

**City of Asheboro
North Carolina**

**Comprehensive Annual
Financial Report**



Fiscal Year Ended June 30, 2007

**CITY OF ASHEBORO,
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2007

Prepared by:

Finance Department

Deborah P. Juberg
Finance Officer

CITY OF ASHEBORO, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Letter of Transmittal		i-viii
GFOA Certificate		ix
Organizational Chart		x
List of Principal Officials		xi
FINANCIAL SECTION		
Independent Auditor's Report		1-2
Management's Discussion and Analysis		3-12
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	13
Statement of Activities	2	14
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	5	18
Statement of Net Assets – Proprietary Fund	6	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	7	20

CITY OF ASHEBORO, NORTH CAROLINA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS (Continued)

	<u>Exhibit/ Schedule</u>	<u>Page</u>
FINANCIAL SECTION (Continued)		
Fund Financial Statements (Concluded):		
Statement of Cash Flows – Proprietary Fund	8	21
Notes to Basic Financial Statements		22-47
Required Supplemental Financial Data:		
Law Enforcement Officers’ Special Separation Allowance - Schedule of Funding Progress		50
Law Enforcement Officers’ Special Separation Allowance - Schedule of Employer Contributions		51
Combining and Individual Financial Statements and Schedules:		
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	1	53-67
Combining Balance Sheet - Nonmajor Governmental Funds	2	70-71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	3	72-73
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – From Inception:		
Home Program Special Revenue Fund	4	74-75
Economic Development Special Revenue Fund	5	76-77
Police Computer Grant Fund	6	78-79
Traffic 2005 Grant Fund	7	80-81

CITY OF ASHEBORO, NORTH CAROLINA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS (Continued)

FINANCIAL SECTION (Concluded)	<u>Schedule</u>	<u>Page</u>
Combining and Individual Financial Statements and Schedules (Concluded):		
Schedules of Revenues, Expenditures, and Changes in Fund		
Balances - Budget and Actual - From Inception (Concluded):		
Sunset Theater Capital Project Fund	8	82-83
North Fayetteville Street Sidewalk Capital Project Fund	9	84-85
Asheboro Skate Park Capital Project Fund	10	86-87
Airport Runway Extension Phase III Capital Project Fund	11	88-89
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP):		
Water and Sewer Fund	12	91-97
Water and Sewer Systems Improvement Capital Project Fund	13	98-99
NCDOT Water and Sewer Systems Improvement Fund	14	100-101
Capital Assets Used in the Operation of Governmental Funds:		
Comparative Schedules by Source	15	105
Schedule by Function and Activity	16	106-107
Schedule of Changes by Function and Activity	17	108
Other Supplemental Information:		
Schedule of Ad Valorem Taxes Receivable	18	110
Analysis of Current Tax Levy	19	111
STATISTICAL SECTION	<u>Table</u>	<u>Page</u>
Net Assets by Component - Last Four Fiscal Years	1	115

CITY OF ASHEBORO, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS (Continued)

STATISTICAL SECTION (Continued)	Table	Page
Changes in Net Assets - Last Four Fiscal Years	2	116 - 117
Governmental Activities Tax Revenues by Source - Last Four Fiscal Years	3	118
Fund Balances of Governmental Funds - Last Ten Fiscal Years	4	119
Changes in Fund Balances of Governmental Funds - Last Ten Fiscal Years	5	120
General Governmental Tax Revenues by Source - Last Ten Fiscal Years	6	121
Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	7	122
Property Tax Rates – Direct and Overlapping Governments - Last Ten Fiscal Years	8	123
Principal Property Taxpayers	9	124
Property Tax Levies and Collections - Last Ten Fiscal Years	10	125
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	11	126
Ratios of General Bonded Debt by Outstanding - Last Ten Fiscal Years	12	127
Direct and Overlapping Governmental Activities Debt	13	128
Legal Debt Margin Information - Last Ten Fiscal Years	14	129
Demographic and Economic Statistics - Last Ten Fiscal Years	15	130
Principal Employers - Current Year and Nine Years Ago	16	131
Full-time Equivalent City Government Employees by Function - Last Ten Fiscal Years	17	132
Operating Indicators by Function -Last Ten Fiscal Years	18	133

CITY OF ASHEBORO, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

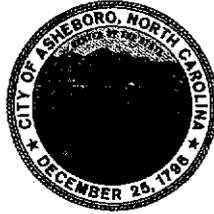
For the Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS (Concluded)

STATISTICAL SECTION (Concluded)	<u>Table</u>	<u>Page</u>
Capital Assets Statistics by Function - Last Four Fiscal Years	19	134

City of Asheboro

146 North Church Street
P O Box 1106
Asheboro, N. C. 27204-1106



Tel: 336-626-1201

Fax: 336-626-1218

The Mayor and the City Council
City of Asheboro
Asheboro, North Carolina

November 28, 2007

The Comprehensive Annual Financial Report of the City of Asheboro, North Carolina, for the fiscal year ending June 30, 2007, is submitted for your approval. This report summarizes the financial transactions of all of the City's funds into statements of financial position, results of operations and cash flows, providing relevant disclosures and supplementary schedules to enhance their usefulness to readers. These financial statements have been audited by Maxton C. McDowell, CPA and their report is included herein. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. We believe the information in this report is accurate in all material respects and presents fairly the financial position, results of operations and cash flows of the City's various funds. We have included all the disclosures needed to enable the users of these financial statements to gain maximum understanding of the City's financial activities.

The *Comprehensive Annual Financial Report* is presented in three sections: (1) Introductory, (2) Financial and (3) Statistical.

The *Introductory Section* portion consists of this transmittal letter, The Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2006, the City's organizational chart and a listing of the City's principal officials.

The *Financial Section* includes the independent auditors' report, the management's discussion and analysis (MD&A), the Basic Financial Statements composed of government-wide and fund financial statements, with supporting statements included and notes to the financial statements deemed necessary to present fairly the financial position of the City. GAAP require that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of the MD&A. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Asheboro's MD&A can be found immediately following the report of the independent auditors.

Finally, the *Statistical Section* includes selected financial, demographic and economic data to allow trend analysis of past performance of the City as an entity and as a community.

This report covers all funds that are controlled by or dependent upon the City.

CITY PROFILE:

The City of Asheboro has a population of 23,219 and covers 16.69 square miles. Located in the center of the state, its proximity to Charlotte, the Greensboro-High Point area and Raleigh provides great opportunity for growth as the regional economy expands and diversifies. Asheboro serves as the intersection for four major highways, U.S. 220, U.S. 311, U.S. 64 and NC 49, which connect these major cities. Asheboro is 75 miles west of Raleigh, 300 miles north of Atlanta and 480 miles south of New York. The City is served by Norfolk and Southern Railways.

The City is empowered to levy a property tax on the appraised value of all real and certain categories of tangible personal property located in the City. The County is the only other unit levying such taxes within the City's corporate limits. The City is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City operates as a Council-Manager form of government. The Council is the policy-making and legislative body of City government and includes a Mayor and 7 Council members who are elected at large to represent the entire city and who serve staggered terms. The Mayor is the presiding officer of the Council and will vote only in the event of a tie. A Mayor Pro Tempore is selected by the Council from its members.

The City Manager is appointed by the Council as Chief Executive Officer and is responsible for carrying out the policies and ordinances of the Council and administering the daily operations and programs of the City through appointed department directors and staff members.

The City of Asheboro provides a full range of services for its citizens: police and fire protection, refuse collection, an airport, recreational facilities and programs, street construction and maintenance and general administration and infrastructure. In addition to these general government functions, the City provides and maintains a water and sewer system, which is included in the reporting entity. Although a related activity, the Asheboro Housing Authority does not meet the established criteria for inclusion in the reporting entity and, accordingly, is excluded from this report.

The City's accounting records are organized and operated on the basis of funds and account groups. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other assets, related liabilities and equities and revenue and expenditures. The account groups are not funds, and they do not report financial position. Account groups are used to establish accountability for the City's general fixed assets and general long-term debt.

The City has four fund types: general governmental, special revenue, capital projects and enterprise. The general governmental fund accounts for all current financial resources not required to be accounted for in another fund. The City has one such fund, the General Fund, which accounts for the ongoing, routine municipal operations independent of the Water and Sewer Fund. Special revenue funds are used where specified revenues are required to be expended for a specific purpose. Capital project funds account for the revenues and expenditures involved in the construction or acquisition of a major capital asset. All of the foregoing fund types report on the modified accrual basis, where revenue is recognized when measurable and available and expenditures are recognized as incurred.

Unlike the other fund types, an enterprise fund uses accounting methods that closely resemble those of a for-profit business. The enterprise fund is financed by user fees and, ideally, generates sufficient revenue to cover its own operating expenditures, service its debt and provide for replacement or expansion of facilities. Unlike the other funds, an enterprise fund accounts for its assets and long-term debt within its

own fund structure. The City of Asheboro has one enterprise fund, the Water and Sewer Fund.

The annual budget serves as the foundation for the City's financial planning and control. The North Carolina General Statutes require all governmental units to adopt a balanced budget by July 1 of each year for all funds for which an annual budget is required. The City's General Fund and Water and Sewer Fund operate under budgets adopted on an annual basis. The special revenue and capital project funds exist for specific purposes that may span more than a year, so their budgets are adopted on multi-year basis. In either situation, the City Council must adopt any budget before it becomes effective. The City Manager may make transfers of appropriations between line items within a department. Only the Council can approve amendments affecting the total appropriation per department or on the project level. The North Carolina General Statutes require an encumbrance system and a finance officer certification that funds are available prior to the placement of all purchase orders and contracts. Encumbrance accounting is used to insure that the City does not exceed the spending limits established by these budgets.

In addition to the budgetary controls described above, the City's management is responsible for establishing and maintaining other internal controls to insure the proper use and adequate safeguarding of municipal assets and to provide reasonable assurance that all transactions are recorded promptly and accurately for subsequent reporting in accordance with generally accepted accounting principles. Management believes that the internal control structure now in place provides reasonable, but not absolute, assurance that these objectives are being met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits it is likely to produce, and that the valuation of these costs and benefits requires estimation based on the judgment of management.

ECONOMIC CONDITION AND OUTLOOK:

Asheboro enjoys a wide variety of manufacturing oriented employers. Textiles, furniture, consumer goods and paper products comprise the backbone of the area's manufacturing economy. In addition to the wide array of manufacturing employers, many of which appear on our principal taxpayers list, this area is also a large banking and professional services sector. The local economy has been under pressure recently due to factors facing our manufacturing employers. However, the City's diversity and quantity of large and small industry has combined to provide the area with a historically low unemployment rate of around 4.3%, which is below the state average of 4.7%.

Growth, as measured by tax valuation, increased 1.56%. The last countywide revaluation was in 2006. Local retail sales in the 2006-2007 fiscal year, as measured by sales tax distribution revenue, has increased by 7.88% in comparison to the 2005-2006 fiscal year. Economic indicators show a City in a period of adjustment. While tax valuation and sales tax revenue indicators have increased, construction and home sales have decreased. For example, in the calendar year ending December 31, 2006, 112 commercial permits were issued for new property construction amounting to \$13,328,239 and new residential housing permits issued were 155 for a total value of \$10,597,325. Thus, the total valuation for calendar year ending December 31, 2006 was \$23,925,564. This is down in comparison to \$30,355,109 issued in 2005 but up in comparison to \$23,683,470 issued in 2004.

The availability of an educated work force is always an important issue. In 1990, the residents of Randolph County voted for a \$32,000,000 school bond issue to help improve the education of our children and insure a brighter future. The final phase of construction for the Asheboro City Schools system is completed. The commitment of area residents to high ideals bodes well for attracting and retaining new business ventures.

The North Carolina Zoological Park is located just to our southeast. Over 900,000 people who visit the zoo each year have enhanced tourism in the area, resulting in new motel construction and the addition of several new restaurants in recent years.

MAJOR INITIATIVES:

The City Council has adopted specific goals for the community, which are as follows:

- Growth and Annexation
- Combating Drug Abuse
- Road System Improvements
- Enhancement of Organizational Performance
- Improvement of Community Appearance
- Meeting Environmental Requirements
- Airport Expansion

The City of Asheboro was chartered December 25, 1796 and included 1,961 acres. As of June 30, 2007, 9,350.10 acres have been annexed allowing for a total City of Asheboro acreage of 11,310.17 acres. Areas that can be economically served with water and sewer services will continue to be studied and will be considered for annexation when funds are available.

