

Town of Waynesville, North Carolina

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2008

Town of Waynesville, North Carolina

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For the Fiscal Year Ended June 30, 2008

TOWN OFFICIALS

MAYOR

Gavin Brown

ALDERMEN

Libba Feichter
LeRoy Roberson

Gary Caldwell
Kenneth Moore

ADMINISTRATIVE

A. Lee Galloway
Edward Caldwell

Town Manager
Finance Officer

Town of Waynesville, North Carolina
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June 30, 2008

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FINANCIAL SECTION

RAY, BUMGARNER, KINGSHILL, & ASSOC., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waynesville, North Carolina, as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Waynesville's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Town of Waynesville ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Waynesville ABC Board, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waynesville, North Carolina, as of June 30, 2008, 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 10, 2008 on our consideration of the Town of Waynesville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions on pages 3 through

15 and 47 and 48, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Waynesville, North Carolina. The combining, and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ray, Benjamin, King and Associates, Inc.

Waynesville, North Carolina
October 10, 2008

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

Financial Highlights

- The assets of the Town of Waynesville exceeded its liabilities at the close of the fiscal year by \$49,344,801 (*net assets*).
- The government's total net assets increased by \$1,238,121, primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the Town of Waynesville's governmental funds reported combined ending fund balances of \$10,082,620, an increase of \$1,589,090 in comparison with the prior year. Approximately 74.60 percent of this total amount, or \$7,521,307, is available for spending at the government's discretion (*unreserved fund balance*). The \$1,589,090 increase is primarily due to the unspent loan funds (\$3,000,000) to be spent on the construction of a new police station, development office and meeting space. The remaining difference is due to the spending of loan funds on the construction of a new fire station and to revenues and other financing sources over expenditures and other financing uses.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,281,561, or 36.27 percent of total general fund expenditures for the fiscal year. This is an increase of \$343,048 from the prior year. This increase is mainly due to revenues and other financing sources over expenditures and other financing uses.
- The Town of Waynesville's total debt increased by \$2,726,214 (24.82%) during the current fiscal year. The key factor in this increase was the issuance of an installment purchase contract totaling \$3,000,000 for the renovation and expansion of the Town's current police station, new development office and meeting space. Two additional installment purchase contracts were issued during the year ended June 30, 2008. One for two garbage trucks and one digger derrick totaling \$ 570,000 and the other for an addition and renovation to the town's Water Treatment lab totaling \$350,000.
- The Town of Waynesville's Electric Fund for the current fiscal year reported power purchases of \$5,319,914 an increase of \$255,247 or 5.04% in comparison with the prior year. The prior fiscal year reported power purchases of \$5,064,667, an increase of \$207,172 or 4.26% in comparison with the fiscal year ended June 30, 2006. These increases are primarily due to rising fuel costs that have been passed along to the Town by its supplier. In response, the Town adopted quarterly rate adjustments to its customers. These rate adjustments began April 1, 2005 thru May 31, 2008. Starting June 01, 2008 the town began monthly rate adjustments to its customers. These rate adjustments and a 3 1/2% rate increase adopted July 1, 2007 to help pay for the construction of a second electrical substation are the primary reason the Electric Fund operating revenues for the current fiscal year reported charges for services of \$7,676,949, an increase of \$366,221 or 5.01%. The prior fiscal year reported charges for services of \$7,310,728, an increase of \$274,664 or 3.90% in comparison with the fiscal year ended June 30, 2006.

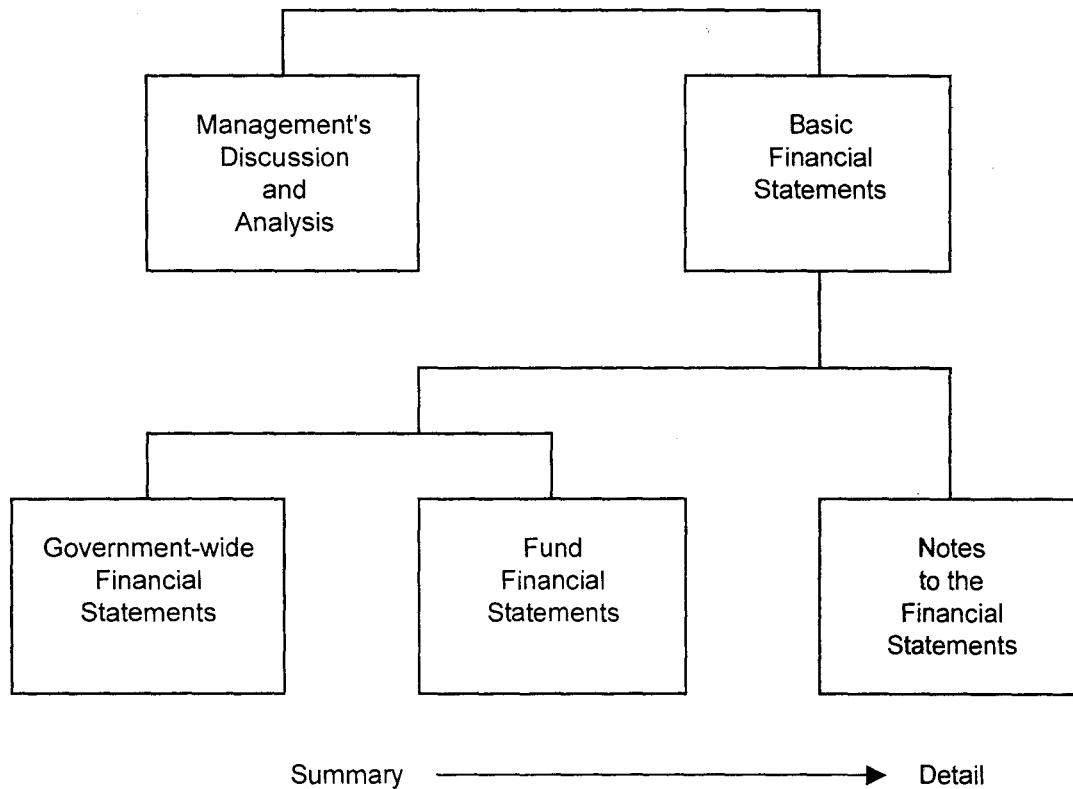
Overview of the Financial Statements

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 because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Waynesville, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of Waynesville has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Waynesville uses enterprise funds to account for its electric, water, and 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 25-46 of this report.

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

Government-Wide Financial Analysis

The Town of Waynesville's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 11,749,030	\$ 9,463,807	\$ 4,565,024	\$ 4,474,417	\$ 16,314,054	\$ 13,938,224
Capital assets	25,201,661	23,778,869	24,080,898	22,687,843	49,282,559	46,466,712
Total assets	36,950,691	33,242,676	28,645,922	27,162,260	65,596,613	60,404,936
Long-term liabilities outstanding	11,719,552	9,184,438	1,991,899	1,800,799	13,711,451	10,985,237
Other liabilities	1,243,650	615,025	1,296,711	697,994	2,540,361	1,313,019
Total liabilities	12,963,202	9,799,463	3,288,610	2,498,793	16,251,812	12,298,256
Net assets:						
Invested in capital assets, net of related debt	15,867,875	17,064,117	22,189,746	20,978,396	38,057,621	38,042,513
Restricted	723,135	637,236	-	-	723,135	637,236
Unrestricted	7,396,479	5,741,860	3,167,566	3,685,071	10,564,045	9,426,931
Total net assets	\$ 23,987,489	\$ 23,443,213	\$ 25,357,312	\$ 24,663,467	\$ 49,344,801	\$ 48,106,680

Figure 2

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 \$49,344,801 as of June 30, 2008. The Town's net assets increased by \$1,238,121 for the fiscal year ended June 30, 2008. And as stated earlier, this increase is primarily due to increases in the business-type activities net assets. However, the largest portion \$38,057,621 or (77.13%) 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 \$723,135 or (1.47%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,564,045 is unrestricted. However, this includes unspent funds that will be used for the construction and expansion of the current police station, development office, and meeting space as well as the purchase of two garbage trucks.

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

- The Town sold a lot and building at the corner of Depot Street and Montgomery Street with a book value of \$244,520 for a net sales price of \$335,057.
- The Town collected \$ 615,915 in sanitation fees, an increase of \$103,363 or 20.17% in comparison to the prior fiscal year.
- Utility franchise taxes were \$676,321, an increase of \$91,058 or 15.56% in comparison to the prior year.
- The sales tax revenues from article 39, article 40, article 42, and article 44, for the current fiscal year were \$2,327,458, an increase of \$60,904 or 2.68% in comparison to the prior year.
- For the year ending June 30, 2008 the Town's property valuations totaled \$1,076,786,904, an increase of \$15,442,661 or 1.46% in comparison with the prior year. The Town's net levy totaled \$4,260,650, an increase of \$63,981 or 1.52% in comparison with the prior year.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.10% excluding motor vehicles. This is a decrease of .24% from prior year's tax collection percentage excluding motor vehicles (97.34%). This is also comparable to the statewide average of units with electrical systems of 97.72% excluding motor vehicles for the population grouping 2,500 to 9,999 for 2006-2007. The total collected for ad valorem taxes which includes current taxes, prior year's uncollectible tax balances, and motor vehicle taxes was \$4,196,870, an increase of \$52,442 or 1.27% in comparison to the prior fiscal year.
- The Town's recreation department fees excluding the contributions from Haywood County for the current fiscal year were \$642,037, an increase of \$23,130 or 3.74% in comparison to the prior year.

Town of Waynesville Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	Total
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 1,747,033	\$ 1,633,165	\$11,645,137	\$11,198,587	\$13,392,170	\$12,831,752
Operating grants and contributions	525,489	376,418	-	2,780	525,489	379,198
Capital grants and contributions	553,994	139,289	-	-	553,994	139,289
General revenues:						
Property taxes	4,273,625	4,214,341	-	-	4,273,625	4,214,341
Other taxes	2,528,057	2,500,757	-	-	2,528,057	2,500,757
Grants and contributions not restricted to specific programs	816,967	709,419	-	-	816,967	709,419
Other	401,575	257,654	127,536	217,202	529,111	474,856
Total revenues	10,846,740	9,831,043	11,772,673	11,418,569	22,619,413	21,249,612
Expenses:						
General government	2,004,995	1,659,641	-	-	2,004,995	1,659,641
Public safety	3,759,346	3,540,102	-	-	3,759,346	3,540,102
Transportation	3,397,605	3,233,775	-	-	3,397,605	3,233,775
Economic development	-	23,414	-	-	-	23,414
Environmental Protection	107,033	116,757	-	-	107,033	116,757
Culture and recreation	1,777,745	1,690,281	-	-	1,777,745	1,690,281
Interest on long-term debt	232,590	237,461	-	-	232,590	237,461
Electric	-	-	6,380,588	6,155,232	6,380,588	6,155,232
Water	-	-	1,769,082	1,706,183	1,769,082	1,706,183
Sewer	-	-	1,952,308	1,879,308	1,952,308	1,879,308
Total expenses	11,279,314	10,501,431	10,101,978	9,740,723	21,381,292	20,242,154
Increase (decrease) in net assets before transfers	(432,574)	(670,388)	1,670,695	1,677,846	1,238,121	1,007,458
Transfers	976,850	998,050	(976,850)	(998,050)	-	-
Increase in net assets	544,276	327,662	693,845	679,796	1,238,121	1,007,458
Net assets, July 1	23,443,213	23,115,551	24,663,467	23,983,671	48,106,680	47,099,222
Net assets, June 30	\$23,987,489	\$23,443,213	\$25,357,312	\$24,663,467	\$49,344,801	\$48,106,680

Governmental activities. For the year ended June 30, 2008, Governmental activities increased the Town's net assets by \$544,276. Key elements of this increase are as follows:

- The Town sold a lot and building at the corner of Depot Street and Montgomery Street with a book value of \$244,520 for a net sales price of \$335,057.
- The Town collected \$ 615,915 in sanitation fees, an increase of \$103,363 or 20.17% in comparison to the prior fiscal year.
- Utility franchise taxes were \$676,321, an increase of \$91,058 or 15.56% in comparison to the prior year.

