

ATTACHMENT A

A RESOLUTION ACCEPTING THE 2002-03 AUDIT REPORT

Resolution No. 61/2003-04

WHEREAS, the Carrboro Board of Aldermen have received the annual 2002-03 Audit Report; and

WHEREAS, the Aldermen were informed by the Town's auditors, Dixon Odom PLLC that the Town's financial statements are free of material misstatement and that the audit tests conducted by the firm did not uncover any material weaknesses that are required to be reported under Government Auditing Standards;

NOW THEREFORE, THE BOARD OF ALDERMEN OF THE TOWN OF CARRBORO:

Section 1: Accept the annual 2002-03 Audit Report.

TOWN OF CARRBORO, NORTH CAROLINA

***FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION***

June 30, 2003

Town of Carrboro, North Carolina

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Town of Carrboro, North Carolina

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Town of Carrboro, North Carolina

LIST OF PRINCIPAL OFFICIALS

BOARD OF ALDERMEN

Michael Nelson, Mayor

Alex Zaffron, Mayor Pro-Tempore
Joal Hall Broun
Mark Dorosin

Diana McDuffee
John Herrera
Jacquelyn Gist

TOWN MANAGER

Robert W. Morgan

ASSISTANT TOWN MANAGER

L. Bingham Roenigk

MANAGEMENT SERVICES DEPARTMENT

Judy Weller, Accounting Officer
Jan Bryant-Berry, Purchasing Officer
Cindy McLeod, Staff Accountant
Annette E. Rogers, Accounting Technician II
Paula Ragan, Accounting Technician I
Carrie Farrington, Program Support Assistant II

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
of the Board of Aldermen
Town of Carrboro
Carrboro, North Carolina

We have audited the accompanying general purpose financial statements of the Town of Carrboro, North Carolina as of June 30, 2003 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Carrboro's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Carrboro as of June 30, 2003, and the results of its operations and the cash flows of its fiduciary fund type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2003 on our consideration of the Town of Carrboro's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Town of Carrboro taken as a whole. The combining and individual fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Town of Carrboro. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Dixie Odom PLLC
September 10, 2003

FINANCIAL STATEMENTS

These financial statements provide an overview of the financial position of all funds and account groups and the operating results of all funds and the cash flows of the fiduciary fund. They also serve as an introduction to the more detailed statements and schedules that follow.

TOWN OF CARRBORO, NORTH CAROLINA

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Assets			
Cash and cash equivalents	\$ 5,048,124	\$ 1,382,960	\$ 268,001
Taxes receivable	239,173	-	-
Accounts receivable	63,938	-	-
Notes receivable	-	254,611	-
Due from governmental agencies	858,615	-	-
Inventories	24,387	-	-
Prepaid items	106,377	-	-
Fixed assets	-	-	-
Other debits			
Amount to be provided for the retirement of general long-term debt	-	-	-
Total Assets and Other Debits	<u>\$ 6,340,614</u>	<u>\$ 1,637,571</u>	<u>\$ 268,001</u>
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities			
Accounts payable and accrued liabilities	\$ 503,992	\$ -	\$ -
Deferred revenues	456,414	254,611	-
General obligation bonds payable - current	-	-	-
Compensated absences payable	-	-	-
General obligation bonds payable - noncurrent	-	-	-
Installment purchases payable - equipment	-	-	-
Installment purchases payable - improvements	-	-	-
Net pension obligation	-	-	-
Total liabilities	<u>960,406</u>	<u>254,611</u>	<u>-</u>
Equity and other credits			
Investment in general fixed assets	-	-	-
Fund balances			
Reserved for encumbrances	133,345	-	-
Reserved for prepaid items	106,377	-	-
Reserved by state statute	845,413	-	-
Unreserved			
Designated for project expenditures	14,924	-	-
Designated for specific purposes	138,851	820,848	268,001
Designated for subsequent year's expenditures	723,572	128,418	-
Undesignated	3,417,726	433,694	-
Total equity and other credits	<u>5,380,208</u>	<u>1,382,960</u>	<u>268,001</u>
Total Liabilities, Equity and Other Credits	<u>\$ 6,340,614</u>	<u>\$ 1,637,571</u>	<u>\$ 268,001</u>

The Notes to Combined Financial Statements are an integral part of this statement.

