

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

The Town of Cary, North Carolina (the "Town") is located in the central part of the State and has a June 30, 2008, estimated population of 130,716. The Town is governed by an elected mayor and six-member council. The Town's major operations include police and fire protection, sanitation services, recycling services, parks and recreation, transit, water and sewer systems, planning and general administration services.

**Note 1.  
Summary of Significant  
Accounting Policies**

The basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Town's significant accounting policies are described below.

The Town implemented GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, in fiscal year 2002. Although not required until later, the Town also implemented infrastructure retroactive reporting in fiscal year 2002. In fiscal year 2002, the Town also implemented GASB 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, which is an amendment to previous GASB statements and includes additional guidance on the Management Discussion and Analysis requirement. In addition to these, the Town implemented GASB 38, *Certain Financial Statement Note Disclosures*, in fiscal year 2002, which modified certain disclosure requirements and GASB 40, *Deposit and Investment Risk Disclosures*, in fiscal year 2005, which changed information presented in the deposit and investment note to the Basic Financial Statements and GASB 44, *Economic Condition – Statistical Section*, in fiscal year 2005, which enhanced the statistical section. Implementation of GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB 46, *Net Assets Restricted by Enabling Legislation* and GASB 47, *Accounting for Termination Benefits* began in fiscal year 2006. However, none of these statements have had an effect on the Town since they went into effect.

As part of the phase one implementation process, the Town implemented GASB 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans* and GASB 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* during fiscal year 2008. The unfunded liability has been recorded and additional disclosures have been added to meet these regulations regarding the accounting and reporting of other post-employment benefits.

**A. Reporting Entity**

The Town of Cary is a municipal corporation that is governed by an elected mayor and a six-member council. The Town's basic financial statements include all funds over which the Town has accountability. The Cary Economic Development Corporation is the only component unit for the Town and it has no assets, liabilities or other activity to be recorded. It was created in 2002 as a mechanism for the Town to issue certificates of participation (COP's) related to the Town Hall campus renovation project. It will remain in existence until the debt is fully paid, but could be used for future COP's issuances.

**B. Entity-Wide and  
Fund Financial  
Statements**

The entity-wide financial statements (i.e., the statement of net assets and the statement activities) report information for all of the nonfiduciary activities of the Town. Eliminations have been made to minimize the double counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on customer demand based fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program Revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions

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NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

**B. Entity-Wide and  
Fund Financial  
Statements**  
(continued)

that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses, as applicable. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are defined as major or non-major in the basic financial statements according to GASB reporting standards, which categorize funds based on relative size and materiality.

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. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the entity-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Town has several non-major governmental funds, however, they are all reported as major funds in separate columns in the fund financial statements. There are no non-major business-type funds.

**C. Measurement Focus,  
Basis of Accounting  
and Financial  
Statement Presentation**

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

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. Property taxes are recorded on an accrual basis and are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for property taxes. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

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. Wake County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities in the County, including the Town of Cary. 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 Wake County from March 2007 through February 2008 apply to the fiscal year

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For the Year Ended June 30, 2008

**C. Measurement Focus,  
Basis of Accounting  
and Financial  
Statement Presentation**  
*(continued)*

ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2008, because they are intended to finance the Town's operations during the 2009 fiscal year. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

Sales taxes, 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 subject to full accrual because they are generally not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Under the terms of the grant agreements, the Town funds certain programs in 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. Excluding debt funding, 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. In the event that debt proceeds are included, the Town will spend debt proceeds first unless there is an agreement tying specific expenditures to grant proceeds. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources, as they are needed.

As permitted by accounting principles generally accepted in the United States of America, 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 enterprise fund financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The Town reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, various other taxes and licenses and State-shared revenues. The primary expenditures are for public safety, streets and highways, sanitation, recycling, parks and recreation, general government services, and debt service for the payment of general long-term principal, interest and related costs.

**Capital Project Fund** - The Capital Project Fund is used to account for financial resources to be used for the acquisition and/or construction of major capital facilities (other than those financed by proprietary funds) and infrastructure. The Town has five sub-funds within the Capital Project Fund: Street Projects, Parks and Recreation Projects, Fire Projects, General Governmental Projects, and General Capital Reserve.

**Special Revenue Funds** - The Town operated five special revenue funds during fiscal year 2008. The Amphitheatre Special Revenue Fund is used to account for the operations of the Koka Booth Amphitheatre at Regency Park, which is funded based on cash flow needs. The Transit Special Revenue Fund is used to account for the operations of C-Tran, the Town's bus service. The 911 Special Revenue Fund is used to account for all wired and wireless expenditures covered by the related fees. The Community Development Block Grant (CDBG) Special Revenue Fund is used to account for activity related to the CDBG Federal Grant. The Economic Development Special Revenue Fund

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**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**C. Measurement Focus,  
Basis of Accounting  
and Financial  
Statement Presentation  
(continued)**

is used to account for special economic related activities in town. All funds are annually budgeted, except the CDBG Special Revenue Fund, which has a multi-year budget. The Town has voluntarily chosen to report all of these funds as major in the basic financial statements

The Town reports the following major enterprise fund:

**Utility System** - An enterprise fund is used to account for operations and maintenance of the water and sewer system which includes two wastewater treatment facilities and the jointly owned Cary/Apex Water Treatment Plant. In fiscal year 2008, a Western Wake Water Reclamation Facility division was created and funds were budgeted, but no activity occurred as of June 30, 2008. This fund also covers acquisition and/or construction of major utility capital facilities and infrastructure, as well as the debt service for the payment of utility long-term debt principal, interest and related costs. The fund is comprised of four sub-funds: Utility System Operations, Water Projects, Sewer Projects and Utility Capital Reserve. This is the Town's only enterprise fund.

Additionally, the Town reports the following fund types:

**Internal Service Funds** - The Town has two Internal Service Funds. The Garage Fund is used to account for the financing of fleet services provided by the Public Works/Utilities Department and charged to other departments of the Town on a cost-reimbursement basis. The Health Insurance Fund is used to account for employee health and dental claims expense incurred by the Town related to the decision to self-insure for these employee benefits. This fund also collects premiums from Town divisions to cover claims expense for employee elected spouse and family coverage. The primary activity for both of these funds is governmental and all balances are allocated accordingly for the entity-wide financial statements.

**Pension Trust Fund** - A pension trust fund is used to account for activities related to the Law Enforcement Separation allowance, which accumulates resources for pension benefit payments to qualified police retirees.

As a general rule, the effect of interfund activity has been eliminated from the entity-wide financial statements. Exceptions to this general rule are reimbursements to the General Fund and other charges between the Town's utility system function and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**D. Budgetary**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the General Capital Reserve Fund (a sub-fund of the Capital Project Fund), the Amphitheatre Special Revenue Fund, the Transit Special Revenue Fund, the 911 Special Revenue Fund, the Economic Development Special Revenue Fund, the Health Insurance Internal Service Fund, the Garage Internal Service Fund, the Pension Trust Fund for Law Enforcement Separation Allowance and the Utility System Operations Fund and Utility Capital Reserve Fund (both of which are sub-funds of the Utility System Enterprise Fund). All annual appropriations lapse at the fiscal year-end. However, based on Town ordinance, funds for unpaid purchase orders or delayed projects may be rolled over to the subsequent year. Multi-year project ordinances are adopted for the Parks, Street, Fire and General Governmental Project Funds (all sub-funds of the Capital Project Fund), for the Water and Sewer Project Funds (both sub-funds of the Utility Systems Enterprise Fund) and for the Community Development Block Grant Special Revenue Fund.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**D. Budgetary**  
*(continued)*

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at a functional level for all annually budgeted funds and a project-type level for the multi-year project funds. Amendments are required for any revisions that alter the total functional or project-type budget and must be approved by Town Council. The Town internally manages expenditures on a line item and departmental basis and, although not legally required, budget amendments may occur between line items and between departments of the same function. All internal budget amendments must be approved by the Finance and Budget departments and some amendments are also forwarded to the Town Manager for additional approval. During the year numerous budget amendments to the original budget were necessary. The original budget ordinance was adopted by July 1 of the fiscal year in accordance with State law.

