

Town of Carrboro, North Carolina

Comprehensive Annual Financial Report

For the Fiscal Year
Ended June 30, 2011

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Town of Carrboro, North Carolina

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Town of Carrboro, North Carolina

PRINCIPAL OFFICIALS

BOARD OF ALDERMEN

Mark Chilton, Mayor

Dan Coleman
Joal Hall Broun
Ranee Haven-O'Donnell

Lydia Lavelle
Sammy Slade
Jacquelyn Gist

INTERIM TOWN MANAGER

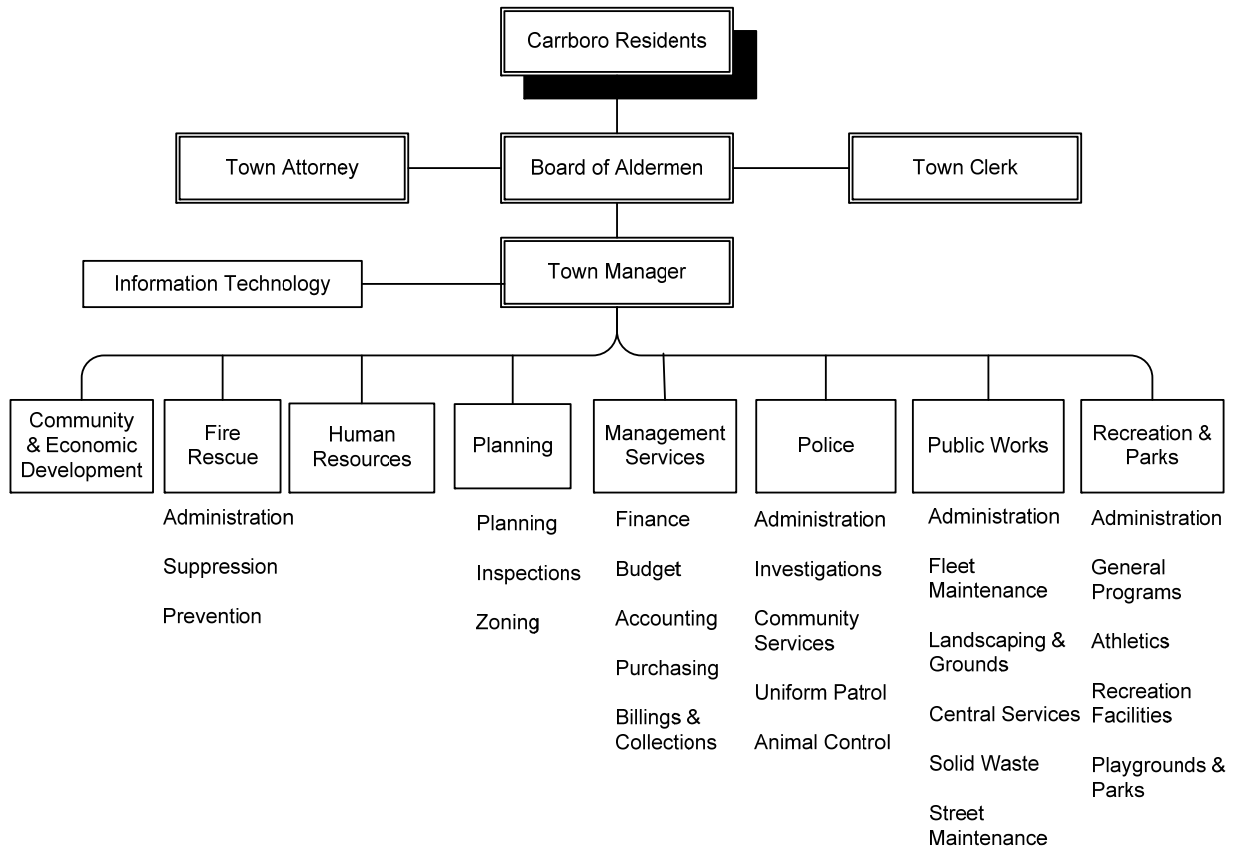
C. Matthew Efird, MPA

MANAGEMENT SERVICES DEPARTMENT

Arche L. McAdoo, Finance Director
Nancy Emslie, Accounting Officer
Karin Pecaut, Staff Accountant
Jane Bowden, Accounting Technician I
Mary Jane Jenkinson, Accounting Technician I
Debi Walker, Accounting Technician II
Sandy Svoboda, Purchasing Officer

Town of Carrboro, North Carolina

Organizational Chart





TOWN OF CARRBORO

NORTH CAROLINA

WWW.TOWNOFCARRBORO.ORG

November 11, 2011

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

We are pleased to submit The Comprehensive Annual Financial Report (CAFR) of the Town of Carrboro for the fiscal year ended June 30, 2011 (FY 2010-11). As required by North Carolina General Statutes (NCGS), the CAFR includes financial statements that have been audited by an independent certified public accounting firm. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data accurately presents the financial position and the results of operations of the Town as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

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

COMMUNITY AND ORGANIZATIONAL PROFILE

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

The growth of the Town is directly related to the expansion of the University of North Carolina at Chapel Hill and growth in the Research Triangle Park. Enrollment at the University has risen from 24,872 in 2010 to 29,390 in 2011. It is anticipated that expansion will continue to occur in University-related health facilities such as the University of North Carolina Hospitals and with the proposed development of the Carolina North campus.

