

TOWN OF HARRISBURG
NORTH CAROLINA

FINANCIAL STATEMENTS
Year Ended June 30, 2008

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

Town of Harrisburg
Table of Contents
June 30, 2008

<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	22-40

Town of Harrisburg
Table of Contents
June 30, 2008

	<u>Page</u>
Individual Fund Statements and Schedules:	
Statement of Revenues, Expenditure, and Changes in Fund Balances – Budget and Actual – General Fund	41-47
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Stallings Park Road Capital Project Fund	48
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Water and Sewer Fund	49-52
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable – General Fund	53
Analysis of Current Tax Levy	54
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>	55-57

SHERRILL & SMITH, CPAs, PA

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Harrisburg, North Carolina as of and for the year ended June 30, 2008, 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 respective 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2008 on our consideration of the Town of Harrisburg, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.



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

Sherrill and Smith, CPAs, PA

November 21, 2008

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, 2008. 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

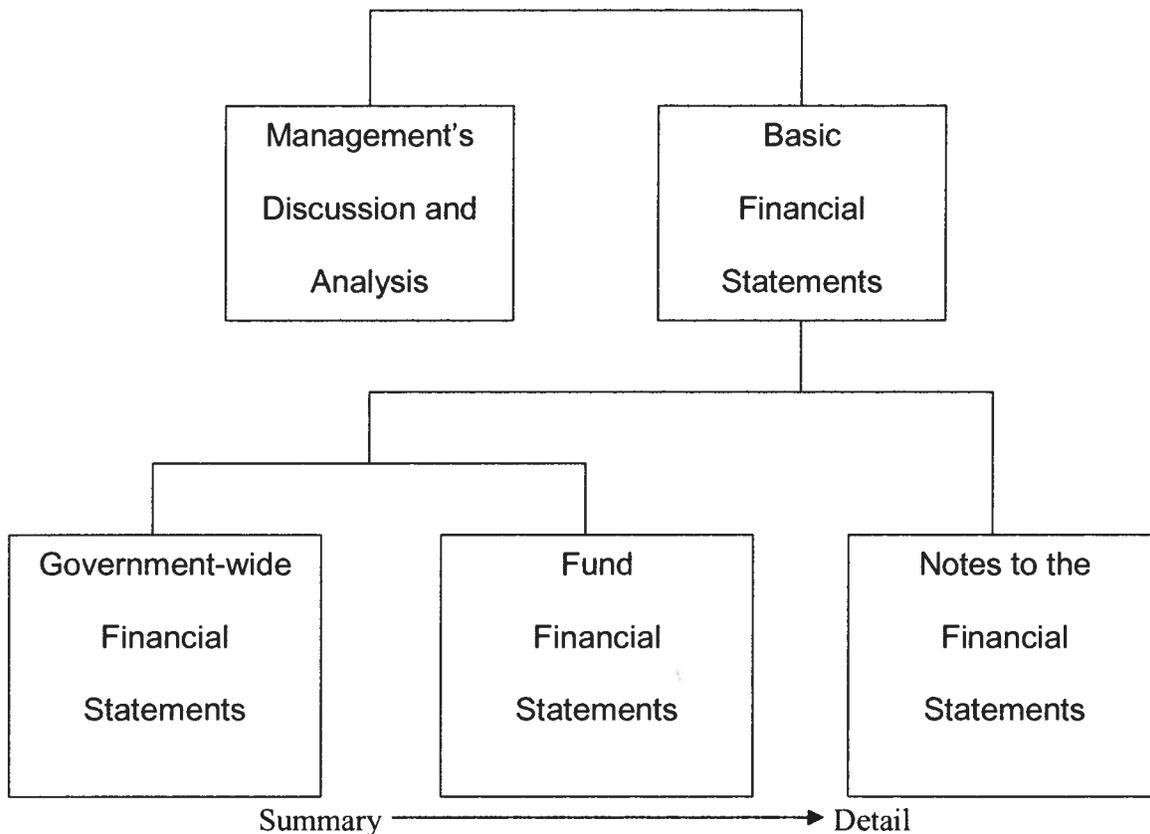
- The assets of the Town of Harrisburg exceeded its liabilities at the close of the fiscal year by \$19,243,781 (*net assets*).
- As of the close of the current fiscal year, the Town of Harrisburg's governmental funds reported combined ending fund balances of \$1,427,103, a decrease of \$1,385,232 in comparison with the prior year. Approximately 51.1 percent of this total amount, or \$729,715, 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 \$729,715, or 9.7 percent of total general fund expenditures for the fiscal year.
- The Town of Harrisburg's total debt increased by \$1,120,870 (40.3 %) during the current fiscal year. The key factor in this increase was an installment loan to purchase the remainder of the Town Hall property.
- At June 30, 2008, the Town of Harrisburg had a legal debt margin of \$99,667,105.

Overview of the Financial Statements

This Management Discussion & Analysis is intended to serve as an introduction to the Town of Harrisburg's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Harrisburg.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Town Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to 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 98% of the annual revenues.

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

Fund Financial Statements

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

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

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

Management Discussion and Analysis Town of Harrisburg

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 21 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 2,181,556	\$ 3,383,473	\$ 1,347,653	\$ 2,299,433	\$ 3,529,209	\$ 5,682,906
Capital assets	10,565,436	5,794,455	10,195,370	9,131,421	20,760,806	14,925,876
Total assets	12,746,992	9,177,928	11,543,023	11,430,854	24,290,015	20,608,782
Long-term liabilities outstanding	2,568,088	1,918,729	596,936	950,342	3,165,024	2,869,071
Other liabilities	1,220,441	410,706	660,769	448,496	1,881,210	859,202
Total liabilities	3,788,529	2,329,435	1,257,705	1,398,838	5,046,234	3,728,273
Net assets:						
Invested in capital assets, net of related debt	7,396,495	3,875,726	9,467,114	8,210,190	16,863,609	12,085,916
Restricted	258,486	354,532	-	-	258,486	354,532
Unrestricted	1,303,482	2,618,235	818,204	1,821,826	2,121,686	4,440,061
Total net assets	\$ 8,958,463	\$ 6,848,493	\$ 10,285,318	\$ 10,032,016	\$ 19,243,781	\$ 16,880,509

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 \$19,243,781 as of June 30, 2008. The Town's net assets increased by \$1,523,160 for the fiscal year ended June 30, 2008. However, the largest portion (87.6%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of 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 (1.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,121,686 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a current levy collection percentage of 97.64 %, which is comparable to the statewide average of 97.41%.
- Increased revenues from franchise taxes, sales taxes, vehicle levy, increased interest income and compliance permits, due to economic growth in the town.
- Unrestricted net asset decreased due to resources provided for capital projects. However, in total net assets increased due to capital projects being completed and capitalized and capital assets donated.

