

Town of Waynesville, North Carolina

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2006

Town of Waynesville, North Carolina

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2006

TOWN OFFICIALS

MAYOR

Henry Foy

ALDERMEN

Libba Feichter	Gary Caldwell
Gavin A. Brown	J. Kenneth Moore

ADMINISTRATIVE

A. Lee Galloway	Town Manager
Edward Caldwell	Finance Officer

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FINANCIAL SECTION

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Independent Auditor's Report

To the Honorable Mayor and
Board of Aldermen
Town of Waynesville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waynesville, North Carolina, as of and for the year ended June 30, 2006, 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 Waynesville's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Town of Waynesville ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Waynesville ABC Board, is based solely on the report of the other auditors.

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 financial statements are free of material misstatement. The financial statements of the Town of Waynesville ABC Board 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waynesville, North Carolina, as of June 30, 2006, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison of 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 27, 2006 on our consideration of the Town of Waynesville'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 and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions on pages 3 through

14 and 47 and 48, respectively, are not a required part of the basic financial statements but are 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 the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Waynesville, North Carolina. The introductory information, combining, and individual nonmajor fund financial statements and schedules and the statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied by us in the audit of basic financial statements and, accordingly, we express no opinion on them.

Ray, Bannerman, Kingshill & Associates, P.A.

Waynesville, North Carolina
October 27, 2006

Management's Discussion and Analysis

As management of the Town of Waynesville, we offer readers of the Town of Waynesville's financial statements this narrative overview and analysis of the financial activities of the Town of Waynesville for the fiscal year ended June 30, 2006. 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

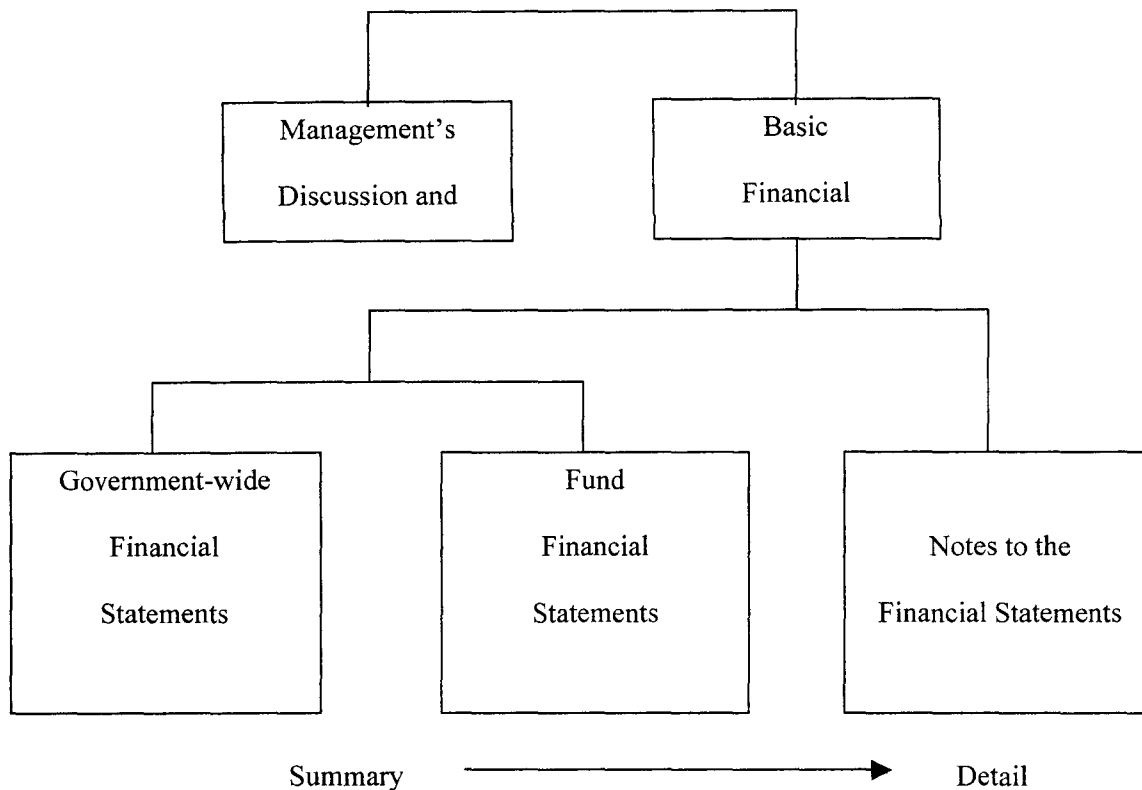
- The assets of the Town of Waynesville exceeded its liabilities at the close of the fiscal year by \$47,099,222 (*net assets*).
- The government's total net assets increased by \$481,543, primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the Town of Waynesville's governmental funds reported combined ending fund balances of \$5,518,690, a decrease of \$594,774 in comparison with the prior year. Approximately 63.99 percent of this total amount, or \$3,531,568, is available for spending at the government's discretion (*unreserved fund balance*). The \$594,774 decrease is primarily due to the purchase of land (\$649,211) and design fees (\$60,980) for the planned construction of a new fire station.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,154,231, or 28.09 percent of total general fund expenditures for the fiscal year. This is a decrease of \$932,532 from prior year. This decrease is due to the fact that the Town transferred \$1,055,000 from the General Fund to the Capital Projects Fund for the purpose of relocation and construction of a new fire station.
- The Town of Waynesville's total debt increased by \$261,069 (3.13%) during the current fiscal year. The key factor in this increase was the issuance of an installment purchase contract of \$985,000 for the replacement of a one million gallon water reservoir tank with a two million gallon water reservoir tank.
- The Town of Waynesville's Electric Fund for the current fiscal year reported power purchases of \$4,857,495 an increase of \$471,031 or 10.74% in comparison with the prior year. The prior fiscal year reported power purchases of \$4,386,464, an increase of \$523,666 or 13.56% in comparison with the fiscal year ended June 30, 2004. These increases are primarily due to rising fuel costs that have been passed along to the Town by its supplier. In response, the Town has adopted quarterly rate adjustments to its customers. These rate adjustments began April 1, 2005. These rate adjustments are the primary reason the Electric Fund operating revenues for the current fiscal year reported charges for services of \$7,036,064 an increase of \$727,066 or 11.52%. The prior fiscal year reported charges for services of \$6,308,998, an increase of \$143,079 or 2.32% in comparison with the fiscal year ended June 30, 2004.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Waynesville'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 Waynesville.

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 8) 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.

Management Discussion and Analysis Town of Waynesville

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 and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the electric, water, and sewer services offered by the Town of Waynesville. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

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 Waynesville, 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 Waynesville 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* that 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 Waynesville 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 – The Town of Waynesville has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Waynesville uses enterprise funds to account for its electric, water, and

Management Discussion and Analysis
Town of Waynesville

sewer operations. 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. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of Town of Waynesville. The Town uses internal service funds to account for two activities – its public works and garage operations. Because the public works benefits predominantly business-type rather than governmental activities, it has been included within the business-type activities in the government-wide financial statements. On the other hand, the garage operation benefits predominantly governmental rather than business-type activities and therefore has been included within the governmental activities in the government-wide financial statements.

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 are on pages 24-46 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Waynesville's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 47-48 of this report.

Government-Wide Financial Analysis

The Town of Waynesville's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 6,269,209	\$ 6,835,646	\$ 4,119,401	\$ 3,517,307	\$ 10,388,610	\$ 10,352,953
Capital assets	23,586,768	23,220,924	23,032,342	22,431,528	46,619,110	45,652,452
Total assets	29,855,977	30,056,570	27,151,743	25,948,835	57,007,720	56,005,405
Long-term liabilities outstanding	6,263,952	6,574,918	2,335,441	1,763,406	8,599,393	8,338,324
Other liabilities	476,474	441,632	832,631	607,771	1,309,105	1,049,403
Total liabilities	6,740,426	7,016,550	3,168,072	2,371,177	9,908,498	9,387,727
Net assets:						
Invested in capital assets,						
net of related debt	19,861,568	19,287,460	20,779,274	20,743,624	40,640,842	40,031,084
Restricted	678,908	891,043	-	-	678,908	891,043
Unrestricted	2,575,075	2,861,517	3,204,397	2,834,034	5,779,472	5,695,551
Total net assets	<u>\$ 23,115,551</u>	<u>\$ 23,040,020</u>	<u>\$ 23,983,671</u>	<u>\$ 23,577,658</u>	<u>\$ 47,099,222</u>	<u>\$ 46,617,678</u>

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 Waynesville exceeded liabilities by \$47,099,222 as of June 30, 2006. The Town's net assets increased by \$481,543 for the fiscal year ended June 30, 2006. And as stated earlier, this increase is primarily due to increases in the business-type activities net assets. However, the largest portion \$40,640,842 or (86.29%) reflects the Town's investment in capital assets (e.g. land, infrastructure, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Waynesville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Waynesville's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay

Management Discussion and Analysis
Town of Waynesville

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 Waynesville's net assets \$678,908 or (1.44%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,779,472 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.10% excluding motor vehicles. This is an increase of .57% from prior year's tax collection percentage excluding motor vehicles (96.53%). This is also comparable to the statewide average of units with electrical systems of 97.25% excluding motor vehicles for the population grouping 2,500 to 9,999 for 2004-2005. The total collected for ad valorem taxes which includes current taxes, prior year's uncollectible tax balances, and motor vehicle taxes was \$3,366,181, an increase of \$119,670 or 3.69% in comparison to the prior fiscal year.
- The sales tax revenues from article 39, article 40, article 42, and article 44, for the current fiscal year were \$2,126,747, an increase of \$143,091 or 7.21% in comparison to the prior year.
- Unrestricted investment earnings in the general fund were \$147,336, an increase of \$76,111 or 106.86% in comparison to the prior year.
- The Town's recreation department fees excluding the contributions from Haywood County for the current fiscal year were \$566,536, an increase of \$59,588 or 11.75% in comparison to the prior year.

Management Discussion and Analysis
Town of Waynesville

Town of Waynesville Changes in Net Assets
Figure 3

	Governmental Activities		Business-Type Activities		Total	Total
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 1,413,178	\$ 1,353,476	\$10,568,967	\$ 9,518,587	\$11,982,145	\$10,872,063
Operating grants and contributions	112,355	498,526	18,460	39,746	130,815	538,272
Capital grants and contributions	855,566	69,943	101,976	-	957,542	69,943
General revenues:						
Property taxes	3,410,664	3,306,324	-	-	3,410,664	3,306,324
Other taxes	2,289,781	2,133,014	-	-	2,289,781	2,133,014
Grants and contributions not restricted to specific programs	655,105	607,451	-	-	655,105	607,451
Other	269,102	119,067	96,636	57,580	365,738	176,647
Total revenues	9,005,751	8,087,801	10,786,039	9,615,913	19,791,790	17,703,714
Expenses:						
General government	1,420,597	1,400,251	-	-	1,420,597	1,400,251
Public safety	3,486,909	3,333,961	-	-	3,486,909	3,333,961
Transportation	3,012,667	2,826,920	-	-	3,012,667	2,826,920
Economic development	38,958	9,525	-	-	38,958	9,525
Environmental Protection	117,293	106,610	-	-	117,293	106,610
Culture and recreation	1,607,099	1,563,935	-	-	1,607,099	1,563,935
Interest on long-term debt	246,697	260,031	-	-	246,697	260,031
Electric	-	-	5,925,623	5,457,225	5,925,623	5,457,225
Water	-	-	1,640,116	1,545,500	1,640,116	1,545,500
Sewer	-	-	1,814,288	1,709,814	1,814,288	1,709,814
Total expenses	9,930,220	9,501,233	9,380,027	8,712,539	19,310,247	18,213,772
Increase (decrease) in net assets before transfers	(924,469)	(1,413,432)	1,406,012	903,374	481,543	(510,058)
Transfers	1,000,000	1,000,000	(1,000,000)	(1,000,000)	-	-
Increase in net assets	75,531	(413,432)	406,012	(96,626)	481,543	(510,058)
Net assets, July 1	23,040,020	23,453,452	23,577,659	23,674,284	46,617,679	47,127,736
Net assets, June 30	\$23,115,551	\$23,040,020	\$23,983,671	\$23,577,658	\$47,099,222	\$46,617,678

Management Discussion and Analysis
Town of Waynesville

Governmental activities. For the year ended June 30, 2006, Governmental activities increased the Town's net assets by \$75,531. Key elements of this increase are as follows:

- The Town received donated assets valued at \$ 351,270.
- Revenues are not enough to cover excess depreciation over capital outlay. Depreciation exceeds capital outlays by \$56,606.
- This increase of \$75,531 would be a decrease except for the Town's transfer of \$1,000,000 from business-type activities to the governmental activities.
- By comparison for the year ended June 30, 2005, the governmental activities decreased \$413,432 after the Town transferred \$1,000,000 from business-type activities to the governmental activities. Net assets increased \$488,963 more in the year ended June 30, 2006 than in the year ended June 30, 2005.

