

TOWN OF HARRISBURG
NORTH CAROLINA

FINANCIAL STATEMENTS
Year Ended June 30, 2007

SHERRILL & SMITH
Certified Public Accountants
A Professional Association
Salisbury, North Carolina

Town of Harrisburg
Table of Contents
June 30, 2007

<u>Exhibit</u>		<u>Page</u>
	FINANCIAL SECTION:	
	Independent Auditor's Report	1-2
	Management's Discussion and Analysis	3-12
	Basic Financial Statements:	
	Government-Wide Financial Statements:	
1	Statement of Net Assets	13
2	Statement of Activities	14
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	15
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16-17
5	Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	18
6	Statement of Net Assets – Proprietary Funds	19
7	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	20
8	Statement of Cash Flows – Proprietary Funds	21
	Notes to the Financial Statements	22-39

Town of Harrisburg
Table of Contents
June 30, 2007

	<u>Page</u>
Individual Fund Statements and Schedules:	
Statement of Revenues, Expenditure, and Changes in Fund Balances – Budget and Actual – General Fund	40-46
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Stallings Park Road Capital Project Fund	47
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Water and Sewer Fund	48-51
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable – General Fund	52
Analysis of Current Tax Levy	53
Compliance Section:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Governmental Auditing Standards</u>	54-55
Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act	56-57
Schedule of Expenditures of Federal and State Awards	58
Schedule of Findings and Questioned Costs	59-60
Summary Schedule of Prior Audit Findings	61

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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, 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 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, 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 October 30, 2007 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 on pages 3 through 12, 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.

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 combining and individual nonmajor fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sherrill & Smith, CPAs, PA

October 30, 2007

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, 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

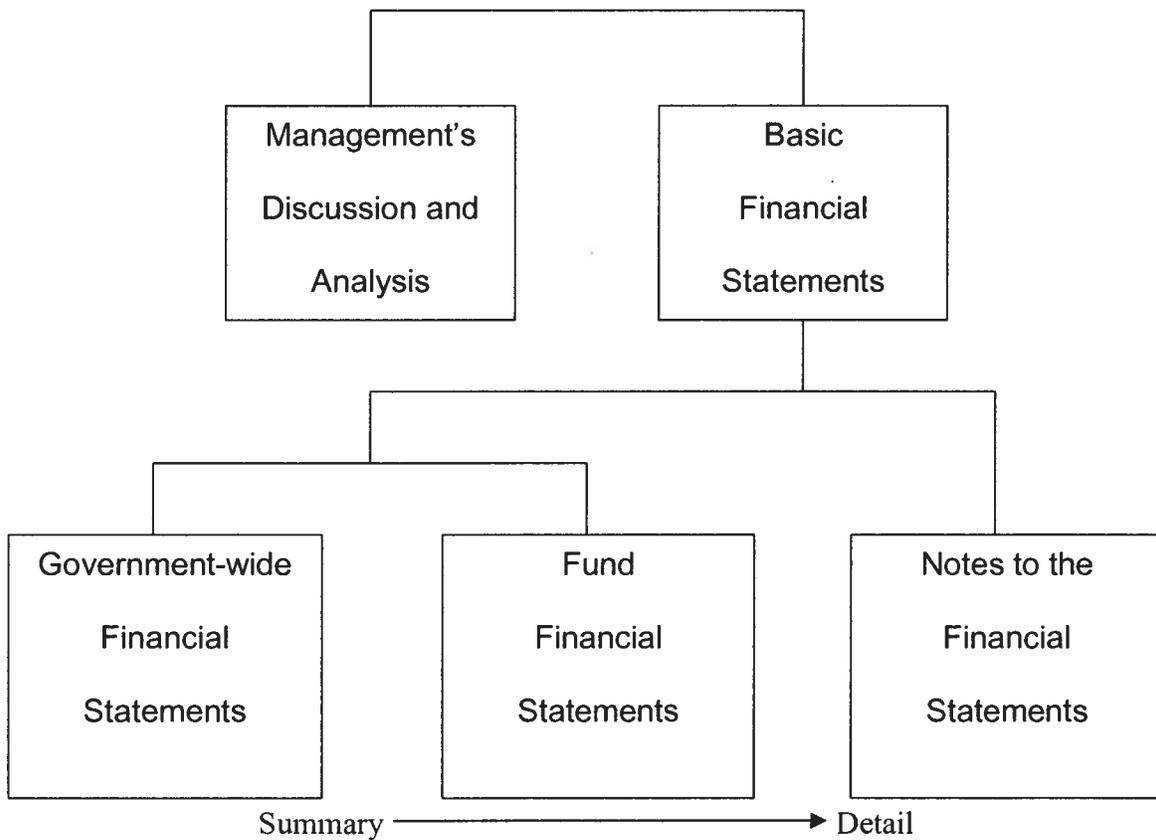
- The assets of the Town of Harrisburg exceeded its liabilities at the close of the fiscal year by \$16,880,509. (*net assets*).
- The government's total net assets increased by \$2,402,569, primarily due to the complete merge of the former Harrisburg Volunteer Fire and Rescue into the General Fund Governmental Budget. The Fire Department board of directors unanimously voted to transfer all cash, land, buildings and equipment assets to the Town of Harrisburg which occurred on July 1, 2006. As will be noted, the Town of Harrisburg assumed the total debts of the Harrisburg Volunteer Fire and Rescue as a part of the merge.
- As of the close of the current fiscal year, the Town of Harrisburg's governmental funds reported combined ending fund balances of \$ 2,812,335, an increase of \$ 428,640 in comparison with the prior year. Approximately 54.3 percent of this total amount, or \$ 1,527,423, 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 \$1,077,295, or 23.73 percent of total general fund expenditures for the fiscal year.
- The Town of Harrisburg's total debt increased by \$1,246,270 (81.5 %) during the current fiscal year. The key factor in this increase was the assumption of the outstanding obligations of the Harrisburg Volunteer Fire and Rescue in the amount of \$1,442,540.
- 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, 2007, the Town of Harrisburg had a legal debt margin of \$ 88,203,779.

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



Management Discussion and Analysis
Town of Harrisburg

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 gage 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 significant revenues include water/sewer tap fees for new construction as well as the monthly billing to all customers. These two sources provide approximately 93% of the annual revenues.

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

Management Discussion and Analysis
Town of Harrisburg

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.

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 22 of this report.