Management Discussion and Analysis
Town of Harrisburg

- Business-type activities operating costs are minimized by purchase of water from the City of Concord, which eliminates the need for operation costs of a water production and treatment facility.
- All sewer transport and treatment service is provided under contract by the Water and Sewer Authority of Cabarrus County, thus locking in a rate for services without the overhead of a treatment plant.

Town of Harrisburg Changes in Net Assets
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program revenues:						
Charges for services	\$ 82,580	\$ 91,160	\$ 3,610,764	\$ 3,832,538	\$ 3,693,344	\$ 3,923,698
Operating grants and contributions	1,066,303	1,170,691	-	-	1,066,303	1,170,691
Capital grants and contributions	1,225,796	2,537,702	-	140,755	1,225,796	2,678,457
General revenues:						
Property taxes	2,666,810	2,357,856	-	-	2,666,810	2,357,856
Other taxes and licenses	3,396	1,630	-	-	3,396	1,630
Grants and contributions not restricted to specific programs	1,147,459	968,033	599,676	-	1,747,135	968,033
Other	208,317	229,915	70,751	102,956	279,068	332,871
Transfers	20,549	-	(20,549)	-	-	-
Total revenues	6,421,210	7,356,987	4,260,642	4,076,249	10,681,852	11,433,236
Expenses:						
General government	1,227,514	1,069,091	-	-	1,227,514	1,069,091
Public safety	2,627,172	2,224,875	-	-	2,627,172	2,224,875
Transportation	276,374	353,030	-	-	276,374	353,030
Environmental protection	540,935	429,261	-	-	540,935	429,261
Cultural and recreation	399,832	1,125,391	-	-	399,832	1,125,391
Interest on long-term debt	79,525	77,889	-	-	79,525	77,889
Water and sewer	-	-	4,007,340	3,751,130	4,007,340	3,751,130
Total expenses	5,151,352	5,279,537	4,007,340	3,751,130	9,158,692	9,030,667
Increase in net assets	1,269,858	2,077,450	253,302	325,119	1,523,160	2,402,569
Net assets, July 1	6,848,493	4,771,043	10,032,016	9,706,897	16,880,509	14,477,940
Prior period adjustment- correction of an error	840,112	-	-	-	840,112	-
Net assets, June 30	\$ 8,958,463	\$ 6,848,493	\$ 10,285,318	\$ 10,032,016	\$ 19,243,781	\$ 16,880,509

Governmental activities. Governmental activities increased the Town's net assets by \$1,269,858 (83.4% of total net asset growth) primarily due to capital assets donated amounting to \$1,175,924.

Business-type activities: Business-type activities increased the Town of Harrisburg's net assets by \$253,302 (16.6% of total net asset growth). Key elements of this increase are as follows:

- Mostly due to expenses coming in below budgeted amounts.

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 \$729,715, while total fund balance reached \$1,427,103. 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 9.7 percent of total General Fund expenditures of \$7,528,970, while total fund balance represents 18.9 percent of that same amount.

At June 30, 2008, the governmental funds of the Town of Harrisburg reported a combined fund balance of \$1,427,103 with a net decrease in fund balance of \$1,385,232. Included in this decrease in fund balance are decreases in both the General and Capital Projects funds. The decrease in Capital Projects represents completion of Stallings Road Park and transfer to capital assets; the General fund decrease was planned for as the budget appropriated fund balance in the amount of \$1,047,852 and the actual deficit was less (\$935,104).

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 more (1.9%) than the budgeted amounts anticipated. Expenditures were over budget in many categories, particularly in General Government, Public Safety, Cultural and Recreational, and Debt Service. These over expenditures occurred because of large capital outlay expenditures and related debt expenditures for which no sufficient additional budgetary appropriations were made. The expenditures made in the Town's Stallings Road Capital Projects Fund exceeded the authorized appropriations made by the governing board. This was the result of the cost of construction being more than the original anticipated costs and no amendments being made to the capital projects ordinance to authorize them.

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 \$818,204. The total change in net assets for the fund was \$253,302.

Revenues in the Water and Sewer fund were less than budgeted (\$807,119). Expenditures were under budget in water treatment and distribution, but over in debt service and capital outlay. In total, the water and Sewer fund expenditures were under budget. The over expenditures in the Water and Sewer fund were the result of capital outlay expenditure being budgeted as non-capital expenditures.

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, 2008, totals \$20,760,806 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, water and sewer facilities and vehicles. Major additions during the year were water and sewer facilities, Town Hall facilities and Stallings Road Park.

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Construction in progress	\$ 151,278	\$ 989,781	\$ 72,751	\$ 72,751	\$ 224,029	\$ 1,062,532
Land	1,173,115	1,173,115	459,753	159,753	1,632,868	1,332,868
Buildings and system	3,811,474	2,177,913	39,806	16,414	3,851,280	2,194,327
Improvements other than buildings	2,189,709	670,169	-	-	2,189,709	670,169
Machinery and equipment	1,993,465	1,623,590	496,816	447,291	2,490,281	2,070,881
Infrastructure	1,246,395	-	9,126,244	8,435,213	10,372,639	8,435,213
Total	\$ 10,565,436	\$ 6,634,568	\$ 10,195,370	\$ 9,131,422	\$ 20,760,806	\$ 15,765,990

Additional information on the Town’s Capital Assets can be found in Note III.A.3 of the basic financial statements.

Management Discussion and Analysis
Town of Harrisburg

Long-term Debt. As of June 30, 2008, the Town of Harrisburg had total long term outstanding obligations of \$3,897,195. All of the debt is installment debt, which is secured by the related assets.

General Obligation and Installment Loans

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ -	\$ -	\$ -	\$ 69,700	\$ -	\$ 69,700
Installment Loans	3,168,940	1,855,094	728,255	851,531	3,897,195	2,706,625
Total	\$ 3,168,940	\$ 1,855,094	\$ 728,255	\$ 921,231	\$ 3,897,195	\$ 2,776,325

Town of Harrisburg’s Outstanding Debt

The Town of Harrisburg’s total debt increased by \$1,120,870 (40.3%) during the past fiscal year, primarily due the in the amount of \$1,050,000 for purchase of the remaining Town Hall facility.

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 \$96,667,105.

Additional information on the Town’s Long Term Debt can be found in Note III.B.6 of the basic financial statements

Economic Factors and Next Year’s Budgets and Rates

- It is anticipated that new housing starts will be down for the coming year.
- We do not expect any significant development projects due to the economic decline.
- It is projected that water and sewer rates will have to be increased to cover the cost of a comprehensive water and sewer modeling study to evaluate current infrastructure.

Administrative Changes

Subsequent to year end, the Town has hired a new Town Administrator, Mr. Joel Davis, to oversee the operation of the Town. Since he has assumed his duties with the Town, Mr. Davis has taken various steps to strengthen the Town’s internal controls over financial matters and has implemented new procedures to help safeguard the Town’s assets. In response to the need to improve the Town’s financial records, the Town is seeking a finance officer to fill a newly created position.

