

Town of Waynesville, North Carolina

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

Town of Waynesville, North Carolina

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For the Fiscal Year Ended June 30, 2012

TOWN OFFICIALS

MAYOR

Gavin Brown

ALDERMEN

Gary Caldwell
J. Wells Greeley

Julia Freeman
LeRoy Roberson

ADMINISTRATIVE

Marcia Onieal
Edward Caldwell

Town Manager
Finance Officer

Town of Waynesville, North Carolina
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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, the discretely presented component unit, 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, 2012 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 another auditor 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 another auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Waynesville, North Carolina, as of June 30, 2012, 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 19, 2012 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. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions on pages 35-I-13 through 35-I-23 and 35-I-89 and 35-I-90, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditor have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Waynesville's basic financial statements. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented as for purposes of additional analysis 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, and is also not a required part of the basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules and the 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and State awards are stated in all material respects in relation to the basic financial statements as a whole.

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

Waynesville, North Carolina
October 19, 2012

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, 2012. 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

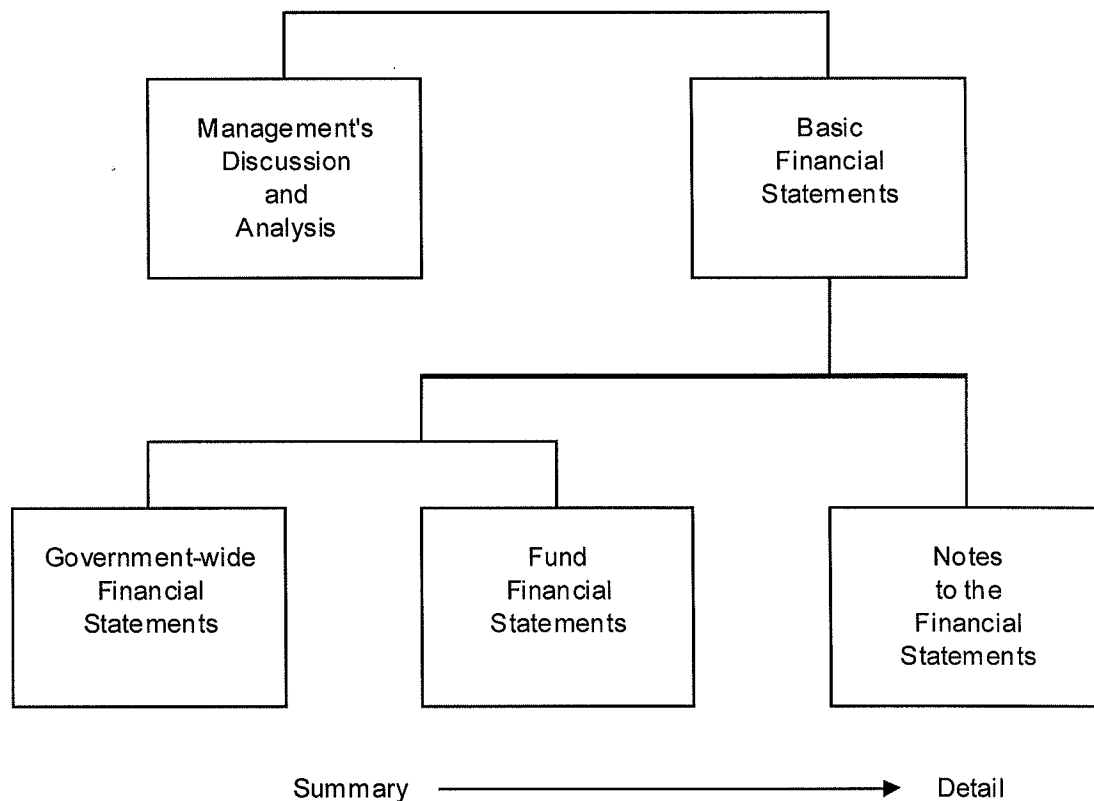
- The assets of the Town of Waynesville exceeded its liabilities at the close of the fiscal year by \$49,662,626 (*net assets*).
- The government's total net assets decreased by (\$818,719), primarily due to decreases in the governmental activities net assets. This decrease is mainly due to the amount by which depreciation exceeds capital outlays. The depreciation for the Town's governmental activities exceeds capital outlays by \$1,496,849.
- As of the close of the current fiscal year, the Town of Waynesville's governmental funds reported combined ending fund balances of \$7,203,606, a decrease of (\$4,753) in comparison with the prior year. Approximately 31.36 percent of this total amount, or \$2,259,410, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,524,687, or 28.41 percent of total general fund expenditures for the fiscal year.
- The Town of Waynesville's total debt and notes decreased by (\$1,239,084), or (7.67%) during the current fiscal year. The installment purchase contracts increased \$260,563 due to a reclassification from notes payable. The other long term debt items (unfunded pension liabilities, other post employment benefits and compensated absences) increased \$667,236. Notes payable increased \$68,352 for the construction of various water lines. When construction on these water projects are completed, the notes will be reclassified as loans from the North Carolina's "Drinking Water State Revolving Fund" program. These increases were off set by principal payments on existing debt.
- The Town of Waynesville's Electric Fund for the current fiscal year reported power purchases of \$5,584,415 a decrease of (\$84,621) or (1.49%) in comparison with the prior year. The town had an unusually mild winter that lead to a reduced number of kwh purchased. The winter was the fourth warmest on record. However, fuel costs prevented the Town from realizing an even larger drop in power costs. As stated in previous years, the town has experienced falling and rising fuel costs that have been passed along to the Town by its supplier on a month to month basis. In response to these fuel charges, the Town reviews its rates on a monthly basis. The overall retail rates to its customers have remained unchanged since July 1, 2009. The prior fiscal year reported power purchases of \$5,669,036, a decrease of (\$82,306) or (1.43%) in comparison with the fiscal year ended June 30, 2010. The prior year's drop was due to a reduction of manufacturing operations by the Town's largest power customer. The Electric Fund operating revenues for the current fiscal year reported charges for services of \$7,896,301, a decrease of (\$307,305) or (3.75%). As stated above an unusually mild winter reduced power consumption. The prior fiscal year ending June 30, 2011 reported charges for services of \$8,203,606, an decrease of (\$154,605) or (1.85%) in comparison with the fiscal year ended June 30, 2010. As stated earlier, the decrease for the year ended June 30, 2011, was due to the Town's largest power customer reducing its manufacturing operations.

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.

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, state shared revenues 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. 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 the 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.

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 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 the 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 24-50 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 51 through 54 of this report.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with US Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

The Town of Waynesville's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 8,397,480	\$ 8,433,450	\$ 5,882,335	\$ 5,846,101	\$ 14,279,815	\$ 14,279,551
Capital assets	25,297,014	26,818,565	26,443,635	26,978,135	51,740,649	53,796,700
Total assets	33,694,494	35,252,015	32,325,970	32,824,236	66,020,464	68,076,251
Long-term liabilities outstanding	10,563,079	11,265,875	3,450,532	3,755,172	14,013,611	15,021,047
Other liabilities	608,970	674,681	1,735,257	1,899,178	2,344,227	2,573,859
Total liabilities	11,172,049	11,940,556	5,185,789	5,654,350	16,357,838	17,594,906
Net assets:						
Invested in capital assets, net of related debt	17,288,243	18,021,072	21,483,470	22,321,125	38,771,713	40,342,197
Restricted	2,138,340	2,198,835	-	-	2,138,340	2,198,835
Unrestricted	3,095,862	3,091,552	5,656,711	4,848,761	8,752,573	7,940,313
Total net assets	\$ 22,522,445	\$ 23,311,459	\$ 27,140,181	\$ 27,169,886	\$ 49,662,626	\$ 50,481,345

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 \$49,662,626 as of June 30, 2012. The Town's net assets decreased by (\$818,719), or (1.62%) for the fiscal year ended June 30, 2012. However, the largest portion \$38,771,713 or 78.07% 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 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 \$2,138,340 or 4.31% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,752,573 is unrestricted. However, this includes \$247,719 in unspent funds that will be used for the repair and renovation of public buildings.

The slowly improving economy on the local, state and national levels has made it extremely hard to point to particular aspects of the Town's financial operations that positively influenced the total unrestricted governmental net assets. However, the Town can point to the following facts:

- For the year ending June 30, 2012 the Town's property valuations totaled \$1,165,781,427, an increase of \$18,857,531 or 1.64% in comparison with the prior year. The Town's net levy totaled \$4,659,681, an increase of \$134,977 or 2.98% in comparison with the prior year.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.68% excluding motor vehicles. This is an increase of 1.14% from the prior year's tax collection percentage excluding motor vehicles (95.54%). This is also comparable to the statewide average of units with electrical systems of 96.80% excluding motor vehicles for the population grouping 2,500 to 9,999 for the 2010-2011 year. The total collected for ad valorem taxes which includes current taxes, prior year's uncollectible tax balances, and motor vehicle taxes was \$4,658,411, an increase of \$232,469 or 5.25% 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 \$2,070,633, an increase of \$53,511 or 2.65% in comparison to the prior year. The sales tax revenues for the prior year were \$2,017,122, an increase of \$10,790 or 0.54% in comparison to the year ending June 30, 2010.

- Revenues from the building permits and inspection fees were \$147,421, an increase of \$58,422 or 65.64% in comparison with the prior year.

But, the slow economy has also negatively affected the Town. Several particular aspects of the Town's financial operations negatively influenced the total unrestricted governmental net assets:

- Most of the other Town's General Fund revenues either declined slightly, or showed little or no growth during the year.
- Utility franchise taxes and CATV taxes were \$799,611, a decrease of (\$35,810) or (4.29%) in comparison to the prior year.

Town of Waynesville Changes in Net Assets

	Figure 3					
	Governmental Activities		Business-Type Activities		Total	Total
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,967,250	\$ 1,917,129	\$12,233,074	\$12,448,768	\$14,200,324	\$14,365,897
Operating grants and contributions	529,850	355,573	-	-	529,850	355,573
Capital grants and contributions	6,068	406,399	203,583	103,904	209,651	510,303
General revenues:						
Property taxes	4,691,426	4,545,650	-	-	4,691,426	4,545,650
Other taxes	2,239,424	2,201,074	-	-	2,239,424	2,201,074
Grants and contributions not restricted to specific programs	716,702	868,500	-	-	716,702	868,500
Other	211,931	162,918	27,003	48,466	238,934	211,384
Total revenues	10,362,651	10,457,243	12,463,660	12,601,138	22,826,311	23,058,381
Expenses:						
General government	2,112,086	1,928,338	-	-	2,112,086	1,928,338
Public safety	4,526,575	4,330,540	-	-	4,526,575	4,330,540
Transportation	3,682,577	3,476,094	-	-	3,682,577	3,476,094
Economic development	-	-	-	-	-	-
Environmental Protection	114,688	111,754	-	-	114,688	111,754
Culture and recreation	1,799,105	1,803,404	-	-	1,799,105	1,803,404
Interest on long-term debt	373,264	399,898	-	-	373,264	399,898
Electric	-	-	7,078,947	7,275,179	7,078,947	7,275,179
Water	-	-	2,194,928	2,065,232	2,194,928	2,065,232
Sewer	-	-	1,762,860	1,780,217	1,762,860	1,780,217
Total expenses	12,608,295	12,050,028	11,036,735	11,120,628	23,645,030	23,170,656
Increase (decrease) in net assets before transfers	(2,245,644)	(1,612,785)	1,426,925	1,480,510	(818,719)	(132,275)
Transfers	1,456,630	1,293,000	(1,456,630)	(1,293,000)	-	-
Increase in net assets	(789,014)	(319,785)	(29,705)	187,510	(818,719)	(132,275)
Net assets, July 1	23,311,459	23,631,244	27,169,886	26,982,376	50,481,345	50,613,620
Net assets, June 30	\$22,522,445	\$23,311,459	\$27,140,181	\$27,169,886	\$49,662,626	\$50,481,345

Governmental activities. For the year ended June 30, 2012, Governmental activities decreased the Town's net assets by (\$789,014). Key elements of this decrease are as follows:

- Depreciation exceeds capital outlay by \$1,496,849.

- Compensated absences, police pension obligation, and post employment benefits increased \$249,420.
- This decrease of (\$789,014) would be even greater except for the Town's transfer of \$1,456,630 from business-type activities to the governmental activities.
- By comparison for the year ended June 30, 2011 and June 30, 2010, the governmental activities decreased (\$319,785) and (\$615,983) respectively after the Town transferred \$1,293,020 and \$1,062,020 respectively from business-type activities to the governmental activities.

Business-type activities: For the year ended June 30, 2012, business-type activities decreased the Town's net assets by (\$29,705). Key elements of this decrease are as follows:

- Depreciation exceeds capital outlay by \$863,399.
- The decrease would be an increase; however the Town transferred \$1,456,630 from the business-type activities to the governmental activities.
- The town recognized \$203,583 in capital grants and contributions for the construction of various water lines.
- The Town's electric fund reported income before contributions and transfers of \$834,361, a decrease of (\$108,392) from the prior year. Most of this decrease as discussed earlier is due to a mild winter.
- The Town implemented water rate increases of 5% for inside and outside customers. The Town left sewer and electric rates unchanged.
- By comparison for the year ended June 30, 2011, the business-type activities' net assets increased by \$187,510 after the Town transferred \$1,293,000 from the business-type activities to the governmental activities.