Management Discussion and Analysis
Town of Harrisburg

Government-Wide Financial Analysis
Town of Harrisburg's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 3,383,473	\$ 2,645,390	\$ 2,299,433	\$ 2,425,584	\$ 5,682,906	\$ 5,070,974
Capital assets	5,794,455	2,808,147	9,131,421	8,670,829	14,925,876	11,478,976
Total assets	9,177,928	5,453,537	11,430,854	11,096,413	20,608,782	16,549,950
Long-term liabilities outstanding	1,918,729	506,961	950,342	1,023,094	2,869,071	1,530,055
Other liabilities	410,706	175,533	448,496	366,422	859,202	541,955
Total liabilities	2,329,435	682,494	1,398,838	1,389,516	3,728,273	2,072,010
Net assets:						
Invested in capital assets, net of related debt	3,875,726	2,301,186	8,210,190	7,647,735	12,085,916	9,948,921
Restricted	354,532	512,541	-	-	354,532	512,541
Unrestricted	2,618,235	1,957,316	1,821,826	2,059,162	4,440,061	4,016,478
Total net assets	\$ 6,848,493	\$ 4,771,043	\$ 10,032,016	\$ 9,706,897	\$ 16,880,509	\$ 14,477,940

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 \$16,880,509 as of June 30, 2007. The Town's net assets increased by \$2,402,569 for the fiscal year ended June 30, 2007. However, the largest portion (71.6%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of 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 (2.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,440,061 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 96.24 %, 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.

Management Discussion and Analysis
Town of Harrisburg

- Purchase of water from the City of Concord eliminates the need for operation costs of a water production and treatment facility.
- The Town has drilled 2 successful wells which will produce approximately 12 million gallons per month which can replace approximately 40% of our average water purchases from the City of Concord. The net reduction in cost of purchased water will be approximately \$300,000.00 per year which will pay off our investment in the wells and elevated storage tank in less than 3 years. This will also lessen our dependency during time of severe drought which we are experiencing.
- 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.

Town of Harrisburg Changes in Net Assets
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program revenues:						
Charges for services	\$ 91,160	\$ 93,436	\$ 3,832,538	\$ 4,091,736	\$ 3,923,698	\$ 4,185,172
Operating grants and contributions	1,170,691	188,960	-	-	1,170,691	188,960
Capital grants and contributions	2,537,702	-	140,755	60,000	2,678,457	60,000
General revenues:						
Property taxes	2,357,856	1,345,258	-	-	2,357,856	1,345,258
Other taxes and licenses	1,630	2,880	-	-	1,630	2,880
Grants and contributions not restricted to specific programs	968,033	876,861	-	-	968,033	876,861
Other	229,915	178,014	102,956	75,685	332,871	253,699
Tranfers						
Total revenues	7,356,987	2,685,409	4,076,249	4,227,421	11,433,236	6,912,830
Expenses:						
General government	1,069,091	967,725	-	-	1,069,091	967,725
Public safety	2,224,875	380,476	-	-	2,224,875	380,476
Transportation	353,030	134,970	-	-	353,030	134,970
Environmental protection	429,261	363,462	-	-	429,261	363,462
Cultural and recreation	1,125,391	382,417	-	-	1,125,391	382,417
Interest on long-term debt	77,889	51,301	-	-	77,889	51,301
Water and sewer	-	-	3,751,130	3,418,883	3,751,130	3,418,883
Total expenses	5,279,537	2,280,351	3,751,130	3,418,883	9,030,667	5,699,234
Increase in net assets	2,077,450	405,058	325,119	808,538	2,402,569	1,213,596
Net assets, July 1	4,771,043	4,365,985	9,706,897	8,898,359	14,477,940	13,264,344
Net assets, June 30	\$ 6,848,493	\$ 4,771,043	\$ 10,032,016	\$ 9,706,897	\$ 16,880,509	\$ 14,477,940

Management Discussion and Analysis Town of Harrisburg

Governmental activities. Governmental activities increased the Town's net assets by \$2,077,450 primarily due to the assets of the Harrisburg Volunteer and Rescue being transferred to the Town by the Board of Directors of their corporation.

Business-type activities: Business-type activities increased the Town of Harrisburg's net assets by \$325,119, adding to 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 were lower than forecast, but did provide moderate increases in water/sewer tap fees. The tap fees provided approximately \$750,000 of the annual revenue.

Financial Analysis of the Town'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 \$1,077,295, while total fund balance reached \$2,362,207. 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 23.73 percent of total General Fund expenditures of \$ 4,540,386, while total fund balance represents 52.03 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 slightly less (1.2%) than the budgeted amounts anticipated. Expenditures were held in line resulting in total expenditures being less than revenue by \$203,785. These savings were representative of most departments.

Management Discussion and Analysis
Town of Harrisburg

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 \$1,821,826. The total change in net assets for the fund was \$325,119. The change in net assets in the Water and Sewer Fund is a result of increases in the sale of water and sewer retail sales brought about by moderate growth in customer account numbers, and higher than average monthly 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, 2007, totals \$14,925,877 (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	
	2007	2006	2007	2006	2007	2006
Construction in progress	\$ 149,668	\$ 15,313	\$ 72,751	\$ 936,202	\$ 222,419	\$ 951,515
Land	1,173,115	510,515	159,753	159,753	1,332,868	670,268
Buildings and system	2,177,913	1,281,966	16,414	17,128	2,194,327	1,299,094
Improvements other than buildings	670,169	702,954	-	-	670,169	702,954
Machinery and equipment	1,623,590	297,399	447,291	440,439	2,070,881	737,838
Infrastructure	-	-	8,435,213	7,117,307	8,435,213	7,117,307
Total	\$ 5,794,455	\$ 2,808,147	\$ 9,131,422	\$ 8,670,829	\$ 14,925,877	\$ 11,478,976

Management Discussion and Analysis
Town of Harrisburg

Long-term Debt. As of June 30, 2007, the Town of Harrisburg had total long term outstanding obligations of \$2,776,325.

Of this, Governmental type loans consist of \$331,606 which the Town borrowed to finish construction on a library. Additionally there is a loan from Joe Sims estate in the amount of \$149,330 to cover the balance of the debt on the purchase of the Stallings Road Park property. These notes are collateralized by commercial property. The balance of Governmental long-term debt consists of 6 installment loan notes for the fire department totaling \$1,083,171 and an “interest only” note for the purchase of land for a new fire house. The principal of \$290,988 will be due June 15, 2008. This note is secured by the land. It is planned that this debt will be rolled into the construction loan when the new fire station is built. The balance consists of compensated absences which were allowed to accumulate under the volunteer organization, but they have been requested to use that down to a more reasonable amount within three years.

The business-type activity long term liability includes the balance on an installment loan borrowed from a local institution to upgrade the water and sewer system. The remaining principal on this loan is \$788,531. In addition, there is a balance of \$69,700 final payment due June 30, 2008 for a General Obligation Bond issued in 1988 for initial sewer construction. Compensated absences totaling \$29,111 are also included.

General Obligation and Installment Loans

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ -	\$ -	\$ 69,700	\$ 132,700	\$ 69,700	\$ 132,700
Installment Loans	1,855,094	506,961	851,531	890,394	2,706,625	1,397,355
Total	\$ 1,855,094	\$ 506,961	\$ 921,231	\$ 1,023,094	\$ 2,776,325	\$ 1,530,055

Summary of the Town of Harrisburg’s Financial Condition

The Town of Harrisburg’s total debt increased by \$1,246,270 (81.5%) during the past fiscal year, primarily due the new debt acquired from the merging of the Harrisburg Fire and Rescue into the Town of Harrisburg’s General Fund Budget. The merger also contributed to the increase in Capital Assets in the amount of 3,446,901.

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 \$88,203,779.

