

**TOWN OF CARRBORO, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

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, 2013. 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 \$37,506,765 (net position).
- Total net position increased by \$514,615 due to increases in the net position of the governmental-type activities.
- At June 30, 2013, the Town's governmental funds had combined ending fund balances of \$18,218,160, an increase of \$2,821,601 in comparison with the prior year, which is primarily related to the issuance of \$4.6 million of general obligation bonds. Approximately 39.8% or \$7,259,897 of this total amount is available for spending at the government's discretion (*unassigned fund balance*).
- Unassigned fund balance for the General Fund was \$7,296,945 or 40.1% of total General Fund expenditures at the end of the fiscal year.
- Total long-term liabilities for the Town increased by \$4,063,870 from \$9,999,093 at June 30, 2012 to \$14,062,963 at June 30, 2013 (40.6%) primarily due to the issuance of general obligation bonds to replace bond anticipation notes and other post-employment benefits.
- The Town has maintained and currently holds credit ratings of AA+ with Standard and Poor's, Aa2 with Moody's; and a rating of 83 with the North Carolina Municipal Council.

Overview of the Financial Statements

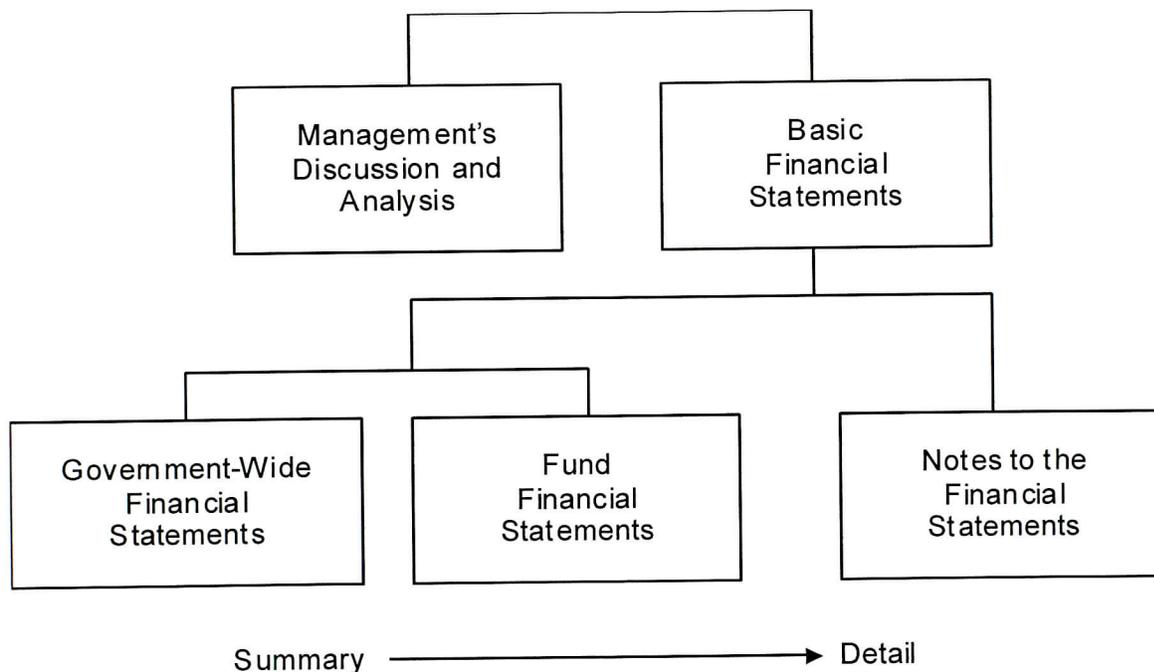
The Town's basic financial statements consist of three components (see Figure 1):

- 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 position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position and how they have changed. Net position reported on the *statement of net position* is the difference between the Town's total assets and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition. The *statement of activities* presents information showing how the Town's net position has 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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

**TOWN OF CARRBORO, NORTH CAROLINA
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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 57 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 61 of this report.

