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Certified Public Accountants

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**TOWN OF WILKESBORO  
NORTH CAROLINA  
AUDIT REPORT  
JUNE 30, 2005**

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**CERTIFIED PUBLIC ACCOUNTANTS  
LENOIR, NORTH CAROLINA**



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FINANCIAL SECTION

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**Independent Auditor's Report**

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, 2005, 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 nor the Wilkesboro Tourism Development, Convention, and Visitors Bureau which represents 1.53 percent and 0.82 percent; and 1.37 percent and 0.86 percent; and 15.05 percent and 1.63 percent respectively of the assets, net assets, and revenues of the governmental activities and business-type activities. 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 and the Wilkesboro Tourism Development, Convention, and Visitors Bureau was based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United State 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, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2005, 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.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions on pages 3 through 9, 35 and 36 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statement of the Town of Wilkesboro, North Carolina. The introductory information, combining, and individual non-major fund financial statements and schedules and the statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied by us and other auditors in the basic financial statements and, accordingly, we express no opinion on them.



Huntley, Sigmon, Walton & Wilson  
Certified Public Accountants  
November 15, 2005

# 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, 2005. 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

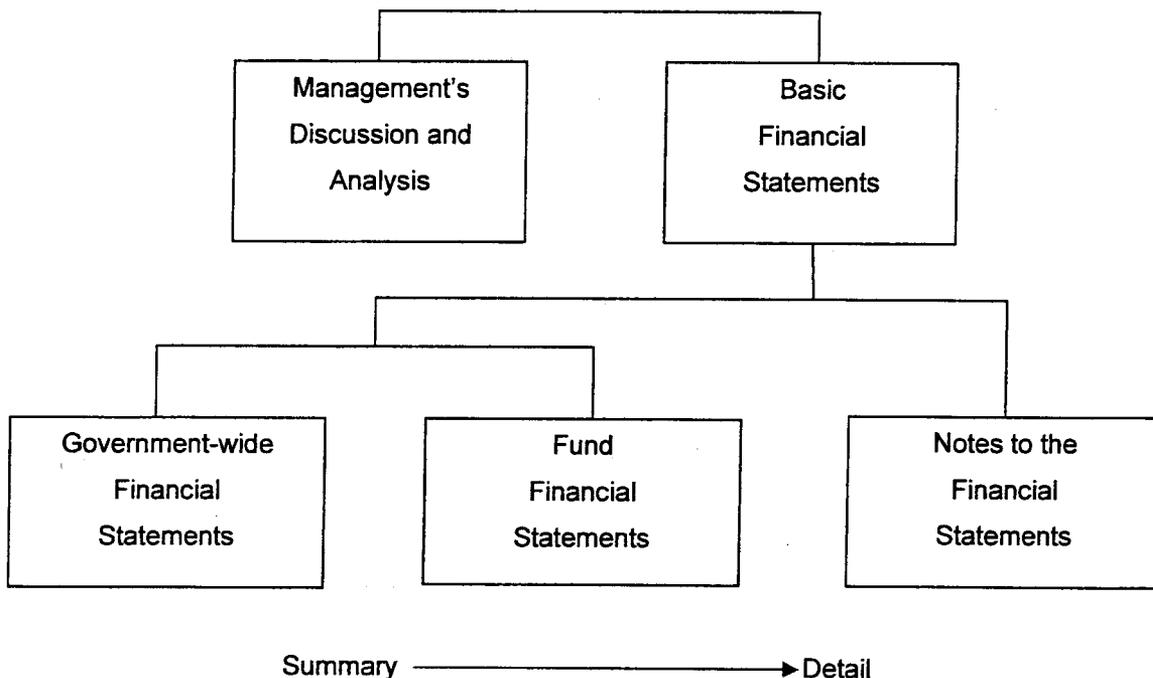
- The assets of the Town of Wilkesboro exceeded its liabilities at the close of the fiscal year by \$22,944,275 (*net assets*).
- The government's total net assets increased by \$1,634,894, primarily due to an increase in the business-type activities net assets.
- As of the close of the current fiscal year, the Town of Wilkesboro's governmental funds reported combined ending fund balances of \$1,929,148. Approximately 54.0 percent of this total amount, or \$1,041,045, 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 \$1,041,045, or 29.3 percent of total general fund expenditures for the fiscal year.
- The Town of Wilkesboro's total debt decreased by \$145,747 (2.9%) during the current fiscal year.

## 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 gage 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 20-34 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 35 of this report.

### Government-Wide Financial Analysis

#### Town of Wilkesboro's Net Assets

Figure 2

|                             | Governmental Activities |              | Business-type Activities |               | Total         |               |
|-----------------------------|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
|                             | 6/30/2005               | 6/30/2004    | 6/30/2005                | 6/30/2004     | 6/30/2005     | 6/30/2004     |
| Current and other assets    | \$ 2,148,485            | \$ 2,035,204 | \$ 3,383,534             | \$ 4,853,196  | \$ 5,532,019  | \$ 6,888,400  |
| Capital assets              | 3,210,233               | 3,340,850    | 20,380,410               | 16,647,718    | 23,590,643    | 19,988,568    |
| Total assets                | \$ 5,358,718            | \$ 5,376,054 | \$ 23,763,944            | \$ 21,500,914 | \$ 29,122,662 | \$ 26,876,968 |
| Long-term liabilities       |                         |              |                          |               |               |               |
| outstanding                 | \$ 740,506              | \$ 871,524   | \$ 4,134,749             | \$ 4,149,478  | \$ 4,875,255  | \$ 5,021,002  |
| Other liabilities           | 155,695                 | 204,622      | 1,147,437                | 341,963       | 1,303,132     | 546,585       |
| Total liabilities           | \$ 896,201              | \$ 1,076,146 | \$ 5,282,186             | \$ 4,491,441  | \$ 6,178,387  | \$ 5,567,587  |
| Net assets:                 |                         |              |                          |               |               |               |
| Invested in capital assets, |                         |              |                          |               |               |               |
| net of related debt         | \$ 2,586,717            | \$ 2,561,069 | \$ 17,530,337            | \$ 16,109,419 | \$ 20,117,054 | \$ 18,670,488 |
| Restricted                  | 265,619                 | 212,888      | -                        | -             | 265,619       | 212,888       |
| Unrestricted                | 1,610,181               | 1,525,951    | 951,421                  | 900,054       | 2,561,602     | 2,426,005     |
| Total net assets            | \$ 4,462,517            | \$ 4,299,908 | \$ 18,481,758            | \$ 17,009,473 | \$ 22,944,275 | \$ 21,309,381 |

Management's Discussion and Analysis  
**Town of Wilkesboro**

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 \$22,944,275 as of June 30, 2005. The Town's net assets increased by \$1,634,894 for the fiscal year ended June 30, 2005. However, the largest portion (87.7%) 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 \$265,619 (1.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,561,602 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 97.2%, which is comparable to the statewide average of 96.7%.

**Town of Wilkesboro Changes in Net Assets**

**Figure 3**

|  | <u>Governmental Activities</u> |                     | <u>Business-type Activities</u> |                      | <u>Total</u>         |                      |
|--|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|
|  | <u>6/30/2005</u>               | <u>6/30/2004</u>    | <u>6/30/2005</u>                | <u>6/30/2004</u>     | <u>6/30/2005</u>     | <u>6/30/2004</u>     |
| <b>Revenues:</b>                                   |                                |                     |                                 |                      |                      |                      |
| <b>Program revenues:</b>                           |                                |                     |                                 |                      |                      |                      |
| Charges for services                               | \$ 35,422                      | \$ 47,210           | \$ 3,321,042                    | \$ 2,634,122         | \$ 3,356,464         | \$ 2,681,332         |
| Operating grants and contributions                 | 397,087                        | 233,434             | -                               | -                    | 397,087              | 233,434              |
| Capital grants and contributions                   | -                              | -                   | 1,006,416                       | 100,000              | 1,006,416            | 100,000              |
| <b>General revenues:</b>                           |                                |                     |                                 |                      |                      |                      |
| Property taxes                                     | 1,876,773                      | 1,913,197           | -                               | -                    | 1,876,773            | 1,913,197            |
| Other taxes  | 1,213,577                      | 1,218,922           | -                               | -                    | 1,213,577            | 1,218,922            |
| <b>Other</b>                                       | <u>215,397</u>                 | <u>196,682</u>      | <u>220,480</u>                  | <u>126,935</u>       | <u>435,877</u>       | <u>323,617</u>       |
| Total revenues                                     | <u>\$ 3,738,256</u>            | <u>\$ 3,609,445</u> | <u>\$ 4,547,938</u>             | <u>\$ 2,861,057</u>  | <u>\$ 8,286,194</u>  | <u>\$ 6,470,502</u>  |
| <b>Expenses:</b>                                   |                                |                     |                                 |                      |                      |                      |
| General government                                 | \$ 1,098,972                   | \$ 1,021,731        | \$ -                            | \$ -                 | \$ 1,098,972         | \$ 1,021,731         |
| Public safety                                      | 1,529,524                      | 1,477,042           | -                               | -                    | 1,529,524            | 1,477,042            |
| Highways/streets                                   | 415,657                        | 674,876             | -                               | -                    | 415,657              | 674,876              |
| Sanitation   | 189,137                        | 261,880             | -                               | -                    | 189,137              | 261,880              |
| Culture and recreation                             | 385,693                        | 298,688             | -                               | -                    | 385,693              | 298,688              |
| Interest on long-term debt                         | 31,664                         | 34,334              | -                               | -                    | 31,664               | 34,334               |
| Water and sewer                                    | -                              | -                   | 3,000,653                       | 2,780,949            | 3,000,653            | 2,780,949            |
| Total expenses                                     | <u>\$ 3,650,647</u>            | <u>\$ 3,768,551</u> | <u>\$ 3,000,653</u>             | <u>\$ 2,780,949</u>  | <u>\$ 6,651,300</u>  | <u>\$ 6,549,500</u>  |
| Increase (decrease) in net assets before transfers | \$ 87,609                      | \$ (159,106)        | \$ 1,547,285                    | \$ 80,108            | \$ 1,634,894         | \$ (78,998)          |
| Transfers  | <u>75,000</u>                  | <u>74,724</u>       | <u>(75,000)</u>                 | <u>(74,724)</u>      | <u>-</u>             | <u>-</u>             |
| Increase (decrease) in net assets                  | \$ 162,609                     | \$ (84,382)         | \$ 1,472,285                    | \$ 5,384             | \$ 1,634,894         | \$ (78,998)          |
| Net assets, July 1                                 | <u>4,299,908</u>               | <u>4,384,290</u>    | <u>17,009,473</u>               | <u>17,004,089</u>    | <u>21,309,381</u>    | <u>21,388,379</u>    |
| Net assets, June 30                                | <u>\$ 4,462,517</u>            | <u>\$ 4,299,908</u> | <u>\$ 18,481,758</u>            | <u>\$ 17,009,473</u> | <u>\$ 22,944,275</u> | <u>\$ 21,309,381</u> |

**Governmental activities:** Governmental activities increased the Town's net assets by \$162,609. The key element of this increase in net assets is the fact that revenues and expenditures remained steady.

**Business-type activities:** Business-type activities increased the Town of Wilkesboro's net assets by \$1,472,285. The key element of this increase in net assets is the increase in capital grant revenues.

### 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.

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 \$1,041,045, while total fund balance reached \$1,929,148. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 29.3 percent of total General Fund expenditures, while total fund balance represents 54.4 percent of that same amount.

At June 30, 2005, the governmental funds of the Town of Wilkesboro reported a combined fund balance of \$1,929,148, a 9.8 percent increase over last year. Included in this change is an increase in the general fund and a decrease 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 more than the budgeted amounts and expenditures were less than budgeted amounts, thus 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 \$951,421. The total change in net assets was \$1,472,285. 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, 2005, totals \$23,590,643 (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 \$3,011,358.
- Water and sewer capital asset equipment additions of \$1,265,798.
- General fund capital asset equipment additions of \$82,655.

