

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 6, 2012

NEW ISSUE –BOOK-ENTRY ONLY

Ratings: Moody's: Aa1
S&P: AA+

In the opinion of Bond Counsel, under existing law and subject to conditions described in the Section **“LEGAL MATTERS – TAX TREATMENT,”** interest components of payments so designated and paid by the Town as interest with respect to the 2012 Bonds (1) are not includable in the recipient’s gross income for federal income tax purposes, (2) are not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations, and (3) are exempt from State of North Carolina income taxation. Such interest may be included in the calculation of a corporation’s alternative minimum income tax, and a holder of the 2012 Bonds may be subject to other federal tax consequences. See **“LEGAL MATTERS-TAX TREATMENT.”**



\$29,590,000*
Limited Obligation Bonds, Series 2012
Evidencing Proportionate and Undivided
Ownership Interests in the Installment Payments to be Made Pursuant to
an Installment Financing Contract with the
TOWN OF CHAPEL HILL, NORTH CAROLINA

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

This Official Statement has been prepared by Town of Chapel Hill, North Carolina (the “Town”) to provide information on the Limited Obligation Bonds, Series 2012 (the “2012 Bonds”).

Security: The 2012 Bonds, together with other Bonds (as defined herein) hereafter outstanding under the Trust Agreement (as defined herein), evidence proportionate undivided interests in installment payments to be made by the Town under an Installment Financing Contract dated as of June 1, 2012 (the “Contract”) between the Town of Chapel Hill Public Facilities Corporation (the “Corporation”) and the Town. As security for its obligations under the Contract, the Town will execute and deliver to a deed of trust trustee for the benefit of the Corporation a Deed of Trust and Security Agreement dated as of June 1, 2012 (the “Deed of Trust”), granting, among other things, a lien of record on the Mortgaged Property (as defined herein) subject to Permitted Encumbrances (as defined in the Contract). The Corporation will assign substantially all of its rights in the Deed of Trust and the Contract (except certain rights with respect to indemnification, the payment of certain expenses and receipt of certain notices) to the Trustee.

THE PRINCIPAL OF AND INTEREST ON THE 2012 BONDS ARE PAYABLE SOLELY FROM AMOUNTS PAYABLE BY THE TOWN UNDER THE CONTRACT, AND TO THE EXTENT PROVIDED IN THE TRUST AGREEMENT, CERTAIN PROCEEDS OF THE SALE OF THE 2012 BONDS, CERTAIN INVESTMENT EARNINGS, CERTAIN NET PROCEEDS (AS DEFINED IN THE TRUST AGREEMENT), IF ANY, AND CERTAIN AMOUNTS REALIZED FROM ANY SALE OR LEASE OF THE MORTGAGED PROPERTY. NEITHER THE CONTRACT NOR THE 2012 BONDS NOR THE INTEREST WITH RESPECT THERETO CREATES A PLEDGE OF THE FAITH AND CREDIT OF THE TOWN WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION. NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN FOR ANY AMOUNTS THAT MAY BE OWED BY THE TOWN UNDER THE CONTRACT, AND THE TAXING POWER OF THE TOWN IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONEYS OWING BY THE TOWN UNDER THE CONTRACT AND DUE THE OWNERS OF THE 2012 BONDS. SEE THE CAPTION **“SECURITY AND SOURCES OF PAYMENT OF 2012 BONDS”** HEREIN.

Prepayment: The 2012 Bonds are subject to optional and mandatory prepayment before their maturities as described herein.

Purpose: Proceeds of the 2012 Bonds will be used to (1) refinance certain existing financing obligations of the Town, (2) finance the cost of acquisition of approximately 161 parking spaces to be used by Town residents and improvements to one of the Town’s existing parking facilities, each as described herein, and (3) pay certain costs incurred in connection with the issuance of the 2012 Bonds.

Interest Payment Dates: June 1 and December 1 of each year, commencing December 1, 2012.

Denomination: \$5,000 or integral multiples thereof.

Delivery: On or about June 27, 2012.

Bond Counsel: Sanford Holshouser LLP.

Town Attorney: Ralph D. Karpinos, Esq.

Underwriters’ Counsel and Corporation Counsel: Parker Poe Adams & Bernstein LLP.

Financial Advisor: Davenport & Company LLC.

Trustee and Escrow Agent: U.S. Bank National Association.

BAIRD

WELLS FARGO SECURITIES

The date of this Official Statement is June __, 2012

*Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to change, completion and amendment without notice. The 2012 Bonds may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2012 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE FOR 2012 BONDS*

\$29,590,000* 2012 Bonds

<u>DUE</u> <u>JUNE 1</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>	<u>DUE</u> <u>JUNE 1</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>
2013	\$2,385,000			2023	\$2,030,000		
2014	2,320,000			2024	1,830,000		
2015	2,300,000			2025	1,640,000		
2016	2,265,000			2026	350,000		
2017	2,245,000			2027	365,000		
2018	1,940,000			2028	380,000		
2019	1,945,000			2029	395,000		
2020	1,950,000			2030	410,000		
2021	1,975,000			2031	425,000		
2022	2,000,000			2032	440,000		

* Preliminary, subject to change.

IN CONNECTION WITH THIS OFFERING, ROBERT W. BAIRD & CO. AND WELLS FARGO BANK, NATIONAL ASSOCIATION (THE “*UNDERWRITERS*”) MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2012 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the 2012 Bonds by any person in any jurisdiction in which it is not lawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Town and other sources that are deemed to be reliable.

Neither the 2012 Bonds nor the Trust Agreement have been registered with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended. The registration or qualification of the 2012 Bonds or the Trust Agreement in accordance with applicable provisions of securities laws of the States in which the 2012 Bonds and the Trust Agreement have been registered or qualified, if any, and the exemption from registration or qualification in other States, shall not be regarded as a recommendation thereof.

These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the 2012 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Town since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

TOWN OF CHAPEL HILL, NORTH CAROLINA

TOWN COUNCIL

Mark Kleinschmidt.....Mayor

Ed Harrison.....Mayor Pro Tem

Donna Bell

Matt Czajkowski

Laurin Easthom

Gene Pease

Penny Rich

Lee Storrow

James L. Ward

TOWN STAFF

Roger L. Stancil.....Town Manager

Florentine A. Miller.....Deputy Town Manager

Kenneth C. Pennoyer.....Director of Business Management

Ralph D. Karpinos, Esq.Town Attorney

FINANCIAL ADVISOR

Davenport & Company LLC
Raleigh, North Carolina

BOND COUNSEL

Sanford Holshouser LLP
Carrboro, North Carolina

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
The Town.....	1
Purpose.....	1
Security.....	1
The 2012 Bonds.....	2
Additional Bonds.....	2
Book-Entry Only.....	3
Tax Status.....	3
Professionals.....	3
Additional Information.....	3
THE 2012 BONDS.....	4
Authorization.....	4
General.....	4
Prepayment Provisions.....	4
THE PLAN OF FINANCE.....	6
The 140 West Parking Project.....	6
The Wallace Deck Improvements.....	7
The Refinancings.....	7
Escrow Verification.....	7
ESTIMATED SOURCES AND USES OF FUNDS.....	8
SECURITY AND SOURCES OF PAYMENT OF 2012 BONDS.....	8
General.....	8
Installment Payments and Additional Payments.....	8
Budget and Appropriation.....	9
Trust Agreement.....	9
Deed of Trust.....	9
Enforceability.....	10
Additional Bonds.....	10
AVAILABLE SOURCES FOR PAYMENT OF INSTALLMENT PAYMENTS.....	11
General.....	11
General Fund Revenues.....	11
INSTALLMENT PAYMENT SCHEDULE.....	12
CERTAIN RISKS OF 2012 BOND OWNERS.....	12
Insufficiency of Installment Payments.....	12
Risk of Nonappropriation.....	13
Uninsured Casualty.....	13
Outstanding General Obligation Debt of the Town.....	13
Environmental Risks.....	13
Additional Bonds.....	14

THE TOWN 14
 General 14
 Contingent Liabilities and Litigation..... 14
 Financial Information 14

THE CORPORATION 14

LEGAL MATTERS 15
 Litigation 15
 Opinions of Counsel 15

TAX TREATMENT 16
 Opinion of Bond Counsel..... 16
 Original Issue Premium..... 16
 Original Issue Discount..... 16
 Other Tax Consequences..... 18

CONTINUING DISCLOSURE OBLIGATION 18

UNDERWRITING 20

RATINGS..... 21

MISCELLANEOUS..... 21

APPENDIX A THE TOWN
APPENDIX B MANAGEMENT’S DISCUSSION AND ANALYSIS AND THE BASIC
FINANCIAL STATEMENTS OF THE TOWN OF CHAPEL HILL,
NORTH CAROLINA

APPENDIX C SUMMARY OF PRINCIPAL LEGAL DOCUMENTS
APPENDIX D FORM OF OPINION OF BOND COUNSEL
APPENDIX E BOOK-ENTRY-ONLY SYSTEM

\$29,590,000*
Limited Obligation Bonds, Series 2012
Evidencing Proportionate and Undivided
Ownership Interests in the Installment Payments to be Made Pursuant to
an Installment Financing Contract with the
TOWN OF CHAPEL HILL, NORTH CAROLINA

INTRODUCTION

The purpose of this Official Statement, which includes the Appendices hereto, is to provide certain information in connection with the execution, sale and delivery of the above-referenced bonds in the aggregate principal amount of \$29,590,000* (the “2012 Bonds”), which evidence proportionate undivided interests in installment payments to be made by Town of Chapel Hill, North Carolina (the “Town”) under an Installment Financing Contract dated as of June 1, 2012 (the “Contract”) between Town of Chapel Hill Public Facilities Corporation (the “Corporation”) and the Town. The 2012 Bonds will be issued pursuant to a Trust Agreement dated as of June 1, 2012 (the “Trust Agreement”) between the Corporation and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms used in this Official Statement, unless otherwise defined herein, have the meanings set out in Appendix C hereto under the caption “**DEFINITIONS.**”

This Introduction provides only certain limited information with respect to the contents of this Official Statement and is expressly qualified by the Official Statement as a whole. Prospective investors should review the full Official Statement and each of the documents summarized or described herein. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

THE TOWN

The Town is a municipal corporation of the State of North Carolina (the “State”). See Appendix A, “**THE TOWN,**” hereto for certain information regarding the Town. Excerpts from the Town’s most recent audited financial statements are contained in Appendix B hereto.

PURPOSE

The 2012 Bonds are being issued in order to (1) refinance certain existing financing obligations of the Town, (2) finance the cost of acquisition of approximately 161 parking spaces in a parking deck to be constructed within a mixed-use development to be used by Town residents and improvements to one of the Town’s existing parking facilities and (3) finance certain costs incurred in connection with the execution and delivery of the 2012 Bonds. See the captions “**THE PLAN OF FINANCE**” and “**ESTIMATED SOURCES AND USES OF FUNDS**” herein.

SECURITY

As security for its obligations under the Contract, the Town will execute and deliver to a deed of trust trustee, for the benefit of the Corporation, a Deed of Trust and Security Agreement dated as of June 1, 2012 (the “*Deed of Trust*”) granting a lien of record on the Town’s Operation Center (the “*Facilities*”), and the site thereon as more particularly described in Exhibit A of the Deed of Trust

(together with the Facilities, the “*Mortgaged Property*”), subject only to Permitted Encumbrances (as defined in the Contract).

The Town’s Operations Center is located at 6850 Millhouse Road within the Town and houses the Town’s public works department (including solid waste, landscaping, field operations, fleet management, buildings maintenance and administration functions), public housing maintenance division and a portion of the information technology department. A portion of the cost of the Operations Center was financed with proceeds of the 2005 Certificates (as described herein) and the facility was completed in June 2007. The Operations Center complex contains four buildings, which occupy approximately 54 acres of the overall site. The value of the Operations Center is estimated at \$22,000,000.

The Deed of Trust will authorize future obligations evidenced by additional limited obligation bonds issued under the Trust Agreement (“*Additional Bonds*”), as described below, to be secured by the Deed of Trust, provided that the total amount of present and future obligations secured by the Deed of Trust at any one time does not exceed \$60,000,000 and such future obligations are incurred not later than 30 years from the date of the Deed of Trust.

Pursuant to the Trust Agreement, the Corporation will assign to the Trustee, for the benefit of the Owners of the 2012 Bonds and any Additional Bonds, substantially all of its rights, title and interest in and to (1) the Contract, including its rights to receive Installment Payments, and (2) the Deed of Trust. In addition, the Corporation will grant to the Trustee a lien on and security interest in all moneys held by the Trustee in the funds and accounts created under the Trust Agreement. Pursuant to the Contract, Installment Payments payable by the Town will be paid directly to the Trustee.

The 2012 Bonds will be payable and secured by the Deed of Trust along with any Additional Bonds hereafter executed and delivered pursuant to the Trust Agreement. See the caption “**SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS**” herein.

If a default occurs under the Contract, the Trustee for the Owners of the 2012 Bonds can direct the Deed of Trust Trustee to foreclose on the Mortgaged Property and apply the proceeds received as a result of any such foreclosure to the payment of the amounts due to the Owners of the 2012 Bonds subject to the rights of the Owners of any Additional Bonds. NO ASSURANCE CAN BE GIVEN THAT ANY SUCH PROCEEDS WILL BE SUFFICIENT TO PAY THE PRINCIPAL AND THE INTEREST WITH RESPECT TO THE 2012 BONDS. IN ADDITION, NO DEFICIENCY JUDGMENT CAN BE RENDERED AGAINST THE TOWN IF THE PROCEEDS FROM ANY SUCH FORECLOSURE SALE (TOGETHER WITH OTHER FUNDS THAT MAY BE HELD BY THE TRUSTEE UNDER THE TRUST AGREEMENT) ARE INSUFFICIENT TO PAY THE 2012 BONDS IN FULL. NEITHER THE 2012 BONDS NOR THE TOWN’S OBLIGATION TO MAKE PAYMENTS UNDER THE AGREEMENT CONSTITUTE A PLEDGE OF THE TOWN’S FAITH AND CREDIT WITHIN THE MEANING OF ANY CONSTITUTIONAL PROVISION. See the caption “**SECURITY AND SOURCES OF PAYMENT OF 2012 BONDS**” herein.

THE 2012 BONDS

The 2012 Bonds will be dated as of their date of delivery. Interest is payable on June 1 and December 1 of each year, beginning December 1, 2012, at the rates set forth on the inside cover page of this Official Statement. Principal is payable, subject to prepayment as described herein, on June 1 in the years and in the amounts set forth on the inside cover page of this Official Statement.

ADDITIONAL BONDS

Under the conditions described in the Trust Agreement, without the approval or consent of the Owners of the then-outstanding 2012 Bonds and without notice to such Owners, Additional Bonds may

be delivered and secured on parity with the 2012 Bonds to provide funds (a) to expand or improve the Facilities, (b) to refund any Outstanding Bonds, (c) to pay financing costs or establish reserves in connection with the issuance of Additional Bonds, (d) for any other purpose that may be allowed by law from time to time, including the acquisition and construction of additional public facilities, whether or not any such facility is related to the Facilities, or (e) for any combination of such purposes.

BOOK-ENTRY ONLY

The 2012 Bonds will be delivered in book-entry form only without physical delivery of certificates to beneficial owners of the 2012 Bonds. Payments to beneficial owners of the 2012 Bonds will be made by through The Depository Trust Company (“DTC”), New York, New York, and its participants. See Appendix E, “**BOOK-ENTRY-ONLY SYSTEM**” hereto. So long as Cede & Co. is the registered owner of the 2012 Bonds, references herein to registered owner or Owners of the 2012 Bonds means Cede & Co. and not the beneficial owners of the 2012 Bonds.

TAX STATUS

In the opinion of Bond Counsel, under existing law and subject to conditions described in the Section “**LEGAL MATTERS – TAX TREATMENT**,” interest components of payments so designated and paid by the Town as interest with respect to the 2012 Bonds (1) are not includable in the recipient’s gross income for federal income tax purposes, (2) are not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations, and (3) are exempt from State of North Carolina income taxation. Such interest may be included in the calculation of a corporation’s alternative minimum income tax, and a holder of the 2012 Bonds may be subject to other federal tax consequences. See “**LEGAL MATTERS-TAX TREATMENT**.”

PROFESSIONALS

Robert W. Baird & Co. and Wells Fargo Bank, National Association (collectively, the “*Underwriters*”) are underwriting the 2012 Bonds. U.S. Bank National Association is serving as Trustee with respect to the 2012 Bonds. Sanford Holshouser LLP is serving as Bond Counsel. Ralph D. Karpinos, Esq. is the Town Attorney. Parker Poe Adams & Bernstein LLP serves as counsel to the Corporation and counsel to the Underwriters. Davenport & Company LLC serves as financial advisor to the Town. U.S. Bank National Association (in such capacity, the “*Escrow Agent*”) is also serving as the escrow agent for the 2012 Bonds. The Arbitrage Group, Inc. is serving as the verification agent (the “*Verification Agent*”).

ADDITIONAL INFORMATION

Summaries of the Contract, the Deed of Trust and the Trust Agreement, including a list of definitions of certain terms, are included as Appendix C. All quotations from and summaries and explanations of the Contract, the Deed of Trust and the Trust Agreement contained in this Official Statement, including in Appendix C, do not purport to be complete. Reference is made to such documents for full and complete statements of their respective provisions.

Additional information and copies in reasonable quantity of the principal financing documents may be obtained from the Town at 405 Martin Luther King Jr. Blvd., Chapel Hill, North Carolina 27516. Copies of such documents can also be obtained during the offering period from Robert W. Baird & Co. at 380 Knollwood Street, Suite 440, Winston-Salem, North Carolina 27103. After the offering period, copies of such documents may be obtained from the Trustee at 5540 Centerview Drive, Suite 200, Raleigh, North Carolina 27606.

THE 2012 BONDS

AUTHORIZATION

The 2012 Bonds will be issued pursuant to the Trust Agreement. The 2012 Bonds evidence proportionate undivided interests in rights to Installment Payments made by the Town under the Contract.

The Town is entering into the Contract under the provisions of Section 160A-20 of the General Statutes of North Carolina, as amended. The Town Council authorized the Town's execution and delivery of the Contract in a resolution adopted on June 4, 2012.

In addition, the North Carolina Local Government Commission (the "LGC") gave the required approval for the Town to enter into the Contract on June 5, 2012. The LGC is a division of the State Treasurer's office charged with general oversight of local government finance in the State. Its approval is required for substantially all bond issues and other local government financing arrangements in the State. Before approving an installment financing, the LGC must determine, among other things, that (1) the proposed financing is necessary or expedient, (2) the financing, under the circumstances, is preferable to a general obligation or revenue bond issue for the same purpose and (3) the sums to fall due under the proposed financing are not excessive for its proposed purpose.

GENERAL

Payment Terms. The 2012 Bonds will be dated their date of delivery. Interest with respect to the 2012 Bonds is payable on each June 1 and December 1 (the "Payment Dates"), beginning December 1, 2012, at the rates set forth on the inside cover page of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months). Interest payments will be made to the person shown as the owner of the 2012 Bond as of the applicable Record Date. "Record Date" means the end of the calendar day on the 15th day of the month (whether or not a Business Day) preceding a Payment Date. Principal with respect to the 2012 Bonds is payable on June 1 in the years and amounts set forth on the inside cover page of this Official Statement. Payments will be effected through DTC. See Appendix E, "**BOOK-ENTRY-ONLY SYSTEM**" hereto.

Registration and Exchange. So long as DTC or its nominee is the registered owner of the 2012 Bonds, transfers and exchanges of beneficial ownership interests in the 2012 Bonds will be available only through DTC Participants and DTC Indirect Participants. See Appendix E, "**BOOK-ENTRY-ONLY SYSTEM**" hereto. The Trust Agreement describes provisions for transfer and exchange applicable if a book entry system is no longer in effect. These provisions generally provide that the transfer of the 2012 Bonds is registrable by the Owners thereof, and the 2012 Bonds may be exchanged for an equal aggregate, unrepaid principal amount of 2012 Bonds of the authorized denomination and of the same maturity and interest rate, only upon presentation and surrender of the 2012 Bonds to the Trustee at the principal corporate trust office of the Trustee together with an executed instrument of transfer in a form approved by the Trustee in connection with any transfer. The Trustee may require the person requesting any transfer or exchange to reimburse it for any shipping and tax or other governmental charge payable in connection therewith.

PREPAYMENT PROVISIONS

Optional Prepayment. The 2012 Bonds maturing on or after June 1, 20__ are subject to prepayment from any available moneys in whole or in part on any date on or after June 1, 20__ at the option of the Town, if the Town exercises its option under the Contract to prepay in whole or in part the principal components of the Installment Payments, at a prepayment price equal to the principal with respect to such 2012 Bonds to be prepaid, together with accrued interest to the date fixed for prepayment.

Mandatory Sinking Fund Prepayment. The 2012 Bonds maturing on June 1, 20__ (the “*Term Bonds*”) are subject to mandatory prepayment prior to maturity, upon payment of 100% of the principal amount thereof plus interest accrued to the prepayment date, on June 1 in the years and amounts as follows:

YEAR	PRINCIPAL AMOUNT
------	---------------------

* Maturity

Notwithstanding the foregoing, on or before the 70th day next preceding any sinking fund payment date, the Town may (a) deliver to the Trustee for cancellation Term Bonds required to be prepaid on such sinking fund payment date in any aggregate principal amount desired or (b) instruct the Trustee to apply a credit against the Town’s sinking fund payment obligation for any such Term Bonds that previously have been prepaid (other than through the operation of the sinking fund requirements) and canceled by the Trustee but not previously applied as a credit against any sinking fund payment obligation. The Trustee will credit against the Town’s sinking fund payment obligation on such sinking fund payment date the amount of such Bonds so purchased, delivered or previously prepaid as described in (a) or (b) above.

Selection. If less than all of the 2012 Bonds are to be optionally prepaid as described above, they will be prepaid as among maturities in such manner as the Town may elect. If less than all of the 2012 Bonds of any maturity are to be prepaid, the Trustee will select the 2012 Bonds to be prepaid by lot; provided, however, that so long as a book-entry system with DTC is used for determining beneficial ownership of 2012 Bonds, if less than all of the 2012 Bonds within a maturity are to be prepaid, DTC will determine which of the 2012 Bonds within any such maturity are to be prepaid in accordance with DTC’s own rules and procedures.

In any case, (1) the portion of any 2012 Bond to be prepaid will be in the principal amount of \$5,000 or some multiple thereof, and (2) in selecting 2012 Bonds for prepayment, each 2012 Bond will be considered as representing that number of 2012 Bonds which is obtained by dividing the principal amount of such 2012 Bond by \$5,000. If a portion of a 2012 Bond will be called for prepayment, a new 2012 Bond in principal amount equal to the unpaid portion thereof will be issued to the registered owner upon the surrender thereof.

Effect of Call for Prepayment. If on or before the date fixed for prepayment funds are deposited with the Trustee to pay the principal, premium, if any, and interest accrued to the prepayment date with respect to the 2012 Bonds called for prepayment, the 2012 Bonds or portions thereof thus called for prepayment will cease to accrue interest from and after the prepayment date, will no longer be entitled to the benefits provided by the Trust Agreement and will not be deemed to be Outstanding under the Trust Agreement.

Notice of Prepayment. The Trustee will mail, first-class, postage prepaid, a notice of prepayment of any 2012 Bonds at least 30 days and not more than 60 days before the prepayment date to (1) DTC, if DTC is the registered owner of the 2012 Bonds, in such manner as may be provided for under DTC’s standard operating rules as then in effect or, (2) if DTC is not the registered owner of the 2012 Bonds, to the registered owners of such 2012 Bonds or portions of such 2012 Bonds to be prepaid, but

failure to receive any such notice or any defect in such notice will not affect the validity of the proceedings for the prepayment of such 2012 Bonds or portions thereof with respect to registered owners who receive proper notice. In addition, notice of prepayment will also be given to the Municipal Securities Rulemaking Board for posting on the “EMMA” continuing disclosure system, or any successor system, and to the LGC.

Any prepayment notice, except a prepayment notice in respect of a sinking fund payment date, may state that the prepayment to be effected is conditioned upon the Trustee’s receipt on or prior to the prepayment date of moneys sufficient to pay the principal of and premium, if any, and interest on the 2012 Bonds to be prepaid, and that if such moneys are not so received such notice shall be of no force or effect and such Bonds shall not be required to be prepaid. If such notice contains such a condition and the Trustee does not receive moneys sufficient to pay the principal of and premium, if any, and interest on such Bonds on or prior to the prepayment date, the prepayment will not be made and the Trustee will, within a reasonable time thereafter, give notice, in a manner in which the prepayment notice was given, that such moneys were not so received and the prepayment was not made.

Any prepayment notice, except a prepayment notice in respect of a sinking fund payment date, may state that the prepayment to be effected is subject to any other condition not unacceptable to the Trustee. If such notice contains any such condition and the condition is not fulfilled on or prior to the prepayment date, the prepayment will not be made and the Trustee will, within a reasonable time thereafter, give notice, in a manner in which the prepayment notice was given, that such condition was not fulfilled and the prepayment was not made.

THE PLAN OF FINANCE

The 2012 Bonds are being issued to provide funds for the Town to (1) refinance certain existing financing obligations of the Town (described below), (2) finance the cost of acquisition of approximately 161 parking spaces in a parking deck to be constructed within a mixed-use development to be used by Town residents (the “140 West Parking Project”) and improvements to one of the Town’s existing parking facilities (the “Wallace Deck Improvements”) and (3) finance certain costs incurred in connection with the execution and delivery of the 2012 Bonds.

THE 140 WEST PARKING PROJECT

During 2007, the Town Council entered into a Development Agreement with Ram Development Company (the “Developer”) for the 140 West Project. The project, which is located on Franklin Street in the heart of the Town’s downtown, consists of a 300,000 square foot mixed-use facility built with two floors of sub-grade parking. The land is currently owned by the Town and will remain so, but the Town will lease the property to the Developer in accordance with the Development Agreement.

