

BASIC FINANCIAL STATEMENTS

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TOWN OF CARRBORO, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2011

Exhibit 1

| ASSETS | Governmental Activities |
|---|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 15,161,725 |
| Receivables: | |
| Taxes receivable, net | 367,421 |
| Accrued interest receivable, property taxes | 32,303 |
| Accounts receivable, net | 636,434 |
| Due from other governments | 1,419,932 |
| Notes receivable | 327,795 |
| Inventories | 62,835 |
| Prepays | 150,908 |
| Restricted cash | 1,355,941 |
| Total current assets | <u>19,515,294</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Land | 14,208,393 |
| Construction-in-progress | 1,079,248 |
| Other capital assets, net of depreciation | 15,173,281 |
| Total noncurrent assets | <u>30,460,922</u> |
| Total assets | <u>49,976,216</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 796,532 |
| Customer deposits and performance bonds | 107,509 |
| Unearned revenues | 209,667 |
| Accrued interest payable | 122,629 |
| Current portion of long-term liabilities | 3,920,671 |
| Total current liabilities | <u>5,157,008</u> |
| Long-term liabilities: | |
| Due in more than one year | 8,415,543 |
| Total liabilities | <u>13,572,551</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 22,800,027 |
| Restricted | |
| Stabilization by State Statute | 2,625,784 |
| Unrestricted | 10,977,854 |
| Total net assets | <u>\$ 36,403,665</u> |

The accompanying notes are an integral part of this statement.

**TOWN OF CARRBORO, NORTH CAROLINA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

Exhibit 2

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|----------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| General government | \$ 3,355,221 | \$ 128,530 | \$ 93,383 | \$ - | \$ (3,133,308) |
| Public safety | 6,757,198 | 573,316 | 181,960 | - | (6,001,922) |
| Planning | 1,232,157 | 286,847 | 12,175 | - | (933,135) |
| Transportation | 1,184,975 | - | - | - | (1,184,975) |
| Public works | 3,929,320 | 115,107 | 449,554 | 647,514 | (2,717,145) |
| Parks and recreation | 1,498,043 | 254,933 | 54,770 | - | (1,188,340) |
| Economic and physical development | 185,874 | - | - | - | (185,874) |
| Interest on long-term debt | 292,766 | - | - | - | (292,766) |
| Total governmental activities | <u>\$ 18,435,554</u> | <u>\$ 1,358,733</u> | <u>\$ 791,842</u> | <u>\$ 647,514</u> | (15,637,465) |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | | 11,366,191 |
| Local option sales taxes | | | | | 3,113,356 |
| Other taxes | | | | | 438,229 |
| Unrestricted intergovernmental revenues | | | | | 951,820 |
| Investment earnings, unrestricted | | | | | 63,320 |
| Total general revenues | | | | | <u>15,932,916</u> |
| Change in net assets | | | | | 295,451 |
| Net assets - beginning | | | | | <u>36,108,214</u> |
| Net assets - ending | | | | | <u>\$ 36,403,665</u> |

The accompanying notes are an integral part of this statement.

**TOWN OF CARRBORO, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011**

Exhibit 3

| ASSETS | Major Funds | | | | | Total Governmental Funds |
|--|----------------------|------------------------|--------------------|--------------------------|-------------------|--------------------------------|
| | General Fund | Revolving Loan Fund | Bond Fund | Capital Projects Fund | Nonmajor Funds | |
| Cash and cash equivalents | \$ 12,302,456 | \$ 219,373 | \$ 263,603 | \$ 2,263,461 | \$ 112,832 | \$ 15,161,725 |
| Taxes receivable, net | 367,421 | - | - | - | - | 367,421 |
| Accounts receivable, net | 610,400 | - | 20,031 | 6,003 | - | 636,434 |
| Due from other governments | 1,084,851 | - | 31,809 | 279,894 | 23,377 | 1,419,932 |
| Notes receivable, net | - | 294,981 | - | - | 32,814 | 327,795 |
| Inventories | 62,835 | - | - | - | - | 62,835 |
| Prepaid Items | 150,908 | - | - | - | - | 150,908 |
| Restricted cash | 276,617 | - | 268,384 | 810,940 | - | 1,355,941 |
| Total assets | \$ 14,855,488 | \$ 514,354 | \$ 583,827 | \$ 3,360,298 | \$ 169,023 | \$ 19,482,991 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and accrued liabilities | 499,790 | - | 42,173 | 225,833 | 28,736 | 796,532 |
| Customer deposits and performance bonds | 107,509 | - | - | - | - | 107,509 |
| Deferred revenues | 367,421 | 294,981 | 20,031 | 6,003 | 32,814 | 721,250 |
| Unearned revenues | 140,922 | - | - | - | 68,745 | 209,667 |
| Short-term debt | - | - | 2,590,000 | - | - | 2,590,000 |
| Total liabilities | 1,115,642 | 294,981 | 2,652,204 | 231,836 | 130,295 | 4,424,958 |
| Fund balances (deficit): | | | | | | |
| Nonspendable | | | | | | |
| Inventories | 62,835 | - | - | - | - | 62,835 |
| Prepaid Items | 150,908 | - | - | - | - | 150,908 |
| Restricted for: | | | | | | |
| Stabilization by State Statute | 2,290,704 | - | 31,809 | 279,894 | 23,377 | 2,625,784 |
| Capital equipment | 169,108 | - | - | - | - | 169,108 |
| Capital projects | - | - | 268,384 | 810,940 | - | 1,079,324 |
| Committed for: | | | | | | |
| Economic development | - | 219,373 | - | - | - | 219,373 |
| Capital projects | - | - | - | 2,037,628 | - | 2,037,628 |
| Affordable housing | - | - | - | - | 12,707 | 12,707 |
| Energy efficiency | - | - | - | - | 100,125 | 100,125 |
| Assigned for: | | | | | | |
| Subsequent year's expenditures | 712,163 | - | - | - | - | 712,163 |
| Capital projects | 2,000,000 | - | - | - | - | 2,000,000 |
| Unassigned | 8,354,128 | - | (2,368,570) | - | (97,481) | 5,888,077 |
| Total fund balances (deficit) | 13,739,846 | 219,373 | (2,068,377) | 3,128,462 | 38,728 | 15,058,032 |
| Total liabilities and fund balances | \$ 14,855,488 | \$ 514,354 | \$ 583,827 | \$ 3,360,298 | \$ 169,023 | |

