

Town of Waynesville, North Carolina

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011

Town of Waynesville, North Carolina

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For the Fiscal Year Ended June 30, 2011

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, 2011 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Waynesville's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Town of Waynesville ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Waynesville ABC Board, is based solely on the report of another auditor.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Waynesville, North Carolina, as of June 30, 2011, 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 21, 2011 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, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions 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*, 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Waynesville, North Carolina
October 21, 2011

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, 2011. 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

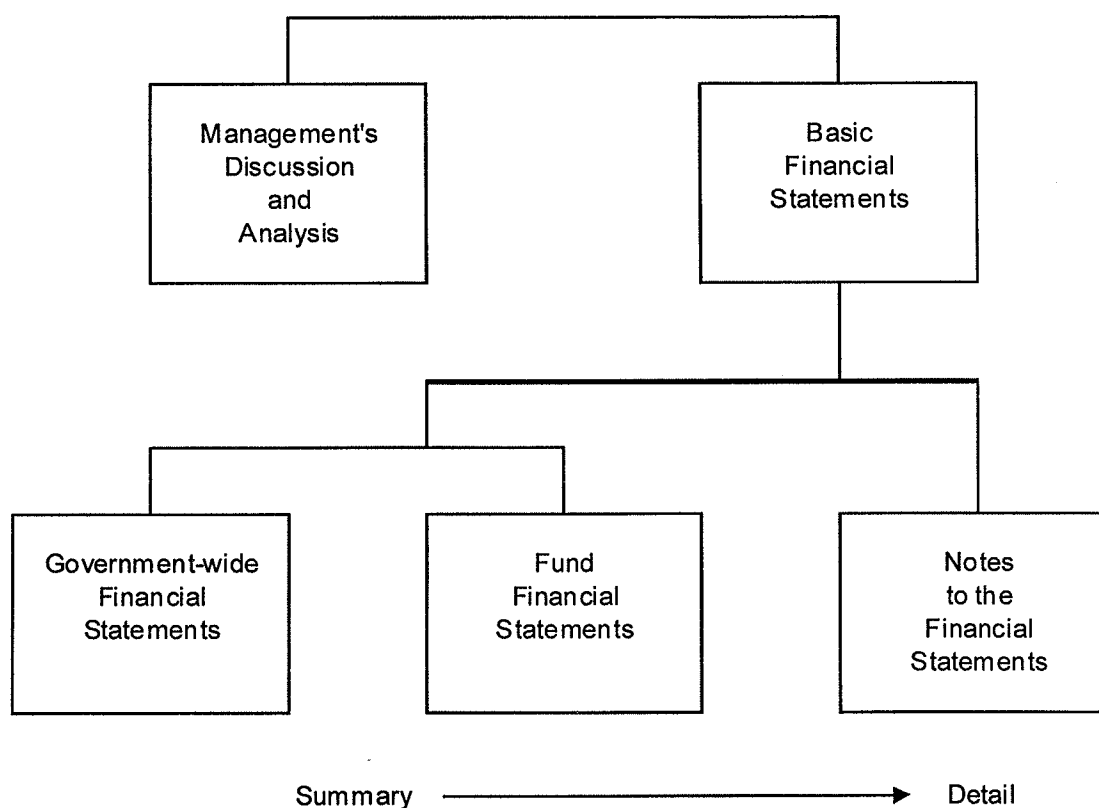
- The assets of the Town of Waynesville exceeded its liabilities at the close of the fiscal year by \$50,481,345 (*net assets*).
- The government's total net assets decreased by (\$132,275), primarily due to decreases in the governmental activities net assets. This decrease is mainly due to the amount by which depreciation exceeds capital outlays. The depreciation for the Town's governmental activities exceeds capital outlays by \$1,002,102.
- As of the close of the current fiscal year, the Town of Waynesville's governmental funds reported combined ending fund balances of \$7,208,359, a decrease of (\$21,602) in comparison with the prior year. Approximately 30.65 percent of this total amount, or \$2,209,324, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,699,933, or 30.15 percent of total general fund expenditures for the fiscal year.
- The Town of Waynesville's total debt and notes increased by \$11,552, or 0.07% during the current fiscal year. The Town issued three installment purchase contracts totaling \$757,600 for the purchase of a fire truck, a garbage truck, two street trucks and various excise equipment for the recreation center. The Town's other long term debt (unfunded pension liabilities, other post employment benefits and compensated absences) increased \$564,334. The Town also recorded an increase of \$492,807 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 the North Carolina's "Drinking Water State Revolving Fund" program. These increases were off set by principal payments on existing debt.
- The Town of Waynesville's Electric Fund for the current fiscal year reported power purchases of \$5,669,036 a decrease of (\$82,306) or (1.43%) in comparison with the prior year. The prior fiscal year reported power purchases of \$5,751,342, a decrease of (\$375,895) or (6.13%) in comparison with the fiscal year ended June 30, 2009. The town has experienced falling and rising fuel costs that have been passed along to the Town by its supplier on a month to month basis. In response to these fuel charges, the Town reviews its rates on a monthly basis. The 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 have remained unchanged since July 1, 2009. In January 2010, the Town saw its largest power customer reduce its manufacturing operations from three shifts to two shifts. This reduced monthly gross revenues by an estimated \$30,000 to \$35,000 each month. The Electric Fund operating revenues for the current fiscal year reported charges for services of \$8,203,606, a decrease of (\$154,605) or (1.85%). The prior fiscal year reported charges for services of \$8,358,211, an increase of \$17,340 or 0.21% in comparison with the fiscal year ended June 30, 2009.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Waynesville's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Waynesville.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the

government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes, state shared revenues and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the electric, water, and sewer services offered by the Town of Waynesville. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Waynesville, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Waynesville can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Waynesville adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the

management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The Town of Waynesville has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Waynesville uses enterprise funds to account for its electric, water, and sewer operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the Town of Waynesville. The Town uses internal service funds to account for two activities – its public works and garage operations. Because the public works benefits predominantly business-type rather than governmental activities, it has been included within the business-type activities in the government-wide financial statements. On the other hand, the garage operation benefits predominantly governmental rather than business-type activities and therefore has been included within the governmental activities in the government-wide financial statements.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 24-49 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 50 through 53 of this report.

Government-Wide Financial Analysis

The Town of Waynesville's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 8,433,450	\$ 8,196,703	\$ 5,846,101	\$ 6,101,080	\$ 14,279,551	\$ 14,297,783
Capital assets	26,818,565	27,102,309	26,978,135	26,852,093	53,796,700	53,954,402
Total assets	35,252,015	35,299,012	32,824,236	32,953,173	68,076,251	68,252,185
Long-term liabilities outstanding	11,265,875	11,153,837	3,755,172	4,348,465	15,021,047	15,502,302
Other liabilities	674,681	513,931	1,899,178	1,622,332	2,573,859	2,136,263
Total liabilities	11,940,556	11,667,768	5,654,350	5,970,797	17,594,906	17,638,565
Net assets:						
Invested in capital assets, net of related debt	18,021,072	18,391,609	22,321,125	22,707,443	40,342,197	41,099,052
Restricted	2,198,835	2,766,495	-	-	2,198,835	2,766,495
Unrestricted	3,091,552	2,473,140	4,848,761	4,274,933	7,940,313	6,748,073
Total net assets	\$ 23,311,459	\$ 23,631,244	\$ 27,169,886	\$ 26,982,376	\$ 50,481,345	\$ 50,613,620

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 \$50,481,345 as of June 30, 2011. The Town's net assets decreased by (\$132,275), or (.26%) for the fiscal year ended June 30, 2011. However, the largest portion \$40,342,197 or 79.92% reflects the Town's investment in capital assets (e.g. land, infrastructure, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Waynesville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Waynesville's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Waynesville's net assets \$2,198,835 or 4.36% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,940,313 is unrestricted. However, this includes \$377,992 in unspent funds that will be used for the repair and renovation of public buildings.

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

- For the year ending June 30, 2011 the Town's property valuations totaled \$1,146,923,896, an increase of \$7,581,191 or 0.67% in comparison with the prior year. The Town's net levy totaled \$4,524,704, an increase of \$27,730 or 0.62% in comparison with the prior year.
- The sales tax revenues from article 39, article 40, article 42, and article 44, for the current fiscal year were \$2,017,122, an increase of \$10,790 or 0.54% in comparison to the prior year. The sales tax revenues for the prior year were \$2,006,332 a decrease of (\$98,667) or (4.69%) in comparison to the year ending June 30, 2009.
- The revenues from the ABC profit distributions were \$153,280, an increase of \$53,400 or 53.46% in comparison with the prior year.
- The Sanitation fee revenues were \$698,154, an increase of \$45,371 or 6.95% in comparison with the prior year.

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

- Most of the Town's General Fund revenues either declined slightly, or showed little or no growth during the year.
- Utility franchise taxes and CATV taxes were \$835,421, a decrease of (\$36,593) or (4.20%) in comparison to the prior year.
- The property taxes collection percentage excluding motor vehicles dropped to 95.54%. This is a decrease of (1.15%) from the prior year's 96.69% collection percentage excluding motor vehicles. This is also comparable to the statewide average of units with electrical systems of 97.29% excluding motor vehicles for the population grouping 2,500 to 9,999 for 2009-2010. The total collected for ad valorem taxes which includes current taxes, prior year's uncollectible tax balances, and motor vehicle taxes was \$4,425,942, a decrease of (\$45,386) or (1.02%) in comparison to the prior fiscal year.

Town of Waynesville Changes in Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	Total
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,917,129	\$ 1,902,779	\$12,448,768	\$12,491,825	\$14,365,897	\$14,394,604
Operating grants and contributions	355,573	583,074	-	33,261	355,573	616,335
Capital grants and contributions	406,399	240,375	103,904	560,764	510,303	801,139
General revenues:						
Property taxes	4,545,650	4,534,333	-	-	4,545,650	4,534,333
Other taxes	2,201,074	2,188,491	-	-	2,201,074	2,188,491
Grants and contributions not restricted to specific programs	868,500	821,876	-	-	868,500	821,876
Other	162,918	193,607	48,466	36,650	211,384	230,257
Total revenues	10,457,243	10,464,535	12,601,138	13,122,500	23,058,381	23,587,035
Expenses:						
General government	1,928,338	2,004,995	-	-	1,928,338	2,004,995
Public safety	4,350,540	4,151,950	-	-	4,350,540	4,151,950
Transportation	3,476,094	3,382,071	-	-	3,476,094	3,382,071
Economic development	-	248,000	-	-	-	248,000
Environmental Protection	111,754	95,060	-	-	111,754	95,060
Culture and recreation	1,803,404	1,853,226	-	-	1,803,404	1,853,226
Interest on long-term debt	399,898	407,236	-	-	399,898	407,236
Electric	-	-	7,275,179	7,221,390	7,275,179	7,221,390
Water	-	-	2,065,232	2,034,128	2,065,232	2,034,128
Sewer	-	-	1,780,217	1,766,057	1,780,217	1,766,057
Total expenses	12,070,028	12,142,538	11,120,628	11,021,575	23,190,656	23,164,113
Increase (decrease) in net assets before transfers	(1,612,785)	(1,678,003)	1,480,510	2,100,925	(132,275)	422,922
Transfers	1,293,000	1,062,020	(1,293,000)	(1,062,020)	-	-
Increase in net assets	(319,785)	(615,983)	187,510	1,038,905	(132,275)	422,922
Net assets, July 1	23,631,244	24,247,227	26,982,376	25,943,471	50,613,620	50,190,698
Net assets, June 30	\$23,311,459	\$23,631,244	\$27,169,886	\$26,982,376	\$50,481,345	\$50,613,620

Governmental activities. For the year ended June 30, 2011, Governmental activities decreased the Town's net assets by (\$319,785). Key elements of this decrease are as follows:

- Depreciation exceeds capital outlay by \$1,002,102.
- In general as stated earlier most revenues either declined slightly, or showed little or no growth during the year ended June 30, 2011.
- This decrease of (\$319,785) would be even greater except for the Town's transfer of \$1,293,000 from business-type activities to the governmental activities.
- By comparison for the year ended June 30, 2010, the governmental activities decreased (\$615,983) after the Town transferred \$1,062,020 from business-type activities to the governmental activities.

