

**Town of Chapel Hill, North Carolina  
Comprehensive Annual Financial Report  
For the fiscal year ended June 30, 2007**

Prepared by:

Town of Chapel Hill Finance Department



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## Letter of Transmittal

To the Honorable Mayor and  
Members of Town Council  
Town of Chapel Hill, North Carolina

Ladies and Gentlemen:

The Annual Report of the Town of Chapel Hill, North Carolina, for the fiscal year that ended June 30, 2007, which we are pleased to submit, reflects the sound fiscal policies our elected officials have established to achieve their annual priorities for programs, services and capital improvements. Realistic long-range planning, financial management of revenue and cash resources, and prudent use of debt have produced favorable operating results. The town's strong financial position is demonstrated by the highest credit rating attainable in the national bond markets.

Management of the Town of Chapel Hill, North Carolina, is responsible for the integrity and objectivity of financial statements and other representations contained in this annual report. The town's annual financial report, prepared in accordance with generally accepted accounting principles ("GAAP") for units of local government, consists of management's representations concerning the financial position and results of operations for the fiscal year ended June 30, 2007.

North Carolina general statutes require each unit of local government to publish within four months after the close of the fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles and audited by a firm of certified public accountants in accordance with generally accepted auditing standards. The town engaged Dixon Hughes PLLC, independent auditors, to perform an audit of the town's reported financial position and results of operations contained in the government-wide and fund financial statements and notes to the financial statements.

Their audit consists of an objective outside review in order to provide reasonable rather than absolute assurance that the financial statements are free from material misstatements. Working with the town's professional financial staff, they reviewed and made appropriate tests of data included in the financial statements, and evaluated the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the financial statements of the Town of Chapel Hill for the fiscal year ended June 30, 2007, are presented in conformity with generally accepted accounting principles. The report of the independent auditors is presented as the first component of the financial section of this report.

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Honorable Mayor and  
Members of the Town Council  
Town of Chapel Hill, North Carolina  
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The independent audit of the financial statements of the Town of Chapel Hill was part of a broader, federally mandated "Single Audit" designed to meet the special needs of financial grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the town's internal controls and compliance with legal requirements, with emphasis on administration of federal grants.

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

The town's system of internal accounting controls is designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with state statutes, authorization of the Town Council, GAAP, and that financial records are a reliable basis for preparation of both interim and annual financial statements. The system requires selection and training of qualified personnel, an organization structure that provides appropriate delegation of authority and separation of responsibilities, financial policies and procedures and their dissemination throughout the town organization.

Assuring legal compliance requires an accounting system that contains a variety of distinctly different fiscal and accounting entities. Formal budgetary accounting is employed for all funds for management planning and control required by North Carolina general statutes. Budgets are legally enacted by passage of Annual Budget and Project Budget Ordinances and formally amended as required. The town manager has authority to transfer budget amounts within departments, but changes between functions and total budgets of any fund require approval of the Town Council.

This report includes all activities considered to be controlled by or dependent on the Town of Chapel Hill as well as its component unit, the Orange Water and Sewer Authority (OWASA). Those activities consist of the full range of municipal services contemplated by statute or the Town Charter. These services include public safety (fire, police and rescue), parking and transportation. The town's financial statements also present the financial position and results of operations of OWASA, its only component unit. OWASA is a separate, legal entity for which the town is financially accountable because the Town Council appoints a majority of the OWASA Board of Directors. Additional information on the component unit may be found in the notes to the financial statements.

Included in the annual financial report is information about the town as a social and economic unit as well as its governmental structure that is intended to enable the reader to assess the town's economic foundation, quality of life, and financial condition. This information complements Management's Discussion and Analysis, which highlights the fiscal year.

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Honorable Mayor and  
Members of the Town Council  
Town of Chapel Hill, North Carolina  
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The Government Finance Officers Association of the United States and Canada has awarded the highest form of recognition of governmental accounting and financial reporting, the Certificate of Achievement for Excellence in Financial Reporting, to the Town of Chapel Hill for its Comprehensive Annual Financial Report since 1985. We believe that the 2007 Annual Financial Report conforms to the highest reporting standards.

Deserving special commendation are skilled, talented, and dedicated employees — the work force of the Town of Chapel Hill. Acknowledgement and appreciation are expressed for their contributions to a successful year. We also express our sincere appreciation to the Mayor and Town Council for leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

Respectfully submitted,



Roger L. Stancil  
Town Manager



Loris R. Colclough  
Interim Finance Director

October 31, 2007



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# The Town of Chapel Hill

## A Brief History

*The history of Chapel Hill began with the birth of the University of North Carolina. Local settlers donated 1,386 acres of land, which encouraged the selection of Chapel Hill as the site for the university. A portion of the donated land, 30 lots laid out for the village, was auctioned on October 12, 1793, directly after the cornerstone of the first University building, Old East, was laid. The village which supported the nation's oldest public university was incorporated as the Town of Chapel Hill in 1819. Today, the University enjoys a reputation as one of the best public universities in the United States.*

*The acceleration of the town's population began in the 1920's with the largest increases during the decade 1960-70. Rapid growth of the University and the establishment of the Research Triangle were factors in the expansion. Chapel Hill has also attracted many retired people.*

*In 1950, the town limits expanded for the first time since incorporation. A steady growth outward along major thoroughfares has occurred, and shopping centers along these roads have been built.<sup>1</sup>*

## General Description

The Town of Chapel Hill, North Carolina is located principally in Orange County (92.8%) and partially in Durham County. The town is part of the growing Research Triangle region, southwest of the City of Durham and approximately 25 miles northwest of the City of Raleigh. The town is approximately halfway between Washington, D. C. and Atlanta Georgia. The area's topography is characterized by rolling hills.

## A Transition in Management

In February 2007, the Town Council accepted \$100,000 to establish an endowment to provide service awards to town employees for distinguished service. The Chapel Hill community raised the award funds in honor of former Town Manager W. Calvin "Cal" Horton on his retirement on September 1, 2006, after 16 years as town manager. He was the town's longest serving manager. Among his many accomplishments, he helped the town achieve a AAA rating from two national credit rating agencies.

In its selection process for the town manager position, the Town Council formed a search committee and held a public forum to allow citizens to meet the candidates. The Council selected Roger L. Stancil, who previously worked 24 years for the City of Fayetteville, becoming its city manager in 1997. Stancil led Fayetteville during a time of unprecedented population growth from 70,000 to 180,000 residents, facilitated the redevelopment of downtown, coordinated relationships with Fort Bragg and Pope Air Force Base and developed a successful multicultural learning organization.

Stancil received a B.A. degree in Politics from Wake Forest University and a Master of Public Administration degree from the University of North Carolina at Chapel Hill in 1982.

<sup>1</sup> From "A Backward Glance – Facts of Life in Chapel Hill"; and "Chapel Hill, 200 Years: close to magic", The Chapel Hill Bicentennial Commission; Chapel Hill: Sheer Associates, Inc.; 1994. (Copies of both books are available at the Town of Chapel Hill Revenue Office.)

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## **Commerce and Institutional Profile**

The town is characterized by a high degree of institutional, public sector activity, plus office, commercial and service-oriented activity. The University of North Carolina at Chapel Hill and the University of North Carolina Health Care System are the largest employers in the town, providing about 18,000 jobs. The University and hospitals and their associated service, teaching and research programs have a national reputation for excellence in educational and medical fields. These institutions contribute significantly to the low unemployment rate in the town and Orange County. The town's unemployment rate has been below state and national rates for more than ten years. The town's economy is expected to remain relatively strong in the foreseeable future because of the benefits derived from the low unemployment rate and a stable employment base. Family income for a family of four in Chapel Hill at \$92,000 is estimated to be 55% higher than the United States median of \$59,327 and 4% higher than the region's.

The town is also the place of residence for many technical, professional and executive personnel who work in the Research Triangle Park and the neighboring communities of Durham and Raleigh. The Research Triangle refers to an area located between three communities: the town, the City of Durham and the City of Raleigh. Universities located in these communities include the University of North Carolina at Chapel Hill, Duke University in Durham, and North Carolina State University in Raleigh. The proximity of these universities made the area suited to many types of academic research and industrial activities and the Research Triangle Park was organized in 1959. The Park encompasses over 7,000 acres of land set aside for research and research-oriented manufacturing. Since its founding, the Park and its surrounding areas have developed steadily. Presently located within the Park boundaries are approximately 100 research and development related organizations, employing over 44,000 people and having an annual payroll over \$2.7 billion.

The town adopted a new Land Use Management Ordinance in January 2003, which revised development regulations. The town experienced a drop-off in major development applications while the new regulations were being formulated and immediately after their adoption. Typically, there is about a one-year lag between the town's receipt of a development application and building permit issuance.

Recent employment data of major businesses and institutional establishments in the Chapel Hill area include: University of North Carolina and University Hospitals (18,000), Duke University and Medical Center (17,420), IBM (14,000), GlaxoSmithKline (5,000), SAS Institute (4,840), Nortel Network (4,000), Blue Cross-Blue Shield of N.C. (3,875), Progress Energy (3,430), Cisco Systems (2,800) and Verizon Communications (2,800).

## **Development**

The Town of Chapel Hill has initiated a \$75 million public/private development project to construct a three-section building complex combining condominiums, retail and underground parking. The complex will be constructed on town-owned Parking Lot 5, facing both Franklin and Rosemary Streets. The project, in addition to retail space, will include 137 condominiums with 21 affordable housing units which will be placed in the Land Trust, nearly 30,000 square feet of office/retail space, and 345 parking spaces. The project will also include about 27,000 square feet of open public space and public art. The town will retain ownership of the site with a land lease and will own 161 parking spaces with 169 spaces for condominium owners.

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The downtown development project will stimulate the town center, reduce dependency on the automobile and increase the tax-base. When completed, the project is expected to generate about \$1.06 million in new property and sales taxes and parking revenue.

The University is planning a new living and learning community on approximately 900 acres called Carolina North. The new development on land formerly used by the Horace Williams Airport will combine a world-class research park with academic buildings, businesses, residential areas, green space and public schools. In January 2007, a report of guiding principles was submitted to the Town of Chapel Hill on development of Carolina North. Carolina North will best serve the university and the state if it also strengthens the local community, enhances its quality of life, respects its character and values, and embraces its spirit of collaboration. Businesses incubated at Carolina North ideally would be retained within the community once they leave Carolina North, and such efforts should be supported through communication, cooperative planning and assistance to the maximum extent possible.

Much more than a technology park or overflow space for main campus, Carolina North will be a tree-shaded campus for living and learning, where people can live, work and study in one place. In June 2007, the Council authorized the town manager to prepare and issue a Request for Qualifications for a consultant to assist with the process for establishing development regulations for the University project including zoning requirements, building standards and development agreements.

A groundbreaking ceremony was held on June 4, 2007 by the Town of Chapel Hill and Orange County on a joint project called Southern Community Park. The park is located south of Southern Village and west of Highway 15-501. The park, which is expected to be completed in mid-2008, is funded by Chapel Hill, Orange County and a North Carolina Parks and Recreation Trust Fund grant.

The park will be the town's 12<sup>th</sup> and largest with 72 acres. The \$4.7 million park project will have athletic and soccer fields, basketball courts, an inline hockey court, dog park, meadow area, trails, play area, and a disk golf course. Two planned parking lots will give access from Highway 15-501 and Dogwood Acres Drive.

The Town Council approved a development application in April to expand the North Carolina Botanical Garden facility for a new Visitor Education Center that will be included in 24,503 square feet of new floor area in three buildings. The project will achieve a silver level or above on the U. S. Green Building Council LEED rating system. New pedestrian and bicycle circulation are proposed by a network of paths throughout the site.

## **Education**

Chapel Hill offers quality primary and secondary public education and higher education opportunities at one of the nation's highest ranked public universities.

The *Chapel Hill - Carrboro City School System* provides quality education for about 11,000 students in southeastern Orange County. In addition, the Durham County School System serves students residing in the small portion of the town located in Durham County. The Chapel Hill-Carrboro City School System is governed by a Board consisting of seven members elected to four-year staggered terms.

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Chapel Hill-Carrboro is one of the top 37 school districts in the United States and the top performing school district in the Southeast US. These achievements are based upon student scores on the SAT, student participation in Advanced Placement courses, the number of National Merit Scholars and similar data. Among the 25,000 high schools in the United States, Chapel Hill High School has been ranked as one of the top 10 high schools for "the best student performance over the past 10 years based on SAT, achievement-test and standardized-test scores" in the Wall Street Journal (October 15, 1999). Both Chapel Hill High School and East Chapel Hill High are recognized in Newsweek magazine (March, 2001) for being in the top 100 high schools nationally for the participation of students in advanced placement (AP) course work.

Among the 117 school districts in North Carolina, Chapel Hill-Carrboro schools has been recognized for highest in percentage of students taking the SAT (92.5%), highest average SAT score (1185), highest high school "End-of-Course" test results, highest percentage of faculty with master's degrees or doctorates (56%), highest percentage of graduating students pursuing higher education (81% in colleges and universities) and (9% in two-year community colleges) and lowest high school dropout rate at 1.25 %. Over 3500 students, or more than one-third of all students, receive services in gifted education. Each school employs at least one enrichment specialist and uses multiple criteria to identify students as gifted. In fact, in each classroom 40 to 45 percent of the students score at the 97th, 98th or 99th percentiles on state tests.

The school system also offers an array of services for students with special needs and substantial support for students who need additional academic assistance. In addition, we are expanding programs for students who have limited English proficiency.

The town has no financial responsibility for the schools. Revenue is derived from the federal, state and Orange County governments for school operations and capital facilities.

The *University of North Carolina at Chapel Hill* was the nation's first state university to open its doors and the only public university to award degrees in the 18th century. It is the flagship of the University of North Carolina System. The University is situated in central Chapel Hill on 730 acres that has been called one of the most beautifully landscaped spots in the United States by the American Society of Landscape Architects. The University offers over 250 degree programs, including professional degrees in dentistry, medicine, pharmacy and law.

Today, the campus is undergoing an unprecedented physical transformation made possible in part by North Carolinians' overwhelming approval of the \$3.1 billion bond referendum for higher education. The referendum, approved in November 2000, was the nation's largest higher education bond package. The bonds have meant more than \$515 million for renovations and new buildings so 21st century students at Carolina can learn in a 21st century environment. Also guided by a visionary campus master plan for growth now rapidly coming to life, the university is investing funds from non-state sources, including private gifts and overhead receipts from faculty research grants, for other buildings essential to excellence. The resulting capital construction program exceeding \$1.8 billion is among the largest underway at any major American university. As of May 2007, the university had completed 68 projects, or 38 percent of the total capital program. Another 40 projects were under construction and 60 other projects were in design.

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The University is listed by many national publications that ranked Carolina prominently in categories ranging from academic quality to affordability to diversity to engagement to international presence. Recent highlights include:

- 1st for six consecutive times among the 100 best U.S. public colleges and universities that offer the best combination of top-flight academics and affordable costs as ranked by *Kiplinger's Personal Finance* magazine.
- 5th best public university in *U.S. News & World Report's* 2007 "Best Colleges" guidebook for the sixth consecutive year. 1st among public campuses for the second consecutive year. 9th overall in "Great Schools, Great Prices," based on academic quality and the net cost of attendance for a student
- Among the 17 "best buy" public universities in the U.S. and Canada as judged by the *2006 Fiske Guide to Colleges* based on the quality of academics in relation to the cost of attendance.
- Kenan-Flagler Business School: tied for 5th overall among undergraduate programs, 4th for management and 5th for marketing specialties.
- One of 6 public universities ranking in the top 25 for all nine measures used in "*The Top American Research Universities*," produced in 2007 by The Center for Measuring University Performance at Arizona State University.
- Among 25 "New Ivy" campuses in the *2007 Kaplan/Newsweek "How to Get into College Guide."* Includes schools with first-rate academic programs fueling their rise in national stature. Reports *Newsweek*: "If a moviemaker needs an idyllic setting for a film about college life, Chapel Hill might just take the prize."

### **Health Services**

Chapel Hill is home to the UNC Health Care System and UNC Hospitals, a not-for-profit integrated health care system owned by the State of North Carolina and based in Chapel Hill. It exists to further the teaching mission of the University of North Carolina and to provide state-of-the-art patient care. A distinguishing characteristic of UNC Health Care is its association with the UNC-Chapel Hill School of Medicine, a nationally eminent research institution. This relationship gives UNC Health Care a powerful pathway for moving the results of biomedical research from medical school laboratories to patient care settings.

UNC Hospitals is the cornerstone of UNC Health Care, which includes N. C. Memorial Hospital, N. C. Women's Hospital, N. C. Children's Hospital, and N. C. Neurosciences Hospital. UNC Health Care is improving health and treating disease across North Carolina.

People from all 100 North Carolina counties and throughout the Southeast are patients at the 724-bed facility - more than 31,000 each year - and more than 3,500 new Tar Heels are born each year at UNC Hospitals. In addition to women's and children's services, UNC delivers the best in interdisciplinary health care to all North Carolinians, male and female, young and old. Specialized patient care services include the Breast Center, Cardiovascular Program, Diabetes Care Center, Lung Center, Rehabilitation Center, Spine Center, Wound Management Program and Comprehensive Transplant Center. The medical center's extensive expertise in arthritis, digestive diseases, endocrinology, ENT, gynecology, hemophilia,

infertility, rheumatology, and orthopaedics has achieved both regional and national recognition. UNC Health Care extends beyond Chapel Hill with nearly a half-million people cared for at UNC practices and clinics each year.

Construction of the new N.C. Cancer Hospital at UNC Hospitals is now under way, with completion tentatively expected in 2009. The North Carolina Cancer Hospital will become a world-class hospital for cancer patients and their families from North Carolina and beyond. The new hospital will bring complete cancer care for patients and research facilities into one building and serve as the new clinical home for the UNC Lineberger Comprehensive Cancer Center, one of only 38 such National Cancer Institute-designated centers in the United States.

Also under construction by the UNC Health Care System is the Genetic Medicine Building, which will become one of the largest facilities on campus. The building represents a cooperative effort between the schools of pharmacy and medicine to offer unique opportunities for interdisciplinary collaboration. Among these are projects to develop novel approaches to deliver gene therapy. The seven-story structure will contain five laboratory floors and will house researchers from pharmacy and three medical school departments: pharmacology, genetics, and biochemistry and biophysics.

### **Technology**

The town is working on fiber-optic capability, WiFi hotspots in the downtown area, and planning a study of a larger-scale connectivity project. The fiber-optic project will provide improved municipal networking and is currently in the design phase together with an improved fiber-optic traffic signal system. WiFi hotspots have been installed in downtown areas. Reception has been verified for public benches, bus stops, and in some buildings within the WiFi areas. Now, residents and students of Chapel Hill will have Internet access almost anywhere in the central area along the northern edge of the University campus for more than a mile toward the west. Although the fiber optic networking project will be large in scale, community wide connectivity concerns will require further review.

### **Housing**

The predominant land use in Chapel Hill is residential use, comprising nearly 53% of the town. Within this total, low density residential use is the largest component at 41%, medium density at 4.5% and high density residential use at 7%. The second largest category is institutional use, which includes the University and makes up 21%. Privately owned commercial, office, mixed-use and industrial areas combined totals approximately 5% of the town's land. Commercial space (office, retail and warehouse) measured in terms of square footage, has grown by at least 51% between 1992 and 2006.

Housing costs in the Chapel Hill area is among the most expensive in than in the region. The average price of a home increased between 2000 and 2006 in Durham County 121%, in Wake County 125%, in Orange County 135%, and in Chapel Hill 148%. The average price of homes sold in Chapel Hill (single-family detached houses, townhouses, and condominiums) was approximately \$387,451. This cost is determined by the combined average for single family detached, townhouse and condominium units. During 2006 sales of houses costing more than \$250,000 represented 19% of total sales in Durham County, 36% in Raleigh, 51% in Orange County and 65% in Chapel Hill.

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In 2006, residential construction in the town consisted almost entirely of single-family residential units with 304 certificates of occupancy issued. Because of the increasing difficulty of finding housing at prices affordable for low and moderate income households, the town updated priorities for affordable housing goals in the “2005-2010 Consolidated Plan for Housing and Community Development Programs in Orange County.” These priorities include:

- Provide rehabilitation assistance for very-low and low-income homeowners and rental housing serving low-income tenants.
- Facilitate the construction of new or substantially rehabilitated housing units that are affordable to families earning less than 60% of the area median income.
- Encourage developers of housing projects with more than five units to provide 15% of the units at “prices affordable to low and moderate income households.”

Chapel Hill also provides good housing for its less affluent citizens. The Housing Department administers 336 units of public housing located at 13 sites (12 in Chapel Hill and 1 in Carrboro).

### **Town Operations Center**

The largest capital project in town government’s history, the Town Operations Center, has been completed north of town. The center, which was begun in October 2004, is comprised of four buildings occupying about 54 acres. The center will house town public works services and transit operations. The \$52 million project reflects the Council’s key values of sustainability, environmental sensitivity and fiscal prudence. The design of the Town Operations Center includes a number of sustainable design features intended to reduce the facility’s use of non-renewable resources and minimize its impact on the environment. In addition to four large buildings, the project included new water and sewer lines and extensive improvements to Millhouse and Eubanks roads. The facilities include geothermal heating system, underground tanks to hold rainwater, and passive and active solar design features. Collected rainwater is used throughout the buildings to supply toilets, in vehicle wash facilities and as a source of irrigation of landscaping.

### **Government and Major Services**

The town has a Council-Manager form of government. The Town Council is comprised of a Mayor and an eight-member Council. All Council Members serve four-year terms. The Mayor and four Council Members are elected every two years. All elections are on a non-partisan basis. The Council appoints the town manager and town attorney. The Mayor presides over the Council meetings and has full voting privileges. The town manager is the chief administrative officer of the town and all departments are responsible to the Town Manager for the provision of public services.

The town presently covers an area of 21.3 square miles and has a population of 53,416 according to the latest estimate issued by the state for 2006. In the past, growth of Chapel Hill has been related to the expansion of the University of North Carolina at Chapel Hill. Enrollment at the University has risen from

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8,791 in 1960 to 26,359 in 2004. Approximately fifty-six percent of the student enrollment of the University resides in Chapel Hill. Expansion is continuing for the University and University-related health facilities.

The town is empowered by statute to extend its corporate limits by annexation. It has an ongoing planning and programming process through which it implements orderly expansion and management of the growth and development of the community. As of June 2006, the town covers an area of 21.3 square miles and exercises zoning and building controls over an additional 6.2 square mile planning jurisdiction.

The town has statutory authority to levy an annual ad valorem tax on the appraised value of all taxable real and tangible personal property within its corporate limits. Orange and Durham Counties are the other units that levy property taxes within the corporate limits of the town. State statutes limit the taxing authority for operating purposes to not more than \$1.50 per \$100 assessed valuation unless (1) voters approve a higher rate or (2) for the following purposes; debt service, deficits, and joint undertakings with any other town, city or political subdivision in providing any of the above functions, services or activities, for which unlimited taxes may be levied.

The annual budget serves as the foundation for the town's financial planning and control. The Town Council is required to consider the proposed budget, hold public hearings and adopt a final budget by June 30 for the next fiscal year. Budgetary accounting is used for all funds as required by North Carolina General Statutes. Legally enacted budgets including the Annual Budget Ordinance and Project Budget Ordinances, which cover multiple-year capital projects and grants or other special projects, may be formally amended by the Town Council. The town manager is authorized to transfer budget authorizations within departments, but changes between functions and the total budget of any fund require approval by the Town Council.

The Town of Chapel Hill provides professional and financial sound municipal services for town citizens including housing, public safety, planning for growth and development, leisure, which includes library and parks and recreation, public works, transit and general administration services in the community, in the General Fund. Other services such as the transit system, stormwater management, and parking are provide in separate funds.

*Public Safety* for the community is provided by the professional police, fire and emergency medical service departments. The Chapel Hill Police Department has 144 sworn and civilian employees to protect people and property and enforce laws of the state and ordinances of the town. The department has increased police visibility downtown, particularly with officers on bicycles and on foot patrol. The Chapel Hill Fire Department has 86 certified firefighters and civilian staff serving to protect life, property and the community environment from the destructive effects of fire, disasters or other hazards. The Fire Department provides average response times of four minutes. Trained emergency medical technicians on duty 24 hours a day provide response times of less than four minutes for emergency medical calls. The Fire Department also conducts fire safety and code enforcement inspections, reviews construction plans, and investigates fire scenes.

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*Leisure Services* includes the Chapel Hill Public Library and the Parks and Recreation Department. The Chapel Hill Public Library provides a set of services that distinguishes the Chapel Hill Public Library from other local libraries in the way that it serves its patrons. Children and adults residents of the town and a large portion of southern Orange County can take advantage of opportunities including recreational reading, listening, and viewing materials, and information about contemporary culture and trends. The library supports life-long learning opportunities through information and programs that provide general information from answering reference questions to specialized paper or electronic reference services. Library staff are available to provide instruction finding, evaluating, and using information resources.

Town residents enjoy an array of recreational opportunities: the excitement of college sports, golf courses, tennis and many other amenities provided by town government, the local university and businesses. In addition, the town's piedmont location gives residents easy access to both world-famous beaches and North Carolina mountains.

Chapel Hill's Parks and Recreation Department is recognized for serving the recreation needs of town residents. The town's recreation facilities collectively offer many programs and activities for all age groups. Youth and adult sports activities through league play, clinics, and drop-in free play includes basketball, flag football, lacrosse, softball, volleyball, tennis, swimming and bocce ball. The recreation areas consist of more than 300 acres including 4 community parks and 8 neighborhood parks offering community centers, gymnasiums, swimming pools, tennis courts, soccer fields and baseball diamonds, picnic and playground equipment scattered throughout the town, along with a growing system of greenways and nature trails.

The 2002 Parks and Recreation Master Plan recognized park and recreation facility needs and the joint responsibilities of Chapel Hill and Orange County for town and county residents. In addition to the Southern Community Park that is currently under construction, the town and county have made several strides to meet objectives outlined in the Plan. An Aquatics Center is under construction at Homestead Community Park. The \$5.5 million project is funded from Chapel Hill bonds totaling \$1.2 million and Orange County bonds totaling \$4.3 million. The 27,000 square foot center will feature two pools, locker rooms, bleachers, a reception area, office space and public art.

Nearing completion is a \$2 million project to repair and renovate the Estes Drive Community Center. The parks and recreation facility offers indoor activities such as swimming, basketball and climbing on an indoor climbing wall. During the renovations, indoor activities have been suspended or rescheduled at other park and recreation facility sites. The renovation of the 25-year old building will involve overhauling the pool and mechanical systems, installing new roofs, replacing heating and cooling systems, making improvements to assist handicap persons, and replacement of the gym hardwood flooring. The center is scheduled to reopen in the last quarter of 2007.

*Transit System* services are provided for the Town of Chapel Hill and on a contractual basis for the neighboring Town of Carrboro, the University of North Carolina and the UNC Health Care System. The bus system is the state's first fare-free system for passengers on all regular routes and services. Bus routes and stops are located so that 90% of all households are within one quarter mile of a bus stop. Park-ride lots are established on the perimeter of the town to facilitate transportation in and out of the University and downtown area. The system operates a fleet of 99 buses, two 15-passenger vans, and 15 lift-equipped vans during weekday peak periods, and shared-ride, demand responsive programs to provide

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evening services. The system had over 5.5 million passengers in fiscal year 2006-07, the highest ridership in the state. As a result of alternative transportation choices in Chapel Hill, more than 29% of the people take public transportation or carpool to work compared to less than 9% in the region.

Major revenue sources include federal and state operating assistance, University and Town of Carrboro contract payments, and local property taxes. Seventy percent of the Transit System revenues come from state operating assistance and annual contracts with the University of North Carolina and Town of Carrboro in fiscal year 2006-07. The system also received \$2.6 million from local property taxes and \$1.1 million of federal funding for operations. Other revenues for the system include about \$404,000 for Tar Heel Express services.

*Water and Sewer* services are provided by the Orange Water and Sewer Authority. The Authority was created in 1975 by the Board of Commissioners of Orange County and the governing bodies of the towns of Chapel Hill and Carrboro for the purpose of acquiring, consolidating, improving and operating the existing water and sewer systems in the southern portion of the County. Prior to the formation of the Authority, water service was provided by the University of North Carolina at Chapel Hill and sewer service was provided by the town in conjunction with the University.

The Orange Water and Sewer Authority (“OWASA”) commenced utilities operations in February, 1977. The town conveyed its sewer utility facilities to the Authority. Under the terms of the transfer, the Authority provides and maintains sewage collection and treatment facilities under applicable laws and regulations.

OWASA has adequate water supplies to meet current demand from its three present reservoirs. To address long-term water storage needs, OWASA in the 1980s received an allocation from the State of North Carolina for a portion of future water supply from a regional lake. In 2001, OWASA and a private company received approval for expansion of a stone quarry that will become a water supply reservoir by the year 2030.

Improvements to increase the filtration capacity of the Orange Water and Sewer Authority’s water treatment plant from 15 million gallons per day (MGD) to 20 MGD were completed in 2003. While peak-day demands have not exceeded present capacity, the trend of rising peak demand in recent years necessitated the expansion. Design work is complete and construction has begun on the Mason Farm Water transmission lines with Jones Ferry Road expansion to 14.5 MGD. In addition, design work is beginning for additional improvements to reduce certain hydraulic bottlenecks at the wastewater treatment plant capacity. The capacity of both treatment plants is, therefore, adequate to meet current needs, and additional system improvements including future plant expansions are planned through OWASA’s 15-year capital program. (See Notes to Financial Statements for further information regarding Orange Water and Sewer Authority.)

*Parking Facilities* operated by the town include several off-street parking lots in the central business district and a parking deck with 315 spaces. The parking facilities operations are accounted for in separate enterprise funds and are self-supporting. Construction is expected to begin in 2008 on parking lot 5 for retail space and 137 condominiums of which 21 will qualify as affordable housing, and an underground parking garage with about 330 spaces.

*Solid Waste* collection and recycling services are provided by the town's public works department. Operational responsibility for the Orange Regional Landfill, formerly administered and operated by the town, was transferred to Orange County in April, 2000. The landfill is expected to be usable through the year 2010.

**Cash and Revenue Management**

Cash temporarily idle during the year is invested in time deposit accounts and the investment pool authorized by the State Treasurer. The town's investment policy emphasizes safety and liquidity while maintaining a competitive yield on its portfolio. Accordingly, the majority of deposits were either insured by federal depository insurance or fully collateralized. Over 95% of investments held by the town at June 30, 2007 are classified in the category with the lowest credit risk as defined by the Governmental Accounting Standard Board.

**Long-term financial planning**

The town is considering new capital projects which could affect future financings and debt service. In April 2003, the Town Council adopted a Library Building Program as part of the Library Master Plan. The plan calls for the expansion of the present library building from 27,000 square feet to 75,500 square feet, increasing user seating, book collection and other library materials. In addition to the Library Building Program, the Town Council recommended that citizens consider bond financing for several projects. A general obligation bond referendum was held and approved by town voters in November 2003 for the library building expansion, streets and sidewalks, parks and recreations facilities and other projects, as follows:

<b>Projects</b>	<b>Amount</b>	<b>Purpose</b>
Library Building Program	\$ 16,260,000	Expansion of town library
Streets and Sidewalks	5,600,000	Construct 50% of sidewalk priorities
		Upgrade safety and amenities for bicycles and pedestrians
		Downtown streetscape
Parks and Recreation Facilities	5,000,000	Construct up to 50% of greenway plans
Open space and areas	2,000,000	Purchase land for open spaces
Public buildings	500,000	Establish an energy bank
<b>Total</b>	<b>\$ 29,360,000</b>	

The town issued \$4 million of the authorized bonds in 2004, and \$4.95 million in 2006. The remaining authorized but unissued totaling \$21.4 million are planned to be issued in fiscal years 2009 and 2010. The issuance of the remaining authorized bonds may affect future property tax rates.

