

LETTER OF TRANSMITTAL

To the Honorable Mayor, Members of the City Council
and Citizens of the City of Roxboro
Roxboro, North Carolina

January 2, 2007

We are pleased to present the **Comprehensive Annual Financial Report** (CAFR) of the City of Roxboro, for the fiscal year ended June 30, 2006. The financial statements and supplemental schedules contained herein have been audited by the independent, certified public accounting firm of Dixon Hughes PLLC, and that firm's unqualified opinion is included in the Financial Section of this report. The report itself, however, is presented by the City of Roxboro, which is responsible for the accuracy of the data and for the completeness and fairness of its presentation, including all disclosures. We believe the data as presented are accurate in all material aspects; that they are presented in a manner designed to set forth fairly the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The **Comprehensive Annual Financial Report** is divided into five sections: the **Introductory, Financial, Statistical, Graphics and Compliance Sections**. The **Introductory Section**, which is unaudited, contains this letter of transmittal and information about the City's organization and principal officials. The **Financial Section** is composed of the independent auditors' report, management's discussion and analysis, the basic financial statements, and the combining and individual fund financial statements and schedules required by the State of North Carolina. The basic financial statements are often issued separately for securities offerings or widespread distribution and are frequently referred to as "liftable" basic financial statements. The **Statistical Section**, which is unaudited, contains fiscal and economic data designed to provide a more complete understanding of the City. Many tables in this section present financial data for the past ten years. The **Graphics Section**, which is also unaudited, contains information found in the Statistical Section in graphic form. This section is designed to provide financial and economic data and ten-year trend information in a format which is easily understood. Finally, the **Compliance Section** presents reports and schedules required by the Federal and State Single Audit Acts, which are discussed in a later paragraph.

Reporting Entity

The financial reporting entity includes all the funds of the primary government (City of Roxboro), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the primary government and to distinguish their financial positions, results of operations, and cash flows from those of the primary government. The City of Roxboro is not financially accountable for any other entity. Therefore, these financial statements do not include any blended or discretely presented component units.

Description of the City

Roxboro was established in 1855 and is located in the Northern Piedmont Region of North Carolina along the Virginia border. It has a land area of six square miles, including two square miles annexed on June 30, 1998, and a population of 8,833. Person County has a land area of 400 square miles and a population of 37,344. Roxboro is the only municipality within Person County and serves as the county seat. The City has a council/manager form of government. The five members of the City Council and the mayor are elected at-large on a non-partisan basis and serve two-year terms. Council members hold policy-making and legislative authority. They are also responsible for adopting the budget and appointing the City Manager, City Clerk and City Attorney. The City Manager is responsible for implementing policies, managing daily operations, and appointing department heads.

The City provides its citizens with a wide range of services that include public safety, sanitation, transportation, economic and community development, water and sewer utilities, general administration, and others. This report includes all the City's activities in maintaining these services. The City also extends financial support to certain agencies to assist their efforts in serving citizens. Among these are the Kerr-Tar Regional Council of Governments, the Economic Development Commission of the Roxboro Area Chamber of Commerce and the Roxboro Uptown Development Corporation.

Economic Conditions and Outlook

The local unemployment rate as of June 30, 2006 was 5.6 percent, a decrease of 0.8 percent from the previous year's unemployment rate of 6.4 percent. The economy of Person County has slowly begun to replace lost jobs in the textile and tobacco industries that caused the unemployment rate to increase in recent years.

In 2006, Lowe's Home Improvement began construction of its new home improvement warehouse in Roxboro. The company plans to hold the grand opening of this new store in January of 2007. The company will hire approximately 120 employees.

Recently, Congress approved a buyout of the tobacco allotment program. All quota holders will receive \$7 for each pound of allotment held in 2002. Tobacco growers will receive \$3 per pound. Therefore, a farmer, who also is a quota holder, will receive a total of \$10 per pound. The payments will be made in ten annual installments beginning in 2005. Based on the total 2002 allotment for all Person County farmers of 7,535,387 pounds, the buyout programs will pump approximately \$67 million dollars into the local economy over the next 9 years. After 2004, all price supports and quota limits on tobacco are eliminated. The expected result of the buyout program is that many small tobacco farmers will go out of business, leaving only those large farmers with contracts to grow tobacco for the manufacturing plants. By eliminating the cost of renting pounds from quota holders, farmers can expect the price of tobacco to decrease by 35 to 50 cents per pound next year. Hopefully, this will make American grown tobacco more competitive in international markets. Several Person County farmers have experimented with burley tobacco in 2006 instead of the traditional North Carolina crop, flue-cured tobacco.

