

Town of Waynesville, North Carolina

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

Town of Waynesville, North Carolina

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2010

TOWN OFFICIALS

MAYOR

Gavin Brown

ALDERMEN

Gary Caldwell
J. Wells Greeley

Libba Feichter
LeRoy Roberson

ADMINISTRATIVE

A. Lee Galloway
Edward Caldwell

Town Manager
Finance Officer

Town of Waynesville, North Carolina
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FINANCIAL SECTION

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Waynesville, North Carolina, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Waynesville's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Town of Waynesville ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Waynesville ABC Board, is based solely on the report of another auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 respective 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, 2010, 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 22, 2010 on our consideration of the Town of Waynesville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions on pages 3 through 14 and 49 through 52, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion 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 fund statements, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements, budgetary schedules, other schedules, and the accompanying schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Waynesville, North Carolina
October 22, 2010

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, 2010. 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 \$50,613,617 (*net assets*).
- The government's total net assets increased by \$422,922, 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 \$7,229,961, a decrease of \$69,462 in comparison with the prior year. Approximately 59.81 percent of this total amount, or \$4,324,338, is available for spending at the government's discretion (*unreserved fund balance*). The \$69,462 decrease is primarily due to the spending of the capital project funds (\$358,370) on the construction of a new police station, development office and meeting space. The remaining difference is due 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 \$3,752,037, or 29.80 percent of total general fund expenditures for the fiscal year. This is a decrease of \$1,010,741 from the prior year. This decrease is mainly accounted for by four items. The Town spent \$358,370 on finishing the construction of a new police station, development office and meeting space. The remaining three items are due to increased reserved fund balance which in turn decrease unreserved fund balance. The reserved for encumbrances increased \$356,075 due to the order for a new fire truck and its related equipment. This amount reserved for the fire truck and its related equipment will be moved back into unreserved fund balance in the following year. The truck and its related equipment will be purchased with installment financing that closed September 24, 2010. The reserved for state statute increased \$233,655 due to the Town carrying a higher accounts receivable balance from other governmental agencies in comparison with the prior year's accounts receivables balance. The fourth item is in the reserved for prepaid expenses. The Town's reserved for prepaid expenses increased \$112,168 due to the prepayment of July's 2010 health insurance premiums.
- The Town of Waynesville's total debt and notes decreased by \$29,511 (00.18%) during the current fiscal year. The Town recorded an increase of \$643,279 in notes payable that were for the construction of various water lines. When construction on these water projects are completed, the notes will be reclassified as loans from North Carolina's "Drinking Water State Revolving Fund" program. The Town also issued an installment purchase contract totaling \$414,800 for the purchase of eight police cars, a back hoe and a sewer jet truck. These increases were off set by principal payments on existing debt.
- The Town of Waynesville's Electric Fund for the current fiscal year reported power purchases of \$5,751,342 a decrease of \$375,895 or 6.13% in comparison with the prior year. The prior fiscal year reported power purchases of \$6,127,237, an increase of \$807,303 or 15.18% in comparison with the fiscal year ended June 30, 2008. These decreases and increases are primarily due to falling and rising fuel costs that have been passed along to the Town by its supplier. In response to these fuel charges, the Town reviews its rates on a monthly basis. In addition, the Town entered into a new power supply contract with its supplier on January 1, 2010. The new supply contract is expected to raise the Town's power costs by 5.24%. With the falling fuel charges, the Town has been able to pay for the higher

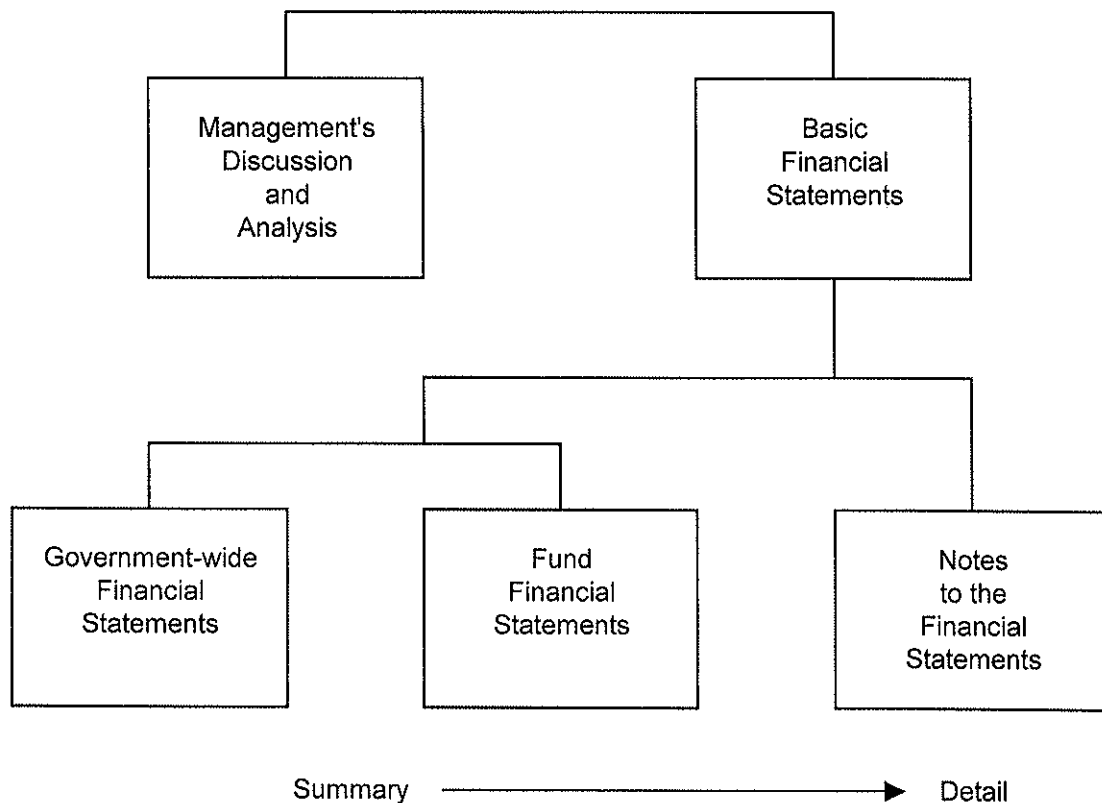
power costs associated with the new contract by raising its basic rate and lowering its fuel charges so that the overall retail rates to its customers has remained unchanged since July 1, 2009. In January 2010, the Town saw its largest power customer reduced its manufacturing operations from three shifts to two shifts. This reduced gross revenues \$30,000 to \$35,000 a month. The Electric Fund operating revenues for the current fiscal year reported charges for services of \$8,358,211, an increase of \$17,340 or 0.21%. The prior fiscal year reported charges for services of \$8,340,871, an increase of \$663,922 or 8.65% in comparison with the fiscal year ended June 30, 2008.

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 24-48 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 49 through 52 of this report.

Government-Wide Financial Analysis

The Town of Waynesville's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 8,196,703	\$ 8,425,712	\$ 6,101,080	\$ 5,745,781	\$ 14,297,783	\$ 14,171,493
Capital assets	27,102,306	28,067,644	26,852,093	26,185,274	53,954,399	54,252,918
Total assets	35,299,009	36,493,356	32,953,173	31,931,055	68,252,182	68,424,411
Long-term liabilities outstanding	11,153,837	11,556,337	4,348,465	4,618,755	15,502,302	16,175,092
Other liabilities	513,931	689,798	1,622,332	1,368,829	2,136,263	2,058,627
Total liabilities	11,667,768	12,246,135	5,970,797	5,987,584	17,638,565	18,233,719
Net assets:						
Invested in capital assets, net of related debt	18,391,606	18,924,846	22,707,443	21,720,811	41,099,049	40,645,657
Restricted	757,269	757,971	-	-	757,269	757,971
Unrestricted	4,482,366	4,564,407	4,274,933	4,222,660	8,757,299	8,787,067
Total net assets	\$ 23,631,241	\$ 24,247,224	\$ 26,982,376	\$ 25,943,471	\$ 50,613,617	\$ 50,190,695

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 \$50,613,617 as of June 30, 2010. The Town's net assets increased by \$422,922 for the fiscal year ended June 30, 2010. And as stated earlier, this increase is primarily due to increases in the business-type activities net assets. However, the largest portion \$41,099,049 or (81.20%) 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 \$757,269 or (1.50%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,757,299 is unrestricted. However, this includes \$572,301 in unspent funds that will be used for the repair and renovation of public buildings.

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

- For the year ending June 30, 2010 the Town's property valuations totaled \$1,139,343,705, an increase of \$8,890,190 or 0.79% in comparison with the prior year. The Town's net levy totaled \$4,496,974, an increase of \$33,346 or 0.75% in comparison with the prior year.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.69% excluding motor vehicles. This is an increase of .41% from prior year's tax collection percentage excluding motor vehicles (96.28%). This is also comparable to the statewide average of units with electrical systems of 96.84% excluding motor vehicles for the population grouping 2,500 to 9,999 for 2008-2009. The total collected for ad valorem taxes which includes current taxes, prior year's uncollectible tax balances, and motor vehicle taxes was \$4,471,328, an increase of \$106,089 or 2.43% in comparison to the prior fiscal year.

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

- The sales tax revenues from article 39, article 40, article 42, and article 44, for the current fiscal year were \$2,006,332, a decrease of \$98,667 or 4.69% in comparison to the prior year.
- Utility franchise taxes and CATV taxes were \$872,014, a decrease of \$87,286 or 9.10% in comparison to the prior year.

Town of Waynesville Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	Total
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,902,779	\$ 1,856,647	\$12,491,825	\$12,506,625	\$14,394,604	\$14,363,272
Operating grants and contributions	583,074	923,567	33,261	-	616,335	923,567
Capital grants and contributions	240,375	395,074	560,764	474,037	801,139	869,111
General revenues:						
Property taxes	4,534,333	4,475,904	-	-	4,534,333	4,475,904
Other taxes	2,188,491	2,314,294	-	-	2,188,491	2,314,294
Grants and contributions not restricted to specific programs	821,876	967,339	-	-	821,876	967,339
Other	193,607	199,837	36,650	76,811	230,257	276,648
Total revenues	10,464,535	11,132,662	13,122,500	13,057,473	23,587,035	24,190,135
Expenses:						
General government	2,004,995	1,997,206	-	-	2,004,995	1,997,206
Public safety	4,151,950	3,999,361	-	-	4,151,950	3,999,361
Transportation	3,382,071	3,580,363	-	-	3,382,071	3,580,363
Economic development	248,000	-	-	-	248,000	-
Environmental Protection	95,060	103,620	-	-	95,060	103,620
Culture and recreation	1,853,226	1,869,149	-	-	1,853,226	1,869,149
Interest on long-term debt	407,236	342,831	-	-	407,236	342,831
Electric	-	-	7,221,390	7,492,263	7,221,390	7,492,263
Water	-	-	2,034,128	2,136,735	2,034,128	2,136,735
Sewer	-	-	1,766,057	1,822,716	1,766,057	1,822,716
Total expenses	12,142,538	11,892,530	11,021,575	11,451,714	23,164,113	23,344,244
Increase (decrease) in net assets before transfers	(1,678,003)	(759,868)	2,100,925	1,605,759	422,922	845,891
Transfers	1,062,020	1,019,600	(1,062,020)	(1,019,600)	-	-
Increase in net assets	(615,983)	259,732	1,038,905	586,159	422,922	845,891
Net assets, July 1	24,247,224	23,987,492	25,943,471	25,357,312	50,190,695	49,344,804
Net assets, June 30	\$23,631,241	\$24,247,224	\$26,982,376	\$25,943,471	\$50,613,617	\$50,190,695

Governmental activities. For the year ended June 30, 2010, Governmental activities decreased the Town's net assets by \$615,983. Key elements of this decrease are as follows:

- Depreciation exceeds capital outlay by \$1,031,075.
- In general most revenues were down for the year ended June 30, 2010. And as stated earlier, two of the biggest examples sales tax revenues and utility franchise taxes were down a combined \$185,953 from the prior year.
- Some of the revenue declines were offset by the increased ad valorem taxes collected. Ad valorem tax collection increased \$106,089 from the prior fiscal year.
- This decrease of \$615,983 would be even greater except for the Town's transfer of \$1,062,020 from business-type activities to the governmental activities.
- By comparison for the year ended June 30, 2009, the governmental activities increased \$259,732 after the Town transferred \$1,019,600 from business-type activities to the governmental activities. Net assets decreased \$875,715 more in the year ended June 30, 2010 than in the year ended June 30, 2009.

