

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

The Town of Cary, North Carolina (the "Town") is located in the central part of the State and has a June 30, 2007, estimated population of 122,643. 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.

The Town is currently preparing for implementation of GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which require additional disclosures and impose additional accounting regulations regarding the accounting and reporting of other postemployment benefits. The Town will be required to implement these in fiscal year 2008.

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 Town has no component units.

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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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 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 judgements, 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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 2006 through February 2007 apply to the fiscal year ended June 30, 2007. 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, 2007, because they are intended to finance the Town's operations during the 2007 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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 2007. 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. In fiscal year 2007 the Town started an Economic Development Special Revenue Fund that is used to account for special economic related activities in town. All funds are annually budgeted, except for 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 operation of two wastewater treatment facilities and the jointly owned Cary/Apex Water Treatment Plant. 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

D. BUDGETARY DATA

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Capital Reserve Fund (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.

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. The Town both intends and has the ability to hold all securities to maturity.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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 2007 are based on the assessed values as of January 1, 2006.

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 \$140,000 in fiscal year 2007. This loan is for cash flow purposes until grant funds are received and is expected to be paid in early fiscal year 2008. There were no other lending/borrowing arrangements between funds during fiscal year 2007. 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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. 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 \$4.7 million in the Utility Systems Fund. Of this amount, \$729,281 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 which, 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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.

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, 2007

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 2008 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

At June 30, 2007, the Town's deposits had a carrying amount of \$58,619,699 and a bank balance of \$61,044,799. Of the bank balance, \$771,154 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2007, the Town's petty cash fund totaled \$14,709 and the amount held in trust related to the Law Separation Allowance is \$1,153,375.

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	\$49,643,241	14,898,327	25,693,352	3,064,687	5,986,875
US Agencies -					
FFCB	29,454,219	9,624,844	1,965,625	17,863,750	---
FHLB	65,425,388	44,049,138	17,391,250	3,985,000	---
FHLMC	55,840,000	27,444,055	21,227,299	4,178,750	2,989,896
FNMA	68,315,508	30,670,977	20,227,969	14,432,500	2,984,062
NCCMT	25,056,505	25,056,505	---	---	---
Total	<u>\$293,734,861</u>	<u>151,743,846</u>	<u>86,505,495</u>	<u>43,524,687</u>	<u>11,960,833</u>

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); however, the Town has no formal policy on managing credit risk. As of June 30, 2007, the Town had no investments in commercial paper. 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, 2007. 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%, 10%, 19% and 23%, respectively, of the Town's total investments.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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:

	<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	\$ ---	---	---	---	1,327,809	1,327,809	---
Due from other							
Governments	9,280,199	79,500	292,873	9,652,572	10,288,022	19,940,594	1,650,000
Accounts	908,020	255,922	43,976	1,207,918	262,561	1,470,479	8,584,893
Gross receivables	10,188,219	335,422	336,849	10,860,490	11,878,392	22,738,882	10,234,893
Less: Allowance							
Sanitation allowance	(19,351)	---	---	(19,351)	---	(19,351)	---
Utility allowance	---	---	---	---	---	---	(379,762)
Miscellaneous allowance	(4,186)	---	---	(4,186)	---	(4,186)	(2,303)
Net total receivables at June 30, 2007	\$10,164,682	335,422	336,849	10,836,953	11,878,392	22,715,345	9,852,828

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 \$676,588 allowance for doubtful accounts.

Special Revenue Fund receivables include \$678 related to the Amphitheatre Fund, \$128,339 related to the Transit Fund, \$43,297 related to the 911 Fund and \$164,535 related to the CDBG fund. Health Insurance Internal Service Fund receivables of \$156,300 and Garage Internal Service Fund receivables of \$19,575 are included in Governmental Activities (primary customer) in the entity-wide financial statements.

