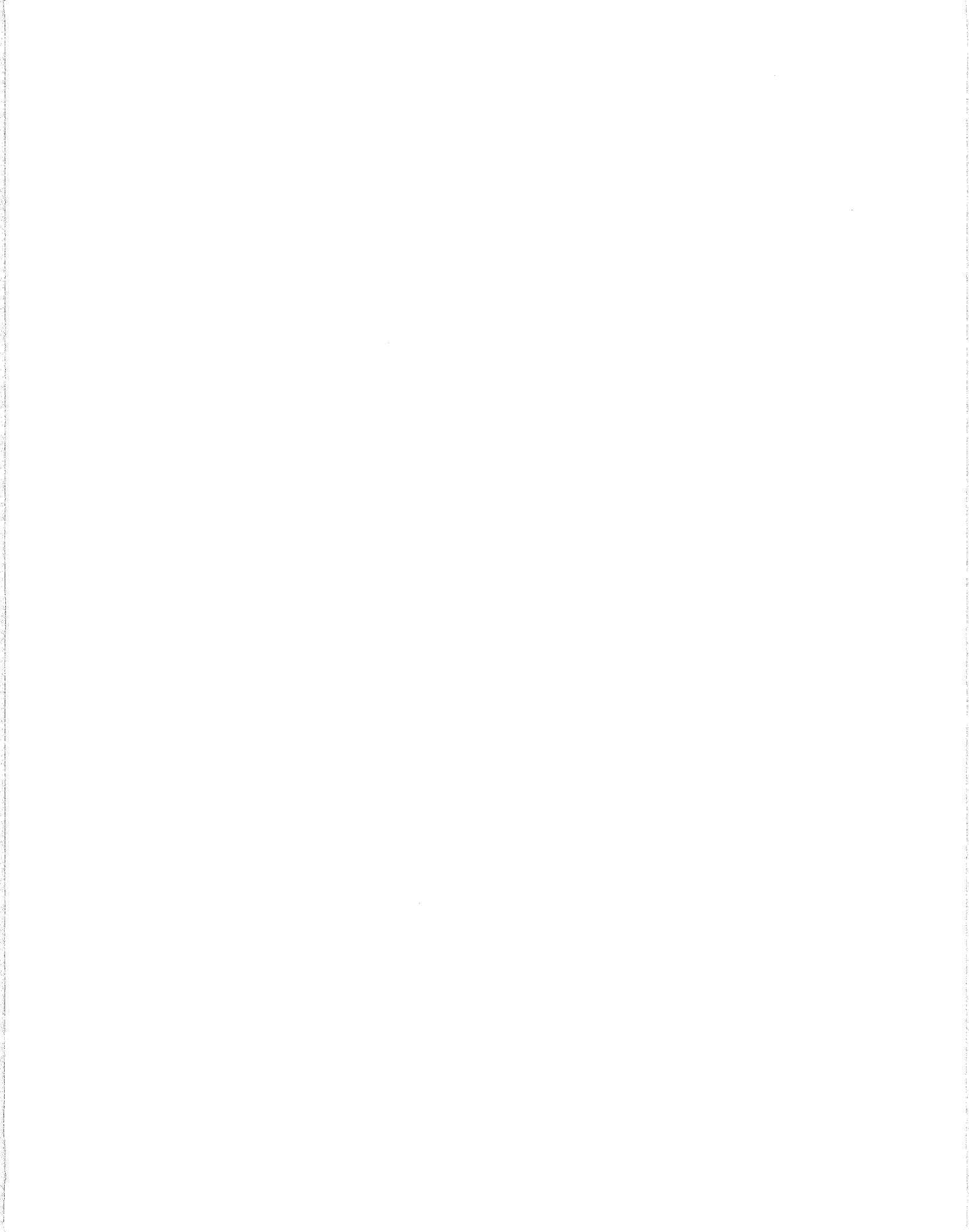


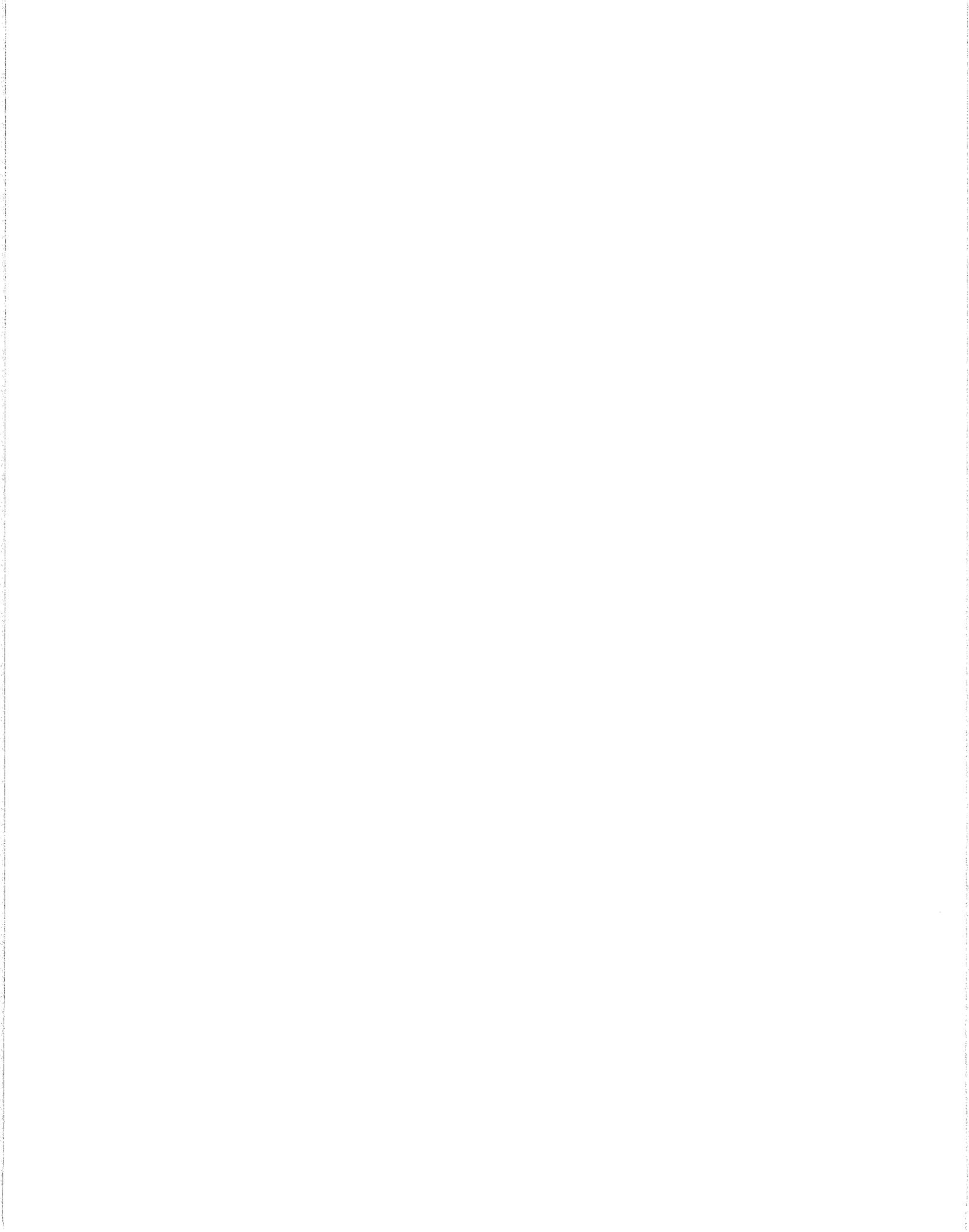
TOWN OF WILKESBORO
North Carolina
AUDIT REPORT
June 30, 2004

Benson, Blevins, & Associates, P.L.L.C.
Certified Public Accountants
North Wilkesboro, North Carolina



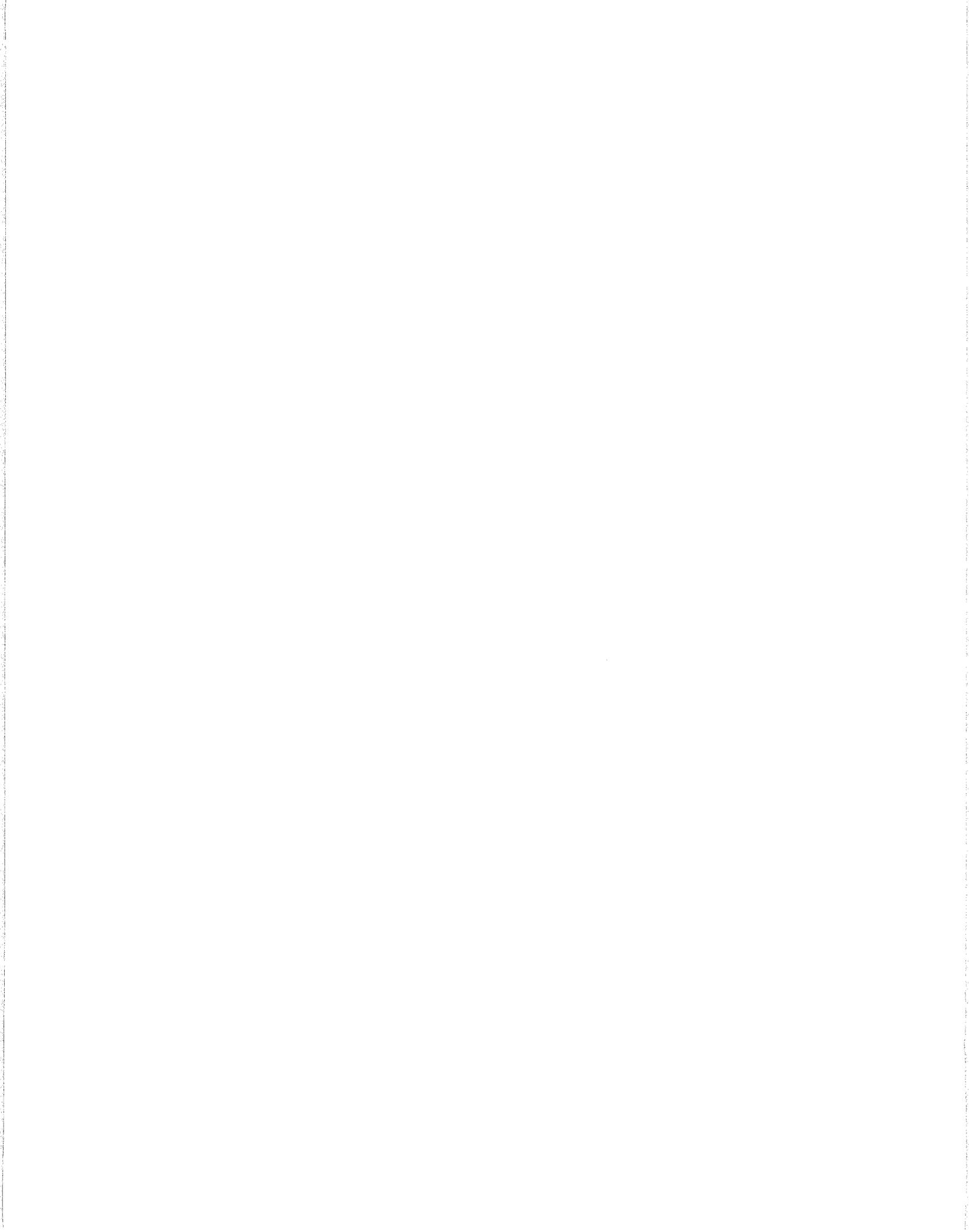
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Independent Auditor's Report

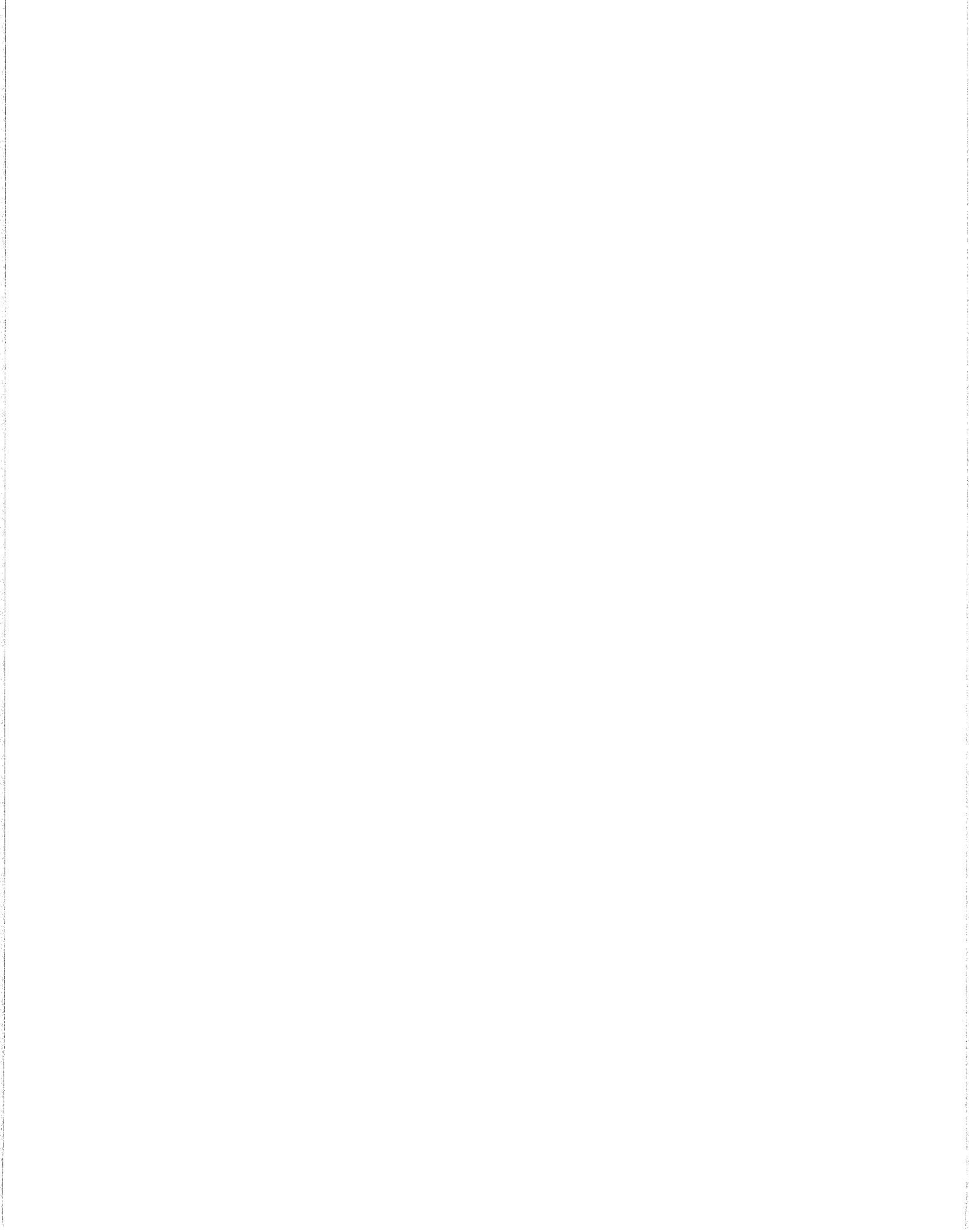
December 17, 2004

To the Honorable Mayor
and Board of Commissioners
Town of Wilkesboro, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Wilkesboro, North Carolina, as of and for the year ended June 30, 2004, 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 Wilkesboro's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Town of Wilkesboro ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Wilkesboro ABC Board, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Wilkesboro, North Carolina as of June 30, 2004, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.



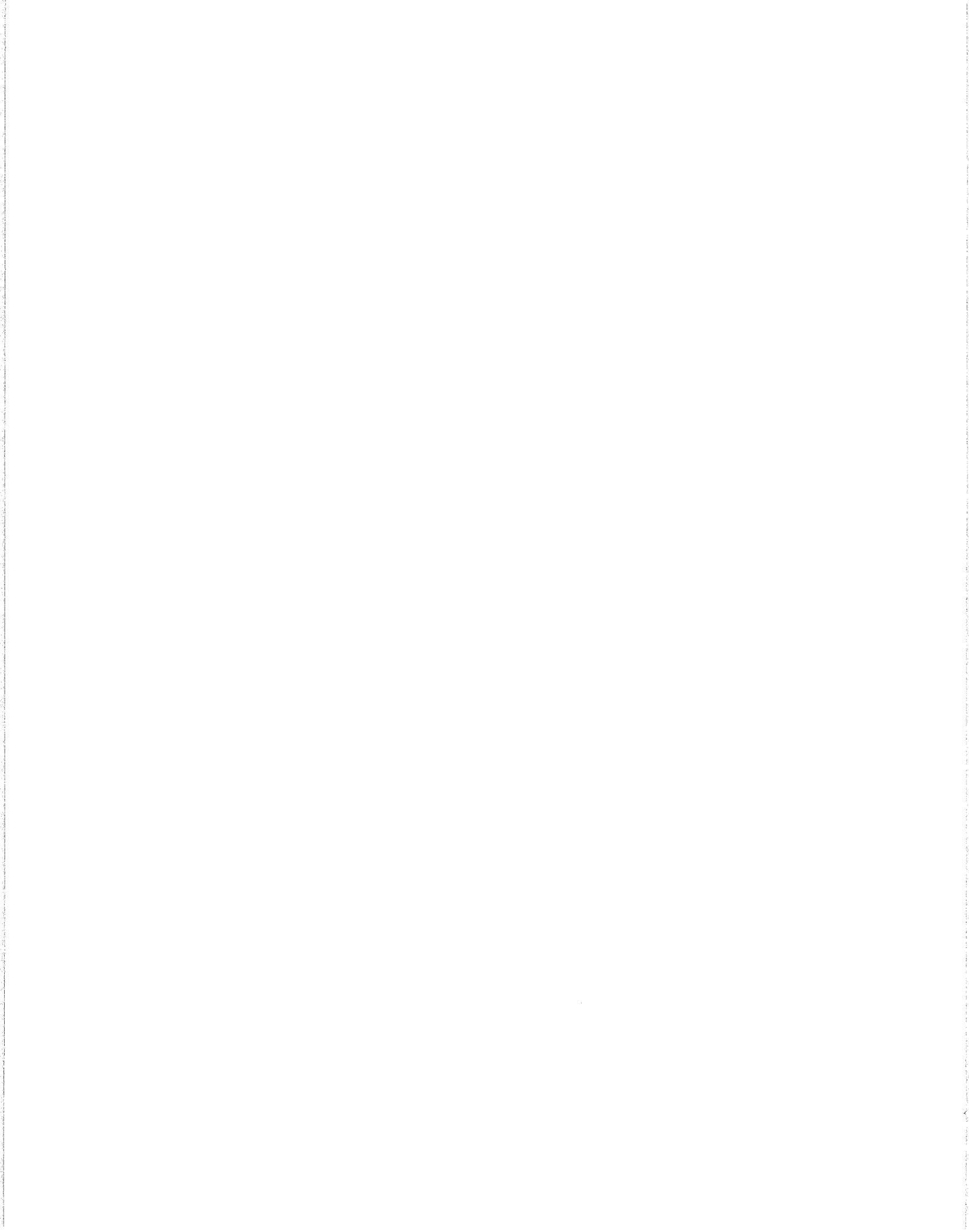
As described in Note 1 to the financial statements, the Town adopted Governmental Accounting Standards Board (GASB) Statement Number 34 during the year ended June 30, 2004.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule 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 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 thereon.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2004, on our consideration of the Town of Wilkesboro's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of Wilkesboro, North Carolina, taken as a whole. The combining and individual non-major fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Benson Blewins & Associates, PLLC
Certified Public Accountants



Management's Discussion and Analysis

As management of the Town of Wilkesboro, we offer readers of the Town of Wilkesboro's financial statements this narrative overview and analysis of the financial activities of the Town of Wilkesboro for the fiscal year ended June 30, 2004. 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

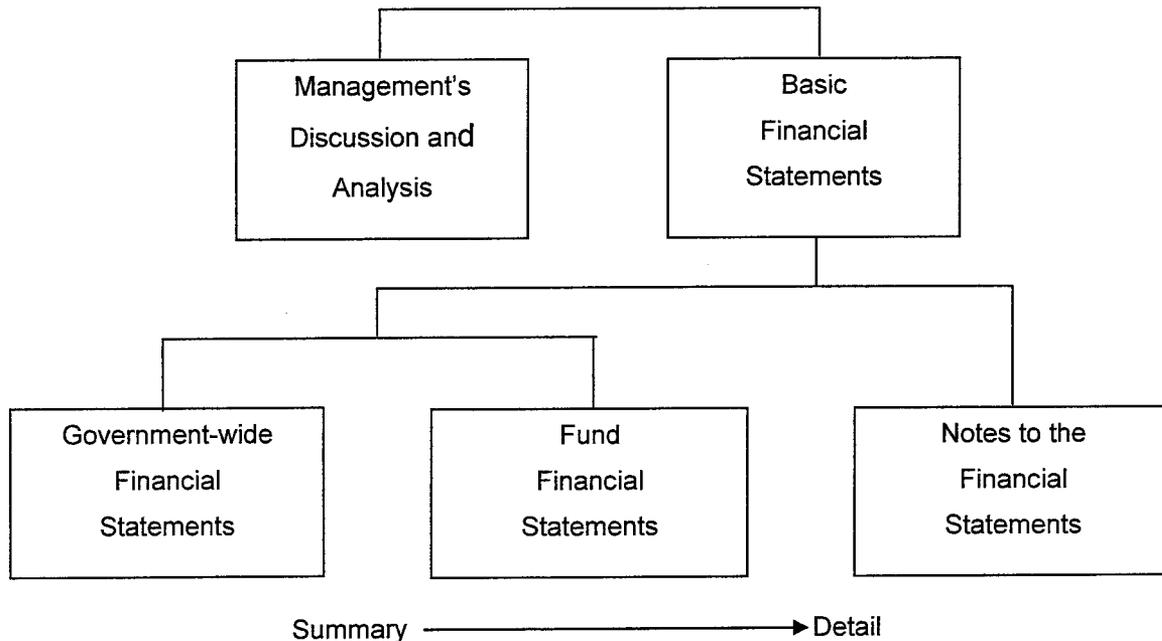
- The assets of the Town of Wilkesboro exceeded its liabilities at the close of the fiscal year by \$21,309,381 (*net assets*).
- The government's total net assets decreased by \$78,998, primarily due to decreases in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Wilkesboro's governmental funds reported combined ending fund balances of \$1,756,968. Approximately 63.8 percent of this total amount, or \$1,121,455, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,117,816, or 28.4 percent of total general fund expenditures for the fiscal year.
- The Town of Wilkesboro's total debt increased by \$4,158,745 (482%) during the current fiscal year. The key factor in this increase was the issuance of promissory notes of \$152,200 for general fund equipment and \$35,800 for water and sewer equipment, as well as the issuance of \$4,100,000 in certificates of participation to finance construction of a two million gallon clear well, the construction of water and sewer line improvements, and the acquisition of water lines.

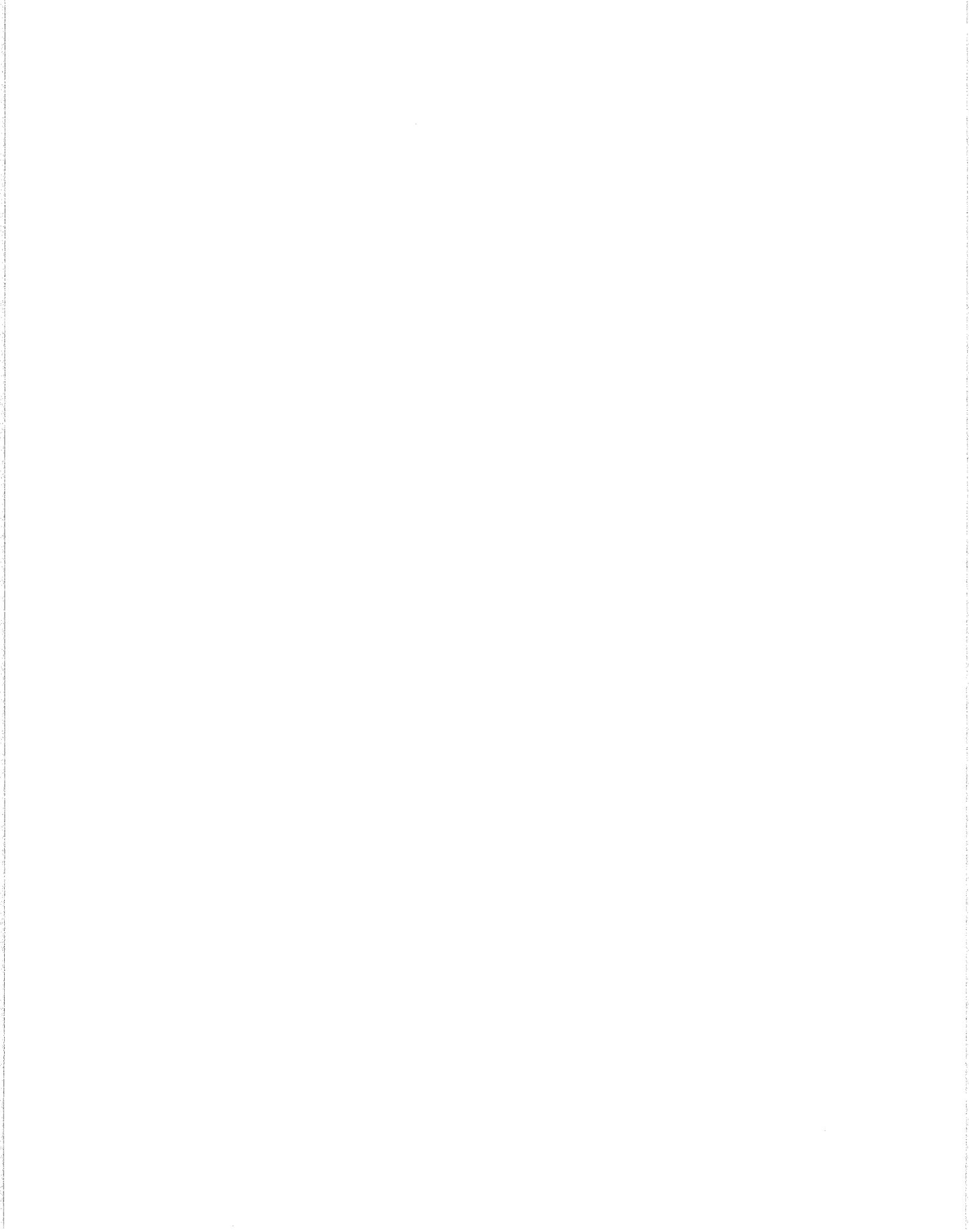
Overview of the Financial Statements

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

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 9) 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.

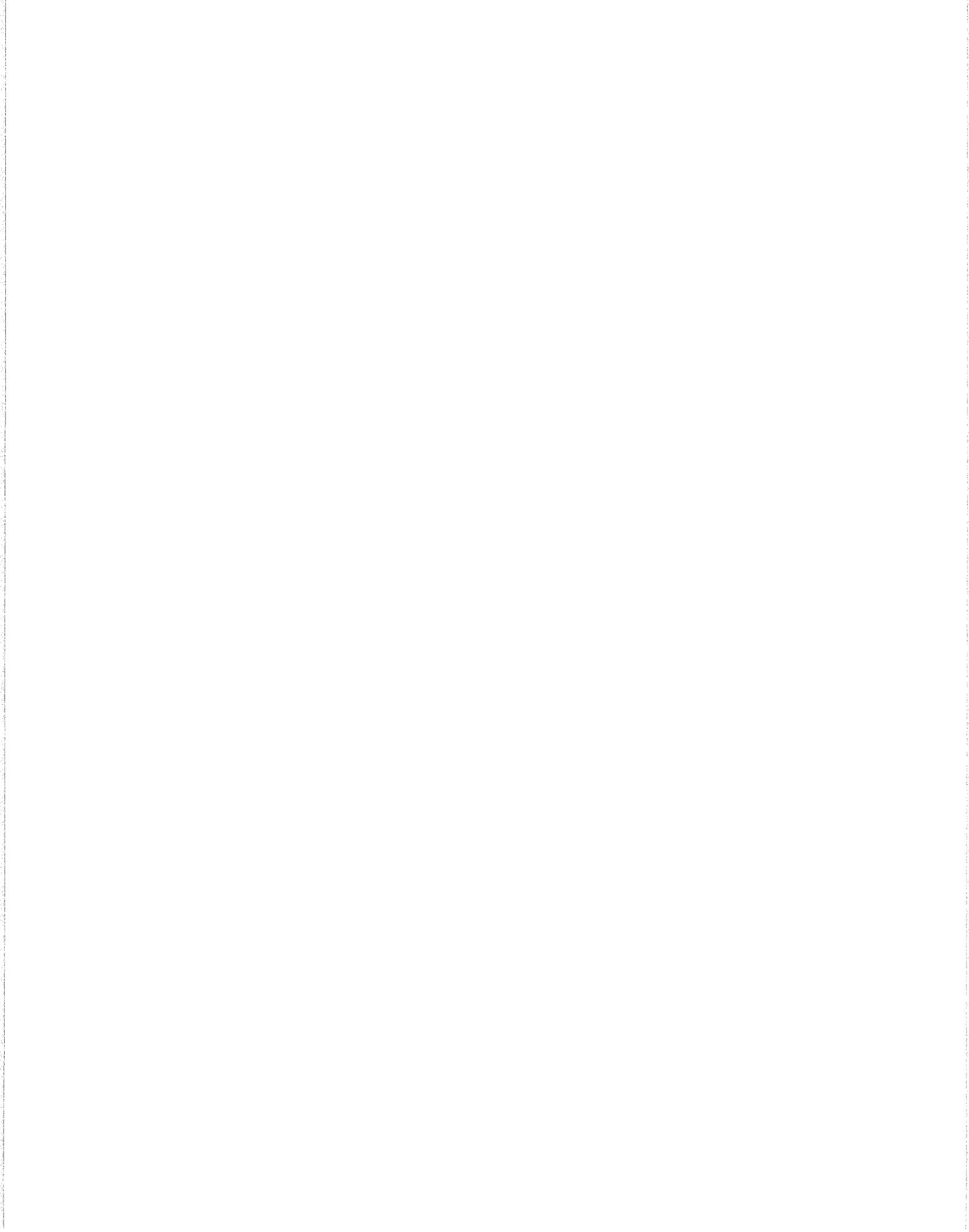
The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

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 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 water and sewer services offered by the Town of Wilkesboro. The final category is the component units. Although legally separate from the Town, the Tourism Bureau is important to the Town because the Town exercises control over the Tourism Bureau by appointing its board members and because the Tourism Bureau is required to spend the net proceeds of the Town's 3% occupancy tax to promote tourism, conventions, and visitation to the Town of Wilkesboro. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its surpluses to the general fund of the Town and to other governmental units.

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 Wilkesboro, 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 Wilkesboro 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* which 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 Wilkesboro 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.

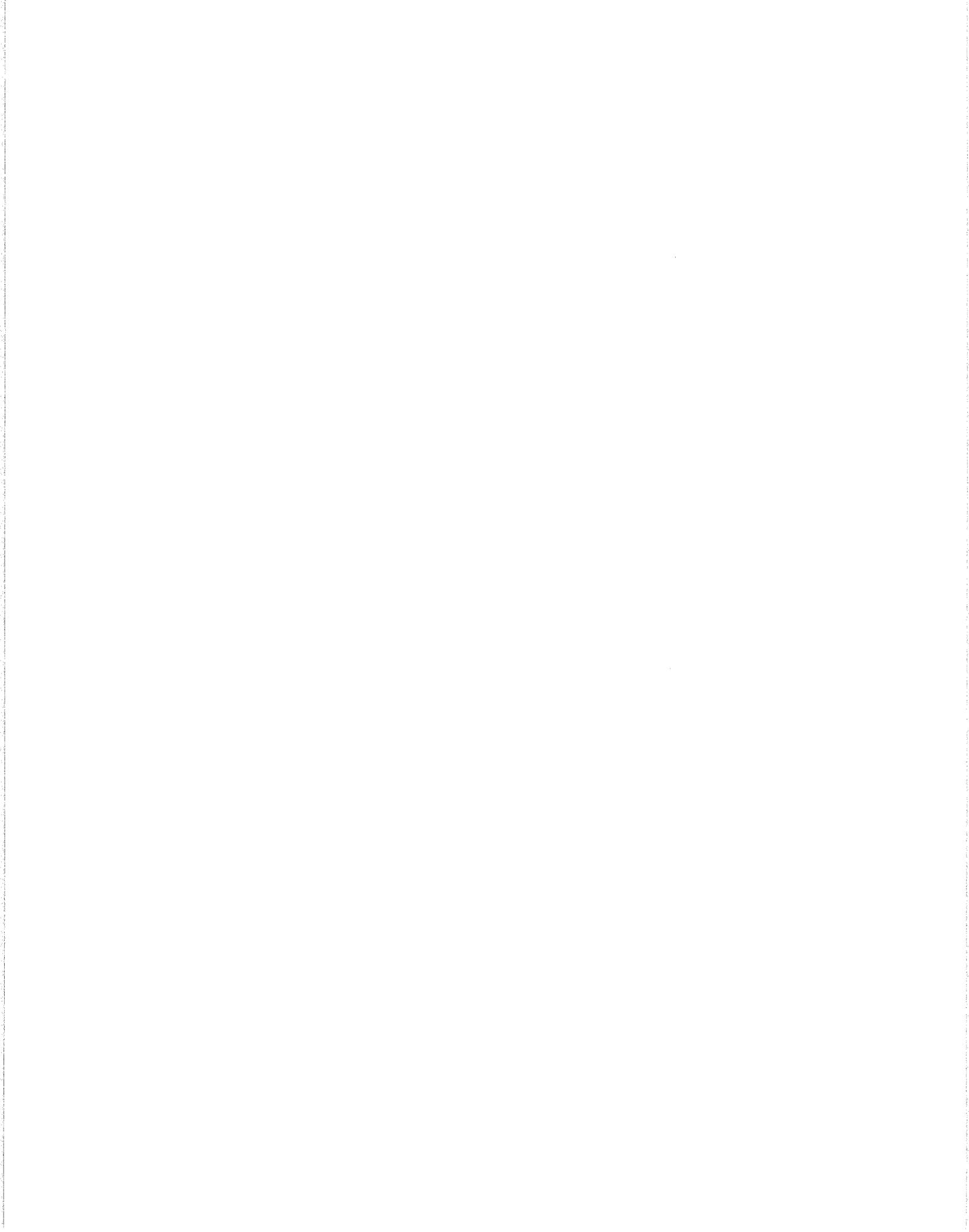
Proprietary Funds - The Town of Wilkesboro has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Wilkesboro uses an enterprise fund to account for its water and sewer activity. This fund is the same as that function shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

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 20-35 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 Wilkesboro's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 36 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2004, are the beginning of a new era in financial reporting for the Town of Wilkesboro and many other units of government across the United States. Prior to this year, the Town of Wilkesboro maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the Town of Wilkesboro. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.