Business-type activities: For the year ended June 30, 2011, business-type activities increased the Town's net assets by \$187,510. Key elements of this increase are as follows:

- The increase would be even larger however the Town transferred \$1,293,000 from the business-type activities to the governmental activities.
- The town recognized \$103,904 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 \$942,753, a decrease of (\$223,199) from the prior year. Most of this decrease from the prior year is due to higher operations costs.
- The Town implemented water rate increases of 5% for inside and outside customers. The Town left sewer and electric rates unchanged.
- By comparison for the year ended June 30, 2010, the business-type activities' net assets increased by \$1,038,905 after the Town transferred \$1,062,020 from the business-type activities to the governmental activities.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Waynesville's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Waynesville's financing requirements.

The general fund is the chief operating fund of the Town of Waynesville. At the end of the current fiscal year, the Town of Waynesville's fund balance available in the General Fund was \$5,306,026, while total fund balance was \$6,558,358. By comparison, the year ended June 30, 2010 fund balance available in the General Fund was \$4,386,284 and total fund balance was \$6,399,313. The Town currently has an available fund balance of 43.14% of general fund expenditures, while total fund balance represents 53.32% of the same amount. By comparison, the year ended June 30, 2010 the available fund balance was 34.83% of the general fund expenditures, while total fund balance represents 50.82% of the same amount.

At June 30, 2011, the governmental funds of Town of Waynesville reported a combined fund balance of \$7,208,359, with a net decrease in fund balance of (\$21,602). This represents a (0.30%) decrease over last year. The decrease is primarily due to the spending of capital project funds (\$224,309). The remaining difference is due to revenues and other financing sources over expenditures and other financing uses.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on two occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

- The Town's total budget for the general fund including transfers to other funds for the year ended June 30, 2011 totaled \$13,652,960. Funding sources were budgeted as follows: revenues were budgeted at \$11,204,950, transfers from business-type activities were budgeted at \$1,293,020, and appropriations from fund balance were budgeted at \$1,155,010. Actual revenues totaled \$11,165,868 or (\$39,082) under budget. However, three revenue groupings showed positive variances. Ad valorem taxes, other taxes and licenses, and miscellaneous revenues came in \$62,430, \$62,754, and \$42,610 over budget respectively. Ad valorem collections and other taxes and licenses did not drop to the levels that were budgeted. Miscellaneous revenues were mainly over budget due to insurance

reimbursement proceeds. All other revenue grouping showed negative variances. The top three negative variances are as follows: Restricted intergovernmental revenues were (\$60,058) 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 unrestricted intergovernmental (mainly franchise taxes) were (\$58,980) under budget. Sales and services revenues (mainly recreation department revenues, sanitation fees and fire protection fees) came in (\$51,462) under budget. As stated earlier, the slow 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 \$12,269,823 or \$1,353,137 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 uncertain slow economy and the related unknown revenue outcomes. Some vacant personnel positions were left vacant until the effects of the slowdown could be measured or evaluated. However, the Town did budget and transferred \$30,000 from the general fund to the public building projects fund. This transfer is being used to provide funding for future public building repair and renovation projects. The Town had budgeted to use \$1,155,010 from general fund balance, but instead added \$159,045 to general fund balance.

Proprietary Funds. The Town of Waynesville's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Electric, Water, and Sewer Funds at the end of the fiscal year totaled \$2,319,647, \$1,361,398, and \$1,125,126, respectively. In comparison to the year ended June 30, 2010, the unrestricted net assets of the Electric, Water and Sewer funds totaled \$2,572,712, \$1,240,558, and \$1,107,224, respectively. Unrestricted net assets of the Electric fund decreased (\$253,065) or (9.84%). The unrestricted net assets of the Water and Sewer funds increased, \$120,840, or 9.74% and \$17,902, or 1.62% respectively. Total net assets of the Electric fund at the end of the fiscal year decreased (\$268,547) or (6.17%). Total net assets of the Water, and Sewer funds at the end of the fiscal year increased \$348,445 or 2.61%, and \$80,102 or 0.91%, 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, 2011 totaled \$53,796,700 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, recreation facilities, vehicles, and infrastructure.

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

- Improvements and additions to the Town's water distribution systems (Loan from "North Carolina's Drinking Water State Revolving Fund" Program \$502,557 and Eagles Nest \$94,154) of \$596,711.
- Construction of new bridge (Hendrix Street) for \$406,399.
- Purchase of fire truck and related equipment for \$397,600.
- Additional improvements and additions to the Town's water distribution systems of \$279,333.
- Improvements and additions to the Town's sewer distribution systems for \$224,485.
- Renovations to the Town of Waynesville's Hazelwood Municipal Building for \$224,309.
- Purchase of new camel jet truck for sewer maintenance \$182,150.
- Purchase of new cardio machines and related equipment for recreation center \$145,102.
- Purchase and equipping of four new police vehicles (4x4's) for \$133,241.

- Purchase of two new trucks for street department \$89,270.
- Purchase of new police dispatch console for \$46,002.
- Purchase of new chipper for street department \$36,552.
- Purchase of new van for administration department \$25,580.
- Repair and replace of roof at water treatment plant \$22,116.
- Purchase of new pick up truck for public work director \$21,093.
- Purchase of new leaf vacuum for street department \$19,969.
- Purchase of new building for cemetery department \$15,498.
- Purchase of art on the street \$15,000.
- Purchase of new GIS equipment and software for electric department \$14,320.
- Purchase of battery and cabinet for new substation \$13,489.
- Purchase of drug dog for the police department \$ 10,000.

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

- Disposal of five police vehicles (model year 2006) with an original cost of \$133,098.
- Disposal of camel jet truck and related equipment (model year 1995) with an original cost of \$99,294.
- Disposal of three police vehicles (model year 2001) with an original cost of \$45,900.
- Disposal of public building remodeling (purchased year 1997) with an original cost of \$35,229.
- Disposal of Christmas pole decorations (purchased years 1985, 1986, 1990, 1991, 1994, 1995, & 2000) with an original cost of \$34,559.
- Disposal of street dump truck (model year 1998) with an original cost of \$31,134.
- Disposal of administration's van (model year 1996) with an original cost of \$20,615.
- Disposal of recreation's copier (purchased year 2000) with an original cost of \$7,171.
- Disposal of computer equipment (purchased year 2004 and 2005) with an original cost of \$7,946.

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

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,780,045	\$ 1,780,045	\$ 1,927,138	\$ 1,927,138	\$ 3,707,183	\$ 3,707,183
Construction in process	109,883	520,522	860,364	1,392,608	970,247	1,913,130
Buildings and system	12,976,170	13,047,561	23,396,156	22,809,815	36,372,326	35,857,376
Land improvements	353,875	383,050	73,498	78,339	427,373	461,389
Equipment, furniture and fixtures	957,979	858,450	155,607	165,807	1,113,586	1,024,257
Infrastructure	8,829,447	9,124,414	-	-	8,829,447	9,124,414
Vehicles and motorized equipment	1,811,166	1,388,267	565,372	478,389	2,376,538	1,866,656
Total	\$ 26,818,565	\$ 27,102,309	\$ 26,978,135	\$ 26,852,096	\$ 53,796,700	\$ 53,954,405

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, 2011 and June 30, 2010, was \$15,021,047 and \$15,502,302, respectively. All debt is backed by the full faith and credit of the Town of Waynesville. Unfunded pension liabilities, legal claims, and compensated absences make up \$1,363,695 and \$1,148,107 of the total debt outstanding respectively. The remaining balances are installment purchase obligations.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Installment purchase obligations	\$ 10,136,429	\$ 10,209,545	\$ 3,520,924	\$ 4,144,650	\$ 13,657,353	\$ 14,354,195
Total	\$ 10,136,429	\$ 10,209,545	\$ 3,520,924	\$ 4,144,650	\$ 13,657,353	\$ 14,354,195

- The Town's total installment debt decreased (\$696,842) or (4.85%) during the current fiscal year. As noted earlier, the town issued \$757,600 in installment debt for the purchase of a fire truck, a garbage truck, two street trucks, and exercise equipment. This increase was off set by principal payments on existing debt.
- Not included in the long-term debt totals above are two note payable items totaling \$1,136,086 for the year ending June 30, 2011 and \$643,279 for the year ending June 30, 2010. These debts are currently classified as notes payable and relate to the water fund capital projects that are not yet finalized at June 30, 2011. 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. The notes payable increased \$492,807 or 76.61% during the year. And as discussed earlier, this increase is for the improvement and additions to the Town's water distribution systems.

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 \$78,096,559.

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

Over the past three years, the Town, like the most areas in the state or nation has experienced either slowing or declining revenues. However, at the start of the 2011-2012 budget process, the Town started seeing signs of stabilization. With this in mind, the Town's budget for the year ending June 30, 2012 is very similar to the budget passed for the year ending June 30, 2011. The budget for June 30, 2012 will include a property revaluation. The Town has adopted a revenue neutral tax rate of .4082 cents per hundred. Most of the other general fund rates will remain unchanged. Water rates will increase 5.00%. Sewer and Electric rates will remain the same. On the expenditure side, two employee positions were eliminated and the employees were granted a 3.00% cost of living adjustment. This is the first cost of living adjustment budgeted since the summer of 2008. Since the fall of 2008, the Town has made an extra effort to cut or under spent the budget if revenues fell short. With this slow or uncertain economy, the Town's departments will continue to make this same effort in the current budget. So the Town expects expenditures will be delayed, not spent, or kept under budget until such time that the revenues come in.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities: The budgeted revenues, transfers from other funds, and appropriated fund balance for the year ended June 30, 2012 are expected to come to \$13,369,440, a decrease of (\$283,520) or (2.08%) from the June 30, 2011 budget. However this is an increase of \$910,572 or 7.31% over actual revenues, transfers, and appropriated fund balance from the year ended June 30, 2011. The increases will mainly be funded from a larger fund balance appropriation, and higher transfers. This budget calls for a \$812,410 fund balance appropriation from the general fund and a \$151,880 fund balance appropriation from the fund balance reserved for Powell bill expenditures. For the year ended June 30, 2011, the Town added a combined \$159,045 to these fund balances. The Electric, Water and Sewer fund transfers to the General fund will increase to \$1,275,600, \$103,100 and \$77,930 respectively. The transfers to the general fund will increase \$163,630 or 12.66% over the actual transfers to the general fund from the year ended June 30, 2011.

The budgeted expenditures and transfers to other funds for the year ended June 30, 2012 are expected to increase to \$13,369,440, an increase of \$1,069,617 or 8.70% from actual expenditures and transfers to other funds for the year ended June 30, 2011. The largest increases are in personnel, fringe benefits, and debt payments.

Business – type Activities:

Water Fund: The budgeted revenues, transfer from other funds, and the appropriated fund balance amounts for the year ended June 30, 2012 are expected to rise to \$2,859,570, an increase of \$190,430 or 7.13% from the June 30, 2011 budget. However this is an increase of \$446,413 or 18.50% from actual revenues, transfers, and appropriated fund balance for the year ended June 30, 2011. This increase will be funded by a 5% water rate increase, higher fund balance appropriation, higher asset sales and a slightly higher transfer from the electric fund. This budget calls for a \$178,870 fund balance appropriation. For the year ended June 30, 2011, the Town added \$127,469 to fund balance.

Budgeted expenditures and transfers to other funds for the year ended June 30, 2012 are expected to rise to \$2,859,570, an increase of \$573,882 or 25.11% from actual expenditures for the year ended June 30, 2011. The largest increases are in debt payments, forest management expenditures, personnel, fringe benefits, capital outlay and increase water line maintenance.

