

TOWN OF HARRISBURG
NORTH CAROLINA
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June 30, 2006

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SHERRILL & SMITH, CPAs, PA

524 West Innes Street
P. O. Box 1327
Salisbury, NC 28145-1327
Voice (704) 636-5211 Fax (704) 636-5245

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Town Council
Town of Harrisburg, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Harrisburg, North Carolina as of and for the year ended June 30, 2006, 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 Harrisburg's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. 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 provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Town of Harrisburg, North Carolina as of June 30, 2006, 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 August 17, 2006 on our consideration of the Town of Harrisburg'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 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.



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Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Harrisburg, North Carolina. The introductory information, combining, and individual fund 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 fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied by us in the audit of basic financial statements and accordingly we express no opinion on them.

Sherrill and Smith, CPAs, PA

August 17, 2006

Management's Discussion and Analysis

As management of the Town of Harrisburg, we offer readers of the Town of Harrisburg's financial statements this narrative overview and analysis of the financial activities of the Town of Harrisburg for the fiscal year ended June 30, 2006. 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

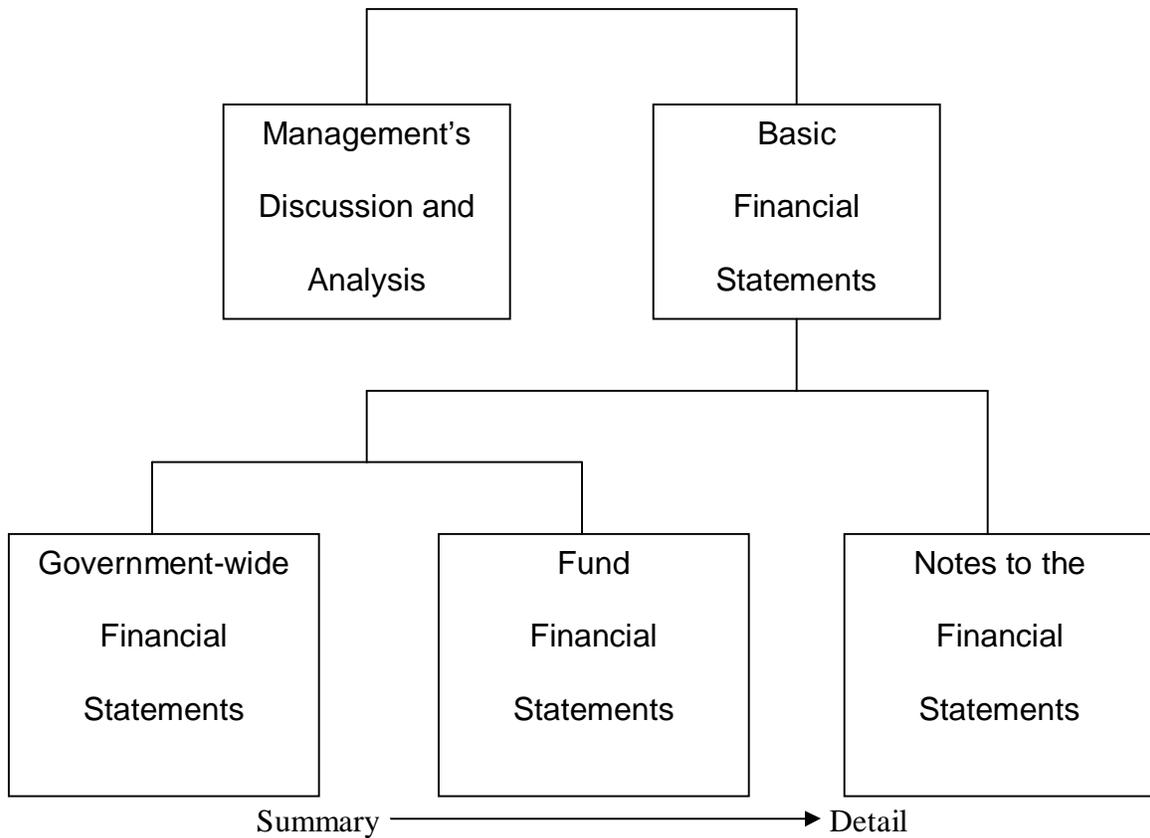
- The assets of the Town of Harrisburg exceeded its liabilities at the close of the fiscal year by \$14,477,940.00 (*net assets*).
- The government's total net assets increased by \$1,213,596, with 1/3 being provided by the Governmental-type Activities and 2/3 coming from Business-type activities..
- As of the close of the current fiscal year, the Town of Harrisburg's governmental funds reported combined ending fund balances of \$ 2,383,695 an increase of \$ 204,688 in comparison with the prior year. Approximately 42.0 percent of this total amount, or \$ 1,002,120, 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 \$1,002,120, or 40.8 percent of total general fund expenditures for the fiscal year.
- The Town of Harrisburg's total debt decreased by \$12,828 (1 %) during the current fiscal year. The key factor in this decrease was regular payment of scheduled payments, but new debt was incurred due to the purchase of land for the Stallings Road Park less partial payments.
- As reported in the 2005 M.D. &A. the Town of Harrisburg was given a Council Financial Rating of 80 by the North Carolina Municipal Council on September 15, 2005, up from 79 the previous rating period. This relates to an A3 or A- credit rating.
- At June 30, 2006, the Town of Harrisburg had a legal debt margin of \$ 78,680,403.

Overview of the Financial Statements

This Management Discussion & Analysis is intended to serve as an introduction to the Town of Harrisburg'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 Harrisburg.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements, (exhibits 3&4); 2) the budgetary comparison statements;(exhibit 5) and 3) the proprietary fund statements; (exhibits 6,7,&8)

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.

Town 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 two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes, Local sales taxes, and Utility franchise taxes fund 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 Harrisburg.

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 Harrisburg, 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 Town of Harrisburg 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.

Management Discussion and Analysis
Town of Harrisburg

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

Proprietary Funds – The Town of Harrisburg has one type of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Harrisburg uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities

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 begin on page 7 of this report.