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**Risk Management**

The town participates in the Interlocal Risk Financing Fund of North Carolina for potential claims for property and casualty and general, automobile, public officials and law enforcement liability programs. The town also participates in the Interlocal Risk Financing Fund for workers' compensation. The town's potential loss from a liability claim is limited to a deductible on each claim for all coverages, except public officials, which is limited to a deductible of \$5,000 per claim.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Chapel Hill  
North Carolina

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

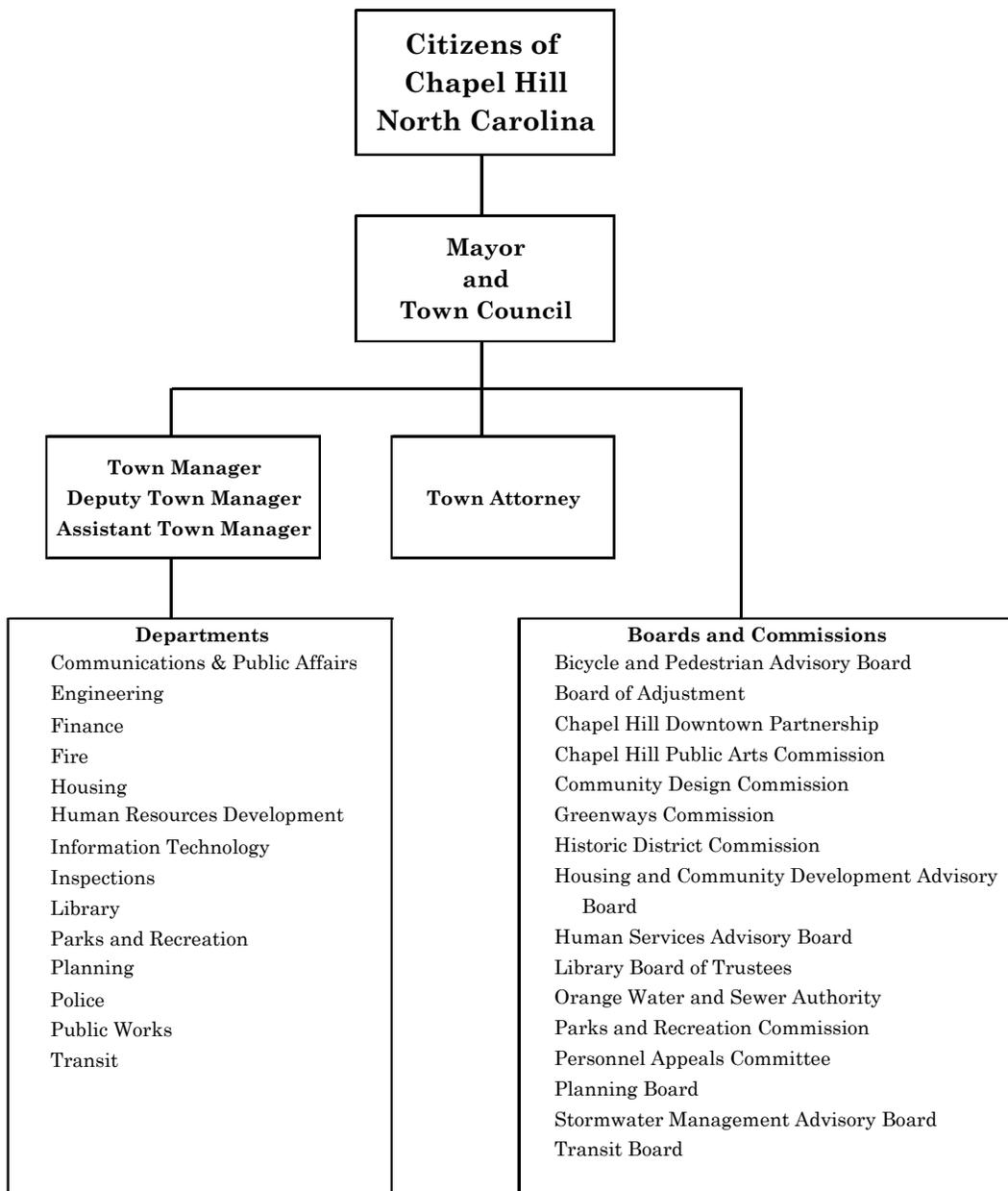
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# Organizational Chart



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# **Town of Chapel Hill, North Carolina**

## **Governing Body and Officials**

**Mayor**

Kevin C. Foy

**Mayor pro tem**

Bill Strom

**Town Manager**

Roger L. Stancil

**Deputy Town Manager**

Florentine M. Miller

**Assistant Town Manager**

Bruce A. Heflin II

**Town Attorney**

Ralph D. Karpinos

**Town Council**

Laurin Easthom

Sally Greene

Ed Harrison

Cam Hill

Mark Kleinschmidt

Bill Thorpe

James Ward

**Interim Finance Director**

Loris R. Colclough



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**DIXON HUGHES** PLLC

Certified Public Accountants and Advisors

## ***INDEPENDENT AUDITORS' REPORT***

To the Honorable Mayor  
and Members of the Town Council  
Chapel Hill, 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 Chapel Hill, North Carolina as of and for the year ended June 30, 2007 which collectively comprise the Town of Chapel Hill's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Chapel Hill's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Orange Water and Sewer Authority representing 59%, 57%, and 28%, respectively, of the assets, net assets, and revenues of the financial reporting entity, which consist of governmental activities, business-type activities, and discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Orange County Water and Sewer Authority, is based solely on the reports of the other auditors.

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 basic 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of 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 *October 31, 2007* on our consideration of the Town of Chapel Hill's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 23 through 31, and the Chapel Hill Police Officers' Retirement and Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 83 and 84 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Chapel Hill, North Carolina. The introductory information, combining, and individual nonmajor fund financial statements and schedules and the statistical tables, Financial Data Schedule, as well as the accompanying schedule of expenditures of federal and state awards 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, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, Financial Data Schedule, and the accompanying 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 and the other auditors in the audit of basic financial statements and, accordingly, we express no opinion on them.

*Dixon Hughes PLLC*

*October 31, 2007*

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# Management's Discussion and Analysis

Our discussion is intended as an overview of the financial performance of the Town of Chapel Hill (hereinafter "Chapel Hill") for the fiscal year ended June 30, 2007. The financial statements and notes included in this report present the financial position and operations of governmental and business activities and fiduciary responsibilities of the town. During the fiscal year the town continued its sound current and long-range policies for financial management. These policies are intended to:

- expand and diversify sources of revenue other than property taxes;
- maintain relatively low-property tax rates;
- facilitate capital improvements by maintaining adequate resources and reasonable financing capacity;
- enhance management techniques to improve productivity and efficiency;
- provide professional public services that are similar in operation to private enterprises; and
- continue town-funded affordable housing initiatives to supplement federal housing programs.

Town policies encourage the use of local revenue to provide basic services instead of depending upon uncertain federal and state sources. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal and description of the town as a social and economic unit and financial statements and notes thereto.

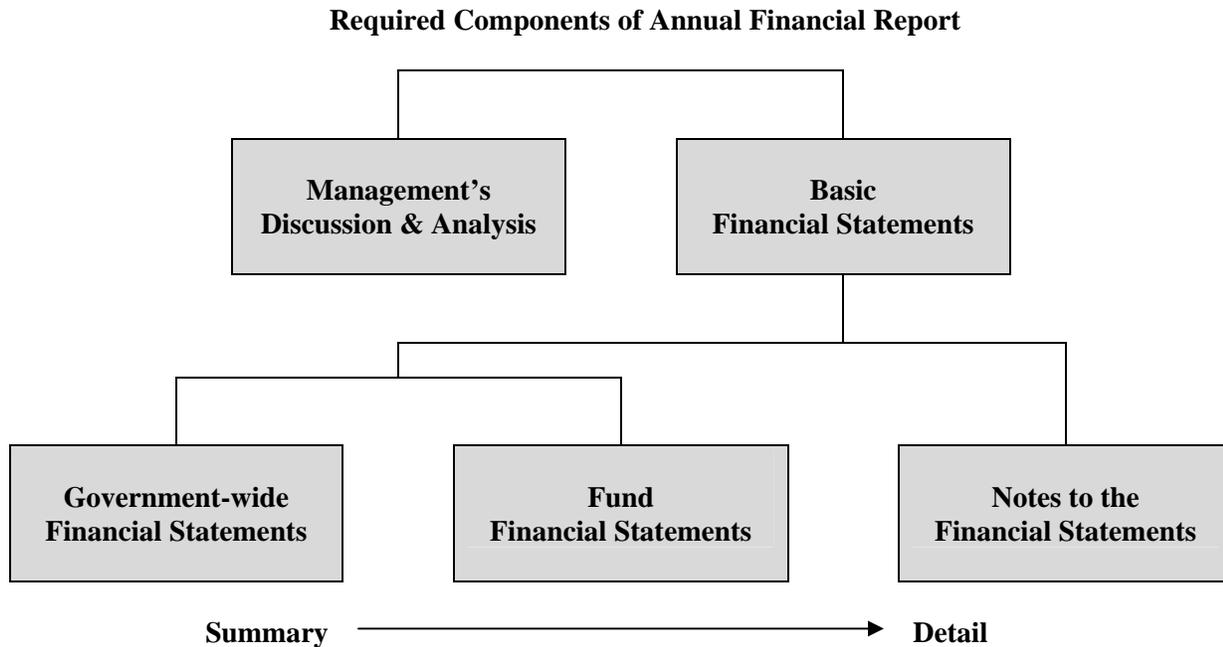
## Financial Highlights

Highlights of the town's fiscal year ended June 30, 2007, include:

- Chapel Hill's total assets increased \$24.5 million to \$204.2 million. The increase largely reflects the completion during the fiscal year of the \$52 million Town Operations Center.
- At June 30, 2007, total net assets of \$132.4 million included \$31.3 million (unrestricted net assets), which in large part have been reserved for specific purposes or are needed for working capital to meet the town's ongoing services to citizens and obligations to creditors.
- As of the close of the current fiscal year, Chapel Hill's governmental funds reported combined ending fund balances of approximately \$34.5 million, a decrease of nearly \$3.9 million in comparison with the prior year. The decrease in governmental funds is largely due to the decrease in the Capital Projects Ordinance fund's reserve for capital improvements.
- Undesignated fund balance of the General Fund (totaling approximately \$6.5 million after \$4.3 million has been designated for the 2007-08 budget) continues to meet working capital requirements and a policy of reserving at least 12% of the succeeding fiscal year budget. Legal provisions and financial policies of the town restrict fund balance in other funds for the purposes of those funds.

- The town’s total long-term liabilities increased by \$4.7 million to \$58.5 million.
- Property taxes supported slightly more than 50 percent of the governmental services to citizens and the community in 2007.
- The Town of Chapel Hill maintained its AAA bond rating from Moody’s Investors Service and attained a AAA rating from Standard and Poor’s.

**Overview of the Financial Statements**



**Basic Financial Statements**

This discussion and analysis serves as an introduction to Chapel Hill’s basic financial statements, which consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements as shown above. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader’s understanding of the financial condition of the Town of Chapel Hill, including a statistical section. This report includes all funds of the town as well as a component unit, which is described below. Note A in the financial report includes a further discussion of the reporting entity and descriptions of funds.

The final section of the financial statements is the federally mandated “Single Audit”, which is prepared to comply with the Single Audit Act of 1996 and the State Single Audit Implementation Act. Reports on internal control and compliance, along with a schedule of financial assistance, are presented to reflect federal, state and local participation in various projects and programs as adopted by the Town Council.

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## Government-wide Financial Statements

The first two statements (Exhibits 1 and 2) are government-wide financial statements that are designed to provide a broad overview of the town's financial position and operations, in a manner similar to a private-sector business. These statements include one component unit, the Orange Water and Sewer Authority (OWASA). This entity, although legally separate from the town, is included in the financial statements because the Town Council has appointment authority over OWASA's governing board.

The statement of net assets presents the town's and OWASA's assets and liabilities, with the difference between the two categories reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the town and its component unit is improving. The statement of activities presents information on 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. Therefore, revenues and expenses are reported in this statement, which may result in cash flows in future fiscal periods, such as uncollected taxes and earned but unused vacation leave.

Government-wide statements are divided into governmental and business-type activities of the town and activities of the component unit. Governmental activities include most of the town's basic services such as environmental and development, public safety, leisure activities, and general administration. Property taxes and state and federal grants finance most of these activities. Business-type activities include transit, parking, housing and stormwater services.

## Fund Financial Statements

The fund financial statements (Exhibits 3 through 10) provide more detail about the town's most significant activities. Funds are used to maintain control over resources that are to be segregated for specific activities or purpose. Fund accounting ensures and reflects compliance with finance-related legal requirements, such as the General Statutes, grantor provisions and the town's budget ordinance. Fund Financial Statements are divided into governmental and proprietary funds statements.

**Governmental Funds** are used to account for basic services and are reported as governmental activities in the government-wide financial statements. Governmental funds use an accounting method called modified accrual accounting. This method provides a short-term spending focus. 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.

**Proprietary Funds** may report two types of activities: enterprise and internal service activities. *Enterprise Funds* are used to report business-type activities that are presented in the government-wide financial statements. Chapel Hill uses enterprise funds to account for transit services, parking, public housing and stormwater management. *Internal Service Funds* are used to account for accumulation and allocation of costs internally among other funds of the town. The Town uses internal service funds to account for the central garage, the purchase of vehicles, and the purchases of computer equipment and software. Because these operations predominantly benefit governmental rather than business-type activities, the internal service funds have been included within the governmental activities in the government-wide financial statements.

**Notes to the Financial Statements** 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 55 through 82 of this report.

**Supplemental Information** includes certain required information concerning the town's progress in funding its obligation to provide separation allowance for law enforcement officers. Required supplementary information can be found beginning on page 83 of this report.

**Combining Schedules** facilitate comparison and present information at the individual fund level that demonstrates how they are combined to accumulate totals used in the fund financial statements.

**Budgetary Information** required by the General Statutes can be found in this part of the statements. The town adopts an annual budget for its General Fund and other governmental funds, as required by the General Statutes. The budget is a legally adopted document that incorporates input from citizens, management, and the Town Council about which services to provide and how to pay for them. The budget also authorizes the town to obtain funds from identified sources to finance current period activities. The budgetary statements demonstrate compliance with the budget ordinance and performance of services planned at budget adoption.

### Government-Wide Financial Analysis

The following is a summary of net assets for the Town of Chapel Hill at June 30, 2007 (as shown in Exhibit 1) with comparative data from June 30, 2006.

Net Assets (dollars in thousands)	Figure 2					
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 44,711	\$ 45,291	\$ 9,742	\$ 8,979	\$ 54,453	\$ 54,270
Capital assets	104,245	88,375	45,527	37,087	149,772	125,462
Total assets	148,956	133,666	55,269	46,066	204,225	179,732
Current liabilities	11,543	9,017	1,856	804	13,399	9,821
Non-current liabilities	52,927	47,991	5,530	5,697	58,457	53,688
Total liabilities	64,470	57,008	7,386	6,501	71,856	63,509
Net assets:						
Invested in capital assets, net of related debt	59,989	55,807	39,847	31,162	99,836	86,969
Restricted	1,217	1,297	-	-	1,217	1,297
Unrestricted	23,280	19,554	8,036	8,403	31,316	27,957
Total net assets	\$ 84,486	\$ 76,658	\$ 47,883	\$ 39,565	\$ 132,369	\$ 116,223

The assets of Chapel Hill exceeded liabilities by nearly \$132.4 million as of June 30, 2007. The town's net assets increased by \$16.1 million for the fiscal year, however, the largest portion (75.4%) of net assets reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related outstanding debt. The town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Chapel Hill's investment in 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. A portion of Chapel Hill's net assets (approximately \$1.3 million) represents resources that are subject to external restrictions on how they may be used. The total unrestricted net assets show a balance of \$31.3 million.

<b>Changes in Net Assets</b>						<b>Figure 3</b>	
(dollars in thousands)	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		
	2007	2006	2007	2006	2007	2006	
<b>Revenues</b>							
Program revenues:							
Charges for services	\$ 4,405	\$ 4,511	\$ 4,992	\$ 4,720	\$ 9,397	\$ 9,231	
Operating grants and contributions	4,957	15,780	11,690	10,899	16,647	26,679	
Capital grants and contributions	9,154	914	11,150	10,321	20,304	11,235	
General revenues:							
Taxes	37,056	35,771	2,624	2,548	39,680	38,319	
General grants and contributions	2,935	2,560	-	-	2,935	2,560	
Other	3,031	3,385	\$ 420	\$ 310	3,451	3,695	
Total revenues	<u>\$ 61,538</u>	<u>\$ 62,921</u>	<u>\$ 30,876</u>	<u>\$ 28,798</u>	<u>\$ 92,414</u>	<u>\$ 91,719</u>	
<b>Expenses</b>							
General government	5,780	4,327	-	-	5,780	4,327	
Environment and development	25,776	21,955	-	-	25,776	21,955	
Public safety	17,845	17,003	-	-	17,845	17,003	
Leisure activities	4,977	4,948	-	-	4,977	4,948	
Nondepartmental	-	1,476	-	-	-	1,476	
Interest expense	1,952	887	-	-	1,952	887	
Transit service	-	-	14,881	13,280	14,881	13,280	
Parking facilities	-	-	1,585	1,590	1,585	1,590	
Stormwater management	-	-	2,263	2,258	2,263	2,258	
Housing operations	-	-	1,209	1,120	1,209	1,120	
Total expenses	<u>56,330</u>	<u>50,596</u>	<u>19,938</u>	<u>18,248</u>	<u>76,268</u>	<u>68,844</u>	
Increase in net assets before transfers	5,208	12,325	10,938	10,550	16,146	22,875	
Transfers	2,620	587	(2,620)	(587)	-	-	
Increase in net assets	<u>7,828</u>	<u>12,912</u>	<u>8,318</u>	<u>9,963</u>	<u>16,146</u>	<u>22,875</u>	
Net assets, July 1, as previously reported	76,658	74,193	39,566	19,156	116,224	93,349	
Restatement (See Note J)	-	(10,447)	-	10,447	-	-	
Net assets, July 1, as restated	<u>76,658</u>	<u>63,746</u>	<u>39,566</u>	<u>29,603</u>	<u>116,224</u>	<u>93,349</u>	
Net assets, June 30	<u>\$ 84,486</u>	<u>\$ 76,658</u>	<u>\$ 47,884</u>	<u>\$ 39,566</u>	<u>\$ 132,370</u>	<u>\$ 116,224</u>	

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**Governmental activities.** Governmental activities show an increase in net assets of \$7.8 million. The increase is principally due to the capital grants for construction of the transit part of the Town Operations Center.

**Business-type activities:** Business-type activities increased Chapel Hill's net assets by \$8.3 million. The increase in net assets comes primarily from the Transportation Fund where capital contributions from capital grants totaled \$11.1 million. Both the Parking Facilities Fund and the Stormwater Management Fund had increases in net assets as a result of operations, while the Housing Operating Fund had a reduction of net assets as a result of recognition of depreciation expense.

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

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

**Governmental Funds.** The focus of the Town of Chapel Hill's governmental funds is on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Chapel Hill's financing requirements.

At June 30, 2007, the governmental funds of Chapel Hill reported a combined fund balance of \$34.5 million, a 10% decrease from last year. Included in this change is a decrease in fund balance in the Capital Projects Ordinance Fund as debt proceeds were spent for construction.

The General Fund is the chief operating fund of Chapel Hill. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$10.8 million, of which \$6.5 million is undesignated, while total fund balance reached \$17.9 million. As a measure of the General Fund's liquidity, it may be useful to compare both total and undesignated fund balance to total fund expenditures. Undesignated fund balance represents 12.5%, and total fund balance, which includes reserves and designated amounts, represents 36.8% of total 2006-07 General Fund expenditures and other uses, respectively. The total fund balance remained nearly the same as last year at \$17.9 million compared to \$17.6 million.

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

Conservative budgeting principles result in actual revenues exceeding budget estimates. This year the actual revenues were approximately \$1.7 million more than the revenue budget. This difference resulted from property taxes, sales taxes, and other taxes exceeding budget by about \$378,000, utility franchise fees exceeding budget by about \$602,000 and interest income exceeding budget by about \$294,000. Expenditures were approximately \$4.2 million less than budgeted. The underexpenditure is primarily reflected in efforts by town departments to conserve or curtail spending led by Public Works and Engineering nearly \$2.1 million under budget. Public Works also benefited from a mild winter during 2006-07. Nearly \$1.3 million of the total excess of budget over actual expenditures represents purchase orders and commitments at year end that, with the approval of Council, are carried forward to the subsequent fiscal year. The town plans for actual revenues to exceed actual expenditures by \$1 million each year to become a part of appropriated fund balance in the following year.

**Proprietary Funds.** Chapel Hill's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Enterprise Funds at the end of the fiscal year were \$3,549,000 for the Transportation Fund, \$2,245,000 for the Parking Facilities Fund, \$862,000 for the Housing Operating Fund and \$1,413,000 for the Stormwater Management Fund. Other factors concerning the finances of these funds are addressed in the discussion of Chapel Hill's business-type activities.

### Capital Asset and Debt Administration

**Capital assets.** Chapel Hill's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2007, totals \$149,772,000 compared with \$125,462,000 in the prior fiscal year. These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

<b>Capital Assets (net of depreciation)</b>					<b>Figure 4</b>	
(dollars in thousands)	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Land	\$ 25,845	\$ 25,168	\$ 6,551	\$ 6,551	\$ 32,396	\$ 31,719
Land improvements	4,947	4,772	1,666	1,865	6,613	6,637
Infrastructure	21,450	21,132	-	-	21,450	21,132
Buildings and building improvements	13,842	14,517	8,677	9,719	22,519	24,236
Equipment and vehicles	4,933	4,033	10,396	10,648	15,329	14,681
Construction in progress	33,228	18,753	18,237	8,304	51,465	27,057
Total capital assets	<u>\$ 104,245</u>	<u>\$ 88,375</u>	<u>\$ 45,527</u>	<u>\$ 37,087</u>	<u>\$ 149,772</u>	<u>\$ 125,462</u>

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

- \$11,241,000 for work on the Town Operations Center;
- \$ 889,000 for renovations to Homestead Aquatics Center;
- \$ 511,000 for land improvements to sidewalks, curbs, gutters and bridges;
- \$ 1,414,000 for renovations to the Community Center,
- \$ 591,000 for miscellaneous parks projects, and
- \$ 402,400 on various sidewalks and other pedestrian amenities.

No major demolitions were recorded this year.

Additional information on the Town's capital assets can be found on pages 66-69 of the Notes to the Financial Statements.

<b>Outstanding Debt</b>				<b>Figure 5</b>		
<b>(dollars in thousands)</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
General obligation bonds	\$ 21,630	\$ 18,545	\$ -	\$ -	\$ 21,630	\$ 18,545
Certificates of participation	24,500	25,500	5,680	5,925	30,180	31,425
Installment notes payable	9,424	5,668	-	-	9,424	5,668
Orange county loan payable	123	123	-	-	123	123
Compensated absences	1,906	1,774	527	439	2,433	2,213
Separation allowance	369	400	-	-	369	400
Total debt	<u>\$ 57,952</u>	<u>\$ 52,010</u>	<u>\$ 6,207</u>	<u>\$ 6,364</u>	<u>\$ 64,159</u>	<u>\$ 58,374</u>

**Long-term Debt.** As of June 30, 2007, Chapel Hill had total outstanding bonded debt, backed by the full faith and credit of the Town, of \$21,630,000. The Town also had \$24,500,000 of debt in certificates of participation to fund construction of the Town Operations Center.

Chapel Hill's total debt from governmental activities increased by \$5.9 million or 10.25%, to nearly \$58 million during the past fiscal year. The increase was made up of a \$4.95 million general obligation bond issue and installment notes issued totaling \$4.97 million, less total reductions of long-term debt totaling \$5.58 million. The bonds were issued to fund street and sidewalk improvements, park and recreation facilities, libraries and open space. Business-type debt decreased by \$157 thousand to \$6.2 million.

As mentioned in the financial highlights section of this document, at June 30, 2007 the Town of Chapel Hill maintained its Aaa bond rating from Moody's Investor Service and attained a AAA rating from Standard and Poor's Corporation in October 2006. Chapel Hill is among a small number of municipalities its size in the country that maintains such a high financial rating. This achievement assists the town keep low interest cost on outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Chapel Hill is \$416 million, well above the town's outstanding debt for general obligation bonds of approximately \$21.6 million, which is about 5% of the town's legal debt limit.

Additional information regarding the Town of Chapel Hill's long-term debt can be found 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 town:

- Chapel Hill's unemployment rate of about 2.9% is well below the state average.
- Stable property tax base with a continuing property tax collection rate in excess of 99%.
- Family income for a family of four in Chapel Hill is \$92,106, which is estimated to be 55% higher than the United States median of \$59,600.

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- The average home selling price in 2006 for Chapel Hill was \$387,451, compared with average home selling prices in Wake County at \$249,944, Orange County at \$235,633 and Durham County at \$189,316.

### **Budget Highlights for the Fiscal Year Ending June 30, 2008**

#### **Governmental Activities:**

General Fund revenues for FY08, including the use of \$4.3 million of fund balance, total \$52.1 million, reflecting an increase of 5.9% over the budget for 2006-07. Property taxes are expected to increase 1.6% in 2007-08 over 2006-07. The highest increases in revenues are expected in occupancy taxes and cable franchise fees, licenses and permits, and charges for services. Budgeted expenditures in the General Fund are expected to rise 5.9% to \$52.1 million. The largest expenditure increases are expected to result from costs of moving to the new larger Town Operations Center, opening and reopening two parks and recreation facilities and the increase in debt service on financing for the Town Operations Center along with Aquatics Center and Southern Community Park. Other incremental increases are for employee compensation, including compensation and benefits adjustments.

**Business – type Activities:** The town continued the policy of providing fare-free service for most transit services. As a result of the increased costs related to moving to new facilities, fuel and employee compensation and benefit adjustments, the budget for the transportation department has increased by \$592,000 or 4.2%. Parking Facilities Fund revenues are expected to decrease approximately 7.6% because of the closing of lot 5 for development of a mixed-use project consisting of commercial, retail, housing and underground parking facility. Stormwater Management and Housing Operating revenues and expenditures are budgeted at modest increases over this year.

#### **Requests for Information**

This report is designed to provide an overview of the town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Chapel Hill, 405 Martin Luther King Jr. Boulevard, Chapel Hill, NC 27514.

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**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 18,367,287	\$ 8,631,096	\$ 26,998,383	\$ 33,488
Investments	-	-	-	6,985,000
Taxes receivable, net	178,809	-	178,809	-
Accounts receivable, net	313,095	104,180	417,275	3,605,597
Due from other governments	7,022,930	-	7,022,930	-
Inventories	181,592	666,886	848,478	669,415
Prepaid items	-	-	-	21,003
Restricted cash and cash equivalents	3,903,939	65,433	3,969,372	5,991,959
Total current assets	<u>29,967,652</u>	<u>9,467,595</u>	<u>39,435,247</u>	<u>17,306,462</u>
Non-current assets:				
Restricted cash and cash equivalents	14,588,780	-	14,588,780	9,400,189
Deferred charges	-	274,833	274,833	1,103,483
Bond discount	154,517	-	154,517	-
Capital assets (Note F):				
Land and construction in progress	59,072,705	24,788,238	83,860,943	95,152,622
Other capital assets, net of accumulated depreciation	45,171,907	20,738,621	65,910,528	177,061,466
Total capital assets	<u>104,244,612</u>	<u>45,526,859</u>	<u>149,771,471</u>	<u>272,214,088</u>
Total non-current assets	<u>118,987,909</u>	<u>45,801,692</u>	<u>164,789,601</u>	<u>282,717,760</u>
Total assets	<u>148,955,561</u>	<u>55,269,287</u>	<u>204,224,848</u>	<u>300,024,222</u>
<b>LIABILITIES</b>				
Current liabilities:				
Internal balances	325,639	(325,639)	-	-
Accounts payable and accrued liabilities	4,397,641	1,046,060	5,443,701	4,899,062
Customer deposits	173,471	-	173,471	-
Unearned revenue	276,937	458,571	735,508	-
Other	7,889	-	7,889	-
Liabilities payable from restricted assets	-	-	-	2,181,392
Current portion of long-term liabilities	6,360,926	676,430	7,037,356	3,810,567
Total current liabilities	<u>11,542,503</u>	<u>1,855,422</u>	<u>13,397,925</u>	<u>10,891,021</u>
Non-current liabilities:				
Bond premium	1,335,076	-	1,335,076	-
Due in more than one year	51,591,724	5,530,313	57,122,037	111,461,797
Total non-current liabilities	<u>52,926,800</u>	<u>5,530,313</u>	<u>58,457,113</u>	<u>111,461,797</u>
Total liabilities	<u>64,469,303</u>	<u>7,385,735</u>	<u>71,855,038</u>	<u>122,352,818</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of debt	59,989,329	39,846,859	99,836,188	161,812,115
Restricted for:				
Capital projects	25,718	-	25,718	-
Affordable housing	664,183	-	664,183	-
Public safety	222,532	-	222,532	-
Culture and recreation	304,966	-	304,966	-
Water and sewer	-	-	-	9,405,757
Unrestricted	23,279,530	8,036,693	31,316,223	6,453,532
Total net assets	<u>\$ 84,486,258</u>	<u>\$ 47,883,552</u>	<u>\$ 132,369,810</u>	<u>\$ 177,671,404</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CHAPEL HILL, NORTH CAROLINA

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ 5,780,346	\$ 2,538,610	\$ -
Environment and development	25,719,997	1,147,843	3,347,410
Public safety	17,844,886	76,287	1,318,224
Leisure activities	4,977,126	642,478	291,129
Interest expense	2,008,005	-	-
<b>Total governmental activities</b>	<u>56,330,360</u>	<u>4,405,218</u>	<u>4,956,763</u>
Business-type activities:			
Transportation	14,881,026	694,445	10,609,529
Parking Facilities	1,585,035	2,138,673	-
Housing Operations	1,209,350	417,725	1,080,526
Stormwater Management	2,263,074	1,741,379	-
<b>Total business-type activities</b>	<u>19,938,485</u>	<u>4,992,222</u>	<u>11,690,055</u>
<b>Total primary government</b>	<u>\$ 76,268,845</u>	<u>\$ 9,397,440</u>	<u>\$ 16,646,818</u>
Component unit - Orange Water and Sewer Authority	<u>\$ 28,043,089</u>	<u>\$ 25,411,160</u>	<u>\$ -</u>

General revenues:

- Property taxes
- Sales tax
- Occupancy tax
- Other taxes

Grants and contributions not restricted to specific programs:

- Intergovernmental
- Investment earnings
- Miscellaneous
- Transfers

**Total general revenues, proceeds and transfers**

**Change in net assets**

Net assets - beginning of year

Net assets - end of year

The notes to the financial statements are an integral part of this statement.