Business-type activities: For the year ended June 30, 2006, business-type activities increased the Town's net assets by \$406,012. Key elements of this increase are as follows:

- The increase would be even larger however the Town transferred \$1,000,000 from the business-type activities to the governmental activities.
- The Town's electric fund reported income before contributions and transfers of \$1,152,897, an increase of \$273,424 over the prior year. As stated earlier, this increase is due to the Town's adoption of rate adjustments that were needed due to the rising fuel costs that have been passed along to the Town by its supplier.
- The town implemented 10% rate increases for the water and sewer charges.
- By comparison for the year ended June 30, 2005, the business-type activities' net assets decreased by \$96,626 after the Town transferred \$1,000,000 from the business-type activities to the governmental activities. Net assets increased \$502,638 more in the year ended June 30, 2006 than in the year ended June 30, 2005.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Waynesville'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 Waynesville'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 Waynesville. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,154,231, while total fund balance reached \$4,961,377. By comparison, the year ended June 30, 2005 unreserved fund balance of the General Fund was \$4,086,763 and total fund balance was \$5,921,901. Unreserved fund balance of the General Fund decreased \$932,532 or 22.82 percent. Total fund balance decreased \$960,524 or 16.22 percent. This decrease is due to the Town's transfer of \$1,055,000 from the General Fund to the Capital Projects Fund for the purpose of relocation and construction of a new fire station. 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 28.09 percent of total General Fund expenditures, while total fund balance represents 44.18 percent of that same amount. By comparison for the year ended June 30, 2005 unreserved fund balance represented 44.19 percent of the total General Fund expenditures, while total fund balance represented 64.03 percent of that same amount.

Management Discussion and Analysis

Town of Waynesville

At June 30, 2006, the governmental funds of Town of Waynesville reported a combined fund balance of \$5,518,690, with a net decrease in fund balance of \$594,774. This represents a 9.73 percent decrease over last year.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on three 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.

- The Town's total budget for the general fund for the year ended June 30, 2006 totaled \$10,975,240. Funding sources were budgeted as follows: revenues were budgeted at \$9,159,610, transfers from business-type activities were budgeted at \$1,000,000, transfers out to other funds were budgeted at \$1,070,000 and appropriations from fund balance were budgeted at \$1,885,630. Actual total revenues totaled \$9,269,960 or \$110,350 over budget. Restricted revenues were less than budgeted amounts primarily because some grant funds that the Town originally had expected to receive were unavailable or unspent. In fact, restricted intergovernmental revenues (grants) were under budget by \$205,238. All other revenues combined were actually \$315,588 or 3.78% over budget. The main sources of this favorable variance were better than expected collections from ad valorem taxes \$80,507, better than expected collections from other taxes and licenses (mainly sales taxes) \$73,541 and better than expected collections from unrestricted intergovernmental revenues (mainly franchise taxes on telecommunications) \$51,505. Sales and services revenues (mainly recreation department revenues) came in \$49,231 over budget. Other sources of this favorable variance were investment earnings that came in \$29,236 higher than budgeted. The Town's general fund expenditures for the year ended June 30, 2006 were under budget by \$745,256. Since grant revenues were less than expected, grant expenditures were held in check to compensate for the lack of funding and the Town was able to comply with its budgetary requirements. Other expenditures were delayed, not spent or kept under budget due to the uncertainty of higher costs in general. Personnel turnover also accounted for a portion of unspent expenditures. As stated earlier, the Town budgeted and transferred \$1,070,000 from the general fund to other funds. The biggest transfer amount of \$1,055,000 went to the capital projects fund to help fund the relocation and construction of a new fire station. The Town budgeted to use \$1,885,630 from fund balance, but only needed \$960,524 from fund balance.

Proprietary Funds. The Town of Waynesville's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Electric, Water, and Sewer Funds at the end of the fiscal year totaled \$1,410,749, \$1,203,604, and \$558,562, respectively. In comparison to the year ended June 30, 2005, the unrestricted net assets of the Electric, Water and Sewer funds totaled \$1,222,460, \$1,080,736, and \$505,351, respectively. Unrestricted net assets of the Electric, Water and Sewer funds increased \$188,289 (15.40%), \$122,868 (11.37%) and \$53,211 (10.53%), respectively. Total net assets of the Electric, Water, and Sewer funds at the end of the fiscal year increased \$152,897 (4.94%), \$155,332 (1.31%), and \$104,372 (1.27%), respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town of Waynesville's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Waynesville's investment in capital assets for its governmental and business-type activities as of June 30, 2006 totaled \$46,593,120 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, recreation facilities, vehicles, and infrastructure.

Management Discussion and Analysis
Town of Waynesville

Major capital asset transactions during the year include the following additions:

- Construction of two million gallon water reservoir tank (construction in process) \$856,630.
- Purchase of land to be used for relocation and construction of new fire station \$649,211.
- Received deed to building and lot donated from Haywood County at the corner of Depot and Montgomery \$276,270.
- Improvements and additions to the Town's water distribution systems of \$325,022.
- Improvements and additions to the Town's sewer distribution systems for \$237,641.
- Purchase and equipping of new street sweeping truck \$141,699.
- New or rebuilt roads totaling \$141,068.
- Purchase and equipping of five police vehicles for \$133,098.
- New or rebuilt sidewalks \$87,514.
- Donation of Bathrooms \$75,000.
- Construction and design of walking trail (construction in process) \$70,652.
- Purchase of new bull dozer \$ 69,500.
- Improvements and additions to the Town's electric substation, lines and related equipment of \$68,077.
- Design of new fire station (construction in process) \$60,980.
- Purchase of new truck for street department \$55,664.
- Design of new bridge (Hendrix Street) (construction in process) \$53,713.
- Purchase of new safety burn trailer \$36,479.
- Purchase of new truck for Powell Bill department \$31,323.
- Purchase of new computer software for police department \$24,201.
- Purchase of new exercise equipment for recreation department \$22,421.
- Design of water treatment plant lab expansion (construction in process) \$19,500.
- Purchase of video enhancement equipment for police department \$17,942.
- Purchase of new bobcat for water maintenance department \$17,061.
- Purchase of new meter reading truck \$16,100.

Major capital asset transactions during the year include the following disposals:

- Disposal of five police vehicles with an original cost of \$122,735.
- Disposal of four Powell Bill trucks with an original cost of \$76,528.
- Disposal of two sewer treatment trucks with an original cost of \$40,590.
- Disposal of two meter reading trucks with an original cost of \$22,962.
- Disposal of water treatment operation's back wash pump with an original cost of \$20,925.
- Disposal of water treatment operation's zetameter microscope with an original cost of \$10,000.
- Disposal of land with an original cost of \$7,721.
- Disposal of mower with an original cost of \$6,474.

Town of Waynesville's Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 1,550,658	\$ 656,928	\$ 1,907,438	\$ 1,913,601	\$ 3,458,096	\$ 2,570,529
Construction in process	216,346	85,100	1,091,937	180,642	1,308,283	265,742
Buildings and system	7,076,737	7,089,289	19,598,848	19,849,948	26,675,585	26,939,237
Land improvements	235,230	269,402	19,638	22,013	254,868	291,415
Equipment, furniture and fixtures	535,335	516,736	112,109	126,581	647,444	643,317
Infrastructure	12,556,195	13,347,257	-	-	12,556,195	13,347,257
Vehicles and motorized equipment	1,390,277	1,256,212	302,372	338,743	1,692,649	1,594,955
Total	\$ 23,560,778	\$ 23,220,924	\$ 23,032,342	\$ 22,431,528	\$ 46,593,120	\$ 45,652,452

Additional information on the Town's capital assets can be found in Note I.E.7 and III.A.4 of the Basic Financial Statements.

Long-term Debt. The Town's total debt outstanding for the year ending June 30, 2006 and June 30, 2005, was \$8,599,393 and \$8,338,324, respectively. All debt is backed by the full faith and credit of the Town of Waynesville. Unfunded pension liabilities, legal claims, and compensated absences make up \$574,313 and \$515,707 of the total debt outstanding respectively. The remaining balances are installment purchase obligations.

**Town of Waynesville's Outstanding Debt
Installment Purchase Obligations**

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Installment purchase obligations	\$ 5,772,012	\$ 6,134,713	\$ 2,253,068	\$ 1,687,904	\$ 8,025,080	\$ 7,822,617
Total	\$ 5,772,012	\$ 6,134,713	\$ 2,253,068	\$ 1,687,904	\$ 8,025,080	\$ 7,822,617

Management Discussion and Analysis

Town of Waynesville

The Town's total debt increased \$261,069 (3.13%) during the current fiscal year. The key factor in this increase was the issuance of an installment purchase contract of \$985,000 for construction of a two million gallon water reservoir tank offset to a lesser degree by principal payments on existing 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 Waynesville is \$55,816,528.

Additional information regarding the Town of Waynesville's long-term debt can be found in note III.B.9 beginning on page 42 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- The sales tax revenues from article 39, article 40, article 42, and article 44, for the current fiscal year were \$2,126,747, an increase of \$143,091 or 7.21% from the prior year.
- Unrestricted investment earnings in the general fund increased \$76,111 or 106.86% in comparison with the prior year.
- The Town's recreation department fees excluding the contributions from Haywood County for the current fiscal year were \$566,536, an increase of \$59,588 or 11.75% in comparison with the prior year.

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental Activities: The budgeted revenues, transfers from other funds, and appropriated fund balance for the year ended June 30, 2007 are expected to rise to \$11,828,420 or an increase of \$597,936 (5.32%) from actual revenues, transfers from other funds, and appropriated fund balance for the year ended June 30, 2006. The increases will mainly be funded from higher ad valorem taxes, sales taxes, and grants. The electric fund transfer to the general fund will drop to \$ 900,000 and new transfers from the Water fund and Sewer fund of \$50,690 and \$47,360 respectively will be made to the general fund.

The budgeted expenditures and transfers to other funds for the year ended June 30, 2007 are expected to increase to \$11,828,420 or an increase of \$597,936 (5.32%) from actual expenditures and transfers to other funds for the year ended June 30, 2006. The largest budgeted increases are in employee compensation, fringe benefits, a bridge replacement, higher grant expenditures associated with the Greenways trail project and other miscellaneous grants.

Business – type Activities:

Water Fund: Budgeted revenue and the appropriated fund balance amounts for the year ended June 30, 2007 are expected to rise to \$2,311,400 or an increase of \$335,714 (16.99%) from actual revenues and appropriated fund balance for the year ended June 30, 2006. This increase will be funded by a 10% water rate increase, and a larger fund balance appropriation. Budgeted expenditures and transfers to other funds for the year ended June 30, 2007 are expected to increase to \$2,311,400, or an increase of \$335,714 (16.99%) from actual expenditures for the year ended June 30, 2006. The largest budgeted increases are in increased capital outlays, increased loan payments, a new transfer to the General fund, higher employee compensation and higher fringe benefits.

Management Discussion and Analysis
Town of Waynesville

Sewer Fund: Budgeted revenue and appropriated fund balance amounts for the year ended June 30, 2007 are expected to rise to \$1,935,410 or an increase of \$191,807 (11.00%) from actual revenues and appropriated fund balance for the year ended June 30, 2006. The increases will be funded from a 10% sewer rate increase, and a larger fund balance appropriation. Budgeted expenditures and transfer to other funds for the year ended June 30, 2007 are expected to increase to \$1,935,410 or an increase of \$241,802 (14.28%) from actual expenditures for the year ended June 30, 2006. However, this is only a \$90,410 or 4.90% increase from the budgeted expenditures for the year ended June 30, 2006. The largest costs are associated with increased capital outlays, a new transfer to the General fund, higher employee compensation and higher fringe benefits.

Electric Fund: Budgeted revenue and appropriated fund balance amounts for the year ended June 30, 2007 are expected to increase to \$7,327,080, or an increase of \$253,600 (3.59%) from actual revenues and appropriated fund balance for the year ended June 30, 2006. The increases will be funded by expected rate increases to the Town's electric customers and a larger fund balance appropriation. The rate adjustments were adopted by the Town to keep up with its rising power costs. The main reason for these higher power costs are higher fuel costs passed on to the Town by its supplier. Budgeted expenditures and transfers to other funds for the year ended June 30, 2007 are expected to increase to \$ 7,327,080, or an increase of \$437,477 (6.35%) from actual expenditures and transfers for the year ended June 30, 2006. However, this is only a \$59,950 or .82% increase from the budgeted expenditures for the year ended June 30, 2006. The largest increases are in increased power costs associated with higher prices, capital outlay, higher employee compensation, and higher fringe benefits.

