

TOWN OF PITTSBORO
NORTH CAROLINA
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

GOVERNING BOARD

Randolph Voller, Mayor

Pamela Baldwin

Jay Farrell

Michael Fiocco

Bett Wilson Foley

Beth Turner

TOWN OFFICIALS

Bryan L. Gruesbeck, Town Manager

Amanda Cartrette, Finance Officer

Town of Pittsboro
North Carolina

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Post Office Box 185
107 North Fir Avenue
Siler City, North Carolina 27344

919.663.2311
919.663.2312 Fax
dsfoust@ward-foustcpas.com



Post Office Box 1147
1512 South Horner Blvd.
Sanford, North Carolina 27331

919.774.9452
Fax 919.775.4094
lsward@ward-foustcpas.com

certified public accountants

INDEPENDENT AUDITOR'S REPORT

The Mayor and Board of Commissioners
Town of Pittsboro
Pittsboro, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Pittsboro, North Carolina, as of and for the year ended June 30, 2012 which collectively comprise the Town's basic financial statements as listed in the table of contents. These statements are the responsibility of the Town of Pittsboro, North Carolina's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the Town of Pittsboro ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Pittsboro ABC Board, is based solely on the report of another auditor.

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 basic financial statements are free of material misstatement. The financial statements of the Town of Pittsboro ABC Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Pittsboro, North Carolina, as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund 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 February 7, 2013 on our consideration of the Town of Pittsboro's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Pittsboro's basic financial statements. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual fund financial statements, budgetary schedules, and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Ward + Foust, CPAs, PA

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Town of Pittsboro, we offer readers of the Town of Pittsboro's financial statements this narrative overview and analysis of the financial activities of the Town of Pittsboro for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets of the Town of Pittsboro *exceeded* its liabilities at the close of the fiscal year by \$19,367,387 (***net assets***).
- The government's total net assets *increased* by \$290,136, due to an *increase* in the *business-type* activities net assets.
- As of the close of the current fiscal year, Pittsboro's governmental funds reported combined ending fund balances of \$2,542,876, an increase of \$20,677 in comparison with the prior year. Approximately 71.9% of this total amount, or \$1,829,253 is available for spending at the government's discretion (**unreserved fund balance**).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,829,253 or 72.9% of total general fund expenditures for the fiscal year.
- The Town of Pittsboro's total debt (net of compensated absences) decreased by \$91,825 (3.4%) during the current fiscal year. The key factor in this decrease was loan payments made during the year.

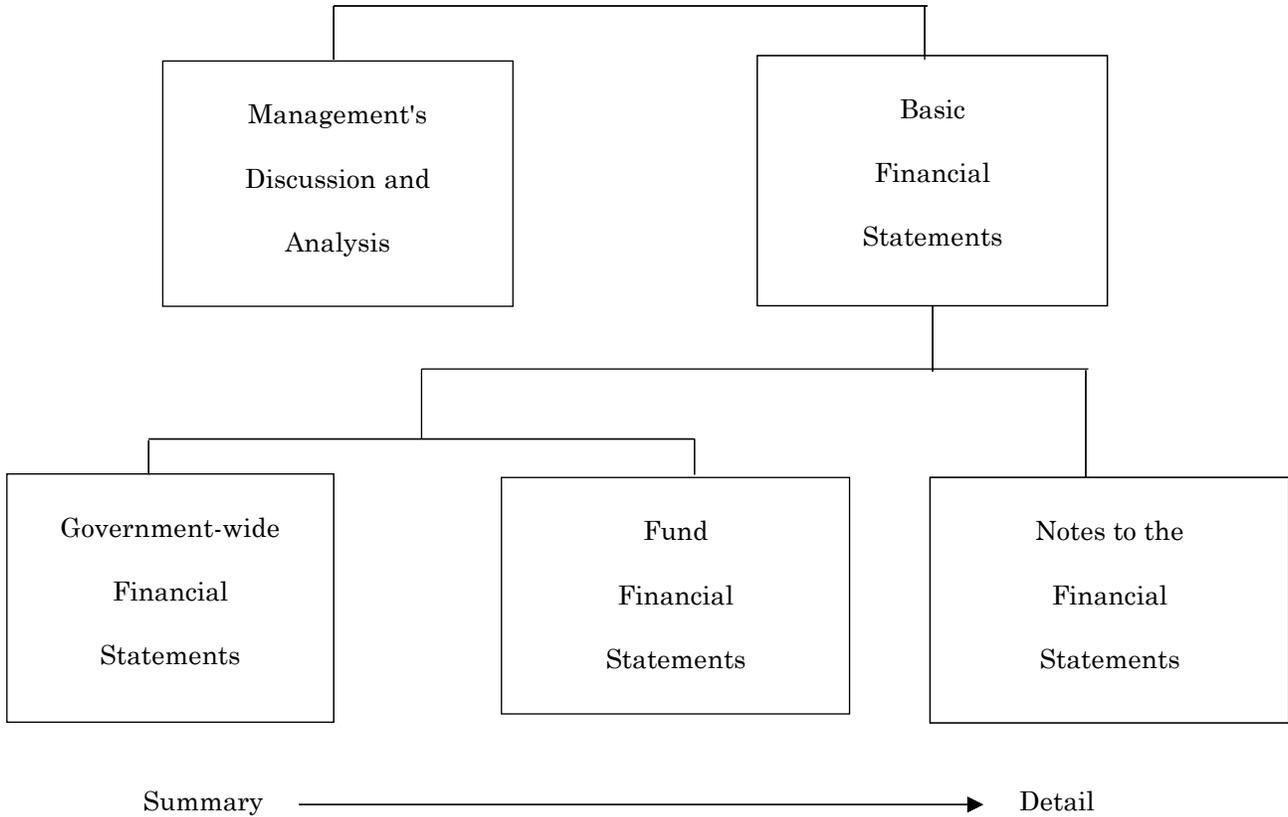
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Pittsboro's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town of Pittsboro 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 of Pittsboro.

(Continued)

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town of Pittsboro's financial status.

The next statements (Exhibits C through I) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town of Pittsboro's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund 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 of Pittsboro's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town of Pittsboro's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town of Pittsboro's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town of Pittsboro's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town of Pittsboro's basic services such as public safety, sanitation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Pittsboro. The final category is the component unit. Although legally separate from the Town of Pittsboro, the Pittsboro ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits, if any, to the Town of Pittsboro.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (Exhibit C through Exhibit I) provide a more detailed look at the Town of Pittsboro's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Pittsboro, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town of Pittsboro's budget ordinance. All of the funds of the Town of Pittsboro can be divided into two categories: governmental funds and proprietary funds.

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 of Pittsboro'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 give the reader a detailed short-term view that helps determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Pittsboro adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town,

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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 of Pittsboro 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. The statement 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of Pittsboro has one kind of proprietary fund. The *Enterprise Fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. Pittsboro uses an Enterprise Fund to account for its water and sewer activities. The fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

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 begin on page 26 of this report.

Government-Wide Financial Analysis

The Town of Pittsboro's Net Assets
Figure 2

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 2,785,404	\$ 3,031,963	\$ 3,805,005	\$ 3,565,601	\$ 6,590,409	\$ 6,597,564
Capital assets	4,121,452	4,217,171	11,838,833	12,079,458	15,960,285	16,296,629
Total assets	6,906,856	7,249,134	15,643,838	15,645,059	22,550,694	22,894,193
Long-term liabilities						
outstanding	141,250	126,724	2,353,889	2,492,718	2,495,139	2,619,442
Other liabilities	146,811	421,234	541,357	776,266	688,168	1,197,500
Total liabilities	288,061	547,958	2,895,246	3,268,984	3,183,307	3,816,942
Net assets						
Invested in capital						
assets, net of						
related debt	4,121,452	4,217,171	9,191,981	9,278,915	13,313,433	13,496,086
Restricted	492,006	534,772	1,695,375	306,126	2,187,381	840,898
Unrestricted	2,005,337	1,949,233	1,861,236	2,791,034	3,866,573	4,740,267
Total net assets	\$ 6,618,795	\$ 6,701,176	\$ 12,748,592	\$ 12,376,075	\$ 19,367,387	\$ 19,077,251

(Continued)

Town of Pittsboro
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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Pittsboro exceeded liabilities by \$19,367,387 as of June 30, 2012. The Town's net assets *increased* by \$290,136 for the fiscal year ended June 30, 2012. However, the largest portion (68.7%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Pittsboro uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Pittsboro'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 of Pittsboro's net assets (11.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,561,948 (20.0%) is unrestricted.

Several particular aspects of the Town of Pittsboro's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 95.2% for the year ending June 30, 2012.
- Continued reduction of debt due to timely payments and continued aggressive collection of development fees.
- Conservative spending habits.

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Town of Pittsboro
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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Town of Pittsboro's Changes in Net Assets
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 352,090	\$ 479,789	\$ 2,271,777	\$ 2,556,399	\$ 2,623,867	\$ 3,036,188
Operating grants and contributions	230,027	230,173			230,027	230,173
Capital grants and contributions	108,644	964,759	889,613	3,647,223	998,257	4,611,982
General revenues						
Property taxes	1,286,287	1,285,201			1,286,287	1,285,201
Other taxes	698,722	473,040			698,722	473,040
Grants and contributions not restricted to specific programs	214,256	200,356			214,256	200,356
Other	163,764	168,517	(149,910)	(149,254)	13,854	19,263
Total revenues	3,053,790	3,801,835	3,011,480	6,054,368	6,065,270	9,856,203
Expenses						
General government	942,133	856,263			942,133	856,263
Public safety	1,429,800	1,418,124			1,429,800	1,418,124
Transportation	358,101	391,917			358,101	391,917
Environmental protection	278,560	465,575			278,560	465,575
Culture and recreation	127,577	101,493			127,577	101,493
Water and sewer			2,638,963	2,485,268	2,638,963	2,485,268
Total expenses	3,136,171	3,233,372	2,638,963	2,485,268	5,775,134	5,718,640
Increase in nets assets	(82,381)	568,463	372,517	3,569,100	290,136	4,137,563
Net assets, beginning of year	6,701,176	6,132,713	12,376,075	8,806,975	19,077,251	14,939,688
Net assets, end of year	<u>\$ 6,618,795</u>	<u>\$ 6,701,176</u>	<u>\$ 12,748,592</u>	<u>\$ 12,376,075</u>	<u>\$ 19,367,387</u>	<u>\$ 19,077,251</u>

(Continued)

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Governmental Activities - Governmental activities decreased the Town's net assets by \$82,381. Key elements of this decrease are as follows:

- Grant revenue for new parks decreased in the current year
- Tax revenues grew incrementally along with close control of expenditures

Business-type activities - Business-type activities increased the Town of Pittsboro's net assets by \$290,136 accounting for 128.4% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Increased water and sewer revenues from new customers and rate increases
- Contribution of infrastructure by Chatham County

Financial Analysis of the Town of Pittsboro's Funds

As noted earlier, the Town of Pittsboro uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Town of Pittsboro'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. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Pittsboro. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,829,253 while total fund balance reached \$2,510,703. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 72.9% of total General Fund expenditures.

At June 30, 2012, the governmental funds of the Town of Pittsboro reported a combined fund balance of \$2,542,876, a 0.9% increase over last year. Included in this change in fund balance is a decrease in fund balance in the General Fund, and an increase in the Capital Projects Fund.

General Fund Budgetary Highlights - During the fiscal year, the Town of Pittsboro revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

(Continued)

Town of Pittsboro
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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Proprietary Funds - The Town of Pittsboro's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,556,611. The total increase in net assets for the fund was \$372,517. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Pittsboro's business-type activities.

Capital Asset and Debt Administration

Capital Assets - The Town of Pittsboro's investment in capital assets for its governmental and business-type activities as of June 30, 2012 totals \$15,960,285 (net of accumulated depreciation). These assets include buildings, streets, land, machinery and equipment, park facilities, and vehicles.