As agreed upon, in December 2006, the North Carolina Department of Transportation paid in full the receivable (in the entity-wide financial statements) related to the widening of NC Highway 55. The amount paid was \$17,567,256 which included principal of \$14,972,518 and accrued interest of \$2,594,738.

Included in the \$19.9 million for governmental and the \$1.6 million for business-type related to due from other governments, the Town recorded a receivable of \$13,711,122 (\$12,061,122 governmental and \$1,650,000 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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.

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	\$362,642	174,025	536,667	(362,641)	174,026
Due from other governments	---	---	---	6,000,521	6,000,521
Accounts Receivable	248,483	95,939	344,422	(204,574)	139,848
Deferred/Unearned Revenue at June 30, 2007	<u>\$611,125</u>	<u>269,964</u>	<u>881,089</u>	<u>5,433,306</u>	<u>6,314,395</u>

Of the fund financial balance above, all related to the General Fund except for \$122,058 reported in the Capital Project Fund and \$143,242 reported in the Transit Special Revenue Fund.

BUSINESS-TYPE/UTILITY SYSTEMS ENTERPRISE FUND:

	Fund Financial and Entity-Wide Balance
Utility line annexation agreements	\$472,807
Miscellaneous	1,543,912
Deferred/Unearned Revenue at June 30, 2007	<u>\$2,016,719</u>

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

NOTE 4– CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In (Out)</u>	<u>Ending Balance</u>
Government Activities:					
<u>Capital assets, Non-depreciable:</u>					
Land & Improvements	\$93,801,945	6,830,999	---	1,169,925	101,802,869
Construction-in-Progress	36,045,679	16,549,528	(108,472)	(18,453,330)	34,033,405
Total Capital Assets, Non-depreciable	129,847,624	23,380,527	(108,472)	(17,283,405)	135,836,274
<u>Capital Assets, Depreciable:</u>					
Buildings & Improvements	87,249,415	---	---	253,120	87,502,535
Machinery & Equipment	11,231,885	1,114,012	(2,482,782)	14,124	9,877,239
Vehicles	17,880,417	2,052,045	(2,841,809)	2,454,020	19,544,673
Infrastructure	486,467,022	41,860,000	---	14,562,141	542,889,163
Total Capital Assets, Depreciable	602,828,739	45,026,057	(5,324,591)	17,283,405	659,813,610
<u>Less Accumulated Depreciation for:</u>					
Buildings & Improvements	9,785,866	1,854,218	---	---	11,640,084
Machinery & Equipment	8,219,426	1,075,854	(2,473,466)	---	6,821,814
Vehicles	12,256,273	1,733,438	(2,736,783)	---	11,252,928
Infrastructure	155,334,015	13,016,880	---	---	168,350,895
Total Accumulated Depreciation	185,595,580	17,680,390	(5,210,249)	---	198,065,721
Total Capital Assets, Depreciable, Net	417,233,159	27,345,667	(114,342)	17,283,405	461,747,889
Governmental Activities Capital Assets, Net	\$547,080,783	50,726,194	(222,814)	---	597,584,163

Total Governmental assets include Internal Service Fund book value of \$1,250,197. Capital contributions in the amount of \$48,691,000 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, 2007