In 1996, the City Council adopted a policy that requires any major residential development or any commercial or industrial development desiring water and sewer services from the City to request annexation.

The combating of drug abuse in our community, state and nation is a tremendous challenge facing us all. The City Council continues to place a priority in this area by increased efforts and patrol in high problem areas and encourages public participation and assistance. The City's approach involves the DARE program, the Bike Patrol and the Vice and Narcotics Division of the Police Department. Education to our children through the DARE (Drug Awareness and Resistance Education) has worked well through the Police Department. The efforts of the City of Asheboro and the Asheboro Board of Education continue to be successful in reaching our school children. The units patrol in high traffic areas with the implementation of LEDD unit (Legal Elimination of Drug Dealers) and the Canine Division. The greatest success of this program has come from the involvement of the citizens and the officers. Through the combined effort of the citizens and the Police Department, the neighborhoods and streets are being returned to the community. Another positive addition has been second annual city-wide drug summit that was held this year.

Road system improvements are a cooperative effort on the part of the State of North Carolina and the City of Asheboro. The Presnell Street extension, which connects Highway 220 and Highway 64, was completed in 1995. The extension of Church Street was completed in 1996 and the extension of Carl Drive was completed in 1997. The City Council continues to work for and support the I-73 / 74 project and the Highway 64 / 40 bypass loop.

Increasing fiscal demands on the City and the citizens is an ever-increasing problem. The City must make every effort to improve efficiency and to continue to plan for the future. In order to be successful, a cooperative effort must exist between the City and the citizens.

A \$1,500,000 expansion and renovation of the Library Building was completed in 1995. Expansion and renovation of the Wastewater Plant was completed in 1998. This expansion increases the treatment capacity from 6 MGD to 9 MGD and should meet the treatment needs of the City. The replacements of aging outfall lines are almost complete. The Wastewater Plant expansion and outfall line replacement is a \$15,000,000 project and was approved by voters in 1993. Design process is complete for the sewer station #2, sewer pump station #1 and force main improvements with construction began in the 2004-2005 fiscal year.

Community appearance has been enhanced with the completion of major landscaping projects by the State at the Highway 64 and 49 interchanges and the Sunset Avenue and Salisbury Street interchanges. The refurbishment project of Sunset Avenue business district was completed early 2005. The City added a Horticulturist to the staff to aid in the enhancement of community appearance. Playground equipment upgrades, as well as landscaping projects, continue to be a priority in our City parks. Efforts continue to force property owners to remove or restore unsightly and potentially dangerous buildings.

Mandates concerning environmental legislation have had a tremendous impact on the financial structure of the City. In order to make strides in our continuing efforts to meet the twenty-five percent reduction in solid waste by 1994, as required by Senate Bill III, a third recycling drop site has been added in the southern portion of the City. The testing of fuel tanks and the rehabilitation of existing facilities has placed an additional load on the City. While the City Council supports and pledges to meet the standards as set forth by State and Federal Agencies, resolutions have been passed against such mandates that are handed down without funds to meet the regulations.

Improvements to the airport continue to be made. Projects completed include the extension of the runway to 5,500 feet in December 2000, the construction of the perimeter fencing completed in July 2001, and the paving and lighting of the parallel taxiway completed in October 2002. State and Federal funding has been allocated to pay 90% of the cost to widen the runway from 75' to 100' and to strengthen the runway, taxiways and a portion of the apron. These improvements were completed in the 2005-2006 fiscal year. In the 2006-2007 fiscal year, construction was completed on a 10,000 gallon "Jet-A" fuel tank and spill containment facility.

The City of Asheboro has been going thru a period of transition over the past few years as it continues to adjust with the changing local economic environment. Indicators of this transition can be seen in the preceding economic condition and outlook section. To help focus our efforts, two years ago, the City of Asheboro partnered with the community to develop a strategic plan for the future of Asheboro. The Asheboro 20/20 Strategic Planning initiative has now come to a conclusion with task force reports and recommendations summarized in a report outlining four areas of importance to the future of the City of Asheboro. The areas of importance identified in the strategic planning initiative include yet expand upon areas of the City Council's historical focus. The areas of importance identified in this initiative are 1) Economic Development, 2) Growth, Annexation and Infrastructure, 3) Quality of Life, and 4) North Carolina Zoo. The recommended budget for fiscal year 2007-2008 provides for the current operational needs of the City of Asheboro as well as begins to address areas of importance outlined in the strategic planning report.

CASH MANAGEMENT:

The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. All collateral on deposits was held either by the City or its agent. All investments held

by the City during the year and at June 30, 2006 are classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board.

Our cash management policy of planning expenditures and scheduling investment maturities to match cash requirements were continued for 2006. Interest earned on General Fund investments as well as Water and Sewer Fund investments increased in the 2005-2006 fiscal period due to a rising interest rate environment and other favorable market conditions. We continue to try to maximize the return on the tax and utility dollars paid by the citizens of Asheboro.

DEBT ADMINISTRATION:

\$1,500,000 in general obligation bonds were issued in late 1995 for the expansion and renovation of the public library. The remaining balance on these obligations of \$875,000 was retired in 2005-2006 by the City issuing refunding general obligation bonds.

The City has executed various installment purchase contracts for the acquisition of vehicles, acquisition and renovation of the Public Works Facility, and acquisition and construction of the Recycling Transfer Station. The balance on all installment purchase contracts for governmental activities at June 30, 2006, was \$1,724,582. There were no outstanding installment purchase contract obligations for business type activities at June 30, 2007.

In November 1995, the City issued \$4,515,000 of refunding bonds. The refunding bonds were issued for the purpose of refunding \$450,000 of outstanding 1984 Sanitary Sewer bonds and \$3,800,000 of 1986 water bonds. This refunding produced a savings of approximately \$582,000 for taxpayers. During the 2005-2006 fiscal year, the remaining balance of \$565,000 was retired.

In April 1993, voters approved the issuance of \$10,750,000 of general obligation bonds for the purpose of upgrading the capacity of the wastewater plant and replacing some aging interceptor lines. \$1,500,000 of Sanitary Sewer bonds were issued for this purpose in November 1995. An additional \$8,700,000 of Sanitary Sewer bonds were issued in May 1996. The outstanding general obligation bonded indebtedness in the Water and Sewer Fund totaling \$8,213,439 at June 30, 2005 was retired in 2005-2006 by the City issuing refunding general obligation bonds and City debt service payments.

Due to cost overruns on the Wastewater Plant expansion and the outfall lines replacement, the City has obtained a loan of \$5,000,000 from the State of North Carolina. The City obtained a second loan of \$2,542,173 from the State Clean Water Revolving Loan Program for improvements to the City's wastewater collection system. The City has obtained a third loan in the amount of \$5,331,881 from the State Clean Water Revolving Loan Program for improvements to the City's water distribution system. As of June 30, 2007, \$7,772,289 remains outstanding on these notes.

In September 2005, the City issued refunding general obligation bonds in the amount of \$8,530,000 to retire \$875,000 of general obligation bonds serviced by the governmental funds issued to finance the construction of improvements to the City's library and \$7,300,000 of general obligation bonds issued to finance the construction of facilities utilized in the operation of the water and sewer system which were being retired by resources in the Water and Sewer Fund. The refunding will save the City of Asheboro in excess of \$366,000 over the life of the bonds. Bonds payable at June 30, 2007 are \$6,947,960.

The City's debt carries an "A2" rating from Moody's, "A+" from Standard and Poor's, and a rating of 83 by the North Carolina Municipal Council.

RISK MANAGEMENT:

The City 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 City participates in an insurance pool funded by a group of cities and sponsored by the North Carolina League of Municipalities for its general, automobile, public officials and law enforcement liability insurance's, and its workmen's compensation. Group health and life coverage is provided by Med cost, a self-insured plan. Airport liability coverage has been obtained from an independent carrier. Modifications are made to insurance coverage at the discretion of management and the governing board.

Settled claims from these risks have not exceeded commercial insurance coverage in recent history. In addition, various internal control techniques, including employee accident prevention sessions, have been implemented to minimize accident related losses and to safeguard assets.

PENSION AND OTHER POST EMPLOYMENT BENEFITS:

The City provides pension benefits for all permanent, full-time employees through the statewide Local Government Employees' Retirement System, a multiple-employer, cost-sharing, defined benefit pension plan, administered by the State of North Carolina. Covered employees are required by State statute to contribute 6% of their salary to the System. The City is required by State Statute to contribute the remaining amounts necessary to pay benefits when due, based on an actuarially determined contribution requirement. The City of Asheboro has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to the State.

The General Statutes of North Carolina require the City to provide a special separation allowance for law enforcement officers. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis.

All law enforcement officers employed by the City participate in the State of North Carolina Supplemental Retirement Income Plan, a 401(k) defined contribution pension plan, administered by the State of North Carolina. The City is required to contribute approximately 5% of each officer's salary to the plan. In addition, law enforcement officers may make voluntary contributions to the plan. The 401(k) plan is also open for voluntary contributions from other city employees.

The City of Asheboro also provides postretirement health benefits for qualifying retirees until age 65. As of the end of the current fiscal year, there were 48 retirees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP does not require governments to report a liability in the financial statements in connection with an employers' obligation to provide these benefits.

Additional information on the City of Asheboro's pension arrangements can be found in the Notes to the financial statements.

INDEPENDENT AUDIT:

An annual audit is required by the North Carolina General Statutes for all units of local government and by the Office of Management and Budget for most recipients of Federal grant monies. The auditor must be approved by the North Carolina Local Government Commission and is selected by and reports to the City Council. While the financial statements are the responsibility of management, the auditor's report is independent of management's control and discloses their opinion as to whether the financial statements present fairly the actual financial condition and results of operation of the City. The independent auditor's report is included as a part of these financial statements.

AWARDS:

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Asheboro for its comprehensive annual financial report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

ACKNOWLEDGMENTS

The compilation of certain information presented in the statistical section of this document would not have been possible without the assistance of the staff of the Randolph County Finance Office, and the Randolph County Tax Department. The certified public accounting firm of Maxton C. McDowell, CPA offered valuable advice on the form and content of much of the special information required to qualify this document for consideration by the Government Finance Officers Association for their Certificate of Achievement for Excellence in Financial Reporting Award. We greatly appreciate the assistance of these organizations.

We also appreciate the support of the City Council in granting us the time and funding to generate this document.

