

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
OF THE
TOWN OF SOUTHERN PINES,
NORTH CAROLINA
FOR THE
Fiscal Year Ended June 30, 2008

Prepared by the Department of Finance

Crystal J. Gabric,
Director of Finance

THE TOWN OF SOUTHERN PINES, NORTH CAROLINA
ANNUAL FINANCIAL REPORT
Year ended June 30, 2008

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Phone: (910) 692-2971 Fax: (910) 692-1649

October 31, 2008

To the Honorable Mayor, Members of the Town Council, and the Citizens of the Town of Southern Pines:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, the Comprehensive Annual Financial Report (CAFR) of the Town of Southern Pines, North Carolina (Town) for the fiscal year ended June 30, 2008 is hereby submitted.

This report was prepared by the Town's Finance Department and consists of management's representations concerning the finances of the Town of Southern Pines. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Dixon Hughes PLLC, a firm of licensed certified public accountants, has audited the Town's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The Town of Southern Pines is required by State law to have an annual independent financial audit. A compliance audit in accordance with Government Auditing Standards is also required. The auditor's report required by Government Auditing Standards is found in the Compliance Section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE TOWN

The Town of Southern Pines, North Carolina, was incorporated in 1887, and is located on the fringe of the Piedmont section of the State in an area known as the Sandhills. The Town has a 2008 population of approximately 12,210 and is located in Moore County. The Town encompasses 16.45 square miles. The Town provides a full range of services including police and fire protection, streets, planning and zoning, parks and recreation, library, fleet maintenance, and general administrative services. The Town also operates water and sewer utility services.

The Town operates under the Council-Manager form of government. The legislative body of the government of the Town is comprised of a Mayor and a four-member Town Council. The Town Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the Town Manager. The Mayor and Council are elected at-large by the Citizens, with the Mayor being elected separately. The Mayor serves a four-year term, and is the presiding officer of the Council. Members of the Town Council serve four-year terms as well. Town Council elections are held every two years in order that the terms of office are staggered. The Town Manager is responsible for carrying out the policies and ordinances of the Town Council, for overseeing the day-to-day operations of the Town, and for appointing the heads of the various departments.

The annual budget serves as the foundation for the Town's financial planning and control. The Town has a formal operating budget process, which begins in January of each year. The Town Council receives the recommended budget in May. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than June 30, the close of the Town's fiscal year. Legal budgetary control for operating budgets is exercised at the fund and department level. Transfers of appropriations between departments and funds require the approval of the Town Council. Formal budgetary integration and encumbrance accounting are employed as management control devices during the year. Budget to actual comparisons are provided in this report for each individual governmental fund and the proprietary fund for which an appropriated annual budget has been adopted.

ECONOMIC CONDITIONS

Local Economy - The economic profile of the Town is a mixture of manufacturing, tourism, retirement and agriculture. Tourism continues to remain steady. The meeting/convention business remained consistent in total room night bookings. Direct spending by visitors continues to be high, placing Moore County eleventh in the one hundred counties in North Carolina. For the entire state, the County ranks third in revenues generated per resident.

The unemployment rate in Moore County was 6.0% as of June 30, 2008, slightly less than the State average of 6.2%. Additionally, the assessed value of taxable property in the Town increased 35.2% over last year due to normal growth and a tax revaluation.

Overall, the Town's economy is expected to remain stable. In planning for the future, the Town continues to maintain a high priority on both the delivery of quality services and financial stability.

Long Term Financial Planning - The Town has several ongoing capital projects to meet the needs of the citizens. During fiscal year 2008, the Town achieved a number of improvements in municipal operations and services provided to the citizens of the Town. Some of the more significant accomplishments for the year and major program initiatives for the future are discussed below.

During 2008, the Town was awarded a Community Development Block Grant for water and sewer improvements to serve the Waynor Road Community. The project will include installation of water and sanitary sewer improvements to serve the community by connecting to the Town's water and sewer system.

Preparation and site work on the land for the new police station facility began during 2008. The site is adjacent to the existing fire station and will enable the Town's public safety facilities to be located in the same central location. Construction on the facility is projected to begin in November 2008.

Construction continued on several capital projects during 2008. The projects were the fiber optics infrastructure project which will allow fiber optics connections between Town buildings, the completion of the freight depot renovation and the completion of the multi-project recreation construction fund that included an additional neighborhood park. Also completed was the expansion of the water treatment system. The expansion increased the capacity from 5 million gallons per day to 11 million gallons a day.

Street resurfacing also continued to keep our streets among the best maintained in the State. Sewer and water line replacements and improvements also continued during 2008. Vehicles and equipment continued to be replaced on a scheduled basis.

Cash Management Policies and Practices - The deposits of the Town are made in board-designated official depositories and are collateralized as required by State statute. The Town maintains a pooled cash and investment account that is available for use by all funds, except those restricted by statutes or other legal reasons. Cash temporarily idle during the year was invested in the North Carolina Capital Management Trust, an SEC registered mutual fund. All deposits of the Town are insured by federal depository insurance or collateralized by pledged securities. All of the Town's investments at June 30, 2008 were classified in the lowest risk category as defined by the Governmental Accounting Standards Board.

Risk Management - The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Town protects itself from potential loss through the purchase of commercial insurance for primary and/or excess coverage for individual claims exceeding specific amounts. The Town's insurance coverage is more fully described in note 10 of the financial statements.

Various risk control techniques are practiced by the Town including employee safety programs, and a drug free workplace program with mandatory drug screening for new employees as well as random drug screening for existing employees.

Pension and other post-employment benefits – The Town sponsors a single-employer defined benefit pension plan for its sworn law enforcement officers. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the Town must make to the pension plan to ensure that the plan will be able to fully meet its obligations to eligible retired employees on a timely basis. The Town is required by State statute to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis. The Town is currently making payments to five retired law enforcement officers.

The State of North Carolina contributes, on behalf of the Town, to the Firemen's and Rescue Squad Workers' Pension Fund, which is a cost-sharing multiple-employer defined benefit pension plan. The State funds this plan through appropriations. Plan members, who are eligible fire personnel, are required to contribute \$10 per month. The Town has no obligation with employee benefits offered through this plan.

All non-probationary full-time Town employees participate in the statewide North Carolina defined benefit pension plan. The State of North Carolina administers the plan. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The 2008 rate for employees not engaged in law enforcement is 4.90% and 4.86% for law enforcement officers.

All non-probationary full-time Town employees participate in the Supplemental Retirement Income Plan, a multiple-employer defined contribution pension plan, administered by the Department of the State Treasurer and a Board of Trustees. Eligible employees may make voluntary contributions. State statute requires that the Town contribute 5% of annual covered salary for all law enforcement officers. The Town makes the same contribution for all other eligible employees' covered salary.

The Town does not offer any type of post employment benefit other than health insurance covered under the Consolidated Omnibus Budget Reconciliation Act (COBRA) act.