The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the Town of Wilkesboro's financial reports as well as those of many other units of government. While the Town of Wilkesboro was required to implement these changes for the fiscal year ended June 30, 2004, other units were required to implement Statement 34 in 2002 and 2003, and any remaining governments will have implemented in 2004.

Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are accessible, they have been included, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

Town of Wilkesboro's Net Assets

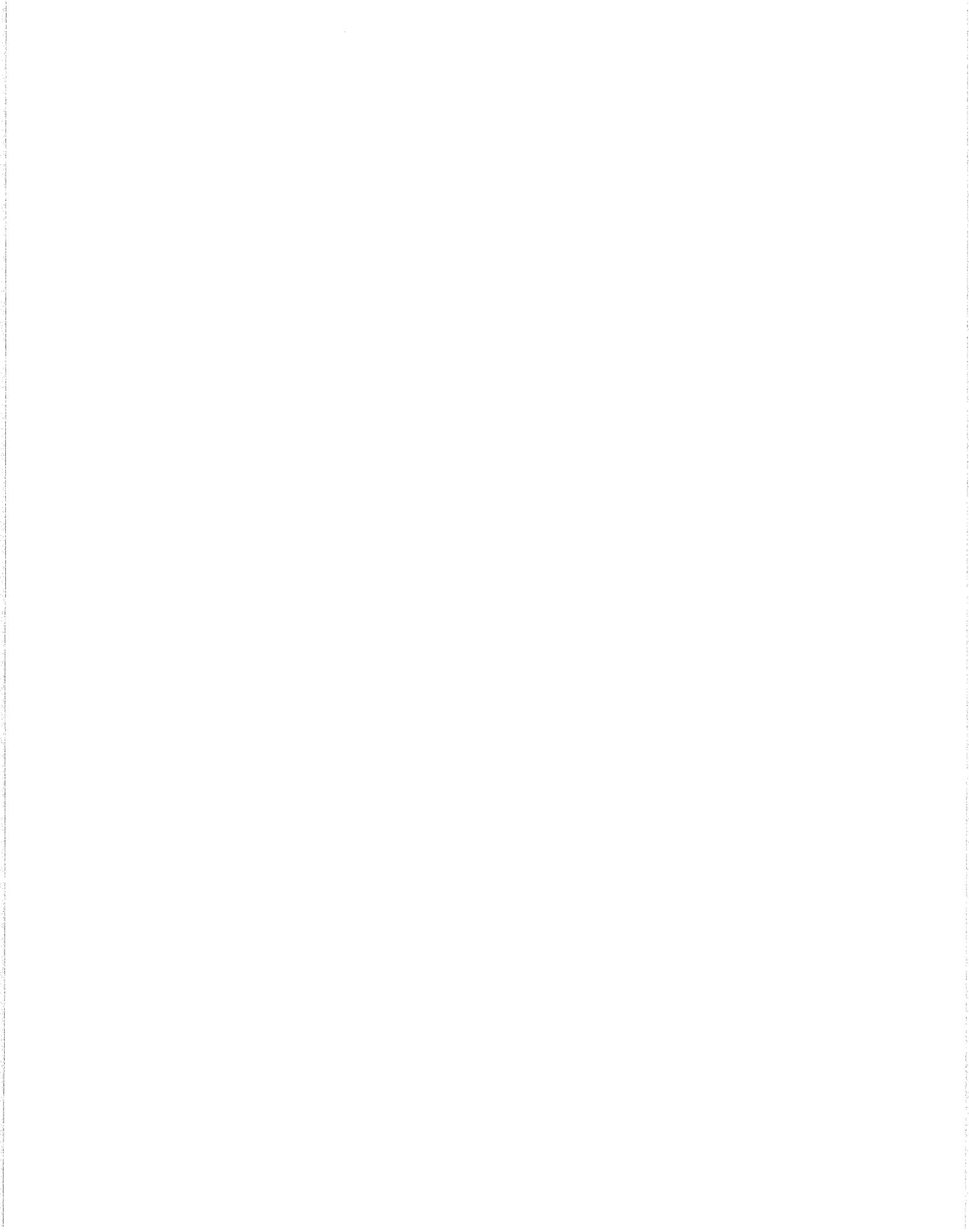
Figure 2

	<u>Governmental Activities 2004</u>	<u>Business-Type Activities 2004</u>	<u>Total 2004</u>
Current and other assets	\$ 2,035,204	\$ 4,853,196	\$ 6,888,400
Capital assets	3,340,850	16,647,718	19,988,568
Total assets	<u>\$ 5,376,054</u>	<u>\$ 21,500,914</u>	<u>\$ 26,876,968</u>
Long-term liabilities outstanding	\$ 871,524	\$ 4,149,478	\$ 5,021,002
Other liabilities	204,622	341,963	546,585
Total liabilities	<u>\$ 1,076,146</u>	<u>\$ 4,491,441</u>	<u>\$ 5,567,587</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 2,561,069	\$ 16,109,419	\$ 18,670,488
Restricted	212,888	-	212,888
Unrestricted	<u>1,525,951</u>	<u>900,054</u>	<u>2,426,005</u>
Total net assets	<u>\$ 4,299,908</u>	<u>\$ 17,009,473</u>	<u>\$ 21,309,381</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Wilkesboro exceeded liabilities by \$21,309,381 as of June 30, 2004. The Town's net assets decreased by \$78,998 for the fiscal year ended June 30, 2004. However, the largest portion (87.6%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Wilkesboro uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Wilkesboro'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 Wilkesboro's net assets \$212,888 (1.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,426,005 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.70%, which is comparable to the statewide average of 97.10%.
- Increased property tax revenues of approximately \$228,000 due to increases in property valuations.



Town of Wilkesboro Changes in Net Assets

Figure 3

	<u>Governmental Activities 2004</u>	<u>Business-Type Activities 2004</u>	<u>Total 2004</u>
Revenues:			
Program revenues:			
Charges for services	\$ 47,210	\$ 2,634,122	\$ 2,681,332
Operating grants and contributions	233,434	-	233,434
Capital grants and contributions	-	100,000	100,000
General revenues:			
Property taxes	1,913,197	-	1,913,197
Other taxes	1,218,922	-	1,218,922
Other	<u>196,682</u>	<u>126,935</u>	<u>323,617</u>
Total revenues	<u>\$ 3,609,445</u>	<u>\$ 2,861,057</u>	<u>\$ 6,470,502</u>
Expenses:			
General government	\$ 1,021,731	\$ -	\$ 1,021,731
Public safety	1,477,042	-	1,477,042
Highways/streets	674,876	-	674,876
Sanitation	261,880	-	261,880
Culture and recreation	298,688	-	298,688
Interest on long-term debt	34,334	-	34,334
Water and sewer	-	<u>2,780,949</u>	<u>2,780,949</u>
Total expenses	<u>\$ 3,768,551</u>	<u>\$ 2,780,949</u>	<u>\$ 6,549,500</u>
Increase (decrease) in net assets before transfers	\$ (159,106)	\$ 80,108	\$ (78,998)
Transfers	<u>74,724</u>	<u>(74,724)</u>	<u> </u>
Increase (decrease) in net assets	\$ (84,382)	\$ 5,384	\$ (78,998)
Net assets, July 1	<u>4,384,290</u>	<u>17,004,089</u>	<u>21,388,379</u>
Net assets, June 30	<u>\$ 4,299,908</u>	<u>\$ 17,009,473</u>	<u>\$ 21,309,381</u>

Governmental activities: Governmental activities decreased the Town's net assets by \$84,382. Key elements of this decrease are as follows:

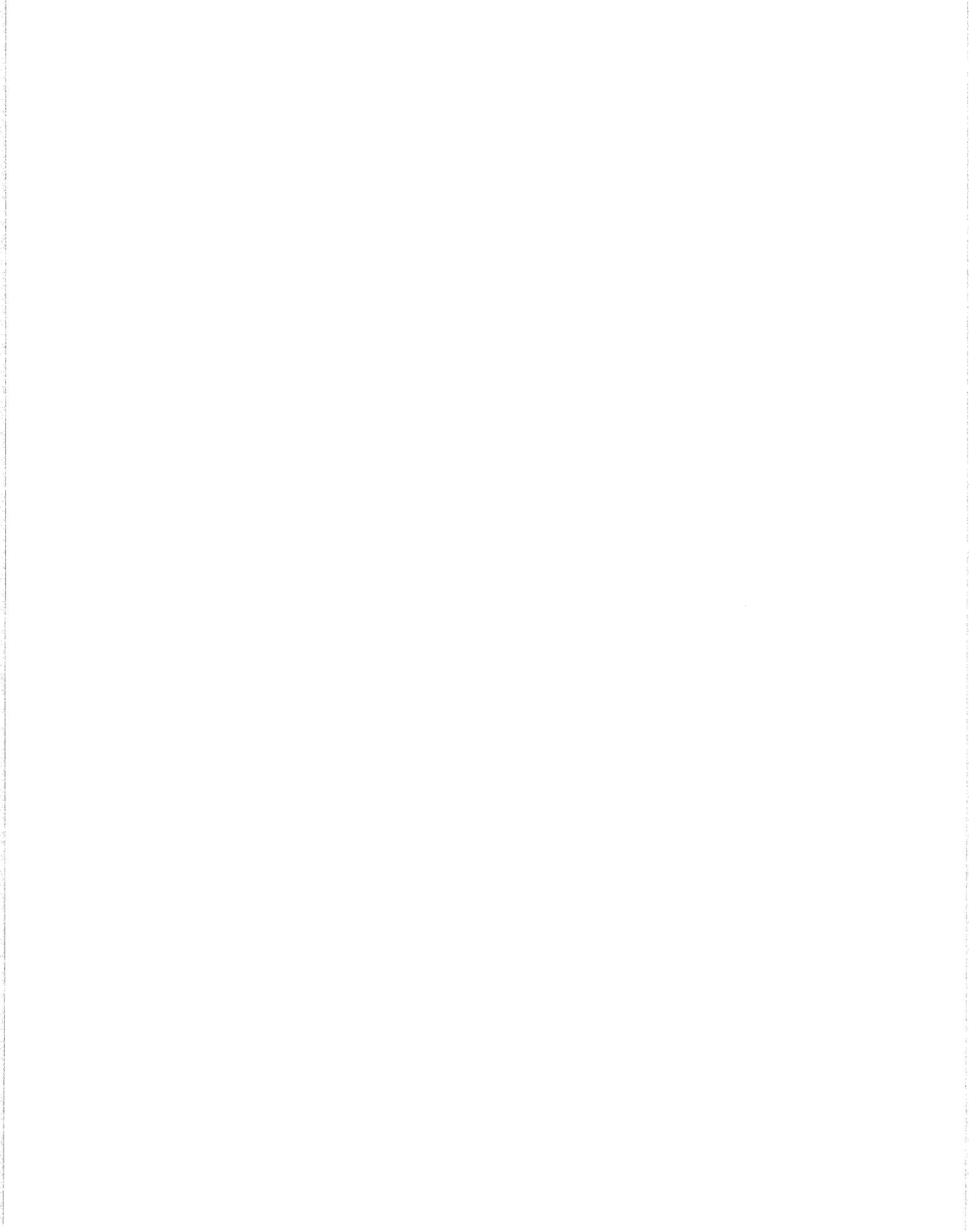
- State shared revenues were less than anticipated.
- Insurance expense increased.

Business-type activities: Business-type activities increased the Town of Wilkesboro's net assets by \$5,384. The key element of this small increase in net assets is the fact that revenues and expenditures remained steady.

Financial Analysis of the Town's Funds

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

Governmental Funds: The focus of the Town of Wilkesboro'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 Wilkesboro's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.



Management Discussion and Analysis
Town of Wilkesboro

The general fund is the chief operating fund of the Town of Wilkesboro. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,117,816, while total fund balance reached \$1,753,329. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 28.4 percent of total General Fund expenditures, while total fund balance represents 44.6 percent of that same amount.

At June 30, 2004, the governmental funds of the Town of Wilkesboro reported a combined fund balance of \$1,756,968, a 6.4 percent decrease over last year. Included in this change is a decrease in the general fund and an increase in the special revenue funds.

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

Revenues were less than the budgeted amounts primarily because some state shared revenues that the Town originally had expected to receive were less than anticipated. However, expenditures were held in check to compensate for the lack of funding and the Town was able to comply with its budgetary requirements.

Proprietary Funds. The Town of Wilkesboro's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$900,054. The total change in net assets was \$5,384. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Wilkesboro's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Wilkesboro's investment in capital assets for its governmental and business-type activities as of June 30, 2004, totals \$19,988,568 (net of accumulated depreciation). These assets include buildings, water and sewer lines, land, machinery and equipment, park facilities, and vehicles.

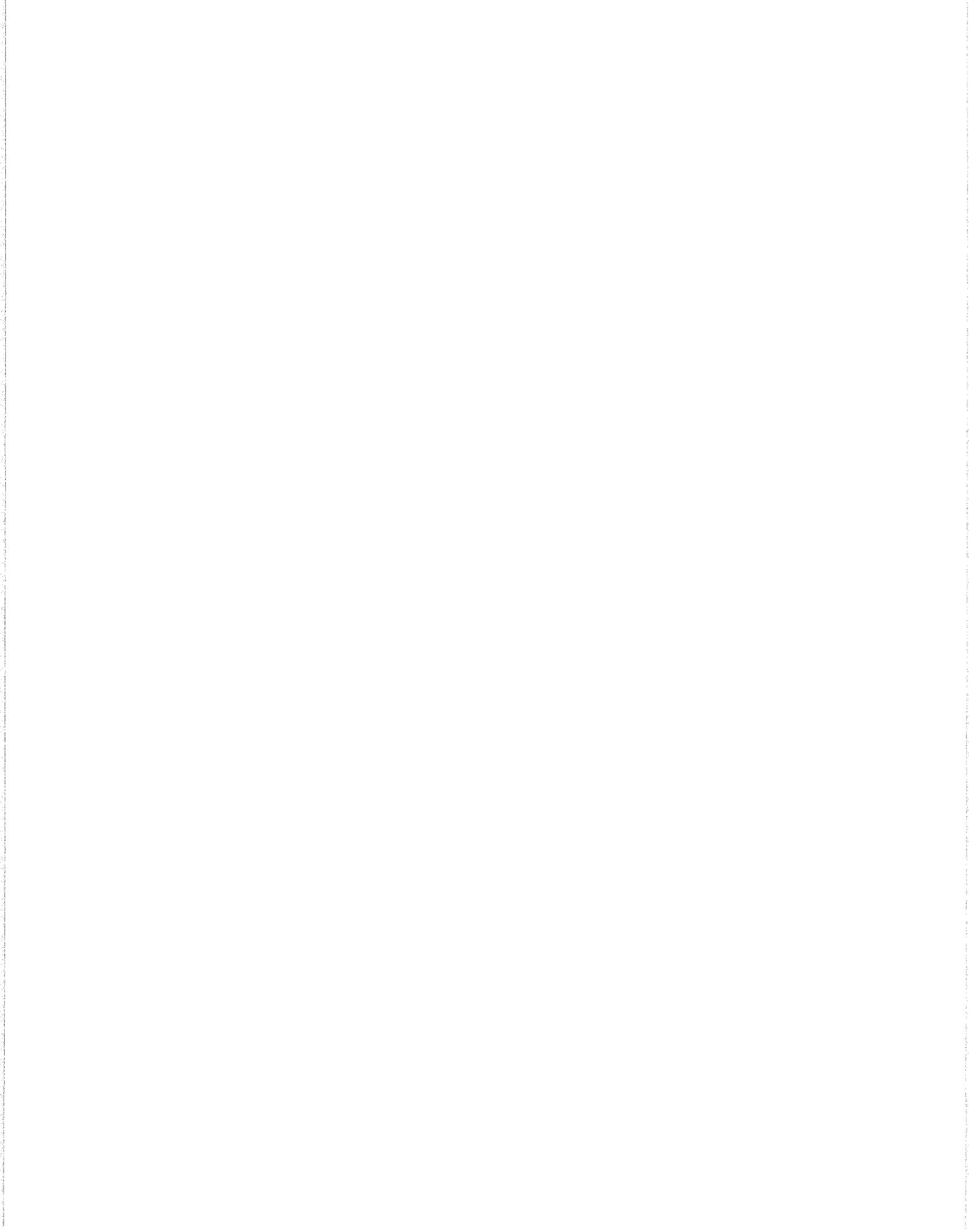
Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Construction in progress for water and sewer capital assets of \$1,882,066.
- Water and sewer capital asset equipment additions of \$225,007.
- General fund capital asset equipment additions of \$251,047.

**The Town of Wilkesboro's Capital Assets
(net of depreciation)**

Figure 4

	<u>Governmental Activities 2004</u>	<u>Business-Type Activities 2004</u>	<u>Total 2004</u>
Land	\$ 753,023	\$ 593,430	\$ 1,346,453
Building and improvements	2,203,161	-	2,203,161
Plant and distribution systems	-	13,382,142	13,382,142
Machinery and equipment	384,666	603,189	987,855
Construction in progress	-	2,068,957	2,068,957
Total	<u>\$ 3,340,850</u>	<u>\$ 16,647,718</u>	<u>\$ 19,988,568</u>



Additional information on the Town's capital assets can be found in note III.A.4. of the Basic Financial Statements.

Long-term Debt. The Town of Wilkesboro's total debt increased by \$4,158,745 (482%) during the current fiscal year. The key factor in this increase was the issuance of promissory notes of \$152,200 for general fund equipment and \$35,800 for water and sewer equipment, as well as the issuance of \$4,100,000 in certificates of participation to finance construction of a two million gallon clear well, construction of water line and sewer line improvements, and acquisition of water lines.

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 the Town of Wilkesboro is \$38,985,289.

Additional information regarding the Town of Wilkesboro's long-term debt can be found in note III.B.4. beginning on page 32 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- The unemployment rate for Wilkes County stands at 6%, which is a 25% decrease from the 8% rate of a year ago.
- The Town currently has only one vacant building within the industrial work zone.
- The development of the US 421 Business district is continuing as projected as indicated by the ongoing purchase of commercial utility taps.

Budget Highlights for the Fiscal Year Ending June 30, 2005

Governmental Activities: Property taxes and state shared revenues are expected to lead the increase in budgeted revenue by 2.1 percent. The Town will use these increases in revenues to finance programs currently in place.

The tax rate will remain at .34 cent per one hundred dollars (\$100) valuation of taxable property.

Budgeted expenditures in the General Fund are expected to decrease approximately 1.1% to \$3,885,727.

The Town will purchase one police car and one Parks and Recreation vehicle in the General Fund.

The Town will shift health insurance premiums into a self-insured program to be operated by a third party administrator. Significant savings are expected to be captured by this change.

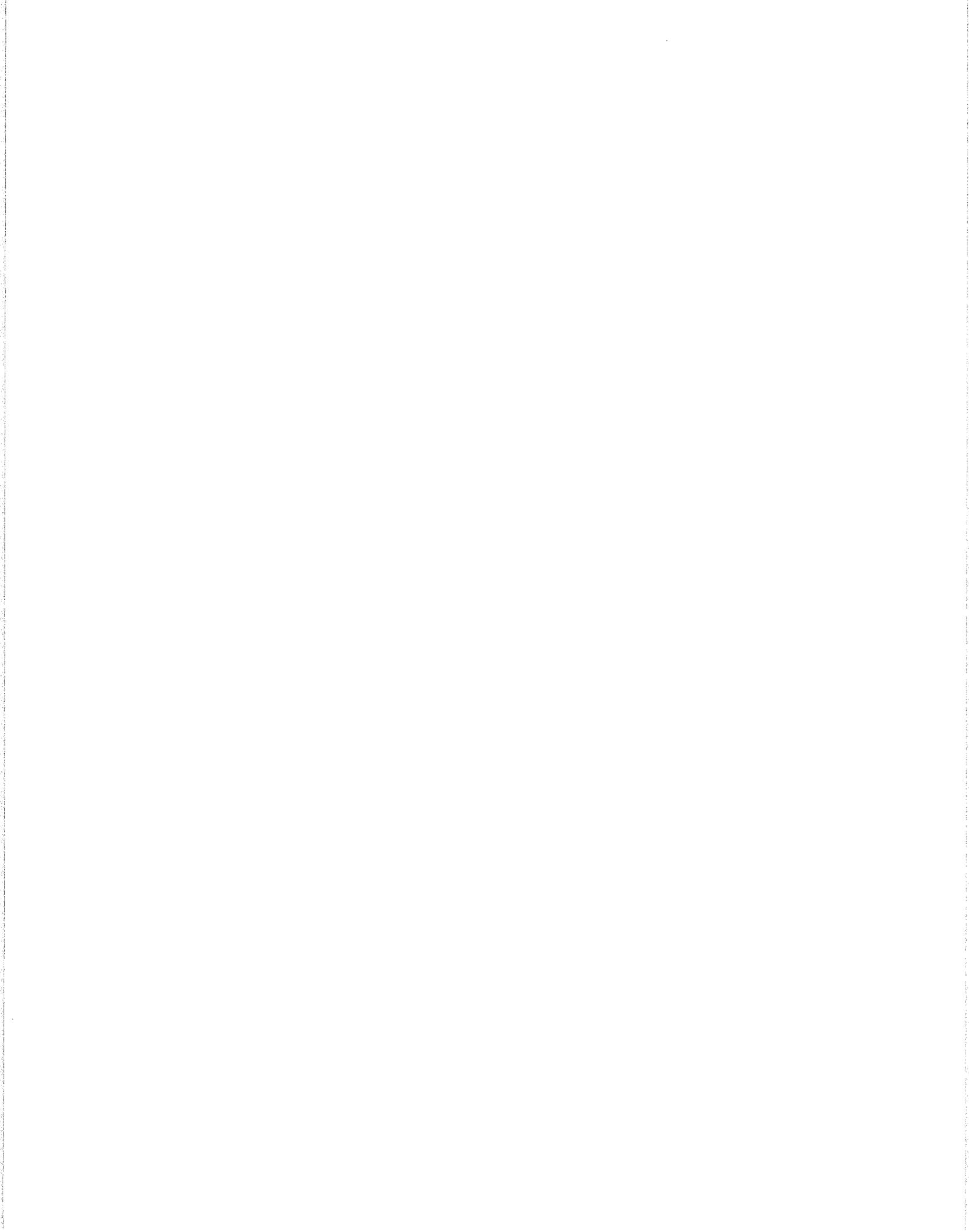
Business-type Activities: The water and sewer fund budget includes rate increases that will primarily allow for the Town to pay the new debt service payments and to cover increased costs of operations. General operating expenses will increase by 5.9% to cover increased costs of personnel, material, supplies, and other operating expenses.

The Town intends to borrow \$4,200,000 for the upgrade of the Town's Waste Treatment Plan. Money has been allocated from the state's revolving loan fund and carries an interest rate of 2.205%.

The Town will continue its ongoing maintenance of capital assets by painting two water tanks at a cost of \$135,000.

Requests for Information

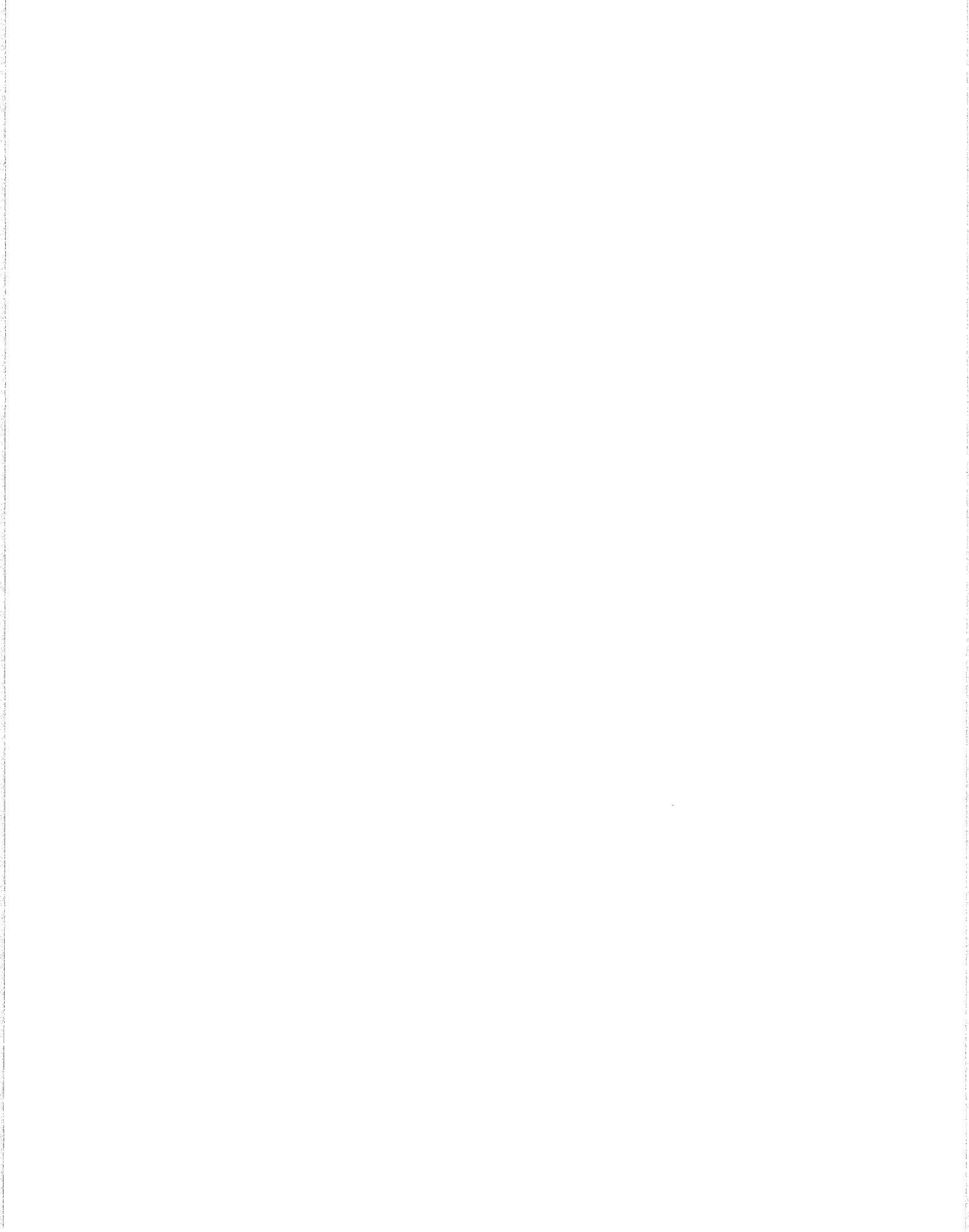
This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Wilkesboro, 203 West Main Street, Wilkesboro, NC 28697.



TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government			Wilkesboro Tourism Development, Convention, and Visitors Bureau	Wilkesboro ABC Board
	Governmental Activities	Business-type Activities	Total		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,536,445	\$ 354,310	\$ 1,890,755	\$ 112,717	\$ 219,496
Taxes receivables (net)	73,614	-	73,614	-	-
Accounts receivable	25,449	252,165	277,614	-	-
Due from other governments	371,096	43,786	414,882	-	-
Due from component units	28,600	-	28,600	-	-
Due from primary government	-	-	-	33,884	-
Inventories	-	346,680	346,680	-	160,147
Prepaid items	-	-	-	-	2,454
Total current assets	\$ 2,035,204	\$ 996,941	\$ 3,032,145	\$ 146,601	\$ 382,097
Restricted assets:					
Cash and cash equivalents	\$ -	\$ 3,856,255	\$ 3,856,255	\$ -	\$ -
Capital assets (Note 1):					
Land, non-depreciable improvements, and construction in progress	\$ 753,023	\$ 2,662,387	\$ 3,415,410	\$ -	\$ 11,600
Other capital assets, net of depreciation	2,587,827	13,985,331	16,573,158	-	40,814
Total capital assets	\$ 3,340,850	\$ 16,647,718	\$ 19,988,568	\$ -	\$ 52,414
Total assets	\$ 5,376,054	\$ 21,500,914	\$ 26,876,968	\$ 146,601	\$ 434,511
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 99,924	\$ 60,201	\$ 160,125	\$ -	\$ 48,829
Unearned revenue	70,814	-	70,814	-	-
Customer deposits	-	23,008	23,008	-	-
Due to primary government	-	-	-	-	28,600
Due to other governments	-	-	-	-	37,204
Due to component units	33,884	-	33,884	-	-
Payable from restricted assets	-	258,754	258,754	-	-
Long-term liabilities:					
Due within one year	156,265	218,233	374,498	-	-
Due in more than one year	715,259	3,931,245	4,646,504	-	-
Total liabilities	\$ 1,076,146	\$ 4,491,441	\$ 5,567,587	\$ -	\$ 114,633
NET ASSETS					
Invested in capital assets, net of related debt	\$ 2,561,069	\$ 16,109,419	\$ 18,670,488	\$ -	\$ 52,414
Restricted for:					
Transportation	209,619	-	209,619	-	-
Public safety	3,269	-	3,269	-	-
Other purposes	-	-	-	-	267,464
Unrestricted	1,525,951	900,054	2,426,005	146,601	-
Total net assets	\$ 4,299,908	\$ 17,009,473	\$ 21,309,381	\$ 146,601	\$ 319,878

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

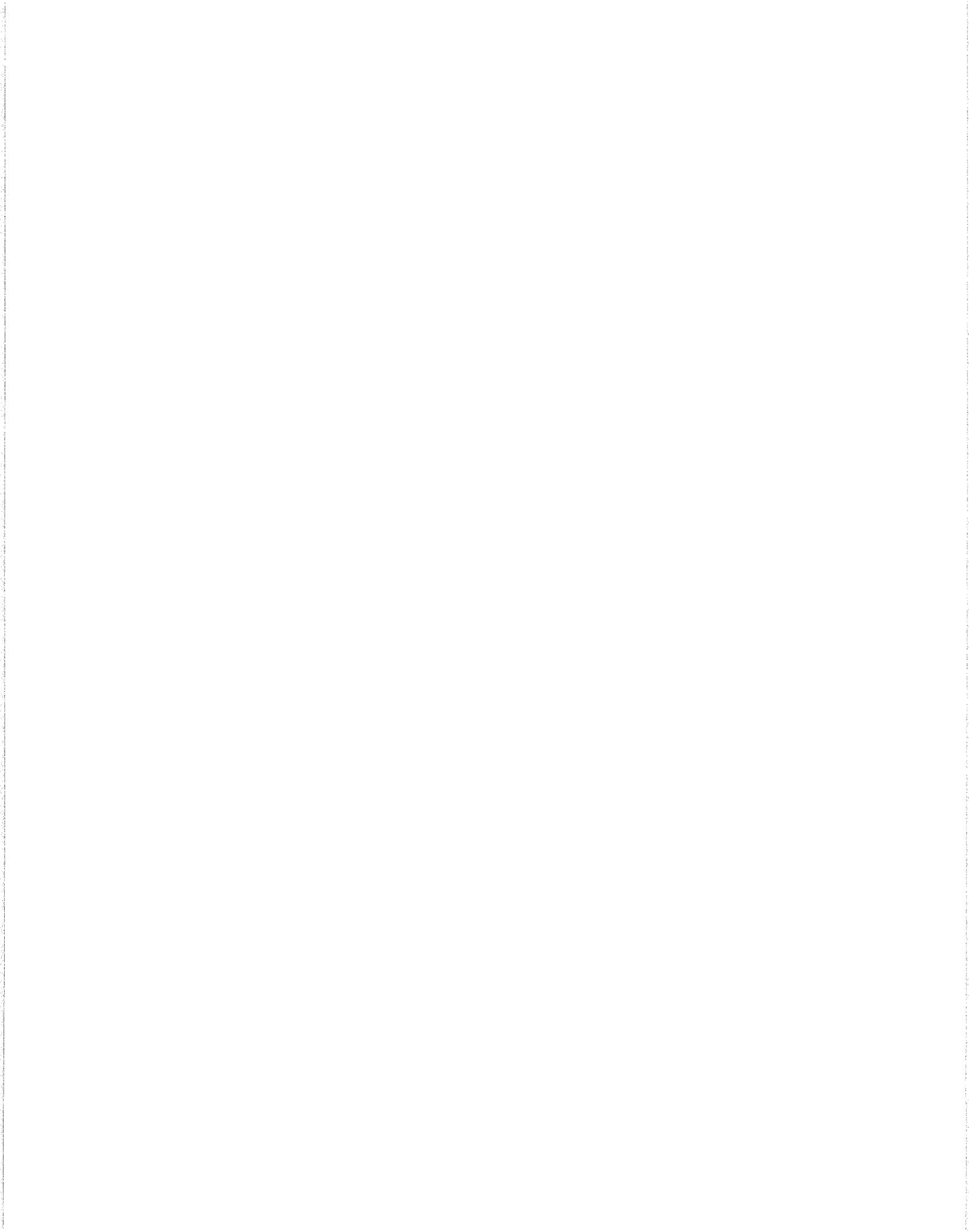


TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,021,731	\$ 34,733	\$ -	\$ -
Public safety	1,477,042	5,157	124,224	-
Transportation	674,876	-	109,121	-
Environmental protection	261,880	-	-	-
Cultural and recreation	298,688	7,320	89	-
Interest on long-term debt	34,334	-	-	-
Total governmental activities (See Note 1)	\$ 3,768,551	\$ 47,210	\$ 233,434	\$ -
Business-type activities:				
Water and sewer	\$ 2,780,949	\$ 2,634,122	\$ -	\$ 100,000
Total business-type activities	\$ 2,780,949	\$ 2,634,122	\$ -	\$ 100,000
Total primary government	\$ 6,549,500	\$ 2,681,332	\$ 233,434	\$ 100,000
Component units:				
Wilkesboro Tourism Development, Convention, and Visitors Bureau	\$ 85,910	\$ -	\$ -	\$ -
Wilkesboro ABC Board	1,187,670	1,185,495	-	-
Total component unit	\$ 1,273,580	\$ 1,185,495	\$ -	\$ -

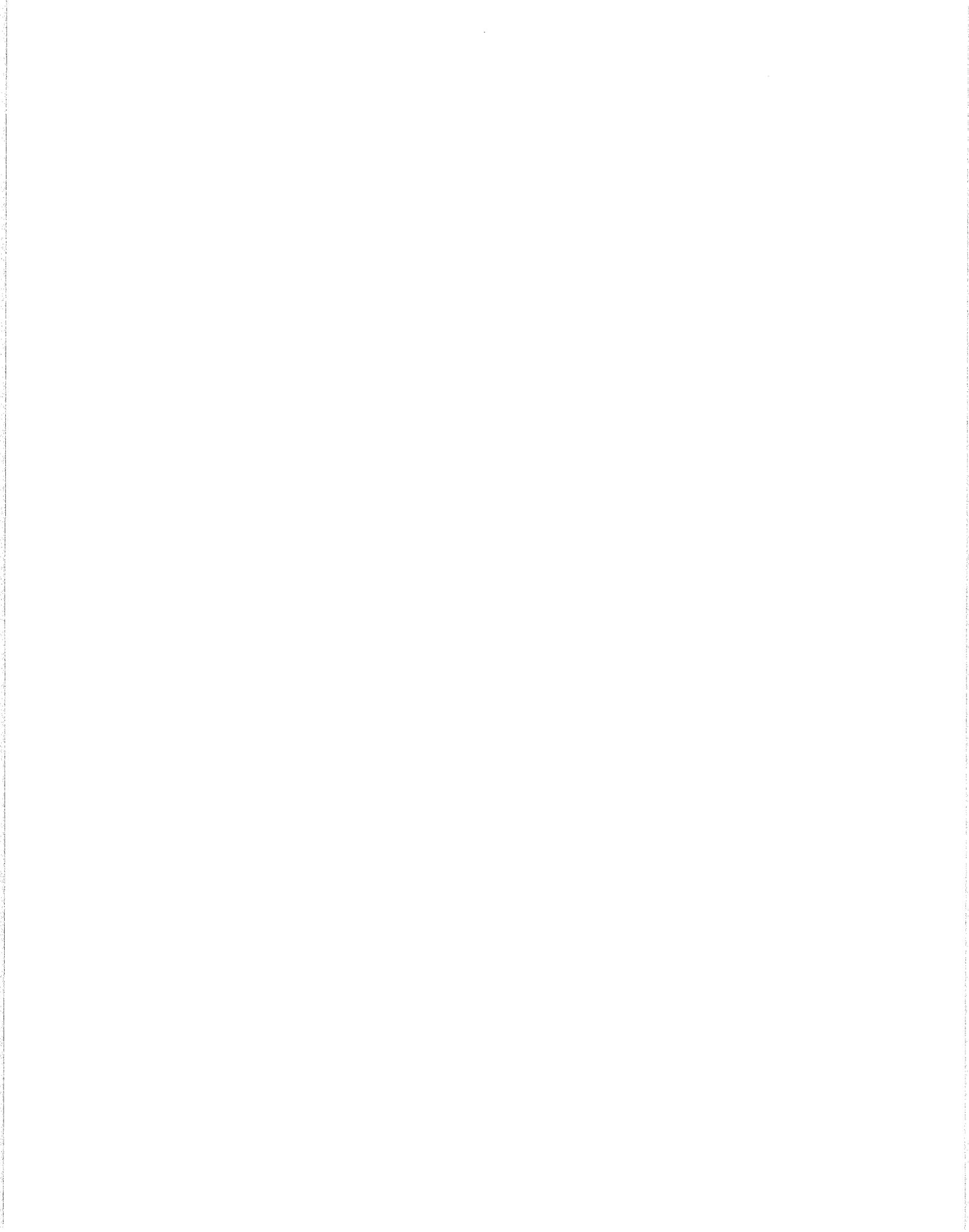
The notes to the financial statements are an integral part of this statement.



TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Functions/Programs	Primary Government			Wilkesboro Tourism Development, Convention, and Visitors Bureau	Wilkesboro ABC Board
	Governmental Activities	Business-type Activities	Total		
Primary government:					
Governmental Activities:					
General government	\$ (986,998)	\$ -	\$ (986,998)	\$ -	\$ -
Public safety	(1,347,661)	-	(1,347,661)	-	-
Transportation	(565,755)	-	(565,755)	-	-
Environmental protection	(261,880)	-	(261,880)	-	-
Cultural and recreation	(291,279)	-	(291,279)	-	-
Interest on long-term debt	(34,334)	-	(34,334)	-	-
Total governmental activities (See Note 1)	\$ (3,487,907)	\$ -	\$ (3,487,907)	\$ -	\$ -
Business-type activities:					
Water and sewer	\$ -	\$ (46,827)	\$ (46,827)	-	-
Total business-type activities	\$ -	\$ (46,827)	\$ (46,827)	-	-
Total primary government	\$ (3,487,907)	\$ (46,827)	\$ (3,534,734)	-	-
Component units:					
Wilkesboro Tourism Development, Convention, and Visitors Bureau	-	-	-	\$ (85,910)	\$ -
Wilkesboro ABC Board	-	-	-	-	(2,175)
Total component unit	-	-	-	\$ (85,910)	\$ (2,175)
General revenues:					
Taxes:					
Property taxes, levied for general purpose	\$ 1,913,197	\$ -	\$ 1,913,197	\$ -	\$ -
Other taxes	1,218,922	-	1,218,922	-	-
Occupancy tax	-	-	-	119,998	-
Unrestricted investment earnings	9,950	19,937	29,887	1,043	974
Miscellaneous	186,732	106,998	293,730	-	-
Transfers	74,724	(74,724)	-	-	-
Total general revenues and transfers	\$ 3,403,525	\$ 52,211	\$ 3,455,736	\$ 121,041	\$ 974
Change in net assets	\$ (84,382)	\$ 5,384	\$ (78,998)	\$ 35,131	\$ (1,201)
Net assets, beginning	4,384,290	17,004,089	21,388,379	111,470	321,079
Net assets, ending	\$ 4,299,908	\$ 17,009,473	\$ 21,309,381	\$ 146,601	\$ 319,878

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



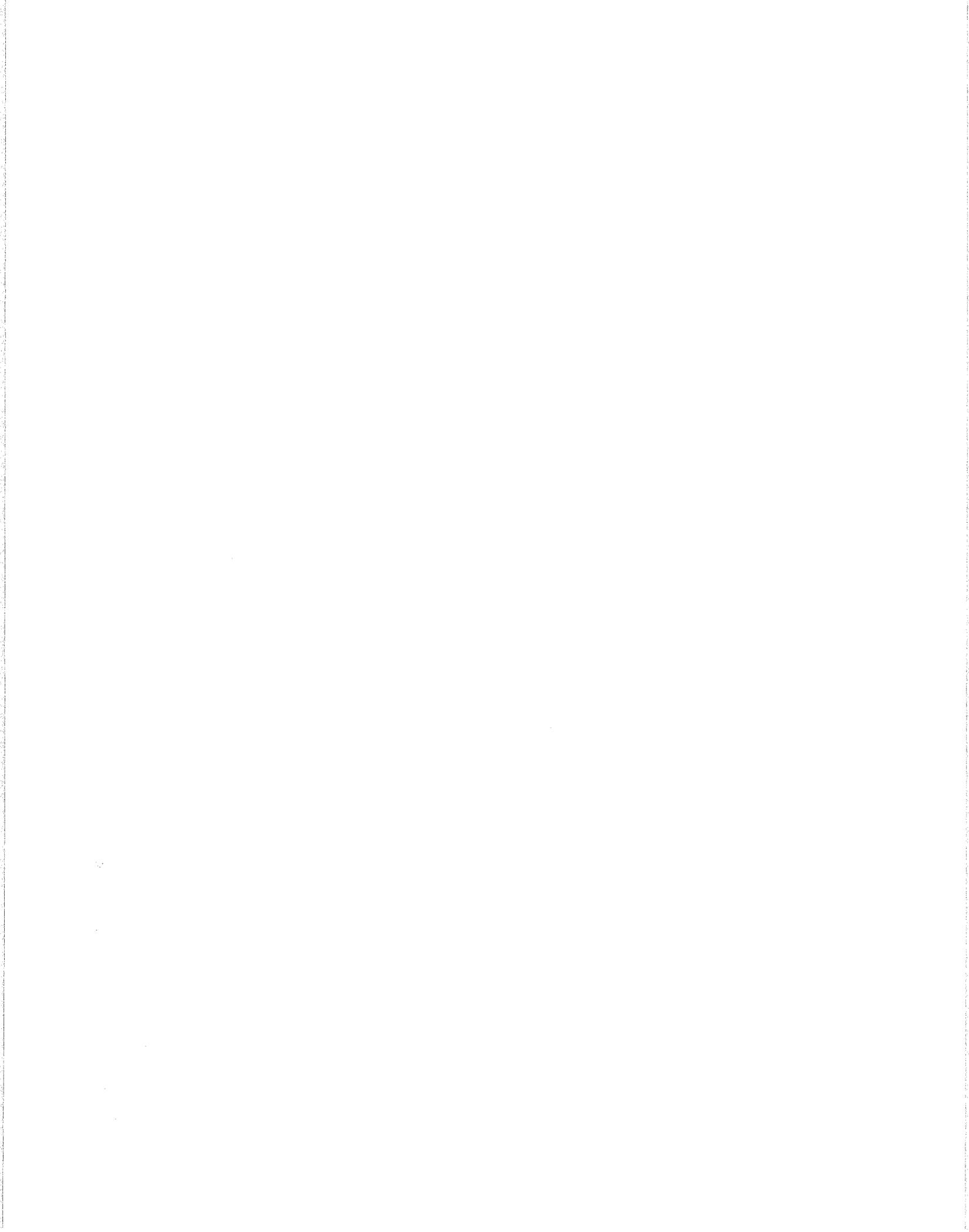
TOWN OF WILKESBORO, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	Major Funds		
	General	Total Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,461,422	\$ 75,023	\$ 1,536,445
Receivables, net:			
Taxes	73,614	-	73,614
Accounts	25,449	-	25,449
Due from other governments	371,096	-	371,096
Due from component unit	28,600	-	28,600
Total assets	<u>\$ 1,960,181</u>	<u>\$ 75,023</u>	<u>\$ 2,035,204</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 78,912	\$ 21,012	\$ 99,924
Due to component unit	33,884	-	33,884
Deferred revenue	73,614	-	73,614
Unearned revenue	20,442	50,372	70,814
Total liabilities	<u>\$ 206,852</u>	<u>\$ 71,384</u>	<u>\$ 278,236</u>
Fund balances:			
Reserved for:			
State statute	\$ 422,625	\$ -	\$ 422,625
Streets-Powell bill	209,619	-	209,619
Drug crime prevention	3,269	-	3,269
Unreserved:			
Designated for subsequent year's expenditures	320,137	-	320,137
Undesignated	797,679	-	797,679
Unreserved, reported in non-major:			
Special Revenue funds	-	3,639	3,639
Total fund balances	<u>\$ 1,753,329</u>	<u>\$ 3,639</u>	<u>\$ 1,756,968</u>
Total liabilities and fund balances	<u>\$ 1,960,181</u>	<u>\$ 75,023</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.	3,340,850
Liabilities for earned but deferred revenues in fund statements.	73,614
Some liabilities, including promissory notes, are not due and payable in the current period and therefore are not reported in the funds (Note 1).	<u>\$ (871,524)</u>
Net assets of governmental activities	<u>\$ 4,299,908</u>

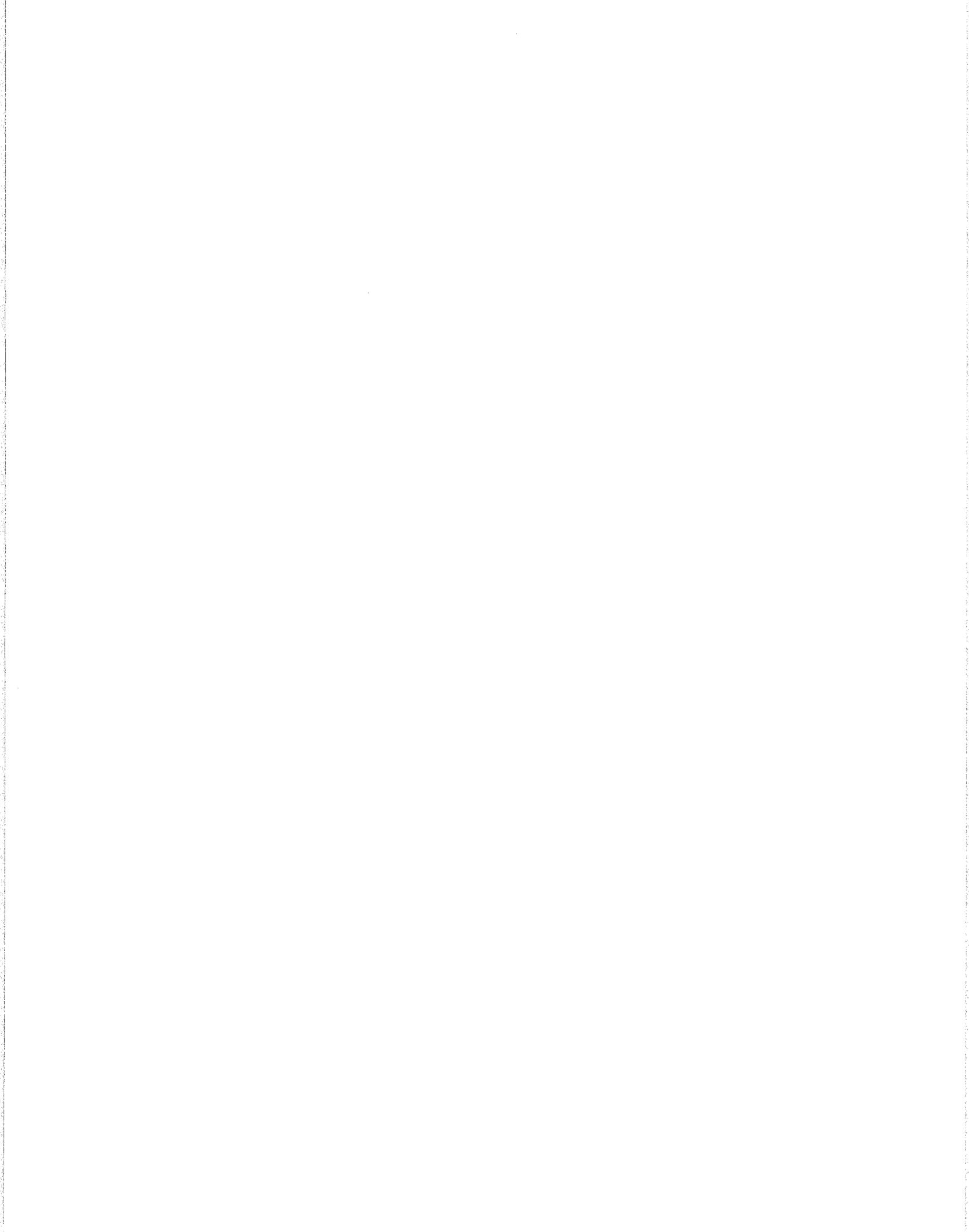
The notes to the financial statements are an integral part of this statement.



TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Major Funds		Total Governmental Funds
	General Fund	Total Non-Major Funds	
REVENUES			
Ad valorem taxes	\$ 1,906,263	\$ -	\$ 1,906,263
Other taxes and licenses	14,067	-	14,067
Unrestricted intergovernmental	1,125,569	-	1,125,569
Restricted intergovernmental	361,460	89	361,549
Permits and fees	37,054	-	37,054
Sales and services	44,350	-	44,350
Investment earnings	9,950	-	9,950
Miscellaneous	79,058	24,651	103,709
Total revenues	<u>\$ 3,577,771</u>	<u>\$ 24,740</u>	<u>\$ 3,602,511</u>
EXPENDITURES			
Current:			
General government	\$ 979,914	\$ -	\$ 979,914
Public safety	1,404,644	-	1,404,644
Transportation	676,788	-	676,788
Environmental protection	342,574	-	342,574
Culture and recreation	335,178	21,101	356,279
Debt service:			
Principal	155,556	-	155,556
Interest and other charges	34,334	-	34,334
Total expenditures	<u>\$ 3,928,988</u>	<u>\$ 21,101</u>	<u>\$ 3,950,089</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (351,217)</u>	<u>\$ 3,639</u>	<u>\$ (347,578)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	\$ 74,724	\$ -	\$ 74,724
Proceeds from issuance of debt	152,200	-	152,200
Total other financing sources (uses)	<u>\$ 226,924</u>	<u>\$ -</u>	<u>\$ 226,924</u>
Net change in fund balance	<u>\$ (124,293)</u>	<u>\$ 3,639</u>	<u>\$ (120,654)</u>
Fund balances, beginning as previously reported	\$ 1,791,089	\$ -	\$ 1,791,089
Prior period adjustment (Note III. D.)	86,533	-	86,533
Fund balances, beginning as restated	<u>\$ 1,877,622</u>	<u>\$ -</u>	<u>\$ 1,877,622</u>
Fund balances, ending	<u>\$ 1,753,329</u>	<u>\$ 3,639</u>	<u>\$ 1,756,968</u>

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

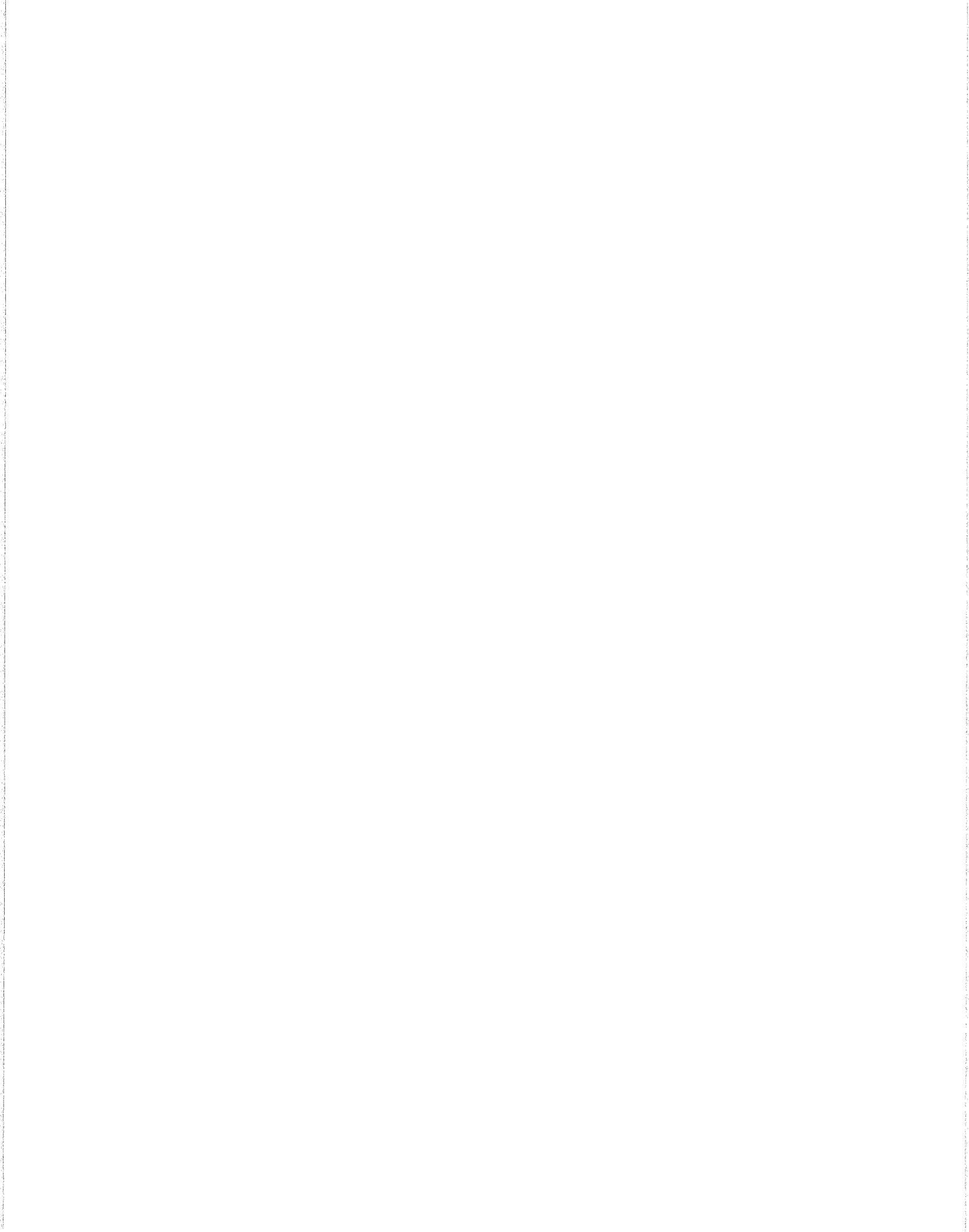


TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

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

Net changes in fund balances - total governmental funds	\$ (120,654)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	51,259
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	6,934
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. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,356
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	(6,450)
Net pension obligation	<u>(18,827)</u>
Total changes in net assets of governmental activities	<u>\$ (84,382)</u>

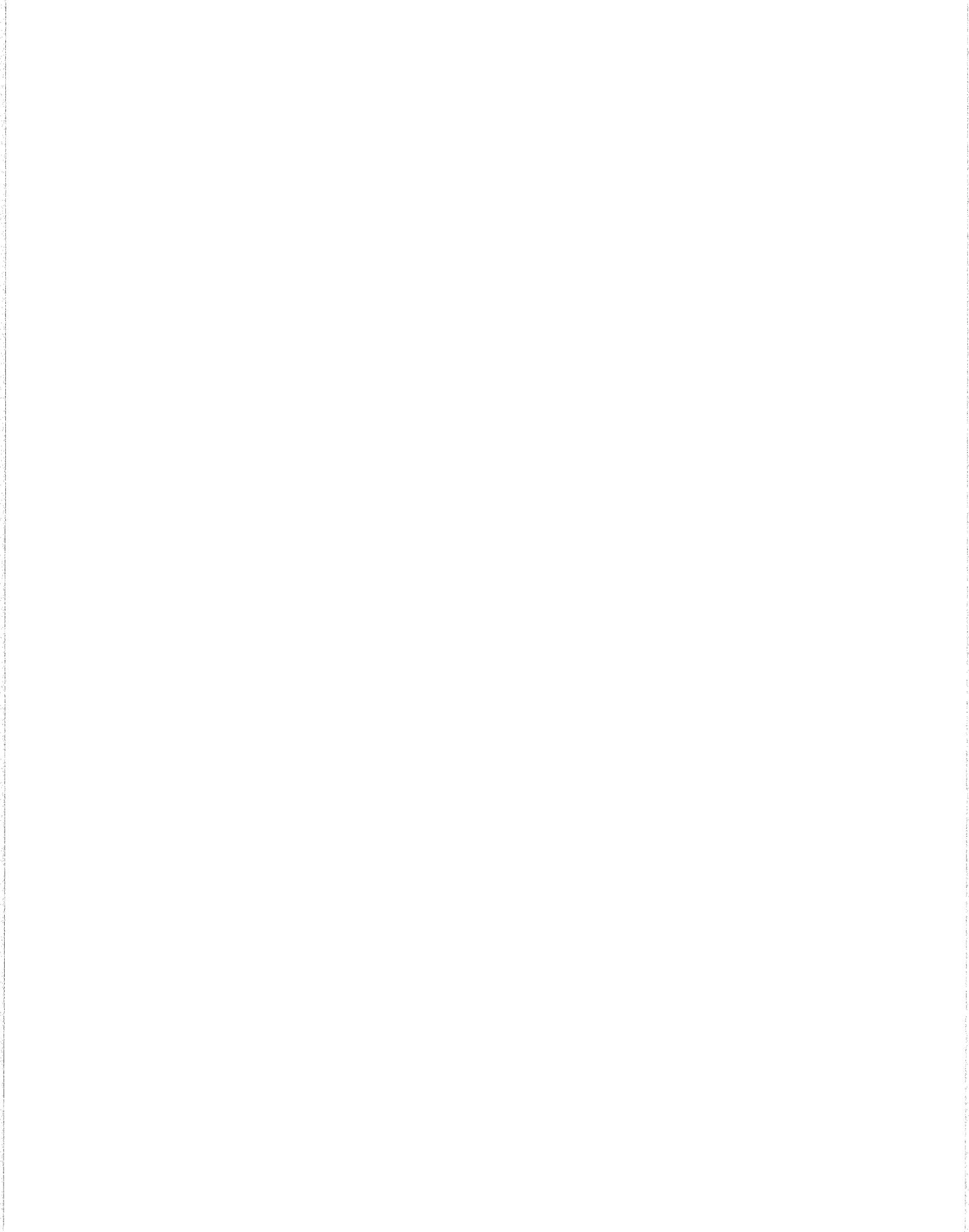
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TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2004

	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,813,000	\$ 1,813,000	\$ 1,906,263	\$ 93,263
Other taxes and licenses	13,000	13,000	14,067	1,067
Unrestricted intergovernmental	1,223,300	1,223,300	1,125,569	(97,731)
Restricted intergovernmental	382,625	483,702	361,460	(122,242)
Permits and fees	37,300	37,300	37,054	(246)
Sales and services	46,390	46,390	44,350	(2,040)
Investment earnings	30,000	30,000	9,950	(20,050)
Miscellaneous	31,500	39,267	79,058	39,791
Total revenues	\$ 3,577,115	\$ 3,685,959	\$ 3,577,771	\$ (108,188)
Expenditures:				
Current:				
General government	\$ 1,001,953	\$ 1,031,953	\$ 979,914	\$ 52,039
Public safety	1,510,164	1,464,008	1,404,644	59,364
Transportation	527,560	693,560	676,788	16,772
Environmental protection	233,310	354,510	342,574	11,936
Cultural and recreation	517,000	517,000	335,178	181,822
Debt service:				
Principal retirement	94,591	94,591	155,556	(60,965)
Interest and other charges	32,014	32,014	34,334	(2,320)
Total expenditures	\$ 3,916,592	\$ 4,187,636	\$ 3,928,988	\$ 258,648
Revenues over (under) expenditures	\$ (339,477)	\$ (501,677)	\$ (351,217)	\$ 150,460
Other financing sources (uses):				
Transfers from other funds	\$ 70,000	\$ 70,000	\$ 74,724	\$ 4,724
Proceeds from issuance of debt	-	152,200	152,200	-
Total other financing sources (uses)	\$ 70,000	\$ 222,200	\$ 226,924	\$ 4,724
Revenues and other sources over (under) expenditures and other uses	\$ (269,477)	\$ (279,477)	\$ (124,293)	\$ 155,184
Appropriated fund balance	269,477	279,477	-	(279,477)
Revenues, other sources, and appropriated fund balance over (under) expenditures and other uses	\$ -	\$ -	\$ (124,293)	\$ (124,293)
Fund balances, beginning as previously reported			\$ 1,791,089	
Prior period adjustment			86,533	
Fund balances, beginning as restated			\$ 1,877,622	
Fund balances, ending			\$ 1,753,329	

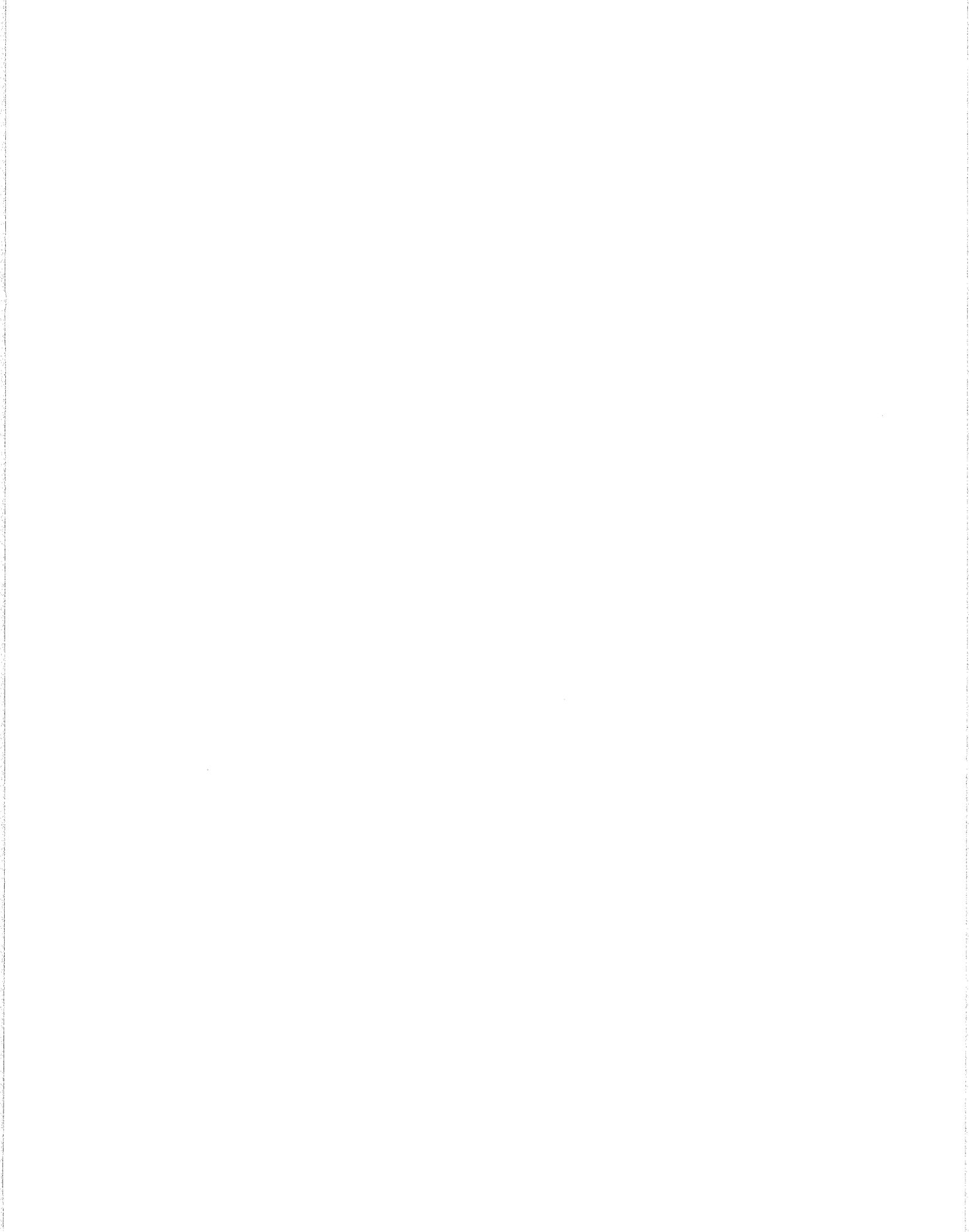
The notes to the financial statements are an integral part of this statement.



TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Major Enterprise Funds	
	Water and Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 354,310	\$ 354,310
Accounts receivable - billed	252,165	252,165
Due from other governments	43,786	43,786
Inventories	346,680	346,680
Total current assets	<u>\$ 996,941</u>	<u>\$ 996,941</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	\$ 3,856,255	\$ 3,856,255
Capital assets:		
Land and other non-depreciable assets	\$ 2,662,387	\$ 2,662,387
Other capital assets, net of depreciation	13,985,331	13,985,331
Capital assets (net)	<u>\$ 16,647,718</u>	<u>\$ 16,647,718</u>
Total noncurrent assets	<u>\$ 20,503,973</u>	<u>\$ 20,503,973</u>
Total assets	<u><u>\$ 21,500,914</u></u>	<u><u>\$ 21,500,914</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 60,201	\$ 60,201
Customer deposits	23,008	23,008
Installment purchase-current	209,624	209,624
Promissory note-current	8,609	8,609
Total current liabilities	<u>\$ 301,442</u>	<u>\$ 301,442</u>
Noncurrent liabilities:		
Liabilities payable from restricted assets:		
Accounts payable	\$ 258,754	\$ 258,754
Other noncurrent liabilities:		
Compensated absences	13,678	13,678
Installment purchase-noncurrent	3,890,376	3,890,376
Promissory note-noncurrent	27,191	27,191
Total noncurrent liabilities	<u>\$ 4,189,999</u>	<u>\$ 4,189,999</u>
Total liabilities	<u>\$ 4,491,441</u>	<u>\$ 4,491,441</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 16,109,419	\$ 16,109,419
Unrestricted	900,054	900,054
Total net assets	<u><u>\$ 17,009,473</u></u>	<u><u>\$ 17,009,473</u></u>

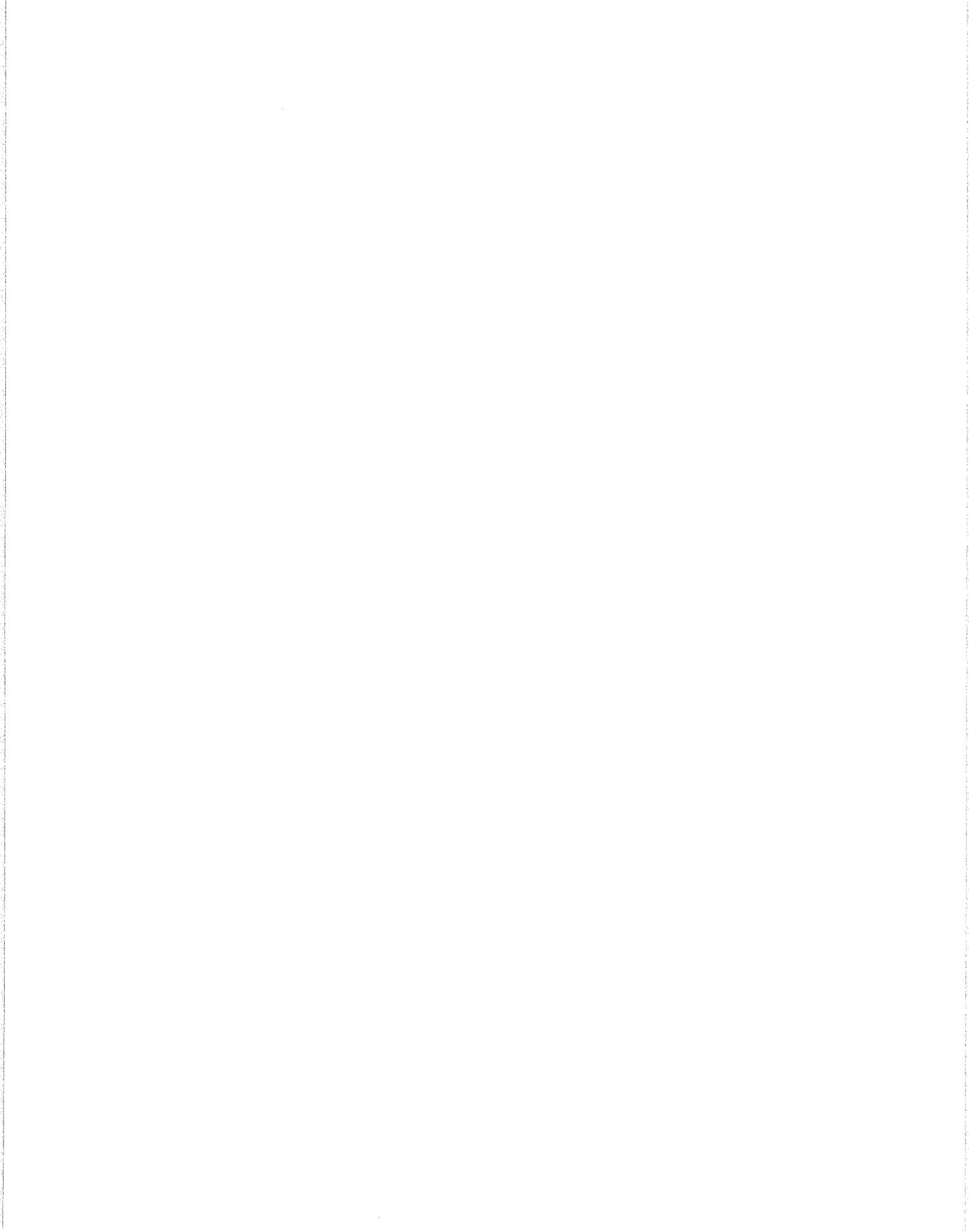
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TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Major Enterprise Funds	
	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 2,564,562	\$ 2,564,562
Water and sewer taps	69,560	69,560
Total operating revenues	\$ 2,634,122	\$ 2,634,122
OPERATING EXPENSES		
Water treatment and distribution	\$ 756,970	\$ 756,970
Waste collection and treatment	828,467	828,467
Maintenance	713,084	713,084
Depreciation	482,428	482,428
Total operating expenses	\$ 2,780,949	\$ 2,780,949
Operating loss	\$ (146,827)	\$ (146,827)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	\$ 19,937	\$ 19,937
Miscellaneous Income	106,998	106,998
Total nonoperating revenue (expenses)	\$ 126,935	\$ 126,935
Loss before contributions and transfers	\$ (19,892)	\$ (19,892)
Capital contributions	100,000	100,000
Transfers to other funds	(74,724)	(74,724)
Total income after contributions and transfers	\$ 5,384	\$ 5,384
Change in net assets	\$ 5,384	\$ 5,384
Total net assets, beginning	17,004,089	17,004,089
Total net assets, ending	\$ 17,009,473	\$ 17,009,473

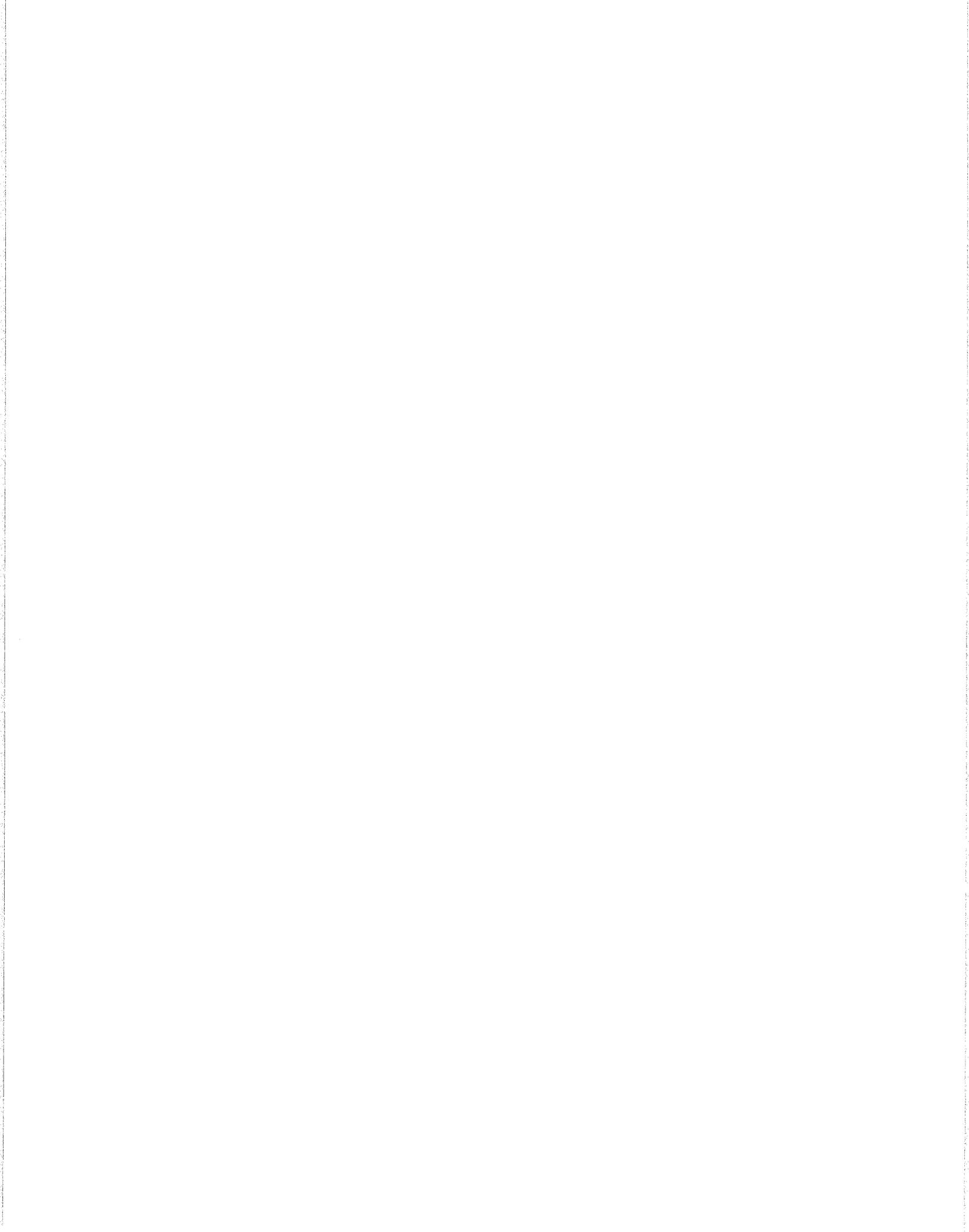
The notes to the financial statements are an integral part of this statement.



TOWN OF WILKESBORO, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2004

	Major Enterprise Funds	
	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,619,357	\$ 2,619,357
Cash paid for goods and services	(1,459,987)	(1,459,987)
Cash paid to or on behalf of employees for services	(1,031,521)	(1,031,521)
Customer deposits received	3,290	3,290
Customer deposits returned	(1,680)	(1,680)
Net cash provided by operating activities	<u>\$ 129,459</u>	<u>\$ 129,459</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	<u>\$ (74,724)</u>	<u>\$ (74,724)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	\$ 4,135,800	\$ 4,135,800
Acquisition and construction of capital assets	(1,848,320)	(1,848,320)
Capital contributions	100,000	100,000
Miscellaneous income	104,884	104,884
Net cash provided by capital and related financing activities	<u>\$ 2,492,364</u>	<u>\$ 2,492,364</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>\$ 19,937</u>	<u>\$ 19,937</u>
Net increase in cash and cash equivalents	\$ 2,567,036	\$ 2,567,036
Balances, beginning	1,643,529	1,643,529
Balances, ending	<u>\$ 4,210,565</u>	<u>\$ 4,210,565</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	<u>\$ (146,827)</u>	<u>\$ (146,827)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	\$ 482,428	\$ 482,428
Changes in assets and liabilities:		
Increase in accounts receivable	(22,460)	(22,460)
Increase in inventory	(210,806)	(210,806)
Increase in accounts payable and accrued liabilities	24,490	24,490
Increase in customer deposits	1,610	1,610
Increase in accrued vacation pay	1,024	1,024
Total adjustments	<u>\$ 276,286</u>	<u>\$ 276,286</u>
Net cash provided by operating activities	<u>\$ 129,459</u>	<u>\$ 129,459</u>

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



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Wilkesboro and its discretely presented component units 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 Wilkesboro is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component units, legally separate entities for which the Town is financially accountable. The two discretely presented component units presented below are reported in separate columns in the Town's financial statements in order to emphasize that they are legally separate from the Town.

Wilkesboro Tourism Development, Convention, and Visitors Bureau

The members of the Tourism Bureau's governing board are appointed by the Town. The Tourism Bureau is to spend the net proceeds of the Town's 3% occupancy tax to promote tourism, conventions, and visitation to the Town of Wilkesboro. The Tourism Bureau, which has a June 30 year-end, is presented as if it were a governmental fund (discrete presentation). Complete financial statements for the Tourism Bureau may be obtained from the entity's administrative office at Wilkesboro Tourism Development, Convention, and Visitors Bureau, 203 West Main Street, Wilkesboro, NC 28697.

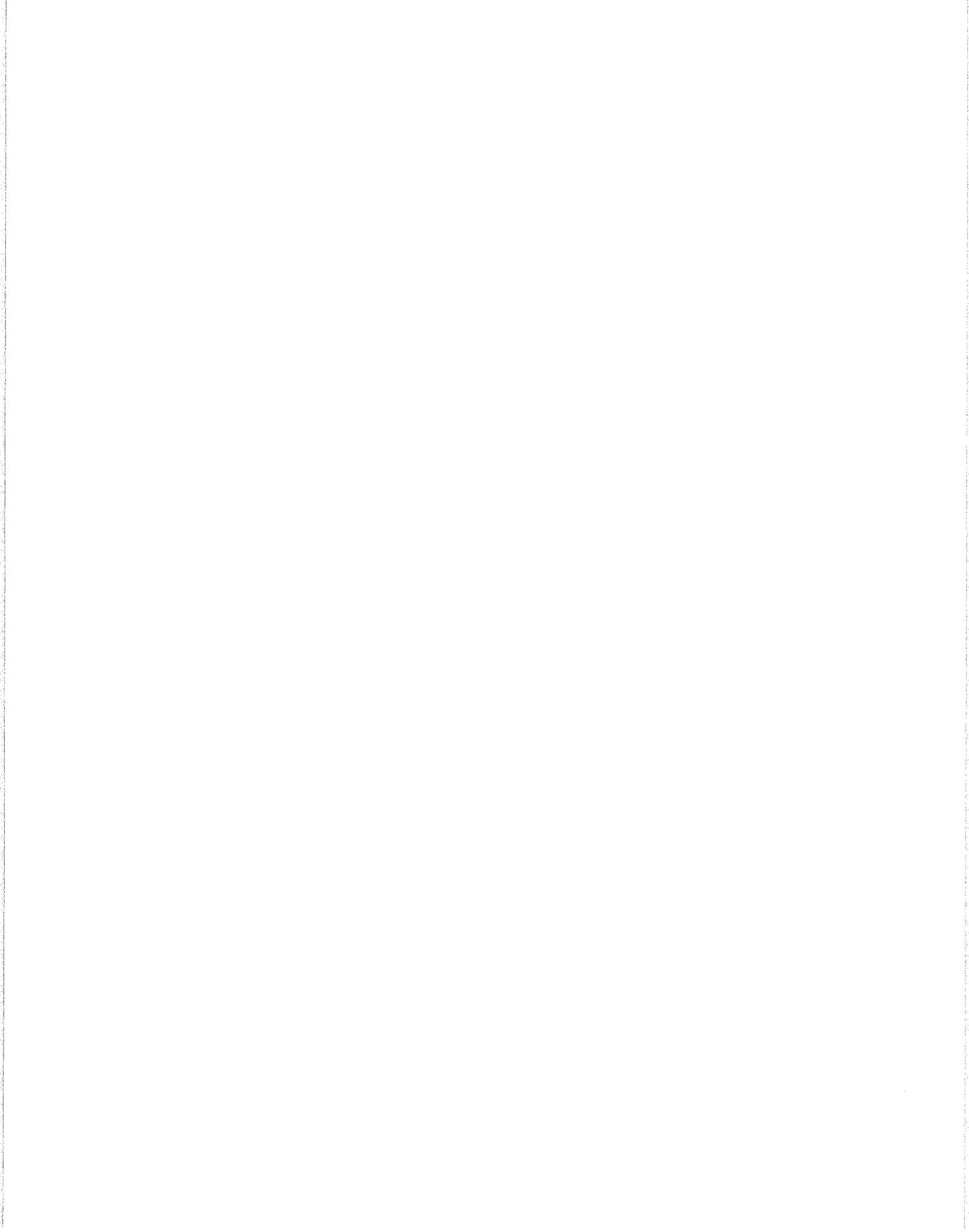
Town of Wilkesboro ABC Board

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 and to other governmental units. 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 Wilkesboro ABC Board, 798 Curtis Bridge Road, Wilkesboro, NC 28697.

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 units. 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.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

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

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

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:

Grant Project Special Revenue Fund. This fund is used to account for grant funds that are restricted for use for a particular purpose.

Heritage Museum Special Revenue Fund. This fund is used to account for collections and disbursements for the Heritage Museum restoration.

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Wilkes 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 Wilkesboro. 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 Wilkes County from March 2003 through February 2004 apply to the fiscal year ended June 30, 2004. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2004 because they are intended to finance the Town's operations during the 2005 fiscal year.

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

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.

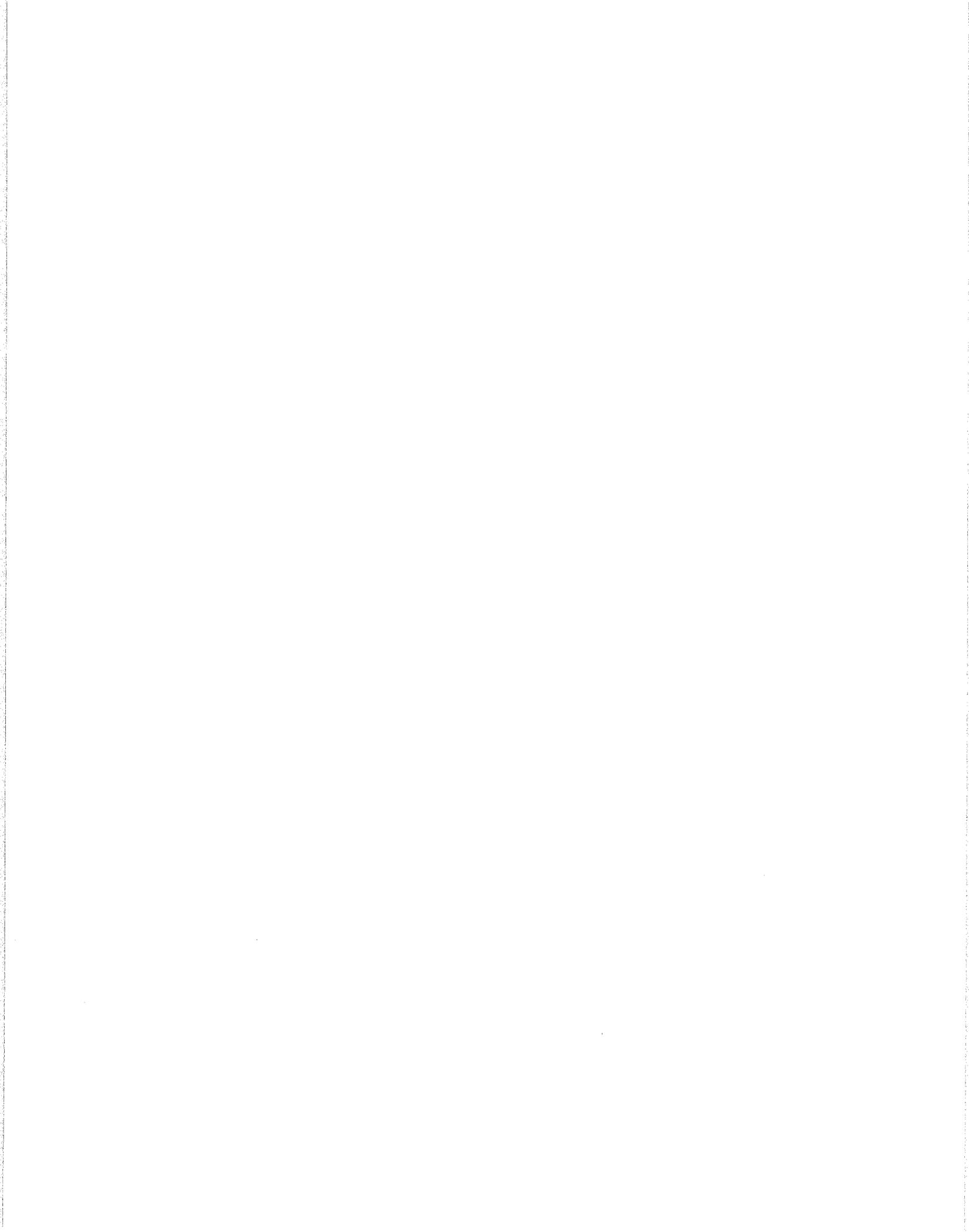
D. Budgetary Data

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 Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Special Revenue Funds and the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. All amendments must be approved by the governing board. During the year, several 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.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Town, the Tourism Bureau, and the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town, the Tourism Bureau, 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, the Tourism Bureau, and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

State law [G.S. 159-30(c)] authorizes the Town, the Tourism Bureau, 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's, the Tourism Bureau's, and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

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

2. Cash and Cash Equivalents

The Town and Tourism Bureau pool money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and 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

The cash in the Water and Sewer Capital Project Fund and the Capital Reserve Fund are classified as a restricted asset because their use is restricted per management designation.

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, 2003.

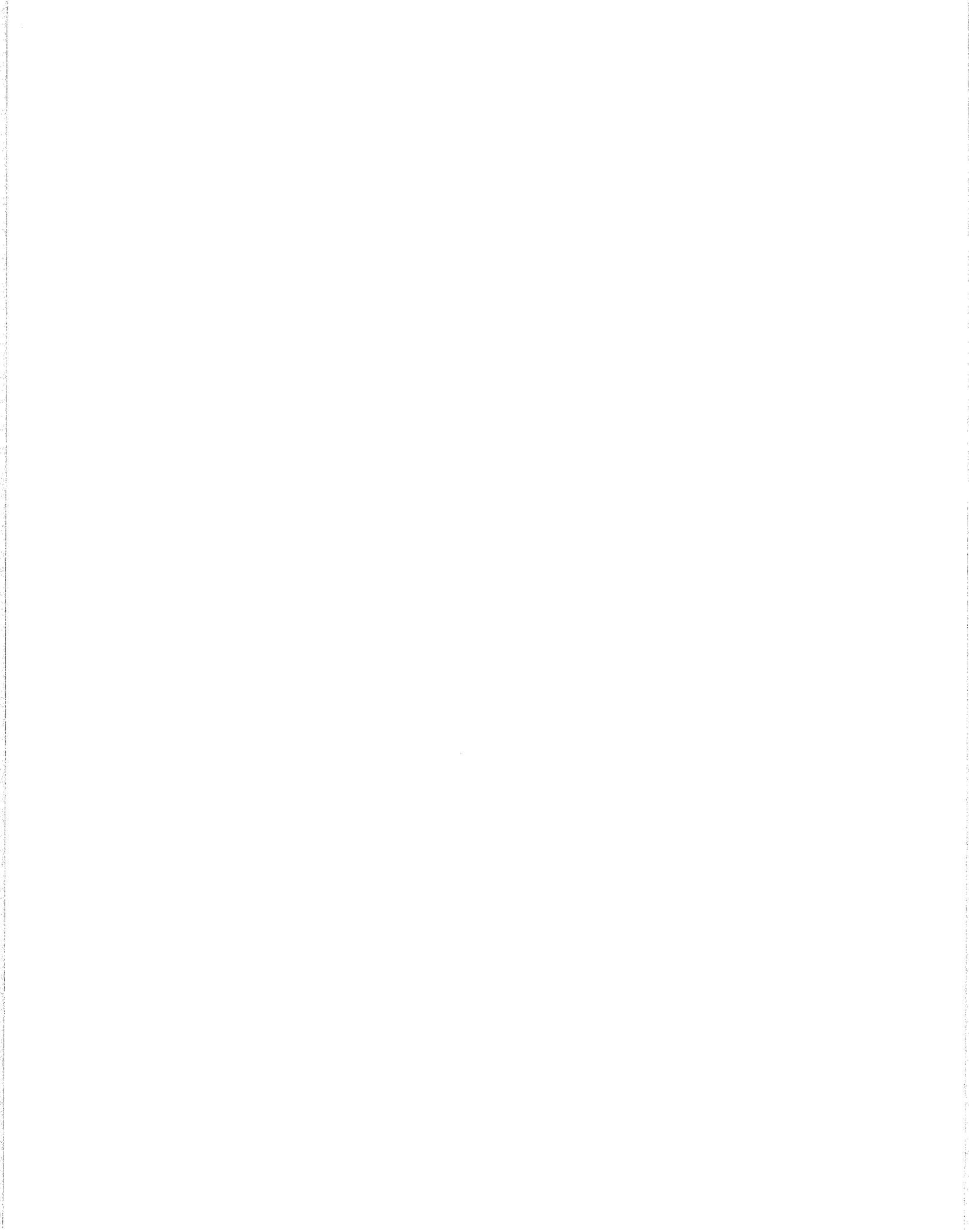
5. Allowances for Doubtful Accounts

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 inventory of the Town is valued at cost (first-in, first-out), which approximates market. The inventory of the ABC Board is valued at replacement cost, which approximates the lower of cost (first-in, first-out) or market.

The inventory of the Town's enterprise fund consists of materials and supplies held for consumption. The cost of this inventory is recorded as an expense when the inventory is consumed. The inventory of the ABC Board is held for sale to customers.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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. A new water plant and a new waste treatment plant were constructed in 1964 and 1967, respectively. Information as to the cost of water and sewer lines installed prior to 1964 was not available and is not included in capital assets. It is not felt that these items are material. 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	32-60
Water and Sewer Plants	50-67
Water and Sewer Lines	33-100
Vehicles	5-10
Furniture and equipment	5-20
Computer equipment	5-7

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-33
Furniture and equipment	3-10
Leasehold improvements	20-33

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.

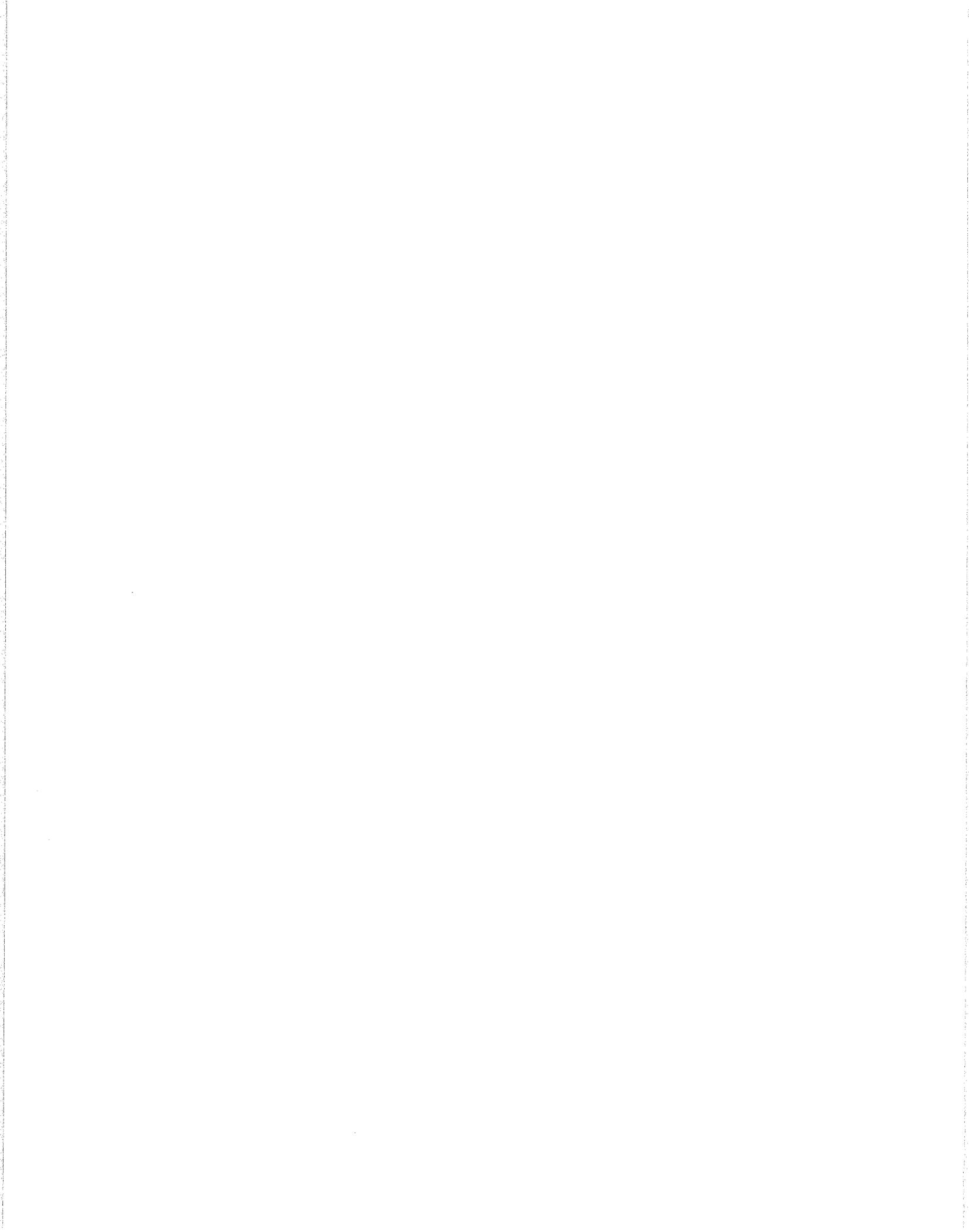
In the fund financial statements for governmental fund types, the face amount of debt issued is reported as an other financing source.

9. Economic Dependency

The enterprise fund has one major customer from whom receipts were approximately 69% of the revenue reported as water and sewer charges.

10. Compensated Absences

The vacation policy of the Town provides for vacation leave based on length of employment by the Town with such leave being fully vested when earned. ABC Board employees may accumulate up to two weeks earned vacation leave, and such leave is 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. For the Town, the current portion of the accumulated earned vacation is not considered to be material; therefore, no expenditure or liability has been reported in the government-wide and proprietary funds. For the ABC Board, there is no accumulated earned vacation at June 30, 2004.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

The Town's sick leave policy provide for an unlimited accumulation of earned sick leave. Employees of the ABC Board can accumulate two weeks of sick leave. Sick leave does not vest, but any unused sick leave accumulated by Town employees at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

The governmental fund types classify fund balances as follows:

Reserved:

Reserved by State statute - portion of fund balance, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

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

Reserved for Drug Crime Prevention - portion of fund balance that is available for appropriation but legally segregated to investigate, combat, prevent and reduce drug crimes. The amount represents the balance of the unexpended Controlled Substance Tax.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2004 - 2005 budget ordinance.