Business-type activities: For the year ended June 30, 2010, business-type activities increased the Town's net assets by \$1,038,905. Key elements of this increase are as follows:

- The increase would be even larger however the Town transferred \$1,062,020 from the business-type activities to the governmental activities.
- The town recognized \$560,764 in capital grants and contributions for the construction of the Eagles Nest water system and the construction of various water lines.
- The Town's electric fund reported income before contributions and transfers of \$1,165,952, an increase of \$268,502 over the prior year. Most of this increase is due to lower power costs associated with the lower fuel charges.
- The Town implemented water rate increases of 5% for inside and outside customers. The Town left sewer rates unchanged.
- By comparison for the year ended June 30, 2009, the business-type activities' net assets increased by \$586,159 after the Town transferred \$1,019,600 from the business-type activities to the governmental activities. Net assets increased \$452,746 more in the year ended June 30, 2010 than in the year ended June 30, 2009.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Waynesville. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,752,037, while total fund balance was \$6,399,313. By comparison, the year ended June 30, 2009 unreserved fund balance of the General Fund was \$4,762,778 and total fund balance was \$6,700,075. Unreserved fund balance of the General Fund decreased \$1,010,741 or 21.22 percent. This decrease is explained in further detail in the financial highlights section located at the beginning of the management's discussion and analysis narrative. Total fund balance decreased \$300,762 or 4.49 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 29.80 percent of total General Fund expenditures, while total fund balance represents 50.82 percent of that same amount. By comparison for the year ended June 30, 2009 unreserved fund balance represented 37.48 percent of the total General Fund expenditures, while total fund balance represented 52.73 percent of that same amount.

At June 30, 2010, the governmental funds of Town of Waynesville reported a combined fund balance of \$7,229,961, with a net decrease in fund balance of \$69,462. This represents a 00.95 percent decrease over last year. The decrease is primarily due to the spending of capital project funds (\$358,370) on finishing the construction of a new police station, development office and meeting space. The remaining difference is due to revenues and other financing sources over expenditures and other financing uses.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on 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 including transfers to other funds for the year ended June 30, 2010 totaled \$13,945,640. Funding sources were budgeted as follows: revenues were budgeted at \$11,517,450, transfers from business-type activities were budgeted at \$1,062,020, and appropriations from fund balance were budgeted at \$1,366,170. Actual revenues totaled \$11,228,956 or \$288,494 under budget. However, two revenue groupings showed positive variances. Ad valorem taxes and miscellaneous revenues came in \$125,037 and \$101,076 over budget respectively. Ad valorem collections were discussed previously and the miscellaneous revenues were mainly over budget due to the higher selling prices of fixed assets and assets that were expected to sale in the previous year were sold this year. Restricted intergovernmental revenues were \$215,328 'under budget. These restricted revenues were less than budgeted because some grant funds that the Town originally had expected to receive were unavailable or unspent. Other taxes and licenses (mainly local option sales taxes) were \$172,769 under budget. Unrestricted intergovernmental revenues or mainly utility franchise taxes were \$74,924 under budget. Sales and services revenues (mainly recreation department revenues, sanitation fees and fire protection fees) came in \$50,544 under budget. Over all the slowing economy played a major role in causing the town to fall short in a number of revenue areas. The Town's general fund expenditures totaled \$11,946,348 or \$1,353,902 under budget. Some of this under spending is tied to grants. If grant revenues are less than expected, grant expenditures are held in check to compensate for the lack of funding. Thus the Town was able to comply with its budgetary requirements. However, most of the under spending of expenditures has been an extra effort made by the Town to cut or under spend the budget due to the slowing economy. Here, expenditures were delayed, not spent or kept under budget due to this uncertainty of the slowing economy. Some vacant personnel positions were left vacant till the effects of the slowdown could be measured or evaluated. However, the Town did budget and transferred \$645,390 from the general fund to the public building projects fund. This transfer is being used to renovate the Hazelwood Municipal Building as well as perform repairs and renovations of other public buildings. The Town budgeted to use \$1,366,170 from fund balance, but only \$300,762 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 \$2,572,712, \$1,240,558, and \$1,107,224, respectively. In comparison to the year ended June 30, 2009, the unrestricted net assets of the Electric, Water and Sewer funds totaled \$2,315,771, \$1,135,203, and \$772,011, respectively. Unrestricted net assets of the Electric, Water and Sewer funds increased \$256,941 (11.10%), \$105,355 (9.28%), and \$335,213 (43.42%), respectively. Total net assets of the Electric, Water, and Sewer funds at the end of the fiscal year increased \$278,952 (6.85%), \$680,297 (5.37%), and \$77,023 (0.88%), 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, 2010 totaled \$53,954,399 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, recreation facilities, vehicles, and infrastructure.

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

- Improvements and additions to the Town's water distribution systems (Eagles Nest construction in process) of \$860,764.
- Additional improvements and additions to the Town's water distribution systems of \$510,540.
- Construction, equipment and furniture of new police station/development office \$358,370.
- Improvements and additions to the Town's sewer distribution systems for \$249,857.
- Construction in process for new bridge and new sidewalk (Hendrix Street) \$197,013.
- Purchase and equipping nine police vehicles for \$195,784.
- Renovations to the Town of Waynesville's Hazelwood Municipal Building (construction in process) \$93,660.
- Purchase of new truck for street department \$58,103.
- Improvements at the at Sewer Treatment Plant \$55,349.
- Improvements and additions to the Town's electrical distribution system \$46,386.
- Purchase of new back hoe for water maintenance department \$40,784.
- Improvements at the water treatment plant \$31,004.
- Purchase of new boom mower for street department (Powell Bill) \$30,073.
- Purchase of new bobcat skid loader for street department \$23,468.
- Purchase of art on the street \$20,000.
- Purchase of new leaf vacuum for street department \$19,960.
- Road at the old dump \$12,993.
- Improvements to underground fuel storage system \$8,570.

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

- Disposal of garbage truck (model year 2003) with an original cost of \$150,249.
- Disposal of three police vehicles (model year 2000, 2003, and 2003) with an original cost of \$85,993.
- Disposal of garbage truck (model year 1993) with an original cost of \$79,140.
- Disposal of Public restrooms replaced with new police building \$64,951.
- Disposal of two boom mowers (model year 2002 and 2004) with an original cost of \$38,705.
- Disposal of street truck (model year 1995) with an original cost of \$34,474.
- Disposal of fire truck (model year 1974) with an original cost of \$30,000.
- Disposal of water maintenance truck (model year 1997) with an original cost of \$ 29,650.
- Disposal of cemetery truck (model year 1994) with an original cost of \$10,309
- Disposal of mowers (stolen at cemetery) with an original cost of \$9,419.
- Disposal of two salt spreaders (model year 2002 and 2002) with an original cost of \$7,465.
- Disposal of carpet with an original cost of \$7,074.
- Disposal of used air compressor (acquired in year 2002) with an original cost of \$5,672.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,780,045	\$ 1,635,301	\$ 1,927,138	\$ 1,927,138	\$ 3,707,183	\$ 3,562,439
Construction in process	520,522	4,379,667	1,392,608	174,037	1,913,130	4,553,704
Buildings and system	13,047,559	9,451,198	22,809,814	23,309,302	35,857,373	32,760,500
Land improvements	383,049	325,014	78,339	84,495	461,388	409,509
Equipment, furniture and fixtures	858,450	854,830	165,805	167,358	1,024,255	1,022,188
Infrastructure	9,124,414	10,181,802	-	-	9,124,414	10,181,802
Vehicles and motorized equipment	1,388,267	1,439,835	478,389	522,944	1,866,656	1,962,779
Total	\$ 27,102,306	\$ 28,267,647	\$ 26,852,093	\$ 26,185,274	\$ 53,954,399	\$ 54,452,921

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, 2010 and June 30, 2009, was \$15,502,302 and \$16,175,092, respectively. All debt is backed by the full faith and credit of the Town of Waynesville. Not included in the long-term debt totals are two note payable items totaling \$643,279. These debts are currently classified as notes payable and relate to the water fund capital projects that are not yet complete at June 30, 2010. Upon completion, the notes will be reclassified as long-term debt. Additional information on the notes payable can be found in note III.B.9 of the Basic Financial Statements. Unfunded pension liabilities, legal claims, and compensated absences make up \$1,148,107 and \$915,953 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	
	2010	2009	2010	2009	2010	2009
Installment purchase obligations	\$ 10,209,545	\$ 10,794,696	\$ 4,144,650	\$ 4,464,463	\$ 14,354,195	\$ 15,259,159
Total	\$ 10,209,545	\$ 10,794,696	\$ 4,144,650	\$ 4,464,463	\$ 14,354,195	\$ 15,259,159

- The Town's total installment debt decreased \$672,790 (4.16%) during the current fiscal year. As noted earlier, the town issued \$414,800 in installment debt for the purchase of eight police cars, one back hoe and one sewer jet truck. This increase was off set 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 \$77,043,551.

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

Economic Factors and Next Year's Budgets and Rates

Ad valorem taxes collections (our biggest revenue source for the general fund) came in higher than the previous year and we have budgeted collections to hold steady for the next year.

As stated earlier, our second biggest revenue source for the general fund (sales taxes) were lower than the previous year. Certainly part of this drop can be attributed to national and state economic conditions. But part of this decline at least in our area is due to a rock slide that occurred on October 25, 2009. The rock slide closed Interstate 40 in both directions. While the rock slide was being cleaned up, the interstate was closed and traffic was detoured around Haywood County. The closure created hardships for local businesses and decreased area sales tax collections. A press release from the North Carolina Department of Transportation states that "I-40 is a major lifeline for the region and it was greatly impacted during some of the busiest times of the year". The interstate reopened on April 25, 2010. With this reopening, the town expects local sales tax collection to pick up in the coming year.

But, the slowing economy has also negatively affected the Town. In general except for the water fund, the Town's overall budget for the year ending June 30, 2011 are about the same or lower than the budget the town used for the year ended June 30, 2010. Since the fall of 2008, the Town has made an extra effort to cut or under spend the budget if revenue did not materialize or fell short. The Town expects this same effort may be needed for the up and coming year. Expenditures will be delayed, not spent or kept under budget till such time that revenue materialized or come in.

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities: The budgeted revenues, transfers from other funds, and appropriated fund balance for the year ended June 30, 2011 are expected to come to \$13,393,900 or an increase of \$802,162 (6.37%) from actual revenues, transfers, and appropriated fund balance from the year ended June 30, 2010. The increases will mainly be funded from a larger fund balance appropriation, and higher transfers. This budget calls for a \$906,580 fund balance appropriation from the general fund and a \$129,470 fund balance appropriation from the balance reserved for Powell bill expenditures. The transfers to the general fund will increase \$230,980 The Electric, Water and Sewer fund transfers to the General fund will increase to \$1,114,050, \$97,250 and \$81,700 respectively.

The budgeted expenditures and transfers to other funds for the year ended June 30, 2011 are expected to increase to \$13,393,900 or an increase of \$802,162 (6.37%) from actual expenditures and transfers to other funds for the year ended June 30, 2010. The largest budget increases are in higher capital outlays, a bridge replacement, employment vacancies being filled, higher debt payments, and other miscellaneous grants.

However the budget for revenues, transfers, fund balance appropriations and expenditures for the year ending June 30, 2011 is \$551,740 or 3.96% lower than the budget for the year ended June 30, 2010.

Business – type Activities:

Water Fund: The budgeted revenues, transfer from other funds, and the appropriated fund balance amounts for the year ended June 30, 2011 are expected to rise to \$2,669,140 or an increase of \$422,973 (18.83%) from actual revenues, transfers, and appropriated fund balance for the year ended June 30, 2010. This increase will be funded by a 5% water rate increase, new customers, higher fund balance appropriation and a transfer from the electric fund. This budget calls for an \$81,330 fund balance appropriation. The budget for the year ending June 30, 2011 is \$200,970 or 8.14% higher than the budget for the year ended June 30, 2010.

Budgeted expenditures and transfers to other funds for the year ended June 30, 2011 are expected to increase to \$2,669,140, or an increase of \$478,769 (21.86%) from actual expenditures for the year ended June 30, 2010. This is an increase of \$210,630 or 8.57% from the budgeted expenditures of the year ended June 30, 2010. The largest increases are in capital outlay and debt payments.

Sewer Fund: The budgeted revenues and appropriated fund balance amounts for the year ended June 30, 2011 are expected to rise to \$2,036,270 or an increase of \$109,831 (5.70%) from actual revenues and appropriated fund balance for the year ended June 30, 2010. This budget does not increase sewer rates for its customers. This budget calls for an \$81,330 fund balance appropriation. The budget for the year ending June 30, 2011 is \$29,810 or 1.49% higher than the budget for the year ended June 30, 2010.