The Town of Pittsboro's Capital Assets

Figure 4

(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 553,000	\$ 553,000	\$ 10,200	\$ 10,200	\$ 563,200	\$ 563,200
Buildings and systems	290,721	299,825	29,786	8,595	320,507	308,420
Improvements other than buildings			10,639,294	11,120,212	10,639,294	11,120,212
Furniture and equipment	642,116	688,532	367,745	455,426	1,009,861	1,143,958
Infrastructure	2,054,850	2,173,778			2,054,850	2,173,778
Vehicles and motorized equipment	98,924	131,685			98,924	131,685
Construction in progress	481,841	370,351	791,808	485,025	1,273,649	855,376
Total	\$ 4,121,452	\$ 4,217,171	\$ 11,838,833	\$ 12,079,458	\$ 15,960,285	\$ 16,296,629

Additional information on the Town of Pittsboro's capital assets can be found in Exhibits J, Note 2-C (pages 36-38) of the Basic Financial Statements.

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Town of Pittsboro
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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Long-term Debt - As of June 30, 2012, the Town of Pittsboro had total debt outstanding of \$2,646,853. This entire amount is debt backed by the full faith and credit of the Town of Pittsboro.

The Town of Pittsboro's Outstanding Debt
Figure 5

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ -	\$ -	\$ 1,159,567	\$ 1,358,833	\$ 1,159,567	\$ 1,358,833
Notes			1,487,286	1,379,844	1,487,286	1,379,844
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,646,853</u>	<u>\$ 2,738,677</u>	<u>\$ 2,646,853</u>	<u>\$ 2,738,677</u>

The Town of Pittsboro's total debt decreased by \$91,825 (3.4%) during the past fiscal year primarily due to scheduled debt payments.

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 of Pittsboro is \$34,505,245. The Town has no bonds authorized at June 30, 2012.

Additional information regarding the Town of Pittsboro's long-term debt can be found in Exhibits J, Note 2-J, beginning on page 47 of this report.

Economic Factors and Next Year's Budgets and Rates

In fiscal year 2011-2012 we began to see some signs of recovery from the nation-wide economic downturn that began in about 2007. There has been a small increase in new housing construction and commercial business openings. In July 2010 we had 1,488 residential water customers, in July 2011 we had 1,512 residential water customers and in July 2012 we had 1,523 residential water customers. The number of commercial water customers is about the same with losses equaling gains over three years, with the major exception of the loss of the Townsends Chicken Plant just before the beginning of the fiscal year. The financial impact on the Town from the loss of this one customer was a water revenue reduction of about \$320,000 in fiscal year 2011-2012, or about 10% of our total water revenues.

During fiscal year 2011-2012 construction was completed on the Japan Express Restaurant and the Powell Spring Senior Living Apartment Complex at Powell Place. Construction continues on the New Chatham County Justice Center and construction began on the restoration of the Historic Chatham County Courthouse at the downtown traffic circle in Pittsboro. Completion of both courthouse projects is anticipated in late 2012 or early 2013. The Town also approved a sewer capacity allocation for the new Chatham County Jail Project. This project is now in design and construction is expected to begin by the end of fiscal year 2012-2013. While the Town has allocated 40,000 gallons of wastewater capacity to Ricky Spoon Developers for their Bellmont Station project, no construction activity has begun on this project.

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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

On December 12, 2011, the Board of Commissioners adopted an extension of a building development moratorium that allowed for an increased level of new development. This relaxing of restrictions was made possible by recently completed improvements at the Wastewater Treatment Plant and the completion of the Credle Street III & IV Inflow and Infiltration Reduction Project. The new moratorium includes a companion “Administrative Policies and Procedures for the Allocation of Wastewater Capacity.” Under these new guidelines, up to 5,400 gallons per day of capacity can be awarded to residential projects and up to 3,600 gallons per day of capacity can be awarded to commercial projects. To date, one residential project (Whispering Meadows) and one commercial project (Bojangles Restaurant) have been awarded sewer capacity allocations under the new guidelines.

In 2009, the General Assembly enacted legislation to extend the validity of most state and local development approvals. The suspension was effective for a three year period, January 1, 2008 until December 31, 2010. Subsequent legislation extending the law for one additional year would mean that extended site plan approvals would now expire on December 31, 2011 and approved MUPD’s would expire sometime in 2014. While the most recent legislation included an option to “opt out” of the extensions, the Pittsboro Board of Commissioners has decided to allow the extensions to go forward. This legislation will affect several approved development plans including Dr. Lane’s Dental Office, Pittsboro Place Development, CVS Pharmacy at Belmont Station, Pittsboro Medical Office and Carol Cox’s multipurpose building. While residential construction remains slow, there is some increased construction activity particularly in the Powell Place subdivision where about twenty new single-family homes and ten townhouse units have been built beginning in the spring of 2011.

The Town continues to list the construction of a new 3.22 million gallon per day (MGD) wastewater treatment plant as one of its top priorities; however, little or no progress was made in advancing this goal in fiscal year 2011-2012. The Town did participate in a joint engineering study, performed by McGill and Associates, with Chatham County and the City of Sanford to study the feasibility of constructing a wastewater force main from Pittsboro to the Little Buffalo Wastewater Treatment Plant in Sanford. The results of that study revealed that such a project would be limited to only 2.0 MGD, due to regulations limiting inter-basin transfers, and would cost about \$13,350,000 to construct in two phases.

The environmental impact statement (EIS) for a new 3.22 million gallon per day (MGD) wastewater treatment plant was submitted to the State of North Carolina for review and received final approval in May 2010. We received final approval of our NPDES Permit for a new 3.22 million gallon per day (MGD) wastewater treatment plant on July 2, 2011. While no progress was made in advancing this project in fiscal year 2011-2012, a renewed effort to identify a design firm, develop a funding plan and begin work on the design and construction of the plant could follow the tentative project milestones below:

Achieve EIS Record of Decision:	May 2010 (completed)
Obtain NPDES Permit:	July 2011 (completed)
Select Design Firm	March 2013
Complete Design:	March 2014
Begin Construction:	July 2014
Project Completion:	December 2015

(Continued)

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Significant Capital Improvement Projects

Downtown Water System Improvement Project - Working with Hydrostructures, P.A., we have designed a Downtown Water System Improvement Project to enhance the connectivity of our water system in the downtown area and ensure that we have adequate flow and pressure for fire protection and future growth. We submitted a grant/loan application to the USDA Rural Development Program for this project; however, we have not yet succeeded in receiving USDA financial assistance. We were successful in receiving \$850,000 of Community Development Block Grant (CDBG) funds for a portion of this work. The CDBG funds will be spent on replacing the water transmission line between our one million gallon tank and the Chatham County Courthouse, the "Hillsboro Street Transmission Line." This project was awarded to SKC Construction and work will begin in September 2012 with an expected completion date in early 2013. We will continue to pursue funding from the USDA to finance the remaining scope of work in the Downtown Water System Improvement Project.

Credle Street Basin Rehabilitation Project (Phase III and IV) - The Credle Street Phase III & IV Project includes the final two phases of a project to remediate inflow and infiltration problems in the Credle Street wastewater collection basin. The project was funded by a \$496,000 Rural Center grant and a \$240,000 installment loan. The project came in under budget by about \$200,000 and the Rural Center allowed the Town to add the replacement of the Wastewater Plant Bar Screen to the project. Upon completion of that work, about \$95,000 of the project budget was remaining. The Town is now working with the Rural Center to amend the scope of the project for a second time to add in the replacement of an aging back-up power generator.

We expect the recovery from the recent nation-wide economic downturn to be slow; therefore, we anticipate that the negative impacts on tax revenues will continue in the coming fiscal year and perhaps for the next several years. Accordingly, it will be necessary for the Town to adjust its expectations with regard to projected growth. In order to be ready to respond to expected growth pressures as the national economy recovers from the ongoing economic downturn, it will be necessary for the Town to continue to work vigorously to pursue the expansion of our water and wastewater infrastructure. This will require us to closely monitor our water and sewer rates, including impact fees, to move in a direction that returns the utility enterprise fund to a condition where it is self-supporting and profitable. It will also be necessary to closely monitor the tax rate to support growth in human resources and facilities to support the higher levels of support for police protection, fire protection, solid waste services, planning and engineering as the Town grows.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities – The FY 2012-2013 tax year valuation of \$405,279,276 is up \$7,261,884 (1.8%) from the prior year valuation of \$398,017,392. An ad valorem tax rate increase of \$0.0653, bringing the tax rate to \$0.3673 per \$100.00 assessed value, was recommended and adopted in the base budget for the official tax rate for the Town of Pittsboro for Fiscal Year 2012-2013. Ad valorem taxes (\$1,443,900) account for 44.2% of the total General Fund revenue. Other major revenue streams for the Town include sales taxes, tipping fees and utility franchise taxes. These revenues are projected to bring in \$338,000 (14.0%), \$359,700 (11.0%) and \$118,000 (3.6%) respectively. These four revenues account for 72.8 % of the total General Fund revenues.

(Continued)

Town of Pittsboro
North Carolina

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

It was necessary to take \$224,428 from the General Fund balance to cover the revenue shortfall in fiscal year 2012-2013. This accounts for 6.9% of the total General Fund revenues.

At \$3,270,126, the fiscal year 2012/2013 General Fund Budget is \$202,005 (6.6%) more than the fiscal year 2011/2012 budget.

Business-type Activities - Operating revenues in the Enterprise Fund are generated primarily through the sale of water and sewer utilities. It is anticipated that \$2,144,200 will be generated in fiscal year 2012/2013. This represents 79.3% of the revenues in the Enterprise Fund. Other revenues include reuse water charges \$55,000 (2.0%), penalties and late fees \$40,000 (1.5%).

It was necessary to take \$438,388 from the Enterprise Fund balance to cover the revenue shortfall in fiscal year 2012-2013. This accounts for 16.2% of the total General Fund revenues. The majority of this shortfall, about \$320,000, is attributable to the loss of Townsends Chicken plant as a water customer. Another contributing factor is new debt service obligations over the past two years totaling \$214,044, including \$62,300 for the Wastewater Treatment Plant Improvement Project, \$53,051 for the Credle Street 3 & 4 Project and \$100,188 for the Hillsboro Street Transmission Line Replacement Project.

At \$2,705,588, the fiscal year 2012/2013 Enterprise Fund Budget is \$172,143 (6.8%) more than the fiscal year 2011/2012 budget.

Requests for Information

Town of Pittsboro
P. O. Box 759
Pittsboro, North Carolina 27312
919-542-4621

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS	Primary Government			Town of Pittsboro ABC Board
	Governmental Activities	Business-type Activities	Total	
Current assets				
Cash and investments	\$ 2,229,674	\$ 2,411,154	\$ 4,640,828	\$ 221,063
Taxes receivable - net	80,442		80,442	
Accrued interest receivable on taxes	15,275		15,275	
Accounts receivable	12,601	328,495	341,096	
Due from other governments	253,204	526,585	779,789	
Due from component unit	8,998		8,998	
Inventories				118,257
Prepaid expenses				2,986
Restricted cash	<u>185,210</u>	<u>538,771</u>	<u>723,981</u>	
Total current assets	2,785,404	3,805,005	6,590,409	342,306
Non-current assets				
Capital assets				
Land, non-depreciable improvements and construction in progress	1,034,841	802,008	1,836,849	13,000
Other capital assets, net of depreciation	<u>3,086,611</u>	<u>11,036,825</u>	<u>14,123,436</u>	<u>44,476</u>
Total capital assets	<u>4,121,452</u>	<u>11,838,833</u>	<u>15,960,285</u>	<u>57,476</u>
Total assets	6,906,856	15,643,838	22,550,694	399,782
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	125,590	128,400	253,990	112,408
Unearned revenues	21,221		21,221	
Accrued interest payable		5,134	5,134	
Customer deposits		45,802	45,802	
Current portion of long-term liabilities		362,021	362,021	
Long-term liabilities				
Due in more than one year	<u>141,250</u>	<u>2,353,889</u>	<u>2,495,139</u>	
Total liabilities	288,061	2,895,246	3,183,307	112,408
NET ASSETS				
Investment in capital assets, net of related debt	4,121,452	9,191,981	13,313,433	57,476
Restricted				
Stabilization by State Statute	274,803		274,803	
Restricted for other purposes	217,203	1,695,375	1,912,578	29,218
Unrestricted	<u>2,005,337</u>	<u>1,861,236</u>	<u>3,866,573</u>	<u>200,680</u>
TOTAL NET ASSETS	<u>\$ 6,618,795</u>	<u>\$ 12,748,592</u>	<u>\$ 19,367,387</u>	<u>\$ 287,374</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Town of Pittsboro ABC Board
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government			
					Governmental activities	Business-type activities	Total	
Primary Government								
Governmental activities								
General government	\$ 942,133	\$ 21,311	\$	\$	\$ (920,822)	\$	\$ (920,822)	\$
Public safety	1,429,800	3,634	107,806		(1,318,360)		(1,318,360)	
Transportation	358,101		114,970		(243,131)		(243,131)	
Environmental protection	278,560	323,085	2,571		47,096		47,096	
Cultural and recreation	127,577	4,060	4,680	108,644	(10,193)		(10,193)	
Total governmental activities	3,136,171	352,090	230,027	108,644	(2,445,410)		(2,445,410)	
Business-type activities								
Water and sewer	2,638,963	2,271,777		889,613		522,427	522,427	
Total primary government	\$ 5,775,134	\$ 2,623,867	\$ 230,027	\$ 998,257	(2,445,410)	522,427	(1,922,983)	
Component unit								
Town of Pittsboro ABC Board	\$ 659,225	\$ 760,845	\$ -	\$ -				101,620
General revenues								
Taxes								
Property taxes, levied for general purpose					1,286,287		1,286,287	
Other taxes					698,722		698,722	
Grants and contributions not restricted to specific programs					214,256		214,256	
Unrestricted investment earnings					3,854	4,895	8,749	76
Miscellaneous					5,105		5,105	33,141
Transfers - net					154,805	(154,805)		(33,991)
Total general revenues and transfers					2,363,029	(149,910)	2,213,119	(774)
Change in net assets					(82,381)	372,517	290,136	100,846
Net assets, beginning of year					6,701,176	12,376,075	19,077,251	186,528
NET ASSETS, end of year					\$ 6,618,795	\$ 12,748,592	\$ 19,367,387	\$ 287,374