Government-Wide Financial Analysis

Town of Harrisburg’s Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,645,390	\$ 2,436,544	\$ 2,425,584	\$ 2,492,891	\$ 5,070,974	\$ 4,929,435
Capital assets	2,808,147	2,475,352	8,670,829	8,158,969	11,478,976	10,634,321
Total assets	5,453,537	4,911,896	11,096,413	10,651,860	16,549,950	15,563,756
Long-term liabilities outstanding	506,961	364,178	1,023,094	1,178,705	1,530,055	1,542,883
Other liabilities	175,533	181,733	366,422	574,796	541,955	756,529
Total liabilities	682,494	545,911	1,389,516	1,753,501	2,072,010	2,299,412
Net assets:						
Invested in capital assets, net of related debt	2,301,186	2,111,174	7,647,735	6,564,877	9,948,921	8,676,051
Restricted	512,541	411,851	-	-	512,541	411,851
Unrestricted	1,957,316	1,842,960	2,059,162	2,333,482	4,016,478	4,176,442
Total net assets	\$ 4,771,043	\$ 4,365,985	\$ 9,706,897	\$ 8,898,359	\$ 14,477,940	\$ 13,264,344

Management Discussion and Analysis Town of Harrisburg

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 Harrisburg exceeded liabilities by \$14,477,940 as of June 30, 2006. The Town's net assets increased by \$1,213,596 for the fiscal year ended June 30, 2006. The Town of Harrisburg uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Harrisburg'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 Harrisburg's net assets \$512,541 (3.54 %) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,016,478 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 current levy collection percentage of 97.63 %, which is comparable to the statewide average of 97.03%.
- Increased revenues from franchise taxes, sales taxes, vehicle levy, increased interest income and compliance permits, due to economic growth in the town.
- Maintained lower operating costs as a result of contracting services including garbage pick-up, police services by contract with the Sheriff's department, and contract for fire services from the Harrisburg Volunteer Fire & Rescue.
- Purchase of water from the City of Concord eliminates the need for operation costs of a water production and treatment facility.
- All sewer transport and treatment service is provided under contract by the Water and Sewer Authority of Cabarrus County, thus locking in a rate for services without the overhead of a treatment plant.

Management Discussion and Analysis
Town of Harrisburg

Town of Harrisburg Changes in Net Assets
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program revenues:						
Charges for services	\$ 93,436	\$ 74,602	\$ 4,091,736	\$ 2,182,185	\$ 4,185,172	\$ 2,256,787
Operating grants and contributions	188,960	189,927		1,176,167	188,960	1,366,094
Capital grants and contributions			60,000	39,915	60,000	39,915
General revenues:						
Property taxes	1,345,258	1,210,771	-	-	1,345,258	1,210,771
Other taxes	2,880	2,608	-	-	2,880	2,608
Grants and contributions not restricted to specific programs	876,861	734,907	-	-	876,861	734,907
Other	178,014	186,435	75,685	(1,171)	253,699	185,264
Transfers						
Total revenues	2,685,409	2,399,250	4,227,421	3,397,096	6,912,830	5,796,346
Expenses:						
General government	967,725	903,981	-	-	967,725	903,981
Public safety	380,476	293,293	-	-	380,476	293,293
Highways & Streets	134,970	103,750	-	-	134,970	103,750
Sanitation	363,462	314,456	-	-	363,462	314,456
Economic Development		43,638	-	-	-	43,638
Cultural and recreation	382,417	196,965	-	-	382,417	196,965
Interest on long-term debt	51,301	19,025	-	-	51,301	19,025
Water and sewer	-	-	3,418,883	2,792,756	3,418,883	2,792,756
Total expenses	2,280,351	1,875,108	3,418,883	2,792,756	5,699,234	4,667,864
Increase in net assets before transfers	405,058	524,142	808,538	604,340	1,213,596	1,128,482
Unrestricted investment earnings						
Transfers	-	(602,528)		602,528	-	-
Increase in net assets	405,058	(78,386)	808,538	1,206,868	1,213,596	1,128,482
Net assets, July 1	4,365,985	4,444,371	8,898,359	7,691,491	13,264,344	12,135,862
Net assets, June 30	\$ 4,771,043	\$ 4,365,985	\$ 9,706,897	\$ 8,898,359	\$ 14,477,940	\$ 13,264,344

Management Discussion and Analysis
Town of Harrisburg

Governmental activities. Governmental activities increased the Town's net assets by \$405,058 primarily due to an 11% increase in the property tax base and a sharp increase in the investment earnings.

Business-type activities: Business-type activities increased the Town of Harrisburg's net assets by \$808,538, accounting for 67 % of the total growth in the government's net assets. Key elements of this increase are as follows:

- Higher than expected water/sewer retail sales due to the growth in customer base in Harrisburg.
- The building starts during the year also provided significant increases in water/sewer tap fees.

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the Town of Harrisburg'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 Harrisburg'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 Harrisburg. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,002,120, while total fund balance reached \$2,383,695. 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 40.8 percent of total General Fund expenditures of \$ 2,455,048, while total fund balance represents 97.1 percent of that same amount.

General Fund Budgetary Highlights: During the fiscal year, the Town had few revisions to the budget. 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 and 3) increases in appropriations that became necessary to maintain services, including transfers within budgets to adjust for expense changes.

Revenues were more than the budgeted amounts primarily because of more sales tax and franchise taxes than anticipated. Expenditures were held in line resulting in total expenditures of 98 % of budgeted amount. These savings were representative of most departments.

Proprietary Funds. The Town of Harrisburg'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 \$2,059,162. The total change in net assets for the fund was \$808,000. The change in net assets in the Water and Sewer Fund is a result of increases in the

Management Discussion and Analysis
Town of Harrisburg

sale of water and sewer retail sales brought about by significant growth in customer account numbers, and higher than average usage.

Capital Asset and Debt Administration

Capital assets. The Town of Harrisburg’s investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$11,478,976 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

**Town of Harrisburg’s Capital Assets
(net of depreciation)Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Construction in progress	\$ 15,313		\$ 936,202	\$ 316,834	\$ 951,515	\$ 316,834
Land	510,515	\$ 104,915	159,753	98,553	670,268	203,468
Buildings and system	1,281,966	1,311,016	17,128	17,842	1,299,094	1,328,858
Improvements other than buildings	702,954	735,741	-	-	702,954	735,741
Machinery and equipment	297,399	323,680	440,439	317,950	737,838	641,630
Infrastructure	-	-	7,117,307	7,407,790	7,117,307	7,407,790
Total	\$ 2,808,147	\$ 2,475,352	\$ 8,670,829	\$ 8,158,969	\$ 11,478,976	\$ 10,634,321

Management Discussion and Analysis
Town of Harrisburg

Long-term Debt. As of June 30, 2006, the Town of Harrisburg had total long term outstanding obligations of \$1,530,055.

Of this, \$348,302 is a Governmental type loan which the Town borrowed to finish construction on a library. Additionally there is a loan from Joe Sims estate in the amount of \$158,659 to cover the balance of the debt on the purchase of the Stallings Road Park property. These notes are collateralized by commercial property.