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

**Figure 4**

|                                | <b>Governmental Activities</b> |                     | <b>Business-type Activities</b> |                      | <b>Total</b>        |                      |
|--------------------------------|--------------------------------|---------------------|---------------------------------|----------------------|---------------------|----------------------|
|                                | <b>6/30/2005</b>               | <b>6/30/2004</b>    | <b>6/30/2005</b>                | <b>6/30/2004</b>     | <b>6/30/2005</b>    | <b>6/30/2004</b>     |
| Land                           | \$ 766,523                     | \$ 753,023          | \$ 593,430                      | \$ 593,430           | \$ 1,359,953        | \$ 1,346,453         |
| Building and improvements      | 2,151,693                      | 2,203,161           | -                               | -                    | 2,151,693           | 2,203,161            |
| Plant and distribution systems | -                              | -                   | 15,965,230                      | 13,382,142           | 15,965,230          | 13,382,142           |
| Machinery and equipment        | 292,017                        | 384,666             | 815,527                         | 603,189              | 1,107,544           | 987,855              |
| Construction in progress       | -                              | -                   | 3,006,223                       | 2,068,957            | 3,006,223           | 2,068,957            |
| <b>Total</b>                   | <b>\$ 3,210,233</b>            | <b>\$ 3,340,850</b> | <b>\$ 20,380,410</b>            | <b>\$ 16,647,718</b> | <b>\$23,590,643</b> | <b>\$ 19,988,568</b> |

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 decreased by \$145,747 (2.9%) during the current fiscal year. The Town also issued promissory notes of \$200,000 for water and sewer equipment.

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 \$39,083,243.

Additional information regarding the Town of Wilkesboro's long-term debt can be found in note III.B.4. beginning on page 31 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 5% decrease from the 6.3% 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, 2006**

**Governmental Activities:** Property taxes and state shared revenues are expected to decrease by 3.8%.

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 increase approximately 12% to \$3,975,981.

The Town will purchase one police car and one commercial mower in the General Fund.

The 2005-2006 General Fund budget proposes to use a significant portion of fund balance to make up for revenue shortfalls. In the General Fund tax revenue is the only significant locally controlled revenue source. It should be noted that a tax increase or a reduction in services will be necessary in order to present a balanced budget in future years.

**Business-type Activities:** Operating revenues and expenses for the Water and Sewer Fund are not expected to change significantly.

The Town intends to borrow \$6,745,000 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 2.206%.

The Town will purchase one tri-axle dump truck to haul sludge from the waste treatment plant.

#### **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.

BASIC FINANCIAL STATEMENTS

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**TOWN OF WILKESBORO, NORTH CAROLINA**  
**STATEMENT OF NET ASSETS**  
June 30, 2005

|  | Primary Government         |                             |               | Wilkesboro<br>Tourism<br>Development,<br>Convention,<br>and Visitors<br>Bureau | Wilkesboro<br>ABC Board |
|--|----------------------------|-----------------------------|---------------|--|-------------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total         |  |                         |
| <b>ASSETS</b>  |                            |                             |               |  |                         |
| Current assets:  |                            |                             |               |  |                         |
| Cash and cash equivalents  | \$ 1,457,949               | \$ 561,615                  | \$ 2,019,564  | \$ 200,326   | \$ 207,612              |
| Taxes receivables (net)  | 63,642                     | -                           | 63,642        |  | -                       |
| Accounts receivable  | 27,348                     | 304,430                     | 331,778       |  | -                       |
| Due from other governments   | 524,081                    | 43,786                      | 567,867       |  | -                       |
| Due from component units   | 75,465                     | -                           | 75,465        |  | -                       |
| Due from primary government  | -                          | -                           | -             | 37,911   | -                       |
| Inventories  | -                          | 280,838                     | 280,838       |  | 174,886                 |
| Prepaid items  | -                          | -                           | -             |  | 2,454                   |
| Total current assets   | \$ 2,148,485               | \$ 1,190,669                | \$ 3,339,154  | \$ 238,237   | \$ 384,952              |
| Restricted assets:   |                            |                             |               |  |                         |
| Cash and cash equivalents  | \$ -                       | \$ 2,192,865                | \$ 2,192,865  | \$ -   | \$ -                    |
| Capital assets (Note 1):   |                            |                             |               |  |                         |
| Land, non-depreciable<br>improvements, and construction in<br>progress | \$ 766,523                 | \$ 3,599,653                | \$ 4,366,176  | \$ -   | \$ 11,600               |
| Other capital assets, net of<br>depreciation                           | 2,443,710                  | 16,780,757                  | 19,224,467    | -  | 47,912                  |
| Total capital assets   | \$ 3,210,233               | \$ 20,380,410               | \$ 23,590,643 | \$ -   | \$ 59,512               |
| Total assets   | \$ 5,358,718               | \$ 23,763,944               | \$ 29,122,662 | \$ 238,237   | \$ 444,464              |
| <b>LIABILITIES</b>   |                            |                             |               |  |                         |
| Current liabilities:   |                            |                             |               |  |                         |
| Accounts payable   | \$ 36,184                  | \$ 197,381                  | \$ 233,565    | \$ 2,150   | \$ 49,666               |
| Unearned revenue   | 81,600                     | -                           | 81,600        |  | -                       |
| Customer deposits  | -                          | 24,684                      | 24,684        |  | -                       |
| Due to primary government  | -                          | -                           | -             | 39,715   | 35,750                  |
| Due to other governments   | -                          | -                           | -             |  | 43,869                  |
| Due to component units   | 37,911                     | -                           | 37,911        |  | -                       |
| Payable from restricted assets   | -                          | 925,372                     | 925,372       |  | -                       |
| Long-term liabilities:   |                            |                             |               |  |                         |
| Due within one year  | 141,392                    | 273,997                     | 415,389       |  | -                       |
| Due in more than one year  | 599,114                    | 3,860,752                   | 4,459,866     |  | -                       |
| Total liabilities  | \$ 896,201                 | \$ 5,282,186                | \$ 6,178,387  | \$ 41,865  | \$ 129,285              |
| <b>NET ASSETS</b>  |                            |                             |               |  |                         |
| Invested in capital assets, net of<br>related debt                     | \$ 2,586,717               | \$ 17,530,337               | \$ 20,117,054 | \$ -   | \$ 59,512               |
| Restricted for:  |                            |                             |               |  |                         |
| Transportation   | 259,051                    | -                           | 259,051       | -  | -                       |
| Public safety  | 6,568                      | -                           | 6,568         | -  | -                       |
| Other purposes   | -                          | -                           | -             | -  | 255,667                 |
| Unrestricted   | 1,610,181                  | 951,421                     | 2,561,602     | 196,372  | -                       |
| Total net assets   | \$ 4,462,517               | \$ 18,481,758               | \$ 22,944,275 | \$ 196,372   | \$ 315,179              |

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, 2005

Program Revenues

| Functions/Programs  | Expenses     | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
|---|--------------|----------------------|------------------------------------|----------------------------------|
| <b>Primary government:</b>                                      |              |                      |                                    |                                  |
| Governmental Activities:  |              |                      |                                    |                                  |
| General government  | \$ 1,098,972 | \$ 27,525            | \$ -                               | \$ -                             |
| Public safety   | 1,529,524    | 4,722                | 178,195                            | -                                |
| Transportation  | 415,657      | -                    | 120,205                            | -                                |
| Environmental protection  | 189,137      | -                    | -                                  | -                                |
| Cultural and recreation   | 385,693      | 3,175                | 98,687                             | -                                |
| Interest on long-term debt                                      | 31,664       | -                    | -                                  | -                                |
| Total governmental activities (See Note 1)                      | \$ 3,650,647 | \$ 35,422            | \$ 397,087                         | \$ -                             |
| Business-type activities:                                       |              |                      |                                    |                                  |
| Water and sewer   | \$ 3,000,653 | \$ 3,321,042         | \$ -                               | \$ 1,006,416                     |
| Total business-type activities                                  | \$ 3,000,653 | \$ 3,321,042         | \$ -                               | \$ 1,006,416                     |
| Total primary government  | \$ 6,651,300 | \$ 3,356,464         | \$ 397,087                         | \$ 1,006,416                     |
| Component units:  |              |                      |                                    |                                  |
| Wilkesboro Tourism Development, Convention, and Visitors Bureau | \$ 85,406    | \$ -                 | \$ -                               | \$ -                             |
| Wilkesboro ABC Board  | 1,251,686    | 1,245,718            | -                                  | -                                |
| Total component units   | \$ 1,337,092 | \$ 1,245,718         | \$ -                               | \$ -                             |

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, 2005

| Net (Expense) Revenue and Changes in Net Assets                       |                            |                             |                       |   |                         |
|---|----------------------------|-----------------------------|-----------------------|---|-------------------------|
| Primary Government  |                            |                             |                       |   |                         |
| Functions/Programs  | Governmental<br>Activities | Business-type<br>Activities | Total                 | Wilkesboro<br>Tourism<br>Development,<br>Convention, and<br>Visitors Bureau | Wilkesboro<br>ABC Board |
| <b>Primary government:</b>  |                            |                             |                       |   |                         |
| <b>Governmental Activities:</b>                                       |                            |                             |                       |   |                         |
| General government  | \$ (1,071,447)             | \$ -                        | \$ (1,071,447)        | \$ -  | \$ -                    |
| Public safety   | (1,346,607)                | -                           | (1,346,607)           | -   | -                       |
| Transportation  | (295,452)                  | -                           | (295,452)             | -   | -                       |
| Environmental protection  | (189,137)                  | -                           | (189,137)             | -   | -                       |
| Cultural and recreation   | (283,831)                  | -                           | (283,831)             | -   | -                       |
| Interest on long-term debt  | (31,664)                   | -                           | (31,664)              | -   | -                       |
| Total governmental activities (See Note 1)                            | <u>\$ (3,218,138)</u>      | <u>\$ -</u>                 | <u>\$ (3,218,138)</u> | <u>\$ -</u>   | <u>\$ -</u>             |
| <b>Business-type activities:</b>                                      |                            |                             |                       |   |                         |
| Water and sewer   | \$ -                       | \$ 1,326,805                | \$ 1,326,805          | -   | -                       |
| Total business-type activities  | <u>\$ -</u>                | <u>\$ 1,326,805</u>         | <u>\$ 1,326,805</u>   | <u>-</u>  | <u>-</u>                |
| Total primary government  | <u>\$ (3,218,138)</u>      | <u>\$ 1,326,805</u>         | <u>\$ (1,891,333)</u> | <u>-</u>  | <u>-</u>                |
| <b>Component units:</b>   |                            |                             |                       |   |                         |
| Wilkesboro Tourism<br>Development, Convention, and<br>Visitors Bureau | -                          | -                           | -                     | \$ (85,406)   | \$ -                    |
| Wilkesboro ABC Board  | -                          | -                           | -                     | -   | \$ (5,968)              |
| Total component units   | <u>-</u>                   | <u>-</u>                    | <u>-</u>              | <u>\$ (85,406)</u>  | <u>\$ (5,968)</u>       |
| <b>General revenues:</b>  |                            |                             |                       |   |                         |
| <b>Taxes:</b>   |                            |                             |                       |   |                         |
| Property taxes, levied for general purpose                            | \$ 1,876,773               | \$ -                        | \$ 1,876,773          | \$ -  | \$ -                    |
| Other taxes   | 1,213,577                  | -                           | 1,213,577             | -   | -                       |
| Occupancy tax   | -                          | -                           | -                     | 130,143   | -                       |
| Grants and contributions not restricted to specific programs          | -                          | -                           | -                     | 3,000   | -                       |
| Unrestricted investment earnings                                      | 14,743                     | 69,654                      | 84,397                | 2,034   | 1,269                   |
| Miscellaneous   | 200,654                    | 150,826                     | 351,480               | -   | -                       |
| Transfers   | 75,000                     | (75,000)                    | -                     | -   | -                       |
| Total general revenues and transfers                                  | <u>\$ 3,380,747</u>        | <u>\$ 145,480</u>           | <u>\$ 3,526,227</u>   | <u>\$ 135,177</u>   | <u>\$ 1,269</u>         |
| Change in net assets  | <u>\$ 162,609</u>          | <u>\$ 1,472,285</u>         | <u>\$ 1,634,894</u>   | <u>\$ 49,771</u>  | <u>\$ (4,699)</u>       |
| Net assets, beginning   | 4,299,908                  | 17,009,473                  | 21,309,381            | 146,601   | 319,878                 |
| Net assets, ending  | <u>\$ 4,462,517</u>        | <u>\$ 18,481,758</u>        | <u>\$ 22,944,275</u>  | <u>\$ 196,372</u>   | <u>\$ 315,179</u>       |

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

**TOWN OF WILKESBORO, NORTH CAROLINA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2005

|   | Major Funds         |                          | Total<br>Governmental<br>Funds |
|---|---------------------|--------------------------|--------------------------------|
|   | General             | Total Non-Major<br>Funds |                                |
| <b>ASSETS</b>                                 |                     |                          |                                |
| Cash and cash equivalents                     | \$ 1,407,661        | \$ 50,288                | \$ 1,457,949                   |
| Receivables, net:                             |                     |                          |                                |
| Taxes   | 63,642              | -                        | 63,642                         |
| Accounts                                      | 27,348              | -                        | 27,348                         |
| Due from other governments                    | 524,081             | -                        | 524,081                        |
| Due from component unit                       | 75,465              | -                        | 75,465                         |
| Total assets                                  | <u>\$ 2,098,197</u> | <u>\$ 50,288</u>         | <u>\$ 2,148,485</u>            |
| <b>LIABILITIES AND FUND BALANCES</b>          |                     |                          |                                |
| Liabilities:                                  |                     |                          |                                |
| Accounts payable and accrued liabilities      | \$ 36,184           | \$ -                     | \$ 36,184                      |
| Due to component unit                         | 37,911              | -                        | 37,911                         |
| Deferred revenue                              | 63,642              | -                        | 63,642                         |
| Unearned revenue                              | 31,312              | 50,288                   | 81,600                         |
| Total liabilities                             | <u>\$ 169,049</u>   | <u>\$ 50,288</u>         | <u>\$ 219,337</u>              |
| Fund balances:                                |                     |                          |                                |
| Reserved for:                                 |                     |                          |                                |
| State statute                                 | \$ 622,484          | \$ -                     | \$ 622,484                     |
| Streets-Powell bill                           | 259,051             | -                        | 259,051                        |
| Drug crime prevention                         | 6,568               | -                        | 6,568                          |
| Unreserved:                                   |                     |                          |                                |
| Designated for subsequent year's expenditures | 330,741             | -                        | 330,741                        |
| Undesignated                                  | 710,304             | -                        | 710,304                        |
| Unreserved, reported in non-major:            |                     |                          |                                |
| Special Revenue funds                         | -                   | -                        | -                              |
| Total fund balances                           | <u>\$ 1,929,148</u> | <u>\$ -</u>              | <u>\$ 1,929,148</u>            |
| Total liabilities and fund balances           | <u>\$ 2,098,197</u> | <u>\$ 50,288</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.

