u>187,526</u>	<u>118,771</u>	<u>(72,868)</u>	<u>233,429</u>
Capital assets being depreciated:				
Plant	18,750,332	59,714	-	18,810,046
Equipment	1,111,493	-	-	1,111,493
Total capital assets being depreciated	<u>19,861,825</u>	<u>59,714</u>	<u>-</u>	<u>19,921,539</u>
Less accumulated depreciation for:				
Plant	6,490,497	335,701	-	6,826,198
Equipment	957,649	31,656	-	989,305
Total accumulated depreciation	<u>7,448,146</u>	<u>\$ 367,357</u>	<u>\$ -</u>	<u>7,815,503</u>
Total capital assets being depreciated, net	<u>12,601,205</u>			<u>12,106,036</u>
Business-type activities capital assets, net	<u>\$ 12,601,205</u>			<u>\$ 12,339,465</u>

Discretely Presented component units

Activity for the ABC Board for the year ended June 30, 2014, was as follows:

	Useful Life	Cost	Accumulated Depreciation	Net Amount
Land		\$ 96,275	\$ -	\$ 96,275
Building and improvements	20 years	315,573	169,990	145,583
Furniture and equipment	10 years	61,218	49,781	11,437
Computer equipment	5 years	54,468	31,302	23,166
		<u>\$ 527,534</u>	<u>\$ 251,073</u>	<u>\$ 276,461</u>

Activity for the Authority for the year ended June 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 15,702	\$ -	\$ -	\$ 15,702
Total capital assets being depreciated	15,702	-	-	15,702
Less accumulated depreciation for:				
Furniture and equipment	13,070	1,570	-	14,640
Total accumulated depreciation	13,070	\$ 1,570	\$ -	14,640
Total capital assets being depreciated, net	2,632			1,062
Governmental activity capital assets, net	\$ 2,632			\$ 1,062

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 7.07% and 7.55%, respectively. 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, 2014, 2013, and 2012 were \$131,628, \$120,937, and \$127,749, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$5,458, \$5,104, and \$5,091, respectively. The Authority's contributions to LGERS for the year ended June 30, 2014, 2013, and 2012 were \$8,433, \$7,953, and \$8,011, 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, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>11</u>
Total	<u>12</u>

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies.

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

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, 2013 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	\$ 14,212
Interest on net pension obligation	3,222
Adjustment to annual required contribution	(5,249)
Annual pension cost	<u>12,185</u>
Employer contributions made for fiscal year ending 6/30/2012	<u>(11,604)</u>
Increase (decrease) in net pension obligation	581
Net pension obligation beginning of fiscal year	64,430
Net pension obligation end of fiscal year	<u><u>\$ 65,011</u></u>

3 Year Trend Information

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 16,661	69.65%	\$ 60,421
6/30/2013	15,613	74.32%	64,430
6/30/2014	12,185	95.23%	65,011

4. Funded Status and Funding Progress.

As of December 31, 2013, 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 \$142,810. The covered payroll (annual payroll of active employees covered by the plan) was \$387,459, and the ratio of the UAAL to the covered payroll was 36.86%.

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

c. Supplemental Retirement Income Plan

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to both law enforcement officers and general employees of the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers and General Employees is included in the Comprehensive Annual Financial Report (CAFR) for the State of

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to two percent of each general employee and five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014 for general employees and law enforcement officers respectively were \$68,554 and \$23,151 which consisted of \$29,663 from the town and \$38,891 from general employees and \$18,396 from the Town and \$4,755 from the law enforcement officers.

d. Other Post-employment Benefits

Post-employment Healthcare Benefits

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

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

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

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least ten years of creditable service with the Town and retire with full benefits under the System. Participating in the State Health Plan, the Town pays for these benefits through a contribution to the State of 5.4% of the covered payroll of employees who are members of the Retirement system to fund its total liability for the year. The Town's retirees may also purchase coverage for their dependents through the State plan. The Town's contributions for post-employment health benefits for years ended June 30, 2014, 2013, and 2012 were \$99,957, \$93,807, and \$91,443 respectively and fund the Town's portion of OPEB liability for each year. Currently eight retirees are receiving post-employment health benefits.

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 and may not be less than \$25,000. 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.