The additional balance of \$1,023,094 consists of \$132,700 in General Obligation bonds, which is the balance on water and sewer bonds issued in 1988 in the original amount of \$633,500, and the remaining \$890,394 is the balance due on an original installment loan of \$1,500,000, for upgrade to the Water and Sewer system. This debt is secured by water and sewer equipment.

General Obligation and Installment Loans

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ -	\$ -	\$ 132,700	\$ 189,700	\$ 132,700	\$ 189,700
Installment Loans	506,961	364,178	890,394	989,005	\$ 1,397,355	\$ 1,353,183
Total	\$ 506,961	\$ 364,178	\$ 1,023,094	\$ 1,178,705	\$ 1,530,055	\$ 1,542,883

Summary of the Town of Harrisburg’s Financial Condition

The Town of Harrisburg’s total debt decreased by \$12,828 (1 %) during the past fiscal year, primarily due to payment of regular payments, but with new debt incurred for the purchase of the Stallings Road Park land.

As mentioned in the financial highlights section of this document, the Town of Harrisburg received a financial rating of 80 from the North Carolina Municipal Council, which was an increase from the previous rating of 79. This relates to a credit rating of A3.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for Town of Harrisburg is \$78,680,403.

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Economic Factors and Next Year’s Budgets and Rates

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

- Growth in number of new customers for water/sewer sales

Management Discussion and Analysis
Town of Harrisburg

- New home starts at a rate of 40 per month provides growth of water/sewer tap fees
- Increasing sales tax amounts as well as franchise taxes provide strong revenue for the new year.
- Bringing the new wells and water storage tank on-line will help keep the average cost of water lower so rates may not have to increase in the coming fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental Activities: Property taxes (benefiting from the economic growth) and revenues from permits and fees are expected to lead the increase in budgeted revenue. The Town will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to hold approximately on target.

Business – type Activities: The water and sewer rates in the Town may not have to be increased to cover increased costs of operations, since revenues are higher. General operating expenses will increase by 3.5 % to cover increased personnel costs, and 4.5% to cover increased costs of material, supplies, and other operating expenses.

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 Administrator, Carl L. Parmer, at the Town of Harrisburg, 4100 Main Street, Suite 101, Harrisburg, North Carolina 28075. Phone number is 704-455-5614.

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2006

Exhibit 1

Assets	Primary Government		Total
	Governmental Activities	Business-type Activities	
Current assets:			
Cash and cash equivalents	\$ 1,690,194	\$ 2,041,552	\$ 3,731,746
Taxes receivable (net)	71,660	-	71,660
Accrued interest receivable	14,502	-	14,502
Accounts receivable (net)	11,450	389,784	401,234
Due from other governments	235,567	-	235,567
Internal balances	5,752	(5,752)	-
Prepaid expenses	16,265	-	16,265
Deposit on capital purchase	600,000	-	600,000
Total current assets	<u>2,645,390</u>	<u>2,425,584</u>	<u>5,070,974</u>
Capital assets:			
Land, non-depreciable improvements, and construction in progress	525,828	1,095,955	1,621,783
Other capital assets, net of depreciation	2,282,319	7,574,874	9,857,193
Total capital assets	<u>2,808,147</u>	<u>8,670,829</u>	<u>11,478,976</u>
Total assets	<u>5,453,537</u>	<u>11,096,413</u>	<u>16,549,950</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	141,965	227,937	369,902
Performance bond deposits	3,273	-	3,273
Unearned revenue	30,295	-	30,295
Customer deposits	-	138,485	138,485
Current portion of long-term liabilities	26,035	165,952	191,987
Long-term liabilities:			
Due in more than one year	480,926	857,142	1,338,068
Total liabilities	<u>682,494</u>	<u>1,389,516</u>	<u>2,072,010</u>
Net Assets			
Invested in capital assets, net of related debt	2,301,186	7,647,735	9,948,921
Restricted for:			
Reserved for other purposes	512,541	-	512,541
Unrestricted	1,957,316	2,059,162	4,016,478
Total net assets	<u>\$ 4,771,043</u>	<u>\$ 9,706,897</u>	<u>\$ 14,477,940</u>

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 967,725	\$ 41,989	\$ -	\$ -	\$ (925,736)	\$ -	\$ (925,736)
Public safety	380,476	30,174	-	-	(350,302)	-	(350,302)
Transportation	134,970	-	188,960	-	53,990	-	53,990
Environmental protection	363,462	-	-	-	(363,462)	-	(363,462)
Cultural and recreational	382,417	21,273	-	-	(361,144)	-	(361,144)
Interest on long-term debt	51,301	-	-	-	(51,301)	-	(51,301)
Total governmental activities (See Note 1)	2,280,351	93,436	188,960	-	(1,997,955)	-	(1,997,955)
Business-type activities:							
Water and sewer	3,418,883	4,091,736	-	60,000	-	732,853	732,853
Total business-type activities	3,418,883	4,091,736	-	60,000	-	732,853	732,853
Total primary government	\$ 5,699,234	\$ 4,185,172	\$ 188,960	\$ 60,000	(1,997,955)	732,853	(1,265,102)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,345,258	-	1,345,258
Other taxes and licenses					2,880	-	2,880
Grants and contributions not restricted to specific programs					876,861	-	876,861
Unrestricted investment earnings					69,137	75,685	144,822
Miscellaneous					108,877	-	108,877
Total general revenues and transfers					2,403,013	75,685	2,478,698
Change in net assets					405,058	808,538	1,213,596
Net assets, beginning					4,365,985	8,898,359	13,264,344
Net assets, ending					\$ 4,771,043	\$ 9,706,897	\$ 14,477,940

TOWN OF HARRISBURG, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

Exhibit 3

Assets	<u>General</u>	<u>Totals Governmental Funds</u>
Cash and cash equivalents	\$ 1,690,194	\$ 1,690,194
Receivables, net:		
Property taxes	71,660	71,660
Sales and use taxes	11,450	11,450
Due from other governments	235,567	235,567
Prepaid expenses	16,265	16,265
Deposit on capital purchase	600,000	600,000
Due from other funds	<u>5,752</u>	<u>5,752</u>
 Total assets	 <u><u>2,630,888</u></u>	 <u><u>2,630,888</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable and accrued liabilities	141,965	141,965
Performance bonds on deposit	3,273	3,273
Deferred revenue	71,660	71,660
Unearned revenue	<u>30,295</u>	<u>30,295</u>
 Total liabilities	 <u><u>247,193</u></u>	 <u><u>247,193</u></u>
Fund balances		
Reserved by State statute	252,769	252,769
Reserved for streets-Powell Bill	512,541	512,541
Reserved for deposits and prepaids	616,265	616,265
Unreserved, General Fund	<u>1,002,120</u>	<u>1,002,120</u>
 Total fund balances	 <u><u>2,383,695</u></u>	 <u><u>2,383,695</u></u>
 Total liabilities and fund balances	 <u><u>\$ 2,630,888</u></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.