The notes to the financial statements are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012

ASSETS	Major Fund General	Total Non-Major Fund	Total Governmental Funds
Cash and investments	\$ 2,196,792	\$ 32,882	\$ 2,229,674
Restricted cash	185,210		185,210
Taxes receivable - net	80,442		80,442
Accounts receivable	12,601		12,601
Due from other governments	250,213	2,991	253,204
Due from component unit	8,998		8,998
TOTALS	<u>\$ 2,734,256</u>	<u>\$ 35,873</u>	<u>\$ 2,770,129</u>
 LIABILITIES AND FUND BALANCES 			
Liabilities			
Accounts payable and accrued liabilities	\$ 121,890	\$ 3,700	\$ 125,590
Unearned revenues	21,221		21,221
Deferred revenues	80,442		80,442
Total liabilities	223,553	3,700	227,253
Fund balances			
Restricted			
Stabilization by State Statute	271,812		271,812
Streets - Powell Bill	185,210		185,210
Assigned			
Subsequent year's expenditures	224,428		224,428
Capital Projects Funds		32,173	32,173
Unreserved, General Fund	1,829,253		1,829,253
Total fund balances	<u>2,510,703</u>	<u>32,173</u>	<u>2,542,876</u>
TOTALS	<u>\$ 2,734,256</u>	<u>\$ 35,873</u>	<u>\$ 2,770,129</u>

(Continued)

The notes to the financial statements are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012

Reconciliation of the balance sheet to the statement of net assets

Fund balances - total governmental funds	\$ 2,542,876
Amounts reported for governmental activities in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,121,452
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current period expenditures and, therefore, are deferred.	15,275
Liabilities for earned but deferred revenues in fund statements.	80,442
Some liabilities, including bonds payable, installment purchase contracts, capitalized leases, accrued interest and accrued vacation are not due and payable in the current period and, therefore, are not reported in the net assets of governmental activities.	<u>(141,250)</u>
Net assets of governmental activities	<u>\$ 6,618,795</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

	Major Fund General	Total Non major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 1,279,100	\$ -	\$ 1,279,100
Other taxes and licenses	698,722		698,722
Unrestricted intergovernmental revenues	214,256		214,256
Restricted intergovernmental revenues	233,661	108,644	342,305
Permits and fees	9,055		9,055
Sales and services	339,401		339,401
Investment earnings	3,768	86	3,854
Miscellaneous	5,105		5,105
	<hr/>	<hr/>	<hr/>
Total revenues	2,783,068	108,730	2,891,798
EXPENDITURES			
Current			
General government	918,763		918,763
Public safety	1,387,625		1,387,625
Transportation	245,839		245,839
Environmental protection	277,622		277,622
Cultural and recreational	84,587	111,490	196,077
	<hr/>	<hr/>	<hr/>
Total expenditures	2,914,436	111,490	3,025,926
Excess (deficiency) of revenues over expenditures	(131,368)	(2,760)	(134,128)
Other financing sources (uses)	129,605	25,200	154,805
	<hr/>	<hr/>	<hr/>
Net change in fund balance	(1,763)	22,440	20,677
Fund balances, beginning of year	2,512,466	9,733	2,522,199
	<hr/>	<hr/>	<hr/>
FUND BALANCES, end of year	<u>\$ 2,510,703</u>	<u>\$ 32,173</u>	<u>\$ 2,542,876</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

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

Net changes in fund balances - total governmental funds \$ 20,677

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Expenditures for capital assets	\$ 145,770	
Less: current year depreciation	<u>(241,489)</u>	
		(95,719)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue for tax revenues 7,187

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. No new debt was issued during this fiscal year. This is the amount of principal repayments, if applicable, made during the year. -

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences		2,859
Other post employment benefits		<u>(17,385)</u>

Total changes in net assets of governmental activities (Exhibit B) \$ (82,381)

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - BUDGET AND ACTUAL

For the Year Ended June 30, 2012

	Budget		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 1,270,900	\$ 1,270,900	\$ 1,279,100	\$ 8,200
Other taxes and licenses	487,900	487,900	698,722	210,822
Unrestricted intergovernmental revenues	208,300	208,300	214,256	5,956
Restricted intergovernmental revenues	213,800	218,480	233,661	15,181
Permits and fees	13,000	13,000	9,055	(3,945)
Sales and services	336,000	336,000	339,401	3,401
Investment earnings	5,000	5,000	3,768	(1,232)
Miscellaneous	12,200	12,200	5,105	(7,095)
Total revenues	2,547,100	2,551,780	2,783,068	231,288
EXPENDITURES				
Current				
General government	935,882	930,882	918,763	12,119
Public safety	1,425,093	1,425,093	1,387,625	37,468
Transportation	305,746	305,746	245,839	59,907
Environmental protection	323,000	323,000	277,622	45,378
Cultural and recreational	78,400	88,080	84,587	3,493
Total expenditures	3,068,121	3,072,801	2,914,436	158,365
Revenues over (under) expenditures	(521,021)	(521,021)	(131,368)	389,653
Other financing sources (uses)				
Transfers from other funds	168,747	168,747	154,805	(13,942)
Transfers to other funds		(25,200)	(25,200)	
Fund balance appropriated	352,274	377,474		(377,474)
Total other financing sources (uses)	521,021	521,021	129,605	(391,416)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	(1,763)	\$ (1,763)
Fund balance, beginning of year			2,512,466	
FUND BALANCE, end of year			\$ 2,510,703	

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET ASSETS
MAJOR PROPRIETARY FUND - WATER AND SEWER

For the Year Ended June 30, 2012

ASSETS

Current assets	
Cash and investments	\$ 2,411,154
Accounts receivable (net) - billed	278,497
Accounts receivable - unbilled	49,998
Due from other governments	526,585
Restricted cash	538,771
	<hr/>
Total current assets	3,805,005
Non-current assets	
Capital assets	
Land and other non-depreciable assets	802,008
Other capital assets, net of depreciation	11,036,825
	<hr/>
Capital assets (net)	11,838,833
	<hr/>
TOTAL	<u>\$ 15,643,838</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued liabilities	\$ 128,400
Accrued bond interest	5,134
Customer deposits	45,802
Current portion of long-term debt	362,021
	<hr/>
Total current liabilities	541,357
Noncurrent liabilities	
Accrued vacation	41,714
Other postemployment benefits	27,344
Non-current portion of long-term debt	2,284,831
	<hr/>
Total noncurrent liabilities	2,353,889
	<hr/>
Total liabilities	2,895,246
Net assets	
Invested in capital assets, net of related debt	9,191,981
Restricted for capital projects	1,695,375
Unrestricted	1,861,236
	<hr/>
Total net assets	<u>\$ 12,748,592</u>

The notes to the financial statements are an integral part of this statement.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
MAJOR PROPRIETARY FUND - WATER AND SEWER

For the Year Ended June 30, 2012

Operating revenues	
Water sales	\$ 1,142,188
Sewer charges	1,008,534
Reuse water charges	55,077
Reconnection fees and penalties	39,259
Insurance proceeds	3,725
Miscellaneous	22,994
Total operating revenues	<u>2,271,777</u>
Operating expenses	
Administrative	211,878
Water operations	757,388
Sewer treatment	564,039
Public utilities	461,979
Depreciation	569,998
Total operating expenses	<u>2,565,282</u>
Operating income (loss)	(293,505)
Nonoperating revenues (expenses)	
Interest earned on investments	4,895
Interest on long-term debt	(73,681)
Water and sewer access charges	543,160
Total nonoperating revenues (expenses)	<u>474,374</u>
Income (loss) before capital contributions and transfers	180,869
Capital contributions and transfers	
Capital contributions from Chatham County	78,000
Capital contribution - NC Rural Center grant	268,453
Transfer to General Fund	(154,805)
Total capital contributions and transfers	<u>191,648</u>
CHANGE IN NET ASSETS	372,517
NET ASSETS, beginning of year	<u>12,376,075</u>
NET ASSETS, end of year	<u>\$ 12,748,592</u>

The notes to the financial statements are an integral part of this statement.

STATEMENTS OF CASH FLOWS
MAJOR PROPRIETARY FUND - WATER AND SEWER

For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,349,790
Cash paid for goods and services	(942,047)
Cash paid to employees for services	(1,030,913)
Customer deposits received (returned) - net	452
Other operating revenue (expense)	22,994
	<hr/>
Net cash provided (used) by operating activities	400,276
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to General Fund	(154,805)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from issuance of debt - CEMC	240,000
Capital contribution - access fees	543,160
Capital contribution - Chatham County	78,000
Acquisition and construction of capital assets	(638,804)
Principal paid on bonds/loans	(333,558)
Interest paid on bonds/loans	(72,808)
	<hr/>
Net cash provided (used) for capital and related financing activities	(184,010)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	4,895
	<hr/>
Net increase (decrease) in cash and cash equivalents	66,356
Cash and cash equivalents, beginning of year	2,883,569
	<hr/>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,949,925</u></u>

(Continued)

The notes to the financial statements are an integral part of this statement.

STATEMENTS OF CASH FLOWS
MAJOR PROPRIETARY FUND - WATER AND SEWER

For the Year Ended June 30, 2012

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY OPERATING INCOME (LOSS):

Operating income (loss)	\$ (293,505)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	569,998
Changes in assets and liabilities	
Decrease (increase) in accounts receivable	102,525
Decrease (increase) in due from other governments	(6,520)
Increase (decrease) in accounts payable	49,504
Increase (decrease) in accrued salaries	(29,370)
Increase (decrease) in customer deposits	452
Increase (decrease) in accrued vacation	(3,640)
Increase (decrease) in other postemployment benefits	10,832
	<hr/>
	693,781
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 400,276</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE UNIT

The accounting policies of the Town and its discretely presented component unit conform to generally accepted accounting principles as applicable to government.

A. Description of the Unit

The Town is a municipal corporation which is governed by an elected mayor and a five-member council. The Town provides services which include general government, public safety, streets, sanitation, zoning and recreation. The Town maintains a water and sewer system which supplies services to the Town and surrounding area on a user-charge basis.

B. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally-separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Pittsboro Board of Alcoholic Beverage Control (ABC Board)

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by state statute to distribute its surpluses, if any, to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at the Town of Pittsboro's ABC Board, Pittsboro, North Carolina.

C. Basis of Presentation

Government-wide Statements

The statement of net assets and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

C. Basis of Presentation (continued)

Government-wide Statements (continued)

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipient of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Town's funds. Separate statements for each fund category - *governmental and proprietary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

GOVERNMENTAL FUNDS

The Town reports the following major governmental fund:

General Fund

The General Fund is the general operating fund of the Town and 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-shared revenues and various other taxes and licenses. The primary expenditures are for public safety, streets, sanitation, parks and recreation and general government services.