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
- New home starts at a rate of 22 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, 2008

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 will be increased by approximately 6% to cover increased costs of operations, since growth is slower than last year. 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, 2007

Exhibit 1

Assets	Primary Government		Total
	Governmental Activities	Business-type Activities	
Current assets:			
Cash and cash equivalents	\$ 1,817,367	\$ 1,746,056	\$ 3,563,423
Taxes receivable (net)	138,573	-	138,573
Accrued interest receivable	21,858	-	21,858
Accounts receivable (net)	483,033	559,129	1,042,162
Due from other governments	301,411	-	301,411
Internal balances	5,752	(5,752)	-
Prepaid expenses	15,479	-	15,479
Deposit on capital purchase	600,000	-	600,000
Total current assets	<u>3,383,473</u>	<u>2,299,433</u>	<u>5,682,906</u>
Capital assets:			
Land, non-depreciable improvements, and construction in progress	1,322,783	232,504	1,555,287
Other capital assets, net of depreciation	4,471,672	8,898,917	13,370,589
Total capital assets	<u>5,794,455</u>	<u>9,131,421</u>	<u>14,925,876</u>
Total assets	<u>9,177,928</u>	<u>11,430,854</u>	<u>20,608,782</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	368,280	286,997	655,277
Performance bond deposits	3,273	-	3,273
Unearned revenue	39,153	-	39,153
Customer deposits	-	161,499	161,499
Current portion of long-term liabilities	653,523	222,150	875,673
Long-term liabilities:			
Due in more than one year	<u>1,265,206</u>	<u>728,192</u>	<u>1,993,398</u>
Total liabilities	<u>2,329,435</u>	<u>1,398,838</u>	<u>3,728,273</u>
Net Assets			
Invested in capital assets, net of related debt	3,939,361	8,210,190	12,149,551
Restricted for:			
Reserved for other purposes	354,532	-	354,532
Unrestricted	<u>2,554,600</u>	<u>1,821,826</u>	<u>4,376,426</u>
Total net assets	<u>\$ 6,848,493</u>	<u>\$ 10,032,016</u>	<u>\$ 16,880,509</u>

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

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government			
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 1,069,091	\$ 39,527	\$ -	\$ -	\$ (1,029,564)	\$ -	\$ -	\$ (1,029,564)
Public safety	2,224,875	30,935	988,518	2,087,574	882,152	-	-	882,152
Transportation	353,030	-	181,326	-	(171,704)	-	-	(171,704)
Environmental protection	429,261	-	-	-	(429,261)	-	-	(429,261)
Cultural and recreational	1,125,391	20,698	847	450,128	(653,718)	-	-	(653,718)
Interest on long-term debt	77,889	-	-	-	(77,889)	-	-	(77,889)
Total governmental activities (See Note 1)	5,279,537	91,160	1,170,691	2,537,702	(1,479,984)	-	-	(1,479,984)
Business-type activities:								
Water and sewer	3,751,130	3,832,538	-	140,755	-	222,163	222,163	222,163
Total business-type activities	3,751,130	3,832,538	-	140,755	-	222,163	222,163	222,163
Total primary government	\$ 9,030,667	\$ 3,923,698	\$ 1,170,691	\$ 2,678,457	(1,479,984)	222,163	222,163	(1,257,821)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					2,357,856	-	-	2,357,856
Other taxes and licenses					1,630	-	-	1,630
Grants and contributions not restricted to specific programs					968,033	-	-	968,033
Unrestricted investment earnings					120,859	102,956	102,956	223,815
Miscellaneous					109,056	-	-	109,056
Total general revenues and transfers					3,557,434	102,956	102,956	3,660,390
Change in net assets					2,077,450	325,119	325,119	2,402,569
Net assets, beginning					4,771,043	9,706,897	9,706,897	14,477,940
Net assets, ending					\$ 6,848,493	\$ 10,032,016	\$ 10,032,016	\$ 16,880,509

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

TOWN OF HARRISBURG, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

Exhibit 3

Assets	General	Stallings Rd Park Project	Totals Governmental Funds
Cash and cash equivalents	\$ 1,817,367	\$ -	\$ 1,817,367
Receivables, net:			
Property taxes	138,573	-	138,573
Sales and use taxes	32,905	-	32,905
Other	-	450,128	450,128
Due from other governments	301,411	-	301,411
Prepaid expenses	15,479	-	15,479
Deposit on capital purchase	600,000	-	600,000
Due from other funds	5,752	-	5,752
 Total assets	 2,911,487	 450,128	 3,361,615
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	368,281	-	368,281
Performance bonds on deposit	3,273	-	3,273
Deferred revenue	138,573	-	138,573
Unearned revenue	39,153	-	39,153
 Total liabilities	 549,280	 -	 549,280
 Fund balances			
Reserved by State statute	314,901	-	314,901
Reserved for streets-Powell Bill	354,532	-	354,532
Reserved for deposits and prepaids	615,479	-	615,479
Unreserved, General Fund	1,077,295	-	1,077,295
Unreserved, reported in:			
Capital project fund	-	450,128	450,128
 Total fund balances	 2,362,207	 450,128	 2,812,335
 Total liabilities and fund balances	 \$ 2,911,487	 \$ 450,128	

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	\$ 6,596,675	
Accumulated depreciation	(802,220)	5,794,455

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. 21,858

Liabilities for earned but deferred revenue in fund statements 138,573

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. (1,918,728)

Net assets of governmental activities \$ 6,848,493

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

Exhibit 4

	General Fund	Stallings Rd Park Project	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 2,283,587	\$ -	\$ 2,283,587
Other taxes and licenses	1,630	-	1,630
Unrestricted intergovernmental	968,032	-	968,032
Restricted intergovernmental	1,169,844	450,128	1,619,972
Investment earnings	120,859	-	120,859
Permits and fees	64,772	-	64,772
Sales and services	26,388	-	26,388
Miscellaneous	109,059	-	109,059
Total revenues	4,744,171	450,128	5,194,299
Expenditures:			
Current			
General government	1,075,649	-	1,075,649
Public safety	2,250,270	-	2,250,270
Transportation	376,309	-	376,309
Environmental protection	419,954	-	419,954
Cultural and recreational	222,297	-	222,297
Debt service			
Principal retirement	118,018	-	118,018
Interest	77,889	-	77,889
Capital outlay	-	840,112	840,112
Total expenditures	4,540,386	840,112	5,380,498
Excess (deficiency) of revenues over expenditures	203,785	(389,984)	(186,199)
Other financing sources (uses):			
Contribution-Friends of the Library	847	-	847
Contribution received-Fire Department	590,380	-	590,380
Proceeds from borrowing	23,612	-	23,612
Transfer between funds	(840,112)	840,112	-
Total other financing sources (uses)	(225,273)	840,112	614,839
Net change in fund balance	(21,488)	450,128	428,640
Fund balances, beginning of year	2,383,695	-	2,383,695
Fund balance, end of year	\$ 2,362,207	\$ 450,128	\$ 2,812,335