Budgeted expenditures and transfer to other funds for the year ended June 30, 2011 are expected to increase to \$2,036,270 or an increase of \$257,453 (14.47%) from actual expenditures for the year ended June 30, 2010. The largest costs are associated with higher capital outlays, higher sewer line maintenance, and higher utility costs.

Electric Fund: The budgeted revenues and appropriated fund balance amounts for the year ended June 30, 2011 are expected to increase to \$8,705,540, or an increase of \$316,553 (3.77%) from actual revenues and appropriated fund balance for the year ended June 30, 2010. Revenues are expected to remain steady or drop slightly. This budget calls for a \$356,230 fund balance appropriation. The budget for the year ending June 30, 2011 is \$151,360 or 1.71% lower than the budget for the year ended June 30, 2010.

Budgeted expenditures and transfers to other funds for the year ended June 30, 2011 are expected to increase to \$8,705,540, or an increase of 89,549 (1.04%) from actual expenditures and transfers for the year ended June 30, 2010. This is a decrease of \$358,710 or 3.96% from the budgeted expenditures for the year ended June 30, 2010. The largest increase is the transfers to the general fund and the water fund. These transfers are expected to increase \$ 324,300.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Waynesville, 280 Georgia Ave Waynesville, NC 28786.

Town of Waynesville, North Carolina
Statement of Net Assets
June 30, 2010

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,749,279	\$ 1,734,973	\$ 5,484,252	\$ 776,166
Investments	2,055,901	1,704,882	3,760,783	-
Taxes receivables (net)	534,422	-	534,422	-
Accrued interest receivable on taxes	37,903	-	37,903	-
Interest receivable on investments	9,626	1,916	11,542	488
Accounts receivable (net)	84,934	1,130,089	1,215,023	-
Due from other governments	1,296,834	468,580	1,765,414	-
Due from component units	84,300	-	84,300	-
Internal balances	20,743	(20,743)	-	-
Inventories	68,936	632,402	701,338	136,874
Prepaid items	119,618	-	119,618	8,416
Restricted cash and cash equivalents	108,700	448,981	557,681	-
Total current assets	8,171,196	6,101,080	14,272,276	921,944
Noncurrent assets:				
Accounts receivable (net)	25,507	-	25,507	-
Capital assets:				
Land, non-depreciable improvements and construction in progress	2,300,567	3,319,746	5,620,313	-
Other capital assets, net of depreciation	24,801,739	23,532,347	48,334,086	15,998
Total capital assets	27,102,306	26,852,093	53,954,399	15,998
Total noncurrent assets	27,127,813	26,852,093	53,979,906	15,998
Total assets	\$ 35,299,009	\$ 32,953,173	\$ 68,252,182	\$ 937,942
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 276,485	\$ 729,240	\$ 1,005,725	\$ 144,752
Unearned revenue	37,627	-	37,627	-
Accrued interest payable	181,092	114,118	295,210	-
Customer deposits	18,727	135,695	154,422	-
Due to primary government	-	-	-	84,300
Due to other governments	-	-	-	139,700
Current portion of long-term liabilities	1,023,934	691,464	1,715,398	-
Notes payable	-	643,279	643,279	-
Total current liabilities	1,537,865	2,313,796	3,851,661	368,752
Long-term liabilities:				
Due in more than one year	10,129,903	3,657,001	13,786,904	-
Total liabilities	11,667,768	5,970,797	17,638,565	368,752
NET ASSETS				
Invested in capital assets, net of related debt	18,391,606	22,707,443	41,099,049	15,998
Restricted for:				
Transportation	634,247	-	634,247	-
Culture and recreation	14,322	-	14,322	-
Public Safety	108,700	-	108,700	-
Working Capital	-	-	-	544,288
Unrestricted	4,482,366	4,274,933	8,757,299	8,904
Total net assets	\$ 23,631,241	\$ 26,982,376	\$ 50,613,617	\$ 569,190

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, 2010

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	Component Unit
Primary government:								
Governmental Activities:								
General government	\$ 2,004,995	\$ 89,932	\$ -	\$ -	\$ (1,915,063)	-	\$ (1,915,063)	\$ -
Public safety	4,151,950	396,004	79,574	-	(3,676,372)	-	(3,676,372)	-
Transportation	3,382,071	697,990	262,698	240,375	(2,181,008)	-	(2,181,008)	-
Environmental protection	95,060	49,000	-	-	(46,060)	-	(46,060)	-
Economic and physical development	248,000	-	240,000	-	(8,000)	-	(8,000)	-
Cultural and recreation	1,853,226	669,853	802	-	(1,182,571)	-	(1,182,571)	-
Interest on long-term debt	407,236	-	-	-	(407,236)	-	(407,236)	-
Total governmental activities	12,142,538	1,902,779	583,074	240,375	(9,416,310)	-	(9,416,310)	-
Business-type activities:								
Electric	7,221,390	8,324,950	33,261	-	-	\$ 1,136,821	1,136,821	-
Water	2,034,128	2,243,196	-	560,764	-	769,832	769,832	-
Sewer	1,766,057	1,923,679	-	-	-	157,622	157,622	-
Total business-type activities	11,021,575	12,491,825	33,261	560,764	-	2,064,275	2,064,275	-
Total primary government	\$ 23,164,113	\$ 14,394,604	\$ 616,335	\$ 801,139	(9,416,310)	2,064,275	(7,352,035)	-
Component units:								
ABC Board	\$ 2,208,692	\$ 2,107,992	\$ -	\$ -	-	-	-	(100,700)
Total component units	\$ 2,208,692	\$ 2,107,992	\$ -	\$ -	-	-	-	(100,700)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					4,534,333	-	4,534,333	-
Other taxes					2,188,491	-	2,188,491	-
Grants and contributions not restricted to specific programs					821,876	-	821,876	-
Unrestricted investment earnings					11,015	7,090	18,105	1,490
Miscellaneous					182,592	29,560	212,152	628
Total general revenues not including transfers					7,738,307	36,650	7,774,957	2,118
Transfers					1,062,020	(1,062,020)	-	-
Total general revenues and transfers					8,800,327	(1,025,370)	7,774,957	2,118
Change in net assets					(615,983)	1,038,905	422,922	(98,582)
Net assets-beginning					24,247,224	25,943,471	50,190,695	667,772
Net assets-ending					\$ 23,631,241	\$ 26,982,376	\$ 50,613,617	\$ 569,190

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

Town of Waynesville
Balance Sheet
Governmental Funds
June 30, 2010

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General	Public Buildings Projects	Capital Projects		
ASSETS					
Cash and cash equivalents	\$ 2,900,724	\$ 585,050	\$ 5,314	\$ 258,191	\$ 3,749,279
Investments	2,055,901	-	-	-	2,055,901
Receivables, net:					
Taxes	534,422	-	-	-	534,422
Accounts	84,934	-	-	-	84,934
Prepaid items	119,618	-	-	-	119,618
Long-term receivable	25,507	-	-	-	25,507
Due from component unit	84,300	-	-	-	84,300
Due from other governmental agencies	1,296,834	-	-	-	1,296,834
Due from other fund	5,289	-	-	-	5,289
Interest receivable	9,431	-	-	156	9,587
Inventories	19,210	-	-	-	19,210
Restricted cash and cash equivalents	108,700	-	-	-	108,700
Total assets	<u>\$ 7,244,870</u>	<u>\$ 585,050</u>	<u>\$ 5,314</u>	<u>\$ 258,347</u>	<u>\$ 8,093,581</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 254,781	\$ 18,063	\$ -	\$ -	\$ 272,844
Note payable	-	-	-	-	-
Performance bonds	18,727	-	-	-	18,727
Deferred revenue	534,422	-	-	-	534,422
Unearned revenue	37,627	-	-	-	37,627
Accounts payable from restricted assets	-	-	-	-	-
Total liabilities	<u>845,557</u>	<u>18,063</u>	<u>-</u>	<u>-</u>	<u>863,620</u>
Fund balances:					
Reserved for:					
Prepaid expenses	119,918	-	-	-	119,918
Inventories	19,210	-	-	-	19,210
Encumbrances	367,906	-	-	-	367,906
Perpetual maintenance	-	-	-	258,347	258,347
State statute	1,505,995	-	-	-	1,505,995
Streets-Powell bill	634,247	-	-	-	634,247
Unreserved, General Fund:					
Designated for subsequent year's expenditures	906,580	-	-	-	906,580
Designated for public safety	108,700	-	-	-	108,700
Undesignated	2,736,757	-	-	-	2,736,757
Unreserved, reported in:					
Capital Project funds	-	566,987	5,314	-	572,301
Total fund balances	<u>6,399,313</u>	<u>566,987</u>	<u>5,314</u>	<u>258,347</u>	<u>7,229,961</u>
Total liabilities and fund balances	<u>\$ 7,244,870</u>	<u>\$ 585,050</u>	<u>\$ 5,314</u>	<u>\$ 258,347</u>	<u>\$ 8,093,581</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.	27,027,189
Other current assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	37,903
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.	125,687
Liabilities for earned but deferred revenues in fund statements.	534,422
Some liabilities, including installment purchases payable and accrued interest, pension and other postemployment benefits, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(11,323,921)
Net assets of governmental activities	<u>\$ 23,631,241</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, 2010

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General	Public Buildings Projects	Capital Projects		
REVENUES					
Ad valorem taxes	\$ 4,518,837	\$ -	\$ -	\$ -	\$ 4,518,837
Other taxes and licenses	2,188,491	-	-	-	2,188,491
Unrestricted intergovernmental	821,876	-	-	-	821,876
Restricted intergovernmental	822,922	-	-	-	822,922
Permits and fees	157,423	-	-	-	157,423
Sales and services	2,430,216	-	-	23,850	2,454,066
Investment earnings	11,015	-	-	527	11,542
Miscellaneous	278,176	-	692	-	278,868
Total revenues	11,228,956	-	692	24,377	11,254,025
EXPENDITURES					
Current:					
General government	2,904,637	78,403	-	-	2,983,040
Public safety	3,695,437	-	358,370	-	4,053,807
Transportation	2,456,044	-	-	-	2,456,044
Environmental protection	95,207	-	-	-	95,207
Culture and recreation	1,629,770	-	-	2,386	1,632,156
Debt service:					
Principal	761,452	-	-	-	761,452
Interest and other charges	403,801	-	-	-	403,801
Total expenditures	11,946,348	78,403	358,370	2,386	12,385,507
Excess (deficiency) of revenues over expenditures	(717,392)	(78,403)	(357,678)	21,991	(1,131,482)
OTHER FINANCING SOURCES					
Transfers from other funds	1,062,020	-	-	-	1,062,020
Transfers to other funds	(645,390)	645,390	-	-	-
Proceeds from construction loan	-	-	-	-	-
Installment purchase obligations issued	-	-	-	-	-
Total other financing sources	416,630	645,390	-	-	1,062,020
Net change in fund balance	(300,762)	566,987	(357,678)	21,991	(69,462)
Fund balances-beginning	6,700,075	-	362,992	236,356	7,299,423
Fund balances-ending	\$ 6,399,313	\$ 566,987	\$ 5,314	\$ 258,347	\$ 7,229,961

(continued)

Town of Waynesville
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2010

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

Net changes in fund balances - total governmental funds	\$ (69,462)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	(1,031,075)
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	15,496
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.	761,452
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	(4,308)
Net pension obligation	(41,051)
Other postemployment benefits	(134,992)
Accrued interest on installment purchases and construction loan	(3,435)
Net book value of assets sold	(94,956)
Consolidation adjustment for internal balances between the internal service funds and the governmental funds	1,957
Net revenue of internal service funds determined to be governmental-type	<u>(15,609)</u>
Total changes in net assets of governmental activities	<u>\$ (615,983)</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, 2010