The prior use of the property was as a surface parking lot owned and operated by the Town (previously known as Lot 5) that contained 169 spaces. The Town is obligated under the Development Agreement to provide for payment of a single level of the development’s parking structure that will accommodate approximately 161 parking spaces. The payment will be based on the actual cost of construction and may also include funding for improvements to existing parking structures. The Town will use approximately \$6.2 million of the proceeds of the 2012 Bonds to finance this payment. Construction of the 140 West Project began in April, 2011 and is expected to be complete in December, 2012.

THE WALLACE DECK IMPROVEMENTS

Approximately \$500,000 of the proceeds of the 2012 Bonds will be used to finance improvements to the Town's existing Wallace Parking Deck. Improvements include replacing existing joints, replacing water-proofing materials under the roof planters, repair and coating of concrete surfaces and expansion of office space.

NEITHER THE 140 WEST PARKING PROJECT NOR THE WALLACE DECK IMPROVEMENTS WILL SECURE THE TOWN'S OBLIGATIONS UNDER THE CONTRACT. ONLY THE OPERATIONS CENTER, ORIGINALLY FINANCED WITH PROCEEDS OF THE 2005 CERTIFICATES AS DEFINED HEREIN, WILL CONSTITUTE THE MORTGAGED PROPERTY AND SERVE AS SECURITY FOR THE TOWN'S OBLIGATIONS UNDER THE CONTRACT.

THE REFINANCINGS

On the date of delivery of the 2012 Bonds, a portion of the proceeds of the 2012 Bonds will be used to prepay the Town's obligations pursuant to (1) an installment financing agreement dated as of September 11, 2003 between the Town and Bank of America, N.A. (the "*2003 Obligation*") at a price of par plus accrued interest plus a premium of 3.00% of the principal installments of the 2003 Obligation to be prepaid and (2) an installment financing agreement dated as of January 11, 2007 between the Town and SunTrust Bank (the "*2007 Obligation*") at a price of par plus accrued interest plus a premium of 2.00% of the principal installments of the 2007 Obligation to be prepaid.

In addition, a portion of the proceeds of the 2012 Bonds will be used to refund in advance of their maturities the Certificates of Participation (Town of Chapel Hill Operations Center), Series 2005 (the "*2005 Certificates*"), the proceeds of which were used to finance the acquisition and construction of the Town's Operations Center, maturing on and after June 1, 2013 (the "*Refunded 2005 Certificates*"). In order to accomplish the refunding of the Refunded 2005 Certificates, a portion of the proceeds from the sale of the 2012 Bonds will be deposited into an escrow fund (the "*Escrow Fund*") to be established pursuant to an Escrow Agreement dated as of June 1, 2012 (the "*Escrow Agreement*"), between the Town and U.S. Bank National Association, in its capacity as escrow agent (the "*Escrow Agent*"). Amounts deposited into the Escrow Fund will be invested in certain direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (the "*Government Obligations*"), the maturing principal and interest of which will provide funds sufficient to pay, when and as due, respectively, (1) the maturing principal of the Refunded 2005 Certificates through June 1, 2015, (2) the interest on the Refunded 2005 Certificates until June 1, 2015 and (2) 100% of the remaining principal of the Refunded 2005 Certificates on June 1, 2015. The Escrow Agent will be given irrevocable instructions to prepay the Refunded 2005 Certificates maturing on and after June 1, 2016 on June 1, 2015. *The Beneficial Owners of the 2012 Bonds will have no rights, security or interest in and to the Refunded 2005 Certificates Account whatsoever.*

ESCROW VERIFICATION

The Verification Agent will verify, from the information provided to it by the Underwriters, the mathematical accuracy, as of the date of execution and delivery of the 2012 Bonds, of (a) the mathematical computations contained in the schedules provided by the Underwriters to determine that the deposit to the Escrow Fund, together with other funds available therefor listed in such schedules to be held by the Escrow Agent, will be sufficient to pay the maturity principal and interest with respect to the Refunded 2005 Certificates through June 1, 2015, the date of prepayment and (b) the mathematical computations of yield of the 2012 Bonds contained in the provided schedules. The Verification Agent will express no opinion on the exemption from taxation of the interest on the 2012 Bonds. Bond Counsel

will rely on such verification in rendering its opinion as to the exclusion of interest on the 2012 Bonds from gross income of the recipients thereof for purposes of federal income taxation.

ESTIMATED SOURCES AND USES OF FUNDS

The Town estimates the sources and uses of funds for the plan of finance to be as follows:

SOURCES:

Par Amount of the 2012 Bonds
Net Original Issue Premium/(Discount)

TOTAL SOURCES OF FUNDS _____

USES:

Discharge 2003 Obligation
Discharge 2007 Obligation
Deposit to Escrow Fund for Refunded 2005 Certificates
Costs of Project
Costs of Issuance*

TOTAL USES OF FUNDS _____

*Includes legal fees, underwriters' compensation, rating agency fees, fees and expenses of the Trustee and miscellaneous fees and expenses.

SECURITY AND SOURCES OF PAYMENT OF 2012 BONDS

GENERAL

The 2012 Bonds are payable from payments to be made by the Town under the Contract, and from certain interest earnings and certain amounts realized from any sale or lease of the Mortgaged Property.

INSTALLMENT PAYMENTS AND ADDITIONAL PAYMENTS

Under the Contract, the Town is required to pay Installment Payments directly to the Trustee. Under the Trust Agreement, the Trustee will deposit all Installment Payments in the Payment Fund. The Trustee will deposit the interest component of the Installment Payments for the 2012 Bonds into the Interest Account of the Payment Fund and the principal component of the Installment Payments for the 2012 Bonds into the Principal Account of the Payment Fund. The Town is required to pay Installment Payments semiannually on or before the date that is 25th day of the month preceding each June 1 and December 1 in amounts sufficient to provide for the payment of the principal and interest with respect to the 2012 Bonds on such dates. Installment Payments payable for any period are reduced by certain investment earnings and other amounts on deposit in the Payment Fund available to pay the principal or interest with respect to the 2012 Bonds. Each of the funds and accounts held by the Trustee have been assigned to the Trustee as security for the 2012 Bonds.

The Town is obligated to pay Additional Payments in amounts sufficient to pay the fees and expenses of the Trustee, taxes or other expenses required to be paid pursuant to the Contract. Additional Payments are to be paid by the Town directly to the person or entity to which such Additional Payments are owed.

BUDGET AND APPROPRIATION

In connection with both Installment Payments and Additional Payments, the appropriation of funds therefor is within the sole discretion of the Town Council. In the Contract, the Town agrees to include in the Town Manager's annual budget proposal for review and consideration by the Town Council for the Town, in any Fiscal Year, items for all Installment Payments and the reasonably estimated Additional Payments coming due in such Fiscal Year. Notwithstanding that the initial proposed budget includes an appropriation for Installment Payments and Additional Payments, the Town Council may determine not to include such an appropriation in the final Town budget for such Fiscal Year; further, the Town Council may amend an adopted budget to delete an approved appropriation.

IN CONNECTION WITH THE INSTALLMENT PAYMENTS AND THE ADDITIONAL PAYMENTS, THE APPROPRIATION OF FUNDS THEREFOR IS WITHIN THE SOLE DISCRETION OF THE TOWN COUNCIL OF THE TOWN.

TRUST AGREEMENT

Under the Trust Agreement, the Corporation will assign to the Trustee for the benefit of the Owners of the 2012 Bonds (1) all rights of the Corporation under the Contract (except its rights to indemnification, the payment of certain expenses and the receipt of certain notices), including the right to receive Installment Payments made by the Town, (2) all rights of the Corporation as beneficiary under the Deed of Trust, including its right, title and interest in the Mortgaged Property (except its rights in respect of indemnification and the receipt of certain notices) and (3) all moneys and securities from time to time held by the Trustee under the Trust Agreement.

DEED OF TRUST

General. The Town will also execute the Deed of Trust conveying the Mortgaged Property to the Deed of Trust Trustee as security for its obligations under the Contract. The Deed of Trust will constitute a lien of record on the Mortgaged Property, subject only to Permitted Encumbrances (as defined in the Contract). The lien of record will be insured by a title insurance policy.

The Deed of Trust permits future obligations evidenced by Additional Bonds to be secured by the Deed of Trust, provided that the total amount of present and future obligations secured by the Deed of Trust at any one time does not exceed \$60,000,000 and such future obligations are incurred not later than 30 years from the date of the Deed of Trust.

Release of Security. So long as no Event of Default is continuing, the Corporation and the Deed of Trust Trustee shall, upon the Town's request and at any time, execute and deliver all documents necessary to effect the release of all or a portion of the Mortgaged Property from the lien of the Deed of Trust upon the Town's compliance with the following requirements:

(a) In connection with the release of a portion (but less than all) of the Mortgaged Property, the Town must file with the Corporation and the Deed of Trust Trustee evidence that the appraised, tax or insured value of that portion of the Mortgaged Property that is proposed as the portion that is to remain subject to the lien of the Deed of Trust is not less than 50% of the aggregate outstanding principal component of the Installment Payments.

(b) In the case of a proposed release of all the Mortgaged Property, the Town must pay to the Trustee (or other fiduciary) an amount which is sufficient to provide for the payment in full of all Outstanding Bonds.

(c) In any event, the Town must file with the Corporation and the Deed of Trust Trustee (i) a certified copy of a Town Council resolution stating the purpose for which the Town desires such release, giving a brief and general description of the portion of the Mortgaged Property to be released and requesting such release, (ii) a copy of the proposed instrument of grant or release, including a complete legal description of the property to be released, (iii) a written application signed by a Town Representative requesting such instrument, and (iv) a certificate executed by a Town Representative that no Event of Default is continuing and that the grant or release will not materially impair the intended use of the Facilities.

In addition to the provisions for release described above, the Town may from time to time grant easements, licenses, rights-of-way and other similar rights with respect to any part of the Mortgaged Property, and the Town may release such interests, with or without consideration, and the Town may dispose of any inadequate, obsolete, worn-out, undesirable or unnecessary Fixture.

See “**THE DEED OF TRUST-- Releases; Grants of Easements**” in Appendix C hereto.

ENFORCEABILITY

The enforceability of the parties’ obligations under the Trust Agreement, the Deed of Trust and the Contract are subject to bankruptcy, insolvency, reorganization and other laws related to or affecting the enforcement of creditors’ rights generally and, to the extent that certain remedies under such instruments require or may require enforcement by a court, to such principles of equity as the court having jurisdiction may impose.

THE CONTRACT DOES NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE TOWN TO MAKE ANY PAYMENTS BEYOND THOSE APPROPRIATED IN THE SOLE DISCRETION OF THE TOWN IN ANY FISCAL YEAR IN WHICH THE CONTRACT IS IN EFFECT. If the Town fails to make Installment Payments required under the Contract, the Trustee may declare the entire unpaid principal portion of the Installment Payments to be immediately due and payable and direct the Deed of Trust Trustee to institute foreclosure proceedings under the Deed of Trust and may in accordance with law dispose of such Mortgaged Property and apply the proceeds of any such disposition toward any balance owing by the Town under the Contract to make Installment Payments. No assurance can be given that such proceeds will be sufficient to pay the principal and interest with respect to the 2012 Bonds. IN ADDITION, SECTION 160A-20(F) OF THE NORTH CAROLINA GENERAL STATUTES PROVIDES THAT NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN FOR ANY AMOUNTS THAT MAY BE OWED BY THE TOWN UNDER THE CONTRACT AND THAT THE TAXING POWER OF THE TOWN IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONEYS DUE BY THE TOWN UNDER THE CONTRACT. See “**THE FINANCING CONTRACT—Default and Remedies under Financing Contract**” and “**THE DEED OF TRUST--Defaults and Remedies; Foreclosure**” in Appendix C hereto and the caption “**CERTAIN RISKS OF 2012 BOND OWNERS**” herein.

ADDITIONAL BONDS

Under the conditions described in the Trust Agreement, without the approval or consent of the Owners of the then outstanding 2012 Bonds, Additional Bonds may be delivered and secured on parity with the 2012 Bonds. See “**THE TRUST AGREEMENT--Additional Bonds**” in Appendix C hereto.

AVAILABLE SOURCES FOR PAYMENT OF INSTALLMENT PAYMENTS

GENERAL

The Town may pay its Installment Payments from any source of funds legally available to it in each year and appropriated therefor during the term of the Contract.

GENERAL FUND REVENUES

The Town's general fund revenues for the fiscal year ended June 30, 2011 were \$48,457,934. The Town's general fund revenues for Fiscal Year ending June 30, 2012 are expected to be approximately \$49,500,000. General fund revenues are derived from various sources, including property taxes and sales taxes (which account for approximately 72% of the general fund revenues), fees and charges and intergovernmental revenues. For the fiscal year ended June 30, 2011, the Town imposed a property tax of \$.494 per \$100 of assessed value for the General Fund, Debt Fund and the Transportation Fund. The Town imposed a property tax rate of \$.494 per \$100 of assessed value for the fiscal year ending June 30, 2012 for the General Fund, Debt Fund and the Transportation Fund. A rate of \$.01 per \$100 of assessed value in the Fiscal Year ended June 30, 2011 generated approximately \$700,000 and in the Fiscal Year ending June 30, 2012 is expected to generate over \$717,000. The General Statutes of North Carolina permit towns to impose property taxes of up to \$1.50 per \$100 of assessed value for certain purposes without the requirement of a voter referendum. See Appendix B hereto for a description of the uses of the Town's general fund revenues for the fiscal year ended June 30, 2011.

INSTALLMENT PAYMENT SCHEDULE

The following schedule sets forth for each fiscal year of the Town ending June 30 the amount of principal and interest required to be paid under the Contract with respect to the 2012 Bonds.

FISCAL YEAR ENDING JUNE 30	PRINCIPAL COMPONENT OF INSTALLMENT PAYMENTS	INTEREST COMPONENT OF INSTALLMENT PAYMENTS	TOTAL
---	--	---	--------------

CERTAIN RISKS OF 2012 BOND OWNERS

INSUFFICIENCY OF INSTALLMENT PAYMENTS

If Installment Payments by the Town are insufficient to pay the principal and interest with respect to the 2012 Bonds as the same become due or if another event of default occurs under the Contract, the Trustee may accelerate the 2012 Bonds and all unpaid principal amounts due by the Town under the Contract, direct the Deed of Trust Trustee to foreclose on the Mortgaged Property under the Deed of Trust, take possession of the Mortgaged Property and attempt to dispose of the Mortgaged Property. See **“THE FINANCING CONTRACT”** in Appendix C hereto. Zoning restrictions and other land use factors relating to the Mortgaged Property may limit the use of the Mortgaged Property and may affect the proceeds obtained on any disposition by the Deed of Trust Trustee. THERE CAN BE NO ASSURANCE THAT THE MONEYS AVAILABLE IN THE FUNDS AND ACCOUNTS HELD BY THE TRUSTEE AND THE PROCEEDS OF ANY SUCH DISPOSITION OF THE MORTGAGED PROPERTY WILL BE SUFFICIENT TO PROVIDE FOR THE PAYMENT OF THE PRINCIPAL AND INTEREST WITH RESPECT TO THE 2012 BONDS. SECTION 160A-20(F) OF THE GENERAL STATUTES OF NORTH CAROLINA PROVIDES THAT NO DEFICIENCY JUDGMENT MAY BE RENDERED AGAINST THE TOWN FOR ANY AMOUNTS THAT MAY BE OWED BY THE TOWN UNDER THE CONTRACT, AND THE TAXING POWER OF THE TOWN IS NOT AND MAY NOT BE PLEDGED DIRECTLY OR INDIRECTLY OR CONTINGENTLY TO SECURE ANY MONEYS OWING BY THE TOWN UNDER THE CONTRACT.

THE REMEDIES AFFORDED TO THE TRUSTEE AND THE OWNERS OF THE 2012 BONDS ON A DEFAULT BY THE TOWN UNDER THE CONTRACT ARE LIMITED TO THOSE OF A SECURED PARTY UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, INCLUDING FORECLOSING ON THE DEED OF TRUST.

RISK OF NONAPPROPRIATION

The appropriation of moneys to make the Installment Payments is within the sole discretion of the Town Council of the Town. If the Town Council fails to appropriate such moneys, the only sources of payment for the 2012 Bonds will be the moneys, if any, available in certain funds and accounts held by the Trustee under the Trust Agreement and the proceeds of any attempted foreclosure on the Town's interest in the Mortgaged Property under the Deed of Trust. The amount of such proceeds will be affected by (1) the condition of the Mortgaged Property, (2) periodic releases of portions of the Mortgaged Property from the lien as provided in the Deed of Trust and (3) the occurrence of any damage, destruction or loss of the Mortgaged Property which is not repaired or replaced and for which there are not received or appropriated moneys from insurance policies or from the Town's risk management program.

UNINSURED CASUALTY

If all or any part of the Mortgaged Property is partially or totally damaged or destroyed by any casualty or taken by any governmental authority, the Town must, under the Contract, apply any Net Proceeds from insurance or condemnation to repair, restore or rebuild the Mortgaged Property. If the Town applies any Net Proceeds to repair, restore or rebuild the Mortgaged Property and such Net Proceeds are insufficient to repair, restore or rebuild the Mortgaged Property to its condition prior to such damage, destruction or taking, then the value of the Mortgaged Property would be reduced. The Contract requires that certain insurance be maintained with respect to the Mortgaged Property. Such insurance may not, however, cover all perils to which the Mortgaged Property is subject and is nevertheless subject to the general limitation on enforceability provided for in the Contract.

OUTSTANDING GENERAL OBLIGATION DEBT OF THE TOWN

The Town has general obligation bonds outstanding and may issue additional general obligation bonds and notes in the future. The Town has pledged and will pledge its faith and credit and taxing power to the payment of its general obligation bonds and notes issued or to be issued. See the caption "**THE TOWN--DEBT INFORMATION**" herein for a description of the Town's outstanding and authorized but unissued general obligation bonds and notes. FUNDS WHICH MAY OTHERWISE BE AVAILABLE TO PAY INSTALLMENT PAYMENTS OR ADDITIONAL PAYMENTS OR TO MAKE OTHER PAYMENTS TO BE MADE BY THE TOWN UNDER THE CONTRACT MAY BE SUBJECT TO SUCH FAITH AND CREDIT PLEDGE BY THE TOWN AND THEREFORE MAY BE REQUIRED TO BE APPLIED TO THE PAYMENT OF ITS GENERAL OBLIGATION INDEBTEDNESS.

ENVIRONMENTAL RISKS

The site to be included as the Mortgaged Property is currently owned by the Town. The Town has previously conducted Phase I environmental assessments of the Mortgaged Property which reported that the Orange County Regional Landfill is located in the vicinity of the Mortgaged Property, but indicated that the landfill is used for residential, commercial, construction and demolition waste and there have been no reported disposals of hazardous materials. Otherwise, the environmental assessments reported no material environmental contamination on the site to be included as the Mortgaged Property. Undiscovered or future environmental contamination could have a material adverse affect on the value of the Mortgaged Property; however, the Town is required under the Deed of Trust to undertake whatever environmental remediation may be required by law.

ADDITIONAL BONDS

The Corporation may execute and deliver Additional Bonds under the Trust Agreement that are secured by the Mortgaged Property, thereby diluting the relative value of the collateral with respect to the 2012 Bonds.

THE TOWN

GENERAL

See Appendix A for a description of the Town.

CONTINGENT LIABILITIES AND LITIGATION

There is no known litigation involving the Town that the Town expects will have a material effect the Town's ability to meet its financial obligations.

FINANCIAL INFORMATION

The financial statements of the Town have been audited by certified public accountants for the fiscal year ended June 30, 2011. Excerpts from the financial statements of the Town for the fiscal year ended June 30, 2011 are available in Appendix B hereto. Copies of the complete financial statements containing the unqualified report of the independent certified public accountants are available in the office of Kenneth C. Pennoyer, Director of Business Management, 405 Martin Luther King Jr. Blvd, Chapel Hill, North Carolina 27516.

THE CORPORATION

The Corporation is organized under the North Carolina Nonprofit Corporation Act (N.C.G.S. Chapter 55A-1 *et seq.*, as amended, the "*Nonprofit Act*") and is authorized under the Nonprofit Act to carry out the purposes set forth in its articles of incorporation. The Corporation was organized for the purpose of promoting the general welfare of the citizens of the Town by encouraging the provision of public facilities in the Town. Among the purposes which the Corporation is authorized to carry out is the financing, acquiring, constructing, leasing and selling of real estate, improvements, facilities and equipment for the use and benefit of the general public. The Corporation has no taxing power.

The Board of Directors of the Corporation consists of three directors. Directors are elected by the Board of Directors at the annual meeting and serve one-year terms. Vacancies are filled by the remaining directors. The following individuals are currently serving as the directors of the Corporation:

Roger L. Stancil, Director
Kenneth C. Pennoyer, Director
Florentine Miller, Director

The officers of the Corporation are:

Kenneth C. Pennoyer, President
Ralph Karpinos, Vice President
Florentine Miller, Secretary and Treasurer

The officers and directors of the Corporation serve without compensation. The Corporation has no assets or employees. All officers and directors of the Corporation are also employed by the Town.

LEGAL MATTERS

LITIGATION

To the best of the knowledge of the Town, no litigation is now pending or threatened against or affecting the Town which seeks to restrain or enjoin the authorization, execution or delivery of the 2012 Bonds, the Contract or the Deed of Trust, or which contests the Town's creation, organization or corporate existence, or the title of any of the present officers thereof to their respective offices or the authority or proceedings for the Town's authorization, execution and delivery of the Contract or the Deed of Trust, or the Town's authority to carry out its obligations thereunder or which would have a material adverse impact on the Town's condition, financial or otherwise.

In addition, to the best of the knowledge of the Corporation, no litigation is now pending or threatened against or affecting the Corporation which seeks to restrain or enjoin the authorization, execution or delivery of the 2012 Bonds, the Trust Agreement or the Contract or which contests the validity or the authority or proceedings for the adoption, authorization, execution or delivery of the 2012 Bonds or the Corporation's creation, organization or corporate existence, or the title of any of the present officers thereof to their respective offices or the authority or proceedings for the Corporation's authorization, execution and delivery of the 2012 Bonds, the Trust Agreement or the Contract, or the Corporation's authority to carry out its obligations thereunder.

OPINIONS OF COUNSEL

Legal matters related to the execution, sale and delivery of the 2012 Bonds are subject to the approval of Sanford Holshouser LLP ("*Bond Counsel*"). Certain legal matters will be passed upon for the Town by its counsel, Ralph D. Karpinos, Esq., for the Corporation by its counsel, Parker Poe Adams & Bernstein LLP, and for the Underwriters' by their counsel, Parker Poe Adams & Bernstein LLP. The opinion of Bond Counsel, substantially in the form set forth in Appendix D hereto, will be delivered at the time of the delivery of the 2012 Bonds.

Bond Counsel's approving legal opinion expresses Bond Counsel's professional judgment as to the legal issues explicitly addressed in the opinion. By rendering a legal opinion, an opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Additionally, the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction, and a bond opinion is not a statement (either expressly or by implication) concerning the marketability, value or likelihood of payment of the bonds, or as to the suitability of the Bonds as an investment for any investor.

Bond Counsel has not been engaged to investigate the Town's operations or condition or the Town's ability to provide for payments on the 2012 Bonds. Bond Counsel will express no opinion (1) as to the Town's financial condition or its ability to provide for payments on the 2012 Bonds, or (2) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase 2012 Bonds, including this Official Statement. In this transaction, Bond Counsel serves only as bond counsel to the Town.

Sanford Holshouser LLP serves as Bond Counsel for the Town and, from time to time it and Parker Poe Adams & Bernstein LLP, counsel to the Underwriters, have represented the Underwriters as counsel in other financing transactions. Neither the County nor the Underwriters have conditioned the future employment of either of these firms in connection with any proposed financing issues for the County or for the Underwriters on the successful issuance of the 2012 Bonds.

TAX TREATMENT

OPINION OF BOND COUNSEL

In the opinion of Sanford Holshouser LLP, Carrboro, North Carolina, Bond Counsel for the Town (“*Bond Counsel*”), under existing law, interest components of payments under the Financing Contract so designated and paid by the Town and then paid as interest with respect to the 2012 Bonds (1) are not included in gross income for federal income tax purposes, (2) are not a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations, and (3) are exempt from State of North Carolina income taxation. Bond Counsel will express no other opinion regarding the federal or North Carolina tax consequences of the ownership of or the receipt or accrual of interest on the 2012 Bonds.

Bond Counsel’s opinion does not address the tax-exempt status of payments on the 2012 Bonds derived from parties other than the Town (for example, payments derived from proceeds of a foreclosure on the Mortgaged Property), even if those payments are denominated as interest with respect to the 2012 Bonds.

Bond Counsel will give its opinion in reliance upon certifications by Town representatives and others as to certain facts relevant to the opinion. The Town has covenanted to comply with the provisions of the Internal Revenue Code of 1986, as amended (the “*Code*”), regarding, among other matters, the use, expenditure and investment of the proceeds derived from the sale of the 2012 Bonds and the timely payment to the United States of any arbitrage profit with respect to the 2012 Bonds. The Town’s failure to comply with such covenants could cause interest on the 2012 Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2012 Bonds.

ORIGINAL ISSUE PREMIUM

The 2012 Bonds maturing on June 1, 20__ (collectively, the “*Premium Bonds*”) are being sold at an initial offering price in excess of the principal amounts payable at maturity. Under the Code, the difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the Premium Bonds is sold and (b) the principal amount payable at maturity of such Premium Bonds constitutes “original issue premium”. Original issue premium is not deductible for federal income tax purposes.

For an owner of a Premium Bond, the amount of the original issue premium which is treated as having accrued over the term of such Premium Bond is reduced from the owner’s cost basis of such Premium Bond in determining, for federal income tax purposes, the gain or loss upon the sale, redemption or other disposition of such Premium Bond (whether upon its sale, redemption or payment at maturity).

Bond Counsel’s opinion as will not specifically address any issues relating to the treatment of premiums paid on Premium Bonds. **Owners of Premium Bonds should consult their tax advisors with respect to the tax consequences of owning or disposing of a Premium Bond.**

ORIGINAL ISSUE DISCOUNT

The 2012 Bonds maturing on June 1, 20__ (collectively, the “*Discount Bonds*”) are being sold at initial offering prices which are less than the principal amount payable at maturity. Under the Code, the difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the Discount Bonds is sold and (b) the principal amount

payable at maturity of such Discount Bonds, constitutes original issue discount treated as interest which will be excluded from the gross income of the owners of such Discount Bonds for federal income tax purposes.

