

TOWN OF CARRBORO, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The Management's Discussion and Analysis (MD&A) is to provide readers a narrative overview and analysis of the financial activities of the Town of Carrboro for the fiscal year ended June 30, 2012. Readers should review this information in conjunction with the transmittal letter and basic financial statements to enhance their understanding of the Town's financial condition and performance.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$36,992,150 (net assets).
- Total net assets increased by \$588,485 due to increases in the net assets of the governmental-type activities.
- At June 30, 2012, the Town's governmental funds had combined ending fund balances of \$15,396,559, an increase of \$338,527 in comparison with the prior year. Approximately 46.7% or \$7,197,874 of this total amount is available for spending at the government's discretion (*unassigned fund balance*).
- Unassigned fund balance for the General Fund was \$9,804,868 or 54.8% of total General Fund expenditures at the end of the fiscal year.
- Total long-term liabilities for the Town increased slightly by \$348,204 from \$8,415,543 in 2011 to \$8,763,747 at June 30, 2012 (1.0%) primarily due to additional debt for vehicles and equipment.
- The Town has maintained and currently holds credit ratings of A+ with Standard and Poor's, A1 with Moody's; and a rating of 83 with the North Carolina Municipal Council.

Overview of the Financial Statements

The Town's basic financial statements consist of three components (see Figure 1):

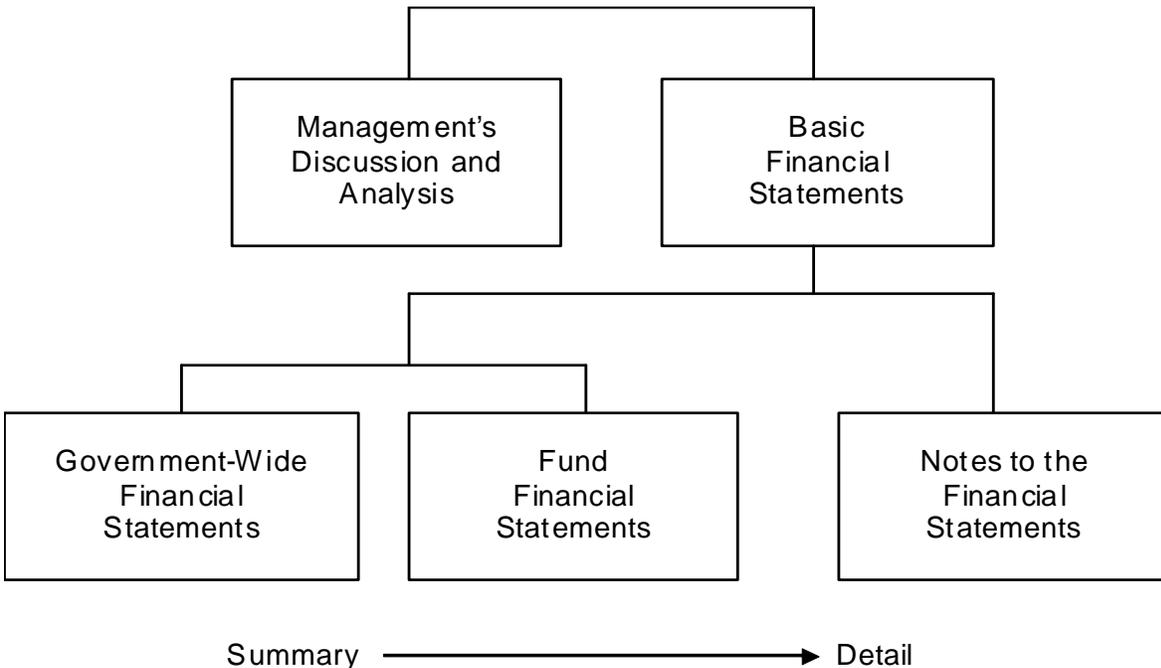
- 1) Government-wide financial statements,
- 2) Fund financial statements, and
- 3) Notes to the financial statements.

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, including a statistical section.