- The sales tax revenues from article 39, article 40, article 42, and article 44, for the current fiscal year were \$2,327,458, an increase of \$60,904 or 2.68% in comparison to the prior year.
- For the year ending June 30, 2008 the Town's property valuations totaled \$1,076,786,904, an increase of \$15,442,661 or 1.46% in comparison with the prior year. The Town's net levy totaled \$4,260,650, an increase of \$63,981 or 1.52% in comparison with the prior year.
- Capital outlays exceed depreciation by \$1,610,853.
- This increase of \$544,276 would be a decrease except for the Town's transfer of \$976,850 from business-type activities to the governmental activities.
- By comparison for the year ended June 30, 2007, the governmental activities increased \$327,662 after the Town transferred \$998,050 from business-type activities to the governmental activities. Net assets increased \$216,614 more in the year ended June 30, 2008 than in the year ended June 30, 2007.

Business-type activities: For the year ended June 30, 2008, business-type activities increased the Town's net assets by \$693,845. Key elements of this increase are as follows:

- The increase would be even larger however the Town transferred \$976,850 from the business-type activities to the governmental activities.
- The Town's electric fund reported income before contributions and transfers of \$1,344,427, an increase of \$113,739 over the prior year. As stated earlier, this increase is due to the Town's adoption of rate adjustments that were needed due to the rising fuel costs that have been passed along to the Town by its supplier and a 3 ½ % rate increase needed to help pay for the construction of a second electrical substation.
- The Town implemented 5% rate increases for the water and sewer charges. The Town also increased its tap and capacity fees for new water and sewer users.
- By comparison for the year ended June 30, 2007, the business-type activities' net assets increased by \$679,796 after the Town transferred \$998,050 from the business-type activities to the governmental activities. Net assets increased \$14,049 more in the year ended June 30, 2008 than in the year ended June 30, 2007.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Waynesville. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$4,281,561, while total fund balance reached \$6,615,699. By comparison, the year ended June 30, 2007 unreserved fund balance of the General Fund was \$3,938,513 and total fund balance was \$5,787,859. Unreserved fund balance of the General Fund increased \$343,048 or 8.71 percent. Total fund balance increased \$827,840 or 14.30 percent. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 36.27 percent of total General Fund expenditures, while total fund balance represents 56.05 percent of that same amount. By comparison for the year ended June 30, 2007 unreserved fund balance represented 36.89 percent of the total General Fund expenditures, while total fund balance represented 54.22 percent of that same amount.

At June 30, 2008, the governmental funds of Town of Waynesville reported a combined fund balance of \$10,082,620, with a net increase in fund balance of \$1,589,090. This represents an 18.71 percent increase over last year. The \$1,589,090 increase is primarily due to the unspent loan funds (\$3,000,000) to be spent on the construction of a new police station, development office and meeting space. The remaining difference is due to the spending of loan funds on the construction of a new fire station and 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 one occasion. 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 excluding transfers to other funds for the year ended June 30, 2008 totaled \$12,892,740. Funding sources were budgeted as follows: revenues were budgeted at \$11,351,180, transfers from business-type activities were budgeted at \$976,850, transfers out to other funds were budgeted at \$177,970 and appropriations from fund balance were budgeted at \$742,680. Actual total revenues totaled \$11,645,364 or \$294,184 over budget. Restricted revenues were less than budgeted amounts primarily because some grant funds that the Town originally had expected to receive were unavailable or unspent. In fact, restricted intergovernmental revenues (grants) were under budget by \$271,973. All other revenues combined were actually \$566,157 or 5.67% over budget. One of the biggest sources of this favorable variance was due to the Town selling a lot and building at the corner of Depot Street and Montgomery Street that was not budgeted for a net sales price of \$ 335,057. Other sources of this favorable variance were better than expected collections from ad valorem taxes \$52,249, better than expected collections from other taxes and licenses (mainly sales taxes and cable franchise fees) \$67,297 and better than expected collections from unrestricted intergovernmental revenues (mainly franchise taxes on telecommunications and electric power sales) \$90,257. Sales and services revenues (mainly recreation department revenues, sanitation fees and fire protection fees) came in \$53,076 over budget. Other sources of this favorable variance were investment earnings that came in \$32,320 higher than budgeted. The Town's general fund expenditures for the year ended June 30, 2008 were under budget by \$1,267,222. Since grant revenues were less than expected, grant expenditures were held in check to compensate for the lack of funding and the Town was able to comply with its budgetary requirements. Other expenditures were delayed, not spent or kept under budget due to the uncertainty of higher costs in general. Personnel turnover also accounted for a portion of unspent expenditures. As stated earlier, the Town budgeted and transferred \$177,970 from the general fund to the capital projects fund. The capital projects consist of the relocation and construction of a new fire station, the remodeling and construction of the current police station and the construction of a new development office. The Town budged to use \$742,680 from fund balance, but none was needed.

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 \$1,467,280, \$1,016,909, and \$685,255, respectively. In comparison to the year ended June 30, 2007, the unrestricted net assets of the Electric, Water and Sewer funds totaled \$1,778,991, \$1,241,675, and \$648,060, respectively. Unrestricted net assets of the Electric and Water funds decreased \$311,711 (17.52%) and \$224,766 (18.10%), respectively. The Sewer fund increased \$37,195 (5.74%). Total net assets of the Electric, Water, and Sewer funds at the end of the fiscal year increased \$469,427 (13.12%), \$102,287 (.84%), and \$97,901 (1.15%), 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, 2008 totaled \$49,282,559 (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:

- Relocation and Construction of new fire station (Building, parking, landscaping and sidewalks) \$1,921,785.
- Improvements and additions to the Town's electric substation, lines and related equipment of \$922,261.
- Construction and expansion of water treatment plant lab \$460,550.
- Design and construction of new police station/development office \$445,919.
- Construction of Richland Creek greenway trail and creek bank restoration project \$364,850.
- Improvements and additions to the Town's water distribution systems of \$323,802.
- Improvements and additions to the Town's sewer distribution systems for \$318,314.
- Purchase of new pole truck for the electric maintenance department \$186,668.
- Purchase of air packs for the fire department \$105,000.
- Design of new bridge (Hendrix Street) (construction in process) \$98,113.
- Purchase and equipping three police vehicles for \$74,483.
- Purchase of gas and diesel pumps, canopy and fuel management system \$70,349.
- Purchase of air exchange system at new fire department \$51,958.
- Purchase of alum and caustic tanks at water treatment plant \$49,222.
- Construction of new equipment shed at public works \$41,275.
- Purchase new truck for water maintenance department \$32,863.
- Purchase of UV water system treatment for the recreation's lap pool \$29,400.
- Purchase of new vehicle for administration department \$23,431.
- Purchase of furniture at new fire department \$17,094.
- Purchase of new camera system for the Police department \$15,245.
- Purchase of fencing and gate at public works \$13,813.
- Purchase of recording system for police department \$12,703.
- Purchase of extractor and drying cabinet for new fire department \$11,996.
- Paving at recreation park \$10,738.

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

- Disposal of lot and building at the corner of Depot Street and Montgomery with a book value of \$244,520.
- Disposal of two garbage trucks in the street department with an original cost of \$156,482.
- Disposal of nine computers and related software with an original cost of \$62,880.
- Disposal of rebuilt bed and boom sweeper with an original cost of \$35,352.
- Disposal of three car video systems with an original cost of \$23,679.
- Disposal of three salt spreaders with an original cost of \$16,679.
- Disposal of two copiers with an original cost of \$10,157.
- Disposal of air compressor with an original cost of \$9,700.
- Disposal of finger printing equipment with an original cost of \$7,550.

- Disposal of mowing equipment with an original cost of \$5,950.
- Disposal of VHS recorder an original cost of \$5,400.
- Disposal of radar unit with an original cost of \$5,058.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,379,238	\$ 1,655,984	\$ 1,907,438	\$ 1,907,438	\$ 3,286,676	\$ 3,563,422
Construction in process	1,136,309	1,390,827	1,101,025	109,443	2,237,334	1,500,270
Buildings and system	9,672,741	6,919,539	20,355,049	20,119,525	30,027,790	27,039,064
Land improvements	370,961	219,760	77,397	17,263	448,358	237,023
Equipment, furniture and fixtures	727,826	524,029	118,378	121,613	846,204	645,642
Infrastructure	10,658,227	11,639,854	-	-	10,658,227	11,639,854
Vehicles and motorized equipment	1,256,359	1,428,876	521,611	412,561	1,777,970	1,841,437
Total	\$ 25,201,661	\$ 23,778,869	\$ 24,080,898	\$ 22,687,843	\$ 49,282,559	\$ 46,466,712

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

Long-term Debt. The Town's total debt outstanding for the year ending June 30, 2008 and June 30, 2007, was \$13,711,451 and \$10,985,237, respectively. All debt is backed by the full faith and credit of the Town of Waynesville. Unfunded pension liabilities, legal claims, and compensated absences make up \$688,122 and \$622,436 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	
	2008	2007	2008	2007	2008	2007
Installment purchase obligations	\$ 11,132,177	\$ 8,653,354	\$ 1,891,152	\$ 1,709,447	\$ 13,023,329	\$ 10,362,801
Total	\$ 11,132,177	\$ 8,653,354	\$ 1,891,152	\$ 1,709,447	\$ 13,023,329	\$ 10,362,801

- The Town's total debt increased \$2,726,214 (24.82%) during the current fiscal year. The key factor in this increase was the issuance of an installment purchase contract totaling \$3,000,000 for the renovation and expansion of the Town's current police station, new development office and meeting space. Two additional installment purchase contracts were issued during the year ended June 30, 2008. One for two garbage trucks and one digger derrick totaling \$570,000 and the other for an addition and renovation to the town Water Treatment lab totaling \$350,000. These additions were offset to a lesser degree by principal payments on existing debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Waynesville is \$73,119,623.

Additional information regarding the Town of Waynesville's long-term debt can be found in note III.B.10 beginning on page 42 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- The Town sold a lot and building at the corner of Depot Street and Montgomery Street with a book value of \$244,520 for a net sales price of \$335,057.
- The Town collected \$ 615,915 in sanitation fees, an increase of \$103,363 or 20.17% in comparison to the prior fiscal year.
- Utility franchise taxes were \$676,321, an increase of \$91,058 or 15.56% in comparison to the prior year.
- The sales tax revenues from article 39, article 40, article 42, and article 44, for the current fiscal year were \$2,327,458, an increase of \$60,904 or 2.68% in comparison to the prior year.
- For the year ending June 30, 2008 the Town's property valuations totaled \$1,076,786,904, an increase of \$15,442,661 or 1.46% in comparison with the prior year. The Town's net levy totaled \$4,260,650, an increase of \$63,981 or 1.52% in comparison with the prior year.

