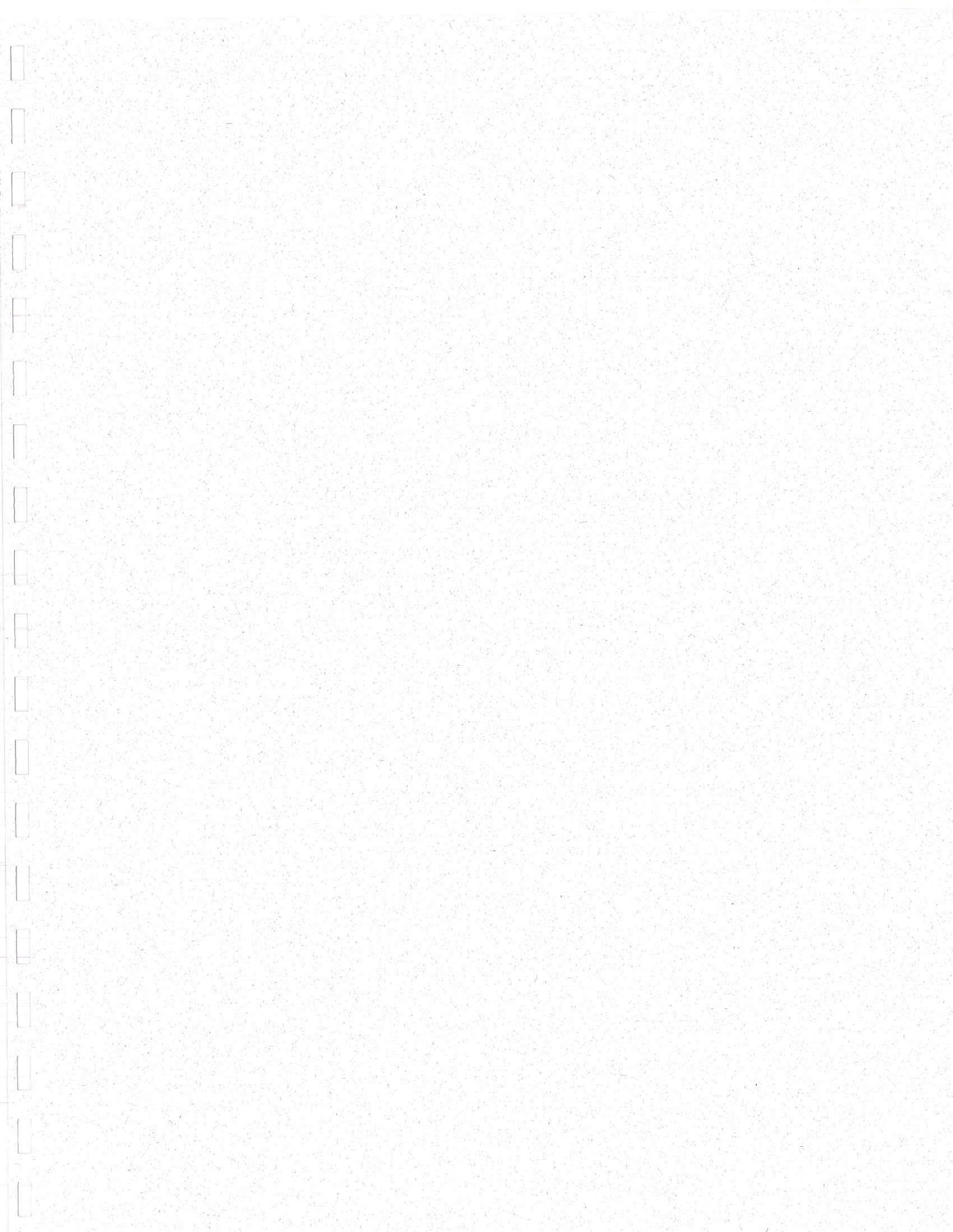


TOWN OF BLOWING ROCK
BLOWING ROCK, NORTH CAROLINA
FINANCIAL STATEMENTS
June 30, 2008



Town of Blowing Rock, North Carolina
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6/30/2008

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TOWN OF BLOWING ROCK
June 30, 2008

Mayor

J.B. Lawrence

Mayor Pro Tem

Keith Tester

Board of Commissioners

Barbara Ball

Tommy Klutz

Phil Picket

Albert Yount

Town Manager

Scott Hildebran

Finance Officer

Nicole Norman

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units and each major fund of the Town of Blowing Rock, North Carolina, as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Blowing Rock's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units and each major fund of the Town of Blowing Rock, North Carolina as of June 30, 2008, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2008 on our consideration of Town of Blowing Rock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

October 5, 2008

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, 2008. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets of the Town of Blowing Rock exceeded its liabilities at the close of the fiscal year by \$20,118,574 (*net assets*).
- The government's total net assets increased by \$2,058,400 with the increase divided fairly equally between the governmental-type activities and business-type activities net assets.
- As of the close of the current fiscal year, the Town of Blowing Rock's governmental funds reported combined ending fund balances of \$5,442,206 an increase of \$2,162,803 in comparison with the prior year. Approximately 92.62 percent of this total amount, or \$5,040,721, is available for spending at the government's discretion (*unreserved fund balance*), however \$2,868,386 has been appropriated by the board for capital projects in progress.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,172,335, or 55.49 percent of total general fund expenditures for the fiscal year, an increase of \$163,865 over the prior year due in part to overall revenues exceeding budget in addition to vigilant monitoring of expenditures due to economic changes near the end of the fiscal year.
- The Town of Blowing Rock's total debt increased by \$1,526,560 (22.41%) during the current fiscal year with the construction of the American Legion parking facility and Phase I of the Water/Sewer Capital Improvement Plan. American Legion parking facility debt service is to be funded by the Tourism Development Authority.
- The Town of Blowing Rock maintained its NC Municipal Bond rating at 80 and its A3 Moody's Investor bond rating for the seventh consecutive year.

