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HUNTLEY  
SIGMON &  
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CPAs, PLLC

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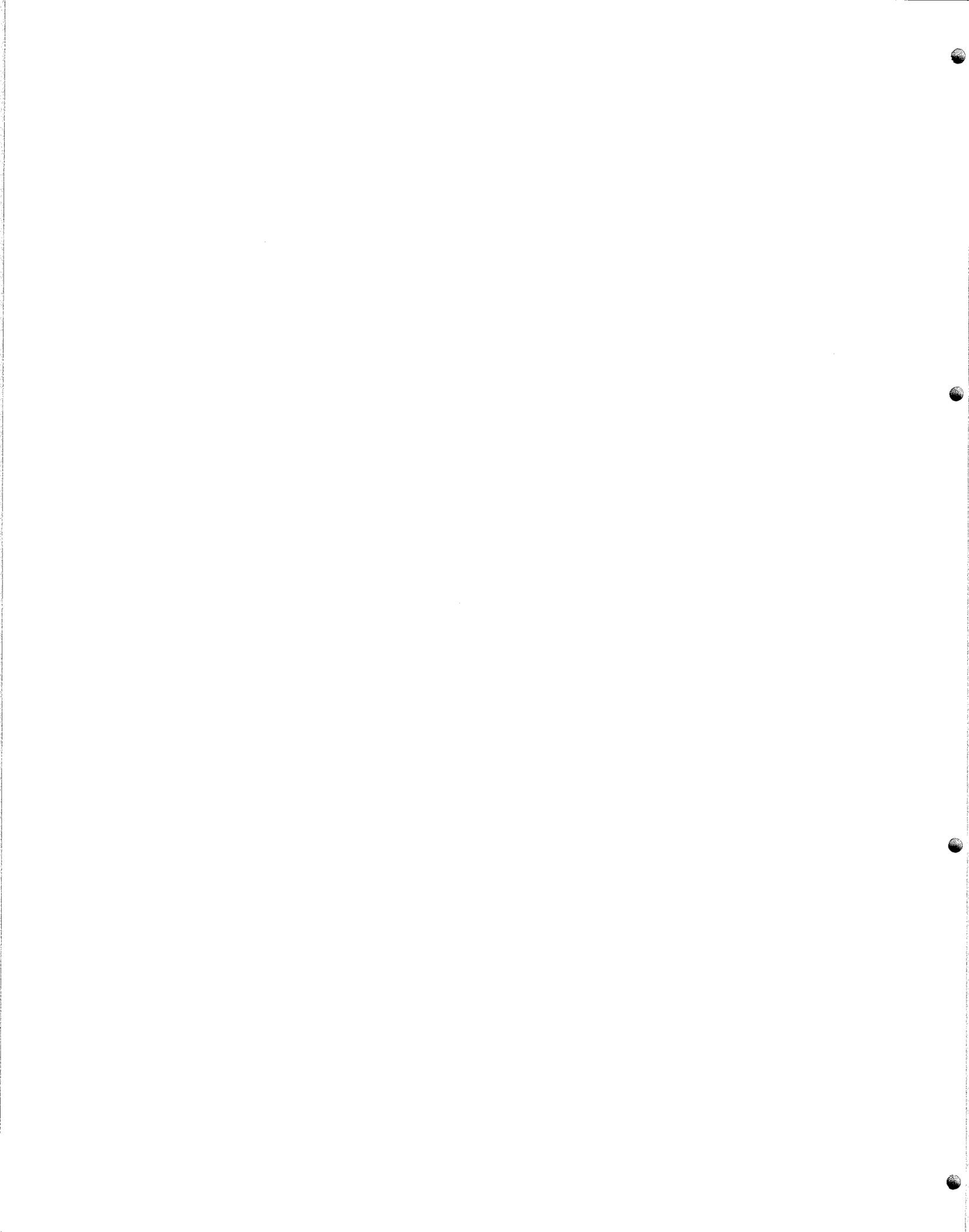
**HS&M**  
Certified Public Accountants

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TOWN OF WILKESBORO  
NORTH CAROLINA  
ANNUAL FINANCIAL  
FOR THE YEAR ENDED JUNE 30, 2007

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CERTIFIED PUBLIC ACCOUNTANTS  
LENOIR, NORTH CAROLINA



Town of Wilkesboro, North Carolina  
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 June 30, 2007

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FINANCIAL SECTION

HUNTLEY,  
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Lenoir, North Carolina 28645

**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 aggregate 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, 2007, 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 financial statements based on our audit. We did not audit the financial statements of the Town of Wilkesboro ABC Board, which represents 1.49 percent and 1.28 percent and 17.26 percent respectively of the assets, net assets, and revenues of the governmental activities and business-type activities. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Wilkesboro ABC Board, is based solely on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town'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 auditor 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, 2007, 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 28, 2007, 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 auditor have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statement of the Town of Wilkesboro, North Carolina. The combining and individual non-major fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements 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.

*Huntley, Sigmon & Manifold, CPAs, PLLC*

HUNTLEY, SIGMON & MANIFOLD, CPAs, PLLC

Certified Public Accountants

November 28, 2007

## Management Discussion and Analysis

## 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, 2007. 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

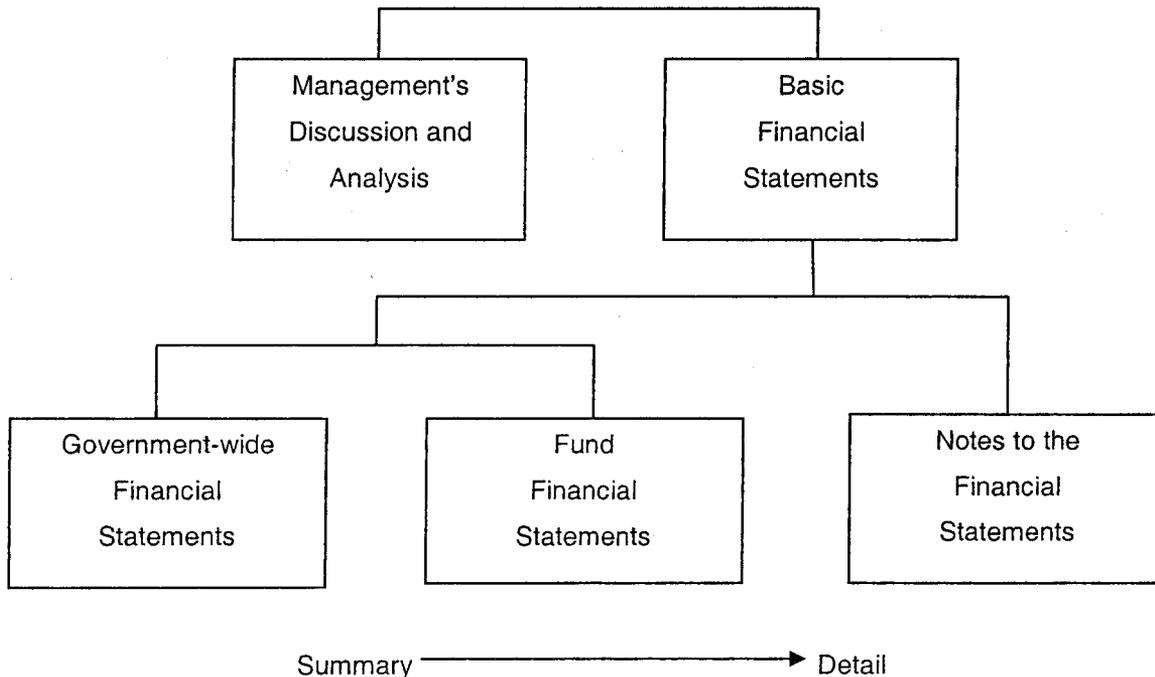
- The assets of the Town of Wilkesboro exceeded its liabilities at the close of the fiscal year by \$25,216,147 (*net assets*).
- The government's total net assets increased by \$617,747, primarily due to an increase in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Wilkesboro's governmental funds reported combined ending fund balances of \$2,289,030. Approximately 67.1% of this total amount or \$1,536,783 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 \$1,536,783 or 38.2% of total general fund expenditures for the fiscal year.
- The Town of Wilkesboro's total debt decreased by \$436,677 (9.4%) 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 gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Wilkesboro. The final category is the component units. Although legally separate from the Town, the Tourism Bureau is important to the Town because the Town exercises control over the Tourism Bureau by appointing its board members and because the Tourism Bureau is required to spend the net proceeds of the Town's 3% occupancy tax to promote tourism, conventions, and visitation to the Town of Wilkesboro. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its surpluses to the general fund of the Town and to other governmental units.

