

INTRODUCTORY SECTION



Town of Apex

P. O. BOX 250
APEX, NORTH CAROLINA 27502

November 24, 2009

TO THE CITIZENS OF THE TOWN OF APEX:

We are pleased to present the Comprehensive Annual Financial Report of the Town of Apex for the fiscal year ended June 30, 2009. This report is issued to fulfill the requirement in North Carolina state law that every local government have an annual audit performed by a certified public accountant.

The Town of Apex management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control it has established for this purpose. The concept of internal controls assumes their costs should not exceed their anticipated benefits, and their objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

Joyce and Company, Certified Public Accountants, has issued an unqualified ("clean") opinion on the Town of Apex's financial statements for the year ended June 30, 2009. The independent auditor's report is located at the front of the financial section of this report.

This letter of transmittal should be read in conjunction with Management's Discussion and Analysis (MD&A), which immediately follows the independent auditor's report in the Financial Section. MD&A provides a narrative overview and analysis of the basic financial statements.

PROFILE OF THE GOVERNMENT

The Town of Apex, incorporated in 1873, is located in central North Carolina, less than 10 miles from Raleigh, the state capital. From its humble beginnings as a small railroad stop (the name "Apex" comes from being the highest point on the rail line), the Town has grown to a population of 34,891 and a land area of 15.4 square miles.



The Town operates under a Council-Manager form of government. Policy-making and legislative authority rest with the Town Council, consisting of the mayor and five other members. All are elected on a town-wide basis to a four year term, with three members elected every two years. The Council appoints the Town Manager, who is responsible for hiring department heads and managing day to day operations.

The Town provides a full range of services including police and fire protection, sanitation, water, sewer, and electric services, construction and maintenance of streets and infrastructure, and recreational activities and events. Various other local entities such as the Apex Emergency Medical Service, Wake County Public School System, WakeMed Cary Hospital and WakeMed Apex Healthplex, and the Wake County Public Libraries do not meet established criteria for inclusion as part of the Town as a reporting entity and are therefore excluded from this report.

State law requires that the Town Council approve an annual budget prior to July 1. The budget ordinance authorizes all financial transactions of the Town except those authorized by a project ordinance or conducted through a trust or agency fund. The budget is prepared by fund and department. Department heads may transfer resources within a department and the Town Manager may transfer between departments, but any change which increases or decreases a fund's overall budget requires approval of the Council.

LOCAL ECONOMY

Like the rest of the nation, Apex suffered through the effects of the economic downturn during the past year. Although constant construction in the area prevented the rapid escalation in real estate prices that much of the country experienced - and helped the region avoid the crash when that bubble burst - the ripple effects had major consequences on the local economy. Companies that for years had transferred employees into the area began to cut back, drying up the source of new residents moving to town that had fueled residential home construction. Tighter credit also hurt builders and home buyers alike, and local construction came to a virtual standstill. For the year, the Town issued 99 permits to construct new homes, a drop of 310 (75%) from the previous year.

Apex continues to benefit from its location, which makes it a residential and retail center for employees of Research Triangle Park (RTP). RTP is primarily dependent on firms in relatively stable, growing industries such as technology, healthcare, and financial services. In addition, the Town's proximity to Raleigh, with several universities and the state government complex, has also served to provide a stable employment base. Because of the presence of these major employers, the Town was able to weather the economic downturn better than much of the nation. Although there were some layoffs made by area companies, the local unemployment rate stayed below the state and national figures, and appears to have stabilized over the past 3 months.

Commercial construction activity remained a bright spot for the year. The Town issued 24 commercial building permits, 10 fewer than the previous year; however, the total value of those permits was 50% higher. Undoubtedly, the vast majority of that figure can be attributed to Broadstone Station, a development anchored by Wal-Mart. Overall, new construction (residential and commercial) totaled 123 permits with a value of \$42,754,143, compared with 443 and \$94,878,206 in the preceding year.

Looking back over the past 10 years, the Town's total General Fund revenues and expenditures have nearly tripled. Much of this increase is understandable, as the Town's population has almost doubled in the same period. The most obvious trend during this timeframe has been the increased emphasis on public safety, which has risen from 27% of General Fund expenditures in 1999 to over 36% today. A major reason for this shift is the Town assuming a great deal more responsibility for fire protection as it moved from a largely volunteer department to one with more full time employees with round the clock staffing. This increase came from decreased spending in general administrative functions, which make up 26% of General Fund expenditures as opposed to 33% in 1999.