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.

The general fund is the chief operating fund of the Town of Waynesville. At the end of the current fiscal year, the Town of Waynesville's fund balance available in the General Fund was \$5,339,028, while total fund balance was \$6,667,300. By comparison, the year ended June 30, 2011 fund balance available in the General Fund was \$5,306,026 and total fund balance was \$6,558,358. The Town currently has an available fund balance of 43.04% of general fund expenditures, while total fund balance represents 53.75% of the same amount. By comparison, the year ended June 30, 2011 the available fund balance was 43.14% of the general fund expenditures, while total fund balance represents 53.32% of the same amount.

At June 30, 2012, the governmental funds of Town of Waynesville reported a combined fund balance of \$7,203,606, with a net decrease in fund balance of (\$4,753). This represents a (0.07%) decrease over last year. The decrease is primarily due to the spending of capital project funds (\$221,365). The remaining difference is due to revenues and other financing sources over expenditures and other financing uses.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on two 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 including transfers to other funds for the year ended June 30, 2012 totaled \$13,453,740. The funding sources: revenues, transfer from business-type activities and appropriations from fund balance, were budgeted at \$10,970,620, \$1,456,630, and \$1,026,490 respectively. The actual revenues totaled \$11,052,051 or \$81,431 over budget. Some of the reasons for the total revenues having an overall positive variance can be traced to three revenues groupings. The ad valorem taxes, other taxes and licenses, and permits and fees revenue groupings came in \$152,747, \$42,154, and \$42,190 over budget respectively. The ad valorem taxes were higher because of higher property valuations and an extra effort in tax collections. The other taxes and licenses grouping were higher because of increased local option sales tax receipts. And finally permits and fees were positive because of the fees associated with the construction of a new retail shopping center (Belks, Michaels, PetSmart, Rack Room, etc.). However, these positive variances were partly offset by a number of negative variances. The unrestricted intergovernmental revenues were (\$64,371) under budget mainly due to lower franchise taxes. The restricted intergovernmental revenues were (\$38,583) under budget. These restricted revenues were less than budgeted because some grants funds that the Town originally had expected to receive were unavailable or unspent. The sales and services revenue grouping were (\$44,418) under budget because of lower recreation department revenues, lower police contract services, and lower fire protection fees. The investment earnings and miscellaneous groupings were (\$8,288) under budget. All the transfers to the general fund from business-type activities were made as budgeted. The Town's general fund expenditures totaled \$13,453,740 or \$1,048,687 under budget. Some of this under spending is tied to grants. If grant revenues are less than expected, grant expenditures are held in check to compensate for the lack of funding. Thus the Town was able to comply with its budgetary requirements. However, most of the under spending of expenditures has been an effort made by the Town to limit the use of fund balance. Here, expenditures were delayed, not spent or kept under budget due to this uncertain economic recovery and the related unknown revenue outcomes. The Town had budgeted to use \$1,026,490 from general fund balance, but instead added \$103,628 to general 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 \$1,874,433, \$1,448,256, and \$1,448,459, respectively. In comparison to the year ended June 30, 2011, the unrestricted net assets of the Electric, Water and Sewer funds totaled \$2,319,647, \$1,361,398, and \$1,125,126, respectively. Unrestricted net assets of the Electric fund decreased (\$445,214) or (19.19%). The unrestricted net assets of the Water and Sewer funds increased, \$86,858, or 6.38% and \$323,333, or 28.74% respectively. Total net assets of the Electric fund at the end of the fiscal year decreased (\$441,239) or (10.81%). Total net assets of the Water, and Sewer funds at the end of the fiscal year increased \$339,193 or 2.48%, and \$76,838 or 0.86%, 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, 2012 totaled \$49,662,626 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, recreation facilities, vehicles, and infrastructure.

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

- Improvements and additions to the Town's water distribution systems (Loan from "North Carolina's Drinking Water State Revolving Fund" Program \$68,352 and Rural Center Grant \$203,583) for \$271,935.
- New roof at Recreation Center for \$123,674.
- Purchase four new police vehicles and related equipment for \$99,272.

- Replaster pool and pool deck for \$86,030.
- Renovations to Municipal Building for \$81,891.
- Improvements and additions to the Town's sewer distribution systems for \$79,498.
- Construction of new shed and paving at Public Works facility for \$73,946.
- Improvements at Sewer Treatment plant (paving) for \$55,329.
- Improvements and additions to the Town's electrical distribution systems for \$52,270.
- Additional improvements and additions to the Town's water distribution systems for \$42,743.
- Purchase of 6" and 10" water line stops for \$40,000.
- Purchase of SCADA system equipment at Browning Branch tank for \$35,136.
- Furniture, carpet, and landscaping at Municipal Building for \$32,230
- Four car camera systems (Police department patrol cars) for \$28,876.
- Purchase new pick up truck for Water Maintenance department for \$20,634.
- Paving at Water Treatment plant for \$20,444.
- Purchase of 20 ton heating and air unit at Recreation center for \$11,800.
- Purchase of snow plow for \$11,140.

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

- Disposal of three police vehicles (model year 2004, 2004 and 2008) with an original cost of \$89,418.
- Disposal of two Powell Bill vehicles (model year 1993, and 2003) with an original cost of \$46,299.
- Disposal of fire vehicle (model year 2003) with an original cost of \$26,952.
- Disposal of mower with 50" head (model year 1996) with an original cost of \$17,451.
- Disposal of chipper (model year 1996) with an original cost of \$16,506.
- Disposal of sewer inspection camera (model year 1999) with an original cost of \$13,200.
- Disposal of postage machine (model year 2001) with an original cost of \$11,015.
- Write off of paving at Sewer Treatment plant with an original cost of \$10,276.
- Disposal of Public Buildings truck (model year 1994) with an original cost of \$9,945.
- Write off of drive thru window renovations with an original cost of \$9,168.
- Disposal of copier (model year 2005) with an original cost of \$7,177.
- Write off of carpet (Public Buildings) with an original cost of \$4,633.
- Disposal of two air packs at Water Treatment plant (placed in service 1993) with an original cost of \$4,456.

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

Figure 4

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.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,780,045	\$ 1,780,045	\$ 1,927,138	\$ 1,927,138	\$ 3,707,183	\$ 3,707,183
Public Art	\$ 62,950	\$ 60,000	\$ -	\$ -	62,950	60,000
Construction in process	31,200	49,883	25,013	860,364	56,213	910,247
Buildings and system	12,993,670	12,976,171	23,612,816	23,396,156	36,606,486	36,372,327
Land improvements	326,919	353,874	180,434	73,498	507,353	427,372
Equipment, furniture and fixtures	836,569	957,981	210,545	155,607	1,047,114	1,113,588
Infrastructure	7,744,977	8,829,447	-	-	7,744,977	8,829,447
Vehicles and motorized equipment	1,520,684	1,811,166	487,689	565,372	2,008,373	2,376,538
Total	\$ 25,297,014	\$ 26,818,567	\$ 26,443,635	\$ 26,978,135	\$ 51,740,649	\$ 53,796,702

Long-term Debt. The Town's total debt outstanding excluding notes payable for the year ending June 30, 2012 and June 30, 2011, was \$14,013,611 and \$15,021,047, respectively. All debt is backed by the full faith and credit of the Town of Waynesville. Unfunded pension liabilities, legal claims, and compensated absences for the year ending June 30, 2012 and June 30, 2011, make up \$1,681,687 and \$1,363,695 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	
	2012	2011	2012	2011	2012	2011
Installment purchase obligations	\$ 9,180,635	\$ 10,136,429	\$ 3,151,289	\$ 3,520,924	\$ 12,331,924	\$ 13,657,353
Total	\$ 9,180,635	\$ 10,136,429	\$ 3,151,289	\$ 3,520,924	\$ 12,331,924	\$ 13,657,353

- The Town's total installment debt decreased (\$1,325,429) or (9.70%) during the current fiscal year. As noted earlier, the town increased installment debt by re-classing \$260,563 of notes payable. These notes payable are used during the year for the construction of various water lines. When construction on these various water lines is completed, the notes are reclassified as loans. This increase was off set by principal payments on existing debt.
- Not included in the long-term debt totals above are the note payable items totaling \$904,438 for the year ending June 30, 2012 and \$1,136,086 for the year ending June 30, 2011. These debts are currently classified as notes payable and relate to the water fund capital projects that are not yet finalized at June 30, 2012. Upon completion, the notes will be reclassified as long-term debt. Additional information on the notes payable can be found in note III.B.9 of the Basic Financial Statements.

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 \$80,903,269.

Additional information regarding the Town of Waynesville's long-term debt can be found in note III.B.10 of the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

For three of the past four years, the Town, like most areas in the state or nation has experienced either slowing or declining revenues. However, last year (July 1, 2011 thru June 30, 2012), the Town started seeing some signs of revenue stabilization or growth. In addition, construction on a new shopping center was started in the second half of the year ended June 30, 2012. The Town also helped to attract its largest power customer into expansion plans. The expansion should bring more jobs and higher power sales to the Town. This project is underway and should be completed by year end. With this in mind, the Town's budget for the year ending June 30, 2013 is higher than the budget passed for the year ending June 30, 2012. The budget for June 30, 2013 keeps the tax rate at .4082 cents per hundred, increases garbage rates 38.46%, calls for the adoption of a new internet sweepstake fee, and keeps most of the other general fund rates unchanged. Water and Sewer rates will increase 6.00%. The electric rates remain unchanged but the Town will continue a monthly evaluation of rates. Electric rates are being reviewed in order to keep the rates in line with fuel charges that are being passed on to the Town by its power supplier. On the expenditure side, one new position will be added to the sanitation department. This position is expected to aid the department to keep up with the county's change of collection sites. Employees were granted a 3.00% cost of living adjustment. And this budget also calls for a number of capital outlay projects (Skate Park \$400,000, Street Paving \$300,000, Water line replacements \$300,000, Water treatment renovations \$498,000, and Sewer line replacements \$350,000). Over the last four years, the Town has made an extra effort to cut or under spent the budget if revenues fell short. Until the economy improves, the Town's departments will continue to make this same effort in the current budget. So the Town expects expenditures will be delayed, not spent, or kept under budget until such time that the revenues come in.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities: The budgeted revenues, transfers from other funds, and appropriated fund balance for the year ended June 30, 2013 are expected to come to \$14,186,410, an increase of \$732,670 or 5.45% from the June 30, 2012 budget. However this is an increase of \$1,677,729 or 13.41% over actual revenues, transfers, and appropriated fund balance from the year ended June 30, 2012. The increase will mainly be funded from a larger fund balance appropriation, increased garbage fees, new internet sweepstake fees and higher grant revenues. This budget calls for a \$1,063,090 fund balance appropriation from the general fund and a \$180,780 fund balance appropriation from the Powell bill reserves. For the year ended June 30, 2012, the Town added a combined \$103,628 to these fund balances. Garbage fees are expected to increase \$250,541 from the June 30, 2012 actual. The county will provide an additional \$80,000 contribution to aid the Town with the county's change of collection sites. The new internet sweepstake fee is expected to raise \$100,000 and grants and restricted revenues are budgeted to be \$68,153 higher than the June 30, 2012 actual. The Electric, Water and Sewer fund transfers to the General fund are expected to remain almost unchanged at \$1,275,600, \$103,370 and \$77,400 respectively.

The budgeted expenditures and transfers to other funds for the year ended June 30, 2013 are expected to increase to \$14,186,410, an increase of \$1,781,357 or 14.36% from actual expenditures and transfers to other funds for the year ended June 30, 2012. The largest increases are in personnel, capital outlay, fringe benefits, and garage costs. Personnel costs will mainly rise because of a 3% cost of living adjustment, a new position, and employee vacancies being filled. Most of the increase in capital outlay is due to the new skate park. Fringe benefits are up because of the 3% cost of living adjustment, employee vacancies being filled and higher health insurance. Garage costs are expected to increase because of higher gas prices and higher costs associated with the county's change of collection sites.

Business – type Activities:

Water Fund: The budgeted revenues, transfer from other funds, and the appropriated fund balance amounts for the year ended June 30, 2013 are expected to rise to \$3,087,500, an increase of \$239,930 or 8.43% from the June 30, 2012 budget. However this is an increase of \$654,866 or 26.92% from actual revenues, transfers, and appropriated fund balance for the year ended June 30, 2012. This increase will be funded by a \$400,000 loan from the general fund, a 6% water rate increase, and a \$115,300 fund balance appropriation. For the year ended June 30, 2012, the Town added \$146,783 to fund balance.

Budgeted expenditures and transfers to other funds for the year ended June 30, 2013 are expected to rise to \$3,087,500, an increase of \$801,649 or 35.07% from actual expenditures for the year ended June 30, 2012. The largest increases are in capital outlay, forest management expenditures, and personnel costs.