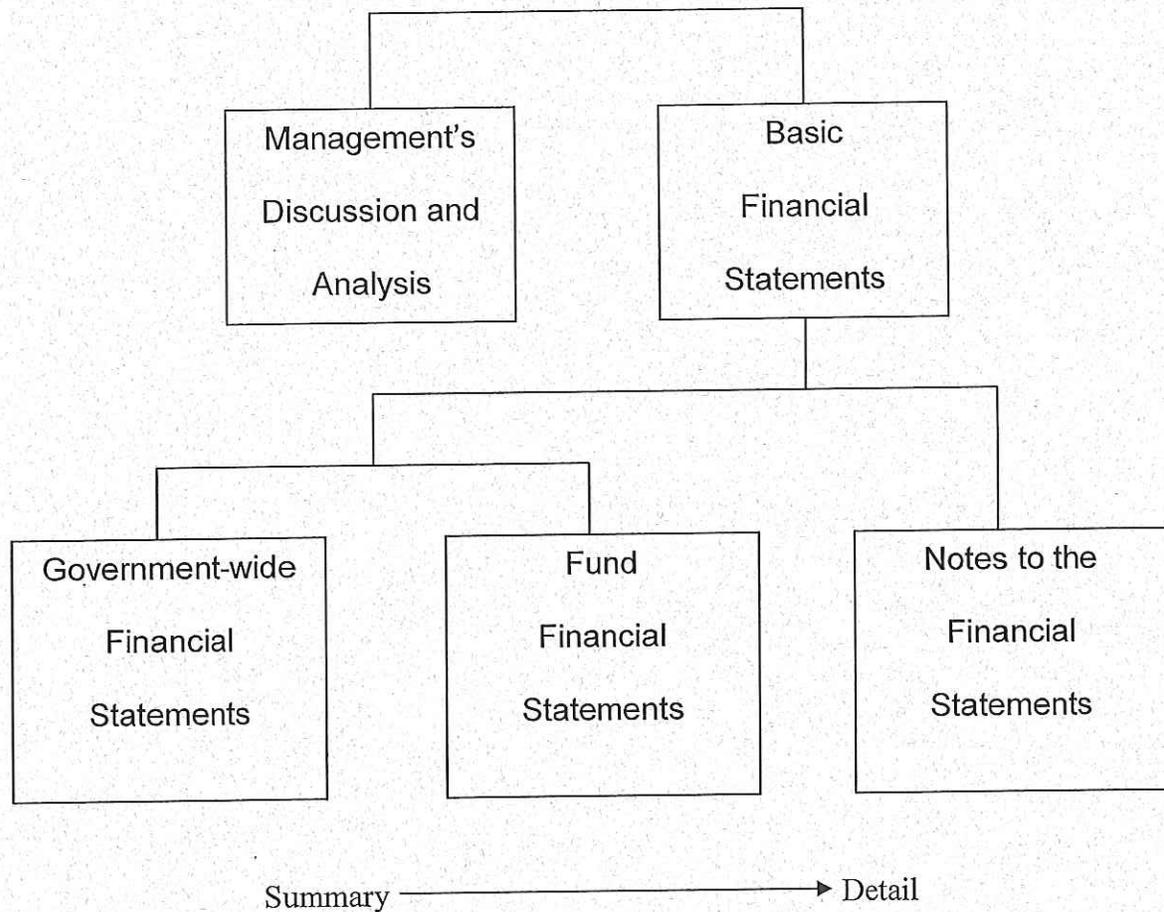
Overview of the Financial Statements

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

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state-shared revenue such as, street tax, or utility franchise tax finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Blowing Rock. The final category is the component unit, of which the Town has the ABC Board and the Tourism Development Authority (TDA). Although legally separate from the Town, the ABC Board is important to the Town as the Town exercises control over the Board by appointing its members and because the Board is required to distribute a portion of its profits to the Town. The TDA functions much the same as the ABC in that it is a separate entity with the Town Council appointing the Board and the TDA uses one-third of the occupancy tax dollars collected to support Town infrastructure.

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 12 of this report.

Government-Wide Financial Analysis

Town of Blowing Rock's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	5,839,015	6,874,631	3,392,323	1,715,261	9,231,338	8,589,892
Capital assets	10,826,182	8,087,182	9,150,052	8,732,111	19,976,234	16,819,293
Total assets	16,665,197	14,961,813	12,542,375	10,447,372	29,207,572	25,409,185
Long-term liabilities outstanding	6,205,340	5,772,165	2,133,700	1,040,315	8,339,040	6,812,480
Other liabilities	372,907	321,441	377,051	215,090	749,958	536,531
Total liabilities	6,578,247	6,093,606	2,510,751	1,255,405	9,088,998	7,349,011
Net assets:						
Invested in capital assets, net of related debt	6,294,166	2,450,131	8,297,677	7,709,452	14,591,843	10,159,583
Restricted	1,336,439	980,701	-	-	1,336,439	980,701
Unrestricted	2,456,345	5,437,375	1,733,947	1,482,515	4,190,292	6,919,890
Total net assets	10,086,950	8,868,207	10,031,624	9,191,967	20,118,574	18,060,174

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Blowing Rock exceeded liabilities by \$20,118,574 as of June 30, 2008. The Town's net assets increased by \$2,058,400 for the fiscal year ended June 30, 2008. However, the largest portion (72.53%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Blowing Rock uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Blowing Rock's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Blowing Rock's net assets \$1,336,439 (6.64%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,190,292 is unrestricted.

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

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

- Utilization of a Financial Operating Policy which maximizes cash management.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.22%, which exceeded last year's rate by .13%.
- Continued low cost of debt due to the Town's high bond rating and lower than anticipated debt rates due to market changes.
- Utilization of a capital improvement plan for managing capital expenditures with five year Capital Improvement Plan, seven year Fleet Replacement Plan, Street Pavement Plan, Park and Recreation Master Plan, and Storm Water Master Plan.

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

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 464,856	\$ 397,360	\$ 1,427,132	\$ 1,372,467	\$ 1,891,988	\$ 1,769,827
Operating grants and contributions	118,011	107,337	-	-	118,011	107,337
Capital grants and contributions	-	60,000	306,203	-	306,203	60,000
General revenues:						
Property taxes	3,008,991	2,944,860	-	-	3,008,991	2,944,860
Other taxes	339,598	334,350	-	-	339,598	334,350
Grants and contributions not restricted to specific programs	1,149,046	835,451	-	-	1,149,046	835,451
Other	228,168	1,013,304	67,197	62,405	295,365	1,075,709
Total revenues	5,308,670	5,692,662	1,800,532	1,434,872	7,109,202	7,127,534
Expenditures:						
General government	713,588	651,831	-	-	713,588	651,831
Public safety	1,505,271	1,426,366	-	-	1,505,271	1,426,366
Transportation	953,808	823,438	-	-	953,808	823,438
Environmental protection	283,411	291,134	-	-	283,411	291,134
Economic development	-	-	-	-	-	-
Culture and recreation	405,770	365,252	-	-	405,770	365,252
Interest on long-term debt	28,079	41,217	-	-	28,079	41,217
Water and sewer	-	-	1,160,875	1,075,371	1,160,875	1,075,371
Total expenses	3,889,927	3,599,238	1,160,875	1,075,371	5,050,802	4,674,609
Increase in net assets before transfers	1,418,743	2,093,424	639,657	359,501	2,058,400	2,452,925
Transfers	(200,000)	(214,452)	200,000	214,452	-	-
Cumulative effect of change in application of capitalization policy	-	-	-	-	-	-
Increase in net assets	1,218,743	1,878,972	839,657	573,953	2,058,400	2,452,925
Net assets, July 1 (as reported)	8,868,207	6,989,235	9,191,967	8,618,014	18,060,174	15,607,249
Prior period adjustment (Note III.D)	-	-	-	-	-	-
Net assets, July 1 (as restated)	8,868,207	6,989,235	9,191,967	8,618,014	18,060,174	15,607,249
Net assets, June 30	\$ 10,086,950	\$ 8,868,207	\$ 10,031,624	\$ 9,191,967	\$ 20,118,574	\$ 18,060,174

Governmental activities. Governmental activities increased the Town's net assets by \$1,218,743, thereby accounting for 59.21% of the total growth in the net assets of the Town of Blowing Rock. Key elements of this increase are as follows:

- Tax revenues increased due to greater success in collections.
- Increase in revenues for building and zoning permits assisted in the increase in net assets.

Management Discussion and Analysis
Town of Blowing Rock (Page 8 of 12)

- Fees exceeding budget over \$30,000 mainly due to a new method for calculating zoning permit fees and building permit fees for new residential and commercial construction. Going from an estimated cost of new construction method to a square footage fee for new construction, which brought Blowing Rock in line with the methods utilized by Watauga and Caldwell County as well as the Town of Boone.

Business-type activities: Business-type activities increased the Town of Blowing Rock's net assets by \$839,657 accounting for 40.79% of the total growth in the Town's net assets. Key elements of this increase are as follows:

- The Town continued upgrading facilities and equipment in the Water and Sewer Treatment Plants in conjunction with the Water and Sewer Capital Improvement Plan approved February 14, 2006.
- Evaluations of water consumption aided in discovering meter replacement needs and reducing unaccounted for water use.
- Construction of privately funded lift station and sewer lines on Quail Hollow Drive, which were dedicated to the Town.

Financial Analysis of the Town's Funds

As noted earlier, the Town of Blowing Rock uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Blowing Rock's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Blowing Rock's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Blowing Rock. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,172,335, while total fund balance reached \$2,558,801. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 55.49 percent of total General Fund expenditures, while total fund balance represents 65.37 percent of that same amount.

At June 30, 2008, the governmental funds of Town of Blowing Rock reported a combined fund balance of \$5,442,206, a 65.95 percent increase over last year. Attributing to this increase were donations made to the Town from the Blowing Rock ABC Board, totaling \$140,000 and Broyhill Family Foundation, totaling \$50,000 which are reserved for the Robbins Memorial Pool project. Included in this change in fund

balance are increases in fund balance in both the General and Capital Projects Funds. Balances included in Capital Projects fund are reserved for future capital projects.