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 Director of Finance, Town of Waynesville, 16 South Main Street, Waynesville, NC 28786.

Town of Waynesville, North Carolina
Statement of Net Assets
June 30, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,999,152	\$ 1,343,557	\$ 4,342,709	\$ 533,366
Investments	1,714,989	1,348,962	3,063,951	-
Taxes receivables (net)	369,785	-	369,785	-
Accrued interest receivable on taxes	22,331	-	22,331	-
Interest receivable on investments	21,391	28,338	49,729	145
Accounts receivable (net)	50,309	797,526	847,835	-
Due from other governments	901,976	-	901,976	-
Due from component units	20,781	-	20,781	-
Internal balances	(13,021)	13,021	-	-
Inventories	83,938	587,997	671,935	163,622
Prepaid items	97,578	-	97,578	7,178
Total current assets	6,269,209	4,119,401	10,388,610	704,311
Noncurrent assets:				
Accounts receivable (net)	25,990	-	25,990	-
Capital assets:				
Land, non-depreciable improvements and construction in progress	1,767,004	2,999,375	4,766,379	-
Other capital assets, net of depreciation	21,793,774	20,032,967	41,826,741	9,263
Total capital assets	23,560,778	23,032,342	46,593,120	9,263
Total noncurrent assets	23,586,768	23,032,342	46,619,110	9,263
Total assets	\$ 29,855,977	\$ 27,151,743	\$ 57,007,720	\$ 713,574
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 264,635	\$ 686,338	\$ 950,973	\$ 194,900
Unearned revenue	42,364	-	42,364	-
Accrued interest payable	113,198	28,843	142,041	-
Customer deposits	56,277	117,450	173,727	-
Due to primary government	-	-	-	20,781
Due to other governments	-	-	-	9,219
Long-term liabilities:				
Due within one year	551,392	495,190	1,046,582	-
Due in more than one year	5,712,560	1,840,251	7,552,811	-
Total liabilities	6,740,426	3,168,072	9,908,498	224,900
NET ASSETS				
Invested in capital assets, net of related debt	19,861,568	20,779,274	40,640,842	9,263
Restricted for:				
Transportation	620,695	-	620,695	-
Culture and recreation	25,685	-	25,685	-
Economic Development	32,528	-	32,528	-
Working Capital	-	-	-	454,952
Unrestricted	2,575,075	3,204,397	5,779,472	24,459
Total net assets	\$ 23,115,551	\$ 23,983,671	\$ 47,099,222	\$ 488,674

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

Town of Waynesville, North Carolina
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Unit
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental Activities:								
General government	\$ 1,420,597	\$ 75,129	\$ -	\$ 351,270	\$ (994,198)	-	\$ (994,198)	\$ -
Public safety	3,486,909	254,291	23,806	-	(3,208,812)	-	(3,208,812)	-
Transportation	3,012,667	466,746	-	447,774	(2,098,147)	-	(2,098,147)	-
Economic and physical development	38,958	-	17,660	-	(21,298)	-	(21,298)	-
Environmental protection	117,293	50,476	-	-	(66,817)	-	(66,817)	-
Cultural and recreation	1,607,099	566,536	70,889	56,522	(913,152)	-	(913,152)	-
Interest on long-term debt	246,697	-	-	-	(246,697)	-	(246,697)	-
Total governmental activities	9,930,220	1,413,178	112,355	855,566	(7,549,121)	-	(7,549,121)	-
Business-type activities:								
Electric	5,925,623	7,036,064	-	-	-	\$ 1,110,441	1,110,441	-
Sewer	1,640,116	1,717,491	9,230	-	-	86,605	86,605	-
Water	1,814,288	1,815,412	9,230	101,976	-	112,330	112,330	-
Total business-type activities	9,380,027	10,568,967	18,460	101,976	-	1,309,376	1,309,376	-
Total primary government	\$ 19,310,247	\$ 11,982,145	\$ 130,815	\$ 957,542	(7,549,121)	1,309,376	(6,239,745)	-
Component units:								
ABC Board	\$ 1,876,429	\$ 1,940,777	\$ -	\$ -	-	-	-	64,348
Total component units	\$ 1,876,429	\$ 1,940,777	\$ -	\$ -	-	-	-	64,348
General revenues:								
Taxes:								
Property taxes, levied for general purpose					3,410,664	-	3,410,664	-
Other taxes					2,289,781	-	2,289,781	-
Grants and contributions not restricted to specific programs					655,105	-	655,105	-
Unrestricted investment earnings					147,336	76,297	223,633	12,271
Miscellaneous					121,766	20,339	142,105	-
Transfers					1,000,000	(1,000,000)	-	-
Total general revenues, special items, and transfers					7,624,652	(903,364)	6,721,288	12,271
Change in net assets					75,531	406,012	481,543	76,619
Net assets-beginning					23,040,020	23,577,659	46,617,679	412,055
Net assets-ending	\$ 23,115,551	\$ 23,983,671	\$ 47,099,222	\$ 488,674				

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

**Town of Waynesville
Balance Sheet
Governmental Funds
June 30, 2006**

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	Capital Projects		
ASSETS				
Cash and cash equivalents	\$ 2,400,028	\$ 390,522	\$ 208,602	\$ 2,999,152
Investments	1,714,989	-	-	1,714,989
Receivables, net:				
Taxes	369,785	-	-	369,785
Accounts	50,309	-	-	50,309
Due from other funds	23,312	-	-	23,312
Prepaid items	97,578	-	-	97,578
Long-term receivable	25,990	-	-	25,990
Due from component unit	20,781	-	-	20,781
Due from other governmental agencies	898,753	-	3,223	901,976
Interest receivable	20,712	-	679	21,391
Inventories	23,690	-	-	23,690
Total assets	<u>\$ 5,645,927</u>	<u>\$ 390,522</u>	<u>\$ 212,504</u>	<u>\$ 6,248,953</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 216,124	\$ 45,713	\$ -	\$ 261,837
Due to other funds	-	-	-	-
Performance bonds	56,277	-	-	56,277
Deferred revenue	369,785	-	-	369,785
Unearned revenue	42,364	-	-	42,364
Total liabilities	<u>684,550</u>	<u>45,713</u>	<u>-</u>	<u>730,263</u>
Fund balances:				
Reserved for:				
Prepaid expenses	97,578	-	-	97,578
Inventories	23,690	-	-	23,690
Encumbrances	25,326	-	-	25,326
Perpetual maintenance	-	-	179,976	179,976
State statute	1,039,857	-	-	1,039,857
Streets-Powell bill	620,695	-	-	620,695
Unreserved, General Fund:				
Designated for subsequent year's expenditures	746,800	-	-	746,800
Undesignated	2,407,431	-	-	2,407,431
Unreserved, reported in:				
Capital Project funds	-	344,809	-	344,809
Special Revenue funds	-	-	32,528	32,528
Total fund balances	<u>4,961,377</u>	<u>344,809</u>	<u>212,504</u>	<u>5,518,690</u>
Total liabilities and fund balances	<u>\$ 5,645,927</u>	<u>\$ 390,522</u>	<u>\$ 212,504</u>	<u>\$ 6,248,953</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.	23,548,173
Other current assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	22,331
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	29,409
Liabilities for earned but deferred revenues in fund statements.	369,785
Some liabilities, including installment purchases payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	<u>(6,372,837)</u>
Net assets of governmental activities	<u>\$ 23,115,551</u>

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

Town of Waynesville
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	Capital Projects		
REVENUES				
Ad valorem taxes	\$ 3,395,807	\$ -	\$ -	\$ 3,395,807
Other taxes and licenses	2,289,781	-	-	2,289,781
Unrestricted intergovernmental	655,105	-	-	655,105
Restricted intergovernmental	598,102	-	2,348	600,450
Permits and fees	108,551	-	-	108,551
Sales and services	1,927,661	-	38,062	1,965,723
Investment earnings	147,336	-	5,685	153,021
Miscellaneous	147,617	-	-	147,617
Total revenues	9,269,960	-	46,095	9,316,055
EXPENDITURES				
Current:				
General government	2,009,766	-	-	2,009,766
Public safety	3,480,410	710,191	-	4,190,601
Transportation	2,414,354	-	-	2,414,354
Economic and physical development	-	-	38,958	38,958
Environmental protection	117,103	-	-	117,103
Culture and recreation	1,521,109	-	1,196	1,522,305
Debt service:				
Principal	432,201	-	-	432,201
Interest and other charges	255,041	-	-	255,041
Total expenditures	10,229,984	710,191	40,154	10,980,329
Excess (deficiency) of revenues over expenditures	(960,024)	(710,191)	5,941	(1,664,274)
OTHER FINANCING SOURCES				
Transfers from other funds	1,000,000	1,055,000	15,000	2,070,000
Transfers to other funds	(1,070,000)	-	-	(1,070,000)
Installment purchase obligations issued	69,500	-	-	69,500
Total other financing sources	(500)	1,055,000	15,000	1,069,500
Net change in fund balance	(960,524)	344,809	20,941	(594,774)
Fund balances-beginning	5,921,901	-	191,563	6,113,464
Fund balances-ending	\$ 4,961,377	\$ 344,809	\$ 212,504	\$ 5,518,690

(continued)

Town of Waynesville
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

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

Net changes in fund balances - total governmental funds	\$ (594,774)
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 depreciation exceeded capital outlays in the current period	(56,606)
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	351,270
Change in deferred revenue for tax revenues	14,857
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	432,201
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:	
Compensated absences	(16,519)
Net pension obligation	(32,940)
Accrued interest on installment purchases	8,344
Net book value of assets sold	(25,852)
Consolidation adjustment for internal balances between the internal service funds and the governmental funds	(5,992)
Net revenue of internal service funds determined to be governmental-type.	<u>1,542</u>
Total changes in net assets of governmental activities	<u>\$ 75,531</u>

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

Town of Waynesville
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 3,315,300	\$3,315,300	\$3,395,807	\$ 80,507
Other taxes and licenses	2,216,240	2,216,240	2,289,781	73,541
Unrestricted intergovernmental	603,600	603,600	655,105	51,505
Restricted intergovernmental	803,340	803,340	598,102	(205,238)
Permits and fees	104,350	104,350	108,551	4,201
Sales and services	1,878,430	1,878,430	1,927,661	49,231
Investment earnings	50,000	118,100	147,336	29,236
Miscellaneous	120,250	120,250	147,617	27,367
Total revenues	9,091,510	9,159,610	9,269,960	110,350
Expenditures:				
Current:				
General government	2,679,040	2,200,330	2,009,766	190,564
Public safety	3,609,910	3,674,360	3,480,410	193,950
Transportation	2,447,450	2,490,260	2,344,854	145,406
Environmental protection	120,350	123,840	117,103	6,737
Cultural and recreation	1,762,490	1,798,550	1,521,109	277,441
Debt service:				
Principal retirement	432,800	432,800	432,201	599
Interest and other charges	255,100	255,100	255,041	59
Total expenditures	11,307,140	10,975,240	10,160,484	814,756
Revenues over (under) expenditures	(2,215,630)	(1,815,630)	(890,524)	925,106
Other financing sources (uses):				
Transfers from other funds	1,000,000	1,000,000	1,000,000	-
Transfers to other funds	(15,000)	(1,070,000)	(1,070,000)	-
Appropriations from fund balance	1,230,630	1,885,630	-	(1,885,630)
Total other financing sources (uses)	2,215,630	1,815,630	(70,000)	(1,885,630)
Revenues and other sources over (under) expenditures and other uses	-	-	(960,524)	-
Fund balances, beginning of year	-	-	5,921,901	-
Fund balances, end of year	\$ -	\$ -	\$4,961,377	\$ -

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

Town of Waynesville
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 245,374	\$ 491,135	\$ 591,304	\$ 1,327,813	\$ 15,744	\$ -
Investments	846,812	502,150	-	1,348,962	-	-
Accounts receivable	528,624	135,215	133,687	797,526	-	-
Interest receivable	3,422	12,828	11,964	28,214	124	-
Inventories	317,241	227,670	34,750	579,661	8,336	60,248
Total current assets	1,941,473	1,368,998	771,705	4,082,176	24,204	60,248
Capital assets:						
Land and Construction in Progress	275,870	2,397,057	226,230	2,899,157	100,218	-
Other capital assets, net of depreciation	1,592,587	10,107,772	8,043,303	19,743,662	289,305	12,605
Capital assets (net)	1,868,457	12,504,829	8,269,533	22,642,819	389,523	12,605
Total assets	\$ 3,809,930	\$ 13,873,827	\$ 9,041,238	\$ 26,724,995	\$ 413,727	\$ 72,853
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	431,978	96,799	185,104	713,881	1,300	2,798
Due to other fund	-	-	-	-	-	23,312
Customer deposits	86,418	30,972	60	117,450	-	-
Compensated absences - current	12,328	21,337	23,695	57,360	3,482	1,847
Installment purchases payable-current	30,812	209,317	194,219	434,348	-	-
Total current liabilities	561,536	358,425	403,078	1,323,039	4,782	27,957
Noncurrent liabilities:						
Compensated absences	-	16,286	4,284	20,570	961	2,466
Installment purchases payable	-	1,500,284	318,436	1,818,720	-	-
Total noncurrent liabilities	-	1,516,570	322,720	1,839,290	961	2,466
Total liabilities	561,536	1,874,995	725,798	3,162,329	5,743	30,423
NET ASSETS						
Invested in capital assets, net of related debt	1,837,645	10,795,228	7,756,878	20,389,751	389,523	12,605
Unrestricted	1,410,749	1,203,604	558,562	3,172,915	18,461	29,825
Total net assets	\$ 3,248,394	\$ 11,998,832	\$ 8,315,440	23,562,666	\$ 407,984	\$ 42,430
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				421,005		
Net assets of business-type activities				\$ 23,983,671		