Additional information on the Town's pension arrangements and post employment benefits can be found in notes 7 and 8 of the financial statements.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (CAFR) to the Town of Southern Pines, North Carolina for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the seventeenth consecutive year that the Town has received this award. The CAFR is a prestigious national award that recognized 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 a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

Acknowledgments – The preparation of this report would not have been possible without the dedicated efforts of the entire staff of the Finance Department, as well as the cooperation of the other departments of the Town of Southern Pines. We would like to thank Dixon Hughes PLLC the Town's independent auditors, for their assistance and dedication in preparing this report. In addition, we wish to express our appreciation to the Mayor, and the Town Council for their continued support, leadership, and professionalism in conducting the financial affairs of the Town.

Respectfully submitted,

Reagan D. Parsons
Town Manager

Crystal J. Gabric
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Southern Pines
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.



Oliver S. Cox

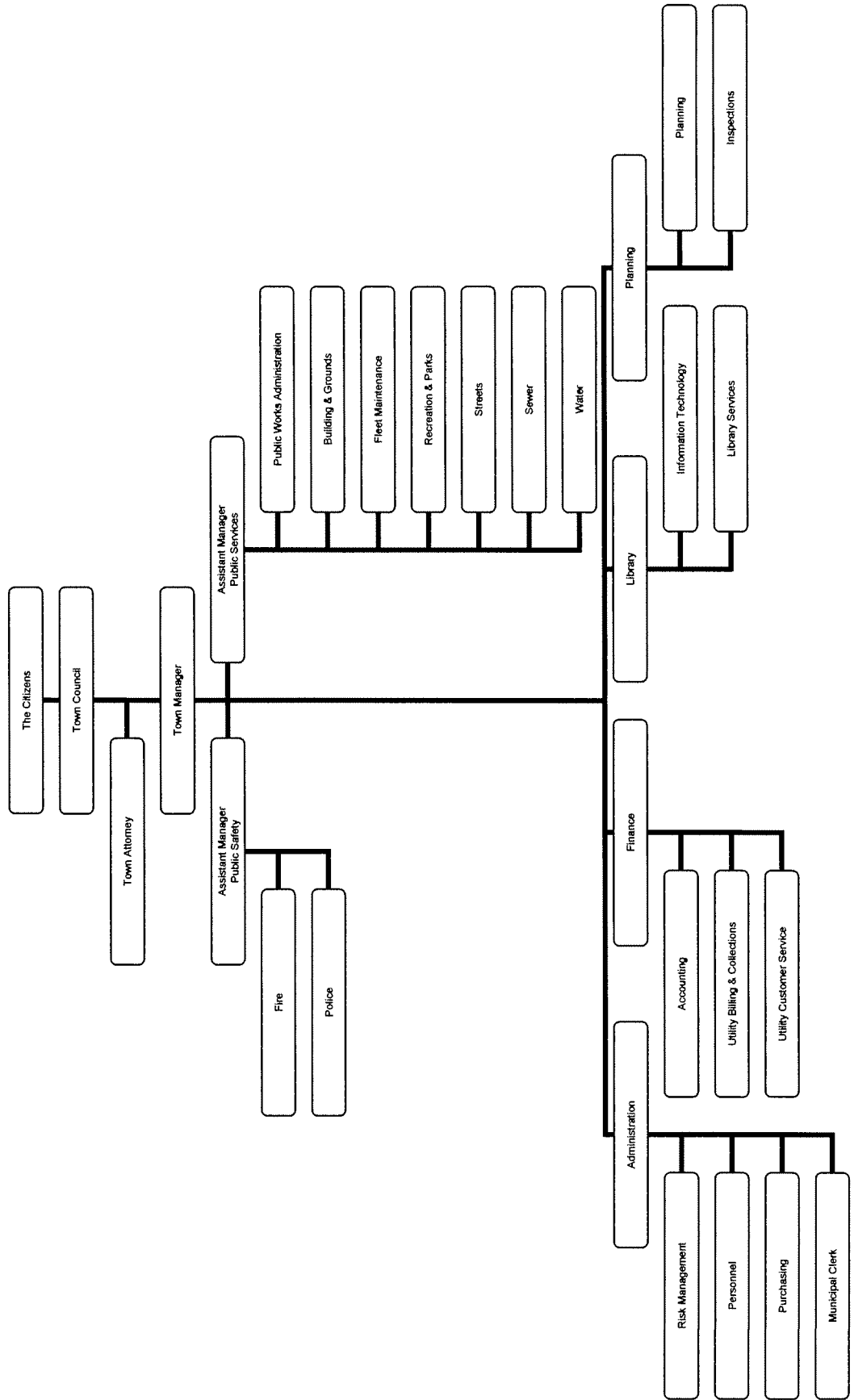
President

Jeffrey R. Emswiler

Executive Director

TOWN OF SOUTHERN PINES

Organizational Chart



TOWN OF SOUTHERN PINES
LIST OF PRINCIPAL OFFICIALS
June 30, 2008

TOWN COUNCIL

Michael Haney	Mayor
Christopher Smithson	Mayor Pro-tem
David Woodruff	Treasurer
Abigail Dowd	Council Member
Fred Walden	Council Member

TOWN OFFICIALS

Reagan D. Parsons	Town Manager
Douglas R. Gill	Town Attorney
Rick Baker	Assistant Town Manager – Director of Public Safety
David White	Assistant Town Manager – Director of Public Services
Eleanore M. Dreher	Director of Administrative Services
Crystal J. Gabric	Director of Finance
John Letteney	Chief of Police
Bart Nuckols	Director of Planning
Robert Reeve	Director of Recreation & Parks
Lynn Thompson	Director of Library Services & Information Technology
Hampton Williams	Fire Chief

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of
the Town Council
Town of Southern Pines
Southern Pines, North Carolina

We 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 Town of Southern Pines, North Carolina as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Southern Pines' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our 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 Town of Southern Pines, North Carolina as of June 30, 2008 and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officer's Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We 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, we did not audit this information and express no opinion thereon.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2008 on our consideration of Town of Southern Pines' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the basic financial statements of Town of Southern Pines, North Carolina, taken as a whole. The individual fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards and the statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections of the Comprehensive Annual Financial Report (CAFR) have not been audited by us and, accordingly, we express no opinion on their contents.

Dixon Hughes PLLC

October 20, 2008



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Management's Discussion and Analysis

As management of the Town of Southern Pines, we offer readers of the Town of Southern Pines' financial statements this narrative overview and analysis of the financial activities of the Town of Southern Pines (Town) for the fiscal year ended June 30, 2008. We encourage readers to review the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative and the transmittal letter found in the Introductory Section.