Exhibit A

Account Groups		
General Fixed Assets	General Long-Term Debt	Total (Memorandum Only)
\$ -	\$ -	\$ 6,699,085
-	-	239,173
-	-	63,938
-	-	254,611
-	-	858,615
-	-	24,387
-	-	106,377
12,781,087	-	12,781,087
-	5,509,728	5,509,728
<u>\$ 12,781,087</u>	<u>\$ 5,509,728</u>	<u>\$ 26,537,001</u>
\$ -	\$ -	\$ 503,992
-	-	711,025
-	161,857	161,857
-	408,831	408,831
-	575,393	575,393
-	635,751	635,751
-	3,596,030	3,596,030
-	131,866	131,866
-	5,509,728	6,724,745
12,781,087	-	12,781,087
-	-	133,345
-	-	106,377
-	-	845,413
-	-	14,924
-	-	1,227,700
-	-	851,990
-	-	3,851,420
12,781,087	-	19,812,256
<u>\$ 12,781,087</u>	<u>\$ 5,509,728</u>	<u>\$ 26,537,001</u>

The Notes to Combined Financial Statements are an integral part of this statement.

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TOWN OF CARRBORO, NORTH CAROLINA

Exhibit B

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2003**

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues				
Ad valorem taxes	\$ 7,324,513	\$ -	\$ -	\$ 7,324,513
Local option sales taxes	2,278,779	-	-	2,278,779
Other taxes and licenses	387,152	-	-	387,152
Unrestricted intergovernmental	564,687	-	-	564,687
Restricted intergovernmental	689,984	-	-	689,984
Permits and fees	747,441	-	-	747,441
Sales and services	195,494	-	-	195,494
Investment earnings	50,797	27,819	-	78,616
Other	57,510	102,652	7,162	167,324
Total revenues	12,296,357	130,471	7,162	12,433,990
Expenditures				
Current:				
General government	1,923,071	-	-	1,923,071
Public safety	3,442,054	-	-	3,442,054
Planning	922,863	-	-	922,863
Transportation	747,737	-	-	747,737
Public works	2,919,627	-	-	2,919,627
Parks and recreation	994,878	-	-	994,878
Capital outlay	-	-	938,741	938,741
Debt service:				
Principal retirement	848,478	-	-	848,478
Interest and fees	300,630	-	-	300,630
Other appropriations	-	138,041	-	138,041
Total expenditures	12,099,338	138,041	938,741	13,176,120
Revenues over (under) expenditures	197,019	(7,570)	(931,579)	(742,130)
Other financing sources (uses)				
Operating transfers from other funds	190,822	140,152	1,500	332,474
Operating transfers to other funds	(140,152)	(107,322)	(45,000)	(292,474)
Proceeds of refunding bonds	637,250	-	-	637,250
Payment to refunded bond escrow agent	(622,000)	-	-	(622,000)
Proceeds from installment purchase agreements	224,039	-	881,100	1,105,139
Total other financing sources	289,959	32,830	837,600	1,160,389
Revenues and other sources over (under) expenditures and other uses	486,978	25,260	(93,979)	418,259
Fund balances, beginning of year	4,720,379	1,330,029	389,651	6,440,059
Residual equity transfers				
From (to) other funds	172,851	27,671	(27,671)	172,851
Fund balances, end of year	\$ 5,380,208	\$ 1,382,960	\$ 268,001	\$ 7,031,169

The Notes to Combined Financial Statements are an integral part of this statement.

TOWN OF CARRBORO, NORTH CAROLINA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL AND SPECIAL REVENUE FUNDS
Year Ended June 30, 2003