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

Exhibit 4

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

Net changes in fund balances - total governmental funds	\$	428,640
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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	\$ 313,726	
Depreciation expense for governmental assets	<u>(292,714)</u>	21,012

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		74,270
Contribution received-fire department		1,497,194

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

Compensated absences	(38,072)	
Installment purchase obligations issued	(23,612)	
Principal payments on long-term debt	<u>118,018</u>	<u>56,334</u>

Total changes in net assets of governmental activities	\$	<u>2,077,450</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, 2007

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
Revenues:				
Ad valorem taxes	\$2,295,069	\$ 2,295,069	\$ 2,283,587	\$ (11,482)
Other taxes and licenses	2,400	2,400	1,630	(770)
Unrestricted intergovernmental	928,814	928,814	968,032	39,218
Restricted intergovernmental	1,271,325	1,271,325	1,169,844	(101,481)
Investment earnings	65,000	65,000	120,859	55,859
Permits and fees	85,515	85,515	64,772	(20,743)
Sales and service	21,800	21,800	26,388	4,588
Miscellaneous	107,000	107,000	109,059	2,059
Total revenues	4,776,923	4,776,923	4,744,171	(32,752)
Expenditures:				
Current				
General government	1,235,598	1,211,715	1,075,649	136,066
Public safety	1,904,189	2,138,778	2,250,270	(111,492)
Transportation	683,691	683,691	376,309	307,382
Environmental protection	396,000	421,925	419,954	1,971
Cultural and recreational	220,000	220,608	222,297	(1,689)
Debt service				
Principal retirement	349,181	317,257	118,018	199,239
Interest	17,412	17,422	77,889	(60,467)
Total expenditures	4,806,071	5,011,396	4,540,386	471,010
Revenues over (under) expenditures	(29,148)	(234,473)	203,785	438,258
Other financing sources (uses):				
Contribution-Friends of the Library	-	-	847	847
Contribution received-Fire Department	-	-	590,380	590,380
Proceeds from borrowing	-	-	23,612	23,612
Transfer to other funds	(600,000)	(900,000)	(840,112)	59,888
Fund balance appropriated	629,148	1,134,473	-	(1,134,473)
Total other financing sources (uses)	29,148	234,473	(225,273)	(459,746)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	(21,488)	\$ (21,488)
Fund balances, beginning of year			2,383,695	
Fund balance, end of year			\$ 2,362,207	

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

Exhibit 6

Assets	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
Current Assets:		
Cash and cash equivalents	\$ 1,746,056	\$ 1,746,056
Accounts receivable (net) - customers	410,113	410,113
Accounts receivable (net) - other	<u>149,016</u>	<u>149,016</u>
Total current assets	<u>2,305,185</u>	<u>2,305,185</u>
Capital Assets:		
Land and other non depreciable assets	232,504	232,504
Other capital assets, net of depreciation	<u>8,898,917</u>	<u>8,898,917</u>
Capital assets (net)	<u>9,131,421</u>	<u>9,131,421</u>
Total Assets	<u>11,436,606</u>	<u>11,436,606</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	286,997	286,997
Due to other funds	5,752	5,752
Customer deposits	161,499	161,499
Compensated absences	29,111	29,111
Installment purchase - current	<u>193,039</u>	<u>193,039</u>
Current liabilities	676,398	676,398
Noncurrent Liabilities		
Long-term debt - non-current	<u>728,192</u>	<u>728,192</u>
Total liabilities	<u>1,404,590</u>	<u>1,404,590</u>
Net Assets		
Invested in capital assets, net of related debt	8,210,190	8,210,190
Unrestricted	<u>1,821,826</u>	<u>1,821,826</u>
Total net assets	<u><u>\$ 10,032,016</u></u>	<u><u>\$ 10,032,016</u></u>

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

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2007

Exhibit 7

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating revenues:		
Charges for services	\$ 3,067,562	\$ 3,067,562
Water and sewer taps	747,790	747,790
Other operating revenues	17,186	17,186
Total operating revenues	<u>3,832,538</u>	<u>3,832,538</u>
Operating expenses:		
Water treatment and distribution and waste water collection	3,265,491	3,265,491
Depreciation	438,033	438,033
Total operating expenses	<u>3,703,524</u>	<u>3,703,524</u>
Operating income (loss)	<u>129,014</u>	<u>129,014</u>
Nonoperating revenues (expenses):		
Investment earnings	102,956	102,956
Capital recovery-water line	140,755	140,755
Interest expense	(47,606)	(47,606)
Total nonoperating revenues (expenses)	<u>196,105</u>	<u>196,105</u>
Income (loss) before contributions and transfers	<u>325,119</u>	<u>325,119</u>
Change in net assets	325,119	325,119
Total net assets, beginning	<u>9,706,897</u>	<u>9,706,897</u>
Total net assets, ending	<u><u>\$ 10,032,016</u></u>	<u><u>\$ 10,032,016</u></u>

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2007

Exhibit 8

Cash flows from operating activities:	
Cash received from customers	\$ 3,767,143
Cash paid for goods and services	(2,246,375)
Cash paid to employees	(990,922)
Customer deposits received and returned	<u>23,014</u>
Net cash provided by (used in) operating activities	<u>552,860</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(730,235)
Principal payments on installment debt	(173,864)
Interest paid on installment debt	<u>(47,213)</u>
Net cash provided by (used in) capital and related financing activities	<u>(951,312)</u>
Cash flows from investing activities:	
Interest on investments	<u>102,956</u>
Net increase (decrease) in cash and cash equivalents	(295,496)
Cash and cash equivalents at beginning of year	<u>2,041,552</u>
Cash and cash equivalents at end of year	<u><u>1,746,056</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>129,014</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	438,033
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(65,395)
(Increase) decrease in other receivables	(103,950)
Increase (decrease) in accounts payable and accrued liabilities	132,144
Increase (decrease) in customer deposits	<u>23,014</u>
Total adjustments	<u>423,846</u>
Net cash provided by (used in) operating activities	<u><u>\$ 552,860</u></u>

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

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 Year Ended June 30, 2007

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 Year Ended June 30, 2007

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 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, 2007, 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 2007 registration renewals will vary from 7 to 18 months after December 31, 2006. 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. A project ordinance is adopted for Stallings Road Park Capital Project Fund. 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. 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 Year Ended June 30, 2007

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 Year Ended June 30, 2007

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 year based on years of service. Years of service are determined and vacation time is earned based on each employees hire date. An employee has not earned any paid vacation days until he/she completes one full year of service with the Town. An employee can not carry vacation time over into the following year. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments is recorded. Since accrued vacation time may not be carried over into the following year, the entire liability has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an 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 Year Ended June 30, 2007

8. 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 cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of 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 2006-2007 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, 2007, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for public safety and for cultural and recreational expenses. These over-expenditures occurred because of unplanned expenditures for which no sufficient additional appropriations were made. Management and the Board will more closely review the budget reports to ensure compliance in future years.

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

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, 2007, the Town's deposits had a carrying amount of \$506,770 and a bank balance of \$861,394 of which \$510,046 was covered by federal depository insurance and \$351,348 was collateralized by securities. At June 30, 2007, the Town's petty cash fund totaled \$275.