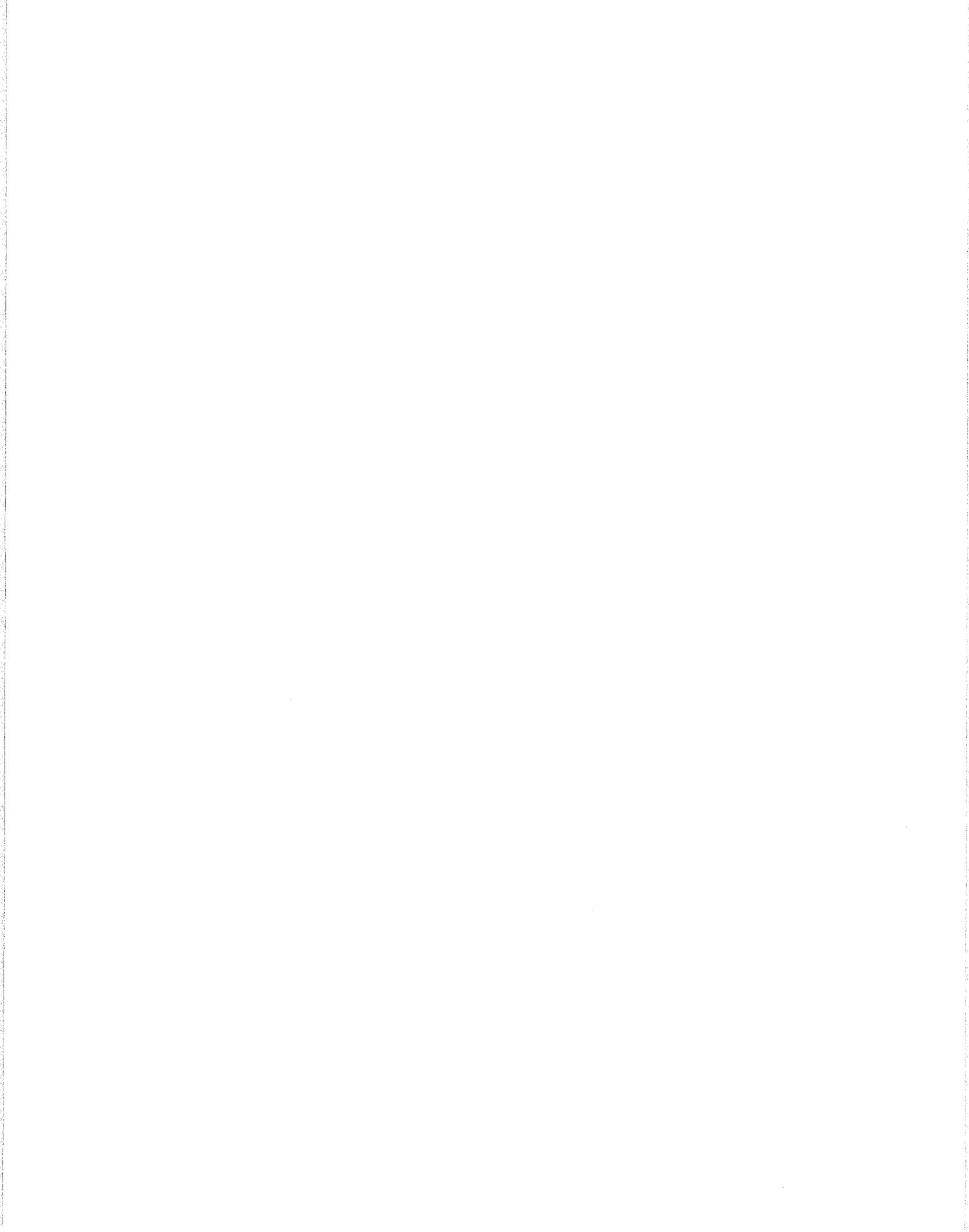
Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

An annual budget was not timely adopted by the Tourism Bureau as required by North Carolina G.S. 159-13. The budget for the fiscal year end June 30, 2004 was not approved by the Board until February 3, 2004.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2004, there were expenditures made in the Town's General Fund and Water and Sewer Capital Reserve Fund that exceeded the authorized appropriations made by the governing board as shown in Exhibits B-1 and D-3.

III. Detail Notes on All Funds

A. Assets

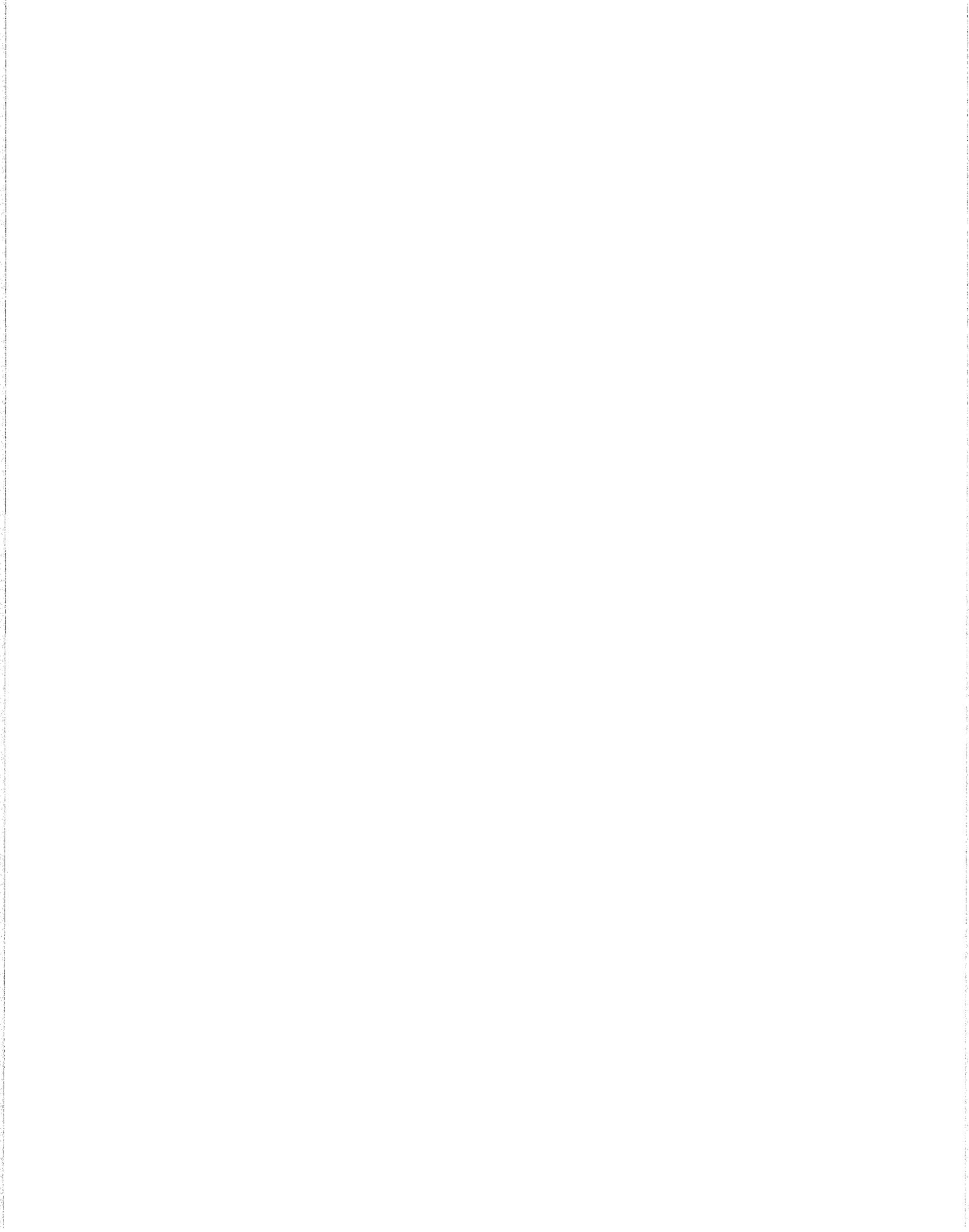
1. Deposits

All the deposits of the Town, the Tourism Bureau, 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, the Tourism Bureau'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, the Tourism Bureau, and the ABC Board, these deposits are considered to be held by the Town's, the Tourism Bureau'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 Tourism Bureau, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, the Tourism Bureau, and 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.

At June 30, 2004, the Town's deposits had a carrying amount of \$5,217,157 and a bank balance of \$5,562,691. Of the Town's bank balance, \$300,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the Tourism Bureau was \$112,717 and the bank balance was \$120,534. Of the Tourism's bank balance, \$109,015 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 \$218,496 and the bank balance was \$218,197. Of the ABC Board's bank balance, \$157,467 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2004, the Town's petty cash fund totaled \$200.

2. Investments

The investments of the Town are categorized to give an indication of the level of custodial risk assumed by the entity at year-end. Column A includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Column B includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the Town's name. Column C includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the Town's name. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the Town does not own any identifiable securities, but are shareholders of a percentage of the fund.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

At June 30, 2004, the Town's investments were as follows:

	A	B	C	Reported Value	Fair Value
US Government Agencies	\$ 447,184			\$ 447,184	\$ 447,184
NC Capital Management Trust: Cash Portfolio				82,470	82,470
Total Investments				\$ 529,654	\$ 529,654

3. Receivables - Allowances for Doubtful Accounts

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

<u>Fund</u>	<u>6-30-04</u>
General Fund Taxes Receivable	<u>\$75,600</u>

4. Capital Assets

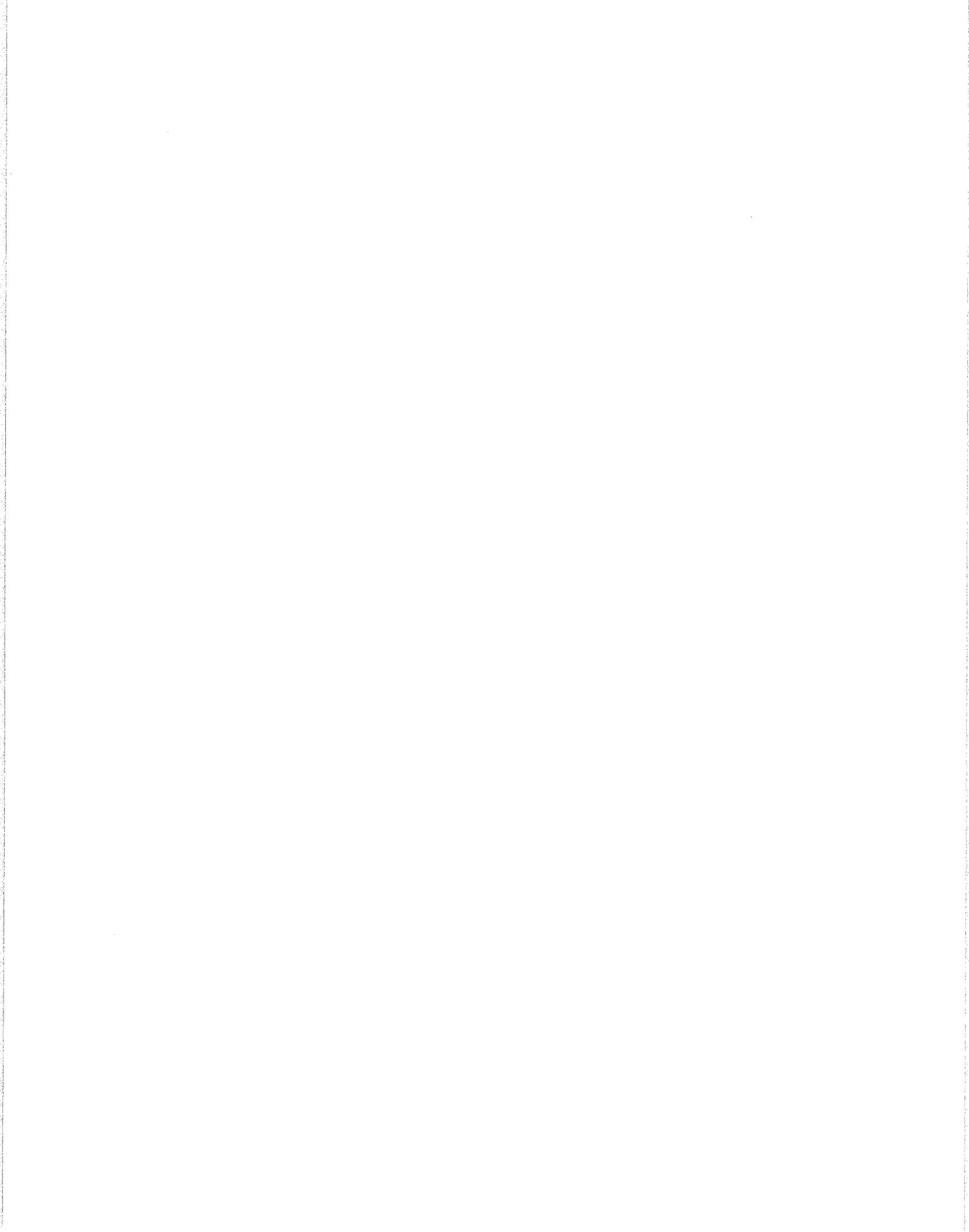
Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2004, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Government activities:				
Capital assets not being depreciated:				
Land	\$ 753,023	\$ -	\$ -	\$ 753,023
Total capital assets not being depreciated	\$ 753,023	\$ -	\$ -	\$ 753,023
Capital assets being depreciated:				
Buildings and Improvements	\$ 2,658,573	\$ -	\$ -	\$ 2,658,573
Equipment	1,594,068	251,047	-	1,845,115
Total capital assets being depreciated	\$ 4,252,641	\$ 251,047	\$ -	\$ 4,503,688
Less accumulated depreciation for:				
Buildings and Improvements	\$ 404,723	\$ 50,689	\$ -	\$ 455,412
Equipment	1,311,350	149,099	-	1,460,449
Total accumulated depreciation	\$ 1,716,073	\$ 199,788	\$ -	\$ 1,915,861
Total capital assets being depreciated, net	\$ 2,536,568	\$ -	\$ -	\$ 2,587,827
Governmental activity capital assets, net	\$ 3,289,591	\$ -	\$ -	\$ 3,340,850

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

General government	\$ 42,321
Public safety	97,915
Transportation	35,573
Environmental protection	16,654
Cultural and recreational	7,325
Total depreciation expense	\$ 199,788



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 593,430	\$ -	\$ -	\$ 593,430
Construction in progress	<u>534,890</u>	<u>1,882,066</u>	<u>347,999</u>	<u>2,068,957</u>
Total capital assets not being depreciated	<u>\$ 1,128,320</u>	<u>\$ 1,882,066</u>	<u>\$ 347,999</u>	<u>\$ 2,662,387</u>
Capital assets being depreciated:				
Plant and distribution systems	\$ 18,035,338	\$ 347,999	\$ -	\$ 18,383,337
Equipment	<u>1,196,770</u>	<u>225,007</u>	<u>27,802</u>	<u>1,393,975</u>
Total capital assets being depreciated	<u>\$ 19,232,108</u>	<u>\$ 573,006</u>	<u>\$ 27,802</u>	<u>\$ 19,777,312</u>
Less accumulated depreciation for:				
Plant and distribution systems	\$ 4,654,848	\$ 346,347	\$ -	\$ 5,001,195
Equipment	<u>682,507</u>	<u>136,081</u>	<u>27,802</u>	<u>790,786</u>
Total accumulated depreciation	<u>\$ 5,337,355</u>	<u>\$ 482,428</u>	<u>\$ 27,802</u>	<u>\$ 5,791,981</u>
Total capital assets being depreciated, net	<u>\$ 13,894,753</u>			<u>\$ 13,985,331</u>
Business-type activities capital assets, net	<u>\$ 15,023,073</u>			<u>\$ 16,647,718</u>

Construction commitments

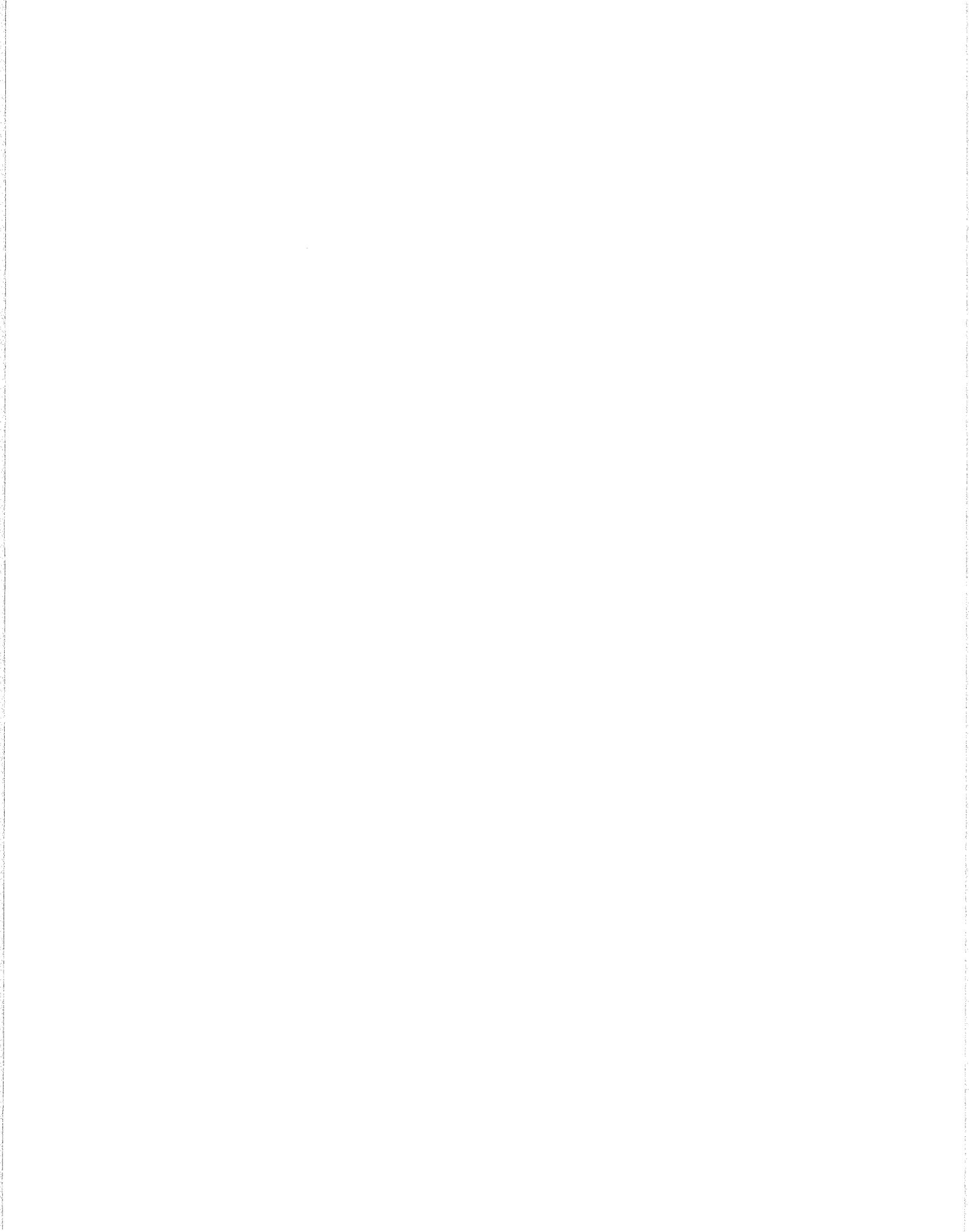
The government has active construction projects as of June 30, 2004. At year-end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Water and sewer, clear well construction	\$ 454,832	\$ 2,853,768
Water and sewer, 30" distribution line	<u>378,311</u>	<u>25,677</u>
Total	<u>\$ 833,143</u>	<u>\$ 2,879,445</u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2004, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 11,600	\$ -	\$ -	\$ 11,600
Capital assets being depreciated:				
Buildings and improvements	\$ 187,269	\$ -	\$ -	\$ 187,269
Furniture and equipment	<u>28,229</u>	<u>-</u>	<u>-</u>	<u>28,229</u>
Total capital assets being depreciated	<u>\$ 215,498</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,498</u>
Less accumulated depreciation for:				
Buildings	\$ 141,343	\$ 5,112	\$ -	\$ 146,455
Furniture and equipment	<u>25,899</u>	<u>2,330</u>	<u>-</u>	<u>28,229</u>
Total accumulated depreciation	<u>\$ 167,242</u>	<u>\$ 7,442</u>	<u>\$ -</u>	<u>\$ 174,684</u>
Total capital assets being depreciated, net	<u>\$ 48,256</u>			<u>\$ 40,814</u>
ABC Board capital assets, net	<u>\$ 59,856</u>			<u>\$ 52,414</u>



**TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.96% and 4.78%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 22.78% of annual covered payroll. The contribution requirements of members and of the Town of Wilkesboro 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, 2004, 2003, and 2002 were \$93,819, \$136,507, and \$121,603, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2004, 2003, and 2002 were \$22,769, \$21,675, and \$20,275, 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 Wilkesboro administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

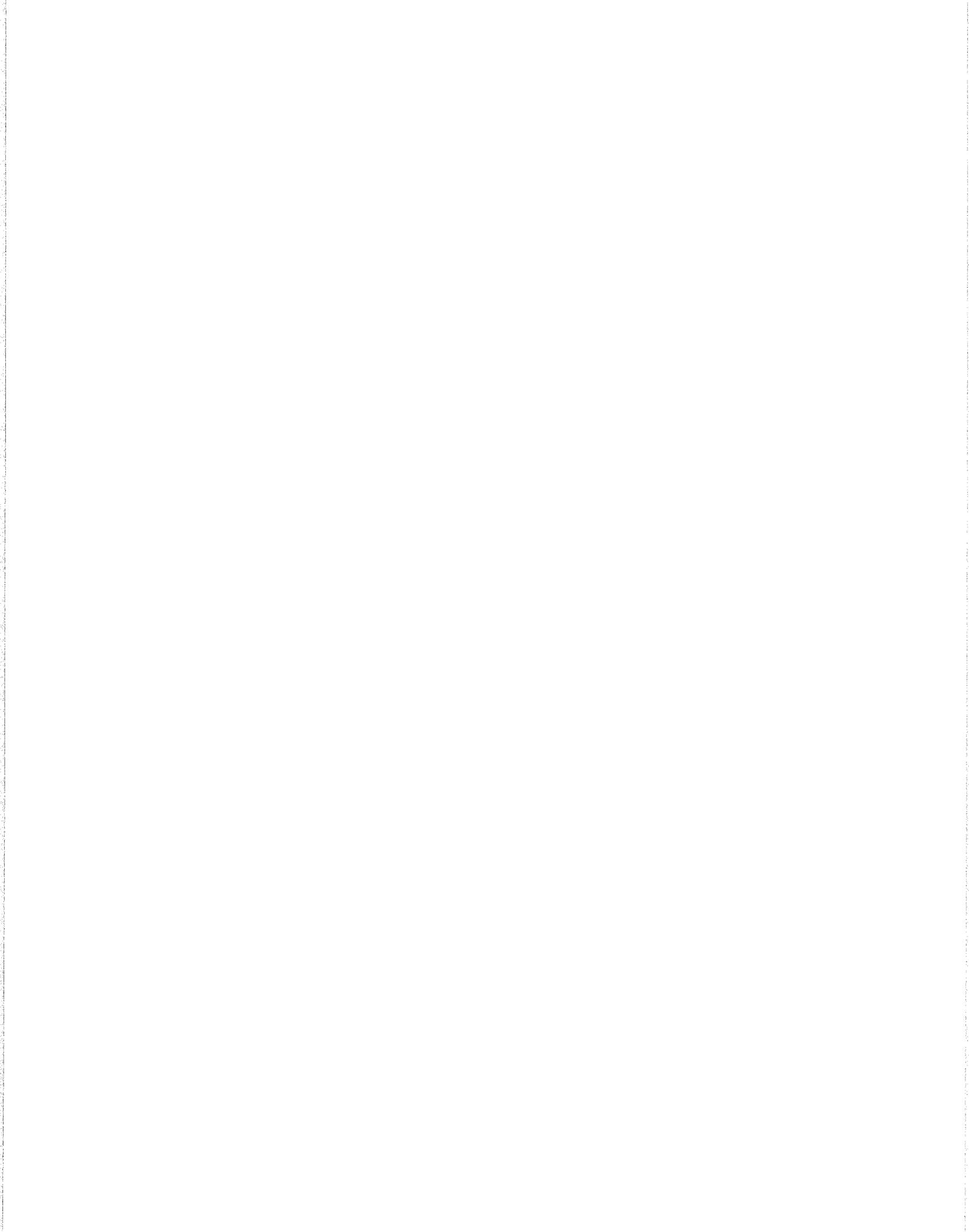
All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2004, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>18</u>
Total	<u>18</u>

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

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



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

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

3. Contributions.

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

The annual required contribution for the current year was determined as part of the December 31, 2003 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9 - 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment 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	\$ 17,907
Interest on net pension obligation	3,781
Adjustment to annual required contribution	<u>(2,861)</u>
Annual pension cost	\$ 18,827
Contributions made	<u>0</u>
Increase (decrease) in net pension obligation	\$ 18,827
Net pension obligation beginning of year	52,146
Net pension obligation end of year	<u>\$ 70,973</u>

For Year Ended June 30	3 Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 13,121	0%	\$ 37,238
2003	\$ 14,908	0%	\$ 52,146
2004	\$ 18,827	0%	\$ 70,973

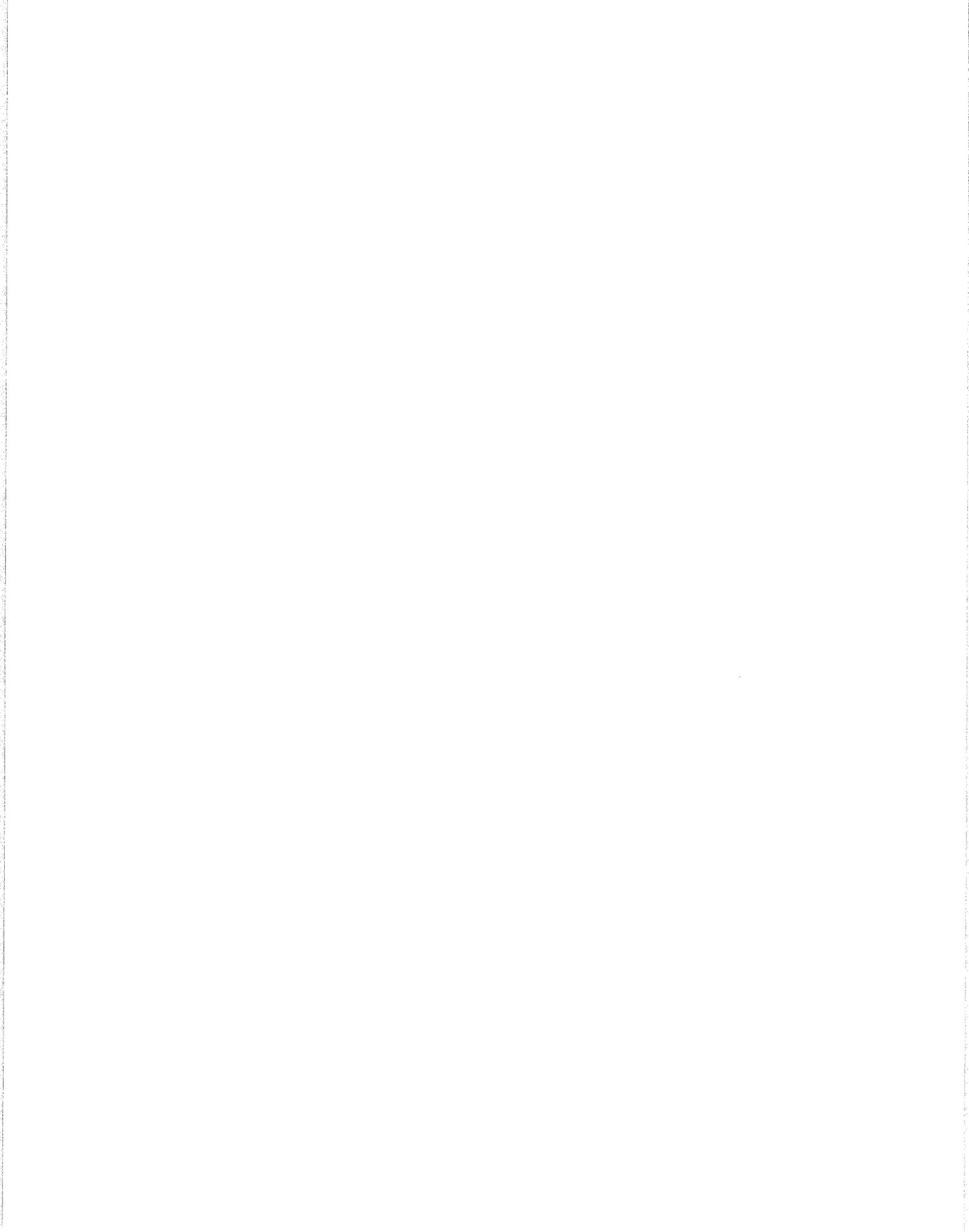
c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2004 were \$31,268, which consisted of \$27,865 from the Town and \$3,403 from the law enforcement officers.

d. 401(K) Retirement Plan

For the year ended June 30, 2004, the Town contributed to an approved 401(K) Retirement Plan covering eligible employees not engaged in law enforcement. The Town elected to make matching contributions of up to five percent (5%) of eligible salaries. The Town's contribution to the plan for the year ended June 30, 2004 was \$43,035.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

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

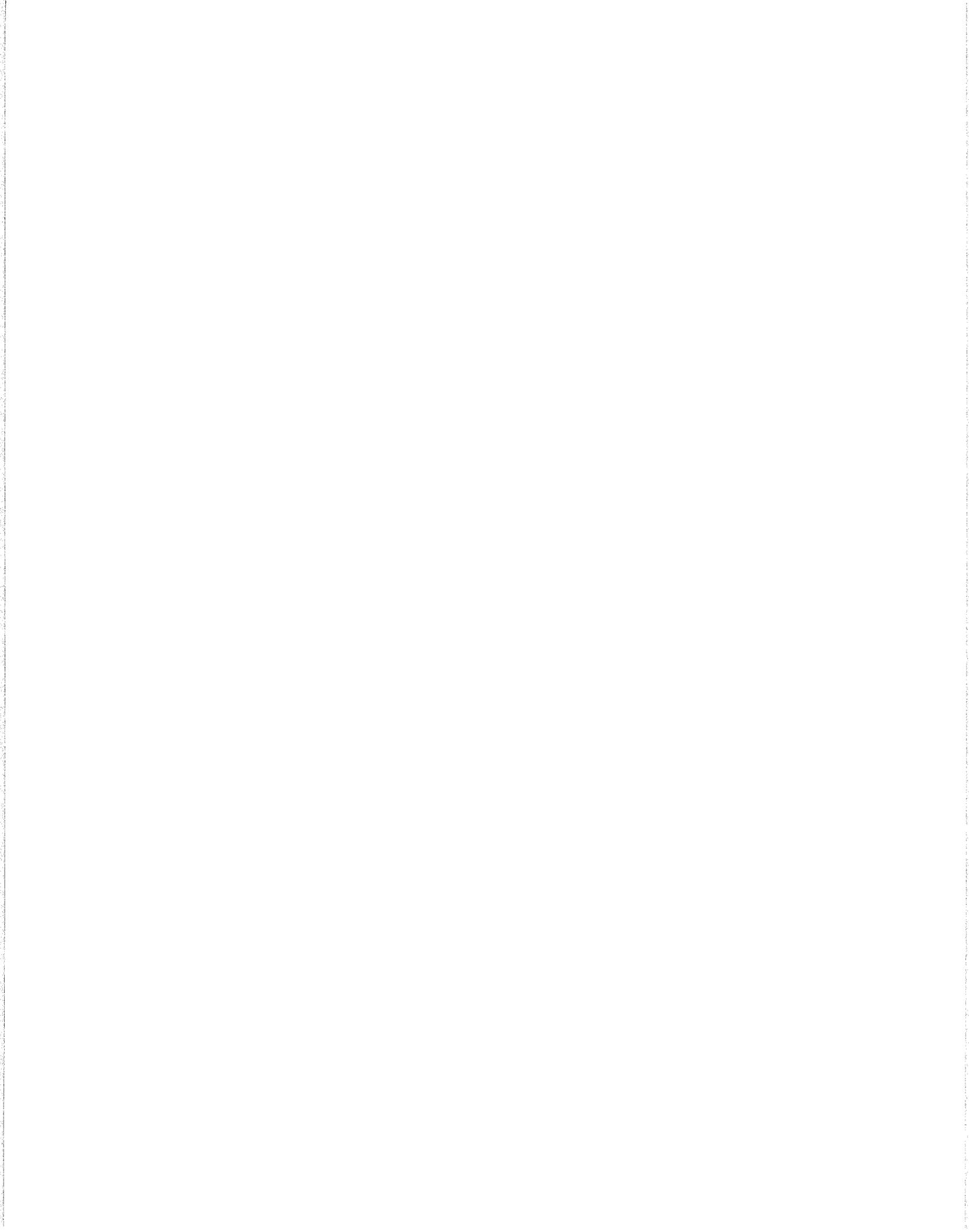
Plan Description. The State of North Carolina contributes, on behalf of the Town of Wilkesboro, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. The Town contributes \$10 per month to the Fund for each member. The State, a non-employer contributor, funds the plan through appropriations. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly. For the fiscal year ended June 30, 2004, the Town of Wilkesboro has recognized on behalf of payments for pension contributions made by the State as a revenue and an expenditure of \$4,439 for the twenty-three (23) volunteer firemen who perform fire fighting duties for the Town's fire department.

f. Other Post-employment Benefits

In addition to providing pension benefits, the Town of Wilkesboro has elected to provide health care benefits for all retired personnel who have thirty years of full-time service with the Town and all elected officials who have fourteen years of service as of April 6, 1998 with the Town. The Town pays the full cost of coverage for these benefits. The spouse and eligible dependents are also covered. A retired employee's spouse and eligible dependents may continue to receive coverage upon death of the employee. However, if a retiree's spouse remarries after the death of the retiree, the spouse will no longer be eligible for insurance coverage. Currently three individuals are eligible for these health care benefits. For the fiscal year ended June 30, 2004, the Town made payments for postretirement health benefit premiums of \$23,438. The Town obtains health care coverage through private insurers.