	General Fund		Variance
	Budget	Actual	Favorable (Unfavorable)
Revenues			
Ad valorem taxes	\$ 7,315,005	\$ 7,324,513	\$ 9,508
Local option sales taxes	2,104,750	2,278,779	174,029
Other taxes and licenses	364,234	387,152	22,918
Unrestricted intergovernmental	180,810	564,687	383,877
Restricted intergovernmental	700,787	689,984	(10,803)
Permits and fees	793,980	747,441	(46,539)
Sales and services	164,000	195,494	31,494
Investment earnings	80,000	50,797	(29,203)
Other	39,300	57,510	18,210
Total revenues	11,742,866	12,296,357	553,491
Expenditures			
Current:			
General government	2,070,483	1,981,606	88,877
Public safety	3,906,749	3,657,005	249,744
Planning	1,024,226	930,628	93,598
Transportation	747,957	747,737	220
Public works	3,388,064	3,122,120	265,944
Parks and recreation	1,169,777	1,047,338	122,439
General services	4,400	-	4,400
Debt service	621,447	612,904	8,543
Total expenditures	12,933,103	12,099,338	833,765
Revenues over (under) expenditures	(1,190,237)	197,019	1,387,256
Other financing sources (uses)			
Operating transfers from other funds	287,023	190,822	(96,201)
Operating transfers to other funds	(140,152)	(140,152)	-
Proceeds of refunding bonds	637,250	637,250	-
Payment to refunded bond escrow agent	(622,000)	(622,000)	-
Proceeds from installment purchase agreements	257,689	224,039	(33,650)
Total other financing sources (uses)	419,810	289,959	(129,851)
Revenues and other sources over (under) expenditures and other uses	(770,427)	486,978	1,257,405
Appropriated fund balance	770,427	-	(770,427)
Revenues, other sources and appropriated fund balance over expenditures and other uses	\$ -	486,978	\$ 486,978
Fund balances, beginning of year		4,720,379	
Residual equity transfers			
From other funds		172,851	
Fund balances, end of year		\$ 5,380,208	

The Notes to Combined Financial Statements are an integral part of this statement.

Exhibit C

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	12,395	12,395
-	-	-
-	12,395	12,395
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	12,395	12,395
-	-	-
-	-	-
-	125,000	125,000
(203,523)	(107,322)	96,201
-	-	-
-	-	-
-	-	-
(203,523)	17,678	221,201
(203,523)	30,073	233,596
203,523	-	(203,523)
\$ -	30,073	\$ 30,073
	923,737	
	27,671	
	\$ 981,481	

The Notes to Combined Financial Statements are an integral part of this statement.

TOWN OF CARRBORO, NORTH CAROLINA

Exhibit D

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE - FIDUCIARY FUND TYPE
Year Ended June 30, 2003

	Non- Expendable Trust <u>Cemetery Trust Fund</u>	Total (Memorandum Only) <u> </u>
Operating transfers		
Operating transfers to General Fund	\$ (40,000)	\$ (40,000)
Total operating transfers	(40,000)	(40,000)
Fund balance, beginning of year	212,851	212,851
Residual equity transfers		
To other funds	<u>(172,851)</u>	<u>(172,851)</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>

The Notes to Combined Financial Statements are an integral part of this statement.

TOWN OF CARRBORO, NORTH CAROLINA

Exhibit E

STATEMENT OF CASH FLOWS - FIDUCIARY FUND TYPE
Year Ended June 30, 2003

	<u>Non- Expendable Trust</u>	<u>Total (Memorandum Only)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers to other funds	\$ (40,000)	\$ (40,000)
Residual equity transfers to other funds	<u>(172,851)</u>	<u>(172,851)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(212,851)</u>	<u>(212,851)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(212,851)	(212,851)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>212,851</u>	<u>212,851</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The Notes to Combined Financial Statements are an integral part of this statement.

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TOWN OF CARRBORO, NORTH CAROLINA
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2003

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 of Carrboro 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 - Fund Accounting

The accounts of the Town are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The account groups are not funds but are a reporting device used to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds.

The Town uses the following fund categories (further divided by fund type) and account groups:

GOVERNMENTAL FUNDS are used to account for the Town's governmental functions. Governmental funds include the following fund types:

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 grants and various other taxes and licenses. The primary expenditures are for general government administration, public safety, street maintenance and construction, and sanitation services.

Special Revenue Funds - The Special Revenue Funds account for specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. The Town maintains four Special Revenue Funds within the governmental fund types, including the HOME Program Grant Match Fund, the Revolving Loan Fund, the Capital Reserve Fund, and the Payment in Lieu Reserve Fund.

Capital Projects Fund - The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

FIDUCIARY FUNDS are used to account for assets held by the Town of Carrboro in a trustee capacity or as an agent for individuals, private organizations or other funds. The Town has one Fiduciary Fund, that being the Cemetery Trust Fund. A further description of this fund follows:

Cemetery Trust Fund - In 1984 the Town established a nonexpendable Cemetery Trust Fund for the purpose of perpetually caring for and beautifying the Town's cemeteries. During the year ended June 30, 2003, the Town received legislative approval to close the Cemetery Fund. The residual equity was transferred to the General Fund and is included in fund balance designated for specific purposes.

ACCOUNT GROUPS

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the Town acquired principally for general purposes.