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

| | |
|--|----------------------|
| Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. | 30,460,922 |
| Liabilities for earned but deferred revenues in fund statements, including accrued interest receivable on property taxes. | 753,553 |
| Some liabilities, including long-term obligations and accrued interest, are not due and payable in the current period and therefore are not reported in the funds. | <u>(9,868,842)</u> |
| Net assets of governmental activities | <u>\$ 36,403,665</u> |

The accompanying notes are an integral part of this statement.

TOWN OF CARRBORO, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
Year Ended June 30, 2011

Exhibit 4
Page 1 of 2

| | Major Funds | | | | | Total Governmental Funds |
|--|----------------------|------------------------|-----------------------|--------------------------|-------------------|--------------------------------|
| | General Fund | Revolving Loan Fund | Bond Fund | Capital Projects Fund | Nonmajor Funds | |
| Revenues: | | | | | | |
| Ad valorem taxes | \$ 11,386,243 | \$ - | \$ - | \$ - | \$ - | \$ 11,386,243 |
| Local option sales taxes | 3,113,356 | - | - | - | - | 3,113,356 |
| Other taxes and licenses | 438,229 | - | - | - | - | 438,229 |
| Unrestricted intergovernmental | 951,820 | - | - | - | - | 951,820 |
| Restricted intergovernmental | 585,475 | - | 305,668 | 71,177 | 113,564 | 1,075,884 |
| Permits and fees | 1,090,101 | - | - | - | - | 1,090,101 |
| Sales and services | 254,934 | - | - | - | - | 254,934 |
| Investment earnings | 38,232 | 12,325 | 482 | 12,092 | 189 | 63,320 |
| Other | 53,540 | 133,690 | - | 277,599 | 500 | 465,329 |
| Total revenues | 17,911,930 | 146,015 | 306,150 | 360,868 | 114,253 | 18,839,216 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 3,162,592 | - | - | - | - | 3,162,592 |
| Public safety | 5,565,626 | - | - | 58,450 | - | 5,624,076 |
| Planning | 1,132,203 | - | - | - | - | 1,132,203 |
| Transportation | 1,032,825 | - | - | - | - | 1,032,825 |
| Public works | 3,100,603 | - | - | - | - | 3,100,603 |
| Economic and physical development | - | 10,000 | - | - | 122,826 | 132,826 |
| Parks and recreation | 1,237,163 | - | - | - | - | 1,237,163 |
| Capital outlay | 849,204 | - | 247,521 | 1,276,290 | - | 2,373,015 |
| Debt service: | | | | | | |
| Principal | 1,217,736 | - | - | - | - | 1,217,736 |
| Interest and other charges | 293,894 | - | - | - | - | 293,894 |
| Total expenditures | 17,591,846 | 10,000 | 247,521 | 1,334,740 | 122,826 | 19,306,933 |
| Excess of revenues over (under) expenditures | 320,084 | 136,015 | 58,629 | (973,872) | (8,573) | (467,717) |
| Other financing sources (uses): | | | | | | |
| Transfers from other funds | 176,945 | - | - | 254,483 | 100,000 | 531,428 |
| Transfers to other funds | (254,483) | (45,000) | - | (176,945) | (55,000) | (531,428) |
| Sale of capital assets | 73,860 | - | - | - | - | 73,860 |
| Installment purchase obligations issued | 476,399 | - | - | - | - | 476,399 |
| Total other financing sources (uses) | 472,721 | (45,000) | - | 77,538 | 45,000 | 550,259 |
| Net change in fund balances (deficit) | 792,805 | 91,015 | 58,629 | (896,334) | 36,427 | 82,542 |
| Fund balances (deficit), beginning of year | 12,947,041 | 128,358 | (2,127,006) | 4,024,796 | 2,301 | 14,975,490 |
| Fund balances (deficit), ending | \$ 13,739,846 | \$ 219,373 | \$ (2,068,377) | \$ 3,128,462 | \$ 38,728 | \$ 15,058,032 |

The accompanying notes are an integral part of this statement.

**TOWN OF CARRBORO, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

Exhibit 4
Page 2 of 2

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities:**

| | | |
|---|----|--------|
| Total net change in fund balances - governmental funds | \$ | 82,542 |
|---|----|--------|

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

| | | |
|--|--|-----------|
| Governmental funds report capital outlays (\$2,373,015) as expenditures. However, in the statement of activities the cost of estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (\$1,238,164) in the current period. | | 1,134,851 |
|--|--|-----------|

| | | |
|--|--|-----------|
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Change in accrued interest receivable, property taxes | | (7,306) |
| Change in deferred revenues, property taxes | | 12,744 |
| Change in deferred revenues | | (397,256) |

| | | |
|--|--|---------|
| The issuance of long-term debt (\$476,399) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt (\$1,217,736) 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. | | 741,337 |
|--|--|---------|

| | | |
|---|--|-------------|
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Accrued interest on general long-term debt | | 1,128 |
| Compensated absences | | 3,939 |
| Net pension obligation | | (37,365) |
| Other postemployment benefits | | (1,239,163) |

| | | |
|---|-----------|----------------|
| Changes in net assets of governmental activities | \$ | 295,451 |
|---|-----------|----------------|

The accompanying notes are an integral part of this statement.