Management Discussion and Analysis
Town of Harrisburg

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, Joel A. Davis, 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, 2008

Exhibit 1

Assets	Primary Government		Total
	Governmental Activities	Business-type Activities	
Current assets:			
Cash and cash equivalents	\$ 1,559,787	\$ 1,048,527	\$ 2,608,314
Taxes receivable (net)	153,139	-	153,139
Accrued interest receivable	29,727	-	29,727
Accounts receivable (net)	33,435	289,701	323,136
Due from other governments	399,783	-	399,783
Internal balances	(9,425)	9,425	-
Prepaid expenses	15,110	-	15,110
Total current assets	2,181,556	1,347,653	3,529,209
Capital assets:			
Land, non-depreciable improvements, and construction in progress	1,324,393	532,504	1,856,897
Other capital assets, net of depreciation	9,241,043	9,662,866	18,903,909
Total capital assets	10,565,436	10,195,370	20,760,806
Total assets	12,746,992	11,543,023	24,290,015
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	206,644	141,046	347,690
Performance bond deposits	324,565	-	324,565
Unearned revenue	40,379	-	40,379
Customer deposits	-	172,123	172,123
Refundable tap fees	-	200,000	200,000
Current portion of long-term liabilities	602,046	133,844	735,890
Long-term liabilities:			
Due in more than one year	2,614,895	610,692	3,225,587
Total liabilities	3,788,529	1,257,705	5,046,234
Net Assets			
Invested in capital assets, net of related debt	7,396,495	9,467,114	16,863,609
Restricted for:			
Reserved for other purposes	258,486	-	258,486
Unrestricted	1,303,482	818,204	2,121,686
Total net assets	\$ 8,958,463	\$ 10,285,318	\$ 19,243,781

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 1,227,514	\$ 6,554	\$ -	\$ -	\$ (1,220,960)	\$ -	\$ (1,220,960)
Public safety	2,627,172	36,255	845,952	-	(1,744,965)	-	(1,744,965)
Transportation	276,374	-	208,888	1,175,924	1,108,438	-	1,108,438
Environmental protection	540,935	-	-	-	(540,935)	-	(540,935)
Cultural and recreational	399,832	39,771	11,463	49,872	(298,726)	-	(298,726)
Interest on long-term debt	79,525	-	-	-	(79,525)	-	(79,525)
Total governmental activities (See Note 1)	5,151,352	82,580	1,066,303	1,225,796	(2,776,673)	-	(2,776,673)
Business-type activities:							
Water and sewer	4,007,340	3,610,764	-	-	-	(396,576)	(396,576)
Total business-type activities	4,007,340	3,610,764	-	-	-	(396,576)	(396,576)
Total primary government	\$ 9,158,692	\$ 3,693,344	\$ 1,066,303	\$ 1,225,796	(2,776,673)	(396,576)	(3,173,249)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					2,666,810	-	2,666,810
Other taxes and licenses					3,396	-	3,396
Grants and contributions not restricted to specific programs					1,147,459	599,676	1,747,135
Unrestricted investment earnings					77,657	70,751	148,408
Transfers					20,549	(20,549)	-
Miscellaneous					130,660	-	130,660
Total general revenues and transfers					4,046,531	649,878	4,696,409
Change in net assets					1,269,858	253,302	1,523,160
Net assets, beginning					6,848,493	10,032,016	16,880,509
Prior period adjustment-See note V					840,112	-	840,112
Net assets, beginning, as restated					7,688,605	10,032,016	17,720,621
Net assets, ending					\$ 8,958,463	\$ 10,285,318	\$ 19,243,781

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

TOWN OF HARRISBURG, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

Exhibit 3

Assets	General	Stallings Rd Park Project	Totals Governmental Funds
	General	Stallings Rd Park Project	Totals Governmental Funds
Cash and cash equivalents	\$ 1,559,787	\$ -	\$ 1,559,787
Receivables, net:			
Property taxes	153,139	-	153,139
Sales and use taxes	33,435	-	33,435
Due from other governments	399,783	-	399,783
Prepaid expenses	15,110	-	15,110
 Total assets	 2,161,254	 -	 2,161,254
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	206,643	-	206,643
Performance bonds on deposit	324,565	-	324,565
Due to other funds	9,425	-	9,425
Deferred revenue	153,139	-	153,139
Unearned revenue	40,379	-	40,379
 Total liabilities	 734,151	 -	 734,151
 Fund balances			
Reserved by State statute	423,792	-	423,792
Reserved for streets-Powell Bill	258,486	-	258,486
Reserved for deposits and prepaids	15,110	-	15,110
Unreserved, General Fund	729,715	-	729,715
Unreserved, reported in:			
Capital project fund	-	-	-
 Total fund balances	 1,427,103	 -	 1,427,103
 Total liabilities and fund balances	 \$ 2,161,254	 \$ -	

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	\$ 11,717,020	
Accumulated depreciation	(1,151,584)	10,565,436

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. 29,727

Liabilities for earned but deferred revenue in fund statements 153,139

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. (3,216,942)

Net assets of governmental activities \$ 8,958,463

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

Exhibit 4

	General Fund	Stallings Rd Park Project	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 2,644,375	\$ -	\$ 2,644,375
Other taxes and licenses	3,396	-	3,396
Unrestricted intergovernmental	1,147,459	-	1,147,459
Restricted intergovernmental	1,054,841	49,872	1,104,713
Investment earnings	77,657	-	77,657
Permits and fees	41,559	-	41,559
Sales and services	41,021	-	41,021
Miscellaneous	156,492	-	156,492
Total revenues	5,166,800	49,872	5,216,672
Expenditures:			
Current			
General government	2,889,450	-	2,889,450
Public safety	3,082,155	-	3,082,155
Transportation	325,670	-	325,670
Environmental protection	527,312	-	527,312
Cultural and recreational	336,331	-	336,331
Debt service			
Principal retirement	288,527	-	288,527
Interest	79,525	-	79,525
Capital outlay	-	707,319	707,319
Total expenditures	7,528,970	707,319	8,236,289
Excess (deficiency) of revenues over expenditures	(2,362,170)	(657,447)	(3,019,617)
Other financing sources (uses):			
Contributions received	11,463	-	11,463
Proceeds from borrowing	1,602,373	-	1,602,373
Transfer from Water and Sewer Fund	20,549	-	20,549
Transfer between funds	(207,319)	207,319	-
Total other financing sources (uses)	1,427,066	207,319	1,634,385
Net change in fund balance	(935,104)	(450,128)	(1,385,232)
Fund balances, beginning of year	2,362,207	450,128	2,812,335
Fund balance, end of year	\$ 1,427,103	\$ -	\$ 1,427,103