British Plaster Board (BPB) began construction on its new facility in Person County to manufacture gypsum board. The plant will open in 2007 and will create 200 new jobs. The estimated cost of the new manufacturing plant is \$100 million.

In August of 2006, Collins & Aikman Corporation closed all three of its manufacturing plants in Person County as part of the company's reorganization under Chapter 11 bankruptcy. Collins & Aikman Corporation was the largest manufacturing employer in Person County. Approximately 750 employees were laid off as a result of these plant closings. Collins & Aikman Corporation was the City's largest water customer and sixth largest taxpayer, accounting for 9.82% and 1.71%, respectively, of Enterprise Fund and property tax revenues. The company manufactured upholstery and other products for the automotive industry. One of the facilities has been purchased by former employees of Collins & Aikman. The new company, P & A Industrial, will continue to manufacture paint rollers.

Major industries in Person County include automotive components, textiles, electric utilities, wood products, tobacco products and building materials. Agriculture is a major part of the economic support of Person County, although it has played a less significant role as the County's economy has diversified. The major crops are tobacco, corn, soybeans, small grains/small fruits, and hay.

We believe the economic future of the City of Roxboro and Person County is bright. Roxboro is ideally situated near prominent colleges and universities and is within 30 miles of the world renowned Duke University Medical Trauma Center. The Triangle area, which includes Durham, Raleigh and Chapel Hill, is nationally recognized as an ideal location for business and also as one of the best places to live in the United States. The Research Triangle Park, a center for high-technological research and manufacturing, and the Raleigh-Durham International Airport are within a one-hour drive. The explosive growth in the Triangle Area and the surrounding counties will continue to attract new businesses and development to Person County and provide numerous job opportunities for its citizens. The 2000 census indicated an increase of 18 percent in Person County's population during the last decade. The majority of this growth occurred in the southern part of the county that borders Durham and Orange Counties.

Regional Water System

On March 25, 2003, the City of Roxboro, Person County and the Town of Yanceyville entered into an Inter-local Agreement to establish a Public Enterprise for a Water Supply and Distribution System. The purpose of this agreement is to establish a regional water system to supply water vital to the public health, welfare and economic growth of Roxboro, Person County, Yanceyville and Caswell County. The parties agree to construct, operate, maintain and repair a raw water intake and treatment facility located on the Dan River in Caswell County and water lines from the Dan River to the towns of Yanceyville, Roxboro and Milton. The total estimated cost of this regional water system is \$26,000,000 that may be financed by installment purchase agreements, revenue bonds, general obligation bonds, state and federal grants, water revenues, and any other available resources. Construction of the project will begin whenever it is economically feasible and after the parties have obtained the necessary financing for this project. The cost of construction and the water revenues will be divided among the parties as outlined in the Inter-Local

Agreement. All parties agree to work together to obtain the necessary funds, permits, easements and real

property necessary for this project to be completed. The term of this agreement is forty years beginning March 25, 2003 and ending March 25, 2043.

Under the terms of the Inter-Local Agreement, the Town of Yanceyville will acquire the real property and easements necessary for the project in Caswell County. The City of Roxboro and Person County will acquire the necessary property and easements in Person County. Roxboro will construct and operate the raw water intake, treatment facility and water line from the Dan River to Roxboro. Roxboro will also apply for a water withdrawal permit from the State of North Carolina to withdraw up to 30 million gallons per day from the Dan River. Yanceyville will construct and operate the water lines to Yanceyville and Milton including a small water treatment facility for the Town of Milton. Roxboro and Person County further agree to pay for all costs associated with legal representation to defend this Inter-Local Agreement in the event of any legal challenge brought by a third party alleging any invalidity of the Agreement on in the event it is necessary to bring a legal action against a third party to protect this Agreement.