Gross capital assets at historical cost	\$ 3,317,653	
Accumulated depreciation	<u>(509,506)</u>	2,808,147

Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds. 14,502

Liabilities for earned but deferred revenue in fund statements 71,660

Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds. (506,961)

Net assets of governmental activities \$ 4,771,043

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

Exhibit 4

	General Fund	Stallings Rd Park Project	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 1,334,901	\$ -	\$ 1,334,901
Other taxes and licenses	2,880	-	2,880
Unrestricted intergovernmental	876,861	-	876,861
Restricted intergovernmental	188,960	-	188,960
Investment earnings	69,137	-	69,137
Permits and fees	72,163	-	72,163
Sales and services	21,273	-	21,273
Miscellaneous	108,874	-	108,874
	2,675,049	-	2,675,049
Expenditures:			
Current			
General government	954,576	-	954,576
Public safety	356,915	-	356,915
Transportation	125,851	-	125,851
Environmental protection	354,155	-	354,155
Cultural and recreational	349,433	-	349,433
Debt service			
Principal retirement	262,817	-	262,817
Interest	51,301	-	51,301
Capital outlay	-	420,913	420,913
	2,455,048	420,913	2,875,961
Excess (deficiency) of revenues over expenditures	220,001	(420,913)	(200,912)
Other financing sources (uses):			
Transfer from other funds	-	15,313	15,313
Transfer to other funds	(15,313)	-	(15,313)
Installment purchase obligations issued	-	405,600	405,600
	(15,313)	420,913	405,600
Net change in fund balance	204,688	-	204,688
Fund balances, beginning of year	2,179,007	-	2,179,007
Fund balance, end of year	\$ 2,383,695	\$ -	\$ 2,383,695

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

Exhibit 4

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

Net changes in fund balances - total governmental funds \$ 204,688

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay expenditures which were capitalized	\$ 450,179	
Depreciation expense for governmental assets	<u>(117,384)</u>	332,795

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund

Change in deferred revenue for tax revenues	10,358
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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

Installment purchase obligations issued	(405,600)	
Principal payments on long-term debt	<u>262,817</u>	<u>(142,783)</u>

Total changes in net assets of governmental activities	<u>\$ 405,058</u>
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TOWN OF HARRISBURG, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Year Ended June 30, 2006

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
Revenues:				
Ad valorem taxes	\$1,238,377	\$ 1,238,377	\$ 1,334,901	\$ 96,524
Other taxes and licenses	2,300	2,300	2,880	580
Unrestricted intergovernmental	720,000	720,000	876,861	156,861
Restricted intergovernmental	203,000	203,000	188,960	(14,040)
Investment earnings	29,000	29,000	69,137	40,137
Permits and fees	77,816	77,816	72,163	(5,653)
Sales and service	3,500	3,500	21,273	17,773
Miscellaneous	72,000	72,000	108,874	36,874
Total revenues	2,345,993	2,345,993	2,675,049	329,056
Expenditures:				
Current				
General government	958,345	991,395	954,576	36,819
Public safety	321,700	345,800	356,915	(11,115)
Transportation	223,000	153,000	125,851	27,149
Environmental protection	348,400	353,900	354,155	(255)
Cultural and recreational	447,000	626,290	349,433	276,857
Debt service				
Principal retirement	15,882	16,082	262,817	(246,735)
Interest	18,235	18,245	51,301	(33,056)
Contingency	13,431	31	-	31
Total expenditures	2,345,993	2,504,743	2,455,048	49,695
Revenues over (under) expenditures	-	(158,750)	220,001	378,751
Other financing sources (uses):				
Transfer to other funds	-	(31,250)	(15,313)	15,937
Fund balance appropriated	-	190,000	-	(190,000)
Total other financing sources (uses)	-	158,750	(15,313)	(174,063)
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	204,688	<u>\$ 204,688</u>
Fund balances, beginning of year			<u>2,179,007</u>	
Fund balance, end of year			<u>\$ 2,383,695</u>	

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

Exhibit 6

Assets	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
Current Assets:		
Cash and cash equivalents	\$ 2,041,552	\$ 2,041,552
Accounts receivable (net) - customers	344,718	344,718
Accounts receivable (net) - other	<u>45,066</u>	<u>45,066</u>
Total current assets	<u>2,431,336</u>	<u>2,431,336</u>
Capital Assets:		
Land and other non depreciable assets	1,095,955	1,095,955
Other capital assets, net of depreciation	<u>7,574,874</u>	<u>7,574,874</u>
Capital assets (net)	<u>8,670,829</u>	<u>8,670,829</u>
Total Assets	<u>11,102,165</u>	<u>11,102,165</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	227,937	227,937
Due to other funds	5,752	5,752
Customer deposits	138,485	138,485
Installment purchase - current	<u>165,952</u>	<u>165,952</u>
Current liabilities	538,126	538,126
Noncurrent Liabilities		
Long-term debt - non-current	<u>857,142</u>	<u>857,142</u>
Total liabilities	<u>1,395,268</u>	<u>1,395,268</u>
Net Assets		
Invested in capital assets, net of related debt	7,647,735	7,647,735
Unrestricted	<u>2,059,162</u>	<u>2,059,162</u>
Total net assets	<u>\$ 9,706,897</u>	<u>\$ 9,706,897</u>

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

Exhibit 7

	Water and Sewer Fund	Total Proprietary Funds
Operating revenues:		
Charges for services	\$ 2,774,301	\$ 2,774,301
Water and sewer taps	1,310,896	1,310,896
Other operating revenues	6,539	6,539
Total operating revenues	4,091,736	4,091,736
Operating expenses:		
Water treatment and distribution and waste water collection	2,956,060	2,956,060
Depreciation	407,427	407,427
Total operating expenses	3,363,487	3,363,487
Operating income (loss)	728,249	728,249
Nonoperating revenues (expenses):		
Investment earnings	75,685	75,685
Interest expense	(55,396)	(55,396)
Total nonoperating revenues (expenses)	20,289	20,289
Income (loss) before contributions and transfers	748,538	748,538
Capital contributions	60,000	60,000
Change in net assets	808,538	808,538
Total net assets, beginning	8,898,359	8,898,359
Total net assets, ending	\$ 9,706,897	\$ 9,706,897