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

## Fund Financial Statements

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

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

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

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

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 20-34 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**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2007</u>	<u>6/30/2006</u>
Current and other assets	\$ 2,570,937	\$ 2,169,308	\$ 2,154,269	\$ 3,056,160	\$ 4,725,206	\$ 5,225,468
Capital assets	<u>3,800,967</u>	<u>3,968,014</u>	<u>21,148,956</u>	<u>21,443,952</u>	<u>24,949,923</u>	<u>25,411,966</u>
Total assets	<u>\$ 6,371,904</u>	<u>\$ 6,137,322</u>	<u>\$ 23,303,225</u>	<u>\$ 24,500,112</u>	<u>\$ 29,675,129</u>	<u>\$ 30,637,434</u>
Long-term liabilities outstanding	\$ 638,908	\$ 799,538	\$ 3,580,813	\$ 3,856,861	\$ 4,219,721	\$ 4,656,399
Other liabilities	<u>159,719</u>	<u>150,513</u>	<u>79,542</u>	<u>1,232,122</u>	<u>239,261</u>	<u>1,382,635</u>
Total liabilities	<u>\$ 798,627</u>	<u>\$ 950,051</u>	<u>\$ 3,660,355</u>	<u>\$ 5,088,983</u>	<u>\$ 4,458,982</u>	<u>\$ 6,039,034</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 3,328,719	\$ 3,305,890	\$ 18,031,338	\$ 17,762,254	\$ 21,360,057	\$ 21,068,144
Restricted	325,501	298,472	-	-	325,501	298,472
Unrestricted	<u>1,919,057</u>	<u>1,582,909</u>	<u>1,611,532</u>	<u>1,648,875</u>	<u>3,530,589</u>	<u>3,231,784</u>
Total net assets	<u>\$ 5,573,277</u>	<u>\$ 5,187,271</u>	<u>\$ 19,642,870</u>	<u>\$ 19,411,129</u>	<u>\$ 25,216,147</u>	<u>\$ 24,598,400</u>

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 \$25,216,147 as of June 30, 2007. The Town's net assets increased by \$617,747 for the fiscal year ended June 30, 2007. However, the largest portion (84.7%) 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 \$325,501 (1.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,530,589 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 97.96%, which is comparable to the statewide average of 97.71%.

**Town of Wilkesboro Changes in Net Assets**

**Figure 3**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>6/30/2007</b>	<b>6/30/2006</b>	<b>6/30/2007</b>	<b>6/30/2006</b>	<b>6/30/2007</b>	<b>6/30/2006</b>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 119,925	\$ 38,592	\$ 3,610,246	\$ 3,826,231	\$ 3,730,171	\$ 3,864,823
Operating grants and contributions	224,809	806,006	-	-	224,809	806,006
Capital grants and contributions	-	-	3,568	605,084	3,568	605,084
<b>General revenues:</b>						
Property taxes	2,373,285	1,954,777	-	-	2,373,285	1,954,777
Other taxes	1,352,203	1,262,362	-	-	1,352,203	1,262,362
Other	197,479	233,642	133,917	164,372	331,396	398,014
<b>Total revenues</b>	<b>\$ 4,267,701</b>	<b>\$ 4,295,379</b>	<b>\$ 3,747,731</b>	<b>\$ 4,595,687</b>	<b>\$ 8,015,432</b>	<b>\$ 8,891,066</b>
<b>Expenses:</b>						
General government	\$ 1,539,055	\$ 1,375,825	\$ -	\$ -	\$ 1,539,055	\$ 1,375,825
Public safety	1,403,318	1,332,232	-	-	1,403,318	1,332,232
Highways/streets	466,528	407,457	-	-	466,528	407,457
Sanitation	214,835	187,110	-	-	214,835	187,110
Culture and recreation	321,367	317,208	-	-	321,367	317,208
Interest on long-term debt	26,592	25,793	-	-	26,592	25,793
Water and sewer	-	-	3,425,990	3,591,316	3,425,990	3,591,316
<b>Total expenses</b>	<b>\$ 3,971,695</b>	<b>\$ 3,645,625</b>	<b>\$ 3,425,990</b>	<b>\$ 3,591,316</b>	<b>\$ 7,397,685</b>	<b>\$ 7,236,941</b>
Increase (decrease) in net assets before transfers	\$ 296,006	\$ 649,754	\$ 321,741	\$ 1,004,371	\$ 617,747	\$ 1,654,125
Transfers	90,000	75,000	(90,000)	(75,000)	-	-
Increase (decrease) in net assets	\$ 386,006	\$ 724,754	\$ 231,741	\$ 929,371	\$ 617,747	\$ 1,654,125
Net assets, July 1	5,187,271	4,462,517	19,411,129	18,481,758	24,598,400	22,944,275
<b>Net assets, June 30</b>	<b>\$ 5,573,277</b>	<b>\$ 5,187,271</b>	<b>\$ 19,642,870</b>	<b>\$ 19,411,129</b>	<b>\$ 25,216,147</b>	<b>\$ 24,598,400</b>

**Governmental activities:** Governmental activities increased the Town's net assets by \$386,006. The key element of this increase in net assets is the increase in property tax revenues.

**Business-type activities:** Business-type activities increased the Town of Wilkesboro's net assets by \$231,741. The key element of this increase in net assets is the decrease in expenses.

### **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 \$1,536,783, while total fund balance reached \$2,289,030. 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 38.2% of total General Fund expenditures, while total fund balance represents 56.8% of that same amount.

At June 30, 2007, the governmental funds of the Town of Wilkesboro reported a combined fund balance of \$2,289,030, a 17.1% increase over last year. Included in this change is an increase in the general fund and no change 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.

**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 \$1,611,532. The total change in net assets was \$231,741. 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, 2007, totals \$24,949,923 (net of accumulated depreciation). These assets include buildings, water and sewer lines, land, machinery and equipment, park facilities, vehicles, and infrastructure.

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

- Water and sewer capital asset equipment additions of \$294,803.
- General fund capital asset equipment additions of \$143,467.

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

**Figure 4**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>6/30/2007</b>	<b>6/30/2006</b>	<b>6/30/2007</b>	<b>6/30/2006</b>	<b>6/30/2007</b>	<b>6/30/2006</b>
Land	\$ 622,400	\$ 685,181	\$ 593,430	\$ 593,430	\$ 1,215,830	\$ 1,278,611
Building & improvements	1,889,019	1,893,306	-	-	1,889,019	1,893,306
Plant & distribution systems	-	-	19,757,492	19,977,806	19,757,492	19,977,806
Machinery & equipment	1,206,558	1,339,180	726,996	831,821	1,933,554	2,171,001
Infrastructure	82,990	50,347	-	-	82,990	50,347
Construction in progress	-	-	71,038	40,895	71,038	40,895
<b>Total</b>	<b><u>\$ 3,800,967</u></b>	<b><u>\$ 3,968,014</u></b>	<b><u>\$ 21,148,956</u></b>	<b><u>\$ 21,443,952</u></b>	<b><u>\$ 24,949,923</u></b>	<b><u>\$ 25,411,966</u></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 \$436,677 (9.4%) during the current fiscal year.

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 \$43,265,188.

Additional information regarding the Town of Wilkesboro's long-term debt can be found in note III.B.5. beginning on page 32 of this report.

**Economic Factors and Next Year's Budgets and Rates**

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

- The unemployment rate for Wilkes County at June 30, 2007 stands at 6.0%, which is a increase from the 5.1% rate of one year ago.
- The Town does not have any vacant buildings within the industrial work zone. The lack of vacant facilities puts the Town at a disadvantage when recruiting industrial clients. The Town may wish to explore the development of a spec building to encourage industrial development.
- The development of the US 421 Business District is continuing as projected as indicated by the ongoing purchase of commercial utility taps.

**Budget Highlights**

**Governmental Activities:** The tax rate will remain at 40 cents per one hundred dollars (\$100) valuation of taxable property. With this being a revaluation year it is projected that tax revenues will increase by \$210,000, which is the equivalent of 3.5 cents per one hundred dollars valuation of taxable revenue.

Budgeted expenditures in the General Fund are expected to increase approximately 6% to \$4,550,328.

Capital purchases in the new year include 4 police cruisers that will be paid from a 4 year lease/purchase agreement at approximately \$25,000 per year and one Utility RTV for the Park Department at a cost of \$10,500.