Sewer Fund: The budgeted revenues and appropriated fund balance amounts for the year ended June 30, 2012 are expected to rise to \$2,088,800, an increase of \$52,530 or 2.58% from the year ended June 30, 2011 budget. However, this is an increase of \$143,591 or 7.38% from actual revenues, transfers and appropriated fund balance for the year ended June 30, 2011. As stated earlier this budget does not increase sewer rates for its customers. This budget calls for a \$140,760 fund balance appropriation. For the year ended June 30, 2011, the Town added \$25,203 to fund balance.

Budgeted expenditures and transfer to other funds for the year ended June 30, 2012 are expected to increase to \$2,088,800, an increase of \$168,794, or 8.79% from actual expenditures for the year ended June 30, 2011. The largest increases are in personnel, fringe benefits, utility costs, repair and maintenance costs, and capital outlay

Electric Fund: The budgeted revenues and appropriated fund balance amounts for the year ended June 30, 2012 are expected to increase to \$8,889,350, an increase of \$43,810 or 0.50% from the year ended June 30, 2011 budget. However, this is an increase of \$396,321, or 4.67% from actual revenues and appropriated fund balance for the year ended June 30, 2011. Revenues are expected to remain steady or increase slightly. This budget calls for a \$512,120 fund balance appropriation. For the year ended June 30, 2011, the Town added \$3,119 to fund balance.

Budgeted expenditures and transfers to other funds for the year ended June 30, 2012 are expected to increase to \$8,889,350, an increase of 399,440 or 4.70% from actual expenditures and transfers for the year ended June 30, 2011. The largest increases are in wholesale power costs, transfers to other funds, personnel and fringe benefits.

Requests for Information

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

Town of Waynesville, North Carolina
Statement of Net Assets
June 30, 2011

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,698,115	\$ 2,322,447	\$ 6,020,562	\$ 673,182
Investments	2,074,516	1,706,524	3,781,040	-
Taxes receivables (net)	608,721	-	608,721	-
Accrued interest receivable on taxes	36,454	-	36,454	-
Interest receivable on investments	4,984	1,219	6,203	163
Accounts receivable (net)	88,576	1,111,341	1,199,917	-
Due from other governments	1,036,367	133,280	1,169,647	-
Due from component units	55,522	-	55,522	-
Internal balances	42,333	(42,333)	-	-
Inventories	62,148	613,623	675,771	179,942
Prepaid items	3,050	-	3,050	8,639
Restricted cash and cash equivalents	684,983	-	684,983	-
Total current assets	8,395,769	5,846,101	14,241,870	861,926
Noncurrent assets:				
Accounts receivable (net)	37,681	-	37,681	-
Capital assets:				
Land, non-depreciable improvements and construction in progress	1,889,928	2,787,502	4,677,430	-
Other capital assets, net of depreciation	24,928,637	24,190,633	49,119,270	12,296
Total capital assets	26,818,565	26,978,135	53,796,700	12,296
Total noncurrent assets	26,856,246	26,978,135	53,834,381	12,296
Total assets	\$ 35,252,015	\$ 32,824,236	\$ 68,076,251	\$ 874,222
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 430,208	\$ 520,953	\$ 951,161	\$ 223,156
Unearned revenue	47,115	-	47,115	-
Accrued interest payable	178,613	100,957	279,570	-
Customer deposits	18,745	141,182	159,927	-
Due to primary government	-	-	-	55,522
Due to other governments	-	-	-	29,478
Current portion of long-term liabilities	1,103,985	686,813	1,790,798	-
Notes payable	-	1,136,086	1,136,086	-
Total current liabilities	1,778,666	2,585,991	4,364,657	308,156
Long-term liabilities:				
Due in more than one year	10,161,890	3,068,359	13,230,249	-
Total liabilities	11,940,556	5,654,350	17,594,906	308,156
NET ASSETS				
Invested in capital assets, net of related debt	18,021,072	22,321,125	40,342,197	12,296
Restricted for:				
Cemetery Perpetual care	262,127	-	262,127	-
Stabilization by State Statute	1,241,843	-	1,241,843	-
Transportation	684,983	-	684,983	-
Culture and recreation	9,882	-	9,882	-
Working Capital	-	-	-	62,968
Unrestricted	3,091,552	4,848,761	7,940,313	490,802
Total net assets	\$ 23,311,459	\$ 27,169,886	\$ 50,481,345	\$ 566,066

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, 2011

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	\$ 1,928,338	\$ 94,740	\$ 5,525	\$ -	\$ (1,828,073)	-	\$ (1,828,073)	\$ -
Public safety	4,350,540	389,799	103,453	-	(3,857,288)	-	(3,857,288)	-
Transportation	3,476,094	741,933	246,109	406,399	(2,081,653)	-	(2,081,653)	-
Environmental protection	111,754	36,250	-	-	(75,504)	-	(75,504)	-
Economic and physical development	-	-	-	-	-	-	-	-
Cultural and recreation	1,803,404	654,407	486	-	(1,148,511)	-	(1,148,511)	-
Interest on long-term debt	399,898	-	-	-	(399,898)	-	(399,898)	-
Total governmental activities	12,070,028	1,917,129	355,573	406,399	(9,390,927)	-	(9,390,927)	-
Business-type activities:								
Electric	7,275,179	8,203,606	-	-	-	\$ 928,427	928,427	-
Water	2,065,232	2,315,560	-	103,904	-	354,232	354,232	-
Sewer	1,780,217	1,929,602	-	-	-	149,385	149,385	-
Total business-type activities	11,120,628	12,448,768	-	103,904	-	1,432,044	1,432,044	-
Total primary government	\$ 23,190,656	\$ 14,365,897	\$ 355,573	\$ 510,303	(9,390,927)	1,432,044	(7,958,883)	-
Component units:								
ABC Board	\$ 2,130,350	\$ 2,126,468	\$ -	\$ -	-	-	-	(3,882)
Total component units	\$ 2,130,350	\$ 2,126,468	\$ -	\$ -	-	-	-	(3,882)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					4,545,650	-	4,545,650	-
Other taxes					2,201,074	-	2,201,074	-
Grants and contributions not restricted to specific programs					868,500	-	868,500	-
Unrestricted investment earnings					763	1,597	2,360	758
Miscellaneous					162,155	46,869	209,024	-
Total general revenues not including transfers					7,778,142	48,466	7,826,608	758
Transfers					1,293,000	(1,293,000)	-	-
Total general revenues and transfers					9,071,142	(1,244,534)	7,826,608	758
Change in net assets					(319,785)	187,510	(132,275)	(3,124)
Net assets-beginning					23,631,244	26,982,376	50,613,620	569,190
Net assets-ending					\$ 23,311,459	\$ 27,169,886	\$ 50,481,345	\$ 566,066

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

Town of Waynesvills
Balance Sheet
Governmental Funds
June 30, 2011

	Major Fund		
	General	Total Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,017,621	\$ 680,494	\$ 3,698,115
Investments	2,074,516	-	2,074,516
Receivables, net:			
Taxes	608,721	-	608,721
Accounts	88,576	-	88,576
Prepaid items	3,050	-	3,050
Long-term receivable	37,681	-	37,681
Due from component unit	55,522	-	55,522
Due from other governmental agencies	1,036,367	-	1,036,367
Due from other fund	7,161	-	7,161
Interest receivable	4,868	101	4,969
Inventories	7,439	-	7,439
Restricted cash and cash equivalents	684,983	-	684,983
Total assets	<u>\$ 7,626,505</u>	<u>\$ 680,595</u>	<u>\$ 8,307,100</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 393,567	\$ 30,594	\$ 424,161
Note payable	-	-	-
Performance bonds	18,744	-	18,744
Deferred revenue	608,721	-	608,721
Unearned revenue	47,115	-	47,115
Accounts payable from restricted assets	-	-	-
Total liabilities	<u>1,068,147</u>	<u>30,594</u>	<u>1,098,741</u>
Fund balances:			
Non Spendable			
Inventories	7,439	-	7,439
Prepaid items	3,050	-	3,050
Perpetual maintenance	-	262,127	262,127
Restricted			
Stablization by State Statute	1,241,843	-	1,241,843
Streets-Powell bill	684,983	-	684,983
Cultural and Recreation	-	9,882	9,882
Committed			
General Government	-	377,992	377,992
Assigned			
Subsequent year's expenditures	812,410	-	812,410
Public Safety	108,700	-	108,700
Unassigned	3,699,933	-	3,699,933
Total fund balances	<u>6,558,358</u>	<u>650,001</u>	<u>7,208,359</u>
Total liabilities and fund balances	<u>\$ 7,626,505</u>	<u>\$ 680,595</u>	<u>\$ 8,307,100</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.	26,760,231
Other current assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	36,454
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.	128,823
Liabilities for earned but deferred revenues in fund statements.	608,721
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.	(11,431,129)

Net assets of governmental activities \$ 23,311,459

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, 2011

	Major Fund		
	General	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 4,472,800	\$ -	\$ 4,472,800
Other taxes and licenses	2,201,074	-	2,201,074
Unrestricted intergovernmental	868,500	-	868,500
Restricted intergovernmental	674,792	-	674,792
Permits and fees	147,611	-	147,611
Sales and services	2,493,598	18,000	2,511,598
Investment earnings	763	108	871
Miscellaneous	306,730	-	306,730
Total revenues	<u>11,165,868</u>	<u>18,108</u>	<u>11,183,976</u>
EXPENDITURES			
Current:			
General government	2,648,540	224,309	2,872,849
Public safety	3,995,199	-	3,995,199
Transportation	2,668,816	-	2,668,816
Environmental protection	120,723	-	120,723
Culture and recreation	1,603,452	4,446	1,607,898
Debt service:			
Principal	830,716	-	830,716
Interest and other charges	402,377	-	402,377
Total expenditures	<u>12,269,823</u>	<u>228,755</u>	<u>12,498,578</u>
Excess (deficiency) of revenues over expenditures	<u>(1,103,955)</u>	<u>(210,647)</u>	<u>(1,314,602)</u>
OTHER FINANCING SOURCES			
Transfers from other funds	1,293,000	-	1,293,000
Transfers to other funds	(30,000)	30,000	-
Proceeds from construction loan	-	-	-
Installment purchase obligations issued	-	-	-
Total other financing sources	<u>1,263,000</u>	<u>30,000</u>	<u>1,293,000</u>
Net change in fund balance	<u>159,045</u>	<u>(180,647)</u>	<u>(21,602)</u>
Fund balances-beginning	6,399,313	830,648	7,229,961
Fund balances-ending	<u>\$ 6,558,358</u>	<u>\$ 650,001</u>	<u>\$ 7,208,359</u>

(continued)

Town of Waynesville
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2011

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

Net changes in fund balances - total governmental funds	\$ (21,602)
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	(1,002,102)
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	72,850
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.	830,716
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	(25,374)
Net pension obligation	(50,522)
Other postemployment benefits	(106,907)
Accrued interest on installment purchases obligations	2,479
Net book value of assets sold	(22,459)
Consolidation adjustment for internal balances between the internal service funds and the governmental funds	21,590
Net revenue of internal service funds determined to be governmental-type	<u>(18,454)</u>
Total changes in net assets of governmental activities	<u><u>\$ (319,785)</u></u>

