

## **Management's Discussion and Analysis**

As management of the City of Oxford, we offer readers of the City of Oxford's financial statements this narrative overview and analysis of the financial activities of the City of Oxford for the fiscal year ended June 30, 2008. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

### **Financial Highlights**

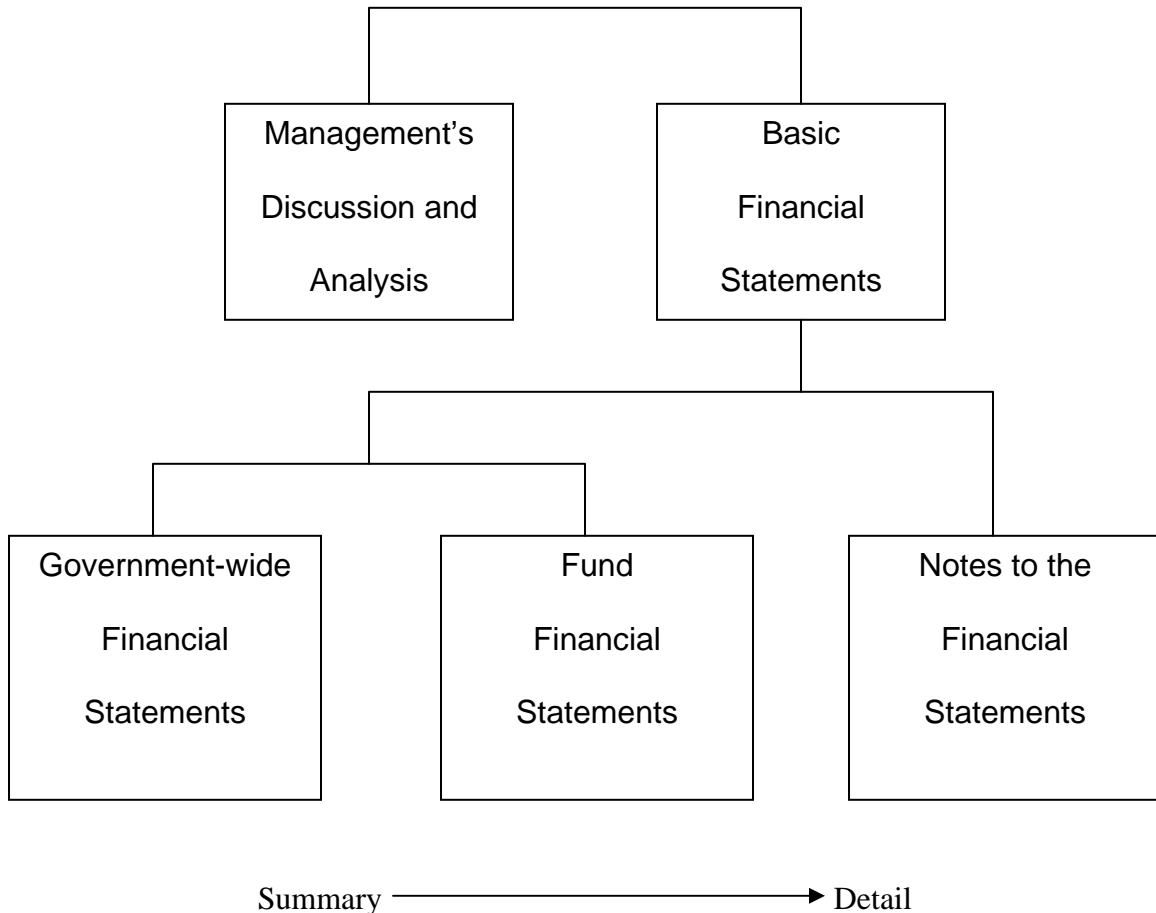
- The assets of the City of Oxford exceeded its liabilities at the close of the fiscal year by \$ 23,281,706 (net assets).
- The government's total net assets decreased by \$ 860,150 primarily due to decreases in business-type activities net assets.
- As of the close of the current fiscal year, the City of Oxford's governmental funds reported combined ending fund balances of \$ 2,157,820 a decrease of \$ 435,513 in comparison with the prior year. Approximately 63 percent of this total amount, or \$ 1,357,855 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 1,360,059 or 17 percent of total general fund expenditures for the fiscal year.
- The City of Oxford's total debt decreased by \$ 779,440 (7%) during the current fiscal year. The key factor in this was the initial debt payment of the State Revolving Fund loan to finance upgrading of the Waste Water Treatment Plant.