Respectfully submitted,



Deborah P. Juberg
Finance Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Asheboro
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

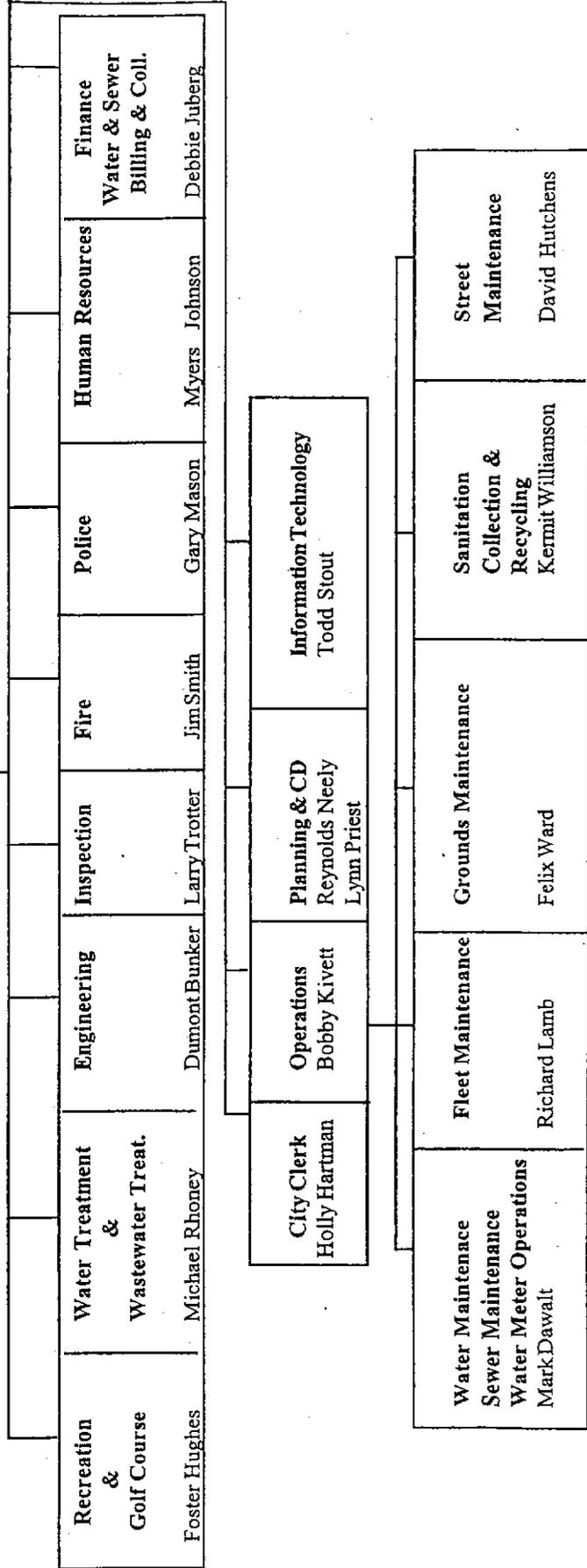
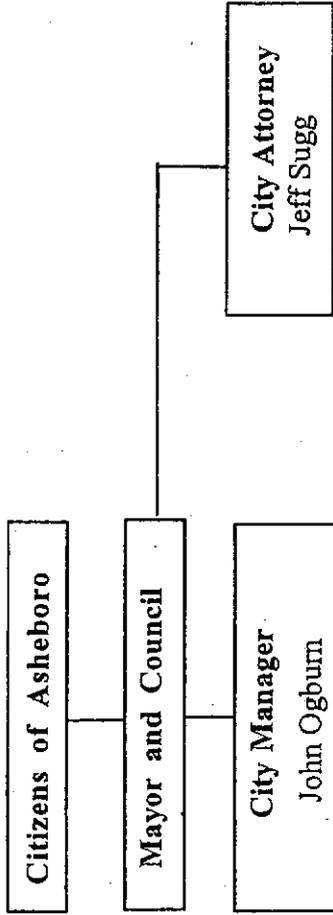
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

**CITY OF ASHEBORO
DEPARTMENTAL ORGANIZATION CHART**



CITY OF ASHEBORO, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

June 30, 2007

Title	Name
Mayor	David H. Jarrell
Mayor Pro Tem, Council Member	David Smith
Council Member	Talmadge Baker
Council Member	Linda Carter
Council Member	Nancy Hunter
Council Member	Keith Crisco
Council Member	Archie "Mack" Priest
Council Member	Walker Moffitt
City Manager	John Ogburn, III
City Attorney	Jeff Sugg
Airport Authority Chair	Steve Knight
Redevelopment Commission Chair	Linda Carter
Planning Board Chair	Van Rich
Board of Adjustment Chair	Frank Havens
Community Appearance Chair	Linda Carter
Solid Waste Management Committee Chair	Talmadge Baker
City Clerk	Holly hartman
Finance Officer	Deborah Juberg
Planning and Zoning Director	Reynolds Neely
Community Development	Lynn Priest
Police Chief	Gary Mason
Fire Chief	Jim Smith
Inspections Director	Larry Trotter
City Shop Director	Richard Lamb
City Engineer	Dumont Bunker
Public Works Director	Robert H. Kivett
Street Department Head	David Hutchens
Sanitation Director	Kermit Williamson
Human Resources Director	Myers Johnson
Recreation Director	Foster Hughes
Golf Professional	Andy Nelson
Grounds Maintenance Director	Felix Ward
Water and Wastewater Treatment Director	Michael Rhoney
Water and Wastewater Distribution	
Maintenance and Construction Director	Mark Dawalt

This page intentionally left blank.



MAXTON McDOWELL

Certified Public Accountant

379 South Cox Street
Asheboro, North Carolina 27203
Phone: (336) 626-9970
Fax: (336) 626-5981

Member
American Institute of Certified
Public Accountants
North Carolina Association of
Certified Public Accountants

126 North Second Street
Albemarle, North Carolina 28001
Phone: (704) 983-5012
Fax: (704) 983-5109

INDEPENDENT AUDITOR'S REPORT

The Mayor and the City Council
City of Asheboro
Asheboro, North Carolina

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Asheboro, North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the City of Asheboro's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Asheboro, North Carolina's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Asheboro, North Carolina, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion thereon.

In accordance with Government Auditing Standards, I have also issued a report dated November 16, 2007, on my consideration of the City of Asheboro's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Asheboro, North Carolina. The introductory information, combining and individual nonmajor fund financial statements and schedules and the statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

November 16, 2007


Certified Public Accountant

Management's Discussion and Analysis
City of Asheboro

Management's Discussion and Analysis

As management of the City of Asheboro, we offer readers of the City of Asheboro's financial statements this narrative overview and analysis of the financial activities of the City of Asheboro for the fiscal year ended June 30, 2007. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

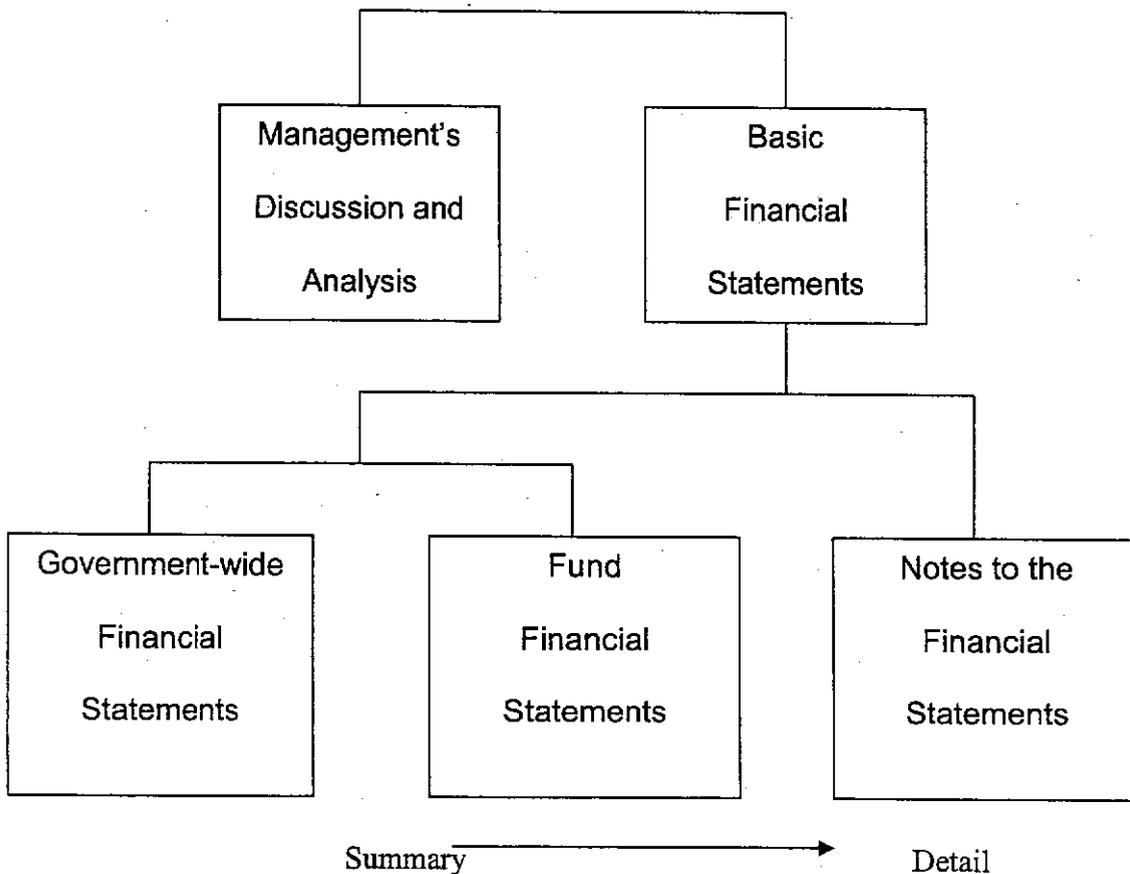
- The assets of the City of Asheboro exceeded its liabilities at the close of the fiscal year by \$74,211,555 (*net assets*).
- The government's total net assets increased by \$3,836,043, primarily due to increases in governmental activities net assets.
- As of the close of the current fiscal year, the City of Asheboro's governmental funds reported combined ending fund balances of \$11,718,045 an increase of \$2,164,486 in comparison with the prior year.
- The City of Asheboro's total debt decreased by \$1,140,828 during the current fiscal year. Although the City of Asheboro did take on new debt in the amount of \$663,278 relating to improvements in the operations of the water and sewer system, the impact of this is unseen due to the retirement of \$1,046,284 in general obligation debt, \$384,663 in installment purchase obligations and \$373,149 in notes payable relating to the same water and sewer system improvements for which the new debt was incurred.
- The City of Asheboro bond rating was reevaluated at the time of General Obligation refunding in September 2005. The City of Asheboro has maintained its AA bond rating from Moody's, "A+" from Standard & Poor's and a rating of 83 by the North Carolina Municipal Council.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Asheboro's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Asheboro.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Management's Discussion and Analysis City of Asheboro

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services offered by the City of Asheboro.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Asheboro adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as

Management's Discussion and Analysis
City of Asheboro

the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – City of Asheboro has one proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Asheboro uses enterprise funds to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Asheboro's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 49 of this report.

Government-Wide Financial Analysis

The City of Asheboro's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 13,515,208	\$ 12,439,397	\$ 11,462,584	\$ 11,237,741	\$ 24,977,792	\$ 23,677,138
Capital assets	25,316,254	24,565,088	44,631,197	45,165,499	69,947,451	69,730,587
Total assets	38,831,462	37,004,485	56,093,781	56,403,240	94,925,243	93,407,725
Long-term liabilities outstanding	4,388,681	4,700,125	14,241,062	14,872,155	18,629,743	19,572,280
Other liabilities	1,333,313	2,470,306	750,632	989,632	2,083,945	3,459,938
Total liabilities	5,721,994	7,170,431	14,991,694	15,861,787	20,713,688	23,032,218
Net assets:						
Invested in capital assets, net of related debt	22,828,193	21,596,547	30,654,567	30,544,401	53,482,760	52,140,948
Restricted	1,705,253	1,685,767			1,705,253	1,685,767
Unrestricted	8,576,022	6,551,740	10,447,520	9,997,052	19,023,542	16,548,792
Total net assets	\$ 33,109,468	\$ 29,834,054	\$ 41,102,087	\$ 40,541,453	\$ 74,211,555	\$ 70,375,507

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Asheboro exceeded liabilities by \$74,211,555 as of June 30, 2007. The City's net assets increased by \$3,836,048 for the fiscal year ended June 30, 2007. The largest portion of net assets, 72.07%, reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items.

Management's Discussion and Analysis
City of Asheboro

The City of Asheboro uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Asheboro's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. After accounting for funds restricted for transportation in the 2007 financial statements, the City of Asheboro's unrestricted net asset balance is \$19,023,542.

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

- Increase in investment revenue relating to a steady fund balance and market increases in rates of return paid.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.43%.
- Continued low cost of debt due to the City's high bond rating.
- Continued focus on saving as exemplified by pursuing a refunding of 1995 General Obligation debt that will save the City of Asheboro more than \$366,000 over the life of the loan.
- Tight management of total expenditures and operating transfers.