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

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

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

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

GOVERNANCE

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

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

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

ECONOMIC CONDITION AND OUTLOOK

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

The recent recession, which has been described as one of the longest since the Great Depression, deeply affected the state unemployment rate. In 2010, Orange County was ranked as having the lowest unemployment rate in the state for most, if not all of the year. The unemployment rate for Orange County has ranged from 4.3% in June 2005 to 7.2% in June 2011. With the University of North Carolina at Chapel Hill, the University of North Carolina Health Care System, and Research

Triangle Park, businesses providing jobs to residents of Carrboro, the local employment base is relatively stable and contributes to the Town's economic state. Over the past six years, the unemployment rate in North Carolina has gone from 5.5% in June 2005 to 10.4% in June 2011.

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

Over the next five years, the Town anticipates several new capital projects that could affect Town borrowing and future debt payments. Projects anticipated in the future that may require debt financing include development of the Martin Luther King, Jr. Park, and purchase of parking lots for the downtown area. A more comprehensive analysis of the Town's capital needs and financing mechanisms can be reviewed in the Town's Capital Improvements Program available on the Town's website. The potential impact on property tax rates of these projects will be affected by the timing of the implementation of the proposed projects and availability of other revenue sources or cost savings to fund the projects.

The Town is set to continue its practice of issuing bond anticipation notes to finance the first phase of sidewalks and greenways construction. Financing for fire station #2 in the northern area of Town occurred in fiscal year 2008-09 and construction was completed in September 2010.

MAJOR TOWN INITIATIVES

The Board of Aldermen has defined strategic priorities for the Town with the ultimate goal of creating and maintaining Carrboro as a sustainable community that is a highly desirable place to live. These strategic priorities are considered long-term goals and the noteworthy accomplishments in fiscal year 2010-2011 are a reflection of the Board's priorities.

- The Town received a "Safe Routes to Schools" grant to help our local elementary school kids walk, bike, and avoid vehicle trips as much as possible. This award was used to plan for the construction of a sidewalk on Elm Street, which is located near Carrboro Elementary School. The sidewalk is slated for construction in FY 2011-12.
- The Town was awarded a Bicycle Planning Grant from the North Carolina Department of Transportation in May 2007. The grant allowed the Town to develop a comprehensive bicycle plan for a connected, accessible and safe network of bicycle facilities. These facilities will be used for commuting, recreation, and as a viable alternative to the automobile. The plan was reviewed and approved by the Board March 24, 2009 and is still in the design phase of the project.
- The Town has been designated by the League of American Bicyclists as a Bicycle-Friendly Community (BFC). This past year Carrboro was promoted from the Bronze to the Silver award level. Carrboro joins 27 other cities and towns in the country that are recognized at the silver level. The award is presented only to communities that are committed to bicycling, provide safe accommodation and facilities for bicyclists and encourage bicycling for fun, fitness, and transportation. This award is valid through 2012.

- The Town applied for and received a grant from the North Carolina Division of Water Quality and the U. S. Environmental Protection Agency to continue with watershed restoration efforts. The grant, approved in FY 2009-10, covers watershed restoration efforts for a stream restoration project on Dry Gulch, continued monitoring of runoff from Pacifica, and a demonstration rain garden and cistern at McDougle Elementary/Middle School.
- In FY 2007-08, the Town enlisted in the North Carolina League of Municipalities “Green Challenge,” agreeing to participate in the Greenhouse Gas Emission Inventory and Reduction effort to reduce the carbon footprint; and agreeing to assess the Town’s energy efficiency through the U. S. Environmental Protection Agency’s “Energy Star Challenge” that involves reviewing and reducing utility consumption in town facilities, streetlights, and fuel usage. The Town continues to make improvements in this area and was moved to a higher level designation known as a “Green Challenge Advanced” municipality this fiscal year.
- The Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award has been awarded to the Town for its FY 2009-10 budget document. It is the highest form of recognition in governmental budgeting. The Town has submitted its FY 2010-11 budget document for evaluation for this recognition.
- The Town’s continued commitment to the environment is rewarded with its national designation as a Tree City USA Town and an Erosion and Sedimentation Control Award from the North Carolina Sedimentation Control Commission.
- Town residents approved a \$4.6 million bond referendum in November 2003 to construct sidewalks and greenways throughout Town to increase the safety and convenience of walking throughout the Town. The sidewalks are under construction and design and planning is underway for the greenways. The Town plans to continue the strategy of issuing bond anticipation notes until the General Obligation bond debt is issued.
- The Town, in collaboration with Chapel Hill, has been awarded a grant from the Southeast Energy Efficiency Alliance to engage in an energy efficiency retrofit program.