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 4,393,800	\$ 4,393,800	\$ 4,518,837	\$ 125,037
Other taxes and licenses	2,361,260	2,361,260	2,188,491	(172,769)
Unrestricted intergovernmental	896,800	896,800	821,876	(74,924)
Restricted intergovernmental	772,800	1,038,250	822,922	(215,328)
Permits and fees	157,500	157,500	157,423	(77)
Sales and services	2,480,760	2,480,760	2,430,216	(50,544)
Investment earnings	11,980	11,980	11,015	(965)
Miscellaneous	177,100	177,100	278,176	101,076
Total revenues	11,252,000	11,517,450	11,228,956	(288,494)
Expenditures:				
Current:				
General government	2,833,960	3,099,410	2,904,637	194,773
Public safety	3,942,820	3,942,820	3,695,437	247,383
Transportation	3,103,480	3,103,480	2,456,044	647,436
Environmental protection	116,430	116,430	95,207	21,223
Cultural and recreation	1,848,470	1,848,470	1,629,770	218,700
Debt service:	-	-	-	-
Principal retirement	764,712	764,712	761,452	3,260
Interest and other charges	424,928	424,928	403,801	21,127
Total expenditures	13,034,800	13,300,250	11,946,348	1,353,902
Revenues over (under) expenditures	(1,782,800)	(1,782,800)	(717,392)	1,065,408
Other financing sources (uses):				
Transfers from other funds	1,062,020	1,062,020	1,062,020	-
Transfers to other funds	-	(645,390)	(645,390)	-
Appropriations from fund balance	720,780	1,366,170	-	(1,366,170)
Total other financing sources (uses)	1,782,800	1,782,800	416,630	(1,366,170)
Net change in fund balance	\$ -	\$ -	(300,762)	\$ (300,762)
Fund balances, beginning of year			6,700,075	
Fund balances, end of year			<u>\$ 6,399,313</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, 2010

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 560,388	\$ 324,781	\$ 819,418	\$ 1,704,587	\$ 30,386	\$ -
Investments	1,404,882	300,000	-	1,704,882	-	-
Accounts receivable	748,765	202,465	178,859	1,130,089	-	-
Due from other governments	33,261	435,319	-	468,580	-	-
Interest receivable	1,017	364	493	1,874	42	39
Inventories	343,768	251,589	30,577	625,934	6,468	49,726
Restricted cash and cash equivalents	256,941	-	192,040	448,981	-	-
Total current assets	3,349,022	1,514,518	1,221,387	6,084,927	36,896	49,765
Capital assets:						
Land and Construction in Progress	230,058	2,878,970	110,500	3,219,528	100,218	-
Other capital assets, net of depreciation	4,459,069	10,880,031	7,823,379	23,162,479	369,868	75,117
Capital assets (net)	4,689,127	13,759,001	7,933,879	26,382,007	470,086	75,117
Total assets	\$ 8,038,149	\$ 15,273,519	\$ 9,155,266	\$ 32,466,934	\$ 506,982	\$ 124,882
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	646,631	156,678	37,771	841,080	2,278	3,641
Due to other fund	-	-	-	-	-	5,289
Customer deposits	95,444	40,251	-	135,695	-	-
Compensated absences - current	9,588	26,957	26,298	62,843	4,895	2,973
Installment purchases payable-current	250,330	297,250	76,146	623,726	-	-
Notes Payable	-	643,279	-	643,279	-	-
Total current liabilities	1,001,993	1,164,415	140,215	2,306,623	7,173	11,903
Noncurrent liabilities:						
Other postemployment benefits	14,477	33,091	28,955	76,523	8,273	4,136
Compensated absences	10,170	16,983	21,139	48,292	2,989	3,899
Installment purchases payable	2,661,598	703,873	155,453	3,520,924	-	-
Total noncurrent liabilities	2,686,245	753,947	205,547	3,645,739	11,262	8,035
Total liabilities	3,688,238	1,918,362	345,762	5,952,362	18,435	19,938
NET ASSETS						
Invested in capital assets, net of related debt	1,777,199	12,114,599	7,702,280	21,594,078	470,086	75,117
Unrestricted	2,572,712	1,240,558	1,107,224	4,920,494	18,461	29,827
Total net assets	\$ 4,349,911	\$ 13,355,157	\$ 8,809,504	26,514,572	\$ 488,547	\$ 104,944

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. 467,804

Net assets of business-type activities \$ 26,982,376

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, 2010

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
OPERATING REVENUES						
Charges for services	\$ 8,324,950	\$ 2,243,196	\$ 1,923,679	\$ 12,491,825	\$ 242,238	\$ 481,612
Other operating revenue	33,261	-	-	33,261	-	-
Total operating revenues	8,358,211	2,243,196	1,923,679	12,525,086	242,238	481,612
OPERATING EXPENSES						
Finance and administration	361,120	180,860	166,730	708,710	-	-
Electric operations	730,750	-	-	730,750	-	-
Electric power purchases	5,751,342	-	-	5,751,342	-	-
Water treatment and distribution	-	1,344,595	-	1,344,595	-	-
Waste collection and treatment	-	-	1,181,966	1,181,966	-	-
Public works operations	-	-	-	-	221,823	-
Garage operations	-	-	-	-	-	482,450
Depreciation	277,008	468,379	411,523	1,156,910	16,973	18,504
Total operating expenses	7,120,220	1,993,834	1,760,219	10,874,273	238,796	500,954
Operating income	1,237,991	249,362	163,460	1,650,813	3,442	(19,342)
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	3,913	1,257	1,777	6,947	143	132
Interest and other charges	(102,815)	(40,850)	(6,127)	(149,792)	-	-
Miscellaneous revenues (expenses)	26,863	1,714	983	29,560	1,005	3,601
Total nonoperating revenue (expenses)	(72,039)	(37,879)	(3,367)	(113,285)	1,148	3,733
Income before contributions and transfers	1,165,952	211,483	160,093	1,537,528	4,590	(15,609)
Capital contributions	-	560,764	-	560,764	-	-
Transfers to other funds	(887,000)	(91,950)	(83,070)	(1,062,020)	-	-
Change in net assets	278,952	680,297	77,023	1,036,272	4,590	(15,609)
Total net assets - beginning	4,070,959	12,674,860	8,732,481		483,957	120,553
Total net assets - ending	\$ 4,349,911	\$ 13,355,157	\$ 8,809,504		\$ 488,547	\$ 104,944

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

2,633

Change in net assets - business-type activities

\$ 1,038,905

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, 2010

	Business-Type Activities				Governmental Activity	
	Enterprise Funds			Totals	Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund		Public Works Fund	Garage Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 8,356,279	\$ 1,971,507	\$ 1,925,432	\$ 12,253,218	\$ 242,238	\$ 481,595
Cash paid for goods and services	(6,813,547)	(205,329)	(602,605)	(7,621,481)	(51,095)	(391,517)
Cash paid to or on behalf of employees for services	(352,345)	(791,349)	(734,676)	(1,878,370)	(165,937)	(93,235)
Customer deposits received	53,498	20,820	-	74,318	-	-
Customer deposits returned	(49,624)	(19,533)	-	(69,157)	-	-
Net cash provided by operating activities	1,194,261	976,116	588,151	2,758,528	25,206	(3,157)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Cash received from miscellaneous sources	26,013	1,714	983	28,710	1,005	3,601
Transfers to other funds	(887,000)	(91,950)	(83,070)	(1,062,020)	-	-
Total cash flows from noncapital financing activities	(860,987)	(90,236)	(82,087)	(1,033,310)	1,005	3,601
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from installment purchase obligation	-	46,554	191,946	-	-	-
Principal and interest paid on long-term debt	(352,255)	(323,115)	(41,155)	(716,525)	-	-
Proceeds from sale of assets	850	-	-	850	-	-
Capital contributions - federal grant	-	560,764	-	560,764	-	-
Acquisition and construction of capital assets	(57,027)	(1,455,036)	(307,075)	(1,819,138)	(21,563)	(2,894)
Net cash provided (used) by capital and related financing activities	(408,432)	(1,170,833)	(156,284)	(1,974,049)	(21,563)	(2,894)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received on investments	4,232	1,631	1,960	7,823	148	132
Purchase of investments	(2,657,984)	(705,143)	-	(3,363,127)	-	-
Proceeds from investment maturities	2,508,102	1,304,863	100,000	3,912,965	-	-
Net cash provided (used) by investing activities	(145,650)	601,351	101,960	557,661	148	132
Net increase (decrease) in cash and cash equivalents	(220,808)	316,398	451,740	547,330	4,796	(2,318)
Balances-beginning of the year	1,038,137	8,383	559,718	1,606,238	25,590	2,318
Balances-end of the year	\$ 817,329	\$ 324,781	\$ 1,011,458	\$ 2,153,568	\$ 30,386	\$ -
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 1,237,991	\$ 249,362	\$ 163,460	\$ 1,650,813	\$ 3,442	\$ (19,342)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	277,008	468,379	411,523	1,156,910	16,973	18,504
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(17,167)	(276,246)	(584)	(293,997)	-	(17)
(Increase) decrease in allowance for doubtful accounts	15,235	4,557	2,337	22,129	-	-
(increase) decrease in inventory	11,903	(10,779)	(3,008)	(1,884)	40	(9,704)
Increase (decrease) in accounts payable and accrued liabilities	(345,411)	(121,608)	(1,407)	(468,426)	(229)	5,101
Increase (decrease) in notes payable	-	643,279	-	643,279	-	-
Increase (decrease) in customer deposits	3,874	1,287	-	5,161	-	-
Increase (decrease) in accrued OPEB liability	7,325	16,743	14,650	38,718	4,186	2,093
Increase (decrease) in accrued vacation pay	3,503	1,142	1,180	5,825	794	208
Total adjustments	(43,730)	726,754	424,691	1,107,715	21,764	16,185
Net cash provided by operating activities	\$ 1,194,261	\$ 976,116	\$ 588,151	\$ 2,758,528	\$ 25,206	\$ (3,157)

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, 2010

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Waynesville and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

Town of Waynesville ABC Board

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

B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental 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 the new fire station, construction needed at the current police station, and construction of a new development office.

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

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

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as 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 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Public Buildings Projects Fund and the Water Line Replacement Project Fund. The Town's Public Works and Garage Operations Funds, internal service funds, operate under financial plans that were adopted by the governing board at the time the Town's budget ordinance was approved, as is required by the General Statutes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the

multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, 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 Super NOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town and the ABC Board's investments are reported at fair value as determined by quoted market prices. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the Scot'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, Sewer Fund, and Electric 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, 2009.

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 2010-2011 budget ordinance.

Designated for public safety – portion of the fund balance available for appropriation that has been designated for the fire department building by the U.S. Department of Agriculture – Rural Development Center.

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, 2010.

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, 2010, the Town's deposits had a carrying amount of \$3,937,534 and a bank balance of \$4,083,708. Of the bank balance, \$1,500,000 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 \$773,842 and the bank balance was \$772,456. Of the ABC Board's bank balance, \$362,739 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2010, the Town's petty cash fund totaled \$2,875.

2. Investments

At June 30, 2010, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Reported</u>		<u>Maturity</u>	<u>Rating</u>
	<u>Value</u>	<u>Fair Value</u>		
Federal Home Loan Bank Discount Notes	\$ 705,911	\$ 707,009	1/10/2011	AAA
US Treasury Bill	698,971	699,328	12/16/2010	AAA
NC Capital Management Trust - Cash Portfolio	4,457,425	4,457,425	Various	AAAm
Total:	\$ 5,862,307	\$ 5,863,762		

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

Credit Risk. The Town has no policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The investment in the Federal Home Loan Bank Discount Notes is rated AAA by Standard and Poor's and Aaa by Moody's Investors Service at June 30, 2010. 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, 2010.

Concentration of Credit Risk. The Town's investment policy limits the funds invested with a single issuer to 40 percent of available funds, with the exception of the United States Treasury. More than five percent of the Town's investments are in Federal Home Loan Bank Discount Notes. This investment comprises twelve percent of the Town's total investments.