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.10% excluding motor vehicles. This is a decrease of .24% from prior year's tax collection percentage excluding motor vehicles (97.34%). This is also comparable to the statewide average of units with electrical systems of 97.72% excluding motor vehicles for the population grouping 2,500 to 9,999 for 2006-2007. The total collected for ad valorem taxes which includes current taxes, prior year's uncollectible tax balances, and motor vehicle taxes was \$4,196,870, an increase of \$52,442 or 1.27% in comparison to the prior fiscal year.
- The Town's recreation department fees excluding the contributions from Haywood County for the current fiscal year were \$642,037, an increase of \$23,130 or 3.74% in comparison to the prior year.

Budget Highlights for the Fiscal Year Ending June 30, 2009

Governmental Activities: The budgeted revenues, transfers from other funds, and appropriated fund balance for the year ended June 30, 2009 are expected to rise to \$13,396,910 or an increase of \$774,696 (6.14%) from actual revenues, transfers from other funds, and appropriated fund balance for the year ended June 30, 2008. The increases will mainly be funded from a larger fund balance appropriation, higher grants, and increased user fees. The electric fund transfer to the general fund will remain the same at \$875,000. The Water fund and Sewer fund transfers to the General fund will increase to \$74,420 and \$70,180 respectively.

The budgeted expenditures and transfers to other funds for the year ended June 30, 2009 are expected to increase to \$13,396,910 or an increase of \$1,593,428 (13.50%) from actual expenditures and transfers to other funds for the year ended June 30, 2008. The largest budget increases are in employment vacancies being filled, employee compensation, fringe benefits, higher capital outlays, higher debt payments, a bridge replacement and other miscellaneous grants.

Business – type Activities:

Water Fund: Budgeted revenue and the appropriated fund balance amounts for the year ended June 30, 2009 are expected to rise to \$2,452,970 or an increase of \$340,747 (16.13%) from actual revenues and appropriated fund balance for the year ended June 30, 2008. This increase will be funded by a 5% water rate increase for customers inside the town, a 10% water rate increase for customers outside the town, higher tap fees, higher capacity fees, and a slightly larger fund balance appropriation. Budgeted expenditures and transfers to other funds for the year ended June 30, 2009 are expected to increase to \$2,452,970, or an increase of \$123,999 (5.32%) from actual expenditures for the year ended June 30, 2008. However, this is only a \$550 or .02% increase from the budgeted expenditures of the year ended June 30, 2008. The largest budgeted increases are employee vacancies being filled, higher employee compensation, higher fringe benefits, and a larger transfer to the general fund.

Sewer Fund: Budgeted revenue and appropriated fund balance amounts for the year ended June 30, 2009 are expected to rise to \$2,150,990 or an increase of \$231,915 (12.08%) from actual revenues and appropriated fund balance for the year ended June 30, 2008. This increase will be funded by a 5% sewer rate increase for customers inside the town, a 10% sewer rate increase for customers outside the town, higher tap fees, higher sewer capacity fees and a larger fund balance appropriation. Budgeted expenditures and transfer to other funds for the year ended June 30, 2009 are expected to increase to \$2,150,990 or an increase of \$275,511 (14.69%) from actual expenditures for the year ended June 30, 2008. The largest costs are associated with employee vacancies being filled, higher employee compensation, higher fringe benefits, higher utility costs, higher capital outlays and a larger transfer to the general fund.

Electric Fund: Budgeted revenue and appropriated fund balance amounts for the year ended June 30, 2009 are expected to increase to \$8,277,400, or an increase of \$537,059 (6.94%) from actual revenues and appropriated fund balance for the year ended June 30, 2008. Rate increases are being passed along to the Town's electric customers on a monthly basis to aid the town in keeping up with the higher power costs. These higher costs are primarily due to the rising fuel costs that have been passed along to the Town by its supplier. The budget calls for a fund balance appropriation of \$207,750. Budgeted expenditures and transfers to other funds for the year ended June 30, 2009 are expected to increase to \$8,277,400, or an increase of \$225,063 (2.80%) from actual expenditures and transfers for the year ended June 30, 2008. However, this is decrease of \$206,720 or 2.44% from the budgeted expenditures for the year ended June 30, 2008. The largest increases expected are debt payments associated with a new electrical substation, higher power costs, higher employee compensation, and higher fringe benefits.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Waynesville, 16 South Main Street, Waynesville, NC 28786.

Town of Waynesville, North Carolina
Statement of Net Assets
June 30, 2008

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,294,387	\$ 1,485,750	\$ 5,780,137	\$ 666,113
Investments	1,876,188	1,460,695	3,336,883	-
Taxes receivables (net)	458,696	-	458,696	-
Accrued interest receivable on taxes	19,356	-	19,356	-
Interest receivable on investments	22,378	6,129	28,507	310
Accounts receivable (net)	79,019	1,022,860	1,101,879	-
Due from other governments	1,316,446	-	1,316,446	-
Due from component units	27,081	-	27,081	-
Internal balances	20,340	(20,340)	-	-
Inventories	96,453	609,930	706,383	181,002
Prepaid items	135,337	-	135,337	6,360
Restricted cash and cash equivalents	3,380,000	-	3,380,000	-
Total current assets	11,725,681	4,565,024	16,290,705	853,785
Noncurrent assets:				
Accounts receivable (net)	23,349	-	23,349	-
Capital assets:				
Land, non-depreciable improvements and construction in progress	2,515,547	3,008,463	5,524,010	-
Other capital assets, net of depreciation	22,686,114	21,072,435	43,758,549	15,011
Total capital assets	25,201,661	24,080,898	49,282,559	15,011
Total noncurrent assets	25,225,010	24,080,898	49,305,908	15,011
Total assets	\$ 36,950,691	\$ 28,645,922	\$ 65,596,613	\$ 868,796
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 621,764	\$ 1,141,920	\$ 1,763,684	\$ 173,253
Unearned revenue	32,735	-	32,735	-
Accrued interest payable	153,005	27,131	180,136	-
Customer deposits	15,243	127,660	142,903	-
Due to primary government	-	-	-	27,081
Due to other governments	-	-	-	38,919
Note Payable	380,000	-	380,000	-
Current portion of long-term liabilities	2,833,471	483,895	3,317,366	-
Accounts payable from restricted assets	40,903	-	40,903	-
Total current liabilities	4,077,121	1,780,606	5,857,727	239,253
Long-term liabilities:				
Due in more than one year	8,886,081	1,508,004	10,394,085	-
Total liabilities	12,963,202	3,288,610	16,251,812	239,253
NET ASSETS				
Invested in capital assets, net of related debt	15,867,875	22,189,746	38,057,621	15,011
Restricted for:				
Transportation	697,914	-	697,914	-
Culture and recreation	25,221	-	25,221	-
Working Capital	-	-	-	607,861
Unrestricted	7,396,479	3,167,566	10,564,045	6,671
Total net assets	\$ 23,987,489	\$ 25,357,312	\$ 49,344,801	\$ 629,543

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, 2008

Exhibit 2

Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 2,004,995	\$ 74,640	\$ -	\$ -	\$ (1,930,355)	-	\$ (1,930,355)	\$ -
Public safety	3,759,346	354,493	27,902	99,750	(3,277,201)	-	(3,277,201)	-
Transportation	3,397,605	632,042	426,701	106,458	(2,232,404)	-	(2,232,404)	-
Environmental protection	107,033	43,821	-	-	(63,212)	-	(63,212)	-
Cultural and recreation	1,777,745	642,037	70,886	347,786	(717,036)	-	(717,036)	-
Interest on long-term debt	232,590	-	-	-	(232,590)	-	(232,590)	-
Total governmental activities	11,279,314	1,747,033	525,489	553,994	(8,452,798)	-	(8,452,798)	-
Business-type activities:								
Electric	6,380,588	7,676,949	-	-	-	\$ 1,296,361	1,296,361	-
Water	1,952,308	2,073,101	-	-	-	120,793	120,793	-
Sewer	1,769,082	1,895,087	-	-	-	126,005	126,005	-
Total business-type activities	10,101,978	11,645,137	-	-	-	1,543,159	1,543,159	-
Total primary government	\$ 21,381,292	\$ 13,392,170	\$ 525,489	\$ 553,994	(8,452,798)	1,543,159	(6,909,639)	-
Component units:								
ABC Board	\$ 2,236,902	\$ 2,271,073	\$ -	\$ -	-	-	-	34,171
Total component units	\$ 2,236,902	\$ 2,271,073	\$ -	\$ -	-	-	-	34,171
General revenues:								
Taxes:								
Property taxes, levied for general purpose					4,273,625	-	4,273,625	-
Other taxes					2,528,057	-	2,528,057	-
Grants and contributions not restricted to specific programs					816,967	-	816,967	-
Unrestricted investment earnings					219,415	109,704	329,119	14,949
Miscellaneous					182,160	17,832	199,992	-
Transfers					976,850	(976,850)	-	-
Total general revenues, special items, and transfers					8,997,074	(849,314)	8,147,760	14,949
Change in net assets					544,276	693,845	1,238,121	49,120
Net assets-beginning					23,443,213	24,663,467	48,106,680	580,423
Net assets-ending					\$ 23,987,489	\$ 25,357,312	\$ 49,344,801	\$ 629,543

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

Town of Waynesvills
Balance Sheet
Governmental Funds
June 30, 2008

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	Capital Projects		
ASSETS				
Cash and cash equivalents	\$ 3,435,509	\$ 623,417	\$ 226,745	\$ 4,285,671
Investments	1,876,188	-	-	1,876,188
Receivables, net:				
Taxes	458,696	-	-	458,696
Accounts	79,019	-	-	79,019
Prepaid items	135,337	-	-	135,337
Long-term receivable	23,349	-	-	23,349
Due from component unit	27,081	-	-	27,081
Due from other governmental agencies	1,316,446	-	-	1,316,446
Interest receivable	21,853	-	430	22,283
Inventories	14,813	-	-	14,813
Restricted cash and cash equivalents	380,000	3,000,000	-	3,380,000
Total assets	<u>\$ 7,768,291</u>	<u>\$ 3,623,417</u>	<u>\$ 227,175</u>	<u>\$ 11,618,883</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 265,918	\$ 342,768	\$ -	\$ 608,686
Note payable	380,000	-	-	380,000
Performance bonds	15,243	-	-	15,243
Deferred revenue	458,696	-	-	458,696
Unearned revenue	32,735	-	-	32,735
Accounts payable from restricted assets	-	40,903	-	40,903
Total liabilities	<u>1,152,592</u>	<u>383,671</u>	<u>-</u>	<u>1,536,263</u>
Fund balances:				
Reserved for:				
Prepaid expenses	135,337	-	-	135,337
Inventories	14,813	-	-	14,813
Encumbrances	18,326	-	-	18,326
Perpetual maintenance	-	-	227,175	227,175
State statute	1,467,748	-	-	1,467,748
Streets-Powell bill	697,914	-	-	697,914
Unreserved, General Fund:				
Designated for subsequent year's expenditures	800,000	-	-	800,000
Undesignated	3,481,561	-	-	3,481,561
Unreserved, reported in:				
Capital Project funds	-	3,239,746	-	3,239,746
Total fund balances	<u>6,615,699</u>	<u>3,239,746</u>	<u>227,175</u>	<u>10,082,620</u>
Total liabilities and fund balances	<u>\$ 7,768,291</u>	<u>\$ 3,623,417</u>	<u>\$ 227,175</u>	<u>\$ 11,618,883</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.	25,113,006
Other current assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	19,356
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.	138,823
Liabilities for earned but deferred revenues in fund statements.	458,696
Some liabilities, including installment purchases payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(11,825,012)
Net assets of governmental activities	<u>\$ 23,987,489</u>