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

Exhibit 4

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

Net changes in fund balances - total governmental funds		\$ (1,385,232)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p>		
Capital outlay expenditures which were capitalized	\$ 3,145,308	
Depreciation expense for governmental assets	<u>(364,531)</u>	2,780,777
<p>Cost of capital asset disposed of during the year, not recognized on modified accrual basis</p>		
		(25,833)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund</p>		
Change in deferred revenue for tax revenues		22,434
Amount of donated assets		1,175,924
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items</p>		
Compensated absences	15,634	
Installment purchase obligations issued	(1,602,373)	
Principal payments on long-term debt	<u>288,527</u>	<u>(1,298,212)</u>
Total changes in net assets of governmental activities		<u>\$ 1,269,858</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, 2008

Exhibit 5

	General Fund			Variance with Final Budget- Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
Revenues:				
Ad valorem taxes	\$2,610,434	\$ 2,610,434	\$ 2,644,375	\$ 33,941
Other taxes and licenses	2,400	2,400	3,396	996
Unrestricted intergovernmental	949,000	949,000	1,147,459	198,459
Restricted intergovernmental	1,147,395	1,147,395	1,054,841	(92,554)
Investment earnings	92,000	92,000	77,657	(14,343)
Permits and fees	90,500	90,500	41,559	(48,941)
Sales and service	33,500	33,500	41,021	7,521
Miscellaneous	144,846	144,846	156,492	11,646
Total revenues	5,070,075	5,070,075	5,166,800	96,725
Expenditures:				
Current				
General government	1,179,130	1,186,090	2,889,450	(1,703,360)
Public safety	2,493,707	2,527,495	3,082,155	(554,660)
Transportation	507,000	496,200	325,670	170,530
Environmental protection	452,000	489,500	527,312	(37,812)
Cultural and recreational	263,735	343,182	336,331	6,851
Debt service				
Principal retirement	149,526	217,576	288,527	(70,951)
Interest	16,590	34,642	79,525	(44,883)
Total expenditures	5,061,688	5,294,685	7,528,970	(2,234,285)
Revenues over (under) expenditures	8,387	(224,610)	(2,362,170)	(2,137,560)
Other financing sources (uses):				
Contributions received	-	-	11,463	11,463
Harrisburg Volunteer Fire Department	96,158	96,158	-	(96,158)
Proceeds from borrowing	-	-	1,602,373	1,602,373
Transfer from other funds	-	-	520,549	520,549
Transfer to other funds	(620,000)	(919,400)	(707,319)	212,081
Fund balance appropriated	515,455	1,047,852	-	(1,047,852)
Total other financing sources (uses)	(8,387)	224,610	1,427,066	1,202,456
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	(935,104)	\$ (935,104)
Fund balances, beginning of year			<u>2,362,207</u>	
Fund balance, end of year			<u>\$ 1,427,103</u>	

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

Exhibit 6

Assets	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
Current Assets:		
Cash and cash equivalents	\$ 1,048,527	\$ 1,048,527
Accounts receivable (net) - customers	252,612	252,612
Accounts receivable (net) - other	37,089	37,089
Due from other funds	<u>9,425</u>	<u>9,425</u>
Total current assets	<u>1,347,653</u>	<u>1,347,653</u>
Capital Assets:		
Land and other non depreciable assets	532,504	532,504
Other capital assets, net of depreciation	<u>9,662,866</u>	<u>9,662,866</u>
Capital assets (net)	<u>10,195,370</u>	<u>10,195,370</u>
Total Assets	<u>11,543,023</u>	<u>11,543,023</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	141,046	141,046
Customer deposits	172,123	172,123
Refundable tap fees	200,000	200,000
Compensated absences-current	13,755	13,755
Installment purchase - current	<u>120,089</u>	<u>120,089</u>
Current liabilities	647,013	647,013
Noncurrent Liabilities		
Compensated absences - non-current	2,525	2,525
Long-term debt - non-current	<u>608,167</u>	<u>608,167</u>
Total liabilities	<u>1,257,705</u>	<u>1,257,705</u>
Net Assets		
Invested in capital assets, net of related debt	9,467,114	9,467,114
Unrestricted	<u>818,204</u>	<u>818,204</u>
Total net assets	<u>\$ 10,285,318</u>	<u>\$ 10,285,318</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, 2008

Exhibit 7

	Water and Sewer Fund	Total Proprietary Funds
	<u> </u>	<u> </u>
Operating revenues:		
Charges for services	\$ 3,118,557	\$ 3,118,557
Water and sewer taps	486,368	486,368
Other operating revenues	5,839	5,839
	<u> </u>	<u> </u>
Total operating revenues	3,610,764	3,610,764
	<u> </u>	<u> </u>
Operating expenses:		
Water treatment and distribution and waste water collection	3,486,702	3,486,702
Depreciation	483,675	483,675
	<u> </u>	<u> </u>
Total operating expenses	3,970,377	3,970,377
	<u> </u>	<u> </u>
Operating income (loss)	(359,613)	(359,613)
	<u> </u>	<u> </u>
Nonoperating revenues (expenses):		
Investment earnings	70,751	70,751
Interest expense	(36,963)	(36,963)
	<u> </u>	<u> </u>
Total nonoperating revenues (expenses)	33,788	33,788
	<u> </u>	<u> </u>
Income (loss) before contributions and transfers	(325,825)	(325,825)
	<u> </u>	<u> </u>
Capital contributions	599,676	599,676
Transfer to other fund	(20,549)	(20,549)
	<u> </u>	<u> </u>
Change in net assets	253,302	253,302
	<u> </u>	<u> </u>
Total net assets, beginning	10,032,016	10,032,016
	<u> </u>	<u> </u>
Total net assets, ending	<u>\$ 10,285,318</u>	<u>\$ 10,285,318</u>

TOWN OF HARRISBURG, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

Exhibit 8

Cash flows from operating activities:	
Cash received from customers	\$ 3,768,265
Cash paid for goods and services	(2,386,466)
Cash paid to employees	(1,133,465)
Customer deposits received and returned	<u>10,624</u>
Net cash provided by (used in) operating activities	<u>258,958</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	<u>(20,549)</u>
Net cash provided by (used in) capital and related financing activities	<u>(20,549)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(775,530)
Principal payments on installment debt	(192,974)
Interest paid on installment debt	<u>(38,185)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,006,689)</u>
Cash flows from investing activities:	
Interest on investments	<u>70,751</u>
Net increase (decrease) in cash and cash equivalents	(697,529)
Cash and cash equivalents at beginning of year	<u>1,746,056</u>
Cash and cash equivalents at end of year	<u><u>1,048,527</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>(359,613)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	483,675
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	157,501
(Increase) decrease in other receivables	111,927
Increase (decrease) in accounts payable and accrued liabilities	(145,156)
Increase (decrease) in customer deposits	<u>10,624</u>
Total adjustments	<u>618,571</u>
Net cash provided by (used in) operating activities	<u><u>\$ 258,958</u></u>

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

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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, 2008

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, 2008

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 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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, 2008

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, 2004. 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, 2008

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:

Asset Class	Estimated Useful Lives
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 45 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, 2008

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.