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

Exhibit 8

Cash flows from operating activities:	
Cash received from customers	\$ 4,023,778
Cash paid for goods and services	(2,086,057)
Cash paid to employees	(856,375)
Customer deposits received and returned	<u>27,799</u>
Net cash provided by (used in) operating activities	<u>1,109,145</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,113,599)
Principal payments on installment debt	(155,611)
Interest paid on installment debt	<u>(55,753)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,324,963)</u>
Cash flows from investing activities:	
Interest on investments	<u>75,685</u>
Net increase (decrease) in cash and cash equivalents	(140,133)
Cash and cash equivalents at beginning of year	<u>2,181,685</u>
Cash and cash equivalents at end of year	<u><u>2,041,552</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>728,249</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	407,427
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(67,958)
(Increase) decrease in other receivables	(10,620)
Increase (decrease) in accounts payable and accrued liabilities	24,248
Increase (decrease) in customer deposits	<u>27,799</u>
Total adjustments	<u>380,896</u>
Net cash provided by (used in) operating activities	<u><u>\$ 1,109,145</u></u>

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Harrisburg 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 Harrisburg is a municipal corporation, which is governed by an elected mayor and a seven-member Town Council. These financial statements present financial information of the Town as required by generally accepted accounting principles.

B. Basis of Presentation

Government-wide Statements- The statement of net assets and the statement of activities display information about the primary government. 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

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

The Town reports the following major governmental funds:

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

Stallings Road Park Capital Project Fund- This fund is used to account for the construction of a new park.

The Town reports the following major enterprise funds:

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

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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.

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

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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 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, Cabarrus 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 Harrisburg. 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 Cabarrus County from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. 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, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, 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 collected 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 Funds. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial 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 HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate as, an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town 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 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 investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. 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, 2005. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

5. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. 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. 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	30 – 40
Buildings	50
Improvements	25
Vehicles	5 - 6
Furniture and equipment	10
Computer equipment	3

6. 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.

7. Compensated Absences

The vacation policy of the Town provides for up to twenty days earned vacation time per calendar year. Accrued vacation time may not be carried over into the following year. The accumulated vacation pay unused at June 30 is not considered to be material; therefore, no expenditure or liability has been reported.

The Town's sick leave policy provide for an unlimited accumulation of earned sick leave up to 30 days. Sick leave does not vest. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual of sick leave has been made.

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

8. Net Assets/Fund Balances

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

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

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance or fund equity 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 fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

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

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

Unreserved

Designated for subsequent year's expenditures- portion of total fund balance available for appropriation that has been designated for the adopted 2005-2006 budget ordinance.

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

II. Stewardship, Compliance, and Accountability

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

1. Noncompliance with North Carolina General Statutes: None.

2. Contractual Violations: None.

B. Deficit Fund Balance or Retained Earnings of Individual Funds: None.

C. Excess of Expenditures Over Appropriations: For the fiscal year ended June 30, 2005, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for public safety by \$11,115 due to a higher than anticipated expense for police salaries, environmental protection by \$255 due to an increase in the expense related to the sanitation contract, and debt service by \$279,791 due to having incorrectly budgeting debt payments related to purchase of land for the capital project as a cultural and recreational expense. Expenditures in the Stallings Road Park Capital project fund were budgeted as cultural and recreational expenses in the General Fund. No capital project ordinance was approved by the Council prior to June 30, 2006.

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

III. Detail Notes on All Funds and Account Groups

A. Assets

1. Deposits

All the deposits of the Town 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 agent in the Town's name. 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, these deposits are considered to be held by the Town's agent in the Town's name. 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 or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2006, the Town's deposits had a carrying amount of \$217,429 and a bank balance of \$402,006 of which \$100,000 was covered by federal depository insurance and \$302,006 was collateralized by securities. At June 30, 2006, the Town's petty cash fund totaled \$275.

2. Investments

At June 30, 2006, the Town of Harrisburg had \$3,514,042 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.

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 104,915	\$ 405,600	\$ -	\$ 510,515
Construction in progress	-	15,313	-	15,313
Total capital assets not being depreciated	<u>104,915</u>	<u>420,913</u>	<u>-</u>	<u>525,828</u>
Capital assets being depreciated:				
Land improvements	837,581	-	-	837,581
Buildings	1,452,512	-	-	1,452,512
Equipment	472,467	29,266	-	501,733
Total capital assets being depreciated	<u>2,762,560</u>	<u>29,266</u>	<u>-</u>	<u>2,791,826</u>
Less accumulated depreciation for:				
Land improvements	101,840	32,787	-	134,627
Buildings	141,496	29,050	-	170,546
Equipment	148,787	55,547	-	204,334
Total accumulated depreciation	<u>392,123</u>	<u>\$ 117,384</u>	<u>\$ -</u>	<u>509,507</u>
Total capital assets being depreciated, net	<u>2,370,437</u>			<u>2,282,319</u>
Governmental activity capital assets, net	<u>\$ 2,475,352</u>			<u>\$ 2,808,147</u>

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

General government	\$ 13,149
Public safety	23,560
Transportation	9,118
Environmental protection	9,307
Cultural and recreational	62,250
Total depreciation expense	<u>\$ 117,384</u>

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2006, was as follows-continued:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated				
Construction in progress	\$ 316,834	\$ 619,368	\$ -	\$ 936,202
Land and rights of way	98,553	61,200	-	159,753
Total capital assets not being depreciated	415,387	680,568	-	1,095,955
Capital assets being depreciated:				
Buildings	35,714	-	-	35,714
Water lines	5,528,859	43,252	-	5,572,111
Equipment	735,063	195,467	-	930,530
Interceptors	724,436	-	-	724,436
Collection system	3,811,834	-	-	3,811,834
Total capital assets being depreciated	10,835,906	238,719	-	11,074,625
Less accumulated depreciation for:				
Buildings	17,872	714	-	18,586
Water lines	1,133,926	182,526	-	1,316,452
Equipment	417,113	72,978	-	490,091
Interceptors	288,346	24,148	-	312,494
Collection system	1,235,067	127,061	-	1,362,128
Total accumulated depreciation	3,092,324	\$ 407,427	\$ -	3,499,751
Total capital assets being depreciated, net	7,743,582			7,574,874
Business-type activities capital assets, net	\$ 8,158,969			\$ 8,670,829

In 1998, the Town purchased land for purposes of constructing a municipal complex and park. Sale of the land is restricted for ten years. If any portion of the land is sold before January 2008, the Town would be required to remit \$3,000 per acre (approximately \$100,000) to the previous owner.

In October 2003, the Town paid a \$600,000 deposit on the purchase of a new town hall building. The balance of \$1,100,000 will be paid to the developer when the transaction is finalized.