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

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

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	Capital Projects		
REVENUES				
Ad valorem taxes	\$ 4,224,939	\$ -	\$ -	\$ 4,224,939
Other taxes and licenses	2,528,057	-	-	2,528,057
Unrestricted intergovernmental	816,967	-	-	816,967
Restricted intergovernmental	1,078,597	-	-	1,078,597
Permits and fees	187,886	-	-	187,886
Sales and services	2,213,856	-	15,950	2,229,806
Investment earnings	162,320	57,095	7,207	226,622
Miscellaneous	432,742	-	-	432,742
Total revenues	11,645,364	57,095	23,157	11,725,616
EXPENDITURES				
Current:				
General government	2,666,820	-	-	2,666,820
Public safety	3,768,071	2,485,436	-	6,253,507
Transportation	2,355,997	-	-	2,355,997
Environmental protection	110,796	-	-	110,796
Culture and recreation	1,970,067	-	2,422	1,972,489
Debt service:				
Principal	521,177	-	-	521,177
Interest and other charges	232,590	-	-	232,590
Total expenditures	11,625,518	2,485,436	2,422	14,113,376
Excess (deficiency) of revenues over expenditures	19,846	(2,428,341)	20,735	(2,387,760)
OTHER FINANCING SOURCES				
Transfers from other funds	976,850	-	-	976,850
Transfers to other funds	(177,970)	177,970	-	-
Proceeds from construction loan	-	3,000,000	-	3,000,000
Installment purchase obligations issued	-	-	-	-
Total other financing sources	798,880	3,177,970	-	3,976,850
Net change in fund balance	818,726	749,629	20,735	1,589,090
Fund balances-beginning	5,787,859	2,490,117	215,554	8,493,530
Residual equity transfer	9,114	-	(9,114)	-
Fund balances-ending	\$ 6,615,699	\$ 3,239,746	\$ 227,175	\$ 10,082,620

(continued)

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

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

Net changes in fund balances - total governmental funds	\$ 1,589,090
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	1,610,853
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	48,686
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.	(2,478,823)
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	(18,885)
Net pension obligation	(36,813)
Net book value of assets sold	(250,582)
Consolidation adjustment for internal balances between the internal service funds and the governmental funds	18,225
Net revenue of internal service funds determined to be governmental-type	<u>62,525</u>
Total changes in net assets of governmental activities	<u><u>\$ 544,276</u></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, 2008

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 4,172,690	\$ 4,172,690	\$ 4,224,939	\$ 52,249
Other taxes and licenses	2,343,690	2,460,760	2,528,057	67,297
Unrestricted intergovernmental	726,710	726,710	816,967	90,257
Restricted intergovernmental	1,008,860	1,350,570	1,078,597	(271,973)
Permits and fees	199,500	199,500	187,886	(11,614)
Sales and services	2,160,780	2,160,780	2,213,856	53,076
Investment earnings	130,000	130,000	162,320	32,320
Miscellaneous	150,170	150,170	432,742	282,572
Total revenues	10,892,400	11,351,180	11,645,364	294,184
Expenditures:				
Current:				
General government	2,823,590	2,876,590	2,666,820	209,770
Public safety	3,877,610	4,005,110	3,768,071	237,039
Transportation	2,842,610	2,912,610	2,355,997	556,613
Environmental protection	138,290	138,290	110,796	27,494
Cultural and recreation	1,886,330	2,094,610	1,970,067	124,543
Debt service:				
Principal retirement	521,260	521,260	521,177	83
Interest and other charges	344,270	344,270	232,590	111,680
Total expenditures	12,433,960	12,892,740	11,625,518	1,267,222
Revenues over (under) expenditures	(1,541,560)	(1,541,560)	19,846	1,561,406
Other financing sources (uses):				
Transfers from other funds	976,850	976,850	976,850	-
Transfers to other funds	(177,970)	(177,970)	(177,970)	-
Appropriations from fund balance	742,680	742,680	-	(742,680)
Total other financing sources (uses)	1,541,560	1,541,560	798,880	(742,680)
Net change in fund balance	\$ -	\$ -	818,726	\$ 818,726
Fund balances, beginning of year			5,787,859	
Residual equity transfer from SFR fund			9,114	
Fund balances, end of year			<u>\$ 6,615,699</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, 2008

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 715,736	\$ 174,756	\$ 576,467	\$ 1,466,959	\$ 18,791	\$ 8,716
Investments	917,981	542,714	-	1,460,695	-	-
Accounts receivable	664,176	185,056	173,628	1,022,860	-	-
Interest receivable	2,790	1,959	1,318	6,067	62	95
Inventories	333,502	244,844	24,302	602,648	7,282	81,640
Total current assets	2,634,185	1,149,329	775,715	4,559,229	26,135	90,451
Capital assets:						
Land and Construction in Progress	1,159,341	1,519,225	229,679	2,908,245	100,218	-
Other capital assets, net of depreciation	1,611,888	11,177,124	7,915,152	20,704,164	368,271	88,655
Capital assets (net)	2,771,229	12,696,349	8,144,831	23,612,409	468,489	88,655
Total assets	\$ 5,405,414	\$ 13,845,678	\$ 8,920,546	\$ 28,171,638	\$ 494,624	\$ 179,106
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	1,059,662	55,405	51,724	1,166,791	2,260	55,653
Customer deposits	90,578	37,082	-	127,660	-	-
Compensated absences - current	9,303	21,333	23,090	53,726	3,480	2,373
Installment purchases payable-current	36,081	268,203	122,405	426,689	-	-
Total current liabilities	1,195,624	382,023	197,219	1,774,866	5,740	58,026
Noncurrent liabilities:						
Compensated absences	7,362	18,600	15,646	41,608	1,933	2,597
Installment purchases payable	153,919	1,232,687	77,857	1,464,463	-	-
Total noncurrent liabilities	161,281	1,251,287	93,503	1,506,071	1,933	2,597
Total liabilities	1,356,905	1,633,310	290,722	3,280,937	7,673	60,623
NET ASSETS						
Invested in capital assets, net of related debt	2,581,229	11,195,459	7,944,569	21,721,257	468,489	88,655
Unrestricted	1,467,280	1,016,909	685,255	3,169,444	18,462	29,828
Total net assets	\$ 4,048,509	\$ 12,212,368	\$ 8,629,824	24,890,701	\$ 486,951	\$ 118,483
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				466,611		
Net assets of business-type activities				\$ 25,357,312		

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, 2008

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
OPERATING REVENUES						
Charges for services	\$ 7,676,949	\$ 2,073,101	\$ 1,895,087	\$ 11,645,137	\$ 270,409	\$ 586,079
Total operating revenues	<u>7,676,949</u>	<u>2,073,101</u>	<u>1,895,087</u>	<u>11,645,137</u>	<u>270,409</u>	<u>586,079</u>
OPERATING EXPENSES						
Finance and administration	329,730	181,930	165,320	676,980	-	-
Electric operations	602,027	-	-	602,027	-	-
Electric power purchases	5,319,934	-	-	5,319,934	-	-
Water treatment and distribution	-	1,283,699	-	1,283,699	-	-
Waste collection and treatment	-	-	1,191,441	1,191,441	-	-
Public works operations	-	-	-	-	214,509	-
Garage operations	-	-	-	-	-	517,347
Depreciation	141,515	432,690	403,481	977,686	14,479	7,828
Total operating expenses	<u>6,393,206</u>	<u>1,898,319</u>	<u>1,760,242</u>	<u>10,051,767</u>	<u>228,988</u>	<u>525,175</u>
Operating income	<u>1,283,743</u>	<u>174,782</u>	<u>134,845</u>	<u>1,593,370</u>	<u>41,421</u>	<u>60,904</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	47,497	39,108	22,065	108,670	1,034	1,566
Interest and other charges	(2,708)	(59,167)	(11,532)	(73,407)	-	-
Miscellaneous revenues (expenses)	15,895	14	1,923	17,832	-	55
Total nonoperating revenue (expenses)	<u>60,684</u>	<u>(20,045)</u>	<u>12,456</u>	<u>53,095</u>	<u>1,034</u>	<u>1,621</u>
Income before contributions and transfers	<u>1,344,427</u>	<u>154,737</u>	<u>147,301</u>	<u>1,646,465</u>	<u>42,455</u>	<u>62,525</u>
Capital contributions	-	-	-	-	-	-
Transfers to other funds	(875,000)	(52,450)	(49,400)	(976,850)	-	-
Change in net assets	<u>469,427</u>	<u>102,287</u>	<u>97,901</u>	<u>669,615</u>	<u>42,455</u>	<u>62,525</u>
Total net assets - beginning	<u>3,579,082</u>	<u>12,110,081</u>	<u>8,531,923</u>		<u>444,496</u>	<u>55,958</u>
Total net assets - ending	<u>\$ 4,048,509</u>	<u>\$ 12,212,368</u>	<u>\$ 8,629,824</u>		<u>\$ 486,951</u>	<u>\$ 118,483</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>24,230</u>		
Change in net assets - business-type activities				<u>\$ 693,845</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, 2008

	Business-Type Activities				Governmental Activity	
	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Totals	Public Works Fund	Garage Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 7,586,711	\$ 2,057,968	\$ 1,882,984	\$ 11,527,663	\$ 270,409	\$ 586,012
Cash paid for goods and services	(5,321,119)	(736,747)	(642,461)	(6,700,327)	(62,474)	(421,518)
Cash paid to or on behalf of employees for services	(293,280)	(750,038)	(714,505)	(1,757,823)	(159,165)	(87,049)
Customer deposits received	40,559	17,360	-	57,919	-	-
Customer deposits returned	(39,249)	(14,550)	(60)	(53,859)	-	-
Net cash provided by operating activities	1,973,622	573,993	525,958	3,073,573	48,770	77,445
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Cash received from miscellaneous sources	10,440	-	-	10,440	-	-
Transfers to other funds	(875,000)	(52,450)	(49,400)	(976,850)	-	-
Total cash flows from noncapital financing activities	(864,560)	(52,450)	(49,400)	(966,410)	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from installment purchase obligation	190,000	350,000	-	-	-	-
Principal and interest paid on long-term debt	-	(297,481)	(129,737)	(427,218)	-	-
Proceeds from sale of assets	5,455	14	1,923	7,392	-	55
Acquisition and construction of capital assets	(1,112,653)	(869,622)	(346,011)	(2,328,286)	(56,932)	(70,350)
Net cash used by capital and related financing activities	(917,198)	(817,089)	(473,825)	(2,748,112)	(56,932)	(70,295)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received on investments	50,551	42,083	23,428	116,062	1,243	1,566
Purchase of investments	(2,739,616)	(1,022,100)	-	(3,761,716)	-	-
Proceeds from investment maturities	2,708,290	1,000,966	-	3,709,256	-	-
Net cash provided by investing activities	19,225	20,949	23,428	63,602	1,243	1,566
Net increase (decrease) in cash and cash equivalents	211,089	(274,597)	26,161	(37,347)	(6,919)	8,716
Balances-beginning of the year	504,647	449,353	550,306	1,504,306	25,710	-
Balances-end of the year	\$ 715,736	\$ 174,756	\$ 576,467	\$ 1,466,959	\$ 18,791	\$ 8,716
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 1,283,743	\$ 174,782	\$ 134,845	\$ 1,593,370	\$ 41,421	\$ 60,904
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	141,515	432,690	403,481	977,686	14,479	7,828
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(90,238)	(15,133)	(12,103)	(117,474)	-	(67)
(increase) decrease in inventory	34,423	(27,021)	2,044	9,446	(211)	(32,953)
Increase (decrease) in accounts payable and accrued liabilities	605,862	(346)	(8,680)	596,836	(6,665)	41,170
Increase (decrease) in customer deposits	1,310	2,810	(60)	4,060	-	-
Increase (decrease) in accrued vacation pay	(2,993)	6,211	6,431	9,649	(254)	563
Total adjustments	689,879	399,211	391,113	1,480,203	7,349	16,541
Net cash provided by operating activities	\$ 1,973,622	\$ 573,993	\$ 525,958	\$ 3,073,573	\$ 48,770	\$ 77,445

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, 2008

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 Town appoints members of the ABC Board's governing board. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Waynesville ABC Board, 509 Walnut Street, NC 28786.