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

Revenues were more than the budgeted amounts primarily because tax collections were higher than expected, sales tax collections higher than expected with economic factors considered at budget time, and also permits for renovations higher than expected. Expenditures were below budget in all areas, due to vigilant monitoring considering a changing market.

Proprietary Funds. The Town of Blowing Rock's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,733,947. The change in net assets was \$839,657, which is partly due to the construction of a privately funded lift station and sewer lines on Quail Hollow Drive, which were dedicated to the Town. 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, 2008, totals \$19,976,234 (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 \$2,913,695 in governmental-type activities for the new Fire and Rescue Building, due to be complete in early fiscal year 2009 and the American Legion parking facility, due to be completed in late fiscal year 2009.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 3,178,831	\$ 3,178,831	\$ 81,521	\$ 81,521	\$ 3,260,352	\$ 3,260,352
Construction in progress	4,806,861	1,967,434	191,705	263,003	4,998,566	2,230,437
Infrastructure	818,371	774,066	-	-	818,371	774,066
Buildings	984,732	1,000,235	-	-	984,732	1,000,235
Plant	-	-	8,724,747	8,264,493	8,724,747	8,264,493
Equipment and furniture	800,999	961,279	152,079	123,094	953,078	1,084,373
Vehicles	229,142	188,438	-	-	229,142	188,438
Computers	7,246	16,899	-	-	7,246	16,899
Total	\$ 10,826,182	\$ 8,087,182	\$ 9,150,052	\$ 8,732,111	\$ 19,976,234	\$ 16,819,293

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, 2008, the Town of Blowing Rock had total bonded debt outstanding of \$820,000. Of this, \$820,000 is debt backed by the full faith and credit of the Town.

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

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ -	\$ -	\$ 820,000	\$ 1,010,000	\$ 820,000	\$ 1,010,000
Compensated absences	92,678	97,671	21,325	17,656	114,003	115,327
Pension obligation	33,680	37,443	-	-	33,680	37,443
Installment purchases	6,078,982	5,637,051	1,292,375	12,659	7,371,357	5,649,710
Total	\$ 6,205,340	\$ 5,772,165	\$ 2,133,700	\$ 1,040,315	\$ 8,339,040	\$ 6,812,480

The Town of Blowing Rock's total debt increased by \$1,526,560 (22.41%) during the past fiscal year, primarily due to the construction of the American Legion parking facility and Phase I of the Water/Sewer Capital Improvements Plan.

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

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Blowing Rock is \$79,489,778.

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

Economic Factors and Next Year's Budgets and Rates

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

- Low unemployment. The Watauga County unemployment rate of 4.13% is well below the NC state average of 5.85% for calendar year 2008.
- Housing construction and renovation activity increased slightly for the year.
- The tourism market remained flat due to changing economic factors.

Budget Highlights for the Fiscal Year Ending June 30, 2009

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

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

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

Other: A resolution was adopted March 31, 2008 authorizing the Town to participate in the North Carolina State Health Plan. This is estimated to save the Town money in Health Care premiums as well as reduce the Town's Other Post Retirement Benefits liability, also known as "OPEB liability" in the up and coming year. The plan requires an additional contribution of 4% to the State Retirement Fund to cover the Town's liability. Even with taking the OPEB funding into consideration, it is estimated the Town will save approximately \$17,000 per year in Health Care Premiums. The Town joined the State Health Plan beginning July 1, 2008.

Requests for Information

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

Basic Financial Statements

Town of Blowing Rock, North Carolina
Statement of Net Assets
June 30, 2008

	<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	\$ 3,941,662	\$ 1,738,822	\$ 5,680,484	\$ 250,445	\$ 246,479	\$ 6,177,408	
Taxes receivable (net)	19,977	-	19,977	-	77,420	97,397	
Accrued interest receivable on taxes	3,925	-	3,925	-	-	3,925	
Accounts receivable (net)	183,873	310,843	494,716	-	-	494,716	
Due from other governments	96,752	-	96,752	-	-	96,752	
Due from component units	33,046	-	33,046	-	-	33,046	
Due from primary government	-	-	-	-	-	-	
Inventories	12,539	82,658	95,197	262,353	-	357,550	
Prepaid items	275	-	275	-	1,360	1,635	
Restricted cash and cash equivalents	1,546,966	1,260,000	2,806,966	131,680	-	2,938,646	
Total current assets	5,839,015	3,392,323	9,231,338	644,478	325,259	10,201,075	
Capital assets (Note 4):							
Land, non-depreciable improvements, and construction in progress	7,985,692	273,224	8,258,916	96,275	-	8,355,191	
Other capital assets, net of depreciation	2,840,490	8,876,828	11,717,318	92,166	10,532	11,820,016	
Total capital assets	10,826,182	9,150,052	19,976,234	188,441	10,532	20,175,207	
Total assets	\$ 16,665,197	\$ 12,542,375	\$ 29,207,572	\$ 832,919	\$ 335,791	\$ 30,376,282	
LIABILITIES							
Current liabilities:							
Accounts payable	\$ 143,892	\$ 156,372	\$ 300,264	\$ 124,728	\$ 11,021	\$ 436,013	
Unearned revenue	229,015	3,330	232,345	-	-	232,345	
Accrued salaries	-	11,682	11,682	-	-	11,682	
Customer deposits	-	205,667	205,667	-	-	205,667	
Due to primary government	-	-	-	33,046	-	33,046	
Due to other governments	-	-	-	-	-	-	
Long-term liabilities:							
Due within one year	600,750	412,327	1,013,077	-	-	1,013,077	
Due in more than one year	5,604,590	1,721,373	7,325,963	-	-	7,325,963	
Total liabilities	6,578,247	2,510,751	9,088,998	157,774	11,021	9,257,793	
NET ASSETS							
Invested in capital assets, net of related debt	6,294,166	8,297,677	14,591,843	188,441	10,532	14,790,816	
Restricted for:							
Capital projects	1,336,439	-	1,336,439	131,680	-	1,468,119	
Culture and recreation	-	-	-	-	-	-	
Working capital	-	-	-	51,062	-	51,062	
Unrestricted	2,456,345	1,733,947	4,190,292	303,962	314,238	4,808,492	
Total net assets	\$ 10,086,950	\$ 10,031,624	\$ 20,118,574	\$ 675,145	\$ 324,770	\$ 21,118,489	

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government						
Governmental Activities	Business-type Activities	Total	Town of Blowing Rock ABC Board	Blowing Rock Tourism Development Authority	Total Reporting Unit	
\$ (621,888)	\$ -	\$ (621,888)	\$ -	\$ -	\$ (621,888)	
(1,355,570)	-	(1,355,570)	-	-	(1,355,570)	
(842,720)	-	(842,720)	-	-	(842,720)	
(177,602)	-	(177,602)	-	-	(177,602)	
(281,201)	-	(281,201)	-	-	(281,201)	
(28,079)	-	(28,079)	-	-	(28,079)	
(3,307,060)	-	(3,307,060)	-	-	(3,307,060)	
-	572,460	572,460	-	-	572,460	
-	-	-	-	-	-	
-	572,460	572,460	-	-	572,460	
(3,307,060)	572,460	(2,734,600)	-	-	(2,734,600)	
-	-	-	(46,931)	-	(46,931)	
-	-	-	-	(904,055)	(904,055)	
-	-	-	(46,931)	(904,055)	(950,986)	
3,008,991	-	3,008,991	-	-	3,008,991	
339,598	-	339,598	-	777,676	1,117,274	
1,149,046	-	1,149,046	-	-	1,149,046	
140,190	65,406	205,596	13,626	14,402	233,624	
87,978	1,791	89,769	-	14,693	104,462	
(200,000)	200,000	-	-	-	-	
4,525,803	267,197	4,793,000	13,626	806,771	5,613,397	
-	-	-	-	-	-	
1,218,743	839,657	2,058,400	(33,305)	(97,284)	1,927,811	
8,868,207	9,191,967	18,060,174	708,450	422,054	19,190,678	
\$ 10,086,950	\$ 10,031,624	\$ 20,118,574	\$ 675,145	\$ 324,770	\$ 21,118,489	