Caswell County has filed a lawsuit against the Town of Yanceyville, Person County and the City of Roxboro to prevent the withdrawal of water from the Dan River and to prohibit the acquisition of real property and easements necessary for the project in Caswell County. The Town of Yanceyville has acquired two tracts of real property along the Dan River at the proposed site of the raw water intake. One tract was acquired by purchase and the other through condemnation. The owner of the condemned property has filed a lawsuit against the Town of Yanceyville challenging the fair market value received from Yanceyville for his property. The plaintiff further alleges that the rezoning of his property by the Town of Yanceyville for use as a water treatment facility is not a valid public purpose, and is therefore unconstitutional. In December 2003, the trial court ruled in favor of Roxboro and Yanceyville in both of these cases. The North Carolina Court of Appeals upheld the decision of the lower court. Caswell

County chose not to appeal this decision to the North Carolina Supreme Court. Therefore, the lawsuit is resolved. The City's application for a withdrawal permit is currently under review by the State of North Carolina.

Major Initiatives

During the year the City was involved in a number of major projects, some of which will not be completed until future years. Highlights of these projects are discussed in the following paragraphs.

Community Development

The City is near completion of a Community Development Block Grant (CDBG) project through the North Carolina Department of Commerce. Grant funds of \$600,000 were used to demolish 11 substandard houses, rehabilitate 4 houses, and relocate 3 families to new homes. The project also included water and street improvements in the Nichols Avenue area and replacement of a water line on Green Street. The City contributed local matching funds of \$50,000 to this project.

Annexation

On June 30, 1998, the City of Roxboro annexed two areas on Highway 49 South and Highway 501 South into the city limits. The population of the City was increased by 1,272 persons residing in these annexed areas. According to state law, the City must install water and sewer outfall lines in these areas within two years of annexation. The outfall lines have been completed and the City is currently installing connector lines in several neighborhoods to provide water and sewer services to the residents. The estimated cost of improvements, including water and sewer lines and pumping stations, is \$3,518,493. These improvements are being funded from assessments to property owners in the annexed areas, capital reserve funds and the proceeds of an installment purchase agreement. During the current year, the City extended a sewer line to Crowell Motors on US 501 South and began construction of a sewer line on South Moore Drive. The project will be substantially completed by June 30, 2007.

Police Station

City acquired property located at the corner of Lamar Street and Reams Avenue at a cost of \$140,332 for construction of a new police station. The existing building on this site was demolished at a cost of \$46,000. The City awarded the construction contract to Central Builders of Graham, North Carolina in the amount of \$2,780,000. Construction on the new police station began during the summer of 2006 and is expected to be completed by the fall of 2007. The City of Roxboro received approval for a loan from the United States Department of Agriculture in the amount of \$3,189,000 for this project. The City currently leases space from Sprint for its police station. However, this lease will expire on September 30, 2007.

Emergency 911 Communications

On October 1, 1999, the City and County entered into an agreement whereby Person County will provide emergency 911 communications services to the City of Roxboro. The County will provide all communications equipment, and the City will furnish its old City garage building to be renovated for the County's emergency communications department. The City and County will share equally in the cost of renovating the building. E. M. Wilkerson and Sons of Roxboro completed the renovations in April of 2006 at a cost of \$208,793. Person County contributed \$106,142 to the City for construction costs during the current fiscal year. Operating costs will be allocated to the City and County based on the same formula for the allocation of sales tax distributions received from the State of North Carolina. Currently, the City and County receive 14.91% and 85.09%, respectively, from sales tax distributions. For the year ended June 30, 2006, the City paid operating costs of \$78,526 to Person County.

Renovation of City Hall

E. M. Wilkerson and Sons also completed renovations to the Roxboro Municipal Building including replacing the roof, heating, air conditioning and ventilation systems. During the renovation, the City leased temporary office space at 117 N. Main Street for City Hall operations. Total construction costs for this project were \$469,108. The City financed the renovations by an installment purchase agreement of \$300,000 payable in four annual installments of \$78,991 beginning on June 25, 2005. The balance of the renovation costs plus architectural fees were paid from General Fund appropriations.