City of Asheboro Changes in Net Assets
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$ 1,599,215	\$ 1,409,876	\$ 9,839,077	\$ 9,004,812	\$ 11,438,292	\$ 10,414,688
Operating grants & contributions	894,251	736,842	301,228	265,387	1,195,479	1,002,229
Capital grants & contributions	1,288,059	137,243	-	1,175,251	1,288,059	1,312,494
General revenues						
Property taxes	10,171,208	10,014,896			10,171,208	10,014,896
Other taxes	6,357,470	5,964,699			6,357,470	5,964,699
Grants & contributions not restricted to specific programs						
Other	807,754	547,215	596,908	510,215	1,404,662	1,057,430
Total revenues	21,117,957	18,810,771	10,737,213	10,955,665	31,855,170	29,766,436
Expenses						
General government	2,639,306	2,678,773			2,639,306	2,678,773
Public safety	8,379,264	8,197,256			8,379,264	8,197,256
Highways/streets	3,402,172	2,894,678			3,402,172	2,894,678
Sanitation	1,946,752	2,009,628			1,946,752	2,009,628
Economic development	933,186	2,050,456			933,186	2,050,456
Cultural and recreational	2,251,055	622,159			2,251,055	622,159
Interest on long-term debt	142,358	118,843			142,358	118,843
Water and sewer			8,325,034	8,152,883	8,325,034	8,152,883
Total expenses	19,694,093	18,571,793	8,325,034	8,152,883	28,019,127	26,724,676
Increase in net assets before transfers	1,423,864	238,978	2,412,179	2,802,782	3,836,043	3,041,760
Transfers	1,851,550	30,000	(1,851,550)	(30,000)	-	-
Increase in net assets	3,275,414	268,978	560,629	2,772,782	3,836,043	3,041,760
Net assets, July 1	29,834,054	29,565,076	40,541,458	37,768,676	70,375,512	67,333,752
Net assets, June 30	\$ 33,109,468	\$ 29,834,054	\$ 41,102,087	\$ 40,541,458	\$ 74,211,555	\$ 70,375,512

Management's Discussion and Analysis
City of Asheboro

Governmental activities. Governmental activities increased the City's net assets by \$3,275,414, thereby accounting for 85.39% of the total growth in the net assets of the City of Asheboro. Key elements contributing to this increase are as follows:

- Increase in ad valorem property tax revenue associated with a 4 year county wide revaluation and consistent collection efforts
- Hold Harmless funds received in the amount of \$131,023
- Increase in investment earnings of \$195,690 or 90.92% due to rising interest rate environment
- Increase of \$408,834 total in intergovernmental revenues in comparison to prior year
- Transfer of \$1,800,000 from the water and sewer enterprise fund to the general fund
- Total general fund revenues and operating transfers amounted to \$21,424,920, a 4.48% increase over 2006 levels. Total general fund expenditures and operating transfers amounted to \$19,298,085, a 2.36% decrease over 2006 levels. General fund revenues and operating transfers exceeded general fund expenditures and operating transfers by \$2,126,835.
- All other revenues remained steady.

Business-type activities: Business-type activities increased the City of Asheboro's net assets by \$560,629, accounting for 14.66% of the total growth in the government's net assets. Key elements of this increase are as follows:

- A combined increase in water sales and sewer charges attributed to growth in the area and rate structure changes
- Non-operating revenue increased 12.93% from a 2006 level of \$621,500 to a 2007 level of \$701,852. This increase is attributed to an 18.24% increase in interest earned on investments. The 2007 interest amounted to \$596,908 in comparison to the 2006 level of \$504,843. This increase can be attributed to the rising interest rate environment.
- Overall other water and sewer revenues remained steady

Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City of Asheboro's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Asheboro's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Asheboro. At the end of the current fiscal year, the City of Asheboro's unreserved fund balance was \$4,582,323 and its total fund balance reached \$11,081,742. Of this total fund balance, \$4,548,990 was undesignated and thus available for spending.

As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance is equivalent to 57.92 percent of total General Fund expenditures. Additionally, the undesignated portion of the total fund balance is equivalent to 23.9 percent of total General Fund expenditures.

Management's Discussion and Analysis City of Asheboro

The non-major governmental fund balance increased to a combined level of \$636,303 as a result of reimbursement from other governmental units on our capital projects.

The governmental funds of City of Asheboro reported a combined total fund balance of \$11,718,045, a 22.66 percent increase over last year. Included in this change in fund balance are increases in fund balance in the General, Special Revenue and Capital Projects Funds.

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

The General Fund budget for 2006-2007 was adopted at \$19,746,481 and represented a 5.8 percent increase over the audited FY 2005-2006 expenditures of \$18,660,250. The 2006-2007 budget was amended to \$20,499,968, an increase of \$753,487. The 2006-07 budget was amended to account for unexpected operational expenditures, the most significant of which was relating to the acquisition of real property and community development incentives, as well as increases in actual revenues in relation to originally estimated revenues. In spite of the unexpected operational costs experienced throughout the year, expenditures were held in check to minimize the overall affect on the budget and to protect the City of Asheboro's fund balance as much as possible. As a result of continued efforts to control expenditures in all areas and the need to not disburse economic incentive payments in this fiscal period as anticipated, the General Fund final audited expenditures were \$1,366,350 under the amended budget, a savings of 6.7%.

Capital Asset and Debt Administration

Capital Assets. The City of Asheboro's investment in capital assets, before depreciation, for its governmental and business-type activities as of June 30, 2007 totals \$124,748,214. These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- An increase in land of \$475,371, an increase in street construction of \$789,750, an increase in vehicles of \$475,286, an increase in improvements other than buildings of \$2,137,455, and a decrease in construction in progress for governmental activities of \$2,082,423 as a result of the completion of various stages of capital projects and the purchase of real property.
- An increase in equipment of \$1,631,631 and a decrease of \$877,510 in construction in progress for business-type activities resulting from completion of certain phases of the Water and Sewer System Improvement project.
- No major demolitions or disposals were recorded this year.

City of Asheboro's Capital Assets

Figure 4

	Governmental	Business-Type	Total
	Activities	Activities	
	2007	2007	2007
Land	\$ 3,643,073	\$ 2,798,306	\$ 6,441,379
Buildings	10,848,613	31,009,014	41,857,627
Improvements other than buildings	10,209,015	78,560	10,287,575
Plant and distribution systems		33,496,908	33,496,908
Street construction	13,019,678		13,019,678
Equipment	4,532,612	4,053,347	8,585,959
Vehicles	7,905,426	1,848,184	9,753,610
Construction in progress	162,969	1,142,509	1,305,478
Total	\$ 50,321,386	\$ 74,426,828	\$ 124,748,214

Additional information on the City's capital assets can be found in Detail Notes Section II A.4 in the notes to the financial statements.

Long-term Debt. As of June 30, 2007, the City of Asheboro had total bonded debt outstanding of \$6,947,959. All of this is debt backed by the full faith and credit of the City.

**City of Asheboro's Outstanding Debt
 General Obligation and Revenue Bonds**

Figure 5

	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities		
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 743,665	\$ 855,652	\$ 6,204,294	\$ 7,138,591	\$ 6,947,959	\$ 7,994,243
Revenue bonds						
Total	\$ 743,665	\$ 855,652	\$ 6,204,294	\$ 7,138,591	\$ 6,947,959	\$ 7,994,243

The City of Asheboro's total outstanding long term debt decreased by \$1,046,284 during the past fiscal year. This change is due to the combined effects of an increase in notes payable debt of \$290,129 associated with the current portion of a \$5,331,881 revolving loan commitment from the State Clean Water Revolving Loan Program, a net decrease in installment purchase debt of \$384,663 relating to

Management's Discussion and Analysis City of Asheboro

equipment needs and a decrease of \$1,046,284 in debt associated with the retirement of general obligation indebtedness.

As mentioned in the financial highlights section of this document, the City of Asheboro maintained its AA bond rating from Moody's Investor Service and A+ rating from Standard and Poor's Corporation and a rating of 83 by the North Carolina Municipal Council. This bond rating is indicative of the sound financial condition of City of Asheboro.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Asheboro is \$139,632,720.

Additional information regarding the City of Asheboro's long-term debt can be found in Detail Notes Section II B.6 in the notes to the financial statements.

Economic Factors

The following key economic indicators affect the growth and prosperity of the City of Asheboro.

- Low unemployment. The City of Asheboro unemployment rate of 4.3% is below the State average of 4.7%.
- Growth, as measured by tax valuation, increased 1.56%. Growth, as measured by local retail sales tax revenue, has increased 7.8%.
- In the period of January 1, 2006 to December 31, 2006, total valuation for building permits issued was \$23,895,564. This is a decrease in comparison to \$30,355,109 issued for 2005 yet reasonably consistent with \$23,683,470 issued for 2004.
- In the period of January 1, 2006 to December 31, 2006, Commercial activity decreased in comparison to prior years. Commercial valuations were \$13,328,239 for 2006 in comparison to \$15,477,166 for 2005 and \$14,662,248 in 2004.

Budget Highlights for the Fiscal Year Ending June 30, 2008

Governmental Activities: No tax increase was recommended for the General Fund for fiscal year ending June 30, 2008. Revenue is expected to increase due to property tax values and retail sales activity increases benefiting from the economic growth. A fund balance appropriation of \$33,333 has been included.

Budgeted expenditures in the General Fund are expected to rise to \$21,709,567. The largest increments are in employee compensation, including funding compensation and benefits adjustments. Other expenditures included are government matches to grant requests currently under review, capital outlay for equipment for public safety and transportation functions, and monies set aside for economic development.

Business – type Activities: Revenue from sale of water and sewer services is expected to increase slightly due to regular economic growth. It was recommended that there be an 8% increase to the consumption and base rate to all customers. Other water and sewer fund revenues combined are

Management's Discussion and Analysis
City of Asheboro

expected to remain constant with no allocation from Retained earnings. General operating expenses will increase to \$10,971,101 to cover increased personnel costs, material, supplies, and other operating expenses.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Asheboro, 146 North Church Street, P.O. Box 1106, Asheboro, NC 27204-1106.

CITY OF ASHEBORO, NORTH CAROLINA

Exhibit 1

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 8,585,466	\$ 10,562,905	\$ 19,148,371
Receivables:			
Taxes Receivable - Net	288,158	-	288,158
Accounts Receivable	142,826	1,816,670	1,959,496
Due From Other Governments	1,946,342	478,112	2,424,454
Note Receivable	60,500	-	60,500
Internal Balances	2,068,127	(2,068,127)	-
Inventories	414,750	555,630	970,380
Deferred Charges	9,039	75,414	84,453
Total Current Assets	<u>13,515,208</u>	<u>11,420,604</u>	<u>24,935,812</u>
Restricted Assets:			
Cash and Cash Equivalents	-	41,980	41,980
Capital Assets:			
Land, and Construction in Progress	3,806,042	3,940,815	7,746,857
Other Capital Assets, Net of Depreciation	<u>21,510,212</u>	<u>40,690,382</u>	<u>62,200,594</u>
Total Capital Assets	<u>25,316,254</u>	<u>44,631,197</u>	<u>69,947,451</u>
Total Assets	<u>38,831,462</u>	<u>56,093,781</u>	<u>94,925,243</u>
Liabilities:			
Accounts Payable and Accrued Liabilities	1,040,457	368,805	1,409,262
Deposits	41,023	269,139	310,162
Unearned Revenues	249,776	31,369	281,145
Accrued Interest Payable	2,057	39,339	41,396
Payable From Restricted Assets	-	41,980	41,980
Long-Term Liabilities:			
Due Within One Year	1,031,184	1,657,245	2,688,429
Due in More Than One Year	<u>3,357,497</u>	<u>12,583,817</u>	<u>15,941,314</u>
Total Liabilities	<u>5,721,994</u>	<u>14,991,694</u>	<u>20,713,688</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	22,828,193	30,654,567	53,482,760
Restricted For:			
Transportation	1,705,253	-	1,705,253
Unrestricted	<u>8,576,022</u>	<u>10,447,520</u>	<u>19,023,542</u>
Total Net Assets	<u>\$ 33,109,468</u>	<u>\$ 41,102,087</u>	<u>\$ 74,211,555</u>