The 2007-2008 budget also includes the final debt payment for a 20 cubic yard garbage truck purchased in 2004. The yearly budgeted payment is \$40,581.

In setting the annual budget the Town Council should be mindful that the available fund balance as a percentage of the total budget is below the average of similar sized towns. This fund balance is to be available when unforeseen circumstances arise. The Town had made strides in this area but a continued focus is recommended.

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

**Business-type Activities:** Budgeted expenditures in the Water and Sewer Fund are expected to increase by approximately 17% to \$4,422,903. This substantial increase is due primarily to one-time capital purchases as noted below:

- The Town has budgeted \$200,000 to match an Appalachian Regional Commission (ARC) grant of \$200,000 to build a new water pump station at the Beacon Ridge Standpipe.
- The Town has increased the construction capital budget by \$170,000 for various water and sewer line improvements.
- The Town has allocated \$140,000 to build utility storage buildings at the Water and Waste Treatment Plants.

A 7.5% rate increase will be implemented across all rate classes as identified in an updated rate study.

The Town intends to borrow up to \$6,500,000 for the upgrade of the Waste Treatment Plant and other core infrastructure. Money has been allocated from the North Carolina Construction Grants and Loan Fund and carries an interest rate of 2.205%.

#### **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.

BASIS FINANCIAL STATEMENTS

TOWN OF WILKESBORO, NORTH CAROLINA  
STATEMENT OF NET ASSETS  
June 30, 2007

	Primary Government			Wilkesboro Tourism Development, and Visitors Bureau	Wilkesboro ABC Board
	Governmental Activities	Business-type Activities	Total		
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 2,022,003	\$ 641,981	\$ 2,663,984	\$ 245,671	\$ 218,341
Taxes receivables (net)	58,188	-	58,188	-	-
Accounts receivable	79,240	656,394	735,634	-	-
Due from other governments	351,806	-	351,806	-	-
Due from component units	59,700	-	59,700	-	-
Due from primary government	-	-	-	39,047	-
Inventories	-	413,599	413,599	-	220,907
Prepaid items	-	-	-	-	2,454
Total current assets	\$ 2,570,937	\$ 1,711,974	\$ 4,282,911	\$ 284,718	\$ 441,702
Restricted assets:					
Cash and cash equivalents	\$ -	\$ 442,295	\$ 442,295	\$ -	\$ -
Capital assets:					
Land, non-depreciable improvements, and construction in progress	\$ 622,400	\$ 664,468	\$ 1,286,868	\$ -	\$ 11,600
Other capital assets, net of depreciation	3,178,567	20,484,488	23,663,055	-	33,096
Total capital assets	\$ 3,800,967	\$ 21,148,956	\$ 24,949,923	\$ -	\$ 44,696
Total assets	\$ 6,371,904	\$ 23,303,225	\$ 29,675,129	\$ 284,718	\$ 486,398
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 57,648	\$ 49,499	\$ 107,147	\$ -	\$ 78,693
Unearned revenue	63,024	-	63,024	-	-
Customer deposits	-	30,043	30,043	-	-
Due to primary government	-	-	-	23,950	35,750
Due to other governments	-	-	-	-	48,313
Due to component units	39,047	-	39,047	-	-
Current portion of long-term liabilities	197,662	293,659	491,321	-	-
Long-term liabilities:					
Due in more than one year	441,246	3,287,154	3,728,400	-	-
Total liabilities	\$ 798,627	\$ 3,660,355	\$ 4,458,982	\$ 23,950	\$ 162,756
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 3,328,719	\$ 18,031,338	\$ 21,360,057	\$ -	\$ 44,696
Restricted for:					
Transportation	317,813	-	317,813	-	-
Public safety	7,688	-	7,688	-	-
Other purposes	-	-	-	-	278,946
Unrestricted	1,919,057	1,611,532	3,530,589	260,768	-
Total net assets	\$ 5,573,277	\$ 19,642,870	\$ 25,216,147	\$ 260,768	\$ 323,642

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, 2007

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 1,539,055	\$ 44,273	\$ -	\$ -
Public safety	1,403,318	5,007	72,761	-
Transportation	466,528	-	151,017	-
Environmental protection	214,835	-	-	-
Cultural and recreation	321,367	70,645	1,031	-
Interest on long-term debt	26,592	-	-	-
<b>Total governmental activities</b>	<b>\$ 3,971,695</b>	<b>\$ 119,925</b>	<b>\$ 224,809</b>	<b>\$ -</b>
<b>Business-type activities:</b>				
Water and sewer	\$ 3,425,990	\$ 3,610,246	\$ -	\$ 3,568
<b>Total business-type activities</b>	<b>\$ 3,425,990</b>	<b>\$ 3,610,246</b>	<b>\$ -</b>	<b>\$ 3,568</b>
<b>Total primary government</b>	<b>\$ 7,397,685</b>	<b>\$ 3,730,171</b>	<b>\$ 224,809</b>	<b>\$ 3,568</b>
<b>Component units:</b>				
Wilkesboro Tourism Development, Convention, and Visitors Bureau	\$ 124,702	\$ -	\$ -	\$ -
Wilkesboro ABC Board	1,374,201	1,383,226	-	-
<b>Total component units</b>	<b>\$ 1,498,903</b>	<b>\$ 1,383,226</b>	<b>\$ -</b>	<b>\$ -</b>

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, 2007

Net (Expense) Revenue and Changes in Net Assets					
Primary Government					
Functions/Programs	Governmental Activities	Business-type Activities	Total	Wilkesboro Tourism Development, Convention, and Visitors Bureau	Wilkesboro ABC Board
<b>Primary government:</b>					
Governmental Activities:					
General government	\$ (1,494,782)	\$ -	\$ (1,494,782)	\$ -	\$ -
Public safety	(1,325,550)	-	(1,325,550)	-	-
Transportation	(315,511)	-	(315,511)	-	-
Environmental protection	(214,835)	-	(214,835)	-	-
Cultural and recreation	(249,691)	-	(249,691)	-	-
Interest on long-term debt	(26,592)	-	(26,592)	-	-
Total governmental activities	<u>\$ (3,626,961)</u>	<u>\$ -</u>	<u>\$ (3,626,961)</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type activities:					
Water and sewer	\$ -	\$ 187,824	\$ 187,824	-	-
Total business-type activities	<u>\$ -</u>	<u>\$ 187,824</u>	<u>\$ 187,824</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ (3,626,961)</u>	<u>\$ 187,824</u>	<u>\$ (3,439,137)</u>	<u>-</u>	<u>-</u>
Component units:					
Wilkesboro Tourism Development, Convention, and Visitors Bureau	-	-	-	\$ (124,702)	\$ -
Wilkesboro ABC Board	-	-	-	-	9,025
Total component units	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ (124,702)</u>	<u>\$ 9,025</u>
General revenues:					
Taxes:					
Property taxes, levied for general purpose	\$ 2,373,285	\$ -	\$ 2,373,285	\$ -	\$ -
Other taxes	1,352,203	-	1,352,203	-	-
Occupancy tax	-	-	-	149,213	-
Grants and contributions not restricted to specific programs	-	-	-	3,000	-
Unrestricted investment earnings	89,174	73,988	163,162	8,429	3,085
Miscellaneous	108,305	59,929	168,234	4,750	-
Transfers	90,000	(90,000)	-	-	-
Total general revenues and transfers	<u>\$ 4,012,967</u>	<u>\$ 43,917</u>	<u>\$ 4,056,884</u>	<u>\$ 165,392</u>	<u>\$ 3,085</u>
Change in net assets	<u>\$ 386,006</u>	<u>\$ 231,741</u>	<u>\$ 617,747</u>	<u>\$ 40,690</u>	<u>\$ 12,110</u>
Net assets, beginning	5,187,271	19,411,129	24,598,400	220,078	311,532
Net assets, ending	<u>\$ 5,573,277</u>	<u>\$ 19,642,870</u>	<u>\$ 25,216,147</u>	<u>\$ 260,768</u>	<u>\$ 323,642</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, 2007