**E. Assets, Liabilities and  
Net Assets or Equity**

**1. Deposits and investments**

The deposits of the Town are secured as required by North Carolina General Statute ("G.S.") 159-31. The Town may establish official depositories with any bank or savings and loan association whose principal office is located in North Carolina.

G.S. 159-30(c) authorizes the Town to invest in obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed 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 mutual fund dedicated to serving North Carolina public units.

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices and in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. For the majority of investments, the Town both intends and has the ability to hold all securities to maturity. However, due to economic conditions and when it is beneficial to the Town, the Town may elect to sell investments prior to maturity on the secondary market.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

The Town pools most moneys from all funds, except the Pension Trust Fund to facilitate disbursement and investment and maximize investment income. Exceptions of non-pooled funds include, but are not limited to, unspent bond proceeds and escrowed funds restricted for specific purposes. For purposes of the Statement of Cash Flows, the Town's proprietary funds consider equity in pooled cash and investments to be cash equivalents as they are essentially demand deposit accounts. Investment income is allocated based on each fund's monthly balance in relation to the total pooled cash balance.

**2. Receivables and payables**

According to the North Carolina General Statutes, ad valorem taxes levied on July 1, the beginning of the fiscal year, are due September 1, but interest and penalties do not accrue until the following January 6, the lien date. Property taxes on certain registered motor vehicles are assessed and collected throughout the year. The taxes levied for fiscal year 2008 are based on the assessed values as of January 1, 2007.

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**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**E. Assets, Liabilities and  
Net Assets or Equity  
(continued)**

Within the fund financials ad valorem taxes receivable are not accrued as revenue because the amount is not considered "available." At June 30, taxes receivable are significantly past due and are not considered to be an available resource to finance the operations of the subsequent year. Accounting principles generally accepted in the United States of America state that property tax revenues which are measurable but not available should be recorded as deferred revenues. The receivable amount is reduced by an allowance for doubtful accounts and an amount equal to the net receivable is included in the governmental balance sheet and the statement of net assets. Any property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenues.

An allowance for doubtful accounts is maintained on the ad valorem taxes receivable as described above. The Town also maintains an allowance for doubtful accounts for sanitation receivable, utility service accounts receivable and other miscellaneous receivables.

The General Fund loaned the CDBG Special Revenue Fund \$50,000 in fiscal year 2008. This loan is for cash flow purposes until grant funds are received and is expected to be paid in early fiscal year 2009. There were no other lending/borrowing arrangements between funds during fiscal year 2008. However, for the entity-wide financial statements, residual balances outstanding between the governmental activities and business-type activities are reported as due to or due from other activities.

**3. Inventories and prepaid items**

Inventory is determined by physical count and valued at cost using the first-in, first-out method. Inventory in the governmental fund types consists of expendable supplies held for consumption and retail items held for resale.

For consumable items, the cost thereof has been recorded in inventory at the time items were purchased. Expenditure occurs when items are issued from inventory. These inventories are accounted for in the central warehouse, which is managed by the Purchasing Division in the Finance Department. Total inventory is reported in the General Fund and Garage Internal Service Fund, which is considered a governmental activity in the entity-wide statement of net assets. The Town also holds several inventories intended for retail resale. However, these are considered immaterial and inventory items are expensed as purchases are made and revenues are recorded when items are sold.

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both entity-wide and fund financial statements and are expensed as balances are used.

**4. Restricted assets**

Certain cash balances, which are managed as a part of pooled cash, are restricted by purpose and source. Cash balances in the Utility Systems Fund and General Fund related to customer deposits are not available for appropriations or expenditures. These balances are segregated on the Statement of Net Assets and classified as restricted. Other cash balances in the major funds (Utility System Enterprise Fund and Capital Project Fund) are restricted for unspent debt proceeds and unspent grant funding, and are only available for designated projects as described in the individual official statements, grant agreements and as approved by Council.

**5. Capital assets**

Capital assets, which include land, buildings, equipment, vehicles and infrastructure assets (e.g., water & sewer lines, water tanks, roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**E. Assets, Liabilities and  
Net Assets or Equity**  
*(continued)*

Capital assets (not including general infrastructure) are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. General infrastructure assets are defined by the Town as assets with an initial cost of more than \$50,000. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Governmental infrastructure assets (roads, sidewalks, bridges, etc) acquired prior to July 1, 2001, consist of assets acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost based on deflated estimated replacement costs. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense paid by the Town during the current fiscal year was over \$5.2 million in the Utility Systems Fund. Of this amount, \$1.8 million was added to utility construction-in-progress related to numerous debt funded utility construction projects.

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

<u>Capital asset</u>	<u>Life</u>
Automobiles and Light Trucks	3-5 years
Heavy Trucks	6-10 years
Office Furniture and Equipment	5-10 years
Maintenance and Construction Equipment	5-10 years
Utility System	50 years
Buildings	50 years
Streets, sidewalks and bridges	50 years
Other infrastructure	25-50 years

**6. Compensated absences**

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave, with such leave being fully vested when earned. Also, unlimited compensatory time for non-exempt employees, if not taken, is paid to the employee upon termination of employment. All vacation leave is accrued when incurred in the entity-wide and proprietary fund financial statements. Vacation leave accrued over the 30 day limit is converted to sick leave annually.

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

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

**E. Assets, Liabilities and  
Net Assets or Equity**  
*(continued)*

**7. Long-term obligations**

In the entity-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 are deferred and amortized over the life of the bonds using 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 the 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.

**8. Fund equity**

Net assets in entity-wide and proprietary fund financial statements are classified as investment in capital assets, net of related debt; restricted; or 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.

In the governmental fund financial statements, reservations of fund balance represent amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

**Reserved**

*Reserved for Inventories* - portion of fund balance segregated for inventory of supplies because it is not an expendable or available resource.

*Reserved by State Statute* - portion of fund balance not available for appropriation after consideration of other reservations of fund balance. G.S. 159-13(b)(16) restricts appropriation of fund balance or fund equity to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as these amounts stand at the close of the fiscal year preceding the budget year.

*Reserved for Encumbrances* - portion of fund balance available for appropriation to pay for commitments relating to unperformed contracts and purchase orders.

*Reserved for Streets – Powell Bill* - portion of fund balance available for appropriation but legally segregated for street expenditures. It represents the balance of the total unexpended Powell Bill funds which is an annual grant received by the Town from the N. C. Department of Transportation.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**E. Assets, Liabilities and  
Net Assets or Equity  
(continued)**

*Reserved for Restricted 911 Funds* - fund balance available for appropriation but legally restricted for qualified 911 expenditures.

**Unreserved**

*Designated for Self-Insurance* - portion of total fund balance available for appropriation, which has been designated for self-insurance expenses related to small claims and workers' compensation.

*Designated for Affordable Housing Program* - portion of total fund balance available for appropriation, which has been designated for affordable housing, including designations for mortgage loans to citizens and employees.

*Designated for Capital Projects* - portion of total fund balance available for appropriation, which has been designated for governmental capital projects through approved multi-year project budget ordinances.

*Designated for Subsequent Year's Expenditures* - portion of total fund balance available for appropriation, which has been appropriated in the fiscal year 2009 annual operating budget.

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

*Unreserved, reported in non-major* - portion of governmental fund balance that is in special revenue funds, which may carry certain restrictions based on the revenue source.

**9. Comparative data/reclassifications**

Comparative total data for the prior year have been presented in the fund financial statements for the annually budgeted governmental and proprietary funds in order to provide an understanding of the changes in the financial position and operations of these funds. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**Note 2:  
Deposits and Investments**

**Deposits**

All of the Town'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 level are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, 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 policy regarding custodial credit risk for deposits.

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**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 2:  
Deposits and Investments  
(continued)**

At June 30, 2008, the Town's deposits had a carrying amount of \$34,224,556 and a bank balance of \$33,132,460. Of the bank balance, \$855,679 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2008, the Town's petty cash fund totaled \$14,909 and the amount held in trust related to the Law Separation Allowance is \$1,165,261.