3. Receivables – Allowance for Doubtful Accounts

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

<u>Fund</u>	<u>6/30/2010</u>
General Fund:	
Taxes receivable	\$ 20,000
Accounts receivable	17,674
Total	37,674
Enterprise Funds	91,723
Total	<u>\$ 129,397</u>

4. Capital Assets**Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,635,301	\$ 109		\$ 144,635	\$ 1,780,045
Public art	20,000	15,000		5,000	40,000
Construction in progress	4,359,667	651,318		(4,530,463)	480,522
Total capital assets not being depreciated	6,014,968	666,427	-	(4,380,828)	2,300,567
Capital assets being depreciated:					
Land improvements	868,538	6,638		80,072	955,248
Buildings and building improvements	11,318,690	8,523	96,702	3,969,539	15,200,050
Equipment and furniture and fixtures	2,148,190	96,711	73,699	333,116	2,504,318
Vehicles and motorized equipment	4,005,820	292,056	389,384	28,500	3,936,992
Infrastructure	27,323,815	13,179			27,336,994
Total capital assets being depreciated	45,665,053	417,107	559,785	4,411,227	49,933,602
Less accumulated depreciation for:					
Land improvements	543,524	28,675			572,199
Buildings and building improvements	1,867,492	302,590	17,591		2,152,491
Equipment and furniture and fixtures	1,493,360	218,410	67,801	1,899	1,645,868
Vehicles and motorized equipment	2,565,985	333,677	379,437	28,500	2,548,725
Infrastructure	17,142,013	1,070,567			18,212,580
Total accumulated depreciation	23,612,374	1,953,919	464,829	30,399	25,131,863
Total capital assets being depreciated, net	22,052,679				24,801,739
Governmental activity capital assets, net	\$ 28,067,647				\$ 27,102,306

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

General government	\$ 75,056
Public safety	377,893
Transportation	1,248,435
Environmental protection	3,520
Cultural and recreational	230,511
Depreciation on capital assets held in Garage	
Fund charged to functions based on usage	18,504
Total depreciation expense	<u>\$ 1,953,919</u>

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Business-type activities:					
<i>Electric Fund</i>					
Capital assets not being depreciated:					
Land	\$ 230,058				\$ 230,058
Construction in progress	-				-
Total capital assets not being depreciated	230,058	-	-	-	230,058
Capital assets:					
Buildings and building improvements	22,997	-	-		22,997
Equipment and furniture and fixtures	108,482	10,640	663	(1,899)	116,560
Vehicles and motorized equipment	672,209			(28,500)	643,709
Substations, lines, and related equipment	7,007,821	46,387			7,054,208
Total capital assets being depreciated	7,811,509	57,027	663	(30,399)	7,837,474
Less accumulated depreciation for:					
Buildings and building improvements	18,313	40			18,353
Equipment and furniture and fixtures	97,601	4,485	663	(1,899)	99,524
Vehicles and motorized equipment	371,697	47,038		(28,500)	390,235
Substations, lines, and related equipment	2,644,848	225,445			2,870,293
Total accumulated depreciation	3,132,459	277,008	663	(30,399)	3,378,405
Total capital assets being depreciated, net	4,679,050				4,459,069
Electric fund capital assets, net	<u>4,909,108</u>				<u>4,689,127</u>
<i>Water Fund</i>					
Capital assets not being depreciated:					
Land	1,486,362				1,486,362
Construction in progress	174,037	1,218,571			1,392,608
Total capital assets not being depreciated	1,660,399	1,218,571	-	-	2,878,970
Capital assets being depreciated:					
Land improvements	63,248				63,248
Buildings and building improvements	1,788,541	7,769			1,796,310
Equipment and furniture and fixtures	248,050	20,651			268,701
Vehicles and motorized equipment	417,519	40,784	29,650		428,653
Plant and system distributions	18,951,794	167,261			19,119,055
Total capital assets being depreciated	21,469,152	236,465	29,650	-	21,675,967
Less accumulated depreciation for:					
Land improvements	8,191	2,812			11,003
Buildings and building improvements	925,451	27,184			952,635
Equipment and furniture and fixtures	169,926	16,601			186,527
Vehicles and motorized equipment	300,520	25,437	29,650		296,307
Plant and system distributions	8,953,119	396,345			9,349,464
Total accumulated depreciation	10,357,207	468,379	29,650	-	10,795,936
Total capital assets being depreciated, net	11,111,945				10,880,031
Water fund capital assets, net	<u>12,772,344</u>				<u>13,759,001</u>

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
<i>Sewer Fund</i>					
Capital assets not being depreciated:					
Land	110,500				110,500
Construction in progress	-				-
Total capital assets not being depreciated	110,500	-	-	-	110,500
Capital assets being depreciated:					
Land improvements	12,276				12,276
Buildings and building improvements	8,605,122				8,605,122
Equipment and furniture and fixtures	295,396	13,517	5,040		303,873
Vehicles and motorized equipment	298,300				298,300
Plant and system distributions	8,289,186	293,558			8,582,744
Total capital assets being depreciated	17,500,280	307,075	5,040	-	17,802,315
Less accumulated depreciation for:					
Land improvements	10,840	678			11,518
Buildings and building improvements	5,507,524	179,630			5,687,154
Equipment and furniture and fixtures	222,026	23,511	5,040		240,497
Vehicles and motorized equipment	211,044	11,705			222,749
Plant and system distributions	3,621,019	195,999			3,817,018
Total accumulated depreciation	9,572,453	411,523	5,040	-	9,978,936
Total capital assets being depreciated, net	7,927,827				7,823,379
Sewer fund capital assets, net	8,038,327				7,933,879
<i>Public Works Fund</i>					
Capital assets not being depreciated:					
Land	100,218	-	-	-	100,218
Capital assets being depreciated:					
Land improvements	45,366				45,366
Buildings and building improvements	528,687	21,563			550,250
Equipment and furniture and fixtures	11,318				11,318
Vehicles and motorized equipment	38,434				38,434
Total capital assets being depreciated	623,805	21,563	-	-	645,368
Less accumulated depreciation for:					
Land improvements	17,364	2,666			20,030
Buildings and building improvements	214,571	11,384			225,955
Equipment and furniture and fixtures	6,336	1,763			8,099
Vehicles and motorized equipment	20,256	1,160			21,416
Total accumulated depreciation	258,527	16,973	-	-	275,500
Total capital assets being depreciated, net	365,278				369,868
Public Works fund capital assets, net	465,496				470,086
Business-type activities capital assets, net	\$ 26,185,275				\$ 26,852,093

Construction commitments

The Town has active construction projects as of June 30, 2010. At year-end, the Town's commitments with contractors are as follows:

Project	Spent To-Date	Remaining Commitment
Public Buildings Projects	\$ 17,574	\$ 142,176
Hendrix Street Bridge Project	127,017	402,251
Dayton Drive Waterline Project	202,086	620,339
Skatepark Project	4,275	24,225
Eagles Nest Water Project	979,880	168,875
Total	<u>\$ 1,330,832</u>	<u>\$ 1,357,866</u>

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Capital assets being depreciated:					
Furniture and equipment	\$ 64,036	\$ 402			\$ 64,438
Leasehold improvements	3,308				3,308
Total capital assets being depreciated	67,344	402	-	-	67,746
Less accumulated depreciation	47,755	3,993	-	-	51,748
ABC capital assets, net	<u>\$ 19,589</u>				<u>\$ 15,998</u>

B. Liabilities**1. Payables**

Payables at the government-wide level at June 30, 2010, were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities:				
General	\$ 85,803	\$ 155,569	\$ 13,409	\$ 254,781
Public Buildings Projects	18,063	-	-	18,063
Other Governmental	2,461	1,180	-	3,641
Total Governmental Activities	<u>\$ 106,327</u>	<u>\$ 156,749</u>	<u>\$ 13,409</u>	<u>\$ 276,485</u>
Business-type Activities:				
Electric	\$ 546,297	\$ 4,750	\$ -	\$ 551,047
Water	131,190	10,251	-	141,441
Sewer	1,613	9,861	23,000	34,474
Other Business-type Activities	195	2,083	-	2,278
Total Business-type Activities:	<u>\$ 679,295</u>	<u>\$ 26,945</u>	<u>\$ 23,000</u>	<u>\$ 729,240</u>

2. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

1. *Plan Description.*

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

2. *Funding Policy.*

Plan members are required to contribute six percent of their annual covered salary. The 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 4.92 percent and 4.86 percent, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.80 percent 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, 2010, 2009, and 2008 were \$295,277, \$297,450, and \$285,813, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2010, 2009, and 2008 were \$9,501, \$9,473, and \$9,088, 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 0.85 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, 2009, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	34
Total	<u>36</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, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25 percent investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5 percent to 12.3 percent per year. Both (a) and (b) included an inflation component of 3.75 percent. The assumptions did not include post-retirement benefit increases.

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

Annual required contribution	\$ 55,635
Interest on net pension obligation	20,117
Adjustment to annual required contribution	(17,479)
Annual pension cost	58,273
Contributions made	(17,222)
Increase (decrease) in net pension obligation	41,051
Net pension obligation beginning of year	277,471
Net pension obligation end of year	<u>\$ 318,522</u>

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 44,314	16.93%	\$ 242,074
2009	\$ 51,809	31.68%	\$ 277,471
2010	\$ 58,273	29.55%	\$ 318,522

4. Funding Status and Funding Progress

As of December 31 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$624,526. The covered payroll (annual payroll of active employees covered by the plan) was \$1,421,861, and the ratio of the UAAL to the covered payroll was 43.9 percent.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

1. Plan Description.

The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

2. Funding Policy.

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2010 were \$100,274, which consisted of \$70,539 from the Town and \$29,735 from the law enforcement officers.

d. Supplemental Retirement Income Plan for General Employees

1. Plan Description.

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

2. Funding Policy.

Effective January 1, 2004, the Town commenced contributions of 3 percent for all covered employees. Effective January 1, 2005, this percentage increased to 5 percent. Contributions for the year ended June 30, 2010 were \$367,599, which consisted of \$222,434 from the Town and \$145,164 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 Postemployment Benefits

Healthcare Benefits

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

Health Benefits for Retirees hired prior to January 1, 2006

- 1) A retiree who has achieved ten (10) or more years of service with the Town, not including any accumulated sick or vacation time, and has reached 55 years of age will receive health insurance coverage, *at no cost* to the retiree, until the retiree reaches age 65 or until the retiree becomes Medicare eligible through a disability at an earlier age.
- 2) A Retiree who has achieved 25 or more years of service with the Town, not including any accumulated sick or vacation time, will receive health insurance coverage for a maximum period of ten (10) years from their official retirement date, regardless of the age at which that employee retires, *at no cost* to the retiree. At the conclusion of the ten (10) year period, the retiree (if he/she chooses) will be allowed to pay the cost of the group health premium and maintain coverage in the Town's health insurance program until age 65, or until employee becomes Medicare eligible through a disability at an earlier age.

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

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

Retiree Premium Rate Table:

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

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

Membership of the HCB Plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	12	4
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	124	32
Total	<u>129</u>	<u>43</u>

Funding Policy. The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Town's Board of Aldermen. The Town's members pay \$418 per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 4.63 percent of annual covered payroll. For the current year, the Town contributed \$68,323 or 1.28 percent of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 0.96 percent and 0.32 percent of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$9,605. The Town's obligation to contribute to HCB Plan is established and may be amended by the Town's Board of Aldermen.

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

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

Annual required contribution	\$ 248,312
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>\$ 248,312</u>
Contributions made	<u>(68,324)</u>
Increase (decrease) in net OPEB obligation	179,988
Net OPEB obligation, beginning of year	<u>175,743</u>
Net OPEB obligation, end of year	<u><u>\$ 355,731</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2010 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 248,312	29.2%	\$ 175,743
2010	\$ 248,312	27.5%	\$ 355,731

Funded Status and Funding Progress. As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,569,013. The covered payroll (annual payroll of active employees covered by the plan) was \$5,357,074, and the ratio of the UAAL to the covered payroll was 48.0 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.75 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, was 30 years.

3. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The

contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial. The Town provides additional death benefits to employees through its group health insurance plan.

4. Deferred Compensation Plan

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

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

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

5. Deferred/Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Prepaid taxes not yet earned (General Fund)	\$ -	\$ 4,885
Taxes receivable, net (General Fund)	534,422	-
Unearned grant revenue (General Fund)	-	-
Unearned distributions (General Fund)	-	13,605
Other unearned revenue (General Fund)	-	19,137
Total	<u>\$ 534,422</u>	<u>\$ 37,627</u>

6. Commitments

The Town had commitments of \$46,857 in its proprietary funds at June 30, 2010. These items will be funded from operating funds. Additionally, the Town had commitments in the General Fund of \$10,000 for Public Artwork and \$37,910 for the Public Buildings Projects fund.

The Town held cash performance bonds with a balance at June 30, 2010 of \$18,727 from real estate developers for improvements to be made within the developments. In the Town's opinion, the bond money will be more than sufficient to cover all costs that the Town will incur.

7. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Town participates in self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$2 million per occurrence, auto liability coverage of \$1 million per claim with an annual aggregate limit of \$3 million, property coverage up to replacement value,

workers' compensation coverage up to \$1 million per occurrence, and employee health coverage with an unlimited maximum.

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

8. Claims, Judgments and Contingent Liabilities

Periodically, the Town has been a defendant to various lawsuits. The town has set up a contingent liability, in the amount of \$10,000, for legal claims. At June 30, 2010, there were no lawsuits against the Town of Waynesville.

9. Notes Payable

On September 4, 2009, the Town entered into an agreement with North Carolina Department of Environment and Natural Resources for \$300,000 to extend water service to the Eagles Nest community. The financing contract requires 10 annual payments of \$30,000 at zero percent interest. Payments are to begin not earlier than six months after completion of the project. At June 30, 2010, the project was not complete. Therefore, the Town is classifying the entire \$300,000 in notes payable until the project is completed.

The North Carolina Department of Environment and Natural Resources has agreed to lend the Town \$904,740 to replace water lines in the Dayton Drive community. The financing will span 20 years with interest rate of 2.25 percent. Payments are to begin not earlier than six months after completion of the project. At year-end the project was not complete, but the Town had incurred costs of \$343,279 that will be reimbursed with loan proceeds. Therefore, the Town is classifying \$343,279 in notes payable at June 30, 2010.