### **Overview of the Financial Statements**

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

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

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

## **Government-wide Financial Statements**

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

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

The government-wide statements are divided into three categories: 1) governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City of Oxford charges customers to provide. These include the water and sewer services offered by the City of Oxford. The final category is the component units. Although legally separate from the City of Oxford, the Oxford Parking Authority and Downtown Oxford Economic Development Corporation are important to the City of Oxford because the City exercises control over the Board by appointing its members.

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

## **Fund Financial Statements**

The fund financial statements (see Figure 2) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Oxford, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of City of Oxford can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a

short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Oxford adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City and the management of the City and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Proprietary Funds** – City of Oxford has two different kinds of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Oxford uses enterprise funds to account for its Water and Sewer activity and for Storm Water Management operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 49-75 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Oxford's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 77 of this report.

## Government-Wide Financial Analysis

### The City of Oxford's Net Assets

Figure 2

|  | Governmental<br>Activities |              | Business-Type<br>Activities |               | Total         |               |
|--|----------------------------|--------------|-----------------------------|---------------|---------------|---------------|
|  | 2008                       | 2007         | 2008                        | 2007          | 2008          | 2007          |
| Current and other assets                           | \$ 3,238,895               | \$ 3,106,865 | \$ 3,573,816                | \$ 3,293,598  | \$ 6,812,711  | \$ 6,400,463  |
| Capital assets                                     | 5,624,667                  | 4,458,910    | 22,679,786                  | 25,270,402    | 28,304,453    | 29,729,312    |
| Total assets                                       | 8,863,562                  | 7,565,775    | 26,253,602                  | 28,564,000    | 35,117,164    | 36,129,775    |
| Long-term liabilities outstanding                  | \$ 499,632                 | 540,335      | \$ 9,251,158                | \$ 9,962,775  | 9,750,790     | 10,503,110    |
| Other liabilities                                  | 1,235,571                  | 656,309      | 849,097                     | 828,500       | 2,084,668     | 1,484,809     |
| Total liabilities                                  | 1,735,203                  | 1,196,644    | 10,100,255                  | 10,791,275    | 11,835,458    | 11,987,919    |
| Net assets:  |                            |              |                             |               |               |               |
| Invested in capital assets, net of<br>related debt | 5,345,176                  | 4,065,916    | 12,809,306                  | 14,733,985    | 18,154,482    | 18,799,901    |
| Restricted   | 212,879                    | 158,158      | -                           | -             | 212,879       | 158,158       |
| Unrestricted                                       | 1,570,304                  | 2,145,057    | 3,344,041                   | 3,038,740     | 4,914,345     | 5,183,797     |
| Total net assets                                   | \$ 7,128,359               | \$ 6,369,131 | \$ 16,153,347               | \$ 17,772,725 | \$ 23,281,706 | \$ 24,141,856 |

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City exceeded liabilities by \$23,281,706 as of June 30, 2008. The City's net assets *decreased* by \$ 860,150 for the fiscal year ended June 30, 2008. However, the largest portion (77.98%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Oxford uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Oxford'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 City of Oxford's net assets (0.92%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 4,914,345 (21.1%) is unrestricted.

One particular aspect of the City's financial operations negatively influenced the total unrestricted governmental net assets:

- The net write-off of approximately \$1,983,000 of obsolete capital assets, resulting from the upgrade of the Waste Water Treatment Plant.