In the case of an owner of an Discount Bond, the amount of original issue discount on such Discount Bond is treated as having accrued daily over the term of such Discount Bond on the basis of a constant yield compounded at the end of each accrual period and is added to the owner's cost basis of such Discount Bond in determining, for federal income tax purposes, the gain or loss upon the sale, redemption or other disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received on the sale, redemption or other disposition of an Discount Bond which are attributable to accrued original issue discount on such Discount Bond will be treated as interest exempt from gross income, rather than as a taxable gain, for federal income tax purposes, and will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on corporations and individuals. However, it should be noted that with respect to certain corporations (as defined for federal income tax purposes), a portion of the original issue discount that accrues to such corporate owners of an Discount Bond in each year will be taken into account in determining the adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on such corporations and may result in other collateral federal income tax consequences for certain taxpayers in the year of accrual. Consequently, corporate owners of an Discount Bond should be aware that the accrual of original issue discount on any Discount Bond in each year may result in a federal alternative minimum tax liability or other collateral federal income tax consequences, even though such corporate owner may not have received any cash payments attributable to such original issue discount in such year.

Original issue discount is treated as compounding semiannually (which yield is based on the initial public offering price of such Discount Bond) at a rate determined by reference to the yield to maturity of each individual Discount Bond. The amount treated as original issue discount on an Discount Bond for a particular semiannual accrual period is equal to (a) the product of (1) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (2) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less (b) the amount of interest payable on such Discount Bond during the particular accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior accrual periods. If an Discount Bond is sold between semiannual compounding dates, original issue discount which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

The Code contains additional provisions relating to the accrual of original issue discount in the case of owners of the Discount Bonds who subsequently purchase any Discount Bonds after the initial offering or at a price different from the initial offering price during the initial offering of the 2005 Certificates. Owners of Discount Bonds should consult their own tax advisors with respect to the precise determination for federal and state income tax purposes of the amount of original issue discount accrued upon the sale, redemption or other disposition of an Discount Bond as of any date and with respect to other federal, state and local tax consequences of owning and disposing of an Discount Bond. It is possible that under the applicable provisions governing the determination of state or local taxes, accrued original issue discount on an Discount Bond may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment attributable to such original issue discount until a later year.

Bond Counsel's opinion will not address issues relating to the treatment of original issue discounts on Discount Bonds. **Owners of Discount Bonds should consult their tax advisors with respect to the tax consequences of owning or disposing of a Discount Bond.**

OTHER TAX CONSEQUENCES

In addition to the matters addressed above, prospective purchasers of the 2012 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, certain S corporations, certain foreign corporations subject to the branch profits tax, corporations subject to the environmental tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the 2012 Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Interest on the 2012 Bonds may or may not be subject to state or local taxation in jurisdictions other than North Carolina. Prospective purchasers of the 2012 Bonds should consult their own tax advisors as to the status of interest on the 2012 Bonds under the tax laws of any such jurisdiction other than North Carolina.

CONTINUING DISCLOSURE OBLIGATION

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (“*Rule 15c2-12*”), the Town has undertaken in the Contract to provide, or cause to be provided through the Trustee, to the Municipal Securities Rulemaking Board (the “*MSRB*”):

(1) by not later than seven months after the end of each Fiscal Year, the audited financial statements of the Town for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or if such audited financial statements are not then available, unaudited financial statements of the Town for such Fiscal Year to be replaced subsequently by audited financial statements of the Town to be delivered within 15 days after such audited financial statements become available for distribution;

(2) by not later than seven months after the end of each Fiscal Year, (a) the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information included under the captions “**THE TOWN--DEBT INFORMATION**” and “**--TAX INFORMATION**” in Appendix A relating to the 2012 Bonds (excluding any information on overlapping or underlying debt) and (b) the combined budget of the Town for the current Fiscal Year, to the extent such items are not included financial information listed above;

(3) in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the 2012 Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;

(e) substitution of credit or liquidity providers, or their failure to perform;

(f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2012 Bonds, or other material events affecting the tax status of the 2012 Bonds;

(g) modifications to rights of holders of the 2012 Bonds, if material;

(h) calls for redemption of the 2012 Bonds, if material, and tender offers;

(i) defeasances;

(j) release, substitution, or sale of property securing repayment of the securities, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership or similar proceedings related to the Town, the Corporation or any other person or entity that may at any time become legally obligated to make Installment Payments (collectively, the "*Obligated Persons*");

(m) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material; and

(4) in a timely manner, notice of a failure of the Town to provide required annual financial information described in (a) or (b) above on or before the date specified.

For the purposes of the event identified in subparagraph (l) above, the event is considered to occur when any of the following occurs: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

The Town shall provide the document referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The Town may discharge its undertaking described above by transmitting the documents referred to above to any entity and by any method authorized by the U.S. Securities and Exchange Commission.

At present, Section 159-34 of the General Statutes of North Carolina requires that the Town's financial statements be prepared in accordance with generally accepted accounting principles and that they be audited in accordance with generally accepted auditing standards.

The Town has acknowledged in the Contract that its undertaking pursuant to Rule 15c2-12 is intended to be for the benefit of the registered owners of the 2012 Bonds and is enforceable by the Trustee or by any registered owner of the 2012 Bonds. THE RIGHT TO ENFORCE THE PROVISIONS OF THE TOWN'S RULE 15C2-12 UNDERTAKINGS IS LIMITED TO A RIGHT TO OBTAIN SPECIFIC PERFORMANCE OF THE TOWN'S OBLIGATIONS AND A FAILURE BY THE TOWN TO COMPLY WITH ITS RULE 15C2-12 UNDERTAKINGS WILL NOT BE AN EVENT OF DEFAULT UNDER THE CONTRACT AND WILL NOT RESULT IN ACCELERATION OF THE INSTALLMENT PAYMENTS.

The Town may modify from time to time, consistent with Rule 15c2-12, the information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Town, but: (1) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Town; (2) the information to be provided, as modified, would have complied with the requirements of the Rule 15c2-12 as of the date of this Official Statement, after taking into account any amendments or interpretations of the Rule 15c2-12 as well as any changes in circumstances; and (3) any such modification does not materially impair the interest of the Owners or the beneficial owners, as determined by the Trustee or nationally recognized bond counsel or by the approving vote of the Owners of a majority in principal amount of the 2012 Bonds. Any annual financial information containing modified operating data or financial information will explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided. The Town's Rule 15c2-12 undertakings will terminate on payment, or provision having been made for payment in a manner consistent with the Rule 15c2-12, in full of the principal and interest with respect to the 2012 Bonds.

Except as otherwise described in the following sentences, for the last five years the Town has complied, in all material respects, with the terms of its continuing disclosure undertakings under Rule 15c2-12. The Town has issued various publicly offered securities that were insured by various bond insurers whose ratings have been downgraded at various times over the last several years. Information about these downgrades was publicly reported. The Town may not have filed notices of all such downgrades or may not have filed such notices in a timely manner.

UNDERWRITING

The Underwriters have agreed under the terms of a Bond Purchase Agreement (the "*Purchase Agreement*") to purchase all of the 2012 Bonds, if any of the 2012 Bonds are to be purchased, at a purchase price equal to 100% of the principal amount of the 2012 Bonds, plus/less net original issue premium/discount of \$_____, less an Underwriters' discount of \$_____. The Underwriters' obligation to purchase the 2012 Bonds is subject to certain terms and conditions set forth in the Purchase Agreement.

The Underwriters may offer and sell the 2012 Bonds to certain dealers (including dealers depositing the 2012 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the inside cover hereof. The public offering prices may be changed from time to time by the Underwriters.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association (“*WFBNA*”), an underwriter of the 2012 Bonds, has entered into an agreement (the “*Distribution Agreement*”) with Wells Fargo Advisors, LLC (“*WFA*”) for the retail distribution of certain municipal securities offerings, including the 2012 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2012 Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

RATINGS

Moody’s and S&P have assigned underlying ratings of “Aa1” and “AA+”, respectively, to the 2012 Bonds. These ratings reflect only the view of such rating agencies, and an explanation of the significance of such ratings may be obtained from such rating agencies. Certain information and materials not included in this Official Statement were furnished to such rating agencies. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2012 Bonds.

MISCELLANEOUS

All quotations from and summaries and explanations of the Contract, the Deed of Trust and the Trust Agreement contained herein or in Appendix C hereto do not purport to be complete, and reference is made to such documents for full and complete statements of their respective provisions. The Appendices attached hereto are a part of this Official Statement. Copies in reasonable quantity of the Contract, the Deed of Trust and the Trust Agreement may be obtained during the offering period from Robert W. Baird & Co. at 380 Knollwood Street, Suite 440, Winston-Salem, North Carolina 27103.

The information contained in this Official Statement has been compiled or prepared from information obtained from the Town and other sources deemed to be reliable and, although not guaranteed as to completeness or accuracy, is believed to be correct as of this date. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This page intentionally left blank.

APPENDIX A

THE TOWN

This page intentionally left blank.

APPENDIX A

THE TOWN

GENERAL DESCRIPTION

The Town, incorporated in 1819, is in the north central portion of the State on the piedmont plateau. The Town is located southwest of the City of Durham and approximately 25 miles northwest of the City of Raleigh. The Town is the home of the University of North Carolina at Chapel Hill. Approximately 92.8 percent of the Town by area is located in Orange County and the remaining 7.2 percent is located in Durham County.

The Town covers an area of 21.3 square miles. The Town is empowered by statute to extend its corporate limits by annexation.

The Town conducts an ongoing planning and programming process through which it implements orderly expansion and management of the growth and development of the community. At present, the Town exercises zoning and building controls over a 27.6 square mile area that includes the corporate limits and a 6.32 square mile planning jurisdiction.

The growth of the Town has been directly related to the expansion of the University of North Carolina at Chapel Hill (the “*University*”). Enrollment at the University has risen from 8,791 in 1960 to 29,137 in 2011. It is anticipated that expansion will continue to occur in University-related health facilities such as the University of North Carolina Hospitals. Due to space constraints on its existing campus, the University is planning a new living and learning community in Chapel Hill, called Carolina North. Carolina North will occupy nearly 300 acres of land now used by Horace Williams Airport and will combine a world-class research park with academic buildings, residential areas, businesses, green space, and public schools. After engaging in extensive, long-range planning with the University, including a financial impact analysis, the Town Council approved a development agreement with the University on June 22, 2009 that includes the new campus to be built in phases over the next 50 years.

DEMOGRAPHIC CHARACTERISTICS

The United States Department of Commerce, Bureau of the Census, has recorded the population of the Town to be as follows:

<u>1990</u>	<u>2000</u>	<u>2010</u>
38,872	46,019	57,233

Per capita income data for Orange County and the State are presented in the following table:

<u>YEAR</u>	<u>COUNTY¹</u>	<u>STATE</u>
2006	\$41,881	\$33,373
2007	45,383	34,761
2008	47,847	35,741
2009	45,505	34,147
2010	46,713	35,007

¹ Separate data for the Town are not available.

COMMERCE AND INSTITUTIONAL PROFILE

The Town is characterized by a high degree of institutional and service-oriented activity. The University of North Carolina at Chapel Hill and the University of North Carolina Hospitals and their associated service, teaching and research programs have a national reputation for excellence in educational and medical fields. 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 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 makes the Triangle area suited to many types of academic research and industrial activities.

The Research Triangle Park, organized in 1959, is situated in the center of the triangle formed by the communities of Raleigh, Durham and Chapel Hill. 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 170 research and development related organizations, employing over 38,000 people.

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 development applications and building permit issuance. For fiscal year 2011 the number of commercial and residential building permits increased from the prior year, however the total value of permits decreased for both. This is due to the impact of the economy on development, with a higher concentration of smaller commercial projects and more home renovations and additions. Building permits issued for commercial and residential construction in the Town are summarized below for the past five fiscal years:

FISCAL YEAR ENDED JUNE 30	COMMERCIAL		RESIDENTIAL	
	NUMBER	VALUE	NUMBER	VALUE
2007	108	\$ 30,211,808	488	\$44,178,782
2008	137	125,800,479	566	65,942,770
2009	112	38,173,897	496	54,395,935
2010	183	26,363,230	609	39,572,237
2011	141	42,297,114	672	32,123,191

Source: Inspections Department of the Town.

The following table lists by corporate name, product or service and approximate number of employees the major businesses and institutional establishments in the Chapel Hill area:

COMPANY OR INSTITUTION¹	SERVICE OR PRODUCT	APPROXIMATE NUMBER OF EMPLOYEES
*Duke University and Medical Center	Education, Research, Medical Care	33,705
The University of North Carolina at Chapel Hill	Education Research	11,910
*IBM	Data Communications Equipment	10,000
University of North Carolina Hospitals	Medical Care, Research, Manufacturing/Distribution	7,970
*SAS Institute	Software Company	4,920
*Glaxo-Smithkline	Pharmaceutical Products	4,500
Blue Cross-Blue Shield of N.C.	Health Insurance	4,000
*Research Triangle Institute	Contractual Research	2,200
Chapel Hill-Carrboro Schools	Education	2,000
*Cree, Inc.	LED Lighting Equipment	2,000

* Located outside the Town's corporate limits in Durham, Cary or Research Triangle Park.

¹ Most recent available data from 2010-2011.

Source: Company releases, Chapel Hill-Carrboro Chamber of Commerce, Greater Durham Chamber of Commerce, Research Triangle Regional Partnership.

Total taxable sales in the County for the fiscal years ended June 30, 2008 through 2011 are shown in the following table:

FISCAL YEAR ENDED JUNE 30	TOTAL TAXABLE SALES	INCREASE (DECREASE) OVER PREVIOUS YEAR
2008	\$ 971,591,672	. %
2009	926,654,246	(4.63)
2010	987,769,036	6.60
2011	1,017,355,198	3.00

Source: North Carolina Department of Revenue, Sales and Use Tax Division. Most recent available data. Data for years prior to 2008 were not compiled in a comparable manner.

EMPLOYMENT

The North Carolina Employment Security Commission has estimated the percentage of unemployment in the Town to be as follows:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2009</u>	<u>2010</u>	<u>2011</u>
January	4.4%	5.4%	5.5%	5.2%	July	6.3%	6.2%	6.7%
February	5.3	5.2	5.3	5.2	August	6.0	5.9	6.8
March	4.6	5.1	5.2	5.0	September	5.7	5.0	6.2
April	4.8	5.1	5.0	4.9	October	5.5	4.7	5.6
May	5.5	5.3	5.5	N/A	November	5.7	4.8	5.2
June	6.2	6.1	6.9	N/A	December	5.6	5.0	5.2

Note: Separate Town data not available.

GOVERNMENT AND MAJOR SERVICES

Government Structure. 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. Town departments are responsible to the Town Manager for the provision of public services.

Education. Public education is provided in the Town primarily by the Chapel Hill - Carrboro City School System which serves southeastern Orange County and, to a minor extent, by the Durham County School System for 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. The Town has no financial responsibility for the schools. Revenue is derived from the Federal, State and County governments for school operations and capital facilities.

The table below shows the number of schools by level and average daily membership in the Chapel Hill-Carrboro City School System for the four year period beginning with the 2008-09 school year.

<u>SCHOOL</u> <u>YEAR</u>	<u>ELEMENTARY</u> <u>GRADES K-5</u>		<u>INTER MEDIATE</u> <u>GRADES 6-8</u>		<u>SECONDARY</u> <u>GRADES 9-12</u>	
	<u>NO.</u>	<u>ADM</u>	<u>NO.</u>	<u>ADM*</u>	<u>NO.</u>	<u>ADM*</u>
2008-09	10	5,268	4	2,688	3	3,674
2009-10	10	5,224	4	2,702	3	3,659
2010-11	10	5,288	4	2,712	3	3,675
2011-12	10	5,475	4	2,741	3	3,706

*Average Daily Membership (determined by actual records at the schools) is computed by the North Carolina Department of Public Instruction on a uniform basis for all public school units in the State. The average daily membership computations are used as a basis for teacher allotments and for distribution of local funds if there is more than one school unit within a County.

Source: Chapel Hill/Carrboro City Schools, Communications Department.

Note: Excludes hospital school enrollment.

Transportation. Major expansion, maintenance and betterment of primary and secondary highways in the Federal and State highway systems within the Town limits are chiefly the State's responsibility, although the Town does participate on a limited basis in expansion projects. The Town also is responsible for a portion of the acquisition of rights-of-way for such expansion or betterment related sidewalk improvements and street lighting. On June 30, 2011, approximately 61 miles of Town streets were on the State highway system.

Major expansion, maintenance and betterment of the local street system are the sole responsibility of the Town. Major expansions and betterments are financed with long-term bonds and current revenues. As of June 30, 2011, the Town maintained approximately 165 linear miles of streets.

The Town is served by U.S. Highway 15-501, which connects the Town with the City of Durham, and by Interstate 40 which connects the Town with the Research Triangle Park and the Raleigh-Durham International Airport. The triangle area is served by Interstate 85 extending northeast from Durham and west through Greensboro to Charlotte and Atlanta.

The Town operates a bus system that provides public transportation services to the Town and adjacent areas, including services to the Town of Carrboro and the University of North Carolina at Chapel Hill on a contractual basis. Effective January 1, 2002, the Town instituted the State's first fare free transportation 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. Two park-ride lots are established on the western perimeter of the Town to facilitate transportation in and out of the University and downtown area, and the Town completed construction of additional park-ride lots on the northern and southern perimeters in 1995. The system operates 98 buses during weekday peak periods, and shared-ride, demand responsive programs to provide evening services.

During the 2010-11 fiscal year, the bus system carried over 7.0 million passengers and had the highest per capita ridership in the State. The bus system is financed primarily with a special ad valorem tax levy, Federal and State operating and capital assistance, and contractual contributions from the Town of Carrboro and the University. The Town receives Federal operating assistance from the Federal Transit Administration and State operating assistance which combined equals about 30% of eligible operating costs for the system.

The Raleigh-Durham International Airport (RDU) is a major regional airport serviced by ten major airlines and sixteen commuter airlines. Nearly 9.2 million people boarded or deplaned aircraft at this airport in 2011.

Public Service Enterprises.

--Water and Sewer 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 towns in conjunction with the University. (See Notes to Financial Statements for further information regarding Orange Water and Sewer Authority.)

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 OWASA'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 necessitated the expansion. Construction has been completed on the Mason Farm Water transmission lines with Jones Ferry Road expansion to 20 MGD. In 2009, the University and OWASA completed initial construction and testing of a new reclaimed water system that is used by the University for cooling towers at chiller plants. The new reclaimed water system is expected to eventually serve 15% of system needs, deferring the need for expansion of water supply and treatment 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.

OWASA operates and maintains 336 miles of sanitary sewer and force main lines, and 21 pump stations to carry wastewater to the Mason Farm Wastewater Treatment Plant (WWTP), which has a peak treatment capacity of 14.5 MGD (daily average for a calendar month). Highly treated wastewater is recycled to the natural environment at Morgan Creek on the southeast side of Chapel Hill or provided as reclaimed water to the University of North Carolina at Chapel Hill (UNC). Morgan Creek is a tributary of Jordan Lake, a water source for several communities in the region. A recent Wastewater Treatment Plant Hydraulic and Treatment Capacity Study showed that no capacity increase is required at the wastewater treatment plant in the foreseeable future.

--*Parking Facilities.* The Town owns and operates several off-street parking lots in the central business district including a parking facility with 309 spaces which was completed in 1993. The parking facilities operations are accounted for in separate enterprise funds and are self-supporting.

--*Sanitary Landfill.* The County is responsible for administering and operating the Orange Regional Landfill, which also serves the Town and its residents. In 2010, the landfill achieved a waste reduction rate of 56%, a measure of both recycling efforts and resource conservation through means such as composting, reducing junk mail or taking reusable shopping bags to the store. The County has announced the closing of the Orange Regional Landfill effective June of 2013. The Town is planning other options for future solid waste disposal, particularly partnering with Durham County in use of its transfer station.

[Remainder of page left intentionally blank]

DEBT INFORMATION

Legal Debt Limit. In accordance with the provisions of the State Constitution and The Local Government Bond Act, as amended, allowing for the issuance of all presently authorized bonds, including those being offered by this Official Statement, the Town has the statutory capacity to incur additional net general obligation debt in the approximate amount of \$548,519,000 as of June 30, 2011.

Outstanding General Obligation Debt.

GENERAL OBLIGATIONS BONDS	PRINCIPAL OUTSTANDING AS OF			
	JUNE 30, 2009	JUNE 30, 2010	JUNE 30, 2011	MARCH 31, 2012
Street	\$ 4,221,505	\$ 3,525,000	\$ 4,404,000 ¹	\$ 4,404,000 ²
Parks and Recreational Facilities	4,892,215	2,540,397	5,184,089 ¹	5,184,089 ²
Refunding	—	4,460,000 ¹	3,725,000	3,000,000
Other	8,301,280	4,759,603	20,796,911 ¹	20,796,911
Total Debt Outstanding	<u>\$17,415,000</u>	<u>\$15,285,000</u>	<u>\$34,110,000</u>	<u>\$33,385,000</u>

Note: The Town recently issued \$4,655,000 General Obligation Refunding Bonds, Series 2012 which refunded a portion of the bonds included in the above table for savings. The Town plans to issue \$1,700,000 General Obligation Public Improvement Bonds, Series 2012 on July 3, 2012.

General Obligation Debt Ratios.

AT JULY 1	TOTAL GO DEBT	ASSESSED VALUATION	TOTAL GO DEBT TO ASSESSED VALUATION	POPULATION ¹	TOTAL GO DEBT PER CAPITA
2007	\$21,630,000	\$5,659,756,385	.38%	53,416	\$404.93
2008	19,520,000	5,825,629,754	.34	54,904	355.53
2009	17,415,000	7,047,493,142	.25	55,616	313.13
2010	15,285,000	7,145,727,028	.21	57,233 ²	267.07
2011	34,110,000	7,257,544,110	.47	57,233 ³	595.98

¹ Estimates of North Carolina Office of State Budget and Management.

² United States Department of Commerce, Bureau of the Census.

³ For purposes of this schedule, the 2010 population is being used.

General Obligation Debt Service Requirements And Maturity Schedule.

FISCAL YEAR OFFERED²	EXISTING DEBT¹	
	PRINCIPAL	PRINCIPAL & INTEREST
2012-13	\$2,575,000	\$3,774,547.50
2013-14	2,560,000	3,674,672.50
2014-15	2,345,000	3,385,447.50
2015-16	2,060,000	3,020,035.00
2016-17	2,055,000	2,945,760.00
2017-18	2,050,000	2,871,435.00
2018-19	2,045,000	2,785,060.00
2019-20	1,770,000	2,441,210.00
2020-21	1,595,000	2,200,260.00
2021-22	1,470,000	2,013,870.00
2022-23	1,470,000	1,955,277.50
2023-24	1,470,000	1,895,352.50
2024-25	1,470,000	1,833,977.50
2025-26	1,270,000	1,571,637.50
2026-27	1,220,000	1,467,152.50
2027-28	1,020,000	1,213,772.50
2028-29	1,020,000	1,166,852.50
2029-30	1,025,000	1,123,912.50
2030-31	1,025,000	1,075,225.00
2031-32		
	<u>\$31,515,000</u>	<u>\$42,415,457.50</u>

Note: The Town recently issued \$4,655,000 General Obligation Refunding Bonds, Series 2012 which refunded a portion of the bonds included in the above table for savings. The Town plans to issue \$1,700,000 General Obligation Public Improvement Bonds, Series 2012 on July 3, 2012.

General Obligation Bonds Authorized And Unissued.

PURPOSE	DATE APPROVED	BONDS
		AUTHORIZED AND UNISSUED
Refunding	04/17/2012	\$845,000 ¹
Streets and Bridges	05/14/2012	1,000,000 ²
Parks and Recreation	05/14/2012	<u>700,000²</u>
		\$2,545,000

¹ The Town does not expect to issue the remaining authorized and unissued Refunding Bonds.

² The Town plans to issue \$1,700,000 General Obligation Public Improvement Bonds, Series 2012 on July 3, 2012, which will exhaust its authorizations under these bond orders.

General Obligation Debt Information For Overlapping Unit As Of March 31, 2012.

UNIT	2010 POPULATION ¹	ASSESSED VALUATION	TAX RATE PER \$100 ²	DEBT AUTHORIZED AND UNISSUED		TOTAL GO DEBT ²		TOTAL GO DEBT PER CAPITA
				UTILITY	OTHER	UTILITY	OTHER	
Orange County	134,325	\$15,681,745,127	\$.858	\$	\$	\$	\$98,010,000	\$729.65

¹ Estimate of North Carolina Office of State Budget and Management.

² Does not include non-general obligation debt.

Other Long-Term Commitments. Certificates of Participation (“COPS”) in the amount of \$26,000,000 were executed and delivered in June 2006 to finance a new Town Operations Center, primarily for public works operations, which was largely completed in 2007. The COPS are not general obligations of the Town, but payments are subject to annual appropriations. The Town is refinancing these COPS in connection with the execution and delivery of the 2012 Bonds. Maturities of the COPS are as follows:

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2012	\$ 1,360,000	\$ 928,525	\$ 2,288,525
2013	1,360,000	864,125	2,224,125
2014	1,360,000	799,725	2,159,725
2015-2025	14,960,000	4,356,675	19,316,675
	<u>\$19,040,000</u>	<u>\$6,949,050</u>	<u>\$25,989,050</u>

The Town refinanced \$6,690,000 in Parking Facilities Refunding Certificates of Participation (“Parking COPS”) in September 2003. The Parking COPS are not general obligations of the Town, but payments are subject to annual appropriations. The Town intends to fund the Parking COPS debt service from parking enterprise revenues. Maturities of the Parking COPS are as follows:

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2012	\$ 295,000	\$ 168,073	\$ 463,073
2013	305,000	157,065	462,065
2014	315,000	145,688	460,688
2015-2024	3,700,000	722,887	4,422,887
	<u>\$4,615,000</u>	<u>\$1,193,713</u>	<u>\$5,808,713</u>

In addition, the Town has entered into multiple installment financing contracts with various commercial lenders, a portion of which will be refinanced in connection with the execution and delivery of the 2012 Bonds. Maturities of the installment financing contracts are as follows:

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2012	\$1,752,275	\$219,522	\$1,971,797
2013	1,575,055	163,611	1,738,666
2014	1,348,384	114,903	1,463,287
2015-2018	2,776,802	153,838	2,930,640
	<u>\$7,452,516</u>	<u>\$651,874</u>	<u>\$8,104,390</u>

Debt Outlook. The Town reviews its capital needs, and potential funding sources, on an on-going basis. The Town, however, does not anticipate any additional substantial borrowing in the next three fiscal years.