	<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>
Business-type Activities:					
<u>Capital assets, Non-depreciable:</u>					
Land & Improvements	\$12,107,523	---	---	2,799,676	14,907,199
Construction-in-Progress	25,831,284	32,324,183	(335,084)	(19,022,409)	38,797,974
Total Capital Assets, Non-depreciable	<u>37,938,807</u>	<u>32,324,183</u>	<u>(335,084)</u>	<u>(16,222,733)</u>	<u>53,705,173</u>
<u>Capital assets, Depreciable:</u>					
Buildings & Improvements	81,436,920	---	---	---	81,436,920
Machinery & Equipment	3,320,950	81,880	(215,138)	---	3,187,692
Vehicles	2,707,943	45,300	(66,192)	---	2,687,051
Intangible Assets	1,259,238	---	---	---	1,259,238
Infrastructure	313,852,154	8,866,925	---	16,222,733	338,941,812
Total Capital Assets, Depreciable	<u>402,577,205</u>	<u>8,994,105</u>	<u>(281,330)</u>	<u>16,222,733</u>	<u>427,512,713</u>
<u>Less Accumulated Depreciation for:</u>					
Buildings & Improvements	12,118,098	1,631,257	---	---	13,749,355
Machinery & Equipment	2,327,667	177,743	(208,472)	---	2,296,938
Vehicles	1,657,242	275,252	(49,194)	---	1,883,300
Intangible Assets	606,889	108,725	---	---	715,614
Infrastructure	61,753,462	6,654,271	---	---	68,407,733
Total Accumulated Depreciation	<u>78,463,358</u>	<u>8,847,248</u>	<u>(257,666)</u>	<u>---</u>	<u>87,052,940</u>
Total Capital Assets, Depreciable, Net	<u>324,113,847</u>	<u>146,857</u>	<u>(23,664)</u>	<u>16,222,733</u>	<u>340,459,773</u>
Business-type Activities Capital Assets, Net	<u>\$362,052,654</u>	<u>32,471,040</u>	<u>(358,748)</u>	<u>---</u>	<u>394,164,946</u>

Capital contributions in the amount of \$8,866,926 are included in the business-type additions related to utility system infrastructure constructed and donated by area developers.

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

<u>Governmental Activities:</u>	
General Governmental	\$14,301,959
Public Safety	1,063,389
Public Works	840,792
Environmental Protection	501,943
Cultural & Recreational	921,431
Total depreciation expense (excluding internal service)	17,629,514
Capital assets held by the Town's internal service garage fund are charged to the various functions based on their usage of assets	50,876
Total depreciation expense – governmental activities	<u>\$17,680,390</u>

<u>Business-type Activities:</u>	
Water & Sewer	<u>\$8,847,248</u>

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

The Town has numerous active construction projects as of June 30, 2007. 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:

	Spent-to-date	Contract Commitments (in 000's)
Capital project fund:		
Davis Dr. North – Morrisville/Carpenter	\$3,500,209	2,147,000
Evans Rd. Widening	1,980,537	2,692,000
Fiber Optic Traffic Signal System	10,073,499	1,747,000
Kildaire Farm Rd. Widening	1,605,953	6,989,000
Kildaire Farm Rd. Widening – Penny Rd. to Ten-Ten	27,400	4,000,000
Maynard Rd. Widening – Kildaire Farm Rd. to West Chatham	2,699,437	7,165,000
TCAP – Town Center Streetscape	1,080,550	1,875,000
Trinity Rd. Widening & Extension	308,894	1,979,000
Tryon Rd. Widening – Phase 2	2,877,812	4,937,000
White Oak Greenway – Phases 3 & 4	2,251,661	1,223,000
USA Baseball – Brooks Park	11,038,016	1,214,000
Other Parks Projects	10,902,716	1,670,000
Other Street Projects	71,365,637	3,828,000
Other General Governmental and Fire Projects	11,335,971	2,241,000
TOTAL CAPITAL PROJECT COMMITMENTS	\$131,048,292	43,707,000
Utility system enterprise fund:		
Automated Meter Reading	\$78,411	1,105,000
Biosolids Digester	620,840	1,533,000
Swift Creek Pump Station Expansion	4,653,160	1,370,000
Terrington Pump Station	209,038	913,000
White Oak & Bachelor Branch Interceptor and Pump Station Elimination	2,707,882	956,000
WWRWMF – New Water Reclamation Facility	2,962,920	1,975,000
WWRWMF – SCADA	48,800	1,234,000
WWRWMF – West Cary Pump Station & Force Main	11,200,827	1,194,000
Other Utility Projects	35,808,432	9,863,000
TOTAL UTILITY PROJECT COMMITMENTS	\$58,290,310	20,143,000

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

NOTE 5– INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The Town has several interfund receivable/payable accounts. The allocation of internal profits and losses from the Health Insurance and Garage Internal Service Funds amounted to \$585,547. 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 \$140,000 related to a cash loan recorded at the end of fiscal year 2007. 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 2008.