The Town reports the following non-major governmental funds:

Capital Project Fund - Southern Park Project

The Southern Park Project is used to account for the acquisition of assets and construction on a new park.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

C. Basis of Presentation (continued)

Capital Project Funds

Capital Project Fund - The Capital Project Fund was established to account for funds that are restricted for use for a particular purpose, mainly the acquisition of equipment.

Rockridge Park Disc Golf Project - The Rockridge Park Disc Golf Project was established to account for the construction of a new disc golf course at the park.

Alpha Install Upfit of the Velogica Building Project - The Alpha Install Upfit of the Velogica Building Project was established to account for the renovation of a building in town.

PROPRIETARY FUNDS

The Town reports the following major enterprise fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the Town's water and sewer operations.

D. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's Enterprise Fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current 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, Chatham 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 Pittsboro. 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 Chatham County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Measurement Focus and Basis of Accounting (continued)

Governmental Fund Financial Statements (continued)

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash; however, those revenues which can be measured are recorded if they are collected within 90 days after year-end. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

E. Budgetary Data

Budgets are adopted as required by North Carolina General Statutes. An annual budget ordinance is adopted for the General, Enterprise (water and sewer), Capital Project Reserve and the Water and Sewer Capital Project Reserve Funds on a departmental basis. All annual appropriations lapse at fiscal year-end. The Town has adopted project ordinances for the Capital Project Fund - Southern Park Project, Capital Project Fund - Rockridge Park Disc Golf Course Project, Capital Project Fund - Alpha Install Upfit of the Veologica Building Project, Water and Sewer Capital Project Fund - Downtown Area Water System Improvement Project, Water and Sewer Capital Project Fund - Haw River Intake Improvement Project, Water and Sewer Capital Project Fund - Credle Street Sewer Rehabilitation Project - Phase III and IV and the Water and Sewer Capital Project - Hillsboro Street Transmission Line Replacement Project. The Enterprise Fund projects are consolidated with their respective operating fund for reporting purposes.

The annual budget is prepared on the modified accrual basis of accounting to be compatible with the accounting system in recording transactions, as required by G.S. 159-26(c). Budgetary control is exercised in all funds. Appropriations are made at the departmental level and are amended as necessary by the governing board. The manager may make interdepartmental transfers (limited to 10% of the department's budget) without board approval. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. During the year, amendments to the original budget were necessary, the effects of which were not material.

The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

F. Assets, Liabilities and Fund Equity

Deposits and Investments

Deposits

All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by G.S. 159-31. The Town and the ABC Board may designate, as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the Town and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

Investments

G.S. 159-30(c) authorizes the Town and the ABC Board 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 non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund. The investments in the NCCMT are exempt from risk categorization because the Town does not own any identifiable securities but is a shareholder of a percentage of the fund. The securities of the NCCMT Cash Portfolio are valued at fair value, which is the NCCMT's share price. The Town and the ABC Board had no investments at year end.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Town and the ABC Board consider all highly liquid investments (North Carolina Capital Management Trust), with a maturity of three months or less when purchased to be cash equivalents.

Restricted Assets

Any unexpended balance of grant funds for Capital Project Funds are classified as restricted assets in their appropriate funds because their use is completely restricted to the purpose for which the grants were intended. The unexpended Powell Bill revenue is classified as restricted assets in governmental funds because the use is completely restricted by State law. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Ad Valorem Taxes Receivable

In accordance with G.S. 105-347 and G.S. 159-13(a), ad valorem taxes on property other than motor vehicles are levied on July 1, the beginning of the fiscal year, and are due on September 1; however, interest does not accrue until the following January 6. The taxes levied are based on the assessed values as of January 1, 2011.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

F. Assets, Liabilities and Fund Equity (continued)

Allowances for Doubtful Accounts

The Town provides an allowance for uncollectible taxes which it does not expect to collect based on historical collection rates of prior tax levies and an allowance for uncollectible water and sewer accounts. The Town does not experience any other material loss from other uncollectible accounts. Losses, if any, are charged to operations by the direct write-off method.

Inventory

The ABC Board's liquor inventory is stated at replacement cost prices per the approved list of the North Carolina State Board of Alcoholic Beverage Control. The cost of these inventories is recorded as an expense as the inventories are consumed.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 have not been recorded. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed as incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	25 years
Buildings and improvements	20-50 years
Vehicles	6 years
Furniture and equipment	5-40 years

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and leasehold improvements	10-30 years
Furniture and equipment	5-7 years

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

F. Assets, Liabilities and Fund Equity (continued)

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time (if any) that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

Net Assets

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

F. Assets, Liabilities and Fund Equity (continued)

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

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

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Pittsboro's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned fund balance - portion of fund balance that Town of Pittsboro intends to use for specific purposes.

Assigned for capital improvement - portion of fund balance assigned by the Board of Commissioners for capital expenditures.

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriation within a fund up to 10% of any department's appropriation.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

F. Assets, Liabilities and Fund Equity (continued)

Fund Balances (continued)

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

The Town of Pittsboro does not have a formal revenue spending policy for programs with multiple revenue sources.

The Town of Pittsboro has not adopted a minimum fund balance policy for the general fund.

2. DETAIL NOTES ON ALL FUNDS

A. Deposits

All of the Town's and the ABC Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. 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 and the ABC Board, these deposits are considered to be held by the Town's and ABC Board's agents in their names. 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 ABC Board or the escrow agent. Because of the inability to measure the exact amounts of the collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2012, the Town's deposits had a carrying amount (book balance) of \$5,364,409 and a bank balance of \$5,488,655. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount (book balance) of deposits for the ABC Board was \$220,263 and the bank balance was \$214,484. All of the ABC Board's bank balance was covered by federal depository insurance.

At June 30, 2012, the Town's petty cash fund totaled \$400.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

B. Receivables - Allowance for Uncollectible Accounts

The amounts shown on Exhibit A for taxes receivable are net of an allowance for uncollectible taxes of \$20,111.

The amounts shown on Exhibit A for water and sewer accounts receivable are net of an allowance for uncollectible amounts of \$25,000.

C. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 553,000	\$	\$	\$ 553,000
Construction in progress	<u>370,351</u>	<u>111,490</u>	<u> </u>	<u>481,841</u>
Total capital assets not being depreciated	923,351	111,490		1,034,841
Capital assets being depreciated:				
Buildings	423,563			423,563
Furniture and equipment	911,479	14,778		926,257
Vehicles	569,977	19,502		589,479
Infrastructure	<u>2,843,685</u>	<u> </u>	<u> </u>	<u>2,843,685</u>
Total capital assets being depreciated	4,748,704	34,280		4,782,984
Less accumulated depreciation for				
Buildings	123,738	9,104		132,842
Furniture and equipment	222,947	61,194		284,141
Vehicles	438,292	52,263		490,555
Infrastructure	<u>669,907</u>	<u>118,928</u>	<u> </u>	<u>788,835</u>
Total accumulated depreciation	<u>1,454,884</u>	<u>\$ 241,489</u>	<u>\$ -</u>	<u>1,696,373</u>
Total capital assets being depreciated - net	<u>3,293,820</u>			<u>3,086,611</u>
Governmental activity capital assets - net	<u>\$ 4,217,171</u>			<u>\$ 4,121,452</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

C. Capital Assets (continued)

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

General government	\$ 11,928
Public safety	58,010
Transportation	112,993
Environmental protection	937
Recreation	<u>35,077</u>
Total depreciation expense	<u>\$ 218,945</u>

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Business-type activities - Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 10,200	\$	\$	\$ 10,200
Construction in progress	<u>485,025</u>	<u>306,783</u>	<u></u>	<u>791,808</u>
Total capital assets not being depreciated	495,225	306,783		802,008
Capital assets being depreciated:				
Buildings	111,775	22,590		134,365
Other improvements	16,537,542			16,537,542
Equipment	<u>2,025,942</u>	<u></u>	<u></u>	<u>2,025,942</u>
Total capital assets being depreciated	18,675,259	22,590		18,697,849
Less accumulated depreciation for				
Buildings	103,180	1,399		104,579
Other improvements	5,417,330	480,918		5,898,248
Equipment	<u>1,570,516</u>	<u>87,681</u>	<u></u>	<u>1,658,197</u>
Total accumulated depreciation	<u>7,091,026</u>	<u>\$ 569,998</u>	<u>\$ -</u>	<u>7,661,024</u>
Total capital assets being depreciated - net	<u>11,584,233</u>			<u>11,036,825</u>
Business-type activity capital assets - net	<u>\$12,079,458</u>			<u>\$ 11,838,833</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

C. Capital Assets (continued)

Construction commitments

The Town has active construction projects as of June 30, 2012. At year-end, the Town's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to date</u>	<u>Remaining commitment</u>
Hillsboro Street Transmission Line Replacement Project	<u>\$ -</u>	<u>\$ 1,458,125</u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 9,000	\$	\$	\$ 9,000
Construction in progress		<u>4,000</u>		<u>4,000</u>
	9,000	4,000		13,000
Capital assets being depreciated:				
Buildings	61,599			61,599
Leasehold improvements	7,787	11,981		19,768
Office equipment	<u>33,049</u>	<u>1,150</u>		<u>34,199</u>
Total capital assets being depreciated	102,435	13,131		115,566
Less accumulated depreciation for				
Buildings	52,496	1,492		53,988
Leasehold improvements	247	519		766
Office equipment	<u>12,256</u>	<u>4,080</u>		<u>16,336</u>
Total accumulated depreciation	<u>64,999</u>	<u>\$ 6,091</u>	<u>\$ -</u>	<u>71,090</u>
Total capital assets being depreciated - net	<u>37,436</u>			<u>44,476</u>
ABC Board capital assets - net	<u>\$ 46,436</u>			<u>\$ 57,476</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Pension Costs and Obligations

Local Governmental Employees' Retirement System

Plan Description

The Town contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer, defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy

Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.88% and 6.91%, respectively, of annual covered payroll. The contribution requirements of members and of the Town is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$131,725, \$105,586, and \$79,131, respectively. The contributions made by the Town equaled the required contributions for each year.

Law Enforcement Officers Special Separation Allowance

Plan Description

The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Pension Costs and Obligations (continued)

Law Enforcement Officers Special Separation Allowance (continued)

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At June 30, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	7
Active plan members	—
Total	<u>9</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

No funds were set aside to pay benefits and administration costs. These expenditures are paid as they come due.

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 has not done an actuarial valuation on these benefits, because they feel the amount paid each year would be immaterial. For the current year, the Town paid \$21,591 in benefits. 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.

Supplemental Retirement Income Plan for Law Enforcement

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Pension Costs and Obligations (continued)

Supplemental Retirement Income Plan for Law Enforcement (continued)

Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012 were \$38,141 which consisted of \$29,792 from the Town and \$8,349 from the law enforcement officers.

Section 401(k) Plan for General Employees

Plan Description

The Town contributes to a 401(k) Plan, a defined contribution plan administered by the Prudential Insurance Company of America. The Plan provides retirement benefits to the general employees, other than law enforcement, employed by the Town.

Funding Policy

The Town annually determines the amount of contributions. For the year ended June 30, 2012, the Town contributed two and one half percent (2.5%) on each general employee's salary. Also, the general employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012 were \$108,700, which consisted of \$64,650 from the Town and \$44,050 from the general employees.

Other Postemployment Benefits

Plan Description

Under terms of a Town resolution, the Town provided postretirement health care benefits to retirees of the Town. The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least fifteen years of creditable service with the Town.

The Town pays the full cost of coverage for these benefits through private insurers. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Currently, one retiree is eligible for postretirement health benefits.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Pension Costs and Obligations (continued)

Other Postemployment Benefits (continued)

Funding Policy

By Town resolution, the Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees who have twenty five (25) years of service and reduced costs for those between fifteen (15) through twenty four (24) years of service. No coverage is provided for any employee who is sixty five (65) or over. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting, and the Enterprise Fund, which is maintained on the full accrual basis of accounting. No funds are set aside to pay benefits and administrative costs. These expenditures are paid as they come due. The Enterprise Fund records the estimated liability for its portion on a yearly basis. In fiscal year ended June 30, 2012, the Town's total contributions were \$6,046.

Annual OPEB Cost and net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC).