3,210,233

Liabilities for earned but deferred revenues in fund statements.

63,642

Some liabilities, including promissory notes, are not due and payable in the current period and therefore are not reported in the funds (Note 1).

\$ (740,506)

Net assets of governmental activities

\$ 4,462,517

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, 2005**

|   | Major Funds         |                       |                          |
|---|---------------------|-----------------------|--------------------------|
|   | General Fund        | Total Non-Major Funds | Total Governmental Funds |
| <b>REVENUES</b>                                   |                     |                       |                          |
| Ad valorem taxes                                  | \$ 1,886,747        | \$ -                  | \$ 1,886,747             |
| Other taxes and licenses                          | 14,536              | -                     | 14,536                   |
| Unrestricted intergovernmental                    | 1,161,309           | -                     | 1,161,309                |
| Restricted intergovernmental                      | 427,664             | 98,687                | 526,351                  |
| Permits and fees                                  | 40,605              | -                     | 40,605                   |
| Sales and services                                | 31,555              | -                     | 31,555                   |
| Investment earnings                               | 14,743              | -                     | 14,743                   |
| Miscellaneous                                     | 72,382              | -                     | 72,382                   |
| <b>Total revenues</b>                             | <b>\$ 3,649,541</b> | <b>\$ 98,687</b>      | <b>\$ 3,748,228</b>      |
| <b>EXPENDITURES</b>                               |                     |                       |                          |
| Current:  |                     |                       |                          |
| General government                                | \$ 1,071,743        | \$ -                  | \$ 1,071,743             |
| Public safety                                     | 1,457,460           | -                     | 1,457,460                |
| Transportation                                    | 385,692             | -                     | 385,692                  |
| Environmental protection                          | 163,901             | -                     | 163,901                  |
| Culture and recreation                            | 281,997             | 102,326               | 384,323                  |
| Debt service:                                     |                     |                       |                          |
| Principal   | 156,265             | -                     | 156,265                  |
| Interest and other charges                        | 31,664              | -                     | 31,664                   |
| <b>Total expenditures</b>                         | <b>\$ 3,548,722</b> | <b>\$ 102,326</b>     | <b>\$ 3,651,048</b>      |
| Excess (deficiency) of revenues over expenditures | \$ 100,819          | \$ (3,639)            | \$ 97,180                |
| <b>OTHER FINANCING SOURCES (USES)</b>             |                     |                       |                          |
| Transfers from other funds                        | \$ 75,000           | \$ -                  | \$ 75,000                |
| <b>Total other financing sources (uses)</b>       | <b>\$ 75,000</b>    | <b>\$ -</b>           | <b>\$ 75,000</b>         |
| <b>Net change in fund balance</b>                 | <b>\$ 175,819</b>   | <b>\$ (3,639)</b>     | <b>\$ 172,180</b>        |
| Fund balances, beginning                          | \$ 1,753,329        | \$ 3,639              | \$ 1,756,968             |
| Fund balances, ending                             | <b>\$ 1,929,148</b> | <b>\$ -</b>           | <b>\$ 1,929,148</b>      |

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, 2005**

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

|  |            |
|--|------------|
| Net changes in fund balances - total governmental funds  | \$ 172,180 |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period   | (126,884)  |
| 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  | (9,972)    |
| 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. | 156,265    |
| 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   | (5,340)    |
| Net pension obligation   | (19,907)   |
| Loss on disposal of capital assets   | (3,733)    |
|  | (29,980)   |
| Total changes in net assets of governmental activities   | \$ 162,609 |

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 -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended June 30, 2005**

|  | Original            | Final               | Actual<br>Amounts   | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------|---|
| <b>Revenues:</b>   |                     |                     |                     |   |
| Ad valorem taxes   | \$ 1,946,000        | \$ 1,946,000        | \$ 1,886,747        | \$ (59,253)   |
| Other taxes and licenses   | 14,000              | 14,000              | 14,536              | 536   |
| Unrestricted intergovernmental   | 1,121,800           | 1,121,800           | 1,161,309           | 39,509  |
| Restricted intergovernmental   | 250,500             | 285,248             | 427,664             | 142,416   |
| Permits and fees   | 37,300              | 37,300              | 40,605              | 3,305   |
| Sales and services   | 48,890              | 48,890              | 31,555              | (17,335)  |
| Investment earnings  | 10,000              | 10,000              | 14,743              | 4,743   |
| Miscellaneous  | 62,100              | 62,100              | 72,382              | 10,282  |
| <b>Total revenues</b>  | <b>\$ 3,490,590</b> | <b>\$ 3,525,338</b> | <b>\$ 3,649,541</b> | <b>\$ 124,203</b>   |
| <b>Expenditures:</b>   |                     |                     |                     |   |
| <b>Current:</b>  |                     |                     |                     |   |
| General government   | \$ 1,100,100        | \$ 1,146,140        | \$ 1,071,743        | \$ 74,397   |
| Public safety  | 1,610,804           | 1,590,552           | 1,457,460           | 133,092   |
| Transportation   | 428,200             | 428,200             | 385,692             | 42,508  |
| Environmental protection   | 202,400             | 202,400             | 163,901             | 38,499  |
| Cultural and recreation  | 355,920             | 364,880             | 281,997             | 82,883  |
| <b>Debt service:</b>   |                     |                     |                     |   |
| Principal retirement   | 156,575             | 156,575             | 156,265             | 310   |
| Interest and other charges   | 31,728              | 31,728              | 31,664              | 64  |
| <b>Total expenditures</b>  | <b>\$ 3,885,727</b> | <b>\$ 3,920,475</b> | <b>\$ 3,548,722</b> | <b>\$ 371,753</b>   |
| <b>Revenues over (under) expenditures</b>                                  | <b>\$ (395,137)</b> | <b>\$ (395,137)</b> | <b>\$ 100,819</b>   | <b>\$ 495,956</b>   |
| <b>Other financing sources (uses):</b>                                     |                     |                     |                     |   |
| Transfers from other funds   | \$ 75,000           | \$ 75,000           | \$ 75,000           | \$ -  |
| <b>Total other financing sources (uses)</b>                                | <b>\$ 75,000</b>    | <b>\$ 75,000</b>    | <b>\$ 75,000</b>    | <b>\$ -</b>   |
| <b>Revenues and other sources over (under) expenditures and other uses</b> | <b>\$ (320,137)</b> | <b>\$ (320,137)</b> | <b>\$ 175,819</b>   | <b>\$ 495,956</b>   |
| <b>Fund balance appropriated</b>   | <b>320,137</b>      | <b>320,137</b>      | <b>-</b>            | <b>(320,137)</b>  |
| <b>Net change in fund balance</b>  | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ 175,819</b>   | <b>\$ 175,819</b>   |
| <b>Fund balances, beginning</b>  |                     |                     | <b>1,753,329</b>    |   |
| <b>Fund balances, ending</b>   |                     |                     | <b>\$ 1,929,148</b> |   |

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, 2005**

|   | <b>Major Enterprise Funds</b> |                      |
|---|-------------------------------|----------------------|
|   | <b>Water and Sewer Fund</b>   | <b>Total</b>         |
| <b>ASSETS</b>                                   |                               |                      |
| Current assets:                                 |                               |                      |
| Cash and cash equivalents                       | \$ 561,615                    | \$ 561,615           |
| Accounts receivable - billed                    | 304,430                       | 304,430              |
| Due from other governments                      | 43,786                        | 43,786               |
| Inventories                                     | 280,838                       | 280,838              |
| Total current assets                            | <u>\$ 1,190,669</u>           | <u>\$ 1,190,669</u>  |
| Noncurrent assets:                              |                               |                      |
| Restricted assets:                              |                               |                      |
| Cash and cash equivalents                       | \$ 2,192,865                  | \$ 2,192,865         |
| Capital assets:                                 |                               |                      |
| Land and other non-depreciable assets           | \$ 3,599,653                  | \$ 3,599,653         |
| Other capital assets, net of depreciation       | 16,780,757                    | 16,780,757           |
| Capital assets (net)                            | <u>\$ 20,380,410</u>          | <u>\$ 20,380,410</u> |
| Total noncurrent assets                         | <u>\$ 22,573,275</u>          | <u>\$ 22,573,275</u> |
| Total assets                                    | <u>\$ 23,763,944</u>          | <u>\$ 23,763,944</u> |
| <b>LIABILITIES</b>                              |                               |                      |
| Current liabilities:                            |                               |                      |
| Accounts payable and accrued liabilities        | \$ 197,381                    | \$ 197,381           |
| Customer deposits                               | 24,684                        | 24,684               |
| Installment purchase-current                    | 217,345                       | 217,345              |
| Promissory note-current                         | 56,652                        | 56,652               |
| Total current liabilities                       | <u>\$ 496,062</u>             | <u>\$ 496,062</u>    |
| Noncurrent liabilities:                         |                               |                      |
| Liabilities payable from restricted assets:     |                               |                      |
| Accounts payable                                | \$ 925,372                    | \$ 925,372           |
| Other noncurrent liabilities:                   |                               |                      |
| Compensated absences                            | 17,183                        | 17,183               |
| Installment purchase-noncurrent                 | 3,673,031                     | 3,673,031            |
| Promissory note-noncurrent                      | 170,538                       | 170,538              |
| Total noncurrent liabilities                    | <u>\$ 4,786,124</u>           | <u>\$ 4,786,124</u>  |
| Total liabilities                               | <u>\$ 5,282,186</u>           | <u>\$ 5,282,186</u>  |
| <b>NET ASSETS</b>                               |                               |                      |
| Invested in capital assets, net of related debt | \$ 17,530,337                 | \$ 17,530,337        |
| Unrestricted                                    | 951,421                       | 951,421              |
| Total net assets                                | <u>\$ 18,481,758</u>          | <u>\$ 18,481,758</u> |

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

**TOWN OF WILKESBORO, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2005**

|  | <b>Major Enterprise<br/>Funds</b> |                      |
|--|-----------------------------------|----------------------|
|  | <b>Water and<br/>Sewer Fund</b>   | <b>Total</b>         |
| <b>OPERATING REVENUES</b>                        |                                   |                      |
| Charges for services                             | \$ 3,216,760                      | \$ 3,216,760         |
| Water and sewer taps                             | 73,960                            | 73,960               |
| Other operating revenue                          | 30,322                            | 30,322               |
| <b>Total operating revenues</b>                  | <b>\$ 3,321,042</b>               | <b>\$ 3,321,042</b>  |
| <b>OPERATING EXPENSES</b>                        |                                   |                      |
| Water treatment and distribution                 | \$ 872,678                        | \$ 872,678           |
| Waste collection and treatment                   | 898,732                           | 898,732              |
| Maintenance                                      | 536,089                           | 536,089              |
| Depreciation                                     | 544,464                           | 544,464              |
| <b>Total operating expenses</b>                  | <b>\$ 2,851,963</b>               | <b>\$ 2,851,963</b>  |
| <b>Operating income</b>                          | <b>\$ 469,079</b>                 | <b>\$ 469,079</b>    |
| <b>NONOPERATING REVENUES (EXPENSES)</b>          |                                   |                      |
| Investment earnings                              | \$ 69,654                         | \$ 69,654            |
| Interest and other charges                       | (148,690)                         | (148,690)            |
| Miscellaneous Income                             | 150,826                           | 150,826              |
| <b>Total nonoperating revenue (expenses)</b>     | <b>\$ 71,790</b>                  | <b>\$ 71,790</b>     |
| <b>Income before contributions and transfers</b> | <b>\$ 540,869</b>                 | <b>\$ 540,869</b>    |
| Capital contributions                            | 1,006,416                         | 1,006,416            |
| Transfers to other funds                         | (75,000)                          | (75,000)             |
| <b>Change in net assets</b>                      | <b>\$ 1,472,285</b>               | <b>\$ 1,472,285</b>  |
| <b>Total net assets, beginning</b>               | <b>17,009,473</b>                 | <b>17,009,473</b>    |
| <b>Total net assets, ending</b>                  | <b>\$ 18,481,758</b>              | <b>\$ 18,481,758</b> |