TOWN OF CARRBORO, NORTH CAROLINA
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended June 30, 2011

Exhibit 5

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|-------------------|-------------------|----------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| Revenues: | | | | |
| Ad valorem taxes | \$ 11,021,222 | \$ 11,021,222 | \$ 11,386,243 | \$ 365,021 |
| Local option sales taxes | 3,062,136 | 3,062,136 | 3,113,356 | 51,220 |
| Other taxes and licenses | 402,750 | 402,750 | 438,229 | 35,479 |
| Unrestricted intergovernmental | 860,019 | 860,019 | 951,820 | 91,801 |
| Restricted intergovernmental | 553,981 | 553,981 | 585,475 | 31,494 |
| Permits and fees | 1,022,867 | 1,022,867 | 1,090,101 | 67,234 |
| Sales and services | 244,605 | 244,605 | 254,934 | 10,329 |
| Investment earnings | 50,000 | 50,000 | 38,232 | (11,768) |
| Other | 34,069 | 36,419 | 53,540 | 17,121 |
| Total revenues | 17,251,649 | 17,253,999 | 17,911,930 | 657,931 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 3,348,354 | 3,592,456 | 3,227,594 | 364,862 |
| Public safety | 5,736,446 | 5,906,947 | 5,669,604 | 237,343 |
| Planning | 1,159,198 | 1,241,230 | 1,132,203 | 109,027 |
| Transportation | 1,064,150 | 1,064,150 | 1,032,825 | 31,325 |
| Public works | 3,608,031 | 4,253,672 | 3,766,096 | 487,576 |
| Parks and recreation | 1,372,343 | 1,545,253 | 1,251,894 | 293,359 |
| General services | 476,248 | 202,989 | - | 202,989 |
| Debt service | 1,548,915 | 1,548,914 | 1,511,630 | 37,284 |
| Total expenditures | 18,313,685 | 19,355,611 | 17,591,846 | 1,763,765 |
| Excess of revenues over (under) expenditures | (1,062,036) | (2,101,612) | 320,084 | 2,421,696 |
| Other financing sources (uses): | | | | |
| Transfers from other funds | 176,945 | 176,945 | 176,945 | - |
| Transfers to other funds | (260,260) | (260,260) | (254,483) | 5,777 |
| Sale of capital assets | 10,000 | 10,000 | 73,860 | 63,860 |
| Installment purchase obligation issued | 560,500 | 560,500 | 476,399 | (84,101) |
| Total other financing sources | 487,185 | 487,185 | 472,721 | (14,464) |
| Excess of revenues and other sources over (under) expenditures and other uses | (574,851) | (1,614,427) | 792,805 | 2,407,232 |
| Fund balance appropriated | 574,851 | 1,614,427 | - | (1,614,427) |
| Net change in fund balance | \$ - | \$ - | 792,805 | \$ 792,805 |
| Fund balance, beginning of year | | | 12,947,041 | |
| Fund balance, ending | | | <u>\$ 13,739,846</u> | |

The accompanying notes are an integral part of this statement.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Carrboro (the "Town") 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 is a political subdivision of Orange County, which is governed by an elected mayor and a six-member Board of Aldermen.

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state and federal grants, and various other taxes and licenses. The primary expenditures are for public safety, streets and maintenance, sanitation, and general government services.

Revolving Loan Fund - The Revolving Loan Fund is used to account for loans made to various local businesses. The Town has elected to report this fund as major.

Bond Fund - The Bond Fund accounts for the financial resources to be used for the acquisition or construction of greenways and sidewalks.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The Town reports the following major governmental funds (Continued):

Capital Projects Fund - The Capital Projects Ordinance Fund accounts for the financial resources to be used for the acquisition or construction of major capital facilities. Additionally, the Town has legally adopted a Capital Reserve Fund and Payment in Lieu Reserve Fund. Under GASB 54 guidance the Capital Reserve Fund and Payment in Lieu Reserve Fund are consolidated in the Capital Projects Fund. The budgetary comparisons for the Capital Reserve Fund and the Payment in Lieu Reserve Fund have been included in the supplemental information. The Capital Reserve Fund accounts for resources to be used for future major capital purchases or projects. The Payment in Lieu Reserve Fund accounts for payments received from developers in lieu of providing on-site recreational areas and open spaces. The funds are held in reserve for use in one of four geographically defined quadrants of the Town (where the residential development is located) for use in acquisition and development of recreational facilities present or future.

The Town reports the following non-major governmental funds:

Grants Administration Fund - The Grants Administration Fund was established to account for grant funds that are restricted for a particular project.

Affordable Housing Fund - The Affordable Housing Fund was established to advance the Town of Carrboro's goal of increasing the stock of affordable, safe and decent housing within the Town and its planning jurisdiction.

Energy Efficiency Revolving Loan Fund - The Energy Efficiency Revolving Loan Fund was established to advance the Town of Carrboro's goal of increasing energy efficiency in buildings within the Town in cooperation with the Southeast Energy Efficiency Alliance.

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 Statements. The government-wide financial statements are reported using the economic resources measurement focus and 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.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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.

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 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 long-term debt and acquisitions under installment purchase agreements are reported as other financing sources.