**Town of Blowing Rock
Balance Sheet
Governmental Funds
June 30, 2008**

	Major Funds		Total Governmental Funds
	General	Capital Projects	
ASSETS			
Cash and cash equivalents	\$ 2,611,944	\$ 2,876,684	\$ 5,488,628
Receivables, net:			
Taxes	19,977	-	19,977
Accounts	201,900	15,019	216,919
Due from other governments	96,752	-	96,752
Prepaid Expenses	275	-	275
Inventories	12,539	-	12,539
Total assets	<u>\$ 2,943,387</u>	<u>\$ 2,891,703</u>	<u>\$ 5,835,090</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 135,594	\$ -	\$ 135,594
Due to other funds	-	-	-
Deferred revenue	19,977	-	19,977
Unearned revenue	229,015	-	229,015
Liabilities payable from restricted assets:			
Accounts payable	-	8,298	8,298
Total liabilities	<u>384,586</u>	<u>8,298</u>	<u>392,884</u>
Fund balances:			
Reserved for:			
Subsequent year's expenditures	75,000	-	75,000
Inventories	12,539	-	12,539
Prepays	275	-	275
State statute	298,652	15,019	313,671
Streets-Powell bill	-	-	-
Unreserved, General Fund	2,172,335	-	2,172,335
Unreserved, reported in:			
Capital Projects Fund	-	2,868,386	2,868,386
Total fund balances	<u>2,558,801</u>	<u>2,883,405</u>	<u>5,442,206</u>
Total liabilities and fund balances	<u>\$ 2,943,387</u>	<u>\$ 2,891,703</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,826,182
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	3,925
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	-
Liabilities for earned but deferred revenues in fund statements.	19,977
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note III).	\$ (6,205,340)
Net assets of governmental activities	<u>\$ 10,086,950</u>

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

Town of Blowing Rock
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2008

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects	
REVENUES			
Ad valorem taxes	\$ 3,013,115	\$ -	\$ 3,013,115
Other taxes and licenses	339,598	-	339,598
Unrestricted intergovernmental	792,835	-	792,835
Restricted intergovernmental	118,011	356,211	474,222
Permits and fees	116,885	-	116,885
Sales and services	192,798	-	192,798
Investment earnings	73,513	66,677	140,190
Miscellaneous	221,026	15,375	236,401
Total revenues	4,867,781	438,263	5,306,044
EXPENDITURES			
Current:			
General government	673,711	-	673,711
Public safety	1,406,016	-	1,406,016
Transportation	962,813	-	962,813
Economic and physical development	-	-	-
Environmental protection	261,573	-	261,573
Culture and recreation	391,817	-	391,817
Debt service:			
Principal	187,994	-	187,994
Interest and other charges	28,079	-	28,079
Capital outlay	-	3,148,695	3,148,695
Total expenditures	3,912,003	3,148,695	7,060,698
Excess (deficiency) of revenues over expenditures	955,778	(2,710,432)	(1,754,654)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	562,575	562,575
Transfers to other funds	(762,575)	-	(762,575)
Sales of capital assets	6,771	-	6,771
Installment purchase obligations issued	60,125	4,050,561	4,110,686
Capital lease obligations issued	-	-	-
Total other financing sources (uses)	(695,679)	4,613,136	3,917,457
Net change in fund balance	260,099	1,902,704	2,162,803
Fund balances, beginning as previously reported	2,298,702	980,701	3,279,403
Prior period adjustment	-	-	-
Fund balances, beginning as restated	2,298,702	980,701	3,279,403
Change in reserve for inventories	-	-	-
Fund balances, ending	\$ 2,558,801	\$ 2,883,405	\$ 5,442,206

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, 2008

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

Net changes in fund balances - total governmental funds	\$ 2,162,803
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	2,739,021
Net book value of assets sold	(21)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Amount of donated assets	-
Change in deferred revenue for tax revenues	(4,124)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(3,687,692)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Transfer of capital asset	-
Compensated absences	4,993
Net pension obligation	<u>3,763</u>

Total changes in net assets of governmental activities	<u><u>\$ 1,218,743</u></u>
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Town of Blowing Rock
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2008

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 2,891,500	\$ 2,984,500	\$ 3,013,115	\$ 28,615
Other taxes and licenses	318,115	333,105	339,598	6,493
Unrestricted intergovernmental	685,300	685,300	792,835	107,535
Restricted intergovernmental	107,500	117,030	118,011	981
Permits and fees	85,000	85,000	116,885	31,885
Sales and services	154,900	173,400	192,798	19,398
Investment earnings	80,000	80,000	73,513	(6,487)
Miscellaneous	181,250	186,640	221,026	34,386
Total revenues	<u>4,503,565</u>	<u>4,644,975</u>	<u>4,867,781</u>	<u>222,806</u>
Expenditures:				
Current:				
General government	661,565	691,065	673,711	17,354
Public safety	1,454,060	1,446,295	1,406,016	40,279
Transportation	802,535	966,495	962,813	3,682
Environmental protection	280,030	266,530	261,573	4,957
Cultural and recreation	370,150	394,340	391,817	2,523
Debt service:				
Principal retirement	188,040	188,040	187,994	46
Interest and other charges	28,100	28,100	28,079	21
Total expenditures	<u>3,784,480</u>	<u>3,980,865</u>	<u>3,912,003</u>	<u>68,862</u>
Revenues over (under) expenditures	<u>719,085</u>	<u>664,110</u>	<u>955,778</u>	<u>291,668</u>
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	(726,085)	(762,575)	(762,575)	-
Sale of assets	7,000	8,105	6,771	(1,334)
Appropriated fund balance	-	30,125	-	(30,125)
Proceeds from installment purchase	-	60,235	60,125	(110)
Total other financing sources (uses)	<u>(719,085)</u>	<u>(664,110)</u>	<u>(695,679)</u>	<u>(31,569)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>260,099</u>	<u>\$ 260,099</u>
Fund balances, beginning as previously reported			2,298,702	
Prior period adjustment			-	
Fund balances, beginning as restated			<u>2,298,702</u>	
Change in reserve for inventories			-	
Fund balances, ending			<u>\$ 2,558,801</u>	

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

Exhibit 7

**Town of Blowing Rock
Statement of Net Assets
Proprietary Funds
June 30, 2008**

	Water and Sewer Fund		Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,738,822	\$	1,738,822
Accounts receivable (net) - billed	310,843		310,843
Due from other governments	-		-
Inventories	82,658		82,658
Prepaid items	-		-
Restricted cash and cash equivalents	1,260,000		1,260,000
Total current assets	<u>3,392,323</u>		<u>3,392,323</u>
Capital assets:			
Land and other non-depreciable assets	273,224		273,224
Other capital assets, net of depreciation	8,876,828		8,876,828
Capital assets (net)	<u>9,150,052</u>		<u>9,150,052</u>
Total assets	<u>\$ 12,542,375</u>	\$	<u>12,542,375</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 116,664	\$	116,664
Accrued salaries	11,682		11,682
Customer deposits	205,667		205,667
Unearned revenue	3,330		3,330
Compensated absences - current	21,325		21,325
General obligation bonds payable-current	200,000		200,000
Installment purchase-current	191,002		191,002
Bond anticipation notes payable	-		-
Total current liabilities	<u>749,670</u>		<u>749,670</u>
Noncurrent liabilities:			
Liabilities payable from restricted assets:			
Accounts payable	39,708		39,708
Other noncurrent liabilities:			
Compensated absences	-		-
General obligation bonds payable-noncurrent (net)	620,000		620,000
Installment purchase-noncurrent	1,101,373		1,101,373
Total noncurrent liabilities	<u>1,761,081</u>		<u>1,761,081</u>
Total liabilities	<u>2,510,751</u>		<u>2,510,751</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,297,677		8,297,677
Unrestricted	1,733,947		1,733,947
Total net assets	<u>\$ 10,031,624</u>	\$	<u>10,031,624</u>