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Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements are Fund Financial Statements (Exhibits 3 through 5). These statements focus on the activities of the individual parts of the Town's government at a more detailed level than the government-wide statements. There are two parts to the Fund Financial Statements: (1) the governmental funds statements and (2) the budgetary comparison statements.

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

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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 financial statements of a private-sector business. The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The two government-wide statements report the Town's net assets and how they have changed. Net assets reported on the *statement of net assets* are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition. The *statement of activities* presents information showing how the Town's net assets have changed during the fiscal year.

The government-wide statements contain a category called governmental activities that include most of the Town's basic services such as public safety, public works, parks and recreation, and general government. Property taxes as well as state-collected local revenues, including sales tax, electric franchise and state telecommunications monies, finance most of these activities.

The government-wide financial statements are on pages 17 and 18 of this report.

Fund Financial Statements

The fund financial statements provide a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town are categorized under governmental funds and can be found beginning on page 19 of this report.

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* that provides a short-term spending focus. As a result, the governmental fund financial statements are focused on a detailed, short-term view that helps the reader 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.

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The Town adopts an annual budget for its General Fund, as required by the North Carolina General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. Exhibit 5 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.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 23 through 55 of this report.

Supplemental Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 59 of this report.

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Government-Wide Financial Analysis

The Town of Carrboro's Net Assets

Figure 2

	2012	2011
Current and other assets	\$ 20,676,191	\$ 19,515,294
Capital assets	<u>31,072,133</u>	<u>30,460,922</u>
Total assets	<u>51,748,324</u>	<u>49,976,216</u>
Other liabilities	5,992,427	5,157,008
Long-term liabilities outstanding	<u>8,763,747</u>	<u>8,415,543</u>
Total liabilities	<u>14,756,174</u>	<u>13,572,551</u>
Net assets:		
Invested in capital assets, net of related debt	24,803,167	22,800,027
Restricted - stabilization by state statute	1,877,720	2,625,784
Unrestricted	<u>10,311,263</u>	<u>10,977,854</u>
Total net assets	<u>\$ 36,992,150</u>	<u>\$ 36,403,665</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$36,992,150 as of June 30, 2012. This is an increase of \$588,485 over the prior fiscal year. The largest portion of net assets (67%) reflects the Town's investment in capital assets (e.g., land, buildings, machinery, equipment, etc.); less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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's net assets (\$1,877,720) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,311,263 (27.9%) is unrestricted.

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The Town of Carrboro's Changes in Net Assets

Figure 3

	<u>Governmental</u> <u>Activities</u> <u>2012</u>	<u>Governmental</u> <u>Activities</u> <u>2011</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 1,766,707	\$ 1,358,733
Operating grants and contributions	871,613	791,842
Capital grants and contributions	406,518	647,514
General revenues:		
Property taxes	11,687,941	11,366,191
Taxes	3,757,688	3,551,585
Grants and contributions not restricted to specific programs	946,091	951,820
Other	<u>47,980</u>	<u>63,320</u>
Total revenues	<u>19,484,538</u>	<u>18,731,005</u>
Expenses:		
General government	3,493,073	3,355,221
Public safety	6,835,304	6,757,198
Planning	1,162,777	1,232,157
Transportation	1,058,859	1,184,975
Public works	4,252,251	3,929,320
Parks and recreation	1,516,336	1,498,043
Economic and physical development	275,681	185,874
Interest on long-term debt	<u>301,772</u>	<u>292,766</u>
Total expenses	<u>18,896,053</u>	<u>18,435,554</u>
Increase in net assets	588,485	295,451
Net assets, July 1	<u>36,403,665</u>	<u>36,108,214</u>
Net assets, June 30	<u>\$ 36,992,150</u>	<u>\$ 36,403,665</u>

Governmental Activities. Governmental activities increased the Town's net assets by \$588,485. Key elements of this change are as follows:

- Ad valorem property tax revenue increased by \$321,750 from \$11,366,191 last year to \$11,687,941 this fiscal year, which represents a 2.8% increase over the prior year. There was a slight increase in the tax collection rate from the prior year, and growth in the tax base and tax levies. The tax valuation for this fiscal year remained the same from the last fiscal year.