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

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, 2008, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government, public safety, cultural and recreational, and debt service expenses. These over-expenditures occurred because of large capital outlay expenditures and related debt expenditures for which no sufficient additional appropriations were made. The expenditures made in the Town's Stallings Road Park Capital Project Fund exceeded the authorized appropriations made by the governing board. This was the result of the cost of construction exceeding the original anticipated costs and no amendments being made to the capital project ordinance to authorize them. The expenditures made in the Town's Water and Sewer Fund for capital outlay exceeded the authorized appropriations made by the governing board. This was the result of capital outlay expenditures being budgeted as non-capital expenditures. The total expenditures for the Water and Sewer Fund did not exceed the total amount budgeted. Management and the Board will more closely monitor the budget vs. actual reports to ensure compliance in future years.

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, 2008, the Town's deposits had a carrying amount of \$83,563 and a bank balance of \$203,295 of which \$100,250 was covered by federal depository insurance and \$103,045 was collateralized by securities. At June 30, 2008, the Town's petty cash fund totaled \$775.

2. Investments

At June 30, 2008, the Town of Harrisburg had \$2,523,976 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, 2008

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2008, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,173,115	\$ -	\$ -	\$ 1,173,115
Construction in progress	989,781	744,820	1,583,323	151,278
Total capital assets not being depreciated	2,162,896	744,820	1,583,323	1,324,393
Capital assets being depreciated:				
Other improvements	837,581	1,562,744	-	2,400,325
Buildings	2,396,244	1,698,754	-	4,094,998
Equipment	2,040,067	639,944	41,000	2,639,011
Infrastructure	-	1,258,292	-	1,258,292
Total capital assets being depreciated	5,273,892	5,159,734	41,000	10,392,626
Less accumulated depreciation for:				
Other improvements	167,412	43,204	-	210,616
Buildings	218,331	65,193	-	283,524
Equipment	416,477	244,236	15,167	645,546
Infrastructure	-	11,897	-	11,897
Total accumulated depreciation	802,220	\$ 364,530	\$ 15,167	1,151,583
Total capital assets being depreciated, net	4,471,672			9,241,043
Governmental activity capital assets, net	\$ 6,634,568			\$ 10,565,436

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

General government	\$ 34,787
Public safety	229,186
Transportation	12,494
Environmental protection	13,623
Cultural and recreational	74,440
Total depreciation expense	\$ 364,530

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2008, was as follows-continued:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 72,751	\$ -	\$ -	\$ 72,751
Land and rights of way	159,753	300,000	-	459,753
Total capital assets not being depreciated	232,504	300,000	-	532,504
Capital assets being depreciated:				
Buildings	35,714	24,473	-	60,187
Water lines	6,677,405	530,018	-	7,207,423
Equipment	1,024,933	146,777	-	1,171,710
Interceptors	724,436	-	-	724,436
Collection system	4,374,214	546,355	-	4,920,569
Total capital assets being depreciated	12,836,702	1,247,623	-	14,084,325
Less accumulated depreciation for:				
Buildings	19,300	1,081	-	20,381
Water lines	1,514,111	215,447	-	1,729,558
Equipment	577,643	97,251	-	674,894
Interceptors	336,642	24,148	-	360,790
Collection system	1,490,089	145,747	-	1,635,836
Total accumulated depreciation	3,937,785	\$ 483,674	\$ -	4,421,459
Total capital assets being depreciated, net	8,898,917			9,662,866
Business-type activities capital assets, net	\$ 9,131,421			\$ 10,195,370

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

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, 2008, 2007, and 2006 were \$147,738, \$119,717, and \$61,610, 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	\$ -	\$ 35,555
Prepaid taxes (General Fund)	-	4,824
Taxes receivable (General Fund)	153,139	-
	\$ 153,139	\$ 40,379

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

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	\$ 325,670
Add accounts payable 6-30-07	5,423
Deduct accounts payable 6-30-08	(2,627)
Deduct Non-Powell transportation expenses	<u>(1,184)</u>
Per Powell Bill report	<u><u>\$ 327,282</u></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:

2009	\$ 5,947
2010	<u>4,460</u>
	<u><u>\$ 10,407</u></u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

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, 2008 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 18,482	\$ 15,636
2010	19,440	14,677
2011	20,449	13,668
2012	21,475	12,642
2013	22,624	11,494
2014-2018	131,967	38,620
2019-2020	79,655	5,684
	<u>\$ 314,092</u>	<u>\$ 112,421</u>

b. 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, 2008 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 8,160	\$ 310
2010	2,093	16
	<u>\$ 10,253</u>	<u>\$ 326</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

c. 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, 2008 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	Principal	Interest
2009	\$ 42,720	\$ 14,581
2010	393,602	13,396
	<u>\$ 436,322</u>	<u>\$ 27,977</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 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, 2008 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	Principal	Interest
2009	\$ 25,314	\$ 12,408
2010	26,450	11,272
2011	241,983	3,562
	<u>\$ 293,747</u>	<u>\$ 27,242</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

e. 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, 2008 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2009	\$ 20,202	\$ 6,222
2010	20,921	5,503
2011	21,665	4,759
2012	22,435	3,988
2013	23,233	3,190
2014-2016	78,619	4,510
	<u>\$ 187,075</u>	<u>\$ 28,172</u>

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 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, 2008 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2009	\$ 389	\$ 1
	<u>\$ 389</u>	<u>\$ 1</u>

g. 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, 2009 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, 2008

h. 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, 2008 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	Principal	Interest
2009	\$ 34,018	\$ -
2010	6,964	-
	<u>\$ 40,982</u>	<u>\$ -</u>

i. Installment Loan

In January 2008, the Town borrowed \$1,050,000 from a local financial institution to complete the purchase of a portion of the building that houses the Town Hall. The terms of the loan state that interest will accrue at the rate of 4.28% per annum. Principal and interest payments are payable semi-annually beginning in July 2008 and ending in January 2023. The debt is secured by the property.

The future minimum payments as of June 30, 2008 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	Principal	Interest
2009	\$ 70,000	\$ 44,799
2010	70,000	41,761
2011	70,000	38,723
2012	70,000	35,686
2013	70,000	32,740
2014-2018	350,000	117,734
2019-2023	350,000	41,761
	<u>\$ 1,050,000</u>	<u>\$ 353,204</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

j. Installment Loan

In April 2008, the Town borrowed \$552,373 from a local financial institution to purchase a rescue truck for the fire department. The terms of the loan state that interest will accrue at the rate of 4.5% per annum. Principal and interest payments are payable monthly beginning May 2008 and continuing through April 2018. The debt is secured by rescue truck.