For the fiscal year ended June 30, 2014, the Town made contributions to the State for death benefits of \$0. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No. Years Contributing</u>	<u>Years Relief</u>	<u>FY Contributions Resume</u>
less than 10	1	2014
10 - 20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Town of Blowing Rock will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

3. Deferred Outflows and Inflows of Resources

The Town had no deferred outflows of resources at June 30, 2014.

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

	Unavailable Revenue	Unearned Revenue
Taxes receivable (General Fund), less penalties	\$ 101,657	\$ -
Prepaid taxes (General Fund)	-	18,023
	<u>\$ 101,657</u>	<u>\$ 18,023</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 pool is audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The Town obtains general liability and auto liability of \$1 million per occurrence and property coverage up to the total insurance values of the property policy through a private insurer.

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

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

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

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2014, 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, 2014 consists of the following:

Note payable, dated January 17, 2003, due 2018, face amount \$775,000, due in quarterly payments of \$12,917 plus interest at 4.35%, collateralized by land (Tiller Property).	\$ 193,750
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 (Fire/Rescue Building).	2,820,000
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 (American Legion Parking Facility).	114,971
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 (Water/Wastewater Improvements).	194,072
Note payable, dated March 6, 2012, due 2033, face amount \$550,398, due in annual payments of \$27,519, plus interest at 2.445%, funding received through N.C. Dept. of Natural Resources (Wastewater Treatment Plant Improvements).	509,385
Note payable, dated May 14, 2010, due 2031, face amount \$1,000,131, due in annual payments of \$37,824 including interest at 0.00%, for water interconnection. Funding was received through the NC Drinking Water and Revolving Loan and Grant Program and was matched 100% by American Reinvestment and Recovery Act grant funds (Water Interconnect).	643,008
Note payable, dated November 7, 2013, due 2016, face amount \$131,465, due in annual payments of \$18,904 plus interest at 1.68%, collateralized by vehicles (Capital Equipment).	131,465
Note payable, dated August 25, 2009, due 2025, face amount \$1,000,000, due two annual interest payments of \$40,800 followed by annual payments of \$76,923 plus interest at 4.08%, collateralized by a parking facility (BRAHM Parking Facility).	846,154
Note payable, dated April 20, 2013, due 2015, face amount \$110,000, due in annual payments of \$38,109, plus interest at 1.49%, collateralized by vehicles (Capital Equipment).	<u>54,887</u>
Total Installment Purchases	<u><u>\$ 5,507,692</u></u>

The future minimum payments of the installment purchase as of June 30, 2014 are as follows:

Year	General		Water/Sewer	
	Principal	Interest	Principal	Interest
2014-2015	\$ 586,352	\$ 167,121	\$ 275,297	\$ 18,368
2015-2016	425,558	146,870	64,634	11,799
2016-2017	363,590	130,513	64,634	11,143
2017-2018	350,673	115,210	64,634	11,438
2018-2019	311,923	101,305	64,634	9,832
2019-2023	1,559,615	310,694	323,169	39,330
2023-2028	546,924	32,890	323,168	22,942
2028-2033	-	-	182,887	6,555
Total	\$ 4,144,635	\$ 1,004,603	\$ 1,363,057	\$ 131,407

At June 30, 2014 the Town of Blowing Rock had a legal debt margin of \$88,706,049.

c. Changes in Long-Term Liabilities

	Balance	Increases	Decreases	Balance	Current Portion
	July 1, 2013			June 30, 2014	
Government activities:					
Installment purchases	4,573,514	131,465	(560,344)	4,144,635	586,352
Compensated absences	93,155	158,961	(166,503)	85,613	85,613
Pension Obligation	64,430	12,185	(11,604)	65,011	-
Governmental activity long-term debt	4,731,099	302,611	(738,451)	4,295,259	671,965
Business activities:					
Installment purchases	1,638,686	-	(275,629)	1,363,057	227,766
General obligation bonds	-	-	-	-	-
Compensated absences	19,718	44,238	(42,677)	21,279	21,279
Business-type activity long-term debt	1,658,404	44,238	(318,306)	1,384,336	249,045

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, 2014 consist of the following:

From the Capital Projects Fund to the General Fund:

\$ 42,820

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

\$ 65,000

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

\$ 130,800

From the BRAAC Fund to the General Fund:

\$ 3,000

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 2014 fiscal year, the Town made transfers from the General Fund to the General Capital Project Funds for the following: \$50,000 to the Sidewalk Reserve for future projects, \$10,000 for Storm Water Projects, and \$13,305 towards the American Legion building renovation project. Transfers of \$52,205 from the parking reserve for American Legion Parking Facility Debt Service, \$60,000 from the N. Caldwell and Blowing Rock Fire Districts and \$3,920 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 \$65,000 to the Water/Sewer Capital Projects Fund for the Water/Sewer Capital Improvement Plan funding. The Water/Sewer Fund also transferred \$130,800 to the Water/Sewer capital projects fund for the Water/Sewer Capital Improvement Plan Funding. The BRAAC Special Revenue Fund transferred \$3,000 to the General Fund to fund watering of hanging baskets by Parks and Recreation staff.

D. Fund Balance

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

Total fund balance - General Fund	\$ 3,475,333
Less:	
Stablization by State Statute	787,808
Prepays	3,641
Inventories	2,700
Appropriated Fund Balance in 2014 budget	-
Remaining fund balance	<u><u>2,681,184</u></u>

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

<i>Encumbrances</i>	<i>General Fund</i>	<i>Non-Major Funds</i>
	\$ 37,512	\$ -

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

IV. Jointly Governed Organization

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D High Country Council of Government (Council). The participating governments established the Council to

coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$510 to the Council during the fiscal year ended June 30, 2014.

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%
12/31/2011	-	149,511	149,511	0.00%	379,856	39.4%
12/31/2012	-	134,332	134,332	0.00%	323,992	41.5%
12/31/2013	-	142,810	142,810	0.00%	387,459	36.9%

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>
2012	16,661	69.65%
2013	15,613	74.32%
2014	12,185	95.23%

Notes to the Required Schedules:

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

Valuation date	12/31/2013
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	17
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

**Individual Fund Statements and
Schedules**

Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 3,220,094	\$
Interest		18,138	
Total	<u>3,105,520</u>	<u>3,238,232</u>	<u>132,712</u>
Other taxes and licenses:			
Occupancy tax		321,368	
Privilege licenses		4,564	
Total	<u>338,557</u>	<u>325,932</u>	<u>(12,625)</u>
Unrestricted intergovernmental:			
Local option sales taxes		1,215,947	
Cablevision franchise		-	
Telecommunications sales tax		43,186	
Video Programming Tax		46,938	
Utility franchise tax		149,089	
Hold harmless sales		-	
Beer and wine tax		5,625	
ABC profit distribution		60,000	
Total	<u>1,204,856</u>	<u>1,520,785</u>	<u>315,929</u>
Restricted intergovernmental:			
Powell Bill allocation		77,435	
Snow removal		-	
ABC Revenue for law enforcement		4,741	
Federal and State grants		7,637	
Solid waste disposal tax		210	
Total	<u>106,715</u>	<u>90,023</u>	<u>(16,692)</u>
Permits and fees:			
Building permits		137,319	
Total	<u>65,000</u>	<u>137,319</u>	<u>72,319</u>
Sales and services:			
Recreation department fees		111,085	
Recycling revenue		61,534	
Park lease/rental income		7,396	
Parking fees		4,280	
Total	<u>209,200</u>	<u>184,295</u>	<u>(24,905)</u>
Investment earnings	<u>7,295</u>	<u>3,001</u>	<u>(4,294)</u>
Miscellaneous:			
Miscellaneous		142,452	

**Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	Budget	Actual	Variance Positive (Negative)
Cemetary revenue		7,200	
Solid waste fees		79,086	
Zoning fees		11,479	
Total	265,450	240,217	(25,233)
Total revenues	5,302,593	5,739,804	437,211
Expenditures:			
General government:			
Salaries		-	
Employee benefits		-	
Professional services		136,418	
Other operating expenditures		256,694	
Capital outlay		-	
Total		393,112	
Governing body:			
Salaries		15,600	
Employee benefits		22,639	
Other operating expenditures		6,788	
Total		45,027	
Finance:			
Salaries		252,032	
Employee benefits		78,754	
Other operating expenditures		488,684	
Capital outlay		4,044	
Total		823,514	
Public buildings:			
Salaries		7,393	
Employee benefits		567	
Other operating expenditures		52,326	
Capital outlay		17,773	
Total		78,059	
Total general government	1,340,090	1,339,712	378
Public safety:			
Police:			
Salaries		422,804	
Employee benefits		168,672	
Vehicle maintenance		68,343	
Other operating expenditures		238,362	
Capital outlay		229,465	
Total		1,127,646	

Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire:			
Salaries		329,717	
Employee benefits		109,282	
Other operating expenditures		43,736	
Capital outlay		-	
Total		<u>482,735</u>	
Inspections:			
Salaries		143,388	
Employee benefits		47,898	
Vehicle maintenance		1,331	
Other operating expenditures		16,370	
Capital outlay		12,950	
Total		<u>221,937</u>	
Total public safety	<u>2,105,349</u>	<u>1,832,318</u>	<u>273,031</u>
Transportation:			
Streets and highways:			
Salaries		233,034	
Employee benefits		91,778	
Sidewalk construction		-	
Vehicle maintenance		54,480	
Street Lights		121,142	
Other operating expenditures		168,858	
Capital outlay		12,757	
Total transportation	<u>877,435</u>	<u>682,049</u>	<u>195,386</u>
Environmental protection:			
Solid waste:			
Salaries		98,927	
Employee benefits		43,920	
Vehicle maintenance		23,157	
Other operating expenditures		133,727	
Capital outlay		10,059	
Total environmental protection	<u>326,575</u>	<u>309,790</u>	<u>16,785</u>
Culture and recreation:			
Parks and recreation:			
Salaries		210,393	
Employee benefits		61,178	
Other operating expenditures		142,512	
Capital outlay		13,355	
Total		<u>427,438</u>	
Community donations:			

Town of Blowing Rock, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Contributions		4,392	
Total		4,392	
Total cultural and recreational	447,985	431,830	16,155
Debt service:			
Principal retirement		560,344	
Interest and other charges		182,375	
Total debt service	742,750	742,719	31
Total expenditures	5,840,184	5,338,418	501,766
Revenues over (under) expenditures	(537,591)	401,386	938,977
Other financing sources (uses):			
Transfers (to)/from other funds:			
Capital Projects Fund	(207,032)	42,820	249,852
Enterprise Fund	-	-	-
Enterprise Capital Projects Fund	(65,000)	(65,000)	-
BRAAC Fund Transfer In	5,000	3,000	(2,000)
Sale of assets	7,500	7,058	(442)
Proceeds from installment purchase	392,755	131,465	(261,290)
Appropriated fund balance	404,368	-	(404,368)
Total	\$ 537,591	119,343	\$ (418,248)
Revenues and other financing sources over expenditures and other financing uses	\$ -	520,729	\$ 520,729
Fund balances, beginning		2,954,604	
Change in reserve for inventories		-	
Fund balances, ending		\$ 3,475,333	

Town of Blowing Rock, North Carolina
Capital Projects Fund - Various Projects
Schedules of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2014