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

Town of Waynesville
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 4,410,370	\$ 4,410,370	\$ 4,472,800	\$ 62,430
Other taxes and licenses	2,138,320	2,138,320	2,201,074	62,754
Unrestricted intergovernmental	1,067,480	927,480	868,500	(58,980)
Restricted intergovernmental	734,850	734,850	674,792	(60,058)
Permits and fees	171,100	171,100	147,611	(23,489)
Sales and services	2,545,060	2,545,060	2,493,598	(51,462)
Investment earnings	13,650	13,650	763	(12,887)
Miscellaneous	264,120	264,120	306,730	42,610
Total revenues	<u>11,344,950</u>	<u>11,204,950</u>	<u>11,165,868</u>	<u>(39,082)</u>
Expenditures:				
Current:				
General government	3,022,980	2,953,950	2,648,540	305,410
Public safety	4,472,100	4,397,670	3,995,199	402,471
Transportation	3,182,460	3,082,460	2,668,816	413,644
Environmental protection	145,890	130,390	120,723	9,667
Cultural and recreation	1,825,300	1,825,300	1,603,452	221,848
Debt service:	-	-	-	-
Principal retirement	830,730	830,730	830,716	14
Interest and other charges	402,460	402,460	402,377	83
Total expenditures	<u>13,881,920</u>	<u>13,622,960</u>	<u>12,269,823</u>	<u>1,353,137</u>
Revenues over (under) expenditures	<u>(2,536,970)</u>	<u>(2,418,010)</u>	<u>(1,103,955)</u>	<u>1,314,055</u>
Other financing sources (uses):				
Transfers from other funds	1,293,000	1,293,000	1,293,000	-
Transfers to other funds	(30,000)	(30,000)	(30,000)	-
Appropriations from fund balance	1,273,970	1,155,010	-	(1,155,010)
Total other financing sources (uses)	<u>2,536,970</u>	<u>2,418,010</u>	<u>1,263,000</u>	<u>(1,155,010)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>159,045</u>	<u>\$ 159,045</u>
Fund balances, beginning of year			<u>6,399,313</u>	
Fund balances, end of year			<u><u>\$ 6,558,358</u></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, 2011

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 542,401	\$ 631,684	\$ 1,046,613	\$ 2,220,698	\$ 101,749	\$ -
Investments	1,406,524	300,000	-	1,706,524	-	-
Accounts receivable	725,327	206,433	179,581	1,111,341	-	-
Due from other governments	-	133,280	-	133,280	-	-
Interest receivable	682	172	337	1,191	28	15
Inventories	319,544	260,592	25,310	605,446	8,177	54,709
Restricted cash and cash equivalents	-	-	-	-	-	-
Total current assets	2,994,478	1,532,161	1,251,841	5,778,480	109,954	54,724
Capital assets:						
Land and Construction in Progress	230,058	2,346,726	110,500	2,687,284	100,218	-
Other capital assets, net of depreciation	4,193,257	11,835,437	7,809,433	23,838,127	352,506	58,334
Capital assets (net)	4,423,315	14,182,163	7,919,933	26,525,411	452,724	58,334
Total assets	\$ 7,417,793	\$ 15,714,324	\$ 9,171,774	\$ 32,303,891	\$ 562,678	\$ 113,058
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	534,809	39,588	42,742	617,139	4,771	6,047
Due to other fund	-	-	-	-	-	7,161
Customer deposits	98,836	42,346	-	141,182	-	-
Compensated absences - current	9,970	31,920	35,147	77,037	5,634	2,628
Installment purchases payable-current	258,956	308,065	37,121	604,142	-	-
Notes Payable	-	1,136,086	-	1,136,086	-	-
Total current liabilities	902,571	1,558,005	115,010	2,575,586	10,405	15,836
Noncurrent liabilities:						
Other postemployment benefits	20,324	45,619	40,648	106,591	11,614	5,806
Compensated absences	10,892	11,290	8,179	30,361	3,012	4,926
Installment purchases payable	2,402,642	395,808	118,331	2,916,781	-	-
Total noncurrent liabilities	2,433,858	452,717	167,158	3,053,733	14,626	10,732
Total liabilities	3,336,429	2,010,722	282,168	5,629,319	25,031	26,568
NET ASSETS						
Invested in capital assets, net of related debt	1,761,717	12,342,204	7,764,480	21,868,401	452,724	58,334
Unrestricted	2,319,647	1,361,398	1,125,126	4,806,171	84,923	28,156
Total net assets	\$ 4,081,364	\$ 13,703,602	\$ 8,889,606	26,674,572	\$ 537,647	\$ 86,490

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. 495,314

Net assets of business-type activities \$ 27,169,886

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, 2011

	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Total	Public Works Fund	Garage Fund
OPERATING REVENUES						
Charges for services	\$ 8,203,606	\$ 2,315,560	\$ 1,929,602	\$ 12,448,768	\$ 289,540	\$ 542,512
Other operating revenue	-	-	-	-	-	-
Total operating revenues	<u>8,203,606</u>	<u>2,315,560</u>	<u>1,929,602</u>	<u>12,448,768</u>	<u>289,540</u>	<u>542,512</u>
OPERATING EXPENSES						
Finance and administration	370,500	200,000	171,580	742,080	-	-
Electric operations	865,961	-	-	865,961	-	-
Electric power purchases	5,669,036	-	-	5,669,036	-	-
Water treatment and distribution	-	1,352,643	-	1,352,643	-	-
Waste collection and treatment	-	-	1,179,331	1,179,331	-	-
Public works operations	-	-	-	-	223,212	-
Garage operations	-	-	-	-	-	548,442
Depreciation	293,621	487,870	425,882	1,207,373	17,362	16,784
Total operating expenses	<u>7,199,118</u>	<u>2,040,513</u>	<u>1,776,793</u>	<u>11,016,424</u>	<u>240,574</u>	<u>565,226</u>
Operating income	<u>1,004,488</u>	<u>275,047</u>	<u>152,809</u>	<u>1,432,344</u>	<u>48,966</u>	<u>(22,714)</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	726	234	607	1,567	30	16
Interest and other charges	(94,217)	(30,853)	(6,614)	(131,684)	-	-
Miscellaneous revenues (expenses)	31,756	113	15,000	46,869	104	4,244
Total nonoperating revenue (expenses)	<u>(61,735)</u>	<u>(30,506)</u>	<u>8,993</u>	<u>(83,248)</u>	<u>134</u>	<u>4,260</u>
Income before contributions and transfers	<u>942,753</u>	<u>244,541</u>	<u>161,802</u>	<u>1,349,096</u>	<u>49,100</u>	<u>(18,454)</u>
Capital contributions	-	103,904	-	103,904	-	-
Transfers from other funds	-	97,250	-	97,250	-	-
Transfers to other funds	(1,211,300)	(97,250)	(81,700)	(1,390,250)	-	-
Change in net assets	<u>(268,547)</u>	<u>348,445</u>	<u>80,102</u>	<u>160,000</u>	<u>49,100</u>	<u>(18,454)</u>
Total net assets - beginning	<u>4,349,911</u>	<u>13,355,157</u>	<u>8,809,504</u>		<u>488,547</u>	<u>104,944</u>
Total net assets - ending	<u>\$ 4,081,364</u>	<u>\$ 13,703,602</u>	<u>\$ 8,889,606</u>		<u>\$ 537,647</u>	<u>\$ 86,490</u>

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

27,510

Change in net assets - business-type activities

\$ 187,510

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, 2011

	Business-Type Activities				Governmental Activity	
	Enterprise Funds				Internal Service Funds	
	Electric Fund	Water Fund	Sewer Fund	Totals	Public Works Fund	Garage Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 8,227,044	\$ 2,613,631	\$ 1,928,880	\$ 12,769,555	\$ 289,540	\$ 542,536
Cash paid for goods and services	(6,633,525)	(348,370)	(581,182)	(7,563,077)	(45,089)	(451,528)
Cash paid to or on behalf of employees for services	(344,910)	(820,591)	(751,627)	(1,917,128)	(173,236)	(95,268)
Customer deposits received	42,280	20,140	-	62,420	-	-
Customer deposits returned	(38,888)	(18,045)	-	(56,933)	-	-
Net cash provided by operating activities	1,252,001	1,446,765	596,071	3,294,837	71,215	(4,260)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Cash received from miscellaneous sources	28,046	-	-	28,046	-	4,189
Transfers from other funds	-	97,250	-	97,250	-	-
Transfers to other funds	(1,211,300)	(97,250)	(81,700)	(1,390,250)	-	-
Total cash flows from noncapital financing activities	(1,183,254)	-	(81,700)	(1,264,954)	-	4,189
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from installment purchase obligation	-	-	-	-	-	-
Principal and interest paid on long-term debt	(352,256)	(333,274)	(83,044)	(768,574)	-	-
Proceeds from sale of assets	3,710	113	15,000	18,823	104	55
Capital contributions - federal grant	-	103,904	-	103,904	-	-
Acquisition and construction of capital assets	(27,808)	(911,031)	(411,935)	(1,350,774)	-	-
Net cash provided (used) by capital and related financing activities	(376,354)	(1,140,288)	(479,979)	(1,996,621)	104	55
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received on investments	34,322	426	763	35,511	44	16
Purchase of investments	(2,105,910)	-	-	(2,105,910)	-	-
Proceeds from investment maturities	2,104,267	-	-	2,104,267	-	-
Net cash provided (used) by investing activities	32,679	426	763	33,868	44	16
Net increase (decrease) in cash and cash equivalents	(274,928)	306,903	35,155	67,130	71,363	-
Balances-beginning of the year	817,329	324,781	1,011,458	2,153,568	30,386	-
Balances-end of the year	\$ 542,401	\$ 631,684	\$ 1,046,613	\$ 2,220,698	\$ 101,749	\$ -
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 1,004,488	\$ 275,047	\$ 152,809	\$ 1,432,344	\$ 48,966	\$ (22,714)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	293,621	487,870	425,882	1,207,373	17,362	16,783
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	18,837	296,447	(982)	314,302	-	24
(Increase) decrease in allowance for doubtful accounts	4,601	1,624	260	6,485	-	-
(increase) decrease in inventory	24,224	(9,003)	5,267	20,488	(1,709)	(4,983)
Increase (decrease) in accounts payable and accrued liabilities	(104,113)	(111,920)	5,253	(210,780)	2,493	4,278
Increase (decrease) in notes payable	-	492,807	-	492,807	-	-
Increase (decrease) in customer deposits	3,392	2,095	-	5,487	-	-
Increase (decrease) in accrued OPEB liability	5,847	12,528	11,693	30,068	3,341	1,670
Increase (decrease) in accrued vacation pay	1,104	(730)	(4,111)	(3,737)	762	682
Total adjustments	247,513	1,171,718	443,262	1,862,493	22,249	18,454
Net cash provided by operating activities	\$ 1,252,001	\$ 1,446,765	\$ 596,071	\$ 3,294,837	\$ 71,215	\$ (4,260)

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, 2011

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Waynesville ABC Board

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

B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental funds:

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

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

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

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

The Town reports the following major enterprise funds:

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

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

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

The Town reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenues because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Haywood County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Waynesville. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Haywood County from March 2010 through February 2011 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, two amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted. The Cemetery Fund and the Playground Fund are not required to be budgeted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13 (a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 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, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. Stewardship, Compliance, and Accountability

The Town had no violations of non-compliance with State Statutes for the year ended June 30, 2011.

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, 2011, the Town's deposits had a carrying amount of \$4,180,976 and a bank balance of \$4,296,987. Of the bank balance, \$1,254,740 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 \$670,857 and the bank balance was \$663,484. The ABC Board maintains a cash balance at a financial institution which exceeds the Federal Deposit Insurance Corporation's coverage of \$250,000. At June 30, 2011, the ABC Board's uninsured cash balance was \$300,108. At June 30, 2011, the Town's petty cash fund totaled \$2,875.

2. Investments

At June 30, 2011, 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	\$ 707,228	\$ 707,982	8/16/2011	AAA
Federal Farm Credit Bank Discount Notes	699,296	699,150	4/18/2012	AAA
NC Capital Management Trust - Cash Portfolio	4,896,110	4,896,110	Various	AAAm
Total:	\$ 6,302,634	\$ 6,303,242		

On September 30, 2011, subsequent to year-end, the credit ratings on both the Federal Home Loan and Federal Farm Credit Discount Notes dropped to A-1+ per Standard and Poor's rating service.

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, 2011.