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

Exhibit 8

Town of Blowing Rock
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 1,393,723	\$ 1,393,723
Water and sewer taps	13,320	13,320
Other operating revenues	20,089	20,089
Total operating revenues	1,427,132	1,427,132
OPERATING EXPENSES		
Administration	111,920	111,920
Water/Sewer plant operations	445,676	445,676
Water/Sewer field operations	283,142	283,142
Depreciation	288,259	288,259
Total operating expenses	1,128,997	1,128,997
Operating income (loss)	298,135	298,135
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	65,406	65,406
Sale of fixed assets	1,791	1,791
Interest and other charges	(31,878)	(31,878)
Bond issuance costs	-	-
Total nonoperating revenue (expenses)	35,319	35,319
Income (loss) before contributions and transfers	333,454	333,454
Capital contributions	-	-
Public contributions	306,203	306,203
Transfers from other funds	200,000	200,000
Transfers to other funds	-	-
Total income (loss) after contributions and transfers	839,657	839,657
Cumulative change in application of capitalization policy	-	-
Change in net assets	839,657	839,657
Total net assets, beginning as restated	9,191,967	9,191,967
Total net assets, ending	\$ 10,031,624	\$ 10,031,624

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, 2008**

	<u>Water and Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,419,632	\$ 1,419,632
Cash paid for goods and services	(290,701)	(290,701)
Cash paid to or on behalf of employees for services	(398,388)	(398,388)
Customer deposits received (returned)	6,201	6,201
Other operating revenues	-	-
Net cash provided (used) by operating activities	<u>736,744</u>	<u>736,744</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	200,000	200,000
Transfers to other funds	-	-
Public contributions	306,203	306,203
Total cash flows from noncapital financing activities	<u>506,203</u>	<u>506,203</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond anticipation notes issued	-	-
Acquisition and construction of capital assets	(706,198)	(706,198)
Principal paid on bond maturities and equipment contracts	(202,659)	(202,659)
Proceeds from installment purchase	1,292,375	1,292,375
Interest paid on bond maturities and equipment contracts	(31,878)	(31,878)
Sale of fixed assets	1,791	1,791
Capital contributions-Federal grant	-	-
Net cash provided (used) by capital and related financing activities	<u>353,431</u>	<u>353,431</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>65,406</u>	<u>65,406</u>
Net increase (decrease) in cash and cash equivalents	1,661,784	1,661,784
Balances, beginning	1,337,038	1,337,038
Balances, ending	<u>\$ 2,998,822</u>	<u>\$ 2,998,822</u>

**Town of Blowing Rock
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2008**

	<u>Water and Sewer Fund</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 298,135	\$ 298,135
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	288,259	288,259
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(8,832)	(8,832)
Increase (decrease) in allowance for doubtful accounts	-	-
(Increase) decrease in inventory	(12,567)	(12,567)
(Increase) in prepaid items	6,121	6,121
(Increase) in due from other funds	-	-
Increase (decrease) in accounts payable and accrued liabilities	154,426	154,426
Increase (decrease) in unearned revenue	1,332	1,332
Increase (decrease) in customer deposits	6,201	6,201
Increase (decrease) in accrued vacation pay	3,669	3,669
Total adjustments	<u>438,609</u>	<u>438,609</u>
Net cash provided by operating activities	<u>\$ 736,744</u>	<u>\$ 736,744</u>

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

Town of Blowing Rock, North Carolina
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2008

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Blowing Rock ABC Board

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

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

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

B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental funds:

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

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

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new

customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Watauga County and Caldwell County are responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Blowing Rock. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Watauga County and Caldwell County from March 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects Special Revenue Fund, the Capital Projects Fund, and the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All

amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2007.

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, 2008.

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

7. Capital Assets

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

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

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

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

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

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

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

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. Compensated Absences

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

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

10. Net Assets / Fund Balances

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

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

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

The governmental fund types classify fund balances as follows:

RESERVED

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

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

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

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

UNRESERVED

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated for the adopted 2008 – 2009 budget ordinance.

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

II. Stewardship, Compliance and Accountability

Our audit for the fiscal year ended June 30, 2008 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, 2008, the Town's deposits had a carrying amount of \$5,562,450 and a bank balance of \$5,216,681. Of the bank balance, \$400,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$319,036 and the bank balance was \$349,421. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the Authority was \$46,479 and the bank balance was \$87,364.

All of the bank balance was covered by federal depository insurance. At June 30, 2008, the Town's and the ABC Board's petty cash fund totaled \$450 and \$1,200, respectively.

2. Investments

At June 30, 2008, the Town, the ABC Board, and the Authority had \$2,925,000, \$61,888, and \$200,000 respectively, invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM with Standard and Poor's. The Town, the ABC Board, and the Authority have no policy regarding credit risk.

3. Receivables – Allowances for Doubtful Accounts

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

Fund	6/30/2008
General Fund:	
Taxes Receivable	\$ 30,908

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2008, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,178,831	\$ -	\$ -	\$ 3,178,831
Construction in progress	1,967,434	2,913,695	(74,268)	4,806,861
Total capital assets not being depreciated	<u>5,146,265</u>	<u>2,913,695</u>	<u>(74,268)</u>	<u>7,985,692</u>
Capital assets being depreciated:				
Infrastructure	815,014	61,597	-	876,611
Buildings	1,461,038	12,671	-	1,473,709
Equipment and furniture	3,098,986	5,554	-	3,104,540
Vehicles	799,112	116,984	(20,290)	895,806
Computers	126,456	-	(3,300)	123,156
Total capital assets being depreciated	<u>6,300,606</u>	<u>196,806</u>	<u>(23,590)</u>	<u>6,473,822</u>
Less accumulated depreciation for:				
Infrastructure	40,948	17,292	-	58,240
Buildings	460,803	28,174	-	488,977
Equipment and furniture	2,137,707	165,834	-	2,303,541
Vehicles	610,674	76,280	(20,290)	666,664
Computers	109,557	9,632	(3,279)	115,910
Total accumulated depreciation	<u>3,359,689</u>	<u>\$ 297,212</u>	<u>\$ (23,569)</u>	<u>3,633,332</u>
Total capital assets being depreciated, net	<u>2,940,917</u>			<u>2,840,490</u>
Governmental activity capital assets, net	<u>\$ 8,087,182</u>			<u>\$ 10,826,182</u>

Depreciation was charged to governmental functions as follows:

General Government	\$ 41,064
Public Safety	177,388
Transportation	44,528
Environmental protection	20,930
Cultural & recreation	13,302
Unallocated depreciation	-
	<u>\$ 297,212</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Water/Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 81,521	\$ -	\$ -	\$ 81,521
Construction in progress	263,003	636,638	(707,936)	191,705
Total capital assets not being depreciated	<u>344,524</u>	<u>636,638</u>	<u>(707,936)</u>	<u>273,226</u>
Capital assets being depreciated:				
Plant	13,083,856	707,938	-	13,791,794
Equipment	893,124	69,560	-	962,684
Total capital assets being depreciated	<u>13,976,980</u>	<u>777,498</u>	<u>-</u>	<u>14,754,478</u>
Less accumulated depreciation for:				
Plant	4,819,363	247,684	-	5,067,047
Equipment	770,030	40,575	-	810,605
Total accumulated depreciation	<u>5,589,393</u>	<u>\$ 288,259</u>	<u>\$ -</u>	<u>5,877,652</u>
Total capital assets being depreciated, net	<u>8,732,111</u>			<u>8,876,826</u>
Business-type activities capital assets, net	<u>\$ 8,732,111</u>			<u>\$ 9,150,052</u>

Discretely Presented component units

Activity for the ABC Board for the year ended June 30, 2008, was as follows:

	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Land		\$ 96,275	\$ -	\$ 96,275
Building and improvements	20 years	176,192	108,652	67,540
Furniture and equipment	10 years	57,722	33,308	24,414
Computer equipment	5 years	25,775	25,563	212
		<u>\$ 355,964</u>	<u>\$ 167,523</u>	<u>\$ 188,441</u>

Activity for the Authority for the year ended June 30, 2008, 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	3,549	1,621	-	5,170
Total accumulated depreciation	3,549	\$ 1,621	\$ -	5,170
Total capital assets being depreciated, net	12,153			10,532
Governmental activity capital assets, net	<u>\$ 12,153</u>			<u>\$ 10,532</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Blowing Rock contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.72%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Blowing Rock are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were \$88,938, \$84,263, and \$79,746, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were \$3,068, \$2,614, and \$1,965, respectively. The Authority's contributions to LGERS for the year ended June 30, 2008, 2007, and 2006 were \$5,755, \$3,121 and \$2,223, 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, 2007, 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	11
Total	12

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, 2007 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5 – 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

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

Employer annual required contribution	\$ 9,386
Interest on net pension obligation	2,715
Adjustment to annual required contribution	<u>(2,301)</u>
Annual pension cost	\$ 9,800
Employer contributions made for fiscal year ending 6/30/2008	<u>(13,563)</u>
Increase (decrease) in net pension obligation	\$ (3,763)
Net pension obligation beginning of fiscal year	<u>37,443</u>
Net pension obligation end of fiscal year	\$ 33,680

Fiscal Year Ending	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost	Percentage of APC Contributed	
6/30/2006	\$ 11,110	0.00%	\$ 35,569
6/30/2007	9,785	80.85%	37,443
6/30/2008	9,800	138.90%	33,680

4. Funded Status and Funding Progress.

As of December 31, 2007, 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 \$132,313. The covered payroll (annual payroll of active employees covered by the plan) was \$369,933, and the ratio of the UAAL to the covered payroll was 35.77%.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2008 were \$22,356, which consisted of \$18,226 from the Town and \$4,130 from the law enforcement officers.

d. Other Post-employment Benefits

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least ten years of creditable service with the Town and retire with full benefits under the System. The Town pays the full cost of coverage for these benefits. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. Currently four retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2008, the Town made payments for post-employment health benefit premiums of \$24,058. The Town obtains health care coverage through private insurers.

2. Other Employment Benefit

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 and may not be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2008, the Town made contributions to the State for death benefits of \$1,722. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .08% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

3. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Taxes receivable (General Fund), less penalties	\$ 19,977	\$ -
Prepaid licenses (General Fund)	-	229,015
	<u>\$ 19,977</u>	<u>\$ 229,015</u>

4. Risk Management

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

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

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

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2008, the Town was a defendant to a lawsuit. In the opinion of the Town's management and the Town's attorney, the ultimate effect of this legal matter will not have a material adverse effect on the City's financial position.

6. Long-Term Obligations

a. Installment Purchases

The Town has entered into various installment purchase contracts. The first agreement was executed January 17, 2003 for the purchase of land and requires quarterly payments of \$12,917 plus interest at 4.35%. The second agreement was executed February 10, 2005 for the purchase of buildings and requires semiannual payments of \$17,500 plus interest at 3.79%. The third agreement was executed September 14, 2005 for the purchase of equipment and requires annual payments of \$19,077 including interest at 3.45%. The fourth agreement was executed August 23, 2006 for the purchase of vehicles and requires annual payments of \$25,213 including interest at 4.08%. The fifth agreement was executed October 10, 2006 for the construction of a building and requires annual principal payments of \$235,000 plus interest at 4.22%. The sixth agreement was executed August 16, 2007 for the purchase of vehicles and equipment and requires annual principal payments of \$49,015 including interest at 3.77%. The seventh agreement was executed April 7, 2008 for the construction of a parking facility and for the water/sewer service capital improvements. This agreement requires annual principal payments of \$290,115 plus interest at 2.92%.

The future minimum payments of the installment purchase as of June 30, 2008 are as follows:

Year	General		Water/Sewer	
	Principal	Interest	Principal	Interest
2008-2009	\$ 508,072	\$ 235,565	\$ 191,002	\$ 25,875
2009-2010	485,637	223,731	184,577	32,300
2010-2011	436,638	204,973	172,968	26,770
2011-2012	436,638	188,163	178,019	21,720
2012-2013	436,638	174,742	183,172	16,567
2013-2018	1,825,359	613,747	382,637	67,840
2018-2023	1,245,000	300,826	-	-
2023-2028	705,000	59,502	-	-
Total	\$ 6,078,982	\$ 2,001,249	\$ 1,292,375	\$ 191,072

b. General Obligation Indebtedness

Those general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer

Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2008 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the Water / Sewer Fund:

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

\$ 820,000

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

Year	Water/Sewer	
	Principal	Interest
2008-2009	\$ 200,000	\$ 25,740
2009-2010	205,000	19,740
2010-2011	205,000	13,385
2011-2012	210,000	-
2012-2013		-
Total	<u>\$ 820,000</u>	<u>\$ 58,865</u>

c. Changes in Long-Term Liabilities

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Current Portion
Government activities:					
Installment purchases	5,637,051	864,925	(422,994)	6,078,982	508,072
Compensated absences	97,671	238,945	(243,938)	92,678	92,678
Pension Obligation	37,443	9,800	(13,563)	33,680	-
Governmental activity long-term debt	<u>5,772,165</u>	<u>1,113,670</u>	<u>(680,495)</u>	<u>6,205,340</u>	<u>600,750</u>
Business activities:					
Installment purchases	12,659	1,292,375	(12,659)	1,292,375	191,002
General obligation bonds	1,010,000	-	(190,000)	820,000	200,000
Compensated absences	17,656	61,314	(57,645)	21,325	21,325
Business-type activity long-term debt	<u>1,040,315</u>	<u>1,353,689</u>	<u>(260,304)</u>	<u>2,133,700</u>	<u>412,327</u>

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

C. Interfund Activity

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2008 consist of the following:

From the General Fund to the Capital Projects Fund	\$562,575
From the General Fund to the Water/Sewer Capital Projects Fund	\$200,000

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 2008 fiscal year, the Town made transfers to the General Capital Project Funds for the following: \$300,000 for the Emergency Services Building debt service and Project Reserve; \$1,500 for the Segway Reserve; \$30,000 to the Sidewalk Reserve for future projects; \$10,000 to the Park Avenue Building reserve for future building renovations; \$73,075 to the Parking Facility Reserve for future building renovations; \$63,000 for funding the Parks and Recreation Master Plan; \$25,000 for Storm Water Projects; \$60,000 for other future capital projects; and \$200,000 to the Water and Sewer Capital Projects Fund for the Water and Sewer Capital Improvement Plan funding.

IV. Jointly Governed Organization

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D High Country Council of Government (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$530 to the Council during the fiscal year ended June 30, 2008.

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)
12/31/2002	-	98,494	98,494	0.00%	\$323,241	24.0%
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%

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>
2007	9,300	85.08%
2008	9,386	144.50%

Notes to the Required Schedules:

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

Valuation date	12/31/2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	23
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.3%
Projected salary increases*	4.5 - 12.3%
*Includes inflation at	3.75%
Cost-of living adjustments	N/A

Note to Preparer: Factors that would significantly affect the identification of trends in the amounts reported in the required schedules should be disclosed here (for example, in benefit provisions or the actuarial methods and assumptions used).

