

Town of Carrboro, North Carolina

Comprehensive Annual Financial Report

For the Fiscal Year
Ended June 30, 2012

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Town of Carrboro, North Carolina

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Town of Carrboro, North Carolina

PRINCIPAL OFFICIALS

BOARD OF ALDERMEN

Mark Chilton, Mayor

Dan Coleman
Michelle Johnson
Randee Haven-O'Donnell

Lydia Lavelle
Sammy Slade
Jacquelyn Gist

TOWN MANAGER

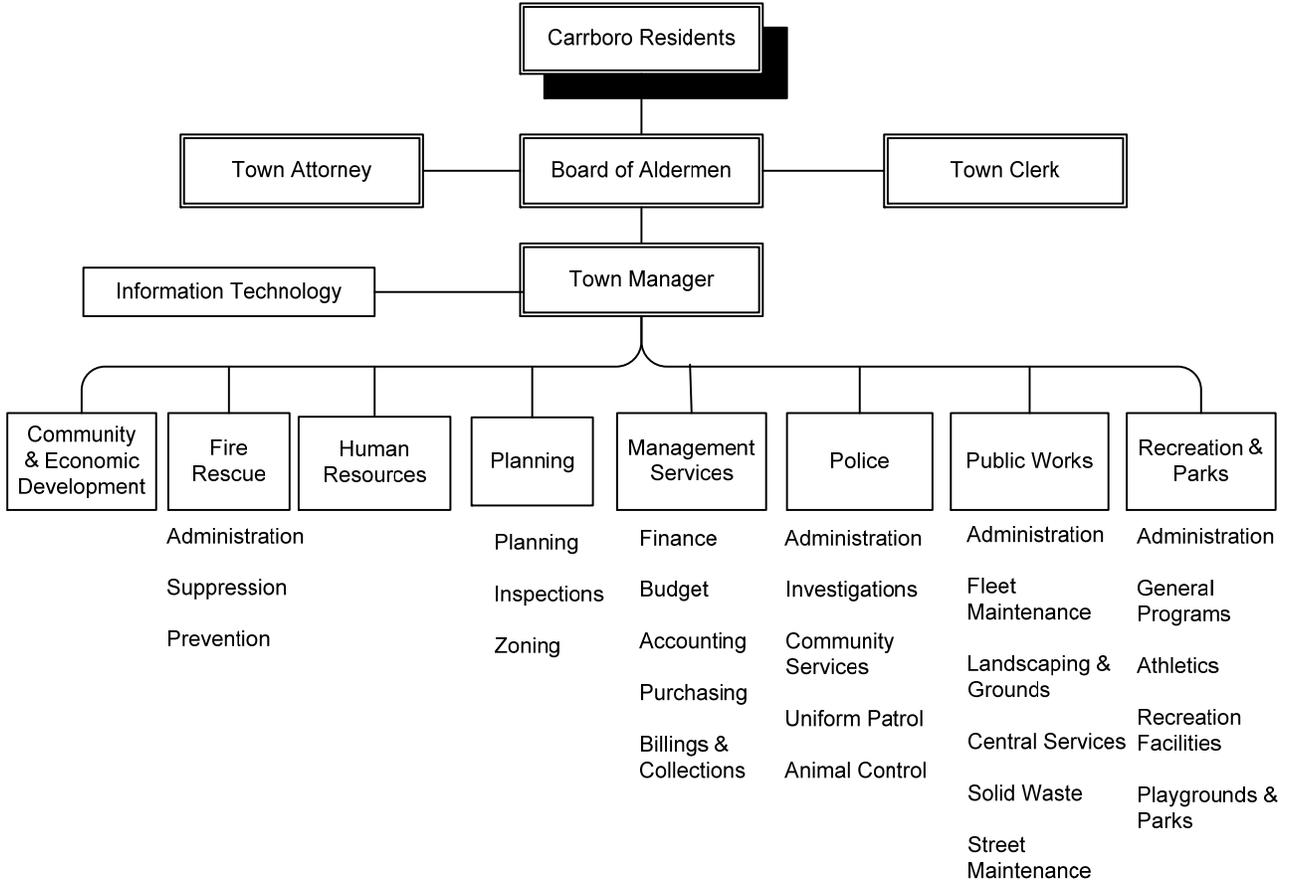
David Andrews

MANAGEMENT SERVICES DEPARTMENT

Arche L. McAdoo, Finance Director
Earlene Hicks, Assistant to the Finance Director
Sandy Svoboda, Purchasing Officer
Jane Bowden, Accounting Technician
Diana Chase, Program Support Assistant