NOTE 6- LEASES**A. OPERATING LEASES**

In March 2007 the Town renewed a lease with Ray Price Harley Davidson for four Harley Davidson motorcycles for an additional two years. The first lease payment of \$18,000 was made in April 2007. The second and final lease payment of \$18,000 will be due in April 2008. The lease is subject to another renewal in March 2009.

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 2007 a payment of \$36,000 was made. The future minimum lease payments will be \$144,000. 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 leased as needed and not maintained on site at all times. In fiscal year 2007 payments of \$66,960 were made to Hinsilblon for equipment, along with additional amounts for related chemicals. Since leases are month-to-month there are no future minimum lease payments. However, future total annual lease payments could be approximately \$68,000.

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 2007 payments of \$4,500 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 \$21,500 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 were added in June 1999 and have a future minimum lease payment of \$120 per month. Cary High School lights were added in December 1999 and have a future minimum lease payment of \$120 per month. Tennis Park lights were added in June 2000 and have a future minimum lease payment of \$120 per month. Skate Park lights were added in May 2002 with a future minimum lease payment of \$120 per month. In fiscal year 2007 payments of approximately \$7,500 were made for all agreements. The total cost is \$376,324 over the life of the lease with a total commitment of \$1,680 remaining.

The Town entered into a five-year operating lease in September 2002 with Carolina Recording Systems for an audio log communications recorder. The total cost is \$62,145 over the life of the lease. In fiscal year 2007, the

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

final payment of \$12,429 was made, leaving no future minimum lease payments. This lease is expected to be renewed next fiscal year.

The Town entered into a three-year operating lease in December 2005 with Toshiba Business Solutions for approximately 30 copier/printers throughout Town facilities. The total cost of the lease is approximately \$170,000 over the life of the lease. In fiscal year 2007 payments of approximately \$57,000 were made. The future minimum lease payments lease are approximately \$4,750 per month (approximately \$57,000 annually).

After completing some of the Ontario capital leases at the end of fiscal year 2006 and during fiscal year 2007, 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 2007 and some are still active on a month-to-month basis. In fiscal year 2007 payments of approximately \$100,000 were made related to these operating lease agreements. The expected maximum future annual commitment on these leases should not exceed \$30,000.

The Town entered into a year-to-year lease agreement in September 2004 with Neopost for a postage meter. This equipment cannot be purchased and is expected to be renewed annually. In fiscal year 2007, approximately \$660 was paid related to this lease. Future annual payments are also expected to be approximately \$660.

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 2007, the Town entered into five new equipment capital leases with Ontario. The value of all of the Ontario leased equipment for active capital leases at June 30, 2007, is approximately \$2.4 million with \$968,000 related to new capital leases started in fiscal year 2007. There are active assets with a book value of approximately \$755,000 at June 30, 2007, 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 \$566,000 of this book value relates to new assets added in fiscal year 2007 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. 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 all Ontario capital leases at June 30, 2007, are approximately \$104,000, which includes 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, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Ontario Leases</u>
2008	\$805,717
2009	604,172
2010	183,578
2011	<u>3,007</u>
Total minimum lease payments	1,596,474
Less: Interest	<u>(75,465)</u>
Present value of future minimum lease payments	<u><u>\$1,521,009</u></u>

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

NOTE 7– LONG-TERM OBLIGATIONS**A. INSTALLMENT FINANCING AGREEMENTS**

In October 1997, the Town entered into an installment purchase contract with Branch Banking and Trust to finance two Pierce fire pumpers. The financing contract required principal payments beginning in fiscal year 1998 with an interest rate of 4.83% to be paid semiannually. Debt service payments are funded by the General Fund. Proceeds received reimbursed the Town for expenditures previously made. There were no unspent proceeds at June 30, 2007. During fiscal year 2008, the Town will make the final payment for this loan in the amount of \$44,545, which includes principal of \$43,495 and interest of \$1,050.