10. Long-Term Obligations

a. Installment Purchases, Interlocal Agreement and Construction Financing

On December 11, 2009, the Town entered into a \$414,800 installment purchase contract to acquire a sewer jet truck, a backhoe, and eight police cars. The financing contract requires five annual payments of \$52,045 with an interest rate of 3.065 percent for the sewer jet truck and the backhoe and three annual payments of \$61,861 with an interest rate of 2.725 percent for the police cars. Interest expense for the year ended June 30, 2010 totaled \$6,662, with \$2,642 recorded in the governmental activities and \$4,020 recorded in the business-type activities. The portion of the loan for the police cars is shown under governmental activities, while the portion representing the sewer jet truck and back hoe is shown under business-type activities.

On September 26, 2008, the Town entered into an installment purchase contract with USDA Rural Development for \$2,000,000 to refinance the construction loan on the new fire station. The financing

contract requires forty annual payments of \$108,700 at an interest rate of 4.5 percent. Interest expense for the year ended June 30, 2010 was \$89,361. This loan is shown under governmental activities.

On July 17, 2008, the Town entered into an installment purchase contract with a local bank for \$3,000,000 to fund the construction of a second electric substation. The financing requires twelve annual payments of \$310,817 at an interest rate of 3.52 percent. Interest expense for the year ended June 30, 2010 was \$98,713. This loan is shown under business-type activities.

On May 13, 2008, the Town entered into an installment purchase contract for \$3,000,000 to fund the construction of a new Police Station. The financing requires forty semi-annual payments of \$105,669 with an interest rate of 3.58 percent. Interest expense for the year ended June 30, 2010 was \$91,439. This loan is shown under governmental activities.

On January 28, 2008, the Town entered into a \$570,000 installment purchase contract to acquire a utility pole truck and two front-loading garbage trucks. The financing contract requires five annual payments of \$124,314 with an interest rate of 3.03 percent. Interest expense for the year ended June 30, 2010 was \$12,306. One-third of this loan and related interest is shown under business-type activities while the other two-thirds is shown under governmental activities.

On July 19, 2007, the Town entered into an installment purchase contract to expand the water treatment lab facilities. The financing contract requires sixteen semi-annual payments of \$25,635 with an interest rate of 3.86 percent. Interest expense for the year ended June 30, 2010 was \$10,198. This loan is shown under business-type activities.

On February 15, 2007, the Town entered into a second installment purchase contract for \$1,000,000 to finance the construction of a new Fire Station. The financing requires 30 semi-annual fixed principal payments of \$33,333 plus interest at the rate of 3.77 percent. Interest expense for the year ended June 30, 2010 was \$31,109. This loan is shown under governmental activities.

On January 5, 2007, the Town entered into an installment purchase contract for \$78,476 to acquire a telephone system. The financing contract requires sixty monthly payments of \$1,502 with an interest rate of 5.584 percent. Interest expense for the year ended June 30, 2010 was \$1,968. This loan is shown under governmental activities.

On November 21, 2006, the Town entered into an installment purchase contract for \$205,000 to acquire three street trucks. The financing contract requires four annual payments of \$56,236 with an interest rate of 3.82 percent. Interest expense for the year ended June 30, 2010 was \$2,855. This loan is shown under governmental activities.

On July 6, 2005, the Town entered into an installment purchase contract to acquire a water tank. The financing contract requires ten annual payments of \$118,680 with an interest rate of 3.49 percent. Interest expense for the year ended June 30, 2010 was \$17,349. 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, 2010 was \$416. 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, 2010 was \$67,419. This loan is shown under governmental activities and has a balance of \$1,498,845 at June 30, 2010. The Town of Waynesville does not hold title to this asset.

On October 16, 2001, the Town entered into an installment purchase contract for improvements to the water treatment plant. The contract as refinanced required one final payment (under the original contract) of \$159,679 and subsequent annual payments of \$153,165 with an interest rate of 3.79 percent. Interest expense for the year ended June 30, 2010 was \$12,518. 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, 2010 was \$2,892. 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, 2010 was \$111,823. This loan is shown under governmental activities.

The future minimum payments of these installment purchase contracts and agreements as of June 30, 2010, are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 830,716	\$ 402,378	\$ 623,726	\$ 144,844
2012	796,296	370,538	604,143	123,272
2013	813,776	340,031	472,372	101,878
2014	697,936	307,621	420,794	85,525
2015	723,776	279,853	343,346	70,786
2016-2020	3,013,647	957,286	1,380,020	199,036
2021-2025	1,162,137	577,533	300,249	10,569
2026-2030	803,006	374,506	-	-
2031-2035	257,826	285,674	-	-
2036-2040	321,299	222,201	-	-
2041-2045	400,397	143,104	-	-
2046-2050	388,734	46,066	-	-
Total	<u>\$ 10,209,545</u>	<u>\$ 4,306,791</u>	<u>\$ 4,144,650</u>	<u>\$ 735,910</u>
Less: current portion	<u>(830,716)</u>		<u>(623,726)</u>	
Long-term portion	<u>\$ 9,378,829</u>		<u>\$ 3,520,924</u>	

b. General Obligation Bonds

At June 30, 2010, the Town of Waynesville had a legal debt margin of \$77,043,551.

c. Changes in General Long-Term Debt

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 10,794,697	\$ 176,300	\$ 761,452	\$ 10,209,545	\$ 830,716
Unfunded pension liabilities	277,471	41,051	-	318,522	-
Legal Claims	10,000	-	-	10,000	-
Other postemployment benefits	133,850	200,390	63,305	270,935	-
Compensated absences-garage	6,664	3,181	2,973	6,872	2,973
Compensated absences	333,655	194,553	190,245	337,963	190,245
Governmental activity long-term liabilities	<u>\$ 11,556,337</u>	<u>\$ 615,475</u>	<u>\$ 1,017,975</u>	<u>\$ 11,153,837</u>	<u>\$ 1,023,934</u>
Business-type activities:					
<i>Electric Fund</i>					
Installment purchases	\$ 3,153,919	\$ -	\$ 241,991	\$ 2,911,928	\$ 250,330
Other postemployment benefits	7,152	7,325	-	14,477	-
Compensated absences	16,255	13,091	9,588	19,758	9,588
<i>Total activity Electric Fund</i>	<u>3,177,326</u>	<u>20,416</u>	<u>251,579</u>	<u>2,946,163</u>	<u>259,918</u>
<i>Water Fund</i>					
Installment purchases	1,232,687	46,554	278,118	1,001,123	297,250
Other postemployment benefits	16,348	16,743	-	33,091	-
Compensated absences	42,798	28,099	26,957	43,940	26,957
<i>Total activity Water Fund</i>	<u>1,291,833</u>	<u>91,396</u>	<u>305,075</u>	<u>1,078,154</u>	<u>324,207</u>
<i>Sewer Fund</i>					
Installment purchases	77,857	191,946	38,204	231,599	76,146
Other postemployment benefits	14,305	14,650	-	28,955	-
Compensated absences	46,257	27,478	26,298	47,437	26,298
<i>Total activity Sewer Fund</i>	<u>138,419</u>	<u>234,074</u>	<u>64,502</u>	<u>307,991</u>	<u>102,444</u>
<i>Public Works Fund</i>					
Installment purchases	-	-	-	-	-
Other postemployment benefits	4,087	9,204	5,018	8,273	-
Compensated absences	7,090	5,689	4,895	7,884	4,895
<i>Total activity Public Works Fund</i>	<u>11,177</u>	<u>14,893</u>	<u>9,913</u>	<u>16,157</u>	<u>4,895</u>
Business-type activity long-term liabilities	<u>\$ 4,618,755</u>	<u>\$ 360,779</u>	<u>\$ 631,069</u>	<u>\$ 4,348,465</u>	<u>\$ 691,464</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, 2010, consist of the following:

Due to the Town from the component unit, ABC Board	<u>\$ 84,300</u>
Due from the Public Works Fund for its activity allocation to the Governmental Funds	<u>\$ 20,743</u>
Due from the Garage Fund to the General Fund for operations	<u>\$ 5,289</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, 2010 consist of the following:

From the Water Fund to the General Fund	\$ 91,950
From the Sewer Fund to the General Fund	83,070
From the Electric Fund to the General Fund	887,000
From the component unit, ABC Board, to the Town	99,880
From the General Fund to the Capital Project Fund	645,390
Total	<u>1,807,290</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 2010 fiscal year, the Town made a transfer from the General Fund of \$645,390 to the Public Buildings Projects 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, 2010, the Town of Waynesville has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$8,532 for the twenty-eight volunteer firemen and ten employed firemen who perform firefighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Squad Worker's Pension Fund, a cost sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution per fireman paid by the Town, investment income, and a State appropriation.

The Town has determined that on-behalf of payments for fringe benefits and salaries for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2010 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

On September 22, 2010, the Town entered into an installment purchase contract with a local bank for \$397,600 to fund the purchase of a new fire truck and related equipment. The financing agreement requires ten annual payments of \$45,488 at an interest rate of 2.56 percent, with the first annual payment due August 22, 2011.

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)
12/31/2004	-	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%
12/31/2008	-	478,456	478,456	0%	1,387,023	34.50%
12/31/2009	-	624,526	624,526	0%	1,421,861	43.92%

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

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2005	43,801	15.88%
2006	45,389	27.43%
2007	39,124	21.34%
2008	44,314	16.93%
2009	51,809	31.68%
2010	58,273	29.55%

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	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.5% to 12.3%
*Includes inflation at	3.75%
Cost-of living adjustments	N/A

**Town of Waynesville, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2008	-	2,569,013	2,569,013	0%	5,357,074	47.96%

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

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2010	248,312	4.63%

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	12/31/2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent of Pay, open
Remaining amortization period	30 Years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical Cost Trend Rate	10.50% - 5.00%
Year of Ultimate Trend Rate	2016
*Includes inflation at	3.75%
Cost-of living adjustments	None

Town of Waynesville, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2010

	2010		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 4,471,328	\$ -
Penalties and interest	-	47,509	-
Total	<u>4,393,800</u>	<u>4,518,837</u>	<u>125,037</u>
Other taxes and licenses:			
Local option sales tax	-	2,006,332	-
Gross receipts tax on short-term rental property	-	17,937	-
Privilege licenses and CATV	-	164,222	-
Total	<u>2,361,260</u>	<u>2,188,491</u>	<u>(172,769)</u>
Unrestricted intergovernmental:			
Utility franchise tax	-	707,792	-
Beer and wine tax	-	14,204	-
ABC profit distribution	-	99,880	-
Total	<u>896,800</u>	<u>821,876</u>	<u>(74,924)</u>
Restricted intergovernmental:			
Powell Bill allocation	-	487,890	-
Investment earnings	-	1,564	-
Contributions by Haywood County	-	275	-
On-behalf of payments - Fire and Rescue	-	8,532	-
ABC Revenue for law enforcement	-	7,846	-
Other grant revenue	-	316,815	-
Total	<u>1,038,250</u>	<u>822,922</u>	<u>(215,328)</u>
Permits and fees:			
Building permits and inspection fees	-	96,291	-
Reconnect fees	-	61,132	-
Total	<u>157,500</u>	<u>157,423</u>	<u>(77)</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, 2010

	2010		Variance
	Budget	Actual	Positive (Negative)
Sales and services:			
Recreation department fees	-	669,853	-
Cemetery revenues	-	25,150	-
Solid waste container sales	-	45,207	-
Fire protection	-	246,062	-
Police contract services	-	51,145	-
Sanitation fee	-	652,783	-
Court costs and fees	-	2,506	-
Rents	-	28,800	-
Charges to water fund	-	180,860	-
Charges to sewer fund	-	166,730	-
Charges to electric fund	-	361,120	-
Total	2,480,760	2,430,216	(50,544)
Investment earnings	11,980	11,015	(965)
Miscellaneous	177,100	278,176	101,076
Total revenues	11,517,450	11,228,956	(288,494)
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits	-	68,234	-
Other operating expenditures	-	38,618	-
Total	109,850	106,852	2,998
Administration:			
Salaries and employee benefits	-	608,214	-
Professional services	-	54,421	-
Other operating expenditures	-	120,110	-
Capital outlay	-	6,873	-
Total	837,690	789,618	48,072
Finance:			
Salaries and employee benefits	-	583,620	-
Professional services	-	80,527	-
Other operating expenditures	-	89,698	-
Capital outlay	-	1,795	-
Total	798,730	755,640	43,090