	Major Funds		Total Governmental Funds
	General	Total Non-Major Funds	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,973,304	\$ 48,699	\$ 2,022,003
Receivables, net:			
Taxes	58,188	-	58,188
Accounts	79,240	-	79,240
Due from other governments	351,806	-	351,806
Due from component units	59,700	-	59,700
Total assets	<u>\$ 2,522,238</u>	<u>\$ 48,699</u>	<u>\$ 2,570,937</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 57,648	\$ -	\$ 57,648
Due to component unit	39,047	-	39,047
Deferred revenue	122,188	-	122,188
Unearned revenue	14,325	48,699	63,024
Total liabilities	<u>\$ 233,208</u>	<u>\$ 48,699</u>	<u>\$ 281,907</u>
Fund balances:			
Reserved for:			
State statute	\$ 426,746	\$ -	\$ 426,746
Streets-Powell bill	317,813	-	317,813
Drug crime prevention	7,688	-	7,688
Unreserved:			
Designated for subsequent year's expenditures	193,470	-	193,470
Undesignated	1,343,313	-	1,343,313
Unreserved, reported in non-major:			
Special Revenue funds	-	-	-
Total fund balances	<u>\$ 2,289,030</u>	<u>\$ -</u>	<u>\$ 2,289,030</u>
Total liabilities and fund balances	<u>\$ 2,522,238</u>	<u>\$ 48,699</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.	3,800,967
Liabilities for earned but deferred revenues in fund statements.	122,188
Some liabilities, including promissory notes, are not due and payable in the current period and therefore are not reported in the funds.	(638,908)
Net assets of governmental activities	<u>\$ 5,573,277</u>

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

**TOWN OF WILKESBORO, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2007**

	Major Funds		
	General Fund	Total Non-Major Funds	Total Governmental Funds
<b>REVENUES</b>			
Ad valorem taxes	\$ 2,378,949	\$ -	\$ 2,378,949
Other taxes and licenses	14,402	-	14,402
Unrestricted intergovernmental	1,260,951	-	1,260,951
Restricted intergovernmental	376,605	1,031	377,636
Permits and fees	25,925	-	25,925
Sales and services	40,181	-	40,181
Investment earnings	89,174	-	89,174
Miscellaneous	86,145	-	86,145
Total revenues	<u>\$ 4,272,332</u>	<u>\$ 1,031</u>	<u>\$ 4,273,363</u>
<b>EXPENDITURES</b>			
Current:			
General government	\$ 1,567,151	\$ -	\$ 1,567,151
Public safety	1,257,965	-	1,257,965
Transportation	476,050	-	476,050
Environmental protection	193,054	-	193,054
Cultural and recreation	317,555	1,031	318,586
Debt service:			
Principal	189,877	-	189,877
Interest and other charges	26,592	-	26,592
Total expenditures	<u>\$ 4,028,244</u>	<u>\$ 1,031</u>	<u>\$ 4,029,275</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 244,088</u>	<u>\$ -</u>	<u>\$ 244,088</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	\$ 90,000	\$ -	\$ 90,000
Total other financing sources (uses)	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>
Net change in fund balance	<u>\$ 334,088</u>	<u>\$ -</u>	<u>\$ 334,088</u>
Fund balances, beginning	<u>\$ 1,954,942</u>	<u>\$ -</u>	<u>\$ 1,954,942</u>
Fund balances, ending	<u><u>\$ 2,289,030</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,289,030</u></u>

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

**TOWN OF WILKESBORO, NORTH CAROLINA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007**

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

Net changes in fund balances - total governmental funds	\$	334,088
<p>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</p>		
		(98,466)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in deferred revenue for tax revenues		(5,665)
<p>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.</p>		
		189,877
<p>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.</p>		
Compensated absences		(7,216)
Net pension obligation		(22,031)
Loss on disposal of capital assets		(4,581)
		(33,828)
Total changes in net assets of governmental activities	\$	386,006

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 BALANCE -  
 BUDGET AND ACTUAL - GENERAL FUND  
 For the Year Ended June 30, 2007

	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,320,964	\$ 2,320,964	\$ 2,378,949	\$ 57,985
Other taxes and licenses	15,000	15,000	14,402	(598)
Unrestricted intergovernmental	1,236,800	1,236,800	1,260,951	24,151
Restricted intergovernmental	251,000	369,970	376,605	6,635
Permits and fees	40,000	40,000	25,925	(14,075)
Sales and services	43,400	43,400	40,181	(3,219)
Investment earnings	25,000	25,000	89,174	64,174
Miscellaneous	71,000	74,500	86,145	11,645
Total revenues	<u>\$ 4,003,164</u>	<u>\$ 4,125,634</u>	<u>\$ 4,272,332</u>	<u>\$ 146,698</u>
<b>Expenditures:</b>				
Current:				
General government	\$ 1,593,800	\$ 1,632,473	\$ 1,567,151	\$ 65,322
Public safety	1,428,486	1,474,283	1,257,965	216,318
Transportation	519,800	521,800	476,050	45,750
Environmental protection	220,100	220,100	193,054	27,046
Cultural and recreation	307,500	343,500	317,555	25,945
Debt service:				
Principal retirement	188,354	188,354	189,877	(1,523)
Interest and other charges	28,118	28,118	26,592	1,526
Total expenditures	<u>\$ 4,286,158</u>	<u>\$ 4,408,628</u>	<u>\$ 4,028,244</u>	<u>\$ 380,384</u>
Revenues over (under) expenditures	<u>\$ (282,994)</u>	<u>\$ (282,994)</u>	<u>\$ 244,088</u>	<u>\$ 527,082</u>
Other financing sources (uses):				
Transfers from other funds	\$ 90,000	\$ 90,000	\$ 90,000	\$ -
Total other financing sources (uses)	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ -</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ (192,994)</u>	<u>\$ (192,994)</u>	<u>\$ 334,088</u>	<u>\$ 527,082</u>
Fund balance appropriated	192,994	192,994	-	(192,994)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,088</u>	<u>\$ 334,088</u>
Fund balance, beginning			<u>1,954,942</u>	
Fund balance, ending			<u>\$ 2,289,030</u>	

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, 2007

	Major Enterprise Funds	
	Water and Sewer Fund	Total
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 641,981	\$ 641,981
Accounts receivable - billed	656,394	656,394
Inventories	413,599	413,599
Total current assets	<u>\$ 1,711,974</u>	<u>\$ 1,711,974</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	\$ 442,295	\$ 442,295
Capital assets:		
Land and other non-depreciable assets	\$ 664,468	\$ 664,468
Other capital assets, net of depreciation	20,484,488	20,484,488
Capital assets (net)	<u>\$ 21,148,956</u>	<u>\$ 21,148,956</u>
Total noncurrent assets	<u>\$ 21,591,251</u>	<u>\$ 21,591,251</u>
Total assets	<u>\$ 23,303,225</u>	<u>\$ 23,303,225</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 49,499	\$ 49,499
Customer deposits	30,043	30,043
Installment purchase-current	233,651	233,651
Promissory note-current	60,008	60,008
Total current liabilities	<u>\$ 373,201</u>	<u>\$ 373,201</u>
Noncurrent liabilities:		
Other noncurrent liabilities:		
Compensated absences	\$ 20,900	\$ 20,900
Installment purchase-noncurrent	3,214,030	3,214,030
Promissory note-noncurrent	52,224	52,224
Total noncurrent liabilities	<u>\$ 3,287,154</u>	<u>\$ 3,287,154</u>
Total liabilities	<u>\$ 3,660,355</u>	<u>\$ 3,660,355</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 18,031,338	\$ 18,031,338
Unrestricted	1,611,532	1,611,532
Total net assets	<u>\$ 19,642,870</u>	<u>\$ 19,642,870</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, 2007**

	<b>Major Enterprise Funds</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 3,563,492	\$ 3,563,492
Water and sewer taps	31,592	31,592
Other operating revenue	15,162	15,162
<b>Total operating revenues</b>	<b>\$ 3,610,246</b>	<b>\$ 3,610,246</b>
<b>OPERATING EXPENSES</b>		
Administration	\$ 338,646	\$ 338,646
Water treatment and distribution	802,673	802,673
Waste collection and treatment	904,349	904,349
Maintenance	623,333	623,333
Depreciation	619,942	619,942
<b>Total operating expenses</b>	<b>\$ 3,288,943</b>	<b>\$ 3,288,943</b>
<b>Operating income</b>	<b>\$ 321,303</b>	<b>\$ 321,303</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	\$ 73,988	\$ 73,988
Interest and other charges	(137,047)	(137,047)
Miscellaneous Income	59,929	59,929
<b>Total nonoperating revenue (expenses)</b>	<b>\$ (3,130)</b>	<b>\$ (3,130)</b>
<b>Income before contributions and transfers</b>	<b>\$ 318,173</b>	<b>\$ 318,173</b>
Capital contributions	3,568	3,568
Transfers to other funds	(90,000)	(90,000)
<b>Change in net assets</b>	<b>\$ 231,741</b>	<b>\$ 231,741</b>
<b>Total net assets, beginning</b>	<b>19,411,129</b>	<b>19,411,129</b>
<b>Total net assets, ending</b>	<b>\$ 19,642,870</b>	<b>\$ 19,642,870</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, 2007