Investments

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-2 Years</u>	<u>2-3 Years</u>	<u>3-4 Years</u>
US Treasuries	\$60,903,141	35,742,438	9,235,625	15,925,078	---
US Agencies -					
FFCB	70,405,094	9,561,513	42,158,112	18,685,469	---
FHLB	70,066,687	31,503,547	15,037,906	23,525,234	---
FHLMC	49,390,233	28,456,044	11,372,813	6,549,343	3,012,033
FNMA	51,656,237	27,045,344	20,499,531	4,111,362	---
NCCMT	16,636,049	16,636,049	---	---	---
Total	\$319,057,441	148,944,935	98,303,987	68,796,486	3,012,033

*Interest Rate Risk* – In accordance with its investment policy, the Town manages its exposure to declines in fair values by requiring purchases of securities to be laddered with staggered maturity dates and limiting all securities to a final maturity of no more than five years.

*Credit Risk* - State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2008, the Town had no investments in commercial paper. The Town has a formal policy that addresses the management of credit risk in various ways, including its compliance with NC G.S. 159-30, its quarterly review of the investment portfolio by an independent consultant and the percentage limitations on its holdings of certain issuers. The Town's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2008. The Town's investments in US Agencies (Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

*Concentration of Credit Risk* - The Town's policy limits the amount that the Town may invest in any one issuer to 25% per issuer. This limit excludes investments in US Treasuries and the NCCMT. More than 5 percent of the Town's investments are in Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association securities. These investments are 22%, 22%, 16% and 16%, respectively, of the Town's total investments.

**Note 3.  
Receivables**

Accounts Receivable as of year-end for the Town's individual major funds in the aggregate as presented in the fund financials and entity-wide totals, including the applicable allowances for uncollectible accounts, are as follows:

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 3.  
Receivables  
(continued)**

	<u>General</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>	<u>Full Accrual Adjustment</u>	<u>Entity-Wide Governmental Activity</u>	<u>Business- type Utility System</u>
Receivables:							
Housing Loans	\$ ---	---	---	---	1,330,830	1,330,830	---
Due from other							
Governments	9,268,843	80,000	203,755	9,552,598	9,276,441	18,829,039	1,650,000
Accounts	991,075	455,034	105,938	1,552,047	226,112	1,778,159	7,426,007
Gross receivables	10,259,918	535,034	309,693	11,104,645	10,833,383	21,938,028	9,076,007
Less: Allowance							
Sanitation allowance	(19,995)	---	---	(19,995)	---	(19,995)	---
Utility allowance	---	---	---	---	---	---	(331,571)
Miscellaneous allowance	(1,782)	---	---	(1,782)	---	(1,782)	(1,535)
Net total receivables at June 30, 2008	<u>\$10,238,141</u>	<u>535,034</u>	<u>309,693</u>	<u>11,082,868</u>	<u>10,833,383</u>	<u>21,916,251</u>	<u>8,742,901</u>

The amounts above do not include accrued interest receivable and ad valorem taxes receivable which are listed separately in the Basic Financial Statements. Taxes receivable, as listed in the Basic Financial Statements, are net of a \$644,084 allowance for doubtful accounts.

Special Revenue Fund receivables include \$660 related to the Amphitheatre Fund, \$152,219 related to the Transit Fund, \$105,278 related to the 911 Fund and \$51,536 related to the CDBG fund. Health Insurance Internal Service Fund receivables of \$156,300 and Garage Internal Service Fund receivables of \$12,987 are included in Governmental Activities (primary customer) in the entity-wide financial statements.

Included in the \$18.8 million for governmental and the \$1.6 million for business-type related to due from other governments, the Town recorded a receivable of \$11.2 million (\$9.6 million governmental and \$1.6 million business-type) related to grants or other financial assistance that has been awarded. Many of these awarded grants are not earned; therefore, they are also included in deferred revenue.

In conformity with accounting principles generally accepted in the United States of America, revenues that are measurable but not available are reported as deferred revenues in the fund financials. In addition, revenues collected in advance of the fiscal year to which they apply, are reported as deferred revenues.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 3.  
Receivables  
(continued)**

At the end of the current fiscal year, the various components of deferred/unearned revenue were as follows:

GOVERNMENTAL FUNDS:

	Earned but Unavailable	Received and Unearned	Fund Financial Balance	Net Unearned (Earned) Portion of Receivables	Entity-Wide Balance
Ad valorem taxes	\$371,545	144,094	515,639	(371,544)	144,095
Due from other governments	---	---	---	5,099,839	5,099,839
Accounts Receivable	504,516	90,336	594,852	(204,573)	390,279
Deferred/Unearned Revenue at June 30, 2008	<u>\$876,061</u>	<u>234,430</u>	<u>1,110,491</u>	<u>4,523,722</u>	<u>5,634,213</u>

Of the fund financial balance above, all is related to the General Fund except for \$327,925 reported in the Capital Project Fund and \$163,963 reported in the Transit Special Revenue Fund.

BUSINESS-TYPE/UTILITY SYSTEMS ENTERPRISE FUND:

	Fund Financial and Entity-Wide Balance
Utility line annexation agreements	\$473,669
Miscellaneous	<u>1,467,008</u>
Deferred/Unearned Revenue at June 30, 2008	<u>\$1,940,677</u>

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 4.  
Capital Assets**

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In (Out)</u>	<u>Ending Balance</u>
<b>Government Activities:</b>					
<u>Capital assets, Non-depreciable:</u>					
Land & Improvements	\$101,802,869	15,660,000	(1,195,963)	2,125,088	118,391,994
Construction-in-Progress	34,033,405	21,838,386	(94,967)	(3,060,000)	52,716,824
Total Capital Assets, Non-depreciable	135,836,274	37,498,386	(1,290,930)	(934,912)	171,108,818
<u>Capital Assets, Depreciable:</u>					
Buildings & Improvements	87,502,535	---	---	106,944	87,609,479
Machinery & Equipment	9,877,239	1,567,204	(528,910)	563,381	11,478,914
Vehicles	19,544,673	1,319,501	(901,133)	---	19,963,041
Infrastructure	542,889,163	78,300,000	---	264,587	621,453,750
Total Capital Assets, Depreciable	659,813,610	81,186,705	(1,430,043)	934,912	740,505,184
<u>Less Accumulated Depreciation for:</u>					
Buildings & Improvements	11,640,084	1,859,091	---	---	13,499,175
Machinery & Equipment	6,821,814	1,281,834	(528,906)	---	7,574,742
Vehicles	11,252,928	1,756,986	(899,011)	---	12,110,903
Infrastructure	168,350,895	14,831,527	---	---	183,182,422
Total Accumulated Depreciation	198,065,721	19,729,438	(1,427,917)	---	216,367,242
Total Capital Assets, Depreciable, Net	461,747,889	61,457,267	(2,126)	934,912	524,137,942
Governmental Activities Capital Assets, Net	\$597,584,163	98,955,653	(1,293,056)	---	695,246,760

Total Governmental assets include Internal Service Fund book value of \$1,222,671. Capital contributions in the amount of \$93,960,000 are included in the governmental additions related to street and other general infrastructure constructed and donated by area developers and acquired through annexations.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 4.**  
**Capital Assets**  
*(continued)*

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u> <u>In (Out)</u>	<u>Ending</u> <u>Balance</u>
<b>Business-type Activities:</b>					
<u>Capital assets, Non-depreciable:</u>					
Land & Improvements	\$14,907,199	---	---	630,482	15,537,681
Construction-in-Progress	38,797,974	14,899,523	(10,521)	(4,519,453)	49,167,523
Total Capital Assets, Non-depreciable	53,705,173	14,899,523	(10,521)	(3,888,971)	64,705,204
<u>Capital assets, Depreciable:</u>					
Buildings & Improvements	81,436,920	---	---	---	81,436,920
Machinery & Equipment	3,187,692	283,424	(10,277)	1,131,485	4,592,324
Vehicles	2,687,051	719,890	(226,145)	---	3,180,796
Intangible Assets	1,259,238	---	---	---	1,259,238
Infrastructure	338,941,812	20,473,140	---	2,757,486	362,172,438
Total Capital Assets, Depreciable	427,512,713	21,476,454	(236,422)	3,888,971	452,641,716
<u>Less Accumulated Depreciation for:</u>					
Buildings & Improvements	13,749,355	1,631,257	---	---	15,380,612
Machinery & Equipment	2,296,938	184,629	(10,277)	---	2,471,290
Vehicles	1,883,300	306,591	(226,145)	---	1,963,746
Intangible Assets	715,614	108,725	---	---	824,339
Infrastructure	68,407,733	7,139,429	---	---	75,547,162
Total Accumulated Depreciation	87,052,940	9,370,631	(236,422)	---	96,187,149
Total Capital Assets, Depreciable, Net	340,459,773	12,105,823	---	3,888,971	356,454,567
Business-type Activities Capital Assets, Net	\$394,164,946	27,005,346	(10,521)	---	421,159,771