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 2,639,306	\$ 44,383	\$ -	\$ -	\$ (2,594,923)	\$ -	\$ (2,594,923)
Public Safety	8,379,264	175,835	39,474	70,775	(8,093,180)	-	(8,093,180)
Transportation	3,402,172	23,594	679,297	1,042,284	(1,656,997)	-	(1,656,997)
Environmental Protection	1,946,752	857,224	-	-	(1,089,528)	-	(1,089,528)
Cultural and Recreational	2,251,055	498,179	-	175,000	(1,577,876)	-	(1,577,876)
Economic and Physical Development	933,186	-	175,480	-	(757,706)	-	(757,706)
Interest on Long-term Debt	142,358	-	-	-	(142,358)	-	(142,358)
Total Governmental Activities	19,694,093	1,599,215	894,251	1,288,059	(15,912,568)	-	(15,912,568)
Business-Type Activities:							
Water and Sewer	8,325,034	9,839,077	301,228	-	-	1,815,271	1,815,271
Total Business-Type Activities	8,325,034	9,839,077	301,228	-	-	1,815,271	1,815,271
Total	\$ 28,019,127	\$ 11,438,292	\$ 1,195,479	\$ 1,288,059	(15,912,568)	1,815,271	(14,097,297)
General Revenues:							
Taxes:							
Property taxes, levied for general purpose					10,171,208	-	10,171,208
Sales taxes					4,122,316	-	4,122,316
Franchise taxes					1,793,517	-	1,793,517
Other taxes and licenses					441,637	-	441,637
Unrestricted investment earnings					410,921	596,908	1,007,829
Miscellaneous revenues					396,833	-	396,833
Transfers					1,851,550	(1,851,550)	-
Total General Revenues, Special Items, and Transfers					19,187,982	(1,254,642)	17,933,340
Change in Net Assets					3,275,414	560,629	3,836,043
Net Assets Beginning of Year					29,834,054	40,541,458	70,375,512
Net Assets End of Year					\$ 33,109,468	\$ 41,102,087	\$ 74,211,555

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

Exhibit 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>Major Fund</u>	<u>Total Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Funds</u>	<u>Governmental</u>
			<u>Funds</u>
Assets:			
Cash and Cash Equivalents	\$ 7,616,937	\$ 968,529	\$ 8,585,466
Receivables:			
Taxes Receivable - Net	288,158	-	288,158
Accounts Receivable	108,740	34,086	142,826
Due From Other Governments	1,827,844	118,498	1,946,342
Due From Other Funds	2,516,956	-	2,516,956
Note Receivable - Wainman Homes	60,500	-	60,500
Inventories	414,750	-	414,750
Total Assets	\$ 12,833,885	\$ 1,121,113	\$ 13,954,998
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 1,038,562	\$ 1,895	\$ 1,040,457
Due to Other Funds	-	448,829	448,829
Deposits	41,023	-	41,023
Unearned Revenues	249,776	-	249,776
Deferred Revenues	422,782	34,086	456,868
Total Liabilities	1,752,143	484,810	2,236,953
Fund Balances:			
Reserved For:			
State Statute	4,379,416	118,498	4,497,914
Inventories	414,750	-	414,750
Streets - Powell Bill	1,705,253	-	1,705,253
Unreserved:			
Designated for Subsequent Year's Expenditures	33,333	-	33,333
Undesignated	4,548,990	-	4,548,990
Unreserved, Reported in Nonmajor:			
Designated for Capital Projects	-	214,267	214,267
Special Revenue Funds	-	303,538	303,538
Total Fund Balances	11,081,742	636,303	11,718,045
Total Liabilities and Fund Balances	\$ 12,833,885	\$ 1,121,113	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Gross capital assets at historical cost	\$ 50,321,386	
Accumulated depreciation	<u>(25,005,132)</u>	25,316,254

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. 9,039

Liabilities for earned but deferred revenues in fund statements. 456,868

Some liabilities, including bonds payable, accrued interest, and compensated absences are not due and payable in the current period and therefore are not reported in the funds. (4,390,738)

\$ 33,109,468

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

Exhibit 4
(Page 1 of 2)

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

For the Year Ended June 30, 2007

	<u>Major Fund</u>	<u>Total Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Funds</u>	<u>Governmental</u>
			<u>Funds</u>
Revenues:			
Ad Valorem Taxes	\$ 10,125,705	\$ -	\$ 10,125,705
Other Taxes and Licenses	300,808	-	300,808
Intergovernmental Revenues:			
Unrestricted	6,074,815	-	6,074,815
Restricted	769,951	387,879	1,157,830
Permits and Fees	323,595	-	323,595
Sales and Services	1,388,838	-	1,388,838
Investment Earnings	410,921	-	410,921
Miscellaneous Revenue	225,772	254,458	480,230
Total Revenues	<u>19,620,405</u>	<u>642,337</u>	<u>20,262,742</u>
Expenditures:			
Current:			
General Government	2,635,489	-	2,635,489
Public Safety	8,216,749	43,460	8,260,209
Transportation	2,576,252	-	2,576,252
Environmental Protection	1,906,343	-	1,906,343
Cultural and Recreational	2,570,856	-	2,570,856
Economic and Physical Development	598,020	259,586	857,606
Debt Service	629,909	-	629,909
Capital Outlay	-	517,657	517,657
Total Expenditures	<u>19,133,618</u>	<u>820,703</u>	<u>19,954,321</u>
Excess (Deficiency) of Revenues			
Over Expenditures	<u>486,787</u>	<u>(178,366)</u>	<u>308,421</u>
Other Financing Sources (Uses):			
Transfers From Other Funds	1,800,000	216,017	2,016,017
Transfers to Other Funds	(164,467)	-	(164,467)
Sale of Assets	4,515	-	4,515
Total Other Financing Sources (Uses)	<u>1,640,048</u>	<u>216,017</u>	<u>1,856,065</u>
Net Change in Fund Balances	<u>2,126,835</u>	<u>37,651</u>	<u>2,164,486</u>
Fund Balance Beginning of Year, July 1	<u>8,954,907</u>	<u>598,652</u>	<u>9,553,559</u>
Fund Balance End of Year, June 30	<u>\$ 11,081,742</u>	<u>\$ 636,303</u>	<u>\$ 11,718,045</u>

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

Exhibit 4
(Page 2 of 2)

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

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

Net changes in fund balances - total governmental funds	\$	2,164,486
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized	\$	1,653,923
Depreciation expense for governmental assets		<u>(1,704,073)</u>
		(50,150)
Cost of capital assets disposed of during the year, not recognized on the modified accrual basis.		(434)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Change in deferred revenues		49,384
Amount of donated assets		789,750
Gain on disposal of assets		12,000
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		487,225
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		(132,325)
Net pension obligation		(44,848)
Accrued interest payable		<u>326</u>
Total changes in net assets of governmental activities	\$	<u>3,275,414</u>

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

Exhibit 5

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

For the Year Ended June 30, 2007

	General Fund			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
Revenues:				
Ad Valorem Taxes	\$ 10,326,383	\$ 10,300,583	\$ 10,125,705	\$ (174,878)
Other Taxes and Licenses	284,000	309,800	300,808	(8,992)
Intergovernmental Revenues:				
Unrestricted	5,583,146	5,590,146	6,074,815	484,669
Restricted	736,964	767,775	769,951	2,176
Permits and Fees	305,218	305,407	323,595	18,188
Sales and Services	1,387,856	1,396,526	1,388,838	(7,688)
Investment Earnings	147,000	147,000	410,921	263,921
Miscellaneous Revenue	219,020	203,210	225,772	22,562
Total Revenues	18,989,587	19,020,447	19,620,405	599,958
Expenditures:				
Current:				
General Government	2,925,776	2,898,776	2,635,489	263,287
Public Safety	8,479,091	8,535,380	8,216,749	318,631
Transportation	2,670,843	2,660,843	2,576,252	84,591
Environmental Protection	2,230,324	2,230,324	1,906,343	323,981
Cultural and Recreational	2,611,188	2,574,188	2,570,856	3,332
Economic and Physical Development	121,104	630,302	598,020	32,282
Debt Service	680,650	680,650	629,909	50,741
Total Expenditures	19,718,976	20,210,463	19,133,618	1,076,845
Revenues Over (Under) Expenditures	(729,389)	(1,190,016)	486,787	1,676,803
Other Financing Sources (Uses):				
Transfers to Other Funds	(27,505)	(289,505)	(164,467)	125,038
Transfers From Other Funds	-	-	1,800,000	1,800,000
Sale of Assets	-	-	4,515	4,515
Lease Purchase Agreement Issued	400,000	400,000	-	(400,000)
Total Other Financing Sources (Uses)	372,495	110,495	1,640,048	1,529,553
Appropriated Fund Balance	356,894	1,079,521	-	(1,079,521)
Net Change in Fund Balance	\$ -	\$ -	2,126,835	\$ 2,126,835
Fund Balance Beginning of Year, July 1			8,954,907	
Fund Balance End of Year, June 30			\$ 11,081,742	

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

Exhibit 6

**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2007

	Water and Sewer Fund
Assets:	
Current Assets:	
Cash and Cash Equivalents	\$ 10,562,905
Accounts Receivable - Net	1,816,670
Due from Other Governments	478,112
Inventories	555,630
Deferred Charges	75,414
Total Current Assets	13,488,731
Noncurrent Assets:	
Restricted Assets:	
Cash and Cash Equivalents	41,980
Capital Assets:	
Land, Improvements and Construction in Progress	3,940,815
Other Capital Assets, Net of Depreciation	40,690,382
Total Capital Assets (Net)	44,631,197
Total Noncurrent Assets	44,673,177
Total Assets	\$ 58,161,908
Liabilities:	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	\$ 368,805
Due to Other Funds	2,068,127
Customer Deposits	269,139
Accrued Interest Payable	39,339
Compensated Absences - Current	91,171
General Obligation Bonds Payable - Current	922,371
Notes Payable State of North Carolina - Current	643,703
Total Current Liabilities	4,402,655
Noncurrent Liabilities:	
Liabilities Payable From Restricted Assets:	
Accounts Payable	41,980
Other Noncurrent Liabilities:	
Compensated Absences	173,308
General Obligation Bonds Payable - Noncurrent (Net)	5,281,923
Notes Payable State of North Carolina - Noncurrent	7,128,586
Unearned Revenues	31,369
Total Noncurrent Liabilities	12,657,166
Total Liabilities	17,059,821
Net Assets:	
Invested in Capital Assets, Net of Related Debt	30,654,567
Unrestricted	10,447,520
Total Net Assets	\$ 41,102,087

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

Exhibit 7

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND TYPE
For the Year Ended June 30, 2007

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Water Sales	\$ 5,521,061
Sewer Charges	4,055,265
Water and Sewer Taps	127,275
Sampling and Monitoring Fees	28,013
Surcharges	51,303
Septic Tank Discharge	56,160
Other Operating Revenues	<u>196,284</u>
Total Operating Revenues	<u>10,035,361</u>
Operating Expenses:	
Billing and Collections	245,778
Water Meter Operations	325,038
Water Supply Treatment	1,592,830
Wastewater Treatment	2,593,450
Water Maintenance	687,080
Wastewater Maintenance	1,090,141
Depreciation	<u>1,340,188</u>
Total Operating Expenses	<u>7,874,505</u>
Operating Income	<u>2,160,856</u>
Nonoperating Revenues (Expenses):	
Investment Earnings	596,908
Interest and Other Charges	(438,923)
Other Nonoperating Revenues	104,944
Amortization of Bond Issue Costs	<u>(11,606)</u>
Total Nonoperating Revenues (Expenses)	<u>251,323</u>
Income Before Contributions and Transfers	2,412,179
Transfers to Other Funds:	
To North Fayetteville Street Sidewalk Capital Project Fund	(28,200)
To Economic Development Fund	(23,350)
To General Fund	<u>(1,800,000)</u>
Change in Net Assets	560,629
Total Net Assets - Beginning of Year	<u>40,541,458</u>
Total Net Assets - End of Year	<u>\$ 41,102,087</u>

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

Exhibit 8

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 For the Year Ended June 30, 2007**

	<u>Water and Sewer Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 10,157,631
Cash Paid for Goods and Services	(3,639,641)
Cash Paid to Employees for Services	(3,191,306)
Customer Deposits Received	49,664
Other Operating Revenues	<u>301,228</u>
Net Cash Provided by Operating Activities	<u>3,677,576</u>
Cash Flows From Noncapital Financing Activities:	
Due to Other Funds	1,854,463
Transfers to Other Funds	<u>(1,851,550)</u>
Total Cash Flows From Noncapital Financing Activities	<u>2,913</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Capital Assets	(805,882)
Principal Paid on Bonds and Installment Purchase Agreements	(1,358,980)
Interest Paid on Bonds and Installment Purchase Agreements	(438,923)
Proceeds From State Sewer/Water Loans	<u>663,278</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(1,940,507)</u>
Cash Flows from Investing Activities:	
Interest Earned on Investments	<u>596,908</u>
Net Increase in Cash and Cash Equivalents	2,336,890
Cash and Cash Equivalents at Beginning of Year	<u>8,267,995</u>
Cash and Cash Equivalents at End of Year	<u>\$ 10,604,885</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 2,160,856
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,340,188
Amortization of Deferred Loss on Refunding	43,502
Other Nonoperating Revenue	104,944
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	298,320
(Increase) in Inventory	(52,343)
(Decrease) in Accounts Payable and Accrued Liabilities	(308,898)
Increase in Customer Deposits	49,664
Increase in Accrued Compensated Absences	21,109
Increase in Deferred Revenues	<u>20,234</u>
Total Adjustments	<u>1,516,720</u>
Net Cash Provided by Operating Activities	<u>\$ 3,677,576</u>

The Notes to Financial Statements are an integral part of these Statements.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Asheboro conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A. REPORTING ENTITY.