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, 2005

|   | <b>Major Enterprise Funds</b> |                            |
|---|-------------------------------|----------------------------|
|   | <b>Water and Sewer Fund</b>   | <b>Total</b>               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                               |                            |
| Cash received from customers  | \$ 3,269,030                  | \$ 3,269,030               |
| Cash paid for goods and services  | (1,026,590)                   | (1,026,590)                |
| Cash paid to or on behalf of employees for services                                     | (1,074,382)                   | (1,074,382)                |
| Customer deposits received  | 3,900                         | 3,900                      |
| Customer deposits returned  | (2,224)                       | (2,224)                    |
| Net cash provided by operating activities   | <u>\$ 1,169,734</u>           | <u>\$ 1,169,734</u>        |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                                  |                               |                            |
| Transfers to other funds  | <u>\$ (75,000)</u>            | <u>\$ (75,000)</u>         |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                         |                               |                            |
| Proceeds from long-term debt  | \$ 200,000                    | \$ 200,000                 |
| Acquisition and construction of capital assets  | (3,610,538)                   | (3,610,538)                |
| Principal paid on long-term debt  | (218,233)                     | (218,233)                  |
| Interest paid on long-term debt   | (148,690)                     | (148,690)                  |
| Capital contributions   | 1,006,416                     | 1,006,416                  |
| Miscellaneous income  | 150,572                       | 150,572                    |
| Net cash used by capital and related financing activities                               | <u>\$ (2,620,473)</u>         | <u>\$ (2,620,473)</u>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                               |                            |
| Interest and dividends  | <u>\$ 69,654</u>              | <u>\$ 69,654</u>           |
| Net decrease in cash and cash equivalents   | \$ (1,456,085)                | \$ (1,456,085)             |
| Balances, beginning   | 4,210,565                     | 4,210,565                  |
| Balances, ending  | <u><u>\$ 2,754,480</u></u>    | <u><u>\$ 2,754,480</u></u> |
| Reconciliation of operating income to net cash provided by operating activities         |                               |                            |
| Operating income  | <u>\$ 469,079</u>             | <u>\$ 469,079</u>          |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                               |                            |
| Depreciation  | \$ 544,464                    | \$ 544,464                 |
| Changes in assets and liabilities:  |                               |                            |
| Increase in accounts receivable   | (52,013)                      | (52,013)                   |
| Decrease in inventory   | 65,842                        | 65,842                     |
| Increase in accounts payable and accrued liabilities                                    | 137,180                       | 137,180                    |
| Increase in customer deposits   | 1,676                         | 1,676                      |
| Increase in accrued vacation pay  | 3,506                         | 3,506                      |
| Total adjustments   | <u>\$ 700,655</u>             | <u>\$ 700,655</u>          |
| Net cash provided by operating activities   | <u><u>\$ 1,169,734</u></u>    | <u><u>\$ 1,169,734</u></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, 2005**

**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.

*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.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

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.

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

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

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 2004 through February 2005 apply to the fiscal year ended June 30, 2005. 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, 2005 because they are intended to finance the Town's operations during the 2006 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.

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).

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

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.

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 unexpended debt proceeds in the Water and Sewer Fund are classified as a restricted asset for the enterprise fund because its use is completely restricted for the purpose for which the debt was originally issued.

**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, 2004.

**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.

**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.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

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 and improvements | 20-33                         |
| Furniture and equipment    | 3-10                          |

**8. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In 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 66% 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, 2005.

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.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

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 2005 - 2006 budget ordinance.

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

**II. Stewardship, Compliance, and Accountability**

**A. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2005, there were expenditures made in the Town's Water and Sewer Fund, Water and Sewer Capital Projects Fund and Water and Sewer Capital Reserve Fund that exceeded the authorized appropriations made by the governing board as shown in Exhibits D-1, D-2 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

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

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. The Town, the Tourism Bureau and the ABC Board have no policy regarding custodial credit risk for deposits.

At June 30, 2005, the Town's deposits had a carrying amount of \$3,674,875 and a bank balance of \$3,963,564. Of the Town's bank balance, \$801,401 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 \$200,326 and the bank balance was \$200,921. Of the Tourism's bank balance, \$133,485 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 \$207,612 and the bank balance was \$206,605. Of the ABC Board's bank balance, \$158,736 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2005, the Town's petty cash fund totaled \$200.

**2. Investments**

At June 30, 2005, the Town's investment balances were as follows:

| <u>Investment Type</u>                       | <u>Fair Value</u>     | <u>Maturity</u>   | <u>Rating</u> |
|--|-----------------------|-------------------|---------------|
| Federal Home Loan Mortgage Corporation       | \$ 150,475            | August 15, 2005   | AAA           |
| Federal Home Loan Mortgage Corporation       | 99,568                | February 15, 2006 | AAA           |
| Federal National Mortgage Association        | 98,741                | February 15, 2007 | AAA           |
| NC Capital Management Trust - Cash Portfolio | <u>188,570</u>        | N/A               | AAAm          |
| <br>Total                                    | <br><u>\$ 537,354</u> |                   |               |

*Interest Rate Risk.* The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Town has no policy regarding credit risk. The investments in the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association are rated AAA by Standard and Poor's. The Town's investment in the N.C. Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2005.

*Concentration of Credit Risk.* The Town places no limit on the amount that the Town may invest in any one issuer. More than 5 percent of the Town's investments are in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association securities. The investment in Federal Home Loan Mortgage Corporation securities is 47% of the Town's total investments. The investment in Federal National Mortgage Association securities is 18% of the Town's total investments.

**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>6-30-05</u>   |
|------------------|------------------|
| General Fund     |                  |
| Taxes Receivable | <u>\$ 74,425</u> |

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2005

**4. Capital Assets**

**Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2005, was as follows:

|  | Beginning<br>Balances      | Increases         | Decreases        | Ending<br>Balances         |
|--|----------------------------|-------------------|------------------|----------------------------|
| <b>Government activities:</b>                    |                            |                   |                  |                            |
| <b>Capital assets not being depreciated:</b>     |                            |                   |                  |                            |
| Land   | \$ 753,023                 | \$ 13,500         | \$ -             | \$ 766,523                 |
| Total capital assets not being depreciated       | <u>\$ 753,023</u>          | <u>\$ 13,500</u>  | <u>\$ -</u>      | <u>\$ 766,523</u>          |
| <b>Capital assets being depreciated:</b>         |                            |                   |                  |                            |
| Buildings and Improvements                       | \$ 2,658,573               |                   |                  | \$ 2,658,573               |
| Equipment  | 1,845,115                  | \$ 69,155         | \$ 80,473        | 1,833,797                  |
| Total capital assets being depreciated           | <u>\$ 4,503,688</u>        | <u>\$ 69,155</u>  | <u>\$ 80,473</u> | <u>\$ 4,492,370</u>        |
| <b>Less accumulated depreciation for:</b>        |                            |                   |                  |                            |
| Buildings and Improvements                       | \$ 455,412                 | \$ 51,468         |                  | \$ 506,880                 |
| Equipment  | 1,460,449                  | 158,071           | \$ 76,740        | 1,541,780                  |
| Total accumulated depreciation                   | <u>\$ 1,915,861</u>        | <u>\$ 209,539</u> | <u>\$ 76,740</u> | <u>\$ 2,048,660</u>        |
| Total capital assets being depreciated, net      | <u>\$ 2,587,827</u>        |                   |                  | <u>\$ 2,443,710</u>        |
| <b>Governmental activity capital assets, net</b> | <u><b>\$ 3,340,850</b></u> |                   |                  | <u><b>\$ 3,210,233</b></u> |

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

|                            |                   |
|----------------------------|-------------------|
| General government         | \$ 42,158         |
| Public safety              | 96,748            |
| Transportation             | 35,580            |
| Environmental protection   | 25,666            |
| Cultural and recreational  | 9,387             |
|                            | <u>209,539</u>    |
| Total depreciation expense | <u>\$ 209,539</u> |

|   | Beginning<br>Balances       | Increases           | Decreases           | Ending<br>Balances          |
|---|-----------------------------|---------------------|---------------------|-----------------------------|
| <b>Business-type activities:</b>                    |                             |                     |                     |                             |
| <b>Water and Sewer Fund</b>                         |                             |                     |                     |                             |
| <b>Capital assets not being depreciated:</b>        |                             |                     |                     |                             |
| Land  | \$ 593,430                  |                     |                     | \$ 593,430                  |
| Construction in progress                            | 2,068,957                   | \$ 3,011,358        | \$ 2,074,092        | 3,006,223                   |
| Total capital assets not being depreciated          | <u>\$ 2,662,387</u>         | <u>\$ 3,011,358</u> | <u>\$ 2,074,092</u> | <u>\$ 3,599,653</u>         |
| <b>Capital assets being depreciated:</b>            |                             |                     |                     |                             |
| Plant and distribution systems                      | \$ 18,383,337               | \$ 2,983,601        |                     | \$ 21,366,938               |
| Equipment   | 1,393,975                   | 356,289             | \$ 32,230           | 1,718,034                   |
| Total capital assets being depreciated              | <u>\$ 19,777,312</u>        | <u>\$ 3,339,890</u> | <u>\$ 32,230</u>    | <u>\$ 23,084,972</u>        |
| <b>Less accumulated depreciation for:</b>           |                             |                     |                     |                             |
| Plant and distribution systems                      | \$ 5,001,185                | \$ 400,523          |                     | \$ 5,401,708                |
| Equipment   | 790,796                     | 143,941             | \$ 32,230           | 902,507                     |
| Total accumulated depreciation                      | <u>\$ 5,791,981</u>         | <u>\$ 544,464</u>   | <u>\$ 32,230</u>    | <u>\$ 6,304,215</u>         |
| Total capital assets being depreciated, net         | <u>\$ 13,985,331</u>        |                     |                     | <u>\$ 16,780,757</u>        |
| <b>Business-type activities capital assets, net</b> | <u><b>\$ 16,647,718</b></u> |                     |                     | <u><b>\$ 20,380,410</b></u> |

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2005

**Construction commitments**

The government has active construction projects as of June 30, 2005. At year-end, the government's commitments with contractors are as follows:

| <u>Project</u>                           | <u>Spent-to-date</u> | <u>Remaining<br/>Commitment</u> |
|--|----------------------|---------------------------------|
| Water and sewer, clear well construction | \$ 2,276,058         | \$ 1,036,860                    |
| Total                                    | <u>\$ 2,276,058</u>  | <u>\$ 1,036,860</u>             |

**Discretely presented component unit**

Activity for the ABC Board for the year ended June 30, 2005, was as follows:

|  | <u>Beginning<br/>Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balances</u> |
|--|-------------------------------|------------------|------------------|----------------------------|
| <b>Capital assets not being depreciated:</b> |                               |                  |                  |                            |
| Land   | \$ 11,600                     | \$ -             | \$ -             | \$ 11,600                  |
| <b>Capital assets being depreciated:</b>     |                               |                  |                  |                            |
| Buildings and improvements                   | \$ 187,269                    | \$ 4,445         |                  | \$ 191,714                 |
| Furniture and equipment                      | 28,229                        | 8,109            | \$ 23,484        | 12,854                     |
| Total capital assets being depreciated       | <u>\$ 215,498</u>             | <u>\$ 12,554</u> | <u>\$ 23,484</u> | <u>\$ 204,568</u>          |
| <b>Less accumulated depreciation for:</b>    |                               |                  |                  |                            |
| Buildings                                    | \$ 146,455                    | \$ 5,187         |                  | \$ 151,642                 |
| Furniture and equipment                      | 28,229                        | 269              | \$ 23,484        | 5,014                      |
| Total accumulated depreciation               | <u>\$ 174,684</u>             | <u>\$ 5,456</u>  | <u>\$ 23,484</u> | <u>\$ 156,656</u>          |
| Total capital assets being depreciated, net  | <u>\$ 40,814</u>              |                  |                  | <u>\$ 47,912</u>           |
| <b>ABC Board capital assets, net</b>         | <u>\$ 52,414</u>              |                  |                  | <u>\$ 59,512</u>           |

**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 4.98% and 4.78%, respectively, of annual covered payroll. The contribution requirement of members and of the Town of Wilkesboro is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2005, 2004, and 2003 were \$96,998, \$93,819, and \$136,507, respectively. The contributions made by the Town equaled the required contributions for each year.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

**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>20</u> |
| Total  | <u>20</u> |

A separate report was not issued for the plan.