B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental funds:

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

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

The Town reports the following non-major governmental funds:

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

The Town reports the following major enterprise funds:

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

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

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

The Town reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including 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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Haywood County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Waynesville. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Haywood County from March 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes 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 Capital Projects Fund. The Town's Public Works and Garage Operations Funds, internal service funds, operate under financial plans that were adopted by the governing board at the time the Town's budget ordinance was approved, as is required by the General Statutes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, one amendment to the original budget was necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board

must adopt an interim budget that covers that time until the annual ordinance can be adopted. The Cemetery Fund and the Playground Fund are not required to be budgeted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

Portions of cash in escrow in the General Fund and Capital Project Fund are classified as restricted assets because their use is completely restricted to the purpose for which the funds were initially secured. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13 (a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2007. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

The inventories of the Town's enterprise funds and those of the 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, \$7,500; 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 systems	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, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

The governmental fund types classify fund balances as follows:

Reserved:

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

Reserved for encumbrances – portion of fund balance available to pay for commitments related to purchase orders or contracts that remain unperformed at year-end.

Reserved by State statute – portion of fund balance, in addition to reserves for encumbrances and reserves for inventories and prepaid expenses, which is not available for appropriation under State law [G.S. 159-8 (a)].

This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

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

Unreserved:

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

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

II. Stewardship, Compliance, and Accountability

The Town had no violations of non-compliance with State Statutes for the year ended June 30, 2008.

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, 2008, the Town's deposits had a carrying amount of \$5,719,120 and a bank balance of \$5,881,577. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$248,788 and the bank balance was \$233,029. Of the bank balance, \$201,502 was covered by federal depository insurance. At June 30, 2008, the Town's petty cash fund totaled \$2,875.

2. Investments

At June 30, 2008, the Town's investment balances were as follows:

Investment Type	Reported		Maturity	Rating
	Value	Fair Value		
Federal Home Loan Bank Discount Notes	\$ 1,835,962	\$ 1,837,382	Various	AAA
US Treasuries	690,652	691,942	Various	AAA
NC Capital Management Trust - Cash Portfolio	4,248,411	4,248,411	10/23/2008	AAAm
Total:	\$ 6,775,025	\$ 6,777,735		

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

Credit Risk. The Town has no policy regarding credit risk, 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 at June 30, 2008. 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, 2008.

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 5% of the Town's investments are in Federal Home Loan Bank Discount Notes. This investment comprises 27% 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	6/30/2008
General Fund:	
Taxes receivable	\$ 20,000
Accounts receivable	10,962
Total	30,962
Enterprise Funds	60,344
Total	<u>\$ 91,306</u>

4. Capital Assets**Primary Government**

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

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,655,984	\$ 846	\$ 244,520	\$ (33,072)	\$ 1,379,238
Construction in progress	\$ 1,390,827	2,835,665	3,090,183	-	1,136,309
Total capital assets not being depreciated	3,046,811	2,836,511	3,334,703	(33,072)	2,515,547
Capital assets being depreciated:					
Land improvements	718,784	17,911	-	151,354	888,049
Buildings and building improvements	8,381,281	-	-	2,929,144	11,310,425
Equipment and furniture and fixtures	1,828,545	376,487	183,176	-	2,021,856
Vehicles and motorized equipment	3,584,967	106,484	156,482	-	3,534,969
Infrastructure	26,696,889	8,345	-	42,758	26,747,992
Total capital assets being depreciated	41,210,466	509,227	339,658	3,123,256	44,503,291
Less accumulated depreciation for:					
Land improvements	499,024	18,064	-	-	517,088
Buildings and building improvements	1,461,742	175,942	-	-	1,637,684
Equipment and furniture and fixtures	1,304,516	166,628	177,114	-	1,294,030
Vehicles and motorized equipment	2,156,091	279,001	156,482	-	2,278,610
Infrastructure	15,057,035	1,032,730	-	-	16,089,765
Total accumulated depreciation	20,478,408	1,672,365	333,596	-	21,817,177
Total capital assets being depreciated, net	20,732,058				22,686,114
Governmental activity capital assets, net	<u>\$ 23,778,869</u>				<u>\$ 25,201,661</u>

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

General government	\$ 82,870
Public safety	201,182
Transportation	1,178,060
Environmental protection	2,805
Cultural and recreational	199,620
Depreciation on capital assets held in Garage	
Fund charged to functions based on usage	7,828
Total depreciation expense	<u>\$ 1,672,365</u>

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Business-type activities:					
<i>Electric Fund</i>					
Capital assets not being depreciated:					
Land	\$ 217,558	\$ -	\$ -		\$ 217,558
Construction in progress	63,319	878,464	-		941,783
Total capital assets not being depreciated	280,877	878,464	-	-	1,159,341
Capital assets:					
Buildings and building improvements	22,997	-	-		22,997
Equipment and furniture and fixtures	107,577	3,722	7,552		103,747
Vehicles and motorized equipment	547,541	186,669	-	-	734,210
Substations, lines, and related equipment	3,742,074	43,798	-	-	3,785,872
Total capital assets being depreciated	4,420,189	234,189	7,552	-	4,646,826
Less accumulated depreciation for:					
Buildings and building improvements	17,351	481	-		17,832
Equipment and furniture and fixtures	97,574	4,132	7,552		94,154
Vehicles and motorized equipment	383,932	32,375	-	-	416,307
Substations, lines, and related equipment	2,402,118	104,527	-	-	2,506,645
Total accumulated depreciation	2,900,975	141,515	7,552	-	3,034,938
Total capital assets being depreciated, net	1,519,214				1,611,888
Electric fund capital assets, net	1,800,091				2,771,229
<i>Water Fund</i>					
Capital assets not being depreciated:					
Land	1,486,362	-	-	-	1,486,362
Construction in progress	46,124	32,864	-	(46,125)	32,863
Total capital assets not being depreciated	1,532,486	32,864	-	(46,125)	1,519,225
Capital assets being depreciated:					
Land improvements	14,026	49,222	-	-	63,248
Buildings and building improvements	1,142,456	460,550	-	46,125	1,649,131
Equipment and furniture and fixtures	178,341	3,184	7,352	-	174,173
Vehicles and motorized equipment	391,245	-	-	-	391,245
Plant and system distributions	18,512,222	323,802	-	-	18,836,024
Total capital assets being depreciated	20,238,290	836,758	7,352	46,125	21,113,821
Less accumulated depreciation for:					
Land improvements	4,618	761	-	-	5,379
Buildings and building improvements	888,896	11,891	-	-	900,787
Equipment and furniture and fixtures	157,832	10,872	7,352	-	161,352
Vehicles and motorized equipment	283,162	25,706	-	-	308,868
Plant and system distributions	8,176,851	383,460	-	-	8,560,311
Total accumulated depreciation	9,511,359	432,690	7,352	-	9,936,697
Total capital assets being depreciated, net	10,726,931				11,177,124
Water fund capital assets, net	12,259,417				12,696,349

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Sewer Fund</i>					
Capital assets not being depreciated:					
Land	103,300	-	-	-	103,300
Construction in progress	-	126,379	-	-	126,379
Total capital assets not being depreciated	103,300	126,379	-	-	229,679
Capital assets being depreciated:					
Land improvements	12,276	-	-	-	12,276
Buildings and building improvements	8,582,432	-	-	-	8,582,432
Equipment and furniture and fixtures	268,733	27,697	10,903	-	285,527
Vehicles and motorized equipment	298,300	-	-	-	298,300
Plant and system distributions	7,707,825	191,935	-	-	7,899,760
Total capital assets being depreciated	16,869,566	219,632	10,903	-	17,078,295
Less accumulated depreciation for:					
Land improvements	9,370	735	-	-	10,105
Buildings and building improvements	5,149,682	178,496	-	-	5,328,178
Equipment and furniture and fixtures	183,988	23,223	10,903	-	196,308
Vehicles and motorized equipment	177,928	18,378	-	-	196,306
Plant and system distributions	3,249,597	182,649	-	-	3,432,246
Total accumulated depreciation	8,770,565	403,481	10,903	-	9,163,143
Total capital assets being depreciated, net	8,099,001				7,915,152
Sewer fund capital assets, net	8,202,301				8,144,831
<i>Public Works Fund</i>					
Capital assets not being depreciated:					
Land	100,218	-	-	-	100,218
Capital assets being depreciated:					
Land improvements	19,131	13,813	-	-	32,944
Buildings and building improvements	487,412	41,275	-	-	528,687
Equipment and furniture and fixtures	12,528	1,844	3,054	-	11,318
Vehicles and motorized equipment	38,434	-	-	-	38,434
Total capital assets being depreciated	557,505	56,932	3,054	-	611,383
Less accumulated depreciation for:					
Land improvements	14,182	1,405	-	-	15,587
Buildings and building improvements	193,397	10,458	-	-	203,855
Equipment and furniture and fixtures	6,172	1,455	3,054	-	4,573
Vehicles and motorized equipment	17,936	1,161	-	-	19,097
Total accumulated depreciation	231,687	14,479	3,054	-	243,112
Total capital assets being depreciated, net	325,818				368,271
Public Works fund capital assets, net	426,036				468,489
Business-type activities capital assets, net	\$22,687,845				\$24,080,898

Construction commitments

The Town has active construction projects as of June 30, 2008. At year-end, the Town's commitments with contractors are as follows:

Project	Spent To-Date	Remaining Commitment
Hendrix Street Bridge	\$ 169,744	\$ 11,245
Water Treatment Plant Roof	-	18,410
Capital Project - Police Dept. Construction	427,147	3,666,437
Greenway Project Landscaping	-	10,000
Eagle Nest Water Project	-	102,300
Storm Drainage Project	41,045	18,955
Capital Project - Fire Dept. Construction	2,501,827	69,585
Total	<u>\$ 3,139,763</u>	<u>\$ 3,896,932</u>