Government-Wide Financial Analysis

**The Town of Carrboro's Net Position
Figure 2**

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 21,244,809	\$ 20,676,191
Capital assets	<u>32,564,427</u>	<u>31,072,133</u>
Total assets	<u>53,809,236</u>	<u>51,748,324</u>
Other liabilities	2,133,032	4,642,944
Long-term liabilities outstanding	<u>14,062,963</u>	<u>9,999,093</u>
Total liabilities	<u>16,195,995</u>	<u>14,642,037</u>
Deferred inflows of resources	<u>106,476</u>	<u>114,137</u>
Net position:		
Net investment in capital assets	25,869,273	24,803,167
Restricted - stabilization by state statute	1,902,041	1,877,720
Unrestricted	<u>9,735,451</u>	<u>10,311,263</u>
Total net position	<u>\$ 37,506,765</u>	<u>\$ 36,992,150</u>

**TOWN OF CARRBORO, NORTH CAROLINA
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For the Year Ended June 30, 2013**

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities and deferred inflows of resources by \$37,506,765 as of June 30, 2013. This is an increase of \$514,615 over the prior fiscal year. The largest portion of net position (69%) 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 position (\$1,902,041) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,735,461(26.0%) is unrestricted.

**The Town of Carrboro's Changes in Net Position
Figure 3**

	<u>Governmental Activities</u> <u>2013</u>	<u>Governmental Activities</u> <u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,580,922	\$ 1,766,707
Operating grants and contributions	320,304	871,613
Capital grants and contributions	954,131	406,518
General revenues:		
Property taxes	11,807,199	11,687,941
Taxes	3,888,732	3,757,688
Grants and contributions not restricted to specific programs	952,397	946,091
Other	<u>46,482</u>	<u>47,980</u>
Total revenues	<u>19,550,167</u>	<u>19,484,538</u>
Expenses:		
General government	3,978,378	3,493,073
Public safety	6,778,893	6,835,304
Planning	1,107,377	1,162,777
Transportation	1,286,714	1,058,859
Public works	4,072,606	4,252,251
Parks and recreation	1,453,991	1,516,336
Economic and physical development	170,695	275,681
Interest on long-term debt	<u>186,898</u>	<u>301,772</u>
Total expenses	<u>19,035,552</u>	<u>18,896,053</u>
Increase in net position	514,615	588,485
Net position, July 1	<u>36,992,150</u>	<u>36,403,665</u>
Net position, June 30	<u>\$ 37,506,765</u>	<u>\$ 36,992,150</u>

**TOWN OF CARRBORO, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities. Governmental activities increased the Town's net position by \$514,615. Key elements of this change are as follows:

- Ad valorem property tax revenue increased by \$119,258 from \$11,687,941 last year to \$11,807,199 this fiscal year, which represents a 1.0% 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.
- Capital grants and contributions increased by \$547,613 from \$406,518 last year to \$954,131 this fiscal year compared to a decrease of \$240,996 between 2011 and 2012.
- Sales tax revenue increased by \$119,618, roughly 3.6%, from \$3,308,060 last year to \$3,427,678 this fiscal year.
- The Town issued \$4.6 million of general obligation bonds as permanent financing for sidewalk and greenways 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 \$2,717,113 for capital outlay, which included completion of Wilson Park Multi Use Path, design of greenways, Roberson Street sewer improvements, and the purchase of new vehicles and equipment.
- Expense for interest on long-term debt decreased by \$114,874 from \$301,772 last year to \$186,898 this fiscal year.

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 \$7,296,945, while total fund balance reached \$12,810,981. This decrease in fund balance is due to a combination of factors: increase in revenues over the prior year; and reduction in debt service by retirement of older debt with higher interest rates before maturity. Both of these factors are offset by \$3.9 million of transfers to the Capital Projects and Capital Reserve funds for future construction. 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 40.1% of total General Fund expenditures.

At June 30, 2013, the governmental funds of the Town of Carrboro reported a combined fund balance of \$18,218,160. The reported combined fund balance of the governmental funds includes a fund balance within the Bond Fund of \$1,961,993. In 2012, the Bond Fund had a deficit fund balance of (\$2,228,483). This change is primarily due to the fact that the general obligation bonds in the amount of \$4.6 million were issued in the current year.

**TOWN OF CARRBORO, NORTH CAROLINA
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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 \$742,823 (3.8%) from an original appropriation of \$18,990,791 to a final appropriation of \$19,733,614.

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 \$743,998. Property and sales taxes accounted for roughly 4.1% of the revenue above budget projections. Property taxes were \$215,662 (1.8%) above budget projections and sales taxes were \$140,433 (4.3%) above budget projection.

Permits and fees exceeded budget projections by \$201,779. Total revenue for permits and fees this year was \$1,255,930, a 4% decrease over last year's actual of \$1,308,544. This is due to a number of approved private developments that began or completed construction last year. While revenues from sales and services, investment, and other exceeded budget projections by \$50,824, these revenues were slightly higher than those received for the prior year.

The unrestricted intergovernmental revenue shows receipts exceeding budget projections by \$89,660 for electric franchise, piped natural gas, video sales programming, telecommunication, and wine and beer licenses or taxes. These revenues totaled \$952,397 for 2013 compared to the prior year amount of \$946,091.