In that same ten year period, property and sales taxes have come to provide a much larger share of the Town's revenues. In 1999, the Town was in the midst of a building boom which was adding over 1,000 residential housing units a year to its tax base. Today that base is more fully built out and contributing to annual revenues. In addition, there is an abnormality in the current year revenues as the down economy has reduced revenues from sales taxes, permits and fees (building permits), and indirectly, interest earnings. Thus, the most stable revenue source the Town has, property taxes, assumes a more prominent part of total revenues. Conversely, building permits and related fees now make up a smaller percentage of total revenues since residential construction is a fraction of the volume it was at that time.

LONG-TERM FINANCIAL PLANNING

For many years the Town has maintained solid cash reserves and fairly modest debt levels. This enabled it, despite the challenging economic environment during the year, to proceed with some major projects financed by various types of long-term debt. In September of 2008 it completed an installment purchase debt transaction for \$9.1 million to renovate and expand its existing police facility and construct an additional fire station. In May of 2009 it issued \$7.3 million of revenue bonds to construct a substation and other electric system improvements. Then in June of 2009 it issued \$9.47 million of general obligation bonds - \$6.5 million for street improvements and \$2.97 million to refinance older debt at lower interest rates. Combined, these issues raise the Town's annual debt payments from approximately \$2 million per year to over \$3.9 million. At this point the Town has no plans to issue additional debt in the next 2 years, although it has \$41 million in general obligation bonds authorized. Of this amount, \$35 million is for wastewater improvements and will be issued when necessary to finance the Town's portion of a regional plant currently being designed. The remaining \$6 million is for recreation improvements and will be sold when management determines the additional debt service

will not be burdensome. The Town's goal is to maintain a minimum of 10% of expenditures in unreserved and undesignated fund balance. Funds in excess of that amount are available to be used for one time expenditures, such as smaller improvements or construction projects. At June 30, 2009, the Town's unreserved and undesignated fund balance was \$15.4 million, or roughly 57% of the year's expenditures including transfers. This figure is inflated by the bonds sold to refinance old debt, which were being held from June 25 to July 27 when the old bonds could be paid off. Without this amount the fund balance would have been \$12.4 and 46% of expenditures.

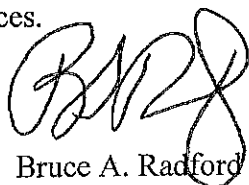
MAJOR INITIATIVES

In addition to the projects listed above the Town is also confronting some major needs in its Water and Sewer Fund. Permitting and environmental work is continuing on the Western Wake Regional Wastewater Management Facility (WWRWMF), a wastewater treatment plant being planned in partnership with the Town of Cary. This facility is probably one year away from the beginning of construction and is expected to be completed around 2013-14. Apex will own approximately one-third of the facility, which Cary will manage on a day to day basis. Estimates at this point are for Apex's share to cost about \$80 million.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Apex for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the sixteenth consecutive year that the Town 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. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. 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.

The preparation of this report on a timely basis was made possible by the dedicated service and cooperation of Joyce and Company CPA, and the Town's Finance, Planning, and Construction Management departments. We would like to extend special thanks to Suzanne Parmentier for her work and to the Mayor and Town Council for their support for maintaining the highest standards of professionalism in the management of the Town's finances.



Bruce A. Radford
Town Manager



Lee Smiley
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Apex
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



President

Executive Director

ELECTED OFFICIALS

Keith H. Weatherly	Mayor
Michael L. Jones	Mayor Pro-Tem
Bryan M. Gossage	Councilman
William S. Jenson	Councilman
Eugene J. Schulze	Councilman
William M. Sutton	Councilman