Discretely presented component units

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

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Capital assets being depreciated:					
Furniture and equipment	\$ 55,235	\$ -	\$ -	\$ -	\$ 55,235
Leasehold improvements	3,308	-	-	-	3,308
Total capital assets being depreciated	58,543	-	-	-	58,543
Less accumulated depreciation	40,124	3,408	-	-	43,532
ABC capital assets, net	<u>\$ 18,419</u>				<u>\$ 15,011</u>

B. Liabilities1. Payables

Payables at the government-wide level at June 30, 2008, were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities:				
General	\$ 185,163	\$ 73,582	\$ 7,143	\$ 265,888
Capital Projects	341,126	-	-	341,126
Other Governmental	54,979	674	-	55,653
Total Governmental Activities	<u>\$ 581,268</u>	<u>\$ 74,256</u>	<u>\$ 7,143</u>	<u>\$ 662,667</u>
Business-type Activities:				
Electric	\$ 1,054,363	\$ 2,591	\$ -	\$ 1,056,954
Water	25,305	5,944	-	31,249
Sewer	22,654	5,803	23,000	51,457
Other Business-type Activities	547	1,713	-	2,260
Total Business-type Activities:	<u>\$ 1,102,869</u>	<u>\$ 16,051</u>	<u>\$ 23,000</u>	<u>\$ 1,141,920</u>

2. Pension Plan 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 Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.93% and 4.86%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.80% of annual covered payroll. The contribution requirements of members and of the Town of Waynesville and the ABC Board are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were \$285,813, \$269,873, and \$253,859, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were \$9,088, \$8,399, and \$8,915, 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, 2007, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	31
Total	<u>32</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, 2006 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-retirement benefit increases.

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

Annual required contribution	\$ 42,046
Interest on net pension obligation	14,881
Adjustment to annual required contribution	(12,613)
Annual pension cost	44,314
Contributions made	(7,501)
Increase (decrease) in net pension obligation	36,813
Net pension obligation beginning of year	205,261
Net pension obligation end of year	<u>\$ 242,074</u>

3 Year Trend Information				
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
2006	\$ 45,389	27.43%	\$	174,486
2007	\$ 39,124	21.34%	\$	205,261
2008	\$ 44,314	16.93%	\$	242,074

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, 2008 were \$95,014, which consisted of \$65,835 from the Town and \$29,179 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% for all covered employees. Effective January 1, 2005, this percentage increased to 5%. Contributions for the year ended June 30, 2008 were \$358,682, which consisted of \$210,955 from the Town and \$147,727 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 nonemployer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

f. Other Post-employment Benefits

According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) or Law Enforcement Officers Retirement System. A retiree shall receive health insurance coverage under the following conditions:

- 1) A retiree who has achieved ten or more years of service with the Town and has reached 55 years of age shall receive health insurance coverage.
- 2) A retiree who has achieved at least 25 years of service with the Town, not including accumulated sick or vacation time, shall receive health insurance coverage for a period of ten years from their official retirement date, regardless of age at which that employee retires. At the conclusion of the ten-year period, the retiree will be allowed to pay the required insurance premium and maintain coverage in the health insurance program.
- 3) A retiree who has achieved at least thirty years of service with the Town, not including accumulated sick or vacation time, regardless of the age at which that employee retires, shall receive health insurance coverage from their official retirement date until the retiree reaches the age of 65 or until the employee becomes eligible for Medicare through disability at an earlier age. Health insurance will be provided at no expense to the retiree.

The Town pays the full cost of coverage for these benefits until the retired employee reaches age 65 (except as described in condition 2 above) or until the employee becomes eligible for Medicare through disability at an early age. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates and purchase Medicare supplement insurance, if such is available through the Town's insurance program. At June 30, 2008, there were sixteen retirees eligible for postretirement health benefits. For the fiscal year ended June 30, 2008, the Town made payments for post-employment health benefit premiums of \$73,402. The Town obtains health care coverage through the North Carolina Interlocal Risk Management Agency.

3. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-

administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. 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)	\$ -	\$ 5,441
Taxes receivable, net (General Fund)	458,696	-
Unearned grant revenue (General Fund)	-	180
Unearned distributions (General Fund)	-	19,919
Other unearned revenue (General Fund)	-	7,195
Total	<u>\$ 458,696</u>	<u>\$ 32,735</u>

6. Commitments

The Town had commitments of \$316,756 in its proprietary funds at June 30, 2008. These items will be funded from operating funds. Additionally, the Town had commitments in the General Fund of \$15,000 for Public Artwork and \$51,252 for Pedestrian and Traffic Studies.

The Town held cash performance bonds with a balance at June 30, 2008 of \$15,243 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. Operating Lease

The Town leases a temporary police headquarters (while the new facility is being constructed) under an operating lease that requires monthly payments of \$2,200 and expires April 30, 2009. Rent expense under this lease agreement was \$13,200 for the year ended June 30, 2008. Minimum future lease payments as of June 30, 2008 were \$22,000 for the year ending June 30, 2009.

8. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. Through commercial coverage, the Town obtained general liability of \$4 million and auto liability coverage of \$2 million per occurrence, property coverage up to replacement value, workers' compensation coverage up to \$1 million per occurrence, and employee health coverage with an unlimited maximum.

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

The Town does not carry flood insurance 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 town manager, finance officer, and tax collector are each individually bonded for \$100,000 each. The town clerk and deputy clerk are each individually bonded for \$25,000 each. The remaining employees that have access to funds are bonded under a blanket bond up to a limit of either \$5,000 or \$10,000 per occurrence, depending on the type of crime.

The ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has commercial property, general liability, workmen's compensation and employee health coverage. The Board also has liquor legal liability. There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

As of June 30, 2008, neither the manager, store employees, nor members of the ABC Board were bonded. This is in violation of G.S. 18B-803(b) and (c) and G.S. 18B-700(i), respectively. As of September 29, 2008, the ABC Board was actively seeking bonded insurance for all required individuals.

9. Claims, Judgments and Contingent Liabilities

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

10. Long-Term Obligations

a. Installment Purchases, Interlocal Agreement and Construction Financing

On May 13, 2008, the Town entered into an installment purchase contract for the construction of a new Police Station. The financing requires forty semi-annual payments of \$106,613 with an interest rate of 3.68%. Interest expense for the year ended June 30, 2008 was \$14,400. This loan is shown under governmental activities.

On January 28, 2008, the Town entered into an 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%. Interest expense for the year ended June 30, 2008 was \$8,124. One-third of this loan is shown under business-type activities while the other two-thirds is shown under governmental activities as a \$380,000 note payable. At June 30, 2008, the front-loading garbage trucks had not been received from the vendor, however the cash was in escrow at the bank. The Town recorded both restricted cash and a note payable for \$380,000 in the general fund. The trucks were received subsequent to year-end.

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%. Interest expense for the year ended June 30, 2008 was \$12,478. This loan is shown under business-type activities.

On February 13, 2007, the Town entered into a temporary construction loan for a new Fire Station. The financing requires three semi-annual interest payments of \$36,900 and one final payment of \$2,036,900 due February 13, 2009, with an interest rate of 3.69%. Interest expense for the year ended June 30, 2008 was \$101,374. This loan is shown under governmental activities. Following the completion of the fire station construction, the loan was refinanced as a \$2,000,000 permanent loan through the USDA Rural Development for 40 years with an interest rate of 4.5%. **See Note VI. Significant Effects of Subsequent Events.**

On February 15, 2007, the Town entered into a second installment purchase contract to finance the construction of a new Fire Station. The financing requires 30 semi-annual fixed principal payments of \$33,333 plus interest at the rate of 3.69%. Interest expense for the year ended June 30, 2008 was \$49,432. This loan is shown under governmental activities.

On January 5, 2007, the Town entered into an installment purchase contract to acquire a telephone system. The financing contract requires sixty monthly payments of \$1,502 with an interest rate of 5.584%. Interest expense for the year ended June 30, 2008 was \$3,660. This loan is shown under governmental activities.

On November 21, 2006, the Town entered into an installment purchase contract to acquire three street trucks. The financing contract requires four annual payments of \$56,236 with an interest rate of 3.82%. Interest expense for the year ended June 30, 2008 was \$6,718. This loan is shown under governmental activities.

On May 1, 2006, the Town entered into an installment purchase contract to acquire a water tank. The financing contract requires ten annual payments of \$118,680 with an interest rate of 3.49 percent. Interest expense for the year ended June 30, 2008 was \$24,069. This loan is shown under business-type activities.

On July 20, 2005, the Town entered into an installment purchase contract to acquire a bulldozer. The financing contract requires sixty monthly payments of \$1,314 with an interest rate of 5.24 percent. Interest expense for the year ended June 30, 2008 was \$1,940. This loan is shown under governmental activities.

In January 2003, the Town entered into an interlocal agreement with Haywood County (County) to assist the County with its payment for the construction of a new parking facility. The agreement requires annual payments of \$227,047 with an interest rate of 4.479 percent. Interest expense for the year ended June 30, 2008 was \$81,035. This loan is shown under governmental activities and has a balance of \$1,798,391 at June 30, 2008. 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%. Interest expense for the year ended June 30, 2008 was \$22,619. This loan is shown under business-type activities.

On June 21, 2001, the Town entered into an installment purchase contract for a sewer belt press. The contract as refinanced required one final payment (under the original contract) of \$44,090 and subsequent annual payments of \$41,155 with an interest rate of 3.79 percent. Interest expense for the year ended June 30, 2008 was \$5,690. This loan is shown under business-type activities.

In October 1998, the Town entered into an installment purchase contract to build a new recreation facility center. The contract as refinanced required one final annual payment (under the original contract) of \$404,622 and subsequent semi-annual payments of \$185,407 at an interest rate of 3.99 percent. Interest expense for the year ended June 30, 2008 was \$131,378. This loan is shown under governmental activities.

On June 26, 1997, the Town entered into an installment purchase contract for construction of a sewer treatment facility. The contract as refinanced required one final payment (under the original contract) of \$96,896 and subsequent payments of \$88,583 with an interest rate of 3.49 percent. Interest expense for the year ended June 30, 2008 was \$5,842. This loan is shown under business-type activities.