General Long-Term Debt Account Group - This group of accounts is established to account for all general long-term debt and certain other liabilities.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The fiduciary fund type is accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fiduciary fund type equity (i.e., net total assets) is represented by fund balance. Operating statements for this fund present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

The basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting. The governmental fund types are presented in the financial statements on this same basis. Under the modified accrual basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are "measurable" and "available") to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which are recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The Town recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. The Town considers all revenues available if they are collected within 60 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 2002 through February 2003 apply to the fiscal year ended June 30, 2003. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year end apply to the 2003-2004 fiscal year and are not shown as receivables at June 30, 2003. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year end are also reflected as deferred revenues at June 30, 2003 because they are intended to finance the Town's operations during the 2003-2004 fiscal year.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Sales taxes collected and held by the state at year end on behalf of the Town are recognized as revenue. Generally, intergovernmental revenues and sales and services are not susceptible to accrual because they are not measurable until received in cash. Certain state-shared revenues received beyond 60 days of the Town's fiscal year end are accrued as receivables and offset by deferred revenues if the payment received related to events occurring prior to year end. Grant revenues which are unearned at year end are recorded as deferred revenues.

Fiduciary fund types are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred. As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its fiduciary fund types.

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, the Capital Reserve Fund and the Payment in Lieu Reserve Fund (Special Revenue Fund types). All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the remaining Special Revenue Funds and the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the fund 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. During the year, several amendments to the original budget were necessary, the effects of which were not material.

A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30 - Each department head will transmit to the budget officer the budget requests and the revenue estimates for their department for the budget year.

June 1 - The budget and the budget message shall be submitted to the governing board. The public hearing on the budget shall be scheduled at this time.

July 1 - The budget ordinance shall be adopted by the governing board.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data (Continued)

As required by state law [G. S. 159-26(d)], the Town maintains encumbrance accounts which are considered to be "budgetary accounts." Encumbrances outstanding at year end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year end are completed. Encumbrances outstanding at year end do not constitute expenditures or liabilities. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the combined balance sheet and will be charged against the subsequent year's budget.

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 and loan 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).

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

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.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

3. 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 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, 2002.

4. 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.

5. Inventory

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.

6. Fixed Assets

Fixed assets are recorded at original cost. Donated fixed assets are recorded at the fair value on the date of donation. Public domain or infrastructure general fixed assets are not capitalized because such assets are immovable and are of value only to the Town. Also, the Town has elected not to capitalize those interest costs which are incurred during the construction period of general fixed assets. Depreciation is not recorded on general fixed assets.

7. Fund Equity

Reservations or restrictions of equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

State law [G. S. 159-13(b)(16)] restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

7. Fund Equity (Continued)

The governmental fund types classify fund balances as follows:

RESERVED:

Reserved for encumbrances - portion of fund balance available to pay for any commitments related to purchase orders and contracts which remain unperformed at year end.

Reserved for prepaid items - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of prepaid expenses, which are not expendable, available resources.

Reserved by state statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under state law [G. S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables which have not been offset by deferred revenues.

UNRESERVED:

Designated for project expenditures - portion of fund balance designated to ensure funding for items intended for expenditure in the current fiscal year but for which the Town has not completed the project to enable spending.

Designated for specific purposes - portion of fund balance designated for specific purposes approved by the Town.

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2003-2004 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year end.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures and Expenses

Other Resources

Transfers from a fund receiving revenue to the fund through which the resources are to be expended are recorded as "operating transfers out" in the transferring fund and "operating transfers in" in the receiving fund.

Compensated Absences

The vacation policy of the Town provides for the accumulation of annual vacation leave without any applicable maximum until December 31st of each calendar year. However, if an employee separates from service, payment for accumulated annual vacation leave shall not exceed 240 hours (14 duty days for shift fire personnel). On December 31st 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 1st of the next calendar year. For the Town, the current portion of the accumulated vacation pay is not considered to be material; therefore, no expenditure or liability has been reported in the governmental funds. The Town's liability for accumulated earned vacation and the salary-related payments for governmental funds is recorded in the General Long-Term Debt Account Group.

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.

G. Total (Memorandum Only) Columns

The total columns on the accompanying financial statements are captioned as "Total (Memorandum Only)" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of these data.