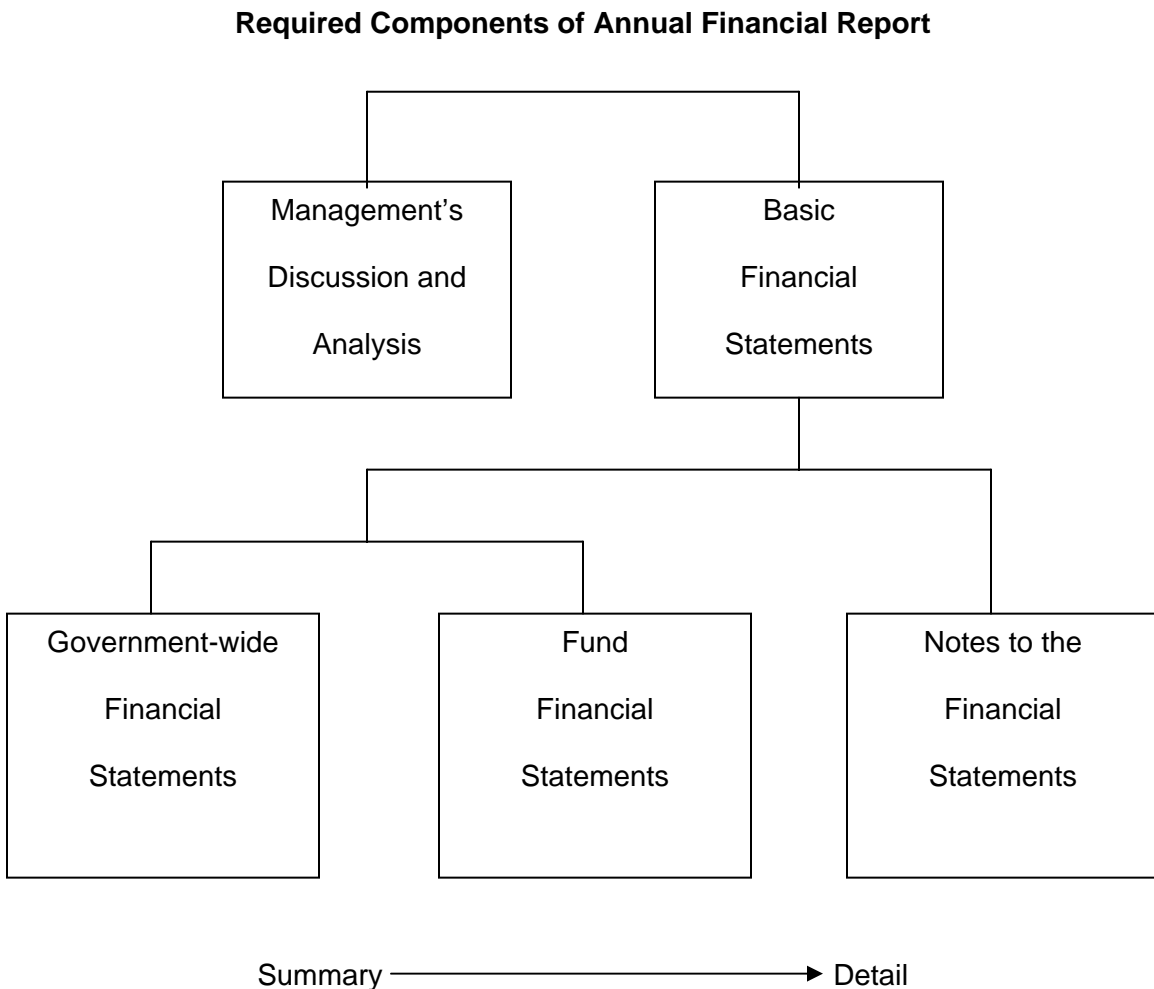
Financial Highlights

- The assets of the Town of Southern Pines exceeded its liabilities at the close of the fiscal year by \$75,095,277. The assets of the governmental activities exceeded liabilities by \$38,277,429 and the assets of the business-type activities exceeded liabilities by \$36,817,848.
- The government's total net assets increased by \$4,871,097, due to an increase in both the governmental activities and the business type net assets.
- As of the close of the current fiscal year, the Town of Southern Pines governmental funds reported combined ending fund balances of \$11,134,565, an increase of \$628,299 in comparison with the prior year. Approximately 44.7 percent of this total amount, or \$4,978,986, is available for spending at the government's discretion (*unreserved undesignated fund balance*). The Town maintains a minimum of 25% of budgeted expenditures in available fund balance for cash flow and emergencies. The remainder is used for capital expenditures.
- As of the close of the current fiscal year, the Town's business-type activities reported combined ending net assets of \$36,817,848, an increase of \$2,834,767. The increase is due in part to a reduction in long-term debt.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,291,479 or 62.1 percent of total General Fund expenditures for the fiscal year.
- The Town maintained its A2 bond rating from Moody's Investors Services, and an A+ from Standard and Poor's Corporation for the 10th consecutive year. The Standard and Poor's A+ bond rating was affirmed during fiscal year 2006. The North Carolina Municipal Council increased the Town's rating from 84 to 85, which is comparable to a rating of A1/A+ by the national rating agencies, during fiscal year 2007.

Overview of the Financial Statements

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

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 Town's financial status.

The next statements (Exhibits 3 through 10) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 therein. After the notes and required supplemental financial data, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

The two government-wide statements are the statement of net assets and the statement of activities. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition. Over time, increases or decreases in net assets help determine whether the Town's financial position is improving or deteriorating. The statement of activities presents information which demonstrates how the Town's net assets changed during the most recent fiscal year.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, public works, parks and recreation, library, planning and inspections, transportation, and general administration. Property taxes and intergovernmental revenues finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town.

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

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town'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 Town's programs. The relationship between government activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Town Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Council; 2) the final budget as amended by the Council; 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.

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

Trust and Agency Funds – Trust and agency funds are used to account for resources held for the benefit of parties outside the government. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for agency funds is much like that used for proprietary funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 28 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town'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 of the Town of Southern Pines

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$75,095,277 as of June 30, 2008. The Town's net assets increased by \$4,871,097 for the fiscal year ended June 30, 2008. However, 77.69% reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net assets, 0.05%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$17,576,506 is unrestricted.

The following (Figure 2) reflects condensed information on the Town's net assets.

Figure 2:

The Town of Southern Pines Statement of Net Assets

	Governmental Activities 2008	Governmental Activities 2007	Business-Type Activities 2008	Business-Type Activities 2007	Total 2008	Total 2007
Current and other assets	\$ 12,199,402	\$ 11,233,665	\$ 7,340,145	\$ 6,084,214	\$ 19,539,547	\$ 17,317,879
Capital assets	28,006,835	26,713,228	30,337,062	29,214,160	58,343,897	55,927,388
Total assets	<u>40,206,237</u>	<u>37,946,893</u>	<u>37,677,207</u>	<u>35,298,374</u>	<u>77,883,444</u>	<u>73,245,267</u>
Long-term liabilities	618,789	749,097	214,359	511,897	833,148	1,260,994
Other liabilities	1,310,019	956,697	645,000	803,396	1,955,019	1,760,093
Total liabilities	<u>1,928,808</u>	<u>1,705,794</u>	<u>859,359</u>	<u>1,315,293</u>	<u>2,788,167</u>	<u>3,021,087</u>
Net assets:						
Invested in capital assets, net of related debt	27,637,028	26,203,921	29,842,062	28,224,160	57,479,090	54,428,081
Restricted	39,681	35,366	-	-	39,681	35,366
Unrestricted	10,600,720	10,000,812	6,975,786	5,758,921	17,576,506	15,760,733
Total net assets	<u>\$ 38,277,429</u>	<u>\$ 36,241,099</u>	<u>\$ 36,817,848</u>	<u>\$ 33,983,081</u>	<u>\$ 75,095,277</u>	<u>\$ 70,224,180</u>

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

- Increased property tax revenue due to annexations, economic growth and revaluation. Actual revenue exceeded the amount budgeted by \$722,300.
- Increased sales tax revenue due to the economic growth in the Town. Actual revenue exceeded the amount budgeted by \$253,844.
- Continued low cost of debt due to the Town's good bond ratings.