Capital contributions in the amount of \$20,473,140 are included in the business-type additions related to utility system infrastructure constructed and donated by area developers.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 4.**  
**Capital Assets**  
*(continued)*

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:

General Governmental	\$16,317,087
Public Safety	1,104,251
Public Works	830,679
Environmental Protection	519,424
Cultural & Recreational	<u>915,721</u>
Total depreciation expense (excluding internal service)	19,687,162
Capital assets held by the Town's internal service garage fund are charged to the various functions based on their usage of assets	<u>42,276</u>
Total depreciation expense – governmental activities	<u><u>\$19,729,438</u></u>

Business-type Activities:

Water & Sewer	<u><u>\$9,370,631</u></u>
---------------	---------------------------

The Town has numerous active construction projects as of June 30, 2008. These projects include new street construction, widening and improvements of existing streets, new parks and related facilities, fire stations, fire trucks and pumpers, utility system improvements and new construction, utility plant expansions and other Town facilities and equipment. At year-end, the Town's significant commitments with contractors are as follows:

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 4.**  
**Capital Assets**  
*(continued)*

	Spent-to-date	Contract Commitments (in 000's)
Capital project fund:		
American Tobacco Trail	\$22,989	1,627,000
Aquatics Center	60,436	1,465,000
Davis Dr. North (Morrisville/Carpenter)	5,837,853	1,054,000
Fiber Optic Traffic Signal System	337,771	1,721,000
Kildaire Farm Rd. Widening	3,695,404	5,607,000
Sanitation and Recycling Truck Replacement	165	2,059,000
Trinity Rd. Widening & Extension	841,970	1,518,000
Walnut Street Park	146,754	1,442,000
Weston Pkwy. Pavement Rehabilitation	987,779	2,061,000
Other Parks Projects	29,530,606	1,652,000
Other Street Projects	100,889,458	4,839,000
Other General Governmental and Fire Projects	21,481,340	1,238,000
<b>TOTAL CAPITAL PROJECT COMMITMENTS</b>	<b>\$163,832,525</b>	<b>26,283,000</b>
Utility system enterprise fund:		
Swift Creek Pump Station Expansion	\$310,804	782,000
WWRWMF – Design & Phase 4 Planning/Permitting	3,147,042	1,698,000
WWRWMF – New Water Reclamation Facility	4,163,579	1,194,000
WWRWMF – SCADA	295,168	988,000
Other Utility Projects	46,542,614	9,279,000
<b>TOTAL UTILITY PROJECT COMMITMENTS</b>	<b>\$54,459,207</b>	<b>13,941,000</b>

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 5.  
Interfund Receivables,  
Payables and Transfers**

The Town has several interfund receivable/payable accounts. The allocation of internal profits and losses to the Utility System Enterprise Fund from the Health Insurance and Garage Internal Service Funds amounted to \$582,774. In the entity-wide financial statements, this amount is a net receivable for business-type activity and a net payable for governmental activities. In addition, the Town has a fund financial receivable in the General Fund and payable in the Community Development Block Grant Special Revenue Fund in the amount of \$50,000 related to a cash loan recorded at the end of fiscal year 2008. This is a temporary cash flow loan until the Federal grant proceeds are requested and received and is expected to be paid off within the first half of fiscal year 2009.

**Note 6.  
Leases**

**A. OPERATING LEASES**

In September 2007, the Town leased five Harley Davidson motorcycles from Ray Price Harley Davidson for one year with the total payments equaling \$21,200 for fiscal year 2008. If renewed, the future maximum annual amount is expected to be the same.

In October 2006, the Town renewed the operating lease with Air Liquide Industrial US LP for a liquid oxygen system at the Cary/Apex Water Treatment Plant for another five year term. The total cost is \$180,000 over the life of the lease. In fiscal year 2008 a payment of \$36,000 was made. The future minimum lease payments will be \$108,000. As part of the joint ownership agreement, Apex is responsible for twenty-three percent (23%) of the total cost, which will be \$41,400 over the life of the lease or \$8,280 annually.

The Town has a month-to-month operating lease with Hinsilblon Inc. for odor control at the North and South Water Reclamation Facilities. Equipment is generally leased year-round. In fiscal year 2008 payments of \$64,800 were made to Hinsilblon for equipment, along with additional amounts for related chemicals and other supplies. Since leases are month-to-month there are no future minimum lease payments. However, based on past experience, future total annual lease payments will approximate \$65,000 annually.

The Town has a month-to-month operating lease with Dracor Water systems for water purity equipment at the North and South Water Reclamation Facilities and the Cary/Apex Water Treatment Plant. Equipment is leased as needed and not maintained on site at all times. In fiscal year 2008 payments of approximately \$3,800 were made to Dracor, not including related chemicals and supplies. Since leases are month-to-month there are no future minimum lease payments. However, if equipment is leased for a full year, payments would be approximately \$23,000 annually.

The Town entered into a master operating lease agreement in May 1999 with Progress Energy for lights at Town facilities. Since then, four separate ten-year lease agreements were added; Davis Drive ballfield lights in June 1999, Cary High School lights in December 1999, Tennis Park lights in June 2000 and Skate Park lights in May 2002. Each of these agreements has future minimum lease payments of \$120 per month. In fiscal year 2008 payments of \$480 were made for all agreements. The total cost is \$376,324 over the life of the lease with a total commitment of \$1,200 remaining.

The Town entered into a five-year operating lease in November 2004 with Carolina Recording Systems for an audio log communications recorder. The total cost is \$82,125 over the life of the lease. In fiscal year 2008, a payment of \$16,425 was made, which included maintenance costs. The final lease payment is expected to be made in fiscal year 2009 in the amount of \$16,425.

The Town entered into a three-year operating lease in December 2005 with Toshiba Business Solutions for approximately 30 copier/printers, including a Risograph, throughout Town facilities. The total cost of the lease is approximately \$188,000 over the life of the lease. In fiscal year 2008 payments of approximately \$63,000 were made. The future minimum lease payments are approximately \$5,200 per month (approximately \$62,400 annually). However, this lease is due to expire in fiscal year 2009 with a new lease of similar value expected.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 6.  
Leases  
(continued)**

After completing some of the Ontario capital leases at the end of fiscal year 2007 and during fiscal year 2008, the Town entered into a month-to-month operating lease agreement for some of the equipment. Titles were not transferred to the Town for any of the related equipment after the respective capital leases were complete. Several of these operating leases ended during fiscal year 2008 and some are still active on a month-to-month basis. In fiscal year 2008 payments of approximately \$70,000 were made related to these operating lease agreements. The expected maximum future annual commitment on these leases should not exceed \$70,000.

The Town entered into a year-to-year lease agreement in August 2007 with Neopost for a new postage meter. This equipment cannot be purchased and is expected to be renewed annually. In fiscal year 2008, \$1,098 was paid related to this lease. Future annual payments are also expected to be at this same amount.

**B. CAPITAL LEASES**

Over the past several years the Town has entered into numerous lease agreements with Ontario Leasing for the acquisition of computers and related equipment. Starting in fiscal year 2000, at a minimum, the Town has entered into one new lease per year. In fiscal year 2008, the Town entered into three new equipment capital leases with Ontario and one new lease with CCA Financial. The value of all of the leased technology equipment for active capital leases at June 30, 2008, is approximately \$3.3 million with \$1.2 million related to new capital leases started in fiscal year 2008. There are active assets with a book value of approximately \$1 million at June 30, 2008, that meet the threshold requirement of \$5,000 or more and have been recorded as a governmental-activity capital asset in the entity-wide financial statements. Approximately \$355,000 of this book value relates to new assets added in fiscal year 2008 that met the threshold limit. The remainder of the assets may relate to active or non-active leases. The leases are for three years and at the end of the lease the old computer equipment will be replaced with the new equipment that will be financed through a similar lease or kept for a short-term through an operating lease (month-to-month). Title to the equipment does not transfer to the Town upon completion of these leases. However, these leases meet the capital lease criteria due to the ratio of present value (of payments) to the fair value of the leased equipment. The combined monthly payments for capital leases at June 30, 2008, are \$93,415 for Ontario and \$2,605 for CCA Financial, both of which include interest.