TAX INFORMATION

General Information.

	FISCAL YEAR ENDED/ENDING JUNE 30			
	2009	2010	2011	2012*
Assessed Valuation:				
Assessment Ratio ¹	100%	100%	100%	100%
Real Property	\$5,298,191,253	\$6,518,497,421	\$6,643,373,841	\$6,722,937,883
Personal Property	463,760,343	461,347,945	439,861,938	471,374,214
Public Service Companies ²	63,678,158	67,647,776	62,491,249	63,232,013
Total Assessed Valuation	<u>\$5,825,629,754</u>	<u>\$7,047,493,142</u>	<u>\$7,145,727,028</u>	<u>\$7,257,544,110</u>
Rate per \$100 ³	.581	.494	.494	.494
Levy	\$33,809,354	\$34,953,187	\$35,435,222	\$35,852,268

* Unaudited estimates for 2011-12 budget year.

¹ Percentage of appraised value has been established by statute.

² Valuation of railroads, telephone companies and other utilities as determined by North Carolina Property Tax Commission.

³ Rate includes an amount which goes to the Transit Fund to finance a portion of the operating expense of the Town's bus system, and effective in fiscal year 2009, a portion is dedicated to debt service as follows:

FISCAL YEAR	GENERAL FUND RATE (CENTS PER \$100)	TRANSIT RATE (CENTS PER \$100)	DEBT RATE (CENTS PER \$100)	TOTAL RATE (CENTS PER \$100)
2007-08	47.4	4.8	0.0	52.2
2008-09	42.3	4.8	11.0	58.1
2009-10	36.0	4.1	9.3	49.4
2010-11	36.0	4.1	9.3	49.4
2011-12	37.8	4.1	7.5	49.4

Note: The Town created a Municipal Service District effective July 1, 1989 which has a current tax rate of \$0.071 for improvements and services in the downtown area.

Note: Revaluation of real property was effective with the 2010 tax levy.

The Town is authorized by statute to levy ad valorem taxes on the assessed value of real property within its corporate limits. Taxation for operating purposes may not exceed \$1.50 per \$100 assessed valuation unless the voters approve a higher rate except for the following applicable 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.

Tax Collections.

YEAR ENDED JUNE 30	PRIOR YEARS' LEVIES COLLECTED	CURRENT YEAR'S LEVY COLLECTED	PERCENTAGE OF CURRENT YEAR'S LEVY COLLECTED
2008	\$115,691	\$30,240,782	99.82%
2009	127,388	33,779,684	99.43
2010	152,537	34,836,717	99.20
2011	191,998	35,284,111	99.10
At 03/31/2012	147,983	35,852,268	98.16

Ten Largest Taxpayers For Fiscal Year 2011.

NAME	TYPE OF BUSINESS	ASSESSED VALUATION	TAX LEVY	PERCENTAGE OF TOTAL ASSESSED VALUATION
Chapel Hill Foundation (University Square)	Shopping Center	\$45,447,501	\$224,511	0.63%
East 54 Associates	Development	37,873,736	187,096	0.53
Blue Cross and Blue Shield of North Carolina	Health Insurance	37,283,898	184,182	0.52
VAC Limited Partnership	Apartment Rental	36,934,879	182,458	0.52
Corium LLC	Health Insurance	35,399,117	174,872	0.49
ACC GF III Chapel Ridge /Chapel View	Apartment Rental	35,159,298	173,687	0.49
Madison University Mall Properties	Shopping Center	34,182,311	168,861	0.48
Duke Energy Corporation	Public Utility	30,309,770	149,730	0.42
Europa Center LLC	Office Building	27,814,759	137,405	0.39
Southern Village Apartments	Apartment Rental	25,076,720	123,879	0.35
		<u>\$345,481,989</u>	<u>\$1,706,681</u>	<u>4.8%</u>

2011-12 BUDGET COMMENTARY

The adopted budget for fiscal year 2011-12 maintained services at generally the same level as prior years without an increase in property taxes.

To provide a budget that met Council's objectives of no tax increase while maintaining core services, the following strategies were employed:

- Manage spending during the fiscal year (2010-11) to provide additional fund balance to offset potential revenue shortfalls in the (2011-12) budget;
- Concentrate efforts on maintaining core service levels and a compensation plan that retains experienced employees. This included providing a flat rate one-time pay adjustment of \$800 to all employees;
- Use a limited amount of fund balance to balance the fiscal year 2011-12 budget so that we do not fall below the 12% fund balance target established by Council;
- Forego additional OPEB liability funding until the budget has achieved equilibrium;
- Reduce capital expenditures to minimal levels;
- Rebalance the distribution of property taxes to provide additional operating funds;

- Use non-general fund revenue sources to fund operations that traditionally have been funded through the annual operating budget. This includes the use of \$600,000 in bonds funds for street resurfacing that would have normally been paid for through the Public Works operating budget.

The Town's budget is balanced using these strategies, some of which are short-term solutions that are not sustainable strategies in the long-term.

GENERAL FUND BUDGET REDUCTION

A concerted effort to reduce spending resulted in a General Fund adopted budget for fiscal year 2011-12 that was more than \$2 million less than the fiscal year 2010-11 adopted budget. This reduction was achieved by delaying hiring for open positions and reducing discretionary spending, including deferring replacement of equipment. The reduction in budgeted expenditures and the strategies described above allowed the Town to balance the fiscal year 2011-12 budget using less than about \$1 million in fund balance. This is in contrast to prior years when as much as \$5 million of fund balance was used to balance the adopted General Fund Budget.

2012-13 BUDGET COMMENTARY

The Town Manager's recommended total budget for fiscal year 2012-13 is \$89.9 million - an increase of \$3.4 million, or 4.1%, from fiscal year 2011-12. The proposed General Fund budget is \$52.4 million - a \$1.9 million increase, or 3.7%, from the prior year. This increase includes the cost of a 3% salary adjustment for employees, an increase in the operating cost for the expanded Library, and restoration of street paving funds in the Public Works operating budget.

The recommended budget includes a ½ cent per \$100 of assessed value increase in the Transit portion of the property tax rate to pay for the increased cost of fuel and maintenance. The General Fund and Debt Management Fund portions of the property tax rate in the recommended budget remain unchanged from fiscal year 2011-12. The Downtown Service District tax rate is also recommended at the same rate as in fiscal year 2011-12.

The recommended General Fund budget is balanced using \$1.6 million of appropriated fund balance, of which \$920,000 is for capital improvements and other one-time costs.

EMPLOYEE COSTS

Personnel costs are by far the largest expense in the General Fund budget, representing almost 70% of total budgeted expenditures. Although salaries have been held at relatively the same level since the economic downturn, employee health insurance has averaged double digit increases annually over the last five years. To address this trend in health care cost, the Town has entered into a partnership with UNC Healthcare to develop and implement a unique and innovative approach to delivering health care to employees that the Town believes will ultimately improve employee health, make the employees better consumers of health care services and significantly reduce the Town's costs.

The Health Care Initiative provides an on-site clinic that will serve as a first line care provider for non-emergency employee health needs and a wellness/health risk assessment program that will help identify and treat employee health issues before they become debilitating both physically and financially. The Town has chosen to invest in employee health and safety as a means to controlling healthcare expenditures. Through this effort and other minor changes made to the Town's medical insurance plan the Town has been able to reverse the cost trend and for 2012-2013 the expected cost is going down by 3%.

PROPERTY TAX RATES

Over-all property tax rates are unchanged, however 1.8 cents was shifted from the Debt Fund to the General Fund.

	<u>2010-11</u>	<u>2011-12</u>	
General Fund	36.0	37.8	(cents per \$100 of assessed valuation)
Debt Fund	9.3	7.5	
Transit	4.1	4.1	
TOTAL	<u>49.4</u>	<u>49.4</u>	
Downtown Special District	7.1	7.1	

PENSION PLANS

The Town participates in the North Carolina Local Governmental Employees' Retirement System and three other pension plans.

North Carolina Local Governmental Employees' Retirement System — The North Carolina Local Governmental Employees' Retirement System (the "*System*") is a service agency administered through a board of trustees by the State for public employees of counties, cities, boards, commissions and other similar governmental entities. While the State Treasurer is the custodian of System funds, administrative costs are borne by the participating employer governmental entities. The State makes no contributions to the System.

The System provides, on a uniform System-wide basis, retirement and, at each employer's option, death benefits from contributions made by employers and employees. Employee members contribute six percent of their individual compensation. Each new employer makes a normal contribution plus, where applicable, a contribution to fund any accrued liability over a 24-year period. The normal contribution rate, uniform for all employers, is currently 6.35 percent of eligible payroll for general employees and 6.82 percent of eligible payroll for law enforcement officers. The accrued liability contribution rate is determined separately for each employer and covers the liability of the employer for benefits based on employees' service rendered prior to the date the employer joins the system.

Members qualify for a vested deferred benefit at age 50 with at least 20 years of service or at age 60 after at least five years of creditable service to the unit of local government. Unreduced benefits are available: at age 65, with at least five years of creditable service; at age 60, with at least 25 years of creditable service; or after 30 years of creditable service, regardless of age. Benefit payments are computed by taking an average of the annual compensation for the four consecutive years of membership service yielding the highest average. This average is then adjusted by a percentage formula, by a total years of service factor, and by an age service factor if the individual is not eligible for unreduced benefits.

Contributions to the system are determined on an actuarial basis.

For additional information concerning the Town's participation in the North Carolina Local Governmental Employees' Retirement System see the Notes to the Basic Financial Statements of the Town in Appendix B.

Financial statements and required supplementary information for the North Carolina Local Governmental Employees' Retirement System are included in the Comprehensive Annual Financial Report ("*CAFR*") for the State. Please refer to the State's *CAFR* for additional information.

Other Pension Plans — The Town also participates in the (1) Law Enforcement Officers' Special Separation Allowance, (2) Supplemental Retirement Income Plan for Law Enforcement Officers and (3) Supplemental Retirement Income Plan for all Other Employees. For information concerning the Town's participation in such plans see the Notes to the Basic Financial Statements of the Town in Appendix B.

OTHER POST-EMPLOYMENT BENEFITS

For employees hired on or before June 30, 2010, the Town contributes to employee health insurance and allows employees to participate in a dental insurance program. Pursuant to a Town resolution, the Town provides postretirement health and dental benefits to retirees and Town Council members of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System and have at least five years of creditable service with the Town. The Town pays the full cost of coverage for employees who retire with 20 years of creditable service; 75% of the cost of coverage for retirees with 15 years of creditable service; 50% of the cost of coverage for retirees with 10 years of creditable service, and 25% of the cost for retirees with 5 years of creditable service. When they reach the age of 65, Town retirees are eligible for the Medicare supplement reimbursement. The retiree must have been covered under the Town's health plan immediately before reaching age 65.

In an effort to manage the future liability for retiree health benefits, the Council adopted a change to retiree health benefits for employees who are hired after June 30, 2010. Those employees will take part in a defined contribution plan, wherein the town will contribute \$35 per biweekly payroll and the employees will contribute 1% of pre-tax earnings to a retiree health savings plan for the employees. Participation is mandatory and the employee's portion is portable if the employee leaves the Town before retirement. The employer's portion vests according to the following schedule.

25%	After 5 years
50%	After 10 years
75%	After 15 years
100%	After 20 years

It is anticipated that this change will, over time, reduce the Town's OPEB liability as employee turnover increases the proportion of employees in the defined contribution plan.

The Town contracted with an actuarial firm for an actuarial study on the other post-employment benefits (OPEB) through December 31, 2010 and in accordance with ASB 45, the Town's financial statements for fiscal year 2011 reported the annual required contribution (ARC) to fund the future liability for employee health insurance. The actuarial study determined that the Town's total liability is about \$64.3 million, and its annual required contribution is \$3,156,632. The Town has historically funded health benefits for retirees on a pay as you go basis. For the year ended June 30, 2011, the Town paid \$1,045,669 for retiree health benefits. The Town has budgeted \$1,213,514 for the year ending June 30, 2012 for retiree health benefits.

APPENDIX B

**MANAGEMENT'S DISCUSSION AND ANALYSIS AND
BASIC FINANCIAL STATEMENTS OF
THE TOWN OF CHAPEL HILL, NORTH CAROLINA**

This page intentionally left blank.

APPENDIX B

MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL STATEMENTS OF THE TOWN OF CHAPEL HILL, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the financial activities of the Town, lifted from the Comprehensive Annual Financial Report for the Town for the fiscal year ended June 30, 2011, is included in this Appendix. Management's Discussion and Analysis provides an objective and easily readable short and long-term analysis of the Town's financial activities based on currently known facts, decisions or conditions. Management's Discussion and Analysis is not a required part of the Basic Financial Statements but is supplementary information required by the Governmental Accounting Standards Board. The independent auditors of the Town have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, they did not audit this information and did not express an opinion on it.

FINANCIAL INFORMATION

The financial statements of the Town have been audited by certified public accountants for the fiscal year ended June 30, 2011. Copies of these financial statements containing the unqualified report of the independent certified public accountant are available in the office of the Director of Business Management at 405 Martin Luther King Jr. Blvd, Chapel Hill, North Carolina 27516.

The following financial statements are the Basic Financial Statements of the Town, the notes thereto and certain required supplementary information, lifted from the Comprehensive Annual Financial Report of the Town for the fiscal year ended June 30, 2011.

This page intentionally left blank.

Management's Discussion and Analysis

Our discussion is intended as an overview of the financial performance of the Town of Chapel Hill for the fiscal year ended June 30, 2011. The financial statements and notes included in this report present the financial position and operations of governmental and business activities 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

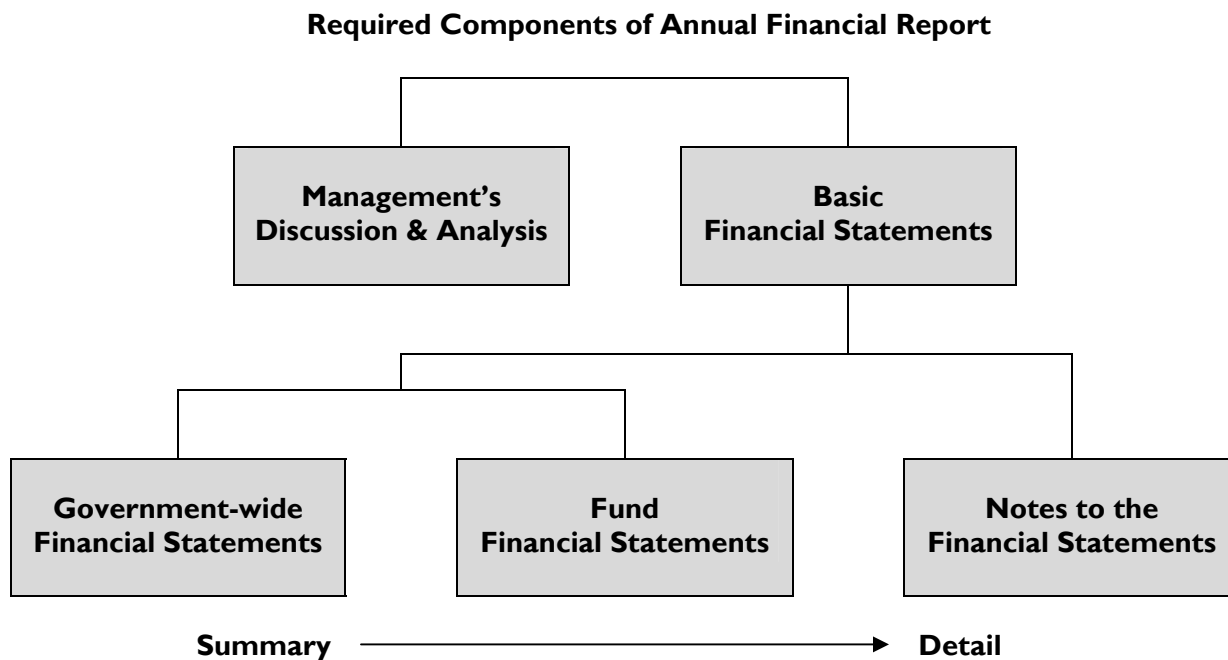
Highlights of the Town's fiscal year ended June 30, 2011, include:

- The financial highlight of the fiscal year was the continuing weak economic recovery from the 2008 recession and the measures that were undertaken to deal with it. In fiscal year 2011, the management of the Town continued with many aspects of the Budget Savings Plan adopted in the fall of 2008 to manage potential reductions in revenues and to provide fund balance to ease the pressure on the next year's budget. The budget savings plan included a soft hiring freeze and required budgetary savings from Town departments.
- The strategies for dealing with the possibility of reduced revenues proved successful. With conservative budgeting of revenues and controls on spending, the Town was able to continue most services without the use of reserves. Assets increased by \$16.5 million, Liabilities increased by \$18.3 million for a net use of net assets of about \$1.8 million.
- Another financial highlight of FY11 is the Town's sale of \$20.41 million in bonds for renovation of the Library and other capital projects. At the time of the sale, the Town's credit rating was confirmed at the highest level by both Moody's and Standard and Poor's.
- At June 30, 2011, total net assets of \$162.4 million included \$136.7 million that represents capital assets and restricted 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 \$52.9 million, an increase of \$20.9 million in comparison with the prior year, largely reflecting the bond sale.

Management's Discussion and Analysis

- Unassigned fund balance of the General Fund (totaling approximately \$13.2 million) 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 \$18 million to \$67.7 million as a net of the new debt issuance and the payoff of existing debt. The Town sold \$20.41 million in a combination of conventional general obligation bonds and Build America Bonds (BABs) as the final portion of the debt authorized by a 2003 referendum.
- Property taxes supported 41% of the governmental services to citizens and the community in fiscal year 2011.
- The Town of Chapel Hill maintained its AAA bond rating from Moody's Investors Service and 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

Management's Discussion and Analysis

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.

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.

Management's Discussion and Analysis

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 37 through 74 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 and other postemployment benefits. Required supplementary information can be found beginning on page 75 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 Statements are required by the General Statutes and can be found in this part of the financial report. 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

Figure 2 below is a summary of net assets for the Town of Chapel Hill at June 30, 2011 (as shown in Exhibit 1) with comparative data from June 30, 2010.

Management's Discussion and Analysis

Town of Chapel Hill's Net Assets						
Figure 2						
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 62,299,592	\$ 41,319,752	\$ 17,008,963	\$ 17,003,536	\$ 79,308,555	\$ 58,323,288
Capital assets	112,016,672	112,635,231	52,845,110	56,652,462	164,861,782	169,287,693
Total assets	<u>174,316,264</u>	<u>153,954,983</u>	<u>69,854,073</u>	<u>73,655,998</u>	<u>244,170,337</u>	<u>227,610,981</u>
Current liabilities	11,767,107	10,737,630	2,286,340	2,942,726	14,053,447	13,680,356
Non-current liabilities	61,156,211	43,585,881	6,574,882	6,178,533	67,731,093	49,764,414
Total liabilities	<u>72,923,318</u>	<u>54,323,511</u>	<u>8,861,222</u>	<u>9,121,259</u>	<u>81,784,540</u>	<u>63,444,770</u>
Net assets:						
Invested in capital assets, net of related debt	77,405,641	65,504,936	48,230,110	51,757,462	125,635,751	117,262,398
Restricted for:						
Stabilization by State Statute	9,964,543	6,510,708	-	-	9,964,543	6,510,708
Capital projects	96,217	984,660	-	-	96,217	984,660
Public housing	755,136	104,905	-	-	755,136	104,905
Other functions	283,465	412,561	-	-	283,465	412,561
Unrestricted	12,887,944	26,113,702	12,762,741	12,777,277	25,650,685	38,890,979
Total net assets	<u>\$ 101,392,946</u>	<u>\$ 99,631,472</u>	<u>\$ 60,992,851</u>	<u>\$ 64,534,739</u>	<u>\$ 162,385,797</u>	<u>\$ 164,166,211</u>

The assets of the Town of Chapel Hill exceeded liabilities by \$162 million as of June 30, 2011. The Town's net assets decreased by a net of \$1.78 million for the fiscal year, a decrease in business-type net assets and an increase in governmental net assets.

The largest portion (77.4%) 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 large portion of the Town of Chapel Hill's net assets (approximately \$11.1 million) represents resources that are subject to external restrictions on how they may be used. The total unrestricted net assets show a balance of \$25.6 million.

Figure 3 on the following page presents a summary of government-wide activity (as presented in Exhibit 2) for the year ended June 30, 2011, with comparative data for June 30, 2010.

Management's Discussion and Analysis

Town of Chapel Hill's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 4,865,401	\$ 4,875,775	\$ 5,324,686	\$ 5,221,661	\$ 10,190,087	\$ 10,097,436
Operating grants and contributions	4,246,757	4,536,129	14,502,035	15,400,822	18,748,792	19,936,951
Capital grants and contributions	3,255,411	6,797,577	199,996	5,665,439	3,455,407	12,463,016
General revenues:						
Taxes	42,477,404	41,784,629	2,929,657	2,890,870	45,407,061	44,675,499
Grants and contributions not restricted to specific programs	3,906,365	3,708,032	-	-	3,906,365	3,708,032
Investment earnings	71,324	88,220	25,411	36,054	96,735	124,274
Other	2,133,013	1,293,759	155,666	38,779	2,288,679	1,332,538
Total revenues	60,955,675	63,084,121	23,137,451	29,253,625	84,093,126	92,337,746
Expenses:						
General government	8,672,259	7,447,434	-	-	8,672,259	7,447,434
Environment and development	18,613,025	22,960,472	-	-	18,613,025	22,960,472
Public safety	20,363,725	19,932,175	-	-	20,363,725	19,932,175
Leisure activities	9,725,448	9,685,124	-	-	9,725,448	9,685,124
Interest expense	2,046,519	1,991,035	-	-	2,046,519	1,991,035
Transportation	-	-	20,945,401	19,829,286	20,945,401	19,829,286
Parking facilities	-	-	1,785,780	1,776,168	1,785,780	1,776,168
Stormwater management	-	-	1,739,239	1,618,926	1,739,239	1,618,926
Housing operations	-	-	1,982,144	2,057,066	1,982,144	2,057,066
Total expenses	59,420,976	62,016,240	26,452,564	25,281,446	85,873,540	87,297,686
Increase (decrease) in net assets before transfers	1,534,699	1,067,881	(3,315,113)	3,972,179	(1,780,414)	5,040,060
Transfers	226,775	366,331	(226,775)	(366,331)	-	-
Increase (decrease) in net assets Net assets, July 1	1,761,474	1,434,212	(3,541,888)	3,605,848	(1,780,414)	5,040,060
Net assets, July 1	99,631,472	98,197,260	64,534,739	60,928,891	164,166,211	159,126,151
Net assets, June 30	\$ 101,392,946	\$ 99,631,472	\$ 60,992,851	\$ 64,534,739	\$ 162,385,797	\$ 164,166,211

Governmental activities. Governmental activities show an increase in net assets of about \$1.76 million. The increase is principally due to conservative budget practices and the plan to reduce spending and increase savings to provide for the future year's budget.

Business-type activities: Business-type activities decreased Chapel Hill's net assets by \$3.5 million. The decrease in net assets comes primarily from the Transit Fund, which saw a reduction in grants for both operating and capital uses. The Stormwater Management Fund and the Housing Operating Fund had modest increases in net assets as a result of operations, while the Parking Facilities Fund had a small decrease.

Management's Discussion and Analysis

Financial Analysis of the Town's Funds

As noted earlier, the Town of 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, 2011, the governmental funds of Chapel Hill reported a combined fund balance of \$52.9 million, an increase of \$20.9 million or 65% over last year. This change is largely the result of the issuance of \$20.41 million in debt.

The General Fund is the chief operating fund of Chapel Hill. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$13.2 million, with total fund balance of \$20.4 million. The fund balance available for appropriation according to the statutory calculation is 30.83% of expenditures for FY11. As a measure of the General Fund's liquidity, it may be useful to compare both total and unassigned fund balance to total fund expenditures. Unassigned fund balance represents 26.6%, and total fund balance, which includes reserves and designated amounts, represents 41% of total 2010-11 General Fund expenditures and other uses, respectively. The total fund balance decreased by about \$1.1 million. This decrease was significantly less than budgeted, and was achieved by a reduction in departmental expenditures and by year-end revenue exceeding estimates.

The Debt Service Fund funded by a portion of the property tax rate and committed by the Council to making debt payments, had an increase in fund balance of \$1.4 million in FY11. With the delay in issuance of the last of the 2003 authorized bonds, tax collections exceeded debt payments, allowing for the savings and affording capacity for taking on the new debt.

The Capital Projects Ordinance Fund reflects an increase in fund balance of \$19.9 million. In addition to the receipt of debt proceeds on the \$20.41 million of bonds issued, the fund reflects the receipt of federal and state grants and other revenues totaling \$1.6 million. The FY11 expenditures of \$2.4 million are largely for Parks projects undertaken with a combination of bonds and grant funds.

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. With the economic downturn this year, the actual revenues were about \$720,000 more than budgeted. Sales taxes receipts were budgeted conservatively, yet were \$113,000 under budget. Property tax receipts remained resilient to the economic downturn and exceeded budget by \$321,000 in the year. Development-related income was affected by the economy, with Licenses and Permits \$170,000 under budget, while Occupancy taxes came in \$122,000 over budget. Other revenue sources slightly exceeded budget, including recreation fees and street cuts revenues.