During the year ended June 30, 2006, the Town received a donation of land valued at \$60,000 in a non-exchange transaction.

Construction Commitments- The Town has active construction projects as of June 30, 2006. At year-end, the Town's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water storage tank	\$ 558,638	\$ 15,500

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

B. Liabilities

1. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description- The Town of Harrisburg 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 Road, 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 is 6.45% of annual covered payroll. The contribution requirements of members and of the Town of Harrisburg are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$61,610, \$51,671, and \$39,349, respectively. The contributions made by the Town equaled the required contributions for each year.

2. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
July 4 th celebration revenue	\$ -	\$ 25,595
Prepaid taxes (General Fund)	-	4,700
Taxes receivable (General Fund)	71,660	-
	\$ 71,660	\$ 30,295

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools the Town obtains general liability and auto liability coverage of \$1 million per occurrence, public officials liability coverage of \$1 million each claim and annual, property coverage up to the total insurance values of the property policy, worker's compensation coverage up to the statutory limits, boiler and machinery coverage of \$5 million comprehensive coverage, and employee health coverage up to \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town does not have flood insurance coverage.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

4. Reconciliation of Powell Bill Expenditures:

The following is a reconciliation of Powell Bill expenditures:

Per financial statements	\$111,295
Add accounts payable 6-30-05	85
Deduct accounts payable 6-30-06	<u>25,186</u>
 Per Powell Bill report	 <u>\$86,194</u>

5. Operating Lease

In March of 2005, the Town leased a copier. The five year lease calls for payments of \$495.59 per month. Future payments under the lease are as follows:

2007	\$ 5,947
2008	5,947
2009	5,947
2010	<u>4,460</u>
	<u>\$ 22,301</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

6. Long-Term Obligations

a. Installment Loan

In the 2000-2001 fiscal year, the Town borrowed \$430,135 to finish construction of a library. The note is collateralized by various commercial properties. Semi-annual payments of \$8,529.34 are due through December 15, 2020. The interest rate on the loan is 5.02%.

The future minimum payments of the installment purchase as of June 30, 2006 are as follows:

Year Ending June 30	Governmental Principal	Activities Interest
2007	\$ 16,706	\$ 17,412
2008	17,527	16,591
2009	18,482	15,636
2010	19,440	14,677
2011-2015	113,378	57,209
2016-2020	146,009	24,577
2021	16,760	320
	\$ 348,302	\$ 146,422

b. Installment Loan

In the 2005-2006 fiscal year, the Town purchased land on Stallings Road to be used for a park. In exchange for the land, the Town issued an installment purchase obligation to the seller for \$405,600 with an agreed upon interest rate of 5%. During the 2005-2006 fiscal year, principal payments totaling \$246,941 were made. The agreement calls for the remaining principal payments to be paid by January 5, 2007 and 2008.

The future minimum payments of the installment purchase as of June 30, 2006 are as follows:

Year Ending June 30	Governmental Principal	Activities Interest
2007	\$ 9,330	\$ 8,623
2008	149,329	7,467
	\$ 158,659	\$ 16,090

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

c. Installment Loan

In December 1998, the Town borrowed \$1,500,000 from a local financial institution to upgrade its water and sewer system. The terms of the loan state that interest will accrue at the rate of 4.24% per annum. Principal and interest payments are payable July 1 and January 1 through January 2014. The debt is secured by water and sewer equipment.

The future minimum payments as of June 30, 2006 are as follows:

Year Ending June 30	Business-type Principal	Activity Interest
2007	\$ 102,952	\$ 37,184
2008	107,339	32,797
2009	112,089	28,047
2010	116,960	23,177
2011-2014	451,054	39,664
	\$ 890,394	\$ 160,869

d. General Obligation Indebtedness

General Obligation Bonds

Serviced by the Water and Sewer Fund:

The Town issued \$633,500 water and sewer bonds in 1988 with an interest rate of 7.5%. Principal and interest payments are due annually on June 1 and an additional interest payment is due on December 1 of each year through June 1, 2008.

Annual debt service requirements for the bonds as of June 30, 2006 are as follows:

Year Ending June 30	Business-type Principal	Activity Interest
2007	\$ 63,000	\$ 9,952
2008	69,700	5,227
	\$ 132,700	\$ 15,179

At June 30, 2006 the Town of Harrisburg, North Carolina had a legal debt margin of \$78,680,403.

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2006

e. Changes in Long-Term Liabilities

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion of Balance
Governmental activities:					
Installment loans	\$ 364,178	\$405,600	\$262,817	\$ 506,961	\$ 26,035
Governmental activities long-term liabilities	<u>364,178</u>	<u>405,600</u>	<u>262,817</u>	<u>506,961</u>	<u>26,035</u>
Business type activities:					
Installment loans	989,005	-	98,611	890,394	102,952
General obligation bonds	189,700	-	57,000	132,700	63,000
Business-type activities long-term liabilities	<u>\$ 1,178,705</u>	<u>\$ -</u>	<u>\$ 155,611</u>	<u>\$ 1,023,094</u>	<u>\$ 165,952</u>

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2006, consist of the following:

From the Water and Sewer Fund to the General Fund \$ 5,752

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from other funds at June 30, 2006, consist of the following:

From the General Fund to the Stallings Road Park Capital Project Fund \$15,313

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

During the year the Town made transfers from the General Fund to the Stallings Road Capital Project Fund as expenses were incurred.

D. Jointly Governed Organizations

The Town, in conjunction with eight counties and fifty other municipalities, established the Centralina 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 \$1,177 to the Council during the fiscal year ended June 30, 2006.

The Town, Cabarrus County and three other municipalities established the Water and Sewer Authority of Cabarrus County (WSACC). WSACC was established to provide water and sewer services to the citizens of Cabarrus County. The Town appoints one member to the nine-member board. In the year ending June 30, 2006, the Town purchased sewer transportation services amounting to \$427,787 from WSACC. At June 30, 2006, \$35,345 was due to WSACC and is reflected in accounts payable of the Water and Sewer Fund.

E. Significant Economic Dependence

The Town is dependent upon other government entities for water purchases and sewer transportation services in the Water and Sewer Fund. The Town purchases the majority of its water from the City of Concord and all of its sewer transportation services from WSACC.

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from 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.

V. Subsequent Event

On July 1, 2006, the Town merged the Harrisburg Volunteer Fire Department and Rescue, Inc. (a nonprofit organization), as a fully operational department of the Town. Assets of \$2,750,840 and liabilities of \$1,500,413 were transferred to the Town as of the date of the merger.