Changes in Net Assets

The Town's total revenues and expenses for governmental and business-type activities are reflected in Figure 3.

Figure 3:

Town of Southern Pines Changes in Net Assets

	Governmental Activities 2008	Governmental Activities 2007	Business-Type Activities 2008	Business-Type Activities 2007	Total 2008	Total 2007
Revenues:						
Program revenues:						
Charges for services	\$ 1,471,081	\$ 1,317,586	\$ 5,481,535	\$ 4,880,712	\$ 6,952,616	\$ 6,198,298
Operating grants and contributions	536,054	615,134	-	-	536,054	615,134
Capital grants and contributions	799,568	564,979	1,727,424	899,119	2,526,992	1,464,098
General revenues:						
Property taxes	6,640,605	5,739,695	-	-	6,640,605	5,739,695
Other taxes	3,491,172	3,621,266	-	-	3,491,172	3,621,266
Other	895,961	583,233	239,718	263,252	1,135,679	846,485
Total revenues	<u>13,834,441</u>	<u>12,441,893</u>	<u>7,448,677</u>	<u>6,043,083</u>	<u>21,283,118</u>	<u>18,484,976</u>
Expenses:						
General government	3,616,005	3,409,836	-	-	3,616,005	3,409,836
Public safety	4,451,595	4,190,726	-	-	4,451,595	4,190,726
Culture and recreation	1,733,563	1,586,789	-	-	1,733,563	1,586,789
Transportation	1,365,948	1,305,999	-	-	1,365,948	1,305,999
Economic & physical development	616,011	521,189	-	-	616,011	521,189
Interest on long-term debt	14,989	24,183	-	-	14,989	24,183
Water and sewer	-	-	4,613,910	4,435,308	4,613,910	4,435,308
Total expenses	<u>11,798,111</u>	<u>11,038,722</u>	<u>4,613,910</u>	<u>4,435,308</u>	<u>16,412,021</u>	<u>15,474,030</u>
Increase in net assets before transfers	2,036,330	1,403,171	2,834,767	1,607,775	4,871,097	3,010,946
Transfers	-	1,250	-	(1,250)	-	-
Increase in net assets	2,036,330	1,404,421	2,834,767	1,606,525	4,871,097	3,010,946
Net assets, July 1	<u>36,241,099</u>	<u>34,836,678</u>	<u>33,983,081</u>	<u>32,376,556</u>	<u>70,224,180</u>	<u>67,213,234</u>
Net assets, June 30	<u>\$ 38,277,429</u>	<u>\$ 36,241,099</u>	<u>\$ 36,817,848</u>	<u>\$ 33,983,081</u>	<u>\$ 75,095,277</u>	<u>\$ 70,224,180</u>

Governmental activities – Governmental activities increased the Town’s net assets by \$2,036,330, thereby accounting for 41.44% of the total growth in the net assets of the Town. Key elements of this increase are as follows:

- Current tax collections increased \$900,436 over the prior year due to growth and the revaluation of property taxes.
- Other taxes and licenses increased \$99,199 over the prior year due to an increase in local option sales tax revenue and video programming tax.
- Sales and services increased \$86,112 due to increased revenue in the rents category.

Figure 4:

**Town of Southern Pines
Expenses and Program Revenues-Governmental Activities**

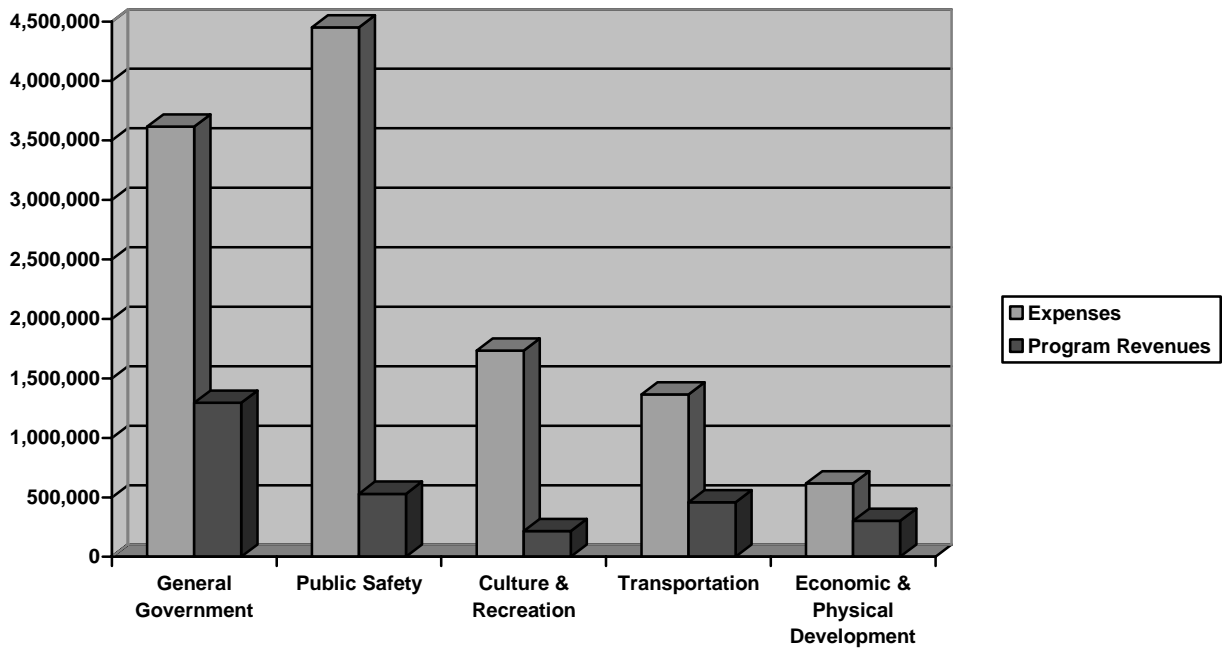
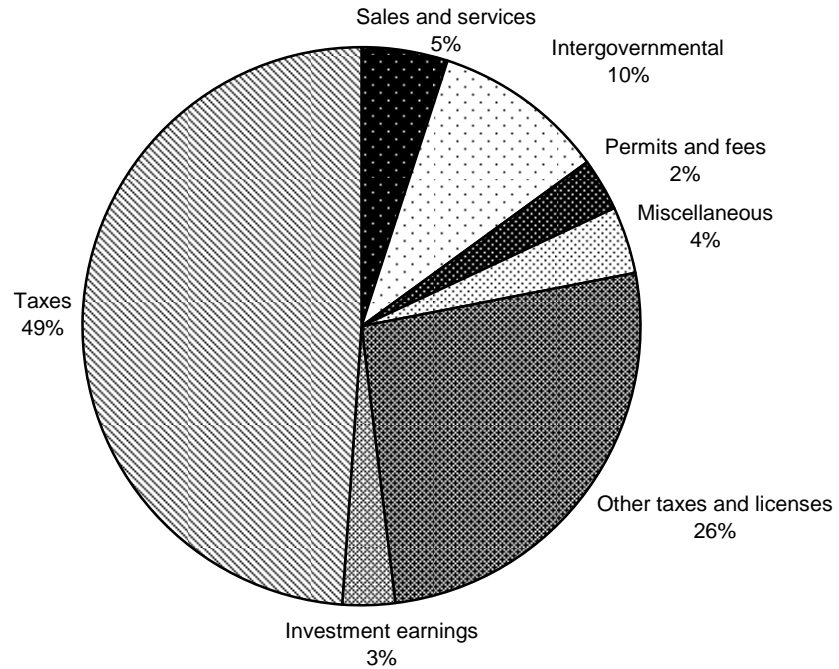