The Town has elected to calculate the ARC and related information using the alternative measurement permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for postemployment healthcare benefits:

Annual required contribution	\$ 33,615
Interest on net OPEB obligation	649
Adjustment to annual required contribution	<u> </u>
Annual OPEB cost (expense)	34,264
Contributions made	<u>(6,046)</u>
Increase (decrease) in net OPEB obligation	28,218
Net OPEB obligation, beginning of year	<u>41,693</u>
Net OPEB obligation, end of year	<u>\$ 69,911</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Pension Costs and Obligations (continued)

Other Postemployment Benefits (continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation for the year ended June 30, 2012, 2011 and 2010 were as follows:

<u>For the year ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 34,264	17.65%	\$ 28,218
2011	31,688	19.08%	25,642
2010	22,097	27.36%	16,051

Funding Status and Funding Progress

As of June 30, 2012, the actuarial accrued liability for benefits was \$183,668, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,879,439, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 9.77 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Pension Costs and Obligations (continued)

Other Postemployment Benefits (continued)

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2005 United States Life Tables for Males and for Females were used.

Turnover - Non-group specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 12.00 percent initially, reduced to an ultimate rate of 6.00 percent after six years was used.

Health insurance premiums - 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 3.8 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2007 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 4.00 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was twenty nine years.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

E. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Trust Plan for members of the Local Governmental Employees' Retirement System (Death Trust Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of these employees, who die in active service after one (1) year of contributing membership in the system, or who die within 180 days after retirement or termination of service and have at least one (1) 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 twelve (12) highest months salary in a row during the twenty-four (24) months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Trust Plan.

The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll based on rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Trust Plan and not by the Town, the Town does not determine the number of eligible participants. For the year ended June 30, 2012, the Town made contributions to the state for death benefits of \$2,807. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.15% and 0.14% of covered payroll, respectively. The contributions to the Death Trust Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

F. Deferred/Unearned Revenue

The balance in deferred/unearned revenues at year-end as shown on Exhibit C is composed of the following elements:

	<u>Deferred revenue</u>	<u>Unearned revenue</u>
Prepaid taxes (General Fund)	\$	\$ 11,151
Prepaid privilege licenses (General Fund)		10,070
Taxes receivable (General Fund)	<u>80,442</u>	<u> </u>
	<u>\$ 80,442</u>	<u>\$ 21,221</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

G. 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 (3) self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1,000,000 per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2,000,000 lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$500,000, and \$300,000 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 the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial insurance for all other risks of loss. There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area of the state that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town also is eligible to and has purchased commercial flood insurance for another \$5,000,000 of coverage.

In accordance with GS 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

H. Contingent Liabilities

1. The Town is contingently liable in respect to other claims in the normal course of its operations. Should the Town become liable in these matters, such liability would be satisfied by budgetary appropriation in excess of insurance coverage in a subsequent year.
2. The Town elected to pay the direct cost of employment security benefits in lieu of unemployment payroll taxes. A liability for benefit payment could accrue in the year following discharge of an employee.
3. The Town has received proceeds from federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

I. Outstanding Contracts

The Town entered into a contract with Waste Industries, LLC to provide garbage collection for the residents and businesses located within the Town. The Town agreed to compensate the contractor a base fee for this service which will be adjusted on July 1 of each year based upon the change in the Consumer Price Index for the preceding year.

The Town had other contracted commitments for various projects. These amounts are expected to be financed primarily from Town funds.

J. Long-Term Debt

General Obligation Indebtedness

General obligation bonds, which were issued to finance the construction of facilities utilized in the operations of the water and sewer system, are reported as long-term debt in the Water and Sewer Fund since the resources of the fund are being used to retire the bonds. Principal and interest requirements will be provided by appropriation in the year in which they become due.

On July 1, 2001, the Town issued \$2,500,000 in general obligation Water and Sewer Refunding Bonds with interest rates of 4.10% to 4.80% to refund \$2,474,000 of outstanding 1990 Sanitary Sewer Bonds and 1992 Water Bonds. The refunding resulted in a difference of \$26,000 which was used to finance a portion of the bond issuance costs associated with the refunding. This difference, net of amortization of \$5,200, is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to operations until the year 2015, the life of the new debt. The Town completed the refunding to reduce its total debt service payments over the next thirty two (32) years by approximately \$1,929,000.

Long-term debt at June 30, 2012 is comprised of the following:

Bonds:

Water and Sewer Refunding Bonds; issued July 1, 2001; maturing serially to June 1, 2016; interest at 4.10% to 4.80%	\$ 765,000
Unamortized bond issuance cost on Water and Sewer Refunding Bonds	(6,933)
Water and Sewer Bonds (FHA); issued November 1, 1994; maturing serially to June 1, 2034; interest at 5.25%	<u>401,500</u>
	\$ 1,159,567

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

J. Long-Term Debt (continued)

Notes:

ARRA Federal Revolving Loan; issued August 4, 2009; due in twenty annual installments of \$62,319 beginning on May 1st after the project has been completed for six months; non-interest bearing; maximum amount of loan is \$1,246,370; completed in December 2010	\$ 1,094,477
Branch Bank & Trust Loan; issued December 10, 2010; due in ten semiannual installments of \$26,525 beginning on June 10, 2011; interest rate at 2.49%	176,809
Central Electric Membership Corporation; issued September 26, 2011; twenty quarterly installments of \$12,000 beginning on January 1, 2012; non-interest bearing; secured by a deed of trust	<u>216,000</u>
	<u>1,487,286</u>
Total	<u>\$ 2,646,853</u>

Annual debt service requirements to maturity for long-term obligations are as follows:

	<u>Business-type Activities</u>		
	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2013	\$ 204,266	\$ 57,204	\$ 261,470
2014	215,266	47,656	262,922
2015	220,767	37,391	258,158
2016	166,268	26,655	192,923
2017	14,000	18,533	32,533
2018-2022	81,000	81,303	162,303
2023-2027	104,000	57,225	161,225
2028-2032	110,000	28,875	138,875
2033-2034	<u>44,000</u>	<u>3,465</u>	<u>47,465</u>
Totals	<u>\$ 1,159,567</u>	<u>\$ 358,307</u>	<u>\$ 1,517,874</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

J. Long-Term Debt (continued)

	Business-type Activities		
	ARRA Federal Revolving Loan		
	Principal	Interest	Total
Year ending June 30,			
2013	\$ 60,804	\$	\$ 60,804
2014	60,804		60,804
2015	60,804		60,804
2016	60,804		60,804
2017	60,804		60,804
2018-2022	304,022		304,022
2023-2027	304,022		304,022
2028-2030	182,413		182,413
Totals	<u>\$ 1,094,477</u>	<u>\$ -</u>	<u>\$ 1,094,477</u>

	Business-type Activities		
	Central Electric Membership Corporation		
	Principal	Interest	Total
Year ending June 30,			
2013	\$ 48,000	\$	\$ 48,000
2014	48,000		48,000
2015	48,000		48,000
2016	48,000		48,000
2017	24,000		24,000
Totals	<u>\$ 216,000</u>	<u>\$ -</u>	<u>\$ 216,000</u>

	Business-type Activities		
	Branch Bank and Trust		
	Principal	Interest	Total
Year ending June 30,			
2013	\$ 48,951	\$ 4,100	\$ 53,051
2014	50,177	2,873	53,050
2015	51,434	1,616	53,050
2016	26,247	278	26,525
Totals	<u>\$ 176,809</u>	<u>\$ 8,867</u>	<u>\$ 185,676</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

J. Long-Term Debt (continued)

The Town has a legal debt margin of \$34,505,245.

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion of Balance</u>
Governmental activities					
Compensated absences	\$ 101,544	\$	\$ 2,859	\$ 98,685	\$
Other postemployment benefits	<u>25,180</u>	<u>17,385</u>	<u></u>	<u>42,565</u>	<u></u>
	<u>\$ 126,724</u>	<u>\$ 17,385</u>	<u>\$ 2,859</u>	<u>\$ 141,250</u>	<u>\$</u>
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion of Balance</u>
Business-type activities					
Bonds	\$ 1,358,833	\$	\$ 199,267	\$ 1,159,566	\$ 204,267
Notes	1,379,844	240,000	132,558	1,487,286	157,754
Compensated absences	45,354		3,640	41,714	
Other postemployment benefits	<u>16,512</u>	<u>10,832</u>	<u></u>	<u>27,344</u>	<u></u>
Total business-type activities long-term liabilities	<u>\$ 2,800,543</u>	<u>\$ 250,832</u>	<u>\$ 335,465</u>	<u>\$ 2,715,910</u>	<u>\$ 362,021</u>

ABC Board

The ABC Board has no long-term debt.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

K. Interfund Balances and Activities

Transfers To/From Other Funds

Transfers to/from other funds at June 30, 2012 consist of the following transfers made to fund capital projects during the year:

	Transfers from		
	General Fund	Water and Sewer Fund	Water and Sewer Capital Reserve
Transfers to			
General Fund	\$	\$ 154,805	\$
Rockridge Park Disc Golf Course Project	18,800		
Alpha Install Upfit of the Velogica Building Project	6,400		
Water and Sewer Fund			152,580
Hillsboro Street Transmission Line Replacement Project			351,723

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs.

The Water and Sewer Fund provides some support to the General Fund in the form of cash transfers in lieu of rents and other charges for expenses common to both funds.

The General Fund transferred \$18,800 to the Rockridge Park Disc Golf Course Project to begin the engineering phase of this project.

The General Fund transferred \$6,400 to the Alpha Install Upfit of the Velogica Building Project as their portion of local monies required by the grant agreement.

The Water and Sewer Capital Reserve Fund transferred \$152,580 to the Water and Sewer Fund to reimburse the fund for monies transferred to the Hillsboro Street Transmission Line Replacement Project in a prior year.

The Water and Sewer Capital Reserve Fund transferred \$351,723 to the Capital Projects Fund - Hillsboro Street Transmission Line Replacement Project as their portion of local monies required by the grant agreement.

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

L. Jointly Governed Organization

The Town, in conjunction with various counties and other municipalities, established the Triangle J Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$905 to the Council during the year ended June 30, 2012.

M. Fund Balance

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

Total fund balance - General fund	\$ 2,510,703
Less: Stabilization by State Statute	(271,812)
Streets - Powell Bill	(185,210)
Appropriated Fund Balance in 2012 budget	<u>(224,428)</u>
Remaining fund balance	<u>\$ 1,829,253</u>

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

General Fund	<u>\$ 121,890</u>
Southern Park Project	<u>\$ 3,700</u>

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

Water and Sewer - Modified Basis

Fund balance per Schedule 9	\$ 1,719,337
Less:	
Accounts receivable	(328,495)
Due from other governments	<u>(526,585)</u>
Available for appropriation	<u>\$ 864,257</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

N. Subsequent Events

Subsequent events have been evaluated through February 7, 2013 which is the date the financial statements were available to be issued.