Town of Carrboro, North Carolina

ORGANIZATIONAL CHART





TOWN OF CARRBORO

NORTH CAROLINA

WWW.TOWNOFCARRBORO.ORG

October 31, 2012

To the Honorable Mayor and Members of the Board of Aldermen Town of Carrboro

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Town of Carrboro for the fiscal year ended June 30, 2012 (FY 2011-12). As required by North Carolina General Statutes (NCGS), the CAFR includes financial statements that have been audited by an independent certified public accounting firm. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data accurately presents the financial position and the results of operations of the Town as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditors section. Other documents that are helpful in understanding the Town's budget and financial planning include the Town's annual operating budget and capital improvements plan documents. These documents, along with the annual audit report, are posted on the Town's website at <http://www.townofcarrboro.org/docs.htm>.

COMMUNITY AND ORGANIZATIONAL PROFILE

The Town is a small community located within Orange County in the north central portion of North Carolina. The area's topography is characterized by rolling hills. Carrboro is situated next to Chapel Hill and the University of North Carolina, and is near the Research Triangle Park. The Town was incorporated in 1911, now covers an area of 6.35 square miles, and has a population of 19,582. The Town is distinctive in having one of the highest population density (i.e., the highest number of persons per square mile) of any municipality in North Carolina in the 2010 Census.

The growth of the Town is directly related to the expansion of the University of North Carolina at Chapel Hill and growth in the Research Triangle Park. Enrollment at the University has risen from 8,791 in 1960 to 29,137 in 2011. It is anticipated that expansion will continue to occur in University-related health facilities such as the University of North Carolina Hospitals and with the proposed development of the Carolina North campus.

The character of the Town is driven by core values adopted by the Board based on maintaining a sustainable community that is a highly desirable place to live. These priorities are to:

- Diversify revenue stream to maintain ethnic and economic diversity;
- Protect historic neighborhoods and maintain Carrboro's unique identity;
- Improve walkability and public transportation;
- Encourage development that is compact, dense, and appeals to diverse lifestyles and incomes; and
- Enhance and sustain quality of life/place issues for everyone.

The support for these strategic priorities is noted by the amounts allocated within the annual operating and capital budgets, and the various awards received by the Town.

The Town commits over one million dollars annually to provide fare-free transit for Town residents in an effort to reduce reliance on automobiles and to promote public transit, walking, and biking. Carrboro is one of 27 communities in the nation that has been awarded the Silver Level Bicycle-Friendly Community designation by the League of American Bicyclists in recognition of its commitment to providing safe accommodation and facilities for bicyclists, as well as efforts to encourage bicycling for fun, fitness, and transportation. The award, valid through 2012, also recognized Town efforts to include bike lanes on all state road improvement projects. Additionally, the Town has amended its street standards to require bike lanes on all collector roads. According to the latest census, 5.2% of residents in Carrboro bike to work. The community approved a \$4.6 million bond referendum in November 2003 to construct sidewalks and greenways to increase the safety and convenience of walking throughout the Town's neighborhoods, including to schools, bus stops, shopping areas, and recreational facilities.

GOVERNANCE

The Town has a council/manager form of municipal government. Under the council/manager form of government, the Board of Aldermen performs the legislative functions of the Town: establishing laws and policies. The Board is an elected body and consists of a mayor and six aldermen. The mayor and the aldermen are elected by the voters of the entire town. The mayor is elected to serve a term of two years and the aldermen are elected to serve staggered terms of four years. The mayor acts as the official head of town government and presides at board meetings. The mayor is a voting member of the board. Appointments to advisory boards and committees are made by the Board.

The Board appoints a manager who carries out the laws and policies enacted by the Board, and is responsible for managing the Town's employees, finances, and resources. The Board also appoints a Town Clerk to maintain Town records, and appoints an attorney to represent the Board and Town administration in all legal matters.

Local governments in North Carolina exist to provide a wide range of basic services on which we all depend: police and fire protection; public works (garbage collection, street resurfacing, fleet maintenance, landscaping, and building and grounds); planning; inspections and zoning; economic and community development; and parks and recreation programming. The major services provided by the Town include all of the services above, but exclude water and sewer services, and tax collections. Certain large costs assumed by the Town are for key services that are contracted with other governmental jurisdictions such as transit, recycling, and landfill services. The Town also has administrative support units (e.g., personnel, technology, finance, budget, purchasing, etc.) that provide both direct services as well as indirect support services.