Figure 5:

**Town of Southern Pines
Revenues by Source – Governmental Activities**



Business-type activities: Business-type activities increased the Town's assets by \$2,834,767 accounting for 58.56% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Capital contributions in the amount of \$1,727,424.
- Liability reduction due to the retirement of general bonded debt principal.
- Charges for services for business-type activities increased \$600,823.
- Impact fees remained consistent.

Financial Analysis of the Town's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$11,134,565, an increase of \$628,299 or a 5.98 percent increase in comparison with the prior year. Of this amount, \$4,978,986 or 44.72 percent is unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,291,479 while total fund balance reached \$8,472,755, an increase of \$1,279,262 from the previous year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 63.7 percent of total General Fund expenditures, while total fund balance represents 74.0 percent of that same amount.

As stated earlier, key factors in the growth of the General Fund balance are:

- Increased property tax revenue due to annexations, growth and the property tax revaluation.
- Increased other taxes and licenses revenue due to increased sales tax and video programming revenue.

The remaining fund balance amount of \$2,661,810 is comprised of the Police Station Major Capital Project Fund and the Non-major Governmental Funds which realized a net decrease of \$650,963. Projects included in the non-major governmental fund are the funds to be used in building fiber connections between Town buildings as well as, road construction, the design and installation of storm water infrastructure and the cemetery perpetual care fund.

General Fund Budgetary Highlights: During the fiscal year, the Town 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.

During the year there was a \$91,408 net increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$6,000 appropriation for the recognition of revenue for the award of the Governor's Crime Commission grant and related expenditures.
- \$10,402 appropriation for the recognition of donations made to various departments and the related expenditures.
- \$15,950 appropriation for the re-codification of the Town's Code of Ordinances.
- \$50,000 appropriation to the non-major governmental fiber optics fund.

The actual operating revenues for the General Fund were greater than the final budgeted amount by \$1,608,686. Other taxes and licenses experienced an increase of \$299,399 due to higher than budgeted sales tax revenue. Ad valorem taxes were \$722,300 greater than the budgeted amount due to an actual higher than budgeted tax valuation amount that was determined after all revaluation appeals were completed and a higher than budgeted collection rate. Permits and fees were \$91,521 greater than budgeted due to the increased number of permits and building inspections. Investment earnings were \$102,819 greater than budgeted and sales and services were \$165,739 due to an increase in the rents category.

The actual operating expenses for the General Fund were less than the final budgeted amount by \$1,148,444. The most significant difference of \$322,824 was in the public safety area due primarily to personnel vacancies in budgeted positions. General government, cultural and recreational, and transportation also realized a savings of \$316,224, \$157,300 and \$185,012 respectively due to personnel vacancies and the actual cost of capital equipment was less than the amount budgeted.

Proprietary Funds. The Town's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net assets at the end of the fiscal year amounted to \$6,975,786. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2008, totals \$58,343,897 (net of accumulated depreciation). These assets include buildings, streets, storm drainage, sidewalks, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions:

Governmental Funds:

Additions

- Infrastructure additions of \$658,715.
- Various purchases of vehicles and equipment totaling \$232,213.
- Various purchases of furniture, fixtures and other equipment equaling \$120,638.
- Various purchases of machinery and equipment of \$71,323.
- Construction in progress of \$1,753,811 in governmental-type activities for the construction of a road, the construction of the police department, the design and installation of storm water infrastructure, the construction of a parkway and the construction of fiber connections between Town buildings.
- Transfer of Recreational Construction, Road Construction and the Freight Depot from construction in progress to their functional areas upon their completion.

Retirements

- Disposals and surplused assets in the amount of \$256,166.

Proprietary Funds:

Additions

- Construction in progress of \$630,689 for water and sewer improvements, a raw water reservoir and the commercial park project.
- Capital contributions of water and sewer lines in the amount of \$1,727,424.
- Various equipment purchases of \$128,495.
- Transfer of the Water Plant Expansion project from construction in progress to the applicable capital assets.

Retirements

- Disposals and surplused assets in the amount of \$119,474.

Figure 6:

Town of Southern Pines Capital Assets

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
	2008	2007	2008	2007	2008	2007
Land	\$ 10,771,658	\$ 10,685,033	\$ 351,446	\$ 196,671	\$ 11,123,104	\$ 10,881,704
Buildings and improvements	6,120,443	5,925,350	1,336,758	1,365,250	7,457,201	7,290,600
Other improvements	2,761,000	1,865,230	-	-	2,761,000	1,865,230
Machinery and equipment	201,420	180,281	341,114	303,829	542,534	484,110
Infrastructure	3,459,063	3,157,466	-	-	3,459,063	3,157,466
Plant and distribution systems	-	-	26,850,323	20,387,676	26,850,323	20,387,676
Vehicles and motorized equipment	1,308,051	1,320,259	-	-	1,308,051	1,320,259
Furniture, Fixtures, and other equipment	513,617	479,428	-	-	513,617	479,428
Construction in progress	2,871,583	3,100,181	1,457,421	6,960,734	4,329,004	10,060,915
Total Capital Assets (net of accumulated depreciation)	<u>\$ 28,006,835</u>	<u>\$ 26,713,228</u>	<u>\$ 30,337,062</u>	<u>\$ 29,214,160</u>	<u>\$ 58,343,897</u>	<u>\$ 55,927,388</u>

Additional information on the Town's capital assets can be found in note 5 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2008, the Town had bonded debt outstanding of \$495,000. The bonded debt is related to Proprietary Fund operations and is considered to be self-supporting.

Other debt in Governmental Activities represents an installment purchase agreement for the purchase of an aerial ladder truck during fiscal year 2006. The balance as of June 30, 2008 is \$369,807.

The Town's total debt decreased by \$634,500 (42.3%) during fiscal year 2008. The government did not issue any new debt in 2008. Total outstanding debt as of June 30, 2008 is \$864,807.

Figure 7:

Town of Southern Pines Outstanding Debt General Obligation Bonds and Other Debt						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ -	\$ -	\$ 495,000	\$ 990,000	\$ 495,000	\$ 990,000
Other Debt	369,807	509,307	-	-	369,807	509,307
Total	\$ 369,807	\$ 509,307	\$ 495,000	\$ 990,000	\$ 864,807	\$ 1,499,307

As mentioned in the financial highlights section of this document, the Town maintained its A2 bond rating from Moody's Investors Services, and an A+ from Standard and Poor's Corporation for the 10th consecutive year. These bond ratings are clear indications of the sound financial condition and management of the Town. These achievements are primary factors in keeping interest costs low on the Town's outstanding debt.