Sewer Fund: The budgeted revenues and appropriated fund balance amounts for the year ended June 30, 2013 are expected to rise to \$2,172,640, an increase of \$98,190 or 4.73% from the year ended June 30, 2012 budget. However, this is an increase of \$255,533 or 13.33% from actual revenues, transfers and appropriated fund balance for the year ended June 30, 2012. The budget increases sewer rates 6% and calls for a \$209,750 fund balance appropriation. For the year ended June 30, 2012, the Town added \$344,037 to fund balance.

Budgeted expenditures and transfer to other funds for the year ended June 30, 2013 are expected to increase to \$2,172,640, an increase of \$599,570, or 38.11% from actual expenditures for the year ended June 30, 2012. The largest increases are in capital outlay, personnel, utility costs, fringe benefits, and repair and maintenance costs.

Electric Fund: The budgeted revenues and appropriated fund balance amounts for the year ended June 30, 2013 are expected to increase to \$9,737,310, an increase of \$779,960 or 8.71% from the year ended June 30, 2012 budget. However, this is an increase of \$1,384,377, or 16.57% from actual revenues and appropriated fund balance for the year ended June 30, 2012. Revenues are expected to increase because of the expansion plans at the Town's largest power customer and a expected return to more normal winter temperatures. This budget calls for a \$320,470 fund balance appropriation. For the year ended June 30, 2012, the Town used \$442,597 of fund balance.

Budgeted expenditures and transfers to other funds for the year ended June 30, 2013 are expected to increase to \$9,737,310, an increase of \$1,384,377 or 16.57% from actual expenditures and transfers for the year ended June 30, 2012. The largest increases are in wholesale power costs, personnel and materials and supplies.

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, 280 Georgia Ave Waynesville, NC 28786.

Town of Waynesville, North Carolina
Statement of Net Assets
June 30, 2012

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,820,864	\$ 2,466,854	\$ 8,287,718	\$ 659,702
Investments	-	1,407,266	1,407,266	-
Taxes receivables (net)	584,715	-	584,715	-
Accrued interest receivable on taxes	40,949	-	40,949	-
Interest receivable on investments	5,209	893	6,102	184
Accounts receivable (net)	109,483	1,066,938	1,176,421	-
Due from other governments	920,958	346,116	1,267,074	-
Due from component units	3,406	-	3,406	-
Internal balances	38,798	(38,798)	-	-
Inventories	75,730	633,066	708,796	140,222
Prepaid items	113,707	-	113,707	8,886
Restricted cash and cash equivalents	642,551	-	642,551	-
Total current assets	8,356,370	5,882,335	14,238,705	808,994
Noncurrent assets:				
Accounts receivable (net)	41,110	-	41,110	-
Capital assets:				
Land, non-depreciable improvements and construction in progress	1,874,195	1,952,151	3,826,346	10,000
Other capital assets, net of depreciation	23,422,819	24,491,484	47,914,303	10,961
Total capital assets	25,297,014	26,443,635	51,740,649	20,961
Total noncurrent assets	25,338,124	26,443,635	51,781,759	20,961
Total assets	\$ 33,694,494	\$ 32,325,970	\$ 66,020,464	\$ 829,955
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 347,516	\$ 587,467	\$ 934,983	\$ 158,925
Unearned revenue	72,315	-	72,315	-
Accrued interest payable	164,651	87,733	252,384	-
Customer deposits	24,488	155,619	180,107	-
Due to primary government	-	-	-	3,406
Due to other governments	-	-	-	-
Current portion of long-term liabilities	1,144,352	572,776	1,717,128	-
Notes payable	-	904,438	904,438	-
Total current liabilities	1,753,322	2,308,033	4,061,355	162,331
Long-term liabilities:				
Due in more than one year	9,418,727	2,877,756	12,296,483	-
Total liabilities	11,172,049	5,185,789	16,357,838	162,331
NET ASSETS				
Invested in capital assets, net of related debt	17,288,243	21,483,470	38,771,713	10,961
Restricted for:				
Cemetery Perpetual care	281,202	-	281,202	-
Stabilization by State Statute	1,207,202	-	1,207,202	-
Transportation	642,551	-	642,551	-
Culture and recreation	7,385	-	7,385	-
Working Capital	-	-	-	63,332
Unrestricted	3,095,862	5,656,711	8,752,573	593,331
Total net assets	\$ 22,522,445	\$ 27,140,181	\$ 49,662,626	\$ 667,624

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, 2012

Exhibit 2

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Primary Government			
						Governmental Activities	Business-type Activities	Total	Component Unit
Primary government:									
Governmental Activities:									
General government	\$ 2,112,086	\$ 100,809	\$ 45,960	\$ -	\$ (1,965,317)	-	-	\$ (1,965,317)	\$ -
Public safety	4,526,575	443,393	126,737	-	(3,956,445)	-	-	(3,956,445)	-
Transportation	3,682,577	740,429	357,153	6,068	(2,578,927)	-	-	(2,578,927)	-
Environmental protection	114,688	39,050	-	-	(75,638)	-	-	(75,638)	-
Economic and physical development	-	-	-	-	-	-	-	-	-
Cultural and recreation	1,799,105	643,569	-	-	(1,155,536)	-	-	(1,155,536)	-
Interest on long-term debt	373,264	-	-	-	(373,264)	-	-	(373,264)	-
Total governmental activities	12,608,295	1,967,250	529,850	6,068	(10,105,127)	-	-	(10,105,127)	-
Business-type activities:									
Electric	7,078,947	7,896,301	-	-	-	-	817,354	817,354	-
Water	2,194,928	2,425,761	-	203,583	-	-	434,416	434,416	-
Sewer	1,762,860	1,911,012	-	-	-	-	148,152	148,152	-
Total business-type activities	11,036,735	12,233,074	-	203,583	-	-	1,399,922	1,399,922	-
Total primary government	\$ 23,645,030	\$ 14,200,324	\$ 529,850	\$ 209,651	(10,105,127)	-	-	(8,705,205)	-
Component units:									
ABC Board	\$ 2,038,723	\$ 2,139,899	\$ -	\$ -	-	-	-	-	101,176
Total component units	\$ 2,038,723	\$ 2,139,899	\$ -	\$ -	-	-	-	-	101,176
General revenues:									
Taxes:									
Property taxes, levied for general purpose					4,691,426	-	-	4,691,426	-
Other taxes					2,239,424	-	-	2,239,424	-
Grants and contributions not restricted to specific programs					716,702	-	-	716,702	-
Unrestricted investment earnings					-	-	-	-	382
Miscellaneous					211,931	27,003	-	238,934	-
Total general revenues not including transfers					7,859,483	27,003	-	7,886,486	382
Transfers					1,456,630	(1,456,630)	-	-	-
Total general revenues and transfers					9,316,113	(1,429,627)	-	7,886,486	382
Change in net assets					(789,014)	(29,705)	-	(818,719)	101,558
Net assets-beginning					23,311,459	27,169,886	-	50,481,345	566,066
Net assets-ending					\$ 22,522,445	\$ 27,140,181	\$ 49,662,626	\$ 667,624	

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

**Town of Waynesvills
Balance Sheet
Governmental Funds
June 30, 2012**

	Major Fund		
	General	Total Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,262,855	\$ 536,242	\$ 5,799,097
Receivables, net:			
Taxes	584,715	-	584,715
Accounts	109,483	-	109,483
Prepaid items	113,707	-	113,707
Long-term receivable	41,110	-	41,110
Due from component unit	3,406	-	3,406
Due from other governmental agencies	920,958	-	920,958
Due from other fund	-	-	-
Interest receivable	5,134	64	5,198
Inventories	7,363	-	7,363
Restricted cash and cash equivalents	642,551	-	642,551
Total assets	<u>\$ 7,691,282</u>	<u>\$ 536,306</u>	<u>\$ 8,227,588</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 342,464	\$ -	\$ 342,464
Note payable	-	-	-
Performance bonds	24,488	-	24,488
Deferred revenue	584,715	-	584,715
Unearned revenue	72,315	-	72,315
Accounts payable from restricted assets	-	-	-
Total liabilities	<u>1,023,982</u>	<u>-</u>	<u>1,023,982</u>
Fund balances:			
Non Spendable			
Inventories	7,363	-	7,363
Prepaid items	113,707	-	113,707
Perpetual maintenance	-	281,202	281,202
Restricted			
Stablization by State Statute	1,207,202	-	1,207,202
Streets-Powell bill	642,551	-	642,551
Cultural and Recreation	-	7,385	7,385
Committed			
General Government	-	247,719	247,719
Assigned			
Subsequent year's expenditures	1,063,090	-	1,063,090
Public Safety	108,700	-	108,700
Unassigned	3,524,687	-	3,524,687
Total fund balances	<u>6,667,300</u>	<u>536,306</u>	<u>7,203,606</u>
Total liabilities and fund balances	<u>\$ 7,691,282</u>	<u>\$ 536,306</u>	<u>\$ 8,227,588</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.	25,254,097
Other current assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	40,949
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.	149,870
Liabilities for earned but deferred revenues in fund statements.	584,715
Some liabilities, including installment purchases payable and accrued interest, pension and other postemployment benefits, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(10,710,792)

Net assets of governmental activities \$ 22,522,445

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, 2012

	Major Fund		
	General	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 4,710,937	\$ -	\$ 4,710,937
Other taxes and licenses	2,239,424	-	2,239,424
Unrestricted intergovernmental	716,699	-	716,699
Restricted intergovernmental	554,817	-	554,817
Permits and fees	215,290	-	215,290
Sales and services	2,508,972	19,075	2,528,047
Investment earnings	-	-	-
Miscellaneous	105,912	96,406	202,318
Total revenues	11,052,051	115,481	11,167,532
EXPENDITURES			
Current:			
General government	2,800,302	221,365	3,021,667
Public safety	4,094,876	-	4,094,876
Transportation	2,403,878	-	2,403,878
Environmental protection	109,026	-	109,026
Culture and recreation	1,653,951	2,497	1,656,448
Debt service:			
Principal	955,794	-	955,794
Interest and other charges	387,226	-	387,226
Total expenditures	12,405,053	223,862	12,628,915
Excess (deficiency) of revenues over expenditures	(1,353,002)	(108,381)	(1,461,383)
OTHER FINANCING SOURCES			
Transfers from other funds	1,456,630	-	1,456,630
Transfers to other funds	-	-	-
Proceeds from construction loan	-	-	-
Installment purchase obligations issued	-	-	-
Total other financing sources	1,456,630	-	1,456,630
Net change in fund balance	103,628	(108,381)	(4,753)
Fund balances-beginning	6,563,672	644,687	7,208,359
Fund balances-ending	\$ 6,667,300	\$ 536,306	\$ 7,203,606

(continued)

Town of Waynesville
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2012

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

Net changes in fund balances - total governmental funds	\$ (4,753)
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	(1,496,849)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue for tax revenues	(19,511)
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.	955,794
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	(23,068)
Net pension obligation	(32,813)
Other postemployment benefits	(193,539)
Accrued interest on installment purchases obligations	13,962
Net book value of assets sold	(9,284)
Consolidation adjustment for internal balances between the internal service funds and the governmental funds	(3,535)
Net revenue of internal service funds determined to be governmental-type	<u>24,582</u>
Total changes in net assets of governmental activities	<u>\$ (789,014)</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, 2012

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 4,558,190	\$ 4,558,190	\$ 4,710,937	\$ 152,747
Other taxes and licenses	2,197,270	2,197,270	2,239,424	42,154
Unrestricted intergovernmental	781,070	781,070	716,699	(64,371)
Restricted intergovernmental	593,400	593,400	554,817	(38,583)
Permits and fees	173,100	173,100	215,290	42,190
Sales and services	2,553,390	2,553,390	2,508,972	(44,418)
Investment earnings	1,500	1,500	-	(1,500)
Miscellaneous	90,600	112,700	105,912	(6,788)
Total revenues	10,948,520	10,970,620	11,052,051	81,431
Expenditures:				
Current:				
General government	3,060,030	3,085,780	2,800,302	285,478
Public safety	4,359,650	4,388,750	4,094,876	293,874
Transportation	2,626,710	2,656,160	2,403,878	252,282
Environmental protection	119,000	119,000	109,026	9,974
Cultural and recreation	1,857,900	1,857,900	1,653,951	203,949
Debt service:	-	-	-	-
Principal retirement	957,613	957,613	955,794	1,819
Interest and other charges	388,537	388,537	387,226	1,311
Total expenditures	13,369,440	13,453,740	12,405,053	1,048,687
Revenues over (under) expenditures	(2,420,920)	(2,483,120)	(1,353,002)	1,130,118
Other financing sources (uses):				
Transfers from other funds	1,456,630	1,456,630	1,456,630	-
Transfers to other funds	-	-	-	-
Appropriations from fund balance	964,290	1,026,490	-	(1,026,490)
Total other financing sources (uses)	2,420,920	2,483,120	1,456,630	(1,026,490)
Net change in fund balance	\$ -	\$ -	103,628	\$ 103,628
Fund balances, beginning of year			6,563,672	
Fund balances, end of year			<u>\$ 6,667,300</u>	