	Major Enterprise Funds	
	Water and Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 3,680,068	\$ 3,680,068
Cash paid for goods and services	(1,898,820)	(1,898,820)
Cash paid to or on behalf of employees for services	(1,087,092)	(1,087,092)
Customer deposits received	3,450	3,450
Customer deposits returned	(846)	(846)
Net cash provided by operating activities	<u>\$ 696,760</u>	<u>\$ 696,760</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to other funds	<u>\$ (90,000)</u>	<u>\$ (90,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	\$ (1,367,898)	\$ (1,367,898)
Principal paid on long-term debt	(283,656)	(283,656)
Interest paid on long-term debt	(137,047)	(137,047)
Capital contributions	532,703	532,703
Miscellaneous income	61,477	61,477
Net cash used by capital and related financing activities	<u>\$ (1,194,421)</u>	<u>\$ (1,194,421)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends	<u>\$ 73,988</u>	<u>\$ 73,988</u>
Net decrease in cash and cash equivalents	\$ (513,673)	\$ (513,673)
Balances, beginning	1,597,949	1,597,949
Balances, ending	<u>\$ 1,084,276</u>	<u>\$ 1,084,276</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	<u>\$ 321,303</u>	<u>\$ 321,303</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 619,942	\$ 619,942
Changes in assets and liabilities:		
Decrease in accounts receivable	69,822	69,822
Increase in inventory	(212,289)	(212,289)
Decrease in accounts payable and accrued liabilities	(112,231)	(112,231)
Increase in customer deposits	2,604	2,604
Increase in accrued vacation pay	7,609	7,609
Total adjustments	<u>\$ 375,457</u>	<u>\$ 375,457</u>
Net cash provided by operating activities	<u>\$ 696,760</u>	<u>\$ 696,760</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, 2007**

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

The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental fund:

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

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.

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

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

**TOWN OF WILKESBORO**  
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*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 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 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31<sup>st</sup> each year with taxes due by May 1<sup>st</sup> of the following year. To transition from the annual registration into the staggered, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

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 Grant Project Special Revenue Fund and the Enterprise Fund Capital Reserve Fund, 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. Amendments are required for any revisions that alter total expenditures of any fund or that change departmental appropriations by more than \$500. 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.

**TOWN OF WILKESBORO**  
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**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). 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. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

**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 restricted cash in the Water and Sewer Fund is classified as a restricted asset because its use is restricted per Board designation and for unspent debt funds.

**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, 2006.

**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.

**TOWN OF WILKESBORO**  
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The inventory of the Town's enterprise fund consists of materials and supplies held for subsequent use. The cost of this inventory is recorded as an expense when the inventory is consumed rather than when purchased. 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	25
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 68% 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. 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.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**11. Net Assets/Fund Balances**

**Net Assets**

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

**Fund Balances**

In the governmental fund financial statements, reservations of fund balance represent amounts that can not 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 2007 - 2008 budget ordinance.

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

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

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

**Noncompliance with North Carolina General Statutes**

The Town had instances where it did not make deposits in a timely manner when moneys on hand amounted to as much as \$250, as required by G.S. 159-32. The Town discovered this problem and has initiated steps to prevent it from happening in the future.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2007**

**B. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2007, there were expenditures made in the Town's Water and Sewer Capital Reserve Fund that exceeded the authorized appropriations made by the governing board as shown in Exhibit D-2.

**III. Detail Notes on All Funds**

**A. Assets**

**1. Deposits**

All the deposits of the Town, the Tourism Bureau, and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's, the Tourism Bureau's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, the Tourism Bureau, and the ABC Board, these deposits are considered to be held by the Town's, the Tourism Bureau's, and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the Tourism Bureau, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, the Tourism Bureau, and the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town, the Tourism Bureau and the ABC Board have no formal policy regarding custodial credit risk for deposits, but rely on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2007, the Town's deposits had a carrying amount of \$3,070,249 and a bank balance of \$3,523,474. Of the Town's bank balance, \$2,474,176 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 \$245,671 and the bank balance was \$245,671. Of the Tourism's bank balance, \$179,918 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 \$217,341 and the bank balance was \$205,598. Of the ABC Board's bank balance, \$163,641 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2007, the Town's petty cash fund totaled \$200.

**2. Investments**

At June 30, 2007, the Town had \$35,830 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

**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>6-30-07</u>
General Fund	
Taxes Receivable	<u>\$ 61,800</u>

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2007**

**4. Capital Assets**

**Primary Government**

Capital asset activity for the Primary Government for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Government activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 685,181	\$ 5,800	\$ 68,581	\$ 622,400
Total capital assets not being depreciated	<u>\$ 685,181</u>	<u>\$ 5,800</u>	<u>\$ 68,581</u>	<u>\$ 622,400</u>
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	\$ 2,451,660	\$ 47,662		\$ 2,499,322
Equipment	2,957,933	61,032		3,018,965
Infrastructure	50,347	34,773		85,120
Total capital assets being depreciated	<u>\$ 5,459,940</u>	<u>\$ 143,467</u>	<u>\$ 0</u>	<u>\$ 5,603,407</u>
<b>Less accumulated depreciation for:</b>				
Buildings and Improvements	\$ 558,354	\$ 51,949		\$ 610,303
Equipment	1,618,753	193,654		1,812,407
Infrastructure	0	2,130		2,130
Total accumulated depreciation	<u>\$ 2,177,107</u>	<u>\$ 247,733</u>	<u>\$ 0</u>	<u>\$ 2,424,840</u>
Total capital assets being depreciated, net	<u>\$ 3,282,833</u>			<u>\$ 3,178,567</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 3,968,014</u></u>			<u><u>\$ 3,800,967</u></u>

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

General government	\$ 40,010
Public safety	141,306
Transportation	36,869
Environmental protection	21,019
Cultural and recreational	8,529
Total depreciation expense	<u>\$ 247,733</u>

	Beginning Balances	Increases	Decreases	Ending 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	40,895	\$ 30,143		71,038
Total capital assets not being depreciated	<u>\$ 634,325</u>	<u>\$ 30,143</u>	<u>\$ 0</u>	<u>\$ 664,468</u>
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	\$ 25,797,273	\$ 263,283		\$ 26,060,556
Equipment	1,860,189	31,520	\$ 3,974	1,887,735
Total capital assets being depreciated	<u>\$ 27,657,462</u>	<u>\$ 294,803</u>	<u>\$ 3,974</u>	<u>\$ 27,948,291</u>
<b>Less accumulated depreciation for:</b>				
Plant and distribution systems	\$ 5,819,467	\$ 483,597		\$ 6,303,064
Equipment	1,028,368	136,345	\$ 3,974	1,160,739
Total accumulated depreciation	<u>\$ 6,847,835</u>	<u>\$ 619,942</u>	<u>\$ 3,974</u>	<u>\$ 7,463,803</u>
Total capital assets being depreciated, net	<u>\$ 20,809,627</u>			<u>\$ 20,484,488</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$ 21,443,952</u></u>			<u><u>\$ 21,148,956</u></u>

**TOWN OF WILKESBORO**  
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**Construction commitments**

The government had no active construction projects and no commitments with contractors as of June 30, 2007.

**Discretely presented component unit**

Activity for the ABC Board for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 11,600			\$ 11,600
<b>Capital assets being depreciated:</b>				
Buildings and improvements	\$ 191,714			\$ 191,714
Furniture and equipment	12,854			12,854
Total capital assets being depreciated	\$ 204,568			\$ 204,568
<b>Less accumulated depreciation for:</b>				
Buildings	\$ 157,193	\$ 6,021		\$ 163,214
Furniture and equipment	6,635	1,623		8,258
Total accumulated depreciation	\$ 163,828	\$ 7,644	\$	\$ 171,472
Total capital assets being depreciated, net	\$ 40,740			\$ 33,096
<b>ABC Board capital assets, net</b>	<b>\$ 52,340</b>			<b>\$ 44,696</b>

**B. Liabilities**

**1. Pension Plan Obligations**

**a. Local Governmental Employees' Retirement System**

*Plan Description.* The Town of Wilkesboro contributes 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 is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.93% and 4.78%, 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, 2007, 2006, and 2005 were \$107,502, \$105,925, and \$96,998, 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, 2007**

**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, 2006, 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, 2006 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% - 12.3% 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	\$ 20,477
Interest on net pension obligation	8,279
Adjustment to annual required contribution	<u>(6,725)</u>
Annual pension cost	\$ 22,031
Contributions made	<u>0</u>
Increase (decrease) in net pension obligation	\$ 22,031
Net pension obligation beginning of year	114,200
Net pension obligation end of year	<u>\$ 136,231</u>

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2007**

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 19,907	0%	\$ 90,880
2006	\$ 23,320	0%	\$114,200
2007	\$ 22,031	0%	\$136,231

**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, 2007 were \$38,594, which consisted of \$31,562 from the Town and \$7,032 from the law enforcement officers.