APPOINTED OFFICIALS

Bruce A. Radford
Town Manager

Henry C. Fordham, Jr.
Town Attorney

ADMINISTRATIVE STAFF

J. Michael Wilson
Assistant Town Manager

Georgia A. Evangelist
Town Clerk

John M. Brown
Director of Parks, Recreation
and Cultural Resources

Tim Donnelly
Director of Public Works
and Utilities

Eleanor Green
Director of Human Resources

Kent Jackson
Director of Construction
Management

Jack K. Lewis
Chief of Police

Marty Mitchell
Facilities and Fleet Services
Manager

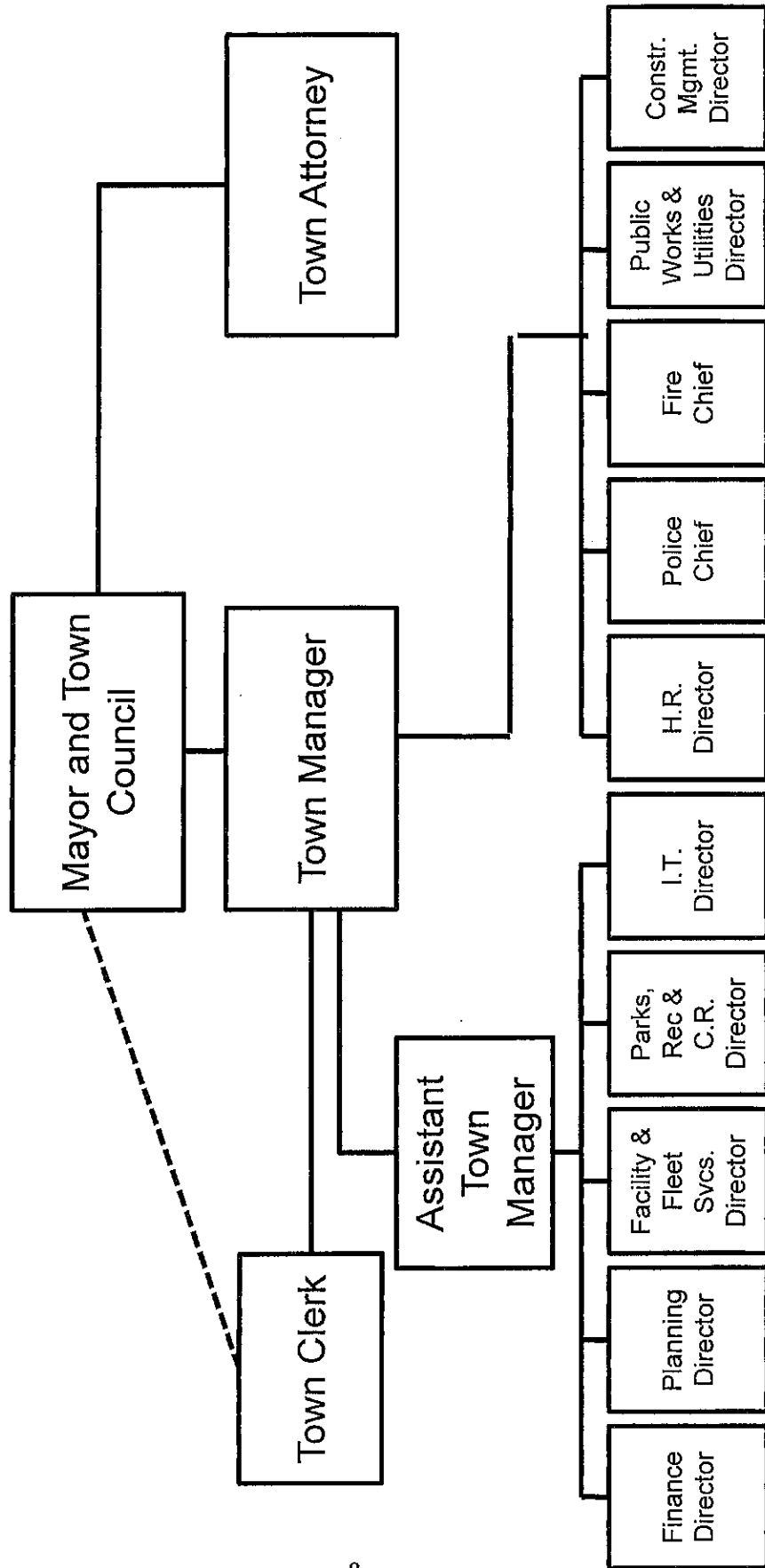
Dianne Khin
Director of Planning
and Community Development

Lee Smiley
Finance Director

Mark L. Haraway
Fire Chief

Town of Apex

June 2009



FINANCIAL SECTION

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Commissioners
Town of Apex, 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 Apex, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Apex, North Carolina's management. Our responsibility is to express an opinion 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Apex, North Carolina, as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2009 on our consideration of the Town of Apex's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and on the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. 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.