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 a 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 subsequent 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, Orange 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 Carrboro. 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 Orange County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as 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 they are not measurable until received in cash. Grant revenues which are unearned at year end are recorded as deferred 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.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

As permitted by generally accepted accounting practices, 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. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Revolving Loan Fund, the Bond Fund, the Capital Projects Fund, the Grant Administration Fund, the Affordable Housing Fund and the Energy Efficiency Revolving Loan 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 project level for multi-year funds. The Finance Officer is authorized to approve intradepartmental transfer requests between appropriation units and between departmental programs within the limits of the approved departmental budget. In the Capital Projects Fund, the Town Manager is allowed to transfer funds under \$10,000 between line items as long as transfers are within the overall project budget. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

1. Deposits and Investments (Continued)

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, and SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

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. Restricted Assets

The unexpended proceeds from installment purchase agreements in the amount of \$980,048 are classified as restricted assets because their use is completely restricted to the purpose for which the installment purchase agreements were issued, including \$169,108, which will reimburse the General Fund for approved expenditures. The unexpended bond anticipation note proceeds in the amount of \$268,384 are classified as restricted assets of the Bond Fund because their use is completely restricted to the purpose for which the bond anticipation notes were issued. Credit deposits in the amount of \$107,509 are considered a liability and classified as restricted cash. The Town requires builders/contractors to pay a credit deposit when, due to circumstances beyond their control, there is uncompleted work on a construction project and the builder/contractor needs to have the Planning Department issue a Certificate of Occupancy for the property. Once the Town has ensured that the work has been satisfactorily completed, the credit deposit funds are released.

4. 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, 2010. 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.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables written off in prior years.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

6. Inventory and Prepaid Items

The inventory of the Town is valued at weighted average cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded initially in inventory accounts and charged as expenditures when used.

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.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of two years.

Minimum capitalization costs are as follows:

| | Cost |
|-----------------------------------|---------|
| Land | \$ 1 |
| Buildings and improvements | 20,000 |
| Vehicles, furniture and equipment | 5,000 |
| Infrastructure | 100,000 |

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at time 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 their estimated useful lives:

| | Useful Life |
|---|----------------|
| Land improvements and infrastructure | 20 to 40 years |
| Furniture, fixtures, equipment, heavy equipment, and vehicles | 5 to 10 years |
| Computer equipment and software | 3 years |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of annual vacation leave without any applicable maximum until December 31 of each calendar year. However, if an employee separates from service, payment for accumulated annual vacation leaves shall not exceed 240 hours (14 duty days for shift fire personnel). On December 31 of each calendar year, any employee with more than 240 hours (14 duty days for shift fire personnel) of accumulated leave shall have the excess accumulation converted to sick leave so that only 240 hours (14 duty days for shift fire personnel) are carried forward to January 1 of the next calendar year. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets/Fund Balances

Net assets in government-wide 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.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

10. Net Assets/Fund Balances (Continued)

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid items – charges entered into accounts for benefits not received yet and are regularly recurring costs of operations such as unexpired insurance premiums. They are recognized as an asset when paid; recognized as an expenditure is incurred.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute – portion of fund balance restricted by State Statute [G.S. 159-8(a)].

Restricted for Capital equipment – portion of fund balance that represents unspent debt proceeds that are restricted for the purchase of certain equipment.

Restricted for Capital projects – portion of fund balance that represents unspent debt proceeds that are restricted for the construction of certain capital projects.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

10. Net Assets/Fund Balances (Continued)

Fund Balances

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Towns of Carrboro’s Board of Aldermen. Any changes or removal of specific purpose requires majority action by the Board.

Economic development – portion of fund balance committed by the Board for economic development through the use of loans to various businesses.

Capital projects – portion of fund balance committed by the Board for completion of capital projects.

Affordable housing – portion of fund balance committed by the Board for providing safe and decent housing within the Town.

Energy efficiency – portion of fund balance committed by the Board for the goal of increasing energy efficiency in buildings within the Town.

Assigned fund balance – portion of fund balance that the Town intends to use for specific purposes.

Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

Capital projects - portion of fund balance assigned by Town Management for future capital projects.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town has a revenue spending policy that provides policy for programs with multiple revenue sources. The Town will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Town has the authority to deviate from this policy if it is in the best interest of the Town.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

10. Net Assets/Fund Balances (Continued)

Fund Balances (Continued)

The Board has adopted a policy of maintaining an unassigned fund balance within a range of 22.5% to 35% of budgeted appropriations. This policy also provides for the transfer of funds to Capital Projects when the unassigned fund balance exceeds 35%.

Note 2. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance of Individual Funds

At June 30, 2011, the Bond Fund has a deficit fund balance of \$2,068,377. This deficit fund balance is primarily the result of bond anticipation notes that 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 (see Note 3.B.7.c.). Also at June 30, 2011, the Grants Administration Fund had a deficit fund balance of \$74,104. The deficit fund balance is primarily related to the transfer of unearned revenues received to the Energy Efficiency Loan Fund.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds

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 formal policy regarding custodial risks for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Town's deposits had a carrying amount of \$7,460,807 and a bank balance of \$7,681,547. Of the bank balance, \$669,108 was covered by federal depository insurance and \$7,012,439 was covered under the Pooling Method. The Town had \$2,000 of petty cash on hand at June 30, 2011.