Water and Sewer Improvements

The City of Roxboro and Person County have signed an agreement to share revenues from all future water and sewer lines constructed outside the City limits either by the County or by private developers. The City will retain 75 percent of charges for water and sewer services and will remit 25 percent of revenues collected to the County on a monthly basis. County residents and businesses are billed by the City at the City's outside water and sewer rates, which are double the rates for residents inside the City limits.

The City received a grant of \$40,000 in 2006 from the North Carolina Rural Economic Development Center, Inc. for engineering services to prepare a comprehensive twenty year Capital Improvement Plan (CIP) for the City's water and sewer utility operations. The CIP includes necessary upgrades to the water and waste water treatment plants, replacement of water and sewer lines, and expansion of the water distribution and sewer collection systems to areas of Person County. The CIP also includes estimated costs and completion dates for these projects, as well as, potential sources of funding such as grants, revenue or general obligation bonds, installment purchase contracts and increases in water and sewer rates. The total cost of preparing the CIP was \$44,500. The first CIP project, beginning in 2007, will be the replacement of sewer lines in the Southside Pump Station area at an estimated cost of \$500,000.

The City has completed Phase I and II of an inflow and infiltration study of its sewer system. The study was performed by HydroStructures, PA and identified areas of the City's water and sewer lines that are in need of repair or replacement. The estimated cost of necessary repairs to the City's sewer system was \$1,187,231 (\$930,106 to replace or repair sewer lines and \$257,125 to repair leaking manholes). The City completed the rehabilitation of manholes during the current year at a cost of \$247,681.

Financial Information

Accounting System and Budget Control

In government, much more than in business, the budget is an integral part of a unit's accounting system and daily operations. An annual or project budget ordinance, as amended by the governing body, creates a legal limit on spending authorizations. For the City of Roxboro, annual budgets are adopted for the General, Special Revenue (except the Grant Project Funds), Enterprise and Pension Trust Funds. Multi-year project budgets are adopted for the Nichols Avenue CDBG Grant Project Funds, and the Public Facilities, Lowe's, Clean Water Grant and Annexation Capital Projects Funds. Appropriations in the General Fund are made at the functional level. Special Revenue and Enterprise Fund appropriations are made at the departmental level, and Grant Projects and Capital Projects Fund appropriations are made at the object level. However, for internal accounting purposes, budgetary control is maintained by object class (line item account). Purchase orders that would create an over-encumbrance at that level are not written until additional appropriations are available through budget amendments or intradepartmental transfers approved by the City Manager. The City Manager also may transfer up to \$2,500 of functional appropriations within a fund as long as total fund appropriations are not changed or functional appropriations are not changed by more than \$2,500. Encumbrances outstanding at June 30, 2006 are reported as reservations of fund balances.

In accordance with state law, the City's budget is prepared on the modified accrual basis, and its accounting records also are maintained on that basis. Under modified accrual accounting, revenues are recorded when they are both measurable and available. Expenditures are recorded when a fund liability is incurred, except for unmatured principal and interest on long-term debt and certain compensated absences. The City has implemented GASB 34 for the fiscal year ended June 30, 2004 and subsequent years. For financial reporting purposes, the Governmental Activities and the Business-Type Activities of the City are reported on the full accrual basis, under which revenues are recorded when earned and expenses are recorded when incurred. In prior years, the Governmental Activities also used the modified accrual basis of accounting for financial reporting purposes. Therefore, these financial statements do not include comparative data for the prior year.

City management is responsible for the accounting system and for establishing and maintaining an internal control structure. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition; (2) the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles and maintaining accountability for assets; and (3) compliance with applicable laws and regulations related to federal and state financial assistance programs. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately protect assets and provide reasonable assurance of the proper recording of financial transactions. As part of the City's single audit (discussed in more detail in a later paragraph), the independent auditor performed a review of the City's internal control structure. This review was not an audit and no opinion was issued on the City's internal control structure; however, the procedures performed by the independent auditor did not indicate any material internal control weaknesses. However, the auditor's report did include two reportable conditions that were not considered to be material weaknesses.

The following paragraphs analyze the City's major financial activities.