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

Town of Waynesville
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 236,141	\$ 809,070	\$ 1,376,138	\$ 2,421,349	\$ 45,505	\$ 21,767
Investments	1,407,266	-	-	1,407,266	-	-
Accounts receivable	652,481	213,488	200,969	1,066,938	-	-
Due from other governments	-	346,116	-	346,116	-	-
Interest receivable	346	236	285	867	26	11
Inventories	310,833	288,552	26,000	625,385	7,681	68,367
Restricted cash and cash equivalents	-	-	-	-	-	-
Total current assets	2,607,067	1,657,462	1,603,392	5,867,921	53,212	90,145
Capital assets:						
Land and Construction in Progress	230,058	1,511,375	110,500	1,851,933	100,218	-
Other capital assets, net of depreciation	3,938,277	12,617,917	7,525,816	24,082,010	409,474	42,917
Capital assets (net)	4,168,335	14,129,292	7,636,316	25,933,943	509,692	42,917
Total assets	\$ 6,775,402	\$ 15,786,754	\$ 9,239,708	\$ 31,801,864	\$ 562,904	\$ 133,062
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	573,150	46,700	50,260	670,110	5,089	5,052
Due to other fund	-	-	-	-	-	-
Customer deposits	107,916	47,703	-	155,619	-	-
Compensated absences - current	11,886	27,927	29,005	68,818	5,528	3,466
Installment purchases payable-current	267,880	192,291	38,259	498,430	-	-
Notes Payable	-	904,438	-	904,438	-	-
Total current liabilities	960,832	1,219,059	117,524	2,297,415	10,617	8,518
Noncurrent liabilities:						
Other postemployment benefits	30,908	68,300	61,816	161,024	17,662	8,831
Compensated absences	8,774	18,576	13,852	41,202	5,010	4,641
Installment purchases payable	2,134,763	438,024	80,072	2,652,859	-	-
Total noncurrent liabilities	2,174,445	524,900	155,740	2,855,085	22,672	13,472
Total liabilities	3,135,277	1,743,959	273,264	5,152,500	33,289	21,990
NET ASSETS						
Invested in capital assets, net of related debt	1,765,692	12,594,539	7,517,985	21,878,216	509,692	42,917
Unrestricted	1,874,433	1,448,256	1,448,459	4,771,148	19,923	68,155
Total net assets	\$ 3,640,125	\$ 14,042,795	\$ 8,966,444	26,649,364	\$ 529,615	\$ 111,072

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. 490,817

Net assets of business-type activities \$ 27,140,181

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, 2012

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
OPERATING REVENUES						
Charges for services	\$ 7,896,301	\$ 2,425,761	\$ 1,911,012	\$ 12,233,074	\$ 250,367	\$ 583,353
Other operating revenue	-	-	-	-	-	-
Total operating revenues	<u>7,896,301</u>	<u>2,425,761</u>	<u>1,911,012</u>	<u>12,233,074</u>	<u>250,367</u>	<u>583,353</u>
OPERATING EXPENSES						
Finance and administration	378,192	218,612	179,293	776,097	-	-
Electric operations	720,566	-	-	720,566	-	-
Electric power purchases	5,584,415	-	-	5,584,415	-	-
Water treatment and distribution	-	1,446,075	-	1,446,075	-	-
Waste collection and treatment	-	-	1,140,867	1,140,867	-	-
Public works operations	-	-	-	-	245,462	-
Garage operations	-	-	-	-	-	555,422
Depreciation	307,248	509,513	437,410	1,254,171	16,979	15,417
Total operating expenses	<u>6,990,421</u>	<u>2,174,200</u>	<u>1,757,570</u>	<u>10,922,191</u>	<u>262,441</u>	<u>570,839</u>
Operating income	<u>905,880</u>	<u>251,561</u>	<u>153,442</u>	<u>1,310,883</u>	<u>(12,074)</u>	<u>12,514</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	-	-	-	-	-	-
Interest and other charges	(85,554)	(19,724)	(4,769)	(110,047)	-	-
Miscellaneous revenues (expenses)	14,035	6,873	6,095	27,003	4,042	12,068
Total nonoperating revenue (expenses)	<u>(71,519)</u>	<u>(12,851)</u>	<u>1,326</u>	<u>(83,044)</u>	<u>4,042</u>	<u>12,068</u>
Income before contributions and transfers	<u>834,361</u>	<u>238,710</u>	<u>154,768</u>	<u>1,227,839</u>	<u>(8,032)</u>	<u>24,582</u>
Capital contributions	-	203,583	-	203,583	-	-
Transfers from other funds	-	-	-	-	-	-
Transfers to other funds	(1,275,600)	(103,100)	(77,930)	(1,456,630)	-	-
Change in net assets	<u>(441,239)</u>	<u>339,193</u>	<u>76,838</u>	<u>(25,208)</u>	<u>(8,032)</u>	<u>24,582</u>
Total net assets - beginning	<u>4,081,364</u>	<u>13,703,602</u>	<u>8,889,606</u>		<u>537,647</u>	<u>86,490</u>
Total net assets - ending	<u>\$ 3,640,125</u>	<u>\$ 14,042,795</u>	<u>\$ 8,966,444</u>		<u>\$ 529,615</u>	<u>\$ 111,072</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>(4,497)</u>		
Change in net assets - business-type activities				<u>\$ (29,705)</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, 2012

	Business-Type Activities				Governmental Activity	
	Enterprise Funds			Totals	Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund		Public Works Fund	Garage Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 7,969,483	\$ 2,205,806	\$ 1,889,676	\$ 12,064,965	\$ 250,369	\$ 583,357
Cash paid for goods and services	(6,269,297)	(776,787)	(562,532)	(7,608,616)	(54,478)	(475,768)
Cash paid to or on behalf of employees for services	(348,697)	(808,938)	(730,106)	(1,887,741)	(182,230)	(97,890)
Customer deposits received	49,370	20,280	-	69,650	-	-
Customer deposits returned	(40,290)	(14,923)	-	(55,213)	-	-
Net cash provided by operating activities	1,360,569	625,438	597,038	2,583,045	13,661	9,699
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Cash received from miscellaneous sources	10,052	6,873	95	17,020	4,016	11,790
Transfers to other funds	(1,275,600)	(103,100)	(77,930)	(1,456,630)	-	-
Total cash flows from noncapital financing activities	(1,265,548)	(96,227)	(77,835)	(1,439,610)	4,016	11,790
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from installment purchase obligation	-	-	-	-	-	-
Principal and interest paid on long-term debt	(352,252)	(398,764)	(41,885)	(792,901)	-	-
Proceeds from sale of assets	3,983	-	6,000	9,983	26	278
Capital contributions - federal grant	-	203,583	-	203,583	-	-
Acquisition and construction of capital assets	(52,270)	(456,644)	(153,793)	(662,707)	(73,947)	-
Net cash provided (used) by capital and related financing activities	(400,539)	(651,825)	(189,678)	(1,242,042)	(73,921)	278
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(2,823,048)	-	-	(2,823,048)	-	-
Proceeds from investment maturities	2,822,306	-	-	2,822,306	-	-
Net cash provided (used) by investing activities	(742)	-	-	(742)	-	-
Net increase (decrease) in cash and cash equivalents	(306,260)	(122,614)	329,525	(99,349)	(56,244)	21,767
Balances-beginning of the year	542,401	931,684	1,046,613	2,520,698	101,749	-
Balances-end of the year	\$ 236,141	\$ 809,070	\$ 1,376,138	\$ 2,421,349	\$ 45,505	\$ 21,767
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 905,880	\$ 251,561	\$ 153,442	\$ 1,310,883	\$ (12,074)	\$ 12,514
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	307,248	509,513	437,410	1,254,171	16,979	15,417
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	73,231	(213,858)	(18,127)	(158,754)	-	4
(Increase) decrease in allowance for doubtful accounts	(49)	(6,097)	(3,209)	(9,355)	-	-
(increase) decrease in inventory	8,711	(27,960)	(690)	(19,939)	496	(13,658)
Increase (decrease) in accounts payable and accrued liabilities	46,086	12,596	7,513	66,195	320	(8,156)
Increase (decrease) in notes payable	-	68,352	-	68,352	-	-
Increase (decrease) in customer deposits	9,080	5,357	-	14,437	-	-
Increase (decrease) in accrued OPEB liability	10,584	22,681	21,168	54,433	6,048	3,025
Increase (decrease) in accrued vacation pay	(202)	3,293	(469)	2,622	1,892	553
Total adjustments	454,689	373,877	443,596	1,272,162	25,735	(2,815)
Net cash provided by operating activities	\$ 1,360,569	\$ 625,438	\$ 597,038	\$ 2,583,045	\$ 13,661	\$ 9,699

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, 2012

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 non-major funds.

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

The Town reports the following major governmental fund:

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.

The Town reports the following non-major governmental funds:

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

Public Buildings Projects Fund. This fund is used to account for the renovations to the Town's Hazelwood office, Municipal and Public Works Buildings, and the Recreation Center.

Cemetery Fund. This fund is used to accumulate monies from the sale of cemetery lots for future maintenance of the Town's cemetery.

Playground Fund. This fund is used to account for revenue restricted for use in the Town's playground.

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. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenues 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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes 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 that 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 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 general revenues.

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Public Buildings Projects Fund and the Water Line Replacement Project 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, two 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 Super NOW 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. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the Sco's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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.

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. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4

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, 2011.

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 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 and land improvements, \$1,500; buildings, improvements, substations, lines, and other plant and distribution systems, \$7,500; infrastructure, \$8,500; 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.

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

Asset Class	Estimated Useful Lives
Infrastructure	15-50
Buildings and system	20-50
Substations, lines and related equipment	24
Other Improvements	20-40
Vehicles and motorized equipment	5-25
Equipment and furniture	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 policy of the Town provides 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, 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.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have 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

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.

Fund Balances

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

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance—This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Perpetual maintenance—Cemetery resources that are required to be retained in perpetuity for maintenance of the Town's Cemetery.

Prepaid items—portion of fund balance that is not an available resource because it represents the expenses paid in advance, which are not spendable resources.

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

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

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Restricted for Cultural and Recreation—portion of fund balance restricted by revenue source for use for maintenance of the Town's playground.

Committed Fund Balance—portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Waynesville's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Committed for General Government - portion of fund balance assigned by the Board for renovations to the Town's public buildings and artwork for the Town's Police Station.

Assigned fund balance—portion of fund balance that Town of Waynesville intends to use for specific purposes.

Assigned for Public safety—portion of fund balance that has been set aside by the Board for future maintenance and repair of the Town's Fire Station.

Subsequent year's expenditures—portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds without limitation.

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

The Town of Waynesville does not have a formal spending policy that provides guidance for programs with multiple revenue sources. However, the Finance Officer uses resources in the following hierarchy: loan proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

The Town of Waynesville has not adopted a minimum fund balance policy for the general fund.

II. Stewardship, Compliance, and Accountability

The Town had no violations of non-compliance with State Statutes for the year ended June 30, 2012.

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. 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, 2012, the Town's deposits had a carrying amount of \$4,085,577 and a bank balance of \$4,195,307. Of the bank balance, \$2,522,444 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 \$657,377 and the bank balance was \$636,619. The ABC Board maintains a cash balance at a financial institution which exceeds the Federal Deposit Insurance Corporation's coverage of \$250,000. At June 30, 2012, the ABC Board's uninsured cash balance was \$386,619. At June 30, 2012, the Town's petty cash fund totaled \$2,975.

2. Investments

At June 30, 2012, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Reported</u>		<u>Maturity</u>	<u>Rating</u>
	<u>Value</u>	<u>Fair Value</u>		
Federal Home Loan Bank Discount Notes	\$ 699,706	\$ 699,838	10/3/2012	AAA
FHLMC Discount Notes	707,560	707,417	1/30/2013	A-1+
NC Capital Management Trust - Cash Portfolio	4,841,716	4,841,716	Various	A-1+
Total:	\$ 6,248,982	\$ 6,248,971		

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 percent 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, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The investment in the Federal Home Loan Bank Discount Notes is rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. 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, 2012.

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. More than five percent of the Town's investments are in Federal Home Loan and Federal Farm Credit Bank Discount Notes. These investments comprise twenty nine percent of the Town's total investments.