2. Investments

At June 30, 2011, the Town had \$9,054,859 invested with the North Carolina Capital Management Trust Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

There were no realized or unrealized gains or losses on the Town's investments during the fiscal year ended June 30, 2011.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

A. Assets (Continued)

3. Receivables

Due from Governmental Agencies

Amounts due from other governments consist of the following:

| | <u>Other</u> | <u>County</u> | <u>State</u> | <u>Total</u> |
|--|-------------------|-----------------|---------------------|---------------------|
| <i>General Fund</i> | | | | |
| Sales and use tax distribution | \$ - | \$ - | \$ 925,856 | \$ 925,856 |
| Utilities franchise and telecommunications tax | - | - | 148,469 | 148,469 |
| Other | 3,858 | 1,981 | 4,688 | 10,527 |
| <i>Other Funds</i> | | | | |
| Grants | - | - | 55,186 | 55,186 |
| Other | <u>279,894</u> | <u>-</u> | <u>-</u> | <u>279,894</u> |
| <i>Total</i> | <u>\$ 283,752</u> | <u>\$ 1,981</u> | <u>\$ 1,134,199</u> | <u>\$ 1,419,932</u> |

Notes Receivable

In 1986, the Town obtained three grants from the North Carolina Department of Natural Resources and Community Development for the purpose of making loans to three local businesses. The principal repayments and related interest income have been used to establish a Revolving Loan Fund from which loans have been made to numerous additional local businesses. As of June 30, 2011, the Revolving Loan Fund notes receivable balance was \$294,981, net of a \$158,973 allowance.

In June 2007, an Affordable Housing Fund was created to advance the Town's goal of increasing the stock of affordable, safe and decent housing within the Town and its planning jurisdiction. As of June 30, 2011, the Affordable Housing Fund notes receivable balance was \$32,814.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

A. Assets (Continued)

3. Receivables (Continued)

Notes Receivable (Continued)

The following is a summary of notes receivable at June 30, 2011:

| | Interest Rate | Balance |
|-----------------------------|------------------|-------------------|
| Alphabet Soup | 6.00 | \$ 25,559 |
| Cycling Specifics | 5.00 | 7,922 |
| Bryan's Guitar | 3.00 | 55,454 |
| Science Technologies | 2.00 | 12,886 |
| Art in a Pickle | 2.00 | 62,754 |
| The Beehive | 3.00 | 37,657 |
| Carrboro Creative Coworking | 2.00 | 79,067 |
| Cycle 9 | 3.00 | 16,648 |
| Original Ornament | 3.00 | 70,000 |
| Kind Coffee | 3.00 | 44,579 |
| Carrboro Citizen | 2.00 | 41,428 |
| 105 Cobb Street | 2.00 | 6,782 |
| 109 Jones Ferry Road | 2.00 | <u>26,032</u> |
| | | 486,768 |
| Less allowance | | <u>(158,973)</u> |
| Total | | <u>\$ 327,795</u> |

4. Receivables - Allowance for Doubtful Accounts

The Town provides, as an allowance for uncollectible accounts, a percentage of its receivables which it does not expect to collect based on historical collection rates.

The amounts presented in Exhibit 3, the governmental funds balance sheet, are net of the following allowances for doubtful accounts:

| | |
|---|-------------------|
| General Fund | |
| Property taxes, including motor vehicle | <u>\$ 107,967</u> |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|---|-------------------------------|---------------------|---------------------|----------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 14,199,018 | \$ 9,375 | \$ - | \$ 14,208,393 |
| Construction-in-progress | <u>2,228,987</u> | <u>2,373,014</u> | <u>3,522,753</u> | <u>1,079,248</u> |
| Total capital assets not being depreciated | <u>\$ 16,428,005</u> | <u>\$ 2,382,389</u> | <u>\$ 3,522,753</u> | <u>\$ 15,287,641</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 5,186,636 | \$ 2,151,972 | \$ - | \$ 7,338,608 |
| Land improvements | 579,053 | 29,378 | - | 608,431 |
| Infrastructure | 7,357,152 | 773,987 | - | 8,131,139 |
| Equipment and heavy equipment | 2,822,288 | 344,899 | - | 3,167,187 |
| Vehicles | <u>5,936,419</u> | <u>213,144</u> | <u>517,852</u> | <u>5,631,711</u> |
| Total capital assets being depreciated | <u>\$ 21,881,548</u> | <u>\$ 3,513,380</u> | <u>\$ 517,852</u> | <u>\$ 24,877,076</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | \$ 2,473,486 | \$ 214,254 | \$ - | \$ 2,687,740 |
| Land improvements | 110,730 | 23,086 | - | 133,816 |
| Infrastructure | 803,409 | 269,834 | - | 1,073,243 |
| Equipment and heavy equipment | 2,093,241 | 309,293 | - | 2,402,534 |
| Vehicles | <u>3,502,617</u> | <u>421,697</u> | <u>517,852</u> | <u>3,406,462</u> |
| Total accumulated depreciation | <u>\$ 8,983,483</u> | <u>\$ 1,238,164</u> | <u>\$ 517,852</u> | <u>\$ 9,703,795</u> |
| Total capital assets being depreciated, net | <u>\$ 12,898,065</u> | | | <u>\$ 15,173,281</u> |
| Governmental activity capital assets, net | <u>\$ 29,326,070</u> | | | <u>\$ 30,460,922</u> |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

A. Assets (Continued)

5. Capital Assets (Continued)

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

| | |
|----------------------------|---------------------|
| General government | \$ 66,138 |
| Public safety | 446,024 |
| Planning | 10,198 |
| Public works | 544,120 |
| Parks and recreation | <u>171,684</u> |
| Total depreciation expense | <u>\$ 1,238,164</u> |

B. Liabilities

1. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at the government-wide level at June 30, 2011 were as follows:

| | <u>Vendors</u> | <u>Salaries and Benefits</u> | <u>Other</u> | <u>Total</u> |
|-------------------------------|-------------------|----------------------------------|-----------------|-------------------|
| Governmental activities: | | | | |
| General | \$ 256,188 | \$ 243,281 | \$ 321 | \$ 499,790 |
| Other governmental | <u>292,992</u> | <u>-</u> | <u>3,750</u> | <u>296,742</u> |
| Total governmental activities | <u>\$ 549,180</u> | <u>\$ 243,281</u> | <u>\$ 4,071</u> | <u>\$ 796,532</u> |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town 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 Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.41% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011, 2010 and 2009 were \$476,399, \$365,545 and \$350,238, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan Obligations (Continued)

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G. S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

| | |
|---|----|
| Retirees receiving benefits | 3 |
| Terminated plan members entitled to, but not yet receiving benefits | - |
| Active plan members | 40 |
| Total | 43 |

A separate report was not issued for the plan.

Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan Obligations (Continued)

Law Enforcement Officers' Special Separation Allowance (Continued)

Contribution: The Town is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. The annual required contribution for the current year was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The unfunded actuarial accrued liability is being amortized on a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2009 was 21 years.

Annual Pension Cost and Net Pension Obligation: The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

| | |
|--|-------------------|
| Annual required contribution | \$ 90,934 |
| Interest on net pension obligation | 16,109 |
| Adjustment to annual required contribution | <u>(17,249)</u> |
| Annual pension cost | 89,794 |
| Contributions made | <u>52,429</u> |
| Increase in net pension obligation | 37,365 |
| Net pension obligation, beginning of year | <u>322,184</u> |
| Net pension obligation, end of year | <u>\$ 359,549</u> |

**TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan Obligations (Continued)

Law Enforcement Officers' Special Separation Allowance (Continued)

Three-Year Trend Information:

| <u>Fiscal Year Ended</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|------------------------------|--|--|---------------------------------------|
| 6/30/09 | \$ 64,458 | 71.63% | \$ 293,117 |
| 6/30/10 | 75,980 | 61.74% | 322,184 |
| 6/30/11 | 89,794 | 58.39% | 359,549 |

Funded Status and Funding Process: As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UALL) was \$901,763. The covered payroll (annual payroll of active employees covered by the plan was \$1,893,173, and the ratio of the UAAL to the covered payroll was 47.63%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Supplemental Retirement Income Plan

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G. S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the state of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Pension Plan Obligations (Continued)

Supplemental Retirement Income Plan (Continued)

Funding Policy. Article 12E of G. S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each law enforcement officer's salary, and all amounts contributed are vested immediately. The Town has elected to contribute each month an amount equal to 3% of each participating general employee's salary. Also, the participants may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2011 were \$446,226, which consisted of \$255,367 from the Town and \$190,859 from the employees.

Additionally, the Town has elected to include all permanent, full-time employees under this plan.

3. Other Post-Employment Benefits

Plan Description. In addition to providing pension benefits, the Town has elected to provide post-retirement health benefits to retirees of the Town who participate in the North Carolina Local Governmental Employees' Retirement System. The benefits are provided to any employees who retire with 10 years or more of continuous service to the Town. The benefits vary based on years of continuous service at retirement and based on date of hire. The Board of Aldermen may amend the benefit provisions.

Membership of the Healthcare Benefits (HCB) Plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

| | General Employees | Law Enforcement Officers |
|--|----------------------|--------------------------------|
| Retirees and dependents receiving benefits | 18 | 3 |
| Terminated plan members entitled to but not yet receiving benefits | - | - |
| Active plan members | 123 | 40 |
| Total | 141 | 43 |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Other Post-Employment Benefits (Continued)

Funding Policy. The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees. Also, retirees who have their dependents covered at the time of retirement may continue to cover dependents if they elect to pay the premiums. Currently, 18 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2011, the Town made payments for post-retirement health premiums of \$133,567. There were no contributions made by employees, except for dependent coverage in the amount of \$48,547. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 18.63% of annual covered payroll. For the current year, the Town contributed \$85,021 or 1.17% of annual covered payroll. The Town obtains healthcare coverage through private insurers. The Town's required contributions, under a Town resolution, for employees not engaged in law enforcement and for law enforcement officers represented 13.26% and 5.00% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$48,547. The Town's obligation to contribute to HBC Plan is established and may be amended by the Town's Board.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

| | |
|--|--------------|
| Annual required contribution | \$ 1,324,183 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost | 1,324,183 |
| Contributions made | (85,021) |
| Increase in net OPEB obligation | 1,239,162 |
| Net OPEB obligation, beginning of year | 1,234,293 |
| Net OPEB obligation, end of year | \$ 2,473,455 |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Other Post-Employment Benefits (Continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011 were as follows:

| <u>For Year Ended June 30</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------------------------------|-----------------------------|---|--------------------------------|
| 2011 | \$ 1,324,193 | 6.42% | \$ 2,473,455 |
| 2010 | \$ 1,324,193 | 6.79% | \$ 1,234,293 |

Funded Status and Funding Progress. As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$13,138,991. The covered payroll (annual payroll of active employees covered by the plan) was \$7,108,351, and the ratio of the UAAL to the covered payroll was 184.8%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends.

Amounts are determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Other Post-Employment Benefits (Continued)

In the December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00% annually. The investment rate included a 3.75% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, was 30 years.