**2. *Summary of Significant Accounting Policies:***

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

*Method Used to Value 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, 2004 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                  | \$ 18,742        |
| Interest on net pension obligation            | 5,146            |
| Adjustment to annual required contribution    | <u>(3,981)</u>   |
| Annual pension cost                           | \$ 19,907        |
| Contributions made                            | <u>0</u>         |
| Increase (decrease) in net pension obligation | \$ 19,907        |
| Net pension obligation beginning of year      | 70,973           |
| Net pension obligation end of year            | <u>\$ 90,880</u> |

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

3 Year Trend Information

| For Year Ended<br>June 30 | Annual Pension Cost<br>(APC) | Percentage of<br>APC Contributed | Net Pension<br>Obligation |
|---------------------------|------------------------------|----------------------------------|---------------------------|
| 2003                      | \$ 14,908                    | 0%                               | \$ 52,146                 |
| 2004                      | \$ 18,827                    | 0%                               | \$ 70,973                 |
| 2005                      | \$ 19,907                    | 0%                               | \$ 90,880                 |

**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, 2005 were \$31,629, which consisted of \$27,822 from the Town and \$3,807 from the law enforcement officers.

**d. 401(K) Retirement Plan**

For the year ended June 30, 2005, 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, 2005 was \$50,646.

**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, 2005, the Town of Wilkesboro has recognized on behalf of payments for pension contributions made by the State as a revenue and an expenditure of \$3,795 for the seventeen (17) 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

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

longer be eligible for insurance coverage. Currently four individuals are eligible for these health care benefits. For the fiscal year ended June 30, 2005, the Town made payments for postretirement health benefits of \$31,123. 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 \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. 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, 2005, the Town made contributions to the State for death benefits of \$3,332. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .18% 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.

**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)            | \$ -                    | \$ 23,708               |
| Privilege licenses collected in advance (General Fund) | -                       | 3,194                   |
| Taxes receivable, net (General Fund)                   | 63,642                  | -                       |
| Miscellaneous receivable (General Fund)                | -                       | 4,410                   |
| Unexpended grant proceeds (Special Revenue Fund)       | -                       | <u>50,288</u>           |
| Total  | <u>\$ 63,642</u>        | <u>\$ 81,600</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.

**4. Long-Term Obligations**

**a. Promissory Notes**

Serviced by the General Fund:

|   |            |
|---|------------|
| 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. | \$ 507,920 |
| Promissory Note due in annual installments of \$40,581 through May 2008; Interest at 2.59%. Secured by equipment.                               | 115,597    |

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

Serviced by the Water and Sewer Fund:

|   |                   |
|---|-------------------|
| Promissory Note due in annual installments of \$9,545 through May 2008;<br>Interest at 2.59%. Secured by equipment.     | 27,190            |
| Promissory Note due in annual installments of \$53,780 through August 2008;<br>Interest at 2.98%. Secured by equipment. | <u>200,000</u>    |
|   | <u>\$ 850,707</u> |

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

| Year Ending<br>June 30, | Governmental Activities |                  | Business-type Activities |                  |
|-------------------------|-------------------------|------------------|--------------------------|------------------|
|                         | Principal               | Interest         | Principal                | Interest         |
| 2006                    | \$ 141,392              | \$ 25,793        | \$ 56,652                | \$ 6,673         |
| 2007                    | 147,324                 | 19,861           | 58,307                   | 5,018            |
| 2008                    | 153,518                 | 13,667           | 60,008                   | 3,317            |
| 2009                    | 119,440                 | 7,164            | 52,223                   | 1,557            |
| 2010                    | 61,843                  | 1,458            |                          |                  |
| Total                   | <u>\$ 623,517</u>       | <u>\$ 67,943</u> | <u>\$ 227,190</u>        | <u>\$ 16,565</u> |

**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 interest rate is 3.65%.

The future minimum payments of the installment purchase as of June 30, 2005, including \$1,112,919 of interest, are as follows:

| Year Ending<br>June 30, | Business-type Activities |                     |
|-------------------------|--------------------------|---------------------|
|                         | Principal                | Interest            |
| 2006                    | \$ 217,345               | \$ 140,033          |
| 2007                    | 225,350                  | 132,028             |
| 2008                    | 233,651                  | 123,727             |
| 2009                    | 242,257                  | 115,121             |
| 2010                    | 251,180                  | 106,198             |
| 2011-2015               | 1,401,681                | 385,210             |
| 2016-2020               | <u>1,318,912</u>         | <u>110,602</u>      |
| Principal payments      | <u>\$ 3,890,376</u>      |                     |
| Total interest payments |                          | <u>\$ 1,112,919</u> |

**c. General Obligation Indebtedness**

At June 30, 2005, the Town of Wilkesboro had a legal debt margin of \$39,083,243.

**d. Changes in Long-Term Liabilities**

|  | Balance           | Increases        | Decreases         | Balance           | Current Portion<br>of Balance |
|--|-------------------|------------------|-------------------|-------------------|-------------------------------|
|  | July 1, 2004      |                  |                   | June 30, 2005     |                               |
| <b>Governmental activities:</b>                        |                   |                  |                   |                   |                               |
| Promissory notes                                       | \$ 779,782        |                  | \$ 156,265        | \$ 623,517        | \$ 141,392                    |
| Compensated absences                                   | 20,770            | \$ 5,339         | -                 | 26,109            | -                             |
| Net pension obligation                                 | 70,973            | 19,907           | -                 | 90,880            | -                             |
| <b>Governmental activity<br/>long-term liabilities</b> | <u>\$ 871,525</u> | <u>\$ 25,246</u> | <u>\$ 156,265</u> | <u>\$ 740,506</u> | <u>\$ 141,392</u>             |

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

|   | Balance<br>July 1, 2004 | Increases         | Decreases         | Balance<br>June 30, 2005 | Current Portion<br>of Balance |
|---|-------------------------|-------------------|-------------------|--------------------------|-------------------------------|
| <b>Business-type activities:</b>                        |                         |                   |                   |                          |                               |
| Installment purchase                                    | \$ 4,100,000            |                   | \$ 209,624        | \$ 3,890,376             | \$ 217,345                    |
| Promissory notes  | 35,799                  | \$ 200,000        | 8,609             | 227,190                  | 56,652                        |
| Compensated absences                                    | 13,677                  | 3,506             | -                 | 17,183                   | -                             |
| <b>Business-type activity<br/>long-term liabilities</b> | <b>\$ 4,149,476</b>     | <b>\$ 203,506</b> | <b>\$ 218,233</b> | <b>\$ 4,134,749</b>      | <b>\$ 273,997</b>             |

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, 2005, consist of the following:

|   |                  |
|---|------------------|
| Due from component unit-Tourism Bureau for reimbursement of expenses to primary government-General Fund   | <u>\$ 39,715</u> |
| Due from component unit-ABC Board for profit distribution to primary government-General Fund              | <u>\$ 35,750</u> |
| Due from the primary government-General Fund for occupancy tax collected to component unit-Tourism Bureau | <u>\$ 37,911</u> |

**Transfers to/from Other Funds**

Transfers to/from other funds at June 30, 2005, consist of the following:

|  |                       |
|--|-----------------------|
| From the Water and Sewer Fund to the General Fund  | \$ (75,000)           |
| From the Water and Sewer Fund to the Water and Sewer Capital Projects Fund for capital projects expenditures | (1,611)               |
| From the Water and Sewer Capital Projects Fund to the Water and Sewer Capital Reserve Fund                   | (862,605)             |
| From the Water and Sewer Capital Reserve Fund to the Water and Sewer Fund                                    | <u>(191,481)</u>      |
| Total  | <u>\$ (1,130,697)</u> |

**D. On-Behalf Payments for Fringe Benefits and Salaries**

For the fiscal year ended June 30, 2005, the Town of Wilkesboro has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$3,795 for the 17 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.

**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, 2005.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2005**

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, 2005. 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.

Required  
Supplementary Financial Data

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
  
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
  
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.

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

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value<br>of Assets<br>(a) | Actuarial<br>Accrued Liability<br>(AAL)-Projected<br>Unit Credit<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b - a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a %<br>of Covered<br>Payroll<br>((b - a) / c) |
|--------------------------------|--|---|--------------------------------------|--------------------------|---------------------------|---|
| 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%  |
| 12/31/04                       | \$ 0                                   | \$ 168,719  | \$ 168,719                           | 0%                       | \$ 567,033                | 29.75%  |

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

| <u>Year Ended<br/>June 30,</u> | <u>Annual Required<br/>Contribution</u> | <u>Percentage<br/>Contributed</u> |
|--------------------------------|---|-----------------------------------|
| 2001                           | \$ 8,988                                | 0%                                |
| 2002                           | 12,643                                  | 0%                                |
| 2003                           | 14,208                                  | 0%                                |
| 2004                           | 17,907                                  | 0%                                |
| 2005                           | 18,742                                  | 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                | 12/31/04                    |
| Actuarial cost method         | Projected unit credit       |
| Amortization method           | Level percent of pay closed |
| Remaining amortization period | 26 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                         |

SUPPLEMENTARY STATEMENTS

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2005

|  | <u>Budget</u>       | <u>Actual</u>       | Variance<br>Positive<br>(Negative) |
|--|---------------------|---------------------|------------------------------------|
| <b>REVENUES:</b>                       |                     |                     |                                    |
| <b>Ad Valorem Taxes:</b>               |                     |                     |                                    |
| Taxes                                  | \$ 1,934,000        | \$ 1,871,427        | \$ (62,573)                        |
| Penalties and Interest                 | 12,000              | 15,320              | 3,320                              |
| <b>TOTAL</b>                           | <u>\$ 1,946,000</u> | <u>\$ 1,886,747</u> | <u>\$ (59,253)</u>                 |
| <b>Other Taxes and Licenses:</b>       |                     |                     |                                    |
| Privilege Licenses                     | \$ 14,000           | \$ 14,536           | \$ 536                             |
| <b>Unrestricted Intergovernmental:</b> |                     |                     |                                    |
| Local Option Sales Taxes               | \$ 630,000          | \$ 681,726          | \$ 51,726                          |
| Payments in Lieu of Taxes              | 2,800               | 0                   | (2,800)                            |
| Telecommunications Sales Tax           | 0                   | 32,781              | 32,781                             |
| Utility Franchise Tax                  | 400,000             | 300,485             | (99,515)                           |
| Piped Natural Gas Tax                  | 0                   | 40,683              | 40,683                             |
| Beer and Wine Tax                      | 14,000              | 14,102              | 102                                |
| ABC Profit Distribution                | 30,000              | 46,550              | 16,550                             |
| Hold Harmless Funds                    | 45,000              | 44,982              | (18)                               |
| <b>TOTAL</b>                           | <u>\$ 1,121,800</u> | <u>\$ 1,161,309</u> | <u>\$ 39,509</u>                   |
| <b>Restricted Intergovernmental:</b>   |                     |                     |                                    |
| Powell Bill Allocation                 | \$ 115,000          | \$ 120,205          | \$ 5,205                           |
| Other Federal and State Grants         | 40,000              | 167,602             | 127,602                            |
| Controlled Substance Tax               | 5,248               | 3,298               | (1,950)                            |
| ABC Revenue for Law Enforcement        | 0                   | 3,500               | 3,500                              |
| On Behalf of Payments                  | 0                   | 3,795               | 3,795                              |
| Occupancy Tax                          | 125,000             | 129,264             | 4,264                              |
| <b>TOTAL</b>                           | <u>\$ 285,248</u>   | <u>\$ 427,664</u>   | <u>\$ 142,416</u>                  |
| <b>Permits and Fees:</b>               |                     |                     |                                    |
| Franchise Fees                         | \$ 35,000           | \$ 36,993           | \$ 1,993                           |
| Permits                                | 2,300               | 3,612               | 1,312                              |
| <b>TOTAL</b>                           | <u>\$ 37,300</u>    | <u>\$ 40,605</u>    | <u>\$ 3,305</u>                    |
| <b>Sales and Services:</b>             |                     |                     |                                    |
| Rents                                  | \$ 35,890           | \$ 25,440           | \$ (10,450)                        |
| Court Costs, Fees and Charges          | 3,500               | 1,985               | (1,515)                            |
| Parking Violation Penalties            | 3,000               | 1,020               | (1,980)                            |
| Park Lights                            | 6,500               | 3,110               | (3,390)                            |
| <b>TOTAL</b>                           | <u>\$ 48,890</u>    | <u>\$ 31,555</u>    | <u>\$ (17,335)</u>                 |