FINANCIAL INFORMATION

General Fund Balance

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 Reserves when the unassigned fund balance exceeds 35%. For the past five years, the unassigned fund balance as a percentage of total expenditures has increased from 44.3% for the year ended June 30, 2007 to 47.4% for the year ended June 30, 2011. This is a reflection of efforts taken by the Town to protect its fiscal health in light of the difficult economy. Numerous actions to adapt the budget and capital plans and financing to the current financial challenges have included delaying capital projects, freezing vacant positions, and reducing less vital operating expenses.

Budget Control

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

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

Cash Management

Forecasting of cash requirements and progressive cash management has allowed maximum use of available cash resources. For the year ended June 30, 2011, the market value of the Town's portfolio was \$16,703,066.

The Town's investment policy emphasizes safety and liquidity that minimizes credit and market risk, while seeking a competitive yield on its portfolio and ensuring that all deposits are collateralized or insured. The Town uses the pooled cash and investment concept in investing excess cash for all funds. Investments are made only in instruments permitted by North Carolina General Statute 159-30, which include certificates of deposit, repurchase agreements, secured time deposits, bankers acceptances, high quality commercial paper, United States government and agency securities, bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies, and the North Carolina Capital Management Trust (NCCMT).

Risk Management

The Town's potential loss for liability coverage is limited to a deductible of \$1,000 per claim for all coverage, except public officials' liability, employment practices and police professional liability, which are limited to a deductible of \$5,000 per claim. The Town participates in the North Carolina League of Municipalities Interlocal Risk Financing Fund of North Carolina for workers' compensation, general liability, automobile liability, public officials' liability, employment practices, police professional liability, flood insurance coverage and property losses.

Internal Controls

To prove a reasonable basis for making these representations, a comprehensive internal control framework has been designed in developing and maintaining the Town's accounting system. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition; (2) the reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America and maintaining accountability of assets; (3) the effectiveness and efficiency of operations; and (4) compliance with applicable laws and regulations related to federal and state financial assistance programs. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the Town's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

OTHER INFORMATION

Independent Audit

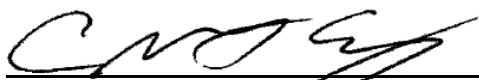
North Carolina General Statutes Chapter 159, the Local Government Budget and Fiscal Control Act, requires that units of local government have an annual audit by independent certified public accountants. The accounting firm of Dixon Hughes Goodman LLP was selected by the Board and performed this audit. In addition to meeting the statutory requirements, the audit also complies with the Federal Single Audit Act, Office of Management and Budget Circular A-133 and NCGS 159-34 (Single Audit Implementation Act). The auditors' report on the basic financial statements and combining and individual fund statements and schedules are included in the financial section of this report. The auditors' reports on internal controls and compliance with applicable laws and regulations are included in the Compliance and Single Audit Section.

Awards and Acknowledgements

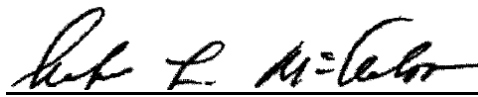
The Government Finance Officers Association of the United States and Canada (GFOA) awarded, for the seventh consecutive year, a Certificate of Achievement for Excellence in Financial Reporting to the Town of Carrboro for its Comprehensive Annual Financial Report issued for the previous fiscal year. In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

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements and will be submitting our CAFR for the fiscal year ended June 30, 2011 to the GFOA to determine its eligibility for another year. The Certificate Program managed by the GFOA was established in 1945, and is designed to recognize and encourage excellence in financial reporting by state and local governments. Further information about the Certificate Program can be obtained by visiting GFOA's website at: www.gfoa.org. The GFOA reports a growing awareness that the annual financial report should be management's report to its governing body, constituents, oversight bodies, resource providers, investors, and creditors. We agree with this direction, and in keeping with our past practice, have made available a copy of this report to each of you, the various Town departments, bond rating agencies, the Local Government Commission and other financial institutions which have expressed an interest in the Town's financial affairs.

Preparation of this report would have been impossible without the hard work and dedication of the Management Services Staff. In particular the efforts of the Accounting Officer and Staff Accountant should be recognized. Other departments of the Town have contributed directly or indirectly in the preparation of this report and their cooperation and continued assistance is appreciated.



C. Matthew Efid, MPA
Interim Town Manager



Arche L. McAdoo
Finance Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Carrboro
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



A stylized, handwritten signature in black ink.

President

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Executive Director

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