	Project Author - ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Year	Current Year		
Revenues					
Restricted intergovernmental:					
Storm water connection	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions and grants	1,047,413	280,360	156,530	436,890	(610,523)
Total	<u>1,047,413</u>	<u>280,360</u>	<u>156,530</u>	<u>436,890</u>	<u>(610,523)</u>
Other revenues:					
Investment earnings	12,910	12,660	11	12,671	(239)
Miscellaneous	148,890	161,977	-	161,977	13,087
Total	<u>161,800</u>	<u>174,637</u>	<u>11</u>	<u>174,648</u>	<u>12,848</u>
Total revenues	<u>1,209,213</u>	<u>454,997</u>	<u>156,541</u>	<u>611,538</u>	<u>(597,675)</u>
Expenditures					
Recreation projects:					
Capital outlay:					
Culture and recreation	462,235	46,610	36,940	83,550	378,685
Total	<u>462,235</u>	<u>46,610</u>	<u>36,940</u>	<u>83,550</u>	<u>378,685</u>
Streets and sidewalks projects:					
Capital outlay:					
Transportation	1,376,260	238,348	279,354	517,702	858,558
Total	<u>1,376,260</u>	<u>238,348</u>	<u>279,354</u>	<u>517,702</u>	<u>858,558</u>
Public safety projects:					
Capital outlay:					
Public safety	28,000	-	28,000	28,000	-
Total	<u>28,000</u>	<u>-</u>	<u>28,000</u>	<u>28,000</u>	<u>-</u>
Total expenditures	<u>1,866,495</u>	<u>284,958</u>	<u>344,294</u>	<u>629,252</u>	<u>1,237,243</u>
Revenues under expenditures	<u>(657,282)</u>	<u>170,039</u>	<u>(187,753)</u>	<u>(17,714)</u>	<u>639,568</u>
Other Financing Sources					
Various projects:					
Operating transfers in (out):					
General Fund	657,282	192,598	(42,820)	149,778	(507,504)
Installment purchase obligations issued	-	-	-	-	-
Total other financing sources	<u>657,282</u>	<u>192,598</u>	<u>(42,820)</u>	<u>149,778</u>	<u>(507,504)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 362,637</u>	<u>\$ (230,573)</u>	<u>\$ 132,064</u>	<u>\$ 132,064</u>

Town of Blowing Rock
Balance Sheet
Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2014

	Appearance Advisory Commission		Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 22,324	\$	22,324
Accounts receivable, net	-		-
Total assets	<u>\$ 22,324</u>	<u>\$</u>	<u>22,324</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$	-
Fund balances:			
Restricted			
Stabilization by State Statute	-		-
Cultural & recreational	-		-
Unassigned	22,324		22,324
Total fund balances	<u>22,324</u>		<u>22,324</u>
Total liabilities and fund balances	<u>\$ 22,324</u>	<u>\$</u>	<u>22,324</u>

Town of Blowing Rock
Statement of Revenues, Expenditures, and Changes in Fund Balance
Non-Major Governmental Funds
For the Fiscal Year Ended June 30, 2014

	Appearance Advisory Commission	Total Non-Major Governmental Funds
REVENUES		
Donations	\$ 21,475	\$ 21,475
Miscellaneous	2,000	2,000
Total revenues	<u>23,475</u>	<u>23,475</u>
EXPENDITURES		
Current:		
General government	<u>12,468</u>	<u>12,468</u>
Total expenditures	<u>12,468</u>	<u>12,468</u>
Excess (deficiency) of revenues over expenditures	11,007	11,007
OTHER FINACING SOURCES (USES)		
Transfers (to) from the General Fund	(3,000)	(3,000)
Net change in fund balances	<u>8,007</u>	<u>8,007</u>
Fund balances, beginning	<u>14,317</u>	<u>14,317</u>
Fund balances, ending	<u>\$ 22,324</u>	<u>\$ 22,324</u>