4. Other Employment Benefits

The Town has elected to provide death benefits to local law enforcement employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those local law enforcement employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death, are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

The Town provides additional group-term life insurance through American United Life Insurance Company. The death benefit provided by the Town is \$15,000. Employees may purchase additional supplemental insurance. The supplemental amounts are available in increments of \$25,000, \$50,000, or \$75,000. The premiums for the supplemental insurance are deducted from payroll on an after tax basis.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Deferred/Unearned Revenues

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. The balances in deferred revenues in the fund financial statements (includes both, the deferred and unearned amounts disclosed below) and unearned revenues in the government-wide financial statements at year end are comprised of the following elements:

| | <u>Deferred Revenues</u> | <u>Unearned Revenues</u> |
|---|------------------------------|------------------------------|
| Property taxes receivable, net | \$ 367,421 | \$ - |
| Notes receivable, net | 327,795 | - |
| Prepaid privilege license | - | 47,158 |
| Other receivables | 26,034 | - |
| Parks and recreation program and facility reservations | - | 49,099 |
| Grant proceeds not yet earned | - | 68,745 |
| Other unearned revenues received | - | 44,665 |
| Total | <u>\$ 721,250</u> | <u>\$ 209,667</u> |

6. 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 of \$2 million per occurrence and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and unlimited lifetime employee health coverage. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$100,000 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 total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

6. Risk Management (Continued)

The Town carries commercial coverage for police liability and public officials' liability. 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.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). The Town has been designated an area X by the Federal Emergency Management Agency. For all buildings and contents located in the NFIP flood zone X, the flood deductible is \$50,000 per occurrence with a \$5,000,000 aggregate limit.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Finance Officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$1,000,000.

7. Short-Term Obligations

Bond Anticipation Notes - Bond Fund (Short-Term Debt)

The Town issued bond anticipation notes (BAN) for sidewalk and greenway trail improvements in the amount of \$2,590,000 on February 10, 2010, which matured on October 27, 2010. The BAN was renewed at the same face value and matured on July 20, 2011. The Town renewed again at the same face value of \$2,590,000. The note bears interest at a stated rate of 1.00 % per annum. The bond anticipation notes do not meet the criteria for classification as general long-term debt as set forth in ASC 470; thus, the accounting for these bonds is maintained in the Bond Fund. The Town anticipates the issuance of general obligation bonds authorized by an order adopted on November 3, 2003 entitled, "Bond Order Authorizing the Issuance of \$4,600,000 Sidewalk and Greenway Trail Bonds of the Town of Carrboro."

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

7. Short-Term Obligations (Continued)

Changes in Short-Term Debt Obligations

During the year ended June 30, 2011, the following changes occurred in short-term obligations:

| | Balance July 1, 2010 | Increases | Decreases | Balance June 30, 2011 | Current Portion of Balance |
|---------------------------|----------------------------|------------|------------|-----------------------------|----------------------------------|
| Governmental activities: | | | | | |
| Short-term debt | | | | | |
| Bond anticipation note | \$ 2,590,000 | \$ _____ - | \$ _____ - | \$ 2,590,000 | \$ 2,590,000 |
| Total debt | \$ 2,590,000 | \$ _____ - | \$ _____ - | \$ 2,590,000 | \$ 2,590,000 |

8. Long-Term Obligations

a. Installment Purchase Agreements - Equipment - General Fund

The Town has installment purchase agreements for the purchase and/or improvement of personal property including vehicles and equipment. The installment purchase notes payable at June 30, 2011, are as follows:

The financing contract requires an annual level payment of \$159,044 due June 16, including interest at 3.02%. The financing institution holds a security interest in all or a portion of the property purchased or improved. Payments are due beginning June 16, 2008, and annually thereafter, with a final payment of all outstanding principal and accrued and unpaid interest due on June 16, 2012.

\$ 154,382

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

a. Installment Purchase Agreements - Equipment - General Fund (Continued)

The financing contract requires an annual level payment of \$143,970 due June 16, including interest at 3.19%. The financing institution holds a security interest in all or a portion of the property purchased or improved. Payments are due beginning June 16, 2008, and annually thereafter, with a final payment of all outstanding principal and accrued and unpaid interest due on June 16, 2014.

\$ 405,751

The financing contract requires an annual level payment of \$129,114 due June 23, including interest at 2.235%. The financing institution holds a security interest in all or a portion of the property purchased or improved. Payments are due beginning June 23, 2010, and annually thereafter, with a final payment of all outstanding principal and accrued and unpaid interest due on June 23, 2014.

370,102

The financing contract requires an annual level payment of \$98,243 due June 24, including interest at 1.555%. The financing institution holds a security interest in all or a portion of the property purchased or improved. Payments are due beginning June 24, 2011, and annually thereafter, with a final payment of all outstanding principal and accrued and unpaid interest due on June 24, 2015.

378,157

Total \$ 1,308,392

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

a. Installment Purchase Agreements - Equipment - General Fund (Continued)

Annual debt service payments of the installment purchase as of June 30, 2011, including \$62,325 of interest, are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2012 | \$ 498,601 | \$ 31,770 |
| 2013 | 352,535 | 18,791 |
| 2014 | 360,518 | 10,259 |
| 2015 | 96,738 | 1,505 |
| Total | \$ 1,308,392 | \$ 62,325 |

b. Installment Purchase Agreements - Improvements - General Fund

The Town has installment purchase agreements for improvements. The installment purchase notes payable at June 30, 2011, are as follows:

Installment purchase agreement for the purchase and renovation of a facility for the Carrboro Century Center and for improvements to the Town Hall Municipal Building. The financing contract requires semi-annual payments of \$114,939 due July 3 and January 3, including interest at 3.75%. The financing institution holds a first priority lien on the property and a first priority security interest in any and all fixtures used in connection with the operation of the property.