Governmental Activities

General government revenues totaled \$8,216,400, an increase of 12.24 percent from the prior year. Revenues by source for the Governmental Funds (General, Special Revenue and Capital Projects Funds) were as follows:

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Property taxes provide the City's primary source of revenue. The tax rate was reduced from \$0.64 per \$100 of assessed value to \$0.614. This is the revenue neutral tax rate based on new assessed values as determined by real property revaluation during the current year. Total ad-valorem tax revenues increased by 4.26% mainly due to increased collections of delinquent prior year taxes. The tax collection percentage decreased slightly to 95.52% compared to 96.39% in the prior year. The decrease can be attributed directly to the bankruptcy and nonpayment of current year property taxes of Collins & Aikman. The total assessed property value increased by 8.15% in the current year due to revaluation of real property. The City's property tax rate is well below the state's legal limit of \$1.50.

Local option sales tax revenue increased 2.40% from the previous year. Unrestricted intergovernmental revenues increased by 13.64% due to an error in the distribution of franchise tax on piped natural gas for the fiscal year ended June 30, 2005. Certain businesses and industries inside the city limits of Roxboro were incorrectly listed as being outside the City by PSNC Energy. This error was discovered and

corrected in the fiscal year ending June 30, 2006. Restricted intergovernmental revenues increased by 68.85% from the previous year. In fiscal year 2006, the City received \$482,118 in Community Development Block Grant funds for the Nichols Avenue project during the current fiscal year.

Intergovernmental revenues are the City's second-largest revenue source. Due to the current financial condition of the State of North Carolina, intergovernmental revenues may decrease in future years. City management has decided to expand local revenue sources in future years to decrease reliance on intergovernmental revenues.

Investment earnings increased by 50.15% as interest rates continued to rise to normal levels after 40-year record lows during the fiscal year 2004.

Expenditures for governmental activities were \$8,939,024, up 11.38 percent from the preceding year. Categorized by character and major function, expenditures for the Governmental Funds (General, Special Revenue and Capital Projects Funds) were as follows:

City Council approved a 2.5% cost of living adjustment for all employees effective July 1, 2005. However, medical insurance premiums decreased by 6.0% from the previous year, which offset some of the increase in expenditures for salaries and benefits. The City no longer pays for employee dental insurance.

The Enterprise Fund reimburses the General Fund for 30% of the budgeted expenditures for general government departments and the City garage, less adjustments for certain items which are allocated entirely to the General Fund. The reimbursement of \$423,517 for the current fiscal year is shown as a transfer from the Enterprise Fund to the General Fund.

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Public safety, the City's largest expenditure area, increased by 4.74% during the current fiscal year. The increase is attributed to the cost of living adjustment for salaries and increases in gas prices for police vehicles. Transportation expenditures for streets and highways decreased 33.11% due to capital outlay expenditures for the replacement of vehicles and equipment during the previous fiscal year. Also, budgeted expenditures of \$156,000 for street resurfacing in the fiscal year ended June 30, 2006 were delayed until July. Environmental protection expenditures decreased by 11.26% due to the purchase of a new garbage truck in 2005. Capital outlay expenditures include architectural fees and land acquisition for a new police station, renovation of City Hall and the renovation of the old City garage for the Person County Emergency Communications Department.

Fund Balance in the General Fund

The General Fund ended the fiscal year with a total fund balance of \$3,396,965. The unreserved fund balance available for appropriation was \$2,138,387, which is equal to 28.80 percent of the annual expenditures of the General Fund. This percentage is substantially above the minimum percentage of 8.00 percent recommended by the Department of State Treasurer for similar-sized cities. However, the unreserved percentage of fund balance is still below the state average for similar-sized cities. The goal of management is to maintain an adequate fund balance to meet unforeseen events and to avoid cash flow shortfalls during periods of low tax collections. During the current year revenues exceeded expenditures by \$106,080.