O. Supplemental Information

Components of various accounts are as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>
Accounts receivable		
Garbage fees	\$ 12,601	\$
Water and sewer charges - net		278,497
Unbilled water and sewer charges		<u>49,998</u>
	<u>\$ 12,601</u>	<u>\$ 328,495</u>
Due from other governments		
Sales tax refund	\$ 43,966	\$ 129,118
Local option sales tax	117,832	
Franchise tax	38,677	
Solid waste disposal tax	592	
Governor's Highway Safety Program	4,617	
US Department of Justice Grant	33,240	
NC Rural Center		397,467
Chatham County	<u>14,280</u>	
	<u>\$ 253,204</u>	<u>\$ 526,585</u>
Accounts payable and accrued liabilities		
Operating	\$ 95,879	\$ 111,894
Salaries	<u>29,711</u>	<u>16,506</u>
	<u>\$ 125,590</u>	<u>\$ 128,400</u>
Net assets		
Restricted for other purposes		
Transportation - Powell Bill	\$ 185,210	\$
Capital projects	<u>31,993</u>	<u>1,695,375</u>
	<u>\$ 217,203</u>	<u>\$ 1,695,375</u>

Town of Pittsboro
North Carolina

OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered payroll ((b-a)/c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2011	\$ -	\$ 183,668	\$ 183,668	0%	\$ 1,879,439	9.77%
12/31/2010		164,500	164,500	0%	1,801,127	2.31%
12/31/2009		143,208	143,208	0%	1,713,570	0.94%

Town of Pittsboro
North Carolina

OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2012	\$ 34,264	17.65%
2011	31,688	19.08%
2010	22,097	27.36%

BALANCE SHEET
GENERAL FUND

June 30, 2012
With Comparative Totals for June 30, 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and investments	\$ 2,196,792	\$ 2,263,556
Restricted cash	185,210	97,708
Taxes receivable - net	80,442	72,176
Accounts receivable	12,601	18,321
Due from other funds		187,836
Due from other governments	250,213	202,985
Due from component unit	<u>8,998</u>	<u>18,189</u>
TOTALS	<u><u>\$ 2,734,256</u></u>	<u><u>\$ 2,860,771</u></u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable and accrued liabilities	\$ 121,890	\$ 261,856
Unearned revenues	21,221	14,273
Deferred revenues	<u>80,442</u>	<u>72,176</u>
Total liabilities	223,553	348,305
Fund balance		
Restricted		
Stabilization by State Statute	271,812	427,331
Streets - Powell Bill	185,210	97,708
Assigned		
Designated for subsequent years' expenditures	224,428	352,274
Unrestricted	<u>1,829,253</u>	<u>1,635,153</u>
Total fund equity	<u>2,510,703</u>	<u>2,512,466</u>
TOTALS	<u><u>\$ 2,734,256</u></u>	<u><u>\$ 2,860,771</u></u>

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Revenues				
Ad valorem taxes				
Current year	\$ 1,244,900	\$ 1,247,429	\$ 2,529	\$ 1,236,575
Prior years	21,000	25,590	4,590	20,592
Tax penalties and interest	5,000	6,081	1,081	5,494
	1,270,900	1,279,100	8,200	1,262,661
Other taxes and licenses				
Privilege licenses	8,500	10,656	2,156	12,018
Motor vehicle licenses	2,400	5,575	3,175	15,845
Local option sales tax	477,000	682,491	205,491	445,177
	487,900	698,722	210,822	473,040
Unrestricted intergovernmental revenues				
Franchise tax/piped natural gas tax	120,000	103,182	(16,818)	113,024
Telecommunications sales tax	40,000	37,378	(2,622)	38,218
Video franchise fee	20,300	28,695	8,395	20,158
Beer and wine tax	10,000	16,317	6,317	10,767
ABC profit distribution	18,000	28,684	10,684	18,189
	208,300	214,256	5,956	200,356
Restricted intergovernmental revenues				
State street aid - Powell Bill	90,000	114,970	24,970	86,559
Solid waste disposal tax	1,500	2,571	1,071	1,656
Court fees	4,000	3,634	(366)	4,227
Chatham County - recreation	4,680	4,680		8,877
ABC revenue - law enforcement	1,300	5,307	4,007	
Controlled substance tax	2,000	494	(1,506)	506
Chatham County - Domestic Violence Grant	15,000	9,358	(5,642)	33,262
US Department of Justice - Police grant	60,000	66,038	6,038	60,000
NC Governor's Highway Safety Program	40,000	26,609	(13,391)	59,062
	218,480	233,661	15,181	254,149

(Continued)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Revenues (continued)				
Permits and fees				
Zoning fees	\$ 5,000	\$ 9,055	\$ 4,055	\$ 8,075
Subdivision review	8,000		(8,000)	
	13,000	9,055	(3,945)	8,075
Sales and services				
Recreation	5,000	4,060	(940)	4,240
Facilities rent	6,000	12,256	6,256	7,244
Landfill tipping fees	325,000	323,085	(1,915)	451,907
Cable franchise fee				4,096
	336,000	339,401	3,401	467,487
Investment earnings	5,000	3,768	(1,232)	5,022
Miscellaneous	12,200	5,105	(7,095)	7,695
Total revenues	2,551,780	2,783,068	231,288	2,678,485
Expenditures				
General government				
Governing board				
Salaries and wages		11,100		11,100
FICA tax		849		849
Professional services		2,475		
Municipal election		2,027		
Travel and training		3,521		708
Departmental supplies		1,720		369
Postage		42		
Dues and subscriptions		5,971		5,981
Insurance and bonds		2,500		2,351
	34,000	30,205	3,795	21,358

(Continued)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Expenditures (continued)				
General government (continued)				
Legal				
Professional services	\$	\$ 22,321	\$	\$ 21,581
Dues and subscriptions		240		300
	25,900	22,561	3,339	21,881
Administration				
Salaries and wages		320,856		308,341
FICA tax		24,963		22,678
Retirement		22,612		18,786
401(k) plan		15,812		7,214
Hospitalization		38,913		48,245
Professional services		25,512		6,881
Telephone and postage		6,559		7,173
Travel and training		6,604		3,256
Maintenance - equipment		9,701		15,709
Advertising		419		598
Office supplies		6,481		5,906
Dues and subscriptions		6,105		765
Insurance and bonds		11,402		10,049
Tax billing and collection		2,996		3,069
Contracted services		23,344		22,231
Property tax refund				1,286
	526,271	522,279	3,992	482,187
Planning				
Salaries and wages		120,908		104,719
FICA tax		8,910		7,081
Hospitalization		13,629		15,144
Retirement		8,683		6,318
401(k) plan		6,063		2,426
Travel and training		4,471		3,850
Telephone and postage		2,509		616
Professional services		59,483		59,489
Advertising		882		740

(Continued)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Expenditures (continued)				
General government (continued)				
Planning (continued)				
Departmental supplies	\$	\$ 5,123	\$	\$ 5,305
Dues and subscriptions		600		450
Contracted services		5,604		
Insurance and bonds		3,201		2,461
	240,635	240,066	569	208,599
Public buildings				
Salaries and wages		40,476		39,594
FICA tax		3,267		3,000
Retirement		2,954		2,508
401(k) plan		2,063		963
Hospitalization		6,564		8,227
Utilities		10,808		12,517
Maintenance - building		18,884		7,826
Maintenance - equipment		981		3,784
Vehicle repairs		96		80
Departmental supplies		2,550		3,753
Contracted services		9,650		5,940
Insurance		5,359		5,941
	104,076	103,652	424	94,133
Totals - general government	930,882	918,763	12,119	828,158
Public safety				
Police				
Salaries and wages		607,312		570,364
FICA tax		50,275		43,173
Retirement		41,992		34,268
401(k) plan		29,792		26,730
Hospitalization		92,801		113,970
Separation benefit		21,591		21,591
Professional services		6,569		8,700
Telephone and postage		11,438		10,695
Travel and training		12,160		17,867

(Continued)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Expenditures (continued)				
Public safety (continued)				
Police (continued)				
Maintenance - equipment	\$	\$ 364	\$	\$ 10,867
Vehicle repairs		34,657		32,674
Automotive supplies		44,887		44,072
Departmental supplies		36,306		40,148
Contract towing		275		150
Contracted services		13,508		
Uniforms and accessories		8,603		17,887
Dues and subscriptions		670		3,824
Insurance and bonds		29,512		29,797
Investigations		460		7,253
Capital outlay - equipment		19,502		47,547
		<u>1,100,142</u>		<u>1,081,577</u>
			37,468	
Fire				
Pittsboro Volunteer Fire and Rescue				
Department - contribution	<u>324,951</u>	<u>324,951</u>		<u>294,638</u>
Totals - public safety	1,425,093	1,387,625	37,468	1,376,215
Transportation				
Streets and maintenance				
Salaries and wages		76,533		73,004
FICA tax		5,443		5,084
Retirement		5,467		4,731
401(k) plan		3,846		1,817
Hospitalization		12,710		16,707
Travel and training		55		220
Telephone and postage		1,586		655
Utilities		52,267		52,104
Maintenance - equipment		5,628		6,762
Vehicle repairs		2,770		2,025
Automotive supplies		11,235		12,276

(Continued)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Expenditures (continued)				
Transportation (continued)				
Streets and maintenance (continued)				
Maintenance and repairs - building	\$	\$ 180	\$	\$ 7
Maintenance and repairs - roads		15,121		3,741
Drainage and storm water		310		1,011
Traffic control		294		1,608
Departmental supplies		20,454		41,488
Contracted services		10,612		49,965
Insurance and bonds		3,850		3,378
Sidewalks				161
Capital outlay - building		2,700		
Capital outlay - equipment		14,778		3,209
Totals - transportation	305,746	245,839	59,907	279,953
Environmental protection				
Sanitation				
Contracted services		277,622		464,638
Totals - environmental protection		277,622	(277,622)	464,638
Cultural and recreational				
Recreation				
Professional services		12,740		6,449
Contracted services		22,064		5,622
Telephone and postage		478		596
Utilities		4,738		4,502
Departmental supplies		2,605		3,376
Christmas decorations		3,354		3,203
Christmas program		628		646
Arts program		9,068		10,003
Building and grounds maintenance		28,912		15,359
Capital outlay				37,783
Totals - cultural and recreational	88,080	84,587	3,493	87,539

(Continued)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Expenditures (continued)				
Total expenditures	\$ 2,749,801	\$ 2,914,436	\$ (164,635)	\$ 3,036,503
Revenues over (under) expenditures	(198,021)	(131,368)	66,653	(358,018)
Other financing sources (uses)				
Transfer (to) from Enterprise Fund	168,747	154,805	(13,942)	155,785
Transfer (to) from Pedestrian Conveyance Project				(52,129)
Transfer (to) from Rock Ridge	(18,800)	(18,800)		
Transfer (to) from Southern Park Project				(30,300)
Transfer (to) from Alpha Fund balance appropriated	(6,400) 377,474	(6,400)	(377,474)	
Total financing sources (uses)	521,021	129,605	(391,416)	73,356
Revenues and other sources over (under) expenditures and other uses	\$ 323,000	(1,763)	\$ (324,763)	(284,662)
Fund balance, beginning of year		2,512,466		2,797,128
FUND BALANCE, end of year		\$ 2,510,703		\$ 2,512,466

NONMAJOR GOVERNMENTAL FUND
CAPITAL PROJECTS FUND

June 30, 2012

	<u>Capital Projects Fund</u>	<u>Southern Park Project</u>	<u>Rockridge Park Disc Golf Course Project</u>	<u>Alpha Install Upfit Project</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and investments	\$ 6,973	\$ 709	\$ 18,800	\$ 6,400	\$ 32,882
Due from other governments	<u> </u>	<u>2,991</u>	<u> </u>	<u> </u>	<u>2,991</u>
TOTALS	<u>\$ 6,973</u>	<u>\$ 3,700</u>	<u>\$ 18,800</u>	<u>\$ 6,400</u>	<u>\$ 35,873</u>
LIABILITIES AND FUND BALANCES					
Liabilities	\$	\$ 3,700	\$	\$	\$ 3,700
Fund equity					
Designated for specific purposes	<u>6,973</u>	<u> </u>	<u>18,800</u>	<u>6,400</u>	<u>32,173</u>
TOTALS	<u>\$ 6,973</u>	<u>\$ 3,700</u>	<u>\$ 18,800</u>	<u>\$ 6,400</u>	<u>\$ 35,873</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	Capital Reserve Fund	Southern Park Project	Rockridge Park Disc Golf Course Project	Alpha Install Upfit Project	Total Nonmajor Governmental Funds
Revenues					
Restricted intergovernmental revenues					
State of North Carolina	\$	\$ 108,644	\$	\$	\$ 108,644
Investment earnings	<u>86</u>				<u>86</u>
Total revenues	86	108,644			108,730
Expenditures					
Construction		110,961			110,961
Engineering design and inspection		85			85
Survey		<u>444</u>			<u>444</u>
Total expenditures		<u>111,490</u>			<u>111,490</u>
Revenues over (under) expenditures	86	(2,846)			(2,760)
Other financing sources					
Transfers from (to) other funds					
General Fund			<u>18,800</u>	<u>6,400</u>	<u>25,200</u>
Revenues and other sources over (under) expenditures	86	(2,846)	18,800	6,400	22,440
Fund balance, beginning of year	<u>6,887</u>	<u>2,846</u>			<u>9,733</u>
FUND BALANCE, end of year	<u>\$ 6,973</u>	<u>\$ -</u>	<u>\$ 18,800</u>	<u>\$ 6,400</u>	<u>\$ 32,173</u>