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	6/30/2012
General Fund:	
Taxes receivable	\$ 20,000
Accounts receivable	16,472
Total	36,472
Enterprise Funds	88,854
Total	<u>\$ 125,326</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,780,045	\$ -	\$ -	\$ -	\$ 1,780,045
Public art	60,000	2,950	-	-	62,950
Construction in progress	49,883	236,890	-	(255,573)	31,200
Total capital assets not being depreciated	1,889,928	239,840	-	(255,573)	1,874,195
Capital assets being depreciated:					
Land improvements	955,248	2,238	-	-	957,486
Buildings and building improvements	15,428,496	102,601	13,114	239,774	15,757,757
Equipment and furniture and fixtures	2,806,073	82,282	45,181	(11,416)	2,831,758
Vehicles and motorized equipment	4,488,713	99,272	190,065	-	4,397,920
Infrastructure	28,120,981	6,068	-	-	28,127,049
Total capital assets being depreciated	51,799,511	292,461	248,360	228,358	52,071,970
Less accumulated depreciation for:					
Land improvements	601,374	29,193	-	-	630,567
Buildings and building improvements	2,452,325	320,254	8,492	-	2,764,087
Equipment and furniture and fixtures	1,848,092	219,162	44,850	(27,215)	1,995,189
Vehicles and motorized equipment	2,677,548	385,419	185,731	-	2,877,236
Infrastructure	19,291,533	1,090,539	-	-	20,382,072
Total accumulated depreciation	26,870,872	2,044,567	239,073	(27,215)	28,649,151
Total capital assets being depreciated, net	24,928,639				23,422,819
Governmental activity capital assets, net	\$ 26,818,567				\$ 25,297,014

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

General government	\$ 76,887
Public safety	429,057
Transportation	1,292,232
Environmental protection	2,968
Cultural and recreational	228,006
Depreciation on capital assets held in Garage	
Fund charged to functions based on usage	15,417
Total depreciation expense	<u>\$ 2,044,567</u>

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Business-type activities:					
<i>Electric Fund</i>					
Capital assets not being depreciated:					
Land	\$ 230,058	\$ -	\$ -	\$ -	\$ 230,058
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	230,058	-	-	-	230,058
Capital assets:					
Buildings and building improvements	22,997	-	-	-	22,997
Equipment and furniture and fixtures	135,079	-	20,365	27,215	141,929
Vehicles and motorized equipment	643,709	-	-	-	643,709
Substations, lines, and related equipment	7,029,238	52,270	-	-	7,081,508
Total capital assets being depreciated	7,831,023	52,270	20,365	27,215	7,890,143
Less accumulated depreciation for:					
Buildings and building improvements	18,792	961	-	-	19,753
Equipment and furniture and fixtures	106,106	7,865	20,365	27,215	120,821
Vehicles and motorized equipment	438,955	51,856	-	-	490,811
Substations, lines, and related equipment	3,073,915	246,566	-	-	3,320,481
Total accumulated depreciation	3,637,768	307,248	20,365	27,215	3,951,866
Total capital assets being depreciated, net	4,193,255				3,938,277
Electric fund capital assets, net	4,423,313				4,168,335
<i>Water Fund</i>					
Capital assets not being depreciated:					
Land	1,486,362	-	-	-	1,486,362
Construction in progress	860,364	282,420	1,117,771	-	25,013
Total capital assets not being depreciated	2,346,726	282,420	1,117,771	-	1,511,375
Capital assets being depreciated:					
Land improvements	63,247	20,444	-	-	83,691
Buildings and building improvements	1,818,427	-	-	-	1,818,427
Equipment and furniture and fixtures	281,571	90,402	9,261	-	362,712
Vehicles and motorized equipment	428,652	20,635	-	-	449,287
Plant and system distributions	20,527,344	42,743	-	1,117,771	21,687,858
Total capital assets being depreciated	23,119,241	174,224	9,261	1,117,771	24,401,975
Less accumulated depreciation for:					
Land improvements	13,815	2,897	-	-	16,712
Buildings and building improvements	979,911	27,736	-	-	1,007,647
Equipment and furniture and fixtures	203,187	19,456	9,261	-	213,382
Vehicles and motorized equipment	321,391	23,518	-	-	344,909
Plant and system distributions	9,765,502	435,906	-	-	10,201,408
Total accumulated depreciation	11,283,806	509,513	9,261	-	11,784,058
Total capital assets being depreciated, net	11,835,435				12,617,917
Water fund capital assets, net	14,182,161				14,129,292

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Sewer Fund</i>					
Capital assets not being depreciated:					
Land	110,500	-	-	-	110,500
Construction in progress	-				-
Total capital assets not being depreciated	110,500	-	-	-	110,500
Capital assets being depreciated:					
Land improvements	12,276	55,329	10,276	-	57,329
Buildings and building improvements	8,605,122	-	-	-	8,605,122
Equipment and furniture and fixtures	292,990	10,416	13,200	-	290,206
Vehicles and motorized equipment	397,339	8,550	-	-	405,889
Plant and system distributions	8,807,229	79,498	-	-	8,886,727
Total capital assets being depreciated	18,114,956	153,793	23,476	-	18,245,273
Less accumulated depreciation for:					
Land improvements	11,568	2,125	10,276	-	3,417
Buildings and building improvements	5,866,784	179,630	-	-	6,046,414
Equipment and furniture and fixtures	246,196	17,411	13,200	-	250,407
Vehicles and motorized equipment	159,842	30,331	-	-	190,173
Plant and system distributions	4,021,133	207,913	-	-	4,229,046
Total accumulated depreciation	10,305,523	437,410	23,476	-	10,719,457
Total capital assets being depreciated, net	7,809,433				7,525,816
Sewer fund capital assets, net	7,919,933				7,636,316
<i>Public Works Fund</i>					
Capital assets not being depreciated:					
Land	100,218	-	-	-	100,218
Capital assets being depreciated:					
Land improvements	45,367	38,321	-	-	83,688
Buildings and building improvements	550,250	35,625	2,200	-	583,675
Equipment and furniture and fixtures	11,318	-	1,850	-	9,468
Vehicles and motorized equipment	38,434	-	-	-	38,434
Total capital assets being depreciated	645,369	73,946	4,050	-	715,265
Less accumulated depreciation for:					
Land improvements	22,009	2,136	-	-	24,145
Buildings and building improvements	238,415	12,534	2,200	-	248,749
Equipment and furniture and fixtures	9,862	1,148	1,850	-	9,160
Vehicles and motorized equipment	22,577	1,160	-	-	23,737
Total accumulated depreciation	292,863	16,978	4,050	-	305,791
Total capital assets being depreciated, net	352,506				409,474
Public Works fund capital assets, net	452,724				509,692
Business-type activities capital assets, net	\$26,978,131				\$26,443,635

Construction commitments

The Town has active construction projects as of June 30, 2012. At year-end, the Town's commitments with contractors are as follows:

Project	Spent To-Date	Remaining Commitment
Tennis Court Bathroom Design Project	-	20,000
Total	\$ -	\$ 20,000

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Capital assets not being depreciated:					
Construction in progress	\$ -	\$ 2,500	\$ -	\$ -	\$ 2,500
Total capital assets not being depreciated	-	2,500	-	-	2,500
Capital assets being depreciated:					
Furniture and equipment	57,133	-	-	-	57,133
Leasehold improvements	3,308	-	-	-	3,308
Total capital assets being depreciated	60,441	-	-	-	60,441
Less accumulated depreciation	48,145	3,835	-	-	51,980
Total capital assets being depreciated, net	12,296				8,461
ABC capital assets, net	\$ 12,296				\$ 10,961

B. Liabilities**1. Payables**

Payables at the government-wide level at June 30, 2012, were as follows:

	Salaries and			
	Vendors	Benefits	Other	Total
Governmental Activities:				
General	\$ 83,094	\$ 247,254	\$ 12,116	\$ 342,464
Public Buildings Projects	-	-	-	-
Other Governmental	2,785	2,267	-	5,052
Total Governmental Activities	<u>\$ 85,879</u>	<u>\$ 249,521</u>	<u>\$ 12,116</u>	<u>\$ 347,516</u>
Business-type Activities:				
Electric	\$484,535	\$ 8,485	\$ -	\$ 493,020
Water	15,485	13,819	12,813	42,117
Sewer	8,345	15,895	23,000	47,240
Other Business-type Activities	766	4,324	-	5,090
Total Business-type Activities:	<u>\$ 509,131</u>	<u>\$ 42,523</u>	<u>\$ 35,813</u>	<u>\$ 587,467</u>

2. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

1. *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.

2. *Funding Policy.*

Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.99 percent and 7.050 percent, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 7.29 percent of annual covered payroll. The contribution requirements of members and of the Town of Waynesville and the ABC are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$423,034, \$387,081 and \$295,277, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$14,208, \$12,992, and \$9,501, respectively. The contributions made by the Town and the ABC Board equaled the required contributions for each year.

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, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>33</u>
Total	<u><u>35</u></u>

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

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

Method Used to Value Investment. 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, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00 percent investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25 percent to 7.85 percent per year. Both (a) and (b) included an inflation component of 3.00 percent. 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	\$ 61,301
Interest on net pension obligation	18,452
Adjustment to annual required contribution	(22,015)
Annual pension cost	57,738
Contributions made	(24,925)
Increase (decrease) in net pension obligation	32,813
Net pension obligation beginning of year	369,044
Net pension obligation end of year	<u>\$ 401,857</u>

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 58,273	29.55%	\$ 318,522
2011	\$ 67,744	25.42%	\$ 369,044
2012	\$ 57,738	43.17%	\$ 401,857

4. *Funding Status and Funding Progress*

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$593,765. The covered payroll (annual payroll of active employees covered by the plan) was \$1,385,311, and the ratio of the UAAL to the covered payroll was 42.86 percent.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

1. *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.

2. *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, 2012 were \$96,781, which consisted of \$72,074 from the Town and \$24,707 from the law enforcement officers.

d. Supplemental Retirement Income Plan for General Employees

1. *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.

2. *Funding Policy.*

Effective January 1, 2004, the Town commenced contributions of 3 percent for all covered employees. Effective January 1, 2005, this percentage increased to 5 percent. Contributions for the year ended June 30, 2012 were \$383,530, which consisted of \$218,029 from the Town and \$165,501 from the general employees.

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

1. 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.

2. Funding Policy.

Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer 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 Postemployment Benefits

Healthcare Benefits

Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare 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 and meet the requirements enumerated below. The Town pays the full cost of coverage for these benefits through private insurers. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. The Town reserves the right to change benefits at its discretion without prior notice to retirees. A separate report was not issued for the plan. A retiree shall receive health insurance coverage under the following conditions:

Health Benefits for Retirees hired prior to January 1, 2006

1) A retiree who has achieved ten (10) or more years of service with the Town, not including any accumulated sick or vacation time, and has reached 55 years of age will receive health insurance coverage, *at no cost* to the retiree, until the retiree reaches age 65 or until the retiree becomes Medicare eligible through a disability at an earlier age.

2) A Retiree who has achieved 25 or more years of service with the Town, not including any accumulated sick or vacation time, will receive health insurance coverage for a maximum period of ten (10) years from their official retirement date, regardless of the age at which that employee retires, *at no cost* to the retiree. At the conclusion of the ten (10) year period, the retiree (if he/she chooses) will be allowed to pay the cost of the group health premium and maintain coverage in the Town's health insurance program until age 65, or until employee becomes Medicare eligible through a disability at an earlier age.

Health Benefits for Employees Hired On or After January 1, 2006

Employees hired on January 1, 2006, and thereafter who meet the age and service eligibility requirements for retirement with the Town and the Local Governmental Employees Retirement System or Law Enforcement Officers Retirement System will be eligible for health insurance coverage to a maximum of ten (10) years. The premium will be shared by the Town and retiree. The retiree's years of service with the Town will determine the percentage of insurance premium paid by the Town.

Retiree Premium Rate Table:

If an Employee has:	Town will pay:
25 years of service	100 percent of premium for employee only
20 years of service	75 percent of premium for employee only
15 years of service	50 percent of premium for employee only
10 years of service	25 percent of premium for employee only

When the retiree and/or spouse reach the age of 65 and the Town's regular health insurance coverage terminates, the retiree may have the option of purchasing Medicare supplement insurance, if available through the Town's insurance program. The retiree and/or spouse would be responsible for the full cost of Medicare supplemental insurance premium.

Membership of the HCB Plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	8	4
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	116	42
Total	124	46

Funding Policy. The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Town's Board of Aldermen. The Town's retirees pay \$435 per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 6.17 percent of annual covered payroll. For the current year, the Town contributed \$116,171 or 1.92 percent of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required OPEB contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 1.29 percent and 0.63 percent of covered payroll, respectively. There were no contributions made by retired employees, except for dependent coverage in the amount of \$15,328. The Town's obligation to contribute to HCB Plan is established and may be amended by the Town's Board of Aldermen.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the fund from which the employee retired and are recorded on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance

with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 372,325
Interest on net OPEB obligation	19,909
Adjustment to annual required contribution	<u>(19,019)</u>
Annual OPEB cost (expense)	\$ 373,215
Contributions made	<u>(116,171)</u>
Increase (decrease) in net OPEB obligation	257,044
Net OPEB obligation, beginning of year	<u>497,717</u>
Net OPEB obligation, end of year	<u>\$ 754,761</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 were as follows:

For Year Ended June 30:	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 248,312	27.5%	\$ 355,731
2011	\$ 258,260	45.0%	\$ 497,717
2012	\$ 372,325	31.2%	\$ 754,761

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$3,819,419. The covered payroll (annual payroll of active employees covered by the plan) was \$6,038,837, and the ratio of the UAAL to the covered payroll was 63.2 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses),

which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was 28 years.

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. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial. 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.

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)	\$ -	\$ 24,327
Taxes receivable, net (General Fund)	584,715	-
Unearned distributions (General Fund)	-	9,850
Other unearned revenue (General Fund)	-	38,138
Total	<u>\$ 584,715</u>	<u>\$ 72,315</u>

6. Commitments

The Town had commitments of \$203,468 in its proprietary funds at June 30, 2012. These items will be funded from operating funds.