**Net (Expense) Revenue and  
Changes in Net Assets**

Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
\$ -	\$ (3,241,736)	\$ -	\$ (3,241,736)	\$ -
9,154,416	(12,070,328)	-	(12,070,328)	-
-	(16,450,375)	-	(16,450,375)	-
-	(4,043,519)	-	(4,043,519)	-
-	(2,008,005)	-	(2,008,005)	-
<u>9,154,416</u>	<u>(37,813,963)</u>	<u>-</u>	<u>(37,813,963)</u>	<u>-</u>
11,150,111	-	7,573,059	7,573,059	-
-	-	553,638	553,638	-
-	-	288,901	288,901	-
-	-	(521,695)	(521,695)	-
<u>11,150,111</u>	<u>-</u>	<u>7,893,903</u>	<u>7,893,903</u>	<u>-</u>
<u>\$ 20,304,527</u>	<u>(37,813,963)</u>	<u>7,893,903</u>	<u>(29,920,060)</u>	<u>-</u>
<u>\$ 7,425,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,793,857</u>
	26,102,086	2,623,726	28,725,812	-
	9,594,569	-	9,594,569	-
	991,081	-	991,081	-
	368,073	-	368,073	-
	2,935,113	-	2,935,113	-
	1,670,377	426,554	2,096,931	995,354
	1,361,301	(6,567)	1,354,734	2,530,881
	<u>2,619,973</u>	<u>(2,619,973)</u>	<u>-</u>	<u>-</u>
	<u>45,642,573</u>	<u>423,740</u>	<u>46,066,313</u>	<u>3,526,235</u>
	7,828,610	8,317,643	16,146,253	8,320,092
	76,657,648	39,565,909	116,223,557	169,351,312
<u>\$ 84,486,258</u>	<u>\$ 47,883,552</u>	<u>\$ 132,369,810</u>	<u>\$ 177,671,404</u>	

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## MAJOR FUNDS

Major funds are defined as those whose revenues, expenses, assets or liabilities are at least 10% of corresponding totals for all governmental *or* proprietary funds **and** at least 5% of the aggregate amount for all governmental *and* enterprise funds for the same item. Any other fund may be reported as a major fund if the government's officials deem the fund particularly important to financial statement users.

## GOVERNMENTAL FUNDS

Governmental funds are funded principally from property and sales taxes on individuals and businesses.

General Fund – The General Fund is always considered a major fund. The General Fund is the principal fund of the Town and is used to account for all activities of the Town not included in other specified funds. The General Fund accounts for the normal recurring activities of the Town (e.g., general government, environment and development, public safety, public works, and leisure activities).

The Capital Projects Ordinance Funds - These funds are used to account for capital asset acquisition and construction of various Town projects including several major capital projects financed by government bonds.

Transit Grant Project Ordinance Fund – This fund is used to account for federal and State grant awards in aid of the Town's transportation system. The fund reached Major status in 2005-06 because of the large grant awards for construction of the new Town Operations Center for transit operations.

Other Governmental Funds – Information is printed in aggregate for the Town's other governmental funds that are non-major. These funds include the annual Capital Improvements Fund, the Housing Capital Grant fund, and other special revenue funds.

## **BUSINESS-TYPE FUNDS**

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Town Council is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or where the Town Council has decided that periodic determination of net income is appropriate for accountability purposes.

Transit Fund - This fund is used to account for the operations of the Town's public transit system.

Parking Facilities Fund - This fund is used to account for the operations of the Town's public parking facilities.

Housing Operating Fund – This fund is used to account for federal grants restricted for the Town's conventional Public Housing program.

Stormwater Management Fund - This fund is the Town's only proprietary fund that is not classified as major, and is used to account for the operations of the Town's stormwater management department.

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	Major Funds				Total Governmental Funds
	General	Capital Projects Ordinance	Transit Grants Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 15,276,639	\$ -	\$ -	\$ 2,680,861	\$ 17,957,500
Receivables:					
Due from other funds	1,221,418	-	-	83,743	1,305,161
Property taxes, net	178,809	-	-	-	178,809
Governmental units and agencies	3,802,078	588,296	2,127,147	505,409	7,022,930
Other	247,807	-	-	30,103	277,910
Inventories	2,728	-	-	16,538	19,266
Restricted cash and equivalents	-	12,602,983	-	1,985,797	14,588,780
<b>TOTAL ASSETS</b>	<u>20,729,479</u>	<u>13,191,279</u>	<u>2,127,147</u>	<u>5,302,451</u>	<u>41,350,356</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ 260,437	\$ 404,644	\$ 4,738	\$ 669,819
Accounts payable	1,042,634	381,920	944,821	295,352	2,664,727
Accrued liabilities	1,321,740	448	9,321	33,894	1,365,403
Unearned revenue	77,389	25,718	16,104	157,726	276,937
Deferred revenue	220,098	439,834	752,257	314,829	1,727,018
Deposits	173,471	-	-	-	173,471
Other	2,802	-	-	5,087	7,889
Total liabilities	<u>2,838,134</u>	<u>1,108,357</u>	<u>2,127,147</u>	<u>811,626</u>	<u>6,885,264</u>

Continued

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	Major Funds				Total Governmental Funds
	General	Capital Projects Ordinance	Transit Grants Fund	Other Governmental Funds	
<b>FUND BALANCES</b>					
Reserved:					
Reserved for encumbrances	\$ 1,272,671	\$ -	\$ -	\$ 871,343	\$ 2,144,014
Reserved by State statute	5,230,014	148,462	1,374,890	535,512	7,288,878
Reserved for capital improvements	231,128	12,082,922	-	1,985,797	14,299,847
Reserved for police	222,532	-	-	-	222,532
Reserved for Cal Horton Award	101,465	-	-	-	101,465
Reserved for inventories	2,728	-	-	-	2,728
Reserved for debt service	-	-	-	641,042	641,042
Reserved for community development	-	-	-	50,622	50,622
Reserved for interest subsidies	-	-	-	129,523	129,523
Reserved for land in trust	-	-	-	18,888	18,888
Reserved for aid to library operations	-	-	-	365,520	365,520
Unreserved:					
Designated for subsequent year's expenditures, reported in:					
General fund	4,315,000	-	-	-	4,315,000
Special revenue funds	-	-	-	119,230	119,230
Capital project funds	-	-	-	101,250	101,250
Undesignated:					
General fund	6,515,807	-	-	-	6,515,807
Special revenue funds	-	-	-	(80,183)	(80,183)
Capital project funds	-	(148,462)	(1,374,890)	(247,719)	(1,771,071)
<b>Total fund balances</b>	<u>17,891,345</u>	<u>12,082,922</u>	<u>-</u>	<u>4,490,825</u>	<u>34,465,092</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 20,729,479</u>	<u>\$ 13,191,279</u>	<u>\$ 2,127,147</u>	<u>\$ 5,302,451</u>	<u>\$ 41,350,356</u>

The notes to the financial statements are an integral part of this statement.

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

Fund balances - total governmental funds		\$ 34,465,092
<p>Amounts reported for governmental activities in the statement of net assets are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds</p>		
Governmental capital assets	132,987,708	
Less accumulated depreciation	<u>32,748,510</u>	100,239,198
<p>Long-term liabilities, including accrued interest are not due and payable in the current period and therefore are not reported in the governmental fund</p>		
Governmental bonds payable, certificates of participation and installment purchases	(50,933,676)	
Orange County loan payable	(123,146)	
Accrued vacation payable	(1,882,316)	
Bond premium	<u>(1,180,559)</u>	(54,119,697)
<p>Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements</p>		
		1,727,018
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds</p>		
<p>    The assets and liabilities of the internal service funds that are reported within governmental activities</p>		
		<u>2,174,647</u>
Net assets of governmental activities		<u>\$ 84,486,258</u>

The notes to the financial statements are an integral part of this statement.

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 YEAR ENDED JUNE 30, 2007

	Major Funds				Total Governmental Funds
	General	Capital Projects Ordinance	Transit Grants Fund	Other Governmental Funds	
<b>REVENUES</b>					
Taxes	\$ 36,911,320	\$ -	\$ -	\$ 144,489	\$ 37,055,809
Licenses and permits	1,590,653	-	-	-	1,590,653
Fines and forfeitures	43,529	-	-	-	43,529
Intergovernmental revenues					
Federal government	56,507	83,751	9,208,640	1,056,549	10,405,447
State government	5,458,110	(12,534)	825,876	1,211	6,272,663
Other	337,352	(92,121)	47,157	75,794	368,182
Charges for services	2,471,242	20,100	-	12,650	2,503,992
Interest on investments	801,536	732,191	-	136,650	1,670,377
Franchise rental fees	-	-	-	78,729	78,729
Program income	-	-	-	67,254	67,254
Cable Public Access Reserves	-	-	-	121,061	121,061
Donations	200,000	-	-	244,378	444,378
Other	731,926	5,000	-	162,260	899,186
<b>Total revenues</b>	<b>48,602,175</b>	<b>736,387</b>	<b>10,081,673</b>	<b>2,101,025</b>	<b>61,521,260</b>
<b>EXPENDITURES</b>					
General government	5,634,423	-	-	-	5,634,423
Environment and development	13,175,895	-	12,498,961	1,803,810	27,478,666
Public safety	17,334,433	-	-	332,052	17,666,485
Leisure activities	4,224,267	-	-	-	4,224,267
Capital projects	-	13,471,564	-	2,492,548	15,964,112
Debt service:					
Principal	-	225,000	-	2,865,000	3,090,000
Interest and fiscal charges	-	55,720	-	1,952,285	2,008,005
<b>Total expenditures</b>	<b>40,369,018</b>	<b>13,752,284</b>	<b>12,498,961</b>	<b>9,445,695</b>	<b>76,065,958</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>					
	8,233,157	(13,015,897)	(2,417,288)	(7,344,670)	(14,544,698)

Continued

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2007

	<u>Major Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Projects Ordinance</u>	<u>Transit Grants Fund</u>	<u>Other Governmental Funds</u>	
OTHER FINANCING SOURCES (USES)					
Issuance of debt	\$ -	\$ 6,300,000		\$ 1,750,000	\$ 8,050,000
Premium on debt	-	17,737	-	-	17,737
Transfer from other funds	250,845	1,230,396	2,417,288	6,979,938	10,878,467
Transfer to other funds	<u>(8,188,090)</u>	<u>(25,404)</u>	<u>-</u>	<u>(45,000)</u>	<u>(8,258,494)</u>
Total other financing sources (uses)	<u>(7,937,245)</u>	<u>7,522,729</u>	<u>2,417,288</u>	<u>8,684,938</u>	<u>10,687,710</u>
NET CHANGE IN TOTAL FUND BALANCES	<u>295,912</u>	<u>(5,493,168)</u>	<u>-</u>	<u>1,340,268</u>	<u>(3,856,988)</u>
FUND BALANCES, BEGINNING	17,595,433	17,576,090	-	3,150,557	38,322,080
FUND BALANCES, ENDING	<u>\$ 17,891,345</u>	<u>\$ 12,082,922</u>	<u>\$ -</u>	<u>\$ 4,490,825</u>	<u>\$ 34,465,092</u>

The notes to the financial statements are an integral part of this statement.

## GOVERNMENTAL FUNDS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2007

Net change in fund balances - total governmental funds		(3,856,988)
Amounts reported for governmental activities in the statement of activities are different because of the following:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.		
Expenditures for capital assets	17,998,312	
Current year's depreciation	<u>3,045,760</u>	14,952,552
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net assets.		
		(2,242)
Repayment of long term debt principal is considered an expenditure in the governmental funds, but their repayment reduces long-term liabilities in the statement of net assets.		
Principal payments		3,090,000
The issuance of long-term debt provides current financial resources to governmental funds and does not have any effect on net assets.		
		(8,050,000)
The amortization of bond premium in the current year is reported on the fund financial statements when debt is issued but amortized in the statement of activities.		
		65,587
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund		
Change in long-term compensated absences		(131,239)
Change in long-term separation allowance		31,191
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		1,489,382
Internal service funds are used by management to charge the costs of certain activities to individual funds		
		<u>240,367</u>
Change in net assets of governmental activities		<u>\$ 7,828,610</u>

The notes to the financial statements are an integral part of this statement.

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL  
 YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 25,713,000	\$ 25,713,000	\$ 25,957,597	\$ 244,597
Local option sales taxes	9,560,250	9,585,250	9,594,569	9,319
Other taxes	1,235,000	1,235,000	1,359,154	124,154
Licenses and permits	1,353,572	1,411,134	1,590,653	179,519
Fines and forfeitures	30,000	30,000	43,529	13,529
Intergovernmental revenues	5,259,985	5,259,985	5,851,969	591,984
Charges for services	2,500,398	2,501,398	2,471,242	(30,156)
Interest on investments	404,512	507,818	801,536	293,718
Other	576,959	652,816	931,926	279,110
<b>TOTAL REVENUES</b>	<b>46,633,676</b>	<b>46,896,401</b>	<b>48,602,175</b>	<b>1,705,774</b>
<b>EXPENDITURES</b>				
General government	6,212,388	6,722,331	5,634,423	1,087,908
Environment and development	14,554,650	15,374,358	13,175,895	2,198,463
Public safety	17,674,019	17,789,097	17,334,433	454,664
Leisure activities	4,532,699	4,644,328	4,224,267	420,061
<b>Total expenditures</b>	<b>42,973,756</b>	<b>44,530,114</b>	<b>40,369,018</b>	<b>4,161,096</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>3,659,920</b>	<b>2,366,287</b>	<b>8,233,157</b>	<b>5,866,870</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	734,324	734,324	250,845	(483,479)
Transfer to other funds	(6,273,244)	(8,034,146)	(8,188,090)	(153,944)
<b>Total other financing sources (uses)</b>	<b>(5,538,920)</b>	<b>(7,299,822)</b>	<b>(7,937,245)</b>	<b>(637,423)</b>
Appropriated fund balance	1,879,000	4,933,535	-	(4,933,535)
<b>NET CHANGE IN TOTAL FUND BALANCE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 295,912</b>	<b>\$ 295,912</b>
<b>FUND BALANCE, BEGINNING</b>			<b>17,595,433</b>	
<b>FUND BALANCE, ENDING</b>			<b>\$ 17,891,345</b>	

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**PROPRIETARY FUNDS**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)**

	<b>Transit Fund</b>	<b>Parking Facilities Fund</b>	<b>Housing Operating Fund</b>	<b>(Nonmajor) Stormwater Management Fund</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 4,273,989	\$ 2,090,606	\$ 896,102	\$ 1,370,399
Restricted cash and cash equivalents	-	-	65,433	-
Receivables:				
Accounts receivable, net	-	6,136	27,895	70,149
Due from other funds	404,644	-	-	-
Governmental units and agencies	-	-	-	-
Inventories	503,142	-	163,744	-
Total current assets	<u>5,181,775</u>	<u>2,096,742</u>	<u>1,153,174</u>	<u>1,440,548</u>
<b>NONCURRENT ASSETS</b>				
Restricted assets:				
Restricted cash and cash equivalents	-	-	-	-
Deferred charges	-	274,833	-	-
Total restricted assets	<u>-</u>	<u>274,833</u>	<u>-</u>	<u>-</u>
Capital assets:				
Land and other non-depreciable assets	20,336,741	2,749,838	1,701,659	-
Other capital assets, net of accumulated depreciation	11,732,337	2,852,683	6,121,072	32,529
Total capital assets, net	<u>32,069,078</u>	<u>5,602,521</u>	<u>7,822,731</u>	<u>32,529</u>
Total noncurrent assets	<u>32,069,078</u>	<u>5,877,354</u>	<u>7,822,731</u>	<u>32,529</u>
<b>TOTAL ASSETS</b>	<u>37,250,853</u>	<u>7,974,096</u>	<u>8,975,905</u>	<u>1,473,077</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	448,899	13,889	26,911	25,170
Accrued liabilities	336,025	59,124	110,697	25,345
Due to other funds	-	-	79,005	-
Compensated absences	347,270	28,501	41,352	9,307
Unearned revenue	443,228	15,343	-	-
Installment purchase agreements	-	-	-	-
Certificates of participation	-	250,000	-	-
Total current liabilities	<u>1,575,422</u>	<u>366,857</u>	<u>257,965</u>	<u>59,822</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences	57,447	9,825	33,041	-
Installment purchase agreements	-	-	-	-
Certificates of participation	-	5,430,000	-	-
Total noncurrent liabilities	<u>57,447</u>	<u>5,439,825</u>	<u>33,041</u>	<u>-</u>
Total liabilities	<u>1,632,869</u>	<u>5,806,682</u>	<u>291,006</u>	<u>59,822</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	32,069,078	(77,479)	7,822,731	32,529
Restricted	-	-	-	-
Unrestricted	3,548,906	2,244,893	862,168	1,380,726
Total net assets	<u>\$ 35,617,984</u>	<u>\$ 2,167,414</u>	<u>\$ 8,684,899</u>	<u>\$ 1,413,255</u>

The notes to the financial statements are an integral part of this statement.

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2007	2006	2007	2006
\$ 8,631,096	\$ 7,888,880	\$ 409,787	\$ 236,092
65,433	68,222	-	-
104,180	95,929	35,185	-
404,644	1,043,696	-	-
-	38,665	-	-
666,886	595,851	162,326	90,508
<u>9,872,239</u>	<u>9,731,243</u>	<u>607,298</u>	<u>326,600</u>
-	-	3,903,939	2,720,539
274,833	291,833	-	-
<u>274,833</u>	<u>291,833</u>	<u>3,903,939</u>	<u>2,720,539</u>
24,788,238	14,855,238	-	-
20,738,621	22,232,206	4,005,414	3,086,081
<u>45,526,859</u>	<u>37,087,444</u>	<u>4,005,414</u>	<u>3,086,081</u>
<u>45,801,692</u>	<u>37,379,277</u>	<u>7,909,353</u>	<u>5,806,620</u>
<u>55,673,931</u>	<u>47,110,520</u>	<u>8,516,651</u>	<u>6,133,220</u>
514,869	477,958	347,886	48,060
531,191	497,759	19,625	19,661
79,005	205,600	960,981	-
426,430	421,513	20,464	15,312
458,571	-	-	-
-	-	873,968	989,147
250,000	245,000	-	-
<u>2,260,066</u>	<u>1,847,830</u>	<u>2,222,924</u>	<u>1,072,180</u>
100,313	16,781	3,487	7,869
-	-	4,115,593	3,118,891
5,430,000	5,680,000	-	-
<u>5,530,313</u>	<u>5,696,781</u>	<u>4,119,080</u>	<u>3,126,760</u>
<u>7,790,379</u>	<u>7,544,611</u>	<u>6,342,004</u>	<u>4,198,940</u>
39,846,859	31,162,444	(984,147)	(1,021,957)
-	-	3,903,939	2,720,539
8,036,693	8,403,465	(745,145)	235,698
<u>\$ 47,883,552</u>	<u>\$ 39,565,909</u>	<u>\$ 2,174,647</u>	<u>\$ 1,934,280</u>

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 YEAR ENDED JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
OPERATING REVENUES				
Charges for services	\$ 544,396	\$ 2,138,673	\$ 417,725	\$ 1,741,379
OPERATING EXPENSES				
Personnel	9,148,821	665,177	962,623	395,345
Drainage Maintenance	-	-	-	532,260
Depreciation and amortization	1,644,590	385,822	720,879	3,739
Fuel and tires	1,291,319	-	-	-
Indirect costs	872,445	58,990	-	39,629
Maintenance and repairs	1,280,589	-	400,755	-
Insurance	279,541	-	-	-
Marketing	92,246	-	-	-
Consulting	-	-	-	146,935
Other	271,475	258,041	178,817	91,442
Total operating expenses	<u>14,881,026</u>	<u>1,368,030</u>	<u>2,263,074</u>	<u>1,209,350</u>
OPERATING INCOME (LOSS)	<u>(14,336,630)</u>	<u>770,643</u>	<u>(1,845,349)</u>	<u>532,029</u>
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	1,115,308	-	1,080,526	-
State Operating Assistance Grant	3,432,644	-	-	-
Operating assistance-UNC Chapel Hill	5,129,067	-	-	-
Operating assistance-Town of Carrboro	932,510	-	-	-
Vehicle Licenses	150,049	-	-	-
Ad valorem taxes	2,623,726	-	-	-
Interest on investments	230,636	89,712	48,051	58,155
Interest expense	-	(217,005)	-	-
Proceeds from sale of capital assets	-	-	10,433	-
Bond issuance expense	-	(17,000)	-	-
Total nonoperating revenues (expenses), net	<u>13,613,940</u>	<u>(144,293)</u>	<u>1,139,010</u>	<u>58,155</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(722,690)</u>	<u>626,350</u>	<u>(706,339)</u>	<u>590,184</u>
CAPITAL CONTRIBUTIONS	<u>11,150,111</u>	<u>-</u>	<u>-</u>	<u>-</u>
TRANSFERS				
Transfers in	300,000	-	-	3,160
Transfers out	<u>(2,717,288)</u>	<u>(205,845)</u>	<u>-</u>	<u>-</u>
Total transfers	<u>(2,417,288)</u>	<u>(205,845)</u>	<u>-</u>	<u>3,160</u>
CHANGE IN NET ASSETS	8,010,133	420,505	(706,339)	593,344
NET ASSETS, BEGINNING AS PREVIOUSLY REPORTED	27,607,851	1,746,909	9,391,238	819,911
Prior period adjustment	-	-	-	-
NET ASSETS, BEGINNING AS RESTATED	<u>27,607,851</u>	<u>1,746,909</u>	<u>9,391,238</u>	<u>819,911</u>
NET ASSETS, ENDING	<u>\$ 35,617,984</u>	<u>\$ 2,167,414</u>	<u>\$ 8,684,899</u>	<u>\$ 1,413,255</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 9

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2007	2006	2007	2006
\$ 4,842,173	\$ 4,593,536	\$ 2,214,377	\$ 2,158,842
11,171,966	10,622,618	513,935	430,403
532,260	-	-	-
2,755,030	2,575,191	889,635	807,011
1,291,319	1,239,278	-	-
971,064	928,195	-	-
1,681,344	935,004	-	-
279,541	-	-	-
92,246	-	-	-
146,935	96,612	-	-
799,775	1,622,760	593,592	503,149
19,721,480	18,019,658	1,997,162	1,740,563
(14,879,307)	(13,426,122)	217,215	418,279
2,195,834	2,156,105	-	-
3,432,644	3,396,290	-	-
5,129,067	4,505,301	-	-
932,510	841,326	-	-
150,049	146,107	-	-
2,623,726	2,547,914	-	-
426,554	281,467	142,585	61,848
(217,005)	(228,719)	(130,006)	(96,495)
10,433	-	10,573	110,477
(17,000)	9,307	-	-
14,666,812	13,655,098	23,152	75,830
(212,495)	228,976	240,367	494,109
11,150,111	10,320,462	-	-
303,160	961,668	-	-
(2,923,133)	(1,548,206)	-	-
(2,619,973)	(586,538)	-	-
8,317,643	9,962,900	240,367	494,109
39,565,909	29,350,691	1,934,280	1,440,171
-	252,318	-	-
39,565,909	29,603,009	1,934,280	1,440,171
\$ 47,883,552	\$ 39,565,909	\$ 2,174,647	\$ 1,934,280

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers	\$ 1,225,885	\$ 2,138,594	\$ 435,657	\$ 1,711,503
Payments to employees	(8,592,523)	(650,684)	(963,062)	(385,244)
Payments to suppliers	(4,117,859)	(312,469)	(710,449)	(814,426)
Net cash provided by (used in) operating activities	<u>(11,484,497)</u>	<u>1,175,441</u>	<u>(1,237,854)</u>	<u>511,833</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Grant funds received	4,547,952	-	1,080,526	-
Operating assistance received	6,061,577	-	-	-
Taxes and licenses received	2,773,775	-	-	-
Transfers to other funds	(2,717,288)	(205,845)	-	-
Transfers from other funds	300,000	-	-	3,160
Other	-	-	-	-
Net cash provided by (used in) noncapital financing activities	<u>10,966,016</u>	<u>(205,845)</u>	<u>1,080,526</u>	<u>3,160</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from installment purchase agreements	-	-	-	-
Principal paid on Certificates of Participation and installment purchase agreements	-	(245,000)	-	-
Interest paid on Certificates of Participation and installment purchase agreements	-	(217,005)	-	-
Disposal of capital assets	11,533	-	10,433	-
Gain on disposal of capital assets	-	-	-	-
Capital contributions	11,150,111	-	-	-
Acquisition and construction of capital assets	(11,160,607)	(15,842)	(14,529)	(15,000)
Net cash provided by (used in) capital and related financing activities	<u>1,037</u>	<u>(477,847)</u>	<u>(4,096)</u>	<u>(15,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest on investments	<u>230,635</u>	<u>89,712</u>	<u>48,051</u>	<u>58,155</u>
Net cash provided by investing activities	<u>230,635</u>	<u>89,712</u>	<u>48,051</u>	<u>58,155</u>

Continued

Exhibit 10

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2007	2006	2007	2006
\$ 5,511,639	\$ 3,624,502	\$ 2,179,192	\$ 2,212,457
(10,591,513)	(10,364,458)	(513,201)	(454,444)
<u>(5,955,203)</u>	<u>(4,286,585)</u>	<u>595,397</u>	<u>(622,662)</u>
<u>(11,035,077)</u>	<u>(11,026,541)</u>	<u>2,261,388</u>	<u>1,135,351</u>
5,628,478	5,552,395	-	-
6,061,577	5,346,627	-	-
2,773,775	2,694,021	-	-
(2,923,133)	(2,121,293)	-	-
303,160	961,668	-	-
<u>-</u>	<u>19,479</u>	<u>-</u>	<u>-</u>
<u>11,843,857</u>	<u>12,452,897</u>	<u>-</u>	<u>-</u>
-	-	1,870,800	1,795,500
(245,000)	(235,000)	(989,277)	(972,298)
-	-	-	-
(217,005)	(225,793)	(130,006)	(96,494)
21,966	9,307	113,224	123,311
-	-	-	-
11,150,111	10,320,462	-	-
<u>(11,205,978)</u>	<u>(10,394,387)</u>	<u>(1,911,618)</u>	<u>(643,965)</u>
<u>(495,906)</u>	<u>(525,411)</u>	<u>(1,046,877)</u>	<u>206,054</u>
<u>426,553</u>	<u>278,540</u>	<u>142,585</u>	<u>61,850</u>
<u>426,553</u>	<u>278,540</u>	<u>142,585</u>	<u>61,850</u>

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**PROPRIETARY FUNDS**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)**

	<b>Transit Fund</b>	<b>Parking Facilities Fund</b>	<b>Housing Operating Fund</b>	<b>(Nonmajor) Stormwater Management Fund</b>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(286,809)	581,461	(113,373)	558,148
CASH AND INVESTMENTS, BEGINNING	4,560,798	1,509,145	1,074,908	812,251
CASH AND INVESTMENTS, ENDING	<u>\$ 4,273,989</u>	<u>\$ 2,090,606</u>	<u>\$ 961,535</u>	<u>\$ 1,370,399</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (14,336,630)	\$ 770,643	\$ (1,845,349)	\$ 532,029
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,644,590	385,822	720,879	3,739
Changes in assets and liabilities:				
Receivables	681,489	(79)	17,932	(29,876)
Prepaid items	-	-	-	-
Inventories	(60,478)	-	(10,557)	-
Deferred charges	-	-	-	-
Accounts payable	30,234	4,562	(120,320)	(4,160)
Accrued liabilities	491,625	15,355	(24,706)	9,730
Accrued compensated absences	64,673	(862)	24,267	371
Net cash provided by (used in) operating activities	<u>\$ (11,484,497)</u>	<u>\$ 1,175,441</u>	<u>\$ (1,237,854)</u>	<u>\$ 511,833</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 10

<b>Enterprise Funds Comparative Totals</b>		<b>Internal Service Funds Comparative Totals</b>	
<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
739,427	1,179,485	1,357,096	1,403,255
<u>7,957,102</u>	<u>6,777,617</u>	<u>2,956,630</u>	<u>1,553,375</u>
<u>\$ 8,696,529</u>	<u>\$ 7,957,102</u>	<u>\$ 4,313,726</u>	<u>\$ 2,956,630</u>
\$ (14,879,307)	\$ (12,872,514)	\$ 217,215	\$ 418,278
2,755,030	2,575,191	889,634	807,010
669,466	(949,555)	(35,185)	53,615
-	-	-	-
(71,035)	(86,520)	(71,817)	6,763
-	17,000	-	-
(89,684)	431,415	1,260,807	(126,274)
492,004	(237,595)	734	(24,041)
<u>88,449</u>	<u>96,037</u>	<u>-</u>	<u>-</u>
<u>\$ (11,035,077)</u>	<u>\$ (11,026,541)</u>	<u>\$ 2,261,388</u>	<u>\$ 1,135,351</u>

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**TOWN OF CHAPEL HILL, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**A. Summary of Significant Accounting Policies**

The accounting policies of the Town of Chapel Hill, North Carolina (the "Town") and its discretely presented component unit have been established in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applicable to governments. The most significant of the accounting policies are described below.

1. Reporting Entity

The Town is located in the north-central portion of North Carolina on the Piedmont Plateau. The Town is a municipal corporation governed by a Council-Manager form of government with a nine member elected Town Council. As required by generally accepted accounting principles, these financial statements present financial position and results of operations of the Town and its component unit, Orange Water and Sewer Authority ("OWASA"). Of the nine OWASA board members, five are appointed by the Mayor and Town Council of Chapel Hill. These five members are a voting majority for OWASA. State statutes provide that any board member of OWASA may be removed, with or without cause, by the governing body appointing said member. Thus, OWASA falls within the definition of a component unit and is discretely presented and reported in a separate column in the Town's combined financial statements in order to emphasize that it is legally separate from the Town.

Orange Water and Sewer Authority (OWASA) – OWASA has the authority to adopt its own budget without approval of the Chapel Hill Town Council and has the authority to issue its own debt, which is not an obligation of the Town. Its operations are financed through water and sewer usage fees and it is presented as an enterprise fund. Complete financial statements for OWASA can be obtained from OWASA's administrative offices at 400 Jones Ferry Road, Carrboro, North Carolina, 27510.

2. Basis of Presentation – Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which may rely to a significant extent on fees and charges for support. Alternatively, an enterprise fund is used in cases where the governing body has decided that periodic determination of revenues earned, expenses incurred and net income is appropriate for capital maintenance, public policy, management control and accountability. Likewise, the primary government is reported separately from its legally separate component unit.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the

operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. The Town has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### 3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

In accordance with North Carolina General Statutes, all governmental funds of the Town are maintained during the year using the modified accrual basis of accounting. The governmental fund financial statements are reported on this same basis and use the current financial resources measurement focus. Under the modified accrual basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are "measurable" and "available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the subsequent year.

Durham and Orange Counties are responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Chapel Hill. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Durham and Orange Counties from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end

apply to the 2007-2008 fiscal year and are not shown as receivables at June 30, 2007. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2007, because they are intended to finance the Town's operations during the 2008 fiscal year.

As of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31<sup>st</sup> each year with taxes due by May 1<sup>st</sup> of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash.

Grant revenues received but unearned at year-end are recorded as deferred revenues.

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and charges for services. The primary expenditures are for general government, environment and development, public safety, and leisure activities.

The Capital Projects Ordinance Fund - These funds are used to account for capital asset acquisition and construction of various Town projects including several major capital projects financed by government bonds. The fund qualifies as major because of large grant awards for the construction of the new Town Operations Center for transit operations.