The future minimum payments as of June 30, 2008 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2009	\$ 44,967	\$ 23,940
2010	47,062	21,844
2011	49,255	19,652
2012	51,503	17,404
2013	53,949	14,957
2014-2018	298,357	34,699
	<u>\$ 545,093</u>	<u>\$ 132,496</u>

k. 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, 2008 are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2009	\$ 112,089	\$ 28,047
2010	116,960	23,177
2011	122,042	18,095
2012	127,313	12,823
2013	132,876	7,260
2014	68,976	1,486
	<u>\$ 680,256</u>	<u>\$ 90,888</u>

TOWN OF HARRISBURG, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2008

I. 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 by 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, 2008 are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 8,000	\$ -
2010	8,000	-
2011	8,000	-
2012	8,000	-
2013	8,000	-
2014	8,000	-
	<u>\$ 48,000</u>	<u>\$ -</u>

At June 30, 2008 the Town of Harrisburg, North Carolina had a legal debt margin of \$96,667,105.

m. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Installment loans	\$ 1,855,094	\$ 1,602,373	\$ 288,527	\$ 3,168,940	\$ 555,239
Compensated absences	63,635	-	15,634	48,001	46,807
Governmental activities long-term liabilities	<u>1,918,729</u>	<u>1,602,373</u>	<u>304,161</u>	<u>3,216,941</u>	<u>602,046</u>
Business type activities:					
Installment loans	851,531	-	123,276	728,255	112,090
General obligation bonds	69,700	-	69,700	-	8,000
Compensated absences	29,111	-	12,830	16,281	13,754
Business-type activities long-term liabilities	<u>\$ 950,342</u>	<u>\$ -</u>	<u>\$ 205,806</u>	<u>\$ 744,536</u>	<u>\$ 133,844</u>

TOWN OF HARRISBURG, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2008, consist of the following:

From the General Fund to the Water and Sewer Fund	<u>\$ 9,425</u>
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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, 2008, consist of the following:

From the Stallings Road Park Capital Project Fund to the General Fund	<u>\$ 207,319</u>
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From the Water and Sewer Fund to the General Fund	<u>\$ 20,549</u>
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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 and transferred the assets out of the Stallings Road Capital Project upon completion of the project.

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

For the fiscal year ended June 30, 2008, the Town of Harrisburg has recognized on-behalf of payments for pension contributions made by the State as revenue and an expenditure of \$770 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, 2008

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 \$1,472 to the Council during the fiscal year ended June 30, 2008.

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, 2008, the Town purchased sewer transportation services amounting to \$565,827 from WSACC. At June 30, 2008, \$49,575 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. Correction of Error in Prior Period

In the year ended June 30, 2007 expenditures in the Stallings Road Park Capital Project Fund totaling \$840,112 were incorrectly included in cultural and recreational expenses in Exhibit 2. Those expenditures should have been capitalized and included in construction in progress in Exhibit 1. To correct this error, beginning net assets have been restated for the Governmental Activities in Exhibit 2.

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, 2008

Revenues	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Ad valorem taxes			
Taxes		\$ 2,631,596	
Penalties and interest		12,779	
Total	<u>\$ 2,610,434</u>	<u>2,644,375</u>	<u>\$ 33,941</u>
Other taxes and licenses			
Privilege licenses		3,396	
Total	<u>2,400</u>	<u>3,396</u>	<u>996</u>
Unrestricted intergovernmental			
Local option sales tax		643,614	
Excise tax on piped natural gas		67,768	
Franchise tax on electric power		286,823	
Sales tax on telecommunication service		70,198	
Sales tax on video programming		52,827	
Beer and wine tax		26,229	
Total	<u>949,000</u>	<u>1,147,459</u>	<u>198,459</u>
Restricted intergovernmental			
Powell Bill allocation		208,888	
Fire taxes		741,107	
Fire Department staffing grant - Cabarrus County		30,000	
EMS grant		1,000	
SAFER grant		73,076	
On-behalf of payments - Fire		770	
Total	<u>1,147,395</u>	<u>1,054,841</u>	<u>(92,554)</u>
Investment earnings	<u>92,000</u>	<u>77,657</u>	<u>(14,343)</u>
Permits and fees			
Compliance permits		35,005	
Vision Cable franchise fee		6,554	
Total	<u>90,500</u>	<u>41,559</u>	<u>(48,941)</u>
Sales and services			
Parks and Recreation fees		35,981	
Recreation program fees		2,668	
Park lighting fees		1,122	
Fire Department fees		1,250	
Total	<u>\$ 33,500</u>	<u>\$ 41,021</u>	<u>\$ 7,521</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, 2008

Revenues	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Miscellaneous			
Miscellaneous	\$ 2,500	\$ 23,494	\$ 20,994
Newsletter Ads	31,346	16,228	(15,118)
July 4th celebration	56,000	57,386	1,386
Tower lease	-	22,173	22,173
HYA subsidy	5,000	-	(5,000)
Council Chamber lease	-	1,050	1,050
Sale of property-fire department	40,000	34,500	(5,500)
State tax refund	8,000	-	(8,000)
Donations	2,000	1,661	(339)
	<u>144,846</u>	<u>156,492</u>	<u>11,646</u>
Total			
	<u>\$ 5,070,075</u>	<u>\$ 5,166,800</u>	<u>\$ 96,725</u>
Total revenues			

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, 2008

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
General government			
Administration			
Mayor and council salaries		\$ 45,213	
Salaries and employee benefits-adminstrative employees		539,001	
Office expense			
Office supplies		9,956	
Postage		7,004	
Advertising		3,981	
Software contract		1,325	
Computer technical service		3,154	
Annual audit		7,500	
Equipment rental-copier		9,128	
Printing		3,449	
Disaster recovery equipment and service		4,655	
Disaster recovery monthly maintenance		1,178	
Operations			
Building/cam		19,872	
Utilities		168,949	
Equipment rental		285	
Election expense		10,871	
Equipment		6,758	
Grounds and maintenance		23,779	
Personnel testing		923	
Miscellaneous		18,103	
Legal expenses		40,618	
Dues and subscriptions		11,638	
Insurance and bonds		47,017	
Training		2,598	
Travel		7,849	
Credit card charges		1,376	
Capital outlay		1,698,754	
Newsletter			
Salaries and benefits		12,595	
Miscellaneous		4,412	
Printing		16,706	
Public Relations			
Website		384	
Cabarrus Arts Council		2,750	
CVAN		1,000	
Economic Development Commission		5,716	
Employee relations		\$ 630	

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, 2008

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Municipal zoning			
Salaries and benefits		\$ 110,460	
Office equipment		681	
Clothing		1,289	
Training		155	
Travel		1,240	
Auto supplies		2,107	
Zoning vehicle		76	
Planning and zoning			
Salaries and benefits		19,898	
Advertising		2,659	
Miscellaneous		60	
Legal expenses		11,698	
	<u> </u>	<u> </u>	<u> </u>
Total general government	<u>\$ 1,186,090</u>	<u>\$ 2,889,450</u>	<u>\$ (1,703,360)</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, 2008