The future minimum payments of these installment purchase contracts and agreements as of June 30, 2008, are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 2,644,223	\$ 431,912	\$ 426,689	\$ 67,601
2010	668,175	331,647	353,097	52,611
2011	676,983	304,563	365,941	39,768
2012	638,302	276,984	338,099	26,453
2013	650,986	170,154	286,251	17,323
2014-2018	3,634,560	902,302	121,075	7,100
2019-2023	1,253,217	305,463	-	-
2024-2028	965,730	100,403	-	-
Total	<u>\$ 11,132,177</u>	<u>\$ 2,823,428</u>	<u>\$ 1,891,152</u>	<u>\$ 210,855</u>

b. General Obligation Bonds

At June 30, 2008, the Town of Waynesville had a legal debt margin of \$73,119,623.

c. Changes in General Long-Term Debt

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Current Portion of Balance
Governmental activities:					
Installment purchases	\$8,653,354	\$3,000,000	\$521,177	\$11,132,177	\$ 2,644,223
Unfunded pension liabilities	205,261	36,813	-	242,074	-
Legal Claims	10,000	-	-	10,000	-
Compensated absences-garage	4,407	2,936	2,373	4,970	2,373
Compensated absences	311,416	205,790	186,875	330,331	186,875
Governmental activity long-term liabilities	<u>\$9,184,438</u>	<u>\$3,245,539</u>	<u>\$710,425</u>	<u>\$11,719,552</u>	<u>\$ 2,833,471</u>
Business-type activities:					
Installment purchases	\$1,709,447	\$ 540,000	\$358,295	\$ 1,891,152	\$ 426,689
Compensated absences	91,352	66,601	57,206	100,747	57,206
Business-type activity long-term liabilities	<u>\$1,800,799</u>	<u>\$ 606,601</u>	<u>\$415,501</u>	<u>\$ 1,991,899</u>	<u>\$ 483,895</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, 2008, consist of the following:

Due to the Town from the component unit, ABC Board	\$ 27,081
Due from the Public Works Fund for its activity allocation to the Governmental Funds	<u>\$ 20,340</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, 2008 consist of the following:

From the Water Fund to the General Fund	\$ 52,450
From the Sewer Fund to the General Fund	49,400
From the Electric Fund to the General Fund	875,000
From the component unit, ABC Board, to the Town	96,319
From the General Fund to the Capital Project Fund	177,970
Total	<u>\$ 1,251,139</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.

During the 2008 fiscal year, the Town made a transfer from the General Fund of \$177,970 to the Capital Project Fund as per the terms of the ordinance establishing that fund.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2008, the Town of Waynesville has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$13,248 for the twenty-two 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, 2008 is immaterial, and therefore, not recognized as a revenue and an expenditure. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their dependents.

IV. Related Organization

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

Subsequent to year-end, the Town obtained permanent financing for the \$2,000,000 temporary loan for the construction of the new Fire Station. On September 26, 2008, the Town entered into an installment purchase contract with USDA Rural Development for \$2,000,000. The installment payments will be made over forty years at an interest rate of 4.5%. The first payment of \$108,700 is due on September 26, 2009 with the same amount due each year thereafter. The final payment is due on September 26, 2048.

On July 1, 2008, the Town received approval from the Local Government Commission to borrow \$3,000,000 for construction of a second electrical substation. On July 17, 2008, the Town entered into an installment purchase contract with a local bank for \$3,000,000 to fund the construction. The installment payments will be made over twelve years at an interest rate of 3.52%. The first payment of \$310,817 is due on July 17, 2009 with the same amount due each year thereafter. The final payment is due on July 17, 2020. Construction of the substation began prior to the year ending June 30, 2008 and completion is expected by January 2009.

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)
12/31/2002	-	268,159	268,159	0%	1,031,313	26.00%
12/31/2003	-	323,022	323,022	0%	1,157,121	27.92%
12/31/2004	-	337,273	337,273	0%	1,141,415	29.55%
12/31/2005	-	295,367	295,367	0%	1,159,503	25.47%
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%

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>
2003	34,606	15.53%
2004	36,973	8.67%
2005	43,801	15.88%
2006	45,389	27.43%
2007	39,124	21.34%
2008	44,314	16.93%

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	12/31/2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	24 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	4.5% to 12.3%
*Includes inflation at	3.75%
Cost-of living adjustments	N/A

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, 2008

	2008		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 4,196,870	\$ -
Penalties and interest	-	28,069	-
Total	<u>4,172,690</u>	<u>4,224,939</u>	<u>52,249</u>
Other taxes and licenses:			
Local option sales tax	-	2,327,458	-
Gross receipts tax on short-term rental property	-	21,691	-
Privilege licenses and CATV	-	178,908	-
Total	<u>2,460,760</u>	<u>2,528,057</u>	<u>67,297</u>
Unrestricted intergovernmental:			
Utility franchise tax	-	676,321	-
Beer and wine tax	-	44,327	-
ABC profit distribution	-	96,319	-
Total	<u>726,710</u>	<u>816,967</u>	<u>90,257</u>
Restricted intergovernmental:			
Powell Bill allocation	-	476,624	-
Investment earnings	-	23,297	-
Contributions by Haywood County	-	70,000	-
On-behalf of payments - Fire and Rescue	-	13,248	-
ABC Revenue for law enforcement	-	14,654	-
Other grant revenue	-	480,774	-
Total	<u>1,350,570</u>	<u>1,078,597</u>	<u>(271,973)</u>
Permits and fees:			
Building permits and inspection fees	-	142,046	-
Reconnect fees	-	45,840	-
Total	<u>199,500</u>	<u>187,886</u>	<u>(11,614)</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, 2008

	2008		Variance
	Budget	Actual	Positive (Negative)
Sales and services:			
Recreation department fees	-	642,037	-
Cemetery revenues	-	21,550	-
Solid waste container sales	-	16,127	-
Fire protection	-	157,487	-
Police contract services	-	50,968	-
Sanitation fee	-	615,915	-
Court costs and fees	-	3,992	-
Rents	-	28,800	-
Charges to water fund	-	181,930	-
Charges to sewer fund	-	165,320	-
Charges to electric fund	-	329,730	-
Total	2,160,780	2,213,856	53,076
 Investment earnings	 130,000	 162,320	 32,320
 Miscellaneous	 150,170	 432,742	 282,572
 Total revenues	 11,351,180	 11,645,364	 294,184
 Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits	-	77,763	-
Other operating expenditures	-	44,714	-
Total	129,490	122,477	7,013
 Administration:			
Salaries and employee benefits	-	572,753	-
Professional services	-	69,617	-
Other operating expenditures	-	123,533	-
Capital outlay	-	27,331	-
Total	829,100	793,234	35,866
 Finance:			
Salaries and employee benefits	-	593,090	-
Professional services	-	44,627	-
Other operating expenditures	-	105,530	-
Capital outlay	-	7,159	-
Total	775,880	750,406	25,474

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, 2008

	2008		Variance
	Budget	Actual	Positive (Negative)
Public buildings:			
Salaries and employee benefits	-	49,043	-
Other operating expenditures	-	204,853	-
Capital outlay	-	22,911	-
Total	334,970	276,807	58,163
Planning and code enforcement:			
Salaries and employee benefits	-	397,860	-
Other operating expenditures	-	65,445	-
Capital Outlay	-	-	-
Total	541,170	463,305	77,865
Special appropriations:			
Contributions	-	260,591	-
Total	265,980	260,591	5,389
Total general government	2,876,590	2,666,820	209,770
Public safety:			
Police:			
Salaries and employee benefits	-	2,318,864	-
Professional services	-	17,678	-
Other operating expenditures	-	425,625	-
Capital outlay	-	112,788	-
Total	3,086,310	2,874,955	211,355
Fire:			
Salaries and employee benefits	-	681,247	-
Other operating expenditures	-	101,634	-
Building inspection and EMT's	-	5,235	-
Capital outlay	-	105,000	-
Total	918,800	893,116	25,684
Total public safety	4,005,110	3,768,071	237,039
Transportation:			
Streets and highways:			
Salaries and employee benefits	-	1,139,968	-
Professional services	-	46,768	-
Other operating expenditures	-	777,451	-
Contracted services	-	279,877	-
Capital outlay	-	111,933	-
Total transportation	2,912,610	2,355,997	556,613

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, 2008

	2008		Variance
	Budget	Actual	Positive (Negative)
Environmental protection:			
Cemetery:			
Salaries and employee benefits	-	91,468	-
Other operating expenditures	-	13,841	-
Capital outlay	-	5,487	-
Total environmental protection	138,290	110,796	27,494
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits	-	1,056,249	-
Other operating expenditures	-	516,472	-
Capital outlay	-	397,346	-
Total culture and recreation	2,094,610	1,970,067	124,543
Debt service:			
Principal retirement	-	521,177	-
Interest and other charges	-	232,590	-
Total debt service	865,530	753,767	111,763
Total expenditures	12,892,740	11,625,518	1,267,222
Revenues over (under) expenditures	(1,541,560)	19,846	1,561,406
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Funds	976,850	976,850	
Transfer to other funds:			
Capital Projects Fund	(177,970)	(177,970)	
Appropriations from fund balance	742,680	-	
Total	\$ 1,541,560	798,880	\$ (742,680)
Revenues and other financing sources over expenditures and other financing uses	\$ -	818,726	\$ 818,726
Fund balances:			
Beginning of year, July 1		5,787,859	
Residual equity transfer from SFR fund		9,114	
End of year, June 30		\$ 6,615,699	

**Town of Waynesville
Combining Balance Sheet
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2008**

	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 201,577	\$ 25,168	\$ 226,745
Accounts and interest receivable	377	53	430
Due from other governments	-	-	-
Total assets	<u>\$ 201,954</u>	<u>\$ 25,221</u>	<u>\$ 227,175</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Reserved for perpetual maintenance	201,954	25,221	227,175
Unreserved	-	-	-
Total fund balances	<u>201,954</u>	<u>25,221</u>	<u>227,175</u>
Total liabilities and fund balances	<u>\$ 201,954</u>	<u>\$ 25,221</u>	<u>\$ 227,175</u>

Town of Waynesville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2008

	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Revenues:			
Restricted intergovernmental	\$ -	\$ -	\$ -
Sales and services	15,950	-	15,950
Investment earnings	6,321	886	7,207
Total revenues	22,271	886	23,157
Expenditures:			
Maintenance	-	2,422	2,422
Economic and physical development	-	-	-
Total expenditures	-	2,422	2,422
Revenues over expenditures	22,271	(1,536)	20,735
Other financing sources:			
Transfers from other funds:			
General Fund	-	-	-
Total other financing sources	-	-	-
Net change in fund balance	22,271	(1,536)	20,735
Fund balances:			
Beginning of year, July 1	179,683	26,757	206,440
End of year, June 30	\$ 201,954	\$ 25,221	\$ 227,175

Town of Waynesville, North Carolina
Capital Projects Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2008

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Grant revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous income	-	-	-	-	-
Investment earnings	-	46,084	57,095	103,179	103,179
Total revenues	-	46,084	57,095	103,179	103,179
Expenditures:					
Capital outlay					
Fire Department Construction:					
Architect and engineering fees	250,000	212,657	27,144	239,801	10,199
Land Purchase	650,000	649,211	-	649,211	789
Development and construction	2,825,000	914,459	1,796,907	2,711,366	113,634
Equipment and furniture	130,000	-	116,887	116,887	13,113
Interest during construction	177,975	41,283	97,733	139,016	38,959
Contingency	100,000	-	-	-	100,000
Total fire department construction	4,132,975	1,817,610	2,038,671	3,856,281	276,694
Police/Development Office Construction:					
Architect and engineering fees	307,000	43,982	215,747	259,729	47,271
Land Purchase	106,000	105,325	846	106,171	(171)
Development and construction	3,858,690	-	215,772	215,772	3,642,918
Equipment and furniture	128,000	-	-	-	128,000
Interest during construction	177,975	-	14,400	14,400	163,575
Contingency	242,830	-	-	-	242,830
	4,820,495	149,307	446,765	596,072	4,224,423
Total Appropriations	8,953,470	1,966,917	2,485,436	4,452,353	4,501,117
Revenues over (under) expenditures	(8,953,470)	(1,920,833)	(2,428,341)	(4,349,174)	(4,604,296)
Other financing sources:					
Loan proceeds	5,900,000	3,000,000	3,000,000	6,000,000	(100,000)
Operating transfer in from General Fund	2,519,545	1,055,000	-	1,055,000	1,464,545
Transfer from tax revenue	533,925	355,950	177,970	533,920	5
Total other financing sources	8,953,470	4,410,950	3,177,970	7,588,920	1,364,550
Net change in fund balance	\$ -	\$ 2,490,117	749,629	\$ 3,239,746	\$ (3,239,746)
Fund balances:					
Beginning of year, July 1			2,490,117		
End of year, June 30			<u>\$ 3,239,746</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, 2008