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2005

|                                | <u>Budget</u>           | <u>Actual</u>           | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------|-------------------------|-------------------------|---|
| Investment Earnings            | \$ 10,000               | \$ 14,743               | \$ 4,743                                    |
| Miscellaneous:                 |                         |                         |   |
| Other                          | \$ 60,000               | \$ 72,182               | \$ 12,182                                   |
| Cemetery Donation              | 2,100                   | 200                     | (1,900)                                     |
| TOTAL                          | <u>\$ 62,100</u>        | <u>\$ 72,382</u>        | <u>\$ 10,282</u>                            |
| <br>TOTAL REVENUES             | <br><u>\$ 3,525,338</u> | <br><u>\$ 3,649,541</u> | <br><u>\$ 124,203</u>                       |
| <br>EXPENDITURES:              |                         |                         |   |
| General Government:            |                         |                         |   |
| Governing Body:                |                         |                         |   |
| Salaries and Employee Benefits |                         | \$ 73,287               |   |
| Operating Expenditures         |                         | 130,275                 |   |
| TOTAL                          | <u>\$ 216,590</u>       | <u>\$ 203,562</u>       | <u>\$ 13,028</u>                            |
| Administration:                |                         |                         |   |
| Salaries and Employee Benefits |                         | \$ 346,733              |   |
| Other Operating Expenditures   |                         | 334,263                 |   |
| TOTAL                          | <u>\$ 721,150</u>       | <u>\$ 680,996</u>       | <u>\$ 40,154</u>                            |
| Public Buildings:              |                         |                         |   |
| Salaries and Employee Benefits |                         | \$ 80,494               |   |
| Other Operating Expenditures   |                         | 82,811                  |   |
| Capital Outlay                 |                         | 23,880                  |   |
| TOTAL                          | <u>\$ 208,400</u>       | <u>\$ 187,185</u>       | <u>\$ 21,215</u>                            |
| TOTAL GENERAL GOVERNMENT       | <u>\$ 1,146,140</u>     | <u>\$ 1,071,743</u>     | <u>\$ 74,397</u>                            |
| <br>Public Safety:             |                         |                         |   |
| Police:                        |                         |                         |   |
| Salaries and Employee Benefits |                         | \$ 923,357              |   |
| Other Operating Expenditures   |                         | 168,617                 |   |
| Capital Outlay                 |                         | 45,081                  |   |
| TOTAL                          | <u>\$ 1,167,068</u>     | <u>\$ 1,137,055</u>     | <u>\$ 30,013</u>                            |

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2005

|                                   | <u>Budget</u>           | <u>Actual</u>           | <u>Variance<br/>Positive<br/>(Negative)</u> |
|-----------------------------------|-------------------------|-------------------------|---|
| Fire:                             |                         |                         |   |
| Volunteer Salaries and Benefits   |                         | \$ 6,665                |   |
| Retirement Benefits Paid          |                         | 26,700                  |   |
| Other Operating Expenditures      |                         | <u>175,938</u>          |   |
| TOTAL                             | <u>\$ 293,684</u>       | <u>\$ 209,303</u>       | <u>\$ 84,381</u>                            |
| Inspections:                      |                         |                         |   |
| Salaries and Employee Benefits    |                         | \$ 101,222              |   |
| Other Operating Expenditures      |                         | <u>9,880</u>            |   |
| TOTAL                             | <u>\$ 129,800</u>       | <u>\$ 111,102</u>       | <u>\$ 18,698</u>                            |
| <br>TOTAL PUBLIC SAFETY           | <br><u>\$ 1,590,552</u> | <br><u>\$ 1,457,460</u> | <br><u>\$ 133,092</u>                       |
| Transportation:                   |                         |                         |   |
| Streets:                          |                         |                         |   |
| Salaries and Employee Benefits    |                         | \$ 127,253              |   |
| Other Operating Expenditures      |                         | 252,595                 |   |
| Capital Outlay                    |                         | <u>5,844</u>            |   |
| TOTAL TRANSPORTATION              | <u>\$ 428,200</u>       | <u>\$ 385,692</u>       | <u>\$ 42,508</u>                            |
| Environmental Protection:         |                         |                         |   |
| Sanitation:                       |                         |                         |   |
| Salaries and Employee Benefits    |                         | \$ 96,957               |   |
| Other Operating Expenditures      |                         | 27,573                  |   |
| Landfill Tipping Fees             |                         | <u>39,371</u>           |   |
| TOTAL ENVIRONMENTAL<br>PROTECTION | <u>\$ 202,400</u>       | <u>\$ 163,901</u>       | <u>\$ 38,499</u>                            |
| Culture and Recreation:           |                         |                         |   |
| Parks and Recreation:             |                         |                         |   |
| Salaries and Employee Benefits    |                         | \$ 55,395               |   |
| Other Operating Expenditures      |                         | 87,792                  |   |
| Capital Outlay                    |                         | <u>7,850</u>            |   |
| TOTAL                             | <u>\$ 233,920</u>       | <u>\$ 151,037</u>       | <u>\$ 82,883</u>                            |
| Tourism:                          |                         |                         |   |
| Tourism Development               | <u>\$ 130,960</u>       | <u>\$ 130,960</u>       | <u>\$ 0</u>                                 |
| <br>TOTAL CULTURE AND RECREATION  | <br><u>\$ 364,880</u>   | <br><u>\$ 281,997</u>   | <br><u>\$ 82,883</u>                        |

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2005

|   | <u>Budget</u>       | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|---------------------|---------------------|---|
| Debt Service:   |                     |                     |   |
| Principal Retirement                                    |                     | \$ 156,265          |   |
| Interest and Other Charges                              |                     | <u>31,664</u>       |   |
| TOTAL DEBT SERVICE                                      | <u>\$ 188,303</u>   | <u>\$ 187,929</u>   | <u>\$ 374</u>                               |
| <br>  |                     |                     |   |
| TOTAL EXPENDITURES                                      | <u>\$ 3,920,475</u> | <u>\$ 3,548,722</u> | <u>\$ 371,753</u>                           |
| <br>  |                     |                     |   |
| REVENUES OVER (UNDER)<br>EXPENDITURES                   | <u>\$ (395,137)</u> | <u>\$ 100,819</u>   | <u>\$ 495,956</u>                           |
| <br>  |                     |                     |   |
| OTHER FINANCING SOURCES:                                |                     |                     |   |
| Transfers from Other Funds:                             |                     |                     |   |
| Water and Sewer Fund                                    | <u>\$ 75,000</u>    | <u>\$ 75,000</u>    | <u>\$ 0</u>                                 |
| <br>  |                     |                     |   |
| REVENUES AND OTHER SOURCES<br>OVER (UNDER) EXPENDITURES | <u>\$ (320,137)</u> | <u>\$ 175,819</u>   | <u>\$ 495,956</u>                           |
| <br>  |                     |                     |   |
| Fund Balance Appropriated                               | <u>320,137</u>      | <u>0</u>            | <u>(320,137)</u>                            |
| <br>  |                     |                     |   |
| Net Change in Fund Balance                              | <u>\$ 0</u>         | <u>\$ 175,819</u>   | <u>\$ 175,819</u>                           |
| <br>  |                     |                     |   |
| Fund Balances, Beginning                                |                     | <u>1,753,329</u>    |   |
| <br>  |                     |                     |   |
| Fund Balances, Ending                                   |                     | <u>\$ 1,929,148</u> |   |

TOWN OF WILKESBORO, NORTH CAROLINA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2005

|  | <u>SPECIAL REVENUE FUNDS</u>      |                                     |   |
|--|-----------------------------------|-------------------------------------|---|
|  | <u>Grant<br/>Project<br/>Fund</u> | <u>Heritage<br/>Museum<br/>Fund</u> | <u>Total<br/>Nonmajor<br/>Special<br/>Revenue<br/>Funds</u> |
| <b>ASSETS</b>                              |                                   |                                     |   |
| Cash and cash equivalents                  | <u>\$ 50,288</u>                  | <u>      </u>                       | <u>\$ 50,288</u>  |
| <b>TOTAL ASSETS</b>                        | <u>\$ 50,288</u>                  | <u>\$ 0</u>                         | <u>\$ 50,288</u>  |
| <b>LIABILITIES AND FUND BALANCES</b>       |                                   |                                     |   |
| <b>LIABILITIES</b>                         |                                   |                                     |   |
| Unearned revenue                           | <u>\$ 50,288</u>                  | <u>      </u>                       | <u>\$ 50,288</u>  |
| <b>TOTAL LIABILITIES</b>                   | <u>\$ 50,288</u>                  | <u>\$ 0</u>                         | <u>\$ 50,288</u>  |
| <b>FUND BALANCES</b>                       |                                   |                                     |   |
| Unreserved                                 | <u>      </u>                     | <u>      </u>                       | <u>      </u>   |
| <b>TOTAL FUND BALANCES</b>                 | <u>\$ 0</u>                       | <u>\$ 0</u>                         | <u>\$ 0</u>   |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <u>\$ 50,288</u>                  | <u>\$ 0</u>                         | <u>\$ 50,288</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, 2005

|                                    | <u>SPECIAL REVENUE FUNDS</u> |                   |                   |
|------------------------------------|------------------------------|-------------------|-------------------|
|                                    | <u>Grant</u>                 | <u>Heritage</u>   | <u>Total</u>      |
|                                    | <u>Project</u>               | <u>Museum</u>     | <u>Nonmajor</u>   |
|                                    | <u>Fund</u>                  | <u>Fund</u>       | <u>Special</u>    |
|                                    |                              |                   | <u>Revenue</u>    |
|                                    |                              |                   | <u>Funds</u>      |
| REVENUES:                          |                              |                   |                   |
| Restricted intergovernmental       | \$ 84                        | \$ 98,603         | \$ 98,687         |
| TOTAL REVENUES                     | <u>\$ 84</u>                 | <u>\$ 98,603</u>  | <u>\$ 98,687</u>  |
| EXPENDITURES:                      |                              |                   |                   |
| Current:                           |                              |                   |                   |
| Culture and Recreation             | \$ 84                        | \$ 102,242        | \$ 102,326        |
| TOTAL EXPENDITURES                 | <u>\$ 84</u>                 | <u>\$ 102,242</u> | <u>\$ 102,326</u> |
| REVENUES OVER (UNDER) EXPENDITURES | \$ 0                         | \$ (3,639)        | \$ (3,639)        |
| Fund balance, beginning of year    | <u>0</u>                     | <u>3,639</u>      | <u>3,639</u>      |
| Fund balance, end of year          | <u>\$ 0</u>                  | <u>\$ 0</u>       | <u>\$ 0</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, 2005

|  | <u>Project<br/>Authorization</u> | <u>Prior<br/>Years</u> | <u>Actual<br/>Current<br/>Year</u> | <u>Total to<br/>Date</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|----------------------------------|------------------------|------------------------------------|--------------------------|---|
| <b>REVENUES:</b>                                 |                                  |                        |                                    |                          |   |
| Restricted intergovernmental<br>Government Grant | <u>\$ 59,200</u>                 | <u>\$ 8,828</u>        | <u>\$ 84</u>                       | <u>\$ 8,912</u>          | <u>\$ (50,288)</u>                          |
| <b>EXPENDITURES:</b>                             |                                  |                        |                                    |                          |   |
| Current:   |                                  |                        |                                    |                          |   |
| Culture and Recreation                           | <u>\$ 61,000</u>                 | <u>\$ 8,828</u>        | <u>\$ 84</u>                       | <u>\$ 8,912</u>          | <u>\$ 52,088</u>                            |
| REVENUES UNDER EXPENDITURES                      | <u>\$ (1,800)</u>                | <u>\$ 0</u>            | <u>\$ 0</u>                        | <u>\$ 0</u>              | <u>\$ 1,800</u>                             |
| <b>OTHER FINANCING SOURCES:</b>                  |                                  |                        |                                    |                          |   |
| Transfer from General Fund                       | <u>1,800</u>                     | <u>0</u>               | <u>0</u>                           | <u>0</u>                 | <u>(1,800)</u>                              |
| REVENUES AND OTHER SOURCES<br>OVER EXPENDITURES  | <u>\$ 0</u>                      | <u>\$ 0</u>            | <u>\$ 0</u>                        | <u>\$ 0</u>              | <u>\$ 0</u>                                 |
| Fund balance, beginning of year                  |                                  |                        | <u>0</u>                           |                          |   |
| Fund balance, end of year                        |                                  |                        | <u>\$ 0</u>                        |                          |   |