Management's Discussion and Analysis and the Law Enforcement Officers' 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 accounting principles generally accepted in the United States of America. 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 on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Apex, North Carolina. The combining, and individual nonmajor fund financial statements and schedules and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act and are not a required part of the basic financial statements of the Town of Apex, North Carolina. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.


JOYCE AND COMPANY, CPA

November 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Apex, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2009. We encourage readers to read the information presented here in conjunction with the transmittal letter in the front of this report and the basic financial statements and accompanying notes to the financial statements, which follow this narrative.

Financial Highlights

- The Town's assets exceeded its liabilities at the close of the fiscal year by approximately \$304.6 million (*net assets*). Of this amount, \$64.0 million (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$7.5 million, with \$2.6 million of this increase coming from governmental activities and \$4.9 million from business-type activities. Approximately \$9.7 million of this increase is related to donation of street related and utility infrastructure from developers valued at \$5.1 million for street and sidewalk related infrastructure, \$3.5 million for utility infrastructure, and \$1.1 million for parkland.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$30.4 million. The total fund balance in the General Fund increased \$3.5 million, primarily due to funds borrowed to refinance older debt. The Town borrowed \$2.97 million on June 25 but did not pay off \$2.9 million of previously issued bonds until July 27. Without that transaction the General Fund fund balance would have increased by \$0.5 million. The total fund balance in other governmental funds increased \$7.4 million due to funds borrowed for public safety and road construction projects. The total fund balance of all governmental funds increased by \$10.9 million compared to the prior year. Approximately 88% of total governmental funds fund balance, or \$26.8 million, is available for spending at the Town's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$15.4 million, or 57% of total general fund expenditures for the fiscal year. Again, without the debt refinancing these figures would have been \$12.4 million and 46% of expenditures.
- The Town of Apex's total debt increased by \$23.9 million during the current fiscal year. The Town paid off \$2.0 million of previously issued debt but added \$25.9 million in debt for public safety, road, and electric projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Apex's basic financial statements. The Town's basic financial statements consist of three components: 1) entity-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of entity-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 Apex.

Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Entity-wide Financial Statements**. The next statements (Exhibits 3 through 10) are **Fund Financial Statements**. The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes explain in

detail some of the data contained in those statements. The **Required Supplemental Information** contains additional information required by generally accepted accounting principles. After the notes and the required supplemental information, additional **Supplemental Information** is provided. The other supplemental information shows details about the Town's individual funds, including budgetary information required by North Carolina General Statutes.

Entity-wide Financial Statements

The entity-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 entity-wide statements provide short and long-term information about the Town's financial status as a whole.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the entity-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works, environmental protection, and cultural and recreational. The business-type activities of the Town are utility system services, specifically electricity and water and sewer.

In accordance with the Governmental Accounting Standards Board criteria for inclusion in the reporting entity, the Town of Apex has no component units that must be included in this report.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the 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 demonstrate compliance with finance-related legal requirements, such as the General Statutes or 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 essentially the same functions reported as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet (Exhibit 3) and the governmental fund statement of revenues, expenditures, and changes in fund

balances (Exhibit 4) provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

During the past fiscal year, the Town of Apex maintained eight individual governmental funds: the General Fund, three special revenue funds (to account for revenues which are restricted to a specific purpose), three capital projects funds (to account for construction projects spanning more than one annual budget year), and one permanent fund (to account for funds reserved for perpetual care of a cemetery). The General Fund and one of the capital projects funds (because of the amount of spending for general construction) are the only governmental funds considered to be major funds. The other governmental funds are considered to be nonmajor and their information is presented in the aggregate.

The Town of Apex adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. This budgetary statement includes both original and final amended budgets.

The basic governmental fund financial statements can be found on Exhibits 3 through 5. Governmental funds considered to be nonmajor are presented as a single column in these statements.

Proprietary Funds: The Town maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the entity-wide financial statements, only in more detail. The Town uses enterprise funds to account for its electric and water and sewer related activities. Both the Electric Fund and the Water and Sewer Fund are classified as major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. Beginning July 1, 2008, Apex began using an internal service fund to account for its self insurance for health and dental claims. Because this fund predominately benefits the governmental rather than business-type functions, it has been included within governmental activities in the entity-wide statements.