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

Town of Waynesville
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
OPERATING REVENUES						
Charges for services	\$ 7,036,064	\$ 1,815,412	\$ 1,717,491	\$ 10,568,967	\$ 209,487	\$ 405,748
Total operating revenues	<u>7,036,064</u>	<u>1,815,412</u>	<u>1,717,491</u>	<u>10,568,967</u>	<u>209,487</u>	<u>405,748</u>
OPERATING EXPENSES						
Finance and administration	334,100	165,720	150,760	650,580	-	-
Electric operations	590,940	-	-	590,940	-	-
Electric power purchases	4,857,495	-	-	4,857,495	-	-
Water treatment and distribution	-	1,169,626	-	1,169,626	-	-
Waste collection and treatment	-	-	1,082,276	1,082,276	-	-
Public works operations	-	-	-	-	210,526	-
Garage operations	-	-	-	-	-	399,200
Depreciation	136,962	405,180	383,020	925,162	12,582	5,147
Total operating expenses	<u>5,919,497</u>	<u>1,740,526</u>	<u>1,616,056</u>	<u>9,276,079</u>	<u>223,108</u>	<u>404,347</u>
Operating income (loss)	<u>1,116,567</u>	<u>74,886</u>	<u>101,435</u>	<u>1,292,888</u>	<u>(13,621)</u>	<u>1,401</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	28,638	27,972	18,648	75,258	1,039	-
Interest and other charges	(1,086)	(72,059)	(23,175)	(96,320)	-	-
Miscellaneous revenues (expenses)	8,778	22,557	7,464	38,799	-	141
Total nonoperating revenue (expenses)	<u>36,330</u>	<u>(21,530)</u>	<u>2,937</u>	<u>17,737</u>	<u>1,039</u>	<u>141</u>
Income (loss) before contributions and transfers	<u>1,152,897</u>	<u>53,356</u>	<u>104,372</u>	<u>1,310,625</u>	<u>(12,582)</u>	<u>1,542</u>
Capital contributions	-	101,976	-	101,976	-	-
Transfers to other funds	(1,000,000)	-	-	(1,000,000)	-	-
Change in net assets	<u>152,897</u>	<u>155,332</u>	<u>104,372</u>	<u>412,601</u>	<u>(12,582)</u>	<u>1,542</u>
Total net assets - beginning	<u>3,095,497</u>	<u>11,843,500</u>	<u>8,211,068</u>		<u>420,566</u>	<u>40,888</u>
Total net assets - ending	<u>\$ 3,248,394</u>	<u>\$ 11,998,832</u>	<u>\$ 8,315,440</u>		<u>\$ 407,984</u>	<u>\$ 42,430</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(6,589)		
Change in net assets - business-type activities				<u>\$ 406,012</u>		

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

Town of Waynesville
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	Business-Type Activities				Governmental Activity	
	Enterprise Funds			Internal Service Funds		
	Electric Fund	Water Fund	Sewer Fund	Totals	Public Works Fund	Garage Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 7,017,821	\$ 1,803,113	\$ 1,704,912	\$ 10,525,846	\$ 209,487	\$ 405,748
Cash paid for goods and services	(5,433,984)	(630,287)	(493,957)	(6,558,228)	(60,158)	(323,522)
Cash paid to or on behalf of employees for services	(304,434)	(675,872)	(626,438)	(1,606,744)	(151,744)	(76,666)
Customer deposits received	47,643	25,130	80	72,853	-	-
Customer deposits returned	(41,870)	(19,210)	(60)	(61,140)	-	-
Net cash provided (used) by operating activities	1,285,176	502,874	584,537	2,372,587	(2,415)	5,560
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Cash received from miscellaneous sources	8,778	9,328	9,476	27,582	-	-
Transfers to other funds	(1,000,000)	-	-	(1,000,000)	-	-
Total cash flows from noncapital financing activities	(991,222)	9,328	9,476	(972,418)	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from installment purchase obligation	-	985,000	-	-	-	-
Principal and interest paid on long-term debt	(31,653)	(271,846)	(212,247)	(515,746)	-	-
Proceeds from sale of assets	-	21,820	3,259	25,079	-	-
Capital contributions	-	101,976	-	101,976	-	-
Acquisition and construction of capital assets	(71,577)	(1,229,357)	(251,487)	(1,552,421)	-	(6,688)
Net cash used by capital and related financing activities	(103,230)	(392,407)	(460,475)	(1,941,112)	-	(6,688)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received on investments	28,253	28,403	18,655	75,311	1,041	-
Purchase of investments	(1,246,238)	(623,757)	-	(1,869,995)	-	-
Proceeds from investment maturities	828,769	609,457	-	1,438,226	-	-
Net cash provided (used) by investing activities	(389,216)	14,103	18,655	(356,458)	1,041	-
Net increase (decrease) in cash and cash equivalents	(198,492)	133,898	152,193	87,599	(1,374)	(987)
Balances-beginning of the year	443,866	357,237	439,111	1,240,214	17,118	987
Balances-end of the year	\$ 245,374	\$ 491,135	\$ 591,304	\$ 1,327,813	\$ 15,744	\$ -
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 1,116,567	\$ 74,886	\$ 101,435	\$ 1,292,888	\$ (13,621)	\$ 1,401
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	136,962	405,180	383,020	925,162	12,582	5,147
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(18,243)	(12,299)	(12,579)	(43,121)	-	-
(increase) decrease in inventory	6,486	(31,406)	(7,018)	(31,938)	(3,101)	(27,535)
Increase (decrease) in accounts payable and accrued liabilities	41,469	56,360	116,496	214,325	(1,588)	24,271
Increase (decrease) in customer deposits	5,773	5,920	20	11,713	-	-
Increase (decrease) in accrued vacation pay	(3,838)	4,233	3,163	3,558	3,313	2,276
Total adjustments	168,609	427,988	483,102	1,079,699	11,206	4,159
Net cash provided (used) by operating activities	\$ 1,285,176	\$ 502,874	\$ 584,537	\$ 2,372,587	\$ (2,415)	\$ 5,560

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

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Waynesville and its discretely presented component unit 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 Waynesville is a municipal corporation that is governed by an elected mayor and a four-member board of alderman. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Waynesville ABC Board

The members of the ABC Board's governing board are appointed by the Town. 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 Waynesville ABC Board, 509 Walnut Street, NC 28786.

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 result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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. This fund is used to account for the construction of a new fire station, construction needed at the current police station, and the construction of a new development office.

The Town reports the following non-major governmental funds:

Special Revenue Funds. These funds are used to account for specific revenue sources that are legally restricted to expenditures for a specific purpose. The Town maintains five Special Revenue Funds: the CDBG Project Fund, the HPG Project Fund, the SFR Project Fund, the Playground Fund and the Cemetery Fund.

The Town reports the following major enterprise funds:

Electric Fund. This fund is used to account for the Town's electric fund operations.

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

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

The Town reports the following fund type:

Internal Service Funds. Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. The Town of Waynesville has two Internal Service Funds: the Public Works Operations Fund and the Garage Operations Fund.

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. Nonexchange 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

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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, Haywood County is 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 Waynesville. 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 Haywood County from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, 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.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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 Project Special Revenue Funds and the Capital Projects Fund. The Town's Public Works and Garage Operations Funds, internal service funds, operate under financial plans that were adopted by the governing board at the time the Town's budget ordinance was approved, as is required by the General Statutes. All budgets are prepared using the modified accrual basis of accounting. 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, three 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. The Cemetery Fund and the Playground Fund are not required to be budgeted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC Board 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 and the ABC Board 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 and the North Carolina Capital Management Trust (NCCMT). The Town and the ABC Board'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.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

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 certain investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13 (a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2005. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

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 and the ABC Board 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 Town of Waynesville ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

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 two years. Minimum capitalization costs are as follows: land, \$1,500; buildings, improvements, substations, lines, and other plant and distribution systems, \$7,500; infrastructure, \$25,000; furniture and equipment, \$1,500; and vehicles, \$1,500. 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.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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

Asset Class	Estimated Useful Lives
Infrastructure	15-50
Buildings	20-50
Improvements	24-40
Vehicles	5-25
Furniture and equipment	5-20
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
Furniture and equipment	3-10
Leasehold improvements	10

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.

In fund financial statements, the face amount of installment note purchases is reported as other financing sources. 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 and the ABC Board provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the 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.

Both the Town and the ABC Board's sick leave policies provide 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 neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets/Fund Balances

Net assets in 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 laws or regulations of other governments or imposed by law through state statute.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

In the governmental fund financial statements, reservations 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 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 and prepaid expenses – portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories and prepaid expenses, which are not expendable, available resources.

Reserved for encumbrances – portion of fund balance available to pay for commitments related to purchase orders or 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 and prepaid expenses, 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 have not been 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 the total fund balance available for appropriation that has been designated for the adopted 2006-2007 budget ordinance.

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

II. Stewardship, Compliance, and Accountability

The Town had no violations of non-compliance with State Statutes for the year ended June 30, 2006.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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 and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board'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, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board 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 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 has no formal policy regarding custodial credit risk for deposits.

At June 30, 2006, the Town's deposits had a carrying amount of \$1,906,468 and a bank balance of \$2,248,733. Of the bank balance, \$500,000 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 \$107,872 and the bank balance was \$122,541. Of the bank balance, \$103,562 was covered by federal depository insurance. At June 30, 2006, the Town's petty cash fund totaled \$2,594.

2. Investments

At June 30, 2006, the Town's investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
US Government Securities	\$ 464	Various	N/A
US Treasuries	2,332,690	Various	N/A
NC Capital Management Trust - Cash Portfolio	3,174,762	N/A	AAAm
Total:	<u>\$5,507,916</u>		

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's investment policy limits at least 80% of the Town's investment portfolio to maturities of less than 12 months. Also, the Town's investment policy requires purchases of securities to be scheduled so that maturities coincide with projected cash flow needs and limits all securities to a final maturity of no more than five years.

Credit Risk. The Town has no policy regarding credit risk. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2006.

Concentration of Credit Risk. The Town's investment policy limits the funds invested with a single issuer to 40 percent of available funds, with the exception of the United States Treasury.