The City of Asheboro is a municipal corporation which is governed by an elected mayor and a seven-member council. As required by generally accepted accounting principles, these financial statements present all the City's funds.

B. BASIS OF PRESENTATION.

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

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

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

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

The City reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, sanitation services, parks and recreation, and general government services.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION. (Concluded)

The City reports the following non-major governmental funds:

The HOME Program Special Revenue Fund. The North Carolina Housing Finance Agency regulates the Home Program; funding is restricted for rehabilitation of housing for individuals deemed to be in economic need of financing.

The Economic Development Special Revenue Fund. This fund accounts for resources to be used in the enhancement of the local business community and is funded from State grants and transfers from the General Fund.

The Traffic 2005 Grant Special Revenue Fund. This fund is used to account for grant monies received from the Governor's Highway Safety Program restricted for specific law enforcement program expenses.

The Police Computer Grant Special Revenue Fund. This fund is used to account for grant monies restricted for specific law enforcement program expenses.

The North Fayetteville Street Sidewalk Capital Project Fund. This fund accounts for City transfers to construct pedestrian sidewalks.

The Sunset Theater Capital Project Fund. This fund accounts for City transfers and contributions to renovate the historical Sunset Theater in downtown Asheboro.

The Asheboro Skate Park Capital Project Fund. This fund accounts for City transfers and other revenues to construct a recreational skate park.

The Airport Runway Extension Phase III Capital Project Fund. This fund accounts for Federal Aviation Administration and State Aid to Airport grant funding to further extend, widen and strengthen the airport runway.

The City reports the following major enterprise fund:

The Water and Sewer Fund. This fund is used to account for the City's water and sewer operations.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING.

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING. (Continued)**

Government-wide and Proprietary Fund Financial Statement (Concluded).

property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Randolph County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Asheboro. 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 City's vehicle taxes for vehicles registered in Randolph County from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31 each year with taxes due by May 1 of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING. (Concluded)

Governmental Fund Financial Statements (Concluded).

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

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

D. BUDGETARY DATA.

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for Special Revenue Funds, Capital Project Funds, and the Enterprise Fund Capital Projects Fund, which are consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The City Manager is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$1,000; however, any revisions that alter the total expenditures of any fund or that change functional appropriations by more than \$1,000 must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. ASSETS, LIABILITIES AND FUND EQUITY.

1. Deposits and Investments

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

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **ASSETS, LIABILITIES AND FUND EQUITY. (Continued)**

1. **Deposits and Investments (Concluded)**

State law [G.S.159-30(c)] authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The City's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

2. **Cash and Cash Equivalents**

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. **Restricted Assets**

Federal grant monies are classified as restricted assets for the payment of a payable related to a Water and Sewer Project Fund.

4. **Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2006. As allowed by State law, the City has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

5. **Allowances for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES AND FUND EQUITY. (Continued)

6. Inventory

The inventories of the City are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of expendable supplies that are recorded as inventory when purchased and expended when consumed.

The inventories of the City's enterprise fund consist of materials and supplies held for consumption. The cost of these inventories is recorded as an expense as the inventories are consumed.

7. Capital Assets

The City's purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the time of donation. Minimum capitalization costs are \$1,500 for the following types of assets: land, land improvements, buildings, infrastructure, equipment, and vehicles. 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.

General infrastructure capital assets, including roads, bridges, streets and sidewalks, curbs and gutters and storm drainage systems are capitalized along with other capital assets as "Street Construction" or "Land Improvements." General infrastructure capital assets acquired prior to June 30, 1991 are recorded at historical cost. General infrastructure capital assets acquired prior to July 1, 2002 and subsequent to July 1, 1991 are reported at estimated historical cost using deflated replacement cost. General infrastructure capital assets acquired subsequent to July 1, 2002 are recorded at cost.

Plant assets used in the business-type activities of the City are depreciated on a composite straight-line basis for the entire plant, regardless of the year of acquisition, at a 2% annual rate. In the composite rate, gain or loss on dispositions is not calculated except in extraordinary circumstances. Other assets used in the business-type activities of the City are depreciated on a class life basis at the following rates:

Furniture and office equipment	10-20 years
Maintenance and construction equipment	10-20 years
Medium and heavy motor vehicles	10-20 years
Automobiles and light trucks	3 years

Capital assets used in the governmental activities of the City are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Land Improvements	20 years
Street Construction	20 years
Equipment	5-10 years
Vehicles	5-15 years

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **ASSETS, LIABILITIES AND FUND EQUITY. (Continued)**

8. **Long-Term Obligations**

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

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.

9. **Compensated Absences**

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

The City'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 City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. **Net Assets/Fund Balances**

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

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES AND FUND EQUITY. (Concluded)

10. Net Assets/Fund Balances (Concluded)

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

The governmental fund types classify fund balances as follows:

Reserved.

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

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

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

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Unreserved.

Designated for Capital Projects - portion of total fund balance available for appropriation which has been designated to fund future capital projects and improvements.

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2006-2007 budget ordinance.

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

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$21,391,423 consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 50,321,386
Less Accumulated Depreciation	<u>(25,005,132)</u>
Net Capital Assets	25,316,254
Bond issuance costs are not financial resources and therefore are not reported in the fund statements	9,039
Liabilities for revenue earned but deferred and therefore recorded in the fund statements but not the government-wide statements	456,868
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Bonds and Installment Financing Agreements	(2,468,246)
Accrued Interest Payable	(2,057)
Compensated Absences	(1,600,846)
Net Pension Obligation	<u>(319,589)</u>
Total Adjustment	<u>\$ 21,391,423</u>

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

F. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS (Concluded)

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets – governmental activities as reported in the government-wide statement of activities. These are several elements of that total adjustment of \$1,110,928 as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 1,653,923
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements	(1,704,073)
Principal payments on debt owed are recorded as a use of funds on the fund statements but effect only the statement of net assets in the government-wide statements	493,833
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	(6,282)
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(132,325)
Increase in net pension obligation	(44,848)
Net costs of capital assets disposed of during the year	(434)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:	
Reversal of deferred tax revenue recorded at July 1, 2006	(242,647)
Recording of tax receipts deferred in the fund statements at June 30, 2007	288,158
Reversal of deferred service revenues recorded at July 1, 2006	(66,273)
Recording of service revenues deferred in the fund statements at June 30, 2007	74,124
Change in deferral of notes receivable in Special Revenue Fund	(3,978)
Donated infrastructure (streets, sidewalks, and curb and guttering)	789,750
Gain on disposal of capital assets during the year	12,000
Total Adjustment	<u>\$ 1,110,928</u>

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS

A. ASSETS.

1. Deposits

All of the City's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the City's agents in the City'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 City, these deposits are considered to be held by the City's agents in the City'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 City or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City 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 City has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce the standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2007, the City's deposits had a carrying amount of \$19,077,499 and a bank balance of \$20,352,078. Of the bank balance, \$600,000 was covered by federal depository insurance and \$19,752,078 was covered by collateral held under the Pooling Method. At June 30, 2007, the City's petty cash fund totaled \$3,978.

2. Investments

At June 30, 2007, the City of Asheboro had \$108,874 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

<u>Fund</u>	<u>6/30/2007</u>
General Fund:	
Taxes Receivable	\$ 67,000
Enterprise Fund:	
Customer Accounts Receivable	<u>75,000</u>
Total	<u>\$ 142,000</u>

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. ASSETS. (Continued)

4. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 3,167,702	\$ 475,371	\$ -	\$ 3,643,073
Construction in Progress	<u>2,245,392</u>	<u>523,768</u>	<u>2,606,191</u>	<u>162,969</u>
Total Capital Assets Not Being Depreciated	<u>5,413,094</u>	<u>999,139</u>	<u>2,606,191</u>	<u>3,806,042</u>
Capital Assets Being Depreciated:				
Land Improvements	8,071,560	2,137,455	-	10,209,015
Buildings	10,672,216	176,397	-	10,848,613
Street Construction	12,229,928	789,750	-	13,019,678
Equipment	4,091,975	440,637	-	4,532,612
Vehicles	<u>7,430,140</u>	<u>506,486</u>	<u>31,200</u>	<u>7,905,426</u>
Total Capital Assets Being Depreciated	<u>42,495,819</u>	<u>4,050,725</u>	<u>31,200</u>	<u>46,515,344</u>
Less Accumulated Depreciation For:				
Land Improvements	2,811,760	373,131	-	3,184,891
Buildings	4,833,480	270,295	-	5,103,775
Street Construction	6,508,502	460,476	-	6,968,978
Equipment	3,108,155	238,105	-	3,346,260
Vehicles	<u>6,081,928</u>	<u>362,066</u>	<u>42,766</u>	<u>6,401,228</u>
Total Accumulated Depreciation	<u>23,343,825</u>	<u>\$ 1,704,073</u>	<u>\$ 42,766</u>	<u>25,005,132</u>
Total Capital Assets Being Depreciated, Net	<u>19,151,994</u>			<u>21,510,212</u>
Governmental Activity Capital Assets, Net	<u>\$ 24,565,088</u>			<u>\$ 25,316,254</u>

Depreciation expense was charged to functions/programs as follows:

General Government	\$ 48,292
Public Safety	292,857
Transportation	1,019,357
Environmental	96,890
Cultural and Recreational	171,097
Economic Development	<u>75,580</u>
	<u>\$ 1,704,073</u>

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS(CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. ASSETS. (Concluded)

4. Capital Assets (Concluded)

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,798,306	\$ -	\$ -	\$ 2,798,306
Construction in Progress	2,020,019	526,210	1,403,720	1,142,509
Total Capital Assets Not Being Depreciated	4,818,325	526,210	1,403,720	3,940,815
Capital Assets Being Depreciated:				
Land Improvements	78,560	-	-	78,560
Buildings	31,009,014	-	-	31,009,014
Plant and Distribution Systems	33,496,908	-	-	33,496,908
Equipment	2,421,716	1,631,631	-	4,053,347
Vehicles	1,796,421	51,763	-	1,848,184
Total Capital Assets Being Depreciated	68,802,619	1,683,394	-	70,486,013
Less Accumulated Depreciation For:				
Land Improvements	10,115	3,928	-	14,043
Buildings	10,829,288	609,107	-	11,438,395
Plant and Distribution Systems	13,724,409	606,123	-	14,330,532
Equipment	2,229,693	109,961	-	2,339,654
Vehicles	1,661,938	11,069	-	1,673,007
Total Accumulated Depreciation	28,455,443	\$ 1,340,188	\$ -	29,795,631
Total Capital Assets Being Depreciated, Net	40,347,176			40,690,382
Business-type Activities Capital Assets, Net	\$ 45,165,501			\$ 44,631,197

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES.

1. Payables

Payables at the government-wide level at June 30, 2007, were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities:				
General	\$ 1,036,262	\$ --	\$ 2,300	\$ 1,038,562
Other Governmental	1,895	--	--	1,895
Total Governmental Activities	\$ 1,038,157	\$ --	\$ 2,300	\$ 1,040,457
Business-type Activities:				
Water and Sewer	\$ 365,772	\$ --	\$ 3,033	\$ 368,805

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System.

Plan Description. The City of Asheboro 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 City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.8% and 4.64%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Asheboro are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$545,502, \$517,377, and \$500,374, respectively. The contributions made by the City equaled the required contributions for each year.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Continued)

2. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance.

(1) Plan Description

The City of Asheboro administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City'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 plan does not issue a separate financial report.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2006, the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Terminate plan members entitled to but not yet receiving benefits	0
Active plan members	<u>69</u>
Total	<u>74</u>

(2) Summary of Significant Accounting Policies

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

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

(3) Contributions.