The basic proprietary fund financial statements can be found on Exhibits 6 through 8 of this report.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are *not* reflected in the entity-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town has one fiduciary fund, a pension trust fund, to account for the Law Enforcement Officers Special Separation Allowance.

The basic fiduciary fund financial statements can be found on Exhibits 9 and 10 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements. The notes to the financial statements are on pages 34-55 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 obligations to provide pension benefits to police officers under the Law Enforcement Officers Special Separation Allowance and retiree health insurance under GASB 45. Required supplementary information can be found on pages 57-60 of this report.

Entity-Wide Financial Analysis

Entity-wide financial statements can provide an excellent overall view of the Town's transactions for the year and its financial condition at year end. In particular, comparing current year amounts with the previous year's figures can highlight areas in which the Town's finances are improving or deteriorating.

As noted earlier, net assets may serve over time as one useful indicator of the Town's financial condition. At the end of the current fiscal year, the Town had a positive balance in both its governmental and business-type activities as well as recording increases in net assets in both categories for the year. Governmental net assets increased by \$2.7 million to \$155.1 million while business-type net assets increased by \$4.9 million to \$149.5 million.

The Town of Apex Net Assets
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$34.1	\$22.0	\$58.4	\$50.9	\$92.5	\$72.9
Capital Assets	155.5	145.9	104.7	100.9	260.2	246.8
Total Assets	<u>189.6</u>	<u>167.9</u>	<u>163.1</u>	<u>151.8</u>	<u>352.7</u>	<u>319.7</u>
Long-Term Liabilities	25.9	11.9	8.8	2.2	34.7	14.1
Other Liabilities	8.6	3.5	4.8	5.0	13.4	8.5
Total Liabilities	<u>34.5</u>	<u>15.4</u>	<u>13.6</u>	<u>7.2</u>	<u>48.1</u>	<u>22.6</u>
Net Assets:						
Invested in Capital Assets, Net of						
Related Debt	137.0	133.2	102.4	98.0	239.4	231.2
Restricted	1.2	1.4	-	-	1.2	1.4
Unrestricted	16.9	17.9	47.1	46.6	64.0	64.5
Total Net Assets	<u>\$155.1</u>	<u>\$152.5</u>	<u>\$149.5</u>	<u>\$144.6</u>	<u>\$304.6</u>	<u>\$297.1</u>

As is the case for many entities, the largest portion of the Town's net assets (\$239.4 million or 79%) is represented by its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those assets. These capital assets are used to provide services to citizens; consequently, they are *not* available for future spending. And although the Town's investment in its capital assets is reported net of the outstanding related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

Approximately \$9.7 million of the increase in net assets for the year is related to donation of street related and utility infrastructure from developers, valued at \$5.1 million for street and sidewalk related infrastructure, \$3.5 million for utility infrastructure, and \$1.1 million for parkland. Apart from these figures the Town's net assets actually decreased as ongoing expenses outpaced ongoing revenues.

Most of the remainder of the Town's net assets (\$64.0 million or 21%) are unrestricted, meaning they may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town of Apex Changes in Net Assets
(in millions)

	Governmental		Business-type		Total		
	Activities		Activities				
	2009	2008	2009	2008	2009	2008	
Revenues:							
Program Revenues:							
Charges for Services	\$3.9	\$4.7	\$36.9	\$38.3	\$40.8	\$43.0	
Operating Grants and Contributions	1.4	0.7	---	---	1.4	0.7	
Capital Grants and Contributions	6.6	8.9	3.5	2.6	10.1	11.5	
General Revenues:							
Property Taxes	14.2	11.7	---	---	14.2	11.7	
Other Taxes	5.3	5.9	---	---	5.3	5.9	
Investment Earnings	0.5	0.9	0.9	2.0	1.4	2.9	
Other	2.4	2.0	---	---	2.4	2.0	
Total Revenues	34.3	34.8	41.3	42.9	75.6	77.7	
Expenses:							
General Government	7.6	7.1	---	---	7.6	7.1	
Public Safety	10.6	9.1	---	---	10.6	9.1	
Public Works	6.0	6.0	---	---	6.0	6.0	
Environmental Protection	3.1	2.9	---	---	3.1	2.9	
Cultural and Recreation	3.5	3.2	---	---	3.5	3.2	
Interest on Long-Term Debt	0.9	0.5	---	---	0.9	0.5	
Water and Sewer	---	---	11.1	9.5	11.1	9.5	
Electric	---	---	25.3	22.4	25.3	22.4	
Total Expenses	31.7	28.8	36.4	31.9	68.1	60.7	
Increase in Net Assets	2.6	6.0	4.9	11.0	7.5	17.0	
NET ASSETS - Beginning of Year	152.5	146.5	144.6	133.6	297.1	280.1	
NET ASSETS - End of Year	\$155.1	\$152.5	\$149.5	\$144.6	\$304.6	\$297.1	