TOWN OF HARRISBURG, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2006

Revenues	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Ad valorem taxes			
Taxes		\$ 1,327,344	
Penalties and interest		7,557	
Total	<u>\$ 1,238,377</u>	<u>1,334,901</u>	<u>\$ 96,524</u>
Other taxes and licenses			
Privilege licenses		2,880	
Total	<u>2,300</u>	<u>2,880</u>	<u>580</u>
Unrestricted intergovernmental			
Local option sales tax		472,511	
Telecommunications sales tax		69,257	
Piped natural gas tax		71,363	
Utility franchise tax		240,541	
Beer and wine tax		23,189	
Total	<u>720,000</u>	<u>876,861</u>	<u>156,861</u>
Restricted intergovernmental			
Powell Bill allocation		188,960	
Total	<u>203,000</u>	<u>188,960</u>	<u>(14,040)</u>
Investment earnings	<u>29,000</u>	<u>69,137</u>	<u>40,137</u>
Permits and fees			
Compliance permits		30,174	
Vision Cable franchise fee		41,989	
Total	<u>77,816</u>	<u>72,163</u>	<u>(5,653)</u>
Sales and services			
Parks and Recreation fees		21,273	
Total	<u>3,500</u>	<u>21,273</u>	<u>17,773</u>
Miscellaneous			
Miscellaneous	2,000	4,620	2,620
Newsletter Ads	35,000	45,476	10,476
July 4th celebration	35,000	58,778	23,778
Total	<u>72,000</u>	<u>108,874</u>	<u>36,874</u>
Total revenues	<u>\$ 2,345,993</u>	<u>\$ 2,675,049</u>	<u>\$ 329,056</u>

TOWN OF HARRISBURG, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2006

Expenditures	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
General government			
Administration			
Mayor and council salaries		\$ 41,600	
Salaries and employee benefits-adminstrative employees		474,165	
Office expense			
Office supplies		6,126	
Postage		4,549	
Advertising		2,280	
Software contract		6,854	
Computer technical service		115	
Annual audit		4,000	
Equipment rental-copier		7,989	
Printing		4,325	
Operations			
Utilities		135,637	
Equipment rental		76	
Election expense		4,594	
Equipment		2,191	
Grounds and maintenance		47,252	
Miscellaneous		16,367	
Legal expenses		23,108	
Dues and subscriptions		6,774	
Insurance and bonds		26,420	
Training		5,495	
Travel		4,891	
Newsletter			
Miscellaneous		102	
Public Relations			
Website		6,080	
Cabarrus Arts Council		1,500	
CVAN		1,000	
West Nile Virus		1,493	
Economic Development Commission		5,216	
Community survey		13,816	
Newsletter/website		35,647	
Municipal zoning			
Clothing		35	
Miscellaneous		92	
Planning and zoning			
Salaries and benefits		21,375	
County contract		20,000	
Advertising		6,155	
Miscellaneous		(2,433)	
Legal expenses		19,690	
	<u> </u>	<u> </u>	<u> </u>
Total general government	<u>\$ 991,395</u>	<u>954,576</u>	<u>\$ 36,819</u>

TOWN OF HARRISBURG, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2006

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Public safety			
Police department			
County contract		\$ 286,758	
Auto supplies		27,766	
Maintenance and repairs		4,384	
Police equipment		32,343	
Motorcycles and training		5,664	
		<u> </u>	<u> </u>
Total public safety	<u>\$ 345,800</u>	<u>356,915</u>	<u>\$ (11,115)</u>
Transportation			
Streets and highways			
Street maintenance		111,295	
MPO contribution		902	
Sidewalk study		6,987	
Pedestrian study		6,667	
		<u> </u>	<u> </u>
Total transportation	<u>153,000</u>	<u>125,851</u>	<u>27,149</u>
Environmental protection			
Sanitation contract		346,725	
Storm water phase 2		7,430	
		<u> </u>	<u> </u>
Total environmental protection	<u>353,900</u>	<u>354,155</u>	<u>(255)</u>
Cultural and recreational			
Parks and recreation			
Salaries and benefits		9,025	
Programs		14,504	
July 4th		87,043	
Project restoration		119,934	
Auxiliary equipment and improvements		17,755	
Grounds and maintenance		34,986	
Beautification-park areas		1,336	
Bike trails		4,589	
Capital outlay		29,266	
Special Events			
Christmas tree event		28,495	
Senior Olympics		1,000	
Miracle League		1,500	
		<u> </u>	<u> </u>
Total cultural and recreational	<u>626,290</u>	<u>349,433</u>	<u>276,857</u>

TOWN OF HARRISBURG, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2006

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service			
Principal retirement	\$ 16,082	\$ 262,817	\$ (246,735)
Interest	<u>18,245</u>	<u>51,301</u>	<u>(33,056)</u>
Total debt service	<u>34,327</u>	<u>314,118</u>	<u>(279,791)</u>
Contingency	<u>31</u>	<u>-</u>	<u>31</u>
Total expenditures	<u>2,504,743</u>	<u>2,455,048</u>	<u>49,695</u>
Revenues over (under) expenditures	<u>(158,750)</u>	<u>220,001</u>	<u>378,751</u>
Other financing sources (uses)			
Transfers to other funds			
Stallings Rd Park Capital Project Fund	(31,250)	(15,313)	15,937
Fund balance appropriated	<u>190,000</u>	<u>-</u>	<u>(190,000)</u>
Total other financing sources (uses)	<u>158,750</u>	<u>(15,313)</u>	<u>(174,063)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>204,688</u>	<u>\$ 204,688</u>
Fund balances			
Beginning, of year		<u>2,179,007</u>	
Fund balance, end of year		<u>\$ 2,383,695</u>	

TOWN OF HARRISBURG, NORTH CAROLINA
 CAPITAL PROJECT FUND
 STALLINGS ROAD PARK
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL
 From Inception and For the Fiscal Year Ended June 30, 2006

	Project Authorization	Prior Years	Actual		Variance Favorable (Unfavorable)
			Current Year	Total to Date	
Revenues					
PARTF grant income	\$ -	\$ -	\$ -	\$ -	-
Revenues	-	-	-	-	-
Expenditures					
Contractor	-	-	-	-	-
Engineering	-	-	15,313	15,313	(15,313)
Contingency	-	-	-	-	-
Land	-	-	405,600	405,600	(405,600)
Appraisal	-	-	-	-	-
Total expenditures	-	-	420,913	420,913	(420,913)
Revenues over (under) expenditures	-	-	(420,913)	(420,913)	(420,913)
Other financing sources (uses)					
Installment purchase obligations issued	-	-	405,600	405,600	405,600
Transfer from General Fund	-	-	15,313	15,313	15,313
Total other financing sources (uses)	-	-	420,913	420,913	420,913
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning of year			-		
Fund balance, end of year			\$ -		