The Town held cash performance bonds with a balance at June 30, 2012 of \$24,488 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. The Town participates in self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$2 million per occurrence, auto liability coverage of \$1 million per claim with an annual aggregate limit of \$3 million, property coverage up to replacement value, workers' compensation coverage up to \$1 million per occurrence, and employee health coverage with an unlimited maximum.

The Town carries commercial coverage for all other risks of loss. 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 five fiscal years.

The Town does not carry flood insurance because it is not located in an area that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency.

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 finance officer is individually bonded for \$120,000, the tax collector is individually bonded for \$100,000, and elected officials are bonded for \$1 million per claim with an annual aggregate limit of \$3 million. The remaining employees that have access to funds are bonded under a blanket bond up to a limit of between \$5,000 and \$125,000 per occurrence, depending on the type of crime.

8. Claims, Judgments and Contingent Liabilities

Periodically, the Town has been a defendant to various lawsuits. The town has set up a contingent liability, in the amount of \$10,000, for legal claims. At June 30, 2012, there was one lawsuit against the Town of Waynesville.

9. Notes Payable

North Carolina Department of Environmental and Natural Resources—Drinking Water State Revolving Fund agreed to lend the Town \$904,740 to replace water lines in the Dayton Drive community. The financing will span 20 years with an interest rate of 2.25 percent. Payments are to begin not earlier than six months after completion of the project. At year-end June 30, 2012, the construction portion of the project was complete, but there were still loan proceeds available to the Town. At June 30, 2012, the Town had drawn a total of \$904,438 on the available loan and is classifying that amount in notes payable.

10. Long-Term Obligations

a. Installment Purchases, Interlocal Agreement and Construction Financing

On October 31, 2011, the Town entered into an installment purchase contract with North Carolina Department of Environmental and Natural Resources for \$260,563 to fund the construction of water lines and improved water service to the Eagles Nest Community. The financing agreement requires ten annual payments of \$26,056 at zero percent interest. This loan is shown under business-type activities and the balance was \$234,506 at June 30, 2012.

On September 24, 2010, the Town entered into an installment purchase contract for \$397,600 to fund the purchase of a fire truck and related equipment. The financing agreement requires ten annual payments of \$45,488 at an interest rate of 2.56 percent. Interest expense for the year ended June 30, 2012 was \$9,441. This loan is shown under governmental activities and the balance was \$361,555 at June 30, 2012.

On December 20, 2010, the Town entered into an installment purchase contract for \$240,000 to fund the purchase of a garbage truck and two street trucks. The financing requires four annual payments of \$54,091 at an interest rate of 2.07 percent. Interest expense for the year ended June 30, 2012 was \$3,655. This loan is shown under governmental activities and the balance was \$155,781 at June 30, 2012.

On January 25, 2011, the Town entered into an installment purchase contract for \$120,000 to purchase exercise equipment for the Recreation Center. The financing requires three annual payments of \$41,562 at an interest rate of 1.94 percent. Interest expense for the year ended June 30, 2012 was \$2,018. This loan is shown under governmental activities and the balance was \$80,766 at June 30, 2012.

On December 11, 2009, the Town entered into a \$414,800 installment purchase contract to acquire a sewer jet truck, a backhoe, and eight police cars. The financing contract requires five annual payments of \$52,045 with an interest rate of 3.065 percent for the sewer jet truck and the backhoe and three annual payments of \$61,861 with an interest rate of 2.725 percent for the police cars. Interest expense for the year ended June 30, 2012 totaled \$7,902, with \$2,151 recorded in the governmental activities and \$5,751 recorded in the business-type activities. The portion of the loan for the police cars is shown under governmental activities and the balance was \$60,220 at June 30, 2012. The portion representing the sewer jet truck and back hoe is shown under business-type activities and the balance was \$147,031 at June 30, 2012.

On September 26, 2008, the Town entered into an installment purchase contract with USDA Rural Development for \$2,000,000 to refinance the construction loan on the new fire station. The financing contract requires forty annual payments of \$108,700 at an interest rate of 4.5 percent. Interest expense for the year ended June 30, 2012 was \$88,342. This loan is shown under governmental activities and the balance was \$1,941,338 at June 30, 2012.

On July 17, 2008, the Town entered into an installment purchase contract with a local bank for \$3,000,000 to fund the construction of a second electric substation. The financing requires twelve annual payments of \$310,817 at an interest rate of 3.52 percent. Interest expense for the year ended June 30, 2012 was \$83,745. This loan is shown under business-type activities and the balance was \$2,362,424 at June 30, 2012.

On May 13, 2008, the Town entered into an installment purchase contract for \$3,000,000 to fund the construction of a new Police Station. The financing requires forty semi-annual payments of \$105,669 with an interest rate of 3.58 percent. Interest expense for the year ended June 30, 2012 was \$94,211. This loan is shown under governmental activities and the balance was \$2,557,250 at June 30, 2012.

On January 28, 2008, the Town entered into a \$570,000 installment purchase contract to acquire a utility pole truck and two front-loading garbage trucks. The financing contract requires five annual payments of \$124,314 with an interest rate of 3.03 percent. Interest expense for the year ended June 30, 2012 was \$5,419, with \$3,611 recorded in the governmental activities and \$1,808 recorded in the business-type activities. The portion of the loan for the garbage trucks is shown under governmental activities and the balance was \$80,439 at June 30, 2012. The portion representing the pole truck is shown under business-type activities and the balance was \$40,219 at June 30, 2012.

On July 19, 2007, the Town entered into an installment purchase contract to expand the water treatment lab facilities. The financing contract requires sixteen semi-annual payments of \$25,635 with an interest rate of 3.86 percent. Interest expense for the year ended June 30, 2012 was \$6,936. This loan is shown under business-type activities and the balance was \$166,356 at June 30, 2012.

On February 15, 2007, the Town entered into a second installment purchase contract for \$1,000,000 to finance the construction of a new Fire Station. The financing requires thirty semi-annual fixed principal payments of \$33,333 plus interest at the rate of 3.77 percent. Interest expense for the year ended June 30, 2012 was \$26,267. This loan is shown under governmental activities and the balance was \$666,667 at June 30, 2012.

On January 5, 2007, the Town entered into an installment purchase contract for \$78,476 to acquire a telephone system. The financing contract requires sixty monthly payments of \$1,502 with an interest rate of 5.584 percent. Interest expense for the year ended June 30, 2012 was \$166. This loan is shown under governmental activities and the balance was \$0 at June 30, 2012.

On July 6, 2005, 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, 2012 was \$10,153. This loan is shown under business-type activities and the balance was \$200,753 at June 30, 2012.

In January 2003, the Town entered into an interlocal agreement with Haywood 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, 2012 was \$52,798. This loan is shown under governmental activities and the balance was \$1,171,864 at June 30, 2012. The Town of Waynesville does not hold title to this asset.

On October 16, 2001, the Town entered into an installment purchase contract for improvements to the water treatment plant. The contract, as refinanced, 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 percent. Interest expense for the year ended June 30, 2012 was \$1,655. This loan is shown under business-type activities and the balance was \$0 at June 30, 2012.

In October 1998, the Town entered into an installment purchase contract to build a new recreation facility center. The contract, as refinanced, requires semi-annual payments of \$185,407 at an interest rate of 3.99 percent. Interest expense for the year ended June 30, 2012 was \$90,603. This loan is shown under governmental activities and the balance was \$2,104,756 at June 30, 2012.

The future minimum payments of these installment purchase contracts and agreements as of June 30, 2012, are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 940,870	\$ 354,078	\$ 498,430	\$ 101,878
2014	827,786	318,911	446,850	85,525
2015	814,882	288,327	369,401	70,786
2016	789,767	256,890	303,763	58,745
2017	818,779	225,725	287,503	49,370
2018-2022	2,177,411	755,887	1,141,116	102,155
2023-2027	1,107,536	492,651	-	-
2028-2032	431,727	323,110	-	-
2033-2037	281,553	261,947	-	-
2038-2042	350,866	192,634	-	-
2043-2047	437,243	106,257	-	-
2048-2052	202,215	13,717	-	-
Total	<u>\$ 9,180,635</u>	<u>\$ 3,590,134</u>	<u>\$ 3,047,063</u>	<u>\$ 468,459</u>
Less: current portion	<u>(940,870)</u>		<u>(498,430)</u>	
Long-term portion	<u>\$ 8,239,765</u>		<u>\$ 2,548,633</u>	

b. General Obligation Bonds

At June 30, 2012, the Town of Waynesville had a legal debt margin of \$80,903,269.

c. Changes in General Long-Term Debt

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 10,136,429	\$ -	\$ 955,794	\$ 9,180,635	\$ 940,870
Unfunded pension liabilities	369,044	32,813	-	401,857	-
Legal Claims	10,000	-	-	10,000	-
Other postemployment benefits	379,513	241,966	45,403	576,076	-
Compensated absences-garage	7,554	4,019	3,466	8,107	3,466
Compensated absences	363,336	223,084	200,016	386,404	200,016
Governmental activity long-term liabilities	<u>\$ 11,265,876</u>	<u>\$ 501,882</u>	<u>\$ 1,204,679</u>	<u>\$ 10,563,079</u>	<u>\$ 1,144,352</u>
Business-type activities:					
Electric Fund					
Installment purchases	\$ 2,661,598	\$ -	\$ 258,955	\$ 2,402,643	\$ 267,880
Other postemployment benefits	20,324	10,584	-	30,908	-
Compensated absences	20,862	11,684	11,886	20,660	11,886
Total activity Electric Fund	<u>2,702,784</u>	<u>22,268</u>	<u>270,841</u>	<u>2,454,211</u>	<u>279,766</u>
Water Fund					
Installment purchases	703,873	260,563	334,121	630,315	192,291
Other postemployment benefits	45,619	32,500	9,819	68,300	-
Compensated absences	43,210	31,220	27,927	46,503	27,927
Total activity Water Fund	<u>792,702</u>	<u>324,283</u>	<u>371,867</u>	<u>745,118</u>	<u>220,218</u>
Sewer Fund					
Installment purchases	155,453	-	37,122	118,331	38,259
Other postemployment benefits	40,648	32,146	10,978	61,816	-
Compensated absences	43,326	28,536	29,005	42,857	29,005
Total activity Sewer Fund	<u>239,427</u>	<u>60,682</u>	<u>77,105</u>	<u>223,004</u>	<u>67,264</u>
Public Works Fund					
Installment purchases	-	-	-	-	-
Other postemployment benefits	11,614	11,264	5,217	17,661	-
Compensated absences	8,646	7,420	5,528	10,538	5,528
Total activity Public Works Fund	<u>20,260</u>	<u>18,684</u>	<u>10,745</u>	<u>28,199</u>	<u>5,528</u>
Business-type activity long-term liabilities	<u>\$ 3,755,173</u>	<u>\$ 425,917</u>	<u>\$ 730,558</u>	<u>\$ 3,450,532</u>	<u>\$ 572,776</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, 2012, consist of the following:

Due to the Town from the component unit, ABC Board	\$ 3,406
Due from the Public Works Fund for its activity allocation to the Governmental Funds	<u>\$ 38,798</u>

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, 2012 consist of the following:

From the Water Fund to the General Fund	\$ 103,100
From the Sewer Fund to the General Fund	77,930
From the Electric Fund to the General Fund	1,275,600
From the component unit, ABC Board, to the Town	25,855
Total	<u>\$1,482,485</u>

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.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2012, the Town of Waynesville has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$9,509 for the thirty-eight 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 monthly 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, 2012 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.

E. Fund Balance

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

Total fund balance - General Fund	\$ 6,667,300
Less:	
Prepaid Items	113,707
Inventories	7,363
Stabilization by State Statute	1,207,202
Streets - Powell Bill	642,551
Appropriated Fund Balance in 2013 budget	1,063,090
Public Safety	108,700
Working capital / Fund Balance Policy	3,524,687
Remaining Fund Balance	-

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

Encumbrances	General Fund	Non-Major Funds
	\$127,111	\$0

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. Complete financial statements for the Housing Authority can be obtained from the Authority at P. O. Box 418, Waynesville, NC 28786.

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

VI. Significant Effects of Subsequent Events

On September 18, 2012, the Town entered into an installment purchase contract with a local bank for \$326,000 to fund the purchase of a garbage truck and a bucket truck. The financing agreement requires four annual payments of \$84,931 at an interest rate of 1.67 percent, with the first annual payment due September 18, 2013.

Subsequent events have been evaluated through October 19, 2012, which is the date the audit report was available to be issued.