The Town has also 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 months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$20,000. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2004, the Town made contributions to the State for death benefits of \$2,948. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .16% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

2. Deferred / Unearned Revenues

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

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Prepaid taxes not yet earned (General Fund)	\$ -	\$ 15,545
Privilege licenses collected in advance (General Fund)	-	2,377
Taxes receivable, net (General Fund)	73,614	-
Miscellaneous receivable (General Fund)	-	2,520
Unexpended grant proceeds (Special Revenue Fund)	<u> </u>	<u>50,372</u>
Total	<u>\$ 73,614</u>	<u>\$ 70,814</u>

3. 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 disasters.

The Town carries commercial coverage. Settled claims have not exceeded coverage in any of the past three fiscal years.

The ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three years.

4. Long-Term Obligations

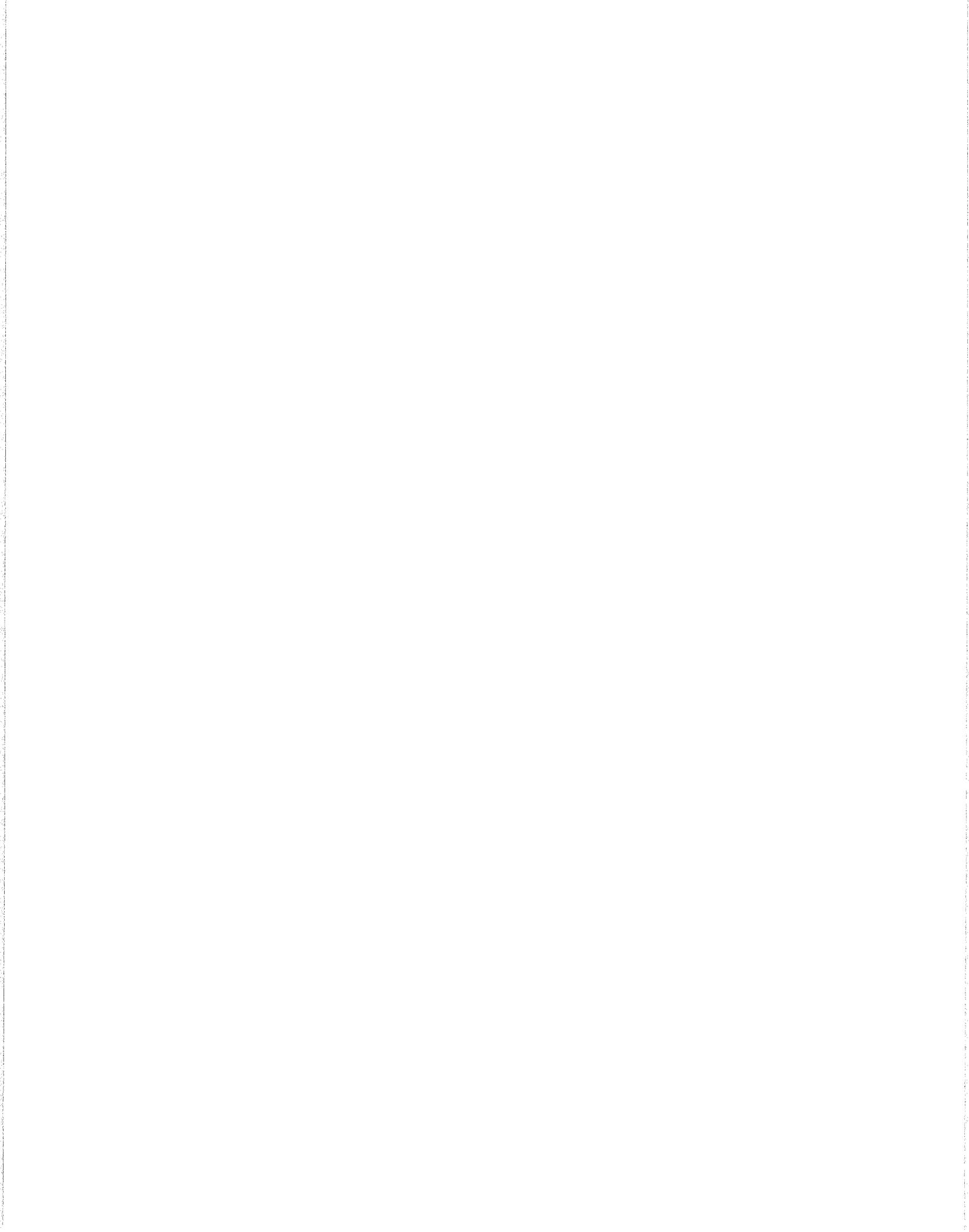
a. Promissory Notes

Serviced by the General Fund:

Promissory Note due in monthly installments of \$5,274 through October 2004; Interest at 4.40%. Secured by deed of trust on real estate.	\$ 20,553
Promissory Note due in semi-annual installments of \$63,302 through September 2009; Interest at 4.72%. Secured by deed of trust on real estate.	607,028
Promissory Note due in annual installments of \$40,581 through May 2008; Interest at 2.59%. Secured by equipment.	152,200

Serviced by the Water and Sewer Fund:

Promissory Note due in annual installments of \$9,545 through May 2008; Interest at 2.59%. Secured by equipment.	<u>35,800</u>
	<u>\$ 815,581</u>



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

Annual debt service requirements to maturity for the Town's promissory notes are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 156,265	\$ 32,015	\$ 8,609	\$ 936
2006	141,392	25,793	8,833	713
2007	147,324	19,861	9,062	484
2008	153,518	13,667	9,296	248
2009	119,440	7,164	-	-
2010-2014	61,842	1,459	-	-
Total	\$ 779,781	\$ 99,959	\$ 35,800	\$ 2,381

b. Installment Purchase

In March 2004, the Town entered into certificates of participation to finance construction of a two million gallon clear well, construction of water line and sewer line improvements and acquisition of water lines. The financing contract requires principal payments beginning in the fiscal year 2005 with an interest rate of 3.65 percent.

The future minimum payments of the installment purchase as of June 30, 2004, including \$1,260,674 of interest, are as follows:

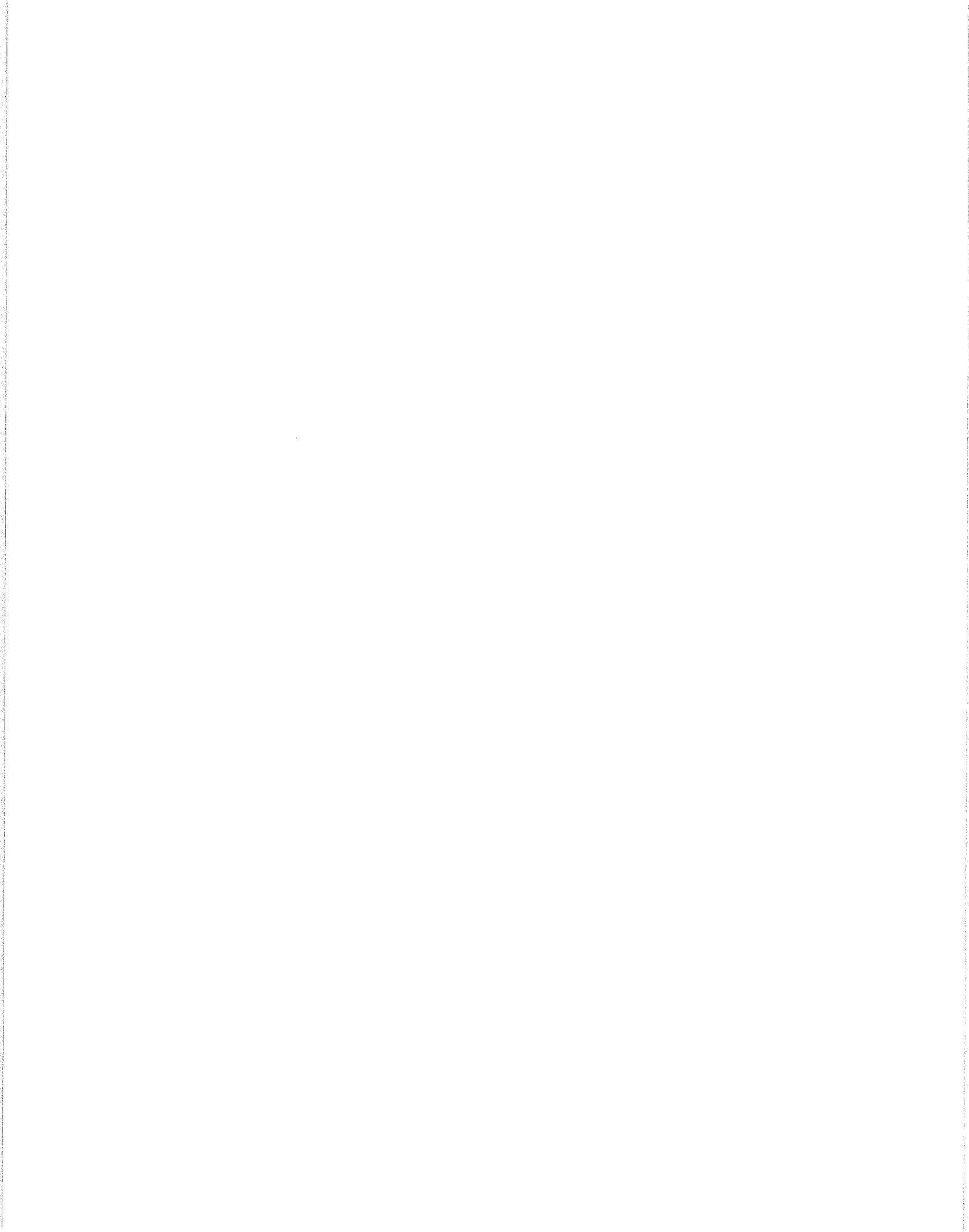
Year Ending June 30,	Business-type Activities	
	Principal	Interest
2005	\$ 209,624	\$ 147,754
2006	217,345	140,033
2007	225,351	132,028
2008	233,651	123,728
2009	242,256	115,122
2010-2014	1,351,887	435,004
2015-2019	<u>1,619,886</u>	<u>167,005</u>
Principal payments	<u>\$ 4,100,000</u>	
Total interest payments		<u>\$ 1,260,674</u>

c. General Obligation Indebtedness

At June 30, 2004, the Town of Wilkesboro had a legal debt margin of \$38,985,289.

d. Changes in Long-Term Liabilities

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Current Portion of Balance
Governmental activities:					
Promissory notes	\$ 783,137	\$ 152,200	\$ 155,556	\$ 779,781	\$ 156,265
Compensated absences	14,320	6,450	-	20,770	-
Net pension obligation	52,146	18,827	-	70,973	-
Governmental activity long-term liabilities	\$ 849,603	\$ 177,477	\$ 155,556	\$ 871,524	\$ 156,265
Business-type activities:					
Installment purchase	\$ -	\$ 4,100,000	\$ -	\$ 4,100,000	\$ 209,624
Promissory notes	-	35,800	-	35,800	8,609
Compensated absences	12,654	1,024	-	13,678	-
Business-type activity long-term liabilities	\$ 12,654	\$ 4,136,824	\$ -	\$ 4,149,478	\$ 218,233



**TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004**

Compensated absences typically have been liquidated in the general fund.

C. Interfund Balances and Activity

Balances due to/from Primary Government and Component Units

Balances due to/from primary government and component units at June 30, 2004, consist of the following:

Due from component unit-ABC Board for profit distribution to primary government-General Fund	<u>\$ 28,600</u>
Due from the primary government-general fund for occupancy tax collected to component unit-Tourism Bureau	<u>\$ 33,884</u>

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2004, consist of the following:

From the Water and Sewer Fund to the General Fund	\$ (70,000)
From the Water and Sewer Fund to the Water and Sewer Capital Projects Fund for capital projects expenditures	(65,000)
From the Water and Sewer Capital Reserve Fund to the General Fund	(4,724)
From the Water and Sewer Capital Reserve Fund to the Water and Sewer Capital Projects Fund for capital projects expenditures	(570,245)
From the Water and Sewer Capital Reserve Fund to the Water and Sewer Fund	<u>(70,000)</u>
Total	<u>\$ (779,969)</u>

D. Prior Period Adjustment

During the fiscal year ended June 30, 2004 the State of North Carolina changed the distribution method for local option sales taxes that it collects on behalf of local governments. These taxes are now distributed on a monthly rather than quarterly basis. Taxes on sales for the month of June 2004 will be distributed by the State on or around September 15, 2004. In addition, the State collects utility franchise taxes, piped natural gas taxes and telecommunications taxes for municipalities and distributes them on a quarterly basis. The taxes for the quarter ended June 30, 2004 will be distributed on or around September 15, 2004.

In accordance with GASB Statement No. 33, all of these items are considered to be revenues as of June 30, 2004. The Town has decided to consider revenues available for payment of current year-end liabilities if collected within 90 days after year-end, other than property taxes. The Town had previously considered only revenues collected within 60 days of year-end as available. See Note I.C.

The September 15, 2004 distributions of these taxes are recognized as revenues for the 2004 fiscal year. If this policy had been in effect for the 2003 fiscal year, ending fund balance of the General Fund would have been \$1,877,622, which is \$86,533 higher than was previously reported. The beginning fund balance of the General Fund for the 2004 fiscal year had been restated to that amount.

E. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2004, the Town of Wilkesboro has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$4,439 for the 23 volunteer firemen who perform firefighting duties for the Town's fire department. The volunteers elected to be members of the Firemen and Rescue 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 paid by the Town for each member, investment income, and a State appropriation.



TOWN OF WILKESBORO
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

IV. Jointly Governed Organization

The Town, in conjunction with seven counties and nineteen other municipalities, established the Region D Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$500 to the Council during the fiscal year ended June 30, 2004.

The Town appoints two of five trustees of the Wilkesboro Firemen's Supplemental Pension Fund. The Town does not approve the budget of the Fund, is not responsible for any deficits, nor entitled to any surpluses. The Town is to receive transfers from the Fund to pay retirement benefits to beneficiaries.

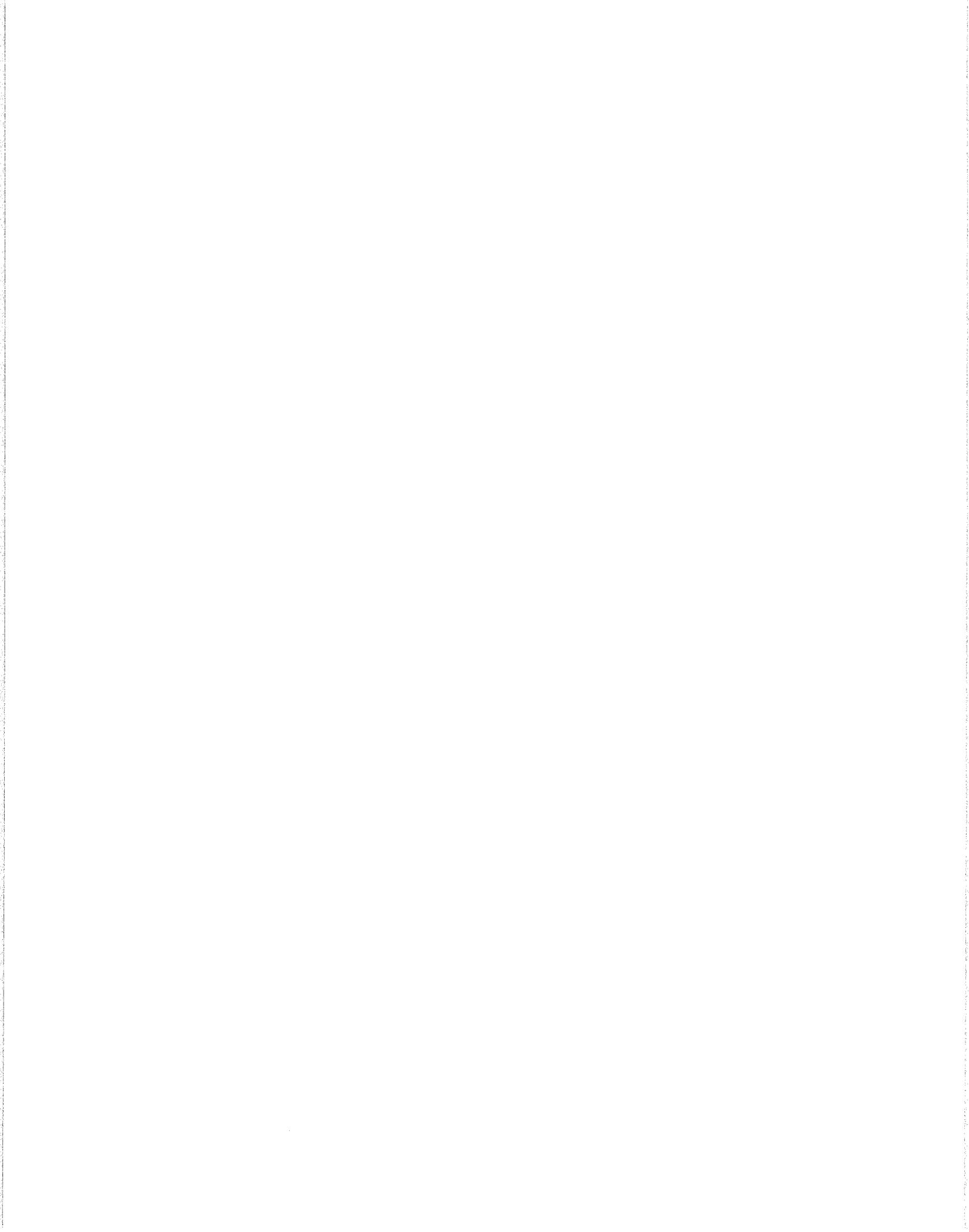
V. Joint Ventures

The Town participates in a joint venture to operate the Wilkes Economic Development Corporation, a nonprofit corporation, with Wilkes County and another municipality and the Wilkes Chamber of Commerce. The Town appoints one board member to the nine-member board of the Corporation. The Town has an ongoing financial responsibility for the joint venture because the Wilkes Economic Development Corporation's continued existence depends on the participating governments' continued funding. None of the participating governments have an equity interest in the nonprofit corporation, so no equity interests have been reflected in the financial statements at June 30, 2004. The Town appropriated \$11,000 to the Wilkes Economic Development Corporation during the year. Complete financial statements for the Corporation can be obtained from the Corporation's offices at PO Box 727, North Wilkesboro, NC 28659.

VI. Summary Disclosure of Significant Contingencies

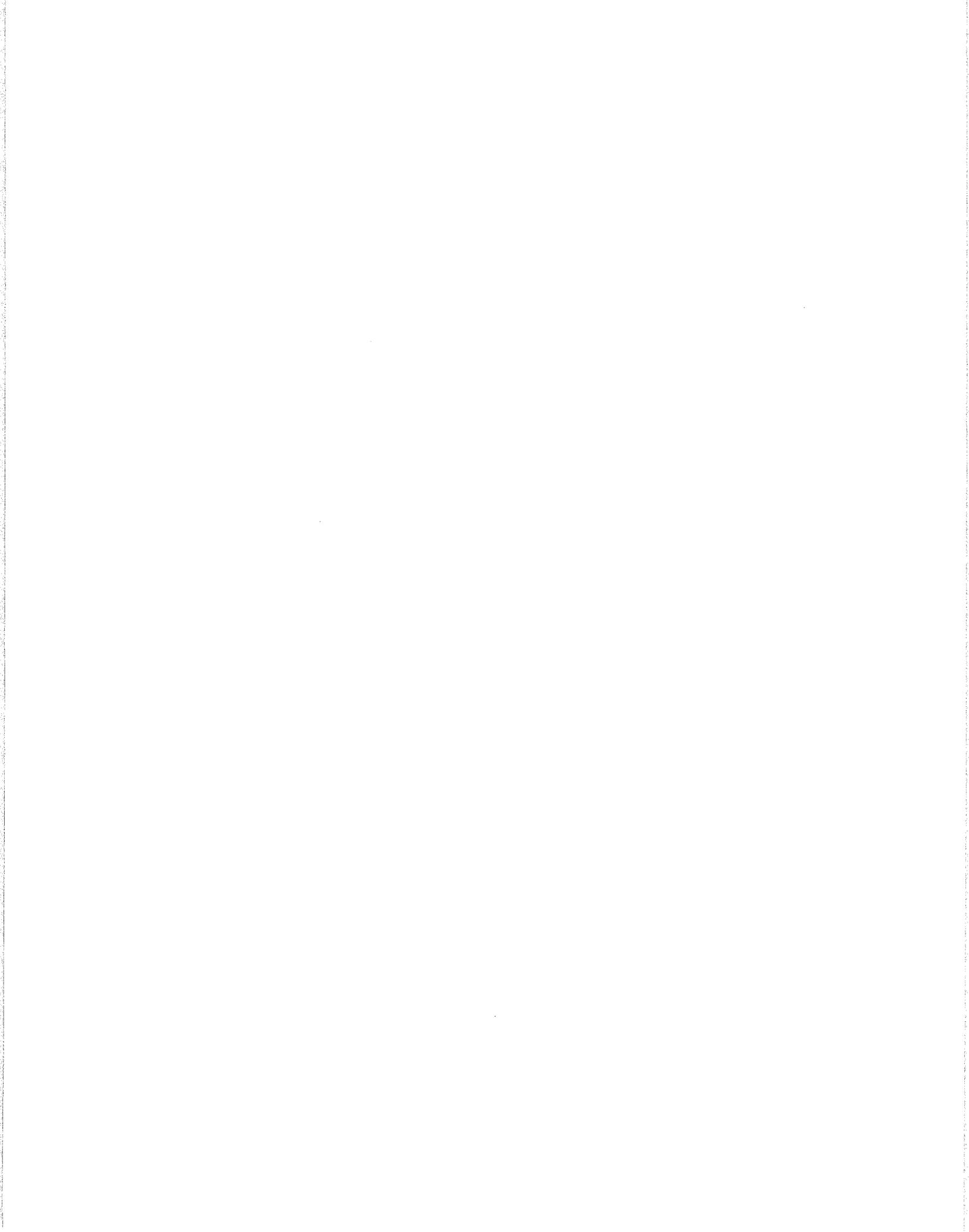
Federal and State Assisted Programs

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.



TOWN OF WILKESBORO, 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)
12/31/98	\$ 0	\$ 44,787	\$ 44,787	0%	\$ 324,849	13.79%
12/31/99	\$ 0	\$ 50,593	\$ 50,593	0%	\$ 358,644	14.11%
12/31/00	\$ 0	\$ 91,579	\$ 91,579	0%	\$ 380,683	24.06%
12/31/01	\$ 0	\$ 105,912	\$ 105,912	0%	\$ 395,060	26.81%
12/31/02	\$ 0	\$ 131,095	\$ 131,095	0%	\$ 508,043	25.80%
12/31/03	\$ 0	\$ 143,379	\$ 143,379	0%	\$ 497,238	28.84%



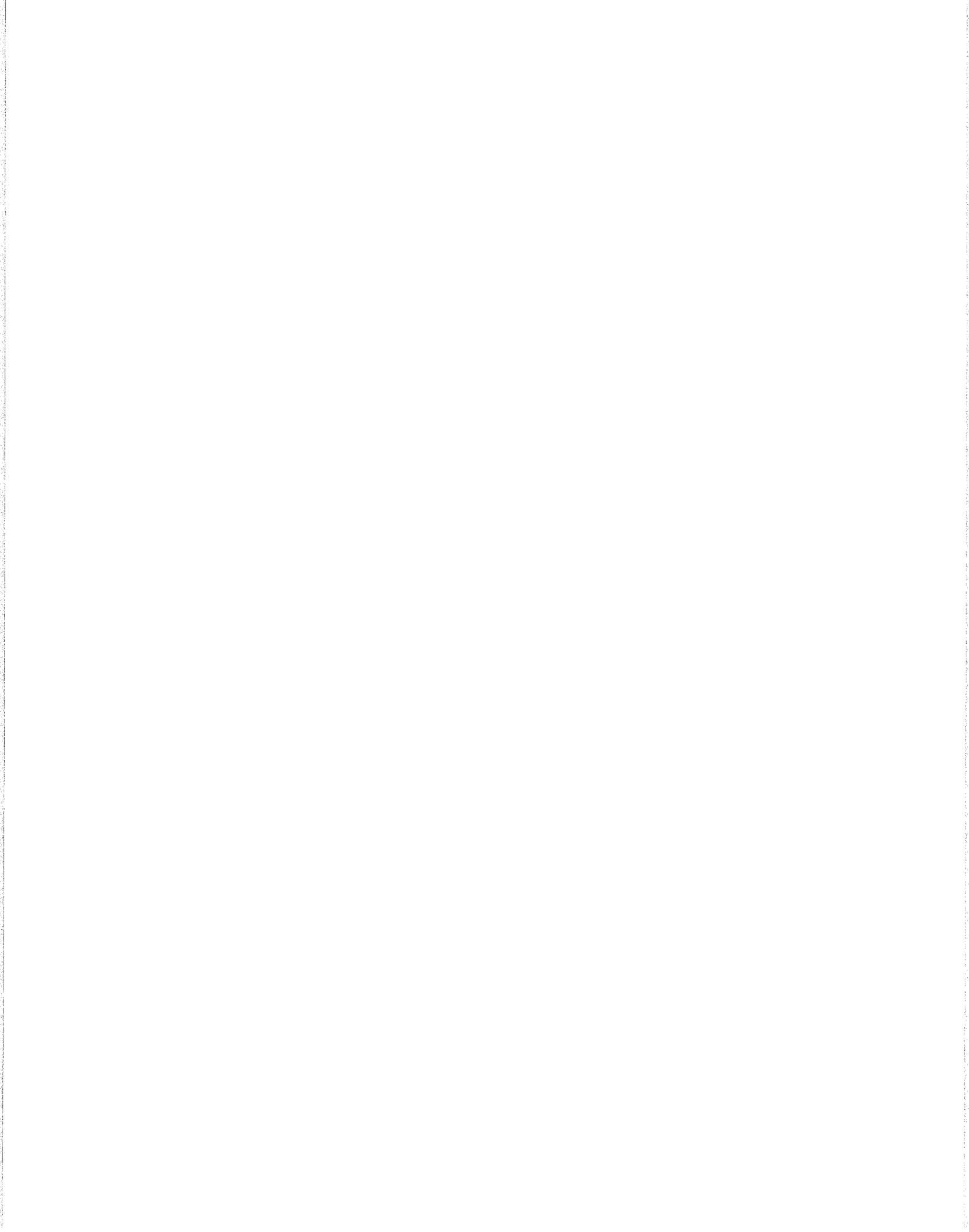
TOWN OF WILKESBORO, NORTH CAROLINA
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u> <u>June 30,</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2001	\$ 8,988	0%
2002	12,643	0%
2003	14,208	0%
2004	17,907	0%

Notes to the Required Schedules:

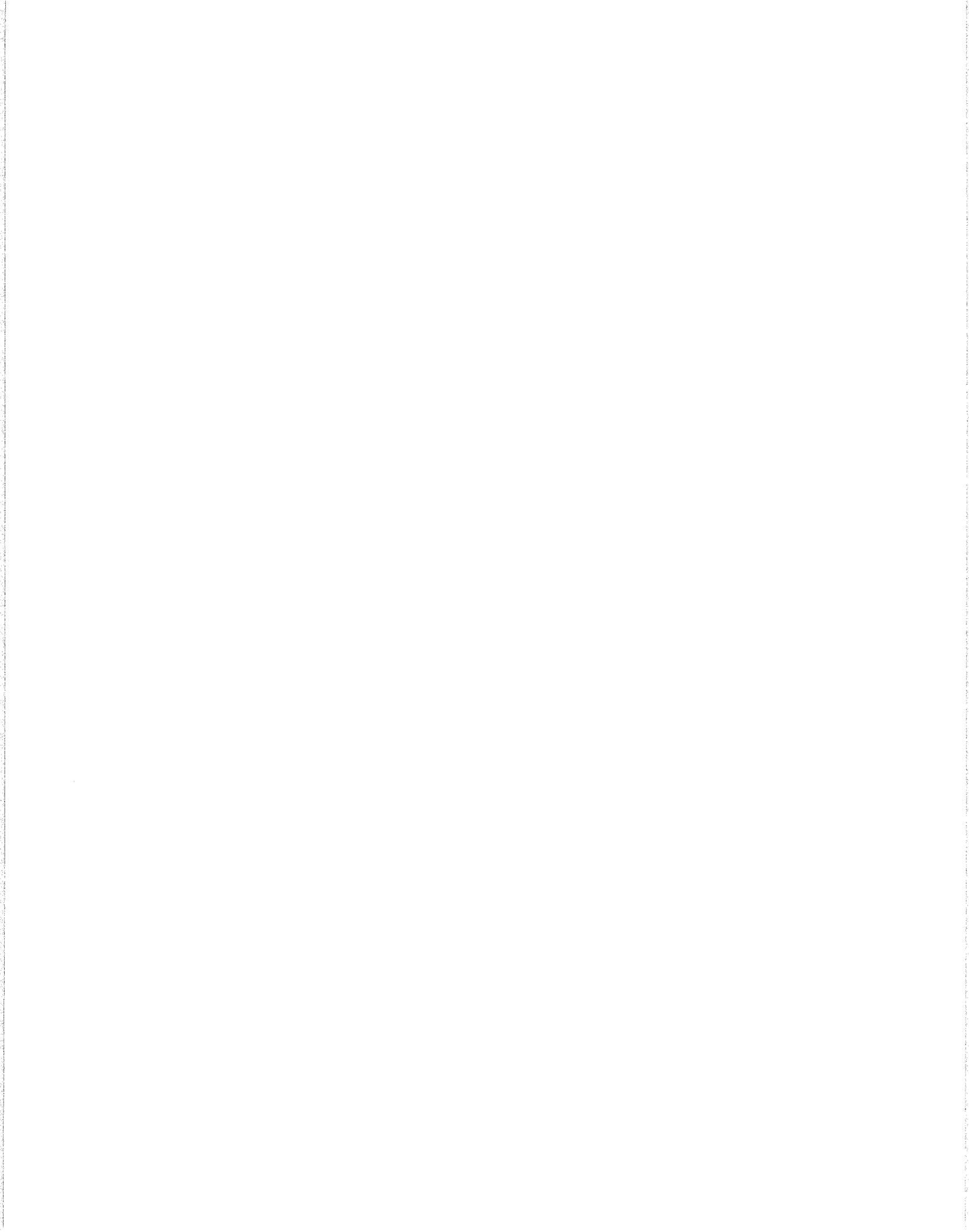
The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/03
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	27 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	5.9% to 9.8%
*Includes inflation at	3.75%
Cost-of-living adjustments	N/A