**City of Oxford Changes in Net Assets**  
**Figure 3**

|   | Governmental<br>Activities |                     | Business-type<br>Activities |                      | Total                |                      |
|---|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
|   | 2008                       | 2007                | 2008                        | 2007                 | 2008                 | 2007                 |
| <b>Revenues:</b>  |                            |                     |                             |                      |                      |                      |
| Program revenues:   |                            |                     |                             |                      |                      |                      |
| Charges for services  | \$ 1,748,480               | \$ 1,688,921        | \$ 4,110,334                | \$ 3,857,238         | \$ 5,858,814         | \$ 5,546,159         |
| Operating grants and contributions                              | 1,070,209                  | 851,756             |                             | -                    | 1,070,209            | 851,756              |
| Capital grants and contributions                                | -                          | -                   |                             |                      | -                    | -                    |
| General revenues:   |                            |                     |                             |                      |                      |                      |
| Property taxes  | 2,520,817                  | 2,442,147           |                             |                      | 2,520,817            | 2,442,147            |
| Other taxes   | 2,152,482                  | 2,100,030           |                             |                      | 2,152,482            | 2,100,030            |
| Grants and contributions not restricted<br>to specific programs | -                          | -                   |                             |                      | -                    | -                    |
| Other   | 160,991                    | 266,818             | 103,458                     | 95,305               | 264,449              | 362,123              |
| <b>Total revenues</b>   | <b>7,652,979</b>           | <b>7,349,672</b>    | <b>4,213,792</b>            | <b>3,952,543</b>     | <b>11,866,771</b>    | <b>11,302,215</b>    |
| <b>Expenses:</b>  |                            |                     |                             |                      |                      |                      |
| General government  | 1,175,091                  | 1,211,741           |                             |                      | 1,175,091            | 1,211,741            |
| Public safety   | 3,103,699                  | 2,954,018           |                             |                      | 3,103,699            | 2,954,018            |
| Highways/streets  | 1,112,007                  | 1,008,230           |                             |                      | 1,112,007            | 1,008,230            |
| Sanitation  | 1,018,353                  | 1,002,311           |                             |                      | 1,018,353            | 1,002,311            |
| Culture and recreation  | 512,689                    | 480,304             |                             |                      | 512,689              | 480,304              |
| Interest on long-term debt                                      | 11,537                     | 9,184               |                             |                      | 11,537               | 9,184                |
| Water and sewer   |                            |                     | 5,793,545                   | 3,660,609            | 5,793,545            | 3,660,609            |
| <b>Total expenses</b>   | <b>6,933,376</b>           | <b>6,665,788</b>    | <b>5,793,545</b>            | <b>3,660,609</b>     | <b>12,726,921</b>    | <b>10,326,397</b>    |
| Increase in net assets before transfers                         | 719,603                    | 683,884             | (1,579,753)                 | 291,934              | (860,150)            | 975,818              |
| Transfers   | 39,625                     |                     | (39,625)                    |                      | -                    | -                    |
| Increase in net assets  | 759,228                    | 683,884             | (1,619,378)                 | 291,934              | (860,150)            | 975,818              |
| Net assets, July 1  | 6,369,131                  | 5,685,247           | 17,772,725                  | 17,480,791           | 24,141,856           | 23,166,038           |
| Net assets, June 30   | <b>\$ 7,128,359</b>        | <b>\$ 6,369,131</b> | <b>\$ 16,153,347</b>        | <b>\$ 17,772,725</b> | <b>\$ 23,281,706</b> | <b>\$ 24,141,856</b> |

**Governmental activities.** Governmental activities increased the City's net assets by \$759,228, thereby accounting for -88.3% of the total decrease in the net assets of the City of Oxford. Key elements that help negate the net decrease are as follows:

- Second gift of land from John and Lucy Bode for the Oxford Athletic Park (\$275,000).
- PARTF grants and Baseball Tomorrow grant for construction of the Oxford Athletic Park (\$480,000).
- Increases in property tax collections over previous year due to annexation. Major annexations were 40 acres along Highway 15 (Wal-Mart site), the 200 acre Easton Farm, and 16 acres along Highway 158 (N C State Employees Credit Union site).
- Increases in Utility Franchise Taxes. The State's methodology change in video programming taxation from a franchise fee paid by the provider to the City to a tax on providers distributed state-wide created a net increase in video programming tax revenue for the City of \$20,000.

**Business-type activities:** Business-type activities decreased the City of Oxford's net assets by \$ 1,619,378, accounting for 188.3 % of the total decline in the government's net assets. Key elements of this decrease are as follows:

- The net write-off of approximately \$1,980,000 of obsolete capital assets, resulting from the upgrade of the Waste Water Treatment Plant.

### **Financial Analysis of the City's Funds**

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

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

The general fund is the chief operating fund of the City of Oxford. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,357,855, while total fund balance reached \$2,157,820. 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 17 percent of total General Fund expenditures.

At June 30, 2008, the governmental funds of City of Oxford reported a combined fund balance of \$ 2,157,820 a 16.8% percent decrease over last year. The key factor contributing to this decrease was the increase in capital outlay in Parks and Recreation. The City is developing a multi-use athletic facility.

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

General Fund revenues were less than budgeted primarily due to the fact that grants anticipated for the Oxford Athletic Park were not yet received, however these grants should be received in the next fiscal year. Additionally, property tax and sales tax revenues, the two biggest components of General Fund revenue, were greater than budgeted.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Total net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$ 16,045,190 and those for the Storm Water Management Fund amounted to \$108,157. The net assets of the Water and Sewer fund decreased by \$1,692,318, whereas the Storm Water Fund increased by \$72,940, respectively. This decrease in the water and sewer fund is due to the write off of obsolete capital assets, resulting from the upgrade of the Waste Water Treatment Plant.