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, 2007, no unspent proceeds remain available.

At June 30, 2007, the installment purchase debt related to the fire station is \$495,818 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2008	\$198,327	21,107	219,434
2009	198,327	11,726	210,053
2010	99,164	2,345	101,509
Total	<u>\$495,818</u>	<u>35,178</u>	<u>530,996</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, 2007, no unspent proceeds remain available.

At June 30, 2007, the installment purchase debt related to the fire pumpers is \$206,175 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		Total
	Principal	Interest	
2008	\$38,006	7,945	45,951
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>\$206,175</u>	<u>23,580</u>	<u>229,755</u>

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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, 2007, 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 (includes 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, 2007, \$9,341,492 in unspent proceeds remain.

At June 30, 2007, the installment purchase debt related to certificates of participation is \$37,335,000 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2008	\$2,340,000	1,485,923	3,825,923
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
2013-2017	11,675,000	4,357,383	16,032,383
2018-2022	11,650,000	2,265,663	13,915,663
2023	2,330,000	52,425	2,382,425
Total	<u>\$37,335,000</u>	<u>13,388,043</u>	<u>50,723,043</u>

In July 2003, the Town entered into an installment purchase agreement with SunTrust to finance an aerial fire truck and two fire pumpers. 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, 2007, no unspent proceeds remain available.

At June 30, 2007, the installment purchase debt related to the fire pumpers is \$898,835 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2008	\$128,459	23,006	151,465
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
2013-2014	221,296	5,899	227,195
Total	<u>\$898,835</u>	<u>85,685</u>	<u>984,520</u>

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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, 2007, no unspent proceeds remain available.

At June 30, 2007, the installment purchase debt related to the fire pumps is \$574,297 with future debt service payments as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2008	\$73,577	19,896	93,473
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
2013-2014	178,875	8,071	186,946
Total	<u>\$574,297</u>	<u>80,014</u>	<u>654,311</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, 2007, \$18,758,841 in unspent proceeds remain.

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, 2007 are as follows:

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

<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, 2007</u>
<u>Governmental Activities</u>					
Park & Recreation Facilities, Series 1996	5.20% - 5.25%	4/1/1996	4/1/2013	\$2,500,000	\$1,370,000
Park & Recreation Facilities, Series 1998	4.20%	12/1/1998	6/1/2017	6,925,000	4,525,000
Public Improvement, Series 2001	4.25% - 5.0%	3/1/2001	3/1/2020	17,800,000	12,400,000
Refunding Bonds, Series 2001	4.20%	3/1/2001	2/1/2010	1,822,978	401,218
Public Improvement, Series 2003	2.0% - 4.0%	6/1/2003	6/1/2022	41,080,000	33,080,000
Public Improvement, Series 2006	Variable	7/12/2006	6/1/2027	47,255,000	47,255,000
Total Governmental Activities					\$99,031,218
<u>Business-Type Activities</u>					
Water Bonds, Series 2001	4.25% to 5.0%	3/1/2001	3/1/2022	59,100,000	\$47,600,000
Refunding Bonds, Series 2001	4.20%	3/1/2001	2/1/2010	10,507,022	2,278,782
Total Business-Type Activities					\$49,878,782

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
2008	\$3,601,367	4,146,800	3,443,647	2,374,709
2009	5,394,610	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 – 2017	26,570,000	13,823,050	17,000,000	6,550,000
2018 – 2022	26,480,000	8,096,375	16,000,000	2,300,000
2023 – 2027	20,855,000	4,591,013	---	---
TOTAL	\$99,031,217	45,571,402	49,878,782	19,284,635