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, 2010

	2010		Variance
	Budget	Actual	Positive (Negative)
Public buildings:			
Salaries and employee benefits	-	54,636	-
Other operating expenditures	-	194,669	-
Capital outlay	-	43,418	-
Total	<u>327,760</u>	<u>292,723</u>	<u>35,037</u>
Planning and code enforcement:			
Salaries and employee benefits	-	376,739	-
Other operating expenditures	-	99,936	-
Capital Outlay	-	3,928	-
Total	<u>519,440</u>	<u>480,603</u>	<u>38,837</u>
Special appropriations:			
Contributions	-	479,201	-
Total	<u>505,940</u>	<u>479,201</u>	<u>26,739</u>
Total general government	<u>3,099,410</u>	<u>2,904,637</u>	<u>194,773</u>
Public safety:			
Police:			
Salaries and employee benefits	-	2,475,329	-
Professional services	-	9,221	-
Other operating expenditures	-	379,669	-
Capital outlay	-	29,413	-
Total	<u>3,092,160</u>	<u>2,893,632</u>	<u>198,528</u>
Fire:			
Salaries and employee benefits	-	651,176	-
Professional services	-	7,372	-
Other operating expenditures	-	142,017	-
Building inspection and EMT's	-	1,240	-
Total	<u>850,660</u>	<u>801,805</u>	<u>48,855</u>
Total public safety	<u>3,942,820</u>	<u>3,695,437</u>	<u>247,383</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits	-	1,082,302	-
Professional services	-	1,964	-
Other operating expenditures	-	805,434	-
Contracted services	-	219,602	-
Capital outlay	-	346,742	-
Total transportation	<u>3,103,480</u>	<u>2,456,044</u>	<u>647,436</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, 2010

	2010		Variance
	Budget	Actual	Positive (Negative)
Environmental protection:			
Cemetery:			
Salaries and employee benefits	-	71,293	-
Other operating expenditures	-	16,213	-
Capital outlay	-	7,701	-
Total environmental protection	116,430	95,207	21,223
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits	-	1,109,214	-
Other operating expenditures	-	491,539	-
Capital outlay	-	29,017	-
Total culture and recreation	1,848,470	1,629,770	218,700
Debt service:			
Principal retirement	-	761,452	-
Interest and other charges	-	403,801	-
Total debt service	1,189,640	1,165,253	24,387
Total expenditures	13,300,250	11,946,348	1,353,902
Revenues over (under) expenditures	(1,782,800)	(717,392)	1,065,408
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Funds	1,062,020	1,062,020	
Transfer to other funds:			
Capital Projects Fund	(645,390)	(645,390)	
Appropriations from fund balance	1,366,170	-	
Total	\$ 1,782,800	416,630	\$ (1,366,170)
Revenues and other financing sources over expenditures and other financing uses	\$ -	(300,762)	\$ (300,762)
Fund balances:			
Beginning of year, July 1		6,700,075	
End of year, June 30		\$ 6,399,313	

**Town of Waynesville
Combining Balance Sheet
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010**

	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 243,880	\$ 14,311	\$ 258,191
Accounts and interest receivable	145	11	156
Due from other governments	-	-	-
Total assets	<u>\$ 244,025</u>	<u>\$ 14,322</u>	<u>\$ 258,347</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	244,025	14,322	258,347
Unreserved	-	-	-
Total fund balances	<u>244,025</u>	<u>14,322</u>	<u>258,347</u>
Total liabilities and fund balances	<u>\$ 244,025</u>	<u>\$ 14,322</u>	<u>\$ 258,347</u>

Town of Waynesville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010

	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Revenues:			
Restricted intergovernmental	\$ -	\$ -	\$ -
Sales and services	23,850	-	23,850
Investment earnings	492	35	527
Total revenues	24,342	35	24,377
Expenditures:			
Maintenance	-	2,386	2,386
Economic and physical development	-	-	-
Total expenditures	-	2,386	2,386
Revenues over (under) expenditures	24,342	(2,351)	21,991
Other financing sources:			
Transfers from other funds:			
General Fund	-	-	-
Total other financing sources	-	-	-
Net change in fund balance	24,342	(2,351)	21,991
Fund balances:			
Beginning of year, July 1	219,683	16,673	236,356
End of year, June 30	\$ 244,025	\$ 14,322	\$ 258,347

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, 2010

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Grant revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous income	-	6,617	-	6,617	(6,617)
Investment earnings	-	117,795	692	118,487	118,487
Total revenues	-	124,412	692	125,104	111,870
Expenditures:					
Capital outlay					
Fire Department Construction:					
Architect and engineering fees	250,000	242,436	-	242,436	7,564
Land Purchase	650,000	649,211	-	649,211	789
Development and construction	2,825,000	2,716,996	7,000	2,723,996	101,004
Equipment and furniture	130,000	122,417	-	122,417	7,583
Interest during construction	177,975	139,016	-	139,016	38,959
Contingency	100,000	-	-	-	100,000
Total fire department construction	4,132,975	3,870,076	7,000	3,877,076	255,899
Police/Development Office Construction:					
Architect and engineering fees	307,000	300,114	12,402	312,516	(5,516)
Land Purchase	106,000	106,171	-	106,171	(171)
Development and construction	3,858,690	3,604,311	145,974	3,750,285	108,405
Equipment and furniture	128,000	149,679	182,291	331,970	(203,970)
Interest during construction	177,975	119,989	10,703	130,692	47,283
Contingency	242,830	-	-	-	242,830
Total police department construction	4,820,495	4,280,264	351,370	4,631,634	188,861
Total Appropriations	8,953,470	8,150,340	358,370	8,508,710	444,760
Revenues over (under) expenditures	(8,953,470)	(8,025,928)	(357,678)	(8,383,606)	(569,864)
Other financing sources:					
Loan proceeds	5,900,000	6,000,000	-	6,000,000	(100,000)
Operating transfer in from General Fund	2,519,545	1,855,000	-	1,855,000	664,545
Transfer from tax revenue	533,925	533,920	-	533,920	5
Total other financing sources	8,953,470	8,388,920	-	8,388,920	564,550
Net change in fund balance	\$ -	\$ 362,992	(357,678)	\$ 5,314	\$ (5,314)
Fund balances:					
Beginning of year, July 1			362,992		
End of year, June 30			\$ 5,314		

Town of Waynesville, North Carolina
Public Buildings Projects Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2010

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Miscellaneous income	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-
Total revenues	-	-	-	-	-
Expenditures:					
Capital outlay					
Public Building Renovations:					
Capital Improvments	645,390	-	78,403	78,403	566,987
Equipment and furniture	-	-	-	-	-
Contingency	-	-	-	-	-
Total public building renovations	645,390	-	78,403	78,403	566,987
Revenues over (under) expenditures	(645,390)	-	(78,403)	(78,403)	(566,987)
Other financing sources:					
Operating transfer in from General Fund	645,390	-	645,390	645,390	-
Total other financing sources	645,390	-	645,390	645,390	-
Net change in fund balance	\$ -	\$ -	566,987	\$ 566,987	\$ (566,987)
Fund balances:					
Beginning of year, July 1			-		
End of year, June 30			\$ 566,987		

Town of Waynesville, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2010

	2010		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Charges for service	\$ 8,849,660	\$ 8,324,950	\$ (524,710)
Other operating revenue	-	33,261	33,261
Total operating revenues	8,849,660	8,358,211	(491,449)
Nonoperating revenues:			
Investment earnings	-	3,913	-
Miscellaneous	-	26,863	-
Total nonoperating revenues	7,240	30,776	23,536
Total revenues	8,856,900	8,388,987	(467,913)
Expenditures:			
Finance and administration:			
Charge for services	387,900	361,120	(26,780)
Electrical operations:			
Salaries and employee benefits	-	360,645	-
Professional services	-	18,854	-
Maintenance	-	167,529	-
Other departmental expenditures	-	180,219	-
Capital outlay	-	57,027	-
Total	870,050	784,274	85,776
Electrical power purchases	6,567,000	5,751,342	815,658
Debt service:			
Principal payments	-	241,991	-
Interest and fees	-	110,264	-
Total	352,300	352,255	45
Total expenditures	8,177,250	7,248,991	874,699
Revenues over expenditures	679,650	1,139,996	460,346
Other financing sources (uses):			
Transfers to other funds:			
Transfer to General Fund	(887,000)	(887,000)	-
Fund balance appropriated	207,350	-	(207,350)
Total other financing (uses)	(679,650)	(887,000)	(207,350)
Net change in fund balance	\$ -	252,996	\$ 252,996
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		241,991	
Capital outlays		57,027	
Depreciation		(277,008)	
Decrease in long-term debt accrued interest		7,449	
Increase in accrued vacation pay		(3,503)	
Total		25,956	
Change in net assets		\$ 278,952	

Town of Waynesville, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2010

	2010		Variance
	Budget	Actual	Positive/(Negative)
Revenues:			
Operating revenues:			
Water charges	\$ -	\$ 2,210,793	\$ -
Taps and connection fees	-	32,403	-
Total operating revenues	2,284,940	2,243,196	(41,744)
Nonoperating revenues:			
Investment earnings	-	1,257	-
Miscellaneous	-	1,714	-
Total nonoperating revenues	4,000	2,971	(1,029)
Total revenues	2,288,940	2,246,167	(42,773)
Expenditures:			
Finance and administration:			
Charge for services	180,860	180,860	-
Total	180,860	180,860	-
Water maintenance and distribution:			
Maintenance department:			
Salaries and employee benefits	-	406,833	-
Maintenance	-	161,911	-
Professional services	-	5,533	-
Other departmental expenditures	-	112,513	-
Capital outlay	-	208,045	-
Total	1,040,500	894,835	145,665
Operations department:			
Salaries and employee benefits	-	403,496	-
Professional services	-	17,363	-
Utilities	-	17,484	-
Maintenance	-	141,625	-
Other departmental expenditures	-	76,695	-
Capital outlay	-	42,948	-
Total	821,030	699,611	121,419
Total water maintenance and distribution	1,861,530	1,594,446	267,084
Debt service:			
Principal payments	-	278,118	-
Interest and fees	-	44,997	-
Total	324,170	323,115	1,055
Total expenditures	2,366,560	2,098,421	268,139
Revenues over expenditures	(77,620)	147,746	225,366
Other financing sources (uses):			
Transfers to other funds:			
Transfer to General Fund	(91,950)	(91,950)	-
Fund balance appropriated	169,570	-	(169,570)
Total other financing (uses)	77,620	(91,950)	(169,570)
Net change in fund balance	\$ -	55,796	\$ 55,796

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

Reconciling items:	
Principal payments	278,118
Capital outlays	250,993
Capital contributions from Eagle Nest Capital Project Fund	560,764
Depreciation	(468,379)
Decrease in long-term debt accrued interest	4,147
Increase in accrued vacation pay	(1,142)
Total	624,501
Change in net assets	\$ 680,297

Town of Waynesville, North Carolina
Eagles Nest Water System Capital Projects Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2010

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
Federal Grant revenue	\$ 1,000,000	\$ 174,037	\$ 860,764	\$ 1,034,801	\$ (34,801)
Total revenues	<u>1,000,000</u>	<u>174,037</u>	<u>860,764</u>	<u>1,034,801</u>	<u>(34,801)</u>
Expenditures:					
Engineering fees	102,310	82,011	17,424	99,435	2,875
Administrative and Legal costs	9,130	126	16,691	16,817	(7,687)
Land & Right of Way	30,000	-	80	80	29,920
Construction costs	1,053,240	91,900	826,569	918,469	134,771
Contingency	105,320	-	-	-	105,320
Total Expenditures	<u>1,300,000</u>	<u>174,037</u>	<u>860,764</u>	<u>1,034,801</u>	<u>265,199</u>
Revenues over (under) expenditures	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>
Other financing sources:					
Contributed capital	300,000	300,000	-	300,000	-
Total other financing sources	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 300,000</u>	<u>-</u>	<u>\$ 300,000</u>	<u>\$ (300,000)</u>
Fund balances:					
Beginning of year, July 1			300,000		
End of year, June 30			<u>\$ 300,000</u>		

Town of Waynesville, North Carolina
Water Line Replacement Capital Projects Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2010

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
State Grant revenue	\$ 213,000	\$ -	\$ -	\$ -	\$ 213,000
Total revenues	<u>213,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,000</u>
Expenditures:					
Engineering fees	76,000	-	59,000	59,000	17,000
Administrative costs	-	-	1,353	1,353	(1,353)
Closing costs	17,740	-	-	-	17,740
Construction costs	986,000	-	282,926	282,926	703,074
Contingency	38,000	-	-	-	38,000
Total Expenditures	<u>1,117,740</u>	<u>-</u>	<u>343,279</u>	<u>343,279</u>	<u>774,461</u>
Revenues over (under) expenditures	<u>(904,740)</u>	<u>-</u>	<u>(343,279)</u>	<u>(343,279)</u>	<u>(561,461)</u>
Other financing sources:					
Loan proceeds	904,740	-	-	-	904,740
Total other financing sources	<u>904,740</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>904,740</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>(343,279)</u>	<u>\$ (343,279)</u>	<u>\$ 343,279</u>
Fund balances:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ (343,279)</u>		