At June 30, 2006, the ABC Board had \$409,000 invested in LGC commercial paper and \$104,310 in a money market account. The ABC Board has no policy regarding credit risk.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

3. Receivables – Allowance 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	6/30/2006
General Fund:	
Taxes receivable	\$ 20,000
Accounts receivable	12,433
Total	32,433
Enterprise Funds	76,751
Total	<u>\$ 109,184</u>

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 656,928	\$ 893,730	\$ -	\$ -	\$ 1,550,658
Construction in process	85,100	187,370	600	(55,524)	216,346
Total capital assets not being depreciated	742,028	1,081,100	600	(55,524)	1,767,004
Capital assets being depreciated:					
Land improvements	713,399	-	-	-	713,399
Buildings and building improvements	8,208,771	106,750	-	49,720	8,365,241
Equipment and furniture and fixtures	1,613,466	169,435	-	10,669	1,793,570
Vehicles and motorized equipment	3,263,086	454,283	229,698	-	3,487,671
Infrastructure	26,353,997	228,582	-	-	26,582,579
Total capital assets being depreciated	40,152,719	959,050	229,698	60,389	40,942,460
Less accumulated depreciation for:					
Land improvements	443,997	34,172	-	-	478,169
Buildings and building improvements	1,119,482	169,022	-	-	1,288,504
Equipment and furniture and fixtures	1,096,730	156,640	-	4,865	1,258,235
Vehicles and motorized equipment	2,006,874	294,967	204,447	-	2,097,394
Infrastructure	13,006,740	1,019,644	-	-	14,026,384
Total accumulated depreciation	17,673,823	1,674,445	204,447	4,865	19,148,686
Total capital assets being depreciated, net	22,478,896				21,793,774
Governmental activity capital assets, net	<u>\$23,220,924</u>				<u>\$23,560,778</u>

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 78,160
Public safety	223,386
Transportation	1,170,699
Environmental protection	1,245
Cultural and recreational	195,808
Depreciation on capital assets held in garage	
fund charged to functions based on usage	5,147
Total depreciation expense	<u>\$ 1,674,445</u>

Town of Waynesville, North Carolina
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For the Fiscal Year Ended June 30, 2006

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Business-type activities:					
<i>Electric Fund</i>					
Capital assets not being depreciated:					
Land	\$ 216,000	\$ -	\$ -	\$ 1,558	\$ 217,558
Construction in process	48,924	10,946	-	(1,558)	58,312
Total capital assets not being depreciated	264,924	10,946	-	-	275,870
Capital assets:					
Buildings and building improvements	22,997	-	-		22,997
Equipment and furniture and fixtures	111,306	3,500	2,190	(4,865)	107,751
Vehicles and motorized equipment	527,480	-	-	-	527,480
Substations, lines, and related equipment	3,656,732	57,130	-	-	3,713,862
Total capital assets being depreciated	4,318,515	60,630	2,190	(4,865)	4,372,090
Less accumulated depreciation for:					
Buildings and building improvements	16,389	481	-		16,870
Equipment and furniture and fixtures	101,060	4,197	2,190	(4,865)	98,202
Vehicles and motorized equipment	350,290	22,728	-	-	373,018
Substations, lines, and related equipment	2,181,858	109,555	-	-	2,291,413
Total accumulated depreciation	2,649,597	136,961	2,190	(4,865)	2,779,503
Total capital assets being depreciated, net	1,668,918				1,592,587
Electric fund capital assets, net	1,933,842				1,868,457
<i>Water Fund</i>					
Capital assets not being depreciated:					
Land	1,494,083	-	7,721	-	1,486,362
Construction in process	46,319	999,016	-	(134,640)	910,695
Total capital assets not being depreciated	1,540,402	999,016	7,721	(134,640)	2,397,057
Capital assets being depreciated:					
Land improvements	14,026	-	-	-	14,026
Buildings and building improvements	1,142,456	-	-	-	1,142,456
Equipment and furniture and fixtures	196,043	7,509	7,264	(9,700)	186,588
Vehicles and motorized equipment	421,400	20,696	18,589	-	423,507
Plant and system distributions	17,232,588	202,136	57,044	134,640	17,512,320
Total capital assets being depreciated	19,006,513	230,341	82,897	124,940	19,278,897
Less accumulated depreciation for:					
Land improvements	3,918	350	-	-	4,268
Buildings and building improvements	867,225	10,836	-	-	878,061
Equipment and furniture and fixtures	152,688	13,721	6,394	(9,700)	150,315
Vehicles and motorized equipment	310,451	24,757	18,589	-	316,619
Plant and system distributions	7,523,390	355,516	57,044	-	7,821,862
Total accumulated depreciation	8,857,672	405,180	82,027	(9,700)	9,171,125
Total capital assets being depreciated, net	10,148,841				10,107,772
Water fund capital assets, net	11,689,243				12,504,829

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Sewer Fund</i>					
Capital assets not being depreciated:					
Land	103,300	-	-	-	103,300
Construction in process	85,399	237,641	-	(200,110)	122,930
Total capital assets not being depreciated	188,699	237,641	-	(200,110)	226,230
Capital assets being depreciated:					
Land improvements	12,276	-	-	-	12,276
Buildings and building improvements	8,586,179	-	3,747	-	8,582,432
Equipment and furniture and fixtures	238,971	13,847	14,027	9,700	248,491
Vehicles and motorized equipment	280,744	-	40,590	-	240,154
Plant and system distributions	7,250,869	-	10,323	200,110	7,440,656
Total capital assets being depreciated	16,369,039	13,847	68,687	209,810	16,524,009
Less accumulated depreciation for:					
Land improvements	7,900	735	-	-	8,635
Buildings and building improvements	4,794,421	178,590	1,824	-	4,971,187
Equipment and furniture and fixtures	166,697	19,245	13,439	9,700	182,203
Vehicles and motorized equipment	254,177	7,721	40,589	-	221,309
Plant and system distributions	2,928,206	176,729	7,563	-	3,097,372
Total accumulated depreciation	8,151,401	383,020	63,415	9,700	8,480,706
Total capital assets being depreciated, net	8,217,638				8,043,303
Sewer fund capital assets, net	<u>8,406,337</u>				<u>8,269,533</u>
<i>Public Works Fund</i>					
Capital assets not being depreciated:					
Land	100,218	-	-	-	100,218
Capital assets being depreciated:					
Land improvements	19,131	-	-	-	19,131
Buildings and building improvements	449,635	-	-	-	449,635
Equipment and furniture and fixtures	6,567	-	-	-	6,567
Vehicles and motorized equipment	48,967	-	-	-	48,967
Total capital assets being depreciated	524,300	-	-	-	524,300
Less accumulated depreciation for:					
Land improvements	11,602	1,290	-	-	12,892
Buildings and building improvements	180,019	8,726	-	-	188,745
Equipment and furniture and fixtures	5,861	707	-	-	6,568
Vehicles and motorized equipment	24,930	1,860	-	-	26,790
Total accumulated depreciation	222,412	12,583	-	-	234,995
Total capital assets being depreciated, net	301,888				289,305
Public Works fund capital assets, net	<u>402,106</u>				<u>389,523</u>
Business-type activities capital assets, net	<u>\$22,431,528</u>				<u>\$23,032,342</u>

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

Construction commitments

The Town has active construction projects as of June 30, 2006. At year-end, the Town's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Reservoir Drive Water Tank	\$ 882,195	\$ 27,075
Greenway Project Consultant	10,840	14,960
Capital Project-Fire Department Construction	45,000	175,000
Shelton Branch Sewer Improvements	109,272	47,768
Total	<u>\$ 1,047,307</u>	<u>\$ 264,803</u>

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Capital assets being depreciated:					
Furniture and equipment	\$ 61,890	\$ 279	\$ -	\$ -	\$ 62,169
Leasehold improvements	3,308	-	-	-	3,308
Total capital assets being depreciated	65,198	279	-	-	65,477
Less accumulated depreciation	52,503	3,711	-	-	56,214
ABC capital assets, net	<u>\$ 12,695</u>				<u>\$ 9,263</u>

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2006, were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities:				
General	\$ 98,238	\$ 111,775	\$ 6,111	\$ 216,124
Capital Projects	45,713	-	-	45,713
Other Governmental	2,372	426	-	2,798
Total Governmental Activities	<u>\$ 146,323</u>	<u>\$ 112,201</u>	<u>\$ 6,111</u>	<u>\$ 264,635</u>
Business-type Activities:				
Electric	\$ 429,729	\$ 1,659	\$ -	\$ 431,388
Water	66,297	3,687	-	69,984
Sewer	157,196	3,470	23,000	183,666
Other Business-type Activities	487	813	-	1,300
Total Business-type Activities:	<u>\$ 653,709</u>	<u>\$ 9,629</u>	<u>\$ 23,000</u>	<u>\$ 686,338</u>

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Waynesville and the ABC Board contribute 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. 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 and the ABC Board are 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 4.95% and 4.78%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.80% of annual covered payroll. The contribution requirements of members and of the Town of Waynesville and the ABC Board are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$253,859, \$338,411, and \$400,382, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$8,915, \$7,793, and \$7,302, respectively. The contributions made by the Town and the ABC Board equaled the required contributions for each year. For the year ended June 30, 2006 only, the ABC Board made a lump sum payment to LGERS on behalf of an employee to obtain retirement credit for years of omitted service in the amount of \$767.

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

The Town of Waynesville 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, 2005, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	32
Total	<u>34</u>

Town of Waynesville, North Carolina
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For the Fiscal Year Ended June 30, 2006

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 operating 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, 2005 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 ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-retirement benefit increases.

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

Annual required contribution	\$ 43,257
Interest on net pension obligation	10,262
Adjustment to annual required contribution	(8,130)
Annual pension cost	45,389
Contributions made	(12,449)
Increase (decrease) in net pension obligation	32,940
Net pension obligation beginning of year	141,546
Net pension obligation end of year	<u>\$ 174,486</u>

3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 36,973	8.67%	\$ 104,700
2005	\$ 43,801	15.88%	\$ 141,546
2006	\$ 45,389	27.43%	\$ 174,486

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Town of Waynesville, North Carolina
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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.

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, 2006 were \$86,204, which consisted of \$59,667 from the Town and \$26,537 from the law enforcement officers.

d. Supplemental Retirement Income Plan for General Employees

Plan Description. The Town has elected, effective January 1, 2004, to contribute to the Supplemental Retirement Income Plan (Plan) for general employees in addition to law enforcement officers.

Funding Policy. Effective January 1, 2004, the Town commenced contributions of 3% for all covered employees. Effective January 1, 2005, this percentage increased to 5%. Contributions for the year ended June 30, 2006 were \$305,547, which consisted of \$187,904 from the Town and \$117,643 from the general employees.

e. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Waynesville, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the Fund. 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 \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

f. 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) or Law Enforcement Officers Retirement System. A retiree shall receive health insurance coverage under the following conditions:

- 1) A retiree who has achieved ten or more years of service with the Town and has reached fifty-five years of age shall receive health insurance coverage.

Town of Waynesville, North Carolina
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- 2) A retiree who has achieved at least twenty-five years of service with the Town, not including accumulated sick or vacation time, shall receive health insurance coverage for a period of ten years from their official retirement date, regardless of age at which that employee retires. At the conclusion of the ten-year period, the retiree will be allowed to pay the required insurance premium and maintain coverage in the health insurance program.
- 3) A retiree who has achieved at least thirty years of service with the Town, not including accumulated sick or vacation time, regardless of the age at which that employee retires, shall receive health insurance coverage from their official retirement date until the retiree reaches the age of 65 or until the employee becomes eligible for Medicare through disability at an earlier age. Health insurance will be provided at no expense to the retiree.

The Town pays the full cost of coverage for these benefits until the retired employee reaches age sixty-five (except as described in condition 2) above) or until the employee becomes eligible for Medicare through disability at an early age. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates and purchase Medicare supplement insurance, if such is available through the Town's insurance program. Currently fifteen retirees are eligible for postretirement health benefits. For the fiscal year ended June 30, 2006, the Town made payments for post-employment health benefit premiums of \$69,324. The Town obtains health care coverage through the North Carolina Interlocal Risk Management Agency.

3. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or 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, 2006, the Town made contributions to the State for death benefits of \$7,621. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .15% 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. The Town provides additional death benefits to employees through its group health insurance plan.

4. Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Town of Waynesville, North Carolina
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All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, and rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Town (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Town's general creditors. Participants' rights under the plan are equal to those of the general creditors of the Town in an amount equal to the fair market value of the deferred account for each participant.

In accordance with IRS Regulations, the funds are placed with a third party trustee and accordingly are not included in the financial statements of the Town.

5. Deferred/Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Prepaid taxes not yet earned (General Fund)	\$ -	\$ 7,832
Taxes receivable, net (General Fund)	369,785	-
Unearned grant revenue (General Fund)	-	10,668
Unearned distributions (General Fund)	-	20,560
Other unearned revenue (General Fund)	-	3,304
Total	<u>\$ 369,785</u>	<u>\$ 42,364</u>

6. Commitments

The Town had commitments of \$74,612 in its proprietary funds at June 30, 2006. These items will be funded from operating funds.

The Town held cash performance bonds with a balance at June 30, 2006 of \$56,277 from real estate developers for improvements to be made within the developments. In the Town's opinion, the bond money will be more than sufficient to cover all costs that the Town will incur.

7. 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 disaster. Through commercial coverage, the Town obtained general liability and auto liability coverage of \$3 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$2 million lifetime limit.

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.

Town of Waynesville ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disaster. The ABC Board has commercial property, general liability, workmen's compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. 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.

Town of Waynesville, North Carolina
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For the Fiscal Year Ended June 30, 2006

In accordance with G.S. 159-29, the Town's employees that have access at any given time to \$100 or more of the Town's funds are performance bonded through a commercial surety bond. The town manager and finance officer are each individually bonded for \$100,000 each. The tax collector and town clerk are each individually bonded for \$25,000 each. The remaining employees that have access to funds are bonded under a blanket bond up to a limit of either \$5,000 or \$10,000 per occurrence, depending on the type of crime.

8. Claims, Judgments and Contingent Liabilities

At June 30, 2006, the Town was a defendant to two lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of this legal matter will not have a material adverse effect on the Town's financial position.