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

3. Receivables – Allowance for Doubtful Accounts

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

	Fund	6/30/2011
	General Fund:	
	Taxes receivable	\$ 20,000
	Accounts receivable	17,778
	Total	37,778
	Enterprise Funds	98,208
	Total	\$ 135,986

4. Capital Assets**Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,780,045	\$ -		\$ -	\$ 1,780,045
Public art	40,000	15,000		5,000	60,000
Construction in progress	480,522	235,709		(666,348)	49,883
Total capital assets not being depreciated	2,300,567	250,709	-	(661,348)	1,889,928
Capital assets being depreciated:					
Land improvements	955,248	-		-	955,248
Buildings and building improvements	15,200,050	15,498	35,229	248,176	15,428,495
Equipment and furniture and fixtures	2,504,319	281,286	15,117	35,585	2,806,073
Vehicles and motorized equipment	3,936,992	782,469	230,747	-	4,488,714
Infrastructure	27,336,994	406,399		377,587	28,120,980
Total capital assets being depreciated	49,933,603	1,485,652	281,093	661,348	51,799,510
Less accumulated depreciation for:					
Land improvements	572,198	29,175			601,373
Buildings and building improvements	2,152,489	312,607	12,771		2,452,325
Equipment and furniture and fixtures	1,645,869	217,342	15,117	-	1,848,094
Vehicles and motorized equipment	2,548,725	359,570	230,747	-	2,677,548
Infrastructure	18,212,580	1,078,953			19,291,533
Total accumulated depreciation	25,131,861	1,997,647	258,635	-	26,870,873
Total capital assets being depreciated, net	24,801,742				24,928,637
Governmental activity capital assets, net	\$ 27,102,309				\$ 26,818,565

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

General government	\$ 76,775
Public safety	418,561
Transportation	1,252,883
Environmental protection	4,217
Cultural and recreational	228,427
Depreciation on capital assets held in Garage	
Fund charged to functions based on usage	16,784
Total depreciation expense	\$ 1,997,647

	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	116,561	18,518	-	-	135,079
Vehicles and motorized equipment	643,709	-	-	-	643,709
Substations, lines, and related equipment	7,054,208	9,290	34,259	-	7,029,239
Total capital assets being depreciated	7,837,475	27,808	34,259	-	7,831,024
Less accumulated depreciation for:					
Buildings and building improvements	18,353	440	-	-	18,793
Equipment and furniture and fixtures	99,524	6,582	-	-	106,106
Vehicles and motorized equipment	390,235	48,719	-	-	438,954
Substations, lines, and related equipment	2,870,293	237,880	34,259	-	3,073,914
Total accumulated depreciation	3,378,405	293,621	34,259	-	3,637,767
Total capital assets being depreciated, net	4,459,070				4,193,257
Electric fund capital assets, net	4,689,128				4,423,315
<i>Water Fund</i>					
Capital assets not being depreciated:					
Land	1,486,362	-	-	-	1,486,362
Construction in progress	1,392,608	596,711	-	(1,128,955)	860,364
Total capital assets not being depreciated	2,878,970	596,711	-	(1,128,955)	2,346,726
Capital assets being depreciated:					
Land improvements	63,248	-	-	-	63,248
Buildings and building improvements	1,796,310	22,117	-	-	1,818,427
Equipment and furniture and fixtures	268,701	12,870	-	-	281,571
Vehicles and motorized equipment	428,653	-	-	-	428,653
Plant and system distributions	19,119,056	279,333	-	1,128,955	20,527,344
Total capital assets being depreciated	21,675,968	314,320	-	1,128,955	23,119,243
Less accumulated depreciation for:					
Land improvements	11,003	2,812	-	-	13,815
Buildings and building improvements	952,635	27,276	-	-	979,911
Equipment and furniture and fixtures	186,527	16,660	-	-	203,187
Vehicles and motorized equipment	296,307	25,083	-	-	321,390
Plant and system distributions	9,349,464	416,039	-	-	9,765,503
Total accumulated depreciation	10,795,936	487,870	-	-	11,283,806
Total capital assets being depreciated, net	10,880,032				11,835,437
Water fund capital assets, net	13,759,002				14,182,163

	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	303,874	5,300	16,184	-	292,990
Vehicles and motorized equipment	298,300	182,150	83,111	-	397,339
Plant and system distributions	8,582,744	224,485	-	-	8,807,229
Total capital assets being depreciated	17,802,316	411,935	99,295	-	18,114,956
Less accumulated depreciation for:					
Land improvements	11,518	50	-	-	11,568
Buildings and building improvements	5,687,154	179,630	-	-	5,866,784
Equipment and furniture and fixtures	240,497	21,883	16,184	-	246,196
Vehicles and motorized equipment	222,749	20,205	83,111	-	159,843
Plant and system distributions	3,817,018	204,114	-	-	4,021,132
Total accumulated depreciation	9,978,936	425,882	99,295	-	10,305,523
Total capital assets being depreciated, net	7,823,380				7,809,433
Sewer fund capital assets, net	7,933,880				7,919,933
<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	550,250	-	-	-	550,250
Equipment and furniture and fixtures	11,318	-	-	-	11,318
Vehicles and motorized equipment	38,434	-	-	-	38,434
Total capital assets being depreciated	645,368	-	-	-	645,368
Less accumulated depreciation for:					
Land improvements	20,030	1,979	-	-	22,009
Buildings and building improvements	225,955	12,460	-	-	238,415
Equipment and furniture and fixtures	8,099	1,763	-	-	9,862
Vehicles and motorized equipment	21,416	1,160	-	-	22,576
Total accumulated depreciation	275,500	17,362	-	-	292,862
Total capital assets being depreciated, net	369,868				352,506
Public Works fund capital assets, net	470,086				452,724
Business-type activities capital assets, net	\$ 26,852,096				\$ 26,978,135

Construction commitments

The Town has active construction projects as of June 30, 2011. At year-end, the Town's commitments with contractors are as follows:

	Project	Spent To-Date	Remaining Commitment
	Dayton Drive Waterline Project	\$ 7,200	\$ 19,600
	Town Hall Waterproofing Project	29,272	49,478
	Recreation Center Roof Project	87,088	40,982
	Total	\$ 123,560	\$ 110,060

Discretely presented component units

Activity for the ABC Board for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Capital assets being depreciated:					
Furniture and equipment	\$ 64,438	\$ 166	\$ 7,471	\$ -	\$ 57,133
Leasehold improvements	3,308	-	-	-	3,308
Total capital assets being depreciated	67,746	166	7,471	-	60,441
Less accumulated depreciation	51,748	3,868	7,471	-	48,145
ABC capital assets, net	\$ 15,998				\$ 12,296

B. Liabilities**1. Payables**

Payables at the government-wide level at June 30, 2011, were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities:				
General	\$ 173,126	\$ 210,691	\$ 9,750	\$ 393,567
Public Buildings Projects	30,594	-	-	30,594
Other Governmental	4,232	1,815	-	6,047
Total Governmental Activities	\$ 207,952	\$ 212,506	\$ 9,750	\$ 430,208
Business-type Activities:				
Electric	\$ 440,306	\$ 6,628	\$ -	\$ 446,934
Water	17,724	11,797	-	29,521
Sewer	3,165	13,562	23,000	39,727
Other Business-type Activities	1,434	3,337	-	4,771
Total Business-type Activities:	\$ 462,629	\$ 35,324	\$ 23,000	\$ 520,953

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 6.46 percent and 6.41 percent, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.76 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, 2011, 2010, and 2009 were \$387,081, \$295,277, and \$297,450, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$12,992, \$9,501, and \$9,473, 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, 2011, 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	36
Total	38

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

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

Method Used to Value Investment. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

3. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00 percent investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25 percent to 7.85 percent per year. Both (a) and (b) included an inflation component of 3.00 percent. The assumptions did not include post-retirement benefit increases.

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

Annual required contribution		\$	68,871
Interest on net pension obligation			15,926
Adjustment to annual required contribution			(17,053)
Annual pension cost			67,744
Contributions made			(17,222)
Increase (decrease) in net pension obligation			50,522
Net pension obligation beginning of year			318,522
Net pension obligation end of year		\$	369,044
3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 51,809	31.68%	\$ 277,471
2010	\$ 58,273	29.55%	\$ 318,522
2011	\$ 67,744	25.42%	\$ 369,044

4. Funding Status and Funding Progress

As of December 31 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$532,666. The covered payroll (annual payroll of active employees covered by the plan) was \$1,431,067, and the ratio of the UAAL to the covered payroll was 37.22 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, 2011 were \$98,270, which consisted of \$71,190 from the Town and \$27,079 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, 2011 were \$393,628, which consisted of \$222,419 from the Town and \$171,209 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, 2010, the date of the latest actuarial valuation:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	36
Total	38

Funding Policy. The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Town's Board of Aldermen. The Town's retirees pay \$391 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 4.28 percent of annual covered payroll. For the current year, the Town contributed \$116,274 or 1.93 percent of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required OPEB contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 1.29 percent and 0.64 percent of covered payroll, respectively. There were no contributions made by retired employees, except for dependent coverage in the amount of \$15,266. 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	\$ 257,624
Interest on net OPEB obligation	14,229
Adjustment to annual required contribution	(13,593)
Annual OPEB cost (expense)	\$ 258,260
Contributions made	(116,274)
Increase (decrease) in net OPEB obligation	141,986
Net OPEB obligation, beginning of year	355,731
Net OPEB obligation, end of year	\$ 497,717

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011 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
2011	\$ 258,260	45.0%	\$ 497,717

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

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

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was 28 years.

3. Other Employment Benefit

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

the other benefit amount. The Town considers these contributions to be immaterial. The Town provides additional death benefits to employees through its group health insurance plan.

4. Deferred Compensation Plan

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

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

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

5. Deferred/Unearned Revenues

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

		Deferred Revenue	Unearned Revenue
	Prepaid taxes not yet earned (General Fund)	\$ -	\$ 863
	Taxes receivable, net (General Fund)	608,721	-
	Unearned distributions (General Fund)	-	15,500
	Other unearned revenue (General Fund)	-	30,752
	Total	\$ 608,721	\$ 47,115

6. Commitments

The Town had commitments of \$23,556 in its proprietary funds at June 30, 2011. These items will be funded from operating funds.

The Town held cash performance bonds with a balance at June 30, 2011 of \$18,744 from real estate developers for improvements to be made within the developments. In the Town's opinion, the bond money will be more than sufficient to cover all costs that the Town will incur.

7. Risk Management

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

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past four 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, 2011, 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 (NC DENR) – Drinking Water State Revolving Fund 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. The project was complete at June 30, 2011, however the loan repayment schedule was not finalized by NC DENR until September 2011 and therefore the Town is classifying the \$300,000 in notes payable at June 30, 2011. Annual payments are scheduled to begin May 1, 2012.

In a separate agreement, NC DENR – Drinking Water State Revolving Fund agreed to lend the Town \$904,740 to replace water lines in the Dayton Drive community. The financing will span 20 years with an interest rate of 2.25 percent. Payments are to begin not earlier than six months after completion of the project. At year-end June 30, 2011, the construction portion of the project was complete, but there were still loan proceeds available to the Town. At June 30, 2011, the Town had drawn a total of \$836,086 on the available loan and is classifying that amount in notes payable.

10. Long-Term Obligations

a. Installment Purchases, Interlocal Agreement and Construction Financing

On September 24, 2010, the Town entered into an installment purchase contract for \$397,600 to fund the purchase of a fire truck and related equipment. The financing agreement requires ten annual payments of \$45,488 at an interest rate of 2.56 percent. Payments begin on August 24, 2011. This loan is shown under governmental activities and the balance was \$397,600 at June 30, 2011.

On December 20, 2010, the Town entered into an installment purchase contract for \$240,000 to fund the purchase of a garbage truck and two street trucks. The financing requires four annual payments of \$63,167 at an interest rate of 2.07 percent. Payments begin on December 20, 2011. This loan is shown under governmental activities and the balance was \$240,000 at June 30, 2011.