Town of Waynesville, North Carolina
Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2010

	2010		Variance Positive/(Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Sewer charges	\$ -	\$ 1,902,679	\$ -
Taps and connection fees	-	21,000	-
Impact fees	-	-	-
Industrial discharge permits	-	-	-
Total operating revenues	1,994,380	1,923,679	(70,701)
Nonoperating revenues:			
Investment earnings	1,990	1,777	(213)
Miscellaneous	500	983	483
Total nonoperating revenues	2,490	2,760	270
Total revenues	1,996,870	1,926,439	(70,431)
Expenditures:			
Finance and administration:			
Charges by general fund	166,730	166,730	-
Waste collection and treatment:			
Maintenance department:			
Salaries and employee benefits	-	226,287	-
Professional services	-	-	-
Maintenance	-	37,913	-
Other departmental expenditures	-	35,260	-
Capital outlay	-	249,847	-
Total	665,630	549,307	116,323
Operations department:			
Salaries and employee benefits	-	525,243	-
Professional services	-	20,770	-
Utilities	-	165,869	-
Maintenance	-	83,216	-
Other departmental expenditures	-	86,228	-
Capital outlay	-	57,228	-
Total	1,049,870	938,554	111,316
Total waste collection and treatment	1,715,500	1,487,861	227,639
Debt service:			
Principal payments	-	38,205	-
Interest and fees	-	2,951	-
Total	41,160	41,156	4
Total expenditures	1,923,390	1,695,747	227,643
Revenues over expenditures	73,480	230,692	157,212
Other financing sources (uses):			
Transfers to other funds:			
Transfers to general fund:	(83,070)	(83,070)	-
Fund balance appropriated	9,590	-	(9,590)
Total other financing sources	(73,480)	(83,070)	(9,590)
Net change in fund balance	\$ -	\$ 147,622	\$ 147,622
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		38,205	
Capital outlays		307,075	
Depreciation		(411,523)	
Increase in long-term debt accrued interest		(3,176)	
Increase in accrued vacation pay		(1,180)	
Total		(70,599)	
Change in net assets		\$ 77,023	

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, 2010

	2010		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 309,420	\$ 242,238	\$ (67,182)
Total operating revenues	309,420	242,238	(67,182)
Nonoperating revenues:			
Investment earnings	-	143	143
Miscellaneous	100	1,005	905
Total nonoperating revenues	100	1,148	1,048
Total revenues	309,520	243,386	(66,134)
Expenditures:			
Salaries and employee benefits	-	170,123	
Occupancy costs	-	13,998	-
Maintenance and repairs	-	16,019	-
Materials and supplies	-	9,488	-
Other departmental expenses	-	11,401	-
Capital outlays	-	21,563	-
Total expenditures	309,520	242,592	66,928
Net change in fund balance	\$ -	794	\$ 794
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(16,973)	
Capital outlays		21,563	
Increase in accrued vacation pay		(794)	
Total reconciling items		3,796	
Change in net assets		\$ 4,590	

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, 2010

	2010		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 618,230	\$ 481,612	\$ (136,618)
Total operating revenues	618,230	481,612	(136,618)
Nonoperating revenues:			
Investment earnings		132	132
Miscellaneous	220	3,601	3,381
Total nonoperating revenues	220	3,733	3,513
Total revenues	618,450	485,345	(133,105)
Expenditures:			
Salaries and employee benefits	-	95,564	-
Occupancy costs	-	58,137	-
Maintenance and repairs		2,729	
Materials and supplies	-	80,144	-
Other departmental expenses	-	245,668	-
Capital outlay	-	2,894	-
Total expenditures	618,450	485,136	133,314
Net change in fund balance	\$ -	209	\$ 209
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(18,504)	
Capital outlay		2,894	
Increase in accrued vacation pay		(208)	
Total reconciling items		(15,818)	
Change in net assets		\$ (15,609)	

Town of Waynesville, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2010

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2009</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2010</u>
2009 - 2010	-	4,496,974	\$ 4,322,294	\$ 174,680
2008 - 2009	193,425	-	89,759	103,666
2007 - 2008	94,248	-	27,555	66,693
2006 - 2007	55,542	-	13,706	41,836
2005 - 2006	46,131	-	6,826	39,305
2004 - 2005	32,508	-	5,612	26,896
2003 - 2004	33,989	-	4,692	29,297
2002 - 2003	30,457	-	3,448	27,009
2001 - 2002	23,170	-	1,310	21,860
2000 - 2001	23,260	-	80	23,180
1999 - 2000	20,819	-	20,819	-
	<u>\$ 553,549</u>	<u>\$ 4,496,974</u>	<u>\$ 4,496,101</u>	<u>554,422</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>(20,000)</u>
Ad valorem taxes receivable - net				<u>534,422</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				4,518,837
Reconciling items:				
Interest, penalties and advertising collected				(47,509)
Taxes written off				24,773
Subtotal				<u>(22,736)</u>
Total collections and credits				<u>\$ 4,496,101</u>

Town of Waynesville, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2010

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 1,093,196,483	0.40	\$ 4,372,786	\$ 4,122,294	\$ 250,492
Municipal service district	41,310,222	0.23	95,013	95,013	-
Penalties	-		4,794	4,794	-
Total	<u>1,134,506,705</u>		<u>4,472,593</u>	<u>4,222,101</u>	<u>250,492</u>
Discoveries:					
Current year taxes	6,301,000	0.40	25,204	25,204	-
Penalties	-		5,037	5,037	-
Total	<u>6,301,000</u>		<u>30,241</u>	<u>30,241</u>	<u>-</u>
Refund of overpayments			-	-	
Abatements	<u>(1,465,000)</u>		<u>(5,860)</u>	<u>(2,937)</u>	<u>(2,923)</u>
Total property valuation	<u>\$ 1,139,342,705</u>				
Net levy			4,496,974	4,249,405	247,569
Uncollected taxes at June 30, 2010			<u>(174,680)</u>	<u>(140,749)</u>	<u>(33,931)</u>
Current year's taxes collected			<u>\$ 4,322,294</u>	<u>\$ 4,108,656</u>	<u>\$ 213,638</u>
Current levy collection percentage			<u>96.12%</u>	<u>96.69%</u>	<u>86.29%</u>

COMPLIANCE SECTION



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Waynesville, North Carolina, as of and for the year ended June 30, 2010, which collectively comprises the Town of Waynesville's basic financial statements, and have issued our report thereon dated October 22, 2010. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Town of Waynesville ABC Board, as described in our report on the Town of Waynesville's financial statements. 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 do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Waynesville's financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Waynesville, North Carolina
October 22, 2010



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

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

Compliance

We have audited the Town of Waynesville, North Carolina, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Waynesville's major federal programs for the year ended June 30, 2010. The Town of Waynesville's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Waynesville's management. Our responsibility is to express an opinion on the Town of Waynesville's compliance based on our audit.

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

In our opinion, the Town of Waynesville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

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

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

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

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

Waynesville, North Carolina
October 22, 2010



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

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

Compliance

We have audited the Town of Waynesville, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Waynesville's major State programs for the year ended June 30, 2010. The Town of Waynesville's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Waynesville's management. Our responsibility is to express an opinion on the Town of Waynesville's compliance based on our audit.

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

In our opinion, the Town of Waynesville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Town of Waynesville is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Waynesville's internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit

Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

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

Ray, Bengtson, Kingshill & Assoc., P.C.

Waynesville, North Carolina
October 22, 2010

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2010

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted _____yes X no

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal programs:

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

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

Auditee qualified as low-risk auditee? _____yes X no

State Awards

Internal control over major State programs:

•Material weakness identified? _____yes Xno

• Significant Deficiency(s) identified that are
not considered to be material weaknesses? _____yes Xnone

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

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with the State
Single Audit Implementation Act

_____yes Xno

Identification of major State program:

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

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2010

Section II. - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Section IV - State Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2010

Section II - Financial Statements Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Section IV - State Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended June 30, 2010

Section II - Financial Statements Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Section IV - State Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For The Year Ended June 30, 2010

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Federal: Direct & Pass-Through Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
Cash Programs:				
<u>U.S. Dept. of Justice</u>				
ARRA-COPS Hiring Recovery Program	16.710		\$ 67,537	\$ -
ARRA-Edward Byrne Memorial Justice Assistance Grant	16.804		14,100	-
ARRA-Passed Through NC Dept. of Crime Control and Public Safety				
JAG ARRA - State of North Carolina	16.803	044-1-09-R01-RJ-774	6,105	-
<u>U.S. Dept. of Homeland Security</u>				
Passed Through NC Dept. of Crime Control and Public Safety				
2009 Winter Storm	97.036	FEMA-1871-DR-NC	72,343	-
<u>U.S. Dept. of Transportation</u>				
Passed-Through NC Dept. of Transportation:				
Federal Aid Bridge Program	20.205-1	B-4674	157,611	-
Sidewalk on Main Street (WBS 3614.3.20)	20.205-1	ER-2971	8,255	-
Passed Through Land of the Sky Regional Council:				
Russ Avenue Corridor Study	20.205		3,552	-
<u>U.S. Dept. of the Interior, National Park Service</u>				
Passed Through NC Dept. of Cultural Resources				
State Historic Preservation Fund Grants-In-Aid	15.904		2,620	-
<u>U.S. Environmental Protection Agency</u>				
Passed Through NC Department of Environment and Natural Resources				
Drinking Water State Revolving Fund	66.468	DEH-1048	734,801	-
Noncash Programs:				
<u>U.S. Environmental Protection Agency</u>				
Passed Through NC Department of Environment and Natural Resources				
Drinking Water State Revolving Fund	66.468	DEH-1048	300,000	-
Drinking Water State Revolving Fund	66.468	DEH-1311	343,279	-
State Grants:				
Cash Programs:				
<u>N.C. Dept. of Transportation:</u>				
Powell Bill		WBS 32570	-	330,193
Sidewalk on Main Street		WBS 3614.3.20	-	2,064
Pedestrian Planning Grant		WBS 37309.1.1	-	6,000
<u>N.C. General Assembly</u>				
Passed through NC Rural Economic Development Center				
Building Reuse and Restoration Grant		2010-085-60701-107	-	240,000
<u>NC Dept. of Crime Control and Public Safety</u>				
2009 Winter Storm		FEMA-1871-DR-NC	-	24,114
Total Federal and State Assistance			\$ 1,710,203	\$ 602,371

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

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

2 Loan Outstanding

Town of Waynesville had the following loan balance outstanding at June 30, 2010. This loan balance outstanding is also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Amount Outstanding</u>
Drinking Water State Revolving Fund	66.468	DEH-1048	\$ 300,000

3 Construction Loan -in-Process

Town of Waynesville has been approved for a Drinking Water State Revolving Fund (DWSRF) Revolving Loan for up to \$904,740. The project was not complete at June 30, 2010; however when complete the loan becomes payable over 20 years at 2.5% interest.

The total cost of the project is expected to be approximately \$904,740 and \$343,279 has been spent during the year ended June 30, 2010 and is included in the federal expenditures presented in this schedule.

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

Attachment A**Eagles Nest Water System Improvements and Water Line Replacement Project****Project Numbers DEH - 1048 and DEH - 1311****Town of Waynesville, North Carolina****From Project Inception to June 30, 2010****Statement of Revenues**

Source of Funds:	DEH - 1048	DEH - 1311	Total
Federal Funds - CFDA # 66.468			
DWSRF Principal Forgiveness Loan	\$ 642,761	\$ -	\$ 642,761
DWSRF Revolving Loan	300,000	-	300,000
Total source of funds	<u>\$ 942,761</u>	<u>\$ -</u>	<u>\$ 942,761</u>

Statement of Expenditures

Construction Costs	\$ 918,469	\$ 282,926	\$ 1,201,395
Engineering Fees	99,435	59,000	158,435
Administrative Expense	16,817	1,353	18,170
Land and Right of Way	80	-	80
Land	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 1,034,801</u>	<u>\$ 343,279</u>	<u>\$ 1,378,080</u>

Notes to the Attachment A:

The accompanying Attachment A for the Eagles Nest Water System Improvements and Water Line Replacement Project of the Town of Waynesville, North Carolina is presented on the modified accrual basis of accounting.