Governmental activities: Revenues related to governmental activities decreased \$0.5 million, or 1%. The volatile economic situation affected several of the Town's revenue sources. The greatest drop was in capital grants and contributions, a category which is primarily made up of contributions of streets and sidewalks by developers. As construction slowed, this revenue dropped by \$1.2 million from the prior year. Less construction activity also affected the charges for services category as receipts for building permits and related fees decreased. The economy also impacted other taxes (sales tax collections) and investment earnings. The bright spot in the Town's revenues was property taxes, which rose 21% as a result of an increase in the tax rate imposed in anticipation of higher debt service payments coming from several planned debt issuances. Already some of this added cost is showing in the Town's expense for interest on long-term debt, which increased \$400,000 (80%) over the previous year. The other significant expense increase was in public safety, as the Town added personnel to improve service.

Business-type activities: Business-type activity revenues dropped by \$1.6 million (4%). Revenue growth was positive for the Town's electric operations (up 8%), but water and sewer operations had a decline in revenues of \$3.4 million (25%). The increase in electric revenue resulted from a rate increase the Town enacted to offset an increase in the cost of power from its supplier. Actual demand for electricity dropped 1%, while the cost of that power was 13% more. For water and sewer, there was also a small rate increase which produced slightly higher revenues from water sales and wastewater treatment despite flat demand. The real cause of the reduction in revenues was a marked decrease in development related fees. Revenue from fees went down \$3.5 million as economic forces slowed construction. The Town did receive more in contributions of developer constructed water and sewer lines, \$3.5 million, an increase of \$0.9 million from the prior year.

Financial Analysis of the Town's Funds

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

Governmental Funds: The focus of the Town of Apex'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 the Town's net resources available for spending at the end of the fiscal year. A portion of this unreserved fund balance is designated for specific purposes with the balance remaining as *unreserved* and *undesignated*.

The General Fund is the chief operating fund of the Town of Apex. At the end of the fiscal year, unreserved and undesignated fund balance of the General Fund was \$15.4 million, while total fund balance was \$18.3 million. Both of these figures are inflated by \$3.0 million by cash being held at year end for refinanced debt. For the 2009 fiscal year, the total fund balance increased by \$0.5 million apart from the effects of the refinancing. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Again excluding the funds being held at year end for the refinanced debt, unreserved and undesignated fund balance represents 46% of total General Fund expenditures (compared to 47% last year), while total fund balance represents 57% of that same amount (59% in 2008).

The Town strives to maintain an unreserved and undesignated fund balance of 10% of expenditures. Amounts in excess of this minimum may be used for construction projects when the Town wishes to avoid the issuance of additional debt, for emergency work needed after natural disasters, or for maintaining a stable tax rate when economically dependent revenues (i.e. sales taxes) are less than budgeted amounts. For 2008-09, the Town's original budget proposed no change in the fund balance, but at year end total fund balance had increased by \$0.5 million. Total revenues were \$0.5 million less than originally budgeted as the Town suffered the effects of the economic crisis. In anticipation of this revenue shortfall, the Town reduced budgeted expenditures by \$0.5 million. Still, total departmental expenditures ended the year \$1.3 million less than the final budget, creating an increase to fund balance despite the addition of a construction project to the budget during the year.

At June 30, 2009, the governmental funds of Town of Apex reported a combined fund balance of \$30.4 million, an increase of \$11.0 million from the prior year. This increase was caused by taking on \$18.6 million of debt to fund construction of roads and public safety facilities – this combined fund balance number will drop as construction continues on these projects. The General Fund, special revenue funds, and capital projects funds are included in this combined fund balance amount.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments are made to recognize new funding amounts from external sources, such as federal and state grants or to increase appropriations that become necessary to maintain or expand services. However, as mentioned above, the Town took an extraordinary step and reduced its planned expenditures by \$0.5 million during the year to offset an expected revenue shortfall when the economic crisis began to unfold. Rather than permanently reducing the budget, this money was transferred to a contingency account so it could be transferred back if economic conditions improved. Unfortunately, conditions did not improve and the money remained in contingency at year end. The other significant change to the Town's General Fund budget during the year was an appropriation of \$0.4 million for a project to improve parking in the downtown area.