Expenditures, as required by budget ordinance, should not exceed appropriated levels. Total expenditures were \$18,200,904, which was \$1,532,710 less than the final budget of \$19,733,614. All spending by function was in compliance with budgetary requirements.

While all expenditures were less than final budget at June 30, 2013, they were slightly higher at 1.7% over the prior year. Actual Expenditures for Public Safety and Recreation and Parks were less than that of the prior year and decreased by 4.3% and 7.6%, respectively. This is due primarily to retirement of long tenured personnel in Police Department, and delay of capital purchases. Transportation and Public Works expenditures, on the other hand, were 24.6% and 15.3%, respectively, were higher than the prior year due to the increased transit operations, acquisition of additional major equipment for solid waste operations. Debt service expenditures decreased by 13.0% over the prior year. This is due to the retirement of long-term debt prior to maturity and prior years' debt for vehicles and equipment.

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Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental-type activities as of June 30, 2013, totaled \$32,564,427 (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 Wilson Park Multi Use Path
- Purchase of parking lot in downtown business district
- Replacement of police vehicles
- Replacement of solid waste equipment

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

	Governmental Activities 2013	Governmental Activities 2012
Land	\$ 14,608,393	\$ 14,208,393
Construction-in-progress	325,179	664,777
Buildings and systems	4,955,816	4,792,123
Improvements other than buildings	427,950	451,283
Machinery and equipment	846,485	723,940
Infrastructure	9,604,006	8,175,924
Vehicles and motorized equipment	1,796,598	2,055,693
Total	\$ 32,564,427	\$ 31,072,133

Additional information on the Town's capital assets can be found in on pages 29 and 37 of this report.

Long-Term Debt. As of June 30, 2013, the Town of Carrboro had the following long-term liabilities:

**The Town of Carrboro's Outstanding Debt
Figure 5**

	Governmental Activities	
	2013	2012
Bond anticipation note	\$ -	\$ 2,590,000
General obligation bonds	4,600,000	-
Premium on bonds	90,028	-
Installment purchases	3,444,437	5,405,219
Compensated absences	556,377	519,865
Other postemployment benefits obligation	4,984,883	3,701,243
Net pension obligation	387,238	372,766
Total	\$ 14,062,963	\$ 12,589,093

**TOWN OF CARRBORO, NORTH CAROLINA
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Total long-term liabilities for the Town increased by \$1,473,869 (11.7%) during fiscal year 2013 primarily due to the issuance of general obligation bonds to replace bond anticipation notes and other post-employment benefits. The Town had debt retirement for this fiscal year with the principal repayment of \$2,503,013. This includes the retirement of debt prior to maturity totaling \$1,487,687.

As mentioned in the financial highlights section of this document, the Town currently holds and has maintained its Aa2 bond rating from Moody's Investor Service and AA+ rating from Standard and Poor's Corporation. These bond ratings are a clear indication of the Town's sound financial condition.

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 \$152,209,360. The Town has no general obligation bonds authorized, but unissued at June 30, 2013.

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 5.7% is well below the state average of 10.4% as of August 2013. 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, 2014

Governmental Activities: The Town has approved a General Fund budget in the amount of \$20,735,656 for fiscal year 2014, which is a \$1,314,165 or 6.8% increase over the original adopted fiscal year 2013 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 2014 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.

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The two largest sources of revenues, property taxes and sales taxes, are projected to increase. Property taxes are projected to increase by 3.8% 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 2012-2013.

Sales taxes revenue over the past year are showing signs of recovery and anticipated to grow by 1.2% over the 2012-13 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 an overall 6% increase in personnel and benefits costs, including 10% increase for health insurance premiums, a 1.9% across-the-board pay increase for employees, increase in Law Enforcement Officers Early Separation Allowance, and mandatory employer contribution rate increase for Local Government Employees' Retirement System (LGERS). Other operating expense increases are expected for fair-free transit services (from \$1,240,000 to \$1,354,330); additional fuel to transport solid waste to Durham, rather than the local landfill that closed June 30, 2013; and upgrade of public safety radios.

Through re-prioritization of requests, capital outlays for vehicles and equipment were reduced to \$745,176 from the \$1.8 million included in the six-year capital improvement plan. Other capital investments include software upgrades to CAD and GIS information systems, IT server replacement, police-2-citizen and live scan fingerprint systems.

Debt service costs slightly decreased from \$1,430,681 to \$1,353,143 due to the payoff of some older debt with higher interest rates. The Town also issued the authorized \$4.6 million of general obligation bonds in January 2013.

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>.