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, 2005

|                                       | Project<br>Authorization | Prior<br>Years   | Actual<br>Current<br>Year | Total to<br>Date  | Variance<br>Positive<br>(Negative) |
|---------------------------------------|--------------------------|------------------|---------------------------|-------------------|------------------------------------|
| <b>REVENUES:</b>                      |                          |                  |                           |                   |                                    |
| Restricted intergovernmental          |                          |                  |                           |                   |                                    |
| Government Grants                     | \$ 98,603                |                  | \$ 98,603                 | \$ 98,603         |                                    |
| Miscellaneous Revenues                | <u>24,651</u>            | \$ 24,651        | <u>          </u>         | <u>24,651</u>     | <u>          </u>                  |
| Total                                 | <u>\$ 123,254</u>        | <u>\$ 24,651</u> | <u>\$ 98,603</u>          | <u>\$ 123,254</u> | <u>\$ 0</u>                        |
| <b>EXPENDITURES:</b>                  |                          |                  |                           |                   |                                    |
| Current:                              |                          |                  |                           |                   |                                    |
| Culture and Recreation                | \$ 123,254               | \$ 21,012        | \$ 102,242                | \$ 123,254        | \$ 0                               |
| REVENUES OVER (UNDER)<br>EXPENDITURES | <u>\$ 0</u>              | <u>\$ 3,639</u>  | <u>\$ (3,639)</u>         | <u>\$ 0</u>       | <u>\$ 0</u>                        |
| Fund balance, beginning of year       |                          |                  | <u>3,639</u>              |                   |                                    |
| Fund balance, end of year             |                          |                  | <u>\$ 0</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, 2005

|                                   | Budget           | Actual           | Variance<br>Positive<br>(Negative) |
|-----------------------------------|------------------|------------------|------------------------------------|
| <b>REVENUES:</b>                  |                  |                  |                                    |
| Operating Revenues:               |                  |                  |                                    |
| Water Sales                       | \$ 1,500,000     | \$ 1,417,475     | \$ (82,525)                        |
| Sewer Charges                     | 1,830,000        | 1,747,273        | (82,727)                           |
| Water and Sewer Taps              | 75,000           | 73,960           | (1,040)                            |
| Other Operating Revenue           | 60,000           | 30,322           | (29,678)                           |
| TOTAL OPERATING REVENUES          | \$ 3,465,000     | \$ 3,269,030     | \$ (195,970)                       |
| Nonoperating Revenues:            |                  |                  |                                    |
| Interest Earnings                 | \$ 10,000        | \$ 13,489        | \$ 3,489                           |
| Miscellaneous                     | 45,000           | 150,571          | 105,571                            |
| TOTAL NONOPERATING REVENUES       | \$ 55,000        | \$ 164,060       | \$ 109,060                         |
| <br>TOTAL REVENUES                | <br>\$ 3,520,000 | <br>\$ 3,433,090 | <br>\$ (86,910)                    |
| <br><b>EXPENDITURES:</b>          |                  |                  |                                    |
| Water Treatment and Distribution: |                  |                  |                                    |
| Salaries and Employee Benefits    |                  | \$ 370,434       |                                    |
| Utilities                         |                  | 183,630          |                                    |
| Other Operating Expenditures      |                  | 324,988          |                                    |
| TOTAL                             | \$ 885,729       | \$ 879,052       | \$ 6,677                           |
| Waste Collection and Treatment:   |                  |                  |                                    |
| Salaries and Employee Benefits    |                  | \$ 375,750       |                                    |
| Utilities                         |                  | 202,704          |                                    |
| Other Operating Expenditures      |                  | 323,828          |                                    |
| TOTAL                             | \$ 1,016,249     | \$ 902,282       | \$ 113,967                         |
| Maintenance:                      |                  |                  |                                    |
| Salaries and Employee Benefits    |                  | \$ 317,949       |                                    |
| Other Operating Expenditures      |                  | 138,868          |                                    |
| TOTAL                             | \$ 476,331       | \$ 456,817       | \$ 19,514                          |
| Debt Service:                     |                  |                  |                                    |
| Interest and Other Charges        |                  | \$ 148,690       |                                    |
| Principal Retirement              |                  | 218,233          |                                    |
| TOTAL                             | \$ 364,906       | \$ 366,923       | \$ (2,017)                         |

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, 2005

|   | <u>Budget</u>           | <u>Actual</u>           | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|-------------------------|-------------------------|---|
| Capital Outlay:   |                         |                         |   |
| Water Improvements and Extensions   |                         | \$ 909,508              |   |
| Sewer Improvements and Extensions   |                         | 27,695                  |   |
| Equipment   |                         | 356,289                 |   |
| TOTAL   | <u>\$ 1,293,534</u>     | <u>\$ 1,293,492</u>     | <u>\$ 42</u>                                |
| <br>TOTAL EXPENDITURES  | <br><u>\$ 4,036,749</u> | <br><u>\$ 3,898,566</u> | <br><u>\$ 138,183</u>                       |
| <br>REVENUES OVER (UNDER)<br>EXPENDITURES   | <br><u>\$ (516,749)</u> | <br><u>\$ (465,476)</u> | <br><u>\$ 51,273</u>                        |
| <br>OTHER FINANCING SOURCES (USES):   |                         |                         |   |
| Grants and Contributions  | \$ 259,000              | \$ 219,058              | \$ (39,942)                                 |
| Transfers from Other Funds:   |                         |                         |   |
| Water and Sewer Capital Reserve Fund  | 191,481                 | 191,481                 | 0   |
| Transfers to Other Funds:   |                         |                         |   |
| Water and Sewer Capital Projects Fund   | 0                       | (1,611)                 | (1,611)                                     |
| General Fund  | (145,000)               | (75,000)                | 70,000                                      |
| Proceeds from Issuance of Debt  | <u>200,000</u>          | <u>200,000</u>          | <u>0</u>                                    |
| TOTAL OTHER FINANCING<br>SOURCES (USES)   | <u>\$ 505,481</u>       | <u>\$ 533,928</u>       | <u>\$ 28,447</u>                            |
| <br>REVENUES AND OTHER FINANCING<br>SOURCES OVER (UNDER)<br>EXPENDITURES AND OTHER USES                           | <br><u>\$ (11,268)</u>  | <br><u>\$ 68,452</u>    | <br><u>\$ 79,720</u>                        |
| <br>Appropriated Retained Earnings  | <br><u>11,268</u>       | <br><u>0</u>            | <br><u>(11,268)</u>                         |
| <br>REVENUES, OTHER SOURCES, AND<br>APPROPRIATED RETAINED EARNINGS<br>OVER (UNDER) EXPENDITURES<br>AND OTHER USES | <br><u>\$ 0</u>         | <br><u>\$ 68,452</u>    | <br><u>\$ 68,452</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, 2005

Reconciliation from Budgetary Basis  
 (Modified Accrual) to Full Accrual:

|  |                  |
|--|------------------|
| REVENUES AND OTHER SOURCES OVER<br>(UNDER) EXPENDITURES AND OTHER USES | <u>\$ 68,452</u> |
|--|------------------|

Reconciling Items:

|   |                         |
|---|-------------------------|
| Principal Retirement  | \$ 218,233              |
| Capital Outlay  | 1,293,492               |
| (Increase) Decrease in Accrued Vacation Pay                 | (3,506)                 |
| Depreciation  | (544,464)               |
| Capital Contributions                                       | 787,358                 |
| Increase (Decrease) in Inventory                            | (65,842)                |
| Increase (Decrease) in Accounts Receivable                  | 52,267                  |
| Transfer to Water and Sewer Capital Projects Fund           | 1,611                   |
| Transfer from Water and Sewer Capital Reserve Fund          | (191,481)               |
| Interest Earned in the Water and Sewer Capital Reserve Fund | 56,165                  |
| Loan Proceeds   | <u>(200,000)</u>        |
| TOTAL RECONCILING ITEMS                                     | <u>\$ 1,403,833</u>     |
| <br>CHANGE IN NET ASSETS                                    | <br><u>\$ 1,472,285</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, 2005

|   | Project<br>Authorization | Actual               |                      | Total to<br>Date     | Variance<br>Positive<br>(Negative) |
|---|--------------------------|----------------------|----------------------|----------------------|------------------------------------|
|   |                          | Prior<br>Years       | Current<br>Year      |                      |                                    |
| Revenues - Hwy 421 Sewer Extension<br>Contribution                                      | \$ 1,305,000             | \$ 0                 | \$ 0                 | \$ 0                 | \$(1,305,000)                      |
| Revenues - 30" Water Distribution Line<br>Restricted Intergovernmental<br>Federal Grant | \$ 200,000               | \$ 0                 | \$ 199,615           | \$ 199,615           | \$ (385)                           |
| Revenues - Clearwell<br>Restricted Intergovernmental<br>Federal Grant                   | \$ 1,000,000             | \$ 0                 | \$ 587,743           | \$ 587,743           | \$ (412,257)                       |
| <b>TOTAL REVENUES</b>   | <b>\$ 2,505,000</b>      | <b>\$ 0</b>          | <b>\$ 787,358</b>    | <b>\$ 787,358</b>    | <b>\$(1,717,642)</b>               |
| Expenditures - Hwy 421 Sewer Extension<br>Construction                                  | \$ 1,696,000             | \$ 334,905           | \$ 893,712           | \$ 1,228,617         | \$ 467,383                         |
| Expenditures - 30" Water Distribution Line<br>Construction                              | \$ 459,907               | \$ 435,380           | \$ 24,527            | \$ 459,907           | \$ 0                               |
| Expenditures - Curtis Bridge Booster<br>Pump Station<br>Construction                    | \$ 205,093               | \$ 169,435           | \$ 2,986             | \$ 172,421           | \$ 32,672                          |
| Expenditures - Clearwell<br>Construction  | \$ 3,803,696             | \$ 596,517           | \$ 1,842,954         | \$ 2,439,471         | \$ 1,364,225                       |
| Expenditures - Tyson Project<br>Construction  | \$ 4,247,348             | \$ 194,500           | \$ 120,200           | \$ 314,700           | \$ 3,932,648                       |
| Expenditures - Tank Painting<br>Painting  | \$ 135,000               | \$ 0                 | \$ 99,283            | \$ 99,283            | \$ 35,717                          |
| <b>TOTAL EXPENDITURES</b>   | <b>\$ 10,547,044</b>     | <b>\$ 1,730,737</b>  | <b>\$ 2,983,662</b>  | <b>\$ 4,714,399</b>  | <b>\$ 5,832,645</b>                |
| <b>REVENUES OVER (UNDER)<br/>EXPENDITURES</b>   | <b>\$ (8,042,044)</b>    | <b>\$(1,730,737)</b> | <b>\$(2,196,304)</b> | <b>\$(3,927,041)</b> | <b>\$ 4,115,003</b>                |
| Other Financing Sources (Uses)  |                          |                      |                      |                      |                                    |
| Proceeds from Issuance of Debt  | \$ 6,321,538             | \$ 4,100,000         |                      | \$ 4,100,000         | \$(2,221,538)                      |
| Transfer from Water and Sewer Fund  | 835,006                  | 595,000              | \$ 1,611             | 596,611              | (238,395)                          |
| Transfer from Water and Sewer Capital<br>Reserve Fund                                   | 885,500                  | 881,245              |                      | 881,245              | (4,255)                            |
| Transfer to Water and Sewer Capital<br>Reserve Fund                                     |                          |                      | (862,605)            | (862,605)            | (862,605)                          |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES)</b>   | <b>\$ 8,042,044</b>      | <b>\$ 5,576,245</b>  | <b>\$ (860,994)</b>  | <b>\$ 4,715,251</b>  | <b>\$(3,326,793)</b>               |
| <b>REVENUES AND OTHER<br/>FINANCING SOURCES OVER<br/>(UNDER) EXPENDITURES</b>           | <b>\$ 0</b>              | <b>\$ 3,845,508</b>  | <b>\$(3,057,298)</b> | <b>\$ 788,210</b>    | <b>\$ 788,210</b>                  |

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, 2005

|  | Project<br>Authorization | Actual         |                 | Total to<br>Date | Variance<br>Positive<br>(Negative) |
|--|--------------------------|----------------|-----------------|------------------|------------------------------------|
|  |                          | Prior<br>Years | Current<br>Year |                  |                                    |
| <b>REVENUES:</b>   |                          |                |                 |                  |                                    |
| Investment Earnings  | \$ _____                 | \$ 66,627      | \$ 56,164       | \$ 122,791       | \$ 122,791                         |
| <b>Other Financing Sources (Uses)</b>  |                          |                |                 |                  |                                    |
| Transfer from Water and Sewer<br>Fund  | \$ 641,336               | \$ 641,336     |                 | \$ 641,336       |                                    |
| Transfer from Water and Sewer<br>Capital Project Fund  |                          |                | \$ 862,605      | 862,605          | \$ 862,605                         |
| Transfer to Water and Sewer Fund   | (330,336)                | (70,000)       | (191,481)       | (261,481)        | 68,855                             |
| Transfer to Water and Sewer<br>Capital Project Fund  | (311,000)                | (881,245)      |                 | (881,245)        | (570,245)                          |
| Transfer to General Fund   | _____                    | (4,724)        | _____           | (4,724)          | (4,724)                            |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES)</b>  | \$ _____ 0               | \$ (314,633)   | \$ 671,124      | \$ 356,491       | \$ 356,491                         |
| <b>REVENUES AND OTHER<br/>FINANCING SOURCES<br/>OVER (UNDER)<br/>EXPENDITURES AND<br/>OTHER FINANCING USES</b> |                          |                |                 |                  |                                    |
|  | \$ _____ 0               | \$ (248,006)   | \$ 727,288      | \$ 479,282       | \$ 479,282                         |

## Other Schedules

This section contains additional information required on property taxes.