Overall, General Fund revenues increased by \$1.7 million from the prior year, an increase of 7%. The increase can be almost solely attributed to increased property tax revenues, which rose by \$2.6 million, or 22%. Property values in Wake County were revalued for the 2008-09 fiscal year, making it difficult to determine exactly how much of the increase came from the tax rate change noted above and how much was from growth. The Town followed the provisions of N.C. general statutes which allowed it to use an

average growth rate over the past 8 years to determine its revenue neutral rate. That calculation provided an allowance for growth of 7.92%, to which the Town added a rate increase of 11%. Other General Fund revenues experienced minor increase or, in the case of several economically sensitive revenues, substantial declines. The decreases were most prominent in sales taxes, building permits, and interest earnings.

General Fund expenditures increased \$2.0 million, an increase of 8%. Most of this increase was to maintain existing levels of service rather than implement new programs. The only functional areas which saw significant increase were 1) public safety, where 11 employees were added, 2) cultural and recreation, where a land purchase and minor improvements were run through the annual operating budget, and 3) debt service, as the Town made the first payments on new debt issued in June and September of 2008.

Proprietary Funds: The Town of Apex's proprietary fund financial statements provide the same type of information found in the entity-wide statements but with each of the two funds broken out separately. Unrestricted net assets of the Electric and Water and Sewer Funds at the end of the fiscal year were \$6.2 million and \$40.9 million, respectively. The change in net assets for both funds was an increase of \$1.5 million in the Electric Fund and \$3.4 million in the Water and Sewer Fund.

In the Electric Fund, operating revenues increased by \$2.0 million (8%). The Town received an increase in the cost of purchased power from the N.C. Eastern Municipal Power Agency, which is its sole power supplier, and was forced to raise its retail rates by 12% in response. Since the total amount of power purchased and sold was slightly less than the prior year, the increased revenue can be accounted for by this increase. The number of electric customers only rose by 500, or 4%. Operating expenses increased by \$2.8 million (13%), which was the result of the increased cost of power.

In the Water and Sewer Fund, operating revenues decreased by \$3.4 million (25%) from the previous year. This decrease came about because of a reduction in development related fees, which dropped substantially in response to the economic crisis and resultant drop in housing sales. Charges to customers for water consumption and sewage treatment were \$9.0 million, roughly the same as the prior year despite a 6% increase in the rates. Operating expenses increased by \$1.7 million (18%), reflecting higher operating costs as well as some one-time, non recurring expenditures. For the year, water and sewer operations produced a \$2.3 million increase in net assets, a figure which includes \$3.5 million of capital contributions in the form of lines constructed by developers. Thus, the fund's operations recorded a decrease in net assets of \$1.2 million. The Town also received an increase in net assets of \$1.1 million from the collection of development related fees, which are restricted to use for future capital needs. Overall, the total increase in net assets for the year was approximately \$3.4 million.

Capital Asset and Debt Administration

Capital assets: The Town of Apex's investment in capital assets for its governmental and business-type activities as of June 30, 2009, totaled \$260.3 million (net of accumulated depreciation). These assets include buildings, streets and sidewalks, land, machinery and equipment including vehicles, park facilities, utility plants, electric and water distribution systems, and wastewater collection systems.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Construction in the governmental-type activities of \$8.7 million,
- Purchases of equipment and vehicles in the governmental-type activities of \$0.6 million,
- Electric distribution system improvements, additions, and other capital assets of \$1.9 million,
- Water and sewer system improvements, additions, and other capital assets of \$10.8 million.