TOWN OF CARRBORO, NORTH CAROLINA
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2003

Note 2. Budget-to-GAAP Reconciliation

Exhibit C, the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, compares the budget and actual data by fund type for those governmental funds that adopt annual budgets. Therefore, only those Special Revenue Funds that adopt annual budgets are included on Exhibit C, while all Special Revenue Funds are included in Exhibit B. The Capital Projects Fund does not adopt an annual budget; therefore, this fund is not included in Exhibit C. A budget-to-GAAP reconciliation for the Special Revenue Funds and the Capital Projects Fund is included below:

	<u>Special Revenue Funds</u>	<u>Capital Projects Fund</u>
Revenues - annual budget	\$ 12,395	\$ -
Add revenues recorded in multi-year budgets	<u>118,076</u>	<u>7,162</u>
Total revenues	<u>130,471</u>	<u>7,162</u>
Expenditures recorded in multi-year budgets	<u>138,041</u>	<u>938,741</u>
Total expenditures	<u>138,041</u>	<u>938,741</u>
Revenues under expenditures	<u>(7,570)</u>	<u>(931,579)</u>
Other financing sources (uses)		
Operating transfers in	140,152	1,500
Operating transfers out	(107,322)	(45,000)
Proceeds from installment purchase agreements	<u>-</u>	<u>881,100</u>
Total other financing sources	<u>32,830</u>	<u>837,600</u>
Increase (decrease) in fund balance	25,260	(93,979)
Fund balance, beginning of year	1,330,029	389,651
Residual equity transfers		
To other funds	-	(27,671)
From other funds	<u>27,671</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,382,960</u>	<u>\$ 268,001</u>

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 2. Budget-to-GAAP Reconciliation (Continued)

The accompanying schedule reconciles certain General Fund transactions which are treated differently on Exhibit B (GAAP basis) and Exhibit C (budgetary basis). These differences relate to debt service transactions and are summarized below:

	<u>Exhibit B</u>	<u>Increase (Decrease)</u>		<u>Exhibit C</u>
General government	\$ 1,923,071	\$ 58,535	(1)	\$ 1,981,606
Public safety	3,442,054	214,951	(1)	3,657,005
Planning	922,863	7,765	(1)	930,628
Public works	2,919,627	202,493	(1)	3,122,120
Parks and recreation	994,878	52,460	(1)	1,047,338
Debt service:				
Principal retirement	848,478	(848,478)	(1)	-
Interest and fees	300,630	(300,630)	(1)	-
Principal, interest and fees	-	612,904	(1)	612,904

(1) Reclassification of debt payments.

Note 3. Detail Notes on All Funds and Account Groups

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.

TOWN OF CARRBORO, NORTH CAROLINA
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

A. Assets (Continued)

1. Deposits (Continued)

At June 30, 2003, the Town's deposits had a carrying amount of \$2,133,827 and a bank balance of \$2,209,830. Of the bank balance, \$100,000 was covered by federal depository insurance and \$2,109,830 was covered under the Pooling Method. The Town had \$745 of petty cash on hand at June 30, 2003.

2. Investments

The Town's investments are categorized to give an indication of the level of custodial risk assumed by the entity at year end. However, the Town's only investment is in the North Carolina Capital Management Trust which is exempt from risk categorization because the Town does not own any identifiable securities but is a shareholder of a percentage of the fund.

At June 30, 2003, the Town's investment balances were as follows:

	<u>Reported Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust - Cash Portfolio	<u>\$ 4,564,513</u>	<u>\$ 4,564,513</u>

There were no realized or unrealized gains or losses on the Town's investments during the fiscal year ended June 30, 2003.

3. Receivables

Due from Governmental Agencies

Amounts due from governmental agencies consist of the following:

	<u>Other Cities and Towns</u>	<u>State</u>	<u>Total</u>
General Fund			
Sales and use tax distribution	\$ -	\$ 651,074	\$ 651,074
Utilities franchise and telecommunications tax	-	95,935	95,935
Sales and gas tax refunds	-	96,195	96,195
Other	<u>6,735</u>	<u>8,676</u>	<u>15,411</u>
	<u>\$ 6,735</u>	<u>\$ 851,880</u>	<u>\$ 858,615</u>

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

A. Assets (Continued)

3. Receivables (Continued)

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.