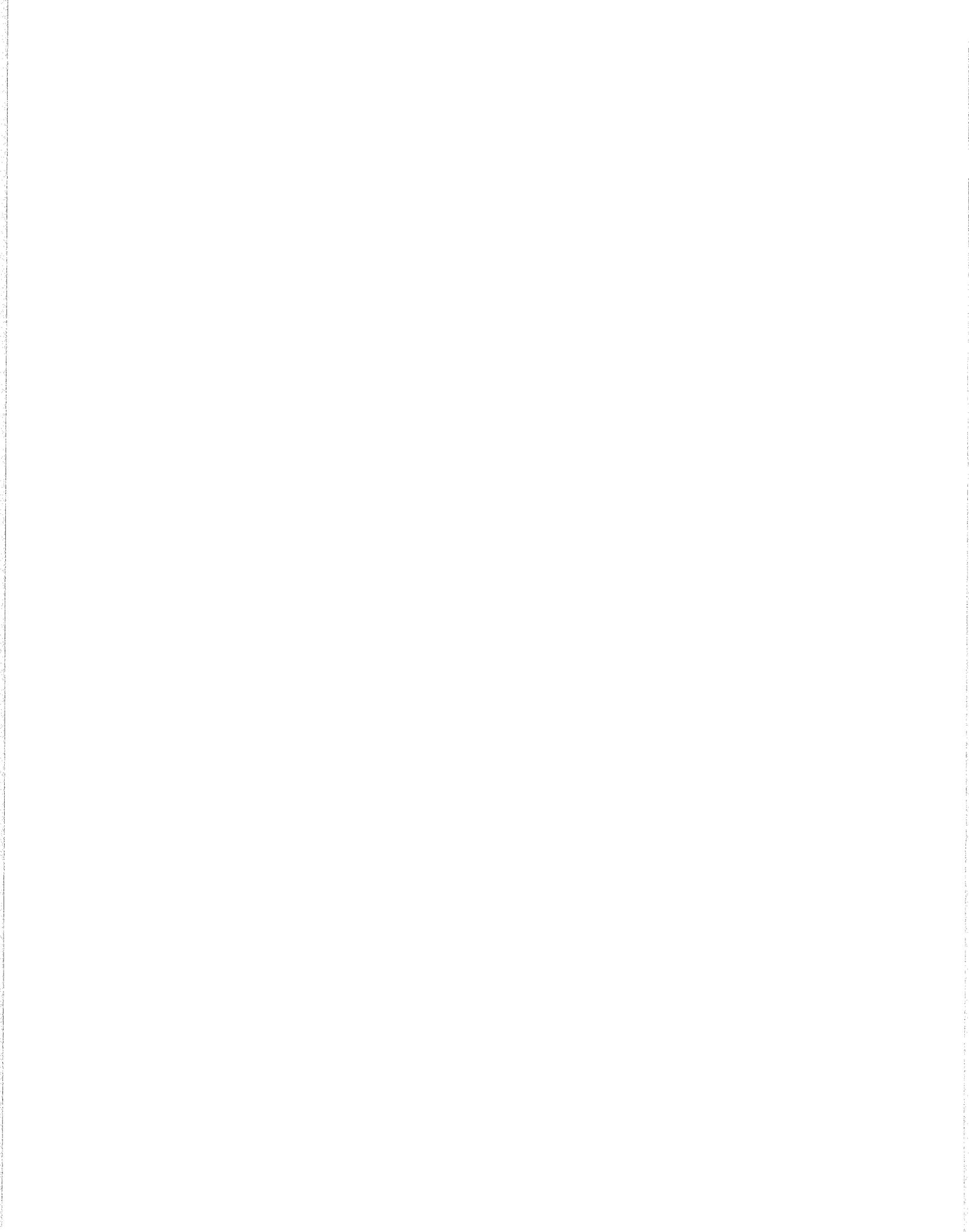
TOWN OF WILKESBORO, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:			
Ad Valorem Taxes:			
Taxes	\$ 1,808,000	\$ 1,878,653	\$ 70,653
Penalties and Interest	<u>5,000</u>	<u>27,610</u>	<u>22,610</u>
TOTAL	<u>\$ 1,813,000</u>	<u>\$ 1,906,263</u>	<u>\$ 93,263</u>
Other Taxes and Licenses:			
Privilege Licenses	<u>\$ 13,000</u>	<u>\$ 14,067</u>	<u>\$ 1,067</u>
Unrestricted Intergovernmental:			
Local Option Sales Taxes	\$ 615,000	\$ 686,226	\$ 71,226
Payments in Lieu of Taxes	0	2,779	2,779
Telecommunications Sales Tax	0	30,907	30,907
Utility Franchise Tax	390,000	345,415	(44,585)
Beer and Wine Tax	13,000	13,692	692
Food Stamp Reimbursement	2,300	0	(2,300)
ABC Profit Distribution	28,000	46,550	18,550
Hold Harmless Funds	<u>175,000</u>	<u>0</u>	<u>(175,000)</u>
TOTAL	<u>\$ 1,223,300</u>	<u>\$ 1,125,569</u>	<u>\$ (97,731)</u>
Restricted Intergovernmental:			
Powell Bill Allocation	\$ 111,000	\$ 109,121	\$ (1,879)
Other Federal and State Grants	206,625	115,090	(91,535)
Controlled Substance Tax	6,077	695	(5,382)
ABC Revenue for Law Enforcement	0	3,500	3,500
On behalf of Payments - Fire	0	4,439	4,439
Occupancy Tax	<u>160,000</u>	<u>128,615</u>	<u>(31,385)</u>
TOTAL	<u>\$ 483,702</u>	<u>\$ 361,460</u>	<u>\$ (122,242)</u>
Permits and Fees:			
Franchise Fees	\$ 35,000	\$ 35,524	\$ 524
Permits	<u>2,300</u>	<u>1,530</u>	<u>(770)</u>
TOTAL	<u>\$ 37,300</u>	<u>\$ 37,054</u>	<u>\$ (246)</u>
Sales and Services:			
Rents	\$ 33,890	\$ 30,992	\$ (2,898)
Court Costs, Fees and Charges	4,000	2,341	(1,659)
Parking Violation Penalties	2,000	3,627	1,627
Park Lights	6,500	7,320	820
Sesquicentennial Merchandise	<u>0</u>	<u>70</u>	<u>70</u>
TOTAL	<u>\$ 46,390</u>	<u>\$ 44,350</u>	<u>\$ (2,040)</u>



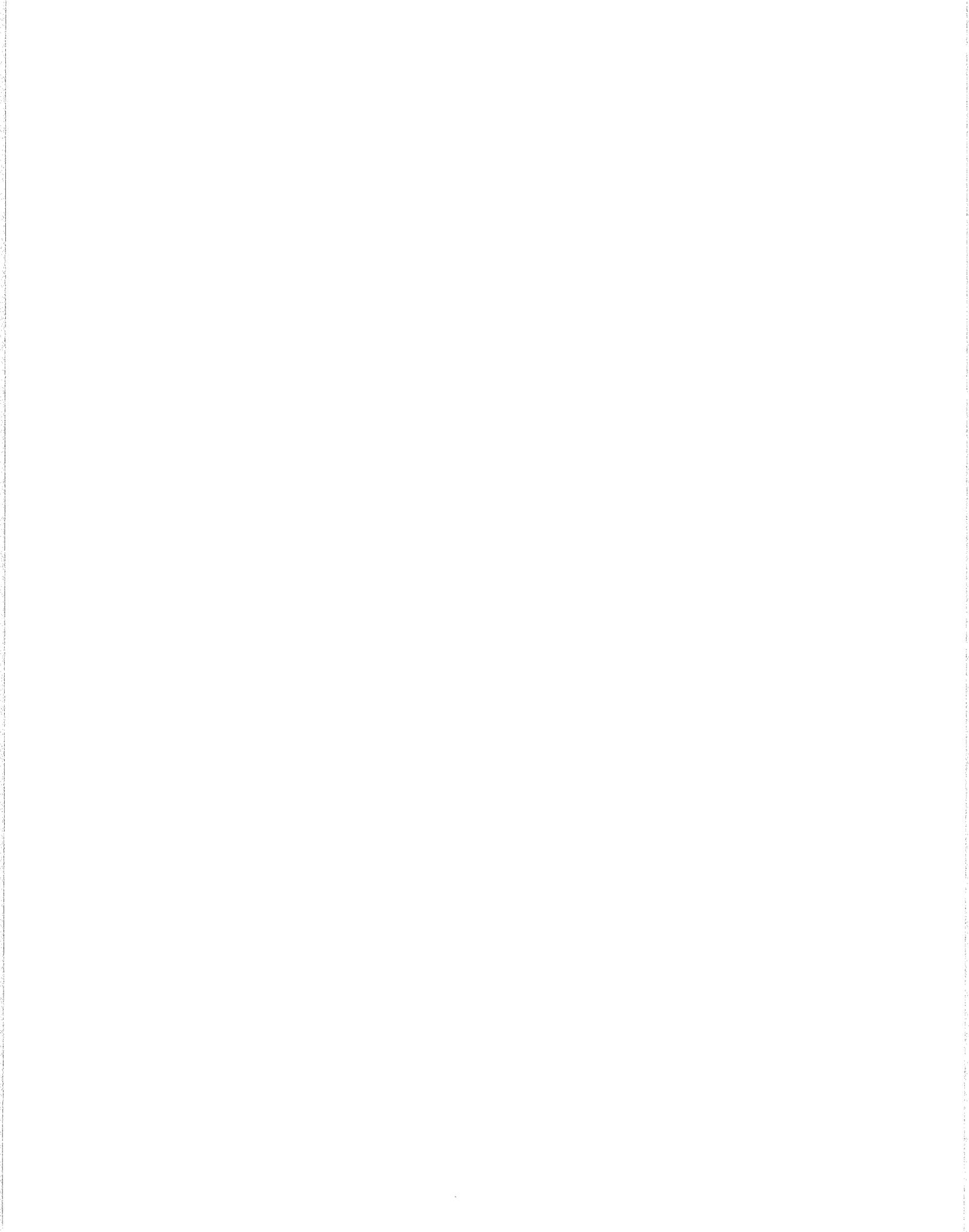
TOWN OF WILKESBORO, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Investment Earnings	\$ 30,000	\$ 9,950	\$ (20,050)
Miscellaneous:			
Other	\$ 37,767	\$ 77,658	\$ 39,891
Cemetery Donation	1,500	1,400	(100)
TOTAL	<u>\$ 39,267</u>	<u>\$ 79,058</u>	<u>\$ 39,791</u>
 TOTAL REVENUES	 <u>\$ 3,685,959</u>	 <u>\$ 3,577,771</u>	 <u>\$ (108,188)</u>
EXPENDITURES:			
General Government:			
Governing Body:			
Salaries and Employee Benefits		\$ 82,082	
Operating Expenditures		118,260	
TOTAL	<u>\$ 201,750</u>	<u>\$ 200,342</u>	<u>\$ 1,408</u>
Administration:			
Salaries and Employee Benefits		\$ 310,155	
Other Operating Expenditures		268,956	
TOTAL	<u>\$ 600,553</u>	<u>\$ 579,111</u>	<u>\$ 21,442</u>
Public Buildings:			
Salaries and Employee Benefits		\$ 72,391	
Other Operating Expenditures		128,070	
TOTAL	<u>\$ 229,650</u>	<u>\$ 200,461</u>	<u>\$ 29,189</u>
TOTAL GENERAL GOVERNMENT	<u>\$ 1,031,953</u>	<u>\$ 979,914</u>	<u>\$ 52,039</u>
Public Safety:			
Police:			
Salaries and Employee Benefits		\$ 903,331	
Other Operating Expenditures		139,305	
Capital Outlay		49,074	
TOTAL	<u>\$ 1,117,527</u>	<u>\$ 1,091,710</u>	<u>\$ 25,817</u>



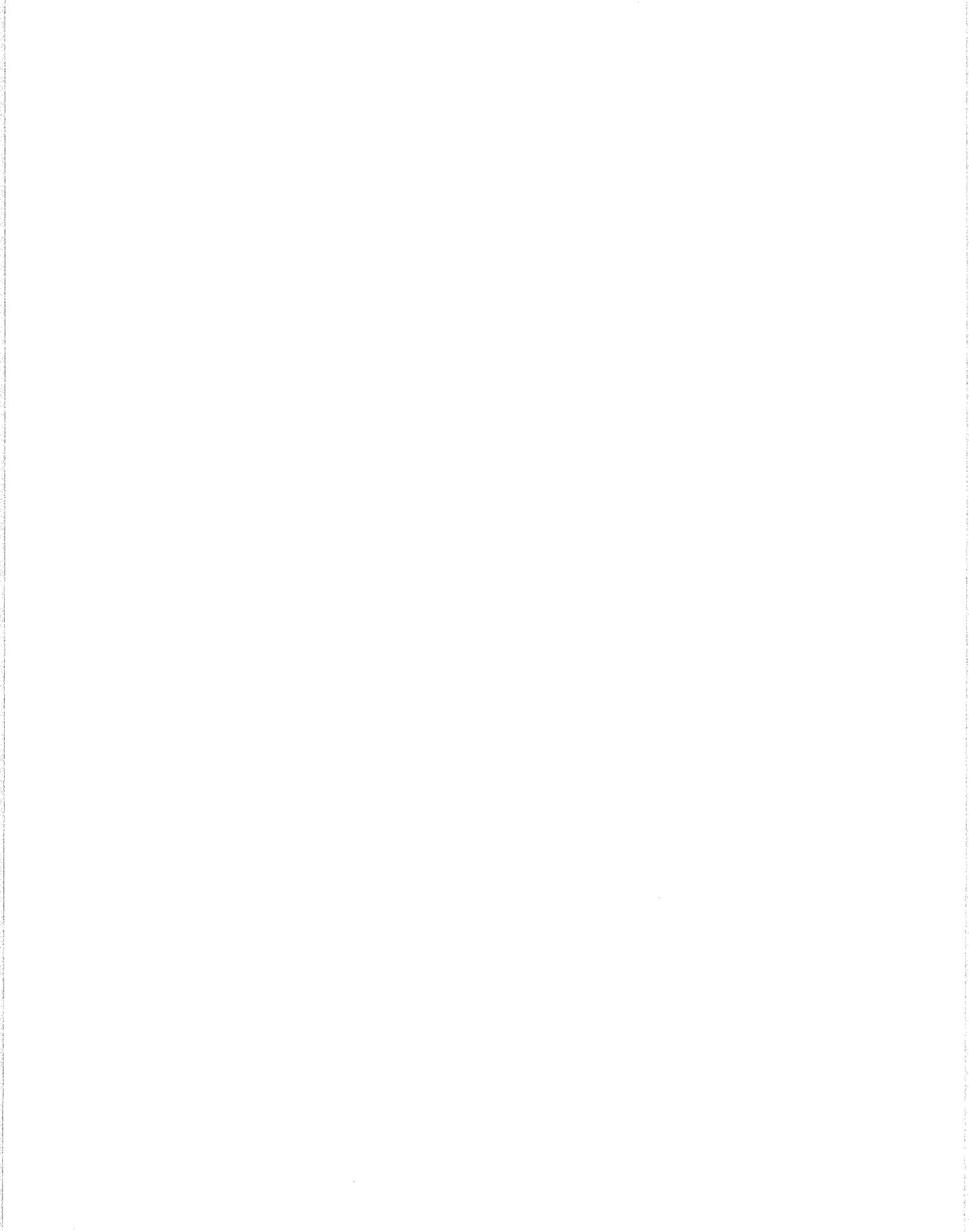
TOWN OF WILKESBORO, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire:			
Volunteer Salaries and Benefits		\$ 6,764	
Retirement Benefits Paid		26,600	
Other Operating Expenditures		172,401	
TOTAL	<u>\$ 219,951</u>	<u>\$ 205,765</u>	<u>\$ 14,186</u>
Inspections:			
Salaries and Employee Benefits		\$ 97,014	
Other Operating Expenditures		10,155	
TOTAL	<u>\$ 126,530</u>	<u>\$ 107,169</u>	<u>\$ 19,361</u>
 TOTAL PUBLIC SAFETY	 <u>\$ 1,464,008</u>	 <u>\$ 1,404,644</u>	 <u>\$ 59,364</u>
Transportation:			
Streets:			
Salaries and Employee Benefits		\$ 130,985	
Other Operating Expenditures		507,720	
Capital Outlay		38,083	
TOTAL TRANSPORTATION	<u>\$ 693,560</u>	<u>\$ 676,788</u>	<u>\$ 16,772</u>
Environmental Protection:			
Sanitation:			
Salaries and Employee Benefits		\$ 133,292	
Other Operating Expenditures		76,906	
Landfill Tipping Fees		34,068	
Capital Outlay		98,308	
TOTAL ENVIRONMENTAL PROTECTION	<u>\$ 354,510</u>	<u>\$ 342,574</u>	<u>\$ 11,936</u>
Culture and Recreation:			
Parks and Recreation:			
Salaries and Employee Benefits		\$ 101,153	
Other Operating Expenditures		46,735	
Capital Outlay		65,582	
TOTAL	<u>\$ 367,000</u>	<u>\$ 213,470</u>	<u>\$ 153,530</u>
Tourism:			
Tourism Development	<u>\$ 150,000</u>	<u>\$ 121,708</u>	<u>\$ 28,292</u>
TOTAL CULTURAL AND RECREATIONAL	<u>\$ 517,000</u>	<u>\$ 335,178</u>	<u>\$ 181,822</u>



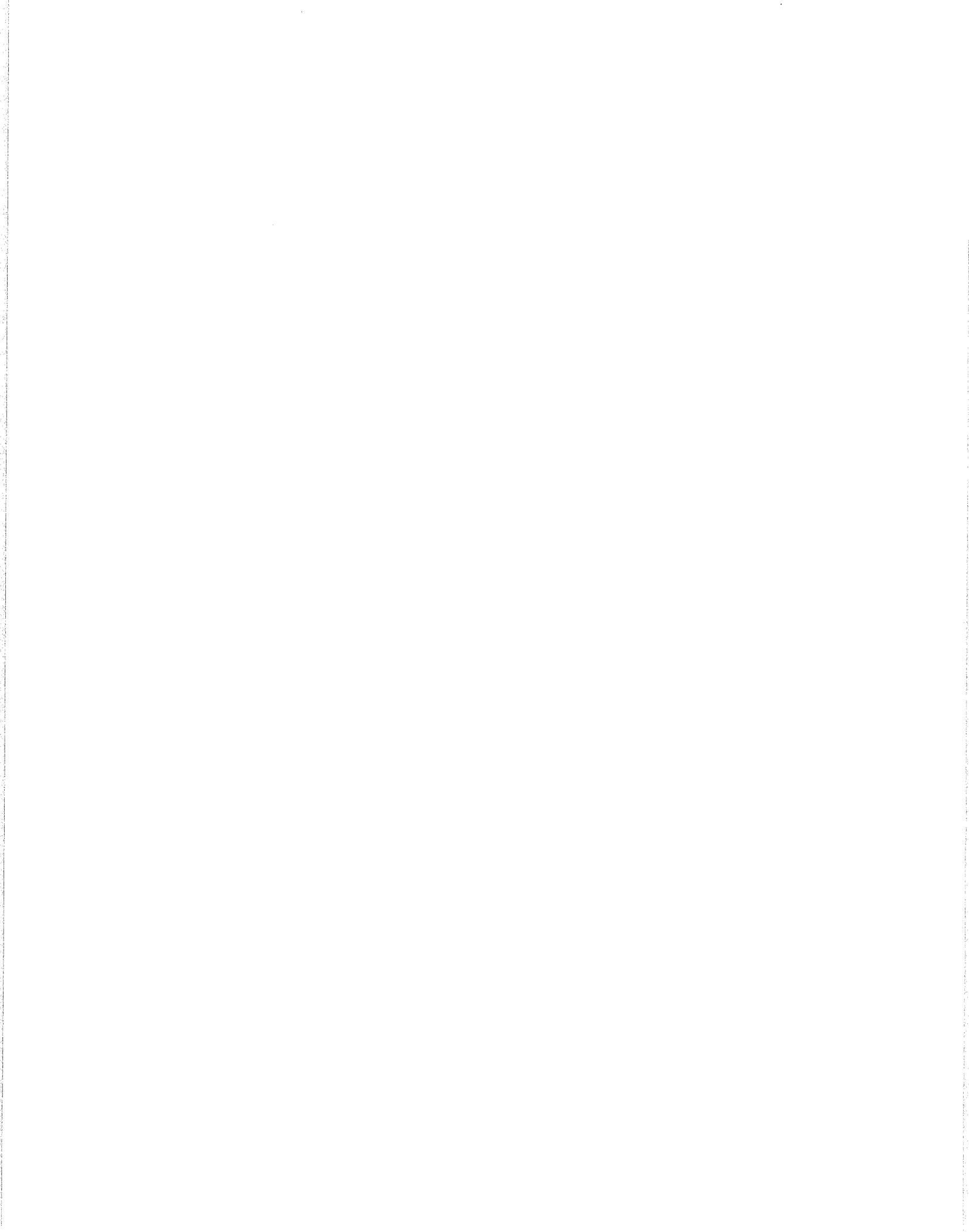
TOWN OF WILKESBORO, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Debt Service:			
Principal Retirement		\$ 155,556	
Interest and Other Charges		<u>34,334</u>	
TOTAL DEBT SERVICE	<u>\$ 126,605</u>	<u>\$ 189,890</u>	<u>\$ (63,285)</u>
TOTAL EXPENDITURES	<u>\$ 4,187,636</u>	<u>\$ 3,928,988</u>	<u>\$ 258,648</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (501,677)</u>	<u>\$ (351,217)</u>	<u>\$ 150,460</u>
OTHER FINANCING SOURCES (USES):			
Transfers from Other Funds:			
Water and Sewer Fund	\$ 70,000	\$ 70,000	\$ 0
Water and Sewer Capital Reserve Fund	0	4,724	4,724
Proceeds from Issuance of Debt	<u>152,200</u>	<u>152,200</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 222,200</u>	<u>\$ 226,924</u>	<u>\$ 4,724</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (279,477)</u>	<u>\$ (124,293)</u>	<u>\$ 155,184</u>
Appropriated Fund Balance	<u>279,477</u>	<u>0</u>	<u>(279,477)</u>
REVENUES, OTHER FINANCING SOURCES, AND APPROPRIATED FUND BALANCE OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 0</u>	<u>\$ (124,293)</u>	<u>\$ (124,293)</u>
Fund Balances, Beginning as Previously Reported		\$ 1,791,089	
Prior Period Adjustment		<u>86,533</u>	
Fund Balances, Beginning as Restated		<u>\$ 1,877,622</u>	
Fund Balances, Ending		<u>\$ 1,753,329</u>	



TOWN OF WILKESBORO, NORTH CAROLINA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2004

	<u>SPECIAL REVENUE FUNDS</u>		
	Grant Project Fund	Heritage Museum Fund	Total Nonmajor Special Revenue Funds
ASSETS			
Cash and cash equivalents	<u>\$ 50,372</u>	<u>\$ 24,651</u>	<u>\$ 75,023</u>
TOTAL ASSETS	<u><u>\$ 50,372</u></u>	<u><u>\$ 24,651</u></u>	<u><u>\$ 75,023</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable		\$ 21,012	\$ 21,012
Unearned revenue	<u>\$ 50,372</u>	_____	<u>50,372</u>
TOTAL LIABILITIES	<u><u>\$ 50,372</u></u>	<u><u>\$ 21,012</u></u>	<u><u>\$ 71,384</u></u>
FUND BALANCES			
Unreserved	_____	\$ 3,639	<u>\$ 3,639</u>
TOTAL FUND BALANCES	_____	<u>\$ 3,639</u>	<u>\$ 3,639</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 50,372</u></u>	<u><u>\$ 24,651</u></u>	<u><u>\$ 75,023</u></u>



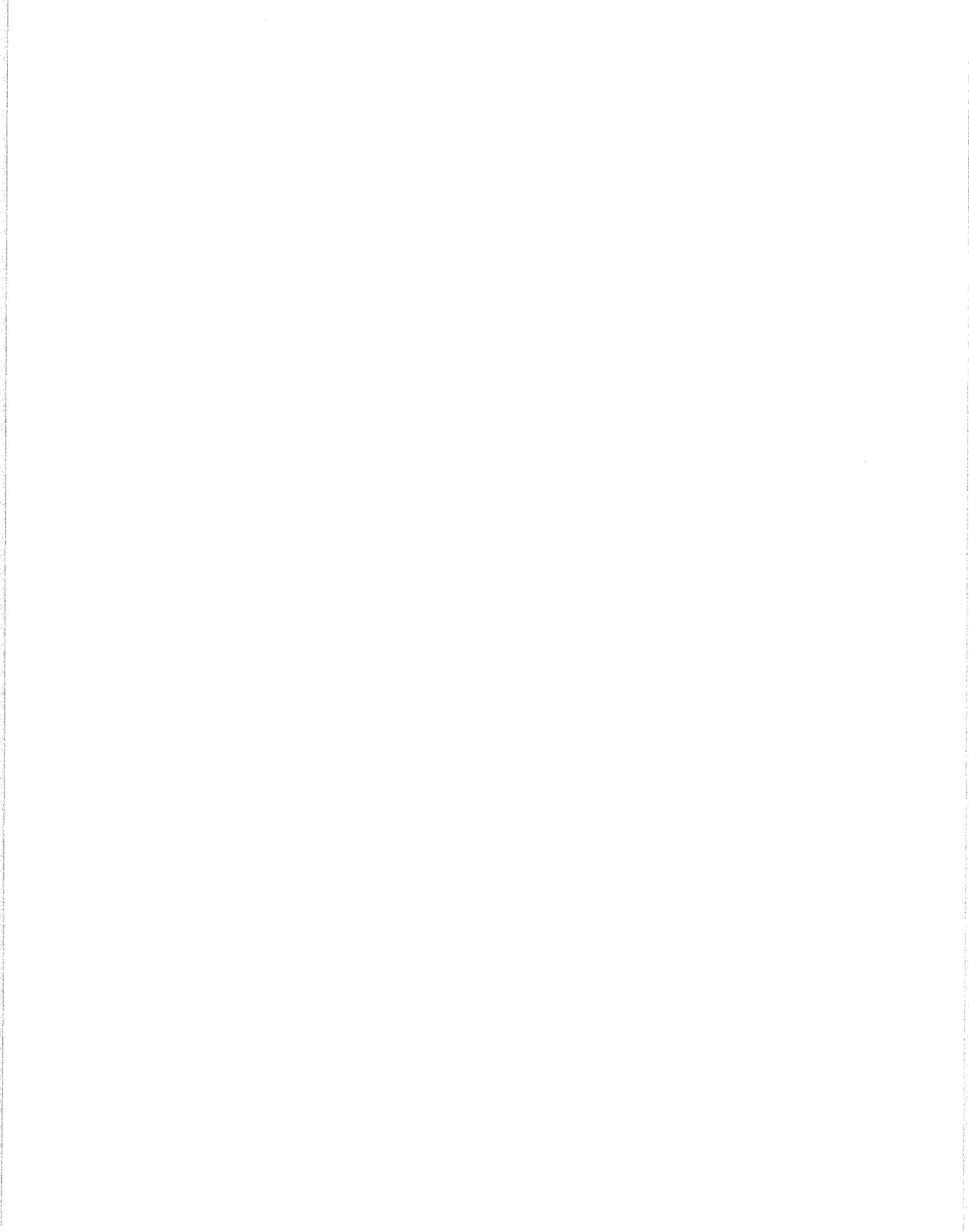
TOWN OF WILKESBORO, NORTH CAROLINA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended June 30, 2004

	<u>SPECIAL REVENUE FUNDS</u>		
	<u>Grant Project Fund</u>	<u>Heritage Museum Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
REVENUES:			
Restricted intergovernmental	\$ 89		\$ 89
Miscellaneous	<u> </u>	\$ 24,651	<u>24,651</u>
TOTAL REVENUES	<u>\$ 89</u>	<u>\$ 24,651</u>	<u>\$ 24,740</u>
EXPENDITURES:			
Current:			
Cultural and Recreation	<u>\$ 89</u>	\$ 21,012	<u>\$ 21,101</u>
TOTAL EXPENDITURES	<u>\$ 89</u>	<u>\$ 21,012</u>	<u>\$ 21,101</u>
REVENUES OVER (UNDER) EXPENDITURES	\$ 0	\$ 3,639	\$ 3,639
Fund balance, beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
Fund balance, end of year	<u>\$ 0</u>	<u>\$ 3,639</u>	<u>\$ 3,639</u>



TOWN OF WILKESBORO, NORTH CAROLINA
SPECIAL REVENUE FUND—GRANT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—BUDGET AND ACTUAL
From Inception and for the Fiscal Year Ended June 30, 2004

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
REVENUES:					
Restricted intergovernmental Government Grant	\$ 59,200	\$ 8,739	\$ 89	\$ 8,828	\$ (50,372)
EXPENDITURES:					
Current:					
Culture and Recreation	\$ 61,000	\$ 8,739	\$ 89	\$ 8,828	\$ 52,172
REVENUES UNDER EXPENDITURES	\$ (1,800)	\$ 0	\$ 0	\$ 0	\$ 1,800
OTHER FINANCING SOURCES:					
Transfer from General Fund	1,800	0	0	0	(1,800)
REVENUES AND OTHER SOURCES OVER EXPENDITURES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Fund balance, beginning of year			0		
Fund balance, end of year			\$ 0		



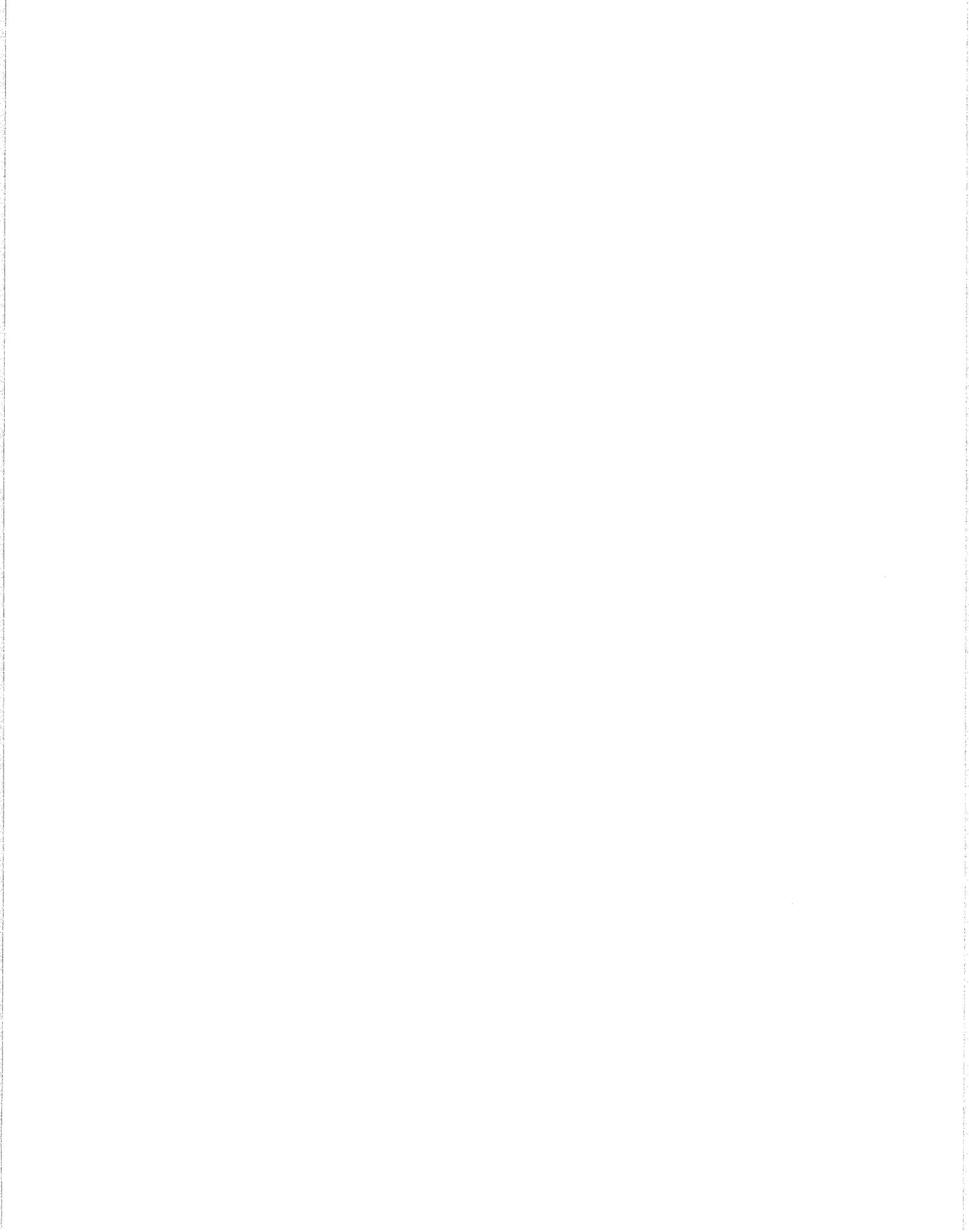
TOWN OF WILKESBORO, NORTH CAROLINA
 SPECIAL REVENUE FUND-HERITAGE MUSEUM FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES--BUDGET AND ACTUAL
 From Inception and for the Fiscal Year Ended June 30, 2004

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES:					
Restricted intergovernmental Government Grants	\$ 98,603				\$ (98,603)
Miscellaneous Revenues	<u>24,651</u>		\$ 24,651	\$ 24,651	
Total	<u>\$ 123,254</u>		<u>\$ 24,651</u>	<u>\$ 24,651</u>	<u>\$ (98,603)</u>
EXPENDITURES:					
Current:					
Culture and Recreation	\$ 123,254		\$ 21,012	\$ 21,012	\$ 102,242
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 0</u>		\$ 3,639	<u>\$ 3,639</u>	<u>\$ 3,639</u>
Fund balance, beginning of year			<u>0</u>		
Fund balance, end of year			<u>\$ 3,639</u>		