Supplementary Statements

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

Town of Blowing Rock, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 3,001,812	\$
Interest		11,303	
Total	<u>2,984,500</u>	<u>3,013,115</u>	<u>28,615</u>
Other taxes and licenses:			
Occupancy tax		321,830	
Privilege licenses		17,768	
Total	<u>333,105</u>	<u>339,598</u>	<u>6,493</u>
Unrestricted intergovernmental:			
Local option sales taxes		402,646	
Cablevision franchise		6,334	
Telecommunications sales tax		49,793	
Video Programming Tax		71,964	
Utility franchise tax		135,520	
Hold harmless sales		-	
Beer and wine tax		6,578	
ABC profit distribution		120,000	
Total	<u>685,300</u>	<u>792,835</u>	<u>107,535</u>
Restricted intergovernmental:			
Powell Bill allocation		94,531	
Snow removal		13,208	
ABC Revenue for law enforcement		10,272	
NC Highway Safety Grant		-	
Total	<u>117,030</u>	<u>118,011</u>	<u>981</u>
Permits and fees:			
Building permits		116,885	
Total	<u>85,000</u>	<u>116,885</u>	<u>31,885</u>
Sales and services:			
Recreation department fees		124,569	
Recycling revenue		3,280	
Park lease/rental income		61,600	
Parking fees		3,349	
Total	<u>173,400</u>	<u>192,798</u>	<u>19,398</u>
Investment earnings	<u>80,000</u>	<u>73,513</u>	<u>(6,487)</u>
Miscellaneous:			
Miscellaneous		65,853	
Cemetary revenue		30,100	

Town of Blowing Rock, North Carolina
 General Fund
 Statement of Revenues, Expenditures, and
 Changes in Fund Balances - Budget and Actual
 For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Positive (Negative)
Solid waste fees		102,529	
Zoning fees		22,544	
Total	186,640	221,026	34,386
Total revenues	4,644,975	4,867,781	222,806
Expenditures:			
General government:			
Salaries		-	
Employee benefits		-	
Professional services		86,236	
Other operating expenditures		149,215	
Capital outlay		-	
Total		235,451	
Governing body:			
Salaries		15,600	
Employee benefits		25,876	
Other operating expenditures		8,696	
Total		50,172	
Finance:			
Salaries		230,798	
Employee benefits		62,814	
Other operating expenditures		36,305	
Capital outlay		7,453	
Total		337,370	
Public buildings:			
Salaries		5,220	
Employee benefits		400	
Other operating expenditures		36,518	
Capital outlay		8,580	
Total		50,718	
Total general government	691,065	673,711	17,354
Public safety:			
Police:			
Salaries		507,471	
Employee benefits		168,503	
Vehicle maintenance		46,530	
Other operating expenditures		46,532	
Capital outlay		60,923	
Total		829,959	

Town of Blowing Rock, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire:			
Salaries		240,550	
Employee benefits		64,573	
Other operating expenditures		30,534	
Capital outlay		-	
Total		<u>335,657</u>	
Inspections:			
Salaries		138,947	
Employee benefits		35,333	
Vehicle maintenance		1,563	
Other operating expenditures		37,093	
Capital outlay		27,464	
Total		<u>240,400</u>	
Total public safety	<u>1,446,295</u>	<u>1,406,016</u>	<u>40,279</u>
Transportation:			
Streets and highways:			
Salaries		244,310	
Employee benefits		78,740	
Sidewalk construction		-	
Vehicle maintenance		62,308	
Street Lights		104,544	
Other operating expenditures		424,272	
Capital outlay		48,639	
Total transportation	<u>966,495</u>	<u>962,813</u>	<u>3,682</u>
Environmental protection:			
Solid waste:			
Salaries		91,312	
Employee benefits		35,510	
Vehicle maintenance		38,322	
Other operating expenditures		96,429	
Capital outlay		-	
Total environmental protection	<u>266,530</u>	<u>261,573</u>	<u>4,957</u>
Culture and recreation:			
Parks and recreation:			
Salaries		188,986	
Employee benefits		50,429	
Other operating expenditures		109,368	
Capital outlay		22,370	
Total		<u>371,153</u>	
Community donations:			
Contributions		<u>20,664</u>	

Town of Blowing Rock, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Positive (Negative)
Total		20,664	
Total cultural and recreational	394,340	391,817	2,523
Debt service:			
Principal retirement		187,994	
Interest and other charges		28,079	
Total debt service	216,140	216,073	67
Total expenditures	3,980,865	3,912,003	68,862
Revenues over (under) expenditures	664,110	955,778	291,668
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Funds	-	-	-
Transfers to other funds:			
Capital Projects Fund	(562,575)	(562,575)	-
Enterprise Fund	-	-	-
Enterprise Capital Projects Fund	(200,000)	(200,000)	-
Sale of assets	8,105	6,771	(1,334)
Proceeds from installment purchase	60,235	60,125	(110)
Appropriated fund balance	30,125	-	(30,125)
Total	\$ (664,110)	(695,679)	\$ (31,569)
Revenues and other financing sources over expenditures and other financing uses	\$ -	260,099	\$ 260,099
Fund balances, beginning as previously reported		2,298,702	
Prior period adjustment		-	
Fund balances, beginning as restated		2,298,702	
Change in reserve for inventories		-	
Fund balances, ending		\$ 2,558,801	

Town of Blowing Rock, North Carolina
Capital Projects Fund - Various Projects
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2008

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Restricted intergovernmental:					
Storm water connection	\$ 10,145	\$ 10,145	\$ -	\$ 10,145	\$ -
Emergency service building contributions	1,150,205	220,000	356,211	576,211	(573,994)
Total	<u>1,160,350</u>	<u>230,145</u>	<u>356,211</u>	<u>586,356</u>	<u>(573,994)</u>
Other revenues:					
Investment earnings	67,590	94,198	66,677	160,875	93,285
Miscellaneous	367,944	358,803	15,375	374,178	6,234
Total	<u>435,534</u>	<u>453,001</u>	<u>82,052</u>	<u>535,053</u>	<u>99,519</u>
Total revenues	<u>1,595,884</u>	<u>683,146</u>	<u>438,263</u>	<u>1,121,409</u>	<u>(474,475)</u>
Expenditures					
Recreation project:					
Capital outlay:					
Culture and recreation	1,344,755	47,438	62,939	110,377	1,234,378
Total	<u>1,344,755</u>	<u>47,438</u>	<u>62,939</u>	<u>110,377</u>	<u>1,234,378</u>
Streets and sidewalks project:					
Capital outlay:					
Transportation	1,613,675	151,812	118,968	270,780	1,342,895
Total	<u>1,613,675</u>	<u>151,812</u>	<u>118,968</u>	<u>270,780</u>	<u>1,342,895</u>
Emergency services project:					
Capital outlay:					
Public safety	5,750,579	2,003,184	2,966,788	4,969,972	780,607
Total	<u>5,750,579</u>	<u>2,003,184</u>	<u>2,966,788</u>	<u>4,969,972</u>	<u>780,607</u>
Total expenditures	<u>8,709,009</u>	<u>2,202,434</u>	<u>3,148,695</u>	<u>5,351,129</u>	<u>3,357,880</u>
Revenues under expenditures	<u>(7,113,125)</u>	<u>(1,519,288)</u>	<u>(2,710,432)</u>	<u>(4,229,720)</u>	<u>2,883,405</u>
Other Financing Sources					
Various projects:					
Operating transfers in:					
General Fund	1,608,325	1,045,750	562,575	1,608,325	-
Installment purchase obligations issued	5,504,800	1,454,239	4,050,561	5,504,800	-
Total other financing sources	<u>7,113,125</u>	<u>2,499,989</u>	<u>4,613,136</u>	<u>7,113,125</u>	<u>-</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 980,701</u>	<u>\$ 1,902,704</u>	<u>\$ 2,883,405</u>	<u>\$ 2,883,405</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, 2008