On January 25, 2011, the Town entered into an installment purchase contract for \$120,000 to purchase exercise equipment for the Recreation Center. The financing requires three annual payments of \$41,562 at

an interest rate of 1.94 percent. Payments begin on February 1, 2012. This loan is shown under governmental activities and the balance was \$120,000 at June 30, 2011.

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, 2011 totaled \$10,239, with \$3,812 recorded in the governmental activities and \$6,427 recorded in the business-type activities. The portion of the loan for the police cars is shown under governmental activities and the balance was \$118,843 at June 30, 2011. The portion representing the sewer jet truck and back hoe is shown under business-type activities and the balance was \$193,156 at June 30, 2011.

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, 2011 was \$88,490. This loan is shown under governmental activities and the balance was 1,961,758 at June 30, 2011.

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, 2011 was \$91,247. This loan is shown under business-type activities and the balance was \$2,582,342 at June 30, 2011.

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, 2011 was \$98,232. This loan is shown under governmental activities and the balance was \$2,673,897 at June 30, 2011.

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, 2011 was \$8,914, with \$5,942 recorded in the governmental activities and \$2,972 recorded in the business-type activities. The portion of the loan for the garbage trucks is shown under governmental activities and the balance was \$158,512 at June 30, 2011. The portion representing the pole truck is shown under business-type activities and the balance was \$79,256 at June 30, 2011.

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, 2011 was \$8,597. This loan is shown under business-type activities and the balance was \$209,938 at June 30, 2011.

On February 15, 2007, the Town entered into a second installment purchase contract for \$1,000,000 to finance the construction of a new Fire Station. The financing requires thirty semi-annual fixed principal payments of \$33,333 plus interest at the rate of 3.77 percent. Interest expense for the year ended June 30, 2011 was \$28,425. This loan is shown under governmental activities and the balance was \$733,333 at June 30, 2011.

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, 2011 was \$1,048. This loan is shown under governmental activities and the balance was \$10,321 at June 30, 2011.

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, 2011 was \$816. This loan is shown under governmental activities and the balance was \$0 at June 30, 2011.

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, 2011 was \$13,814. This loan is shown under business-type activities and the balance was \$308,660 at June 30, 2011.

In January 2003, the Town entered into an interlocal agreement with Haywood County to assist the County with its payment for the construction of a new parking facility. The agreement requires annual payments of \$227,047 with an interest rate of 4.479 percent. Interest expense for the year ended June 30, 2011 was \$60,270. This loan is shown under governmental activities and the balance was \$1,338,936 at June 30, 2011. 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, 2011 was \$7,188. This loan is shown under business-type activities and the balance was \$147,572 at June 30, 2011.

On June 21, 2001, the Town entered into an installment purchase contract for a sewer belt press. The contract, as refinanced, requires annual payments of \$41,155 with an interest rate of 3.79 percent. Interest expense for the year ended June 30, 2011 was \$1,441. This loan is shown under business-type activities and the balance was \$0 at June 30, 2011.

In October 1998, the Town entered into an installment purchase contract to build a new recreation facility center. The contract, as refinanced, requires semi-annual payments of \$185,407 at an interest rate of 3.99 percent. Interest expense for the year ended June 30, 2011 was \$101,387. This loan is shown under governmental activities and the balance was \$2,383,229 at June 30, 2011.

The future minimum payments of these installment purchase contracts and agreements as of June 30, 2011, are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 929,726	\$ 387,324	\$ 604,143	\$ 123,272
2013	949,370	354,654	472,372	101,878
2014	836,474	319,300	420,794	85,525
2015	823,762	288,523	343,346	70,786
2016	789,767	256,890	277,706	58,745
2017-2021	2,731,479	818,230	1,402,562	151,525
2022-2026	1,134,106	534,592	-	-
2027-2031	620,619	345,555	-	-
2032-2036	269,429	274,071	-	-
2037-2041	335,757	207,743	-	-
2042-2046	418,414	125,086	-	-
2047-2051	297,527	27,040	-	-
Total	\$ 10,136,429	\$ 3,939,008	\$ 3,520,923	\$ 591,731
Less: current portion	(929,726)		(604,143)	
Long-term portion	\$ 9,206,703		\$ 2,916,780	

b. General Obligation Bonds

At June 30, 2011, the Town of Waynesville had a legal debt margin of \$78,096,559.

c. Changes in General Long-Term Debt

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 10,209,545	\$ 757,600	\$ 830,716	\$ 10,136,429	\$ 929,726
Unfunded pension liabilities	318,522	50,522	-	369,044	-
Legal Claims	10,000	-	-	10,000	-
Other postemployment benefits	270,935	162,289	53,712	379,512	-
Compensated absences-garage	6,872	3,310	2,628	7,554	2,628
Compensated absences	337,963	197,004	171,631	363,336	171,631
Governmental activity long-term liabilities	<u>\$ 11,153,837</u>	<u>\$ 1,170,725</u>	<u>\$ 1,058,687</u>	<u>\$ 11,265,875</u>	<u>\$ 1,103,985</u>
Business-type activities:					
<i>Electric Fund</i>					
Installment purchases	\$ 2,911,928	\$ -	\$ 250,330	\$ 2,661,598	\$ 258,956
Other postemployment benefits	14,477	11,694	5,847	20,324	-
Compensated absences	19,758	11,074	9,970	20,862	9,970
<i>Total activity Electric Fund</i>	<u>2,946,163</u>	<u>22,768</u>	<u>266,147</u>	<u>2,702,784</u>	<u>268,926</u>
<i>Water Fund</i>					
Installment purchases	1,001,123	-	297,250	703,873	308,066
Other postemployment benefits	33,091	25,056	12,528	45,619	-
Compensated absences	43,940	31,190	31,920	43,210	31,920
<i>Total activity Water Fund</i>	<u>1,078,154</u>	<u>56,246</u>	<u>341,698</u>	<u>792,702</u>	<u>339,986</u>
<i>Sewer Fund</i>					
Installment purchases	231,599	-	76,146	155,453	37,121
Other postemployment benefits	28,955	23,386	11,693	40,648	-
Compensated absences	47,437	31,036	35,147	43,326	35,147
<i>Total activity Sewer Fund</i>	<u>307,991</u>	<u>54,422</u>	<u>122,986</u>	<u>239,427</u>	<u>72,268</u>
<i>Public Works Fund</i>					
Installment purchases	-	-	-	-	-
Other postemployment benefits	8,273	11,377	8,036	11,614	-
Compensated absences	7,884	6,396	5,634	8,646	5,634
<i>Total activity Public Works Fund</i>	<u>16,157</u>	<u>17,773</u>	<u>13,670</u>	<u>20,260</u>	<u>5,634</u>
Business-type activity long-term liabilities	<u>\$ 4,348,465</u>	<u>\$ 151,209</u>	<u>\$ 744,501</u>	<u>\$ 3,755,173</u>	<u>\$ 686,814</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, 2011, consist of the following:

Due to the Town from the component unit, ABC Board	\$ 55,522
Due from the Public Works Fund for its activity allocation to the Governmental Funds	\$ 42,333
Due from the Garage Fund to the General Fund for operations	\$ 7,161

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, 2011 consist of the following:

From the Water Fund to the General Fund	\$ 97,250
From the Sewer Fund to the General Fund	81,700
From the Electric Fund to the General Fund	1,114,050
From the Electric Fund to the Water Fund	97,250
From the component unit, ABC Board, to the Town	153,280
From the General Fund to the Capital Project Fund	30,000
Total	\$ 1,573,530

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as matching funds for various grant programs.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2011, the Town of Waynesville has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$9,441 for the twenty-five volunteer firemen and twelve 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, 2011 is immaterial, and therefore, not recognized as a revenue and an expenditure. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their dependents.

E. Fund Balance

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

Total fund balance - General Fund	\$ 6,558,358
Less:	
Prepaid Items	3,050
Inventories	7,439
Stabilization by State Statute	1,241,843
Streets - Powell Bill	684,983
Appropriated Fund Balance in 2012 budget	812,410
Public Safety	108,700
Working capital / Fund Balance Policy	3,699,933
Remaining Fund Balance	-

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

Encumbrances	General Fund	Non-Major Funds
	\$ 11,668	\$ -

IV. Related Organization

The five-member board of the Town of Waynesville Housing Authority is appointed by the mayor of the Town of Waynesville. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Waynesville is also disclosed as a related organization in the notes to the financial statements for the Town of Waynesville Housing Authority. Complete financial statements for the Housing Authority can be obtained from the Authority at P. O. Box 418, Waynesville, NC 28786.

V. Summary Disclosure of Significant Contingencies**Federal and State Assisted Programs**

The Town has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

VI. Significant Effects of Subsequent Events

Subsequent events have been evaluated through October 21, 2011, which is the date the audit report was available to be issued.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2005	-	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%
12/31/2010	-	532,666	532,666	0%	1,431,067	37.22%

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>
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%
2011	67,744	25.42%

Notes to the Required Schedules:

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

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25% to 7.85%
*Includes inflation at	3.00%
Cost-of living adjustments	N/A

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2008	-	2,569,013	2,569,013	0%	5,357,074	48.0%
12/31/2010	-	3,819,419	3,819,419	0%	6,038,837	63.2%

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

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

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, 2011

	2011		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ -	\$ 4,425,942	\$ -
Penalties and interest	-	46,858	-
Total	<u>4,410,370</u>	<u>4,472,800</u>	<u>62,430</u>
Other taxes and licenses:			
Local option sales tax	-	2,017,122	-
Gross receipts tax on short-term rental property	-	19,042	-
Privilege licenses and CATV	-	164,910	-
Total	<u>2,138,320</u>	<u>2,201,074</u>	<u>62,754</u>
Unrestricted intergovernmental:			
Utility franchise tax	-	670,511	-
Beer and wine tax	-	44,709	-
ABC profit distribution	-	153,280	-
Total	<u>927,480</u>	<u>868,500</u>	<u>(58,980)</u>
Restricted intergovernmental:			
Powell Bill allocation	-	650,624	-
Investment earnings	-	1,884	-
Contributions by Haywood County	-	378	-
On-behalf of payments - Fire and Rescue	-	9,441	-
ABC Revenue for law enforcement	-	6,940	-
Other grant revenue	-	5,525	-
Total	<u>734,850</u>	<u>674,792</u>	<u>(60,058)</u>
Permits and fees:			
Building permits and inspection fees	-	88,999	-
Reconnect fees	-	58,612	-
Total	<u>171,100</u>	<u>147,611</u>	<u>(23,489)</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, 2011

	2011		Variance
	Budget	Actual	Positive (Negative)
Sales and services:			
Recreation department fees	-	654,407	-
Cemetery revenues	-	18,250	-
Solid waste container sales	-	43,779	-
Fire protection	-	246,091	-
Police contract services	-	50,029	-
Sanitation fee	-	698,154	-
Court costs and fees	-	4,680	-
Rents	-	36,128	-
Charges to water fund	-	200,000	-
Charges to sewer fund	-	171,580	-
Charges to electric fund	-	370,500	-
Total	<u>2,545,060</u>	<u>2,493,598</u>	<u>(51,462)</u>
Investment earnings	<u>13,650</u>	<u>763</u>	<u>(12,887)</u>
Miscellaneous	<u>264,120</u>	<u>306,730</u>	<u>42,610</u>
Total revenues	<u>11,204,950</u>	<u>11,165,868</u>	<u>(39,082)</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits	-	68,281	-
Other operating expenditures	-	37,519	-
Total	<u>120,240</u>	<u>105,800</u>	<u>14,440</u>
Administration:			
Salaries and employee benefits	-	645,752	-
Professional services	-	60,520	-
Other operating expenditures	-	110,132	-
Capital outlay	-	48,767	-
Total	<u>898,710</u>	<u>865,171</u>	<u>33,539</u>
Finance:			
Salaries and employee benefits	-	565,554	-
Professional services	-	73,934	-
Other operating expenditures	-	100,667	-
Capital outlay	-	-	-
Total	<u>814,260</u>	<u>740,155</u>	<u>74,105</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, 2011