The Transit Grants Projects Ordinance Fund - This fund is used to account for federal and State grant awards in aid of the Town's transportation system. .

Proprietary funds are presented in the financial statements on the accrual basis of accounting, similar to the basis used by government-wide statements and are accounted for on a flow of economic resources measurement focus. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred. As permitted by accounting principles generally accepted in the United States of America, the Town of Chapel Hill and the OWASA have elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in their accounting and reporting practices for their proprietary operations, as well as the government-wide statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

principal operating revenues of the Town enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Proprietary funds are used to account for operations that are financed and operated where the intent of the government's board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's board has decided that periodic determination of net income is appropriate for accountability purposes. The Town reports four proprietary funds:

Transit Fund - This fund is used to account for the operations of the Town's public transit system.

Parking Facilities Fund - This fund is used to account for the operations of the Town's public parking facilities.

Public Housing Operating Fund - This fund is used to account for the operations of the Town's conventional public housing program.

Stormwater Management Fund - This fund is used to account for the operations of the Town's Stormwater Management department, and is the Town's only non-major proprietary fund.

Additionally, the Town reports internal service funds as follows:

Internal Service Funds – Internal Service Funds account for operations that provide services to other departments or agencies of the government, or to other governments on a cost-reimbursement basis. The Vehicle Replacement Fund, the Vehicle Maintenance Fund and the Computer Equipment Replacement Fund are the Town's Internal Service Funds.

#### 4. Budgetary Control

As required by North Carolina General Statutes, balanced budgets are adopted for every fund on either an annual or project life basis. The annual budget, which is prepared on the modified accrual basis of accounting as required by North Carolina law, is amended from time to time by the Town Council. The budgets in the supplemental section represent the budget as amended through June 30, 2007.

The Council's schedule for developing the 2006-07 budget included forums and hearings for citizens to express their views, raise questions and concerns and make comments on services, policies and funding items related to the budget. Forums were held in January and March. A public hearing was held on the proposed budget in May. Additional work sessions were held in May and June. The budget was adopted by the Council on June 26, 2006.

Project-life budgets may cover multiple years for the life of a project or program. A chart follows, organized by fund type, showing each fund's budget period.

<u>Governmental Fund Types</u>	<u>Annual Budget</u>	<u>Project Life Budget</u>
General Fund	X	
Special Revenue Funds		
Community Development Entitlement Grant Projects Ordinance Fund		X
Transit Grant Projects Ordinance Fund		X
Public Housing Grants Project Ordinance Fund		X
Transitional Housing Fund		X
Revolving Acquisition Fund		X
Downtown Service District Fund	X	
Cable Public Access Reserve Fund	X	
Grants Fund	X	
Land Trust Fund		X
Housing Loan Trust Fund	X	
Library Gift Fund	X	
Debt Service Fund	X	
Capital Projects Funds		
Capital Projects Ordinance Fund		X
Capital Projects Fund	X	
Capital Reserve Fund	X	
<u>Proprietary Fund Types</u>		
Enterprise Funds	X	
Internal Service Funds	X	

OWASA also operates under an annual budget ordinance administered in accordance with the provisions of North Carolina state laws. The budget is adopted using the modified accrual method of accounting. In addition, North Carolina General Statutes Section 159 places certain directions and limitations on the budget preparation. Revenues are reflected by source and expenditures by department. The budget is amended on a periodic basis as required by changing conditions. All annual appropriations lapse at fiscal year end.

In March of each year, OWASA requests information from various departments to project the amount of appropriations for each department so that a budget may be prepared. The proposed budget is presented to OWASA’s board for review and approval before the end of April.

5. Deposits and Investments

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

State law [§159-30(c)] authorizes the Town and OWASA to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain

high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

OWASA's investments with a maturity of more than one year at acquisition and nonmoney market investments are reported at cost or amortized cost, which approximates their fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

#### 6. Cash and Cash Equivalents

The Town has pooled the cash resources of its funds in order to maximize investment opportunities. Each fund's portion of total cash and investments is summarized by fund type in the combined balance sheet as "cash and cash equivalents." A portion of the cash of the Housing Operations Fund is classified as restricted, because the cash represents tenant security deposits. Restricted cash in the Vehicle Replacement and Computer Replacement Internal Service Funds represents unspent loan proceeds restricted for the future purchase of equipment. Proceeds from the issuance of bonds and certificates of participation in the Capital Projects Ordinance Fund are restricted for capital projects.

#### 7. Restricted Assets

Certain unspent proceeds of the revenue bonds and installment purchase agreements, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable debt agreements.

#### 8. Property Tax Receivable

In accordance with State statutes [§105-347 and §159-13(a)], property taxes levied on July 1, the beginning of the fiscal year, are due September 1; however, penalties do not accrue until the following January 6, and property becomes subject to lien. Liens are published the following May. The taxes levied are based on the assessed values as of January 1.

#### 9. Allowances for doubtful accounts

Allowances for doubtful accounts are maintained on all types of receivables which have historically experienced uncollectible accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

#### 10. Inventories

The Town's inventories are maintained for the supplies, fuel and parts of the General Fund, the Public Housing Operating Fund, the Land Trust Fund, the Vehicle Maintenance Fund and the Transit Fund. The General Fund and the Public Housing Operating Fund use the consumption method for inventories under which inventory items are considered expenditures when used, rather than when purchased. The Town's inventories are valued at cost (first-in, first-out) or weighted average method, which approximates market. OWASA's materials and supplies inventories are valued at average cost.

## 11. Deferred Charges

Unamortized bond expense represents the difference between the reacquisition price and the net carrying amount of debt that is being deferred and amortized when new debt is issued for current or advanced refunding of existing debt. Costs incurred attributable to the issuance of OWASA's revenue bonds have been deferred and are being amortized over the life of the bonds using the effective interest method.

The cost of OWASA's patent development is being amortized on a straight-line basis over the remaining useful life, not to exceed fifteen years

## 12. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported under governmental or business-type activities in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year for the Town and as having an individual cost of more than \$5,000 and an estimated useful life in excess of two years for OWASA. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed by OWASA.

Capital assets are depreciated using the straight-line method by groups or classes of property over the following expected service lives:

Land improvements	10 – 30 years
Buildings	5 – 20 years
Equipment	3 – 20 years
Buses	12 – 20 years
Other vehicles	3 – 15 years
Fixtures and equipment	5 – 20 years
Water treatment and distribution	20 – 60 years
Sewer collection and treatment	40 – 60 years

OWASA's assets under capitalized lease obligations are recorded at the discounted present value of the future minimum lease payments at the inception of the respective leases. The amounts capitalized are being amortized by the straight-line method over the lesser of the term of the lease or the estimated life of the asset. Amortization of these assets is included in depreciation expense.

### 13. Long-term Obligations

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 14. Compensated Absences

It is the Town's and OWASA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since neither the Town nor OWASA has a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the government-wide financial statement, but is limited to thirty days. The Town has assumed a first-in, first-out method of using accumulated compensated time. At June 30, 2007, OWASA had recorded a liability for accrued vacation of \$404,146.

### 15. Deferred and Unearned Revenues

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable and unearned revenues reported in the governmental funds and deferred revenues on the government-wide statements were as follows:

	<b>Unavailable</b>	<b>Unearned</b>	<b>Total</b>
Reserve for taxes receivable	\$ 178,809	\$ 7,173	\$ 185,982
Reserve for other receivables	1,548,209	269,764	1,817,973
	<u>\$ 1,727,018</u>	<u>\$ 276,937</u>	<u>\$ 2,003,955</u>

### 16. Net Assets and Fund Balances

Net assets in governmental-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. At year-end, restricted net assets consisted of restricted cash and investments held for payment of future construction contracts.

In the fund financial statements, governmental funds report reservations or restrictions of equity for amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

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

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for encumbrances - represents fund balance available for appropriation to pay for commitments related to unperformed contracts.

Reserved by State statute - represents the amount of revenue that has been recognized on a modified accrual basis for financial statement purposes, but which is not available for appropriation in accordance with State law [§159-8(a)].

Reserved for capital improvements - represents amounts of fund balances reserved for future expenditures for capital improvements.

Reserved for debt service - represents the amount of fund balance reserved for future debt service.

Reserved for special revenue purposes - represents amounts of fund balances reserved for certain future special revenue expenditures, including reserves for the Cal Horton award, community development, interest subsidies, land in trust and aid to library operations.

Reserved for police - represents the amount of fund balance reserved for certain future police expenditures.

Reserved for inventories - represents total amount of inventories in the General Fund, Housing Operations Fund and Special Revenue Funds.

Unreserved:

Designated for subsequent year's expenditures - represents the amount of fund balance appropriated that has been designated for the adopted 2007-08 budget ordinance.

Undesignated - represents the amount of fund balance which is available for future appropriations.

#### 17. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

**B. Reconciliation of Government-Wide and Fund Financial Statements**

The governmental funds reconciliation of the balance sheet to the statement of net assets includes a reconciling item that relates to unearned revenue susceptible to full accrual on the entity-wide statements. In the governmental funds, property taxes and certain license charges were not accrued as revenues and were reported as unearned revenue. The adjustment reflected on the reconciliation represents these taxes and license charges outstanding at year end.

**C. Stewardship, Compliance and Accountability**

Excess of Transfers over Appropriations - At June 30, 2007, the Town had outstanding amounts due from other governments for federal and State reimbursement grants, chiefly for the construction of the new Town Operations Center and for the purchase of buses and technology. As the amounts were not received within 90 days of the fiscal year-end, we were required to defer the revenue in the Transit Grant Fund, the Grants Fund and the Capital Projects Fund. We made temporary transfers in excess of appropriations to replace the deferred revenue as follows:

from the Transit Fund in the Transit Grant Fund,  
from the General Fund to the Grants Fund, and  
from the General Fund to the Capital Projects Fund.

Management will more closely review grant status to ensure compliance in future years.

**D. Deposits**

All deposits of the Town and OWASA are made in official depositories and are collateralized as required by North Carolina General Statute 159-31. The Town and OWASA may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the Town and OWASA may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

All of the Town's and OWASA's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage are collateralized with securities held by the Town's or OWASA's agents in these units' names.

Under the Pooling Method, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and OWASA, these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or OWASA or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town or OWASA under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each Pooling Method depository. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance.

At year-end, the Town's deposits had a carrying amount of \$35,934,193 and a bank balance of \$35,991,428. Of the bank balance, \$400,000 was covered by federal depository insurance, \$842,213 was covered by collateral held under the Dedicated Method and \$34,749,215 was covered by collateral held under the Pooling Method. The Town had cash on hand of \$4,023 at year end.

At year-end, OWASA's deposits had a carrying amount of \$1,160,105 and a bank balance of \$1,464,600. Of the bank balance, \$204,803 was covered by federal depository insurance and \$1,259,797 in interest-bearing deposits were covered by collateral held under the pooling method. OWASA had cash on hand of \$575 at June 30, 2007.

## **E. Investments**

All investments are stated at cost, which approximates fair value. The Town distributes interest earned to the various funds based on each fund's proportionate equity in pooled cash and investments during each month of the year.

North Carolina General Statute 159-30(c) authorizes the Town and OWASA to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptance; and The North Carolina Cash Management Trust, a SEC registered mutual fund.

At June 30, 2007, the Town had \$9,618,319 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAA by Standard and Poor's.

At year-end, OWASA's investments consist of the following:

	<b>Fair Value</b>
Commercial Paper	6,985,000
The North Carolina Capital Management Trust, a mutual fund	14,264,956
	<u>\$ 21,249,956</u>

Restricted cash and investments of OWASA at June 30, 2007 are as follows:

Capital Reserve Fund	\$ 1,127,192
Construction Fund	8,093,307
Bond Service Fund	6,171,649
	<u>\$ 15,392,148</u>

*Interest Rate Risk.* The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. OWASA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2007, the Authority's maturities for the US Government Treasuries and commercial paper are less than six months. The North Carolina Capital Management Trust has a weighted average maturity of 0.9 years as of June 30, 2007.

*Credit risk.* The Town and OWASA have no policy regarding credit risk. OWASA's in US Government Treasuries are rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations ("NRSROs"). As of June 30, 2007, the Authority's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. The Town and OWASA's investments in the North Carolina Capital Management Trust Cash Portfolio carried a credit rating of AAA by Standard & Poor's as of June 30, 2007.

*Custodial credit risk.* For an investment, the custodial credit risk is the risk that in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town has no formal policy on custodial credit risk, but management procedures are that the Town shall utilize a third party custodial agent for book entry transactions, all of which are held in the Town's name.

**F. Receivables and Allowances for Uncollectible Amounts**

Due from other governments to the Town at June 30, 2007 consists of the following:

	<b>Governmental Funds</b>
Sales tax refunds receivable	\$ 629,856
Due from Federal Government	1,598,791
Due from State	4,575,241
Due from local governments	219,042
	<u>\$ 7,022,930</u>

Receivables as of year end include the following allowances for uncollectible accounts:

Governmental activities, allowance for uncollectible property taxes	\$ 459,955
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**G. Capital Assets**

A summary of changes in the value of the Town's capital assets for the year ended June 30, 2007 follows:

	July 1, 2006	Increases	Decreases	June 30, 2007
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 25,168,135	\$ 676,270	\$ -	\$ 25,844,405
Construction in progress	18,752,477	15,723,025	1,247,202	33,228,300
Total capital assets, not being depreciated	43,920,612	16,399,295	1,247,202	59,072,705
Capital assets, being depreciated:				
Land improvements	5,923,879	450,470	-	6,374,349
Infrastructure	33,091,080	1,709,400	-	34,800,480
Buildings and building improvements	26,102,873	429,836	-	26,532,709
Equipment and vehicles	14,234,274	2,168,133	1,045,541	15,356,866
Total capital assets, being depreciated	79,352,106	4,757,839	1,045,541	83,064,404
Accumulated depreciation:				
Land improvements	1,151,728	275,642	-	1,427,370
Infrastructure	11,958,807	1,392,019	-	13,350,826
Buildings and building improvements	11,586,240	1,104,092	-	12,690,332
Equipment and vehicles	10,200,974	1,163,642	940,647	10,423,969
Total accumulated depreciation	34,897,749	3,935,395	940,647	37,892,497
Total capital assets, being depreciated, net	44,454,357	822,444	104,894	45,171,907
Governmental activities capital assets, net	\$ 88,374,969	\$ 17,221,739	\$ 1,352,096	\$ 104,244,612
<b>Business-type activities:</b>				
Transportation Fund:				
Capital assets, not being depreciated:				
Land	\$ 2,099,537	\$ -	\$ -	\$ 2,099,537
Construction in progress	8,304,204	9,933,000	-	18,237,204
Total capital assets, not being depreciated	10,403,741	9,933,000	-	20,336,741
Capital assets, being depreciated:				
Land improvements	3,721,748	-	-	3,721,748
Buildings and building improvements	1,355,640	-	-	1,355,640
Equipment	20,354,448	1,227,607	168,132	21,413,923
Total capital assets, being depreciated	25,431,836	1,227,607	168,132	26,491,311
Accumulated depreciation:				
Land improvements	2,126,890	186,405	-	2,313,295
Buildings and building improvements	1,312,339	5,436	-	1,317,775
Equipment	9,831,754	1,452,749	156,599	11,127,904
Total accumulated depreciation	13,270,983	1,644,590	156,599	14,758,974
Total capital assets, being depreciated, net	12,160,853	(416,983)	11,533	11,732,337
Transportation fund capital assets, net	\$ 22,564,594	\$ 9,516,017	\$ 11,533	\$ 32,069,078

	July 1, 2006	Increases	Decreases	June 30, 2007
<b>Business-type activities (cont):</b>				
Parking Facilities Fund:				
Capital assets, not being depreciated:				
Land	\$ 2,749,838	\$ -	\$ -	\$ 2,749,838
Total capital assets, not being depreciated	<u>2,749,838</u>	<u>-</u>	<u>-</u>	<u>2,749,838</u>
Capital assets, being depreciated:				
Land improvements	382,210	-	-	382,210
Buildings and building improvements	7,274,132	10,309	-	7,284,441
Equipment	269,483	5,533	-	275,016
Total capital assets, being depreciated	<u>7,925,825</u>	<u>15,842</u>	<u>-</u>	<u>7,941,667</u>
Accumulated depreciation:				
Land improvements	303,361	10,351	-	313,712
Buildings and building improvements	4,187,714	363,624	-	4,551,338
Equipment	212,087	11,847	-	223,934
Total accumulated depreciation	<u>4,703,162</u>	<u>385,822</u>	<u>-</u>	<u>5,088,984</u>
Total capital assets, being depreciated, net	<u>3,222,663</u>	<u>(369,980)</u>	<u>-</u>	<u>2,852,683</u>
Parking facilities fund capital assets, net	<u>\$ 5,972,501</u>	<u>\$ (369,980)</u>	<u>\$ -</u>	<u>\$ 5,602,521</u>
Housing Operating Fund:				
Capital assets, not being depreciated:				
Land	\$ 1,701,659	\$ -	\$ -	\$ 1,701,659
Total capital assets, not being depreciated	<u>1,701,659</u>	<u>-</u>	<u>-</u>	<u>1,701,659</u>
Capital assets, being depreciated:				
Land improvements	284,780	-	-	284,780
Buildings and building improvements	15,721,454	-	-	15,721,454
Equipment	606,598	14,529	42,235	578,892
Total capital assets, being depreciated	<u>16,612,832</u>	<u>14,529</u>	<u>42,235</u>	<u>16,585,126</u>
Accumulated depreciation:				
Land improvements	114,604	14,239	-	128,843
Buildings and building improvements	9,131,719	683,314	-	9,815,033
Equipment	539,087	23,326	42,235	520,178
Total accumulated depreciation	<u>9,785,410</u>	<u>720,879</u>	<u>42,235</u>	<u>10,464,054</u>
Total capital assets, being depreciated, net	<u>6,827,422</u>	<u>(706,350)</u>	<u>-</u>	<u>6,121,072</u>
Housing operating fund capital assets, net	<u>\$ 8,529,081</u>	<u>\$ (706,350)</u>	<u>\$ -</u>	<u>\$ 7,822,731</u>

	July 1, 2006	Increases	Decreases	June 30, 2007
<b>Business-type activities (cont):</b>				
Stormwater Management Fund:				
Capital assets, being depreciated:				
Land improvements	22,387	15,000	-	37,387
Total capital assets, being depreciated	<u>22,387</u>	<u>15,000</u>	<u>-</u>	<u>37,387</u>
Accumulated depreciation:				
Land improvements	1,119	3,739	-	4,858
Total accumulated depreciation	<u>1,119</u>	<u>3,739</u>	<u>-</u>	<u>4,858</u>
Stormwater management fund capital assets, net	<u>\$ 21,268</u>	<u>\$ 11,261</u>	<u>\$ -</u>	<u>\$ 32,529</u>
Business-type activities capital assets, net	<u>\$ 37,087,444</u>	<u>\$ 8,450,948</u>	<u>\$ 11,533</u>	<u>\$ 45,526,859</u>

Depreciation expense was charged to function/programs of the Town as follows:

Governmental activities:	
General government	\$ 197,003
Environment and development	1,784,702
Public safety	308,215
Leisure activities	755,840
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	889,635
Total depreciation expense - governmental activities	<u>\$ 3,935,395</u>
Business-type activities:	
Transportation	\$ 1,644,590
Parking facilities	385,822
Stormwater Management	3,739
Housing Operating	720,879
Total depreciation expense - business-type activities	<u>\$ 2,755,030</u>

A summary of changes in the value of OWASA's capital assets for the year ended June 30, 2007, follows:

	<b>July 1, 2006</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2007</b>
Capital assets, not being depreciated:				
Land	\$ 17,289,624	\$ 2,705,254	\$ -	\$ 19,994,878
Construction in progress	62,530,218	12,981,103	353,577	75,157,744
Total capital assets, not being depreciated	<u>79,819,842</u>	<u>15,686,357</u>	<u>353,577</u>	<u>95,152,622</u>
Capital assets, being depreciated:				
Water treatment and distribution	108,722,751	6,247,665	1,198	114,969,218
Sewer collection and treatment	99,056,458	3,141,496	-	102,197,954
Fixtures and equipment	33,880,647	2,335,137	133,321	36,082,463
Assets under capital lease obligation	260,596	-	-	260,596
Total capital assets, being depreciated	<u>241,920,452</u>	<u>11,724,298</u>	<u>134,519</u>	<u>253,510,231</u>
Less accumulated depreciation for:				
Water treatment and distribution	28,258,182	2,667,997	-	30,926,179
Sewer collection and treatment	25,979,991	2,388,441	-	28,368,432
Fixtures and equipment	15,018,035	1,894,336	18,813	16,893,558
Assets under capital lease obligation	260,596	-	-	260,596
Total accumulated depreciation	<u>69,516,804</u>	<u>6,950,774</u>	<u>18,813</u>	<u>76,448,765</u>
Total capital assets, being depreciated, net	<u>172,403,648</u>	<u>4,773,524</u>	<u>115,706</u>	<u>177,061,466</u>
Total capital assets, net	<u>\$ 252,223,490</u>	<u>\$ 20,459,881</u>	<u>\$ 469,283</u>	<u>\$ 272,214,088</u>

## H. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities for the Town's governmental and business-type activities are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Accounts payable	\$ 3,012,613	\$ 514,869
Accrued payroll and payroll related liabilities	1,385,028	531,191
Deposits	173,471	-
Other accrued liabilities	7,889	-
	<u>\$ 4,579,001</u>	<u>\$ 1,046,060</u>

## I. Long-Term Debt

Long-term debt for the Town's governmental activities and the business-type activities for the year ended June 30, 2007 are as follows:

### Governmental Activities:

#### General obligation bonds

\$1,800,000 - 1996 serial bonds payable in annual installments of \$100,000 through 2015; interest at 4.8% to 5.55%	\$ 800,000
\$4,550,000 - 1998 serial bonds payable in annual installments of \$100,000 to \$400,000 through 2015; interest at 4.5% to 4.7%	3,000,000
\$4,700,000 - 2000 serial bonds payable in annual installments of \$75,000 to \$300,000 through 2019; interest at 5.2% to 5.4%	3,400,000
\$3,365,000 - 2002 refunding serial bonds payable in annual installments of \$230,000 to \$815,000 through 2010; interest at 3% to 4%	2,155,000
\$4,250,000 - 2003 serial bonds payable in annual installments of \$75,000 to \$300,000 through 2021; interest at 2% to 4 %	3,725,000
\$4,000,000 - 2004 serial bonds payable in annual installments of \$200,000 through 2025; interest at 2.5% to 4.5%	3,600,000
\$4,950,000 - 2006 serial bonds payable in annual installments of \$250,000 through 2027; interest at 3.8% to 5%	4,950,000
Total general obligation bonds	<u><u>\$ 21,630,000</u></u>

#### Installment Notes Payables

Various installment purchase contracts to finance equipment additions; contracts lasting ten years; interest rates between 2.92% and 4.53%; debt secured by the equipment	\$ 4,435,000
Various installment purchase contracts to finance equipment additions; contracts between three and seven years; interest rates between 2.0% and 5.07%; debt secured by the equipment	4,989,561
Total installment notes payables	<u><u>\$ 9,424,561</u></u>

#### Certificates of Participation

\$26,000,000 - Certificates of Participation due in annual installments of \$500,000 to \$1,365,000 through 2025; interest due in semi-annual installments at 3.5% to 5.25%; to pay for the construction of the Town Operations Center	<u><u>\$ 24,500,000</u></u>
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### Business-type Activities:

\$7,340,000 - Certificates of Participation due in annual installments of \$220,000 to \$445,000 through 2024; interest due in semi-annual installments at 3.7% to be paid from the Parking Facilities Fund	<u><u>\$ 5,680,000</u></u>
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In addition to the general obligation bonds, installment notes payable and certificates of participation, the Town also includes in their long-term debt an estimated liability for the Town employees' compensated absences and the law enforcement officers' special separation allowance.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 2,115,000	\$ 929,575	\$ 3,044,575
2009	2,100,000	842,563	2,942,563
2010	2,090,000	753,013	2,843,013
2011	1,550,000	662,663	2,212,663
2012	1,550,000	593,263	2,143,263
2013-2017	6,550,000	1,993,140	8,543,140
2018-2022	3,875,000	802,640	4,677,640
2023-2027	1,800,000	201,228	2,001,228
	<u>\$ 21,630,000</u>	<u>\$ 6,778,085</u>	<u>\$ 28,408,085</u>

Annual debt service requirements to maturity for installment note payable are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 1,648,573	\$ 318,889	\$ 1,967,462
2009	1,543,848	261,459	1,805,307
2010	1,271,251	208,979	1,480,230
2011	1,233,188	164,818	1,398,006
2012	1,130,576	121,628	1,252,204
2013-2017	2,597,125	190,460	2,787,585
	<u>\$ 9,424,561</u>	<u>\$ 1,266,233</u>	<u>\$ 10,690,794</u>

Annual debt service requirements to maturity for certificates of participation are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 1,615,000	\$ 1,334,298	\$ 2,949,298
2009	1,630,000	1,273,768	2,903,768
2010	1,635,000	1,216,095	2,851,095
2011	1,645,000	1,158,238	2,803,238
2012	1,655,000	1,096,598	2,751,598
2013-2017	8,450,000	4,337,959	12,787,959
2018-2022	8,795,000	2,305,649	11,100,649
2023-2025	4,755,000	402,555	5,157,555
	<u>\$ 30,180,000</u>	<u>\$ 13,125,160</u>	<u>\$ 43,305,160</u>

Long-term debt activity for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	Reductions	June 30, 2007	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 18,545,000	\$ 4,950,000	\$ 1,865,000	\$ 21,630,000	\$ 2,115,000
Certificates of participation	25,500,000	-	1,000,000	24,500,000	1,365,000
Installment notes payable	5,668,038	4,970,800	1,214,277	9,424,561	1,408,969
Orange County loan payable	123,146	-	-	123,146	-
Separation allowance	399,867	-	31,191	368,676	-
Compensated absences	1,774,258	1,603,967	1,471,957	1,906,268	1,471,957
Long-term debt	<u>\$ 52,010,309</u>	<u>\$ 11,524,767</u>	<u>\$ 5,582,425</u>	<u>\$ 57,952,651</u>	<u>\$ 6,360,926</u>
Business-type activities:					
Certificates of participation	\$ 5,925,000	\$ -	\$ 245,000	\$ 5,680,000	\$ 250,000
Compensated absences	438,294	523,152	434,704	526,742	426,430
Long-term debt	<u>\$ 6,363,294</u>	<u>\$ 523,152</u>	<u>\$ 679,704</u>	<u>\$ 6,206,742</u>	<u>\$ 676,430</u>

The Town issued \$6,690,000 of certificates of participation for the refinancing of the 1994 parking certificates of participation. As a result, the 1994 certificates of participation are considered to be defeased and the liability has been removed from the proprietary activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$340,000. This amount is being amortized over the life of the new certificates of participation. The refinancing was undertaken to reduce total debt payments over the next 20 years by approximately \$2 million and resulted in a net present value savings of approximately \$1.4 million.

In accordance with the provisions of the State Constitution and the Local Government Bond Act, as amended, the Town may not, with certain exceptions, have outstanding net bonded debt exceeding 8% of the appraised value of the property subject to taxation. At June 30, 2007, the legal debt margin for the Town was approximately \$416 million.

For governmental activities, compensated absences are generally liquidated by the general fund.

OWASA's long-term debt as of June 30, 2007 consists of the following:

Revenue bonds payable, Series 2006 Revenue Serial Bonds in the amount of \$15,500,000, issued October 26, 2006, with coupon rates of 4.0% and 5.0%, final maturity July 2026, net of unamortized premium of \$622,121 at June 30, 2007;	
Revenue bonds payable, Series 2006 Revenue Term Bonds in the amount of \$6,785,000, issued October 26, 2006, with an interest rate of 5.0%, due in full July 2031	\$ 22,907,121
Revenue and revenue refunding bonds payable, Series 2005 Revenue and Revenue Refunding Bonds, issued June 9, 2005, with coupon rates of 3.5% to 5.0%, final maturity July 2020, net of unamortized discount of \$223,587 at June 30, 2007	18,451,412

Revenue bonds payable, Series 2004A Revenue Bonds in the amount of \$21,265,000, issued June 1, 2004, with coupon rates of 3.0% and 5.25%, final maturity July 2021, net of unamortized premium of \$590,683 at June 30, 2007; Revenue bonds payable, Series 2004B Revenue Bonds in the amount of \$20,000,000, issued June 1, 2004, bearing a weekly interest rate determined by a remarketing agent (4% at June 30, 2007), final maturity July 2029	40,810,683
Revenue and revenue refunding bonds payable, Series 2003 Revenue and Revenue Refunding Bonds, issued April 9, 2003, with coupon rates of 2.0% to 5.0%, final maturity July 2016, net of unamortized premium and deferred refunding loss of \$470,187 at June 30, 2007	9,009,813
Revenue and revenue refunding bonds payable, Series 2001 Revenue and Revenue Refunding Bonds, issued September 13, 2001, with coupon rates of 3.5% to 5.0%, final maturity July 2026, net of unamortized premium and deferred refunding loss of \$56,812 at June 30, 2007	22,056,812
Revenue and revenue refunding bonds payable, Series 1999 Revenue and Revenue Refunding Bonds, issued April 15, 1999, with coupon rates of 4.0% to 5.25%, final maturity July 2009, net of unamortized premium of \$11,523 at June 30, 2007	2,036,523
	<u>115,272,364</u>
Less current maturities:	
Bonds payable, net of unamortized premiums and deferred refunding gains and losses	3,810,567
<b>Total long-term debt</b>	<u>\$ 111,461,797</u>

OWASA debt maturities are as follows:

	<b>Amortization of Premiums and Deferred Refunding</b>			
	<b>Maturities</b>	<b>Losses</b>	<b>Total</b>	<b>Interest</b>
2008	\$ 3,805,000	\$ (5,567)	\$ 3,810,567	\$ 3,880,387
2009	4,840,000	(5,567)	4,845,567	4,755,033
2010	4,835,000	(5,567)	4,840,567	4,570,845
2011	5,230,000	(1,726)	5,231,726	4,374,964
2012	5,450,000	(1,726)	5,451,726	4,148,876
2013-2017	26,900,000	(60,861)	26,960,861	17,353,018
2018-2022	25,375,000	(258,258)	25,633,258	11,466,509
2023-2027	23,860,000	(137,306)	23,997,306	6,038,920
2028-2032	14,390,000	(110,786)	14,500,786	1,589,250
<b>Total</b>	<b>\$ 114,685,000</b>	<b>\$ (587,364)</b>	<b>\$ 115,272,364</b>	<b>\$ 58,177,802</b>

In 2006, OWASA issued \$22,285,000 of debt, at a premium of \$639,165, in Series 2006 Water and Sewer System Revenue Bonds to finance construction and improvements.

In 2005, OWASA issued \$18,675,000, net of a discount of \$257,985, in Series 2005 Revenue and Revenue Refunding Bonds to provide for a partial refunding of Series 2001 and Series 1999 Revenue Bonds. OWASA irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the Series 2001 and Series 1999 Revenue Bonds as they become due. The par value of the defeased Series 2001 and Series 1999 Revenue Bonds at June 30, 2007 was \$18,325,000.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1,000,000. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, this gain, net of accumulated amortization, is reported in the accompanying financial statements and is being amortized over the life of the new debt, using the effective interest method.