The following is a summary of notes receivable at June 30, 2003:

	<u>Interest Rate</u>	<u>Balance</u>
S & B Beauty	6.50%	\$ 10,289
University Printery	8.00	11,360
Carrburrito's, Inc.	6.00	12,557
Acme Food & Beverage Company	7.00	32,696
Piedmont Health Services	5.25	2,260
Paper, Pen & Ink	6.00	12,887
Alphabet Soup	6.00	43,765
Chicken Noodle Soup	3.00	5,993
Orange County Social Club	6.00	9,307
Places Media	6.00	40,968
Crazie Mae's	4.00	<u>72,529</u>
Total		<u>\$ 254,611</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 A, the combined balance sheet, are net of the following allowances for doubtful accounts:

General Fund	
Property taxes	<u>\$ 77,936</u>

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

A. Assets (Continued)

5. Fixed Assets

Major classifications of and changes within the Town's General Fixed Assets Account Group are summarized as follows:

	General Fixed Assets July 1, 2002	Additions	Deletions	General Fixed Assets June 30, 2003
By asset type:				
Land	\$ 1,730,013	\$ 919,856	\$ -	\$ 2,649,869
Buildings and improvements	4,248,777	-	-	4,248,777
Equipment	4,378,756	374,992	(54,397)	4,699,351
Community park	1,183,090	-	-	1,183,090
Total	<u>\$ 11,540,636</u>	<u>\$ 1,294,848</u>	<u>\$ (54,397)</u>	<u>\$ 12,781,087</u>
By function:				
Governance and administration	\$ 1,125,255	\$ 167,976	\$ -	\$ 1,293,231
Public safety	3,754,719	101,788	-	3,856,507
Planning	153,492	9,935	-	163,427
Public works	2,195,298	905,269	(54,397)	3,046,170
Parks and recreation	4,311,872	109,880	-	4,421,752
Total	<u>\$ 11,540,636</u>	<u>\$ 1,294,848</u>	<u>\$ (54,397)</u>	<u>\$ 12,781,087</u>

B. Liabilities

1. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town of Carrboro 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.

TOWN OF CARRBORO, NORTH CAROLINA
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

Local Governmental Employees' Retirement System (Continued)

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 4.8% and 4.64%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Carrboro are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2003, 2002 and 2001 were \$253,511, \$248,722 and \$219,847, respectively. The contributions made by the Town equaled the required contributions for each year.

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town of Carrboro 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, 2002, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>37</u>
Total	<u>39</u>

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 COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

Law Enforcement Officers' Special Separation Allowance (Continued)

Contributions:

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, 2001 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9% to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

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	\$ 40,896
Interest on net pension obligation	7,953
Adjustment to annual required contribution	<u>(5,893)</u>
Annual pension cost	42,956
Contributions made	<u>20,787</u>
Increase in net pension obligation	22,169
Net pension obligation, beginning of year	<u>109,697</u>
Net pension obligation, end of year	<u>\$ 131,866</u>

Trend Information:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/01	\$ 27,532	52.40%	\$ 84,751
6/30/02	37,312	33.14%	109,697
6/30/03	42,956	48.39%	131,866

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

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, 2003 were \$269,824, which consisted of \$176,440 from the Town and \$93,384 from the employees.

2. Other Post-Employment Benefits

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 Town pays the full cost of coverage for these benefits. Currently, 13 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2003, the Town made payments for post-retirement health premiums of \$31,039.

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 \$20,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the state.

TOWN OF CARRBORO, NORTH CAROLINA
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

B. Liabilities (Continued)

2. Other Post-Employment Benefits (Continued)

Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2003, the Town made contributions to the state for death benefits of \$5,071. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .08% and .14%, respectively, of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

3. Deferred Revenues

As discussed in Note 1 (Summary of Significant Accounting Policies), property taxes receivable are not recognized as current revenues because they are not considered to be both measurable and available. Generally accepted accounting principles require property taxes that are measurable but not available to be initially recorded as deferred revenues. In addition, property taxes collected in advance of the fiscal year to which they apply are also recorded as deferred revenues.

The Town receives other entitled or shared revenues (which are restricted more in form than in substance) to which it budgets related expenditures within the General Fund. These resources, where expenditures of such amounts are a prime factor for determining future allocations, are recognized as revenue at the point the expenditures are made. Amounts received in advance of such expenditures are recorded as deferred revenues.