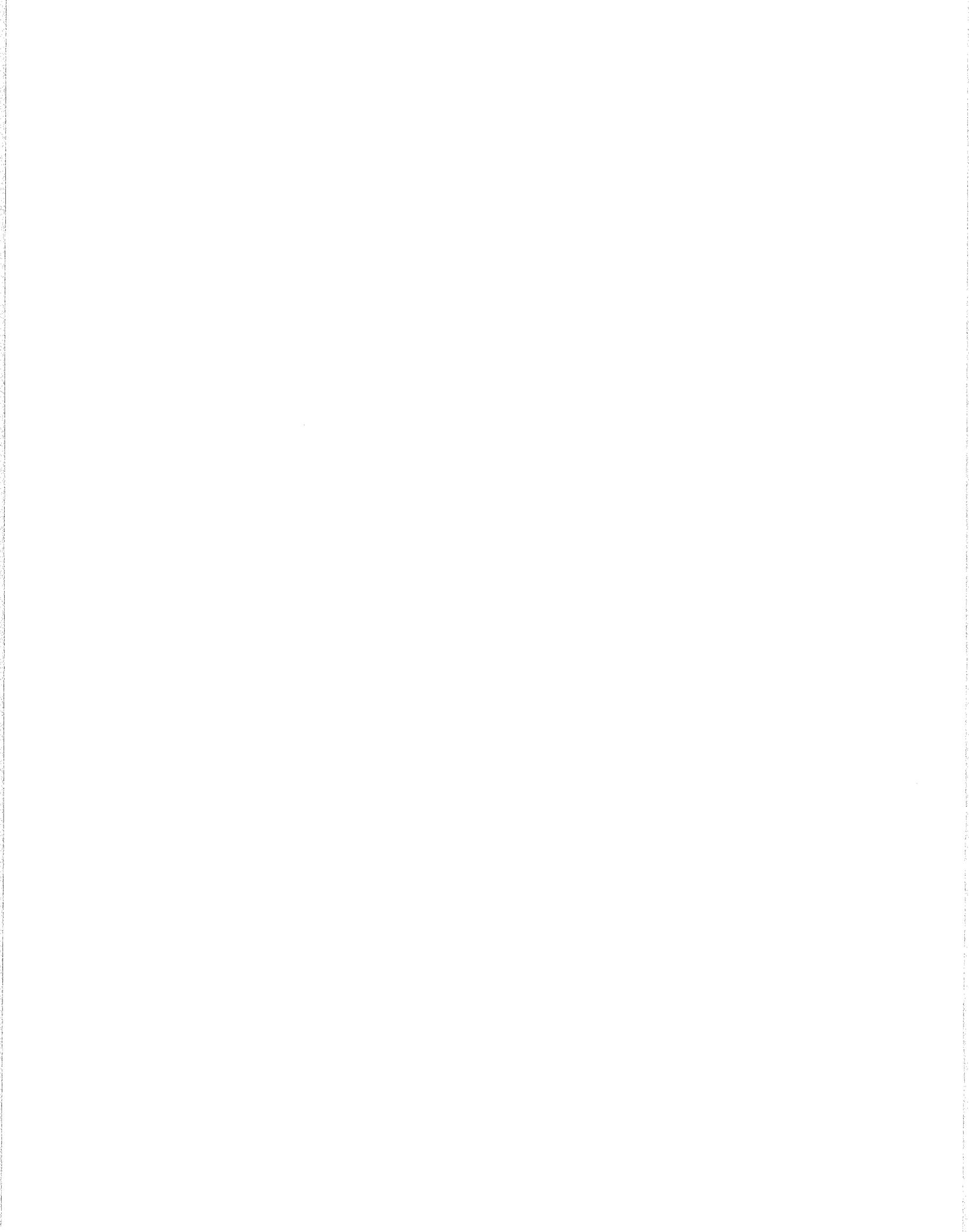
TOWN OF WILKESBORO, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (Non-GAAP)
For the Fiscal Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES:			
Operating Revenues:			
Water Sales	\$ 1,260,000	\$ 1,179,422	\$ (80,578)
Sewer Charges	1,535,000	1,370,375	(164,625)
Water and Sewer Taps	<u>20,000</u>	<u>69,560</u>	<u>49,560</u>
TOTAL OPERATING REVENUES	<u>\$ 2,815,000</u>	<u>\$ 2,619,357</u>	<u>\$ (195,643)</u>
Nonoperating Revenues:			
Interest Earnings	\$ 20,000	\$ 3,830	\$ (16,170)
Miscellaneous	<u>30,000</u>	<u>104,884</u>	<u>74,884</u>
TOTAL NONOPERATING REVENUES	<u>\$ 50,000</u>	<u>\$ 108,714</u>	<u>\$ 58,714</u>
TOTAL REVENUES	<u>\$ 2,865,000</u>	<u>\$ 2,728,071</u>	<u>\$ (136,929)</u>
EXPENDITURES:			
Water Treatment and Distribution:			
Salaries and Employee Benefits		\$ 335,387	
Utilities		149,419	
Other Operating Expenditures		<u>273,892</u>	
TOTAL	<u>\$ 788,196</u>	<u>\$ 758,698</u>	<u>\$ 29,498</u>
Waste Collection and Treatment:			
Salaries and Employee Benefits		\$ 363,157	
Utilities		208,751	
Other Operating Expenditures		<u>255,672</u>	
TOTAL	<u>\$ 859,962</u>	<u>\$ 827,580</u>	<u>\$ 32,382</u>
Maintenance:			
Salaries and Employee Benefits		\$ 342,889	
Other Operating Expenditures		<u>579,136</u>	
TOTAL	<u>\$ 1,051,000</u>	<u>\$ 922,025</u>	<u>\$ 128,975</u>
Capital Outlay:			
Water Improvements and Extensions		\$ 373,029	
Sewer Improvements and Extensions		88,360	
Equipment		<u>225,007</u>	
TOTAL	<u>\$ 757,970</u>	<u>\$ 686,396</u>	<u>\$ 71,574</u>
TOTAL EXPENDITURES	<u>\$ 3,457,128</u>	<u>\$ 3,194,699</u>	<u>\$ 262,429</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (592,128)</u>	<u>\$ (466,628)</u>	<u>\$ 125,500</u>



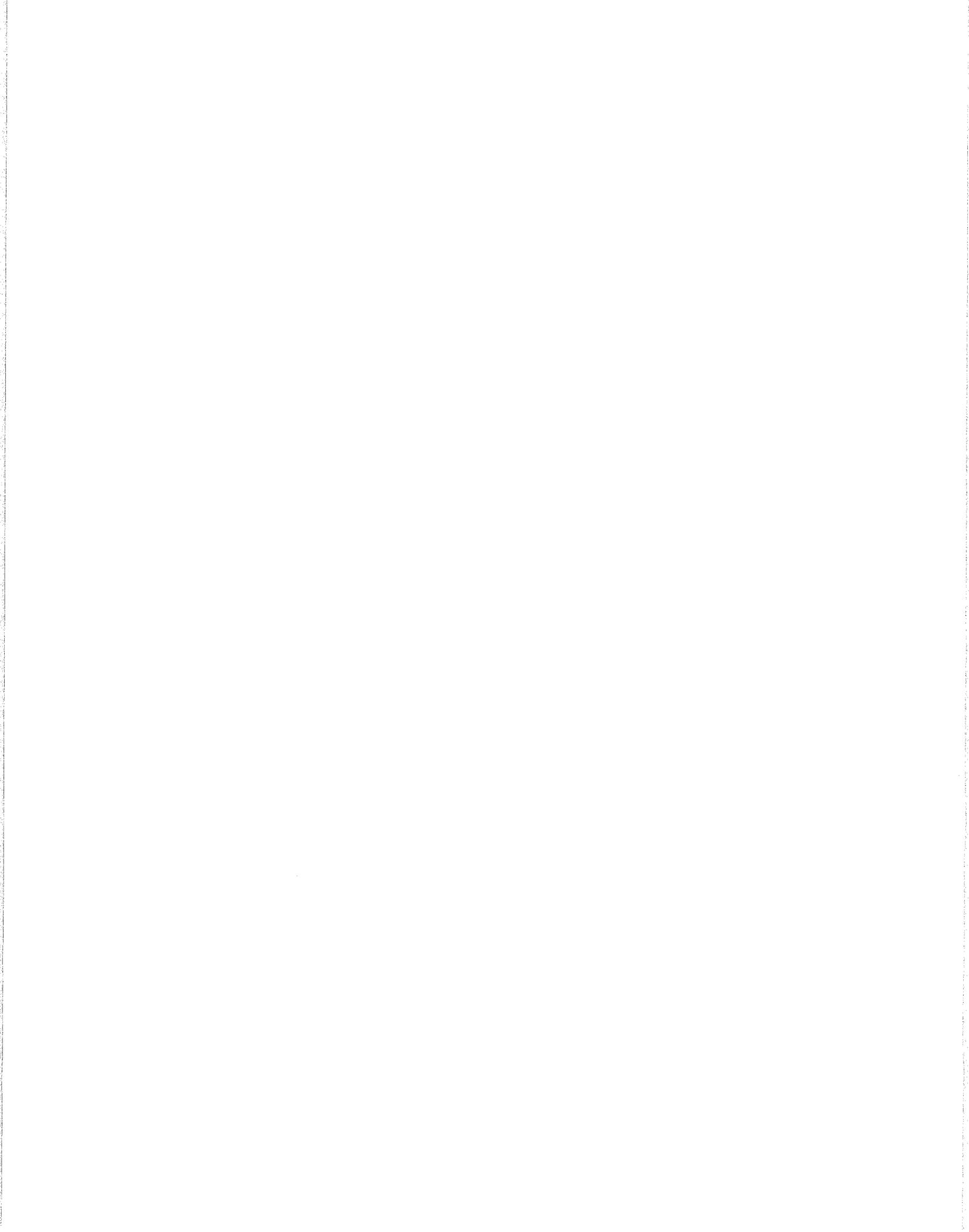
TOWN OF WILKESBORO, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (Non-GAAP)
For the Fiscal Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
OTHER FINANCING SOURCES (USES):			
Grants and Contributions	\$ 400,000	\$ 100,000	\$ (300,000)
Transfers from Other Funds:			
Water and Sewer Capital Reserve Fund	0	70,000	70,000
Transfers to Other Funds:			
Water and Sewer Capital Projects Fund	(65,000)	(65,000)	0
General Fund	(70,000)	(70,000)	0
Proceeds from Issuance of Debt	<u>35,800</u>	<u>35,800</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 300,800</u>	<u>\$ 70,800</u>	<u>\$ (230,000)</u>
 REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 \$ (291,328)	 \$ (395,828)	 \$ (104,500)
Appropriated Retained Earnings	<u>291,328</u>	<u>0</u>	<u>(291,328)</u>
 REVENUES, OTHER SOURCES, AND APPROPRIATED RETAINED EARNINGS EARNINGS OVER (UNDER) EXPENDITURES AND OTHER USES	 <u>\$ 0</u>	 <u>\$ (395,828)</u>	 <u>\$ (395,828)</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
 REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		<u>\$ (395,828)</u>	
Reconciling Items:			
Capital Outlay		\$ 686,396	
(Increase) Decrease in Accrued Vacation Pay		(1,024)	
Depreciation		(482,428)	
Increase (Decrease) in Inventory		210,806	
Increase (Decrease) in Accounts Receivable		16,879	
Transfer to Water and Sewer Capital Projects Fund		65,000	
Transfer from Water and Sewer Capital Reserve Fund		(70,000)	
Transfer to General Fund from Water and Sewer Capital Reserve Fund		(4,724)	
Interest Earned in the Water and Sewer Capital Reserve Fund		16,107	
Loan Proceeds		<u>(35,800)</u>	
TOTAL RECONCILING ITEMS		<u>\$ 401,212</u>	
 NET INCOME		<u>\$ 5,384</u>	



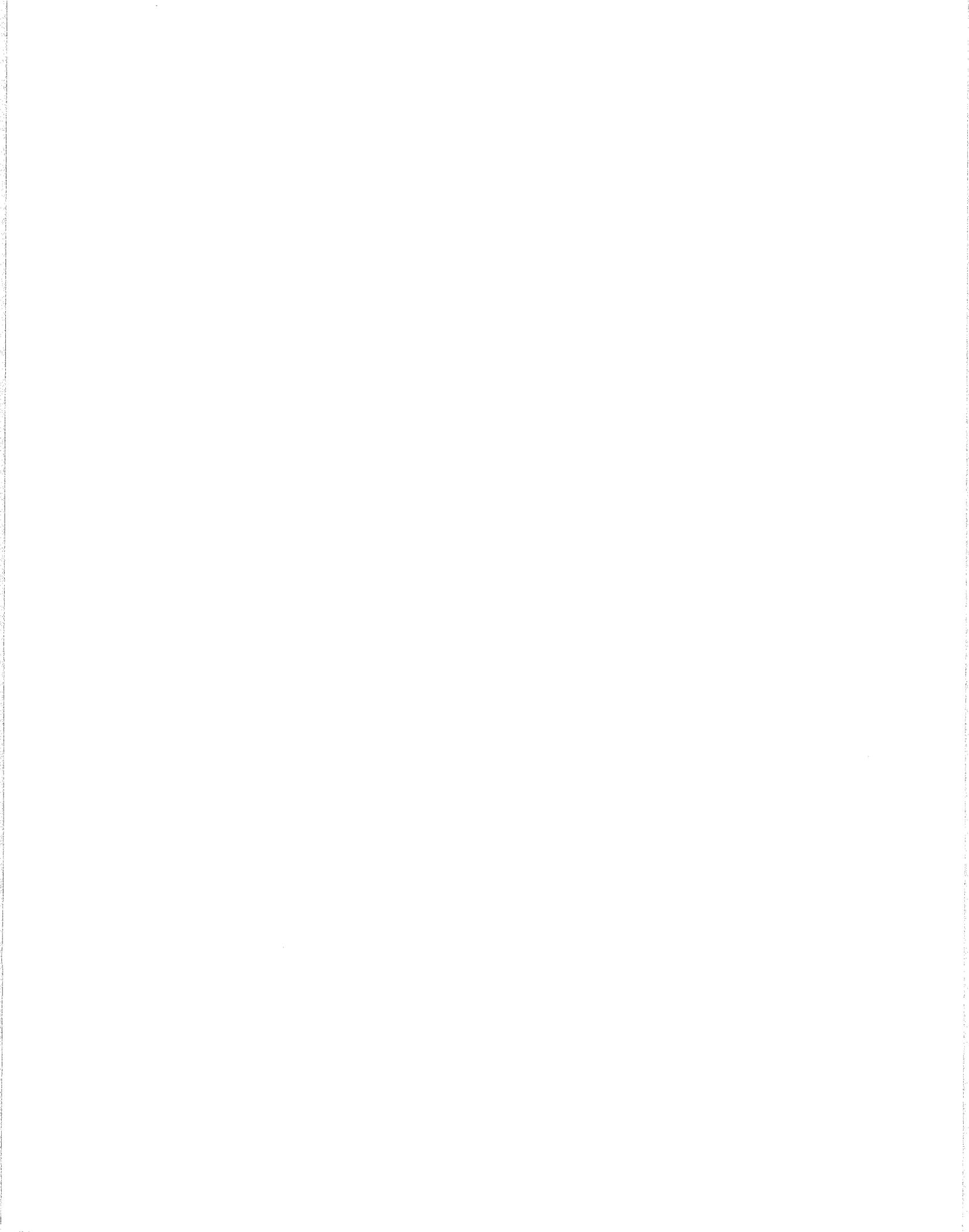
TOWN OF WILKESBORO, NORTH CAROLINA
 WATER AND SEWER CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (Non-GAAP)
 From Inception and for the Fiscal Year Ended June 30, 2004

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues - Hwy 421 Sewer Extension Contribution	<u>\$ 1,305,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(1,305,000)</u>
Revenues - 30" Water Distribution Line Restricted Intergovernmental Federal Grant	<u>\$ 200,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (200,000)</u>
Revenues - Clearwell Restricted Intergovernmental Federal Grant	<u>\$ 1,000,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(1,000,000)</u>
TOTAL REVENUES	<u>\$ 2,505,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(2,505,000)</u>
Expenditures - Hwy 421 Sewer Extension Construction	<u>\$ 1,696,000</u>	<u>\$ 310,059</u>	<u>\$ 24,846</u>	<u>\$ 334,905</u>	<u>\$ 1,361,095</u>
Expenditures - 30" Water Distribution Line Construction	<u>\$ 440,000</u>	<u>\$ 0</u>	<u>\$ 435,380</u>	<u>\$ 435,380</u>	<u>\$ 4,620</u>
Expenditures - Curtis Bridge Booster Pump Station Construction	<u>\$ 225,000</u>	<u>\$ 0</u>	<u>\$ 169,435</u>	<u>\$ 169,435</u>	<u>\$ 55,565</u>
Expenditures - Clearwell Construction	<u>\$ 3,733,696</u>	<u>\$ 0</u>	<u>\$ 596,517</u>	<u>\$ 596,517</u>	<u>\$ 3,137,179</u>
Expenditures - Tyson Project Construction	<u>\$ 3,882,348</u>	<u>\$ 0</u>	<u>\$ 194,500</u>	<u>\$ 194,500</u>	<u>\$ 3,687,848</u>
Expenditures - Tank Painting Painting	<u>\$ 135,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 135,000</u>
TOTAL EXPENDITURES	<u>\$10,112,044</u>	<u>\$ 310,059</u>	<u>\$ 1,420,678</u>	<u>\$ 1,730,737</u>	<u>\$ 8,381,307</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$(7,607,044)</u>	<u>\$(310,059)</u>	<u>\$(1,420,678)</u>	<u>\$(1,730,737)</u>	<u>\$ 5,876,307</u>
Other Financing Sources					
Proceeds from Issuance of Debt	<u>\$ 6,321,538</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(6,321,538)</u>
Transfer from Water and Sewer Fund	<u>765,006</u>	<u>530,000</u>	<u>65,000</u>	<u>595,000</u>	<u>(170,006)</u>
Transfer from Water and Sewer Capital Reserve Fund	<u>520,500</u>	<u>311,000</u>	<u>570,245</u>	<u>881,245</u>	<u>360,745</u>
TOTAL OTHER FINANCING SOURCES	<u>\$ 7,607,044</u>	<u>\$ 841,000</u>	<u>\$ 635,245</u>	<u>\$ 1,476,245</u>	<u>\$(6,130,799)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ 0</u>	<u>\$ 530,941</u>	<u>\$(785,433)</u>	<u>\$(254,492)</u>	<u>\$(254,492)</u>



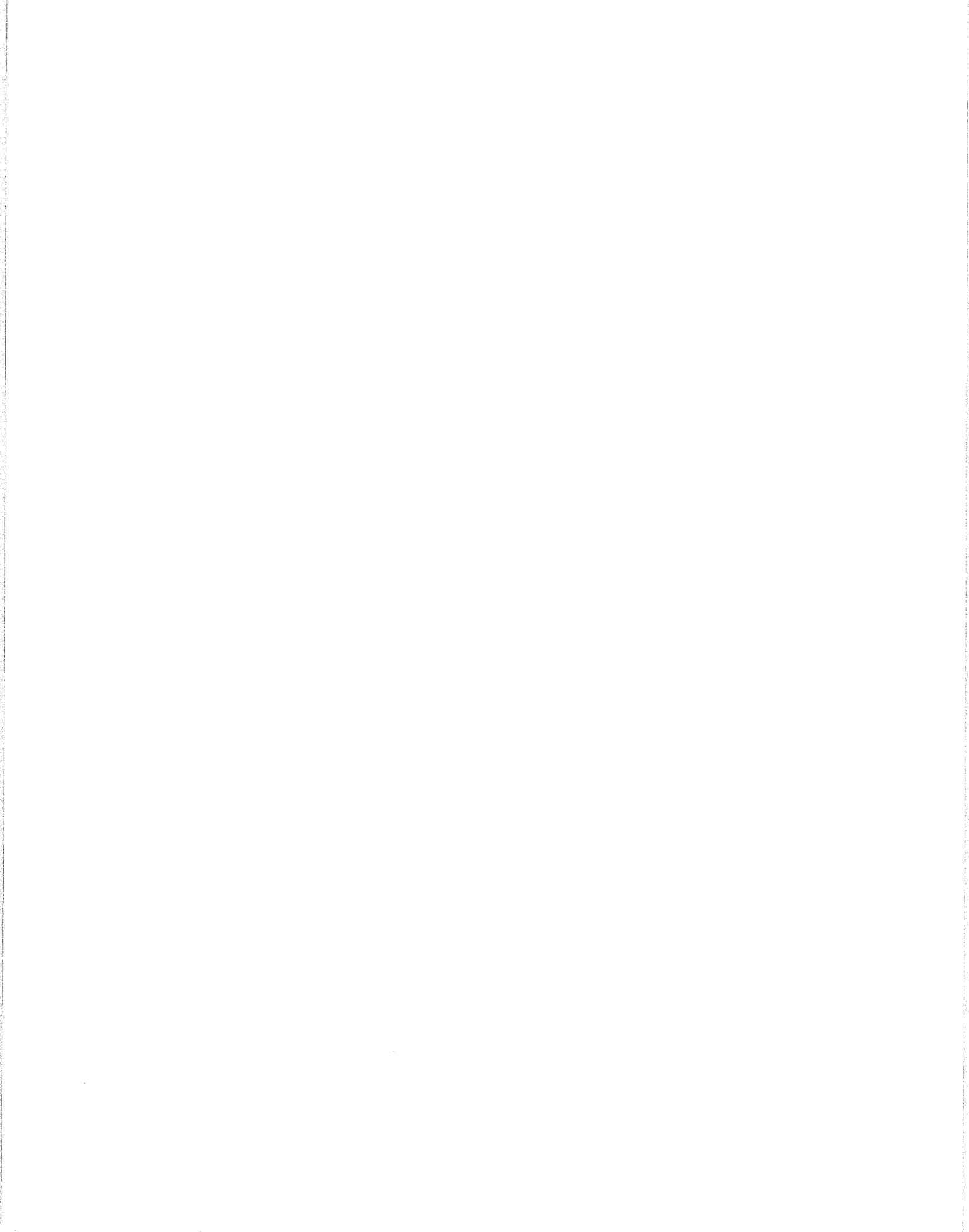
TOWN OF WILKESBORO, NORTH CAROLINA
 WATER AND SEWER CAPITAL RESERVE FUND
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (Non-GAAP)
 From Inception and for the Fiscal Year Ended June 30, 2004

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
REVENUES:					
Investment Earnings	\$ 0	\$ 50,520	\$ 16,107	\$ 66,627	\$ 66,627
Other Financing Sources (Uses)					
Transfer from Water and Sewer Fund	\$ 641,336	\$ 641,336		\$ 641,336	
Proceeds from issuance of Debt			\$ 4,100,000	4,100,000	\$ 4,100,000
Transfer to Water and Sewer Fund	(330,336)		(70,000)	(70,000)	260,336
Transfer to Water and Sewer Capital Project Fund	(311,000)	(311,000)	(570,245)	(881,245)	(570,245)
Transfer to General Fund			(4,724)	(4,724)	(4,724)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 0	\$ 330,336	\$ 3,455,031	\$ 3,785,367	\$ 3,785,367
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES					
	\$ 0	\$ 380,856	\$ 3,471,138	\$ 3,851,994	\$ 3,851,994



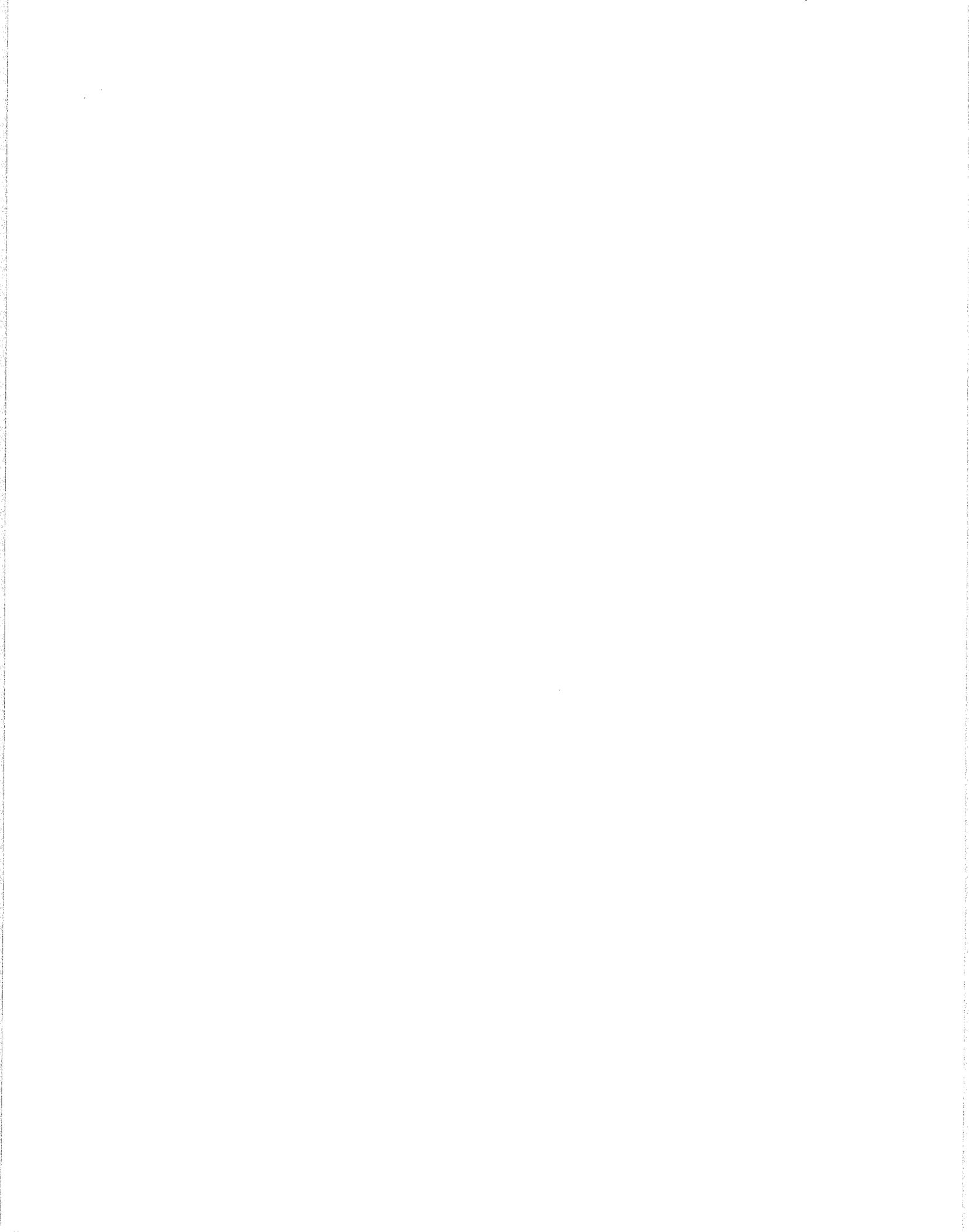
TOWN OF WILKESBORO, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2004

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2003</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2004</u>
2003-2004		\$ 1,868,700	\$ 1,806,947	\$ 61,753
2002-2003	\$ 61,072		39,983	21,089
2001-2002	18,213		5,001	13,212
2000-2001	30,972		3,885	27,087
1999-2000	8,631		2,596	6,035
1998-1999	7,202		1,340	5,862
1997-1998	14,081		10,448	3,633
1996-1997	5,245		373	4,872
1995-1996	8,357		6,351	2,006
1994-1995	8,598		5,263	3,335
1993-1994	<u>4,527</u>		<u>4,527</u>	<u>0</u>
Total	<u>\$ 166,898</u>	<u>\$ 1,868,700</u>	<u>\$ 1,886,714</u>	<u>\$ 148,884</u>
Plus: Uncollected 2004-2005 Ad Valorem Taxes receivable on annually registered vehicles				330
Less: Allowance for Uncollectible Accounts General Fund				<u>(75,600)</u>
AD VALOREM TAXES RECEIVABLE - NET				<u>\$ 73,614</u>
RECONCILEMENT WITH REVENUES:				
Taxes - Ad Valorem Taxes - General Fund				<u>\$ 1,906,263</u>
Reconciling Items:				
Interest Collected				\$ (27,610)
Taxes Written off				4,527
Prior Years Releases				<u>3,534</u>
Subtotal				<u>\$ (19,549)</u>
TOTAL COLLECTIONS AND CREDITS				<u>\$ 1,886,714</u>



TOWN OF WILKESBORO, NORTH CAROLINA
 ANALYSIS OF CURRENT TAX LEVY
 For the Fiscal Year Ended June 30, 2004

	Town-Wide		Total Levy		
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 560,390,870	\$.34	\$ 1,905,310	\$ 1,812,240	\$ 93,070
Discoveries:					
Current year taxes	\$ 58,760		\$ 200	\$ 200	
Prior years taxes			2,932	2,932	
TOTAL	\$ 58,760		\$ 3,132	\$ 3,132	
Abatements	\$ (11,688,755)		\$ (39,742)	\$ (36,774)	\$ (2,968)
TOTAL PROPERTY VALUATION	\$ 548,760,875				
Net Levy			\$ 1,868,700	\$ 1,778,598	\$ 90,102
Uncollected Taxes at June 30, 2004			61,753	55,789	5,964
Current Year's Taxes Collected			\$ 1,806,947	\$ 1,722,809	\$ 84,138
Current Levy Collection Percentage			96.70%	96.86%	93.38%



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NORTH CAROLINA ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

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

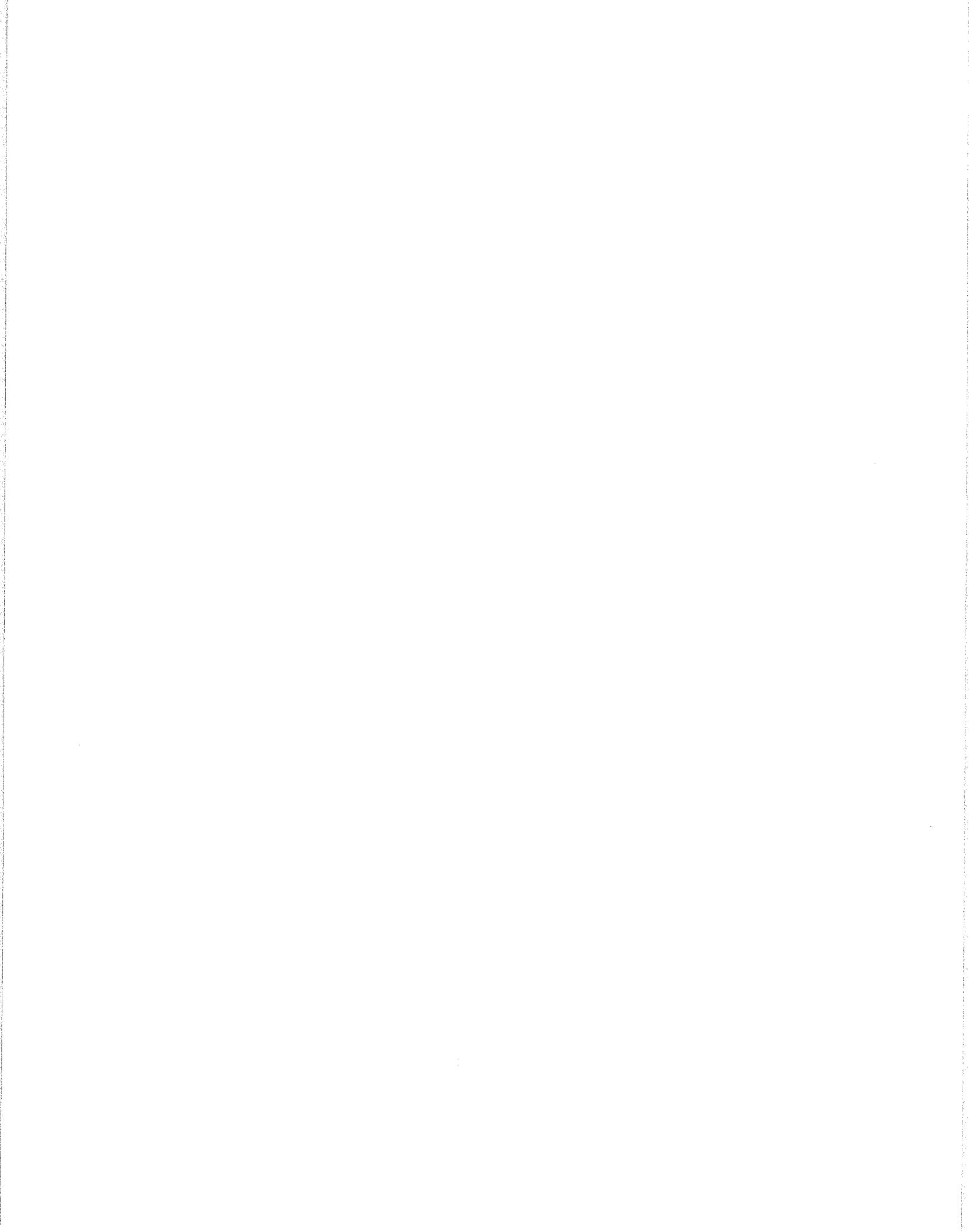
To the Honorable Mayor and
Board of Commissioners
Town of Wilkesboro
North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregated remaining fund information of the Town of Wilkesboro, North Carolina, as of and for the year ended June 30, 2004, which collectively comprises the Town of Wilkesboro's basic financial statements, and have issued our report thereon dated December 17, 2004. We did not audit the financial statements of the Town of Wilkesboro ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it related to the amounts included for the Town of Wilkesboro ABC Board, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The financial statements of the Town's component units, the Town of Wilkesboro ABC Board and the Wilkesboro Tourism Development, Convention, and Visitors Bureau, were not audited in accordance with Government Auditing Standards.

As discussed in Note 1 to the financial statements, the Town adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments (as amended by Statement No. 37).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Wilkesboro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Wilkesboro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the Town of Wilkesboro, in a separate letter dated December 17, 2004.

This report is intended solely for the information and use of the management, others within the organization and members of the Board and is not intended to be and should not be used by anyone other than these specific parties.

Benson, Blevins & Associates, PLLC
Certified Public Accountants

December 17, 2004