All of these technology related capital lease payments are funded by the General Fund. The future minimum lease obligations and the net present value of these future minimum lease payments as of June 30, 2008, are as follows:

<u>Year Ending June 30</u>	<u>Ontario Leases</u>	<u>CCA Financial</u>	<u>Total</u>
2009	\$964,557	31,260	995,817
2010	543,963	31,260	575,223
2011	130,881	27,613	158,494
Total minimum lease payments	1,639,401	90,133	1,729,534
Less: Interest	(63,866)	(12,538)	(76,404)
Present value of future minimum lease payments	\$1,575,535	77,595	1,653,130

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 7.  
Long-Term  
Obligations**

**A. INSTALLMENT FINANCING AGREEMENTS**

In October 1999, the Town entered into an installment purchase agreement with Branch Banking and Trust to finance a fire station at Ten-Ten and Kildaire Farm Road. The financing required principal payments to begin in fiscal year 2000 with an interest rate of 4.73% to be paid semi-annually. Debt service payments are funded by the General Fund. At June 30, 2008, no unspent proceeds remain available.

At June 30, 2008, the installment purchase debt related to the fire station is \$297,491 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2009	\$198,327	11,726	210,053
2010	99,164	2,345	101,509
Total	<u>\$297,491</u>	<u>14,071</u>	<u>311,562</u>

In March 2002, the Town entered into an installment purchase agreement with Banc of America to finance a fire pumper. The financing required principal payments to begin in fiscal year 2003 with an interest rate of 4.04% to be paid semi-annually. Debt service payments are funded by the General Fund. At June 30, 2008, no unspent proceeds remain available.

At June 30, 2008, the installment purchase debt related to the fire pumpers is \$168,169 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2009	\$39,556	6,395	45,951
2010	41,169	4,782	45,951
2011	42,848	3,103	45,951
2012	44,596	1,355	45,951
Total	<u>\$168,169</u>	<u>15,635</u>	<u>183,804</u>

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 7.  
Long-Term  
Obligations  
(continued)**

In October 2002, the Town issued certificates of participation bearing interest rates ranging from 2.5% to 5.0% to fund Town Hall Campus Improvements and a loan to the State of North Carolina to facilitate the earlier widening of State Highway 55. Interest payments began in fiscal year 2003. Principal payments began in fiscal year 2004. Principal and interest requirements will be provided by General Fund appropriation in the year in which they become due. At June 30, 2008, no unspent proceeds remain available.

In December 2006, the Town received payment in full from NC Department of Transportation in the amount of \$17,567,256 (including interest) for funds previously loaned to widen State Highway 55. These funds are now being utilized by the Town as a source of funding for Town street construction and repairs. At June 30, 2008, \$5,883,315 in unspent proceeds remains available.

At June 30, 2008, the installment purchase debt related to certificates of participation is \$34,995,000 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2009	\$2,335,000	1,425,150	3,760,150
2010	2,335,000	1,358,603	3,693,603
2011	2,335,000	1,272,660	3,607,660
2012	2,335,000	1,170,236	3,505,236
2013	2,335,000	1,067,027	3,402,027
2014-2018	11,670,000	3,861,940	15,531,940
2019-2023	11,650,000	1,284,787	12,934,787
Total	<u>\$34,995,000</u>	<u>11,440,403</u>	<u>46,435,403</u>

In July 2003, the Town entered into an installment purchase agreement with SunTrust to finance an aerial fire truck and two fire pumps. The financing required principal payments to begin in fiscal year 2004 with an interest rate of 2.65% to be paid semi-annually. Debt service payments are funded by the General Fund. At June 30, 2008, no unspent proceeds remain available.

At June 30, 2008, the installment purchase debt related to the fire pumps is \$770,378 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2009	\$131,890	19,575	151,465
2010	135,414	16,051	151,465
2011	139,031	12,434	151,465
2012	142,745	8,720	151,465
2013	146,558	4,907	151,465
2014	74,740	992	75,732
Total	<u>\$770,378</u>	<u>62,679</u>	<u>833,057</u>

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 7.  
Long-Term  
Obligations  
(continued)**

In May 2004, the Town entered into an installment purchase agreement with Banc of America to finance an aerial fire truck. The financing requires principal payments to begin in fiscal year 2005 with an interest rate of 3.578% to be paid semi-annually. Debt service payments will be funded by the General Fund. At June 30, 2008, no unspent proceeds remain available.

At June 30, 2008, the installment purchase debt related to the fire pumpers is \$500,720 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2009	\$76,233	17,240	93,473
2010	78,985	14,488	93,473
2011	81,836	11,637	93,473
2012	84,791	8,682	93,473
2013	87,852	5,621	93,473
2014	91,023	2,450	93,473
Total	<u>\$500,720</u>	<u>60,118</u>	<u>560,838</u>

**B. GENERAL OBLIGATION BONDS**

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

In July 2006, the Town's first variable rate general obligation bonds were issued in the amount of \$47,255,000. These bonds will be repaid over a 20-year period. Interest on the variable rate bonds is determined by a remarketing agent based upon market conditions. At June 30, 2008, no unspent proceeds remain available.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds outstanding at June 30, 2008 are as follows:

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

**Note 7.  
Long-Term  
Obligations  
(continued)**

<u>Purpose</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Date Series Matures</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2008</u>
<u>Governmental Activities</u>					
Park & Recreation Facilities, Series 1996	5.20% - 5.25%	4/1/1996	4/1/2013	\$2,500,000	\$1,170,000
Park & Recreation Facilities, Series 1998	4.20%	12/1/1998	6/1/2017	6,925,000	4,225,000
Public Improvement, Series 2001	4.25% - 5.0%	3/1/2001	3/1/2020	17,800,000	11,500,000
Refunding Bonds, Series 2001	4.20%	3/1/2001	2/1/2010	1,822,978	199,862
Public Improvement, Series 2003	2.5% - 4.0%	6/1/2003	6/1/2022	41,080,000	31,080,000
Public Improvement, Series 2006	Variable	7/12/2006	6/1/2027	47,255,000	47,255,000
Total Governmental Activities					<u>\$95,429,862</u>
<u>Business-Type Activities</u>					
Water Bonds, Series 2001	4.25% to 5.0%	3/1/2001	3/1/2022	59,100,000	\$45,300,000
Refunding Bonds, Series 2001	4.20%	3/1/2001	2/1/2010	10,507,022	1,135,135
Total Business-Type Activities					<u>\$46,435,135</u>

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

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$5,394,622	4,037,094	3,405,384	2,228,926
2010	5,380,240	3,836,670	3,329,751	2,084,750
2011	5,375,000	3,625,450	3,300,000	1,943,250
2012	5,375,000	3,414,950	3,400,000	1,803,000
2013	5,370,000	3,201,950	3,400,000	1,650,000
2014 – 2018	26,500,000	12,701,775	17,000,000	5,700,000
2019 – 2023	25,880,000	6,954,175	12,600,000	1,500,000
2024 – 2027	16,155,000	1,636,875	---	---
TOTAL	<u>\$95,429,862</u>	<u>39,408,939</u>	<u>46,435,135</u>	<u>16,909,926</u>

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 7.  
Long-Term  
Obligations  
(continued)**

**C. REVENUE BONDS**

The Town issued the first series of revenue bonds in fiscal year 2002, the second series in fiscal year 2004 and the third series in the latter part of fiscal year 2007. Part of the second series is related to an advanced refunding of a portion of the 1996 Sewer General Obligation bonds, which is discussed below in Section D. With these bonds the Town pledges income derived from the acquired or constructed assets to pay debt service. At June 30, 2008, \$1,854,066 in unspent proceeds remains from the 2007 bond issue. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Date Series Matures</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2008</u>
Series 2001 Combined Utility System	3.70% - 4.00%	11/15/01	12/1/26	\$19,135,000	\$2,720,000
Series 2004 Combined Utility System	2.75% - 5.00%	5/1/04	12/1/29	25,605,000	22,065,000
Series 2007 Combined Utility System	3.88% - 5.00%	6/5/07	12/1/33	35,710,000	35,200,000
			Total Revenue Bonds		<u>\$59,985,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$2,825,000	2,497,839
2010	2,860,000	2,404,476
2011	2,905,000	2,298,486
2012	2,390,000	2,187,482
2013	1,960,000	2,096,938
2014 – 2018	10,375,000	9,254,563
2019 – 2023	12,495,000	6,938,647
2024 – 2028	14,280,000	3,983,844
2029 – 2033	8,500,000	1,249,700
2034	1,395,000	34,875
<b>TOTAL</b>	<u>\$59,985,000</u>	<u>32,946,850</u>

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 7.**  
**Long-Term**  
**Obligations**  
*(continued)*

**D. REFUNDINGS AND REFINANCINGS**

The Town has defeased numerous Utility Systems Bonds over the years by placing the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, all related trust account assets and liabilities for the defeased bonds are not included in the Town's financial statements.