In 2004, OWASA issued \$41,265,000 of debt, at a premium of \$721,553 in Series 2004 Revenue Bonds to finance construction and improvements.

In 2003, OWASA issued \$13,875,000 of debt, at a premium of \$683,018 in Series 2003 Revenue Refunding Bonds to refund all but two installments of the remaining Series 1993 Revenue Bonds. OWASA irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the refunded bonds as they become due. As of June 30, 2005, the refunded Series were fully redeemed.

In 2001, OWASA issued \$34,540,000 of debt, at a premium of \$318,749 in Series 2001 Revenue and Revenue Refunding Bonds to finance construction and improvement projects, as well as provide for the refunding of \$3,995,000 in Series 1993 Revenue Bonds. OWASA irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the refunded bonds as they become due. As of June 30, 2005, the refunded Series were fully redeemed.

In 1999, OWASA issued \$15,120,000 of debt, at a premium of \$133,026 in Series 1999 Revenue and Revenue Refunding Bonds to assist in the funding of a five-year Capital Improvement Plan that includes improvements to OWASA's water and sewer system of approximately \$48,300,000.

In 1985, OWASA defeased Series 1977A Revenue Bonds by placing the proceeds of new bonds, Series 1985A Revenue Bonds, in an irrevocable trust to provide for all future debt service payments on the old

bonds. The gain of \$1,517,000, resulting from the refunding is being amortized over the life of the new issue. In addition to the amounts held in the trust, the trustee also has a security interest in the revenues of OWASA, after provisions have been made for the payment of current expenses, as defined in the Bond Order dated March 7, 1985. The par value of the defeased Series 1977A Revenue Bonds at June 30, 2007 was \$1,495,000.

OWASA's long-term debt activity for the year ended June 30, 2007 is as follows:

	July 1, 2006	Additions	Reductions	June 30, 2007	Due Withing One Year
Bonds payable:					
Revenue bonds	\$ 96,460,000	\$ 22,285,000	\$ 4,060,000	\$ 114,685,000	\$ 3,805,000
Less deferred amounts:					
For issuance premium	2,152,839	639,165	184,254	2,607,750	190,139
For issuance discounts and deferred refunding	(2,204,957)	-	(184,571)	(2,020,386)	(184,572)
<b>Total bonds payable</b>	<b>\$ 96,407,882</b>	<b>\$ 22,924,165</b>	<b>\$ 4,059,683</b>	<b>\$ 115,272,364</b>	<b>\$ 3,810,567</b>

#### J. Interfund Receivables, Payables and Transfers

*Interfund receivables and payables.* At June 30, 2007, the statements of the Town include a net of balances due to/from other funds in the amount of \$325,639 as detailed below. These amounts represent the borrowing of cash to cover expenditures not yet reimbursed by grants at year-end.

Receivable Fund	Payable Fund	Amount
Nonmajor governmental fund	Housing Operating fund	(79,005)
Transit fund	Transit Grants fund	404,644
		<u>\$ 325,639</u>

*Interfund transfers.* A schedule of interfund transfers for the year ended June 30, 2007 is as follows:

Transfers To	Transfers From	Amount
General fund	Parking facility fund	\$ 205,845
General fund	Nonmajor governmental fund	45,000
Capital projects ordinance fund	General fund	1,230,396
Nonmajor governmental fund	General fund	6,954,534
Nonmajor governmental fund	Capital projects ordinance fund	25,404
Stormwater management fund	General fund	3,160
Internal service fund	Internal service fund	34,127
Transit capital grant fund	Transit fund	2,417,288
		<u>\$ 10,915,754</u>

Each year, the Parking fund transfers to the General fund all revenues over expenditures generated by on-street parking, a total of \$205,845 in fiscal 2007. The Library Gift fund transfers an amount to the General fund each year for the purchase of library books and reference materials, a total of \$45,000 in

fiscal 2007. The General fund transferred \$1,230,396 to the Capital Projects Ordinance fund for construction at Southern Community Park, work on the Downtown Initiative and other capital projects.

The General fund transfers to the Debt Service and Capital Improvement funds each year the amount necessary to fund debt service payments and annual capital projects, totals of \$4,812,421 and \$1,739,828 respectively in fiscal 2007. The General fund also transferred \$402,285 to the Grants fund for local matching requirements for grants.

The Capital Projects Ordinance fund transferred \$25,404 to the Capital Improvement fund to reclassify annual maintenance of the Carolina Sport Art Building. The transfer of \$3,160 from the General fund to the Stormwater Management fund is a reimbursement of a fee exemption. The Transit fund makes a transfer each year for the required matches to Federal and State grants, which totaled \$2,417,288 in the year ended June 30, 2007.

#### **K. Prior Period Adjustment**

The financial statements for the fiscal year ending June 30, 2006 present adjustments to restate the beginning fund balance to account for the reclassification of the Housing Operating fund and to reclassify land that was purchased by the Transit fund.

Prior financial statements presented the Housing Operating Fund as a special revenue governmental fund. In keeping with recent accounting changes by the federal Department of Housing and Urban Development, the Town is now reporting the Housing Operating Fund as a proprietary fund. The change requires the restatement of beginning governmental net assets to account for the transfer between governmental and business-type activities of \$10,195,053.

For the new Town Operations Center for transit operations currently under construction, land was purchased in a prior year by the Transit fund. A federal grant in the Transit Grant special revenue fund is able to reimburse this prior year expense, requiring a prior period adjustment of \$252,318.

#### **L. Employees' Retirement System**

##### **1. North Carolina Local Governmental Employees' Retirement System**

The Town of Chapel Hill and OWASA contribute to the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699-1410 or by calling (919) 981-5454.

Plan members are required to contribute six percent of their annual covered salary. The Town and OWASA are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is respectively, 4.90% and

4.78% of annual covered payroll. For OWASA, the current rate for employees is 6.82% of annual covered payroll. The contribution requirements of the Town of Chapel Hill and OWASA are established and may be amended by the North Carolina General Assembly.

The Town’s contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$1,435,333, \$1,353,447, and \$1,292,936, respectively. OWASA’s contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$332,113, \$322,323 and \$307,420, respectively. The contributions made by the Town and OWASA equaled the required contribution for each year.

2. Law Enforcement Officers Special Separation Allowance

The Town of Chapel Hill administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers.

The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer multiplied by the number of years of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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

Retirees receiving benefits	19
Active Plan members	<u>110</u>
TOTAL	<u>129</u>

A separate report was not issued for the plan.

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

The annual required contribution for the current year was determined as follows:

Valuation date	12/31/2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	24 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	4.5 -12.3%
*Includes inflation at	3.75%
Cost-of-living adjustments	n/a

The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

a	Employer annual required contribution	\$	224,981
b	Interest on net pension obligation		28,990
c	Adjustment to annual required contribution		(23,546)
d	Annual pension cost	\$	230,425
e	Employer contributions made for fiscal year ended 6/30/07		261,616
f	Increase in net pension obligation (d) – (e)	\$	(31,191)
g	Net pension obligation, beginning of fiscal year		399,867
h	Net pension obligation, end of fiscal year (f) + (g)	\$	368,676

#### Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation, End of Year
6/30/2005	213,180	106.80%	405,290
6/30/2006	226,557	102.39%	399,867
6/30/2007	230,425	113.54%	368,676

### 3. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended

June 30, 2007 were \$468,323, which consisted of \$284,177 from the Town and \$184,146 from law enforcement officers.

4. Supplemental Retirement Income Plan for Non-Law Enforcement Officers

The Town has adopted a Supplemental Retirement Income Plan, a defined contribution plan, for regular employees. The plan is administered by Prudential Investment Management Services in accordance with Internal Revenue Code Section 401(k). The Town contributes five percent of each employee's qualified salary (excluding law enforcement officers) and all amounts are vested immediately. Employees may also make voluntary contributions. Contributions for the year ended June 30, 2007 were \$1,901,021, which consisted of \$1,180,882 from the Town and \$720,139 from employees.

**M. Other Post-Employment Benefits**

In addition to providing pension benefits, the Town has elected to provide post-retirement health benefits to retirees of the Town who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the Town. The Town pays all or a portion of the cost of coverage for these benefits based on years of service. Also, retirees can purchase coverage for their dependents at the Town's group rates. Currently, 152 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2007, the Town made payments for post-retirement health benefit premiums of \$543,253 and the retirees made payments of \$219,413.

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits.

Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest consecutive months salary during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants.

For the fiscal year ended June 30, 2007, the Town made contributions to the State for death benefits of \$33,976. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .11% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

## N. Commitments and Contingencies

The Town has commitments related to capital improvements at June 30, 2007 for the following:

Town Operations Center	\$ 5,224,379
Bus and bus shelter purchases	8,420,890
Aquatics Center construction	4,721,923
Library expansion	1,673,320
Other	1,154,205
	<u>\$ 21,194,717</u>

OWASA is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. OWASA's management estimates the cost to complete these contracts to be approximately \$9,408,000 at June 30, 2007.

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

## O. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town protects itself from potential loss through participation in the Interlocal Risk Financing Fund of North Carolina for general liability, automobile liability, public officials' liability, law enforcement liability and property losses; and through participation in the Interlocal Risk Management Pool of North Carolina for workers' compensation. The Town maintains insurance coverage of \$3,000,000 for comprehensive general liability, \$5,000,000 for automobile liability, \$2,000,000 for law enforcement liability and public officials' liability, and a replacement cost coverage for property loss. The Town's potential loss for liability coverage is limited to the deductible amount of \$2,500 per claim for all coverage except public officials' liability, which is limited to the deductible amount of \$5,000 per claim. The Town's potential loss for workers' compensation loss is limited to the deductible amount of \$5,000 per occurrence. There are no significant reductions in insurance coverage in the past year for any major risk category.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP) on a number of public housing units that are in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency. The Town carries coverage totaling \$1,774,800 for the ten structures.

The Town currently reports its risk management activities and insurance costs by operating fund. Claims expenditures falling within the retention coverage are generally reported when amounts are paid or, in the event of significant losses, when such amounts are probable and the amounts can be determined. The amounts due at June 30, 2007 for outstanding claims and incurred but not reported claims are not considered material and, therefore, no provision is recorded within the financial statements. The amount of settlements has not exceeded insurance coverage in any of the past three years.

OWASA has property, general liability, workers' compensation, and employee health coverage. OWASA's claims have not exceeded coverage in any of the past three fiscal years.

**P. Pronouncements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued the following pronouncements prior to June 30, 2007 that have an effective date that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financing statements of the Town.

- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses and related liabilities, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. Implementation of GASB Statement No. 45 will be required no later than the fiscal year ending June 30, 2009. The Town has contacted an actuarial firm to prepare estimates of the future impact on the Town's financial statements, but the impact is not determined at this time.
- GASB Statement Number 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This statement provides guidelines on how to calculate and report the costs and obligations associated with pollution cleanup efforts. Implementation of GASB Statement No. 49 will be required for fiscal periods beginning after December 15, 2007.

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
 SUPPLEMENTAL INFORMATION ANALYSIS OF FUNDING PROGRESS  
 Last Six Fiscal Years**

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED (AAL) PROJECTED UNIT CREDIT (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A % OF COVERED PAYROLL ((b-a)/c)
12/31/2001	-	1,926,984	1,926,984	-	4,429,208	43.5
12/31/2002	-	2,066,393	2,066,393	-	4,331,188	47.7
12/31/2003	-	2,162,511	2,162,511	-	4,364,190	49.5
12/31/2004	-	2,281,109	2,281,109	-	4,604,127	49.5
12/31/2005	-	2,335,038	2,335,038	-	5,197,878	44.9
12/31/2006	-	2,596,862	2,596,862	-	5,332,846	48.7

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
SUPPLEMENTAL INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTION  
Last Six Fiscal Years**

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Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2002	164,966	96.22
2003	188,613	93.27
2004	197,234	92.78
2005	206,295	109.71
2006	220,451	108.88
2007	224,981	116.28

## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for revenues from earmarked sources which by law are designated to finance particular functions or activities of government and which, therefore, cannot be diverted to other uses.

Public Housing Grant Projects Ordinance Funds - These funds are used to account for federal grants legally restricted for specific low and moderate income housing programs and activities. The Comprehensive Grant Project Fund replaced the Comprehensive Improvement Grants to provide annualized funds for modernization activities for public housing units.

Transitional Housing Fund – This fund is used to account for a program designed to help public housing families make the transition from public housing to the private housing market. Services provided would include budget counseling, homeownership counseling, debt management and basic home maintenance and upkeep guidance.

Revolving Acquisition Fund – This fund is used to account for a program to assist with the purchase of homes to preserve neighborhoods and to provide home ownership opportunities for lower income households.

Community Development Entitlement Grant Projects Ordinance Fund - This fund is used to account for the Town's federal grants that are legally restricted for low and moderate-income housing, community development and rental rehabilitation activities.

Downtown Service District Fund - This fund is used to account for the financial resources for capital improvements and other programs for the downtown service district established by the Town Council. Revenues for these improvements and programs are generated from a special district property tax levied in the downtown area.

Cable Public Access Fund - This fund is used to account for the financial resources for community cable programming.

Grants Fund – This fund is used to account for special purpose grants.

Land Trust Fund – This fund is used for the acquisition of land for low-income housing.

Housing Loan Trust Fund – This fund enables lower-income families to receive loans for the purchase or renovation of homes at subsidized interest rates.

Library Gift Fund – This fund accounts for private contributions to the Town's library.

## CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds, trust funds or special revenue funds.

The Capital Projects Fund - This fund is used to account for capital asset (including infrastructure) acquisition and construction from general government resources and intergovernmental grants, as outlined in the Town's fifteen-year capital budget.

The Capital Reserve Fund - This fund is used to account for funds reserved for specific capital improvement projects including library facilities, water and sewer improvements and other general capital improvements.

## DEBT SERVICE FUND

Debt Service Fund - The Debt Service Fund is used to account for the payment of general obligation long-term debt principal, interest and related costs. Such payments are financed by recurring annual transfers from the General Fund.

## OTHER GOVERNMENTAL FUNDS

## COMBINING BALANCE SHEET

JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)

	Total Special Revenue Funds	Total Capital Projects Funds	Debt Service Fund	Comparative Totals	
				2007	2006
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,175,472	\$ 864,347	\$ 641,042	\$ 2,680,861	\$ 2,822,736
Receivables:					
Governmental units and agencies	505,409	-	-	505,409	61,918
Other	30,103	-	-	30,103	409,281
Due from other funds	83,743	-	-	83,743	213,276
Inventories	16,538	-	-	16,538	16,538
Restricted cash and cash equivalents	-	1,985,797	-	1,985,797	196,686
<b>TOTAL ASSETS</b>	<u>\$ 1,811,265</u>	<u>\$ 2,850,144</u>	<u>\$ 641,042</u>	<u>\$ 5,302,451</u>	<u>\$ 3,720,435</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Due to other funds	\$ 4,738	\$ -	\$ -	\$ 4,738	\$ 212,694
Accounts payable	244,723	50,629	-	295,352	186,630
Accrued liabilities	33,894	-	-	33,894	17,891
Deferred revenue	314,829	-	-	314,829	-
Unearned revenue	68,882	88,844	-	157,726	144,787
Other	5,087	-	-	5,087	7,876
Total liabilities	<u>672,153</u>	<u>139,473</u>	<u>-</u>	<u>811,626</u>	<u>569,878</u>
<b>FUND BALANCES</b>					
Reserved for encumbrances	-	871,343	-	871,343	1,111,691
Reserved by State statute	535,512	-	-	535,512	465,540
Reserved for capital improvements	-	1,985,797	-	1,985,797	196,686
Reserved for debt service	-	-	641,042	641,042	635,619
Reserved for community development	50,622	-	-	50,622	61,524
Reserved for interest subsidies	129,523	-	-	129,523	68,108
Reserved for land in trust	18,888	-	-	18,888	129,853
Reserved for aid to library operations	365,520	-	-	365,520	203,501
Unreserved					
Designated for subsequent year's expenditures	119,230	101,250	-	220,480	102,178
Undesignated	(80,183)	(247,719)	-	(327,902)	175,857
Total fund balances	<u>1,139,112</u>	<u>2,710,671</u>	<u>641,042</u>	<u>4,490,825</u>	<u>3,150,557</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,811,265</u>	<u>\$ 2,850,144</u>	<u>\$ 641,042</u>	<u>\$ 5,302,451</u>	<u>\$ 3,720,435</u>

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

**COMBINING BALANCE SHEET**

**JUNE 30, 2007**

	<b>Public Housing Projects</b>	<b>Transitional Housing</b>	<b>Revolving Acquisition</b>	<b>Community Development Entitlement</b>	<b>Downtown Service District</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 12,056	\$ 349,416	\$ 50,622	\$ 93,784
Receivables:					
Governmental units and agencies	4,738	-	-	59,332	-
Other	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventories	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 4,738</u>	<u>\$ 12,056</u>	<u>\$ 349,416</u>	<u>\$ 109,954</u>	<u>\$ 93,784</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Due to other funds	\$ 4,738	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	6,268	-	4,388	30
Accrued liabilities	-	-	-	8,000	2,673
Deferred revenue	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Other	-	5,087	-	-	-
Total liabilities	<u>4,738</u>	<u>11,355</u>	<u>-</u>	<u>12,388</u>	<u>2,703</u>
<b>FUND BALANCES</b>					
Reserved by State statute	4,738	-	-	59,332	-
Reserved for community development	-	-	-	50,622	-
Reserved for interest subsidies	-	-	-	-	-
Reserved for land in trust	-	-	-	-	-
Reserved for aid to library operations	-	-	-	-	-
Unreserved					
Designated for subsequent year's expenditures	-	-	-	-	-
Undesignated	(4,738)	701	349,416	(12,388)	91,081
Total fund balances	<u>-</u>	<u>701</u>	<u>349,416</u>	<u>97,566</u>	<u>91,081</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 4,738</u>	<u>\$ 12,056</u>	<u>\$ 349,416</u>	<u>\$ 109,954</u>	<u>\$ 93,784</u>

Schedule 2

<b>Cable Public Access</b>	<b>Grants Fund</b>	<b>Land Trust Fund</b>	<b>Housing Loan Trust Fund</b>	<b>Library Gift Fund</b>	<b>Total Special Revenue Funds</b>
\$ 18,328	\$ 153,873	\$ 2,350	\$ 129,523	\$ 365,520	\$ 1,175,472
-	441,339	-	-	-	505,409
30,103	-	-	-	-	30,103
-	-	-	83,743	-	83,743
-	-	16,538	-	-	16,538
<u>\$ 48,431</u>	<u>\$ 595,212</u>	<u>\$ 18,888</u>	<u>\$ 213,266</u>	<u>\$ 365,520</u>	<u>\$ 1,811,265</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,738
30,103	188,280	-	15,654	-	244,723
-	23,221	-	-	-	33,894
-	314,829	-	-	-	314,829
-	68,882	-	-	-	68,882
-	-	-	-	-	5,087
<u>30,103</u>	<u>595,212</u>	<u>-</u>	<u>15,654</u>	<u>-</u>	<u>672,153</u>
30,103	441,339	-	-	-	535,512
-	-	-	-	-	50,622
-	-	-	129,523	-	129,523
-	-	18,888	-	-	18,888
-	-	-	-	365,520	365,520
-	-	-	102,180	17,050	119,230
<u>(11,775)</u>	<u>(441,339)</u>	<u>-</u>	<u>(34,091)</u>	<u>(17,050)</u>	<u>(80,183)</u>
<u>18,328</u>	<u>-</u>	<u>18,888</u>	<u>197,612</u>	<u>365,520</u>	<u>1,139,112</u>
<u>\$ 48,431</u>	<u>\$ 595,212</u>	<u>\$ 18,888</u>	<u>\$ 213,266</u>	<u>\$ 365,520</u>	<u>\$ 1,811,265</u>

## OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

## COMBINING BALANCE SHEET

JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)

	Capital	Capital	Comparative Totals	
	Projects	Reserve	2007	2006
<b>ASSETS</b>				
Cash and cash equivalents	\$ 864,347	\$ -	\$ 864,347	\$ 1,388,532
Restricted cash and cash equivalents	1,780,011	205,786	1,985,797	196,686
<b>TOTAL ASSETS</b>	<u>\$ 2,644,358</u>	<u>\$ 205,786</u>	<u>\$ 2,850,144</u>	<u>\$ 1,585,218</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 50,629	\$ -	\$ 50,629	\$ 31,918
Accrued liabilities	-	-	-	374
Unearned revenue	88,844	-	88,844	99,776
Total liabilities	<u>139,473</u>	<u>-</u>	<u>139,473</u>	<u>132,068</u>
<b>FUND BALANCES</b>				
Reserved for encumbrances	871,343	-	871,343	1,111,691
Reserved for capital improvements	1,780,011	205,786	1,985,797	196,686
Unreserved				
Designated for subsequent year's expenditures	101,250	-	101,250	-
Undesignated	(247,719)	-	(247,719)	144,773
Total fund balances	<u>2,504,885</u>	<u>205,786</u>	<u>2,710,671</u>	<u>1,453,150</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,644,358</u>	<u>\$ 205,786</u>	<u>\$ 2,850,144</u>	<u>\$ 1,585,218</u>

## OTHER GOVERNMENTAL FUNDS

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)**

	Total Special Revenue Funds	Total Capital Projects Funds	Debt Service Fund	Comparative Totals	
				2007	2006
<b>REVENUES</b>					
Taxes	144,489	-	-	144,489	80,296
Intergovernmental revenues					
Federal government	1,056,549	-	-	1,056,549	2,267,314
State government	(9,721)	10,932	-	1,211	201,385
Other	75,794	-	-	75,794	65,092
Interest on investments	43,837	82,526	10,287	136,650	90,432
Franchise rental fees	-	78,729	-	78,729	74,396
Program income	67,254	-	-	67,254	12,828
Cable Public Access Reserves	121,061	-	-	121,061	120,507
Charges for services	-	12,650	-	12,650	-
Donations	194,378	50,000	-	244,378	72,365
Other	162,260	-	-	162,260	126,000
<b>Total revenues</b>	<b>1,855,901</b>	<b>234,837</b>	<b>10,287</b>	<b>2,101,025</b>	<b>3,110,615</b>
<b>EXPENDITURES</b>					
Environment and development	1,803,810	-	-	1,803,810	1,980,326
Public safety	332,052	-	-	332,052	858,632
Capital projects	-	2,492,548	-	2,492,548	1,460,165
Debt service:					
Principal	-	-	2,865,000	2,865,000	2,180,000
Interest and fiscal charges	-	-	1,952,285	1,952,285	887,200
<b>Total expenditures</b>	<b>2,135,862</b>	<b>2,492,548</b>	<b>4,817,285</b>	<b>9,445,695</b>	<b>7,366,323</b>
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	(279,961)	(2,257,711)	(4,806,998)	(7,344,670)	(4,255,708)
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of debt	-	1,750,000	-	1,750,000	-
Transfer from other funds	402,285	1,765,232	4,812,421	6,979,938	4,977,326
Transfer to other funds	(45,000)	-	-	(45,000)	(49,302)
<b>Total other financing sources (uses)</b>	<b>357,285</b>	<b>3,515,232</b>	<b>4,812,421</b>	<b>8,684,938</b>	<b>4,928,024</b>
<b>NET CHANGE IN TOTAL FUND BALANCES</b>	<b>77,324</b>	<b>1,257,521</b>	<b>5,423</b>	<b>1,340,268</b>	<b>672,316</b>
<b>FUND BALANCES, BEGINNING</b>	<b>1,061,788</b>	<b>1,453,150</b>	<b>635,619</b>	<b>3,150,557</b>	<b>3,453,083</b>
Prior period adjustment (Note J)	-	-	-	-	(974,842)
<b>FUND BALANCES, BEGINNING AS RESTATE</b>	<b>1,061,788</b>	<b>1,453,150</b>	<b>635,619</b>	<b>3,150,557</b>	<b>2,478,241</b>
<b>FUND BALANCES, ENDING</b>	<b>\$ 1,139,112</b>	<b>\$ 2,710,671</b>	<b>\$ 641,042</b>	<b>\$ 4,490,825</b>	<b>\$ 3,150,557</b>

TOWN OF CHAPEL HILL, NORTH CAROLINA

OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2007

	Public Housing Projects	Transitional Housing	Revolving Acquisition	Community Development Entitlement	Downtown Service District
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 144,489
Intergovernmental revenues					
Federal government	273,421	-	-	618,027	-
State government	-	-	-	-	-
Other	8,071	-	-	-	-
Interest on investments	-	-	15,149	-	3,446
Program income	-	3,703	-	2,951	-
Cable Public Access Reserves	-	-	-	-	-
Donations	-	-	-	-	-
Other	-	260	162,000	-	-
Total revenues	281,492	3,963	177,149	620,978	147,935
EXPENDITURES					
Environment and development	281,492	4,007	260,607	620,978	68,416
Public safety	-	-	-	-	-
Total expenditures	281,492	4,007	260,607	620,978	68,416
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(44)	(83,458)	-	79,519
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	-	-	-	-	-
Transfers to other funds	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
NET CHANGE IN TOTAL FUND BALANCES	-	(44)	(83,458)	-	79,519
FUND BALANCES, BEGINNING	-	745	432,874	97,566	11,562
FUND BALANCES, ENDING	\$ -	\$ 701	\$ 349,416	\$ 97,566	\$ 91,081

Schedule 5

Cable Public Access	Grants Fund	Land Trust Fund	Housing Loan Trust Fund	Library Gift Fund	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 144,489
-	165,101	-	-	-	1,056,549
-	(9,721)	-	-	-	(9,721)
-	67,723	-	-	-	75,794
1,237	-	133	11,231	12,641	43,837
-	-	-	60,600	-	67,254
121,061	-	-	-	-	121,061
-	-	-	-	194,378	194,378
-	-	-	-	-	162,260
122,298	223,103	133	71,831	207,019	1,855,901
119,371	293,336	-	155,603	-	1,803,810
-	332,052	-	-	-	332,052
119,371	625,388	-	155,603	-	2,135,862
2,927	(402,285)	133	(83,772)	207,019	(279,961)
-	402,285	-	-	-	402,285
-	-	-	-	(45,000)	(45,000)
-	402,285	-	-	(45,000)	357,285
2,927	-	133	(83,772)	162,019	77,324
15,401	-	18,755	281,384	203,501	1,061,788
\$ 18,328	\$ -	\$ 18,888	\$ 197,612	\$ 365,520	\$ 1,139,112

## OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)**

	Capital	Capital	Comparative Totals	
	Projects	Reserve	2007	2006
<b>REVENUES</b>				
Interest on investments	\$ 73,426	\$ 9,100	\$ 82,526	\$ 35,994
Franchise rental fees	78,729	-	78,729	74,396
Intergovernmental revenues - state	10,932	-	10,932	3,724
Charges for services	12,650	-	12,650	-
Donations	50,000	-	50,000	-
Total revenues	<u>225,737</u>	<u>9,100</u>	<u>234,837</u>	<u>114,114</u>
<b>EXPENDITURES</b>				
Capital projects:				
Municipal facilities	410,500	-	410,500	1,026,162
Street improvements and sidewalks	252,300	-	252,300	111,247
Parks, recreation and open space	1,761,110	-	1,761,110	322,756
Public safety	68,638	-	68,638	-
Total expenditures	<u>2,492,548</u>	<u>-</u>	<u>2,492,548</u>	<u>1,460,165</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,266,811)</u>	<u>9,100</u>	<u>(2,257,711)</u>	<u>(1,346,051)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from bond issuance	1,750,000	-	1,750,000	-
Transfer from General Fund	1,739,828	-	1,739,828	1,694,282
Transfer from Capital Projects Ordinance Fund	25,404	-	25,404	(3,250)
Total other financing sources (uses)	<u>3,515,232</u>	<u>-</u>	<u>3,515,232</u>	<u>1,691,032</u>
NET CHANGE IN TOTAL FUND BALANCES	1,248,421	9,100	1,257,521	344,981
FUND BALANCES, BEGINNING	<u>1,256,464</u>	<u>196,686</u>	<u>1,453,150</u>	<u>1,108,169</u>
FUND BALANCES, ENDING	<u>\$ 2,504,885</u>	<u>\$ 205,786</u>	<u>\$ 2,710,671</u>	<u>\$ 1,453,150</u>

## INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units on a cost reimbursement basis.

Vehicle Replacement Fund – This fund is used to account for the rental of motor vehicles to other departments and related costs.

Vehicle Maintenance Fund – This fund is used to account for the cost of the maintenance of Town vehicles.

Computer Equipment Replacement Fund – This fund is used to account for the rental of computer equipment and software.