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- Sales tax revenue increased by \$194,704, from \$3,113,356 last year to \$3,308,060 this fiscal year, compared to last year, when the Town experienced an increase of \$73,425.
- The Town continued with financing bond-funded sidewalk construction to promote open space preservation goals and walkable access through the Town, and provided for ongoing maintenance of facilities, replacement of computer network and desktop infrastructure, as well as vehicles and equipment. This fiscal year, the Town spent \$1,840,865 for capital outlay, which included the completion of Weaver Street reconstruction, Wilson Park bathroom upgrade and the purchase of new vehicles and equipment.

Governmental Funds. The focus of the Town'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's financing requirements

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$9,804,868, while total fund balance reached \$15,522,809. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 54.8% of total General Fund expenditures.

At June 30, 2012, the governmental funds of the Town of Carrboro reported a combined fund balance of \$15,396,559, a 2.2% increase over last year. The primary factor for this increase in fund balance is due to an increase in actual revenues received and reduction in budgeted expenses. The reported combined fund balance of the governmental funds includes a deficit fund balance of \$2,228,483 within the Bond Fund. This deficit fund balance is due to the fact that bond anticipation notes are required to be reported in this fund as a current liability. The Town anticipates that these bond anticipation notes will eventually be refinanced by long-term general obligation bonds approved by a 2003 Bond Referendum.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the General Fund budget on several occasions. Generally, these amendments fall into one of three categories: (1) to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) to recognize new funding amounts from external sources, such as federal and state grants; or (3) increase appropriations that become necessary to maintain services. The General Fund budget was increased by \$945,269 (5.1%) from an original appropriation of \$18,477,939 to a final appropriation of \$19,423,208.

The comparison of revenue and expenditure financial activity with budgeted estimates suggests that the Town budgeted adequately for ongoing operations. Actual revenue receipts exceeded budgeted projections by \$1,362,873. Property and sales taxes accounted for roughly 59% of the revenue above budget projections. Property taxes were \$462,754 (34%) above budget projections and sales.

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Permits and fees exceeded budget projections by \$293,306. Total revenue for permits and fees this year was \$1,308,544, a 20% increase over last year's actual of \$1,090,101. This is due to a number of approved private developments beginning or nearing the construction phase. While revenues from sales and services, investment, and other exceeded budget projections by \$56,976, these revenues were slightly less than those received for the prior year.

The unrestricted intergovernmental revenue shows receipts exceeding budget projections by \$96,560 for electric franchise, piped natural gas, video sales programming, telecommunication, and wine and beer licenses or taxes. These revenues totaled \$946,091 for 2012 compared to the prior year amount of \$951,820.

Expenditures, as required by budget ordinance, should not exceed appropriated levels. Total expenditures were \$17,898,963, which was \$1,524,245 less than the final budget of \$19,423,208. All spending by function was in compliance with budgetary requirements.

While all expenditures were less than budget at June 30, 2012, they were slightly higher at 1.7% over the prior year. Actual Expenditures for Planning and Public Works were less than that of the prior year and decreased by 7.6% and 6.9%, respectively. This is due mostly to a freeze on filling vacant positions and delay of capital purchases. Parks and Recreation expenditures, on the other hand, were 13.4% higher than the prior year due to the completion of bathroom facilities and replacement of playground equipment at Wilson Park. Debt service expenditures decreased by 10% over the prior year. This is due to the retirement of prior years' debt for vehicles and equipment and financing a lesser amount in 2012.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental-type activities as of June 30, 2012, totaled \$31,072,133 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, and vehicles. Major capital asset transactions during the year include the following additions:

- Completion of Weaver Street Reconstruction
- Replacement of police vehicles
- Upgrade to Wilson Park bathroom

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The Town of Carrboro's Capital Assets
(Net of Depreciation)
Figure 4

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
Land	\$ 14,208,393	\$ 14,208,393
Construction-in-progress	664,777	1,079,248
Buildings and systems	4,792,123	4,650,868
Improvements other than buildings	451,283	474,615
Machinery and equipment	723,937	764,653
Infrastructure	8,175,924	7,057,896
Vehicles and motorized equipment	<u>2,055,693</u>	<u>2,225,249</u>
Total	<u>\$ 31,072,133</u>	<u>\$ 30,460,922</u>

Additional information on the Town's capital assets can be found in on page 28 and 36 of this report.