9. Long-Term Obligations

a. Installment Purchases and Interlocal Agreement

On May 1, 2006, the Town entered into an installment purchase contract to acquire a water tank. The financing contract requires ten annual payments of \$118,680 with an interest rate of 3.49 percent. Interest expense for the year ended June 30, 2006 was \$40,096. This loan is shown under business-type activities.

On July 20, 2005, the Town entered into an installment purchase contract to acquire a bulldozer. The financing contract requires sixty monthly payments of \$1,314 with an interest rate of 5.24 percent. Interest expense for the year ended June 30, 2006 was \$3,112. This loan is shown under governmental activities.

On October 17, 2003, the Town entered into an installment purchase contract to acquire a utility bucket truck and a garbage truck. The financing contract requires three annual payments of \$52,755 with an interest rate of 2.73 percent. Interest expense for the year ended June 30, 2006 was \$1,497. Sixty percent of this loan is shown under business-type activities and forty percent is shown under governmental activities.

In January 2003, the Town entered into an interlocal agreement with Haywood County (County) to assist the County with its payment for the construction of a new parking facility. The agreement requires annual payments of \$227,047 with an interest rate of 4.479 percent. Interest expense for the year ended June 30, 2006 was \$93,083. This loan is shown under governmental activities and has a balance of \$2,072,802 at June 30, 2006. The Town of Waynesville does not hold title to this asset.

In September 2002, the Town entered into an installment purchase contract to acquire a garbage truck. The financing contract requires annual payments of \$52,693 with an interest rate of 2.67 percent. Interest expense for the year ended June 30, 2006 was \$593. This loan was paid off by June 30, 2006 and was shown under governmental activities.

On October 16, 2001, the Town entered into an installment purchase contract for improvements to the water treatment plant. The contract as refinanced during the prior year required one final payment (under the original contract) of \$159,679 and subsequent annual payments of \$153,165 with an interest rate of 3.79%. Interest expense for the year ended June 30, 2006 was \$31,964. This loan is shown under business-type activities.

On June 21, 2001, the Town entered into an installment purchase contract for a sewer belt press. The contract as refinanced during the prior year required one final payment (under the original contract) of

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

\$44,090 and subsequent annual payments of \$41,155 with an interest rate of 3.79 percent. Interest expense for the year ended June 30, 2006 was \$8,233. This loan is shown under business-type activities.

On January 19, 2001, the Town entered into an installment purchase contract for construction of a sewer line. The contract as refinanced during the prior year required one final payment (under the original contract) of \$89,425 and subsequent annual payments of \$82,508 with an interest rate of 2.97 percent. Interest expense for the year ended June 30, 2006 was \$4,691. This loan is shown under business-type activities.

In October 1998, the Town entered into an installment purchase contract to build a new recreation facility center. The contract as refinanced required one final annual payment (under the original contract) of \$404,622 during the prior year and subsequent semi-annual payments of \$185,407 at an interest rate of 3.99 percent. Interest expense for the year ended June 30, 2006 was \$149,674. This loan is shown under governmental activities.

On June 26, 1997, the Town entered into an installment purchase contract for construction of a sewer treatment facility. The contract as refinanced during the prior year required one final payment (under the original contract) of \$96,896 and subsequent payments of \$88,583 with an interest rate of 3.49 percent. Interest expense for the year ended June 30, 2006 was \$13,933. This loan is shown under business-type activities.

The future minimum payments of these installment purchase contracts and agreements as of June 30, 2006, are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 396,396	\$ 238,329	\$ 434,348	\$ 81,396
2008	391,780	221,843	335,127	66,456
2009	408,383	205,240	347,434	54,149
2010	425,694	187,929	271,529	41,472
2011	427,594	170,266	281,576	31,424
2012-2016	2,422,822	566,479	583,054	44,829
2017-2021	1,299,343	81,785	-	-
Total	\$ 5,772,012	\$ 1,671,871	\$ 2,253,068	\$ 319,726

b. General Obligation Bonds

At June 30, 2006, the Town of Waynesville had a legal debt margin of \$55,816,528.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

c. *Changes in General Long-Term Debt*

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 6,134,713	\$ 69,500	\$ 432,201	\$ 5,772,012	\$ 396,396
Unfunded pension liabilities	141,546	32,940	-	174,486	-
Legal Claims	10,000	-	-	10,000	-
Compensated absences-garage	2,037	4,123	1,847	4,313	1,847
Compensated absences	286,622	169,668	153,149	303,141	153,149
Governmental activity long-term liabilities	<u>\$ 6,574,918</u>	<u>\$ 276,231</u>	<u>\$ 587,197</u>	<u>\$ 6,263,952</u>	<u>\$ 551,392</u>
Business-type activities:					
Installment purchases	\$ 1,687,904	\$ 985,000	\$ 419,836	\$ 2,253,068	\$ 434,348
Compensated absences	75,502	67,713	60,842	82,373	60,842
Business-type activity long-term liabilities	<u>\$ 1,763,406</u>	<u>\$ 1,052,713</u>	<u>\$ 480,678</u>	<u>\$ 2,335,441</u>	<u>\$ 495,190</u>

Compensated absences for governmental activities typically have been liquidated in the general fund.

C. *Interfund Balances and Activity*

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2006, consist of the following:

Due to the Town from the component unit, ABC Board	\$ 20,781
Due to the General Fund from the Garage Fund	\$ 23,312

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2006 consist of the following:

From the Electric Fund to the General Fund	\$ 1,000,000
From the component unit, ABC Board, to the Town	63,599
From the General Fund to the SFR Fund	15,000
From the General Fund to the Capital Project Fund	1,055,000
Total	<u>\$ 2,133,599</u>

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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 as matching funds for various grant programs.

During the 2006 fiscal year, the Town made a one-time transfer from the General Fund of \$1,055,000 to the Capital Project Fund as per the terms of the ordinance establishing that fund and of \$15,000 to the SFR Fund for completion of the SFR project.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2006, the Town of Waynesville has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$13,069 for the twenty volunteer firemen and ten employed firemen who perform firefighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Squad Worker's Pension Fund, a cost sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 contribution per fireman paid by the Town, investment income, and a State appropriation.

The Town has determined that on-behalf of payments for fringe benefits and salaries for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2006 is immaterial, and therefore, not recognized as a revenue and an expenditure. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their dependents.

IV. Related Organization

The five-member board of the Town of Waynesville Housing Authority is appointed by the mayor of the Town of Waynesville. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Waynesville is also disclosed as a related organization in the notes to the financial statements for the Town of Waynesville Housing Authority.

V. Summary Disclosure of Significant Contingencies

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, except for the Single Family Rehabilitation Program. This program was funded through the North Carolina Housing Finance Agency and in prior years it was determined that the Town had not reviewed required report filings to ensure their accuracy and completeness and inadequately monitored the contractor hired to administer the program. This lack of adequate reporting and monitoring could cause the entire amount of program expenditures of \$151,050 to be disallowed and therefore, required to be returned to the North Carolina Housing Finance Agency. The North Carolina Housing Finance Agency is aware of the on-going effort of the Town to correct any problems within this program and at this time has not communicated that any amounts are due back to them.

No provision has been made in the accompanying financial statements for the refund of grant monies.

Town of Waynesville, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

Electric Deregulation

In 1997, the General Assembly appointed the Study Commission on the Future of Electric Service in North Carolina ("Study Commission") to examine the cost, adequacy, availability and pricing of electric rates in North Carolina, in order to determine whether legislation was necessary to assure an adequate and reliable source of electricity and economical, fair and equitable rates for all consumers in North Carolina.

After the creation of this Study Commission, but before any of its recommendations were acted upon by the General Assembly, several developments outside of North Carolina occurred (including the Enron bankruptcy, the California and other electric power outages, issues relating to federal and state jurisdiction over electricity services, and other matters) that make it unlikely that any action toward electric deregulation in North Carolina will be made in the foreseeable future. Also, the Study Commission did not meet after 2002 and in accordance with earlier legislation the Study Commission terminated on June 30, 2006.

The Town and the Electric Power Agency are unable to predict whether proposals for full or partial deregulations of retail electric service in North Carolina may be introduced or adopted in the future, nor is it able to predict the effect of any such proposals on the Town or the Electric Power Agency.

Exhibit A-1

Town of Waynesville, 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)
12/31/2000	-	216,825	216,825	0%	980,885	22.11%
12/31/2001	-	251,439	251,439	0%	1,047,342	24.01%
12/31/2002	-	268,159	268,159	0%	1,031,313	26.00%
12/31/2003	-	323,022	323,022	0%	1,157,121	27.92%
12/31/2004	-	337,273	337,273	0%	1,141,415	29.55%
12/31/2005	-	295,367	295,367	0%	1,159,503	25.47%

Town of Waynesville, 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>
2001	20,958	67.89%
2002	29,807	32.59%
2003	34,606	15.53%
2004	36,973	8.67%
2005	43,801	15.88%
2006	45,389	27.43%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	25 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	4.5% to 12.37%
*Includes inflation at	3.75%
Cost-of living adjustments	None

Town of Waynesville, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 3,366,181	\$ -
Penalties and interest	-	29,626	-
Total	<u>3,315,300</u>	<u>3,395,807</u>	<u>80,507</u>
Other taxes and licenses:			
Local option sales tax	-	2,126,747	-
Gross receipts tax on short-term rental property	-	23,908	-
Privilege licenses and CATV	-	139,126	-
Total	<u>2,216,240</u>	<u>2,289,781</u>	<u>73,541</u>
Unrestricted intergovernmental:			
Utility franchise tax	-	549,318	-
Beer and wine tax	-	42,129	-
ABC profit distribution	-	63,658	-
Total	<u>603,600</u>	<u>655,105</u>	<u>51,505</u>
Restricted intergovernmental:			
Powell Bill allocation	-	421,794	-
Investment earnings	-	25,980	-
Contributions by Haywood County	-	70,000	-
On-behalf of payments - Fire and Rescue	-	13,069	-
ABC Revenue for law enforcement	-	8,775	-
Other grant revenue	-	58,484	-
Total	<u>803,340</u>	<u>598,102</u>	<u>(205,238)</u>
Permits and fees:			
Building permits and inspection fees	-	61,472	-
Reconnect fees	-	47,079	-
Total	<u>104,350</u>	<u>108,551</u>	<u>4,201</u>

cont.

Town of Waynesville, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	2006		Variance
	Budget	Actual	Positive (Negative)
Sales and services:			
Recreation department fees	-	566,536	-
Cemetery revenues	-	22,930	-
Solid waste container sales	-	15,077	-
Fire protection	-	130,964	-
Police contract services	-	57,095	-
Sanitation fee	-	451,669	-
Court costs and fees	-	4,760	-
Rents	-	28,050	-
Charges to water fund	-	165,720	-
Charges to sewer fund	-	150,760	-
Charges to electric fund	-	334,100	-
Total	<u>1,878,430</u>	<u>1,927,661</u>	<u>49,231</u>
Investment earnings	<u>118,100</u>	<u>147,336</u>	<u>29,236</u>
Miscellaneous	<u>120,250</u>	<u>147,617</u>	<u>27,367</u>
Total revenues	<u>9,159,610</u>	<u>9,269,960</u>	<u>110,350</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits	-	76,118	-
Other operating expenditures	-	39,114	-
Total	<u>118,280</u>	<u>115,232</u>	<u>3,048</u>
Administration:			
Salaries and employee benefits	-	500,209	-
Professional services	-	53,756	-
Other operating expenditures	-	100,460	-
Capital outlay	-	-	-
Total	<u>719,270</u>	<u>654,425</u>	<u>64,845</u>
Finance:			
Salaries and employee benefits	-	551,157	-
Professional services	-	42,337	-
Other operating expenditures	-	95,054	-
Capital outlay	-	16,100	-
Total	<u>763,320</u>	<u>704,648</u>	<u>58,672</u>
Public buildings:			
Salaries and employee benefits	-	36,160	-
Other operating expenditures	-	105,524	-
Capital outlay	-	7,870	-
Total	<u>187,750</u>	<u>149,554</u>	<u>38,196</u>

cont.