## INTERNAL SERVICE FUNDS

**COMBINING STATEMENT OF NET ASSETS**  
**JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)**

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Comparative Totals	
				2007	2006
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 99,687	\$ 310,100	\$ 409,787	\$ 236,092
Accounts receivable	-	35,185	-	35,185	-
Inventories	-	162,326	-	162,326	90,508
Total current assets	-	297,198	310,100	607,298	326,600
<b>NONCURRENT ASSETS</b>					
Restricted cash and cash equivalents	3,724,051	-	179,888	3,903,939	2,720,539
Capital assets, net of depreciation	3,993,539	2,070	9,805	4,005,414	3,086,081
Total noncurrent assets	7,717,590	2,070	189,693	7,909,353	5,806,620
<b>TOTAL ASSETS</b>	<b>7,717,590</b>	<b>299,268</b>	<b>499,793</b>	<b>8,516,651</b>	<b>6,133,220</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	149,739	96,572	101,575	347,886	48,060
Accrued liabilities	-	19,625	-	19,625	19,661
Due to other funds	960,981	-	-	960,981	-
Compensated absences	-	20,464	-	20,464	15,312
Installment purchase agreements	808,042	-	65,926	873,968	989,147
Total current liabilities	1,918,762	136,661	167,501	2,222,924	1,072,180
<b>NONCURRENT LIABILITIES</b>					
Compensated absences	-	3,487	-	3,487	7,869
Installment purchase agreements	4,115,593	-	-	4,115,593	3,118,891
Total noncurrent liabilities	4,115,593	3,487	-	4,119,080	3,126,760
<b>TOTAL LIABILITIES</b>	<b>6,034,355</b>	<b>140,148</b>	<b>167,501</b>	<b>6,342,004</b>	<b>4,198,940</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	(930,096)	2,070	(56,121)	(984,147)	(1,021,957)
Restricted	3,724,051	-	179,888	3,903,939	2,720,539
Unrestricted	(1,110,720)	157,050	208,525	(745,145)	235,698
<b>TOTAL NET ASSETS</b>	<b>\$ 1,683,235</b>	<b>\$ 159,120</b>	<b>\$ 332,292</b>	<b>\$ 2,174,647</b>	<b>\$ 1,934,280</b>

## INTERNAL SERVICE FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)**

	Vehicle	Vehicle	Computer	Comparative Totals	
	Replacement Fund	Maintenance Fund	Equipment Replacement Fund	2007	2006
OPERATING REVENUES					
Charges for services	\$ 1,148,591	\$ 875,696	\$ 190,090	\$ 2,214,377	\$ 2,158,842
OPERATING EXPENSES					
Depreciation and amortization	884,943	828	3,864	889,635	807,011
Personnel	-	513,935	-	513,935	430,403
Operations	14,196	461,642	117,754	593,592	503,149
Total operating expenses	899,139	976,405	121,618	1,997,162	1,740,563
OPERATING INCOME	249,452	(100,709)	68,472	217,215	418,279
NONOPERATING REVENUES (EXPENSES)					
Interest on investments	114,220	9,107	19,258	142,585	61,848
Interest expense	(125,548)	-	(4,458)	(130,006)	(96,495)
Proceeds from sale of capital assets	13,749	-	(3,176)	10,573	110,477
Total nonoperating revenues (expenses), net	2,421	9,107	11,624	23,152	75,830
CHANGE IN NET ASSETS BEFORE TRANSFERS	251,873	(91,602)	80,096	240,367	494,109
TRANSFERS	34,127	(34,127)	-	-	-
CHANGE IN NET ASSETS	286,000	(125,729)	80,096	240,367	494,109
NET ASSETS, BEGINNING	1,397,235	284,849	252,196	1,934,280	1,440,171
NET ASSETS, ENDING	\$ 1,683,235	\$ 159,120	\$ 332,292	\$ 2,174,647	\$ 1,934,280

## INTERNAL SERVICE FUNDS

**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)**

	Vehicle	Vehicle	Computer	Comparative Totals	
	Replacement	Maintenance	Equipment	2007	2006
	Fund	Fund	Fund		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers	\$ 1,148,591	\$ 840,511	\$ 190,090	\$ 2,179,192	\$ 2,212,457
Payments to employees	-	(513,201)	-	(513,201)	(454,444)
Payments to suppliers	1,075,440	(463,853)	(16,190)	595,397	(622,662)
Net cash provided by operating activities	2,224,031	(136,543)	173,900	2,261,388	1,135,351
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers from (to) other funds	34,127	(34,127)	-	-	-
Net cash provided by noncapital financing activities	34,127	(34,127)	-	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from installment purchase agreements	1,870,800	-	-	1,870,800	1,795,500
Principal paid on installment purchase agreements	(860,636)	-	(128,641)	(989,277)	(972,298)
Interest paid on installment purchase agreements	(125,548)	-	(4,458)	(130,006)	(96,494)
Proceeds from sale of capital assets	116,400	-	(3,176)	113,224	123,311
Acquisition and construction of capital assets	(1,911,618)	-	-	(1,911,618)	(643,965)
Net cash provided by (used in) capital and related financing activities	(910,602)	-	(136,275)	(1,046,877)	206,054
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest on investments	114,220	9,107	19,258	142,585	61,850
Net cash provided by investing activities	114,220	9,107	19,258	142,585	61,850
<b>NET INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	1,461,776	(161,563)	56,883	1,357,096	1,403,255
<b>CASH AND INVESTMENTS, BEGINNING</b>	2,262,275	261,250	433,105	2,956,630	1,553,375
<b>CASH AND INVESTMENTS, ENDING</b>	\$ 3,724,051	\$ 99,687	\$ 489,988	\$ 4,313,726	\$ 2,956,630

Continued

## INTERNAL SERVICE FUNDS

**COMBINING STATEMENT OF CASH FLOWS (Continued)**  
**YEAR ENDED JUNE 30, 2007 (With Comparative Totals as of June 30, 2006)**

	Vehicle	Vehicle	Computer	Comparative Totals for	
	Replacement	Maintenance	Equipment	Internal Service Funds	
	Fund	Fund	Fund	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 249,452	\$ (100,709)	\$ 68,472	\$ 217,215	\$ 418,278
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	884,943	828	3,863	889,634	807,010
Changes in assets and liabilities:					
Receivables	-	(35,185)	-	(35,185)	53,615
Inventories	-	(71,817)	-	(71,817)	6,763
Accounts payable	1,089,636	69,606	101,565	1,260,807	(126,274)
Accrued liabilities	-	734	-	734	(24,041)
Net cash provided by operating activities	<u>\$ 2,224,031</u>	<u>\$ (136,543)</u>	<u>\$ 173,900</u>	<u>\$ 2,261,388</u>	<u>\$ 1,135,351</u>

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## GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Ad valorem taxes - current year	\$ 25,600,000	\$ 25,600,000	\$ 25,796,695	\$ 196,695
Ad valorem taxes - prior years	83,000	83,000	116,020	33,020
Interest on delinquent taxes	30,000	30,000	44,882	14,882
Local option sales taxes	9,560,250	9,585,250	9,594,569	9,319
Occupancy tax	700,000	700,000	991,081	291,081
Other taxes	535,000	535,000	368,073	(166,927)
Total taxes	36,508,250	36,533,250	36,911,320	378,070
Licenses and permits				
Motor vehicles	424,200	424,200	450,146	25,946
Privilege licenses	130,000	130,000	129,313	(687)
Building permits	611,968	611,968	514,129	(97,839)
Special use permits	72,000	72,000	299,910	227,910
Engineering permits	29,504	29,504	29,880	376
Fire inspection fees	6,000	6,000	11,390	5,390
Traffic impact study fees	54,900	112,462	114,412	1,950
Police permits	25,000	25,000	41,473	16,473
Total licenses and permits	1,353,572	1,411,134	1,590,653	179,519
Fines and forfeitures				
Garbage citations and leash law fees	5,000	5,000	9,290	4,290
Parking tickets and towing fees	25,000	25,000	34,239	9,239
Total fines and forfeitures	30,000	30,000	43,529	13,529

Continued

## GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (continued)  
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Intergovernmental revenues				
Federal Government				
FTA Mobility Grant	-	-	43,990	43,990
FEMA - Disaster assistance	\$ -	\$ -	\$ 12,517	\$ 12,517
Total federal government	-	-	56,507	56,507
State of North Carolina				
Beer and wine tax	225,000	225,000	236,766	11,766
Fuel tax (Powell Bill) funds	1,492,000	1,492,000	1,459,444	(32,556)
Utility franchise tax	2,055,600	2,055,600	2,658,105	602,505
State fire protection	1,063,553	1,063,553	1,063,553	-
Durham Tech contribution	2,132	2,132	-	(2,132)
State library aid	36,000	36,000	40,242	4,242
Total State of North Carolina	4,874,285	4,874,285	5,458,110	583,825
Other				
Orange County recreational support	83,700	83,700	83,760	60
Orange County library contribution	249,000	249,000	249,333	333
Carrboro Contribution	-	-	3,000	3,000
Orange Chatham Justice Partners	53,000	53,000	1,259	(51,741)
Total other	385,700	385,700	337,352	(48,348)
Total intergovernmental revenues	5,259,985	5,259,985	5,851,969	591,984

Continued

## GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (continued)  
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Charges for services				
Library fines and fees	\$ 148,000	\$ 148,000	\$ 147,214	\$ (786)
Street cuts and right of way	111,000	101,000	119,137	18,137
Traffic signals	262,000	272,000	231,507	(40,493)
Cemetery staking	3,800	3,800	4,030	230
Fire districts	500	500	566	66
Solid waste collection	418,000	418,000	417,532	(468)
Planning review	157,800	157,800	215,882	58,082
Turnaround client fees	20,000	20,000	22,858	2,858
Recreation	315,500	316,500	341,452	24,952
Charges to other funds	1,063,798	1,063,798	971,064	(92,734)
	<u>2,500,398</u>	<u>2,501,398</u>	<u>2,471,242</u>	<u>(30,156)</u>
Total charges for services				
Interest on investments	404,512	507,818	801,536	293,718
	<u>404,512</u>	<u>507,818</u>	<u>801,536</u>	<u>293,718</u>
Other				
Sales - planning and documents	18,600	18,600	15,735	(2,865)
Sales - fixed assets	10,000	10,000	128,595	118,595
Sales - miscellaneous	5,000	5,000	4,748	(252)
Cemetery lot sales	90,000	90,000	88,435	(1,565)
Court fees	45,000	45,000	37,418	(7,582)
Mutual aid reimbursements	308,359	308,359	330,099	21,740
Gifts and Donations	100,000	100,000	200,000	100,000
Miscellaneous	-	75,857	126,896	51,039
	<u>576,959</u>	<u>652,816</u>	<u>931,926</u>	<u>279,110</u>
Total other revenues				
TOTAL REVENUES	<u>46,633,676</u>	<u>46,896,401</u>	<u>48,602,175</u>	<u>1,705,774</u>

Continued

## GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (continued)  
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
<b>EXPENDITURES</b>				
General government				
Mayor/Council	\$ 339,078	\$ 341,871	\$ 321,417	\$ 20,454
Manager/Clerk	1,304,475	1,331,368	1,254,278	77,090
Human Resources	722,440	731,674	676,770	54,904
Finance	1,127,561	1,159,120	1,085,972	73,148
Information Technology	886,936	1,304,097	837,709	466,388
Legal	270,730	273,158	257,899	15,259
Total general government	4,651,220	5,141,288	4,434,045	707,243
Environment and development				
Planning	1,111,824	1,166,385	1,089,466	76,919
Inspections	782,598	793,935	752,748	41,187
Engineering	1,982,189	2,422,358	2,016,778	405,580
Public Works	10,678,039	10,877,570	9,206,356	1,671,214
Total environment and development	14,554,650	15,260,248	13,065,348	2,194,900
Public safety				
Police	11,104,515	11,135,559	10,942,464	193,095
Fire	6,569,504	6,653,538	6,391,969	261,569
Total public safety	17,674,019	17,789,097	17,334,433	454,664
Leisure activities				
Parks and recreation	2,318,466	2,416,349	2,149,763	266,586
Library	2,214,233	2,227,979	2,074,504	153,475
Total leisure activities	4,532,699	4,644,328	4,224,267	420,061
Nondepartmental				
Liability Insurance	394,000	394,000	301,221	92,779
Economic Development	-	114,110	110,547	3,563
Contributions to agencies	821,900	897,213	846,549	50,664
General government	345,268	289,830	52,608	237,222
Total nondepartmental	1,561,168	1,695,153	1,310,925	384,228
Total expenditures	42,973,756	44,530,114	40,369,018	4,161,096

Continued

## GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (continued)  
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	3,659,920	2,366,287	8,233,157	5,866,870
OTHER FINANCING SOURCES (USES)				
Transfer from Parking Facilities Fund	157,064	157,064	205,845	48,781
Transfer from Library Gift Fund	45,000	45,000	45,000	-
Transfer from Stormwater Fund	532,260	532,260	-	(532,260)
Transfer to Capital Improvements Fund	(1,275,250)	(1,739,828)	(1,739,828)	-
Transfer to Debt Service Fund	(4,964,000)	(4,812,422)	(4,812,421)	1
Transfer to Capital Projects Ordinance Fund	-	(1,214,047)	(1,230,396)	(16,349)
Transfer to Grants Fund	(28,994)	(262,849)	(402,285)	(139,436)
Transfer to Stormwater Fund	(5,000)	(5,000)	(3,160)	1,840
Appropriated fund balance	<u>1,879,000</u>	<u>4,933,535</u>	<u>-</u>	<u>(4,933,535)</u>
Total other financing sources (uses)	<u>(3,659,920)</u>	<u>(2,366,287)</u>	<u>(7,937,245)</u>	<u>(5,570,958)</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	295,912	<u>\$ 295,912</u>
FUND BALANCE, BEGINNING AS PREVIOUSLY REPORTED			<u>17,595,433</u>	
FUND BALANCE, ENDING			<u>\$ 17,891,345</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CAPITAL PROJECTS ORDINANCE FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2007**

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
<b>REVENUES</b>				
Interest on investments	\$ 1,123,024	\$ 1,622,423	\$ 732,191	\$ 2,354,614
Federal Bridge Replacement Grant	212,865	268,730	-	268,730
Other Federal Grants	562,616	273,331	83,751	357,082
North Carolina Clean Water Grant	200,000	200,000	-	200,000
North Carolina Department of Transportation Grants	1,036,766	479,870	(12,534)	467,336
Other State Grants	854,000	333,236	-	333,236
Other Grants	8,597,183	766,441	(92,121)	674,320
Charges for services	83,607	178,038	20,100	198,138
Donations	277,993	157,993	-	157,993
Other	272,570	308,298	5,000	313,298
Total revenues	<u>13,220,624</u>	<u>4,588,360</u>	<u>736,387</u>	<u>5,324,747</u>
<b>EXPENDITURES</b>				
Parks, recreation, and open space capital improvements	28,954,885	12,975,765	1,631,047	14,606,812
Public safety capital improvements	2,326,841	2,292,323	34,946	2,327,269
Public works facility	30,585,611	16,796,514	11,323,148	28,119,662
Municipal facilities	1,065,770	106,838	45,462	152,300
Sewer capital improvements	350,385	368,195	-	368,195
Street and sidewalk improvements	6,906,452	3,580,615	717,681	4,298,296
Total expenditures	<u>70,189,944</u>	<u>36,120,250</u>	<u>13,752,284</u>	<u>49,872,534</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(56,969,320)</u>	<u>(31,531,890)</u>	<u>(13,015,897)</u>	<u>(44,547,787)</u>

Continued

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CAPITAL PROJECTS ORDINANCE FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2007**

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
OTHER FINANCING SOURCES				
Proceeds from bond issuance	22,450,000	17,425,000	4,967,737	22,392,737
Proceeds from financing	30,120,000	28,511,733	1,350,000	29,861,733
Transfer from General Fund	3,391,089	2,160,693	1,230,396	3,391,089
Transfer from Capital Projects Fund	472,719	472,719	-	472,719
Transfer from Capital Reserve Fund	154,385	154,385	-	154,385
Transfer from Library Gift Fund	383,450	383,450	-	383,450
Transfer to Capital Projects Fund	(25,404)	-	(25,404)	(25,404)
Appropriated fund balance	23,081	-	-	-
Total other financing sources	56,969,320	49,107,980	7,522,729	56,630,709
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ 17,576,090	\$ (5,493,168)	\$ 12,082,922
FUND BALANCE, BEGINNING			17,576,090	
FUND BALANCE, ENDING			\$ 12,082,922	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
TRANSIT GRANT PROJECTS ORDINANCE FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2007**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
<b>REVENUES</b>				
Intergovernmental revenue				
Federal government	\$ 23,436,408	\$ 6,120,041	\$ 9,208,640	\$ 15,328,681
State government	8,869,670	6,495,963	825,876	7,321,839
Other	215,000	133,406	47,157	180,563
	<u>32,521,078</u>	<u>12,749,410</u>	<u>10,081,673</u>	<u>22,831,083</u>
<b>EXPENDITURES</b>				
Construction costs	21,682,524	9,632,116	9,821,566	19,453,682
Equipment and improvements	12,840,548	3,226,707	2,228,400	5,455,107
Administration	2,204,403	1,073,787	448,995	1,522,782
	<u>36,727,475</u>	<u>13,932,610</u>	<u>12,498,961</u>	<u>26,431,571</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(4,206,397)</u>	<u>(1,183,200)</u>	<u>(2,417,288)</u>	<u>(3,600,488)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	<u>4,206,397</u>	<u>1,183,200</u>	<u>2,417,288</u>	<u>3,600,488</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
PUBLIC HOUSING PROJECTS - CAPITAL FUND GRANTS  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2007**

	Project Authorization	Actual		Total to Date
		Prior Year	Current Year	
<b>REVENUES</b>				
Intergovernmental revenues				
Capital Grant 2004	\$ 530,628	\$ 451,288	\$ 75,503	\$ 526,791
Capital Grant 2005	601,728	180,049	117,378	297,427
Capital Grant 2006	<u>541,361</u>	<u>-</u>	<u>80,540</u>	<u>80,540</u>
Total federal government	1,673,717	631,337	273,421	904,758
Other revenues	<u>15,111</u>	<u>-</u>	<u>8,071</u>	<u>8,071</u>
Total revenues	<u>1,688,828</u>	<u>631,337</u>	<u>281,492</u>	<u>912,829</u>
<b>EXPENDITURES</b>				
Environment and development	<u>1,688,828</u>	<u>631,337</u>	<u>281,492</u>	<u>912,829</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - TRANSITIONAL HOUSING FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2007**

	Project Authorization	Actual		Total to Date
		Prior Year	Current Year	
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 285,117	\$ 165,776	\$ -	\$ 165,776
Other	75,000	75,000	-	75,000
Program income	21,042	23,433	3,703	27,136
Other	-	594	260	854
	<u>381,159</u>	<u>264,803</u>	<u>3,963</u>	<u>268,766</u>
<b>EXPENDITURES</b>				
Environment and development	<u>398,659</u>	<u>281,558</u>	<u>4,007</u>	<u>285,565</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(17,500)</u>	<u>(16,755)</u>	<u>(44)</u>	<u>(16,799)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	<u>17,500</u>	<u>17,500</u>	<u>-</u>	<u>17,500</u>
<b>NET CHANGE IN TOTAL FUND BALANCE</b>	<u>\$ -</u>	<u>\$ 745</u>	<u>\$ (44)</u>	<u>\$ 701</u>
<b>FUND BALANCE, BEGINNING</b>			<u>745</u>	
<b>FUND BALANCE, ENDING</b>			<u>\$ 701</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - REVOLVING ACQUISITION FUND  
 FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2007**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
<b>REVENUES</b>				
Interest on investments	\$ 16,300	\$ 16,374	\$ 15,149	\$ 31,523
Other	<u>266,500</u>	<u>266,500</u>	<u>162,000</u>	<u>428,500</u>
Total revenues	<u>282,800</u>	<u>282,874</u>	<u>177,149</u>	<u>460,023</u>
<b>EXPENDITURES</b>				
Environment and development	<u>432,800</u>	<u>-</u>	<u>260,607</u>	<u>260,607</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(150,000)</u>	<u>282,874</u>	<u>(83,458)</u>	<u>199,416</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
<b>NET CHANGE IN TOTAL FUND BALANCE</b>	<u>\$ -</u>	<u>\$ 432,874</u>	<u>\$ (83,458)</u>	<u>\$ 349,416</u>
<b>FUND BALANCE, BEGINNING</b>			<u>432,874</u>	
<b>FUND BALANCE, ENDING</b>			<u>\$ 349,416</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
BUDGET AND ACTUAL  
COMMUNITY DEVELOPMENT ENTITLEMENT GRANT PROJECTS ORDINANCE FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2007**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 3,584,702	\$ 2,274,675	\$ 618,027	\$ 2,892,702
Program income	<u>167,153</u>	<u>167,203</u>	<u>2,951</u>	<u>170,154</u>
Total revenues	<u>3,751,855</u>	<u>2,441,878</u>	<u>620,978</u>	<u>3,062,856</u>
<b>EXPENDITURES</b>				
Public improvement	1,193,091	735,123	149,752	884,875
Neighborhood revitalization	1,445,421	705,636	285,710	991,346
Homeownership opportunities	147,000	147,000	-	147,000
Administration	617,683	498,186	108,635	606,821
Community Services	<u>348,660</u>	<u>258,367</u>	<u>76,881</u>	<u>335,248</u>
Total expenditures	<u>3,751,855</u>	<u>2,344,312</u>	<u>620,978</u>	<u>2,965,290</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>97,566</u>	-	<u>97,566</u>
<b>FUND BALANCE, BEGINNING</b>			<u>97,566</u>	
<b>FUND BALANCE, ENDING</b>			<u>\$ 97,566</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DOWNTOWN SERVICE DISTRICT FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Ad valorem taxes	\$ 134,000	\$ 134,000	\$ 144,489	\$ 10,489
Interest on investments	<u>-</u>	<u>-</u>	<u>3,446</u>	<u>3,446</u>
Total revenues	<u>134,000</u>	<u>134,000</u>	<u>147,935</u>	<u>13,935</u>
EXPENDITURES				
Environment and development	<u>134,000</u>	<u>134,000</u>	<u>68,416</u>	<u>65,584</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	79,519	<u>\$ 79,519</u>
FUND BALANCE, BEGINNING			<u>11,562</u>	
FUND BALANCE, ENDING			<u>\$ 91,081</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - CABLE PUBLIC ACCESS FUND**  
**YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 1,237	\$ 1,237
Cable Public Access Reserves	<u>100,000</u>	<u>100,000</u>	<u>121,061</u>	<u>21,061</u>
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>122,298</u>	<u>22,298</u>
EXPENDITURES				
Environment and development	<u>100,000</u>	<u>100,000</u>	<u>119,371</u>	<u>(19,371)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	2,927	<u>\$ 2,927</u>
FUND BALANCE, BEGINNING			<u>15,401</u>	
FUND BALANCE, ENDING			<u>\$ 18,328</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GRANTS FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental revenues				
Federal Government	65,996	780,745	165,101	(615,644)
State Government	37,482	274,900	(9,721)	(284,621)
Other	-	128,007	67,723	(60,284)
	<u>103,478</u>	<u>1,183,652</u>	<u>223,103</u>	<u>(960,549)</u>
<b>EXPENDITURES</b>				
Environment and development	82,495	723,263	293,336	429,927
Public safety	49,977	723,238	332,052	391,186
	<u>132,472</u>	<u>1,446,501</u>	<u>625,388</u>	<u>821,113</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>				
	<u>(28,994)</u>	<u>(262,849)</u>	<u>(402,285)</u>	<u>(960,549)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers from other funds	28,994	262,849	402,285	139,436
	<u>28,994</u>	<u>262,849</u>	<u>402,285</u>	<u>139,436</u>
<b>NET CHANGE IN TOTAL FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
<b>FUND BALANCE, BEGINNING</b>			<u>-</u>	
<b>FUND BALANCE, ENDING</b>			<u>\$ -</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - LAND TRUST FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2007**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 231,250	\$ 203,560	\$ -	\$ 203,560
Interest on investments	-	678	133	811
Program income	-	249,390	-	249,390
	<u>231,250</u>	<u>453,628</u>	<u>133</u>	<u>453,761</u>
Total revenues				
<b>EXPENDITURES</b>				
Environment and development	<u>231,250</u>	<u>434,873</u>	<u>-</u>	<u>434,873</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>				
	<u>\$ -</u>	<u>\$ 18,755</u>	\$ 133	<u>\$ 18,888</u>
<b>FUND BALANCE, BEGINNING</b>			<u>18,755</u>	
<b>FUND BALANCE, ENDING</b>			<u>\$ 18,888</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - HOUSING LOAN TRUST FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest on investments	\$ 4,000	\$ 4,000	\$ 11,231	\$ 7,231
Program income	-	-	60,600	60,600
Total revenues	<u>4,000</u>	<u>4,000</u>	<u>71,831</u>	<u>67,831</u>
EXPENDITURES				
Environment and development	<u>106,178</u>	<u>239,730</u>	<u>155,603</u>	<u>84,127</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(102,178)</u>	<u>(235,730)</u>	<u>(83,772)</u>	<u>151,958</u>
OTHER FINANCING SOURCES				
Appropriated Fund Balance	<u>102,178</u>	<u>235,730</u>	-	<u>(235,730)</u>
Total other financing sources	<u>102,178</u>	<u>235,730</u>	-	<u>(235,730)</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	(83,772)	<u>\$ (83,772)</u>
FUND BALANCE, BEGINNING			<u>281,384</u>	
FUND BALANCE, ENDING			<u>\$ 197,612</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - LIBRARY GIFT FUND**  
**YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest on investments	\$ -	\$ -	\$ 12,641	\$ 12,641
Library donations	<u>115,000</u>	<u>115,000</u>	<u>194,378</u>	<u>79,378</u>
Total revenues	<u>115,000</u>	<u>115,000</u>	<u>207,019</u>	<u>92,019</u>
<b>EXPENDITURES</b>				
Environment and development	<u>-</u>	<u>3,084</u>	<u>-</u>	<u>3,084</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>				
	<u>115,000</u>	<u>111,916</u>	<u>207,019</u>	<u>95,103</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Appropriated Fund Balance	-	3,025	-	(3,025)
Transfers to other funds	<u>(115,000)</u>	<u>(114,941)</u>	<u>(45,000)</u>	<u>69,941</u>
Total other financing sources (uses)	<u>(115,000)</u>	<u>(111,916)</u>	<u>(45,000)</u>	<u>66,916</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	162,019	<u>\$ 162,019</u>
FUND BALANCE, BEGINNING			<u>203,501</u>	
FUND BALANCE, ENDING			<u>\$ 365,520</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - CAPITAL PROJECTS FUND**  
**YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest on investments	\$ -	\$ -	\$ 73,426	\$ 73,426
Franchise rental fees	60,000	60,000	78,729	18,729
Intergovernmental revenues - state	-	-	10,932	10,932
Charges for services	13,800	13,800	12,650	(1,150)
Donations	-	-	50,000	50,000
	<u>73,800</u>	<u>73,800</u>	<u>225,737</u>	<u>151,937</u>
<b>EXPENDITURES</b>				
Capital projects:				
Municipal facilities	769,000	1,233,884	410,500	823,384
Street improvements and sidewalks	136,000	653,855	252,300	401,555
Parks, recreation and open space	374,050	2,742,984	1,761,110	981,874
Public safety	70,000	70,000	68,638	1,362
	<u>1,349,050</u>	<u>4,700,723</u>	<u>2,492,548</u>	<u>2,208,175</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>				
	<u>(1,275,250)</u>	<u>(4,626,923)</u>	<u>(2,266,811)</u>	<u>2,360,112</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from bond issuance	-	1,750,000	1,750,000	-
Transfer from General Fund	1,275,250	1,739,828	1,739,828	-
Transfer from Capital Projects Ordinance Fund	-	25,404	25,404	-
Appropriated fund balance	-	1,111,691	-	(1,111,691)
	<u>1,275,250</u>	<u>4,626,923</u>	<u>3,515,232</u>	<u>(1,111,691)</u>
<b>NET CHANGE IN TOTAL FUND BALANCE</b>				
	<u>\$ -</u>	<u>\$ -</u>	1,248,421	<u>\$ 1,248,421</u>
<b>FUND BALANCES, BEGINNING</b>			<u>1,256,464</u>	
<b>FUND BALANCES, ENDING</b>			<u>\$ 2,504,885</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - CAPITAL RESERVE FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 9,100	\$ 9,100
Total revenues	-	-	9,100	9,100
EXPENDITURES				
Total expenditures	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	9,100	<u>\$ 9,100</u>
FUND BALANCE, BEGINNING			<u>196,686</u>	
FUND BALANCE, ENDING			<u>\$ 205,786</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 10,287	\$ 10,287
EXPENDITURES				
Debt service:				
Principal	2,865,000	2,865,000	2,865,000	-
Interest and fiscal charges	<u>2,099,000</u>	<u>1,947,422</u>	<u>1,952,285</u>	<u>(4,863)</u>
Total expenditures	<u>4,964,000</u>	<u>4,812,422</u>	<u>4,817,285</u>	<u>(4,863)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(4,964,000)	(4,812,422)	(4,806,998)	5,424
OTHER FINANCING SOURCES				
Transfer from other funds	<u>4,964,000</u>	<u>4,812,422</u>	<u>4,812,421</u>	<u>(1)</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	5,423	<u>\$ 5,423</u>
FUND BALANCES, BEGINNING			<u>635,619</u>	
FUND BALANCES, ENDING			<u>\$ 641,042</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
(MODIFIED ACCRUAL BASIS) - TRANSIT FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 440,800	\$ 440,800	\$ 544,396	\$ 103,596
<b>OPERATING EXPENSES:</b>				
Personnel	9,413,924	9,398,124	9,148,821	249,303
Fuel and tires	1,757,239	1,493,939	1,291,319	202,620
Indirect costs	967,283	967,283	872,445	94,838
Maintenance and repairs	777,298	1,473,190	1,280,589	192,601
Insurance	271,904	271,904	279,541	(7,637)
Marketing	102,500	105,300	92,246	13,054
Other	481,152	378,199	271,475	106,724
Total operating expenses	13,771,300	14,087,939	13,236,436	851,503
<b>OPERATING LOSS</b>	<b>(13,330,500)</b>	<b>(13,647,139)</b>	<b>(12,692,040)</b>	<b>955,099</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Federal Operating Assistance Grant	1,115,308	1,115,308	1,115,308	-
State Operating Assistance Grant	3,300,000	3,300,000	3,432,644	132,644
Operating assistance-UNC Chapel Hill	5,297,000	5,297,000	5,129,067	(167,933)
Operating assistance-Town of Carrboro	1,008,500	1,008,500	932,510	(75,990)
Vehicle licenses	140,000	140,000	150,049	10,049
Ad valorem taxes	2,598,000	2,598,000	2,623,726	25,726
Interest on investments	30,000	30,000	230,636	200,636
Interest expense	-	-	-	-
Capital outlay	-	(66,146)	(10,496)	55,650
Appropriated fund balance	1,206,856	1,589,641	-	(1,589,641)
Contribution to Reserve	-	-	-	-
Total nonoperating revenues (expenses), net	14,695,664	15,012,303	13,603,444	(1,408,859)
<b>INCOME BEFORE CAPITAL</b>				
CONTRIBUTIONS AND TRANSFERS	1,365,164	1,365,164	911,404	(453,760)
<b>CAPITAL CONTRIBUTIONS</b>	<b>1,206,856</b>	<b>1,589,641</b>	<b>11,150,111</b>	<b>9,560,470</b>

Continued

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
(MODIFIED ACCRUAL BASIS) - TRANSIT FUND  
YEAR ENDED JUNE 30, 2007**

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	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
TRANSFERS				
Transfers in	300,000	300,000	300,000	-
Transfers out	<u>(1,665,164)</u>	<u>(1,665,164)</u>	<u>(2,717,288)</u>	<u>(1,052,124)</u>
Total transfers	<u>(1,365,164)</u>	<u>(1,365,164)</u>	<u>(2,417,288)</u>	<u>(1,052,124)</u>
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	<u>\$ 1,206,856</u>	<u>\$ 1,589,641</u>	9,644,227	<u>\$ 8,054,586</u>

Reconciliation of modified accrual basis to  
full accrual basis:

Capital outlay	10,496
Depreciation and amortization	<u>(1,644,590)</u>
Change in Net Assets	<u>\$ 8,010,133</u>

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - PARKING FACILITIES FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Charges for services	\$ 1,886,660	\$ 1,886,660	\$ 2,138,673	\$ 252,013
OPERATING EXPENSES				
Personnel	696,010	696,010	665,177	30,833
Indirect costs	69,474	69,474	58,990	10,484
Other	844,723	1,035,898	258,041	777,857
Total operating expenses	1,610,207	1,801,382	982,208	819,174
OPERATING INCOME	276,453	85,278	1,156,465	1,071,187
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	11,600	11,600	89,712	78,112
Interest expense	(462,005)	(462,005)	(217,005)	245,000
Bond issuance expense	-	-	(17,000)	(17,000)
Capital outlay	(5,462)	(19,420)	(15,842)	3,578
Appropriated fund balance	306,000	511,133	-	(511,133)
Total nonoperating revenues (expenses), net	(149,867)	41,308	(160,135)	(201,443)
INCOME BEFORE TRANSFERS	126,586	126,586	996,330	869,744
TRANSFERS				
Transfers out	(126,586)	(126,586)	(205,845)	(79,259)
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	790,485	\$ 790,485
Reconciliation of modified accrual basis to full accrual basis:				
Capital outlay			15,842	
Depreciation and amortization			(385,822)	
Change in Net Assets			\$ 420,505	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
(MODIFIED ACCRUAL BASIS) - HOUSING OPERATING FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Charges for services	\$ 368,240	\$ 368,240	\$ 417,725	\$ 49,485
OPERATING EXPENSES:				
Personnel	976,318	978,318	962,623	15,695
Maintenance and repairs	470,843	473,905	400,755	73,150
Other	174,400	179,400	178,817	583
Total operating expenses	<u>1,621,561</u>	<u>1,631,623</u>	<u>1,542,195</u>	<u>89,428</u>
OPERATING LOSS	<u>(1,253,321)</u>	<u>(1,263,383)</u>	<u>(1,124,470)</u>	<u>138,913</u>
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	1,107,020	1,107,020	1,080,526	(26,494)
Interest on investments	25,500	25,500	48,051	22,551
Gain on sale of capital assets	-	-	10,433	10,433
Capital outlay	(17,000)	(17,000)	(14,529)	2,471
Appropriated fund balance	137,801	147,863	-	(147,863)
Total nonoperating revenues (expenses), net	<u>1,253,321</u>	<u>1,263,383</u>	<u>1,124,481</u>	<u>(138,902)</u>
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	<u>\$ -</u>	<u>\$ -</u>	11	<u>\$ 11</u>
Reconciliation of modified accrual basis to full accrual basis:				
Capital outlay			14,529	
Depreciation and amortization			<u>(720,879)</u>	
Change in Net Assets			<u>\$ (706,339)</u>	