Defeased bonds related to refundings as part of the 2001 General Obligation Bond issuance and the 2004 Revenue Bond issuance have been fully called and the trust accounts have been closed. However, a total unamortized bond refunding loss of \$196,036 exists at June 30, 2008 and will continue to be amortized over the remaining life of the bonds.

In connection with the issuance of the Combined Revenue System Bonds, Series 2007, the Town defeased a portion of the 2001 revenue bonds. In this transaction, Town issued \$13,470,000 of utility system revenue bonds to advance refund \$12,985,000 of the 2001 revenue bonds. This advance refunding resulted in a net present value savings of \$552,760 for the Town. The reacquisition price on these defeased bonds exceeded the carrying value of the old debt in the amount of \$620,020, resulting in a refunding loss with an unamortized balance of \$452,098 at June 30, 2008 to be amortized over the life of the bonds.

**E. STATE REVOLVING LOAN**

During fiscal year 2004, the Town entered into a State Revolving Loan (SRL) to finance a biosolids dryer project. The draws for this loan were finalized during fiscal year 2007 for a total principal amount of \$10,223,222 at a fixed interest rate of 2.42%. Repayment of this loan commenced on May 1, 2007, with annual principal and semi-annual interest payments through May 1, 2026. At June 30, 2008, the outstanding balance is \$9,200,900.

During fiscal year 2005, the Town entered into a State Revolving Loan to finance the planning, permitting, a portion of the design and other projects related to the new Western Wake Regional Wastewater Management Facility (WWRWMF). The draws for this loan were finalized during fiscal year 2007 for a total principal amount of \$3,958,771 at a fixed interest rate of 2.205%. Repayment of the loan commenced during fiscal year 2008 and will continue through fiscal year 2027. Although this loan is the Town's debt, the Town has interlocal agreements with the Town of Apex and the Town of Holly Springs to pay a portion of the debt service (principal and interest) equal to their proportionate share of the project. The principal amount has been recorded as a long-term receivable and will be netted against the SRL long-term liability on the face of the financial statements. At June 30, 2008, the outstanding balance is \$3,760,832 (\$2,293,824 after netting the partner receivable).

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 7.  
Long-Term  
Obligations  
(continued)**

State revolving loan debt service requirements to maturity are as follows:

Year Ending June 30	Biosolids Dryer		WWRWMF		Total SRL	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$511,161	222,662	197,939	82,926	709,100	305,588
2010	511,161	210,292	197,939	78,562	709,100	288,854
2011	511,161	197,922	197,939	74,197	709,100	272,119
2012	511,161	185,551	197,939	69,833	709,100	255,384
2013	511,161	173,181	197,939	65,468	709,100	238,649
2014 – 2018	2,555,806	680,355	989,692	261,873	3,545,498	942,228
2019 – 2023	2,555,806	371,103	989,692	152,759	3,545,498	523,862
2014 – 2027	1,533,483	74,221	791,753	43,645	2,325,236	117,866
Sub-total	9,200,900	2,115,287	3,760,832	829,263	12,961,732	2,944,550
Interlocal Agreements	---	---	(1,467,008)	(322,169)	(1,467,008)	(322,169)
<b>TOTAL</b>	<b>\$9,200,900</b>	<b>2,115,287</b>	<b>2,293,824</b>	<b>507,094</b>	<b>11,494,724</b>	<b>2,622,381</b>

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

**Note 7.**  
**Long-Term**  
**Obligations**  
*(continued)*

**F. CHANGES IN LONG-TERM LIABILITIES**

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts due</u> <u>within one</u> <u>year</u>
<b>ACTIVITIES</b>					
Bonds & Notes Payable:					
General Obligation Debt	\$99,031,217	---	(3,601,355)	95,429,862	5,394,616
Installment Financing Agreements	39,553,620	---	(2,821,862)	36,731,758	2,781,007
Total Bonds & Notes Payable	138,584,837	---	(6,423,217)	132,161,620	8,175,623
Other Liabilities:					
Capital Leases	1,521,009	1,095,961	(963,840)	1,653,130	941,604
Compensated Absences	3,284,136	3,473,434	(3,116,925)	3,640,645	3,410,559
Unfunded OPEB Liability	---	5,700,477	---	5,700,477	245,335
Workers' Compensation Long-Term Reserve	701,461	1,467,679	(646,862)	1,522,278	1,522,278
Health Insurance Long-Term Reserve	590,634	7,964,589	(7,521,775)	1,033,448	606,706
Small Claims Reserve	---	363,169	(254,703)	108,466	108,466
Development Fee Credits	21,011,585	2,094,858	(2,396,371)	20,710,072	2,323,553
Total Other Liabilities	27,108,825	22,160,167	(14,900,476)	34,368,516	9,158,501
Governmental Activities Long-Term Liabilities	\$165,693,662	22,160,167	(21,323,693)	166,530,136	17,334,124
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds & Notes Payable – Utility System:					
General Obligation Debt	\$49,878,782	---	(3,443,647)	46,435,135	3,405,384
Revenue Bonds	62,795,000	---	(2,810,000)	59,985,000	2,825,000
State Revolving Loans, net	12,083,864	---	(589,140)	11,494,724	632,196
Total Bonds & Loans Payable	124,757,646	---	(6,842,787)	117,914,859	6,862,580
Less: Deferred Refunding Loss	(868,357)	---	220,223	(648,134)	---
Total Bonds & Notes Payable, Net	123,889,289	---	(6,622,564)	117,266,725	6,862,580
Other Liabilities – Utility System:					
Compensated Absences	691,913	683,800	(637,487)	738,226	691,570
Unfunded OPEB Liability	---	1,296,703	---	1,296,703	55,809
Development Fee Credits	5,189,915	1,907,878	(1,572,975)	5,524,818	1,674,478
Jordan Lake Capacity	569,747	---	(106,836)	462,911	110,281
Morrisville Debt Agreement	2,793,182	---	(377,349)	2,415,833	365,349
Acreage Fees Due to County	---	617,621	---	617,621	617,621
Durham Water Liability	61,970	---	(61,970)	---	---
Total Other Liabilities	9,306,727	4,506,002	(2,756,617)	11,056,112	3,515,108
Business-Type Activities Long-Term Liabilities	\$133,196,016	4,506,002	(9,379,181)	128,322,837	10,377,688

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

**Note 7.  
Long-Term  
Obligations  
(continued)**

Internal service funds predominantly serve the governmental funds. Accordingly, the long-term liabilities for them are included as part of the above totals for governmental activities. At year-end governmental long-term liabilities include \$37,256 of the Garage Internal Service Fund compensated absences and \$1,033,448 of the Health Insurance Internal Service Fund long-term reserve. The remainder of the governmental compensated balance will be liquidated by the General Fund. Also, the governmental capital leases and workers' compensation reserve will also be liquidated by the General Fund. All business-type liabilities will be liquidated by the Utility Systems Enterprise Fund.

**G. AUTHORIZED UNISSUED BONDS AND LEGAL DEBT MARGIN**

The Town is subject to the Local Government Bond Act of North Carolina, which limits the amount of net bonded debt the Town may have outstanding to 8 percent of the appraised value of property subject to taxation. At June 30, 2008, such statutory limit for the Town was \$1,113,229,772 providing a legal debt margin of approximately \$724,676,373. The Town does not intend to extend its debt to any amount near the legal debt limit.