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

CITY OF ASHEBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Continued)

2. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance. (Concluded)

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 ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

Annual Pension Costs and Net Pension Obligation. The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual Required Contribution	\$ 105,636
Interest on Net Pension Obligations	19,919
Adjustment to Annual Required Contribution	<u>(16,178)</u>
Annual Pension Cost	109,377
Contributions Made	<u>64,529</u>
Increase (Decrease) in Net Pension Obligation	44,848
Net Pension Obligation, Beginning of Year	<u>274,741</u>
Net Pension Obligation, End of Year	<u>\$ 319,589</u>

	General Fund		
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	\$101,512	87.88%	\$ 226,481
6/30/06	\$110,152	56.19%	\$ 274,741
6/30/07	\$109,377	59.00%	\$ 319,589

c. Supplemental Retirement Income Plan for Law Enforcement Officers.

Plan Description. The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Continued)

2. Pension Plan Obligations (Continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers. (Concluded)

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2007, were \$198,937, which consisted of \$150,471 from the City and \$48,466 from the law enforcement officers.

d. Post-Employment Benefits.

Under the provisions of the City's personnel policy, retiring full time employees are provided with coverage at the City's expense until age 65 under the group health and hospitalization insurance plan under the following conditions:

- (1) An employee who is age 55 years or over and has a minimum of 25 years of service with the City and has retired under the North Carolina Local Governmental Retirement System and receiving benefits.
- (2) An employee with 30 years of service, regardless of age, and who has retired under the North Carolina Local Governmental Retirement System and receiving benefits.
- (3) An employee who is 62 years or over and has a minimum of 15 years of service with the City and who has retired under the North Carolina Local Governmental Retirement System and receiving benefits.
- (4) An employee who has retired due to disability under the North Carolina Local Governmental Retirement System and receiving benefits.

Dependent coverage is available to retiring employees at their expense.

The City finances the post employment health and hospitalization insurance benefits on a pay-as-you-go basis. As of June 30, 2007, forty-eight retirees were eligible for post-retirement health benefits. For the fiscal year ended June 30, 2007, the City made payments for post-retirement health benefit premiums of \$201,719. The City participates in a self-funded risk-financing pool administered by the North Carolina League of Municipalities.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Continued)

2. Pension Plan Obligations (Concluded)

e. Other Employment Benefits

The City has 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 months 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 City 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 for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2007, the City made contributions to the State for death benefits of \$15,191. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .13% 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.

f. Firemen's and Rescue Squad Worker's Pension Fund.

Plan Description. The State of North Carolina contributes, on behalf of the City of Asheboro, to the Firemen's and Rescue Squad Worker's Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Worker's Pension Fund 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 the Fund. 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 \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Continued)

3. Deferred / Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Prepaid Taxes (General)	\$ --	\$ 31,714
Prepaid Privilege Licenses (General)	--	23,982
Prepaid Vice Narcotics (General)	--	13,080
Prepaid US Treasury/Justice (General)	--	155,538
Prepaid Golf Memberships (General)	--	23,750
Other Collections (General)	--	1,712
Taxes Receivable, Net (General)	288,158	--
Garbage Collections Receivable (General)	74,124	--
Note Receivable (General)	60,500	--
Notes Receivable (Special Revenue)	34,086	--
	<hr/>	<hr/>
Total	\$ 456,868	\$ 249,776

4. Risk Management

The City 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 City participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property liability in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The City does not carry flood insurance because the area has not been designated an "A" area by the Federal Emergency Management Agency.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

CITY OF ASHEBORO, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Continued)

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2007, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

6. Long-Term Obligations

a. Installment Purchases.

In November 1995, the City entered into an installment purchase contract to finance the acquisition and renovation of property to serve as a public works facility. The contract is for \$1.5 million, to be repaid monthly at \$12,079, including interest at 5.2 percent over fifteen years.

In March 2001, the City entered into an installment purchase contract to finance the acquisition and construction of property to serve as a recycling transfer station. The contract is for \$850,000, to be repaid quarterly at \$21,099, including interest at 5.57 percent over fifteen years.

In February 2004, the City entered into an installment purchase contract to finance various equipment and vehicles. The contract is for \$401,529, to be repaid monthly at \$7,255, including interest at 2.58% over five years.

In March 2006, the City entered into an installment purchase contract to finance police vehicles/equipment and sanitation equipment. The contract is for \$682,180, to be repaid quarterly at \$37,475, including interest at 3.66% over five years.

The future minimum payments of the installment purchase contracts as of June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 393,294	\$ 73,008
2009	373,971	56,186
2010	338,846	40,399
2011	274,580	24,975
2012	65,995	18,402
2013 – 2017	277,896	33,068
Totals	\$ 1,724,582	\$ 246,038

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Continued)

6. Long-Term Obligations (Continued)

b. Notes Payable.

The notes payable shown in the Water and Sewer Fund consist of the balances due on three loans: the first is a \$5,000,000 loan from the State of North Carolina for the construction of improvements to the City's Wastewater Treatment Plant. The promissory note requires annual payments of \$250,000, plus interest semi-annually at 3.43% per annum. The second is a \$2,542,173 revolving loan from the State Clean Water Revolving Loan Program for improvements to the City's wastewater collection system. This agreement requires payments over twenty years at a rate of 2.66%. At June 30, 2007, proceeds received from this loan amounted to \$2,462,986. The promissory note requires annual payments of \$127,109, plus interest. The third is a \$5,331,881 revolving loan from the State Clean Water Revolving Loan Program for improvements to the City's water distribution system. This agreement requires payments over twenty years at a rate of 2.66%. At June 30, 2007, proceeds received from this loan amounted to \$3,055,602. The promissory note requires annual payments of \$266,594, plus interest.

Annual debt service requirements to maturity for the notes payable are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2008	\$ 643,703	\$ 281,346
2009	643,703	262,299
2010	643,703	243,251
2011	643,703	224,204
2012	643,703	205,156
2013 - 2017	3,218,514	740,069
2018 - 2022	1,025,204	115,071
2023 - 2027	310,056	20,267
Totals	<u>\$ 7,772,289</u>	<u>\$ 2,091,663</u>

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Continued)

6. Long-Term Obligations (Continued)

c. General Obligation Indebtedness.

During the year ending June 30, 2006, the City issued refunding general obligation bonds in the amount of \$8,530,000 to retire \$875,000 of general obligation bonds serviced by the governmental funds issued to finance the construction of improvements to the City's library and \$7,300,000 of general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system which were being retired by resources in the Water and Sewer Fund. The reacquisition exceeded the net carrying amount of the old bonds by \$358,131. This amount is being netted against the new bonds and amortized over the life of the new bonds. All general obligation bonds are collateralized by the full faith, credit and taxing power of the City. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2007, are comprised of the following individual issues:

<u>General Obligation Bonds</u>	Amount
Serviced by the General Fund and the Water and Sewer Fund:	
\$8,530,000 Refunding serial bonds due in annual installments ranging from \$70,000 to \$1,095,000 through 2015; interest ranging from 2.90% to 3.50% per annum. The amount shown is net of the unamortized deferred loss of \$235,754 and the bond premium of \$68,714.	<u>\$ 6,947,960</u>

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 115,061	\$ 25,970	\$ 959,939	\$ 216,665
2009	113,991	21,943	951,009	183,067
2010	111,315	18,637	928,685	155,488
2011	109,174	14,741	910,826	122,964
2012	107,569	10,920	897,431	91,105
2013 - 2017	204,434	10,901	1,705,566	90,949
Total	<u>\$ 761,544</u>	<u>\$ 103,112</u>	<u>\$ 6,353,456</u>	<u>\$ 860,238</u>

At June 30, 2007 the City's legal debt margin is \$139,632,720.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. LIABILITIES. (Concluded)

6. Long-Term Obligations (Concluded)

d. Changes in Long-Term Liabilities.

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion of Balance
Governmental Activities:					
General Obligation					
Bonds	\$ 878,746	\$ --	\$ 117,202	\$ 761,544	\$ 115,061
Deferred Loss on Refunding	(32,593)	(--)	(7,359)	(25,234)	(6,355)
Unamortized Debt Premium	9,499	--	2,144	7,355	1,852
Total General Obligation					
Bonds	855,652	--	111,987	743,665	110,558
Installment Purchases	2,101,212	--	376,630	1,724,582	393,294
Compensated Absences	1,468,520	659,657	527,332	1,600,845	527,332
Net Pension Obligation	274,741	44,848	--	319,589	--
Governmental Activity					
Long-term Liabilities	\$ 4,700,125	\$ 704,505	\$ 1,015,949	\$ 4,388,681	\$1,031,184

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion of Balance
Business-type Activities:					
General Obligation					
Bonds	\$ 7,331,254	\$ --	\$ 977,798	\$ 6,353,456	\$ 959,939
Deferred Loss on Refunding	(271,916)	(--)	(61,396)	(210,520)	(53,022)
Unamortized Debt Premium	79,253	--	17,895	61,358	15,454
Total General Obligation					
Bonds	7,138,591	--	934,297	6,204,294	922,371
Installment Purchases	8,033	--	8,033	--	--
Notes Payable	7,482,160	663,278	373,149	7,772,289	643,703
Compensated Absences	243,371	112,279	91,171	264,479	91,171
Business-type Activity					
Long-term Liabilities	\$ 14,872,155	\$ 775,557	\$ 1,406,650	\$ 14,241,062	\$1,657,245

Compensated absences typically have been liquidated in the general fund.

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Continued)

C. INTERFUND BALANCES AND ACTIVITY.

1. Transfers To / From Other Funds

Transfers to / from other funds at June 30, 2007, consists of the following:

From the General Fund to the Airport Runway Extension Phase III Capital Project Fund per the terms of a matching grant.	\$ 16,667
From the General Fund to the Asheboro Skate Park Capital Project Fund for expenditures related to construction of a skate park.	62,000
From the General Fund to the Economic Development Fund for economic incentive for local business.	75,000
From the General Fund to the Traffic 2005 Grant Fund per the terms of a matching State grant.	10,800
From the Water and Sewer Fund to the General Fund for reimbursement of debt service.	1,800,000
From the Water and Sewer Fund to the North Fayetteville Street Sidewalk Capital Project Fund for expenditures related to sidewalk expansion.	28,200
From the Water and Sewer Fund to the Economic Development Fund for economic incentive for local business.	23,350
From the Water and Sewer Fund to the NCDOT Water and Sewer Systems Improvement Project Fund for expenditures related to water and sewer expansion.	200,000
Total	<u>\$ 2,216,017</u>

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

II. DETAIL NOTES ON ALL FUNDS (Concluded)

C. INTERFUND BALANCES AND ACTIVITY. (Concluded)

2. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2007, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects:	
	Airport Runway Extension Phase III - to fund grant project.	\$ 350,000
	Skate Park Project – for final project expenditures.	98,829
	Enterprise Fund:	
	Water and Sewer Fund – for reimbursement of debt service and project expenditures.	<u>2,068,127</u>
		<u>\$ 2,516,956</u>

D. REVENUES, EXPENDITURES AND EXPENSES.

On-Behalf of Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2007, the City of Asheboro has recognized on-behalf of payments for pension contributions made by the State as a revenue and expenditure of \$3,274 for fourteen employed firemen who perform firefighting duties for the City's fire department. The employees elected to be members of the Firemen and Rescue Squad Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

III. JOINT VENTURE

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these monies to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2007, the City reported no payments through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no entity has been reflected in the financial statements at June 30, 2007. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board

CITY OF ASHEBORO, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

III. JOINT VENTURE (Concluded)

of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

IV. JOINTLY GOVERNED ORGANIZATION

The City, in conjunction with seven counties and forty-four other municipalities, established the Piedmont Triad Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$14,345 to the Council during the fiscal year ended June 30, 2007.

V. RELATED ORGANIZATION

The five-member board of the City of Asheboro Housing Authority is appointed by the Asheboro City Council. The City is accountable for the Housing Authority because it appoints the governing board; however, the City is not financially accountable for the Housing Authority. The City of Asheboro is also disclosed as a related organization in the notes to the financial statements for the City of Asheboro Housing Authority.

VI. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

FEDERAL AND STATE ASSISTED PROGRAMS

The City has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

This page intentionally left blank.