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 the Town is \$154,819,201.

Additional information regarding the Town's long-term debt can be found in note 12 of this report.

Economic Factors and Next Year's Budget and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- Residential and commercial building permits remained steady with total permit values consistent with the previous year's activity.
- The continued development of a commercial park.

Next Year's Budget Highlights for the Fiscal Year Ending June 30, 2009

Governmental Activities: The governmental fund's primary revenue resources are property taxes and other taxes and licenses. For the fiscal year ending June 30, 2009, overall, budgeted revenues are expected to increase 9.57%.

Property taxes and other taxes and licenses are expected to increase 8.43% over the prior year's budget. The majority of the increase in revenues is due to the growth in the ad Valorem tax base as well as a one cent increase to the tax rate. The tax rate increase will result in a tax rate of \$0.35 per \$100 valuation. The additional revenue generated from the tax rate increase will be used for funding the newly created sidewalk capital project fund.

Budgeted expenditures in the General Fund are expected to increase approximately 14.39% over the prior year's budgeted amount to \$14,745,091. The largest increase is in the area of transportation in which funds have been appropriated for road resurfacing, as well as the addition of a staff position. Public Works/ Sanitation is also experiencing an increase due primarily to the increased cost of landfill fees. Equipment and vehicles will continue to be replaced per the Town's vehicle and equipment replacement schedule.

Also included in the increased budgeted expenditures amount is the first year's debt service payment for an installment purchase agreement in the amount of \$6,500,000 the Town will be securing for the partial cost of the construction of the police station. A major capital project fund was established in a previous year for the purchase of land, architectural fees and site work. Construction for the facility is scheduled to begin in fiscal year 2009.

Business – type Activities: Water and sewer activity revenues are budgeted to increase by approximately 6.92% over the prior year's budget. The increase is due primarily to the water and sewer rate increase of 3% and 20% respectively. The 20% sewer rate increase is to offset the 40% increase in wastewater treatment. The water and sewer rate increases will result in an approximate additional \$4.26 per month for an in-town residential user of 5,000 gallons.

Budgeted operating expenses are expected to increase 7.75% over the prior fiscal year's budget. The majority of the increased expense is due to increased cost to the Town for wastewater treatment. Equipment and vehicles will continue to be replaced per the Town's vehicle and equipment replacement schedule.

\$407,000 has been appropriated for various water and sewer improvements in a capital project fund. \$275,000 has been appropriated in a capital project fund for the construction of a raw water reservoir.

Requests for Information

This report is designed to provide an overview of the Town'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, Town of Southern Pines, PO Box 870, Southern Pines, NC 28388.

**TOWN OF SOUTHERN PINES
STATEMENT OF NET ASSETS
June 30, 2008**

Exhibit 1

	2008		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 10,830,657	\$ 5,365,236	\$ 16,195,893
Receivables, net:			
Property taxes	73,778	-	73,778
Due from other governments	865,980	-	865,980
Accounts receivable	226,750	-	226,750
Accrued interest	51,876	30,899	82,775
Sales tax	97,140	28,068	125,208
Assessments	2,305	49,983	52,288
Customers	-	782,048	782,048
Other	-	31,536	31,536
Inventories	49,231	-	49,231
Prepays	1,685	1,136	2,821
Restricted cash and investments	-	1,035,900	1,035,900
Unamortized bond issuance costs	-	15,339	15,339
Total current assets	<u>12,199,402</u>	<u>7,340,145</u>	<u>19,539,547</u>
Noncurrent assets:			
Capital assets			
Land, non-depreciable improvements, and construction in progress	13,643,241	1,808,867	15,452,108
Other capital assets, net of depreciation	14,363,594	28,528,195	42,891,789
Total capital assets	<u>28,006,835</u>	<u>30,337,062</u>	<u>58,343,897</u>
Total noncurrent assets	<u>28,006,835</u>	<u>30,337,062</u>	<u>58,343,897</u>
Total assets	<u>\$ 40,206,237</u>	<u>\$ 37,677,207</u>	<u>\$ 77,883,444</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 934,545	\$ 275,364	\$ 1,209,909
Deposits	20,289	53,175	73,464
Current maturities of long-term debt	355,185	316,461	671,646
Total current liabilities	1,310,019	645,000	1,955,019
Noncurrent liabilities:			
Noncurrent portion of long-term debt	618,789	214,359	833,148
Total liabilities	<u>1,928,808</u>	<u>859,359</u>	<u>2,788,167</u>
NET ASSETS			
Invested in capital assets, net of related debt	27,637,028	29,842,062	57,479,090
Permanently restricted for:			
Cemetery care	39,681	-	39,681
Unrestricted	10,600,720	6,975,786	17,576,506
Total net assets	<u>\$ 38,277,429</u>	<u>\$ 36,817,848</u>	<u>\$ 75,095,277</u>

**TOWN OF SOUTHERN PINES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008**

Exhibit 2

Function/Programs	2008						
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities		
Primary government:							
Government activities:							
General government	\$ 3,616,005	\$ 452,649	\$ 42,514	\$ 799,568	\$ (2,321,274)	\$ -	\$ (2,321,274)
Public safety	4,451,595	500,431	29,578	-	(3,921,586)	-	(3,921,586)
Transportation	1,365,948	7,261	452,161	-	(906,526)	-	(906,526)
Economic and physical development	616,011	302,147	-	-	(313,864)	-	(313,864)
Cultural and recreation	1,733,563	205,893	11,801	-	(1,515,869)	-	(1,515,869)
Cemetery	-	2,700	-	-	2,700	-	2,700
Interest on long-term debt	14,989	-	-	-	(14,989)	-	(14,989)
Total governmental activities	<u>11,798,111</u>	<u>1,471,081</u>	<u>536,054</u>	<u>799,568</u>	<u>(8,991,408)</u>	<u>-</u>	<u>(8,991,408)</u>
Business-type activities:							
Water and sewer	<u>4,613,910</u>	<u>5,481,535</u>	<u>-</u>	<u>1,727,424</u>	<u>-</u>	<u>2,595,049</u>	<u>2,595,049</u>
Total business-type activities	<u>4,613,910</u>	<u>5,481,535</u>	<u>-</u>	<u>1,727,424</u>	<u>-</u>	<u>2,595,049</u>	<u>2,595,049</u>
Total primary government	<u>\$ 16,412,021</u>	<u>\$ 6,952,616</u>	<u>\$ 536,054</u>	<u>\$ 2,526,992</u>	<u>(8,991,408)</u>	<u>2,595,049</u>	<u>(6,396,359)</u>
General revenues:							
Ad valorem taxes					6,640,605	-	6,640,605
Local option taxes					2,736,344	-	2,736,344
Alcoholic Beverage Tax					102,028	-	102,028
Franchise taxes					652,800	-	652,800
Unrestricted intergovernmental					281,559	-	281,559
Investment earnings					495,007	250,211	745,218
Miscellaneous					119,395	24,733	144,128
Loss on disposal/transfer of capital assets					-	(35,226)	(35,226)
Total general revenues and transfers					<u>11,027,738</u>	<u>239,718</u>	<u>11,267,456</u>
Change in net assets					2,036,330	2,834,767	4,871,097
Net assets, beginning of year					<u>36,241,099</u>	<u>33,983,081</u>	<u>70,224,180</u>
Net assets, end of year					<u>\$ 38,277,429</u>	<u>\$ 36,817,848</u>	<u>\$ 75,095,277</u>