ECONOMIC CONDITION AND OUTLOOK

The 2010 per capita income for Carrboro is \$29,418 and the median household income is \$39,366. The household income levels of Carrboro break roughly into equal thirds: 32% earn less than \$25,000 a year; 25% make between \$25,000 and \$50,000 a year; and 41% make more than \$50,000 a year.

In 2005-2009, employment levels in Carrboro reflected national and statewide trends with an increase in the unemployment rate from 3.6% in 2000 to 5.9% in 2009. The unemployment rate for Orange County was 2.9% in 2006 and climbed to 6.1% in December 2011, well below the state unemployment rate of 10.4%. As of August 2012 the unemployment rate for Orange County is 6.5% compared to the statewide rate of 9.6%. With the University of North Carolina at Chapel Hill, the University of North Carolina Health Care System, and Research Triangle Park in close proximity to the Town, the local employment base is relatively stable and contributes to the Town's economic state.

The Town relies on a largely residential tax base to provide services. The commercial base is primarily retail with some service-oriented businesses. Major employers within Orange County (those with 450 or more employees) reflect the dominance of the professional services and retail sectors. The Town continues to experience modest growth and is considered to be a desirable place to live and work.

Long-term debt for the Town is currently \$8.7 million, which includes financing for construction of fire station #2, renovations to the Century Center, land purchases for future Town use, and annual replacement of vehicles and equipment. Within the next year, the Town expects to issue \$4.6 million of general obligation bonds for the permanent financing of sidewalk and greenway construction projects authorized by the citizens in 2003. For a more comprehensive analysis of the Town's capital needs and future financing, please consult the Town's Capital Improvements Program available on the Town's website. The potential impact on property tax rates of capital projects will be affected by the timing of the implementation of the proposed projects, availability of other revenue sources, and/or cost savings to fund the projects.

MAJOR TOWN INITIATIVES

The Board of Aldermen has defined strategic priorities for the Town with the ultimate goal of creating and maintaining Carrboro as a sustainable community that is a highly desirable place to live. These strategic priorities are considered long-term goals and some noteworthy accomplishments include:

- The Town received a "Safe Routes to Schools" grant to help local elementary school kids walk, bike, and avoid vehicle trips as much as possible. This award was used to construct a sidewalk on Elm Street, which is located near Carrboro Elementary School and was completed in 2012.
- The Town was awarded a Bicycle Planning Grant from the North Carolina Department of Transportation in May 2007. The grant allowed the Town to develop a comprehensive bicycle plan for a connected, accessible and safe network of bicycle facilities. These facilities will be used for commuting, recreation, and as a viable alternative to the automobile. The plan was reviewed and approved by the Board March 24, 2009, and plan implementation is underway.
- The Town has been awarded a Silver Award by the League of American Bicyclists as a Bicycle-Friendly Community (BFC). The award is presented only to communities that are committed to bicycling, provide safe accommodation and facilities for bicyclists, and encourage bicycling for fun, fitness, and transportation. This award is valid through 2012.
- The Town applied for and received a grant from the North Carolina Division of Water Quality and the U.S. Environmental Protection Agency to continue with watershed restoration efforts. The three-year grant, approved in FY 2009-10, covers watershed restoration efforts for a stream restoration project on Dry Gulch, continued monitoring of runoff from Pacifica, and a demonstration rain garden and cistern at McDougle Elementary/ Middle School.
- In FY 2007-08, the Town enlisted in the North Carolina League of Municipalities "Green Challenge," agreeing to participate in the Greenhouse Gas Emission Inventory and Reduction effort to reduce the carbon footprint; and agreeing to assess the Town's energy efficiency through the U.S. Environmental Protection Agency's "Energy Star Challenge" that involves reviewing and reducing utility consumption in Town facilities, streetlights, and fuel usage. The Town continues to make improvements in this area and has been moved to a higher level designation known as a "Green Challenge Advanced" municipality.

- The Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award has been awarded to the Town for its FY 2011-12 budget document. It is the highest form of recognition in governmental budgeting. The Town has submitted its FY 2012-13 budget document for evaluation for this recognition.
- In 2012, the Town's continued commitment to the environment was rewarded with its national designation as a Tree City USA Town for the 27th year. The Town received an Erosion and Sedimentation Control Award from the North Carolina Sedimentation Control Commission.
- Town residents approved a \$4.6 million bond referendum in November 2003 to construct sidewalks and greenways throughout Town to increase the safety and convenience of walking. The sidewalks and greenway trails are under construction and design and planning is underway for additional sidewalks and greenways.
- The Town has been awarded a grant from the Southeast Energy Efficiency Alliance, funded by the U.S. Department of Energy to undertake an energy efficiency retrofit program for single-family residents, a multi-family residential energy pilot program, and create an Energy Efficiency Revolving Loan Fund for local businesses.