Town of Waynesville, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	2006		Variance
	Budget	Actual	Positive (Negative)
Planning and code enforcement:			
Salaries and employee benefits	-	139,635	-
Other operating expenditures	-	17,861	-
Capital Outlay	-	3,939	-
Total	<u>174,780</u>	<u>161,435</u>	<u>13,345</u>
Special appropriations:			
Contributions	-	224,472	-
Total	<u>236,930</u>	<u>224,472</u>	<u>12,458</u>
Total general government	<u>2,200,330</u>	<u>2,009,766</u>	<u>190,564</u>
Public safety:			
Police:			
Salaries and employee benefits	-	2,056,854	-
Professional services	-	14,860	-
Other operating expenditures	-	368,255	-
Capital outlay	-	195,041	-
Total	<u>2,768,350</u>	<u>2,635,010</u>	<u>133,340</u>
Fire:			
Salaries and employee benefits	-	669,230	-
Other operating expenditures	-	114,424	-
Building inspection and EMT's	-	10,838	-
Capital outlay	-	50,908	-
Total	<u>906,010</u>	<u>845,400</u>	<u>60,610</u>
Total public safety	<u>3,674,360</u>	<u>3,480,410</u>	<u>193,950</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits	-	984,680	-
Professional services	-	11,252	-
Other operating expenditures	-	670,719	-
Contracted services	-	167,184	-
Capital outlay	-	511,019	-
Total transportation	<u>2,490,260</u>	<u>2,344,854</u>	<u>145,406</u>
Environmental protection:			
Cemetery:			
Salaries and employee benefits	-	103,366	-
Other operating expenditures	-	11,712	-
Capital outlay	-	2,025	-
Total environmental protection	<u>123,840</u>	<u>117,103</u>	<u>6,737</u>
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits	-	1,008,763	-
Other operating expenditures	-	396,747	-
Capital outlay	-	115,599	-
Total culture and recreation	<u>1,798,550</u>	<u>1,521,109</u>	<u>277,441</u>

cont.

Town of Waynesville, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2006

	2006		Variance
	Budget	Actual	Positive (Negative)
Debt service:			
Principal retirement	-	432,201	-
Interest and other charges	-	255,041	-
Total debt service	<u>687,900</u>	<u>687,242</u>	<u>658</u>
Total expenditures	<u>10,975,240</u>	<u>10,160,484</u>	<u>814,756</u>
Revenues over (under) expenditures	<u>(1,815,630)</u>	<u>(890,524)</u>	<u>925,106</u>
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Fund	1,000,000	1,000,000	
Transfer to other funds:			
CDBG II Project Fund	(15,000)	(15,000)	
Capital Projects Fund	(1,055,000)	(1,055,000)	
Appropriations from fund balance	<u>1,885,630</u>	<u>-</u>	
Total	<u>\$ 1,815,630</u>	<u>(70,000)</u>	<u>\$ (1,885,630)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>(960,524)</u>	<u>\$ (960,524)</u>
Fund balances:			
Beginning of year, July 1		5,921,901	
End of year, June 30		<u>\$ 4,961,377</u>	

Town of Waynesville
Combining Balance Sheet
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006

	CDBG/HPG & SFR Projects Fund	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 29,305	\$ 153,718	\$ 25,579	\$ 208,602
Accounts and interest receivable	-	573	106	679
Due from other governments	3,223	-	-	3,223
Total assets	<u>\$ 32,528</u>	<u>\$ 154,291</u>	<u>\$ 25,685</u>	<u>\$ 212,504</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Reserved for perpetual maintenance	-	154,291	25,685	179,976
Unreserved	32,528	-	-	32,528
Total fund balances	<u>32,528</u>	<u>154,291</u>	<u>25,685</u>	<u>212,504</u>
Total liabilities and fund balances	<u>\$ 32,528</u>	<u>\$ 154,291</u>	<u>\$ 25,685</u>	<u>\$ 212,504</u>

Town of Waynesville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006

	CDBG/HPG & SFR Projects Fund	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Revenues:				
Restricted intergovernmental	\$ 2,348	\$ -	\$ -	\$ 2,348
Sales and services	15,312	22,750	-	38,062
Investment earnings	-	4,796	889	5,685
Total revenues	17,660	27,546	889	46,095
Expenditures:				
Culture and recreation	-	-	1,196	1,196
Economic and physical development	38,958	-	-	38,958
Total expenditures	38,958	-	1,196	40,154
Revenues over expenditures	(21,298)	27,546	(307)	5,941
Other financing sources:				
Transfers from other funds:				
General Fund	15,000	-	-	15,000
Total other financing sources	15,000	-	-	15,000
Revenues and other financing sources over expenditures and other financing uses	(6,298)	27,546	(307)	20,941
Fund balances:				
Beginning of year, July 1	38,826	126,745	25,992	191,563
End of year, June 30	\$ 32,528	\$ 154,291	\$ 25,685	\$ 212,504

Town of Waynesville, North Carolina
Special Revenue Fund - CDBG II Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2006

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
Federal Community					
Development Grant	\$ 350,000	\$ 348,492	\$ -	\$ 348,492	\$ (1,508)
Program Income	-	26,961	15,312	42,273	42,273
Contributions	17,500	-	-	-	(17,500)
Total revenues	367,500	375,453	15,312	390,765	23,265
Expenditures:					
Economic and physical					
development:					
Administration	53,150	48,000	-	48,000	5,150
Rehabilitation	361,860	349,534	-	349,534	12,326
Planning	2,490	2,490	-	2,490	-
Total expenditures	417,500	400,024	-	400,024	17,476
Revenues over expenditures	<u>(50,000)</u>	<u>(24,571)</u>	<u>15,312</u>	<u>(9,259)</u>	<u>40,741</u>
Other financing sources:					
Capital contribution from CDBG					
Project Fund	-	4,092	-	4,092	4,092
Operating transfer in	50,000	50,000	-	50,000	-
Total other financing sources	<u>50,000</u>	<u>54,092</u>	<u>-</u>	<u>54,092</u>	<u>4,092</u>
Revenues and other sources					
over (under) expenditures	<u>\$ -</u>	<u>\$ 29,521</u>	15,312	<u>\$ 44,833</u>	<u>\$ 44,833</u>
Fund balances:					
Beginning of year, July 1			29,521		
End of year, June 30			<u>\$ 44,833</u>		

Town of Waynesville, North Carolina
Special Revenue Fund - HPG IV Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2006

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
Federal Community Housing					
Preservation Grant	\$ 98,155	\$ 98,155	\$ -	\$ 98,155	\$ -
Total revenues	<u>98,155</u>	<u>98,155</u>	<u>-</u>	<u>98,155</u>	<u>-</u>
Expenditures:					
Economic and physical					
development:					
Administration	14,700	14,700	-	14,700	-
Rehabilitation	83,455	83,455	-	83,455	-
Total expenditures	<u>98,155</u>	<u>98,155</u>	<u>-</u>	<u>98,155</u>	<u>-</u>
Revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:					
Capital contribution from HPG					
Project Fund	-	91	-	91	91
Capital contribution from HPG IV					
Project Fund	-	150	-	150	150
Total other financing sources	<u>-</u>	<u>241</u>	<u>-</u>	<u>241</u>	<u>241</u>
Revenues and other sources					
over (under) expenditures	<u>\$ -</u>	<u>\$ 241</u>	<u>-</u>	<u>\$ 241</u>	<u>\$ 241</u>
Fund balances:					
Beginning of year, July 1			241		
End of year, June 30			<u>\$ 241</u>		

Town of Waynesville, North Carolina
Special Revenue Fund - SFR Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2006

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
Single Family Rehabilitation Grant	\$ 300,000	\$ 147,827	\$ 2,348	\$ 150,175	\$ (149,825)
Total revenues	<u>300,000</u>	<u>147,827</u>	<u>2,348</u>	<u>150,175</u>	<u>(149,825)</u>
Expenditures:					
Economic and physical development:					
Administration	19,799	8,109	10,797	18,906	893
Rehabilitation	<u>291,201</u>	<u>155,654</u>	<u>28,161</u>	<u>183,815</u>	<u>107,386</u>
Total expenditures	<u>311,000</u>	<u>163,763</u>	<u>38,958</u>	<u>202,721</u>	<u>108,279</u>
Revenues over expenditures	<u>(11,000)</u>	<u>(15,936)</u>	<u>(36,610)</u>	<u>(52,546)</u>	<u>(41,546)</u>
Other financing sources:					
Operating transfer in	<u>11,000</u>	<u>25,000</u>	<u>15,000</u>	<u>40,000</u>	<u>29,000</u>
Total other financing sources	<u>11,000</u>	<u>25,000</u>	<u>15,000</u>	<u>40,000</u>	<u>29,000</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 9,064</u>	<u>(21,610)</u>	<u>\$ (12,546)</u>	<u>\$ (12,546)</u>
Fund balances:					
Beginning of year, July 1			9,064		
End of year, June 30			<u>\$ (12,546)</u>		

Town of Waynesville, North Carolina
Capital Projects Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2006

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Grant revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous income	-	-	-	-	-
Investment earnings	-	-	-	-	-
Total revenues	-	-	-	-	-
Expenditures:					
Capital outlay					
Fire Department Construction:					
Architect and engineering fees	210,000	-	60,980	60,980	149,020
Land Purchase	650,000	-	649,211	649,211	789
Development and construction	2,690,000	-	-	-	2,690,000
Equipment and furniture	205,000	-	-	-	205,000
Interest during construction	177,975	-	-	-	177,975
Contingency	200,000	-	-	-	200,000
Total fire department construction	4,132,975	-	710,191	710,191	3,422,784
Police/Development Office Construction:					
Architect and engineering fees	210,000	-	-	-	210,000
Land Purchase	100,000	-	-	-	100,000
Development and construction	2,258,000	-	-	-	2,258,000
Equipment and furniture	290,000	-	-	-	290,000
Interest during construction	177,975	-	-	-	177,975
Contingency	187,000	-	-	-	187,000
	3,222,975	-	-	-	3,222,975
Total Appropriations	7,355,950	-	710,191	710,191	6,645,759
Revenues over (under) expenditures	(7,355,950)	-	(710,191)	(710,191)	(6,645,759)
Other financing sources:					
Loan proceeds	5,945,000	-	-	-	5,945,000
Operating transfer in from General Fund	1,055,000	-	1,055,000	1,055,000	-
Transfer from tax revenue	355,950	-	-	-	355,950
Total other financing sources	7,355,950	-	1,055,000	1,055,000	6,300,950
Revenues and other sources					
over (under) expenditures	\$ -	\$ -	344,809	\$ 344,809	\$ (344,809)
Fund balances:					
Beginning of year, July 1			-		
End of year, June 30			\$ 344,809		

Town of Waynesville, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2006

	2006		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for service	\$ 7,084,920	\$ 7,036,064	\$ (48,856)
Total operating revenues	7,084,920	7,036,064	(48,856)
Nonoperating revenues:			
Investment earnings	-	28,638	-
Miscellaneous	-	8,778	-
Total nonoperating revenues	11,000	37,416	26,416
Total revenues	7,095,920	7,073,480	(22,440)
Expenditures:			
Finance and administration:			
Charge for services	334,100	334,100	0
Electrical operations:			
Salaries and employee benefits	-	315,377	-
Professional services	-	16,930	-
Supplies	-	104,042	-
Other departmental expenditures	-	158,429	-
Capital outlay	-	71,577	-
Total	859,190	666,355	192,835
Electrical power purchases	5,042,160	4,857,495	184,665
Debt service:			
Principal payments	-	29,993	-
Interest and fees	-	1,660	-
Total	31,680	31,653	27
Total expenditures	6,267,130	5,889,603	377,527
Revenues over expenditures	828,790	1,183,877	355,087
Other financing sources (uses):			
Transfers to other funds:			
Transfer to General Fund	(1,000,000)	(1,000,000)	-
Fund balance appropriated	171,210	-	(171,210)
Total other financing (uses)	(828,790)	(1,000,000)	(171,210)
Revenues over expenditures and other financing (uses)	\$ -	183,877	\$ 183,877
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlays		71,577	
Depreciation		(136,962)	
Principal payments		29,993	
Decrease in long-term debt accrued interest		574	
Decrease in accrued vacation pay		3,838	
Total		(30,980)	
Change in net assets		\$ 152,897	