### **Capital Asset and Debt Administration**

**Capital assets.** The City of Oxford's investment in capital assets for its governmental and business-type activities as of June 30, 2008, totals \$ 28,304,453 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

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

- Construction in progress in the General Fund for the Oxford Athletic Park: \$1,083,482
- Write off of \$1,980,000 of obsolete equipment due to the upgrade of the Waste Water Treatment Plant in the Water and Sewer fund.

**City of Oxford's Capital Assets**  
Figure 4

**(net of depreciation)**

|                                   | Governmental<br>Activities |                     | Business-type<br>Activities |                      | Total                |                      |
|-----------------------------------|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
|                                   | 2008                       | 2007                | 2008                        | 2007                 | 2008                 | 2007                 |
| Land                              | \$ 1,447,329               | \$ 1,152,329        | \$ 28,228                   | \$ 28,228            | \$ 1,475,557         | \$ 1,180,557         |
| Buildings and systems             | 1,917,278                  | 2,529,400           | 22,376,787                  | 14,441,575           | \$ 24,294,065        | \$ 16,970,975        |
| Improvements other than buildings | 1,213,665                  | 191,388             |                             |                      | 1,213,665            | 191,388              |
| Vehicles and motorized equipment  | 660,778                    | 294,964             | 266,298                     | 248,313              | 927,076              | 543,277              |
| Infrastructure                    | 385,617                    | 290,829             |                             |                      | 385,617              | 290,829              |
| Construction in progress          | -                          | -                   | 8,473                       | 10,552,286           | 8,473                | 10,552,286           |
| <b>Total</b>                      | <b>\$ 5,624,667</b>        | <b>\$ 4,458,910</b> | <b>\$22,679,786</b>         | <b>\$ 25,270,402</b> | <b>\$ 28,304,453</b> | <b>\$ 29,729,312</b> |

Additional information on the City of Oxford capital assets can be found in note 4 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2008, the City of Oxford had no outstanding bonded debt. The City had capital lease debt of which \$279,491 was related to governmental activities and \$1,058,880 related to business-type activities. Additionally, the government's current balance of installment purchase financing to upgrade the City's Waste Water Treatment Plant is \$8,811,601. The City's total debt decreased by \$799,440 or 7% during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of assessed value of taxable property located within that government's boundaries. The legal debt limit for the City of Oxford is \$26,770,891.

Additional information regarding the City of Oxford's long-term debt can be found in note 10 beginning on page 70 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

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

- Overall, the economy for the City and County remains stable as we move into the new fiscal year.
- Over the last five years, the incorporated population of Oxford has increased by roughly 800. This increase will now be reflected in the state sales tax allocation calculation.

### **Budget Highlights for the Fiscal Year Ending June 30, 2009**

**Governmental Activities:** Budgeted revenues (excluding appropriated fund balance) for fiscal year 2009 exceed current year revenues by 1% percent due to increased property tax due to anticipated annexation and increased garbage collection revenue. These increases will be partially offset by an anticipated reduction in sales tax collections due to the slowing of the economy. Non – operating revenue will come from \$500,000 in loan proceeds to purchase a pumper fire truck.

Budgeted expenditures in the General Fund (exclusive of the Oxford Athletic Park project) are expected to rise 11% from current year expenditures, due in part to the overall adjustment in salaries resulting from last fiscal year's pay and grade study. Also contributing will be expenditures to replace the Fire Department pumper truck and five vehicles in the Police Department. Furthermore, the City has budgeted an increased debt servicing over current year levels.

Budgeted expenditures to complete the Oxford Athletic Park, which is a General Fund project, are \$390,000 in comparison to \$1,052,000 actually expended in current year. However, since the preparation of this budget, estimated expenditures to complete the project, as well as external project funding, have been revised upward, which may necessitate budget amendments.

**Business – type Activities:** The Water Fund revenues are budgeted to be higher than current year by approximately 1 percent, due to an estimated increase in water and sewer usage.

Total projected Water Fund expenditures increased 5 percent over current year actual expenditures, due in part to the adjustment in salaries resulting from the pay and grade study. Furthermore, increases funding of capital projects, a 5% increase in the water cost to the City, and anticipated increases in land application fees and electricity for the Waste Water Treatment Plant contributed to the increase.

Storm Water revenue is forecasted to be the same as current year actual revenue (\$144,000) and expenditures should increase by \$112,000 due to the funding of the Meadowbrook storm water project.

### **Requests for Information**

This report is designed to provide an overview of the City of Oxford'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 Officer, City of Oxford, NC, P.O. Box 506, Oxford, North Carolina 27565; phone (919) 603-1126.