Town of Blowing Rock, North Carolina
Special Revenue Fund - Appearance Advisory Commission
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Donations	\$	\$ 21,475	\$
Grants		2,000	
Total	<u>23,500</u>	<u>23,475</u>	<u>(25)</u>
Expenditures:			
Cultural and recreational:			
Contracted services		440	
Beautification		11,483	
Miscellaneous		545	
Total	<u>18,500</u>	<u>12,468</u>	<u>6,032</u>
Revenues over expenditures	5,000	11,007	6,007
Other financing sources (uses):			
Transfers (to)/from General Fund	<u>(5,000)</u>	<u>(3,000)</u>	<u>2,000</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>8,007</u>	<u>\$ 8,007</u>
Fund balances, beginning		<u>14,317</u>	
Fund balances, ending		<u>\$ 22,324</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Water sales:			
Residential	\$ -	\$ 732,109	\$ -
Impact fees		17,500	
Interconnect charges		25,113	
Total	<u>767,300</u>	<u>774,722</u>	<u>7,422</u>
Sewer charges:			
Residential		584,216	
Impact fees		16,314	
Total	<u>611,000</u>	<u>600,530</u>	<u>(10,470)</u>
Water and sewer taps	<u>13,000</u>	<u>2,649</u>	<u>(10,351)</u>
Other operating revenues	<u>19,000</u>	<u>16,294</u>	<u>(2,706)</u>
Total operating revenues	<u>1,410,300</u>	<u>1,394,195</u>	<u>(16,105)</u>
Nonoperating revenues:			
Interest earnings	<u>500</u>	<u>60</u>	<u>(440)</u>
Total revenues	<u>1,410,800</u>	<u>1,394,255</u>	<u>(16,545)</u>
Expenditures:			
Water and sewer administration:			
Salaries		33,281	
Employee benefits		14,646	
Travel		-	
Supplies		-	
Insurance		51,779	
Vehicle maintenance		-	
Other operating expenditures		12,311	
Engineering services		11,242	
Total water and sewer administration	<u>137,205</u>	<u>123,259</u>	<u>13,946</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Water and sewer plant operations:			
Salaries		170,413	
Employee benefits		56,111	
Repairs and maintenance		37,206	
Supplies		11,535	
Other operating expenditures		29,748	
Utilities		161,546	
Sludge composting		33,842	
Total	<u>513,010</u>	<u>500,401</u>	<u>12,609</u>
Water and sewer field operations:			
Salaries		106,258	
Employee benefits		46,854	
Supplies		55,951	
Chemicals		50,963	
Other operating expenditures		14,224	
Total	<u>313,550</u>	<u>274,250</u>	<u>39,300</u>
Debt service:			
Bond issuance costs		-	
Interest and other charges		28,461	
Principal retirement		275,629	
Total debt service	<u>305,235</u>	<u>304,090</u>	<u>1,145</u>
Capital outlay:			
Equipment		5,830	
Water taps		8,982	
Miscellaneous water		-	
Sewer extensions		-	
Sewer taps		-	
Miscellaneous sewer		-	
Total capital outlay	<u>15,000</u>	<u>14,812</u>	<u>188</u>
Total expenditures	<u>1,284,000</u>	<u>1,216,812</u>	<u>67,188</u>
Other financing sources (uses):			
Transfer (to)/from other funds:			
General fund	-	-	-
Capital projects water and sewer	(130,800)	(130,800)	-
Proceeds from installment purchase	-	-	-
Sale of fixed assets	4,000	-	(4,000)
Appropriated fund balance	-	-	-
Total other financing sources (uses)	<u>(126,800)</u>	<u>(130,800)</u>	<u>(4,000)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>46,643</u>	<u>\$ 46,643</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 46,643	
Reconciling items:			
Principal retirement		275,629	
Capital outlay items capitalized		5,830	
Assets transferred from General Fund		-	
Decrease in bond interest accrued		-	
(Increase) decrease in accrued vacation payable		(1,561)	
Depreciation		(367,357)	
Transfers to/from water and sewer capital projects		130,800	
Proceeds from installment purchase		-	
Contributions & grant proceeds from Water and Sewer Capital Projects Fund		10,000	
Interest income from Water and Sewer Capital Projects Fund		72	
Miscellaneous income from Water and Sewer Capital Projects Fund		-	
Transfer in from General Fund to Water and Sewer Capital Project Fund		65,000	
Capitalized interest on borrowings during construction:			
Interest costs		-	
Investment earnings on borrowed funds		-	
Interconnect assets transferred		-	
Cumulative change in application of capitalization policy		-	
Total reconciling items		<u>118,413</u>	
Net income		<u>\$ 165,056</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, 2014