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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. 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, 2007</u>
Series 2001 Combined Utility System	3.40% - 4.00%	11/15/01	12/1/26	\$19,135,000	\$3,340,000
Series 2004 Combined Utility System	2.75% - 5.00%	5/1/04	12/1/29	25,605,000	23,745,000
Series 2007 Combined Utility System	3.88% - 5.00%	6/5/07	12/1/33	35,710,000	<u>35,710,000</u>
			Total Revenue Bonds		<u>\$62,795,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$2,810,000	2,571,838
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 – 2017	10,120,000	9,671,175
2018 – 2022	12,000,000	7,443,075
2023 – 2027	14,800,000	4,621,790
2028 – 2032	9,365,000	1,684,775
2033 – 2037	<u>2,720,000</u>	<u>137,750</u>
TOTAL	<u>\$62,795,000</u>	<u>35,518,686</u>

D. REFUNDINGS AND REFINANCINGS

The Town has defeased a portion of the 1996 sewer general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Town's financial statements. During fiscal year 2004, the Town issued \$5,925,000 of utility system revenue bonds to advance refund \$5,600,000 in 1996 sewer general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Utility System Enterprise Fund. This advance refunding was undertaken to reduce total debt service payments over the next 8 years by \$282,079 and resulted in an economic gain of \$179,370. In April 2006, the bonds were fully called and paid in full.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

In connection with the issuance of the Combined Revenue System Bonds, Series 2007, the Town defeased a portion of the 2001 revenue bonds by placing a portion of the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Town's financial statements. In this transaction, Town issued \$13,470,000 of utility system revenue bonds to advance refund \$12,985,000 of the 2001 revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Utility System Enterprise Fund. This advance refunding resulted in a net present value savings of \$552,760 for the Town.

The reacquisition price on these newly defeased bonds exceeded the carrying value of the old debt in the amount of \$620,020. This amount, along with previous refunding losses, is being netted against the new debt and amortized over the life of the old debt. The unamortized balance of these deferred refundings at June 30, 2007, is \$868,357.

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 FY 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.

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 FY 2007 for a total principal amount of \$3,958,771 at a fixed interest rate of 2.205%. Repayment of the loan will commence on May 1, 2008 and will continue through May 1, 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.

Year Ending June 30	Biosolids Dryer		WWRWMF		Total SRL	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$468,106	212,632	197,939	116,348	666,045	328,980
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 – 2017	2,555,806	742,206	989,692	283,695	3,545,498	1,025,901
2018 – 2022	2,555,806	432,953	989,692	174,582	3,545,498	607,535
2013 – 2027	2,044,643	123,701	989,692	65,468	3,034,335	189,169
Sub-total	9,669,005	2,327,919	3,958,771	945,611	13,627,776	3,273,530
Interlocal Agreements	---	---	(1,543,912)	(28,354)	(1,543,912)	(28,354)
TOTAL	\$9,669,005	2,327,919	2,414,859	917,257	12,083,864	3,245,176