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales:			
Residential	\$ -	\$ 691,605	\$ -
Impact fees		67,275	
Municipal usage		-	
Total	<u>707,000</u>	<u>758,880</u>	<u>51,880</u>
Sewer charges:			
Residential		555,163	
Impact fees		79,680	
Total	<u>616,000</u>	<u>634,843</u>	<u>18,843</u>
Water and sewer taps	<u>12,000</u>	<u>13,320</u>	<u>1,320</u>
Other operating revenues	<u>17,100</u>	<u>20,089</u>	<u>2,989</u>
Total operating revenues	<u>1,352,100</u>	<u>1,427,132</u>	<u>75,032</u>
Nonoperating revenues:			
Interest earnings	<u>36,000</u>	<u>32,687</u>	<u>(3,313)</u>
Total revenues	<u>1,388,100</u>	<u>1,459,819</u>	<u>71,719</u>
Expenditures:			
Water and sewer administration:			
Salaries		26,324	
Employee benefits		8,140	
Travel		-	
Supplies		-	
Insurance		38,712	
Vehicle maintenance		-	
Other operating expenditures		8,947	
Engineering services		30,337	
Total water and sewer administration	<u>117,145</u>	<u>112,460</u>	<u>4,685</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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Water and sewer plant operations:			
Salaries		155,784	
Employee benefits		42,559	
Repairs and maintenance		21,942	
Supplies		21,128	
Other operating expenditures		28,509	
Utilities		129,239	
Sludge composting		45,600	
Total	<u>455,040</u>	<u>444,761</u>	<u>10,279</u>
Water and sewer field operations:			
Salaries		125,754	
Employee benefits		39,827	
Supplies		49,761	
Chemicals		47,243	
Other operating expenditures		17,263	
Total	<u>306,910</u>	<u>279,848</u>	<u>27,062</u>
Debt service:			
Bond issuance costs	-	-	-
Interest and other charges	31,880	31,878	2
Principal retirement	202,660	202,659	1
Total debt service	<u>234,540</u>	<u>234,537</u>	<u>3</u>
Capital outlay:			
Equipment	70,140	69,561	579
Water taps	-	-	-
Miscellaneous water	-	-	-
Sewer extensions	-	-	-
Sewer taps	-	-	-
Miscellaneous sewer	-	-	-
Total capital outlay	<u>70,140</u>	<u>69,561</u>	<u>579</u>
Total expenditures	<u>1,183,775</u>	<u>1,141,167</u>	<u>42,608</u>
Other financing sources (uses):			
Transfer (to)/from other funds:			
General fund	-	-	-
Capital projects water and sewer	(342,840)	(342,840)	-
Proceeds from installment purchase	32,265	32,375	110
Sale of fixed assets	3,500	1,791	(1,709)
Appropriated fund balance	102,750	-	(102,750)
Total other financing sources (uses)	<u>(204,325)</u>	<u>(308,674)</u>	<u>(104,349)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>9,978</u>	<u>\$ 9,978</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, 2008

	<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		\$ 9,978	
Reconciling items:			
Principal retirement		202,659	
Capital outlay items capitalized		69,561	
Assets transferred from General Fund		-	
Decrease in bond interest accrued		-	
Increase in accrued vacation payable		(3,669)	
Depreciation		(288,259)	
Transfers to water and sewer capital projects		342,840	
Proceeds from installment purchase		(32,375)	
Public contributions from Water and Sewer Capital Projects Fund		306,203	
Interest income from Water and Sewer Capital Projects Fund		32,719	
Transfer in from General Fund to Water and Sewer Capital Project Fund		200,000	
Capitalized interest on borrowings during construction:			
Interest costs		-	
Investment earnings on borrowed funds		-	
Cumulative change in application of capitalization policy		-	
Total reconciling items		<u>829,679</u>	
Net income		<u>\$ 839,657</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, 2008

	Project Author - ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Investment earnings	\$ 89,142	\$ 77,933	\$ 32,719	\$ 110,652	\$ 21,510
Total	<u>89,142</u>	<u>77,933</u>	<u>32,719</u>	<u>110,652</u>	<u>21,510</u>
Total revenues	<u>89,142</u>	<u>77,933</u>	<u>32,719</u>	<u>110,652</u>	<u>21,510</u>
Expenditures					
Construction	<u>2,341,186</u>	<u>263,003</u>	<u>636,638</u>	<u>899,641</u>	<u>1,441,545</u>
Total	<u>2,341,186</u>	<u>263,003</u>	<u>636,638</u>	<u>899,641</u>	<u>1,441,545</u>
Revenues under expenditures	<u>(2,252,044)</u>	<u>(185,070)</u>	<u>(603,919)</u>	<u>(788,989)</u>	<u>1,463,055</u>
Other financing sources :					
Operating transfer from water and sewer fund	470,090	230,000	342,840	572,840	102,750
Transfer from general fund	521,954	321,954	200,000	521,954	-
Proceeds of long-term debt	1,260,000	-	1,260,000	1,260,000	-
Public contributions	-	-	306,203	306,203	306,203
Total other sources	<u>2,252,044</u>	<u>551,954</u>	<u>2,109,043</u>	<u>2,660,997</u>	<u>408,953</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 366,884</u>	<u>\$ 1,505,124</u>	<u>\$ 1,872,008</u>	<u>\$ 1,872,008</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, 2008

Fiscal Year	Uncollected Balance June 30, 2007	Additions	Collections And Credits	Uncollected Balance June 30, 2008
2007-2008	\$ -	\$ 2,940,492	\$ 2,920,161	\$ 20,331
Vehicle Tax	-	55,007	52,034	2,973
2006-2007	24,565	-	20,451	4,114
Vehicle Tax	3,561	-	1,267	2,294
2005-2006	5,654	-	2,723	2,931
Vehicle Tax	2,461	-	1,050	1,411
2004-2005	3,501	-	1,221	2,280
Vehicle Tax	2,177	-	750	1,427
2003-2004	3,439	-	1,791	1,648
Vehicle Tax	2,764	-	469	2,295
2002-2003	3,647	-	779	2,868
Vehicle Tax	-	-	-	-
2001-2002	2,785	-	144	2,641
2000-2001	1,463	-	118	1,345
1999-2000	1,512	-	660	852
1998-1999	2,627	-	1,152	1,475
1997-1998	373	-	373	-
	<u>\$ 60,529</u>	<u>\$ 2,995,499</u>	<u>\$ 3,005,143</u>	<u>50,885</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>30,908</u>
Ad valorem taxes receivable - net				<u>\$ 19,977</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				\$ 3,013,115
Releases and refunds				2,504
Amounts written off per statute of limitations				<u>827</u>
Subtotal				3,016,446
Less interest collected				<u>(11,303)</u>
Total collections and credits				<u>\$ 3,005,143</u>

Town of Blowing Rock, North Carolina
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2008

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 1,062,449,982	0.280%	\$ 2,974,860	\$ 2,919,853	\$ 55,007
Penalties	-		593	593	-
Total	<u>1,062,449,982</u>		<u>2,975,453</u>	<u>2,920,446</u>	<u>55,007</u>
Discoveries:					
Current year taxes	8,738,973	0.280%	24,469	24,469	-
Prior year taxes	288,800	0.280%	808	808	-
Penalties	-	0.280%	-	-	-
	<u>9,027,773</u>		<u>25,277</u>	<u>25,277</u>	<u>-</u>
Abatements	<u>(1,868,250)</u>	0.280%	<u>(5,231)</u>	<u>(5,231)</u>	<u>-</u>
Total property valuation	<u>\$ 1,069,609,505</u>				
Net levy			2,995,499	2,940,492	55,007
Uncollected taxes at June 30, 2008			<u>23,304</u>	<u>20,331</u>	<u>2,973</u>
Current year's taxes collected			<u>\$2,972,195</u>	<u>\$2,920,161</u>	<u>\$52,034</u>
Current levy collection percentage			<u>99.22%</u>	<u>99.31%</u>	<u>94.60%</u>

Compliance Section

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

Certified Public Accountants

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**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units and each major fund of the Town of Blowing Rock as of and for the year ended June 30, 2008, which collectively comprise the Town of Blowing Rock's basic financial statements and have issued our report thereon dated October 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Blowing Rock ABC Board and the Blowing Rock Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Blowing Rock's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Blowing Rock's financial statements that is more than inconsequential will not be prevented or detected by the Town of Blowing Rock's internal control.

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

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

Compliance and Other Matters

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

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

COMBS, TENNANT & CARPENTER, P.C.

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

October 5, 2008

Member: American Institute of CPAs NC Association of CPAs
Offices located in Boone and Newland