Deferred revenues at June 30, 2003 consist of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Property taxes	\$ 239,173	\$ -	\$ 239,173
Utilities franchise and telecommunications tax due from the state	95,935	-	95,935
Prepaid privilege license	39,564	-	39,564
Unearned grant proceeds received	22,083	-	22,083
Other unearned revenues received	54,067	-	54,067
Other unearned revenues billed	5,592	-	5,592
Notes receivable	-	254,611	254,611
Total	<u>\$ 456,414</u>	<u>\$ 254,611</u>	<u>\$ 711,025</u>

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

B. Liabilities (Continued)

4. 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.

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.

5. Long-Term Obligations

a. Installment Purchase Agreements - Equipment - General Fund

The Town has entered into agreements to finance certain equipment. The title to the equipment is held in the name of the Town and security interest in the equipment has been granted to the financing institution. The general fixed assets have been recorded at the present value of the future minimum installment payments as of the date of their inception.

Assets under installment purchases in the Town's General Fixed Assets Account Group are recorded at a cost of \$1,270,553.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

B. Liabilities (Continued)

5. Long-Term Obligations (Continued)

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

The future minimum payments of the installment purchase and the net present value of these payments as of June 30, 2003 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>General</u> <u>Long-Term</u> <u>Debt</u>
2004	\$ 351,885
2005	<u>306,290</u>
Total minimum payments	658,175
Less amount representing interest	<u>(22,424)</u>
Present value of installment purchase payments - equipment	<u>\$ 635,751</u>

b. Installment Purchase Agreements - Improvements - General Fund

The Town has an 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 \$127,812 due July 3 and January 3, including interest at 5.49%.

The Town has an installment purchase agreement to partially finance the purchase of land for a park. The financing contract requires semi-annual payments of \$13,581 due July 1 and January 1, including interest at 5.98%.

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

B. Liabilities (Continued)

5. Long-Term Obligations (Continued)

b. Installment Purchase Agreements - Improvements - General Fund (Continued)

The future minimum payments of the installment purchase and the net present value of these payments as of June 30, 2003 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Long-Term Debt</u>
2004	\$ 376,304
2005	357,428
2006	354,750
2007	352,147
2008	326,724
Next five years	1,602,908
Thereafter	<u>1,336,983</u>
Total minimum payments	4,707,244
Less amount representing interest	<u>(1,111,214)</u>
Present value of installment purchase payments - improvements	<u>\$ 3,596,030</u>

c. General Obligation Indebtedness

General obligation bonds payable at June 30, 2003 consist of the following issues which are included in the General Long-Term Debt Account Group:

Taxable Refunding Bonds, Series 2003A, dated June 26, 2003; principal and interest at 3.55% due in semi-annual installments on December 1 and June 1 through 2009.	\$ 454,500
Street and bikeways; issued June 1, 1987; principal due serially through 2005; interest at 7% due December 1 and June 1.	100,000
Tax-Exempt Refunding Bonds, Series 2003B, dated June 26, 2003; principal and interest at 2.99% due in semi-annual installments on December 1 and June 1 through 2008.	<u>182,750</u>
Total general obligation bonds	<u>\$ 737,250</u>

TOWN OF CARRBORO, NORTH CAROLINA
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2003

Note 3. Detail Notes on All Funds and Account Groups (Continued)

B. Liabilities (Continued)

5. Long-Term Obligations (Continued)

c. General Obligation Indebtedness (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2004	\$ 161,857	\$ 26,577	\$ 188,434
June 30, 2005	141,857	20,304	162,161
June 30, 2006	101,857	13,986	115,843
June 30, 2007	101,857	10,468	112,325
June 30, 2008	101,857	6,967	108,824
Next five years	<u>127,965</u>	<u>4,026</u>	<u>131,991</u>
	<u>\$ 737,250</u>	<u>\$ 82,328</u>	<u>\$ 819,578</u>

The Town's legal debt margin at June 30, 2003 was \$80,827,158.

d. Advance Refunding Bonds

On June 26, 2003, the Town issued \$182,750 in Tax-Exempt General Obligation Bonds with an interest rate of 2.99% to advance refund \$175,000 of outstanding 1990 Street and Bikeway Bonds with a rate of 7.00%. The net proceeds of \$179,996 (after payment of \$2,754 in fees and other issuance costs) were deposited in an account with an escrow agent to provide for all future debt service payments on the 1990 Street and Bikeway Bonds until the August 7, 2003 redemption call date. As a result, the 1990 Street and Bikeway Bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Debt Account Group.

The Town advance refunded the 1990 Street and Bikeway Bonds to reduce its total debt service payments over the next seven years by approximately \$20,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$18,000.