	2008		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for service	\$ 7,707,970	\$ 7,676,949	\$ (31,021)
Total operating revenues	7,707,970	7,676,949	(31,021)
Nonoperating revenues:			
Investment earnings	-	47,497	-
Miscellaneous	-	15,895	-
Total nonoperating revenues	46,160	63,392	17,232
Total revenues	7,754,130	7,740,341	(13,789)
Expenditures:			
Finance and administration:			
Charge for services	329,730	329,730	-
Electrical operations:			
Salaries and employee benefits	-	294,612	-
Professional services	-	15,387	-
Supplies	-	101,792	-
Other departmental expenditures	-	193,229	-
Capital outlay	-	922,653	-
Total	1,820,390	1,527,673	292,717
Electrical power purchases	5,459,000	5,319,934	139,066
Debt service:			
Principal payments	-	-	-
Interest and fees	-	-	-
Total	-	-	-
Total expenditures	7,609,120	7,177,337	431,783
Revenues over expenditures	145,010	563,004	417,994
Other financing sources (uses):			
Transfers to other funds:			
Transfer to General Fund	(875,000)	(875,000)	-
Fund balance appropriated	729,990	-	(729,990)
Total other financing (uses)	(145,010)	(875,000)	(729,990)
Net change in fund balance	\$ -	(311,996)	\$ (311,996)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlays		922,653	
Proceeds from installment purchase obligation		190,000	
Capital acquired with installment purchase obligation		(190,000)	
Depreciation		(141,515)	
Increase in long-term debt accrued interest		(2,708)	
Decrease in accrued vacation pay		2,993	
Total		781,423	
Change in net assets		\$ 469,427	

Town of Waynesville, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2008

	2008		Variance Positive/(Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Water charges	\$ -	\$ 1,991,861	\$ -
Taps and connection fees	-	81,240	-
Total operating revenues	2,066,540	2,073,101	6,561
Nonoperating revenues:			
Investment earnings	-	39,108	-
Miscellaneous	-	14	-
Total nonoperating revenues	22,000	39,122	17,122
Total revenues	2,088,540	2,112,223	23,683
Expenditures:			
Finance and administration:			
Charge for services	181,930	181,930	-
Total	181,930	181,930	-
Water maintenance and distribution:			
Maintenance department:			
Salaries and employee benefits	-	387,430	-
Supplies	-	113,326	-
Professional services	-	2,329	-
Other departmental expenditures	-	140,712	-
Capital outlay	-	359,850	-
Total	1,072,410	1,003,647	68,763
Operations department:			
Salaries and employee benefits	-	364,855	-
Professional services	-	30,787	-
Utilities	-	14,771	-
Supplies	-	138,694	-
Other departmental expenditures	-	84,584	-
Capital outlay	-	159,772	-
Total	847,810	793,463	54,347
Total water maintenance and distribution	1,920,220	1,797,110	123,110
Debt service:			
Principal payments	-	240,120	-
Interest and fees	-	57,361	-
Total	297,820	297,481	339
Total expenditures	2,399,970	2,276,521	123,449
Revenues over expenditures	(311,430)	(164,298)	147,132
Other financing sources (uses):			
Transfers to other funds:			
Transfer to General Fund	(52,450)	(52,450)	-
Fund balance appropriated	363,880	-	(363,880)
Total other financing (uses)	311,430	(52,450)	(363,880)
Net change in fund balance	\$ -	(216,748)	\$ (216,748)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		240,120	
Capital outlays		519,622	
Proceeds from installment purchase obligation		350,000	
Capital acquired with installment purchase obligation		(350,000)	
Depreciation		(432,690)	
Increase in long-term debt accrued interest		(1,806)	
Increase in accrued vacation pay		(6,211)	
Total		319,035	
Change in net assets		\$ 102,287	

Town of Waynesville, North Carolina
Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2008

	2008		Variance Positive/(Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Sewer charges	\$ -	\$ 1,840,185	\$ -
Taps and connection fees	-	52,782	-
Impact fees	-	1,920	-
Industrial discharge permits	-	200	-
Total operating revenues	1,946,480	1,895,087	(51,393)
Nonoperating revenues:			
Investment earnings	18,000	22,065	4,065
Miscellaneous	500	1,923	1,423
Total nonoperating revenues	18,500	23,988	5,488
Total revenues	1,964,980	1,919,075	(45,905)
Expenditures:			
Finance and administration:			
Charges by general fund	165,320	165,320	-
Waste collection and treatment:			
Maintenance department:			
Salaries and employee benefits	-	223,042	-
Other departmental expenditures	-	84,294	-
Capital outlay	-	318,314	-
Total	652,330	625,650	26,680
Operations department:			
Salaries and employee benefits	-	493,443	-
Professional services	-	10,287	-
Utilities	-	176,146	-
Supplies	-	121,981	-
Other departmental expenditures	-	75,817	-
Capital outlay	-	27,697	-
Total	968,180	905,371	62,809
Total waste collection and treatment	1,620,510	1,531,021	89,489
Debt service:			
Principal payments	-	118,175	-
Interest and fees	-	11,563	-
Total	129,750	129,738	12
Total expenditures	1,915,580	1,826,079	89,501
Revenues over expenditures	49,400	92,996	43,596
Other financing sources (uses):			
Transfers to other funds:			
Transfers to general fund:	(49,400)	(49,400)	-
Fund balance appropriated	-	-	-
Total other financing sources	(49,400)	(49,400)	-
Net change in fund balance	\$ -	\$ 43,596	\$ 43,596
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		118,175	
Capital outlays		346,011	
Depreciation		(403,481)	
Decrease in long-term debt accrued interest		31	
Increase in accrued vacation pay		(6,431)	
Total		54,305	
Change in net assets		\$ 97,901	

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, 2008

	2008		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 300,690	\$ 270,409	\$ (30,281)
Total operating revenues	300,690	270,409	(30,281)
Nonoperating revenues:			
Investment earnings	-	1,034	1,034
Miscellaneous	-	-	-
Total nonoperating revenues	-	1,034	1,034
Total revenues	300,690	271,443	(29,247)
Expenditures:			
Salaries and employee benefits	-	159,165	
Occupancy costs	-	16,551	-
Maintenance and repairs	-	19,732	-
Materials and supplies	-	13,671	-
Other departmental expenses	-	5,644	-
Capital outlays	-	56,932	-
Total expenditures	300,690	271,695	28,995
Net change in fund balance	\$ -	(252)	\$ (252)
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(14,479)	
Capital outlays		56,932	
Increase in accrued vacation pay		254	
Total reconciling items		42,707	
Change in net assets		\$ 42,455	

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, 2008

	2008		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 660,820	\$ 586,079	\$ (74,741)
Total operating revenues	660,820	586,079	(74,741)
Nonoperating revenues:			
Investment earnings		1,566	1,566
Miscellaneous	-	55	55
Total nonoperating revenues	-	1,621	1,621
Total revenues	660,820	587,700	(73,120)
Expenditures:			
Salaries and employee benefits	-	87,282	-
Occupancy costs	-	64,898	-
Maintenance and repairs		2,267	
Materials and supplies	-	47,618	-
Other departmental expenses	-	314,719	-
Capital outlay	-	70,350	-
Total expenditures	660,820	587,134	73,686
Net change in fund balance	\$ -	566	\$ 566
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(7,828)	
Capital outlay		70,350	
Increase in accrued vacation pay		(563)	
Total reconciling items		61,959	
Change in net assets		\$ 62,525	

Town of Waynesville, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2008

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2007</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2008</u>
2007 - 2008	-	4,260,650	\$ 4,101,327	\$ 159,323
2006 - 2007	144,066	-	\$ 76,094	67,972
2005 - 2006	66,329	-	9,149	57,180
2004 - 2005	42,647	-	5,792	36,855
2003 - 2004	40,628	-	4,467	36,161
2002 - 2003	33,730	-	2,130	31,600
2001 - 2002	24,008	-	367	23,641
2000 - 2001	23,808	-	322	23,486
1999 - 2000	21,082	-	160	20,922
1998 - 1999	22,116	-	560	21,556
1997 - 1998	7,743	-	7,743	-
	<u>\$ 426,157</u>	<u>\$ 4,260,650</u>	<u>\$ 4,208,111</u>	<u>478,696</u>
-	Less: allowance for uncollectible accounts:			
	General Fund			<u>(20,000)</u>
	Ad valorem taxes receivable - net			<u><u>458,696</u></u>
	<u>Reconcilement with revenues:</u>			
	Ad valorem taxes - General Fund			4,224,939
	Reconciling items:			
	Interest, penalties and advertising collected			(28,069)
	Taxes written off			<u>11,241</u>
	Subtotal			<u>(16,828)</u>
	Total collections and credits			<u><u>\$ 4,208,111</u></u>

Town of Waynesville, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2008

	Town - Wide		Total Levy	
	Property Valuation	Rate	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:				
Property taxed at current year's rate	\$ 1,036,621,276	0.40	\$ 4,154,510	\$ 3,869,208
Municipal service district	36,077,878	0.23	82,979	82,979
Penalties	-		3,318	-
Total	<u>1,072,699,154</u>		<u>4,240,807</u>	<u>3,955,505</u>
Discoveries:				
Current year taxes	5,839,750	0.40	23,359	23,359
Penalties	-		3,492	-
Total	<u>5,839,750</u>		<u>26,851</u>	<u>26,851</u>
Refund of overpayments			-	-
Abatements	<u>(1,752,000)</u>		<u>(7,008)</u>	<u>(1,513)</u>
Total property valuation	<u>\$ 1,076,786,904</u>			
Net levy			4,260,650	3,980,843
Uncollected taxes at June 30, 2008			<u>(159,323)</u>	<u>(115,530)</u>
Current year's taxes collected			<u>\$ 4,101,327</u>	<u>\$ 3,865,313</u>
Current levy collection percentage			<u>96.26%</u>	<u>97.10%</u>

COMPLIANCE SECTION

RAY, BUMGARNER, KINGSHILL, & ASSOC., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

385 N. HAYWOOD ST., SUITE 3

WAYNESVILLE, NC 28786

Phone (828) 452-4734 • Fax (828) 452-4733

**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 aggregated remaining fund information of Town of Waynesville, North Carolina, as of and for the year ended June 30, 2008, which collectively comprises the Town of Waynesville's basic financial statements, and have issued our report thereon dated October 10, 2008. We did not audit the financial statements of the Town of Waynesville ABC Board. Those financial statements were audited by other auditors whose reports, thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Waynesville ABC Board, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the Town of Waynesville ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Waynesville's internal control over financial reporting 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 did not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of 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 organization, members of the governing board, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Burgamer, Kingshill & Brown, P.A.

Waynesville, North Carolina
October 10, 2008