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Public safety			
Police department			
County contract		\$ 464,178	
Auto supplies		6,826	
Maintenance and repairs		16,063	
Police equipment		14,937	
Deputies fuel		38,739	
Capital outlay		45,225	
		<u> </u>	
Total police department	<u>\$ 567,590</u>	<u>585,968</u>	<u>\$ (18,378)</u>
Fire department			
Salaries and benefits		1,435,798	
Insurance		1,000	
Insurance and bonds		530	
Workers compensation		71,332	
On-behalf of pension payments		770	
Office supplies		9,564	
Postage and shipping		348	
Printing		1,617	
Telecommunications		24,645	
Building grounds and maintenance		37,167	
Maintenance supplies		5,272	
Equipment purchases		67,262	
Hydrant supplies		46	
Utilities		20,033	
Computer support		2,119	
Fire department annex lease		12,100	
Equipment rental-copier		3,773	
Medical supplies		7,728	
Physicals		19,208	
Clothing allowances		36,222	
Travel and supplies		1,400	
Fire equipment maintenance		15,446	
Training		4,008	
Training supplies		2,376	
Public education		1,916	
Dues and subscriptions		5,636	
Vehicle supplies		42,425	
Vehicle maintenance		33,068	
EMS equipment		2,058	
Educational expenses		6,627	
Travel		3,845	
Capital outlay		620,848	
		<u> </u>	
Total fire department	<u>1,959,905</u>	<u>2,496,187</u>	<u>(536,282)</u>
Total public safety	<u>\$ 2,527,495</u>	<u>\$ 3,082,155</u>	<u>\$ (554,660)</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, 2008

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Transportation			
Streets and highways			
Street maintenance		\$ 215,114	
Signs		245	
Sidewalk construction		47,582	
MPO contribution		939	
Capital outlay		61,790	
Total transportation	<u>\$ 496,200</u>	<u>325,670</u>	<u>\$ 170,530</u>
Environmental protection			
Sanitation contract		489,547	
Storm water phase 2		37,765	
Total environmental protection	<u>489,500</u>	<u>527,312</u>	<u>(37,812)</u>
Cultural and recreational			
Parks and recreation			
Salaries and benefits		85,901	
Programs (dance, yoga, arts)		28,580	
July 4th celebration		97,107	
Project restoration		30,319	
Auxiliary equipment and improvements		197	
Grounds and maintenance		66,376	
Christmas flags & banners		3,452	
Capital outlay		11,372	
Special Events			
Christmas tree event		12,027	
Senior Olympics		1,000	
Total cultural and recreational	<u>\$ 343,182</u>	<u>\$ 336,331</u>	<u>\$ 6,851</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, 2008

Expenditures	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service			
Principal retirement	\$ 217,576	\$ 288,527	\$ (70,951)
Interest	<u>34,642</u>	<u>79,525</u>	<u>(44,883)</u>
Total debt service	<u>252,218</u>	<u>368,052</u>	<u>(115,834)</u>
Total expenditures	<u>5,294,685</u>	<u>7,528,970</u>	<u>(2,234,285)</u>
Revenues over (under) expenditures	<u>(224,610)</u>	<u>(2,362,170)</u>	<u>(2,137,560)</u>
Other financing sources (uses)			
Contributions received	-	11,463	11,463
Proceeds from borrowing	-	1,602,373	1,602,373
Harrisburg Volunteer Fire Department	96,158	-	(96,158)
Transfers from other funds:			
Water and Sewer Fund	-	20,549	20,549
Stallings Rd Park Capital Project Fund	-	500,000	500,000
Transfers to other funds			
Stallings Rd Park Capital Project Fund	(919,400)	(707,319)	212,081
Fund balance appropriated	<u>1,047,852</u>	<u>-</u>	<u>(1,047,852)</u>
Total other financing sources (uses)	<u>224,610</u>	<u>1,427,066</u>	<u>1,202,456</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(935,104)</u>	<u>\$ (935,104)</u>
Fund balances			
Beginning, of year		<u>2,362,207</u>	
Fund balance, end of year		<u>\$ 1,427,103</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, 2008

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Favorable (Unfavorable)
Revenues					
PARTF grant income	\$ 500,000	\$ 450,128	\$ 49,872	\$ 500,000	-
Revenues	500,000	450,128	49,872	500,000	-
Expenditures					
Contractor	844,818	794,699	706,478	1,501,177	(656,359)
Engineering	64,000	59,906	841	60,747	3,253
Contingency	42,240	820	-	820	41,420
Land	405,600	405,600	-	405,600	-
Appraisal	600	-	-	-	600
Total expenditures	1,357,258	1,261,025	707,319	1,968,344	(611,086)
Revenues over (under) expenditures	(857,258)	(810,897)	(657,447)	(1,468,344)	(611,086)
Other financing sources (uses)					
Installment purchase obligations issued	405,600	405,600	-	405,600	-
Transfer from General Fund	451,658	855,425	707,319	1,562,744	1,111,086
Transfer to General Fund	-	-	(500,000)	(500,000)	(500,000)
Total other financing sources (uses)	857,258	1,261,025	207,319	1,468,344	611,086
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 450,128	(450,128)	\$ -	\$ -
Fund balance, beginning of year			450,128		
Fund balance, end of year			\$ -		

TOWN OF HARRISBURG, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES-
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Charges for services:			
Water sales		\$ 1,627,907	
Sewer sales		1,358,467	
Set up fee		17,000	
Penalty		50,153	
Meters and connections		65,030	
		<u>3,118,557</u>	
Total	<u>\$ 3,655,634</u>	<u>3,118,557</u>	<u>\$ (537,077)</u>
Water and sewer taps	<u>721,000</u>	<u>486,368</u>	<u>(234,632)</u>
Other operating revenues:			
Miscellaneous	<u>6,000</u>	<u>5,839</u>	<u>(161)</u>
Total other operating revenues	<u>6,000</u>	<u>5,839</u>	<u>(161)</u>
Total operating revenues	<u>4,382,634</u>	<u>3,610,764</u>	<u>(771,870)</u>
Nonoperating revenues:			
Investment earnings	<u>106,000</u>	<u>70,751</u>	<u>(35,249)</u>
Total nonoperating revenues	<u>106,000</u>	<u>70,751</u>	<u>(35,249)</u>
Total revenues	<u>\$ 4,488,634</u>	<u>\$ 3,681,515</u>	<u>\$ (807,119)</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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Water treatment and distribution and waste water collection:			
Salaries and employee benefits		\$ 1,137,952	
Office supplies		6,314	
Postage		19,386	
Annual maintenance-folder/mailer		1,346	
Advertising		1,916	
Software contract		4,025	
Computer technical service		2,841	
Audit		7,500	
Printing		8,051	
Credit card fees		7,523	
Utilities		79,291	
Permits/review fees		2,690	
Water/sewer inspections		14,840	
Equipment truck maintenance		31,664	
Repair and maintenance		339,583	
Small equipment		11,017	
Grounds and maintenance		34,398	
Personnel tests		1,121	
Miscellaneous		16,550	
Legal expenses		13,374	
Clothing		21,689	
Fuel		65,085	
Engineering		44,900	
Safety and training		26,478	
Radio read meter conversion		160,921	
Dues and subscriptions		3,815	
Casualty insurance/bonds		58,500	
Training		4,422	
Travel		8,568	
Employee relations		288	
Water purchases		770,270	
Sewer transport and treatment		565,827	
New maintenance shop		250	
Sewer equipment replacement		9,371	
Stormwater management		17,766	
		<u>17,766</u>	
Total water treatment and distribution and waste water collection	<u>\$ 4,071,093</u>	<u>\$ 3,499,532</u>	<u>\$ 571,561</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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Debt service:			
Principal retirement	\$ 190,082	\$ 192,974	\$ (2,892)
Interest expense	38,186	38,185	1
Total debt service	<u>228,268</u>	<u>231,159</u>	<u>(2,891)</u>
Capital outlay:			
Equipment	581,000	947,948	(366,948)
Total capital outlay	<u>581,000</u>	<u>947,948</u>	<u>(366,948)</u>
Total expenditures	<u>4,880,361</u>	<u>4,678,639</u>	<u>201,722</u>
Revenues over (under) expenditures	<u>(391,727)</u>	<u>(997,124)</u>	<u>(605,397)</u>
Other financing sources (uses):			
Capital recovery-water line	22,000	-	(22,000)
Transfer to other fund	(20,549)	(20,549)	-
Fund balance appropriated	390,276	-	(390,276)
Total other financing sources (uses)	<u>391,727</u>	<u>(20,549)</u>	<u>(412,276)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (1,017,673)</u>	<u>\$ (1,017,673)</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, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues over (under) expenditures		<u>\$ (1,017,673)</u>	
Reconciling items			
Principal retirement		192,974	
Capital outlay		947,948	
Change in accrued interest expense		1,222	
Change in accrued compensated absences		12,830	
Depreciation		(483,675)	
Capital contributions		<u>599,676</u>	
Total reconciling items		<u>1,270,975</u>	
Net income (loss)		<u><u>\$ 253,302</u></u>	