TOWN OF SOUTHERN PINES
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

Exhibit 3

	2008				
	Major Funds			Non Major Governmental Funds	Total Governmental Funds
	General	CDBG Special Revenue	Police Station Expansion Capital Project		
ASSETS AND OTHER DEBITS					
ASSETS					
Cash and investments	\$ 7,862,888	\$ -	\$ 1,831,076	\$ 1,136,693	\$ 10,830,657
Receivables					
Property taxes, net	73,778	-	-	-	73,778
Due from other governments .	865,980	-	-	-	865,980
Accounts receivable	192,656	34,094	-	-	226,750
Accrued interest receivable	37,551	-	8,838	5,487	51,876
Sales tax receivable	70,728	22,054	820	3,538	97,140
Parking lot assessments	2,305	-	-	-	2,305
Inventory	49,231	-	-	-	49,231
Prepays	1,685	-	-	-	1,685
	<u>\$ 9,156,802</u>	<u>\$ 56,148</u>	<u>\$ 1,840,734</u>	<u>\$ 1,145,718</u>	<u>\$ 12,199,402</u>
LIABILITIES, EQUITY AND OTHER CREDITS					
LIABILITIES					
Current liabilities					
Accounts payable	\$ 420,340	\$ 56,148	\$ 259,660	\$ 64,982	\$ 801,130
Accrued liabilities					
Other	130,780	-	-	-	130,780
Security deposits	20,289	-	-	-	20,289
Deferred revenues					
Taxes receivable	73,778	-	-	-	73,778
Parking lot assessments	2,305	-	-	-	2,305
Other	36,555	-	-	-	36,555
Total liabilities	<u>684,047</u>	<u>56,148</u>	<u>259,660</u>	<u>64,982</u>	<u>1,064,837</u>
FUND BALANCES					
Reserved					
Reserved by state statute	1,130,360	-	9,658	8,834	1,148,852
Reserved for inventory	49,231	-	-	-	49,231
Reserved for prepaids	1,685	-	-	-	1,685
Reserved for cemetery care	-	-	-	39,681	39,681
Unreserved					
Designated for subsequent year's expenditures - operating	2,312,493	-	-	-	2,312,493
Designated for capital projects	-	-	1,571,416	1,032,221	2,603,637
Undesignated	4,978,986	-	-	-	4,978,986
Total fund balances	<u>8,472,755</u>	<u>-</u>	<u>1,581,074</u>	<u>1,080,736</u>	<u>11,134,565</u>
Total liabilities and fund balances	<u>\$ 9,156,802</u>	<u>\$ 56,148</u>	<u>\$ 1,840,734</u>	<u>\$ 1,145,718</u>	<u>\$ 12,199,402</u>

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.	\$ 28,006,835
Liabilities for earned but deferred revenues in fund statements, net	112,638
Some liabilities are not due and payable in the current period and are therefore not reported in the funds.	<u>(976,609)</u>
Net assets of governmental activities	<u>\$ 38,277,429</u>

TOWN OF SOUTHERN PINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

Exhibit 4

	2008				
	Major Funds			Non Major Governmental Funds	Totals Governmental Funds
	General	CDBG Special Revenue	Police Station Expansion Capital Project		
REVENUES					
Ad valorem taxes	\$ 6,647,580	\$ -	\$ -	\$ -	\$ 6,647,580
Other taxes and licenses	3,116,597	-	-	-	3,116,597
Unrestricted intergovernmental	708,031	-	-	-	708,031
Restricted intergovernmental	474,260	-	-	-	474,260
Permits and fees	353,271	-	-	-	353,271
Sales and services	636,239	-	-	2,700	638,939
Investment earnings	347,819	-	91,823	55,367	495,009
Developers contributions	-	783,034	-	-	783,034
Other	612,556	-	-	-	612,556
	<u>12,896,353</u>	<u>783,034</u>	<u>91,823</u>	<u>58,067</u>	<u>13,829,277</u>
EXPENDITURES					
Current					
General government	3,632,185	-	-	304,875	3,937,060
Public safety	4,418,109	-	665,903	-	5,084,012
Transportation	977,346	783,034	-	-	1,760,380
Economic and physical development	621,385	-	-	-	621,385
Cultural and recreational	1,642,664	-	-	-	1,642,664
Debt service	155,477	-	-	-	155,477
	<u>11,447,166</u>	<u>783,034</u>	<u>665,903</u>	<u>304,875</u>	<u>13,200,978</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,449,187</u>	<u>-</u>	<u>(574,080)</u>	<u>(246,808)</u>	<u>628,299</u>
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	129,075	-	-	1,253,991	1,383,066
Transfers to other funds	(299,000)	-	(373,000)	(711,066)	(1,383,066)
Total other financing sources (uses)	<u>(169,925)</u>	<u>-</u>	<u>(373,000)</u>	<u>542,925</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,279,262	-	(947,080)	296,117	628,299
FUND BALANCE, BEGINNING OF YEAR, JULY 1	<u>7,193,493</u>	<u>-</u>	<u>2,528,154</u>	<u>784,619</u>	<u>10,506,266</u>
FUND BALANCE, END OF YEAR, JUNE 30	<u>\$ 8,472,755</u>	<u>\$ -</u>	<u>\$ 1,581,074</u>	<u>\$ 1,080,736</u>	<u>\$ 11,134,565</u>

TOWN OF SOUTHERN PINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)
For the Year Ended June 30, 2008

Exhibit 4
(con't)

	<u>2008</u>
Reconciliation of net change in fund balance in the statement of revenues, expenditures, and changes in fund balances - governmental funds to change in net assets - governmental activities	
Net changes in fund balances - total governmental funds	\$ 628,299
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	1,277,073
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	
Other	(4,390)
Taxes including interest and penalties	(6,975)
Amount of donated assets	16,534
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.	
Principal payments	\$ 139,494
Compensated absences	(17,989)
Net pension obligation	3,292
Interest Expense	992
	<u> </u>
Total change in net assets of governmental activities	<u>\$ 2,036,330</u>