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012			2011
	Budget	Actual	Variance favorable (unfavorable)	Actual
Revenues				
Investment earnings	\$ 100	\$ 86	\$ (14)	\$ 15
Other financing sources (uses)				
Transfers out				
General Fund	(100)		100	
Fund balance appropriated				
Total financing sources (uses)	(100)		100	
Revenues and other sources over (under) expenditures and other uses	\$ -	86	\$ 86	15
Fund balance, beginning of year		6,887		6,872
FUND BALANCE, end of year		\$ 6,973		\$ 6,887
Allocation:				
Equipment		\$ 6,973		

SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SOUTHERN PARK PROJECT

From Inception and for the Year Ended June 30, 2012

	Project authorization	Actual			Variance favorable (unfavorable)
		Prior years	Current year	Total to date	
Revenues					
Grants	\$ 441,541	\$ 332,897	\$ 108,644	\$ 441,541	\$
Donations	10,000	10,000		10,000	
Total revenues	451,541	342,897	108,644	451,541	
Expenditures					
Construction	420,141	312,953	110,961	423,914	(3,773)
Engineering design and inspection	55,200	53,454	85	53,539	1,661
Survey	6,500	3,944	444	4,388	2,112
Total expenditures	481,841	370,351	111,490	481,841	
Revenues over (under) expenditures	(30,300)	(27,454)	(2,846)	(30,300)	
Other financing sources (uses)					
Transfers in (out)					
General Fund	30,300	30,300		30,300	
Total other financing sources (uses)	30,300	30,300			
Revenues and other sources over (under) expenditures	\$ -	\$ 2,846	(2,846)	\$ -	\$ -
Fund balance, beginning of year			2,846		
FUND BALANCE, end of year			\$ -		

Project complete at June 30, 2012

Project ordinance amended January 10, 2011

Project ordinance adopted September 27, 2010

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ROCKRIDGE PARK DISC GOLF COURSE

From Inception and for the Year Ended June 30, 2012

	<u>Project authorization</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Expenditures			
Engineering design and inspection	\$ 18,800	\$	\$ 18,800
Total expenditures	<u>18,800</u>	<u></u>	<u>18,800</u>
Other financing sources (uses)			
Transfers from (to) other funds			
General Fund	<u>18,800</u>	<u>18,800</u>	<u></u>
Total other financing sources (uses)	<u>18,800</u>	<u>18,800</u>	<u></u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>18,800</u>	<u>\$ 18,800</u>
Fund balance, beginning of year		<u>\$</u>	
FUND BALANCE, end of year		<u>18,800</u>	

Project ordinance adopted July 11, 2012

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ALPHA INSTALL UPFIT OF THE VEOLGICA BUILDING PROJECT

From Inception and for the Year Ended June 30, 2012

	<u>Project authorization</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Revenues			
NC Rural Center Grant	\$ 128,000	\$	\$ 128,000
Total revenues	128,000		128,000
Expenditures			
Construction	134,400		134,400
Total expenditures	134,400		134,400
Revenues over (under) expenditures	(6,400)		6,400
Other financing sources (uses)			
Transfers from (to) other funds			
General Fund	6,400	6,400	
Total other financing sources (uses)	6,400	6,400	
Revenues and other sources over (under) expenditures	<u>\$ -</u>	6,400	<u>\$ 6,400</u>
Fund balance, beginning of year			
FUND BALANCE, end of year		<u>\$ 6,400</u>	

Project ordinance adopted March 22, 2012

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Revenues				
Operating revenues				
Water sales	\$ 1,061,200	\$ 1,142,188	\$ 80,988	\$ 1,339,404
Sewer charges	958,000	1,008,534	50,534	1,086,046
Reuse water charges	55,000	55,077	77	53,667
Reconnection fees and penalties	32,000	39,259	7,259	43,344
Insurance proceeds		3,725	3,725	
Miscellaneous	20,000	22,994	2,994	33,938
	2,126,200	2,271,777	145,577	2,556,399
Nonoperating revenues				
Interest earned on investments	5,000	3,397	(1,603)	4,079
Total revenues	2,131,200	2,275,174	143,974	2,560,478
Expenditures				
Administrative				
Salaries and wages		112,925		76,075
FICA		8,643		5,292
Group health insurance		13,566		8,609
Retirement		8,194		4,775
401(k) plan		5,755		1,834
Professional services		34,968		43,271
Postage		7,409		6,986
Travel and training		555		505
Maintenance - equipment				4,493
Contracted services		2,621		
Office supplies		2,882		2,275
Copier lease		2,529		2,795
Maintenance supplies		90		6
Insurance		9,701		7,252
	210,955	209,838	1,117	164,168

(Continued)

Prepared on the modified accrual basis of accounting (non-GAAP) for comparison with the adopted budgetary basis.

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Expenditures (continued)				
Water treatment				
Salaries and wages	\$	\$ 240,173	\$	\$ 286,400
FICA tax		18,984		21,308
Group health insurance		36,116		44,905
Retirement		17,626		16,343
401(k) plan		12,282		6,276
Professional services		1,267		18,721
Advertising		52		305
Telephone and postage		12,909		12,201
Utilities		57,762		62,273
Travel and training		4,554		4,307
Maintenance - buildings/grounds		53,239		15,788
Maintenance - equipment		31,039		32,666
Maintenance - automotive		1,098		481
Automotive supplies		1,798		4,308
Chemical supplies		126,422		131,638
Departmental supplies		8,245		11,051
Lab supplies		19,217		24,883
Office supplies		1,172		2,307
Uniforms		6,366		3,476
Dues and subscriptions		3,580		3,015
Contracted services		88,993		54,279
Insurance		10,602		11,360
Capital outlay - building		5,290		
		<u>763,384</u>		<u>768,291</u>
		758,786	4,598	

(Continued)

Prepared on the modified accrual basis of accounting (non-GAAP) for comparison with the adopted budgetary basis.

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Expenditures (continued)				
Wastewater treatment				
Salaries and wages	\$	\$ 188,139	\$	\$ 164,586
FICA		15,094		12,057
Group health insurance		27,428		30,384
Retirement		12,774		10,289
401(k) plan		8,873		3,951
Professional services		4,018		3,919
Telephone and postage		3,940		3,604
Travel and training		1,119		1,335
Maintenance - buildings/grounds		52,807		80,848
Maintenance - equipment		6,399		19,411
Utilities		67,430		62,204
Automotive supplies		1,118		1,746
Chemicals		40,797		20,290
Departmental supplies		9,774		11,173
Other supplies		6,980		11,001
Contracted services		28,238		24,775
Sludge hauling		70,164		46,537
Dues and subscriptions		6,752		6,652
Uniforms		3,953		3,235
Insurance		8,502		6,317
Permit fees				6,800
Fines		395		395
Capital outlay - equipment				76,494
Capital outlay - building		17,300		
	583,444	581,994	1,450	608,003
Public utilities				
Salaries		196,746		183,527
FICA		15,135		13,263
Retirement		14,231		11,350
401(K) plan		9,956		4,359
Group health insurance		38,903		47,187
Professional services		5,170		10,258
Travel and training		3,377		2,921

(Continued)

Prepared on the modified accrual basis of accounting (non-GAAP) for comparison with the adopted budgetary basis.

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Expenditures (continued)				
Public utilities (continued)				
Communications	\$	\$ 8,171	\$	\$ 7,190
Safety supplies		959		366
Maintenance - equipment		19,485		21,160
Maintenance - vehicles		10,949		3,640
Automotive supplies		13,631		10,388
Office supplies		2,663		744
Dues and subscriptions		951		
System maintenance supplies		96,409		84,347
Contracted services		338		4,108
Uniforms		6,388		5,994
Utilities		294		455
Insurance		16,306		13,701
System improvement				5,997
		<u>461,582</u>		<u>430,955</u>
			1,520	
Budgetary appropriations				
Bonds				
Interest		71,627		78,084
Principal payments		333,558		279,242
Agent's fees		1,180		1,770
		<u>406,800</u>		<u>359,096</u>
			435	
Total expenditures		<u>2,426,165</u>		<u>2,330,513</u>
			9,120	
Revenues over (under) expenditures		(294,965)		229,965
			153,094	

(Continued)

Prepared on the modified accrual basis of accounting (non-GAAP) for comparison with the adopted budgetary basis.

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP)
WATER AND SEWER FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Other financing sources (uses)				
Transfers in (out)				
General Fund	\$ (154,805)	\$ (154,805)	\$	\$ (155,785)
Water and Sewer Capital Reserve Fund	152,580	152,580		
Downtown Area Water System Improvement Project				(21,500)
Hillsboro Street Transmission Line Replacement Project				(152,580)
Credle Street Sewer Rehabilitation Project - Phase III and IV				(63)
Sale of capital assets				752
Fund balance appropriated	<u>297,190</u>		<u>(297,190)</u>	
Total financing sources (uses)	<u>294,965</u>	<u>(2,225)</u>	<u>(297,190)</u>	<u>(329,176)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	(144,096)	<u>\$ (144,096)</u>	(99,211)
Fund balance, beginning of year		<u>1,863,433</u>		<u>1,962,644</u>
FUND BALANCE, end of year		<u>\$ 1,719,337</u>		<u>\$ 1,863,433</u>

Prepared on the modified accrual basis of accounting (non-GAAP) for comparison with the adopted budgetary basis.

SCHEDULE OF RECONCILIATION OF MODIFIED ACCRUAL BASIS TO FULL ACCRUAL BASIS
WATER AND SEWER FUND

For the Year Ended June 30, 2012

Revenues and other sources over (under) expenditures and other uses - Schedule 9	\$ (144,096)
Budget appropriations	
Payment of debt principal (bonds)	333,558
Capital outlay - over \$5,000	22,590
Decrease (increase) in accrued vacation pay	3,640
Decrease (increase) in other postemployment benefits	(10,832)
Decrease (increase) in interest expense accrual	858
Depreciation	(569,998)
Amortization	(1,733)
Investment earnings in Water and Sewer Capital Reserve Fund	1,211
Investment earnings in Credle Street Sewer Rehabilitation Project - Phase III and IV	286
Transfer from Water and Sewer Capital Reserve Fund	(152,580)
Water and sewer access charges	543,160
Capital contribution - Chatham County	78,000
Capital contribution - Rural Center grants	<u>268,453</u>
NET INCOME (LOSS) - full accrual basis	<u>\$ 372,517</u>

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
WATER AND SEWER CAPITAL RESERVE FUND

For the Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		Variance favorable (unfavorable)	2011
	Budget	Actual		Actual
Revenues				
Investment earnings	\$ 100	\$ 1,211	\$ 1,111	\$ 1,526
Water & sewer access charges	<u>541,000</u>	<u>543,160</u>	<u>2,160</u>	<u>320,132</u>
Total revenues	541,100	544,371	3,271	321,658
Other financing sources (uses)				
Transfers out				
Water and Sewer Fund	(152,580)	152,580		
Hillsboro Street Project	(351,723)	351,723		
Reserve for water & sewer improvements	<u>(36,797)</u>		<u>36,797</u>	
Total other financing sources (uses)	<u>(541,100)</u>	<u>504,303</u>	<u>36,797</u>	
Revenues and other sources over (under) other uses	<u>\$ -</u>	40,068	<u>\$ 40,068</u>	321,658
Fund balance, beginning of year		<u>717,502</u>		<u>395,844</u>
FUND BALANCE, end of year		<u>\$ 757,570</u>		<u>\$ 717,502</u>

Prepared on the modified accrual basis of accounting (non-GAAP) for comparison with the adopted budgetary basis.