TOWN OF HARRISBURG, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2008

Fiscal Year	Uncollected Balance June 30, 2007	Additions	Collections and Credits	Uncollected Balance June 30, 2008
2007-2008		\$ 2,647,014	\$ 2,584,570	\$ 62,444
2006-2007	\$ 88,501	-	43,571	44,930
2005-2006	18,641	-	5,348	13,293
2004-2005	5,396	-	902	4,494
2003-2004	7,030	-	1,052	5,978
2002-2003	22,300	-	48	22,252
2001-2002	223	-	8	215
2000-2001	236	-	8	228
1999-2000	915	-	-	915
1998-1999	276	-	166	110
1997-1998	26	-	26	-
	\$ 143,544	\$ 2,647,014	\$ 2,635,699	154,859
Plus: uncollected 2008-2009 ad valorem taxes receivable on annually registered vehicles				9,985
Less allowance for uncollectible accounts: General Fund				11,705
Ad valorem taxes receivable-net				153,139
Reconciliation with revenues:				
Ad valorem taxes - General Fund				2,644,375
Reconciling items				
Interest collected				(12,779)
Discounts allowed				-
Taxes written off				4,103
Total collections and credits				\$ 2,635,699

TOWN OF HARRISBURG, NORTH CAROLINA
 ANALYSIS OF CURRENT TAX LEVY
 TOWN-WIDE LEVY
 For the Year Ended June 30, 2008

	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	\$ 1,244,334,481	0.210	\$ 2,612,913	\$ 2,374,935	\$ 237,978
Annexations-partial year	1,006,040	0.210	1,723	1,723	-
Penalties	-		5,706	5,706	-
Total	<u>1,245,340,521</u>		<u>2,620,342</u>	<u>2,382,364</u>	<u>237,978</u>
Discoveries:					
Current year taxes at prior year's rate	9,026,701	0.210	18,210	15,010	3,200
Prior years	-		9,659	9,659	-
Penalties	-		3,777	3,777	-
Total	<u>9,026,701</u>		<u>31,646</u>	<u>28,446</u>	<u>3,200</u>
Abatements	<u>(1,865,074)</u>		<u>(4,974)</u>	<u>(1,021)</u>	<u>(3,953)</u>
Total property valuation	<u>\$ 1,252,502,148</u>				
Net levy			2,647,014	2,409,789	237,225
Uncollected taxes at June 30, 2008			<u>62,444</u>	<u>47,714</u>	<u>14,730</u>
Current year's taxes collected			<u>\$ 2,584,570</u>	<u>\$ 2,362,075</u>	<u>\$ 222,495</u>
Current levy collection percentage			<u>97.64%</u>	<u>98.02%</u>	<u>93.79%</u>

SHERRILL & SMITH, CPAs, PA

524 West Innes Street

P. O. Box 1327

Salisbury, NC 28145-1327

Voice (704) 636-5211 Fax (704) 636-5245

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Harrisburg, North Carolina, as of and for the year ended June 30, 2008, which collectively comprises the Town of Harrisburg's basic financial statements, and have issued our report thereon dated November 21, 2008. 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.

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

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

Provide Oversight of the Preparation of Financial Statements

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). The Town does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in entities of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost.

Approve Journal Entries

Our review of the general journal entries revealed that many entries lack proper approval by a responsible employee. We recommend the adoption of a policy whereby all journal entries will be approved by the Town Administrator or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. We also noted that the explanations accompanying the entries were inadequate in many instances. All journal entries should be accompanied by full explanation and by reference to adequate supporting data.

Monitoring Service Provider

The Town has chosen Cabarrus County to provide significant services in preparing the tax scroll, creating the tax levy and tax bills, collection of vehicle taxes, and preparation of the detailed underlying accounting for this process. Monitoring is a process that assesses whether the controls used by the service provider are operating as intended, controls at the Town are modified as appropriate for changed conditions, monthly reports received are reviewed and reconciled, and that information recorded in the Towns accounting system reflects the activity that transpires. Because limited monitoring activities now occur, the Town should develop a monitoring plan to accomplish the above objective.

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. We believe that the following deficiencies constitute material weaknesses:

Restatement of Previously Issued Financial Statements

During the year, it was discovered that previously issued financial statements contained a material misstatement. The misstatement resulted from an error in reporting transactions which should have been capitalized as current expenses. Upon discovery of the error, the Town restated the financial statements. However, the fact that the Town's system of internal control over financial reporting did not prevent the error from being made or detect it prior to the issuance of financial statements is a material weakness in the Town's internal controls over financial reporting.

Improve Financial Records

During the course of our engagement we found numerous errors in recording and reconciling the accounting records that resulted in a large number of adjusting and audit entries. Certain receipts and disbursements were not recorded properly in the general ledger, nor were all transactions recorded on the books. This resulted in a failure to make necessary budget amendments because of incorrect account balances being compared to budgeted amounts. The importance of a good accounting system cannot be overemphasized. Without adequate financial records, management is basing its decisions on incomplete and/or inaccurate information during the year, and excessive time is spent at year end in preparing and auditing the financial statements.

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.

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

November 21, 2008