Long-Term Debt. As of June 30, 2012, the Town of Carrboro had no outstanding bonded debt.

The Town of Carrboro's Outstanding Debt

Figure 5

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Bond anticipation note	\$ 2,590,000	\$ 2,590,000
Installment purchases	5,405,219	6,319,304
Compensated absences	519,865	593,906
Other postemployment benefits obligation	3,701,243	2,473,455
Net pension obligation	<u>372,766</u>	<u>359,549</u>
Total	<u>\$ 12,589,093</u>	<u>\$ 12,336,214</u>

Total debt for the Town increased by \$252,879 (2%) during the past fiscal year primarily due to vehicle and equipment installment purchase financing. The Town had normal debt retirement for this fiscal year with the principal repayment of \$1,212,935.

As mentioned in the financial highlights section of this document, the Town currently holds and has maintained its A1 bond rating from Moody's Investor Service and A+ rating from Standard and Poor's Corporation. These bond ratings are a clear indication of the Town's sound financial condition.

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North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town is \$152,417,005. The Town has \$4,600,000 in General Obligation bonds authorized, but unissued at June 30, 2012.

Additional information regarding the Town's long-term debt can be found beginning on page 48 of this report.

Economic Factors and Next Year's Budget and Rates

The following key economic indicators will impact the Town.

- Low unemployment. The Town's low unemployment rate (as reflected in the county-wide Orange County rate) of 6.5% is well below the state average of 9.6% as of August 2012. This trend is expected to continue for the next year.
- Stable property tax base. The Town expects to continue to collect property taxes at a rate in excess of 98%.
- Continued property and sales tax growth is expected to continue into the next fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities: The Town has approved a General Fund budget in the amount of \$19,441,491 for fiscal year 2013, which is a \$951,552 or 5.1% increase over the original adopted fiscal year 2012 budget. As the economy showed some signs of improvement, it was incumbent upon management to continue its disciplined approach and not become too optimistic in projecting revenues. The primary focus in preparing the fiscal year 2013 budget was to develop one that:

1. Reflected the Board's strategic priorities;
2. Maintained and enhanced service delivery levels and quality;
3. Avoided increasing the tax burden for Town residents and local businesses; and,
4. Provided a salary adjustment for Town employees.

The two largest sources of revenues, property taxes and sales taxes, are projected to increase. Property taxes are projected to increase by 2% due to increased valuations and private developments. The tax rate for real property equals 58.94 cents per one hundred dollars (0.5894), which remained unchanged from fiscal year 2011-2012.

Sales taxes revenue over the past year are showing signs of recovery and anticipated to grow by 3% over the 2011-12 level due to an increase in the sale of general retail items (e.g., food, clothing, household goods, etc.).

Increased operating expenditures are expected due to the 3% across-the-board COLA for employees, restoration of the \$300,700 set aside for street resurfacing, transfer of \$150,000 to the Revolving Loan Fund to spur new initiatives, and increased funding for human services grants and community outreach.

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Through re-prioritization of requests, capital outlays for vehicles and equipment were reduced to \$397,320 from the \$1,118,880 included in the six-year capital improvement plan. Other capital investments include Century Center drapes and installation of LCD TVs, replacement of information technology servers and peripherals, and replacement of miscellaneous small equipment/tools in public works.

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 Finance Director, 301 West Main Street, Carrboro North Carolina 27510. Other related financial documents may be reviewed online at the Town's website at: <http://www.townofcarrboro.org/ms/budget.htm>.