TOWN OF HARRISBURG, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Charges for services:			
Water sales		\$ 1,445,813	
Sewer sales		1,210,805	
Set up fee		50,649	
Penalty		35,004	
Meters and connections		32,030	
Total	<u>\$ 2,482,554</u>	<u>2,774,301</u>	<u>\$ 291,747</u>
Water and sewer taps	<u>1,248,000</u>	<u>1,310,896</u>	<u>62,896</u>
Other operating revenues:			
Miscellaneous	<u>6,000</u>	<u>6,539</u>	<u>539</u>
Total other operating revenues	<u>6,000</u>	<u>6,539</u>	<u>539</u>
Total operating revenues	<u>3,736,554</u>	<u>4,091,736</u>	<u>355,182</u>
Nonoperating revenues:			
Investment earnings	<u>22,500</u>	<u>75,685</u>	<u>53,185</u>
Total nonoperating revenues	<u>22,500</u>	<u>75,685</u>	<u>53,185</u>
Total revenues	<u>\$ 3,759,054</u>	<u>\$ 4,167,421</u>	<u>\$ 408,367</u>

TOWN OF HARRISBURG, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Water treatment and distribution and waste water collection:			
Salaries and employee benefits		\$ 856,375	
Advertising		332	
Computer contract and service		3,310	
Computer technical service		290	
Annual maintenance-folder/mailer		1,175	
Training		4,192	
Dues and subscriptions		3,131	
Insurance		27,043	
Sewer inspection fee		10,857	
Miscellaneous		20,575	
Office supplies		2,371	
Printing		5,001	
Postage		17,343	
Engineering		64,806	
Audit		4,000	
Legal		8,112	
Repair and maintenance		261,613	
Grounds and maintenance		17,371	
Radio read meter conversion		120,452	
Safety and training		14,696	
Equipment truck maintenance		58,972	
Clothing expense		18,658	
Travel		4,750	
Utilities		49,816	
Water purchases		951,351	
Sewer transport and treatment		429,468	
	<hr/>	<hr/>	<hr/>
Total water treatment and distribution and waste water collection	<u>\$ 3,036,274</u>	<u>\$ 2,956,060</u>	<u>\$ 80,214</u>

TOWN OF HARRISBURG, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service:			
Principal retirement	\$ 155,681	155,611	\$ 70
Interest expense	<u>63,449</u>	<u>55,396</u>	<u>8,053</u>
Total debt service	<u>219,130</u>	<u>211,007</u>	<u>8,123</u>
Capital outlay:			
Equipment	<u>1,435,025</u>	<u>919,288</u>	<u>515,737</u>
Total capital outlay	<u>1,435,025</u>	<u>919,288</u>	<u>515,737</u>
Total expenditures	<u>4,690,429</u>	<u>4,086,355</u>	<u>604,074</u>
Revenues over (under) expenditures	<u>(931,375)</u>	<u>81,066</u>	<u>1,012,441</u>
Other financing sources (uses):			
Fund balance appropriated	<u>931,375</u>	<u>-</u>	<u>(931,375)</u>
Total other financing sources (uses)	<u>931,375</u>	<u>-</u>	<u>(931,375)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>81,066</u>	<u>\$ 81,066</u>
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues over (under) expenditures		<u>81,066</u>	
Reconciling items			
Principal retirement		155,611	
Capital outlay		919,288	
Depreciation		(407,427)	
Capital contributions		<u>60,000</u>	
Total reconciling items		<u>727,472</u>	
Net income (loss)		<u>\$ 808,538</u>	

TOWN OF HARRISBURG, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2006

Fiscal Year	Uncollected Balance June 30, 2005	Additions	Collections and Credits	Uncollected Balance June 30, 2006
2005-2006		\$ 1,346,067	\$ 1,314,174	\$ 31,893
2004-2005	\$ 19,043	-	11,791	7,252
2003-2004	10,455	-	2,652	7,803
2002-2003	29,007	-	53	28,954
2001-2002	751	-	538	213
2000-2001	245	-	11	234
1999-2000	1,082	-	142	940
1998-1999	336	-	63	273
1997-1998	26	-	-	26
1996-1997	174	-	-	174
1995-1996	261	-	261	-
	<u>\$ 61,380</u>	<u>\$ 1,346,067</u>	<u>\$ 1,329,685</u>	<u>77,762</u>
Plus: uncollected 2006-2007 ad valorem taxes receivable on annually registered vehicles				5,837
Less allowance for uncollectible accounts: General Fund				<u>11,939</u>
Ad valorem taxes receivable-net				<u>71,660</u>
Reconcilement with revenues:				
Ad valorem taxes - General Fund				1,334,901
Reconciling items				
Interest collected				(7,557)
Discounts allowed				-
Taxes written off				<u>2,341</u>
Total collections and credits				<u>\$ 1,329,685</u>

TOWN OF HARRISBURG, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Fiscal Year Ended June 30, 2006

	Town-wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$963,703,376	0.135	\$ 1,301,206	\$ 1,220,660	\$ 80,546
Registered motor vehicles taxed at prior year's rate	35,721,131	0.135	47,447	-	47,447
Penalties	-		431	431	-
Total	999,424,507		1,349,084	1,221,091	127,993
Discoveries:					
Current year taxes-full year	2,118,054	0.135	2,767	2,051	716
Prior year taxes	-		1,335	200	1,135
Penalties	-		44	44	-
Total	2,118,054		4,146	2,295	1,851
Abatements	(5,306,178)		(7,163)	(4,590)	(2,573)
Total property valuation	\$996,236,383				
Net levy			1,346,067	1,218,796	127,271
Uncollected taxes at June 30, 2006			31,893	23,028	8,865
Current year's taxes collected			\$ 1,314,174	\$ 1,195,768	\$ 118,406
Current levy collection percentage			97.63%	98.11%	93.03%

SHERRILL & SMITH, CPAs, PA

524 West Innes Street
P. O. Box 1327
Salisbury, NC 28145-1327
Voice (704) 636-5211 Fax (704) 636-5245

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

The Honorable Mayor and
Town Council
Town of Harrisburg, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Harrisburg, North Carolina, as of and for the year ended June 30, 2006, which collectively comprises the Town of Harrisburg's basic financial statements, and have issued our report thereon dated August 17, 2006. 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.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Harrisburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain matters that we reported to management of the Town of Harrisburg, in a separate letter dated August 17, 2006.



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

Sherrill and Smith, CPAs, PA

August 17, 2006