TOWN OF SOUTHERN PINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2008

Exhibit 5

	Budget		Actual	Variance with final budget favorable (unfavorable)
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 5,925,280	\$ 5,925,280	\$ 6,647,580	\$ 722,300
Other taxes and licenses	2,817,198	2,817,198	3,116,597	299,399
Unrestricted intergovernmental revenues	599,500	599,500	708,031	108,531
Restricted intergovernmental revenues	435,314	441,314	474,260	32,946
Permits and fees	260,300	261,750	353,271	91,521
Sales and services	470,500	470,500	636,239	165,739
Investment earnings	245,000	245,000	347,819	102,819
Other	509,117	527,125	612,556	85,431
	<u>11,262,209</u>	<u>11,287,667</u>	<u>12,896,353</u>	<u>1,608,686</u>
EXPENDITURES				
Current				
General government	3,926,389	3,948,409	3,632,185	316,224
Public safety	4,723,195	4,740,933	4,418,109	322,824
Transportation	1,162,358	1,162,358	977,346	185,012
Economic and physical development	788,469	788,469	621,385	167,084
Cultural and recreational	1,798,314	1,799,964	1,642,664	157,300
Debt service	155,477	155,477	155,477	-
	<u>12,554,202</u>	<u>12,595,610</u>	<u>11,447,166</u>	<u>1,148,444</u>
REVENUES OVER (UNDER) EXPENDITURES	(1,291,993)	(1,307,943)	1,449,187	2,757,130
OTHER FINANCING SOURCES/(USES)				
Transfer in from Capital Project Funds	63,754	63,754	129,075	(65,321)
Transfer out to Capital Project Funds	<u>(249,000)</u>	<u>(299,000)</u>	<u>(299,000)</u>	<u>-</u>
Total other financing sources/(uses)	<u>(185,246)</u>	<u>(235,246)</u>	<u>(169,925)</u>	<u>(65,321)</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(1,477,239)	(1,543,189)	1,279,262	(2,822,451)
APPROPRIATED FUND BALANCE	<u>1,477,239</u>	<u>1,543,189</u>	<u>-</u>	<u>(1,543,189)</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ -	1,279,262	\$ 1,279,262
FUND BALANCES, BEGINNING			<u>7,193,493</u>	
FUND BALANCE, END OF YEAR, JUNE 30			<u>\$ 8,472,755</u>	

TOWN OF SOUTHERN PINES
STATEMENT OF NET ASSETS - PROPRIETARY FUND
June 30, 2008

Exhibit 6

	2008
	Business-type
	Activities - Enterprise
	Major Fund
	Water and
	Sewer
ASSETS	
Current assets:	
Cash and cash equivalents/investments	\$ 5,365,236
Receivables - net:	
Sewer assessments	49,983
Customers	782,048
Accrued interest	30,899
Sales taxes	28,068
Other	31,536
Prepays	<u>1,136</u>
Total current assets	<u>6,288,906</u>
Noncurrent assets:	
Temporarily restricted assets:	
Cash and investments	<u>1,035,900</u>
Capital assets	
Land, improvements, and construction in progress	1,808,867
Other capital assets, net of depreciation	<u>28,528,195</u>
Total capital assets, net	<u>30,337,062</u>
Unamortized bond issuance costs, net of accumulated amortization	<u>15,339</u>
Total unrestricted noncurrent assets	<u>30,352,401</u>
Total noncurrent assets	<u>31,388,301</u>
Total assets	<u>\$ 37,677,207</u>
LIABILITIES	
Current liabilities:	
Current maturities of long-term debt	\$ 285,000
Accounts payable	254,624
Compensated absences - current	31,461
Accrued liabilities	
Interest	4,388
Other	16,352
Security deposits	<u>53,175</u>
Total current liabilities	<u>645,000</u>
Noncurrent liabilities	
Noncurrent portion of long-term debt	210,000
Compensated absences	<u>4,359</u>
Total liabilities	<u>859,359</u>
NET ASSETS	
Invested in capital assets, net of related debt	29,842,062
Unrestricted	<u>6,975,786</u>
Total net assets	<u>\$ 36,817,848</u>

TOWN OF SOUTHERN PINES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
For the Year Ended June 30, 2008

Exhibit 7

	<u>2008</u>
	<u>Major Fund</u>
	<u>Water and Sewer</u>
OPERATING REVENUES	
Charges for sales and services	\$ 5,084,917
Total operating revenues	<u>5,084,917</u>
OPERATING EXPENSES	
Billings and collection	345,524
Water treatment	907,121
Sewage treatment	715,726
Water extensions and maintenance	538,906
Sewer extensions and maintenance	653,545
Chargeout for administrative expenses	553,644
Depreciation and amortization	<u>879,681</u>
Total operating expenses	<u>4,594,147</u>
INCOME FROM OPERATIONS	<u>490,770</u>
NONOPERATING REVENUES (EXPENSES)	
Impact fees	421,351
Interest on investments	250,211
Interest expense and service charges	(19,763)
Loss on disposal of capital assets	<u>(35,226)</u>
Total nonoperating revenues (expenses)	<u>616,573</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,107,343
CAPITAL CONTRIBUTIONS	<u>1,727,424</u>
CHANGE IN NET ASSETS	2,834,767
NET ASSETS, BEGINNING OF YEAR	<u>33,983,081</u>
NET ASSETS, END OF YEAR	<u>\$ 36,817,848</u>

TOWN OF SOUTHERN PINES
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2008

Exhibit 8

	<u>2008</u>
	<u>Major Fund</u>
	<u>Water and</u>
	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and users	\$ 5,107,751
Cash paid for goods and services	(2,140,371)
Cash paid to employees	(1,537,975)
Customer deposit refunded	(23,666)
Customer deposits received	<u>30,644</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,436,383</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(313,506)
Impact fees	421,351
Principal paid on bonds	(495,000)
Interest paid on bonds	(23,063)
Proceeds from sale of capital assets	<u>8,234</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(401,984)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest paid on investments	<u>267,398</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>267,398</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,301,797
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,099,339</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,401,136</u>

Continued on next page

TOWN OF SOUTHERN PINES
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2008

Exhibit 8
(con't)

	<u>2008</u>
	<u>Major Fund</u>
	<u>Water and</u>
	<u>Sewer</u>
**Cash and Investments per Exhibit 6	
Unrestricted	\$ 5,365,236
Restricted	<u>1,035,900</u>
TOTAL	<u>\$ 6,401,136</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Income from operations	\$ 490,770
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	879,681
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	22,834
Prepays	732
Increase (decrease) in	
Accounts payable and accrued liabilities	35,388
Customer deposits	<u>6,978</u>
Total adjustments	<u>945,613</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,436,383</u>

Noncash investing, capital, and financing activities:

During fiscal year ended June 30, 2008, the Town received \$1,727,424 in water and sewer line improvements from various land developers. These improvements are recorded as capital contributions.

TOWN OF SOUTHERN PINES
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2008

Exhibit 9

	Private-Purpose Trust Fund <u>Virginia Kelly Trust</u>	<u>Agency Funds</u> Cafeteria Plan
ASSETS		
Cash and investments	\$ 33,438	\$ 28,159
Accrued interest	<u>162</u>	<u>136</u>
	<u>\$ 33,600</u>	<u>\$ 28,295</u>
LIABILITIES		
Miscellaneous liability:	<u>\$ -</u>	<u>\$ 28,295</u>
NET ASSETS		
Reserved for payment of death benefits - police	<u>\$ 33,600</u>	<u>\$ -</u>

TOWN OF SOUTHERN PINES
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended June 30, 2008

Exhibit 10

	<u>Private-Purpose Trust Fund Virginia Kelly Trust</u>
Additions:	
Investment earnings	\$ 2,559
Deductions:	
Contractual Services	-
Net Increase	2,559
Net assets, beginning of year, July	<u>31,041</u>
Net assets, end of year, June 30	<u>\$ 33,600</u>