Town of Apex Capital Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$34.5	\$32.5	\$8.8	\$7.4	\$43.3	\$39.9
Construction in Progress	12.7	12.7	9.9	10.6	22.6	23.3
Total Non-Depreciable Assets	47.2	45.2	18.7	18.0	65.9	63.2
Buildings and Improvements	28.4	25.6	0.4	0.4	28.8	26.0
Machinery and Equipment	4.1	3.9	1.9	1.6	6.0	5.5
Vehicles	6.0	5.8	2.6	2.2	8.6	8.0
Infrastructure	127.7	117.2	133.5	125.8	261.2	243.0
Total Depreciable	166.2	152.5	138.4	130.0	304.6	282.5
Accumulated Depreciation	(57.9)	(51.8)	(52.4)	(47.1)	(110.3)	(98.9)
Total Depreciable Assets, Net	108.3	100.7	86.0	82.9	194.3	183.6
Total	\$155.5	\$145.9	\$104.7	\$100.9	\$260.2	\$246.8

Additional information on the Town's capital assets can be found in Note 4 of the Basic Financial Statements.

Long-term Debt:

As of June 30, 2009, the Town of Apex had total general obligation bonded debt outstanding of \$22.5 million, electric revenue bonds outstanding of \$7.3 million, and installment purchase related debt of \$9.6 million. The Town completed its refunding transaction and paid off \$2.9 million of the general obligation bonds on July 27, 2009. Also in relation to the general obligation bonds, \$1.2 million is being repaid from utility system revenues, although the Town's taxing authority is the true security to the bond holders. The remainder of the Town's general obligation bonds, \$18.4 million, is being repaid from the General Fund. During the year, the Town issued \$9.47 million in general obligation bonds, \$6.5 million for construction of street improvements and \$2.97 to refinance the bonds paid off on July 27.

The Town has the authority to issue an additional \$41.0 million in general obligation bonds - \$6.0 million for parks and recreation and \$35 million for wastewater treatment facilities.

Town of Apex Outstanding Debt
General Obligation Bonds and Installment Purchases
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$21.2	12.6	1.1	1.8	22.3	14.4
Revenue Bonds	-	-	7.3	-	7.3	-
Installment Purchases	8.6	-	1.0	1.1	9.6	1.1
Total	\$29.8	12.6	9.4	2.9	39.2	15.5

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 Town's boundaries. The legal debt margin for Apex is \$322 million. Practically, this statutory limit exceeds the Town's realistic debt capacity.

Additional information regarding the Town of Apex's long-term debt can be found in Note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

At June 30, 2009, Apex's population was estimated at 34,891, an increase of 502 (1%) over the preceding year. Since the 2000 census, the Town has grown 72%. Residential construction was off about 75% for the fiscal year compared to the prior year. Although there are indications construction activity in the area is improving, it will probably be some time before it returns to the levels seen early this decade. The Town's 2009-10 budget projects construction and development related revenues to be approximately the same as they were during FY 2008-09. Over the next 12-24 months the Town's economic outlook will largely be dependent on the overall national economy.

Employment opportunities are derived from within the Town as well as from Raleigh, the state capital, and RTP, which employs over 40,000 in high-technology fields. In addition, the Raleigh-Durham area also contains several colleges and universities and major health care facilities. These employers have historically been relatively stable and less sensitive to economic downturns. As a result, the unemployment rate has historically been lower than the state and national averages. At year end the rate for Apex was 6.9% versus the statewide rate of 11.0% and the U.S. rate of 9.5%. Because of the highly specialized nature of many of the citizens' employment, income levels in Wake County have also historically been above the state and national averages.

Budget Highlights for the Fiscal Year Ending June 30, 2010

Governmental Activities: The Town's tax rate remained unchanged for the 2009-10 budget. The tax base was estimated at \$4.2 billion, an increase of less than 1% from the preceding fiscal year. There were no changes in any other charges or fees, and most revenues were estimated to continue at the levels seen during 2008-09 with little growth. The budget does include the addition of 12 firefighters funded through a federal grant and also anticipated the merger of the Apex EMS into the Town, so overall revenues were up 3% to \$28.6 million. The final budget included very little funding for capital additions and projected using about \$80,000 of fund balance.

Business-type Activities: There were no changes in utility rates in either the Electric or Water and Sewer Funds. The Town expects very little growth in the number of customers or total consumption, so revenues in both funds are relatively unchanged from the prior year. The budget for the Electric Fund is \$26.1 million and for the Water and Sewer Fund it is \$9.5 million. Apex remains committed with other Wake County municipalities to construct a regional wastewater management facility over the next 5 years. On an annual basis, the Town reviews revised estimates of the facility's costs and the Water and Sewer Fund's projected revenues and expenses to determine if sufficient capital will be available to complete the project.

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 Finance Director, Town of Apex, Post Office Box 250, Apex, North Carolina 27502.