Management's Discussion and Analysis

Expenditures were about \$5 million less than budgeted. The underexpenditure primarily reflects efforts by Town departments to conserve or curtail spending in response to the economic downturn. In addition to the reduction in spending, the delayed hiring of open positions and other cost-cutting measures, departmental budgets benefitted from the more stable fuel prices experienced during the year. The Public Works budget benefitted from another fairly mild winter during 2010-11, reducing requirements for road clearing, debris cleanup and heating of buildings. About \$1.4 million 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 also plans for actual revenues to exceed 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 \$6.5 million for the Transit Fund, \$2.6 million for the Parking Facilities Fund, \$2.4 million for the Housing Operating Fund and \$1.1 million for the Stormwater Management Fund. Other factors concerning the finances of these funds are addressed in the discussion of the Town of Chapel Hill's business-type activities.

Capital Asset and Debt Administration

Capital assets. Figure 4 below represents the Town of Chapel Hill's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities. As of June 30, 2011, capital assets totaled \$164,861,782 compared with \$169,287,693 in the prior fiscal year, with the overall reduction chiefly due to depreciation. These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles and other equipment.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 26,895,011	\$ 26,925,348	\$ 6,950,161	\$ 6,551,034	\$ 33,845,172	\$ 33,476,382
Easements	77,359	-	\$ -	-	77,359	-
Land improvements	13,253,107	11,630,386	3,162,306	3,315,223	16,415,413	14,945,609
Infrastructure	16,981,929	18,382,396	-	-	16,981,929	18,382,396
Buildings and building improvements	42,429,921	44,763,184	22,786,724	24,443,719	65,216,645	69,206,903
Equipment	988,023	930,561	1,174,072	1,102,516	2,162,095	2,033,077
Vehicles	4,797,234	4,409,096	18,016,923	20,588,253	22,814,157	24,997,349
Construction in progress	6,594,088	5,594,260	754,924	651,717	7,349,012	6,245,977
Total	\$ 112,016,672	\$ 112,635,231	\$ 52,845,110	\$ 56,652,462	\$ 164,861,782	\$ 169,287,693

Management's Discussion and Analysis

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

- \$ 1,184,374 for Morgan Creek Trail;
- \$ 894,546 for Public Housing renovations;
- \$ 399,127 for replacement parking on Graham Street;
- \$ 288,117 for multi-space Parking meters;
- \$ 255,557 for the purchase of a Fire pumper truck;
- \$ 217,864 for work on the Lot 5 Downtown Initiative;
- \$ 128,376 for work on Bolin Creek restoration.

No major demolitions were recorded this year.

Additional information on the Town's capital assets can be found on pages 51-55 of the Notes to the Financial Statements.

**Town of Chapel Hill
Outstanding Debt
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 34,110,000	\$ 15,285,000	\$ -	\$ -	\$ 34,110,000	\$ 15,285,000
Bond premium	1,038,392	1,112,563	-	-	1,038,392	1,112,563
Bond discount	(120,180)	(128,764)	-	-	(120,180)	(128,764)
Installment notes payable	7,452,516	7,484,449	-	-	7,452,516	7,484,449
Orange County loan payable	123,146	123,146	-	-	123,146	123,146
Separation allowance	269,438	254,773	-	-	269,438	254,773
Compensated absences	2,347,100	2,275,091	637,503	628,461	2,984,603	2,903,552
Other postemployment benefits	4,420,209	3,050,313	2,198,173	1,528,564	6,618,382	4,578,877
Certificates of participation	19,040,000	20,405,000	4,615,000	4,895,000	23,655,000	25,300,000
Total	\$ 68,680,621	\$ 49,861,571	\$ 7,450,676	\$ 7,052,025	\$ 76,131,297	\$ 56,913,596

Long-term Debt. As shown in Figure 5 above, as of June 30, 2011 the Town of Chapel Hill had total outstanding bonded debt, backed by the full faith and credit of the Town, of \$34,110,000. The Town also had \$19,040,000 of debt in certificates of participation to fund construction of the Town Operations Center and \$4,615,000 for the construction of the Wallace Parking Deck. Total debt of about \$76.1 million includes the addition of other postemployment benefits totaling \$6.6 million as required by GASB 45, representing the unfunded portion of the Town's annual required contribution (ARC) toward funding the future liability for health care for retired employees. For more information on this addition to the financial statements, please refer to page 71 of the Notes to the Financial Statements.

Management's Discussion and Analysis

The Town's total debt from governmental activities increased by \$18.8 million or 37.7%, to \$68.68 million during the past fiscal year. The increase represents payments made during the year toward general obligation bonds and other debt netted with the addition of \$20.41 million in general obligation bonds. Business-type debt increased by about \$399,000 to \$7.4 million, chiefly due to the addition to post-employment benefits. During the year, the Town also added installment financing for vehicle replacement of \$1.6 million and there was an increase in the debt recorded for variation in compensated absences due to employees.

As mentioned in the financial highlights section of this document, at June 30, 2011 the Town of Chapel Hill maintained its Aaa bond rating from Moody's Investor Service and Standard and Poor's Corporation. The Town of 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 to 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 \$593 million, well above the town's outstanding debt for general obligation bonds of approximately \$34 million, which is about 5.7% 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 56 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:

- The Town of Chapel Hill had an unemployment rate of about 5.8% at June 30, 2011, well below the state average of 10%.
- Stable property tax base with a continuing property tax collection rate in excess of 99%.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities:

General Fund revenues budgeted for FY12 total \$50.5 million, including the use of \$1.1 million in fund balance, reflecting a decrease of 3.9% from the budget for 2010-11. Property values were last reassessed by Orange County in 2009, and the Town maintained a revenue-neutral property tax rate for 2012 but altered the split of the property tax between the General Fund and the Debt Fund as shown below.

Management's Discussion and Analysis

Tax Rate	Cents per \$100 valuation		
	FY10-11	FY11-12	\$ Change
General Fund	\$ 36.0	\$ 37.8	\$ 1.8
Debt Fund	9.3	7.5	(1.8)
Transit Fund	4.1	4.1	-
Total Tax Rate	\$ 49.4	\$ 49.4	\$ (0.0)

Tax collection rates in Orange County have been maintained in excess of 99% despite the economic downturn. The increased portion allotted to the General Fund along with modest growth lead to estimates of an increase of 7% or \$1.78 million over 2010-11 for the General Fund. The delay in the issuance of the remaining bonds, allowing for the payoff of existing debt, has enabled the Debt Fund to meet debt service requirements with appropriated fund balance.

Sales taxes are budgeted at just over \$9 million, a .6% decrease from 2010-11's budget as we anticipate a continuing slow but steady recovery. Other significant General Fund revenues are relatively flat.

General Fund expenditures of \$50.5 million represent a 3.9% decrease from 2010-11. The goals of the budget for 2011-12 were to maintain the tax rate while retaining core services, to retain employees and to reduce the use of fund balance to achieve a more sustainable budget as the slow economic recovery is expected to continue. The budget maintains service levels and includes increases in medical insurance coverage of 10.1% and a 8% increase in the employer's contribution to the Local Government Employees Retirement System. In keeping with the principal of using fund balance for one-time costs, the budget includes a one-time payment of \$800 for employees, similar to a bonus.

The reduction in the use of fund balance affected the allocation for capital improvements, which was reduced as a budget saving measure, down from \$1.17 million to \$432,000, to allow for capital maintenance and minimal levels of facility improvements.

Debt service costs in 2011-12 are budgeted at \$6.7 million, while the Build America Bonds entitle the Town to receive an interest subsidy of \$182,500 to recoup some of the expense. The Debt Service tax rate of \$7.5 cents per \$100 in valuation is expected to generate about \$5.3 million. The use of about \$1.2 million in fund balance will provide for debt payments due in FY12.

Other governmental activities budgeted for 2011-12 reflect a continuation of existing service levels in keeping with the budget goals for FY12.

Business – type Activities:

The Town continued the policy of providing fare-free service for most transit services. The 2011-12 budget for the Transit Fund includes adoption of a Bus Advertising program, a reduction in some service routes and the use of \$1.4 million in fund balance to balance the budget that increased by \$272,000 or 1.6% over 2010-11.

Parking Facilities Fund revenues are budgeted to increase approximately 4% overall in 2011-12. The addition of new parking options in downtown, new meters that include a variety of payment options and an increase in parking rates are expected to generate additional revenue in 2011-12.

Management's Discussion and Analysis

Housing Operating revenues reflect an increase in HUD contributions of 2.8%, which allows for a balanced budget with no transfer from the General Fund or use of fund balance. Expenditures reflect increases in personnel and maintenance costs.

Stormwater Management's budget for 2011-12 reflects a 7.2% decrease in expenditures, allowing for a decrease in the use of fund balance, from \$363,000 to \$170,000. The expenditure budget reflects a reduction in capital outlay and the finalization of the Master Plan.

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 Business Management, Town of Chapel Hill, 405 Martin Luther King Jr. Boulevard, Chapel Hill, NC 27514.

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 28,489,455	\$ 13,642,788	\$ 42,132,243	\$ 21,244,477
Taxes receivable, net	366,843	119,566	486,409	-
Accounts receivable, net	217,546	214,115	431,661	4,514,709
Due from other governments	4,976,533	2,078,145	7,054,678	-
Inventories	201,595	682,258	883,853	954,979
Prepaid items	4,702	4,583	9,285	326,987
Restricted cash and cash equivalents	2,049,923	60,675	2,110,598	7,162,678
Total current assets	<u>36,306,597</u>	<u>16,802,130</u>	<u>53,108,727</u>	<u>34,203,830</u>
Non-current assets:				
Restricted cash and cash equivalents	25,992,995	-	25,992,995	98,616
Deferred charges	-	206,833	206,833	881,971
Capital assets (Note F):				
Land and construction in progress	33,566,458	7,705,085	41,271,543	29,185,609
Other capital assets, net of accumulated depreciation	78,450,214	45,140,025	123,590,239	258,108,900
Total capital assets	<u>112,016,672</u>	<u>52,845,110</u>	<u>164,861,782</u>	<u>287,294,509</u>
Total non-current assets	<u>138,009,667</u>	<u>53,051,943</u>	<u>191,061,610</u>	<u>288,275,096</u>
Total assets	<u>174,316,264</u>	<u>69,854,073</u>	<u>244,170,337</u>	<u>322,478,926</u>
LIABILITIES				
Current liabilities:				
Internal balances	44,830	(44,830)	-	-
Accounts payable and accrued liabilities	3,610,186	1,265,653	4,875,839	2,509,022
Customer deposits	92,353	-	92,353	1,184,473
Unearned revenue	273,705	129,603	403,308	-
Liabilities payable from restricted assets	221,623	60,120	281,743	1,708,160
Current portion of long-term liabilities	7,524,410	875,794	8,400,204	5,917,194
Total current liabilities	<u>11,767,107</u>	<u>2,286,340</u>	<u>14,053,447</u>	<u>11,318,849</u>
Non-current liabilities:				
Due in more than one year	61,156,211	6,574,882	67,731,093	93,439,702
Total liabilities	<u>72,923,318</u>	<u>8,861,222</u>	<u>81,784,540</u>	<u>104,758,551</u>
NET ASSETS				
Invested in capital assets, net of debt	77,405,641	48,230,110	125,635,751	190,756,445
Restricted for:				
Stabilization by State Statute	9,964,543	-	9,964,543	-
Capital projects	96,217	-	96,217	-
Public housing	755,136	-	755,136	-
Other functions	283,465	-	283,465	-
Water and sewer	-	-	-	98,616
Unrestricted	<u>12,887,944</u>	<u>12,762,741</u>	<u>25,650,685</u>	<u>26,865,314</u>
Total net assets	<u>\$ 101,392,946</u>	<u>\$ 60,992,851</u>	<u>\$ 162,385,797</u>	<u>\$ 217,720,375</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, 2011

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ 8,672,259	\$ 1,774,913	\$ 63,536
Environment and development	18,613,025	2,020,263	2,357,451
Public safety	20,363,725	117,747	1,452,984
Leisure activities	9,725,448	952,478	372,786
Interest expense	2,046,519	-	-
Total governmental activities	<u>59,420,976</u>	<u>4,865,401</u>	<u>4,246,757</u>
Business-type activities:			
Transportation	20,945,401	1,096,432	12,942,449
Parking Facilities	1,785,780	1,879,797	-
Housing Operations	1,982,144	507,305	1,559,586
Stormwater Management	1,739,239	1,841,152	-
Total business-type activities	<u>26,452,564</u>	<u>5,324,686</u>	<u>14,502,035</u>
Total primary government	<u>\$ 85,873,540</u>	<u>\$ 10,190,087</u>	<u>\$ 18,748,792</u>
Component unit - Orange Water and Sewer Authority	<u>\$ 31,840,832</u>	<u>\$ 36,003,830</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

Total general revenues not including transfers

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		Total	Component Unit
	Governmental Activities	Business-type Activities		
\$ -	\$ (6,833,810)	\$ -	\$ (6,833,810)	\$ -
3,169,734	(11,065,577)	-	(11,065,577)	-
-	(18,792,994)	-	(18,792,994)	-
85,677	(8,314,507)	-	(8,314,507)	-
-	(2,046,519)	-	(2,046,519)	-
<u>3,255,411</u>	<u>(47,053,407)</u>	<u>-</u>	<u>(47,053,407)</u>	<u>-</u>
180,119	-	(6,726,401)	(6,726,401)	-
-	-	94,017	94,017	-
19,877	-	104,624	104,624	-
-	-	101,913	101,913	-
<u>199,996</u>	<u>-</u>	<u>(6,425,847)</u>	<u>(6,425,847)</u>	<u>-</u>
<u>\$ 3,455,407</u>	<u>(47,053,407)</u>	<u>(6,425,847)</u>	<u>(53,479,254)</u>	<u>-</u>
<u>\$ 1,269,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,432,558</u>
	32,612,118	2,929,657	35,541,775	-
	8,941,463	-	8,941,463	-
	872,115	-	872,115	-
	51,708	-	51,708	-
	3,906,365	-	3,906,365	-
	71,324	25,411	96,735	29,261
	<u>2,133,013</u>	<u>155,666</u>	<u>2,288,679</u>	<u>1,785,093</u>
	48,588,106	3,110,734	51,698,840	1,814,354
	<u>226,775</u>	<u>(226,775)</u>	<u>-</u>	<u>-</u>
	<u>48,814,881</u>	<u>2,883,959</u>	<u>51,698,840</u>	<u>1,814,354</u>
	1,761,474	(3,541,888)	(1,780,414)	7,246,912
	<u>99,631,472</u>	<u>64,534,739</u>	<u>164,166,211</u>	<u>210,473,463</u>
	<u>\$ 101,392,946</u>	<u>\$ 60,992,851</u>	<u>\$ 162,385,797</u>	<u>\$ 217,720,375</u>

This page intentionally left blank.

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).

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 a portion of the property tax levy.

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.

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, 2011

	Major Funds				
	General	Debt Service	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 18,996,631	\$ 3,010,052	\$ 963,578	\$ 2,743,033	\$ 25,713,294
Receivables:					
Property taxes, net	304,755	60,913	-	1,175	366,843
Governmental units and agencies	4,004,902	-	417,874	553,757	4,976,533
Other	160,785	-	18,187	-	178,972
Inventories	3,285	-	-	16,538	19,823
Prepaid items	4,702	-	-	-	4,702
Restricted cash and equivalents	483,689	-	24,982,920	526,386	25,992,995
TOTAL ASSETS	<u>23,958,749</u>	<u>3,070,965</u>	<u>26,382,559</u>	<u>3,840,889</u>	<u>57,253,162</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other funds	\$ -	\$ -	\$ -	\$ 44,830	\$ 44,830
Accounts payable	1,012,901	-	266,914	61,671	1,341,486
Accrued liabilities	1,881,555	-	624	2,325	1,884,504
Deferred revenue	369,645	60,913	-	1,175	431,733
Unearned revenue	182,772	973	-	89,960	273,705
Deposits	83,915	-	-	8,438	92,353
Accounts payable from restricted assets	-	-	-	170,136	170,136
Other liabilities payable from restricted	-	-	-	51,487	51,487
Total liabilities	<u>3,530,788</u>	<u>61,886</u>	<u>267,538</u>	<u>430,022</u>	<u>4,290,234</u>

Continued

GOVERNMENTAL FUNDS

**BALANCE SHEET
JUNE 30, 2011**

	Major Funds				Total Governmental Funds
	General	Debt Service	Capital Projects Ordinance	Other Governmental Funds	
FUND BALANCES					
Nonspendable					
Inventories	\$ 3,285	\$ -	\$ -	\$ 16,538	\$ 19,823
Prepaid items	4,702	-	-	-	4,702
Restricted					
Stabilization by State Statute	5,074,720	-	2,851,001	2,038,822	9,964,543
Employee appreciation	99,559	-	-	-	99,559
Parks capital projects	75,332	-	4,953,598	-	5,028,930
Streets capital projects	143,520	-	4,384,746	-	4,528,266
Public housing	-	-	650,231	104,905	755,136
Public safety	165,278	-	-	18,628	183,906
Library	-	-	15,658,024	133,355	15,791,379
Committed					
Debt service payments	-	3,009,079	-	-	3,009,079
Infrastructure capital projects	-	-	-	214,031	214,031
Public housing	-	-	-	787,943	787,943
Economic development	-	-	-	19,856	19,856
Assigned					
Subsequent year's expenditures	1,121,605	-	-	123,660	1,245,265
Other post employment benefits	400,000	-	-	-	400,000
Streets capital projects	-	-	-	292,169	292,169
Municipal buildings projects	-	-	-	593,266	593,266
Comprehensive plan	103,291	-	-	-	103,291
Unassigned	13,236,669	-	(2,382,579)	(932,306)	9,921,784
Total fund balances	<u>20,427,961</u>	<u>3,009,079</u>	<u>26,115,021</u>	<u>3,410,867</u>	<u>52,962,928</u>
TOTAL LIABILITIES AND					
FUND BALANCES					
	<u>\$ 23,958,749</u>	<u>\$ 3,070,965</u>	<u>\$ 26,382,559</u>	<u>\$ 3,840,889</u>	<u>\$ 57,253,162</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, 2011**

Fund balances - total governmental funds \$ 52,962,928

Amounts reported for governmental activities in the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds

Governmental capital assets	156,961,944	
Less accumulated depreciation	49,438,469	107,523,475

Long-term liabilities, including accrued interest are not due and payable in the current period and therefore are not reported in the governmental fund

Governmental bonds payable, certificates of participation and installment purchases	(55,445,000)	
Other postemployment benefits	(4,345,420)	
Orange County loan payable	(123,146)	
Net pension obligation for separation allowance	(269,438)	
Accrued vacation payable	(2,310,915)	
Bond premium	(1,038,392)	
Bond discount	120,180	(63,412,131)

Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements	431,733
---	---------

Internal service funds are used by management to charge the costs of certain activities to individual funds

The assets and liabilities of the internal service funds that are reported within governmental activities	3,886,941
---	-----------

Net assets of governmental activities	\$ 101,392,946
---------------------------------------	----------------

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, 2011

	Major Funds				Total Governmental Funds
	General	Debt Service	Capital Projects Ordinance	Other Governmental Funds	
REVENUES					
Taxes	\$ 35,670,983	\$ 6,635,000	\$ -	\$ 171,421	\$ 42,477,404
Licenses and permits	1,591,840	-	-	-	1,591,840
Fines and forfeitures	19,067	-	-	-	19,067
Intergovernmental revenues					
Federal government	74,727	85,677	849,066	2,490,419	3,499,889
State government	6,526,008	-	711,107	50,624	7,287,739
Other	379,320	-	31,473	210,112	620,905
Charges for services	3,165,160	-	7,150	16,800	3,189,110
Interest on investments	37,166	6,728	22,621	4,809	71,324
Franchise rental fees	-	-	-	54,749	54,749
Program income	-	-	-	10,635	10,635
Donations	100,705	-	-	99,728	200,433
Revenue in lieu	89,276	-	-	506,324	595,600
Other	803,682	-	-	1,420	805,102
Total revenues	48,457,934	6,727,405	1,621,417	3,617,041	60,423,797
EXPENDITURES					
General government	8,280,508	-	-	-	8,280,508
Environment and development	12,584,354	-	-	1,386,254	13,970,608
Public safety	19,059,820	-	-	673,387	19,733,207
Leisure activities	7,986,795	-	-	64,655	8,051,450
Capital projects	-	-	2,434,186	2,668,327	5,102,513
Debt service:					
Principal	-	3,485,000	-	-	3,485,000
Interest and fiscal charges	-	1,996,991	-	-	1,996,991
Bond issuance costs	-	49,528	-	-	49,528
Total expenditures	47,911,477	5,531,519	2,434,186	4,792,623	60,669,805
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	546,457	1,195,886	(812,769)	(1,175,582)	(246,008)

Continued

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2011

	Major Funds				Total Governmental Funds
	General	Debt Service	Capital Projects Ordinance	Other Governmental Funds	
OTHER FINANCING SOURCES (USES)					
Issuance of debt	\$ -	\$ -	\$ 20,941,878	\$ -	\$ 20,941,878
Premium on sale of bonds	-	266,583	(266,583)	-	-
Transfer from other funds	192,876	-	25,142	1,939,474	2,157,492
Transfer to other funds	(1,863,674)	-	-	(67,043)	(1,930,717)
Total other financing sources (uses)	(1,670,798)	266,583	20,700,437	1,872,431	21,168,653
NET CHANGE IN TOTAL FUND BALANCES	(1,124,341)	1,462,469	19,887,668	696,849	20,922,645
FUND BALANCES, BEGINNING	21,552,302	1,546,610	6,227,353	2,714,018	32,040,283
FUND BALANCES, ENDING	<u>\$ 20,427,961</u>	<u>\$ 3,009,079</u>	<u>\$ 26,115,021</u>	<u>\$ 3,410,867</u>	<u>\$ 52,962,928</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, 2011

Net change in fund balances - total governmental funds \$ 20,922,645

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	4,288,112	
Current year's depreciation	5,078,484	(790,372)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net assets.		(44,012)
---	--	----------

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		3,485,000
--------------------	--	-----------

The issuance of long-term debt provides current financial resources to governmental funds and does not have any effect on net assets.		(20,410,000)
---	--	--------------

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.		74,171
---	--	--------

The amortization of bond discount in the current year is reported on the fund financial statements when debt is issued but amortized in the statement of activities.		(8,584)
--	--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds

Change in long-term compensated absences		(68,160)
Change in long-term separation allowance		(14,665)
Other postemployment benefits		(1,346,467)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(640,910)
--	--	-----------

Internal service funds are used by management to charge the costs of certain activities to individual funds		602,828
---	--	---------

Change in net assets of governmental activities		\$ 1,761,474
---	--	--------------

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, 2011**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 25,485,000	\$ 25,485,000	\$ 25,805,697	\$ 320,697
Local option sales taxes	9,055,000	9,055,000	8,941,463	(113,537)
Other taxes	783,000	788,100	923,823	135,723
Licenses and permits	1,761,900	1,761,900	1,591,840	(170,060)
Fines and forfeitures	36,000	36,000	19,067	(16,933)
Intergovernmental revenues	6,711,648	6,939,357	6,980,055	40,698
Charges for services	2,890,790	2,890,790	3,165,160	274,370
Interest on investments	60,000	60,000	37,166	(22,834)
Other	625,210	722,106	993,663	271,557
TOTAL REVENUES	47,408,548	47,738,253	48,457,934	719,681
EXPENDITURES				
General government	9,351,281	10,848,654	8,280,508	2,568,146
Environment and development	13,351,009	13,705,859	12,584,354	1,121,505
Public safety	19,352,451	19,645,936	19,059,820	586,116
Leisure activities	8,600,036	8,739,097	7,986,795	752,302
Total expenditures	50,654,777	52,939,546	47,911,477	5,028,069
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,246,229)	(5,201,293)	546,457	5,747,750
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	131,222	160,643	192,876	32,233
Transfer to other funds	(1,949,223)	(2,172,912)	(1,863,674)	309,238
Appropriated fund balance	5,064,230	7,213,562	-	(7,213,562)
Total other financing sources (uses)	3,246,229	5,201,293	(1,670,798)	(6,872,091)
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	\$ (1,124,341)	\$ (1,124,341)
FUND BALANCE, BEGINNING			21,552,302	
FUND BALANCE, ENDING			\$ 20,427,961	

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011 (With Comparative Totals as of June 30, 2010)

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 6,959,656	\$ 2,801,931	\$ 2,552,072	\$ 1,329,129
Restricted cash and cash equivalents	-	-	60,675	-
Receivables:				
Accounts receivable, net	55,299	14,941	20,425	123,450
Due from other funds	42,225	-	2,605	-
Governmental units and agencies	2,072,115	-	-	6,030
Property taxes, net	119,566	-	-	-
Prepaid items	267	-	-	4,316
Inventories	505,155	-	177,103	-
Total current assets	<u>9,754,283</u>	<u>2,816,872</u>	<u>2,812,880</u>	<u>1,462,925</u>
NONCURRENT ASSETS				
Restricted assets:				
Deferred charges	-	206,833	-	-
Capital assets:				
Land and other non-depreciable assets	2,099,537	3,161,390	1,701,659	742,499
Other capital assets, net of accumulated depreciation	35,958,349	1,587,383	7,400,056	194,237
Total capital assets, net	<u>38,057,886</u>	<u>4,748,773</u>	<u>9,101,715</u>	<u>936,736</u>
Total noncurrent assets	<u>38,057,886</u>	<u>4,955,606</u>	<u>9,101,715</u>	<u>936,736</u>
TOTAL ASSETS	<u>47,812,169</u>	<u>7,772,478</u>	<u>11,914,595</u>	<u>2,399,661</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	307,279	161,543	57,967	59,373
Accrued liabilities	538,821	36,395	46,691	57,584
Deposits payable from restricted assets	-	-	60,120	-
Due to other funds	-	-	-	-
Compensated absences	440,102	32,210	58,782	49,700
Unearned revenue	121,018	8,585	-	-
Installment purchase agreements	-	-	-	-
Certificates of participation	-	295,000	-	-
Total current liabilities	<u>1,407,220</u>	<u>533,733</u>	<u>223,560</u>	<u>166,657</u>
NONCURRENT LIABILITIES				
Compensated absences	40,666	6,962	2,294	6,787
Other postemployment benefits	1,714,398	156,786	166,345	160,644
Installment purchase agreements	-	-	-	-
Certificates of participation	-	4,320,000	-	-
Total noncurrent liabilities	<u>1,755,064</u>	<u>4,483,748</u>	<u>168,639</u>	<u>167,431</u>
Total liabilities	<u>3,162,284</u>	<u>5,017,481</u>	<u>392,199</u>	<u>334,088</u>
NET ASSETS				
Invested in capital assets, net of related debt	38,057,886	133,773	9,101,715	936,736
Unrestricted	6,591,999	2,621,224	2,420,681	1,128,837
Total net assets	<u>\$ 44,649,885</u>	<u>\$ 2,754,997</u>	<u>\$ 11,522,396</u>	<u>\$ 2,065,573</u>