2. Investments

At June 30, 2007, the Town of Harrisburg had \$3,055,818 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 Year Ended June 30, 2007

3. 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
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 510,515	\$ 662,600	\$ -	\$ 1,173,115
Construction in progress	15,313	134,355	-	149,668
	<u>525,828</u>	<u>796,955</u>	<u>-</u>	<u>1,322,783</u>
Capital assets being depreciated:				
Other improvements	837,581	-	-	837,581
Buildings	1,452,512	943,732	-	2,396,244
Equipment	501,733	1,538,334	-	2,040,067
	<u>2,791,826</u>	<u>2,482,066</u>	<u>-</u>	<u>5,273,892</u>
Less accumulated depreciation for:				
Other improvements	134,627	32,785	-	167,412
Buildings	170,546	47,785	-	218,331
Equipment	204,334	212,143	-	416,477
	<u>509,507</u>	<u>\$ 292,713</u>	<u>\$ -</u>	<u>802,220</u>
Total capital assets being depreciated, net	<u>2,282,319</u>			<u>4,471,672</u>
Governmental activity capital assets, net	<u>\$ 2,808,147</u>			<u>\$ 5,794,455</u>

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

General government	\$ 16,696
Public safety	196,276
Transportation	7,454
Environmental protection	9,307
Cultural and recreational	<u>62,980</u>
Total depreciation expense	<u>\$ 292,713</u>

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

Primary Government

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

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 936,202	\$ 66,276	\$ 929,727	\$ 72,751
Land and rights of way	159,753	-	-	159,753
Total capital assets not being depreciated	1,095,955	66,276	929,727	232,504
Capital assets being depreciated:				
Buildings	35,714	-	-	35,714
Water lines	5,572,111	1,105,294	-	6,677,405
Equipment	930,530	94,403	-	1,024,933
Interceptors	724,436	-	-	724,436
Collection system	3,811,834	562,380	-	4,374,214
Total capital assets being depreciated	11,074,625	1,762,077	-	12,836,702
Less accumulated depreciation for:				
Buildings	18,586	714	-	19,300
Water lines	1,316,452	197,659	-	1,514,111
Equipment	490,091	87,552	-	577,643
Interceptors	312,494	24,148	-	336,642
Collection system	1,362,128	127,961	-	1,490,089
Total accumulated depreciation	3,499,751	438,034	-	3,937,785
Total capital assets being depreciated, net	7,574,874			8,898,917
Business-type activities capital assets, net	\$ 8,670,829			\$ 9,131,421

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.

Construction Commitments- The Town has active construction projects as of June 30, 2007. At year-end, the Town's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Stallings Road Park Capital Project	\$ 521,013	\$ 332,706

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2007

B. Liabilities

1. Pension Plan Obligations

a. 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, 2007, 2006, and 2005 were \$119,717, \$61,610, and \$51,671, respectively. The contributions made by the Town equaled the required contributions for each year.

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

Plan Description- The State of North Carolina contributes, on behalf of the Town of Harrisburg, 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- Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town pays its members' required contributions on their behalf. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

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	\$ -	\$ 35,028
Prepaid taxes (General Fund)	-	4,125
Taxes receivable (General Fund)	138,573	-
	\$ 138,573	\$ 39,153

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2007

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-transportation	\$376,309
Add accounts payable 6-30-06	25,186
Deduct accounts payable 6-30-07	5,422
Deduct Non-Powell transportation expenses	<u>4,440</u>
Per Powell Bill report	<u>\$391,633</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:

2008	\$ 5,947
2009	5,947
2010	<u>4,460</u>
	<u>\$ 16,354</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2007

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, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 17,527	\$ 16,591
2009	18,482	15,636
2010	19,440	14,677
2011	20,449	13,668
2012	21,475	12,642
2013-2017	125,458	45,128
2018-2020	108,775	10,669
	<u>\$ 331,606</u>	<u>\$ 129,011</u>

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%. The agreement calls for the final payment to be paid by January 5, 2008.

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 149,330	\$ 7,466
	<u>\$ 149,330</u>	<u>\$ 7,466</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2007

c. Installment Loan

During the fiscal year ended June 30, 2007, the Town borrowed \$23,612 finance a portion of the purchase of a vehicle for use by the fire department. The note is collateralized by the vehicle. Monthly payments of \$705.90 are due through September, 2009. The interest rate on the loan is 4.75%.

The future minimum payments of the installment purchase as of June 30, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	Principal	Interest
2008	\$ 7,783	\$ 688
2009	8,160	310
2010	2,083	16
	<u>\$ 18,026</u>	<u>\$ 1,014</u>

d. Installment Loan

As part of the merger of the Harrisburg Volunteer Fire Department on July 1, 2006, the Town assumed debt related to the Fire Department's earlier purchase of a Spartan Gladiator Chassis. The note is collateralized by the chassis. Monthly payments of \$4,775 are due through May, 2009 with the remaining balance due June 1, 2010. The interest rate on the loan is 3.50%.

The future minimum payments of the installment purchase as of June 30, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	Principal	Interest
2008	\$ 41,252	\$ 16,048
2009	42,720	14,581
2010	393,322	13,396
	<u>\$ 477,294</u>	<u>\$ 44,025</u>

e. Installment Loan

As part of the merger of the Harrisburg Volunteer Fire Department on July 1, 2006, the Town assumed debt related to the Fire Department's earlier purchase of a Spartan Gladiator Chassis. The note is collateralized by the pumper truck. Monthly payments of \$3,143.52 are due through September, 2009 with the remaining balance due October 20, 2010. The interest rate on the loan is 4.40%.

The future minimum payments of the installment purchase as of June 30, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	Principal	Interest
2008	\$ 24,226	\$ 13,496
2009	25,314	12,408
2010	26,450	11,272
2011	241,757	3,562
	<u>\$ 317,747</u>	<u>\$ 40,738</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2007

f. Installment Loan

As part of the merger of the Harrisburg Volunteer Fire Department on July 1, 2006, the Town assumed this debt related to the Fire Department's earlier purchase of a fire truck. The note is collateralized by the Laverne truck. Monthly payments of \$2,201.98 are due through July, 2016 with the remaining balance due August 11, 2016. The interest rate on the loan is 3.50%.

The future minimum payments of the installment purchase as of June 30, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 19,508	\$ 6,915
2009	20,202	6,222
2010	20,921	5,503
2011	21,665	4,759
2012	22,435	3,988
2013-2016	101,737	7,700
	<u>\$ 206,468</u>	<u>\$ 35,087</u>

g. Installment Loan

As part of the merger of the Harrisburg Volunteer Fire Department on July 1, 2006, the Town assumed this debt related to the Fire Department's earlier purchase of a self contained breathing apparatus. The note is collateralized by the apparatus. Payments of \$447.56 are due monthly. The interest rate on the loan is 3.50%.