**CITY OF ASHEBORO
NORTH CAROLINA**

Required Supplemental Financial Data

This section contains additional information required by generally accepted accounting principles.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.

CITY OF ASHEBORO, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/97	-	\$ 311,887	\$ 311,887	-	\$ 1,248,237	24.99%
12/31/98	-	\$ 371,243	\$ 371,243	-	\$ 1,436,006	25.85%
12/31/99	-	\$ 417,140	\$ 417,140	-	\$ 1,818,294	22.94%
12/31/00	-	\$ 722,340	\$ 722,340	-	\$ 1,994,659	36.21%
12/31/01	-	\$ 806,743	\$ 806,743	-	\$ 2,158,301	37.38%
12/31/02	-	\$ 854,881	\$ 854,881	-	\$ 2,205,679	38.76%
12/31/03	-	\$ 937,315	\$ 937,315	-	\$ 2,181,296	42.97%
12/31/04	-	\$ 985,500	\$ 985,500	-	\$ 2,343,974	42.04%
12/31/05	-	\$ 954,667	\$ 954,667	-	\$ 2,639,975	36.16%
12/31/06	-	\$ 1,027,622	\$ 1,027,622	-	\$ 2,825,320	36.37%

CITY OF ASHEBORO, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1998	\$ 41,454	32.60%
1999	\$ 43,999	49.90%
2000	\$ 52,227	61.70%
2001	\$ 60,573	82.30%
2002	\$ 75,592	74.70%
2003	\$ 84,213	75.20%
2004	\$ 91,005	98.50%
2005	\$ 97,999	91.00%
2005	\$ 106,740	57.90%
2006	\$ 105,636	61.08%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2006
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Pay Closed
Remaining Amortization Period	24 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases*	From 4.5% to 12.3%
*Includes Inflation at	3.75%
Cost-of-Living Adjustments	None

This page intentionally left blank.

**CITY OF ASHEBORO
NORTH CAROLINA**

General Fund

The General Fund accounts for all non-enterprise governmental services for which an annual budget is adopted. By definition, the General Fund accounts for all resources and activities except those which are more appropriately recorded in another fund. Functions provided by the City which are accounted for by the General Fund include general government activities, public safety, transportation, environmental protection, grounds maintenance, cultural and recreational activities, and economic and physical development.

CITY OF ASHEBORO, NORTH CAROLINA
GENERAL FUND

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

For the Year Ended June 30, 2007

Revenues:

Ad Valorem Taxes:

Current Year

Prior Years

Penalties and Interest

Total

Other Taxes and Licenses:

Gross Receipts Tax on Short-Term Rental Property

Animal Tax

Privilege Licenses

Total

Intergovernmental Revenues:

Unrestricted:

Local Option Sales Tax

Utilities Franchise Tax

Hold Harmless

Tax Refunds - Net

Court Fees

Payment in Lieu of Taxes

Total

Restricted:

State Street Aid Allocation

Local Fire Protection and Training

On-Behalf of Payments - Fire and Rescue

Other

Vice and Narcotics Allocation

U.S. Treasury/Justice Allocation

Total

2007		
Budget	Actual	Variance Positive (Negative)
\$ 10,096,758	\$ 9,957,417	\$ (139,341)
170,668	130,453	(40,215)
33,157	37,835	4,678
<u>10,300,583</u>	<u>10,125,705</u>	<u>(174,878)</u>
25,000	20,725	(4,275)
800	675	(125)
284,000	279,408	(4,592)
<u>309,800</u>	<u>300,808</u>	<u>(8,992)</u>
3,789,656	4,122,316	332,660
1,594,601	1,793,517	198,916
188,389	131,024	(57,365)
-	500	500
10,500	18,153	7,653
7,000	9,305	2,305
<u>5,590,146</u>	<u>6,074,815</u>	<u>484,669</u>
701,307	679,297	(22,010)
808	855	47
-	3,274	3,274
33,860	15,750	(18,110)
20,000	54,584	34,584
11,800	16,191	4,391
<u>\$ 767,775</u>	<u>\$ 769,951</u>	<u>\$ 2,176</u>

CITY OF ASHEBORO, NORTH CAROLINA
GENERAL FUND

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

For the Year Ended June 30, 2007

Revenues (Concluded):

Permits and Fees:

- Building Permits and Inspection Fees
- Franchise Fees
- Rezoning and Cemetery Fees
- Other

Total

Sales and Services:

- Rents and Concessions
- Cemeteries
- Recreation Service Revenues
- Refuse Collection
- Recycling Revenues
- Contracted Maintenance - NCDOT
- Airport Revenue

Total

Investment Earnings

Miscellaneous:

- Sales of Material and Services
- Reimbursements
- Other

Total

Total Revenues

Expenditures:

General Government:

Governing Body:

- Salaries and Employee Benefits
- Other Operating Expenditures

Total

2007		
Budget	Actual	Variance Positive (Negative)
\$ 140,100	\$ 157,682	\$ 17,582
101,218	121,530	20,312
45,700	44,375	(1,325)
18,389	8	(18,381)
<u>305,407</u>	<u>323,595</u>	<u>18,188</u>
64,156	89,554	25,398
32,000	17,700	(14,300)
417,700	408,625	(9,075)
845,000	838,317	(6,683)
11,000	11,048	48
23,000	19,554	(3,446)
3,670	4,040	370
<u>1,396,526</u>	<u>1,388,838</u>	<u>(7,688)</u>
<u>147,000</u>	<u>410,921</u>	<u>263,921</u>
469	415	(54)
179,400	195,503	16,103
23,341	29,854	6,513
<u>203,210</u>	<u>225,772</u>	<u>22,562</u>
<u>19,020,447</u>	<u>19,620,405</u>	<u>599,958</u>
	61,400	
	53,090	
<u>\$ 123,308</u>	<u>\$ 114,490</u>	<u>\$ 8,818</u>

CITY OF ASHEBORO, NORTH CAROLINA
GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2007

Expenditures (Continued):

General Government (Continued):

Administration:

Salaries and Employee Benefits
Operating Expenditures

Total

City Clerk:

Operating Expenditures

Information Technology:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Finance:

Salaries and Employee Benefits
Operating Expenditures

Total

Public Buildings:

Operating Expenditures
Capital Outlay

Total

Tax Collections:

Tax Collection Fee - Randolph County
Tax Refunds

Total

2007		
Budget	Actual	Variance Positive (Negative)
\$	\$ 105,645	\$
	44,289	
155,060	149,934	5,126
7,052	3,435	3,617
	55,010	
	56,742	
	5,503	
132,591	117,255	15,336
	229,244	
	61,330	
353,602	290,574	63,028
	58,397	
	2,139	
63,357	60,536	2,821
	126,571	
	25,575	
\$ 230,000	\$ 152,146	\$ 77,854

CITY OF ASHEBORO, NORTH CAROLINA
GENERAL FUND

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

For the Year Ended June 30, 2007

Expenditures (Continued):

General Government (Concluded):

Legal Services:

Salaries and Employee Benefits
Operating Expenditures

Total

Planning and Zoning:

Salaries and Employee Benefits
Other Operating Expenditures

Total

City Shop:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Human Resources:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Total General Government

Public Safety:

Police:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Fire:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

2007		
Budget	Actual	Variance Positive (Negative)
\$	\$ 121,512 15,769	\$
<u>142,667</u>	<u>137,281</u>	<u>5,386</u>
	344,452 54,068	
<u>430,324</u>	<u>398,520</u>	<u>31,804</u>
	557,014 235,532 308	
<u>822,027</u>	<u>792,854</u>	<u>29,173</u>
	266,321 147,804 4,339	
<u>438,788</u>	<u>418,464</u>	<u>20,324</u>
<u>2,898,776</u>	<u>2,635,489</u>	<u>263,287</u>
	4,046,746 948,249 212,329	
<u>5,340,406</u>	<u>5,207,324</u>	<u>133,082</u>
	2,398,957 368,256 40,156	
<u>\$ 2,993,092</u>	<u>\$ 2,807,369</u>	<u>\$ 185,723</u>

CITY OF ASHEBORO, NORTH CAROLINA
GENERAL FUND

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

For the Year Ended June 30, 2007

Expenditures (Continued):

Public Safety (Concluded):

Inspections:

Salaries and Employee Benefits
Operating Expenditures

Total

Total Public Safety

Transportation:

Operations:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Street and Highways:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

City Engineer Office:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Airport Authority:

Operating Expenditures

Total Transportation

2007		
Budget	Actual	Variance Positive (Negative)
\$	\$ 184,232	\$
	17,824	
<u>201,882</u>	<u>202,056</u>	<u>(174)</u>
<u>8,535,380</u>	<u>8,216,749</u>	<u>318,631</u>
	334,197	
	214,893	
	31,623	
<u>578,139</u>	<u>580,713</u>	<u>(2,574)</u>
	730,127	
	869,284	
	167,147	
<u>1,809,275</u>	<u>1,766,558</u>	<u>42,717</u>
	132,106	
	37,413	
	3,725	
<u>195,029</u>	<u>173,244</u>	<u>21,785</u>
<u>78,400</u>	<u>55,737</u>	<u>22,663</u>
<u>\$ 2,660,843</u>	<u>\$ 2,576,252</u>	<u>\$ 84,591</u>

CITY OF ASHEBORO, NORTH CAROLINA
GENERAL FUND

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

For the Year Ended June 30, 2007

Expenditures (Continued):

Environmental Protection:

Sanitation:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Recycling Transfer Station:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Total Environmental Protection

Cultural and Recreational:

Recreation:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Grounds Maintenance:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

Golf Course:

Salaries and Employee Benefits
Operating Expenditures
Capital Outlay

Total

2007		
Budget	Actual	Variance Positive (Negative)
\$	\$ 663,743	\$
	1,098,777	
	42,531	
<u>2,095,452</u>	<u>1,805,051</u>	<u>290,401</u>
	41,339	
	48,745	
	11,208	
<u>134,872</u>	<u>101,292</u>	<u>33,580</u>
<u>2,230,324</u>	<u>1,906,343</u>	<u>323,981</u>
	456,747	
	638,676	
	30,189	
<u>1,089,775</u>	<u>1,125,612</u>	<u>(35,837)</u>
	861,883	
	244,994	
	46,918	
<u>1,181,430</u>	<u>1,153,795</u>	<u>27,635</u>
	103,452	
	53,462	
	12,196	
<u>\$ 179,383</u>	<u>\$ 169,110</u>	<u>\$ 10,273</u>

CITY OF ASHEBORO, NORTH CAROLINA
GENERAL FUND

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

For the Year Ended June 30, 2007

Expenditures (Concluded):

Cultural and Recreational (Concluded):

Library:

Operating Expenditures

Total Cultural and Recreational

Economic and Physical Development:

Community Promotion:

Operating Expenditures

Capital Outlay

Total Economic and Physical Development

Debt Service:

Principal Retirement

Interest and Fees

Total Debt Service

Total Expenditures

Revenues Over (Under) Expenditures

Other Financing Sources (Uses):

Transfers From Other Funds:

From Water and Sewer Fund

Transfers to Other Funds:

To Airport Runway Extension Phase III Capital Project Fund

To Asheboro Skate Park Project Fund

To Economic Development Fund

To Traffic 2005 Grant Fund

Sale of Assets

Proceeds From Lease Purchase Agreement

Total Other Financing Sources (Uses)

Appropriated Fund Balance

Net Change in Fund Balance

Fund Balance:

Beginning of Year, July 1

End of Year, June 30

2007		
Budget	Actual	Variance Positive (Negative)
\$ 123,600	\$ 122,339	\$ 1,261
2,574,188	2,570,856	3,332
	396,401	
	201,619	
630,302	598,020	32,282
	493,833	
	136,076	
680,650	629,909	50,741
20,210,463	19,133,618	1,076,845
(1,190,016)	486,787	1,676,803
-	1,800,000	1,800,000
(16,700)	(16,667)	33
(62,000)	(62,000)	-
(200,000)	(75,000)	125,000
(10,805)	(10,800)	5
-	4,515	4,515
400,000	-	(400,000)
110,495	1,640,048	1,529,553
1,079,521	-	(1,079,521)
<u>\$ -</u>	<u>2,126,835</u>	<u>\$ 2,126,835</u>
	8,954,907	
	<u>\$ 11,081,742</u>	

This page intentionally left blank.