	Project Author - ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Investment earnings	\$ 50,245	\$ 50,809	\$ 72	\$ 50,881	\$ 636
Contributions & grant proceeds	1,133,440	26,600	10,000	36,600	(1,096,840)
Miscellaneous income	33,750	250	-	250	(33,500)
Total	<u>1,217,435</u>	<u>77,659</u>	<u>10,072</u>	<u>87,731</u>	<u>(1,129,704)</u>
Total revenues	<u>1,217,435</u>	<u>77,659</u>	<u>10,072</u>	<u>87,731</u>	<u>(1,129,704)</u>
Expenditures					
Construction	<u>3,018,994</u>	<u>106,005</u>	<u>99,788</u>	<u>205,793</u>	<u>2,813,201</u>
Total	<u>3,018,994</u>	<u>106,005</u>	<u>99,788</u>	<u>205,793</u>	<u>2,813,201</u>
Revenues under expenditures	<u>(1,801,559)</u>	<u>(28,346)</u>	<u>(89,716)</u>	<u>(118,062)</u>	<u>1,683,497</u>
Other financing sources :					
Operating transfer from water and sewer fund	803,246	612,860	130,800	743,660	(59,586)
Transfer from general fund	423,713	294,789	65,000	359,789	(63,924)
Proceeds of long-term debt	550,400	-	-	-	(550,400)
Other contributions	-	8,844	-	8,844	8,844
Appropriated fund balance	24,200	-	-	-	(24,200)
Total other sources	<u>1,801,559</u>	<u>916,493</u>	<u>195,800</u>	<u>1,112,293</u>	<u>(689,266)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 888,147</u>	<u>\$ 106,084</u>	<u>\$ 994,231</u>	<u>\$ 994,231</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, 2014

Fiscal Year	Uncollected Balance June 30, 2013	Additions	Collections And Credits	Uncollected Balance June 30, 2014
2013-2014	\$ -	\$ 3,185,157	\$ 3,132,273	\$ 52,884
Vehicle Tax	-	64,617	62,128	2,489
2012-2013	33,009	-	20,519	12,490
Vehicle Tax	2,032	-	1,451	581
2011-2012	28,355	-	4,159	24,196
Vehicle Tax	457	-	90	367
2010-2011	31,035	-	760	30,275
Vehicle Tax	711	-	214	497
2009-2010	8,060	-	524	7,536
Vehicle Tax	350	-	8	342
2008-2009	3,013	-	265	2,748
Vehicle Tax	446	-	-	446
2007-2008	1,098	-	3	1,095
Vehicle Tax	573	-	-	573
2006-2007	1,128	-	66	1,062
Vehicle Tax	409	-	2	407
2005-2006	1,740	-	15	1,725
Vehicle Tax	854	-	2	852
2004-2005	1,667	-	1	1,666
Vehicle Tax	775	-	20	755
2003-2004	1,600	-	1,600	-
	<u>\$ 117,312</u>	<u>\$ 3,249,774</u>	<u>\$ 3,224,100</u>	<u>142,986</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>41,329</u>
Ad valorem taxes receivable - net				<u>\$ 101,657</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				\$ 3,238,232
Releases and refunds				1,862
Amounts written off per statute of limitations				<u>2,144</u>
Subtotal				3,242,238
Less interest collected				<u>(18,138)</u>
Total collections and credits				<u>\$ 3,224,100</u>

Town of Blowing Rock, North Carolina
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2014

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 1,147,066,365	0.280%	\$ 3,211,786	\$ 3,147,169	\$ 64,617
Penalties	-		-	-	-
Total	<u>1,147,066,365</u>		<u>3,211,786</u>	<u>3,147,169</u>	<u>64,617</u>
Discoveries:					
Current year taxes	16,301,732	0.280%	45,645	45,645	-
Prior year taxes	-	0.280%	-	-	-
Penalties	-	0.280%	-	-	-
	<u>16,301,732</u>		<u>45,645</u>	<u>45,645</u>	<u>-</u>
Abatements	(2,734,550)	0.280%	(7,657)	(7,657)	-
Total property valuation	<u>\$ 1,160,633,547</u>				
Net levy			3,249,774	3,185,157	64,617
Uncollected taxes at June 30, 2014			<u>55,373</u>	<u>52,884</u>	<u>2,489</u>
Current year's taxes collected			<u>\$3,194,401</u>	<u>\$3,132,273</u>	<u>\$62,128</u>
Current levy collection percentage			<u>98.30%</u>	<u>98.34%</u>	<u>96.15%</u>

Compliance Section

COMBS,
TENNANT & CARPENTER, P.C.

Certified Public Accountants

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

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

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the Town of Blowing Rock, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Blowing Rock's basic financial statements, and have issued our report thereon dated October 28, 2014. The financial statements of the Town of Blowing Rock ABC Board and the Town of Blowing Rock Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Blowing Rock's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Blowing Rock's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Blowing Rock's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant

deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

COMBS, TENNANT + CARPENTER, P.C.

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

October 28, 2014