The future minimum payments of the installment purchase as of June 30, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 5,257	\$ 114
2009	388	1
	<u>\$ 5,645</u>	<u>\$ 115</u>

h. Installment Loan

As part of the merger of the Harrisburg Volunteer Fire Department on July 1, 2006, the Town assumed debt evidenced by a promissory note. The note calls for monthly payments of interest only through June 15, 2008 at which time the entire principal amount of \$290,988 is due. The interest rate on the loan is variable. The loan is secured by land.

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2007

i. Installment Loan

As part of the merger of the Harrisburg Volunteer Fire Department on July 1, 2006, the Town assumed a note payable to Eugene J. and Elizabeth F. Boelte. The note is payable in three equal payments of \$17,008.92 due on June 30, 2007, June 30, 2008, and June 30, 2009 with one final installment of \$6,964.32 due on June 30, 2010. The payment due June 30, 2007 was not paid until July 2007. There is no interest being charged. The note is secured by land.

The future minimum payments of the installment purchase as of June 30, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	Principal	Interest
2008	\$ 34,018	\$ -
2009	17,009	-
2010	6,964	-
	<u>\$ 57,991</u>	<u>\$ -</u>

j. 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, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	Principal	Interest
2008	\$ 107,339	\$ 32,797
2009	112,089	28,047
2010	116,960	23,177
2011	122,042	18,095
2012	127,313	12,823
2013-2014	201,788	8,746
	<u>\$ 787,531</u>	<u>\$ 123,685</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2007

k. Installment Loan

In December 2002, the Town entered into a sewer asset purchase agreement with Richard Goodman. The agreement obligates the Town to pay \$8,000 to Mr. Goodman on December 31 each year through the year 2014. The agreement states that no interest shall accrue for each payment except that each payment that is past due shall bear interest at 8% per year from the date such payment was due.

The future minimum payments as of June 30, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 16,000	\$ -
2009	8,000	-
2010	8,000	-
2011	8,000	-
2012	8,000	-
2013-2014	16,000	-
	<u>\$ 64,000</u>	<u>\$ -</u>

l. 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, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 69,700	\$ 5,227
	<u>\$ 69,700</u>	<u>\$ 5,227</u>

At June 30, 2007 the Town of Harrisburg, North Carolina had a legal debt margin of \$88,203,779.

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2007

m. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment loans	\$ 506,961	\$ 1,466,151	\$ 118,018	\$ 1,855,094	\$ 589,888
Compensated absences	-	63,635	-	63,635	63,635
Governmental activities long-term liabilities	506,961	1,529,786	118,018	1,918,729	653,523
Business type activities:					
Installment loans	890,394	72,000	110,863	851,531	123,339
General obligation bonds	132,700	-	63,000	69,700	69,700
Compensated absences	-	29,111	-	29,111	29,111
Business-type activities long-term liabilities	\$ 1,023,094	\$ 101,111	\$ 173,863	\$ 950,342	\$ 222,150

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2007, 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 \$ 840,112

From the General Fund to the Water and Sewer Fund \$ 719

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. On-Behalf Of Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2007, the Town of Harrisburg has recognized on-behalf of payments for pension contributions made by the State as revenue and an expenditure of \$5,847 for the volunteer and employed firemen who perform firefighting duties for the Town's fire department. The volunteers elected to be members of the Firemen and Rescue Squad Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

E. 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 \$1,257 to the Council during the fiscal year ended June 30, 2007.

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, 2007, the Town purchased sewer transportation services amounting to \$488,250 from WSACC. At June 30, 2007, \$94,699 was due to WSACC and is reflected in accounts payable of the Water and Sewer Fund.

F. 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.

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. Merger of Harrisburg Volunteer Fire Department

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 \$3,588,086 and liabilities of \$1,500,512 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 Year Ended June 30, 2007

Revenues	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Ad valorem taxes			
Taxes		\$ 2,275,399	
Penalties and interest		8,188	
Total	<u>\$ 2,295,069</u>	<u>2,283,587</u>	<u>\$ (11,482)</u>
Other taxes and licenses			
Privilege licenses		1,630	
Total	<u>2,400</u>	<u>1,630</u>	<u>(770)</u>
Unrestricted intergovernmental			
Local option sales tax		525,043	
Excise tax on piped natural gas		78,291	
Franchise tax on electric power		256,024	
Sales tax on telecommunication service		61,978	
Sales tax on video programming		22,064	
Beer and wine tax		24,632	
Total	<u>928,814</u>	<u>968,032</u>	<u>39,218</u>
Restricted intergovernmental			
Powell Bill allocation		181,326	
Fire taxes		909,431	
Fire Department staffing grant - Cabarrus County		25,000	
EMS grant		1,000	
SAFER grant		47,240	
On-behalf of payments - Fire		5,847	
Total	<u>1,271,325</u>	<u>1,169,844</u>	<u>(101,481)</u>
Investment earnings	<u>65,000</u>	<u>120,859</u>	<u>55,859</u>
Permits and fees			
Compliance permits		25,220	
Zoning citation		25	
Vision Cable franchise fee		39,527	
Total	<u>85,515</u>	<u>64,772</u>	<u>(20,743)</u>
Sales and services			
Parks and Recreation fees		20,698	
Fire Department fees		5,690	
Total	<u>\$ 21,800</u>	<u>\$ 26,388</u>	<u>\$ 4,588</u>

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, 2007

Revenues	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Miscellaneous			
Miscellaneous	\$ 2,000	\$ 6,223	\$ 4,223
Newsletter Ads	44,000	46,856	2,856
July 4th celebration	33,000	46,292	13,292
HYA subsidy	10,000	7,500	(2,500)
Sale of property-fire department	8,000	-	(8,000)
State tax refund	8,000	-	(8,000)
Donations	2,000	2,188	188
Total	<u>107,000</u>	<u>109,059</u>	<u>2,059</u>
Total revenues	<u>\$ 4,776,923</u>	<u>\$ 4,744,171</u>	<u>\$ (32,752)</u>

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, 2007

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
General government			
Administration			
Mayor and council salaries		\$ 40,800	
Salaries and employee benefits-adminstrative employees		474,050	
Office expense			
Office supplies		9,620	
Postage		8,787	
Advertising		4,439	
Software contract		1,000	
Computer technical service		2,448	
Annual audit		6,250	
Sound system/video projector		1,544	
Equipment rental-copier		8,229	
Printing		7,430	
Operations			
Building/cam		21,794	
Utilities		133,313	
Equipment rental		583	
Equipment		2,040	
Grounds and maintenance		29,719	
Miscellaneous		19,363	
Legal expenses		26,115	
Decorations, pictures, etc.		500	
Economic enhancement		250	
Dues and subscriptions		9,716	
Insurance and bonds		23,120	
Training		1,452	
Travel		6,025	
Vision Dev. Small Groups		2,000	
Capital outlay		14,052	
Newsletter			
Salaries and benefits		25,190	
Miscellaneous		8,423	
Printing		18,319	
Public Relations			
Website		3,160	
Cabarrus Arts Council		2,000	
Economic Development Commission		5,296	
Employee relations		4,888	
Community survey		\$ 7,150	