At June 30, 2008, the Town had authorized but not issued general obligation bonds of \$7,410,000, \$98,405,000, \$28,095,000, \$110,000,000, and \$10,000,000 designated for water system improvements, streets, parks/recreational facilities, wastewater facilities, and open space, respectively for a total of \$253,910,000.

**Note 8.  
Purchased Water  
Capacity**

In fiscal year 1997, the Town of Cary and the Town of Apex signed an agreement with the State of North Carolina to purchase 16% of water capacity in Jordan Lake through fiscal year 2012. Additional capacity was purchased in fiscal years 2002 and 2003, increasing the percentage to 21% and 32%, respectively. Since this agreement relates to the jointly owned Cary Apex Water Treatment Plant, the ownership percentages apply to the capacity. Therefore, Cary is contracted to receive 77% of the 32% capacity. The agreement allows for installment payments through fiscal year 2012 at a 3.225% interest rate. In fiscal year 2003 an intangible asset and a long-term liability was recorded in the Utility Systems Enterprise Fund. At June 30, 2008, the liability balance is \$462,911 with a corresponding asset, net of accumulated depreciation, in the amount of \$434,899.

The Town of Morrisville also has a similar agreement with the State of North Carolina. Per the April 2006 utility system merger agreement Morrisville will retain ownership and the liability for the purchased water capacity, however the Town of Cary will reimburse Morrisville for the total amount of the payment (principal and interest) on an annual basis. A long-term liability has been recorded related to this agreement with Morrisville and at June 30, 2008, the balance is \$68,771 and is a portion of the total Morrisville Debt Agreement liability in Note 7.F. Since this intangible asset is still retained by Morrisville, there is no corresponding asset for Cary.

**Note 9.  
Accounts Payable, and  
Other Accrued  
Liabilities**

Accounts payable and other accrued liabilities as of year-end for the Town's individual major funds in the aggregate as presented in the fund financials and entity-wide statements are as follows:

	<u>Total</u>			<u>Entity-Wide</u>			
	<u>General</u>	<u>Capital</u>	<u>Special</u>	<u>Governmental</u>	<u>Full Accrual</u>	<u>Governmental</u>	<u>Business-type</u>
		<u>Projects</u>	<u>Revenue</u>	<u>Funds</u>	<u>Adjustment</u>	<u>Activity</u>	<u>Utility System</u>
Salaries and employee benefits	\$2,264,960	---	3,901	2,268,861	14,814	2,283,675	181,727
Due to other governments	3,882,526	---	---	3,882,526	---	3,882,526	---
Due to Vendors	2,285,845	5,710,756	646,149	8,642,750	305,890	8,948,640	2,520,286
Miscellaneous	14,710	604,208	---	618,918	---	618,918	3,185
	<u>\$8,448,041</u>	<u>6,314,964</u>	<u>650,050</u>	<u>15,413,055</u>	<u>320,704</u>	<u>15,733,759</u>	<u>2,705,198</u>

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

**Note 9.**  
**Accounts Payable, and**  
**Other Accrued**  
**Liabilities**  
*(continued)*

The governmental amount for the Special Revenue Funds is comprised of \$496 for the CDBG Fund, \$3,355 for the Amphitheatre Fund and \$646,199 for the Transit Fund. The full accrual adjustment represents the Garage Internal Service Fund accounts payable and accrued liabilities. For presentation purposes, the accounts payable portion of the worker's compensation and small claims liability is included with the long-term liabilities on the Entity-Wide financial statements and in the supporting note.

**Note 10.**  
**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 administers three self-funded programs that cover small claims and losses, employee, spouse and dependent health and dental claims, and workers' compensation.

**Workers' Compensation** – The Town is self-insured for statutory workers' compensation coverage up to a maximum of \$400,000 per incident for employees in the police and fire classifications and \$400,000 for employees in all other classifications, \$2,000,000 per accident and \$3,000,000 in aggregate claims. Based on historical trends and information available, the third party administrator and actuarial information from the previous year a reserve of \$1,522,278 was calculated as of June 30, 2008, for claims incurred but not reported and for items reported but not paid. This entire amount is estimated to be paid within the next fiscal year. \$104,654 of this liability is considered a current liability within the fund financials. However, it is included in long-term liabilities for readability purposes.

**Small Claims and Losses** - The Town self-funds small claims and losses incurred throughout the year. Claims are administered by an internal risk manager. Based on historical data and information available, management estimated and reserved \$108,466 for claims incurred but not reported and for items reported but not paid. \$93,779 of this liability is considered a current liability within the fund financials. However, it is included in long-term liabilities for readability purposes.

**Health and Dental Claims** – The Town self-funds health and dental coverage for all permanent employees, which is administered by Blue Cross Blue Shield, a third party administrator. Employees can also pay a portion of the premium to add a spouse or dependent(s). These claims are also administered by the third party administrator. Until fiscal year 2003, the Town provided health benefits through commercial health insurance providers. Based on information available, the third party administrator and actuarial information from the previous year a reserve of \$953,448 was calculated, as of June 30, 2008, for health claims incurred but not reported and for items reported but not paid and a reserve of \$80,000 was calculated for dental claims incurred but not reported and for items reported but not paid. The total liability of \$1,033,448 is estimated to be paid within the next fiscal year.

All reserves and estimated claims reported but not paid and incurred but not recorded are accrued and reported within the General Fund and the Health Insurance Internal Service Fund in the fund financials and in governmental activities in the entity-wide financials. The following is a reconciliation of changes in liabilities for claims from amounts reported June 30, 2006 to the current fiscal year ended June 30, 2008:

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 10.  
Risk Management  
(continued)**

	Workers' Compensation	Small Claims and Losses	Dental Claims	Health Claims	Total
Balance June 30, 2006	\$1,573,000	39,030	78,000	757,300	2,447,330
Claims reported and changes in estimates for FY 2007	(77,792)	226,398	661,438	5,204,505	6,014,549
Claims paid in FY 2007	<u>(793,747)</u>	<u>(170,493)</u>	<u>(691,779)</u>	<u>(5,418,830)</u>	<u>(7,074,849)</u>
Balance June 30, 2007	701,461	94,935	47,659	542,975	1,387,030
Claims reported and changes in estimates for FY 2008	1,467,679	268,234	915,748	7,048,841	9,700,502
Claims paid in FY 2008	<u>(646,862)</u>	<u>(254,703)</u>	<u>(883,407)</u>	<u>(6,638,368)</u>	<u>(8,423,340)</u>
Balance June 30, 2008	<u><u>\$1,522,278</u></u>	<u><u>108,466</u></u>	<u><u>80,000</u></u>	<u><u>953,448</u></u>	<u><u>2,664,192</u></u>

The Town provides for property and liability coverage through comprehensive third party insurance policies. Deductibles are established at appropriate levels as determined by management and an independent insurance consultant. For fiscal year 2008, deductibles were \$25,000 per incident for catastrophic damage and ranged from \$1,000 to \$80,000 per year for all other coverage and no settlements exceeded coverage.

**Note 11.  
Pension Plan  
Obligations**

**A. Local Governmental Employees' Retirement System**

*Plan Description:* The Town of Cary 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 six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.87 and 4.86%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Cary are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were \$2,679,341, \$2,432,111, and \$2,340,975, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

**Note 11.  
Pension Plan  
Obligations  
(continued)**

**B. Law Enforcement Officers Special Separation Allowance**

Plan Description - The Town of Cary administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent 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. The Separation Allowance is reported in the Town's report as a pension trust fund. No separate report is issued.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2007, the Separation Allowance's membership consisted of:

Retirees receiving benefits	11
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>160</u>
Total	<u><u>171</u></u>

Basis of Accounting - The Town has chosen to fund the Separation Allowance with an amount equal to the annual required contribution that is calculated on the most recent actuarial valuation at the time of budget development. Financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan. Both contributions and benefits are included in the annual operating budget. An expenditure amount is budgeted in the General Fund to cover the funding requirements.

Method Used to Value Investments - Investments are reported at fair value. North Carolina Capital Management Trust investments are reported at cost or amortized cost, which approximates fair value. All funds are invested in the North Carolina Capital Management Trust.