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

F. CHANGES IN LONG-TERM LIABILITIES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts due within one year</u>
GOVERNMENTAL ACTIVITIES					
Bonds & Notes Payable:					
General Obligation Debt	\$55,418,372	47,255,000	(3,642,155)	99,031,217	3,601,353
Installment Financing Agreements	42,408,526	---	(2,854,906)	39,553,620	2,821,862
Total Bonds & Notes Payable	97,826,898	47,255,000	(6,497,061)	138,584,837	6,423,215
Other Liabilities:					
Capital Leases	1,230,334	1,072,728	(782,053)	1,521,009	754,061
Compensated Absences	2,973,512	2,925,249	(2,614,625)	3,284,136	2,912,856
Workers' Compensation Long-Term Reserve	1,573,000	522,207	(1,393,746)	701,461	701,461
Health Insurance Long-Term Reserve	835,300	5,865,942	(6,110,608)	590,634	590,634
Development Fee Credits	19,173,495	3,650,451	(1,812,361)	21,011,585	1,601,958
Total Other Liabilities	25,785,641	14,036,577	(12,713,393)	27,108,825	6,560,970
Governmental Activities Long-Term Liabilities	\$123,612,539	61,291,577	(19,210,454)	165,693,662	12,984,185
BUSINESS-TYPE ACTIVITIES					
Bonds & Notes Payable – Utility System:					
General Obligation Debt	\$54,121,628	---	(4,242,846)	49,878,782	3,443,654
Revenue Bonds	41,920,000	35,710,000	(14,835,000)	62,795,000	2,810,000
State Revolving Loans, net	12,069,204	568,877	(554,217)	12,083,864	588,849
Total Bonds & Loans Payable	108,110,832	36,278,877	(19,632,063)	124,757,646	6,842,503
Less: Deferred Refunding Loss	(326,472)	(620,020)	78,135	(868,357)	---
Total Bonds & Notes Payable, Net	107,784,360	35,658,857	(19,553,928)	123,889,289	6,842,503
Other Liabilities – Utility System:					
Compensated Absences	621,852	611,384	(541,323)	691,913	607,349
Development Fee Credits	4,579,020	1,412,182	(801,287)	5,189,915	838,039
Jordan Lake Capacity	673,245	---	(103,498)	569,747	106,836
Morrisville Debt Agreement	3,187,686	---	(394,504)	2,793,182	377,349
Durham Water Liability	---	61,970	---	61,970	61,970
Total Other Liabilities	9,061,803	2,085,536	(1,840,612)	9,306,727	1,991,543
Business-Type Activities Long-Term Liabilities	\$116,846,163	37,744,393	(21,394,540)	133,196,016	8,834,046

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 \$37,067 of the Fleet Internal Service Fund compensated absences and \$590,633 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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, 2007, such statutory limit for the Town was \$1,042,516,205 providing a legal debt margin of approximately \$659,729,503. The Town does not intend to extend its debt to any amount near the legal debt limit.

At June 30, 2007, 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, net of accumulated depreciation, and a long-term liability was reported in the Utility Systems Enterprise Fund. At June 30, 2007, the liability balance is \$569,747 with a corresponding asset, net of accumulated depreciation, in the amount of \$543,624.

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, 2007, the balance is \$91,695. 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:

	General	Capital		Total		Entity-Wide	
		Projects	Special Revenue	Governmental Funds	Full Accrual Adjustment	Governmental Activity	Business-type Utility System
Salaries and employee benefits	\$2,737,099	---	2,236	2,739,335	11,787	2,751,122	138,358
Due to other governments	2,988,416	---	---	2,988,416	---	2,988,416	---
Due to Vendors	1,440,218	4,013,166	583,428	6,036,812	63,612	6,100,424	4,248,866
Small Claims	58,017	---	---	58,017	---	58,017	---
Miscellaneous	80,191	599,986	---	680,177	---	680,177	3,185
	<u>\$7,303,941</u>	<u>4,613,152</u>	<u>585,664</u>	<u>12,502,757</u>	<u>75,399</u>	<u>12,578,156</u>	<u>4,390,409</u>

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

The governmental amount for the Special Revenue Funds is comprised of \$22,692 for the CDBG Fund and \$562,970 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 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 \$300,000 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 \$701,460 was calculated as of June 30, 2007, 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.

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 \$94,935 for claims incurred but not reported and for items reported but not paid.