Business-Type Activities - Enterprise Operations

Operating revenues for the Water and Sewer Utility Fund totaled \$3,945,754, an increase of \$263,010 or 7.14 percent from the prior year's revenue of \$3,682,744. The City increased water, sewer and capital rates as follows: 2% for water, 6% for sewer and 4% for capital effective July 1, 2005. The increases in water and sewer rates were recommended as the result of an *Analysis of the Cost of Water and Sewer Service* performed by Swartz Engineering Consultants, Inc. in February of 2001. The rate increases were

offset by a 1.40% decrease in the volume of water sales to customers. Also, operating revenues for 2005 were reduced by \$77,513 of bad debts due to the bankruptcy filing of Collins & Aikman Corporation. Water consumption has decreased by 35.74% since June 30, 2000, due to the closing of several industries and water conservation efforts by other industrial customers.

Operating expenses totaled \$3,785,054, an increase of \$154,921 or 4.27 percent from the previous year's expenses of \$3,630,133. The increase in operating expenses is due primarily to increases in the costs of chemicals and electricity at the City's Water and Waste Water Treatment Plants and to increases in depreciation expense on recently completed capital projects in the Enterprise Fund. Operating income for the year equaled \$160,700 or 4.07% of operating revenues. This is the fifth consecutive year in which operating revenues have exceeded operating expenses. However, the volume of water and sewer sales is expected to decline by approximately 9% in the coming fiscal year due to the closing of Collins & Aikman Corporation's three manufacturing plants in Person County.

Swartz Engineering Economic, Inc. has updated its *Analysis of the Cost of Water and Sewer Service* for the City of Roxboro. The new study, completed in February 2006, is based on the reduced water and sewer volumes resulting from the closing of Collins & Aikman. The study recommendations include a reduction or elimination of all volume discounts for large commercial and industrial customers. The study also recommends a change in the rate structure to include an account charge based on capacity (availability of water and sewer service) plus a flat rate charge based on volume for all customers. Rates for customers outside the City limits will continue to be double the rates for inside customers. Also, the \$0.25 cent capital charge per 1,000 gallons of water volume should also apply to sewer volume. Revenues generated by these capital fees are set aside for major capital improvements in the Enterprise Fund. Water and sewer rates should be set at a level that makes water and sewer services self supporting and independent. Water revenues should not be used to subsidize wastewater collection and treatment. The study also included the cost of major capital projects identified in the City's new twenty-year Capital Improvement Plan. The City Council adopted these recommendations as part of the annual budget ordinance for the fiscal year ending June 30, 2007.

The City implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, for the fiscal year ended June 30, 2001. This GASB pronouncement requires the City to recognize contributed capital from outside sources as revenue. Therefore, the City recognized as revenue contributed capital of \$117,910 for the current year. The total change in net assets after transfers and other nonoperating revenues and expenses was \$78,644. For the year ended June 30, 2006 the Enterprise Fund paid reimbursements for administrative expenses to the General Fund in the amount of \$423,517. The City transferred \$247,252 from the General Fund to the Enterprise Fund during the current year. This represents 40 percent of article 40 and 42 1/2-cent sales tax to assist with debt service payments for the construction of water and sewer lines in areas annexed by the City in 1998.

Law Enforcement Officers' Special Separation Allowance

The City has a Pension Trust Fund to finance the Law Enforcement Officers' Special Separation Allowance enacted by the state legislature and effective on January 1, 1987. An actuarial study determined the funding required by the City to meet its future benefit obligations. The annual required contribution for the fiscal year ended June 30, 2006, was \$38,784. The City has elected to fund benefit payments when due from General Fund appropriations. For the fiscal year ended June 30, 2006, the City paid benefits of \$54,157 directly to retired law enforcement officers. At June 30, 2006, the plan's actuarial value of assets totaled \$64,875. The actuarial accrued liability for future pension benefits was \$361,806. The net pension obligation at June 30, 2006, was (\$132,169), which has been recorded as an asset in the government-wide statement of net assets. The City's contribution of \$54,157 exceeded the actuarial annual pension cost of \$37,051. One method of assessing the financial strength of a pension plan is to compute its funded ratio (that is, the actuarial value of assets as a percentage of the actuarial accrued liability). As of December 31, 2005, the funding ratio was 15.20 percent. City management will recommend that the City continue to appropriate funds for the Pension Fund until the plan is fully funded.