**PUBLIC HOUSING FINANCIAL DATA SCHEDULE**

**Schedule 29**

Line Item #	Account Description	Low Rent 14.850	CGP 14.859	TOTAL
<b>ASSETS:</b>				
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents:				
111	Cash - unrestricted	\$ 896,102	\$ -	896,102
114	Cash - tenant security deposits	65,433	-	65,433
100	Total cash	<u>961,535</u>	<u>-</u>	<u>961,535</u>
Accounts and notes receivables:				
124	Accounts receivable - Other Governmental	-	4,738	4,738
126	Accounts receivable - tenants - dwelling rents	82,483	-	82,483
126.1	Allowance for doubtful accounts - dwelling rents	(22,500)	-	(22,500)
120	Total receivables, net allowances for uncollectibles	<u>59,983</u>	<u>4,738</u>	<u>64,721</u>
Current investments:				
143	Inventories	165,204	-	165,204
143.1	Allowance for Obsolete Inventories	(1,460)	-	(1,461)
140	Total current investments	<u>163,744</u>	<u>-</u>	<u>163,743</u>
150	<b>TOTAL CURRENT ASSETS</b>	<u>1,185,262</u>	<u>4,738</u>	<u>1,189,999</u>
<b>NONCURRENT ASSETS:</b>				
Fixed assets:				
161	Land	1,986,439	-	1,986,439
162	Building	15,721,454	-	15,721,454
164	Furniture, Equipment, & Machinery -Administration	578,892	-	578,892
166	Accumulated depreciation	(10,464,054)	-	(10,464,054)
160	Total fixed assets, net of accumulated depreciation	<u>7,822,731</u>	<u>-</u>	<u>7,822,731</u>
180	<b>TOTAL NONCURRENT ASSETS</b>	<u>7,822,731</u>	<u>-</u>	<u>7,822,731</u>
190	<b>TOTAL ASSETS</b>	<u>\$ 9,007,993</u>	<u>\$ 4,738</u>	<u>\$ 9,012,730</u>
<b>LIABILITIES AND EQUITY:</b>				
<b>LIABILITIES:</b>				
<b>CURRENT LIABILITIES:</b>				
312	Accounts payable ≤ 90 days	\$ 26,911	\$ 4,738	31,649
321	Accrued wage/payroll taxes payable	44,729	-	44,729
322	Accrued compensated absences - current portion	41,352	-	41,352
341	Tenant security deposits	65,969	-	65,969
342	Deferred revenues	32,087	-	32,087
345	Other current liabilities	79,005	-	79,005
310	<b>TOTAL CURRENT LIABILITIES</b>	<u>290,053</u>	<u>4,738</u>	<u>294,791</u>
354	Accrued compensated absences - non-current portion	33,041	-	33,041
350	<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>33,041</u>	<u>-</u>	<u>33,041</u>
300	<b>TOTAL LIABILITIES</b>	<u>323,094</u>	<u>4,738</u>	<u>327,832</u>
<b>EQUITY:</b>				
501	Investment in general fixed assets	7,822,731	-	7,822,731
512	Undesignated fund balance/retained earnings	862,168	-	862,168
513	<b>TOTAL EQUITY</b>	<u>8,684,899</u>	<u>-</u>	<u>8,684,899</u>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 9,007,993</u>	<u>\$ 4,738</u>	<u>\$ 9,012,731</u>

Continued

**PUBLIC HOUSING FINANCIAL DATA SCHEDULE**

**Schedule 29**

Line Item #	Account Description	Low Rent 14.850	CGP 14.859	TOTAL
<b>REVENUE:</b>				
Tenant revenues:				
703	Net tenant rental revenue	\$ 408,716	\$ -	\$ 408,716
705	Total tenant revenue	<u>408,716</u>	<u>-</u>	<u>408,716</u>
Other revenues:				
706	HUD PHA grants	1,080,526	273,421	1,353,947
711	Investment income - unrestricted	48,051	-	48,051
713	Proceeds from Disposition of Assets Held for Sale	10,433	-	10,433
715	Other revenue	9,009	8,071	17,080
	Total other revenue	<u>1,148,019</u>	<u>281,492</u>	<u>1,429,511</u>
700	<b>TOTAL REVENUE</b>	<u>1,556,735</u>	<u>281,492</u>	<u>1,838,227</u>
<b>EXPENSES:</b>				
<b>OPERATING EXPENSES:</b>				
Administrative:				
911	Administrative salaries	254,941	-	254,941
912	Auditing fees	6,500	-	6,500
914	Compensated Absences	24,267	-	24,267
915	Employee benefit contributions - administrative	89,796	-	89,796
916	Other operating - administrative	91,354	-	91,354
Tenant services:				
924	Tenant services-other	5,084	-	5,084
Utilities:				
931	Water	96,136	-	96,136
932	Electricity	28,244	-	28,244
933	Gas	6,217	-	6,217
Ordinary maintenance & operations:				
941	Ordinary maintenance and operations - labor	443,665	-	443,665
942	Ordinary maintenance and operations - materials	59,496	-	59,496
943	Ordinary maintenance and operations - contract costs	144,296	-	144,296
945	Employee benefit contributions - ordinary maintenance	149,954	-	149,954
General expenses:				
961	Insurance premiums	51,019	-	51,019
962	Other general expenses	2,360	-	2,360
964	Bad debt - tenant rents	22,500	-	22,500
969	<b>TOTAL OPERATING EXPENSES</b>	<u>1,475,829</u>	<u>-</u>	<u>1,475,829</u>
970	<b>EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER OPERATING EXPENSES</b>	<u>80,906</u>	<u>281,492</u>	<u>362,398</u>
<b>NON-OPERATING EXPENSES:</b>				
971	Extraordinary maintenance	66,366	281,492	347,858
974	Depreciation Expense	720,879	-	720,879
900	<b>TOTAL EXPENSES</b>	<u>2,263,074</u>	<u>281,492</u>	<u>2,544,566</u>
1000	<b>DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	(706,339)	-	(706,339)
1103	<b>BEGINNING EQUITY</b>	9,391,238	-	9,391,238
	<b>ENDING EQUITY</b>	<u>\$ 8,684,899</u>	<u>\$ -</u>	<u>\$ 8,684,899</u>

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - STORMWATER MANAGEMENT FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,638,427	\$ 1,638,427	\$ 1,741,379	\$ 102,952
<b>OPERATING EXPENSES</b>				
Personnel	427,390	416,050	395,345	20,705
Drainage Maintenance	-	-	532,260	(532,260)
Indirect costs	40,591	40,591	39,629	962
Consulting	263,000	380,224	146,935	233,289
Other	137,664	177,044	91,442	85,602
Total operating expenses	868,645	1,013,909	1,205,611	(191,702)
<b>OPERATING INCOME</b>	<u>769,782</u>	<u>624,518</u>	<u>535,768</u>	<u>(88,750)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest on investments	-	-	58,155	58,155
Interest expense	-	-	-	-
Capital outlay	(100,000)	(112,213)	(15,000)	97,213
Appropriated fund balance	-	157,477	-	(157,477)
Total nonoperating revenues (expenses), net	(100,000)	45,264	43,155	(2,109)
<b>INCOME BEFORE TRANSFERS</b>	669,782	669,782	578,923	(90,859)
<b>TRANSFERS</b>				
Transfers in	6,500	6,500	3,160	(3,340)
Transfers out	(532,260)	(532,260)	-	532,260
Total transfers	(525,760)	(525,760)	3,160	528,920
<b>EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS</b>	<u>\$ 144,022</u>	<u>\$ 144,022</u>	582,083	<u>\$ 438,061</u>
Reconciliation of modified accrual basis to full accrual basis:				
Capital outlay			15,000	
Depreciation and amortization			(3,739)	
Change in Net Assets			<u>\$ 593,344</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - VEHICLE REPLACEMENT FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Charges for services	\$ 1,153,005	\$ 1,153,005	\$ 1,148,591	\$ (4,414)
OPERATING EXPENSES				
Operations	16,500	16,500	14,196	2,304
OPERATING INCOME (LOSS)	1,136,505	1,136,505	1,134,395	(2,110)
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	-	-	114,220	114,220
Capital outlay	(1,870,800)	(3,263,713)	(1,911,618)	1,352,095
Debt service	(1,190,632)	(1,190,632)	(986,184)	204,448
Proceeds from sale of capital assets	20,000	20,000	13,749	(6,251)
Issuance of installment notes	1,870,800	1,870,800	1,870,800	-
Appropriated fund balance	-	1,392,913	-	(1,392,913)
Total nonoperating revenues (expenses), net	(1,170,632)	(1,170,632)	(899,033)	271,599
INCOME BEFORE TRANSFERS	(34,127)	(34,127)	235,362	269,489
TRANSFERS	34,127	34,127	34,127	-
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	\$ 269,489	\$ 269,489
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(884,943)	
Capital outlay			1,911,618	
Debt service principal			860,636	
Proceeds from installment notes			(1,870,800)	
Change in net assets			\$ 286,000	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - VEHICLE MAINTENANCE FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 974,700	\$ 974,700	\$ 875,696	\$ (99,004)
<b>OPERATING EXPENSES</b>				
Personnel	540,113	540,113	513,935	26,178
Operations	496,867	500,302	461,642	38,660
Total operating expenses	1,036,980	1,040,415	975,577	64,838
OPERATING INCOME (LOSS)	(62,280)	(65,715)	(99,881)	(34,166)
<b>NONOPERATING REVENUES</b>				
Interest on investments	1,900	1,900	9,107	7,207
Appropriated fund balance	94,507	97,942	-	(97,942)
Total nonoperating revenues	96,407	99,842	9,107	(90,735)
EXCESS (DEFICIENCY) OF REVENUES BEFORE TRANSFERS	34,127	34,127	(90,774)	(124,901)
TRANSFERS	(34,127)	(34,127)	(34,127)	-
DEFICIENCY OF REVENUES OVER EXPENSE AND TRANSFERS	\$ -	\$ -	\$ (124,901)	\$ (124,901)
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(828)	
Change in net assets			\$ (125,729)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - COMPUTER EQUIPMENT REPLACEMENT FUND  
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Charges for services	\$ 189,868	\$ 189,868	\$ 190,090	\$ 222
OPERATING EXPENSES				
Operations	150,000	150,000	117,754	32,246
OPERATING INCOME	39,868	39,868	72,336	32,468
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	-	-	19,258	19,258
Debt service	(147,472)	(147,472)	(133,099)	14,373
Proceeds from sale of capital assets	-	-	(3,176)	(3,176)
Issuance of installment notes	150,000	150,000	-	(150,000)
Appropriated fund balance	(42,396)	(42,396)	-	42,396
Total nonoperating revenues (expenses), net	(39,868)	(39,868)	(117,017)	(77,149)
EXCESS OF REVENUES OVER EXPENSES	\$ -	\$ -	(44,681)	\$ (44,681)
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(3,864)	
Debt service principal			128,641	
Change in net assets			\$ 80,096	

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## STATISTICAL SECTION

This part of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

Financial Trends (Tables 1-4) - These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.

Revenue Capacity (Tables 5-9) - These schedules contain information to help the reader assess the factors affecting the Town's ability to generate its property and sales taxes.

Debt Capacity (Tables 10-13) - These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.

Demographic and Economic Information (Tables 14-15) - These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.

Operating Information (Tables 16-18) - These schedules contain information about the Town's operations and resources to help the reader understand how the Town's financial information relates to the services the Town provides and the activities it performs.

*Sources:* Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year. The Town implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

**Town of Chapel Hill**  
**Net Assets by Component,**  
**Last Five Fiscal Years**  
(accrual basis of accounting)

**Table 1**

	<b>Fiscal Year</b>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 34,352,685	\$ 48,939,875	\$ 53,543,531	\$ 55,806,867	\$ 99,803,659
Restricted	2,575,243	10,888,825	5,574,623	1,296,492	1,217,399
Unrestricted	<u>16,601,192</u>	<u>5,949,472</u>	<u>15,075,313</u>	<u>19,554,289</u>	<u>31,348,752</u>
Total governmental activities net assets	<u>\$ 53,529,120</u>	<u>\$ 65,778,172</u>	<u>\$ 74,193,467</u>	<u>\$ 76,657,648</u>	<u>\$ 132,369,810</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 15,716,804	\$ 14,367,385	\$ 13,888,036	\$ 31,162,444	\$ 39,814,330
Unrestricted	<u>1,643,855</u>	<u>3,235,818</u>	<u>5,267,602</u>	<u>8,403,465</u>	<u>8,069,222</u>
Total business-type activities net assets	<u>\$ 17,360,659</u>	<u>\$ 17,603,203</u>	<u>\$ 19,155,638</u>	<u>\$ 39,565,909</u>	<u>\$ 47,883,552</u>
Primary government					
Invested in capital assets, net of related debt	\$ 50,069,489	\$ 63,307,260	\$ 67,431,567	\$ 86,969,311	\$ 139,617,989
Restricted	2,575,243	10,888,825	5,574,623	1,296,492	1,217,399
Unrestricted	<u>18,245,047</u>	<u>9,185,290</u>	<u>20,342,915</u>	<u>27,957,754</u>	<u>39,417,974</u>
Total primary government net assets	<u>\$ 70,889,779</u>	<u>\$ 83,381,375</u>	<u>\$ 93,349,105</u>	<u>\$ 116,223,557</u>	<u>\$ 180,253,362</u>
Component unit					
Invested in capital assets, net of related debt	\$ 136,790,615	\$ 110,634,726	\$ 137,441,321	\$ 160,813,755	\$ 161,812,115
Restricted	10,740,702	34,817,584	19,114,903	1,925,585	9,405,757
Unrestricted	<u>6,076,872</u>	<u>15,468,674</u>	<u>7,373,853</u>	<u>6,611,972</u>	<u>6,453,532</u>
Total component unit net assets	<u>\$ 153,608,189</u>	<u>\$ 160,920,984</u>	<u>\$ 163,930,077</u>	<u>\$ 169,351,312</u>	<u>\$ 177,671,404</u>

Note: The Town began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

**Town of Chapel Hill**  
**Changes in Net Assets,**  
**Last Five Fiscal Years**  
(accrual basis of accounting)

**Table 2**

	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Governmental activities:</b>					
Expenses					
General government	\$ 4,719,210	\$ 3,641,608	\$ 4,113,954	\$ 4,327,313	\$ 5,780,346
Environment and development	18,685,215	16,793,496	16,536,622	21,954,945	25,775,717
Public safety	15,846,918	15,280,202	15,501,769	17,003,191	17,844,886
Leisure activities	4,400,420	4,617,299	4,694,967	4,947,783	4,977,126
Nondepartmental	823,903	962,489	1,324,805	1,475,398	-
Interest	782,855	880,610	884,070	887,200	1,952,285
Total expenses	<u>45,258,521</u>	<u>42,175,704</u>	<u>43,056,187</u>	<u>50,595,830</u>	<u>56,330,360</u>
Program Revenues					
Charges for services:					
General government	\$ 571,579	\$ 600,756	\$ 607,385	\$ 564,548	\$ 2,538,610
Environment and development	2,463,644	3,142,701	3,607,851	3,225,722	1,147,843
Public safety	41,577	56,958	70,046	65,244	76,287
Leisure activities	491,076	533,131	603,228	655,976	642,478
Nondepartmental	708,582	-	-	-	-
Operating grants and contributions:					
Environment and development	6,496,461	4,665,902	5,973,016	13,255,667	3,347,410
Public safety	982,838	1,135,163	1,183,619	2,190,476	1,318,224
Leisure activities	363,829	381,688	747,380	333,346	291,129
Capital grants and contributions:					
Environment and development	-	-	-	913,613	9,154,416
Total program revenues	<u>12,119,586</u>	<u>10,516,299</u>	<u>12,792,525</u>	<u>21,204,592</u>	<u>18,516,397</u>
Total governmental activities net program expense	\$ (33,138,935)	\$ (31,659,405)	\$ (30,263,662)	\$ (29,391,238)	\$ (37,813,963)
General revenues and other changes in net assets					
Property taxes	\$ 29,251,469	\$ 30,430,218	\$ 32,782,589	\$ 35,771,454	\$ 26,102,086
Grants and contributions not restricted	2,979,967	2,683,589	2,478,791	2,559,529	991,081
Investment earnings	187,590	192,595	442,649	1,689,568	368,073
Miscellaneous	848,311	1,115,491	1,147,972	1,695,701	-
Proceeds from financing	-	1,395,000	-	-	-
Transfers	1,103,692	347,376	991,713	586,538	1,670,377
Total general revenues and other changes in net assets	<u>34,371,029</u>	<u>36,164,269</u>	<u>37,843,714</u>	<u>42,302,790</u>	<u>29,131,617</u>
Total governmental activities changes in net assets	<u>\$ 1,232,094</u>	<u>\$ 4,504,864</u>	<u>\$ 7,580,052</u>	<u>\$ 12,911,552</u>	<u>\$ (8,682,346)</u>

Continued

**Town of Chapel Hill**  
**Changes in Net Assets,**  
**Last Five Fiscal Years**  
(accrual basis of accounting)

**Table 2**

	<b>Fiscal Year</b>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Business-type activities:</b>					
Expenses					
Transportation	\$ 10,720,485	\$ 11,469,835	\$ 12,457,941	\$ 13,280,263	\$ 14,881,026
Parking	1,688,758	1,749,648	1,614,306	1,590,227	1,585,035
Housing	-	-	-	1,119,963	1,209,350
Stormwater	-	-	1,065,666	2,257,924	2,263,074
Total expenses	<u>12,409,243</u>	<u>13,219,483</u>	<u>15,137,913</u>	<u>18,248,377</u>	<u>19,938,485</u>
Program Revenues					
Charges for services:					
Transportation	\$ 523,680	\$ 571,436	\$ 549,673	\$ 608,420	\$ 694,445
Parking	1,856,953	1,847,904	1,933,579	2,080,546	2,138,673
Housing	-	-	-	1,651,616	417,725
Stormwater	-	-	1,708,292	379,582	1,741,379
Operating grants and contributions:					
Transportation	7,095,258	8,482,726	9,551,828	9,859,005	10,609,529
Housing	-	-	-	1,040,017	1,080,526
Capital grants and contributions:					
Transportation	1,260,802	599,175	1,217,846	10,320,462	11,150,111
Total program revenues	<u>10,736,693</u>	<u>11,501,241</u>	<u>14,961,218</u>	<u>25,939,648</u>	<u>27,832,388</u>
Total business-type activities net program expense	<u>\$ (1,672,550)</u>	<u>\$ (1,718,242)</u>	<u>\$ (176,695)</u>	<u>\$ 7,691,271</u>	<u>\$ 7,893,903</u>
General revenues and other changes in net assets					
Property taxes	\$ 1,786,132	\$ 2,190,261	\$ 2,623,385	\$ 2,547,914	\$ 2,623,726
Investment earnings	30,148	25,071	97,458	281,467	-
Miscellaneous	(7,295)	92,830	-	28,786	-
Transfers	(1,103,692)	(347,376)	(991,713)	(586,538)	426,554
Total general revenues and other changes in net assets	<u>705,293</u>	<u>1,960,786</u>	<u>1,729,130</u>	<u>2,271,629</u>	<u>3,050,280</u>
Total business-type activities changes in net assets	<u>\$ (967,257)</u>	<u>\$ 242,544</u>	<u>\$ 1,552,435</u>	<u>\$ 9,962,900</u>	<u>\$ 10,944,183</u>
<b>Total primary government changes in net assets</b>	<u>\$ 264,837</u>	<u>\$ 4,747,408</u>	<u>\$ 9,132,487</u>	<u>\$ 22,874,452</u>	<u>\$ 2,261,837</u>

Continued

**Town of Chapel Hill**  
**Changes in Net Assets,**  
**Last Five Fiscal Years**  
 (accrual basis of accounting)

**Table 2**

	<b>Fiscal Year</b>				
	<u><b>2003</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2006</b></u>	<u><b>2007</b></u>
<b>Component unit activities:</b>					
Expenses	\$ 21,280,940	\$ 21,175,958	\$ 24,142,717	\$ 25,520,643	\$ 28,043,089
Program Revenues					
Charges for services	18,672,964	21,156,492	21,891,667	24,431,382	25,411,160
Capital grants and contributions	<u>1,817,642</u>	<u>4,359,410</u>	<u>2,566,129</u>	<u>3,459,835</u>	<u>7,425,786</u>
Total component unit revenues	<u>20,490,606</u>	<u>25,515,902</u>	<u>24,457,796</u>	<u>27,891,217</u>	<u>32,836,946</u>
Total component unit net (expense)/revenue	\$ <u>(790,334)</u>	\$ <u>4,339,944</u>	\$ <u>315,079</u>	\$ <u>2,370,574</u>	\$ <u>4,793,857</u>
General revenues and other changes in net assets					
Investment earnings	337,442	211,708	821,194	742,010	-
Miscellaneous	<u>1,856,416</u>	<u>2,761,143</u>	<u>1,872,820</u>	<u>2,308,651</u>	<u>-</u>
Total general revenues and other changes in net assets	<u>2,193,858</u>	<u>2,972,851</u>	<u>2,694,014</u>	<u>3,050,661</u>	<u>-</u>
Total component unit activities changes in net assets	\$ <u>1,403,524</u>	\$ <u>7,312,795</u>	\$ <u>3,009,093</u>	\$ <u>5,421,235</u>	\$ <u>4,793,857</u>

Note: The Town began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

**Town of Chapel Hill**  
**Fund Balances, Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General Fund				
Reserved for:				
State statute	\$ 1,705,984	\$ 1,933,711	\$ 1,943,331	\$ 2,107,920
Encumbrances	975,375	640,653	1,475,156	791,201
Inventories	142,865	100,209	99,005	96,498
Capital improvements	18,962	79,808	207,835	265,549
Other	234,390	289,000	100,000	100,000
Total reserved	<u>3,077,576</u>	<u>3,043,381</u>	<u>3,825,327</u>	<u>3,361,168</u>
Unreserved:				
Designated for subsequent year's expenditures	965,000	850,000	800,000	800,000
Undesignated	3,398,310	3,896,025	4,064,382	4,251,792
Total General Fund	<u>\$ 7,440,886</u>	<u>\$ 7,789,406</u>	<u>\$ 8,689,709</u>	<u>\$ 8,412,960</u>
All Other Governmental Funds				
Reserved for:				
Capital projects	\$ 3,713,619	\$ 1,231,634	\$ 5,509,332	\$ 2,924,364
State Statute	-	-	163,590	145,070
Encumbrances	12,411	73,931	38,164	29,448
Inventories	72,892	93,210	116,045	153,790
Interest subsidies	-	-	-	-
Other	-	-	-	-
Debt service	415,692	189,375	190,643	199,967
Total reserved	<u>4,214,614</u>	<u>1,588,150</u>	<u>6,017,774</u>	<u>3,452,639</u>
Unreserved:				
Designated for subsequent year's expenditures	826,759	1,064,000	721,000	405,500
Undesignated	932,583	1,102,141	1,109,829	1,452,665
Total all other governmental funds	<u>\$ 5,973,956</u>	<u>\$ 3,754,291</u>	<u>\$ 7,848,603</u>	<u>\$ 5,310,804</u>

**Table 3**

<b>Fiscal Year</b>									
<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>				
\$ 2,576,308	\$ 2,959,369	\$ 3,251,528	\$ 3,250,131	\$ 3,912,064	\$ 5,056,543				
626,161	1,045,892	858,238	1,209,013	1,297,402	1,272,671				
10,246	10,246	2,209	1,472	1,928	2,728				
298,986	440,775	427,112	531,342	381,258	231,128				
100,000	100,000	100,000	204,917	212,620	323,997				
<u>3,611,701</u>	<u>4,556,282</u>	<u>4,639,087</u>	<u>5,196,875</u>	<u>5,805,272</u>	<u>6,887,067</u>				
1,070,000	1,290,306	1,499,000	1,514,993	1,879,000	4,315,000				
<u>4,315,631</u>	<u>5,643,519</u>	<u>5,634,550</u>	<u>8,263,350</u>	<u>9,911,161</u>	<u>6,689,278</u>				
<u>\$ 8,997,332</u>	<u>\$ 11,490,107</u>	<u>\$ 11,772,637</u>	<u>\$ 14,975,218</u>	<u>\$ 17,595,433</u>	<u>\$ 17,891,345</u>				
\$ 1,481,350	\$ 5,105,823	\$ 2,075,756	\$ 30,287,235	\$ 17,772,776	\$ 14,068,719				
203,732	28,528	1,112,771	814,273	2,069,240	2,058,864				
48,556	154,482	50,203	656,035	1,111,691	871,343				
137,643	146,058	170,443	157,223	-	-				
-	-	387,872	293,649	68,108	129,523				
-	-	253,860	236,952	394,878	435,030				
1,095	171,968	176,247	455,089	635,619	641,042				
<u>1,872,376</u>	<u>5,606,859</u>	<u>4,227,152</u>	<u>32,900,456</u>	<u>22,052,312</u>	<u>18,204,521</u>				
180,000	236,698	131,818	124,076	102,178	220,480				
<u>1,485,869</u>	<u>1,544,810</u>	<u>460,466</u>	<u>284,452</u>	<u>(1,427,843)</u>	<u>(1,851,254)</u>				
<u>\$ 3,538,245</u>	<u>\$ 7,388,367</u>	<u>\$ 4,819,436</u>	<u>\$ 33,308,984</u>	<u>\$ 20,726,647</u>	<u>\$ 16,573,747</u>				

**Town of Chapel Hill**  
**Changes in Fund Balances, Governmental Funds**  
**Last Ten Fiscal Years**  
(modified accrual basis of accounting)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Revenues</b>				
Taxes	\$ 19,558,996	\$ 20,551,608	\$ 22,032,598	\$ 23,328,989
Intergovernmental	7,344,202	11,096,492	8,774,761	8,388,946
Charges for services	1,811,097	1,700,313	1,533,782	1,557,250
Licenses and permits	1,059,355	1,385,970	1,349,780	1,363,742
Interest	701,072	598,116	763,966	948,173
Other	1,329,649	1,224,219	1,045,776	1,487,705
Total Revenues	<u>31,804,371</u>	<u>36,556,718</u>	<u>35,500,663</u>	<u>37,074,805</u>
<b>Expenditures</b>				
General government	2,625,234	2,490,722	2,748,984	2,916,683
Environment and development	11,845,965	16,639,102	14,305,633	15,548,497
Public safety	9,660,868	10,005,232	10,786,477	12,009,852
Leisure activities	2,663,536	3,068,911	3,236,540	3,507,813
Nondepartmental	891,557	996,914	711,717	985,953
Capital projects	4,255,356	3,315,929	1,888,495	4,013,559
Debt Service:				
Principal	1,249,334	1,245,829	1,355,000	1,520,000
Interest	775,402	918,817	834,780	1,012,046
Total Expenditures	<u>33,967,252</u>	<u>38,681,456</u>	<u>35,867,626</u>	<u>41,514,403</u>
Excess of revenues over (under) expenditures	<u>(2,162,881)</u>	<u>(2,124,738)</u>	<u>(366,963)</u>	<u>(4,439,598)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	3,285,583	3,719,170	3,988,442	4,086,550
Transfers out	(4,165,777)	(3,645,577)	(3,515,864)	(3,581,000)
Proceeds from bonds	4,550,000	-	4,700,000	-
Proceeds from installment notes	224,520	180,000	189,000	1,119,500
Total other financing sources (uses)	<u>3,894,326</u>	<u>253,593</u>	<u>5,361,578</u>	<u>1,625,050</u>
Net change in fund balances	<u>\$ 1,731,445</u>	<u>\$ (1,871,145)</u>	<u>\$ 4,994,615</u>	<u>\$ (2,814,548)</u>
Debt service as a percentage of non capital expenditures	6.81%	6.12%	6.44%	6.75%

**Table 4**

<b>Fiscal Year</b>									
<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>				
\$ 26,193,450	\$ 29,251,469	\$ 30,430,218	\$ 32,782,589	\$ 35,771,454	\$ 37,055,809				
14,962,684	10,823,095	8,866,342	10,382,806	19,252,631	17,046,292				
1,706,496	1,984,469	2,075,005	2,822,100	2,617,171	2,503,992				
1,432,195	1,519,274	1,551,622	1,512,168	1,652,945	1,590,653				
439,531	187,590	192,595	442,649	1,689,568	1,670,377				
1,250,786	1,621,026	1,822,410	1,702,214	1,937,075	1,654,137				
<u>45,985,142</u>	<u>45,386,923</u>	<u>44,938,192</u>	<u>49,644,526</u>	<u>62,920,844</u>	<u>61,521,260</u>				
3,085,314	3,297,515	3,517,651	3,763,510	4,079,736	5,634,423				
22,793,279	17,969,896	17,360,844	18,965,051	25,761,076	27,478,666				
13,394,643	13,859,523	14,976,104	15,342,852	16,900,363	17,666,485				
3,751,287	3,822,370	4,081,517	4,118,714	4,282,116	4,224,267				
1,075,234	823,903	962,489	1,324,805	1,475,398	-				
3,413,124	3,454,036	5,516,543	4,672,085	16,676,455	16,244,832				
1,490,000	1,560,000	1,670,000	1,675,000	2,180,000	2,865,000				
932,731	782,855	880,610	884,070	887,200	1,952,285				
<u>49,935,612</u>	<u>45,570,098</u>	<u>48,965,758</u>	<u>50,746,087</u>	<u>72,242,344</u>	<u>76,065,958</u>				
<u>(3,950,470)</u>	<u>(183,175)</u>	<u>(4,027,566)</u>	<u>(1,101,561)</u>	<u>(9,321,500)</u>	<u>(14,544,698)</u>				
3,738,558	5,005,819	4,246,839	4,981,814	7,450,039	10,878,467				
(2,447,875)	(3,902,127)	(3,900,675)	(3,990,101)	(6,863,501)	(8,258,494)				
-	4,250,000	-	30,000,000	-	4,967,737				
<u>1,471,600</u>	<u>-</u>	<u>1,395,000</u>	<u>966,733</u>	<u>-</u>	<u>3,100,000</u>				
<u>2,762,283</u>	<u>5,353,692</u>	<u>1,741,164</u>	<u>31,958,446</u>	<u>586,538</u>	<u>10,687,710</u>				
<u>\$ (1,188,187)</u>	<u>\$ 5,170,517</u>	<u>\$ (2,286,402)</u>	<u>\$ 30,856,885</u>	<u>\$ (8,734,962)</u>	<u>\$ (3,856,988)</u>				
5.21%	5.56%	5.87%	5.55%	5.52%	8.05%				

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**Town of Chapel Hill**  
**Governmental Funds Tax Revenues by Source**  
**Last Ten Fiscal Years**  
(accrual basis of accounting)

**Table 5**

<u>Fiscal Year</u>	<u>Property Tax</u> (1)	<u>Sales Tax</u>	<u>Occupancy Tax</u>	<u>Other Tax</u>	<u>Total</u>
1998	\$ 13,853,653	\$ 5,133,843	\$ 558,907	\$ 12,593	\$ 19,558,996
1999	14,436,728	5,550,277	555,150	9,453	20,551,608
2000	15,440,496	5,676,497	619,908	295,697	22,032,598
2001	16,342,318	5,879,696	636,233	470,742	23,328,989
2002	18,690,329	6,424,167	589,942	489,012	26,193,450
2003	21,276,968	6,974,456	563,486	436,559	29,251,469
2004	21,713,205	7,654,959	572,932	489,122	30,430,218
2005	23,081,521	8,456,040	675,295	569,733	32,782,589
2006	25,267,247	9,138,060	783,509	582,638	35,771,454
2007	26,102,086	9,594,569	991,081	368,073	37,055,809

Notes:

(1) Property tax total includes interest received on delinquent taxes.