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

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2011	2010	2011	2010
\$ 13,642,788	\$ 13,327,301	\$ 2,776,161	\$ 2,141,872
60,675	61,760	2,049,923	1,990,441
214,115	159,021	38,574	57,509
44,830	31,405	-	-
2,078,145	2,471,871	-	-
119,566	78,307	-	-
4,583	1,930	-	-
682,258	679,513	181,772	137,684
<u>16,846,960</u>	<u>16,811,108</u>	<u>5,046,430</u>	<u>4,327,506</u>
206,833	223,833	-	-
7,705,085	7,202,751	-	-
45,140,025	49,449,711	4,493,197	4,277,372
52,845,110	56,652,462	4,493,197	4,277,372
53,051,943	56,876,295	4,493,197	4,277,372
69,898,903	73,687,403	9,539,627	8,604,878
586,162	530,931	353,324	541,257
679,491	677,872	30,872	28,668
60,120	61,760	-	-
-	257,136	-	12,695
580,794	593,492	30,216	15,260
129,603	572,940	-	-
-	-	1,217,275	1,096,150
295,000	280,000	-	-
<u>2,331,170</u>	<u>2,974,131</u>	<u>1,631,687</u>	<u>1,694,030</u>
56,709	34,969	5,969	17,076
2,198,173	1,528,564	74,789	51,360
-	-	3,940,241	3,558,299
4,320,000	4,615,000	-	-
6,574,882	6,178,533	4,020,999	3,626,735
8,906,052	9,152,664	5,652,686	5,320,765
48,230,110	51,757,462	1,385,604	1,613,364
12,762,741	12,777,277	2,501,337	1,670,749
<u>\$ 60,992,851</u>	<u>\$ 64,534,739</u>	<u>\$ 3,886,941</u>	<u>\$ 3,284,113</u>

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011 (With Comparative Totals as of June 30, 2010)**

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
OPERATING REVENUES				
Charges for services	\$ 673,269	\$ 1,879,797	\$ 507,305	\$ 1,841,152
OPERATING EXPENSES				
Personnel	11,514,302	773,402	818,785	1,052,919
Drainage maintenance	-	-	-	264,539
Depreciation and amortization	3,964,375	402,506	521,266	11,480
Fuel and tires	1,704,167	-	-	-
Indirect costs	1,042,975	74,152	-	97,807
Maintenance and repairs	49,478	48,460	341,287	-
Building maintenance	359,510	-	-	-
Vehicle maintenance	1,531,212	-	-	-
Utilities	-	-	156,334	-
Insurance	329,509	-	-	-
Marketing	28,908	-	-	-
Professional services	-	-	-	96,225
Tarheel Express	31,390	-	-	-
Uniforms and supplies	90,203	-	-	-
Credit card fees	-	28,182	-	-
Rent	-	83,522	-	51,792
Other	299,372	197,031	144,472	164,477
Total operating expenses	20,945,401	1,607,255	1,982,144	1,739,239
OPERATING INCOME (LOSS)	(20,272,132)	272,542	(1,474,839)	101,913
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	2,308,286	-	1,559,586	-
State Operating Assistance Grant	3,671,170	-	-	-
Operating assistance-UNC Chapel Hill	5,930,168	-	-	-
Operating assistance-Town of Carrboro	1,032,825	-	-	-
Vehicle licenses	423,163	-	-	-
Ad valorem taxes	2,929,657	-	-	-
Interest on investments	12,273	6,166	4,363	2,609
Insurance recovery	86,608	-	27,041	-
Interest expense	-	(178,525)	-	-
Gain on sale of capital assets	17,717	-	-	-
Bond issuance expense	-	(17,000)	-	-
Revenue in lieu	41,300	-	-	-
Total nonoperating revenues (expenses), net	16,453,167	(189,359)	1,590,990	2,609
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(3,818,965)	83,183	116,151	104,522
CAPITAL CONTRIBUTIONS	180,119	-	19,877	-
TRANSFERS				
Transfers in	392,933	-	-	5,824
Transfers out	(507,077)	(118,455)	-	-
Total transfers	(114,144)	(118,455)	-	5,824
CHANGE IN NET ASSETS	(3,752,990)	(35,272)	136,028	110,346
NET ASSETS, BEGINNING	48,402,875	2,790,269	11,386,368	1,955,227
NET ASSETS, ENDING	\$ 44,649,885	\$ 2,754,997	\$ 11,522,396	\$ 2,065,573

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

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2011	2010	2011	2010
\$ 4,901,523	\$ 4,828,984	\$ 2,971,215	\$ 2,873,669
14,159,408	13,797,783	603,675	624,852
264,539	218,574	-	-
4,899,627	4,837,309	1,194,060	1,246,653
1,704,167	1,205,772	-	-
1,214,934	1,194,701	-	-
439,225	1,589,843	-	-
359,510	427,794	-	-
1,531,212	-	-	-
156,334	153,812	-	-
329,509	348,489	-	-
28,908	30,356	-	-
96,225	94,638	-	-
31,390	50,166	-	-
90,203	156,519	-	-
28,182	-	-	-
135,314	-	-	-
805,352	987,082	611,195	657,393
26,274,039	25,092,838	2,408,930	2,528,898
(21,372,516)	(20,263,854)	562,285	344,771
3,867,872	4,969,163	35,260	-
3,671,170	3,570,322	-	-
5,930,168	5,828,502	-	-
1,032,825	1,032,835	-	-
423,163	392,677	-	-
2,929,657	2,890,870	-	-
25,411	36,054	6,906	6,742
113,649	-	16,364	3,613
(178,525)	(188,608)	(140,943)	(122,808)
17,717	34,779	122,956	20,098
(17,000)	(17,000)	-	-
41,300	21,000	-	-
17,857,407	18,570,594	40,543	(92,355)
(3,515,109)	(1,693,260)	602,828	252,416
199,996	5,665,439	-	-
398,757	180,720	-	4,240
(625,532)	(547,051)	-	(137,354)
(226,775)	(366,331)	-	(133,114)
(3,541,888)	3,605,848	602,828	119,302
64,534,739	60,928,891	3,284,113	3,164,811
\$ 60,992,851	\$ 64,534,739	\$ 3,886,941	\$ 3,284,113

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011 (With Comparative Totals as of June 30, 2010)

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 994,064	\$ 1,880,933	\$ 511,233	\$ 1,797,601
Payments to employees	(11,421,979)	(729,507)	(775,562)	(995,427)
Payments to suppliers	(5,474,301)	(288,326)	(891,143)	(768,537)
Net cash provided by (used in) operating activities	<u>(15,902,216)</u>	<u>863,100</u>	<u>(1,155,472)</u>	<u>33,637</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating grant funds received	5,979,456	-	1,559,586	-
Operating assistance received	6,962,993	-	-	-
Taxes and licenses received	3,352,820	-	-	-
Transfers to other funds	(507,077)	(118,455)	-	-
Transfers from other funds	392,933	-	-	5,824
Revenue in lieu received	41,300	-	-	-
Net cash provided by (used in) noncapital financing activities	<u>16,222,425</u>	<u>(118,455)</u>	<u>1,559,586</u>	<u>5,824</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from installment purchase agreements	-	-	-	-
Principal paid on Certificates of Participation and installment purchase agreements	-	(280,000)	-	-
Interest paid on Certificates of Participation and installment purchase agreements	-	(178,525)	-	-
Proceeds from sale of capital assets	17,717	-	-	-
Capital contributions	180,119	-	19,877	-
Proceeds from insurance recovery	86,608	-	27,041	-
Acquisition and construction of capital assets	(189,068)	(699,669)	(19,877)	(183,661)
Net cash provided by (used in) capital and related financing activities	<u>95,376</u>	<u>(1,158,194)</u>	<u>27,041</u>	<u>(183,661)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	12,273	6,166	4,363	2,609
Net cash provided by investing activities	<u>12,273</u>	<u>6,166</u>	<u>4,363</u>	<u>2,609</u>

Continued

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2011	2010	2011	2010
\$ 5,183,831	\$ 4,988,546	\$ 2,990,150	\$ 2,816,160
(13,922,475)	(12,942,663)	(586,888)	(579,639)
<u>(7,422,307)</u>	<u>(5,948,400)</u>	<u>(843,216)</u>	<u>(581,187)</u>
<u>(16,160,951)</u>	<u>(13,902,517)</u>	<u>1,560,046</u>	<u>1,655,334</u>
7,539,042	8,539,485	35,260	-
6,962,993	6,861,337	-	-
3,352,820	3,283,547	-	-
(625,532)	(547,051)	35,260	(137,354)
398,757	180,720	-	4,240
<u>41,300</u>	<u>21,000</u>	<u>-</u>	<u>-</u>
<u>17,669,380</u>	<u>18,339,038</u>	<u>70,520</u>	<u>(133,114)</u>
-	-	1,600,000	1,604,000
(280,000)	(270,000)	(1,096,933)	(940,438)
(178,525)	(188,608)	(140,943)	(122,808)
17,717	34,779	258,489	20,098
199,996	5,665,439	-	-
113,649	-	16,364	3,613
<u>(1,092,275)</u>	<u>(6,311,402)</u>	<u>(1,545,418)</u>	<u>(749,690)</u>
<u>(1,219,438)</u>	<u>(1,069,792)</u>	<u>(908,441)</u>	<u>(185,225)</u>
<u>25,411</u>	<u>36,054</u>	<u>6,906</u>	<u>6,742</u>
<u>25,411</u>	<u>36,054</u>	<u>6,906</u>	<u>6,742</u>

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011 (With Comparative Totals as of June 30, 2010)

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	427,858	(407,383)	435,518	(141,591)
CASH AND INVESTMENTS, BEGINNING	<u>6,531,798</u>	<u>3,209,314</u>	<u>2,177,229</u>	<u>1,470,720</u>
CASH AND INVESTMENTS, ENDING	<u>\$ 6,959,656</u>	<u>\$ 2,801,931</u>	<u>\$ 2,612,747</u>	<u>\$ 1,329,129</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (20,272,132)	\$ 272,542	\$ (1,474,839)	\$ 101,913
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,964,375	402,506	521,266	11,480
Changes in assets and liabilities:				
Receivables	320,795	1,136	5,568	(43,551)
Prepaid items	(142)	-	-	(2,511)
Inventories	(8,209)	-	5,464	-
Accounts payable	774	143,021	(254,514)	(91,186)
Accrued liabilities	(448,428)	695	1,943	4,072
Customer deposits	-	-	(1,640)	-
Accrued compensated absences	6,697	2,746	(3,421)	3,020
Accrued OPEB liability	<u>534,054</u>	<u>40,454</u>	<u>44,701</u>	<u>50,400</u>
Net cash provided by (used in) operating activities	<u>\$ (15,902,216)</u>	<u>\$ 863,100</u>	<u>\$ (1,155,472)</u>	<u>\$ 33,637</u>

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

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2011	2010	2011	2010
314,402	3,402,783	729,031	1,343,737
<u>13,389,061</u>	<u>9,986,278</u>	<u>4,132,313</u>	<u>2,788,576</u>
\$ 13,703,463	\$ 13,389,061	\$ 4,861,344	\$ 4,132,313
\$ (21,372,516)	\$ (20,263,854)	\$ 562,285	\$ 344,771
4,899,627	4,837,309	1,194,060	1,246,653
283,948	97,802	18,935	(57,509)
(2,653)	(1,930)	-	-
(2,745)	46,310	(44,088)	20,334
(201,905)	464,966	(187,933)	55,872
(441,718)	170,092	(10,491)	(7,551)
(1,640)	61,760	-	-
9,042	(22,690)	(47,511)	32,116
<u>669,609</u>	<u>707,718</u>	<u>74,789</u>	<u>20,648</u>
\$ (16,160,951)	\$ (13,902,517)	\$ 1,560,046	\$ 1,655,334

This page intentionally left blank.

**TOWN OF CHAPEL HILL, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 Statements: The statement of net assets and the statement of activities report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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 (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) 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.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. 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. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

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, licenses, and charges for services. The primary expenditures are for general government, environment and development, public safety, and leisure activities.

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 a portion of the property tax levy.

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 Town reports the following non-major governmental funds:

Community Development Entitlement Grants Project 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.

Affordable Housing 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.

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.

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

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

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.

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 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.

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.

Transit Grant Projects Ordinance Fund – This fund is used to account for federal and State grant awards in aid of the Town’s transportation system.

Public Housing Grant Projects Ordinance Fund – This fund is used to account for federal grants legally restricted for specific low and moderate income housing programs and activities.

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.

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

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements: The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 non-exchange transactions, and revenues from property taxes are recognized 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 including special assessments. 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. Interfund services provided and used are not eliminated in the process of consolidation.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources management focus and the modified accrual basis of accounting. Under this method, 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. 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. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

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, 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 2010 through February 2011 apply to the fiscal year ended June 30, 2011. 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 2011-2012 fiscal year and are not shown as receivables at June 30, 2011.

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 unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the Town and OWASA have elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

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 and all annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Transit Grants Fund, Public Housing Capital Projects Fund, Community Development Entitlement Fund, Affordable Housing Fund, Transitional Housing Fund, Land Trust Fund and Capital Projects Ordinance Fund.

Expenditures may not legally exceed appropriations at the functional level in the General Fund and at the fund level in multi-year funds. The Town Council must approve amendments at the functional level of the General Fund and at the project level in all other funds. The budgets in the supplemental section represent the budget as amended through June 30, 2011.

The Council's schedule for developing the 2010-11 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. A forum was held in February and a public

hearing was held in May. Additional work sessions were held in May and June. The budget was adopted by the Council on June 7, 2010.

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 Grants Projects Ordinance Fund		X
Affordable Housing Fund		X
Transitional Housing Fund		X
Land Trust Fund		X
Grants Fund	X	
Downtown Service District Fund	X	
Housing Loan Trust Fund	X	
Library Gift Fund	X	
Debt Service Fund	X	
Capital Projects Funds		
Capital Projects Ordinance Fund		X
Transit Grant Projects Ordinance Fund		X
Public Housing Grants Project 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 basis 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. OWASA's board approves the budget in early June after public hearings are held.

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. 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 and Transitional Housing Fund is classified as restricted, because the cash represents tenant security deposits. Restricted cash in the Vehicle Replacement Internal Service Fund 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. Also restricted are grants and donations in the Grants Fund, Library Gift Fund, and Community Development Entitlement Project Ordinance Fund.

7. Restricted Assets

Certain unspent proceeds of the certificates of participation 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. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

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, at which time the property becomes subject to lien. Liens are published the following May. The taxes levied are based on the assessed values as of January 1, 2010.

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. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

12. 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.

13. 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 one year 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 – 100 years
Buildings	10 – 40 years
Infrastructure	25 years
Equipment	3 – 20 years
Buses	12 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.

14. 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.

15. Compensated Absences

The vacation policy of the Town and OWASA provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. At June 30, 2011, OWASA had recorded a liability for accrued vacation of \$446,832.

The sick leave policy for the Town and OWASA provide for and unlimited accumulation of sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement

may be used in the determination of length of service for retirement benefit purposes. Since the Town and OWASA do not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

16. 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:

Deferred & Unearned Revenue

	Deferred	Unearned	Total
Taxes receivable, net	\$ 366,843	\$ 6,802	\$ 373,645
Grants receivable	-	89,960	89,960
Other receivables	64,890	176,943	241,833
	<u>\$ 431,733</u>	<u>\$ 273,705</u>	<u>\$ 705,438</u>

17. 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 governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid items – portion of fund balance that is not an available resource because it represents a prepayment of future liabilities.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for employee appreciation – portion of fund balance that is restricted by revenue source for recognition of excellence in Town employees in honor of former Town Manager Cal Horton.

Restricted for Parks and Streets Capital Projects – portion of fund balance that is restricted by revenue source to providing parks and street improvement projects arising from development applications and permits.

Restricted for Public Housing – portion of fund balance that is restricted by revenue source for public housing.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for support of police services.

Restricted for Library – portion of fund balance that is restricted by revenue source for library operations and renovation.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing board.

Committed for debt service payments – portion of fund balance assigned by the Board for debt service payments. This amount represents the residual balance of taxes received from the portion of the tax rate that is dedicated to making debt payments.

Committed for infrastructure capital projects – portion of fund balance directed by the Town Council to a fund for capital projects.

Committed for public housing – portion of fund balance directed by the Town Council to affordable housing initiatives.

Committed for economic development – portion of fund balance directed by the Town Council to projects that foster economic development and downtown initiatives.

Assigned Fund Balance – portion of fund balance that the Town intends to use for specific purposes. By ordinance, the Town Council authorizes the Town Manager to allocate funds to specific functions within some restrictions. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within a functional area or fund.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed fund balance.

Assigned for other post-employment benefits – the portion of unencumbered fund balance intended to fund the Town's annual obligation for retiree medical care.

Assigned for Streets capital projects – portion of fund balance that has been budgeted for capital projects for Streets projects.

Assigned for municipal buildings projects – portion of fund balance that has been budgeted for capital projects to improve municipal buildings.

Assigned for Comprehensive plan – portion of fund balance that has been budgeted for Manager initiatives and downtown development.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, Town funds. For purposes of fund balance classification, expenditures are to be spent first from restricted fund balance, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

The Town's guideline for the General Fund is to maintain available fund balance equal to or greater than 12% of budgeted expenditures for provide for cash flow considerations and emergencies. Fund balance over 12% may be appropriated for one-time expenditures, but the general guideline directs that fund balance not be used to fund ongoing operations.

18. 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. 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, which is a collateral pool, 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 under-collateralization, 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. The Town and OWASA comply with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At year-end, the Town's deposits had a carrying amount of \$45,154,019 and a bank balance of \$45,657,985. Of the bank balance, \$2,100,771 was covered by federal depository insurance, \$2,149,980 was covered by collateral held under the Dedicated Method and \$41,407,234 was covered by collateral held under the Pooling Method. The Town had cash on hand of \$5,244 at year end.

At year-end, OWASA's deposits had a carrying amount of \$21,324,700 and a bank balance of \$21,891,284. Of the bank balance, \$343,810 was covered by federal depository insurance and \$21,547,474 in interest-bearing deposits were covered by collateral held under the pooling method. OWASA had cash on hand of \$1,175 at year end.

C. 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, 2011, the Town had \$25,076,573 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. At June 30, 2011, OWASA had \$7,179,896 invested in mutual funds with the North Carolina Capital Management Trust.

Interest Rate Risk. The Town and OWASA do 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. The North Carolina Capital Management Trust has a weighted average maturity of .11 years as of June 30, 2011.

Credit risk. The Town and OWASA have no policy regarding credit risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations ("NRSROs"). The Town and OWASA's investments in the North Carolina Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2011.

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.

D. Receivables and Allowances for Uncollectible Amounts

Due from other governments to the Town at June 30, 2011 consists of the following:

	Governmental Funds	
Sales tax refunds receivable	\$	431,172
Due from Federal Government		462,199
Due from State		3,969,460
Due from local governments		113,702
	<u>\$</u>	<u>4,976,533</u>

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

Governmental activities, allowance for uncollectible property taxes	\$	278,914
---	----	---------

E. Capital Assets

A summary of changes in the value of the Town's capital assets for the year ended June 30, 2011 follows:

	July 1, 2010	Increases	Decreases	June 30, 2011
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 26,925,348	\$ 13,675	\$ 44,012	\$ 26,895,011
Easements	-	77,359	-	77,359
Construction in progress	5,594,260	3,257,875	2,258,047	6,594,088
Total capital assets, not being depreciated	<u>32,519,608</u>	<u>3,348,909</u>	<u>2,302,059</u>	<u>33,566,458</u>
Capital assets, being depreciated:				
Land improvements	14,491,676	2,366,206	-	16,857,882
Infrastructure	36,025,440	42,240	-	36,067,680
Buildings and building improvements	63,122,797	211,415	-	63,334,212
Equipment	5,260,987	307,155	-	5,568,142
Vehicles	12,542,484	1,815,652	911,528	13,446,608
Total capital assets, being depreciated	<u>131,443,384</u>	<u>4,742,668</u>	<u>911,528</u>	<u>135,274,524</u>
Accumulated depreciation:				
Land improvements	2,861,290	743,485	-	3,604,775
Infrastructure	17,643,044	1,442,707	-	19,085,751
Buildings and building improvements	18,359,613	2,544,678	-	20,904,291
Equipment	4,330,426	249,693	-	4,580,119
Vehicles	8,133,388	1,291,981	775,995	8,649,374
Total accumulated depreciation	<u>51,327,761</u>	<u>6,272,544</u>	<u>775,995</u>	<u>56,824,310</u>
Total capital assets, being depreciated, net	<u>80,115,623</u>	<u>(1,529,876)</u>	<u>135,533</u>	<u>78,450,214</u>
Governmental activities capital assets, net	<u>\$ 112,635,231</u>	<u>\$ 1,819,033</u>	<u>\$ 2,437,592</u>	<u>\$ 112,016,672</u>

	July 1, 2010	Increases	Decreases	June 30, 2011
Business-type activities:				
Transit Fund:				
Capital assets, not being depreciated:				
Land	\$ 2,099,537	\$ -	\$ -	\$ 2,099,537
Total capital assets, not being depreciated	<u>2,099,537</u>	<u>-</u>	<u>-</u>	<u>2,099,537</u>
Capital assets, being depreciated:				
Land improvements	5,974,008	-	-	5,974,008
Buildings and building improvements	17,623,884	-	-	17,623,884
Equipment	1,963,061	13,860	-	1,976,921
Vehicles	33,343,793	175,208	778,905	32,740,096
Total capital assets, being depreciated	<u>58,904,746</u>	<u>189,068</u>	<u>778,905</u>	<u>58,314,909</u>
Accumulated depreciation:				
Land improvements	2,953,525	202,498	-	3,156,023
Buildings and building improvements	2,550,309	817,291	-	3,367,600
Equipment	888,650	207,704	-	1,096,354
Vehicles	12,778,606	2,736,882	778,905	14,736,583
Total accumulated depreciation	<u>19,171,090</u>	<u>3,964,375</u>	<u>778,905</u>	<u>22,356,560</u>
Total capital assets, being depreciated, net	<u>39,733,656</u>	<u>(3,775,307)</u>	<u>-</u>	<u>35,958,349</u>
Transit fund capital assets, net	<u>\$ 41,833,193</u>	<u>\$ (3,775,307)</u>	<u>\$ -</u>	<u>\$ 38,057,886</u>
Parking Facilities Fund:				
Capital assets, not being depreciated:				
Land	\$ 2,749,838	\$ 399,127	\$ -	3,148,965
CIP	-	12,425	-	12,425
Total capital assets, not being depreciated	<u>2,749,838</u>	<u>411,552</u>	<u>-</u>	<u>3,161,390</u>
Capital assets, being depreciated:				
Land improvements	382,210	-	-	382,210
Buildings and building improvements	7,284,441	-	-	7,284,441
Equipment	253,269	288,117	-	541,386
Total capital assets, being depreciated	<u>7,919,920</u>	<u>288,117</u>	<u>-</u>	<u>8,208,037</u>
Accumulated depreciation:				
Land improvements	340,429	8,905	-	349,334
Buildings and building improvements	5,643,755	364,139	-	6,007,894
Equipment	233,964	29,462	-	263,426
Total accumulated depreciation	<u>6,218,148</u>	<u>402,506</u>	<u>-</u>	<u>6,620,654</u>
Total capital assets, being depreciated, net	<u>1,701,772</u>	<u>(114,389)</u>	<u>-</u>	<u>1,587,383</u>
Parking facilities fund capital assets, net	<u>\$ 4,451,610</u>	<u>\$ 297,163</u>	<u>\$ -</u>	<u>\$ 4,748,773</u>

	July 1, 2010	Increases	Decreases	June 30, 2011
Housing Operating Fund:				
Capital assets, not being depreciated:				
Land	\$ 1,701,659	\$ -	\$ -	\$ 1,701,659
Total capital assets, not being depreciated	1,701,659	-	-	1,701,659
Capital assets, being depreciated:				
Land improvements	323,376	-	-	323,376
Buildings and building improvements	19,396,523	19,877	-	19,416,400
Equipment	355,028	-	-	355,028
Vehicles	210,026	-	-	210,026
Total capital assets, being depreciated	20,284,953	19,877	-	20,304,830
Accumulated depreciation:				
Land improvements	174,455	16,168	-	190,623
Buildings and building improvements	11,667,065	495,442	-	12,162,507
Equipment	355,028	-	-	355,028
Vehicles	186,960	9,656	-	196,616
Total accumulated depreciation	12,383,508	521,266	-	12,904,774
Total capital assets, being depreciated, net	7,901,445	(501,389)	-	7,400,056
Housing operating fund capital assets, net	\$ 9,603,104	\$ (501,389)	\$ -	\$ 9,101,715
Stormwater Management Fund:				
Capital assets, not being depreciated:				
Construction in progress	\$ 651,717	\$ 90,782	\$ -	\$ 742,499
Total capital assets, not being depreciated	651,717	90,782	-	742,499
Capital assets, being depreciated:				
Land improvements	122,234	84,754	-	206,988
Equipment	11,200	8,125	-	19,325
Total capital assets, being depreciated	133,434	92,879	-	226,313
Accumulated depreciation:				
Land improvements	18,196	10,100	-	28,296
Equipment	2,400	1,380	-	3,780
Total accumulated depreciation	20,596	11,480	-	32,076
Total capital assets, being depreciated, net	112,838	81,399	-	194,237
Stormwater management fund capital assets, net	\$ 764,555	\$ 172,181	\$ -	\$ 936,736
Business-type activities capital assets, net	\$ 56,652,462	\$ (3,807,352)	\$ -	\$ 52,845,110