Town of Waynesville, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2006

	2006		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Water charges	\$ -	\$ 1,752,972	\$ -
Taps and connection fees	-	62,440	-
Total operating revenues	<u>1,776,590</u>	<u>1,815,412</u>	<u>38,822</u>
Nonoperating revenues:			
Investment earnings	-	27,972	-
Miscellaneous	-	22,557	-
Total nonoperating revenues	<u>121,420</u>	<u>50,529</u>	<u>(70,891)</u>
Total revenues	<u>1,898,010</u>	<u>1,865,941</u>	<u>(32,069)</u>
Expenditures:			
Finance and administration:			
Charge for services	165,720	165,720	0
Total	<u>165,720</u>	<u>165,720</u>	<u>0</u>
Water maintenance and distribution:			
Maintenance department:			
Salaries and employee benefits	-	348,108	-
Supplies	-	129,382	-
Professional services	-	48	-
Other departmental expenditures	-	110,840	-
Capital outlay	-	345,718	-
Total	<u>1,065,380</u>	<u>934,096</u>	<u>131,284</u>
Operations department:			
Salaries and employee benefits	-	348,961	-
Professional services	-	9,048	-
Utilities	-	18,292	-
Supplies	-	130,190	-
Other departmental expenditures	-	70,524	-
Capital outlay	-	27,009	-
Total	<u>638,410</u>	<u>604,024</u>	<u>34,386</u>
Total water maintenance and distribution	<u>1,703,790</u>	<u>1,538,120</u>	<u>165,670</u>
Debt service:			
Principal payments	-	201,878	-
Interest and fees	-	69,968	-
Total	<u>272,170</u>	<u>271,846</u>	<u>324</u>
Total expenditures	<u>2,141,680</u>	<u>1,975,686</u>	<u>165,994</u>
Revenues over expenditures	<u>(243,670)</u>	<u>(109,745)</u>	<u>133,925</u>
Other financing sources (uses):			
Transfers to other funds:			
Transfer to General Fund	-	-	-
Fund balance appropriated	<u>243,670</u>	<u>-</u>	<u>(243,670)</u>
Total other financing (uses)	<u>243,670</u>	<u>-</u>	<u>(243,670)</u>
Revenues over expenditures and other financing (uses)	<u>\$ -</u>	<u>(109,745)</u>	<u>\$ (109,745)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		201,878	
Capital outlays		372,727	
Proceeds from installment purchase obligation		856,630	
Capital acquired with installment purchase obligation		(856,630)	
Capital contributions		101,976	
Depreciation		(405,180)	
Increase in long-term debt accrued interest		(2,091)	
Increase in accrued vacation pay		(4,233)	
Total		<u>265,077</u>	
Change in net assets		<u>\$ 155,332</u>	

Town of Waynesville, North Carolina
Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2006

	2006		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Sewer charges	\$ -	\$ 1,656,731	\$ -
Taps and connection fees	-	27,980	-
Impact fees	-	31,780	-
Industrial discharge permits	-	1,000	-
Total operating revenues	<u>1,716,980</u>	<u>1,717,491</u>	<u>511</u>
Nonoperating revenues:			
Investment earnings	-	18,648	-
Miscellaneous	-	7,464	-
Total nonoperating revenues	<u>19,550</u>	<u>26,112</u>	<u>6,562</u>
Total revenues	<u>1,736,530</u>	<u>1,743,603</u>	<u>7,073</u>
Expenditures:			
Finance and administration:			
Charges by general fund	<u>150,760</u>	<u>150,760</u>	<u>0</u>
Waste collection and treatment:			
Maintenance department:			
Salaries and employee benefits	-	200,923	-
Other departmental expenditures	-	61,811	-
Capital outlay	-	13,847	-
Total	<u>564,970</u>	<u>276,581</u>	<u>288,389</u>
Operations department:			
Salaries and employee benefits	-	444,857	-
Professional services	-	30,331	-
Utilities	-	143,422	-
Supplies	-	101,768	-
Other departmental expenditures	-	96,001	-
Capital outlay	-	237,641	-
Total	<u>917,010</u>	<u>1,054,020</u>	<u>(137,010)</u>
Total waste collection and treatment	<u>1,481,980</u>	<u>1,330,601</u>	<u>151,379</u>
Debt service:			
Principal payments	-	187,965	-
Interest and fees	-	24,282	-
Total	<u>212,260</u>	<u>212,247</u>	<u>13</u>
Total expenditures	<u>1,845,000</u>	<u>1,693,608</u>	<u>151,392</u>
Revenues over expenditures	<u>(108,470)</u>	<u>49,995</u>	<u>158,465</u>
Other financing sources:			
Fund balance appropriated	<u>108,470</u>	-	<u>(108,470)</u>
Total other financing sources	<u>108,470</u>	-	<u>(108,470)</u>
Revenues over expenditures and other financing (uses)	<u>\$ -</u>	<u>49,995</u>	<u>\$ 49,995</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		187,965	
Capital outlays		251,488	
Depreciation		(383,020)	
Decrease in long-term debt accrued interest		1,107	
Decrease in accrued vacation pay		(3,163)	
Total		<u>54,377</u>	
Change in net assets		<u>\$ 104,372</u>	

Town of Waynesville, North Carolina
Public Works Internal Service Fund
Schedule of Revenues and Expenditures - Financial Plan and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2006

	2006		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 222,270	\$ 209,487	\$ (12,783)
Total operating revenues	222,270	209,487	(12,783)
Nonoperating revenues:			
Investment earnings	-	1,039	-
Total nonoperating revenues	-	1,039	1,039
Total revenues	222,270	210,526	(11,744)
Expenditures:			
Salaries and employee benefits	-	156,528	-
Occupancy costs	-	17,790	-
Maintenance and repairs	-	16,765	-
Materials and supplies	-	9,727	-
Other departmental expenses	-	6,403	-
Capital outlays	-	-	-
Total expenditures	222,270	207,213	15,057
Revenues over expenditures	\$ -	3,313	\$ 3,313
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(12,582)	
Capital outlays		-	
Increase in accrued vacation pay		(3,313)	
Total reconciling items		(15,895)	
Change in net assets		\$ (12,582)	

Town of Waynesville, North Carolina
Garage Internal Service Fund
Schedule of Revenues and Expenditures - Financial Plan and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2006

	2006		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 458,430	\$ 405,889	\$ (52,541)
Total operating revenues	458,430	405,889	(52,541)
Nonoperating revenues:			
Investment earnings	-	-	-
Total nonoperating revenues	-	-	-
Total revenues	458,430	405,889	(52,541)
Expenditures:			
Salaries and employee benefits	-	78,950	-
Occupancy costs	-	50,277	-
Materials and supplies	-	31,309	-
Other departmental expenses	-	236,388	-
Capital outlay	-	6,688	-
Total expenditures	458,430	403,612	54,818
Revenues over expenditures	\$ -	2,277	\$ 2,277
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(5,147)	
Capital outlay		6,688	
Increase in accrued vacation pay		(2,276)	
Total reconciling items		(735)	
Change in net assets		\$ 1,542	

Exhibit G-1

Town of Waynesville, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2006

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2005</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2006</u>
2005-2006	\$ --	\$ 3,395,841	\$ 3,264,593	\$ 131,248
2004-2005	139,256	--	82,275	56,981
2003-2004	62,515	--	13,378	49,137
2002-2003	47,122	--	9,165	37,957
2001-2002	30,994	--	3,489	27,505
2000-2001	27,549	--	1,825	25,724
1999-2000	23,689	--	1,174	22,515
1998-1999	24,254	--	549	23,705
1997-1998	9,226	--	764	8,462
1996-1997	6,855	--	304	6,551
1995-1996	5,430	--	5,430	-
	<u>\$ 376,890</u>	<u>\$ 3,395,841</u>	<u>\$ 3,382,946</u>	<u>389,785</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>(20,000)</u>
Ad valorem taxes receivable - net				<u>\$ 369,785</u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				\$ 3,395,807
Reconciling items:				
Interest, penalties and advertising collected				(29,626)
Taxes written off				<u>16,765</u>
Subtotal				<u>(12,861)</u>
Total collections and credits				<u>\$ 3,382,946</u>

Town of Waynesville, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2006

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 772,748,076	0.43	3,322,817	\$3,011,523	\$ 311,294
Municipal service district	23,502,728	0.26	61,107	61,107	-
Penalties	-		2,857	2,857	-
Total	<u>796,250,804</u>		<u>3,386,781</u>	<u>3,075,487</u>	<u>311,294</u>
Discoveries:					
Current year taxes	3,126,279	0.43	13,443	13,443	-
Penalties	-		1,452	1,452	-
Total	<u>3,126,279</u>		<u>14,895</u>	<u>14,895</u>	<u>-</u>
Refund of overpayments			-	-	
Abatements	<u>(1,356,977)</u>		<u>(5,835)</u>	<u>(5,835)</u>	<u>-</u>
Total property valuation	<u>\$ 798,020,106</u>				
Net levy			3,395,841	3,084,547	311,294
Uncollected taxes at June 30, 2006			<u>(131,248)</u>	<u>(89,550)</u>	<u>(41,698)</u>
Current year's taxes collected			<u>\$ 3,264,593</u>	<u>\$2,994,997</u>	<u>\$ 269,596</u>
Current levy collection percentage			<u>96.14%</u>	<u>97.10%</u>	<u>86.60%</u>

COMPLIANCE SECTION

RAY, BUMGARNER, KINGSHILL, & ASSOC., P.A.
CERTIFIED PUBLIC ACCOUNTANTS
385 N. HAYWOOD ST., SUITE 3
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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**

To the Honorable Mayor and Board of Aldermen
Town of Waynesville

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, and the aggregate remaining fund information of Town of Waynesville, North Carolina, as of and for the year ended June 30, 2006, which collectively comprises the Town of Waynesville's basic financial statements, and have issued our report thereon dated October 27, 2006. We did not audit the financial statements of the Town of Waynesville ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Waynesville ABC Board, is based solely on the reports of the other auditors. 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 Town of Waynesville ABC Board 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 Waynesville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Waynesville'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. We noted certain matters that we reported to management of the Town of Waynesville, in a separate letter dated October 27, 2006.

This report is intended solely for the information and use of management, others within the organization, members of the governing board, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Baugman, Kinghill & Assoc., P.A.

Waynesville, North Carolina
October 27, 2006

RAY, BUMGARNER, KINGSHILL, & ASSOC., P.A.
CERTIFIED PUBLIC ACCOUNTANTS
385 N. HAYWOOD ST., SUITE 3
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**Report on Compliance With Requirements Applicable to Each Major State
Program and Internal Control over Compliance in Accordance with Applicable Sections
of OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and Board of Aldermen
Town of Waynesville

Compliance

We have audited the compliance of the Town of Waynesville, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2006. The Town of Waynesville's major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major State program is the responsibility of the Town of Waynesville's management. Our responsibility is to express an opinion on the Town of Waynesville's compliance based on our audit.

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

In our opinion the Town of Waynesville complied, in all material respects, with the requirements referred to above that are applicable to its major State program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Town of Waynesville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Waynesville's internal control over compliance with requirements that could have a

direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, members of the governing board, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Bannerman, Kingshill & Assoc., P.A.

Waynesville, North Carolina
October 27, 2006

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting.

- Material weakness identified? ☐yes ☒no
- Reportable condition identified
that is not considered to be
material weaknesses ☐yes ☒none reported
- Noncompliance material to financial
statements noted ☐yes ☒no

State Awards

Internal control over major State programs:

- Material weakness identified? ☐yes ☒no
- Reportable condition identified
that is not considered to be
material weaknesses ☐yes ☒none reported

Type of auditor's report issued on compliance
for State major programs Unqualified

Any audit findings disclosed that are required
To be reported in accordance with section
510 (a) of Circular A-133 ☐yes ☒no

Identification of major State program:

Grantor
NC Dept. of Transportation

Program Name
Powell Bill

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

Section II. - Financial Statement Findings

None reported

Section III - State Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2006

Section II - Financial Statements Findings

None reported

Section III - State Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended June 30, 2006

Finding: 05-01

Department of Housing and Urban Development

Passed through the North Carolina Housing Finance Agency

Program Name: Single-Family Rehabilitation Program

CFDA # 14.239

State Authorization: GS 122E

Status: The Town still needs to complete work on one site (out of five sites originally) in order for the Town to be in compliance with HUD's housing quality and energy standards.

Corrective Action Plan: The Town plans to complete work on this last site and have all matters resolved during the fiscal year ending June 30, 2007.

Town of Waynesville, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For The Year Ended June 30, 2006

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal: Direct & Pass-Through Expenditures</u>	<u>State Expenditures</u>
Federal Assistance:			
<u>U.S. Dept. of Justice</u>			
Passed-Through NC Dept. of Crime Control and Public Safety:			
Bulletproof Vest Partnership Grant	16.607	\$ 1,962	\$ -
<u>U.S. Dept. of Transportation</u>			
Passed-Through NC Dept. of Transportation:			
Greenways Project E-4589 (WBS# 34111.1.1)	20.205	56,522	-
Federal Aid Bridge Program	20.205	42,970	
<u>U.S. Dept. of Housing & Urban Development</u>			
Passed-Through NC Housing Finance Agency:			
HOME Investment Partnerships - Single Family Rehabilitation	14.239	2,348	-
State Assistance:			
N.C. Dept. of Transportation:			
Powell Bill (WBS# 32570)	DOT-4	-	610,335
Passed-Through Rural Economic Development Center:			
NC Economic Infrastructure Fund (No. 18-01-37)			63,682
Critical Needs Bond Act (No. 6-05)			18,460
Total Federal and State Assistance		\$ 103,802	\$ 692,477

Notes to the Schedule of Expenditures and State Financial Awards:

1. The accompanying schedule of expenditures of Federal and State awards includes the Federal and State grant activity of the Town of Waynesville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
2. Of the Federal and state expenditures presented in the schedule, the Town of Waynesville provided Federal assistance to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
HOME Investment Partnerships - Single Family Rehabilitation	14.239	\$ 2,348