**Town of Chapel Hill**  
**Assessed Value and Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Combined Real Property</u>	<u>Personal Property</u>	<u>Public Service Companies</u> (3)
1998 (1)	*	*	2,362,338,074	348,375,791	57,982,816
1999	*	*	2,457,855,819	365,092,224	60,078,208
2000	*	*	2,501,345,508	381,872,039	60,948,410
2001	*	*	2,589,768,417	388,087,936	61,660,255
2002 (2)	*	*	3,556,294,528	403,959,196	60,873,428
2003	*	*	3,688,289,625	415,023,471	63,868,306
2004	*	*	3,791,842,402	455,906,761	57,587,809
2005	*	*	3,918,233,860	482,128,300	57,774,008
2006 (1)	3,956,681,069	783,355,893	4,740,036,962	498,524,879	60,840,533
2007	3,640,445,489	1,249,997,134	4,890,442,623	520,961,320	61,554,945

\* The breakdown between residential and commercial property is not available for fiscal years prior to 2006.

Notes:

- (1) Revaluation year.
- (2) Increase due to revaluation and the addition of \$200 million from a major annexation.
- (3) Public service companies valuations are provided by the North Carolina Department of Revenue. These amounts include both real and personal property.
- (4) Per \$100 of value. Includes taxes for general fund and transportation fund.
- (5) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (6) Source is the Property Tax Division of the North Carolina Department of Revenue.

**Table 6**

<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>	<b>Estimated Actual Taxable Value</b>	<b>Ratio of Assessed Value to Estimated Actual Value</b>
	(4)	(5)	(6)
2,768,696,681	0.538	2,974,214,933	93.09%
2,883,026,251	0.538	3,258,393,141	88.48%
2,944,165,957	0.563	3,546,333,362	83.02%
3,039,516,608	0.578	3,145,846,210	96.62%
4,021,127,152	0.504	4,459,990,186	90.16%
4,167,181,402	0.553	4,725,767,070	88.18%
4,305,336,972	0.553	5,139,473,525	83.77%
4,458,136,168	0.575	4,664,298,146	95.58%
5,299,402,374	0.522	5,905,284,571	89.74%
5,472,958,888	0.522	6,098,683,851	89.74%

**Town of Chapel Hill  
 Direct and Overlapping Property Tax Rates,  
 Per \$100 of Assessed Value  
 Last Ten Fiscal Years**

Year Taxes Payable	<u>1998</u> *	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u> *
Chapel Hill within Orange County:					
<u>Town Direct Rates:</u>					
General Fund	0.495	0.498	0.524	0.535	0.461
Transportation	0.043	0.040	0.039	0.043	0.043
Downtown Service District	0.062	0.062	0.062	0.062	0.062
<u>Overlapping Rates:</u>					
Orange County	0.873	0.902	0.919	0.929	0.805
Chapel Hill - Carrboro School District	0.179	0.192	0.220	0.220	0.202
Total	1.652	1.694	1.764	1.789	1.573
Chapel Hill within Durham County:					
<u>Town Direct Rates:</u>					
General Fund	0.495	0.498	0.524	0.535	0.461
Transportation	0.043	0.040	0.039	0.043	0.043
<u>Overlapping Rates:</u>					
Durham County	0.960	0.940	0.930	0.930	0.729
Total	1.498	1.478	1.493	1.508	1.233

\* Revaluation year

Note: Overlapping rates are those of local and county governments that apply to property owners within the Town of Chapel Hill. Not all overlapping rates apply to all Chapel Hill property owners; for example, although a county property tax rate applies to all town property owners, the Downtown Service District rates apply only to the property owners whose property is located within that district's geographic boundaries.

**Table 7**

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
			*	
0.510	0.502	0.516	0.474	0.474
0.043	0.051	0.059	0.048	0.048
0.062	0.062	0.062	0.053 #	0.090
0.845	0.880	0.880	0.843	0.903
0.192	0.200	0.200	0.183	0.189
1.652	1.695	1.717	1.601	1.704
0.510	0.502	0.516	0.474	0.474
0.043	0.051	0.059	0.048	0.048
0.753	0.763	0.790	0.809	0.809
1.306	1.316	1.365	1.331	1.331

**Town of Chapel Hill  
Principal Property Tax Payers,  
Current Year and Nine Years Ago**

<b>Taxpayer</b>	<b>Type of Business</b>
US GT LLC (University Square)	Shopping Center
Southeast Region IV LLC	Apartment Rental
Blue Cross and Blue Shield of North Carolina	Health Insurance
University Mall Properties	Shopping Center
VAC Limited Partnership	Apartment Rental
Corium LLC	Health Insurance
Duke Energy Corporation	Public Utility
Europa Center LLP	Office Building
BellSouth Telephone Company (formerly Southern Bell Telephone & Telegraph Co.)	Public Utility
Inland Southeast Meadowmont LLC (formerly Duke Power Company)	Development
Frank H. Kenan	Property Owner
Chapel Hill Residential Retirement Center, Inc	Retirement Facility
Wachovia Bank of North Carolina, Trustee	Shopping Center
Franklin Misty Woods Associates	Apartment Rental
Glenn Lennox Associates	Apartment Rental
Couch Oxford Associates	Apartment Rental

Totals

Total Levy

Table 8

Fiscal Year 2007			Fiscal Year 1998		
Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
\$ 50,171,736	1	1.13%	\$		
43,904,279	2	0.98%			
41,499,386	3	0.93%	62,111,605	1	2.71%
36,437,198	4	0.82%			
36,043,449	5	0.81%	24,255,919	5	1.06%
32,584,496	6	0.73%			
24,909,646	10	0.56%	21,046,148	6	0.92%
24,868,917	7	0.56%			
23,994,356	8	0.54%	25,724,288	4	1.12%
22,315,802	9	0.50%			
			44,945,947	2	1.96%
			27,881,891	3	1.21%
			18,688,039	7	0.81%
			14,629,581	8	0.64%
			12,392,080	9	0.54%
			11,276,144	10	0.49%
<u>\$ 336,729,265</u>		<u>7.55%</u>	<u>\$ 262,951,642</u>		<u>11.45%</u>
<u>\$ 5,472,958,888</u>			<u>\$ 2,768,696,681</u>		

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**Town of Chapel Hill  
Property Tax Levies and Collections  
Last Ten Fiscal Years**

**Table 9**

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes
		Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy	
1998	14,935,217	14,840,691	99.37%	*	*	*	*
1999	15,534,727	15,413,292	99.22%	*	*	*	*
2000	16,598,182	16,453,207	99.13%	*	*	*	*
2001	17,594,559	17,466,542	99.27%	*	*	*	*
2002	20,417,001	20,271,201	99.29%	*	*	*	*
2003	23,067,472	22,919,205	99.36%	*	*	*	*
2004	23,775,375	23,653,530	99.49%	111,079	23,764,609	99.95%	(1) 350,486
2005	25,615,621	25,480,324	99.47%	106,946	25,587,270	99.89%	21,839
2006	27,718,753	27,578,410	99.49%	107,786	27,686,196	99.88%	30,396
2007	28,558,565	28,409,166	99.48%	-	28,409,166	99.48%	149,399

\* Data not available. The Town contracts with the counties to maintain the tax records and must rely on the records provided.

Notes:

(1) This amount represents the cumulative delinquent taxes for years 2004 and prior.

**Town of Chapel Hill**  
**Ratios of Outstanding Debt by Type,**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Governmental Activities</b>			
	<b>General Obligation Bonds</b>	<b>Certificates of Participation</b>	<b>Installment Loans</b>	<b>Public Housing Bonds/Notes</b>
1998	\$ 18,090,000	\$ -	\$ 493,193	\$ 2,798,786
1999	16,880,000	-	407,551	-
2000	20,225,000	-	447,898	-
2001	18,705,000	-	1,356,431	-
2002	17,380,000	-	6,460,553	-
2003	20,070,000	-	5,442,139	-
2004	18,400,000	-	6,526,774	-
2005	20,725,000	26,000,000	5,069,836	-
2006	18,545,000	25,500,000	5,668,038	-
2007	21,630,000	24,500,000	9,424,561	-

Notes: Details regarding the town's outstanding debt can be found in the notes to the financial statements.  
 (1) See Table 14 for personal income and population data.

**Table 10**

<b>Business-type Activities</b>					
<b>Certificates of Participation</b>	<b>Total Primary Government</b>	<b>Per Capita Personal Income</b>	<b>Per Capita</b>	<b>Percentage of Personal Income</b>	
			(1)	(1)	
\$ 7,010,000	\$ 28,391,979	16,288	654	4.01%	
6,890,000	24,177,551	16,288	550	3.38%	
6,765,000	27,437,898	16,288	596	3.66%	
6,635,000	26,696,431	16,288	546	3.35%	
6,495,000	30,335,553	24,133	600	2.49%	
6,350,000	31,862,139	24,133	625	2.59%	
6,380,000	31,306,774	24,133	608	2.52%	
6,160,000	57,954,836	24,133	1,125	4.66%	
5,925,000	55,638,038	24,133	1,062	4.40%	
5,680,000	61,234,561	24,133	1,146	4.75%	

**Town of Chapel Hill**  
**Ratios of Net General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

Fiscal Year	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General bonded debt outstanding				
General obligation bonds	\$ 18,090,000	\$ 16,880,000	\$ 20,225,000	\$ 18,705,000
Percentage of estimated actual property value (1)	0.65%	0.59%	0.69%	0.62%
Per capita (2)	\$ 417	\$ 384	\$ 439	\$ 382

Notes: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

(1) See Table 6 for property value data.

(2) See Table 14 for personal income and population data.

**Table 11**

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 17,380,000	\$ 20,070,000	\$ 18,400,000	\$ 20,725,000	\$ 18,545,000	\$ 21,630,000
0.43%	0.48%	0.43%	0.46%	0.38%	0.40%
\$ 344	\$ 393	\$ 357	\$ 402	\$ 354	\$ 405

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**Town of Chapel Hill  
 Direct and Overlapping Governmental Activities Debt  
 As of June 30, 2007**

**Table 12**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Orange County	\$ 241,066,919	42.10%	\$ 101,481,359
Durham County	247,445,000	1.28%	3,167,291
Total direct debt			<u>46,130,000</u>
Total direct and overlapping debt			<u><u>\$ 150,778,650</u></u>

**Town of Chapel Hill  
 Legal Debt Margin Information,  
 Last Ten Fiscal Years**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Total assessed valuation	\$ 2,768,696,681	\$ 2,883,026,251	\$ 2,944,165,957	\$ 3,039,516,608
Debt limit - 8% of total assessed valuation	221,495,734	230,642,100	235,533,277	243,161,329
Amount of debt applicable to debt limit:				
General obligation bonds	18,090,000	16,880,000	20,225,000	18,705,000
Bonds authorized but unissued	<u>8,950,000</u>	<u>8,950,000</u>	<u>4,250,000</u>	<u>4,250,000</u>
Total net debt applicable to debt limit	27,040,000	25,830,000	24,475,000	22,955,000
Legal debt margin	<u>\$ 194,455,734</u>	<u>\$ 204,812,100</u>	<u>\$ 211,058,277</u>	<u>\$ 220,206,329</u>
Total net debt applicable to the limit as a percentage of debt limit	12.21%	11.20%	10.39%	9.44%

Note: NC Statute GS159-55 limits the town's outstanding debt to 8% of the appraised value of property subject to taxation. The following deductions are made from gross debt to arrive at net debt applicable to the limit: money held for payment of principal; debt incurred for water, sewer, gas, or electric power power purposes; uncollected special assessments, funding and refunding bonds not yet issued; and revenue bonds. The legal debt margin is the difference between the debt limit and the Town's debt outstanding applicable to the limit, and represents the town's legal borrowing authority.

**Table 13**

<b>Fiscal Year</b>					
<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 4,021,127,152	\$ 4,167,181,402	\$ 4,305,436,972	\$ 4,458,136,168	\$ 5,299,402,374	\$ 5,472,958,888
321,690,172	333,374,512	344,434,958	356,650,893	423,952,190	437,836,711
17,380,000	20,070,000	18,400,000	20,725,000	18,545,000	21,630,000
4,250,000	-	-	-	-	-
<u>21,630,000</u>	<u>20,070,000</u>	<u>18,400,000</u>	<u>20,725,000</u>	<u>18,545,000</u>	<u>21,630,000</u>
<u>\$ 300,060,172</u>	<u>\$ 313,304,512</u>	<u>\$ 326,034,958</u>	<u>\$ 335,925,893</u>	<u>\$ 405,407,190</u>	<u>\$ 416,206,711</u>
6.72%	6.02%	5.34%	5.81%	4.37%	4.94%

**Town of Chapel Hill  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

**Table 14**

<b>Year</b>	<b>Population</b>	<b>Personal Income (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
	(1)	(2)	(3)	(3)	(3)	(4)	(5)
1998	43,423	3,042,049	16,288	24.8	14.72	32,375	1.6%
1999	43,977	3,169,976	16,288	24.8	14.72	32,375	1.3%
2000	46,019	3,327,229	16,288	24.8	14.72	33,520	1.2%
2001	48,902	3,583,041	16,288	24.8	14.72	34,462	1.8%
2002	50,542	3,800,280	24,133	24.2	15.82	34,628	3.1%
2003	51,005	3,877,363	24,133	24.2	15.82	37,012	4.0%
2004	51,485	3,902,027	24,133	24.2	15.82	37,587	3.0%
2005	51,519	4,122,336	24,133	24.2	15.82	37,308	4.0%
2006	52,397	4,667,922	24,133	24.2	15.82	35,260	3.9%
2007	53,416	*	24,133	24.2	15.82	38,718	2.9%

\* Data not yet available

Notes:

- (1) N.C. State Data Center. Estimates are as of beginning of fiscal year.
- (2) U. S. Department of Commerce, Bureau of Economic Analysis data available for Orange County only. Prior calendar year data used.
- (3) U. S. Department of Commerce, most recent available census data.
- (4) Chapel Hill-Carrboro Public Schools and University of North Carolina at Chapel Hill.
- (5) N. C. Employment Security Commission.

**Town of Chapel Hill  
Principal Employers  
Current Year and Nine Years Ago**

**Table 15**

<u>Taxpayer</u>	<u>Fiscal Year 2007</u>			<u>Fiscal Year 1998</u>		
	<u>Employees (1)</u>	<u>Rank</u>	<u>Percentage of Total Town Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Town Employment</u>
University of North Carolina at Chapel Hill	11,000	1	40.9%			
University of North Carolina Hospitals	6,956	2	25.9%	Not		
Blue Cross Blue Shield of NC	1,612	3	6.0%	Available		
Carrboro-Chapel Hill Schools	1,573	4	5.9%			
Town of Chapel Hill	<u>678</u>	5	2.5%			
Total	<u>21,819</u>		<u>81.2%</u>			
Total Town Employment	<u>26,878</u>					

(1) Source: Chapel Hill-Carrboro Chamber of Commerce  
Source: Orange County Economic Development Commission

**Town of Chapel Hill  
Operating Indicators  
Last Ten Fiscal Years**

<b>Function/Program</b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>
General Government:				
Finance				
Purchase orders issued	2,138	2,236	2,090	2,070
Human Resources				
Recruitment for positions	112	129	143	105
Public Works				
Streets resurfaced (miles)	5.34	6.35	6	6.75
Refuse collected (tons)	21,471	22,697	23,572	22,141
Economic and development:				
Planning/Inspections				
Building permits issued	824	945	863	841
Public Safety:				
Police				
Calls for service**	27,973	28,144	28,585	26,062
Traffic citations	5,776	5,116	3,917	3,391
Fire				
Emergency responses	1,732	1,843	2,187	2,254
Property losses	\$ 505,854	\$ 466,067	\$ 2,904,195	\$ 1,298,680
Inspections	1,223	1,295	1,187	1,482
Leisure activities:				
Parks and Recreation				
Program/league registrants	31,195	38,447	36,646	36,383
Transportation				
Service miles	1,192,793	1,312,282	1,225,800	1,283,075
Parking				
Citations issued	26,568	28,316	22,214	24,483
Stormwater				
Stormwater impact statement reviews				

\* The Stormwater Fund was established in the 2004-2005 fiscal year.

\*\* Traffic and on-view arrests were not included previous to 2007. Removing those calls in 2007 would result

**Table 16**

<u>Fiscal Year</u>					
<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
2,190	2,092	2,082	2,080	2,135	2,386
84	96	86	56	74	79
6.65	4.71	6	6.05	5.45	5.71
21,729	23,992	23,836	22,231	21,838	21,541
927	1,035	903	961	716	755
26,278	24,778	29,385	30,754	32,871	42,428
3,615	3,448	3,902	4,682	4,885	6,716
2,423	2,088	1,787	1,811	2,208	3,349
\$ 1,118,170	\$ 1,058,199	\$ 2,244,200	\$ 232,025	\$ 594,200	\$ 3,312,435
1,289	1,308	1,327	1,312	1,218	730
32,530	37,101	37,312	38,343	38,141	35,250
1,644,754	1,883,680	2,180,107	2,140,275	2,479,470	2,396,497
22,263	19,737	19,595	19,781	20,043	18,731
			*	258	193

in a 2% decrease in calls (32,193)

**Town of Chapel Hill  
Capital Asset Statistics  
Last Ten Fiscal Years**

<b>Function/Program</b>	<b>Fiscal Year</b>				
	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>
General Government:					
Public Works					
Streets (miles)	131.5	137.3	137.8	142.5	151.9
Street lights	2,414	2,395	2,412	2,482	2,691
Public Safety:					
Police					
Patrol units	4	4	4	4	4
Investigative units	1	1	1	1	2
Other specialty units	3	3	3	3	3
Fire					
Number of stations	4	4	4	4	5
Leisure activities:					
Parks and Recreation					
Number of parks & recreational facilities	16	16	16	17	17
Library					
Volumes in circulation	118,391	118,350	125,598	135,671	140,550
Transportation					
Number of buses	66	66	61	54	74
Number of vans	9	9	8	9	13
Parking					
Number of spaces available	889	889	889	889	889
Housing					
Number of units occupied	317	299	327	324	325

**Table 17**

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
151.9	153.1	156.6	162.3	164.2
2,905	3,006	3,008	3,005	3,075
4	4	4	4	4
2	2	2	2	2
3	3	3	3	3
5	5	5	5	5
17	17	17	17	17
148,706	150,408	158,673	168,109	170,586
83	83	86	86	89
14	14	11	18	18
889	889	889	887	890
317	310	325	329	320

**Town of Chapel Hill  
Full-time Equivalent Town Government Employees by Function,  
Last Ten Fiscal Years**

**Table 18**

Function/Program	Full-Time Equivalent Employees									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General government:										
Mayor and council	0.53	0.53	0.53	0.53	0.53	0.53	1	1	1	1
Town manager's office	7	7	6	6	6	6	6	6	6	7.53
Town clerk's office	4.27	4.27	4.27	4.27	4.27	4.27	4.53	4.53	4.53	4.53
Human resources	7.03	7.23	7.23	7.23	7.23	6.73	8	8	8	8
Finance	12.19	13.19	14.19	11.19	11.39	10.86	11.33	11.33	12.33	12.33
Information technology (A)				3	4	5	5	6	7	7
Legal	1	1	2	2	2	2	2	2	2	2
Public Works	119.53	126	128	120.5	122.5	116.5	128	129	129	124
Environment and development:										
Planning	13.53	15.03	15.03	15.53	15.53	15.53	15.53	16.19	16.19	18.56
Inspections	7	7	8	9	9	10.53	10.53	10.53	9	9
Engineering	11	12	13	13	13	13	13	12	11.8	19
Housing (B)	19	19	19	18	18	18	18	18		
Public Safety:										
Police	123.1	127.35	127.35	127.4	135.2	135.4	134	138	138	144
Fire	55.15	55.15	61.15	73.15	73.15	73.13	74	74.53	74.53	86.53
Leisure activities:										
Parks & Recreation	17.39	18.59	20.52	20.42	20.95	20.95	21.38	21.91	22.79	23.26
Library	25.53	25.53	25.53	25.53	28	28	28	28	28	29
Transportation	115.6	123.01	123.37	125.37	140.59	143.59	159.09	161.59	164.59	167.79
Parking	12	12	12	12	12	13.3	12.8	12.8	12.8	12.8
Housing (B)									18	17
Stormwater (C)								4	5.2	5.2
Landfill (D)	<u>26</u>	<u>28</u>	<u>28</u>							
<b>Total</b>	<b>576.85</b>	<b>601.88</b>	<b>615.17</b>	<b>594.12</b>	<b>623.34</b>	<b>623.32</b>	<b>652.19</b>	<b>665.41</b>	<b>670.76</b>	<b>698.53</b>

Source: Annual Adopted Budget

Notes:

- (A) Information Technology was separated from Finance in the 2000-2001 fiscal year.
- (B) Housing was reported as a Special Revenue Fund through fiscal year 2004-2005 and then changed for reporting purposes to a Propriety Fund.
- (C) The Stormwater Management Fund was established in 2004-2005.
- (D) The Landfill Fund was eliminated in the 1999-2000 fiscal year and the operation was turned over to Orange County.



**DIXON HUGHES** PLLC

Certified Public Accountants and Advisors

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor  
and Members of the Town Council  
Town of Chapel Hill  
Chapel Hill, 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 Chapel Hill, North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Orange Water and Sewer Authority representing 59%, 57%, and 28%, respectively, of the assets, net assets, and revenues of the financial reporting entity, which consist of governmental activities, business-type activities, and discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Orange Water and Sewer Authority, is based solely on the reports of the other auditors. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Town of Chapel Hill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Chapel Hill's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Chapel Hill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Town of Chapel Hill, in a separate letter dated October 31, 2007.

This report is intended solely for the information and use of management, others within the organization, members of the Town Council, and various federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Dixon Hughes PLLC*

October 31, 2007



**DIXON HUGHES** PLLC

Certified Public Accountants and Advisors

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Honorable Mayor and  
Members of the Town Council  
Town of Chapel Hill, North Carolina

Compliance

We have audited the compliance of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2007. The Town of Chapel Hill's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Chapel Hill's management. Our responsibility is to express an opinion on the Town of Chapel Hill's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Chapel Hill's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Chapel Hill's compliance with those requirements.

In our opinion, the Town of Chapel Hill complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of the Town of Chapel Hill is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Chapel Hill's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Town's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, others within the organization, members of Town Council, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dixon Hughes PLLC*

October 31, 2007



**DIXON HUGHES** P.L.L.C.

Certified Public Accountants and Advisors

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR STATE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133  
AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Honorable Mayor and  
Members of the Town Council  
Town of Chapel Hill, North Carolina

Compliance

We have audited the compliance of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major state program for the year ended June 30, 2007. The Town of Chapel Hill's major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major state program is the responsibility of the Town of Chapel Hill's management. Our responsibility is to express an opinion on the Town of Chapel Hill's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Chapel Hill's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Chapel Hill's compliance with those requirements.

In our opinion, the Town of Chapel Hill complied, in all material respects, with the requirements referred to above that are applicable to its major state program for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of the Town of Chapel Hill is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Chapel Hill's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of a compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the Town's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above

This report is intended solely for the information and use of the management, others within the organization, members of Town Council, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dixon Hughes PLLC*

October 31, 2007

**TOWN OF CHAPEL HILL, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007**

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**I. Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified?  yes  no
- Significant Deficiencies identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified?  yes  no
- Significant Deficiencies identified that are not considered to be material weaknesses?  yes  none reported

Type of auditors' report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
20.505	Federal Transit Grants Metropolitan Planning
97.083	Homeland Security SAFER Grant



**TOWN OF CHAPEL HILL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007**

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**II. Financial Statement Findings**

None reported.

**III. Federal Award Findings and Questioned Costs**

None reported.

**IV. State Award Findings and Questioned Costs**

None reported.

**TOWN OF CHAPEL HILL  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2007**

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There were no prior year audit findings

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
<b>FEDERAL ASSISTANCE</b>						
U.S. Department of Transportation						
<i>Direct Programs:</i>						
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-90-X361-00	\$ 4,700,000	\$ 1,962,750	\$ 245,344	\$ 986,218
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-90-X382-00	4,900,000	3,843,138	480,392	480,392
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-95-X001-00	2,088,430	359,122	44,890	44,890
Federal Transit Administration - Federal Transit Capital Formula Grant	20.500	NC-26-0004	1,247,914	468,763	224,258	
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-03-0058-00	1,647,861	253,617	31,702	31,702
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-03-0058-03	1,213,592	970,874	121,359	121,359
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-03-0072-00	4,800,000	827,885	79,796	89,771
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-04-0001-00	894,758	-	-	-

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-90-X391-02	587,337	1,117	140	140
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-03-0066-00	1,707,555	23,724	2,287	2,573
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-03-0066-01	814,080	-	-	-
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-03-0066-02	30,528	-	-	-
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X345-00	690,719	12,535	26,163	(23,030)
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X363-00	845,706	107,687	10,109	16,813
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X381-00	682,730	450,878	-	112,720
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X415-00	844,140	8,047	1,006	1,006
Federal Transit Administration - Federal Transit Planning Formula Grant	20.505	07-08-108	118,070	102,956	-	11,440

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Federal Transit Administration - Federal Transit Planning Formula Grant	20.505	08-08-103	113,500	-	-	-
<i>Passed-Through City of Durham, North Carolina:</i>						
Federal Transit Administration - Highway Act of 1973 Section 104(f) Planning Grant	20.505	PL 104(F)	228,723	63,772	-	15,943
STP Direct Allocation Grant	20.505		200,000	160,000	-	40,000
Total U.S. Department of Transportation				<u>9,616,865</u>	<u>1,267,446</u>	<u>1,931,937</u>
Federal Highway Administration						
<i>Passed-Through NC Department of Transportation:</i>						
NCDOT MPO Grant - Drainage Grate - MLK	20.205	U-4726 M	10,000	-	-	-
NCDOT MPO Grant - MLK & Northfield	20.205	U-4726 E	50,000	40,000	-	10,000
NCDOT MPO Grant - Culbreth at Cobble	20.205	U-4726 P	135,000	53	-	13
NCDOT MPO Grant - Culbreth at Channin	20.205	U-4726 C	45,000	36,000	-	9,000
NCDOT MPO Grant - Fordham at S Estes	20.205	U-4726 L	15,000	7,751	-	1,938
Total Federal Highway Administration				<u>83,804</u>	<u>-</u>	<u>20,951</u>
U.S. Department of Housing and Urban Development						
<i>Direct Programs:</i>						
Community Development Block Grant Entitlement Program income	14.218	MC-37-0016	2,986,392	618,027	-	-
			-	-	-	2,951

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Economic Development Initiative Grant	14.246	B-00-SPNC-0023	231,250	-	-	-
Public and Indian Housing Program - Operating Rental and other income	14.850	NC-046-001-06D	1,080,526 -	1,080,526 -	- -	- 479,974
Public and Indian Housing - Capital Fund	14.872	NC-19P04650104 NC-19P04650105 NC-19P04650106	530,628 601,728 541,361	75,503 117,378 80,540	- - -	- - -
<i>Passed-Through Orange County, North Carolina:</i>						
Public and Indian Housing - Transitional Housing Program Income	14.239		285,117	- -	- -	- 9,726
Total U.S. Department of Housing and Urban Development				<u>1,971,974</u>	<u>-</u>	<u>492,651</u>
U.S. Department of Justice						
<i>Direct Programs:</i>						
Local Law Enforcement Block Grant	16.592	04-LB-BX-0588 05-DJ-BX-0431	13,068 40,577	3,590 23,093	- -	399 -
Total U.S. Department of Justice				<u>26,683</u>	<u>-</u>	<u>399</u>

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Department of Homeland Security						
<i>Direct Programs:</i>						
FEMA Public Assistance Grant	97.036	HSFEEM-05-P-5090	12,517	12,517	-	-
SAFER Grant	97.083	EMWV-2006-FF-04309	2,671,525	148,527	-	16,503
Total Department of Homeland Security				161,044	-	16,503
Federal Mediation and Conciliation Services						
Youth Initiative Partnership	34.001		24,000	562	-	-
U.S. Department of Energy						
Passed-Through NC Department of Administration - State Energy						
Sustainable Communities Grant	81.041	13-38950-E	114,000	-	-	-
Sustainable Communities Grant - Gap Funding	81.041		38,000	29,075	-	7,729
Solar Partners Grant	81.041		1,500	1,500	-	-
Total U.S. Department of Energy				30,575	-	7,729
<b>TOTAL FEDERAL ASSISTANCE</b>				11,891,507	1,267,446	2,470,170

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
<b>STATE ASSISTANCE</b>						
North Carolina Department of Transportation:						
Powell Bill			1,459,444	-	1,459,444	-
Interest			8,565	-	-	8,565
State Maintenance Assistance for Urban and Small Urban Areas			3,432,644	-	3,432,644	-
NCDOT Highwoods Road			90,000	-	11,882	-
NCDOT Direct Allocation Grant - Hwy 54			170,000	-	-	-
NCDOT MPO Grant - Morgan Creek			169,375	-	4,027	448
NCDOT MPO Grant - Booker Creek Linear Park			437,134	-	196,832	49,208
NCDOT MPO Grant - Dry Creek Trail			80,000	-	18,756	4,689
NCDOT - Moving Ahead State Earmark	04-MA-001		6,689,349	-	61,924	6,880
	03-AT-056		236,000	-	64,309	7,145
	05-AT-002		52,530	-	-	-
Total North Carolina Department of Transportation				-	5,249,818	76,935
National Trails Program			70,000	-	-	-
State Library Aid			40,242	-	40,242	-
Governor's Crime Commission Grant - Comunidad Unido			112,417	-	248	83
Governor's Crime Commission Grant - GANG			49,977	-	14,839	4,946
Criminal Justice Partnership Grant			165,476	-	42,195	-
Parks & Recreation Trust Fund Grant			500,000	-	-	-
UNC - Old Cemetary			100,000	-	10,932	-
<b>TOTAL STATE ASSISTANCE</b>				-	5,343,435	77,018
<b>TOTAL FINANCIAL ASSISTANCE</b>				\$ 11,891,507	\$ 6,610,881	\$ 2,547,188

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007

1. The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Chapel Hill, North Carolina and is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Powell Bill expenditures as reported above represent eligible expenditures reported to the North Carolina Department of Transportation (NCDOT) for the fiscal year ending June 30, 2007. The Town is required to report annually to the NCDOT on the accumulated unspent Powell Bill funds. As of June 30, 2007, the Town had no unspent Powell Bill funds. The amount calculated as interest is based on the prior year interest rate which was used as an estimate for the current year.