\$ 1,303,177

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

b. Installment Purchase Agreements - Improvements - General Fund

Installment purchase agreement to partially finance the purchase of land for a park. The financing contract requires semi-annual payments of \$12,336 due July 1 and January 1, including interest at 3.99%. The financing institution holds a first lien security interest on the property and to any improvements to the real estate. \$ 90,390

Installment purchase agreement to finance the purchase of land for construction of a new Public Works building in the future. The financing contract requires semi-annual payments of \$25,567 due August 1 and February 1, plus interest at 3.96%. The financing institution holds a first lien security interest on the property and to any improvements to the real estate. 332,345

Installment purchase agreement to finance the purchase of land for preservation. The financing contract requires annual principal payments of \$40,000 plus interest accrued at 4.1% due July 1. The financing institution holds a first lien security interest on the property and to any improvements to the real estate. 360,000

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

b. Installment Purchase Agreements - Improvements - General Fund

Installment purchase agreement to finance the construction of the fire substation. The financing contract requires semi-annual payments of \$108,333 due July 15 and January 15, plus interest at 4.07%. The financing institution holds a first lien security interest on the property and first priority security interest in any and all fixtures used in connection with the operation of the property.

\$ 2,925,000

Total

\$ 5,010,912

Annual debt service payments of the installment purchases as of June 30, 2011, including \$1,136,218 of interest, are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2012 | \$ 504,295 | \$ 194,997 |
| 2013 | 519,558 | 174,743 |
| 2014 | 527,627 | 154,131 |
| 2015 | 519,764 | 133,243 |
| 2016 | 536,004 | 117,747 |
| 2017-2021 | 1,637,862 | 306,735 |
| 2022-2025 | <u>765,802</u> | <u>54,622</u> |
| Total | <u>\$ 5,010,912</u> | <u>\$ 1,136,218</u> |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. c. Changes in Long-Term Debt Obligations

During the year ended June 30, 2011, the following changes occurred in long-term and short-term obligations:

| | <u>Balance July 1, 2010</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2011</u> | <u>Current Portion of Balance</u> |
|--------------------------------------|-------------------------------------|---------------------|---------------------|--------------------------------------|---|
| Governmental activities: | | | | | |
| Long-term debt | | | | | |
| Installment purchases - improvements | \$ 5,515,207 | \$ - | \$ 504,295 | \$ 5,010,912 | \$ 504,295 |
| Installment purchases - equipment | 1,545,434 | 476,399 | 713,441 | 1,308,392 | 498,601 |
| Compensated absences | 597,845 | 323,836 | 327,775 | 593,906 | 327,775 |
| Other post-employment benefits | 1,234,293 | 1,324,183 | 85,021 | 2,473,455 | - |
| Net pension obligation | <u>322,184</u> | <u>89,794</u> | <u>52,429</u> | <u>359,549</u> | <u>-</u> |
| Total long-term obligations | <u>\$ 9,214,963</u> | <u>\$ 2,214,212</u> | <u>\$ 1,682,961</u> | <u>\$ 9,746,214</u> | <u>\$ 1,330,671</u> |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

8. Long-Term Obligations (Continued)

c. Changes in Long-Term Debt Obligations (Continued)

Compensated absences and net pension obligation liabilities have typically been liquidated in the General Fund.

The Town has \$4,600,000 in bonds authorized, but unissued at June 30, 2011. The Town's legal debt margin at June 30, 2011 was \$155,130,085.

C. Interfund Balances and Activity

Transfers to/from other funds:

Transfers to/from other funds at June 30, 2011 consist of the following:

| | |
|---|-------------------|
| From the General Fund to the Capital Projects Fund for future capital projects expenditures | \$ 254,483 |
| From the Capital Projects Fund to the General Fund for project expenditures | 176,945 |
| From the Revolving Loan Fund to the Energy Efficiency Revolving Loan Fund for project expenditures | 45,000 |
| From the Grants Administration Fund to the Energy Efficiency Fund Revolving Loan Fund for future project expenditures | <u>55,000</u> |
| Total | <u>\$ 531,428</u> |

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Detail Notes on All Funds (Continued)

D. Fund Balance

The following schedule provides management and citizens with the information on the portion of General fund balance that is available for appropriation:

| | |
|--|----------------------|
| Total fund balance - General Fund | \$ 13,739,846 |
| Less: | |
| Inventories | 62,835 |
| Prepaid items | 150,908 |
| Stabilization by state statute | 2,290,704 |
| Capital Equipment | 169,108 |
| Subsequent year's expenditures | 712,163 |
| Capital projects | 2,000,000 |
| Working capital / fund balance policy | 6,471,479 |
| Remaining fund balance | 1,882,649 |

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year end.

| | |
|--------------|------------|
| General Fund | \$ 595,453 |
|--------------|------------|

Note 4. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several 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 monies 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 monies.

Employment Security Benefits

The Town has elected to pay the direct cost of employment security benefits in lieu of unemployment payroll taxes. A liability for such payments could accrue in the period following the discharge of an employee. The Town made payments of \$616 for employment security benefits during the current fiscal year.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 5. Future Expected Annual Cell Tower Revenue

The Town entered into contractual arrangements with four wireless communication service providers. The lease contracts have staggering maturity dates.

The Town has allowed these providers to have equipment on the Town-owned cell towers and has allowed service provider equipment on the Town's site. The lessee is responsible for keeping in full force and effect a comprehensive general liability insurance policy of at least \$2,000,000 from any one occurrence in respect to bodily injury (including death) and damage to property. The lessee agrees that no part of the equipment, building or improvements constructed, erected or placed by the lessee on the tower or site shall be considered as being affixed or part of the tower or site and will be removed by the lessee upon termination of the contractual agreement.

The expected annual cell tower revenues are as follows:

| | |
|------|-------------------|
| 2012 | \$ 104,245 |
| 2013 | 105,302 |
| 2014 | <u>37,391</u> |
| | <u>\$ 246,938</u> |