Contributions - The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and in recent years has chosen to fund an amount that matches the previous year's annual required contribution calculation. For the current year, the Town contributed \$151,547, or 1.63% of annual covered payroll. \$178,309 in benefits was paid to employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of separation allowance are financed through investment earnings.

The annual required contribution for the current year was determined as part of the December 31, 2006, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases between 4.5 and 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarially accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2007, was 23 years.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 11.  
Pension Plan  
Obligations  
(continued)**

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

Annual Required Contribution (ARC)	\$181,682
Interest on Net Pension Obligation	(30,963)
Adjustment to ARC	<u>26,243</u>
Annual Pension Cost (Expense)	176,962
Contributions Made in FY2008	<u>151,547</u>
Decrease in Net Pension Reserve	25,415
Net Pension Reserve, June 30, 2007	<u>(427,075)</u>
Net pension reserve, June 30, 2008	<u><u>(\$401,660)</u></u>

**Three Year Trend Information**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Reserve)
06/30/08	\$176,962	85.64%	(\$401,660)
06/30/07	165,564	120.42	(427,075)
06/30/06	183,693	88.78	(393,265)

**C. Supplemental Retirement Income Plan (401K)**

*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 all permanent full-time employees, as well as 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. Law enforcement officers and firefighters begin participation at the date of employment. For all other employees, participation begins two months after their date of employment.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

**Note 11.**  
**Pension Plan**  
**Obligations**  
*(continued)*

*Funding Policy* - Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. The Town makes an equal contribution of 5% of monthly salary to all other permanent employees. Also, all employees may make voluntary contributions to the plan. Contributions for law enforcement officers for the year ended June 30, 2008, were \$745,030 which consisted of \$485,560 from the Town and \$259,470 voluntary contributions from the law enforcement officers. Contributions for all other employees were \$2,870,676, which consisted of \$2,120,797 from the Town and \$749,879 voluntary contributions from other employees.

**D. Death Benefit Plan**

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

*Funding Policy* - Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2008, the Town made contributions to the State for death benefits of \$45,289. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .07% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

**E. Other Post-employment Benefits (OPEB)**

The Town administers a single-employer defined benefit healthcare plan ("the health plan"), which provides post-retirement health care benefits to retirees of the Town, provided they meet any of the retirement options available through the North Carolina Local Governmental Employees' Retirement System (NCLGERS) and reach the 15 year service level of creditable service with the Town. Upon reaching the 15 year service level, the Town will pay 50% of the group plan individual premium and will increase that amount 5% for each additional year of service to the 25 year service level. Health care, prescription drugs, pre-65 dental and vision coverage are provided in the health plan. When the eligible retiree has turned 65 and is no longer covered by the health plan, the Town will continue to provide a substantially equal monetary benefit to the post-65 retiree to cover a premium Medicare supplement and the prescription drug plan. If the benefit is higher than the premium, the amount is available to the retiree in a health reimbursement account (HRA). In addition to this, a lump sum life insurance benefit of \$5,000 is provided to those retirees who have at least 25 years of service at the time of retirement. Dependent or spouse coverage in the health plan must be paid in full by the retiree.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 11.  
Pension Plan  
Obligations  
(continued)**

Currently, 84 retirees are eligible for postretirement health benefits, in addition to four prior employees who are not eligible, but are included in the group insurance and pay 100% of the premium. For the fiscal year ended June 30, 2008, the Town made payments for postretirement health benefit premiums by transferring \$301,144 to the Health Internal Service Fund from the all operational funds. The Town self-funds health and dental coverage for retirees, which is administered by a third party administrator, along with coverage for employees.

Membership of the plan consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

	General Employees
Retirees and dependents receiving benefits	88
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>1,011</u>
Total	<u><u>1,099</u></u>

Funding Policy – The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees as authorized by the Town’s Council approved personnel ordinance. In addition, the budget for these expenditures is approved, along with other healthcare expenditures as part of the annual budget process. In addition to coverage from employees, the Town’s members can elect to pay a range of \$50 to \$215 per pay period for spouse, dependent or family coverage. For fiscal year 2008, the Town chose to fund the plan benefits on a pay-as-you-go basis.

The current annual required contribution (ARC) rate is 14.33% of annual covered payroll. For the current year, the Town contributed \$301,144 or 0.6% of annual covered payroll. The Town self-funds health and dental coverage for all retirees and employees.

Like employees, retirees also have the option of upgrading to an increased benefit package. This increased premium expense, along with dependent and/or spouse coverage (for any package option) is paid for in full by the retiree. The total contributed during fiscal year 2008 by retirees over and above the basic benefit is \$139,055. If the retiree elects a lower coverage, the difference is available in a flexible spending account.

Summary of Significant Accounting Policies – Post-employment expenditures are made from the General Fund, Utility Enterprise Fund and the Garage Internal Service Fund, which is maintained on the modified accrual basis of accounting throughout the year and adjusted to full accrual where required for reporting purposes. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 11.**  
**Pension Plan**  
**Obligations**  
*(continued)*

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

Annual Required Contribution (ARC)	\$7,298,324
Interest on Net OPEB Obligation	---
Adjustment to ARC	---
Annual OPEB Cost (Expense)	7,298,324
Amount Paid in FY2008 for Retiree Benefits	<u>(301,144)</u>
Increase in Net OPEB Obligation	6,997,180
Net OPEB Obligation, June 30, 2007	---
Net OPEB Obligation, June 30, 2008	<u><u>\$6,997,180</u></u>

Since fiscal year 2008 is the initial year of implementation for the Town, there is no interest, adjustments or beginning balance.

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$7,298,324	4.12%	\$6,997,180

Information will be accumulated in future years with the goal of providing three years of history.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 11.  
Pension Plan  
Obligations  
(continued)**

Funding Status and Funding Progress – As of December 31, 2007, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$64,771,083. The covered payroll (annual payroll of active employees covered by the plan) was \$50,926,701, and the ratio of the UAAL to the covered payroll was 127.18%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Note 12.  
Interfund  
Transfer**

A summary of interfund transfers by fund for the year ended June 30, 2008, is as follows:

	TRANSFERS FROM:			Total
	Governmental		Business-type	
	General	Capital Projects	Utility Systems	
<b>TRANSFERS TO:</b>				
<u>Governmental:</u>				
General Fund	\$ ---	---	---	---
Capital Project Fund	12,272,000	---	12,246,686	24,518,686
Special Revenue Funds:				
Regency Amphitheatre	453,527	---	---	453,527
Transit	1,587,903	---	---	1,587,903
Economic Development	600,000	---	---	600,000
<u>Business-type:</u>				
Utility Systems Fund	39,440	---	---	39,440
<b>TOTAL</b>	<b>\$14,952,870</b>	<b>---</b>	<b>12,246,686</b>	<b>27,199,556</b>

Transfers to the Capital Project Fund are for funding of capital needs. Transfers from the Capital Project Fund are related to unspent funding from closed capital projects, with unspent funds returning to their original point of origin. Transfers to the Special Revenue Funds are for operations pertaining to those specific purposes. The fund financials report \$14,955,061 in Transfers Out to other funds from the General Fund. This includes a transfer of \$2,191 to the Garage Internal Service Fund, which was eliminated and thus removed for full-accrual conversion and not included in the table above.

TOWN OF CARY, NORTH CAROLINA

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

**Note 13.**  
**Subsequent Events**

On July 11, 2008, the Town sold all Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) bonds within the Town's investment portfolio with a par value of \$48.7 million and \$50.8 million, respectively and market values of \$49.4 million and \$51.7 million, respectively at June 30, 2008. The Town realized a gain of \$1.1 million and reinvested the total proceeds (including the gain) in US Treasuries, Federal Home Loan Bank (FHLB) bonds, liquid money market funds and collateralized bank certificates of deposits. The transaction is not expected to have an adverse effect on earnings for fiscal year 2009.

**Note 14.**  
**Contingent Liabilities**

The Town receives amounts from federal, state, and local government agencies in the form of grants. The disbursement of funds under these programs is subject to audit in accordance with Office of Management and Budget Circular A-133 *Audit of States, Local Governments, and Non-Profit Organizations*. The Town expects the amount, if any, of expenditures that may be disallowed by the granting agencies as a result of these audits to be immaterial.

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Town's attorney and management that the resolution of these matters will not have a material adverse effect on the financial condition of the Town.