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND - DOWNTOWN AREA WATER
SYSTEM IMPROVEMENT PROJECT

From Inception and for the Year Ended June 30, 2012

	Project authorization	Actual		Total to date	Variance favorable (unfavorable)
		Prior years	Current year		
Expenditures					
Design	\$ 143,700	\$ 46,290	\$	\$ 46,290	\$ 97,410
Grant preparation and administration	52,870	38,860		38,860	14,010
Construction	<u>24,750</u>				<u>24,750</u>
Total expenditures	221,320	85,150		85,150	136,170
Other financing sources (uses)					
Transfers in (out)					
Water and Sewer Fund	<u>221,320</u>	<u>211,320</u>		<u>211,320</u>	<u>(10,000)</u>
Unexpended (over) revenues	<u>\$ -</u>	<u>\$ 126,170</u>	<u>\$ -</u>	<u>\$ 126,170</u>	<u>\$ 126,170</u>

Project ordinance amended October 25, 2010

Project ordinance amended October 11, 2010

Project ordinance amended January 11, 2010

Project ordinance amended February 22, 2010

Project ordinance adopted April 13, 2009

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND - HAW RIVER INTAKE PROJECT

From Inception and for the Year Ended June 30, 2012

	Project authorization	Actual			Variance favorable (unfavorable)
		Prior years	Current year	Total to date	
Expenditures					
Engineering design and inspection	\$ 50,000	\$	\$	\$	\$ 50,000
Total expenditures	50,000				50,000
Other financing sources (uses)					
Transfers in (out)					
Water and Sewer Fund	50,000	50,000		50,000	
Unexpended (over) revenues	\$ -	\$ 50,000	\$ -	\$ 50,000	\$ 50,000

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND - CREDLE STREET SEWER REHABILITATION PROJECT -
PHASE III AND IV

From Inception and for the Year Ended June 30, 2012

	Project authorization	Actual			Variance favorable (unfavorable)
		Prior years	Current year	Total to date	
Revenues					
Grant - NC Rural Center	\$ 496,126	\$ 129,014	\$ 268,453	\$ 397,467	\$ 98,659
Interest income		174	286	460	(460)
Total revenues	496,126	129,188	268,739	397,927	98,199
Expenditures					
Construction	590,000	294,349	242,886	537,235	52,765
Engineering / Design	94,000	78,692	13,500	92,192	1,808
Grant administration	14,400	4,210	9,510	13,720	680
Contingency	45,789				45,789
Total expenditures	744,189	377,251	265,896	\$ 643,147	101,042
Revenues over (under) expenditures	(248,063)	(248,063)	2,843	(245,220)	2,843
Other financing sources (uses)					
Transfers in (out)					
Water and Sewer Fund	63	63		63	
Loan proceeds	248,000	248,000		248,000	
Total other financing sources (uses)	248,063	248,063		248,063	
Unexpended (over) revenues	\$ -	\$ -	\$ 2,843	\$ 2,843	\$ 2,843

Project ordinance amended April 11, 2011

Project ordinance adopted November 8, 2010

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND - HILLSBORO STREET TRANSMISSION
LINE REPLACEMENT PROJECT

From Inception and for the Year Ended June 30, 2012

	Project authorization	Actual			Variance favorable (unfavorable)
		Prior years	Current year	Total to date	
Revenues					
Community Development Block Grant Chatham County	\$ 750,000 78,000	\$	\$ 78,000	\$ 78,000	\$ 750,000
Total revenues	828,000		78,000	78,000	750,000
Expenditures					
Construction	1,458,125				1,458,125
Engineering / Design	141,365	22,578	26,380	48,958	92,407
Grant administration	75,000	46	12,507	12,553	62,447
Legal services	6,000		2,000	2,000	4,000
Contingency	140,813				140,813
Total expenditures	1,821,303	22,624	40,887	\$ 63,511	1,757,792
Revenues over (under) expenditures	(993,303)	(22,624)	37,113	14,489	1,007,792
Other financing sources (uses)					
Transfers in (out)					
Water and Sewer Fund	504,303	152,580	351,723	504,303	
Loan proceeds - USDA - REDLG	240,000		240,000	240,000	
Loan proceeds	249,000				249,000
Total other financing sources (uses)	993,303	152,580	591,723	744,303	249,000
Unexpended (over) revenues	\$ -	\$ 129,956	\$ 628,836	\$ 758,792	\$ 758,792

Project ordinance amended May 29, 2012

Project ordinance amended October 24, 2011

Project ordinance amended April 11, 2011

Project ordinance adopted November 8, 2010

SCHEDULE OF PROPERTY TAXES RECEIVABLE

For the Year Ended June 30, 2012

<u>Year</u>	<u>Uncollected July 1, 2011</u>	<u>Additions</u>	<u>Collections</u>	<u>Abatements and adjustments</u>	<u>Uncollected June 30, 2012</u>
2001	\$ 7,165	\$	\$	\$ (7,165)	\$
2002	13,627				13,627
2003	992		9		983
2004	1,200		147		1,053
2005	1,452		37		1,415
2006	1,319		128		1,191
2007	4,308		196		4,112
2008	1,519		185		1,334
2009	3,860		1,163	(808)	1,889
2010	31,708		23,725	(82)	7,901
2011		1,310,756	1,247,429		63,327
Totals	<u>\$ 67,150</u>	<u>\$ 1,310,756</u>	<u>\$ 1,273,019</u>	<u>\$ (8,055)</u>	96,832
Add 2012/2013 ad valorem taxes receivable					3,721
Less allowance for uncollectible receivables					<u>20,111</u>
Taxes receivable - net					<u>\$ 80,442</u>
Reconciliation with revenues					
Current year's levy collections					\$ 1,247,429
Prior years' levy collections					<u>25,590</u>
Total tax collection					1,273,019
Penalties and interest					<u>6,081</u>
TOTAL AD VALOREM TAX REVENUE					<u>\$ 1,279,100</u>

ANALYSIS OF 2011 TAX LEVY AND TAX REVENUES

For the Year Ended June 30, 2012

	Town-Wide		Total Levy		
	Property valuations	Rate	Total levy	Property excluding registered motor vehicles	Registered motor vehicles
Original levy					
Property taxed at current year's rate	\$ 424,338,079	\$ 0.302	\$ 1,281,501	\$ 1,222,493	\$ 59,008
Registered motor vehicles taxed at prior year's rate	6,977,483	0.302	21,072		21,072
Penalties			1,294	1,294	
Subtotal	431,315,562		1,303,867	1,223,787	80,080
Discoveries					
Current year's tax			6,073	5,812	261
Penalties			816	816	
Abatements					
Total property valuations	<u>\$ 431,315,562</u>				
Net levy			1,310,756	1,230,415	80,341
Uncollected at June 30, 2012			63,327	56,021	7,306
CURRENT YEAR TAX COLLECTIONS			<u>\$ 1,247,429</u>	<u>\$ 1,174,394</u>	<u>\$ 73,035</u>
RATIO OF TAXES COLLECTED TO NET LEVY			<u>95.17%</u>	<u>95.45%</u>	<u>90.91%</u>

ASSESSED VALUE OF ALL TAXABLE PROPERTY (UNAUDITED)

<u>Fiscal period</u>	<u>Tax rate per \$100</u>	<u>Real property</u>	<u>Personal property</u>	<u>Utilities</u>	<u>Total</u>
2002-2003	0.430	\$ 128,937,430	\$ 26,077,386	\$ 4,164,670	\$ 159,179,486
2003-2004	0.430	143,500,173	22,273,181	3,875,328	169,648,682
2004-2005	0.430	149,633,292	21,992,754	3,875,349	175,501,395
2005-2006 *	0.373	212,410,358	18,062,849	4,349,426	234,822,633
2006-2007	0.373	235,158,177	25,654,692	4,282,842	265,095,711
2007-2008	0.373	277,304,290	26,428,418	5,263,807	308,996,515
2008-2009	0.363	314,564,161	24,840,821	5,748,207	345,153,189
2009-2010 *	0.302	384,236,871	26,241,722	6,033,894	416,512,487
2010-2011	0.302	389,129,971	20,991,493	5,843,106	415,964,570
2011-2012	0.302	400,659,937	25,025,000	5,630,625	431,315,562

Property is assessed at 100% of estimated sound value.

* Revaluation

TAX LEVIES AND TAX COLLECTIONS (UNAUDITED)

<u>Fiscal period</u>	<u>Tax levy</u>	<u>Collected current</u>	<u>Percent collected</u>	<u>Collected prior levies</u>	<u>Total collected</u>	<u>Balances delinquent</u>
2002-2003	\$ 684,951	\$ 630,088	91.99	\$ 24,812	\$ 654,900	\$ 89,222
2003-2004	731,051	703,865	96.28	32,831	736,696	74,357
2004-2005	760,569	737,035	96.91	36,171	773,206	68,134
2005-2006	881,631	861,256	97.69	19,749	881,005	57,339
2006-2007	999,533	978,758	97.92	16,850	995,608	68,967
2007-2008	1,174,202	1,147,118	97.69	16,630	1,163,748	72,582
2008-2009	1,266,373	1,237,312	97.71	25,068	1,262,380	65,296
2009-2010	1,268,850	1,246,111	98.21	30,799	1,276,910	50,237
2010-2011	1,268,283	1,236,575	97.50	20,592	1,257,167	72,176
2011-2012	1,310,756	1,247,429	95.17	25,590	1,273,019	80,442

REVENUES OTHER THAN PROPERTY TAXES
(UNAUDITED)

<u>Fiscal period</u>	<u>Licenses and permits</u>	<u>Interest</u>	<u>Revenues from other agencies</u>	<u>Other</u>	<u>Gross revenues from utilities</u>
2002-2003	\$ 9,350	\$ 69,102	\$ 683,542	\$ 290,686	\$ 1,224,538
2003-2004	9,937	50,973	768,462	333,282	1,234,064
2004-2005	10,420	64,592	623,894	396,084	2,459,012
2005-2006	8,865	196,734	674,183	392,689	1,826,897
2006-2007	12,700	258,790	768,385	350,653	2,340,580
2007-2008	18,639	186,503	910,944	444,156	2,134,775
2008-2009	5,324	57,462	813,798	461,249	2,056,944
2009-2010	10,990	10,928	2,040,286	484,446	2,556,046
2010-2011	27,863	9,290	2,340,927	645,533	2,876,531
2011-2012	16,231	8,749	688,758	1,250,308	2,814,937

EXPENDITURES FOR SELECTED FUNCTIONS (UNAUDITED)

<u>Fiscal period</u>	<u>General government</u>	<u>Public safety</u>	<u>Streets and sanitation</u>	<u>Cultural and recreation</u>	<u>Utilities</u>	
					<u>Operating</u>	<u>Debt service</u>
2002-2003	\$ 319,484	\$ 570,059	\$ 668,849	\$ 13,171	\$ 952,792	\$ 291,787
2003-2004	302,025	691,816	643,086	12,753	1,072,305	285,885
2004-2005	375,258	701,621	593,472	11,567	1,133,271	281,515
2005-2006	405,766	807,936	565,690	12,693	1,241,340	271,676
2006-2007	499,728	896,126	581,625	179,420	1,771,901	270,106
2007-2008	514,234	986,150	651,303	42,097	1,813,338	268,866
2008-2009	792,038	1,098,459	683,096	59,502	1,753,806	271,354
2009-2010	777,465	1,273,180	762,229	80,058	2,134,276	268,811
2010-2011	828,158	1,376,215	744,591	87,539	2,300,593	359,096
2011-2012	918,763	1,387,625	523,461	84,587	2,165,485	406,365

Post Office Box 185
107 North Fir Avenue
Siler City, North Carolina 27344

919.663.2311
919.663.2312 Fax
dsfoust@ward-foustcpas.com



Post Office Box 1147
1512 South Horner Blvd.
Sanford, North Carolina 27331

919.774.9452
Fax 919.775.4094
lsward@ward-foustcpas.com

certified public accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Mayor and Board of Commissioners
Town of Pittsboro
Pittsboro, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregated remaining fund information of the Town of Pittsboro, North Carolina as of and for the year ended June 30, 2012, which collectively comprises the Town of Pittsboro's basic financial statements, and have issued our report thereon dated February 7, 2013. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Town of Pittsboro ABC Board, as described in our report on the Town of Pittsboro's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Pittsboro ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Town of Pittsboro is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Pittsboro's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pittsboro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pittsboro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

We also noted other matters that we have reported to the management of the Town of Pittsboro, North Carolina in a separate letter dated February 7, 2013.

This report is intended solely for the information and use of management, others within the entity, the governing board, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ward + Foust, CPAs, PA

Siler City, North Carolina
February 7, 2013

Town of Pittsboro
North Carolina

SCHEDULE OF FINANCIAL STATEMENT FINDINGS AND RESPONSES

For the Year Ended June 30, 2012

2012-1 Segregation of Duties

Criteria:	Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.
Condition:	There is a lack of segregation of duties among Town personnel.
Effect:	Transactions could be mishandled.
Cause:	There are a limited number of personnel for certain functions.
Recommendation:	The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.
Management response:	The Town agrees with this finding. However, due to the small size of the organization, this condition cannot be corrected. The governing board will help monitor these controls.
Proposed completion date:	June 30, 2013