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)
12/31/2006	-	332,600	332,600	0%	1,245,596	26.70%
12/31/2007	-	411,935	411,935	0%	1,274,189	32.33%
12/31/2008	-	478,456	478,456	0%	1,387,023	34.50%
12/31/2009	-	624,526	624,526	0%	1,421,861	43.92%
12/31/2010	-	532,666	532,666	0%	1,431,067	37.22%
12/31/2011	-	593,795	593,795	0%	1,385,311	42.86%

Town of Waynesville, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2007	39,124	21.34%
2008	44,314	16.93%
2009	51,809	31.68%
2010	58,273	29.55%
2011	67,744	25.42%
2012	57,738	43.17%

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	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25% to 7.85%
*Includes inflation at	3.00%
Cost-of living adjustments	N/A

Town of Waynesville, North Carolina
Other Postemployment Benefits
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)
12/31/2008	-	2,569,013	2,569,013	0%	5,357,074	48.0%
12/31/2010	-	3,819,419	3,819,419	0%	6,038,837	63.2%

Town of Waynesville, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2009	248,312	4.63%
2010	248,312	4.63%
2011	258,260	4.28%
2012	372,325	6.17%

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	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of Pay, open
Remaining amortization period	27 Years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical Cost Trend Rate	10.50% - 5.00%
Year of Ultimate Trend Rate	2018
*Includes inflation at	3.00%
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, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 4,658,411	\$ -
Penalties and interest	-	52,526	-
Total	<u>4,558,190</u>	<u>4,710,937</u>	<u>152,747</u>
Other taxes and licenses:			
Local option sales tax	-	2,070,633	-
Gross receipts tax on short-term rental property	-	17,191	-
Privilege licenses and CATV	-	151,600	-
Total	<u>2,197,270</u>	<u>2,239,424</u>	<u>42,154</u>
Unrestricted intergovernmental:			
Utility franchise tax	-	648,011	-
Beer and wine tax	-	42,833	-
ABC profit distribution	-	25,855	-
Total	<u>781,070</u>	<u>716,699</u>	<u>(64,371)</u>
Restricted intergovernmental:			
Powell Bill allocation	-	374,813	-
Investment earnings	-	988	-
On-behalf of payments - Fire and Rescue	-	9,509	-
ABC Revenue for law enforcement	-	7,319	-
Other grant revenue	-	162,188	-
Total	<u>593,400</u>	<u>554,817</u>	<u>(38,583)</u>
Permits and fees:			
Building permits and inspection fees	-	147,421	-
Reconnect fees	-	67,869	-
Total	<u>173,100</u>	<u>215,290</u>	<u>42,190</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, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Sales and services:			
Recreation department fees	-	643,569	-
Cemetery revenues	-	19,975	-
Solid waste container sales	-	41,257	-
Fire protection	-	239,633	-
Police contract services	-	54,174	-
Sanitation fee	-	699,172	-
Court costs and fees	-	2,165	-
Rents	-	32,940	-
Charges to water fund	-	218,602	-
Charges to sewer fund	-	179,293	-
Charges to electric fund	-	378,192	-
Total	2,553,390	2,508,972	(44,418)
Investment earnings	1,500	-	(1,500)
Miscellaneous	112,700	105,912	(6,788)
Total revenues	10,970,620	11,052,051	81,431
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits	-	71,610	-
Other operating expenditures	-	75,529	-
Total	159,330	147,139	12,191
Administration:			
Salaries and employee benefits	-	711,617	-
Professional services	-	46,199	-
Other operating expenditures	-	110,038	-
Capital outlay	-	2,665	-
Total	949,320	870,519	78,801
Finance:			
Salaries and employee benefits	-	565,462	-
Professional services	-	77,498	-
Other operating expenditures	-	98,859	-
Capital outlay	-	6,850	-
Total	849,690	748,669	101,021

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, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Public buildings:			
Salaries and employee benefits	-	67,166	-
Other operating expenditures	-	218,080	-
Capital outlay	-	22,081	-
Total	364,690	307,327	57,363
Planning and code enforcement:			
Salaries and employee benefits	-	419,299	-
Other operating expenditures	-	88,245	-
Capital Outlay	-	-	-
Total	531,860	507,544	24,316
Special appropriations:			
Contributions	-	219,104	-
Total	230,890	219,104	11,786
Total general government	3,085,780	2,800,302	285,478
Public safety:			
Police:			
Salaries and employee benefits	-	2,665,600	-
Professional services	-	3,355	-
Other operating expenditures	-	474,653	-
Capital outlay	-	115,406	-
Total	3,490,680	3,259,014	231,666
Fire:			
Salaries and employee benefits	-	694,540	-
Professional services	-	7,415	-
Other operating expenditures	-	130,807	-
Building inspection and EMT's	-	3,100	-
Capital outlay	-	-	-
Total	898,070	835,862	62,208
Total public safety	4,388,750	4,094,876	293,874
Transportation:			
Streets and highways:			
Salaries and employee benefits	-	1,110,086	-
Professional services	-	18,436	-
Other operating expenditures	-	863,915	-
Contracted services	-	362,933	-
Capital outlay	-	48,508	-
Total transportation	2,656,160	2,403,878	252,282

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, 2012

	2012		Variance
	Budget	Actual	Positive (Negative)
Environmental protection:			
Cemetery:			
Salaries and employee benefits	-	96,848	-
Other operating expenditures	-	12,178	-
Capital outlay	-	-	-
Total environmental protection	<u>119,000</u>	<u>109,026</u>	<u>9,974</u>
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits	-	1,080,669	-
Other operating expenditures	-	457,856	-
Capital outlay	-	115,426	-
Total culture and recreation	<u>1,857,900</u>	<u>1,653,951</u>	<u>203,949</u>
Debt service:			
Principal retirement	-	955,794	-
Interest and other charges	-	387,226	-
Total debt service	<u>1,346,150</u>	<u>1,343,020</u>	<u>3,130</u>
Total expenditures	<u>13,453,740</u>	<u>12,405,053</u>	<u>1,048,687</u>
Revenues over (under) expenditures	<u>(2,483,120)</u>	<u>(1,353,002)</u>	<u>1,130,118</u>
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Funds	1,456,630	1,456,630	
Transfer to other funds:			
Capital Projects Fund	-	-	
Appropriations from fund balance	<u>1,026,490</u>	<u>-</u>	
Total	<u>\$ 2,483,120</u>	<u>1,456,630</u>	<u>\$ (1,026,490)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>103,628</u>	<u>\$ 103,628</u>
Fund balances:			
Beginning of year, July 1		<u>6,563,672</u>	
End of year, June 30		<u>\$ 6,667,300</u>	

Town of Waynesville
Combining Balance Sheet
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2012

	Public Buildings Project Fund	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 247,719	\$ 281,140	\$ 7,383	\$ 536,242
Accounts and interest receivable	-	62	2	64
Due from other governments	-	-	-	-
Total assets	<u>\$ 247,719</u>	<u>\$ 281,202</u>	<u>\$ 7,385</u>	<u>\$ 536,306</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable-perpetual maintenance	-	281,202	-	281,202
Restricted-Cultural and Recreation	-	-	7,385	7,385
Committed-General Government	247,719	-	-	247,719
Total fund balances	<u>247,719</u>	<u>281,202</u>	<u>7,385</u>	<u>536,306</u>
Total liabilities and fund balances	<u>\$ 247,719</u>	<u>\$ 281,202</u>	<u>\$ 7,385</u>	<u>\$ 536,306</u>

Town of Waynesville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2012

	Public Buildings Project Fund	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Revenues:				
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -
Sales and services	-	19,075	-	19,075
Miscellaneous revenue	96,406	-	-	96,406
Investment earnings	-	-	-	-
Total revenues	96,406	19,075	-	115,481
Expenditures:				
Cultural and recreation	-	-	2,497	2,497
General government	221,365	-	-	221,365
Total expenditures	221,365	-	2,497	223,862
Revenues over (under) expenditures	(124,959)	19,075	(2,497)	(108,381)
Other financing sources:				
Transfers from other funds:				
General Fund	-	-	-	-
Total other financing sources	-	-	-	-
Net change in fund balance	(124,959)	19,075	(2,497)	(108,381)
Fund balances:				
Beginning of year, July 1	372,678	262,127	9,882	644,687
End of year, June 30	\$ 247,719	\$ 281,202	\$ 7,385	\$ 536,306

Town of Waynesville, North Carolina
Public Buildings Projects Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2012

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Miscellaneous income	\$ 96,400	\$ -	\$ 96,406	\$ 96,406	\$ (6)
Investment earnings	-	-	-	-	-
Total revenues	<u>96,400</u>	<u>-</u>	<u>96,406</u>	<u>96,406</u>	<u>(6)</u>
Expenditures:					
Capital outlay					
Public Building Renovations:					
Capital Improvments	771,790	302,712	221,365	524,077	247,713
Equipment and furniture	-	-	-	-	-
Contingency	-	-	-	-	-
Total public building renovations	<u>771,790</u>	<u>302,712</u>	<u>221,365</u>	<u>524,077</u>	<u>247,713</u>
Revenues over (under) expenditures	<u>(675,390)</u>	<u>(302,712)</u>	<u>(124,959)</u>	<u>(427,671)</u>	<u>(247,719)</u>
Other financing sources:					
Operating transfer in from General Fund	<u>675,390</u>	<u>675,390</u>	<u>-</u>	<u>675,390</u>	<u>-</u>
Total other financing sources	<u>675,390</u>	<u>675,390</u>	<u>-</u>	<u>675,390</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 372,678</u>	<u>(124,959)</u>	<u>\$ 247,719</u>	<u>\$ (247,719)</u>
Fund balances:					
Beginning of year, July 1			<u>372,678</u>		
End of year, June 30			<u>\$ 247,719</u>		

Town of Waynesville, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Charges for service	\$ 8,433,610	\$ 7,896,301	\$ (537,309)
Other operating revenue	-	-	-
Total operating revenues	8,433,610	7,896,301	(537,309)
Nonoperating revenues:			
Investment earnings	-	-	-
Miscellaneous	-	14,035	-
Total nonoperating revenues	11,620	14,035	2,415
Total revenues	8,445,230	7,910,336	(534,894)
Expenditures:			
Finance and administration:			
Charge for services	378,190	378,192	(2)
Electrical operations:			
Salaries and employee benefits	-	350,210	-
Professional services	-	17,035	-
Maintenance	-	156,552	-
Other departmental expenditures	-	186,405	-
Capital outlay	-	52,270	-
Total	978,990	762,472	216,518
Electrical power purchases	5,869,170	5,584,415	284,755
Debt service:			
Principal payments	-	258,955	-
Interest and fees	-	93,299	-
Total	352,300	352,254	46
Total expenditures	7,578,650	7,077,333	501,317
Revenues over expenditures	866,580	833,003	(33,577)
Other financing sources (uses):			
Transfers to other funds:			
Transfer to Water Fund	(103,100)	-	103,100
Transfer to General Fund	(1,275,600)	(1,275,600)	-
Fund balance appropriated	512,120	-	(512,120)
Total other financing (uses)	(866,580)	(1,275,600)	(409,020)
Net change in fund balance	\$ -	(442,597)	\$ (442,597)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		258,955	
Capital outlays		52,270	
Depreciation		(307,248)	
Decrease in long-term debt accrued interest		7,745	
Increase in OPEB liability		(10,584)	
Decrease in accrued vacation pay		220	
Total		1,358	
Change in net assets		\$ (441,239)	

Town of Waynesville, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive/(Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Water charges	\$ -	\$ 2,389,711	\$ -
Taps and connection fees	-	36,050	-
Total operating revenues	2,489,000	2,425,761	(63,239)
Nonoperating revenues:			
Investment earnings	-	-	-
Miscellaneous	-	6,873	-
Total nonoperating revenues	76,600	6,873	(69,727)
Total revenues	2,565,600	2,432,634	(132,966)
Expenditures:			
Finance and administration:			
Charge for services	218,610	218,612	(2)
Total	218,610	218,612	(2)
Water maintenance and distribution:			
Maintenance department:			
Salaries and employee benefits	-	405,005	-
Maintenance	-	196,958	-
Professional services	-	0	-
Other departmental expenditures	-	150,957	-
Capital outlay	-	155,979	-
Total	1,139,140	908,899	230,241
Operations department:			
Salaries and employee benefits	-	405,955	-
Professional services	-	11,948	-
Utilities	-	16,725	-
Maintenance	-	149,460	-
Other departmental expenditures	-	83,093	-
Capital outlay	-	28,730	-
Total	875,330	695,911	179,419
Total water maintenance and distribution	2,014,470	1,604,810	409,660
Debt service:			
Principal payments	-	334,121	-
Interest and fees	-	25,208	-
Total	511,390	359,329	152,061
Total expenditures	2,744,470	2,182,751	561,719
Revenues over expenditures	(178,870)	249,883	428,753
Other financing sources (uses):			
Transfers (to)/from other funds:			
Transfer from Electric Fund	103,100	-	(103,100)
Transfer to General Fund	(103,100)	(103,100)	-
Fund balance appropriated	178,870	-	(178,870)
Total other financing (uses)	178,870	(103,100)	(281,970)
Net change in fund balance	\$ -	146,783	\$ 146,783
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		334,121	
Capital outlays		184,709	
Capital contributions from Capital Project Funds		203,583	
Depreciation		(509,513)	
Decrease in long-term debt accrued interest		5,484	
Increase in OPEB liability		(22,681)	
Increase in accrued vacation pay		(3,293)	
Total		192,410	
Change in net assets		\$ 339,193	

Town of Waynesville, North Carolina
Water Line Replacement Capital Projects Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2012