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 \$542,975 was calculated, as of June 30, 2007, for health claims incurred but not reported and for items reported but not paid and a reserve of \$47,659 was calculated for dental claims incurred but not reported and for items reported but not paid. The total liability of \$590,634 is estimated to be paid within the next fiscal year.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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, 2005 to the current fiscal year ended June 30, 2007:

	Workers' Compensation	Small Claims and Losses	Dental Claims	Health Claims	Total
Balance June 30, 2005	\$1,368,488	99,503	52,827	553,997	2,074,815
Claims reported and changes in estimates for FY 2006	907,356	121,063	689,720	4,785,514	6,503,653
Claims paid in FY 2006	<u>(702,844)</u>	<u>(181,536)</u>	<u>(664,547)</u>	<u>(4,582,211)</u>	<u>(6,131,138)</u>
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	<u>\$701,461</u>	<u>94,935</u>	<u>47,659</u>	<u>542,975</u>	<u>1,387,030</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 2007, 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 4.78%, 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, 2007, 2006 and 2005 were \$2,432,111, \$2,340,975, and \$2,112,110, 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, 2007

B. Law Enforcement Officers Special Separation Allowance

1. 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, 2006, the Separation Allowance's membership consisted of:

Retirees receiving benefits	12
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>147</u>
Total	<u><u>159</u></u>

2. Summary of Significant Accounting Policies:

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.

3. 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 \$199,375, or 2.50% of annual covered payroll. \$189,553 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, 2005, 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.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

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, 2006, was 24 years.

4. 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	\$170,919
Interest on net pension obligation	(28,512)
Adjustment to annual required contribution	<u>23,158</u>
Annual pension cost	165,565
Contributions made	<u>199,375</u>
Decrease in net pension reserve	33,810
Net pension reserve, beginning of year	<u>(393,265)</u>
Net pension reserve, end of year	<u><u>(\$427,075)</u></u>

Three Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Reserve)</u>
06/30/07	\$165,564	120.42%	(\$427,075)
06/30/06	183,693	88.78	(393,265)
06/30/05	155,998	88.21	(413,870)

C. Supplemental Retirement Income Plan

Plan Description: The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to 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.

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, 2007, were \$607,752 which consisted of \$416,812 from the Town and \$190,940 voluntary contributions from the law enforcement officers. Contributions for all other employees were \$2,759,850, which consisted of \$2,021,630 from the Town and \$738,220 voluntary contributions from other employees.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

D. Other Post-employment Benefits

The Town provides postretirement health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the Town. The Town pays for the cost of this benefit based on the employee's total years of service. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. Currently, 80 retirees are eligible for postretirement health benefits. For the fiscal year ended June 30, 2007, the Town made payments for postretirement health benefit premiums of \$227,938. The Town self-funds health and dental coverage for retirees, which is administered by a third party administrator.

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. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. 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, 2007, the Town made contributions to the State for death benefits of \$40,945. 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 postemployment benefit amount and the other benefit amount.

NOTE 12- INTERFUND TRANSFERS

A summary of interfund transfers by fund for the year ended June 30, 2007, is as follows:

	TRANSFERS FROM:			Total
	Governmental		Business-type	
	General	Capital Projects	Utility Systems	
TRANSFERS TO:				
<u>Governmental:</u>				
General Fund	\$ ---	1,421,400	---	1,421,400
Capital Project Fund	21,026,783	---	---	21,026,783
Special Revenue Funds:				
Regency Amphitheatre	407,195	---	---	407,195
Transit	935,596	---	---	935,596
Economic Development	775,000	---	---	775,000
TOTAL	\$23,144,574	1,421,400	---	24,565,974

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. Transfer to the Special Revenue Funds are for operations pertaining to those specific purposes.

TOWN OF CARY, NORTH CAROLINA

NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

NOTE 13- SUBSEQUENT EVENTS

In June 2006, 7.9 million gallons of untreated waste flowed into Swift Creek after a line broke at the Swift Creek pump station expansion construction site. This incident was reviewed by North Carolina Division of Environmental and Natural Resources and a \$45,000 fine was issued in October 2006. The Town immediately appealed and no liability was recorded in fiscal year 2006. In July 2007, the Town received correspondence from the Division of Water Quality that the fine was reduced to \$36,609 (\$35,200 civil penalty plus \$1,409.84 to cover the state's investigative costs). This amount was paid in August 2007 and the expense was accrued to fiscal year 2007 in the Utility Systems Maintenance Division operating accounts.

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.