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

For the year ended June 30, 2007, 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, 2007 was \$69,206.

**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, 2007, the Town of Wilkesboro has recognized on behalf of payments for pension contributions made by the State as a revenue and an expenditure of \$3,742 for the sixteen (16) 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, 2007**

longer be eligible for insurance coverage. Currently four individuals are eligible for these health care benefits. For the fiscal year ended June 30, 2007, the Town made payments for postretirement health benefits of \$15,510. The Town obtains health care coverage through private insurers.

**2. Other Employment Benefit**

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. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

**3. 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)	\$ 0	\$ 4,808
Privilege licenses collected in advance (General Fund)	0	9,517
Taxes receivable, net (General Fund)	58,188	0
Note receivable (General Fund)	64,000	0
Unexpended grant proceeds (Special Revenue Fund)	<u>0</u>	<u>48,699</u>
 Total	 <u>\$ 122,188</u>	 <u>\$ 63,024</u>

**4. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

The Town carries commercial flood insurance on the garage/warehouse building and contents. Flood insurance is not carried on any other Town structure.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The town manager, finance officer, and tax collector are each individually bonded for \$50,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$150,000.

For health and dental insurance coverage, the Town is self-insured for individual losses up to \$40,000. The Town purchases reinsurance for individual losses over \$40,000, as well as reinsurance for total plan losses in excess of \$530,000.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2007**

**5. 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. \$ 295,279

Promissory Note due in annual installments of \$40,581 through May 2008;  
 Interest at 2.59%. Secured by equipment. 39,522

Promissory Note due in annual installments of \$49,285 through February 2010;  
 Interest at 3.74%. Secured by equipment. 137,447

Serviced by the Water and Sewer Fund:

Promissory Note due in annual installments of \$9,545 through May 2008;  
 Interest at 2.59%. Secured by equipment. 9,296

Promissory Note due in annual installments of \$53,780 through August 2008;  
 Interest at 2.98%. Secured by equipment. 102,936

\$ 584,480

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

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 197,662	\$ 18,808	\$ 60,008	\$ 3,317
2009	165,235	10,653	52,224	1,556
2010	109,351	3,235		
Total	<u>\$ 472,248</u>	<u>\$ 32,696</u>	<u>\$ 112,232</u>	<u>\$ 4,873</u>

**b. Installment Purchase**

In March 2004, the Town entered into certificates of participation to finance construction of a two million gallon clearwell, 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, 2007, including \$840,858 of interest, are as follows:

Year Ending June 30,	Business-type Activities	
	Principal	Interest
2008	\$ 233,651	\$ 123,727
2009	242,257	115,121
2010	251,180	106,198
2011	260,431	96,947
2012	270,024	87,354
2013-2017	1,506,839	280,053
2018-2022	<u>683,299</u>	<u>31,458</u>
Principal payments	<u>\$ 3,447,681</u>	
Total interest payments		<u>\$ 840,858</u>

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2007

**c. General Obligation Indebtedness**

At June 30, 2007, the Town of Wilkesboro had a legal debt margin of \$43,265,188.

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

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion of Balance
<b>Governmental activities:</b>					
Promissory notes	\$ 662,125		\$ 189,877	\$ 472,248	\$ 197,662
Compensated absences	23,213	\$ 7,216		30,429	
Net pension obligation	114,200	22,031		136,231	
<b>Governmental activity long-term liabilities</b>	<b>\$ 799,538</b>	<b>\$ 29,247</b>	<b>\$ 189,877</b>	<b>\$ 638,908</b>	<b>\$ 197,662</b>
<b>Business-type activities:</b>					
Installment purchase	\$ 3,673,031		\$ 225,350	\$ 3,447,681	\$ 233,651
Promissory notes	170,538		58,306	112,232	60,008
Compensated absences	13,291	\$ 7,609		20,900	
<b>Business-type activity long-term liabilities</b>	<b>\$ 3,856,860</b>	<b>\$ 7,609</b>	<b>\$ 283,656</b>	<b>\$ 3,580,813</b>	<b>\$ 293,659</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, 2007, consist of the following:

Due from component unit-Tourism Bureau for reimbursement of expenses to primary government-General Fund	<u>\$ 23,950</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>\$ 39,047</u>

**Transfers to/from Other Funds**

Transfers to/from other funds at June 30, 2007, consist of the following:

From the Water and Sewer Fund to the General Fund	\$ (90,000)
From the Water and Sewer Capital Reserve Fund to the Water and Sewer Fund	<u>(166,590)</u>
Total	<u>\$ (256,590)</u>

The transfer from the Water and Sewer Fund to the General Fund was made to reimburse the General Fund for administrative and other expenses paid for the Water and Sewer Fund.

**TOWN OF WILKESBORO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2007**

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

For the fiscal year ended June 30, 2007, the Town of Wilkesboro has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$3,742 for the 16 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 High Country 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 \$886 to the Council during the fiscal year ended June 30, 2007.

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, 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, 2007. The Town appropriated \$20,000 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 Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
12/31/01	\$ 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%
12/31/05	\$ 0	\$ 158,546	\$ 158,546	0%	\$ 601,685	26.35%
12/31/06	\$ 0	\$ 111,924	\$ 111,924	0%	\$ 515,959	21.69%

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

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2001	\$ 8,988	0%
2002	12,643	0%
2003	14,208	0%
2004	17,907	0%
2005	18,742	0%
2006	21,951	0%
2007	20,477	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	12/31/06
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	24 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	4.5% to 12.3%
*Includes inflation at	3.75%
Cost-of-living adjustments	N/A

SUPPLEMENTARY STATEMENTS

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE--BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
Ad valorem taxes:			
Taxes	\$ 2,305,964	\$ 2,365,377	\$ 59,413
Interest	15,000	13,572	(1,428)
TOTAL	<u>\$ 2,320,964</u>	<u>\$ 2,378,949</u>	<u>\$ 57,985</u>
Other taxes and licenses:			
Privilege licenses	<u>\$ 15,000</u>	<u>\$ 14,402</u>	<u>\$ (598)</u>
Unrestricted intergovernmental:			
Local option sales taxes	\$ 765,000	\$ 746,893	\$ (18,107)
Payments in lieu of taxes	2,800	0	(2,800)
Telecommunications sales tax	0	36,723	36,723
Utility franchise tax	400,000	316,880	(83,120)
Piped natural gas tax	0	45,474	45,474
Video franchise fee	0	23,643	23,643
Beer and wine tax	14,000	14,360	360
ABC Profit distribution	30,000	53,200	23,200
Hold harmless funds	25,000	23,778	(1,222)
TOTAL	<u>\$ 1,236,800</u>	<u>\$ 1,260,951</u>	<u>\$ 24,151</u>
Restricted intergovernmental:			
Powell bill allocation	\$ 125,000	\$ 116,844	\$ (8,156)
Home land security grant	42,988	42,988	0
Other federal and state grants	34,173	52,614	18,441
Controlled substance tax	2,809	2,590	(219)
ABC Revenue for law enforcement	0	4,000	4,000
On behalf of payments	0	3,742	3,742
Occupancy tax	165,000	153,827	(11,173)
TOTAL	<u>\$ 369,970</u>	<u>\$ 376,605</u>	<u>\$ 6,635</u>
Permits and fees:			
Franchise fees	\$ 36,000	\$ 21,802	\$ (14,198)
Permits	4,000	4,123	123
TOTAL	<u>\$ 40,000</u>	<u>\$ 25,925</u>	<u>\$ (14,075)</u>
Sales and services:			
Rents	\$ 31,900	\$ 32,700	\$ 800
Court costs, fees and charges	2,500	2,895	395
Parking violation penalties	2,000	884	(1,116)
Park lights	7,000	3,702	(3,298)
TOTAL	<u>\$ 43,400</u>	<u>\$ 40,181</u>	<u>\$ (3,219)</u>
Investment earnings	<u>\$ 25,000</u>	<u>\$ 89,174</u>	<u>\$ 64,174</u>