FINANCIAL INFORMATION

General Fund Balance

The Board has adopted a policy of maintaining a General Fund unassigned fund balance within a range of 22.5% to 35% of budgeted appropriations. When the General Fund unassigned fund balance exceeds 35%, the manager may set aside an amount in assigned fund balance for transfer to Capital Reserves Fund for specific future capital projects. Should the unassigned fund balance in the General Fund fall below 20%, the policy requires the Town Manager to develop and implement a plan to rebuild the balance to 22.5% within one year.

For the past five years, the unassigned fund balance as a percentage of total audited expenditures has increased from 44.3% for the year ended June 30, 2007, to 54.8% for the year ended June 30, 2012. This is a reflection of the conservative approach to revenue estimates in an uncertain recovering economy showing little, slow or no growth. It is also a reflection of the numerous actions taken by the Town to adapt its operating budget, capital plans and financing to existing and anticipated financial challenges. The steps taken in this regard include freezing vacant positions, reducing less vital operating expenses, and re-prioritizing or delaying capital projects.

Budget Control

As required by North Carolina General Statutes, the Board of Aldermen adopts a budget ordinance prior to the beginning of each fiscal year. All governmental units are required to adopt a balanced budget by July 1 of each year. The budget ordinance adopted by the Board creates a legal limit on spending authorizations at the functional level. Through the use of a requisition encumbrance and purchase order system, the adequacy of available funds are ensured prior to the placement of orders and/or award of contracts.

Public input and review of the budget prior to adoption by the Board is encouraged. The fiscal budget is prepared by the Town Manager for a one-year fiscal cycle beginning July 1 and ending June 30 of the following year. The Town holds two public hearings, one to receive community input prior to presentation of the Manager's recommended budget and a legally mandated one following presentation of the Manager's recommended budget to the Board. Prior to the adoption of an annual budget, the Board may hold budget work sessions on the Manager's recommended budget. The adopted budget document is available at the Town Clerk's office and the Town's website for review.

Internal Controls

In order to provide a reasonable basis for making these representations, a comprehensive internal control framework has been designed in developing and maintaining the Town's accounting system. These internal accounting controls are designed to provide a reasonable, but not absolute, assurance regarding:

- 1) Safeguarding of assets against loss from unauthorized use or disposition;
- 2) Reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America and maintaining accountability of assets;
- 3) Effectiveness and efficiency of operations; and
- 4) Compliance with applicable laws and regulations related to federal and state financial assistance programs.

The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the Town's internal accounting controls reasonably achieve the above objectives and provide reasonable assurance of proper recording of financial transactions.

OTHER INFORMATION

Independent Audit

North Carolina General Statutes Chapter 15, the Local Government Budget and Fiscal Control Act, requires that units of local government have an annual audit by independent certified public accountants. The accounting firm of Dixon Hughes Goodman LLP was selected by the Board and performed this audit. The auditors' report on the basic financial statements, and combining and individual fund statements and schedules are included in the financial section of this report. The auditors' reports on internal controls and compliance with applicable laws and regulations are included in the compliance section.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded, for the eighth consecutive year, a Certificate of Achievement for Excellence in Financial Reporting to the Town of Carrboro for its Comprehensive Annual Financial Report issued for fiscal year 2010-11. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to GFOA program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements and will be submitting our CAFR for the fiscal year ended June 30, 2012 to the GFOA to determine its eligibility for another year. The Certificate Program managed by the GFOA was established in 1945, and is designed to recognize and encourage excellence in financial reporting by state and local governments. Further information about the Certificate Program can be obtained by visiting GFOA's website at: www.gfoa.org. The GFOA reports a growing awareness that the annual financial report should be management's report to its governing body, constituents, oversight bodies, resource providers, investors, and creditors. We agree with this direction and, in keeping with our past practice, have made available a copy of this report to each of you, Town departments, bond rating agencies, the North Carolina Local Government Commission, and other financial institutions which have expressed an interest in the Town's financial affairs.

Preparation of this report would not have been possible without the hard work and dedication of the Management Services Staff. Other departments of the Town have contributed directly or indirectly in the preparation of this report and their cooperation and continued assistance is appreciated.



**David L. Andrews, ICMA-CM
Town Manager**



**Arche L. McAdoo
Finance Officer**

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Carrboro
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danson

President

Jeffrey R. Egan

Executive Director

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