	2011		Variance
	Budget	Actual	Positive (Negative)
Public buildings:			
Salaries and employee benefits	-	54,169	-
Other operating expenditures	-	195,562	-
Capital outlay	-	15,000	-
Total	328,560	264,731	63,829
Planning and code enforcement:			
Salaries and employee benefits	-	383,580	-
Other operating expenditures	-	45,177	-
Capital Outlay	-	2,440	-
Total	535,780	431,197	104,583
Special appropriations:			
Contributions	-	241,486	-
Total	256,400	241,486	14,914
Total general government	2,953,950	2,648,540	305,410
Public safety:			
Police:			
Salaries and employee benefits	-	2,563,549	-
Professional services	-	4,091	-
Other operating expenditures	-	412,723	-
Capital outlay	-	194,241	-
Total	3,517,900	3,174,604	343,296
Fire:			
Salaries and employee benefits	-	657,806	-
Professional services	-	8,857	-
Other operating expenditures	-	147,134	-
Building inspection and EMT's	-	5,084	-
Capital outlay	-	1,714	-
Total	879,770	820,595	59,175
Total public safety	4,397,670	3,995,199	402,471
Transportation:			
Streets and highways:			
Salaries and employee benefits	-	1,117,863	-
Professional services	-	17,365	-
Other operating expenditures	-	485,606	-
Contracted services	-	585,062	-
Capital outlay	-	462,920	-
Total transportation	3,082,460	2,668,816	413,644

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, 2011

	2011		Variance
	Budget	Actual	Positive (Negative)
Environmental protection:			
Cemetery:			
Salaries and employee benefits	-	93,369	-
Other operating expenditures	-	11,856	-
Capital outlay	-	15,498	-
Total environmental protection	<u>130,390</u>	<u>120,723</u>	<u>9,667</u>
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits	-	1,103,387	-
Other operating expenditures	-	451,149	-
Capital outlay	-	48,916	-
Total culture and recreation	<u>1,825,300</u>	<u>1,603,452</u>	<u>221,848</u>
Debt service:			
Principal retirement	-	830,716	-
Interest and other charges	-	402,377	-
Total debt service	<u>1,233,190</u>	<u>1,233,093</u>	<u>97</u>
Total expenditures	<u>13,622,960</u>	<u>12,269,823</u>	<u>1,353,137</u>
Revenues over (under) expenditures	<u>(2,418,010)</u>	<u>(1,103,955)</u>	<u>1,314,055</u>
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Funds	1,293,000	1,293,000	
Transfer to other funds:			
Capital Projects Fund	(30,000)	(30,000)	
Appropriations from fund balance	<u>1,155,010</u>	<u>-</u>	
Total	<u>\$ 2,418,010</u>	<u>1,263,000</u>	<u>\$ (1,155,010)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>159,045</u>	<u>\$ 159,045</u>
Fund balances:			
Beginning of year, July 1		<u>6,399,313</u>	
End of year, June 30		<u>\$ 6,558,358</u>	

Town of Waynesville
Combining Balance Sheet
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2011

	Capital Projects Fund	Public Buildings Project Fund	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	\$ 5,314	\$ 403,272	\$ 262,031	\$ 9,877	\$ 680,494
Accounts and interest receivable	-	-	96	5	101
Due from other governments	-	-	-	-	-
Total assets	<u>\$ 5,314</u>	<u>\$ 403,272</u>	<u>\$ 262,127</u>	<u>\$ 9,882</u>	<u>\$ 680,595</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ 30,594	\$ -	\$ -	\$ 30,594
Total liabilities	<u>-</u>	<u>30,594</u>	<u>-</u>	<u>-</u>	<u>30,594</u>
Fund balances:					
Nonspendable-perpetual maintenance	-	-	262,127	-	262,127
Restricted-Cultural and Recreation	-	-	-	9,882	9,882
Committed-General Government	5,314	372,678	-	-	377,992
Total fund balances	<u>5,314</u>	<u>372,678</u>	<u>262,127</u>	<u>9,882</u>	<u>650,001</u>
Total liabilities and fund balances	<u>\$ 5,314</u>	<u>\$ 403,272</u>	<u>\$ 262,127</u>	<u>\$ 9,882</u>	<u>\$ 680,595</u>

Town of Waynesville
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2011

	Capital Projects Fund	Public Buildings Project Fund	Perpetual Care/ Cemetery Care Fund	Community Playground Fund	Total Nonmajor Governmental Funds
Revenues:					
Restricted intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and services	-	-	18,000	-	18,000
Investment earnings	-	-	102	6	108
Total revenues	-	-	18,102	6	18,108
Expenditures:					
Cultural and recreation	-	-	-	4,446	4,446
General government	-	224,309	-	-	224,309
Total expenditures	-	224,309	-	4,446	228,755
Revenues over (under) expenditures	-	(224,309)	18,102	(4,440)	(210,647)
Other financing sources:					
Transfers from other funds:					
General Fund	-	30,000	-	-	30,000
Total other financing sources	-	30,000	-	-	30,000
Net change in fund balance	-	(194,309)	18,102	(4,440)	(180,647)
Fund balances:					
Beginning of year, July 1	5,314	566,987	244,025	14,322	830,648
End of year, June 30	\$ 5,314	\$ 372,678	\$ 262,127	\$ 9,882	\$ 650,001

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, 2011

	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	-	118,487	-	118,487	118,487
Total revenues	-	125,104	-	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	2,723,996	-	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	3,877,076	-	3,877,076	255,899
Police/Development Office Construction:					
Architect and engineering fees	307,000	312,516	-	312,516	(5,516)
Land Purchase	106,000	106,171	-	106,171	(171)
Development and construction	3,858,690	3,750,285	-	3,750,285	108,405
Equipment and furniture	128,000	331,970	-	331,970	(203,970)
Interest during construction	177,975	130,692	-	130,692	47,283
Contingency	242,830	-	-	-	242,830
Total police department construction	4,820,495	4,631,634	-	4,631,634	188,861
Total Appropriations	8,953,470	8,508,710	-	8,508,710	444,760
Revenues over (under) expenditures	(8,953,470)	(8,383,606)	-	(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	\$ -	\$ 5,314	-	\$ 5,314	\$ (5,314)
Fund balances:					
Beginning of year, July 1			5,314		
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, 2011

	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	224,309	302,712	342,678
Equipment and furniture	-	-	-	-	-
Contingency	-	-	-	-	-
Total public building renovations	645,390	78,403	224,309	302,712	342,678
Revenues over (under) expenditures	(645,390)	(78,403)	(224,309)	(302,712)	(342,678)
Other financing sources:					
Operating transfer in from General Fund	645,390	645,390	30,000	675,390	(30,000)
Total other financing sources	645,390	645,390	30,000	675,390	(30,000)
Net change in fund balance	\$ -	\$ 566,987	(194,309)	\$ 372,678	\$ (372,678)
Fund balances:					
Beginning of year, July 1			566,987		
End of year, June 30			<u>\$ 372,678</u>		

Town of Waynesville, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2011

	2011		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Charges for service	\$ 8,207,980	\$ 8,203,606	\$ (4,374)
Other operating revenue	-	-	-
Total operating revenues	<u>8,207,980</u>	<u>8,203,606</u>	<u>(4,374)</u>
Nonoperating revenues:			
Investment earnings	-	726	-
Miscellaneous	-	31,756	-
Total nonoperating revenues	<u>7,690</u>	<u>32,482</u>	<u>24,792</u>
Total revenues	<u>8,215,670</u>	<u>8,236,088</u>	<u>20,418</u>
Expenditures:			
Finance and administration:			
Charge for services	<u>370,500</u>	<u>370,500</u>	<u>-</u>
Electrical operations:			
Salaries and employee benefits	-	345,804	-
Professional services	-	54,986	-
Maintenance	-	214,308	-
Other departmental expenditures	-	243,912	-
Capital outlay	-	27,808	-
Total	<u>907,320</u>	<u>886,818</u>	<u>20,502</u>
Electrical power purchases	<u>5,974,120</u>	<u>5,669,036</u>	<u>305,084</u>
Debt service:			
Principal payments	-	250,330	-
Interest and fees	-	101,926	-
Total	<u>352,300</u>	<u>352,256</u>	<u>44</u>
Total expenditures	<u>7,604,240</u>	<u>7,278,610</u>	<u>325,630</u>
Revenues over expenditures	<u>611,430</u>	<u>957,478</u>	<u>346,048</u>
Other financing sources (uses):			
Transfers to other funds:			
Transfer to Water Fund	(97,250)	(97,250)	-
Transfer to General Fund	(1,114,050)	(1,114,050)	-
Proceeds from Capital Lease	243,640	256,941	13,301
Fund balance appropriated	356,230	-	(356,230)
Total other financing (uses)	<u>(611,430)</u>	<u>(954,359)</u>	<u>(342,929)</u>
Net change in fund balance	<u>\$ -</u>	<u>3,119</u>	<u>\$ 3,119</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		250,330	
Proceeds from capital lease		(256,941)	
Capital outlays		27,808	
Depreciation		(293,621)	
Decrease in long-term debt accrued interest		7,709	
Increase in OPEB liability		(5,847)	
Increase in accrued vacation pay		(1,104)	
Total		<u>(271,666)</u>	
Change in net assets		<u>\$ (268,547)</u>	

Town of Waynesville, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2011

	2011		Variance Positive/(Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Water charges	\$ -	\$ 2,283,210	\$ -
Taps and connection fees	-	32,350	-
Total operating revenues	2,398,180	2,315,560	(82,620)
Nonoperating revenues:			
Investment earnings	-	234	-
Miscellaneous	-	113	-
Total nonoperating revenues	78,500	347	(78,153)
Total revenues	2,476,680	2,315,907	(160,773)
Expenditures:			
Finance and administration:			
Charge for services	200,000	200,000	-
Total	200,000	200,000	-
Water maintenance and distribution:			
Maintenance department:			
Salaries and employee benefits	-	406,606	-
Maintenance	-	121,444	-
Professional services	-	0	-
Other departmental expenditures	-	136,078	-
Capital outlay	-	279,333	-
Total	1,067,560	943,461	124,099
Operations department:			
Salaries and employee benefits	-	415,531	-
Professional services	-	8,111	-
Utilities	-	16,343	-
Maintenance	-	150,245	-
Other departmental expenditures	-	86,487	-
Capital outlay	-	34,987	-
Total	872,340	711,704	160,636
Total water maintenance and distribution	1,939,900	1,655,165	284,735
Debt service:			
Principal payments	-	297,250	-
Interest and fees	-	36,023	-
Total	421,170	333,273	87,897
Total expenditures	2,561,070	2,188,438	372,632
Revenues over expenditures	(84,390)	127,469	211,859
Other financing sources (uses):			
Transfers (to)/from other funds:			
Transfer from Electric Fund	97,250	97,250	-
Transfer to General Fund	(97,250)	(97,250)	-
Fund balance appropriated	84,390	-	(84,390)
Total other financing (uses)	84,390	-	(84,390)
Net change in fund balance	\$ -	127,469	\$ 127,469
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments		297,250	
Capital outlays		314,320	
Capital contributions from Capital Project Funds		103,904	
Depreciation		(487,870)	
Decrease in long-term debt accrued interest		5,170	
Increase in OPEB liability		(12,528)	
Decrease in accrued vacation pay		730	
Total		220,976	
Change in net assets		\$ 348,445	