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE--BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Miscellaneous:			
Other	\$ 73,500	\$ 77,467	\$ 3,967
Cemetery donation	1,000	8,678	7,678
TOTAL	<u>\$ 74,500</u>	<u>\$ 86,145</u>	<u>\$ 11,645</u>
 TOTAL REVENUES	 <u>\$ 4,125,634</u>	 <u>\$ 4,272,332</u>	 <u>\$ 146,698</u>
 EXPENDITURES:			
General government:			
Governing body:			
Salaries and employee benefits		\$ 29,488	
Operating expenditures		176,533	
TOTAL	<u>\$ 209,573</u>	<u>\$ 206,021</u>	<u>\$ 3,552</u>
Administration:			
Salaries and employee benefits		\$ 336,032	
Other operating expenditures		163,643	
Insurance		613,272	
TOTAL	<u>\$ 1,161,675</u>	<u>\$ 1,112,947</u>	<u>\$ 48,728</u>
Public buildings:			
Salaries and employee benefits		\$ 81,763	
Other operating expenditures		94,230	
Capital outlay		72,190	
TOTAL	<u>\$ 261,225</u>	<u>\$ 248,183</u>	<u>\$ 13,042</u>
TOTAL GENERAL GOVERNMENT	<u>\$ 1,632,473</u>	<u>\$ 1,567,151</u>	<u>\$ 65,322</u>
Public safety:			
Police:			
Salaries and employee benefits		\$ 706,738	
Other operating expenditures		161,844	
Capital outlay		25,518	
TOTAL	<u>\$ 1,074,263</u>	<u>\$ 894,100</u>	<u>\$ 180,163</u>
Fire:			
Volunteer salaries and benefits		\$ 72,288	
Retirement benefits paid		27,300	
Other operating expenditures		146,847	
TOTAL	<u>\$ 258,620</u>	<u>\$ 246,435</u>	<u>\$ 12,185</u>

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE--BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Inspections:			
Salaries and employee benefits		\$ 101,861	
Other operating expenditures		15,569	
TOTAL	\$ 141,400	\$ 117,430	\$ 23,970
 TOTAL PUBLIC SAFETY	\$ 1,474,283	\$ 1,257,965	\$ 216,318
Transportation:			
Streets:			
Salaries and employee benefits		\$ 110,945	
Other operating expenditures		319,346	
Capital outlay		45,759	
TOTAL TRANSPORTATION	\$ 521,800	\$ 476,050	\$ 45,750
Environmental protection:			
Sanitation:			
Salaries and employee benefits		\$ 107,115	
Other operating expenditures		39,341	
Landfill tipping fees		46,598	
TOTAL ENVIRONMENTAL PROTECTION	\$ 220,100	\$ 193,054	\$ 27,046
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits		\$ 67,698	
Other operating expenditures		88,420	
Capital outlay		5,800	
TOTAL	\$ 187,500	\$ 161,918	\$ 25,582
Tourism:			
Tourism development	\$ 156,000	\$ 155,637	\$ 363
 TOTAL CULTURE AND RECREATION	\$ 343,500	\$ 317,555	\$ 25,945
Debt service:			
Principal retirement		\$ 189,877	
Interest and other charges		26,592	
TOTAL DEBT SERVICE	\$ 216,472	\$ 216,469	\$ 3
 TOTAL EXPENDITURES	\$ 4,408,628	\$ 4,028,244	\$ 380,384
 REVENUES OVER (UNDER) EXPENDITURES	\$ (282,994)	\$ 244,088	\$ 527,082

TOWN OF WILKESBORO, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE--BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
OTHER FINANCING SOURCES:			
Transfers from other funds:			
Water and sewer fund	\$ 90,000	\$ 90,000	\$ 0
TOTAL OTHER FINANCING SOURCES	<u>\$ 90,000</u>	<u>\$ 90,000</u>	<u>\$ 0</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	\$ (192,994)	\$ 334,088	\$ 527,082
Fund balance appropriated	<u>192,994</u>	<u>0</u>	<u>(192,994)</u>
Net change in fund balance	<u>\$ 0</u>	\$ 334,088	<u>\$ 334,088</u>
Fund balance, beginning		<u>1,954,942</u>	
Fund balance, ending		<u>\$ 2,289,030</u>	

TOWN OF WILKESBORO, NORTH CAROLINA  
BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND  
June 30, 2007

	SPECIAL REVENUE FUND <u>Grant Project Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>48,699</u>
TOTAL ASSETS	\$ <u>48,699</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Unearned revenue	\$ <u>48,699</u>
TOTAL LIABILITIES	\$ <u>48,699</u>
FUND BALANCE	
Unreserved	\$ <u>0</u>
TOTAL FUND BALANCE	\$ <u>0</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>48,699</u>

TOWN OF WILKESBORO, NORTH CAROLINA  
 SPECIAL REVENUE FUND--GRANT PROJECT FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE--BUDGET AND ACTUAL  
 From Inception and for the Fiscal Year Ended June 30, 2007

	<u>Project</u> <u>Authorization</u>	<u>Prior</u> <u>Years</u>	<u>Actual</u> <u>Current</u> <u>Year</u>	<u>Total to</u> <u>Date</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:					
Restricted intergovernmental Government Grant	\$ 59,200	\$ 9,470	\$ 1,031	\$ 10,501	\$ (48,699)
EXPENDITURES:					
Current:					
Cultural and Recreation	\$ 61,000	\$ 9,470	\$ 1,031	\$ 10,501	\$ 50,499
REVENUES UNDER EXPENDITURES	\$ (1,800)	\$ 0	\$ 0	\$ 0	\$ 1,800
OTHER FINANCING SOURCES:					
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 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  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (Non-GAAP)  
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
Operating revenues:			
Water sales	\$ 1,588,850	\$ 1,453,707	\$ (135,143)
Sewer charges	2,063,250	1,976,428	(86,822)
Water and sewer taps	65,000	31,592	(33,408)
Other operating revenue	0	15,162	15,162
<b>TOTAL OPERATING REVENUES</b>	<u>\$ 3,717,100</u>	<u>\$ 3,476,889</u>	<u>\$ (240,211)</u>
Nonoperating Revenues:			
Interest earnings	\$ 25,000	\$ 49,231	\$ 24,231
Miscellaneous	108,000	51,542	(56,458)
<b>TOTAL NONOPERATING REVENUES</b>	<u>\$ 133,000</u>	<u>\$ 100,773</u>	<u>\$ (32,227)</u>
<b>TOTAL REVENUES</b>	<u>\$ 3,850,100</u>	<u>\$ 3,577,662</u>	<u>\$ (272,438)</u>
<b>EXPENDITURES:</b>			
Water and sewer administration:			
Salaries and employee benefits		\$ 67,091	
Other operating expenditures		14,982	
Insurance		257,323	
<b>TOTAL</b>	<u>\$ 380,400</u>	<u>339,396</u>	<u>\$ 41,004</u>
Water treatment and distribution:			
Salaries and employee benefits		\$ 344,548	
Utilities		184,853	
Other operating expenditures		285,079	
<b>TOTAL</b>	<u>\$ 851,276</u>	<u>\$ 814,480</u>	<u>\$ 36,796</u>
Waste collection and treatment:			
Salaries and employee benefits		\$ 375,340	
Utilities		223,943	
Other operating expenditures		298,304	
<b>TOTAL</b>	<u>\$ 959,904</u>	<u>\$ 897,587</u>	<u>\$ 62,317</u>
Maintenance:			
Salaries and employee benefits		\$ 296,785	
Other operating expenditures		525,434	
<b>TOTAL</b>	<u>\$ 822,308</u>	<u>\$ 822,219</u>	<u>\$ 89</u>
Debt service:			
Interest and other charges		\$ 137,047	
Principal retirement		283,656	
<b>TOTAL</b>	<u>\$ 422,055</u>	<u>\$ 420,703</u>	<u>\$ 1,352</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, 2007