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, 2007

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Municipal zoning			
Salaries and benefits		\$ 49,315	
Office equipment		607	
Clothing		639	
Training		55	
Travel		396	
Auto supplies		2,329	
Zoning vehicle		611	
Miscellaneous		1,711	
Capital outlay		20,440	
Planning and zoning			
Salaries and benefits		28,722	
County contract		22,500	
Advertising		4,418	
Miscellaneous		1,271	
Legal expenses		13,570	
	<u> </u>	<u> </u>	<u> </u>
Total general government	<u>\$ 1,211,715</u>	<u>\$ 1,075,649</u>	<u>\$ 136,066</u>

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, 2007

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Public safety			
Police department			
County contract		\$ 341,973	
Auto supplies		12,934	
Maintenance and repairs		9,665	
Police equipment		8,231	
Deputies fuel		28,338	
Capital outlay		44,240	
		<u> </u>	<u> </u>
Total police department	<u>\$ 505,326</u>	<u>445,381</u>	<u>\$ 59,945</u>
Fire department			
Salaries and benefits		1,187,143	
Insurance and bonds		12,249	
Workers compensation		66,194	
On-behalf of pension payments		5,847	
Audit and payroll service		9,944	
Office supplies		4,633	
Postage and shipping		341	
Printing		1,715	
Telecommunications		19,393	
Building grounds and maintenance		21,259	
Maintenance supplies		3,164	
Equipment purchases		51,142	
Hydrant supplies		566	
Utilities		17,286	
Computer support		2,446	
Equipment rental-copier		3,180	
Reserves		14,541	
Medical supplies		8,046	
Physicals		17,608	
Clothing allowances		38,305	
Travel and supplies		1,344	
Fire equipment maintenance		10,347	
Training		7,121	
Training supplies		2,149	
Public education		1,845	
Dues and subscriptions		8,376	
Vehicle supplies		30,478	
Vehicle maintenance		41,163	
Casualty repair		3,669	
EMS equipment		1,000	
Educational expenses		7,228	
Travel		905	
Capital outlay		204,262	
		<u> </u>	<u> </u>
Total fire department	<u>1,633,452</u>	<u>1,804,889</u>	<u>(171,437)</u>
Total public safety	<u>\$ 2,138,778</u>	<u>\$ 2,250,270</u>	<u>\$ (111,492)</u>

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, 2007

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Transportation			
Streets and highways			
Street maintenance		\$ 319,811	
Signs		3,849	
Sidewalk construction		21,326	
MPO contribution		591	
Capital outlay		30,732	
Total transportation	<u>\$ 683,691</u>	<u>376,309</u>	<u>\$ 307,382</u>
Environmental protection			
Sanitation contract		419,954	
Total environmental protection	<u>421,925</u>	<u>419,954</u>	<u>1,971</u>
Cultural and recreational			
Parks and recreation			
Salaries and benefits		37,797	
Programs (dance, yoga, arts)		20,837	
July 4th celebration		83,367	
Auxiliary equipment and improvements		19,446	
Grounds and maintenance		33,864	
Special Events			
Christmas tree event		11,136	
Senior Olympics		1,000	
Library			
Exterior maintenance		14,850	
Total cultural and recreational	<u>\$ 220,608</u>	<u>\$ 222,297</u>	<u>\$ (1,689)</u>

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, 2007

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service			
Principal retirement	\$ 317,257	\$ 118,018	\$ 199,239
Interest	<u>17,422</u>	<u>77,889</u>	<u>(60,467)</u>
Total debt service	<u>334,679</u>	<u>195,907</u>	<u>138,772</u>
Total expenditures	<u>5,011,396</u>	<u>4,540,386</u>	<u>471,010</u>
Revenues over (under) expenditures	<u>(234,473)</u>	<u>203,785</u>	<u>438,258</u>
Other financing sources (uses)			
Contribution-Friends of the Library	-	847	847
Contribution received-Fire Department	-	590,380	590,380
Proceeds from borrowing	-	23,612	23,612
Transfers to other funds			
Stallings Rd Park Capital Project Fund	(900,000)	(840,112)	59,888
Fund balance appropriated	<u>1,134,473</u>	<u>-</u>	<u>(1,134,473)</u>
Total other financing sources (uses)	<u>234,473</u>	<u>(225,273)</u>	<u>(459,746)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(21,488)</u>	<u>\$ (21,488)</u>
Fund balances			
Beginning, of year		<u>2,383,695</u>	
Fund balance, end of year		<u>\$ 2,362,207</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 Year Ended June 30, 2007

	Project Authorization	Actual		Total to Date	Variance Favorable (Unfavorable)
		Prior Years	Current Year		
Revenues					
PARTF grant income	\$ 500,000	\$ -	\$ 450,128	\$ 450,128	(49,872)
Revenues	500,000	-	450,128	450,128	(49,872)
Expenditures					
Contractor	844,818	-	794,699	794,699	50,119
Engineering	64,000	15,313	44,593	59,906	4,094
Contingency	42,240	-	820	820	41,420
Land	405,600	405,600	-	405,600	-
Appraisal	600	-	-	-	600
Total expenditures	1,357,258	420,913	840,112	1,261,025	96,233
Revenues over (under) expenditures	(857,258)	(420,913)	(389,984)	(810,897)	46,361
Other financing sources (uses)					
Installment purchase obligations issued	405,600	405,600	-	405,600	-
Transfer from General Fund	451,658	15,313	840,112	855,425	403,767
Total other financing sources (uses)	857,258	420,913	840,112	1,261,025	403,767
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	450,128	\$ 450,128	\$ 450,128
Fund balance, beginning of year			-		
Fund balance, end of year			\$ 450,128		

TOWN OF HARRISBURG, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES-
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues			
Charges for services:			
Water sales		\$ 1,604,826	
Sewer sales		1,330,188	
Set up fee		23,470	
Penalty		39,951	
Meters and connections		69,127	
		<u> </u>	<u> </u>
Total	<u>\$ 2,771,017</u>	<u>3,067,562</u>	<u>\$ 296,545</u>
Water and sewer taps	<u>1,300,522</u>	<u>747,790</u>	<u>(552,732)</u>
Other operating revenues:			
Miscellaneous	<u>6,000</u>	<u>17,186</u>	<u>11,186</u>
Total other operating revenues	<u>6,000</u>	<u>17,186</u>	<u>11,186</u>
Total operating revenues	<u>4,077,539</u>	<u>3,832,538</u>	<u>(245,001)</u>
Nonoperating revenues:			
Investment earnings	<u>50,000</u>	<u>102,956</u>	<u>52,956</u>
Total nonoperating revenues	<u>50,000</u>	<u>102,956</u>	<u>52,956</u>
Total revenues	<u>\$ 4,127,539</u>	<u>\$ 3,935,494</u>	<u>\$ (192,045)</u>

