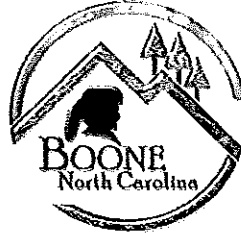


Introductory Section

Town of Boone

P.O. Drawer 192, Boone, North Carolina 28607



October 28, 2011

Letter of Transmittal

Honorable Mayor
Members of Town Council
Citizens of the Town of Boone

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Boone, for the fiscal year ended June 30, 2011.

This report consists of management's representations concerning the finances of the Town. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town's financial statements have been audited by Combs, Tennant & Carpenter, PC, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Town for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The Town, incorporated January 23, 1872, is the county seat of Watauga County. The Town is located near the Eastern Continental Divide, and covers an area of approximately six square miles and sprawls over a long valley providing a natural pass through the hills. U.S. Highway 421, reaching from the Great Lakes to the Carolina Coast, U.S. Highway 321 and U.S. Highway 221 all come through the Town to provide highway travel in all directions. The Blue Ridge Parkway is near the Town and 27 miles of the scenic thoroughfare passes through the County. The elevation of the Town is 3,333 feet and is the largest town above 3,300 feet in the eastern United States. The Town is the home of Appalachian State University, and is the hub of the ski industry for the state. Fresh springs, cool summer nights, vibrant fall leaves, and pristine winter snows add to the unique beauty that is Boone.

The Town has had a council-manager form of government since July 19, 1989. The Mayor and five council members are elected by popular vote. Elections are held every two years. The Mayor serves a four year term. Council members are elected in two and four year intervals. All Council members have an equal vote. The Council sets Town policies, enacts ordinances and appoints the Town Manager and Town Attorney. The Town Manager administers the daily operations and programs of the municipal government through the department heads and staff.

The Town provides a full range of services, including police and fire protection; the construction and maintenance of streets, water, and wastewater. Additionally, the Town has three Special Revenue Funds: Emergency Telephone System, Municipal Service District, and Rural Fire District.

North Carolina General Statutes require all governmental units in the State to adopt a balanced budget by July 1st of each year. The budget amounts reflected in the accompanying financial statements represent those budgets. The Town maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Town Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by departmental total within an individual fund. Several departments may appear under a specific function, but the budgetary control is by department. As required by G.S. 159-26(d) the Town maintains an encumbrance system. Encumbrances outstanding at year-end do not constitute expenditures or liabilities and are either re-appropriated the following year or the contractual commitment is canceled.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town operates.

Local economy: The Town enjoys a favorable economic environment. The Town's economic bases are tourism, light manufacturing, Appalachian State University and agriculture.

The beauty, climate and friendliness of the citizens of Boone enhance the thriving tourist industry. Tourism accounts for approximately 2,380 jobs. It is estimated that tourists expended approximately \$175 million in Watauga County during 2009. In 2005 Boone was recognized by travel journalists as the ultimate outdoor adventure destination in the Southeast, even in North America. Area attractions include "Horn in the West" outdoor drama, Tweetsie Railroad, Grandfather Mountain, numerous 18-hole golf courses, Scottish Highland Games, Mystery Hill, Blue Ridge Parkway, ski slopes, and the annual fall color changes. Accommodations include a variety of motels, hotels, and bed & breakfast. There are numerous restaurants serving a wide variety of cuisine.

The State provides a Visitors Information Center located within the Town limits. It opened May 1986. The facility houses the NC High Country Host and is very active in the promotion of tourism in the area. Tourism is also promoted by the Boone Convention and Visitors Center and the Boone Area Chamber of Commerce. Promotions encouraging visitation in all seasons have a very positive effect.

Manufacturing in the Boone area includes the production of electronic components, furniture, decorative items, candies/mints, aluminum siding, storm doors, windows, leather works, plastic works, concrete, construction materials, and wrought iron furniture.

Appalachian State University located in Boone, is the largest single employer in the County. The University is home to over 22,160 students, and employs over 1,000 faculty and staff. Appalachian State University has been cited as one of the top regional universities in the Southeast. Not only are its Colleges of Business and Education highly touted, but also the University provides outstanding cultural offerings not ordinarily found in a Town of this size.

The Town and surrounding area consist of mountainous terrain and a cold climate which provides ideal conditions for growing Christmas trees and ornamental shrubs.

Long-term financial planning: The governing body plans to implement several new projects which include Howard Street upgrades, completion of the Clawson-Burnley Park, expansion of the Greenway, and water system expansion. Meetings are planned to set priorities and discuss funding options.

Increases in water and sewer rates in the FY 2011-2012 budget are designed to promote conservation, as well as fund increased operational costs (i.e., gasoline, electricity, etc.), capital equipment needs, and debt service.

Cash management policies and practices: The Town uses a pooled cash concept to maximize funds available for investment. The Town's funds are invested in an interest-bearing

governmental checking account, Certificates of Deposit and the North Carolina Capital Management Trust, a mutual fund registered with the Securities and Exchange Commission. Bids are taken from local banks for Certificates of Deposit and awarded to the bank offering the greatest yield.

Risk management: In the efforts to maintain services at a reasonable cost to the citizens of Boone, the Town has developed a risk management (safety) program, which encompasses nearly every aspect of the Town's operations. The Town has implemented training for employee accident prevention and drug screening to minimize accident-related losses. This program has earned the Town numerous certificates of Safety Achievement Awards from the North Carolina Department of Labor. A wellness program enhances the health of the Town's employees, resulting in lower losses in health and workers compensation claims. Insurance coverage is obtained through a competitive bidding process. This process has allowed the Town to obtain maximum amounts of property, liability, health, and workers compensation coverages at the most economical cost.

Pension and other post-employment benefits: The Town sponsors a single-employer defined benefit pension plan for its police officers. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the Town must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the Town fully funds each year's required contribution to the pension plan as determined by the actuary. The Town also 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 and disability benefits to plan members and beneficiaries.

Awards: The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive financial report. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

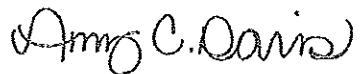
Acknowledgments

We recognize that responsibility for the contents of this report is the Town's but it would be inappropriate not to mention the assistance of the staff of our independent auditors, Combs, Tennant & Carpenter, PC. We would also like to express our appreciation for the cooperation and input provided by the Town's various departments.

We wish to thank the Mayor, Town Council and Town Manager for their interest and support. On behalf of the entire Finance Department, we strive to continue to provide financial management worthy of their support and trust. We are confident that together we can provide the citizens of Boone with responsible and progressive financial management.

As required by the North Carolina General Statute 159-34, a copy of this report will be filed with the Secretary of the North Carolina Local Government Commission. In addition, a copy will be available in the Town Clerk's office for public inspection.

Respectfully submitted,



Amy C. Davis, Finance Director



Rebecca B. Love, Finance Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Boone
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emery

Executive Director

Town of Boone

List of Principal Officials

June 30, 2011

Mayor

Loretta Clawson

Town Council

Andy Ball
Rennie Brantz
Jamie Leigh
Lynne Mason
Stephen Phillips

Mayor Pro Tempore

Town Officials

Samuel Furguele
Gregory Young

Town Attorney
Town Manager

Blake Brown
Bill Bailey
Dana Crawford
Amy Davis
Jimmy Isaacs
Rick Miller
Peri Moretz
Freida VanAllen

Public Works Director
Planning & Inspections Director
Police Chief
Finance Director
Fire Chief
Public Utilities Director
Human Resources Director
Town Clerk

TOWN OF BOONE
ORGANIZATIONAL CHART