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

Governmental activities:	
General government	\$ 80,733
Environment and development	3,302,563
Public safety	218,803
Leisure activities	1,476,385
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,194,060
Total depreciation expense - governmental activities	<u>\$ 6,272,544</u>
Business-type activities:	
Transit	\$ 3,964,375
Parking facilities	402,506
Housing Operating	521,266
Stormwater Management	11,480
Total depreciation expense - business-type activities	<u>\$ 4,899,627</u>

A summary of changes in the value of OWASA's capital assets for the year ended June 30, 2011, follows:

	July 1, 2010	Increases	Decreases	Transfers	June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 19,996,428	\$ -	\$ 1,998,542	\$ -	\$ 17,997,886
Construction in progress	13,967,296	7,245,337	11,060	(10,013,850)	11,187,723
Total capital assets, not being depreciated	<u>33,963,724</u>	<u>7,245,337</u>	<u>2,009,602</u>	<u>(10,013,850)</u>	<u>29,185,609</u>
Capital assets, being depreciated:					
Water treatment and distribution	144,039,239	662,653	-	1,320,478	146,022,370
Sewer collection and treatment	172,585,876	708,085	-	8,352,204	181,646,165
Fixtures and equipment	40,399,665	70,808	42,521	341,168	40,769,120
Total capital assets, being depreciated	<u>357,024,780</u>	<u>1,441,546</u>	<u>42,521</u>	<u>10,013,850</u>	<u>368,437,655</u>
Less accumulated depreciation for:					
Water treatment and distribution	40,012,326	3,318,957	-	-	43,331,283
Sewer collection and treatment	38,385,790	4,092,122	-	-	42,477,912
Fixtures and equipment	22,655,948	1,899,080	35,468	-	24,519,560
Total accumulated depreciation	<u>101,054,064</u>	<u>9,310,159</u>	<u>35,468</u>	<u>-</u>	<u>110,328,755</u>
Total capital assets, being depreciated, net	<u>255,970,716</u>	<u>(7,868,613)</u>	<u>7,053</u>	<u>10,013,850</u>	<u>258,108,900</u>
Total capital assets, net	<u>\$ 289,934,440</u>	<u>\$ (623,276)</u>	<u>\$ 2,016,655</u>	<u>\$ -</u>	<u>\$ 287,294,509</u>

Invested in capital assets, net of related debt for the Town's governmental activities is as follows:

Capital Assets	\$ 156,961,944
Depreciation	(49,438,469)
	<u>107,523,475</u>
Internal service fund capital assets, net of depreciation	4,493,197
Total Capital Assets, net	<u>\$ 112,016,672</u>
Debt:	
Short-term portion of debt	\$ 7,524,809
Long-term portion of debt	61,155,812
Total Debt	<u>68,680,621</u>
Less Separation allowance (unrelated to capital)	(269,438)
Less Compensated absences (unrelated to capital)	(2,347,100)
Less Other Postemployment Benefits (unrelated to capital)	(4,420,209)
Unspent proceeds, governmental funds	(24,982,920)
Unspent proceeds, internal service funds	(2,049,923)
Capital Related Debt	<u>34,611,031</u>
Capital assets, net of related debt	<u>\$ 77,405,641</u>

Invested in capital assets, net of related debt for the Town's business-type activities is as follows:

Total Capital Assets, net	<u>\$ 52,845,110</u>
Debt:	
Short-term portion of debt	875,794
Long-term portion of debt	6,574,882
Total Debt	<u>7,450,676</u>
Less Compensated Absences (unrelated to capital)	(637,503)
Less Other Postemployment Benefits (unrelated to capital)	(2,198,173)
Capital Related Debt	<u>4,615,000</u>
Capital assets, net of related debt	<u>\$ 48,230,110</u>

F. Accounts Payable and Accrued Liabilities

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

	Governmental Activities	Business-type Activities
<u>Current liabilities:</u>		
Accounts payable	\$ 1,694,810	\$ 586,162
Accrued payroll and payroll related liabilities	1,915,376	679,491
Deposits	92,353	-
<u>Payable from restricted assets:</u>		
Accounts payable	170,136	-
Accrued payroll and payroll related liabilities	51,487	-
Deposits	-	60,120
	<u>\$ 3,924,162</u>	<u>\$ 1,325,773</u>

G. Long-Term Debt

Long-term debt for the Town’s governmental activities and the business-type activities for the year ended June 30, 2011 is as follows:

Governmental Activities:	<u>Outstanding</u>
<i>General obligation bonds</i>	
\$1,800,000 - Parks and recreation construction and renovation - 1996 serial bonds payable in annual installments of \$100,000 through 2015; interest at 4.8% to 5.55%	\$ 400,000
\$4,250,000 Construction and renovation to Town facilities, including Recreation (\$1,315,000), Open space and greenways (\$1,185,000), Law enforcement facilities (\$100,000), Public Works facilities (\$290,000) and repair and construction of streets, sidewalks and bridges (\$1,360,000) - 2003 serial bonds payable in annual installments of \$75,000 to \$300,000 through 2021; interest at 2% to 4%	2,825,000
\$4,000,000 Construction and renovation to Town facilities, including Library (\$500,000), Open space and greenways (\$1,200,000), Public Buildings (\$500,000), Parks and recreation facilities (\$300,000) and repair and construction of streets and sidewalks (\$1,500,000) - 2004 serial bonds payable in annual installments of \$200,000 through 2025; interest at 2.5% to 4.5%	2,800,000

<p>\$4,950,000 Construction and renovation to Town facilities, including Sidewalks and pedestrian amenities (\$650,000), Library facility (\$1,500,000), Open space and greenways (\$800,000), Parks and recreation facilities (\$1,000,000) and Downtown streetscape improvements (\$1,000,000) - 2006 serial bonds payable in annual installments of \$250,000 through 2027; interest at 3.8% to 5%</p>	3,950,000
<p>\$4,490,000 Refunding 1998 and 2000 bond issues for construction and renovation to Parks and recreation facilities, streets and sidewalks, and for acquisition of open space and greenways - 2009 refunding serial bonds payable in annual installments of \$30,000 to \$735,000 through 2019; interest at 2% to 4%</p>	3,725,000
<p>\$8,160,000 Construction and renovation to Town facilities, including Library renovation (\$5,701,200), Streets and sidewalks (\$979,500) and Parks and recreation facilities (\$1,479,300) - 2010A serial bonds payable in annual installments of \$1,020,000 through 2019; interest at 2% to 4%</p>	8,160,000
<p>\$12,250,000 Construction and renovation to Town facilities, including Library renovation (\$8,558,800), Streets and sidewalks (\$1,470,500) and Parks and recreation facilities (\$2,220,700) - 2010B Build America Bonds (BABs) serial bonds payable in annual installments of \$1,020,000 to \$1,025,000 through 2031; interest at 3.5% to 4.9%</p>	12,250,000
<p><i>Total general obligation bonds</i></p>	<hr/> <p>\$ 34,110,000</p> <hr/>
<i>Certificates of Participation</i>	
<p>\$26,000,000 - Certificates of Participation for construction of the Town Operations Center; 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%</p>	<p>\$ 19,040,000</p> <hr/>
<i>Business-type Activities:</i>	
<p>\$7,340,000 - Certificates of Participation due in annual installments from \$220,000 to \$445,000 through 2024; interest due in semi-annual installments at 3.7% to be paid from the Parking Facilities Fund</p>	<p>\$ 4,615,000</p> <hr/>

Installment Notes Payables

Construction and renovation of facilities:

\$1,200,000 - to renovate the Hargraves Center	\$	120,000
--	----	---------

Bank of America installment purchase contract entered into April 2002 payable in varying annual installments through 2012; interest at 4.53%

\$1,050,000 - to renovate various municipal facilities		315,000
--	--	---------

Wachovia Bank installment purchase contract entered into April 2004 due in varying annual installments through 2014; interest at 2.92%

\$3,100,000 - to renovate the Aquatics Center and Community Center		1,860,000
--	--	-----------

SunTrust Bank installment purchase contract entered into July 2007 payable in varying annual installments through 2017; interest at 3.5%

2,295,000

Purchase of fleet replacement vehicles:

\$1,599,500 -	\$	499,307
---------------	----	---------

Wachovia Bank installment purchase contract entered into October 2006 payable in annual installments of \$261,420 through 2013; interest at 3.73%

\$1,870,800 -		859,061
---------------	--	---------

SunTrust Bank installment purchase contract entered into November 2007 payable in annual installments of \$304,600 through 2014; interest at 3.59%

\$1,227,500 -		710,659
---------------	--	---------

RBC Centura installment purchase contract entered into April 2008 payable in annual installments of \$194,463 through 2015; interest at 2.82%

\$360,000 -		93,197
-------------	--	--------

RBC Centura installment purchase contract entered into April 2008 payable in annual installments of \$95,053 through 2012; interest at 2.46%

\$1,604,000 -		1,395,292
---------------	--	-----------

SunTrust Bank installment purchase contract entered into February 2010 payable in annual installments of \$256,439 through 2017; interest at 3.075%

\$1,600,000 -		1,600,000
---------------	--	-----------

Bank of America installment purchase contract entered into February 2011 payable in annual installments of \$249,764 through 2018; interest at 2.41%

5,157,516

Total installment notes payables

	\$	7,452,516
--	----	-----------

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, the law enforcement officers' special separation allowance and other postemployment benefits.

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

Year Ending June 30,	Principal	Interest	Total
2012	\$ 2,595,000	\$ 1,267,348	\$ 3,862,348
2013	2,575,000	1,199,548	3,774,548
2014	2,560,000	1,114,673	3,674,673
2015	2,345,000	1,040,448	3,385,448
2016	2,060,000	960,035	3,020,035
2017-2021	9,515,000	3,728,725	13,243,725
2022-2026	7,150,000	2,120,117	9,270,117
2027-2031	5,310,000	736,912	6,046,912
	<u>\$ 34,110,000</u>	<u>\$ 12,167,806</u>	<u>\$ 46,277,806</u>

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

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,752,275	\$ 219,522	\$ 1,971,797
2013	1,575,055	163,611	1,738,666
2014	1,348,384	114,903	1,463,287
2015	945,150	76,194	1,021,344
2016	786,955	48,236	835,191
2017-2018	1,044,697	29,408	1,074,105
	<u>\$ 7,452,516</u>	<u>\$ 651,874</u>	<u>\$ 8,104,390</u>

Annual debt service requirements to maturity for certificates of participation for the Town Operations Center are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,360,000	\$ 928,525	\$ 2,288,525
2013	1,360,000	864,125	2,224,125
2014	1,360,000	799,725	2,159,725
2015	1,360,000	739,075	2,099,075
2016	1,360,000	669,800	2,029,800
2017-2021	6,800,000	2,308,600	9,108,600
2022-2025	5,440,000	639,200	6,079,200
	<u>\$ 19,040,000</u>	<u>\$ 6,949,050</u>	<u>\$ 25,989,050</u>

Annual debt service requirements to maturity for certificates of participation for the Wallace Parking Deck are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 295,000	\$ 168,073	\$ 463,073
2013	305,000	157,065	462,065
2014	315,000	145,688	460,688
2015	330,000	133,848	463,848
2016	345,000	121,545	466,545
2017-2021	1,920,000	405,337	2,325,337
2022-2024	1,105,000	62,157	1,167,157
	<u>\$ 4,615,000</u>	<u>\$ 1,193,713</u>	<u>\$ 5,808,713</u>

Long-term debt activity for the year ended June 30, 2011 was as follows:

	June 30,			June 30,	Due Within
	2010	Additions	Reductions	2011	One Year
Governmental activities:					
General obligation bonds	\$ 15,285,000	\$ 20,410,000	\$ 1,585,000	\$ 34,110,000	\$ 2,595,000
Bond premium	1,112,563	-	74,171	1,038,392	-
Bond discount	(128,764)	-	8,584	(120,180)	-
Certificates of participation	20,405,000	-	1,365,000	19,040,000	1,360,000
Installment notes payable	7,484,449	1,600,000	1,631,933	7,452,516	1,752,275
Orange County loan payable	123,146	-	-	123,146	-
Net pension obligation for separation allowance	254,773	14,665	-	269,438	-
Compensated absences - governmental activities	2,242,755	1,855,079	1,786,919	2,310,915	1,786,919
Compensated absences - internal service funds	32,336	34,065	30,216	36,185	30,216
Other postemployment benefits	2,998,953	1,346,467	-	4,345,420	-
Other postemployment benefits - internal service funds	51,360	23,429	-	74,789	-
Long-term debt	<u>\$ 49,861,571</u>	<u>\$ 25,283,705</u>	<u>\$ 6,481,823</u>	<u>\$ 68,680,621</u>	<u>\$ 7,524,410</u>
Business-type activities:					
Certificates of participation	\$ 4,895,000	\$ -	\$ 280,000	\$ 4,615,000	\$ 295,000
Compensated absences	628,461	589,836	580,794	637,503	580,794
Other postemployment benefits	1,528,564	669,609	-	2,198,173	-
Long-term debt	<u>\$ 7,052,025</u>	<u>\$ 1,259,445</u>	<u>\$ 860,794</u>	<u>\$ 7,450,676</u>	<u>\$ 875,794</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 December 2009, the Town issued \$4,490,000 in general obligation bonds to refund bonds issued in 1998 and 2000. The sale resulted in a savings of \$487,393 over the remaining life of the bonds.

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, 2011, the legal debt margin for the Town was approximately \$559 million.

For governmental activities, compensated absences, separation allowance and other postemployment benefits are generally liquidated by the general fund.

OWASA's long-term debt as of June 30, 2011 consists of the following:

Revenue bonds payable, Series 2010 Revenue Serial Bonds, in the amount of \$21,645,000, issued September 30, 2010, with coupon rates of 3.0% and 5.0%, final maturity July 2026, net of unamortized premium of \$1,574,122 at June 30, 2011	\$ 23,219,122
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 \$519,854 at June 30, 2011 ; 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	21,074,854
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 premium and deferred refunding loss of \$154,792 at June 30, 2011	17,740,208
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 \$123,145 at June 30, 2011 ; 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 (0.37% at June 30, 2011), final maturity July 2029	25,383,145

Revenue and revenue refunding bonds payable, Series 2003 Revenue and Revenue Refunding Bonds, issued April 9, 2003, with coupon rates of 2.5% to 5.0%, final maturity July 2016, net of unamortized premium and deferred refunding loss at June 30, 2011	5,543,786
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 \$7,788 at June 30, 2011	3,542,790
	<u>96,503,905</u>
Less current maturities:	
Bonds payable net of unamortized premiums and discounts and deferred refunding gains and losses	5,561,532
Long-term portion	<u>\$ 90,942,373</u>
Obligations under capital lease:	
Capitalized equipment lease obligation due in annual installments of \$24,264 which includes interest at 14.45% through February 1, 2013	\$ 34,159
Less current maturities:	20,662
Long-term portion	<u>\$ 13,497</u>
Total long-term debt	\$ 90,955,870

OWASA debt maturities are as follows:

Fiscal Year	Amortization of Premiums and Deferred Refunding			
	Maturities	Losses	Total	Interest
2012	\$ 5,450,000	\$ 111,532	\$ 5,561,532	\$ 4,245,382
2013	5,400,000	111,532	5,511,532	3,975,944
2014	5,170,000	107,638	5,277,638	3,765,375
2015	5,030,000	66,589	5,096,589	3,555,325
2016	5,255,000	66,589	5,321,589	3,333,875
2017-2021	24,965,000	611,361	25,576,361	12,976,732
2022-2026	23,640,000	597,308	24,237,308	7,723,976
2027-2031	18,295,000	127,833	18,422,833	2,476,994
2032	1,490,000	8,523	1,498,523	74,500
Total	\$ 94,695,000	\$ 1,808,905	\$ 96,503,905	\$ 42,128,103

Capital lease maturities are as follows:

Fiscal Year	Maturities	Interest	Total
2012	\$ 20,662	\$ 3,602	\$ 24,264
2013	13,497	658	14,155
	\$ 34,159	\$ 4,260	\$ 38,419

On November 30, 2010, OWASA issued \$21,465,000 of advance revenue refunding bonds which were placed in an irrevocable trust for the purpose of general resources for all future debt service payments of \$22,925,000 of Series 2001 and Series 2004A Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price was lower than the net carrying amount of the old debt by \$1,280,000. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$2,345,800 and resulted in an economic gain of \$1,908,502.

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. The Authority 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, 2011 was \$9,125,000 and \$0, respectively.

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, 2011 was \$335,000.

OWASA's long-term debt activity for the year ended June 30, 2011 is as follows:

	July 1, 2010	Additions	Reductions	June 30, 2011	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 101,205,000	\$ 21,645,000	\$ 28,155,000	\$ 94,695,000	\$ 5,450,000
Less deferred amounts:					
For issuance premiums	2,037,336	3,798,355	793,681	5,042,010	440,550
For issuance discounts and deferred refunding	(1,466,669)	(2,141,383)	374,947	(3,233,105)	(329,018)
Capital lease	52,057	-	17,898	34,159	20,662
Compensated absences	405,070	54,262	12,500	446,832	335,000
OPEB	1,621,497	1,126,000	375,497	2,372,000	-
Total bonds payable	\$ 103,854,291	\$ 24,482,234	\$ 29,729,523	\$ 99,356,896	\$ 5,917,194

OWASA has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$96,503,905 in revenue bonds issued in 2001, 2003, 2004, 2005, 2006 and 2010. Proceeds from the bonds were used for rehabilitation or expansion of the Authority's water and sewer systems. Principal and interest on the bonds are payable through 2031, solely from the water and sewer customer net revenues. Annual principal and interest on the bonds are expected to require approximately 51 percent of such net revenues. Principal and interest paid in the year ended June 30, 2011 was \$8,938,297.

OWASA is in compliance with the covenants to rates, fees, rentals, and charges in the Bond Order, authorizing the issuance of the Water and Sewer Bonds, Series 2001, 2003, 2004, 2005, 2006 and 2010. The Bond Order requires the debt service coverage ratio to be no less than 120% of the debt service requirements for parity indebtedness.

H. Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 20,427,961
Less:	
Inventories	3,285
Prepaid expenses	4,702
Stabilization by State Statute	5,074,720
Cal Horton award	99,559
Parks projects	75,332
Streets projects	143,520
Public safety	165,278
OPEB allocation	400,000
Manager's planning initiatives	103,291
Appropriated in FY12 budget	1,121,605
Working capital fund balance reserve	5,973,018
Remaining fund balance	7,263,651

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

Encumbrances	
Major funds:	
General Fund	\$ 1,457,612
Capital Projects Ordinance Fund	2,414,941
Non-major funds	1,485,065

I. Interfund Receivables, Payables and Transfers

Interfund receivables and payables. At June 30, 2011, the statements of the Town include a net of balances due to/from other funds in the amount of \$44,830 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
Housing operations fund	Housing capital grant fund	\$ 2,605
Transit fund	Transit capital grant fund	42,225
		<u>\$ 44,830</u>

Interfund transfers. A schedule of interfund transfers for the year ended June 30, 2011 is as follows:

Transfers To	Transfers From	Amount
General Fund	Parking facility fund	\$ 118,455
Nonmajor governmental	Transit fund	\$ 114,144
Stormwater management fund	General fund	(5,824)
	Transfers to Governmental funds	<u>\$ 226,775</u>
Proprietary funds:		
Nonmajor governmental	Transit fund	\$ (114,144)
Stormwater management fund	General fund	5,824
General Fund	Parking facility fund	(118,455)
	Total transfers from Proprietary funds	<u>\$ (226,775)</u>

The Town uses transfers to move funds between various programs that must be accounted for in other funds in accordance with budgetary authorization, including amounts to provide matching funds for grants. Each year, the Parking fund transfers to the General fund all revenues over expenditures generated by on-street parking, a total of \$118,455 in fiscal 2011. The Transit fund makes a transfer each year for the required matches to Federal and State capital grants, which totaled \$114,144 in fiscal 2011. The transfer of \$5,824 from the General fund to the Stormwater Management is a reimbursement of a fee exemption.

J. Employees' Retirement System

1. North Carolina Local Governmental Employees' Retirement System

Plan Description: 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.

Funding Policy: 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, 6.44% and 6.41% of annual covered payroll. For OWASA, the current rate for employees is 6.88% 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, 2011, 2010, and 2009 were \$2,125,113, \$1,586,994 and \$1,567,152 respectively. OWASA's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$440,320, \$329,383 and \$333,736 respectively. The contributions made by the Town and OWASA equaled the required contribution for each year.

2. Law Enforcement Officers Special Separation Allowance

Plan Description: 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, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	20
Active Plan members	<u>120</u>
TOTAL	<u>140</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions: 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 part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included: (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of between 4.25% - 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

Annual Pension Cost and Net Pension Obligation: 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	\$ 323,899
b	Interest on net pension obligation	12,739
c	Adjustment to annual required contribution	(13,640)
d	Annual pension cost (a) + (b) + (c)	\$ 322,998
e	Employer contributions made for fiscal year ended 6/30/2011	308,333
f	Increase (decrease) in net pension obligation (d) – (e)	\$ 14,665
g	Net pension obligation, beginning of fiscal year	254,773
h	Net pension obligation, end of fiscal year (f) + (g)	\$ 269,438

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation, End of Year
6/30/2009	248,990	117.07%	280,611
6/30/2010	268,090	109.64%	254,773
6/30/2011	322,998	95.46%	269,438

Funded Status and Funding Progress: As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$3,157,252. The covered payroll (annual payroll of active employees covered by the plan) was \$6,181,559, and the ratio of the UAAL to the covered payroll was 51.08 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

3. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description: 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. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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.

Funding Policy: 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, 2011 were \$517,622, which consisted of \$309,379 from the Town and \$208,243 from law enforcement officers.

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

Plan Description: 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 Council has the authority to establish and amend benefit provisions.

Funding Policy: 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. The Town Council has the authority to establish and amend contribution requirements. Contributions for the year ended June 30, 2011 were \$1,961,060, which consisted of \$1,338,159 from the Town and \$622,901 from employees.

K. Other Post-Employment Benefits

Plan Description. In addition to providing pension benefits, by ordinance of the Town Council, the Town administers a single employer defined benefit plan which also provides post-retirement health benefits to retirees of the Town. Employees hired before July 1, 2010 who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the Town are eligible for a defined benefit plan wherein the Town pays all or a portion of the cost of coverage for the benefits based on years of service. Also, these retirees can purchase coverage for their dependents at the Town's group rates. A separate report was not issued for the plan.

Membership of the post-employment health benefit plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	178
Active Members	714
	892
	892

Funding Policy. The Town pays the cost of coverage for the healthcare benefits of qualified retirees under a Town ordinance that can be amended by the Town Council. The Town's payment for the coverage (whether on group coverage or Medicare supplement) is based on the number of years of town service of the retired employee according to the following scale:

Retire with Town Service of		Individual Medical Insurance Premium	
At Least	Not More Than	Town Pays	Employee Pays
5 years	10 years	25%	75%
10 years	15 years	50%	50%
15 years	20 years	75%	25%
20 years	-	100%	0

Qualified retirees may also purchase dependent care coverage at the Town's group rate. For the fiscal year ended June 30, 2011, the Town made payments for post-retirement health benefit premiums of \$1,045,669 and the retirees made payments of \$302,815 for dependent care and for the employee's share of coverage according to the schedule above. The Town's obligation to contribute to the health benefit plan is established and may be amended by the Town Council.

The Town has chosen to fund the healthcare benefits on a pay as you go basis. The current annual required contribution rate (ARC) is 20.97% of annual covered payroll. For fiscal year 2011, the Town contributed \$1,045,669 or 3.2% of annual covered payroll.

Summary of significant accounting policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting, and from the Vehicle Maintenance, Parking, Transit, Stormwater Management and Public Housing Funds, which are

maintained on the full accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

For new employees hired on or after July 1, 2010, the Town Council established a Defined Contribution Plan where each employee will contribute a mandatory 1% of biweekly gross income to a health savings plan. The Town will contribute \$35.00 per biweekly pay period on behalf of the employee.

Annual OPEB cost and net OPEB obligation. The Town's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC) an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the year, the actuarially adjusted amount contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits.

Annual required contribution	\$ 3,156,632
Interest on net OPEB obligation	183,155
Adjustment to annual required contribution	<u>(254,613)</u>
Annual OPEB cost (expense)	3,085,174
Contributions (adjusted for implicit subsidy)	<u>(1,045,669)</u>
Increase in net OPEB obligation	2,039,505
Net OPEB obligation, beginning of year	<u>4,578,877</u>
Net OPEB obligation, end of year	<u><u>\$ 6,618,382</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011 were as follows:

For Year Ended June 30	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 3,085,174	33.89%	\$ 6,618,382
2010	3,055,442	27.07%	4,578,877
2009	3,042,537	22.75%	2,350,448

Funding status and funding progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$64,319,378. The covered payroll (annual payroll of active employees covered by the plan) was \$32,549,036, and the ratio of the UAAL to the covered payroll was 197.6%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined

regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4.00% investment rate of return, which included an inflation component of 3.00% and (b) 10.50% - 5.00% medical cost trend rate for pre-medicare and 8.50% - 5.00% medical cost trend rate for post-medicare with 2018 as the year of ultimate trend rate. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2010 was 30 years.

L. Other Employment Benefits

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, 2011, the Town made contributions to the State for death benefits of \$32,806. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .09% 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.

M. Commitments and Contingencies

The Town has commitments related to capital improvements at June 30, 2011 for the following:

Morgan Creek	\$ 67,841
I 40 West Project	89,906
Public Housing renovations	92,388
Battle Branch	148,077
Bolin Creek	224,488
ARRA-Energy projects	234,904
Other technology projects	256,838
Streets, paving, and drainage	283,305
Traffic projects	290,160
Municipal fiber project	449,513
Parking Projects	593,009
Vehicle purchases	654,295
Other	712,341
Downtown Initiative and Streetscape projects	715,622
Library expansion	1,727,767
	\$ 6,540,454

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 \$4,427,295 at June 30, 2011.

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.

N. 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 \$2,048,500 for the ten structures.

In accordance with G.S. §159-32, the Town's employees who have access to \$100 or more at any given time or access to inventory are covered through a blanket bond against loss up to \$100,000 per occurrence. The Town does not appoint a tax collector as taxes are collected by Orange and Durham Counties. The Finance Officer is individually bonded for \$200,000.

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, 2011 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.