	Budget	Actual	Variance Positive (Negative)
Capital outlay:			
Water improvements and extensions		\$ 160,572	
Sewer improvements and extensions		132,854	
Equipment		31,520	
TOTAL	<u>\$ 354,192</u>	<u>\$ 324,946</u>	<u>\$ 29,246</u>
 TOTAL EXPENDITURES	 <u>\$ 3,790,135</u>	 <u>\$ 3,619,331</u>	 <u>\$ 170,804</u>
 REVENUES OVER (UNDER) EXPENDITURES	 <u>\$ 59,965</u>	 <u>\$ (41,669)</u>	 <u>\$ (101,634)</u>
 OTHER FINANCING SOURCES (USES):			
Grants and contributions	\$ 0	\$ 3,568	\$ 3,568
Transfers from other funds:			
Water and sewer capital reserve fund	0	166,590	166,590
Transfers to other funds:			
General fund	<u>(90,000)</u>	<u>(90,000)</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (90,000)</u>	<u>\$ 80,158</u>	<u>\$ 170,158</u>
 REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 <u>\$ (30,035)</u>	 <u>\$ 38,489</u>	 <u>\$ 68,524</u>
Appropriated Retained Earnings	<u>30,035</u>	<u>0</u>	<u>(30,035)</u>
 REVENUES, OTHER SOURCES, AND APPROPRIATED RETAINED EARNINGS OVER (UNDER) EXPENDITURES AND OTHER USES	 <u>\$ 0</u>	 <u>\$ 38,489</u>	 <u>\$ 38,489</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, 2007

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

REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 38,489
Reconciling items:	
Principal retirement	\$ 283,656
Capital outlay	324,946
(Increase) Decrease in accrued vacation pay	(7,609)
Depreciation	(619,942)
Increase (Decrease) in inventory	212,289
Increase (Decrease) in accounts receivable	131,745
Transfer from water and sewer capital reserve fund	(166,590)
Interest earned in the water and sewer capital reserve fund	24,757
Rent income in the water and sewer capital reserve fund	10,000
TOTAL RECONCILING ITEMS	<u>\$ 193,252</u>
CHANGE IN NET ASSETS	<u>\$ 231,741</u>

TOWN OF WILKESBORO, NORTH CAROLINA  
 WATER AND SEWER CAPITAL RESERVE FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (Non-GAAP)  
 From Inception and for the Fiscal Year Ended June 30, 2007

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
<b>REVENUES:</b>					
Rent Income-Vulcan Materials	\$ 0		\$ 10,000	\$ 10,000	\$ 10,000
Investment Earnings	<u>0</u>	<u>\$ 192,720</u>	<u>24,757</u>	<u>217,477</u>	<u>217,477</u>
Total Revenues	<u>\$ 0</u>	<u>\$ 192,720</u>	<u>\$ 34,757</u>	<u>\$ 227,477</u>	<u>\$ 227,477</u>
<b>Other Financing Sources (Uses)</b>					
Transfer from Water and Sewer Fund	\$ 641,336	\$ 641,336		\$ 641,336	
Transfer from Water and Sewer Capital Projects Fund	964,430	332,740		332,740	\$ (631,690)
Transfer to Water and Sewer Fund	(330,336)	(261,481)	\$ (166,590)	(428,071)	(97,735)
Transfer to Water and Sewer Capital Projects Fund	(1,275,430)	(326,463)		(326,463)	948,967
Transfer to General Fund	<u>0</u>	<u>(4,724)</u>		<u>(4,724)</u>	<u>(4,724)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 0</u>	<u>\$ 381,408</u>	<u>\$ (166,590)</u>	<u>\$ 214,818</u>	<u>\$ 214,818</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>					
	<u>\$ 0</u>	<u>\$ 574,128</u>	<u>\$ (131,833)</u>	<u>\$ 442,295</u>	<u>\$ 442,295</u>

## 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, 2007

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2006</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2007</u>
2006-2007		\$ 2,359,502	\$ 2,311,397	\$ 48,105
2005-2006	\$ 45,805		32,271	13,534
2004-2005	19,528		12,643	6,885
2003-2004	9,578		4,228	5,350
2002-2003	8,677		3,257	5,420
2001-2002	6,392		1,861	4,531
2000-2001	25,882		466	25,416
1999-2000	3,474		280	3,194
1998-1999	5,235		194	5,041
1997-1998	2,680		168	2,512
1996-1997	<u>3,119</u>		<u>3,119</u>	<u>0</u>
Total	<u>\$ 130,370</u>	<u>\$ 2,359,502</u>	<u>\$ 2,369,884</u>	<u>\$ 119,988</u>
Less: Allowance for Uncollectible Accounts-General Fund				<u>(61,800)</u>
AD VALOREM TAXES RECEIVABLE - NET				<u>\$ 58,188</u>
 RECONCILEMENT WITH REVENUES:				
Taxes - Ad Valorem Taxes - General Fund				<u>\$ 2,378,949</u>
Reconciling Items:				
Interest Collected				\$ (13,572)
Taxes Written off				3,119
Prior Years Releases				<u>1,388</u>
Subtotal				<u>\$ (9,065)</u>
TOTAL COLLECTIONS AND CREDITS				<u>\$ 2,369,884</u>

TOWN OF WILKESBORO, NORTH CAROLINA  
ANALYSIS OF CURRENT TAX LEVY  
For the Fiscal Year Ended June 30, 2007

	<u>Town-Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	\$ 579,265,005	\$.40	\$ 2,317,060	\$ 2,230,498	\$ 86,562
Registered motor vehicles taxed at prior year's rate	13,523,930	.34	45,981		45,981
Penalties			<u>153</u>	<u>153</u>	
<b>TOTAL</b>	<b><u>\$ 592,788,935</u></b>		<b><u>\$ 2,363,194</u></b>	<b><u>\$ 2,230,651</u></b>	<b><u>\$ 132,543</u></b>
Discoveries:					
Current year taxes	\$ 948,675		\$ 3,795	\$ 3,795	
Prior years taxes			2,200	334	\$ 1,866
Penalties			<u>396</u>	<u>396</u>	
<b>TOTAL</b>	<b><u>\$ 948,675</u></b>		<b><u>\$ 6,391</u></b>	<b><u>\$ 4,525</u></b>	<b><u>\$ 1,866</u></b>
Abatements	<u>\$ (2,520,742)</u>		<u>\$ (10,083)</u>	<u>\$ (7,527)</u>	<u>\$ (2,556)</u>
<b>TOTAL PROPERTY VALUATION</b>	<b><u>\$ 591,216,868</u></b>				
Net Levy			\$ 2,359,502	\$ 2,227,649	\$ 131,853
Uncollected Taxes at June 30, 2007			<u>48,105</u>	<u>37,007</u>	<u>11,098</u>
Current Year's Taxes Collected			<u>\$ 2,311,397</u>	<u>\$ 2,190,642</u>	<u>\$ 120,755</u>
Current Levy Collection Percentage			<u>97.96%</u>	<u>98.34%</u>	<u>91.58%</u>

## Compliance Section

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

To the Honorable Mayor and  
Board of 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, 2007, which collectively comprises the Town of Wilkesboro's basic financial statements, and have issued our report thereon dated November 28, 2007. We did not audit the financial statements of the Town of Wilkesboro ABC Board. Those financial statements were audited by another auditor, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Wilkesboro ABC Board, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 the Town of Wilkesboro's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Wilkesboro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

**Criteria: Timely preparation of monthly bank reconciliations is necessary to ensure that all cash transactions are recorded in the Town's monthly financial statements.**

**Condition:** Due to various reasons, monthly reconciliations were not done timely for several months. However, no material transactions had been omitted when the reconciliations were completed.

**Effect:** Transactions could be omitted from the Town's financial statements.

**Cause:** Only one employee would normally do monthly reconciliations.

**Recommendation:** More than one employee should be assigned to handle routine monthly tasks.

**Management Response:** The Town agrees with this finding and has implemented corrective actions with all monthly reconciliations currently completed through October, 2007.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Criteria:** As required by G.S. 159-32, the Town is required to deposit daily, cash on hand that exceeds \$250. There were several instances where larger sums were not deposited for several days.

**Management Response:** The Town discovered the problem during the year and took immediate steps to correct the situation. Controls have been instituted that will ensure that the problem is not repeated.

**Criteria:** The Town also exceeded its budgeted appropriations regarding the Town's Water and Sewer Capital Reserve Fund as show on Exhibit D-2 in violation of state statutes.

**Management Response:** The Town agrees with the finding and will be more diligent in the future regarding its Capital Project Funds.

The Town's response to the findings identified in our audit is reported above. We did not audit the Town's response and accordingly, we express no opinion on it.

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.

*Huntley Sigmon & Manifold, CPAs, PLLC*

HUNTLEY, SIGMON & MANIFOLD, CPAs, PLLC  
Certified Public Accountants  
November 28, 2007