- \* Schedule of Ad Valorem Taxes Receivable
- \* Analysis of Current Tax Levy

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
June 30, 2005

| <u>Fiscal Year</u>   | <u>Uncollected<br/>Balance<br/>June 30, 2004</u> | <u>Additions</u>           | <u>Collections<br/>and Credits</u> | <u>Uncollected<br/>Balance<br/>June 30, 2005</u> |
|--|--|----------------------------|------------------------------------|--|
| 2004-2005  |  | \$ 1,863,723               | \$ 1,811,586                       | \$ 52,137  |
| 2003-2004  | \$ 61,753  |                            | 47,627                             | 14,126   |
| 2002-2003  | 21,089   |                            | 5,994                              | 15,095   |
| 2001-2002  | 13,212   |                            | 2,070                              | 11,142   |
| 2000-2001  | 27,087   |                            | 715                                | 26,372   |
| 1999-2000  | 6,035  |                            | 1,129                              | 4,906  |
| 1998-1999  | 5,862  |                            | 447                                | 5,415  |
| 1997-1998  | 3,633  |                            | 292                                | 3,341  |
| 1996-1997  | 4,872  |                            | 1,553                              | 3,319  |
| 1995-1996  | 2,006  |                            | 497                                | 1,509  |
| 1994-1995  | 3,335  |                            | 3,335                              | 0  |
| <b>Total</b>   | <b><u>\$ 148,884</u></b>                         | <b><u>\$ 1,863,723</u></b> | <b><u>\$ 1,875,245</u></b>         | <b><u>\$ 137,362</u></b>                         |
| Plus: Uncollected 2005-2006 Ad Valorem Taxes<br>receivable on annually registered vehicles |  |                            |                                    | 705  |
| Less: Allowance for Uncollectible Accounts General Fund                                    |  |                            |                                    | <u>(74,425)</u>                                  |
| <b>AD VALOREM TAXES RECEIVABLE - NET</b>   |  |                            |                                    | <b><u>\$ 63,642</u></b>                          |
| <b>RECONCILEMENT WITH REVENUES:</b>  |  |                            |                                    |  |
| Taxes - Ad Valorem Taxes - General Fund  |  |                            |                                    | <b><u>\$ 1,886,747</u></b>                       |
| Reconciling Items:   |  |                            |                                    |  |
| Interest Collected   |  |                            |                                    | \$ (15,320)                                      |
| Taxes Written off  |  |                            |                                    | 2,949  |
| Prior Years Releases   |  |                            |                                    | <u>869</u>                                       |
| Subtotal   |  |                            |                                    | <b><u>\$ (11,502)</u></b>                        |
| <b>TOTAL COLLECTIONS AND CREDITS</b>   |  |                            |                                    | <b><u>\$ 1,875,245</u></b>                       |

TOWN OF WILKESBORO, NORTH CAROLINA  
ANALYSIS OF CURRENT TAX LEVY  
For the Fiscal Year Ended June 30, 2005

|                                       | Town-Wide             |        | Total Levy          |  |                                 |
|---------------------------------------|-----------------------|--------|---------------------|--|---------------------------------|
|                                       | Property<br>Valuation | Rate   | Amount of<br>Levy   | Property<br>Excluding<br>Registered<br>Motor<br>Vehicles | Registered<br>Motor<br>Vehicles |
| Original Levy:                        |                       |        |                     |  |                                 |
| Property taxed at current year's rate | \$ 549,883,758        | \$ .34 | \$ 1,869,605        | \$ 1,760,493   | \$ 109,112                      |
| Discoveries:                          |                       |        |                     |  |                                 |
| Current year taxes                    | \$ 70,490             |        | \$ 240              | \$ 240   |                                 |
| Prior years taxes                     |                       |        | 1,189               | 1,189  |                                 |
| <b>TOTAL</b>                          | <b>\$ 70,490</b>      |        | <b>\$ 1,429</b>     | <b>\$ 1,429</b>  |                                 |
| Abatements                            | \$ (2,150,172)        |        | \$ (7,311)          | \$ (5,465)   | \$ (1,846)                      |
| <b>TOTAL PROPERTY VALUATION</b>       | <b>\$ 547,804,076</b> |        |                     |  |                                 |
| Net Levy                              |                       |        | \$ 1,863,723        | \$ 1,756,457   | \$ 107,266                      |
| Uncollected Taxes at June 30, 2005    |                       |        | 52,137              | 44,233   | 7,904                           |
| Current Year's Taxes Collected        |                       |        | <u>\$ 0,811,586</u> | <u>\$ 1,712,224</u>                                      | <u>\$ 99,362</u>                |
| Current Levy Collection Percentage    |                       |        | <u>97.20%</u>       | <u>97.48%</u>  | <u>97.63%</u>                   |

HUNTLEY  
SIGMON  
WALTON &  
WILSON

**HSW&W**

Certified Public Accountants

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Fax: (828) 754-1925

**Report on Internal Control over Financial Reporting and on  
Compliance with 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, 2005, which collectively comprises the Town of Wilkesboro's basic financial statements, and have issued our report thereon dated November 15, 2005. We did not audit the financial statements of the Town of Wilkesboro ABC Board nor the Wilkesboro Tourism Development, Convention, and Visitors Bureau. 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 and the Wilkesboro Tourism Development, Convention, and Visitors Center 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*.

Internal Control Over Financial Reporting

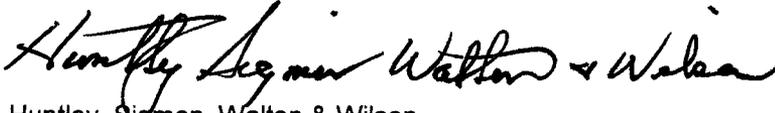
In planning and performing our audit, we considered Town of Wilkesboro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial 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 provision of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, others within the organization, the Town Commissioners, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

A handwritten signature in cursive script that reads "Huntley, Sigmon, Walton & Wilson".

Huntley, Sigmon, Walton & Wilson  
Certified Public Accountants  
November 15, 2005

HUNTLEY  
SIGMON  
WALTON &  
WILSON

**HSW&W**

Certified Public Accountants

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348 Harper Avenue NW  
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Lenoir, North Carolina 28645  
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**Report On Compliance with Requirements Applicable To Each Major Federal Program and Internal Control Over Compliance In Accordance With OMB Circular A-133 and the State Single Audit Implementation Act**

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

Compliance

We have audited the compliance of the City of Town of Wilkesboro, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2005. The Town of Wilkesboro's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Wilkesboro's management. Our responsibility is to express an opinion on the Town of Wilkesboro's compliance based on our audit.

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

In our opinion, the Town of Wilkesboro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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



Huntley, Sigmon, Walton & Wilson  
Certified Public Accountants  
November 15, 2005

Town of Wilkesboro, North Carolina  
 Schedule of Findings and Questioned Costs  
 For the Fiscal Year Ended June 30, 2005

**Section I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?      \_\_\_ Yes      X no
- Reportable condition(s) identified  
that are not considered to be  
material weaknesses      \_\_\_ yes      X none reported

Noncompliance material to financial  
statements noted      \_\_\_ yes      X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?      \_\_\_ yes      X no
- Reportable condition(s) identified  
that are not considered to be  
material weaknesses      \_\_\_ yes      X none reported

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

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

Identification of major federal programs:

| CFDA Numbers | Names of Federal Program or Cluster                         |
|--------------|---|
| 11.300       | Grants for Public Works and Economic Development Facilities |

Dollar threshold used to distinguish  
between Type A and Type B Programs      \$ 300,000

Auditee qualified as low-risk auditee?      \_\_\_ yes      X no

State Awards

There is no major State program.

Town of Wilkesboro, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2005

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**Section II – Financial Statement Findings**

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None Reported

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**Section III – Federal Award Findings and Questioned Costs**

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None reported.

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**Section IV – State Award Findings and Questioned Costs**

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None reported.

TOWN OF WILKESBORO, NORTH CAROLINA  
 Wilkesboro, North Carolina  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 For the Year Ended June 30, 2005

| <u>Grantor/Pass-Through</u><br><u>Grantor/Program Title</u>   | <u>Federal</u><br><u>CFDA</u><br><u>Number</u> | <u>Fed. (Direct &amp;</u><br><u>Pass-Through)</u><br><u>Expenditures</u> | <u>State</u><br><u>Expenditures</u> |
|---|--|--|-------------------------------------|
| <b>Federal Grants:</b>  |  |  |                                     |
| <b>Cash Programs:</b>   |  |  |                                     |
| <u>U.S. Department of Commerce</u>  |  |  |                                     |
| <u>Economic Development Administration</u>  |  |  |                                     |
| Direct Program:   |  |  |                                     |
| Grants for Public Works and Economic Development Facilities   | 11.300   | \$ 587,743   |                                     |
| TOTAL U.S. DEPARTMENT OF COMMERCE   |  | \$ 587,743   |                                     |
| <u>U.S. Department of Justice</u>   |  |  |                                     |
| <u>Office of Community Oriented Policing Services</u>   |  |  |                                     |
| Direct Program:   |  |  |                                     |
| Public Safety Partnership and Community Policing Grants (COPS)  | 16.710   | \$ 53,202  |                                     |
| TOTAL U.S. DEPARTMENT OF JUSTICE  |  | \$ 53,202  |                                     |
| <u>U.S. Department of Transportation</u>  |  |  |                                     |
| <u>Federal Highway Administration</u>   |  |  |                                     |
| Passed-Through N.C. Department of Transportation:<br>Highway Planning & Construction  | 20.205   | \$ 80,616  |                                     |
| <u>National Highway Traffic Safety Administration</u>   |  |  |                                     |
| Passed-Through N.C. Department of Transportation:<br>Safety Incentives to Prevent Operation of<br>Motor Vehicles by Intoxicated Persons | 20.605   | 9,920  |                                     |
| TOTAL U. S. DEPARTMENT OF TRANSPORTATION  |  | \$ 90,536  |                                     |
| <u>Appalachian Regional Commission</u>  |  |  |                                     |
| <u>Office of Rural Development</u>  |  |  |                                     |
| Direct Program:   |  |  |                                     |
| Appalachian Area Development  | 23.002   | \$ 199,615   |                                     |
| TOTAL APPALACHIAN REGIONAL COMMISSION   |  | \$ 199,615   |                                     |
| TOTAL ASSISTANCE - FEDERAL AWARDS   |  | \$ 931,096   |                                     |
| <b>State Grants:</b>  |  |  |                                     |
| <b>Cash Assistance:</b>   |  |  |                                     |
| <u>Governor's Crime Commission</u>  |  |  |                                     |
| Car Seat Grant  |  |  | \$ 5,000                            |
| TOTAL GOVERNOR'S CRIME COMMISSION   |  |  | \$ 5,000                            |

TOWN OF WILKESBORO, NORTH CAROLINA  
 Wilkesboro, North Carolina  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 For the Year Ended June 30, 2005

| <u>Grantor/Pass-Through</u><br><u>Grantor/Program Title</u> | <u>CFDA</u><br><u>Number</u> | <u>Pass-Through)</u><br><u>Expenditures</u> | <u>State</u><br><u>Expenditures</u> |
|---|------------------------------|---|-------------------------------------|
| <u>N.C. Department of Transportation</u>                    |                              |   |                                     |
| Powell Bill   |                              |   | \$ <u>71,278</u>                    |
| TOTAL N.C. DEPARTMENT OF TRANSPORTATION                     |                              |   | \$ <u>71,278</u>                    |
| TOTAL ASSISTANCE - STATE AWARDS                             |                              | _____                                       | \$ <u>76,278</u>                    |
| TOTAL ASSISTANCE  |                              | \$ <u>931,096</u>                           | \$ <u>76,278</u>                    |