Debt Administration

The City of Roxboro received a rating of 82 from the North Carolina Municipal Council, Inc. on November 3, 2006. The City has avoided the heavy debt load plaguing many municipalities. The City paid all general obligation bonded debt in full during the fiscal year ended June 30, 1998. The City's total gross debt as of June 30, 2006 was \$5,503,059, consisting of installment purchase agreements of \$757,344, \$280,000, \$3,602,120 and \$150,036 for improvements to the City's water treatment plant, and the construction of water and sewer lines and public facilities, and capital lease obligations for the purchase of vehicles and equipment totaling \$713,559. The City's legal debt capacity, measured as 8 percent of assessed property valuation, was \$45,674,580. Water and Sewer Utility fund revenues will pay for \$3,322,279 of the outstanding debt, while General Fund revenues will service the remaining \$2,180,780. Debt service expenditures make up 5.83 percent of total expenditures in the Governmental Funds. The City has authorized, but un-issued, debt of \$3,189,000 for construction of a new police station. Net general obligation bonded debt per capita is zero for the City of Roxboro. Bonded debt per capita including the City resident's share of debt issued by Person County is \$51.55.

Cash Management

The City's investment policy emphasizes safety and liquidity over investment yield. The City's deposits and investments were insured or collateralized as required by state law. Total investment earnings for the year were \$153,691, consisting of \$94,137 for Governmental Activities, \$58,761 for Business-Type Activities, and \$793 in the Pension Trust Fund. Investment earnings were equivalent to a return of 3.01 percent on the average amount of cash and cash equivalents during the year. Investment earnings increased \$52,995 or 52.63 percent from the previous fiscal year. Interest rates increased substantially following 40-year record lows during fiscal year 2004. Maturities on investments ranged from one day to one year, with the average maturity for the City's portfolio being six months.

At fiscal year end, 58.14 percent of the City's moneys were placed in insured or collateralized depository accounts, 14.11 percent in the North Carolina Capital Management Trust, and 27.12 percent in commercial paper. Unexpended proceeds of capital leases held in interest bearing escrow accounts accounted for 0.59 percent of the City's funds at year-end. The remaining .04 percent consisted of petty cash funds.

Risk Management

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 of \$2 million and auto liability coverage of \$3 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 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 insurance coverage for all other risks of loss. Major policies and their limits of coverage include the following: commercial auto liability (\$3,000,000), property damage (\$38,851,911), municipal equipment (\$1,033,133), portable equipment (\$100,000), blanket employee dishonesty (\$500,000), workers' compensation (\$100,000), general liability (\$2,000,000), public officials liability (\$2,000,000), employee benefits liability (\$1,000,000), computer equipment (\$165,000) and law enforcement liability (\$2,000,000). Each year the City requests bids for insurance services. We do not anticipate any problems in retaining insurance coverage for future years, although premiums may rise. The City provides coverage for employee health and accident insurance through a private insurance carrier. As of July 1, 2005, medical insurance premiums decreased by 6.0%. The City no longer pays for employee dental insurance, however, employees may still purchase dental insurance through payroll

deduction.

Other Information

The City of Roxboro is required by state law (G. S. 159-34) to have an annual independent financial audit. A compliance audit on federal and state financial assistance programs is also required under the federal Single Audit Act of 1996 and the State Single Audit Implementation Act. The City's auditors, Dixon Hughes PLLC, were selected through a formal request for proposal process. The auditors' report on the basic financial statements is included in the Financial Section of this report. The auditors' reports required as part of a single audit are found in the Compliance Section of this report. Any findings or questioned costs reported in the Compliance Section are subject to a subsequent review by the appropriate grantor agencies. This review could result in reimbursements to grantor agencies if some expenditures are deemed inappropriate. However, every effort has been made to insure that all disbursements are in compliance with the applicable financial assistance program provisions. Required refunds, if any, should be immaterial.

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 Roxboro for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the tenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is the highest form of recognition in the field of governmental financial reporting.

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

Preparation of this report would not have been possible without the dedicated efforts of the entire staff of the Finance Department. Special thanks are due to Wanda Blalock for her assistance during the audit process and in the printing and binding of this report. We also thank the members of the City Council for their continued support throughout the past year.

Respectfully submitted,

Jonathan R. Barlow
City Manager

James C. Overton, Jr., CPA
Finance Director