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, 2011

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
Federal Grant revenue	\$1,000,000	\$ 1,034,801	\$ 94,154	\$ 1,128,955	\$ (128,955)
Total revenues	<u>1,000,000</u>	<u>1,034,801</u>	<u>94,154</u>	<u>1,128,955</u>	<u>(128,955)</u>
Expenditures:					
Engineering fees	102,310	99,435	7,220	106,655	(4,345)
Administrative and Legal costs	9,130	16,817	(18)	16,799	(7,669)
Land & Right of Way	30,000	80	-	80	29,920
Construction costs	1,053,240	918,469	86,952	1,005,421	47,819
Contingency	105,320	-	-	-	105,320
Total Expenditures	<u>1,300,000</u>	<u>1,034,801</u>	<u>94,154</u>	<u>1,128,955</u>	<u>171,045</u>
Revenues over (under) expenditures	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>
Other financing sources:					
Contributed capital	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>	<u>-</u>
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			<u>300,000</u>		
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, 2011

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
State Grant revenue	\$ 213,000	\$ -	\$ 9,750	\$ 9,750	\$ 203,250
Total revenues	<u>213,000</u>	<u>-</u>	<u>9,750</u>	<u>9,750</u>	<u>203,250</u>
Expenditures:					
Engineering fees	76,000	59,000	14,250	73,250	2,750
Administrative costs	-	1,353	18,102	19,455	(19,455)
Closing costs	17,740	-	-	-	17,740
Construction costs	986,000	282,926	470,205	753,131	232,869
Contingency	38,000	-	-	-	38,000
Total Expenditures	<u>1,117,740</u>	<u>343,279</u>	<u>502,557</u>	<u>845,836</u>	<u>271,904</u>
Revenues over (under) expenditures	<u>(904,740)</u>	<u>(343,279)</u>	<u>(492,807)</u>	<u>(836,086)</u>	<u>(68,654)</u>
Other financing sources:					
Loan proceeds	<u>904,740</u>	<u>-</u>	<u>771,655</u>	<u>771,655</u>	<u>133,085</u>
Total other financing sources	<u>904,740</u>	<u>-</u>	<u>771,655</u>	<u>771,655</u>	<u>133,085</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ (343,279)</u>	278,848	<u>\$ (64,431)</u>	<u>\$ 64,431</u>
Fund balances:					
Beginning of year, July 1			(343,279)		
End of year, June 30			<u>\$ (64,431)</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, 2011

	2011		Variance Positive/(Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Sewer charges	\$ -	\$ 1,889,552	\$ -
Taps and connection fees	-	40,050	-
Impact fees	-	-	-
Industrial discharge permits	-	-	-
Total operating revenues	<u>1,939,650</u>	<u>1,929,602</u>	<u>(10,048)</u>
Nonoperating revenues:			
Investment earnings	2,440	607	(1,833)
Miscellaneous	500	15,000	14,500
Total nonoperating revenues	<u>2,940</u>	<u>15,607</u>	<u>12,667</u>
Total revenues	<u>1,942,590</u>	<u>1,945,209</u>	<u>2,619</u>
Expenditures:			
Finance and administration:			
Charges by general fund	<u>171,580</u>	<u>171,580</u>	<u>-</u>
Waste collection and treatment:			
Maintenance department:			
Salaries and employee benefits	-	218,767	-
Professional services	-	-	-
Maintenance	-	40,822	-
Other departmental expenditures	-	36,328	-
Capital outlay	-	406,634	-
Total	<u>660,450</u>	<u>702,551</u>	<u>(42,101)</u>
Operations department:			
Salaries and employee benefits	-	533,984	-
Professional services	-	11,777	-
Utilities	-	192,045	-
Maintenance	-	66,702	-
Other departmental expenditures	-	71,324	-
Capital outlay	-	5,301	-
Total	<u>1,025,930</u>	<u>881,133</u>	<u>144,797</u>
Total waste collection and treatment	<u>1,686,380</u>	<u>1,583,684</u>	<u>102,696</u>
Debt service:			
Principal payments	-	76,146	-
Interest and fees	-	6,896	-
Total	<u>84,260</u>	<u>83,042</u>	<u>1,218</u>
Total expenditures	<u>1,942,220</u>	<u>1,838,306</u>	<u>103,914</u>
Revenues over expenditures	<u>370</u>	<u>106,903</u>	<u>106,533</u>
Other financing sources (uses):			
Transfers to other funds:			
Transfers to general fund:	(81,700)	(81,700)	-
Fund balance appropriated	81,330	-	(81,330)
Total other financing sources	<u>(370)</u>	<u>(81,700)</u>	<u>(81,330)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 25,203</u>	<u>\$ 25,203</u>

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

Reconciling items:	
Principal payments	76,146
Capital outlays	411,935
Depreciation	(425,882)
Decrease in long-term debt accrued interest	282
Increase in OPEB liability	(11,693)
Decrease in accrued vacation pay	4,111
Total	<u>54,899</u>
Change in net assets	<u>\$ 80,102</u>

Town of Waynesville, North Carolina
Public Works Internal Service Fund
Schedule of Revenues and Expenditures - Financial Plan and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2011

	2011		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 220,050	\$ 289,540	\$ 69,490
Total operating revenues	220,050	289,540	69,490
Nonoperating revenues:			
Investment earnings	150	30	(120)
Miscellaneous	69,490	104	(69,386)
Total nonoperating revenues	69,640	134	(69,506)
Total revenues	289,690	289,674	(16)
Expenditures:			
Salaries and employee benefits	-	173,236	
Occupancy costs	-	13,286	-
Maintenance and repairs	-	17,684	-
Materials and supplies	-	8,449	-
Other departmental expenses	-	6,454	-
Capital outlays	-	-	-
Total expenditures	289,690	219,109	70,581
Net change in fund balance	\$ -	70,565	\$ 70,565
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(17,362)	
Capital outlays		-	
Increase in OPEB liability		(3,341)	
Increase in accrued vacation pay		(762)	
Total reconciling items		(21,465)	
Change in net assets		\$ 49,100	

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, 2011

	2011		Variance
	Financial Plan	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services	\$ 596,140	\$ 542,512	\$ (53,628)
Total operating revenues	596,140	542,512	(53,628)
Nonoperating revenues:			
Investment earnings	110	16	(94)
Miscellaneous	-	4,224	4,224
Total nonoperating revenues	110	4,240	4,130
Total revenues	596,250	546,752	(49,498)
Expenditures:			
Salaries and employee benefits	-	95,526	-
Occupancy costs	-	69,490	-
Maintenance and repairs	-	4,558	-
Materials and supplies	-	72,300	-
Other departmental expenses	-	304,196	-
Capital outlay	-	-	-
Total expenditures	596,250	546,070	50,180
Net change in fund balance	\$ -	682	\$ 682
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(16,784)	
Capital outlay		0	
Increase in OPEB liability		(1,670)	
Increase in accrued vacation pay		(682)	
Total reconciling items		(19,136)	
Change in net assets		\$ (18,454)	

Town of Waynesville, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2011

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2010</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010 - 2011	-	4,524,704	\$ 4,298,390	\$ 226,314
2009 - 2010	174,680	-	58,985	115,695
2008 - 2009	103,666	-	29,498	74,168
2007 - 2008	66,693	-	19,327	47,366
2006 - 2007	41,836	-	8,038	33,798
2005 - 2006	39,305	-	4,067	35,238
2004 - 2005	26,896	-	1,530	25,366
2003 - 2004	29,297	-	5,215	24,082
2002 - 2003	27,009	-	824	26,185
2001 - 2002	21,860	-	1,351	20,509
2000 - 2001	23,180	-	23,180	-
	<u>\$ 554,422</u>	<u>\$ 4,524,704</u>	<u>\$ 4,450,405</u>	<u>628,721</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>(20,000)</u>
Ad valorem taxes receivable - net				<u><u>608,721</u></u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				4,472,800
Reconciling items:				
Interest, penalties and advertising collected				(46,858)
Taxes written off				24,463
Subtotal				<u>(22,395)</u>
Total collections and credits				<u><u>\$ 4,450,405</u></u>

Town of Waynesville, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2011

	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	\$ 1,104,515,987	0.40	\$ 4,418,063	\$ 4,174,976	\$ 243,087
Municipal service district	41,950,659	0.23	96,486	96,486	-
Penalties	-		6,340	6,340	-
Total	<u>1,146,466,646</u>		<u>4,520,889</u>	<u>4,277,802</u>	<u>243,087</u>
Discoveries:					
Current year taxes	2,323,750	0.40	9,295	9,295	-
Penalties	-		1,986	1,986	-
Total	<u>2,323,750</u>		<u>11,281</u>	<u>11,281</u>	<u>-</u>
Refund of overpayments			-	-	
Abatements	<u>(1,866,500)</u>		<u>(7,466)</u>	<u>(3,242)</u>	<u>(4,224)</u>
Total property valuation	<u>\$ 1,146,923,896</u>				
Net levy			4,524,704	4,285,841	238,863
Uncollected taxes at June 30, 2011			<u>(226,314)</u>	<u>(191,278)</u>	<u>(35,036)</u>
Current year's taxes collected			<u>\$ 4,298,390</u>	<u>\$ 4,094,563</u>	<u>\$ 203,827</u>
Current levy collection percentage			<u>95.00%</u>	<u>95.54%</u>	<u>85.33%</u>

COMPLIANCE SECTION



Ray,
Bumgarner,
Kingshill,

& Assoc., P.A.

Certified Public Accountants

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Waynesville, NC 28786

**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, 2011, which collectively comprises the Town of Waynesville's basic financial statements, and have issued our report thereon dated October 21, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Town of Waynesville ABC Board, as described in our report on the Town of Waynesville's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Waynesville ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is 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.

Roy, Bingham, Kingshill & Associates, P.A.

Waynesville, North Carolina
October 21, 2011

**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, 2011. 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, 2011.

Internal Control Over Compliance

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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, Bengarner, Kingshill & Assoc., P.A.

Waynesville, North Carolina
October 21, 2011

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2011

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted ☐yes ☒no

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
66.468	Drinking Water State Revolving Fund
20.205	Highway Planning, Research and Construction Cluster

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

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

Town of Waynesville, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2011

Section II. - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2011

Section II - Financial Statements Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Town of Waynesville, North Carolina
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended June 30, 2011

Section II - Financial Statements Findings

None reported

Section III - Federal 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, 2011

<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		\$ 87,072	\$ -
<u>U.S. Dept. of Transportation</u>				
Passed-Through NC Dept. of Transportation:				
Federal Aid Bridge Program	20.205-1	B-4674	325,119	-
<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		1,180	-
<u>U.S. Dept. of Agriculture, Forest Service</u>				
Passed Through NC Dept. of Forestry				
Cooperative Forestry Assistance Program	10.664		3,353	-
<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	94,154	-
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	836,086	-
State Grants:				
Cash Programs:				
<u>N.C. Dept. of Transportation:</u>				
Powell Bill		WBS 32570	-	276,654
<u>N.C. General Assembly</u>				
Passed through NC Rural Economic Development Center				
FY08/09 Clean Water Partners		2010-248-40101-112	-	9,750
Total Federal and State Assistance			\$ 1,646,964	\$ 286,404

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 has the following loan balance outstanding at June 30, 2011. 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, 2011; 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 \$836,086 has been spent from inception through June 30, 2011 and is reported in the federal expenditures presented in this schedule.

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

Attachment A
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, 2011

Statement of Revenues

Source of Funds:	DEH - 1048	DEH - 1311	Total
Federal Funds - CFDA # 66.468			
DWSRF Principal Forgiveness Loan	\$ 769,856	\$ -	\$ 769,856
DWSRF Revolving Loan	300,000	771,655	1,071,655
Total source of funds	<u>\$ 1,069,856</u>	<u>\$ 771,655</u>	<u>\$ 1,841,511</u>

Statement of Expenditures

Construction Costs	\$ 1,005,421	\$ 753,131	\$ 1,758,552
Engineering Fees	106,655	63,500	170,155
Administrative Expense	16,799	19,455	36,254
Land and Right of Way	80	-	80
Land	-	-	-
Total Expenditures	<u>\$ 1,128,955</u>	<u>\$ 836,086</u>	<u>\$ 1,965,041</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.