TOWN OF HARRISBURG, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES-
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Water treatment and distribution and waste water collection:			
Salaries and employee benefits		\$ 990,922	
Office supplies		7,578	
Postage		21,639	
Advertising		3,842	
Utilities		56,240	
Equipment truck maintenance		19,454	
Repair and maintenance		233,319	
Small equipment		1,987	
Legal		2,830	
Clothing expense		23,824	
Fuel		46,733	
Safety and training		17,269	
Training		6,374	
Travel		3,992	
Water purchases		1,091,771	
Sewer transport and treatment		488,250	
Grounds and maintenance		4,781	
Computer contract and service		4,500	
Computer technical service		585	
Annual maintenance-folder/mailer		1,346	
Dues and subscriptions		4,062	
Insurance		39,665	
Sewer inspection fee		8,730	
Miscellaneous		11,629	
Printing		6,033	
Engineering		35,243	
Audit		6,250	
Radio read meter conversion		59,850	
Stormwater management		37,682	
	<hr/>	<hr/>	<hr/>
Total water treatment and distribution and waste water collection	<u>\$ 3,231,134</u>	<u>\$ 3,236,380</u>	<u>\$ (5,246)</u>

TOWN OF HARRISBURG, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES-
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement	\$ 173,864	173,864	\$ -
Interest expense	59,000	47,213	11,787
Total debt service	<u>232,864</u>	<u>221,077</u>	<u>11,787</u>
Capital outlay:			
Equipment	1,150,859	898,625	252,234
Total capital outlay	<u>1,150,859</u>	<u>898,625</u>	<u>252,234</u>
Total expenditures	<u>4,614,857</u>	<u>4,356,082</u>	<u>258,775</u>
Revenues over (under) expenditures	<u>(487,318)</u>	<u>(420,588)</u>	<u>66,730</u>
Other financing sources (uses):			
Proceeds from borrowing	-	72,000	72,000
Capital recovery-water line	-	140,755	140,755
Transfer to other fund	(12,682)	-	12,682
Fund balance appropriated	500,000	-	(500,000)
Total other financing sources (uses)	<u>487,318</u>	<u>212,755</u>	<u>(274,563)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(207,833)</u>	<u>\$ (207,833)</u>

TOWN OF HARRISBURG, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES-
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues over (under) expenditures		(207,833)	
Reconciling items			
Principal retirement		173,864	
Capital outlay		898,625	
Change in accrued interest expense		(393)	
Change in accrued compensated absences		(29,111)	
Depreciation		(438,033)	
Proceeds from borrowing		(72,000)	
Total reconciling items		532,952	
Net income (loss)		\$ 325,119	

TOWN OF HARRISBURG, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2007

Fiscal Year	Uncollected Balance June 30, 2006	Additions	Collections and Credits	Uncollected Balance June 30, 2007
2006-2007		\$ 2,350,864	\$ 2,262,363	\$ 88,501
2005-2006	\$ 31,893	-	13,252	18,641
2004-2005	7,252	-	1,856	5,396
2003-2004	7,803	-	773	7,030
2002-2003	28,954	-	6,654	22,300
2001-2002	213	-	(10)	223
2000-2001	234	-	(2)	236
1999-2000	940	-	25	915
1998-1999	273	-	(3)	276
1997-1998	26	-	-	26
1996-1997	174	-	174	-
	<u>\$ 77,762</u>	<u>\$ 2,350,864</u>	<u>\$ 2,285,082</u>	143,544
Plus: uncollected 2006-2007 ad valorem taxes receivable on annually registered vehicles				10,960
Less allowance for uncollectible accounts: General Fund				<u>15,931</u>
Ad valorem taxes receivable-net				<u><u>138,573</u></u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				2,283,587
Reconciling items				
Interest collected				(8,188)
Discounts allowed				-
Taxes written off				<u>9,683</u>
Total collections and credits				<u><u>\$ 2,285,082</u></u>

TOWN OF HARRISBURG, NORTH CAROLINA
 ANALYSIS OF CURRENT TAX LEVY
 TOWN-WIDE LEVY
 For the Year Ended June 30, 2007

	Town-wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 1,093,420,476	0.210	\$ 2,296,183	\$ 2,155,062	\$ 141,121
Registered motor vehicles taxed at prior year's rate	35,240,523	0.135	47,613	-	47,613
Penalties	-		3,009	3,009	-
Total	1,128,660,999		2,346,805	2,158,071	188,734
Discoveries:					
Current year taxes at prior year's rate	6,748,890	0.135	9,111	6,675	2,436
Penalties	-		235	235	-
Total	6,748,890		9,346	6,910	2,436
Abatements	(3,916,290)		(5,287)	(2,988)	(2,299)
Total property valuation	\$ 1,131,493,599				
Net levy			2,350,864	2,161,993	188,871
Uncollected taxes at June 30, 2007			88,501	69,159	19,342
Current year's taxes collected			\$ 2,262,363	\$ 2,092,834	\$ 169,529
Current levy collection percentage			96.24%	96.80%	89.76%

SHERRILL & SMITH, CPAs, PA

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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

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, 2007, which collectively comprises the Town of Harrisburg's basic financial statements, and have issued our report thereon dated October 30, 2007. 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 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 Harrisburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A 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.

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 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town of Harrisburg in a separate letter dated October 30, 2007.

This report is intended solely for the information and use of 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 & Smith, CPAs, PA

October 30, 2007

SHERRILL & SMITH, CPAs, PA

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

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

Compliance

We have audited the compliance of the Town of Harrisburg, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2007. The Town of Harrisburg's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Harrisburg's management. Our responsibility is to express an opinion on the Town of Harrisburg's compliance based on our audit.

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

In our opinion, the Town of Harrisburg complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Town of Harrisburg is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Harrisburg's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of a compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the Town's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the 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 & Smith, CPAs, PA

October 30, 2007

TOWN OF HARRISBURG, NORTH CAROLINA
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended June 30, 2007

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-Through Grantor's Number	Fed. (Direct & Pass-through Expenditures	State Expenditures
Federal Grants				
Cash Program:				
<u>U.S. Dept. of Homeland Security</u>				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2006-FF-04659	\$ 47,240	
State Grants				
Cash Program:				
<u>N.C. Department of Environment and Natural Resources</u>				
N.C. Parks & Recreation Trust Fund (PARTF)		P06020		\$ 450,128
<u>N. C. Department of Transportation</u>				
Powell Bill	N/A	9.90000	<u> </u>	<u>376,309</u>
Total Federal and State Assistance Programs			<u>\$ 47,240</u>	<u>\$ 826,437</u>

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Harrisburg, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the government-wide financial statements.

Town of Harrisburg, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___yes ___X no
- Significant Deficiency(s) identified
that are not considered to be
material weaknesses ___yes X none reported

Noncompliance material to financial
statements noted ___yes X no

Federal Awards

No Federal programs for the Town of Harrisburg meet the criteria to be considered a major program.

State Awards

Internal control over major State programs:

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

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

Any audit findings disclosed that are
required to be reported in accordance
with the State Single Audit
Implementation Act ___yes X no

Identification of major State programs:

P06020	PARTF Grant
9.90000	Powell Bill

Town of Harrisburg, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2007

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

Section II – Financial Statement Findings

None Reported

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV – State Award Findings and Questioned Costs

None reported.

Town of Harrisburg, North Carolina
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2007

There were no prior year audit findings.