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
State Grant revenue	\$ 213,000	\$ 9,750	\$ 203,583	\$ 213,333	\$ (333)
Total revenues	<u>213,000</u>	<u>9,750</u>	<u>203,583</u>	<u>213,333</u>	<u>(333)</u>
Expenditures:					
Engineering fees	76,000	73,250	-	73,250	2,750
Administrative costs	-	19,455	-	19,455	(19,455)
Closing costs	17,740	-	-	-	17,740
Construction costs	986,000	753,131	271,935	1,025,066	(39,066)
Contingency	38,000	-	-	-	38,000
Total Expenditures	<u>1,117,740</u>	<u>845,836</u>	<u>271,935</u>	<u>1,117,771</u>	<u>(31)</u>
Revenues over (under) expenditures	<u>(904,740)</u>	<u>(836,086)</u>	<u>(68,352)</u>	<u>(904,438)</u>	<u>(302)</u>
Other financing sources:					
Loan proceeds	<u>904,740</u>	<u>771,655</u>	<u>-</u>	<u>771,655</u>	<u>133,085</u>
Total other financing sources	<u>904,740</u>	<u>771,655</u>	<u>-</u>	<u>771,655</u>	<u>133,085</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ (64,431)</u>	<u>(68,352)</u>	<u>\$ (132,783)</u>	<u>\$ 132,783</u>
Fund balances:					
Beginning of year, July 1			<u>(64,431)</u>		
End of year, June 30			<u>\$ (132,783)</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, 2012

	2012		Variance Positive/(Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Sewer charges	\$ -	\$ 1,874,888	\$ -
Taps and connection fees	-	36,124	-
Impact fees	-	-	-
Industrial discharge permits	-	-	-
Total operating revenues	<u>1,932,870</u>	<u>1,911,012</u>	<u>(21,858)</u>
Nonoperating revenues:			
Investment earnings	320	-	(320)
Miscellaneous	<u>500</u>	<u>6,095</u>	<u>5,595</u>
Total nonoperating revenues	<u>820</u>	<u>6,095</u>	<u>5,275</u>
Total revenues	<u>1,933,690</u>	<u>1,917,107</u>	<u>(16,583)</u>
Expenditures:			
Finance and administration:			
Charges by general fund	<u>179,290</u>	<u>179,293</u>	<u>(3)</u>
Waste collection and treatment:			
Maintenance department:			
Salaries and employee benefits	-	179,282	-
Professional services	-	135	-
Maintenance	-	43,907	-
Other departmental expenditures	-	32,523	-
Capital outlay	-	79,498	-
Total	<u>683,490</u>	<u>335,345</u>	<u>348,145</u>
Operations department:			
Salaries and employee benefits	-	551,860	-
Professional services	-	9,881	-
Utilities	-	167,465	-
Maintenance	-	68,940	-
Other departmental expenditures	-	66,170	-
Capital outlay	-	74,295	-
Total	<u>1,090,640</u>	<u>938,611</u>	<u>152,029</u>
Total waste collection and treatment	<u>1,774,130</u>	<u>1,273,956</u>	<u>500,174</u>
Debt service:			
Principal payments	-	37,122	-
Interest and fees	-	4,769	-
Total	<u>43,100</u>	<u>41,891</u>	<u>1,209</u>
Total expenditures	<u>1,996,520</u>	<u>1,495,140</u>	<u>501,380</u>
Revenues over expenditures	<u>(62,830)</u>	<u>421,967</u>	<u>484,797</u>
Other financing sources (uses):			
Transfers to other funds:			
Transfers to general fund:	(77,930)	(77,930)	-
Fund balance appropriated	<u>140,760</u>	<u>-</u>	<u>(140,760)</u>
Total other financing sources	<u>62,830</u>	<u>(77,930)</u>	<u>(140,760)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 344,037</u>	<u>\$ 344,037</u>

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:	
Principal payments	37,122
Capital outlays	153,793
Depreciation	(437,410)
Increase in long-term debt accrued interest	(5)
Increase in OPEB liability	(21,168)
Decrease in accrued vacation pay	469
Total	<u>(267,199)</u>
Change in net assets	<u>\$ 76,838</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, 2012

	2012		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 267,860	\$ 250,367	\$ (17,493)
Total operating revenues	267,860	250,367	(17,493)
Nonoperating revenues:			
Investment earnings	20	-	(20)
Miscellaneous	-	4,042	4,042
Total nonoperating revenues	20	4,042	4,022
Total revenues	267,880	254,409	(13,471)
Expenditures:			
Salaries and employee benefits	-	182,230	
Occupancy costs	-	11,716	-
Maintenance and repairs	-	19,450	-
Materials and supplies	-	10,615	-
Other departmental expenses	-	13,511	-
Capital outlays	-	73,946	-
Total expenditures	332,880	311,468	21,412
Revenues over expenditures	(65,000)	(57,059)	(34,883)
Other financing sources (uses):			
Fund balance appropriated	65,000	-	(65,000)
Net change in fund balance	\$ -	(57,059)	\$ (57,059)
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(16,979)	
Capital outlays		73,946	
Increase in OPEB liability		(6,048)	
Increase in accrued vacation pay		(1,892)	
Total reconciling items		49,027	
Change in net assets		\$ (8,032)	

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, 2012

	2012		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 659,690	\$ 583,353	\$ (76,337)
Total operating revenues	659,690	583,353	(76,337)
Nonoperating revenues:			
Investment earnings	0	0	-
Miscellaneous	-	12,068	12,068
Total nonoperating revenues	-	12,068	12,068
Total revenues	659,690	595,421	(64,269)
Expenditures:			
Salaries and employee benefits	-	98,184	-
Occupancy costs	-	60,088	-
Maintenance and repairs	-	3,818	-
Materials and supplies	-	66,046	-
Other departmental expenses	-	323,708	-
Capital outlay	-	-	-
Total expenditures	659,690	551,844	107,846
Net change in fund balance	\$ -	43,577	\$ 43,577
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(15,417)	
Capital outlay		0	
Increase in OPEB liability		(3,025)	
Increase in accrued vacation pay		(553)	
Total reconciling items		(18,995)	
Change in net assets		\$ 24,582	

Town of Waynesville, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2012

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2011</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2012</u>
2011 - 2012	-	4,659,681	\$ 4,477,614	\$ 182,067
2010 - 2011	226,314	-	121,661	104,653
2009 - 2010	115,695	-	34,523	81,172
2008 - 2009	74,168	-	16,008	58,160
2007 - 2008	47,366	-	3,578	43,788
2006 - 2007	33,798	-	2,944	30,854
2005 - 2006	35,238	-	5,653	29,585
2004 - 2005	25,366	-	1,121	24,245
2003 - 2004	24,082	-	1,416	22,666
2002 - 2003	26,185	-	(1,340)	27,525
2001 - 2002	20,509	-	20,509	-
	<u>\$ 628,721</u>	<u>\$ 4,659,681</u>	<u>\$ 4,683,687</u>	<u>604,715</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>(20,000)</u>
Ad valorem taxes receivable - net				<u><u>584,715</u></u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				4,710,937
Reconciling items:				
Interest, penalties and advertising collected				(52,526)
Taxes written off				<u>25,276</u>
Subtotal				<u>(27,250)</u>
Total collections and credits				<u><u>\$ 4,683,687</u></u>

Town of Waynesville, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2012

	Town - Wide		Total Levy	
	Property Valuation	Rate	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:				
Property taxed at current year's rate	\$1,114,800,662	0.4082	\$4,295,214	\$ 255,402
Municipal service district	50,639,255	0.2000	101,279	-
Penalties	-		4,201	-
Total	<u>1,165,439,917</u>		<u>4,400,694</u>	<u>255,402</u>
Discoveries:				
Current year taxes	2,889,760	0.4082	11,796	-
Penalties	-		1,982	-
Total	<u>2,889,760</u>		<u>13,778</u>	<u>-</u>
Refund of overpayments			-	-
Abatements	<u>(2,548,250)</u>		<u>(6,310)</u>	<u>(3,883)</u>
Total property valuation	<u>\$ 1,165,781,427</u>			
Net levy			4,659,681	251,519
Uncollected taxes at June 30, 2012			<u>(182,067)</u>	<u>(35,687)</u>
Current year's taxes collected			<u>\$4,477,614</u>	<u>\$ 215,832</u>
Current levy collection percentage			<u>96.09%</u>	<u>85.81%</u>

COMPLIANCE SECTION

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

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

We have audited the 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, 2012, which collectively comprise the Town of Waynesville's basic financial statements, and have issued our report thereon dated October 19, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the Town of Waynesville ABC Board, as described in our report on the Town of Waynesville's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Waynesville ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Town of Waynesville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Waynesville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Waynesville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of 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*.

This report is intended solely for the information and use of management, others within the entity, 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, Bengtson, Kingshill & Assoc., P.A.

Waynesville, North Carolina
October 19, 2012

**Independent Auditor's Report On Compliance With Requirements That Could Have A
Direct and Material Effect On Each Major Federal Program and On Internal Control Over
Compliance In Accordance With OMB Circular A-133 and the State Single Audit
Implementation Act**

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

Compliance

We have audited the Town of Waynesville, North Carolina, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Waynesville's major federal programs for the year ended June 30, 2012. The Town of Waynesville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, others within the entity, members of the 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, Bungener, Kingshill & Assoc., P.A.

Waynesville, North Carolina
October 19, 2012



Ray,
Bumgarner,
Kingshill,

& Assoc., P.A.

Certified Public Accountants

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Waynesville, NC 28786

**Independent Auditor's Report on Compliance With Requirements Applicable to Each
Major State Program and Internal Control over Compliance in Accordance with
OMB Circular A-133 and the State Single Audit Implementation Act**

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

Compliance

We have audited the Town of Waynesville, North Carolina, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Waynesville's major State programs for the year ended June 30, 2012. The Town of Waynesville's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of 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 of the Town of Waynesville's compliance with those requirements.

In our opinion, the Town of Waynesville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Town of Waynesville is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Waynesville's internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of

internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, others within the entity, members of 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, Bannister, Kingshill & Assoc., P.A.

Waynesville, North Carolina
October 19, 2012

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted ☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

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

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

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
66.468	Drinking Water State Revolving Fund

Dollar Threshold used to distinguish Between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012

State Awards

Internal control over major State programs:

- Material weakness identified? _____yes Xno
- Significant Deficiency(s) identified that are not considered to be material weaknesses? _____yes Xnone

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 the State Single Audit Implementation Act

_____yes Xno

Identification of major State program:

<u>Grantor</u>	<u>Program Name</u>
NC Dept. of Transportation	Powell Bill

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012

Section II. - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Section IV - State Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2012

Section II - Financial Statements Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Section IV - State Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended June 30, 2012

Section II - Financial Statements Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Section IV - State Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For The Year Ended June 30, 2012

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Federal: Direct & Pass-Through Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
Cash Programs:				
<u>U.S. Dept. of Justice</u>				
ARRA-COPS Hiring Recovery Program	16.710		\$ 88,997	\$ -
<u>U.S. Dept. of Transportation</u>				
Passed-Through NC Dept. of Transportation:				
Federal Aid Bridge Program	20.205-1	B-4674	4,855	-
<u>U.S. Dept. of Transportation</u>				
Passed-Through French Broad River MPO				
Unified Planning Work Program	20.205		44,000	-
Noncash Programs:				
<u>U.S. Environmental Protection Agency</u>				
Passed Through NC Department of Environment and Natural Resources				
Drinking Water State Revolving Fund	66.468	DEH-1311	904,438	-
State Grants:				
Cash Programs:				
<u>N.C. Dept. of Transportation:</u>				
Powell Bill		WBS 32570	-	413,378
<u>N.C. General Assembly</u>				
Passed through NC Rural Economic Development Center				
FY08/09 Clean Water Partners		2010-248-40101-112	-	203,583
Total Federal and State Assistance			\$ 1,042,290	\$ 616,961

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

- 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 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.
- Construction Loan -in-Process**
Town of Waynesville has been approved for a Drinking Water State Revolving Fund (DWSRF) Revolving Loan for up to \$904,740. The project was not complete at June 30, 2012; however when complete the loan becomes payable over 20 years at 2.5% interest.

The total cost of the project is expected to be approximately \$904,438 and \$904,438 has been spent from inception through June 30, 2012 and is reported in the federal expenditures presented in this schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Approved Loan Amount</u>
Drinking Water State Revolving Fund	66.468	DEH-1311	\$ 904,740

Attachment A
Water Line Replacement Project
Project Number DEH - 1311
Town of Waynesville, North Carolina
From Project Inception to June 30, 2012

Statement of Revenues

Source of Funds:	<u>DEH - 1311</u>
Federal Funds - CFDA # 66.468	
DWSRF Revolving Loan	771,655
Total source of funds	<u>\$ 771,655</u>

Statement of Expenditures

Construction Costs	\$ 821,483
Engineering Fees	63,500
Administrative Expense	19,455
Land and Right of Way	-
Land	<u>-</u>
Total Expenditures	<u>\$ 904,438</u>

Notes to the Attachment A:

The accompanying Attachment A for the Water Line Replacement Project of the Town of Waynesville, North Carolina is presented on the modified accrual basis of account