O. Recent Pronouncements Issued

The Governmental Accounting Standards Board (GASB) has issued the following pronouncement prior to June 30, 2011 that has an effective date that may impact future financial presentations.

- GASB Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement establishes new categories for reporting fund balance and revises the definitions for governmental fund types. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

This page intentionally left blank.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of some of the provisions of the Bonds, the Financing Contract, the Trust Agreement and the Deed of Trust (together, the “Documents”). This summary is not intended to be complete or definitive, and it is qualified in its entirety by reference to the complete Documents. See the section of the Official Statement entitled “**INTRODUCTION – Additional Information**” for information on obtaining copies of the Documents.

A list of certain definitions used in the Documents is set out at the end of this Appendix. Other capitalized terms have the definitions assigned in the main text of this Official Statement.

THE FINANCING CONTRACT

The Financing Contract generally provides for the advance of funds to the Town, and for the Town’s obligation to repay the advance to provide funds for payments on the Bonds.

Advance

The Company advances the net proceeds of the sale of the 2012 Bonds to the Town.

Town Payments

In the Financing Contract, the Town agrees to pay (a) the Installment Payments set forth in the Financing Contract (which are designed to be due at times and in amounts sufficient to pay all principal of and interest on the 2012 Bonds), and (b) all the Additional Payments, in each case except as otherwise provided for in the Financing Contract.

The Town must make its Installment Payments on the 25th day of the month before the corresponding Bond payment date. The Town receives a credit against future Installment Payments for any earnings made from the temporary investment of Installment Payment amounts between the Town’s payment dates and the corresponding Bond payment dates.

Town’s Limited Obligation

Notwithstanding any other provision of the Financing Contract, the parties intend that the transaction comply with North Carolina General Statutes Section 160A-20. No deficiency judgment may be entered against the Town in violation of such Section 160A-20.

No provision of the Financing Contract is to be construed or interpreted as creating a pledge of the Town's faith and credit within the meaning of any constitutional debt limitation. No provision of the Financing Contract is to be construed or interpreted as an illegal delegation of governmental powers or as an improper donation or lending of the Town's credit within the meaning of the North Carolina constitution. The Town's taxing power is not and may not be pledged directly or indirectly or contingently to secure any moneys due under the Financing Contract.

No provision of the Financing Contract is to be construed to pledge or to create a lien on any class or source of the Town's moneys (other than the Net Proceeds and the funds and accounts established pursuant to the Trust Agreement as may be provided in the Trust Agreement), nor to restrict the Town's future issuance of any of its bonds or other obligations payable from any class or source of the Town's

moneys (except to the extent the Documents restrict the incurrence of additional obligations secured by the Mortgaged Property).

Prepayments

The Town may prepay principal components of Installment Payments to the extent corresponding installments of principal with respect to the Bonds are prepayable pursuant to the Trust Agreement. See the section of the Official Statement entitled “**THE 2012 BONDS – Prepayment Provisions.**”

No Abatement of Payments

There will be no abatement or reduction of the Installment Payments or Additional Payments to be paid by the Town for any reason, including, but not limited to, any defense, recoupment, setoff, counterclaim, or any claim arising out of or related to the Site or the Facilities. The Town assumes and bears the entire risk of loss and damage to the Site and the Facilities from any cause whatsoever.

Appropriation of Payments

The Town will cause the Budget Officer to include in the initial proposal for each of the Town's annual budgets the amount of all Installment Payments and estimated Additional Payments coming due during the Fiscal Year to which such budget applies. Notwithstanding that the initial proposed budget includes such an appropriation, the Town Council may determine not to include such an appropriation in the final Town budget for such Fiscal Year; further, the Town Council may amend an adopted budget to delete an approved appropriation.

If within 15 days after the beginning of any Fiscal Year the Town has not appropriated an amount equal to the Installment Payments and estimated Additional Payments coming due during such Fiscal Year, then the Town must send a notice to such effect to the Trustee and the LGC and provide for a similar notice to be posted on the MSRB's “EMMA” system (or any successor system) with respect to the Bonds.

Town's Responsibilities for the Facilities

The Town must use the Site and the Facilities in a careful and proper manner, and keep Mortgaged Property in good condition, repair, appearance and working order for the purposes intended. The Town must pay all charges for utility services furnished to or used on or in connection with the Site and the Facilities. The Town bears all risk of loss to and condemnation of the Site and the Facilities. The Town is to be solely responsible for the operation of the Facilities, and is not to contract with any other person or entity for the operation of the Facilities.

The Town has the right to repair, maintain and remodel the Facilities or make substitutions, additions, modifications and improvements to the Facilities, at its own cost and expense. The Town may also, from time to time in its sole discretion and at its own expense, install machinery, equipment and other tangible property in or on the Facilities. The Town's rights in each of these cases are subject to limitations imposed under the Financing Contract.

Property Damage Insurance.

The Town must, at its own expense, acquire, carry and maintain broad-form extended coverage property damage insurance with respect to the Facilities in an amount equal to the estimated replacement cost. This property damage insurance must include standard mortgagee coverage in favor of the Trustee.

All insurance must be maintained with generally recognized responsible insurers and may carry reasonable deductible or risk-retention amounts. In the alternative, the Town may maintain this property

damage insurance by one or more blanket or umbrella insurance policies or by means of an adequate self-insurance fund or risk-retention program, or by participation in a group risk pool or similar program.

Title; Liens

Title to the Site and the Facilities and any and all additions, repairs, replacements or modifications thereto will at all times be in the Town, subject to the lien of the Deed of Trust and to the Permitted Encumbrances.

The Town must not permit any mechanic's or other lien to be perfected or remain against the Mortgaged Property or any portion thereof, with certain exceptions provided for under the Financing Contract.

Damage, Destruction and Condemnation; Use of Net Proceeds

Damage, Destruction or Condemnation. The Town will promptly notify the Company and the Trustee if (a) the Mortgaged Property or any portion thereof is destroyed or damaged by fire or other casualty, (b) any governmental authority takes, or notifies the Town of any intent to take, title to, or the temporary or permanent use of the Mortgaged Property or any portion thereof, or the estate of the Town or the Company in the Mortgaged Property, or any portion thereof, under the power of eminent domain, (c) a material defect in the construction of the Facilities becomes apparent, or (d) title to or the use of all or any portion of the Mortgaged Property is lost by reason of a defect in title.

Each such notice must describe generally the nature and extent of such damage, destruction or taking. The Town must provide any additional information concerning such matter as the Company or the Trustee may reasonably request.

The Town must file its claims under insurance coverages and claims for awards or payments in the nature of condemnation awards resulting from any such damage, destruction or taking. The Town must prosecute all such claims for such awards or payments in good faith and with due diligence. Any Net Proceeds received by the Town as a result of such claims must be used as provided in the Financing Contract.

Security Interest in Net Proceeds; Deposit and Disbursement. Under the Financing Contract, the Town grants a security interest in the Net Proceeds to the Trustee (as the Company's assignee) to secure the Town's obligations under the Financing Contract. All Net Proceeds remain subject to such security interest until expended in compliance with the requirements of the Financing Contract.

If the amount of Net Proceeds received by the Town from any single event or any single series of related events is less than \$1,000,000, then the Town has no obligation to account to the Company or any other person or entity with respect to the use of the Net Proceeds.

If the amount of Net Proceeds received by the Town from any single event or any single series of related events is at least \$1,000,000, the Town must cause the Net Proceeds to be paid to the Trustee.

Use of Net Proceeds Deposited with Trustee. The Town may elect to use Net Proceeds deposited with the Trustee, and other funds provided by the Town, to defease the 2012 Bonds in whole (but not in part) pursuant to the Trust Agreement. The Town may also elect to use Net Proceeds to provide for the optional redemption of the 2012 Bonds as provided in the Trust Agreement.

Nothing in the Financing Contract, however, creates an option in the Town or any other party to provide for the early payment of Bonds other than pursuant to the regular optional redemption provisions; there are no redemption provisions triggered by any casualty or other event giving rise to Net Proceeds.

The Trustee may also elect to use Net Proceeds deposited with the Trustee to repair or restore that portion of the Facilities with respect to which the Net Proceeds relate. The Town must act with due diligence and in a commercially reasonable manner to provide for the most practical repair and restoration of the Facilities within the funds available.

In the case of Net Proceeds used to repair or restore the Mortgaged Property, the Town will not be entitled to any reimbursement of any funds so paid, nor will the Town be entitled to any postponement or diminution of its obligation to make Contract Payments as a result of any such contribution. Any repair or replacement paid for in whole or in part out of such Net Proceeds will be the Town's property and will be part of the Mortgaged Property.

Tax Covenants

The Town covenants that it will not take or permit, or omit to take or cause to be taken, any action that would cause its obligations under the Financing Contract to be "arbitrage bonds" or "private activity bonds" within the meaning of the Code. The Town also covenants that if it should take or permit, or omit to take or cause to be taken, any such action, then the Town will take or cause to be taken all lawful actions within its power necessary to rescind or correct such actions or omissions promptly upon having knowledge thereof.

Default and Remedies under Financing Contract

Events of Default. An "Event of Default" under the Financing Contract is any of the following:

- (a) The Town's failure to make any Installment Payment by the due date.
- (b) The occurrence of an Event of Nonappropriation.
- (c) The Town breaches or fails to perform or observe any term, condition or covenant of the Documents on its part to be observed or performed, other than as referred to in paragraphs (a) or (b) above, including payment of any Additional Payment, for a period of 90 days after written notice specifying such failure and requesting that it be remedied has been given to the Town, unless the Company agrees in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice cannot reasonably be corrected within the applicable period and the Town institutes corrective action within the applicable period, no Event of Default will be deemed to have occurred so long as the Town diligently pursues the corrective action.
- (d) Any warranty, representation or statement made by the Town in the Documents is found to be incorrect or misleading in any material respect as of the Closing Date.
- (e) Any lien, charge or encumbrance (other than Permitted Encumbrances) prior to or affecting the validity of the Deed of Trust is found to exist, or proceedings are instituted to enforce any lien, charge or encumbrance against the Mortgaged Property and such lien, charge or encumbrance would be prior to the lien of the Deed of Trust.

Remedies on Default. Upon the continuation of any Event of Default, the Company may, without any further demand or notice, exercise any one or more of the following remedies:

- (a) Declare the unpaid principal components of the Installment Payments, and the accrued interest thereon, immediately due and payable;
- (b) Proceed by appropriate court action to enforce performance by the Town of the applicable covenants of the Documents or to recover for the breach thereof; and
- (c) Avail itself of all available remedies under the Deed of Trust, including foreclosure on the Facilities and recovery of attorneys' fees and other expenses, and of all other remedies available at law or in equity.

The Company's ability to realize the benefits of these remedies will be limited by the nature of the Town's obligation under the Financing Contract. See the section of these summaries above captioned "THE FINANCING CONTRACT – Town's Limited Obligation."

Assignments

Town's Assignments. The Town may not sell or assign any interest in the Financing Contract without the Company's prior written consent.

Company's Assignment. The Company will assign substantially all of its rights under the Financing Contract, including rights to receive and enforce Contract Payments (but excluding the Company's rights to indemnification and payment of costs and its rights to receive notices) to the Trustee pursuant to the Trust Agreement, without recourse against the Company.

THE TRUST AGREEMENT

The Trust Agreement generally provides for the execution and delivery of, and security for, the Bonds.

Form, Payment and Prepayment of Bonds

The Trust Agreement provides for the form of the 2012 Bonds, and for the payment, prepayment and exchange of the 2012 Bonds as described in the section of the Official Statement entitled "**THE 2012 BONDS.**"

Additional Bonds

Additional Bonds may be executed and delivered under the conditions and limitations set out in the Trust Agreement to provide funds (a) to expand or improve the Facilities, (b) to refund any Outstanding Bonds, (c) to pay financing costs or establish reserves in connection with the execution and delivery of Additional Bonds, (d) for any other purpose that may be allowed by law from time to time, including the acquisition and construction of additional public facilities, whether or not such facilities are related to the Facilities, or (e) for any combination of such purposes.

Any Additional Bonds so issued may be secured by a lien on the Mortgaged Property ranking equally with the lien on such property securing the 2012 Bonds.

Funds and Accounts

The Trust Agreement provides for the creation and the Trustee's custody of several different funds and accounts.

Proceeds Fund. The Trustee will deposit into the “Proceeds Fund” created under the Trust Agreement the amounts specified under the Trust Agreement, including certain net proceeds from the sale of the Bonds, and all other amounts paid to it for deposit in the Proceeds Fund.

The Trustee will disburse moneys in the Proceeds Fund from time to time, either to pay Project Costs, Refinancing Costs or Financing Costs directly or to reimburse the Town for previous expenditures for Project Costs, upon receipt by the Trustee of a requisition substantially in the form provided for under the Trust Agreement.

Upon receipt of notice from the Town that there are no more Project Costs to be paid from the Proceeds Fund, the Trustee will withdraw all remaining moneys in the Proceeds Fund and deposit such moneys in the Payment Fund for application to the payment of principal and interest with respect to the 2012 Bonds as directed by a Town Representative.

Payment Fund. The Trustee will establish and maintain a Payment Fund, and therein an Interest Account, a Principal Account and a Prepayment Account. The Trustee will hold in this Fund (in the appropriate account, as determined under the Trust Agreement) amounts paid to it for use in making payments and prepayments on the Bonds.

Net Proceeds Fund. The Trustee will establish and maintain a Net Proceeds Fund. The Trustee will hold in this Fund Net Proceeds paid to it pending the use of Net Proceeds for repair or restoration of the Facilities, as provided for in the Financing Contract and the Trust Agreement.

Security Provisions

Assignment of Rights under Financing Contract. Under the Trust Agreement, the Company transfers and absolutely assigns to the Trustee, for the benefit of the Owners and without recourse against the Company, all the Company's rights under the Financing Contract, including, without limitation, (a) the right to receive and collect all of the Installment Payments, (b) the right to take all actions and give all consents under the Financing Contract, (c) the right to enforce the indemnification provisions in favor of the Trustee, and (d) the right to exercise such rights and remedies conferred on the Company pursuant to the Financing Contract as may be necessary or convenient (i) to enforce payment of the Contract Payments and any other amounts required to be deposited in any Fund established under the Trust Agreement, or (ii) otherwise to protect the Owners' interests if the Town defaults under the Financing Contract. The Company must deposit with the Trustee any Installment Payments the Company collects or receives within five Business Days after receipt.

Assignment of Rights under Deed of Trust. Under the Trust Agreement, the Company transfers and absolutely assigns to the Trustee, for the benefit of the Owners and without recourse against the Company, all of the Company's rights as beneficiary under the Deed of Trust.

Assignment of Moneys and Investments. Under the Trust Agreement, the Company absolutely assigns to the Trustee, for the benefit of the Owners and without recourse against the Company, all moneys and investments thereof held by the Trustee in the Funds and Accounts under the Trust Agreement. The Trustee will hold all such moneys in trust, and apply them to the purposes specified in the Trust Agreement and in the Financing Contract.

The Trust Agreement provides that the assignments described above are absolute, and not for the purpose of security.

Notwithstanding the foregoing, the Company retains its rights to notices, indemnification and payment of costs under the Financing Contract and the Deed of Trust.

Investments

Subject to the provisions of the Trust Agreement, the Trustee is to invest and reinvest moneys in the Funds and Accounts established under the Trust Agreement in Permitted Investments pursuant to written instructions from the Town. If the Town does not provide the Trustee with written direction as to any investment or reinvestment, the Trustee will invest or reinvest such moneys in the North Carolina Capital Management Trust (or its successor).

The Trustee may purchase or sell, to itself or to any affiliate, as principal or agent, investments of funds held under the Trust Agreement. The Trustee may act as purchaser or agent in the making or disposing of any investment, and may make any investment through its bond or investment department.

Discharge of the Trust Agreement

Any Bond will be deemed paid for all purposes of the Trust Agreement when (a) payment of the principal, premium, if any, and interest with respect to such Bond to the due date of such amounts (whether at maturity, upon prepayment or otherwise) either (i) has been made in accordance with the terms of the Bonds or (ii) has been provided for by irrevocably depositing with the Trustee or other fiduciary in escrow (A) cash sufficient to make such payment or (B) Federal Securities maturing as to principal and interest in such amounts and at such times as will ensure, without reinvestment, the availability of sufficient moneys to make such payment (which must be evidenced or verified by a certificate, in form and substance satisfactory to the Trustee, of an Appropriate Consultant acceptable to the Trustee), and which are not subject to redemption or purchase prior to maturity at the option of anyone other than the holder, and (b) all compensation and expenses of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction.

When a Bond is deemed paid, it will no longer be secured by or entitled to the benefits of the Trust Agreement, and all rights to payment of such Bonds will be limited to payment from moneys or Federal Securities under (a)(ii) above, and except that it may be transferred, exchanged, registered or replaced as provided in the Trust Agreement.

Notwithstanding the foregoing, the Town may make no deposit under clause (a)(ii) above until the Town has furnished the Trustee an Opinion of Special Counsel to the effect that the deposit of such cash or Federal Securities will not cause the Bonds to become "arbitrage bonds" within the meaning of the Code. Also, if a Bond is to be prepaid prior to maturity, notice of prepayment of the Bond must be given in accordance with the Trust Agreement for such deposit to be deemed a payment of such Bond. If the Bond is not to be paid or prepaid within the next 60 days, however, the Town must give the Trustee, in form satisfactory to the Trustee, irrevocable instructions (A) to provide notice, as soon as practicable, in accordance with the Trust Agreement, that the deposit required by (a)(ii) above has been made with the Trustee, that the Bond is deemed to be paid under the Trust Agreement and stating the maturity or prepayment date upon which moneys are to be available for the payment of the principal with respect to the Bond, and (B) to give notice of prepayment not less than 30 nor more than 60 days prior to the prepayment date for such Bond as provided in the Trust Agreement.

When all Outstanding Bonds are deemed paid under the Trust Agreement, the Trustee will, upon the Town's request, acknowledge the discharge of the lien of the Trust Agreement and the Deed of Trust and repay any excess amounts remaining on deposit in the Funds established under the Trust Agreement to the Town; provided, however, that the obligations under the Trust Agreement in respect of the transfer, exchange, registration, discharge from registration and replacement of Bonds will survive the discharge of the lien of the Trust Agreement, and further provided that in the case of a deposit made under (a)(ii) above, the Bonds will continue to constitute proportionate and undivided interests in Installment Payments arising under the Financing Contract.

No deposit must be made or accepted, and no use made of any such deposit, that would cause any Bonds to be treated as "arbitrage bonds" within the meaning of the Code.

Defaults and Remedies under Trust Agreement

Events of Default. An "Event of Default" under the Trust Agreement is any of the following:

- (a) Default in the payment of the principal with respect to any Bond when the same becomes due and payable, whether at the stated maturity thereof or upon proceedings for mandatory (but not optional) prepayment.
- (b) Default in the payment of any installment of interest with respect to any Bond when the same becomes due and payable.
- (c) The occurrence of any Event of Default as defined in the Financing Contract.

Acceleration. If any Event of Default is continuing, then (a) the Trustee, by notice to the Town, or (b) the Majority Owners, by notice to the Town and the Trustee, may declare the principal of and accrued interest with respect to the Bonds to be due and payable immediately, and such principal and interest thereupon will become immediately due and payable. The Trustee must immediately give notice of any acceleration to all Owners. The Trustee may rescind an acceleration and its consequences if all existing Events of Default have been cured or waived, if the rescission would not conflict with any judgment or decree.

Other Remedies. If an Event of Default is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal or interest with respect to the Bonds or to enforce the performance of any provision of the Documents.

Waiver of Past Defaults. The Majority Owners, by notice to the Trustee, may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver extends to any subsequent or other Event of Default or impair any right consequent to it.

Control of Remedies. The Majority Owners, upon satisfactory indemnification of the Trustee, may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. The Trustee, however, may refuse to follow any direction that it reasonably believes conflicts with law or the Trust Agreement or, subject to the provisions of the Trust Agreement, that the Trustee determines is unduly prejudicial to the rights of other Owners or would involve the Trustee in personal liability.

Limitation on Suits. An Owner may not pursue any remedy with respect to the Trust Agreement or the Bonds (except as otherwise provided in the Trust Agreement) unless (a) the Owner gives the Trustee notice stating that an Event of Default is continuing, (b) the Majority Owners make a written request to the Trustee to pursue the remedy, (c) such Owner or Owners offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, and (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity.

An Owner may not use the Trust Agreement to prejudice the rights of another Owner or to obtain a preference or priority over the other Owners.

Rights To Receive Payment. The right of any Owner to receive payment of principal, premium, if any, and interest with respect to a Bond, on or after the due dates expressed in the Bond, or to

bring suit for the enforcement of any such payment on or after such dates, is preserved under the Trust Agreement and may not be impaired or affected without such Owner's consent.

Collection Suit by Trustee. If an Event of Default occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Town for the whole amount remaining unpaid.

Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Owners allowed in any judicial proceedings relative to the Town, the Company, their creditors or their property and, unless prohibited by law or applicable regulations, may vote on behalf of the Owners in any election of a trustee in bankruptcy or other person performing similar functions.

Priorities. If the Trustee collects any money pursuant to a collection or enforcement action, it must deposit the same in a special account in the Payment Fund and pay out such money in the following order:

(a) If the principal with respect to all Bonds has not become or will not have been declared due and payable, all such moneys in the Payment Fund will be applied as follows:

First, Costs and Expenses: to the payment of the costs and expenses of the Trustee and of the Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel;

Second, Interest: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal with respect to any Bonds which have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal at a rate equal to the rate paid with respect to the Bonds, and, if the amount available is not sufficient to pay in full all of the amounts due with respect to the Bonds on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

(b) If the principal with respect to all Bonds has become or has been declared due and payable, all such money will be applied (i) first to pay the Trustee's fees and expenses, and then (ii) to the payment of principal and interest then due with respect to the Bonds, without preference or priority of principal or interest, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal with respect to all Bonds has been declared due and payable and if such declaration has thereafter been rescinded and annulled under the provisions of the Trust Agreement, then, subject to the provisions of (b) above, if the principal with respect to all Bonds later becomes due and payable or is declared due and payable, the money then remaining in and thereafter accruing to the Payment Fund must be applied in accordance with the provisions of (a) above.

The Trustee may fix a payment date for any payment to the Owners under the provisions described above.

Undertaking for Costs. In any suit for the enforcement of any right or remedy under the Trust Agreement or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This paragraph, however, does not apply to a suit by the Trustee or any authorized suit by any Owner or Owners.

The Trustee

Rights and Duties. If an Event of Default is continuing, the Trustee must exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Except during the continuance of an Event of Default:

(a) the Trustee need perform only those duties that are specifically set forth in the Trust Agreement and no other; and

(b) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Trust Agreement which the Trustee actually and in good faith believes to be genuine and to have been signed or presented by the proper person. The Trustee, however, must examine the certificates and opinions to determine whether they conform to the requirements of the Trust Agreement.

The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this paragraph does not limit the Trustee's obligation to act prudently during the continuation of an Event of Default;

(ii) the Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction from the Majority Owners received by it pursuant to the Trust Agreement; and

(iii) no provision of the Trust Agreement requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Eligibility. The Company will maintain a Trustee for the Trust Agreement that is a corporation organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized under such laws and the laws of the State to exercise corporate trust powers, is subject to supervision or examination by the United States, any state or the District of Columbia and has a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Resignation; Removal; Replacement. The Trustee may resign at any time by delivering notice of its resignation to the Town at least 30 days prior to the effective date of the resignation. The Town may

remove the Trustee at any time by delivering notice of the removal to the removed Trustee at least 30 days prior to the effective date of the removal, so long as no Event of Default is continuing at the time the Town sends the notice. The Majority Owners may remove the Trustee at any time by delivering notice of the removal to the Town and the removed Trustee at least 30 days prior to the effective date of the removal, and may at the same time (or at any time during the 30-day notice period) appoint a new Trustee by notice to the Town and the removed Trustee.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Town must promptly appoint a successor Trustee (except when that right is exercised by the Majority Owners as described in the preceding paragraph).

Amendments of and Supplements to Trust Agreement, Bonds, Financing Contract or Deed of Trust

Without Owners' Consent. The Company and the Trustee may amend or supplement the Trust Agreement or the Bonds without notice to or consent of any Owner for the following purposes:

- (a) to cure any ambiguity, inconsistency or formal defect or omission;
- (b) to grant to the Trustee for the benefit of the Owners additional rights, remedies, powers or authority;
- (c) to subject to the Trust Agreement additional collateral or to add other agreements of the Company or the Town;
- (d) to modify the Trust Agreement or the Bonds to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of the United States or of any state of the United States;
- (e) to provide for Bonds in certificated, registered form pursuant to the Trust Agreement, or for the execution and delivery of Additional Bonds;
- (f) to evidence the succession of a new Trustee; or
- (g) to make any other change that does not materially adversely affect the rights of any Owner.

In addition, the Company may enter into, and the Trustee may consent to, any amendment of or supplement to the Financing Contract or the Deed of Trust, without notice to or consent of any Owner, if the amendment or supplement is required or permitted (i) by the provisions of the Financing Contract or the Trust Agreement, (ii) to cure any ambiguity, inconsistency or formal defect or omission, (iii) in connection with any authorized amendment of or supplement to the Trust Agreement, or (iv) to make any other change that does not materially adversely affect the rights of any Owner.

With Owners' Consent. If the Trust Agreement does not permit a particular amendment of or supplement to any of the Documents without any consent of Owners, the Company and the Trustee may enter into such amendment or supplement with the consent of the Majority Owners.

Without the consent of each Owner affected, however, no amendment or supplement to the Trust Agreement, the Bonds, the Financing Contract or the Deed of Trust may (i) extend the maturity of the principal or interest with respect to any Bond, (ii) reduce the principal amount of, or rate of interest on, any Bond, (iii) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iv) reduce the percentage of the principal amount of the Bonds required for consent to such amendment or

supplement, (v) impair the exclusion of interest on the Bonds from the federal gross income of the Owner of any Bond, (vi) eliminate any mandatory prepayment of the Bonds, extend the due date for any call for mandatory prepayment, reduce the prepayment price or otherwise change the prepayment terms of such Bonds, (vii) create a lien ranking prior to or on a parity with the lien of the Trust Agreement on the property pledged under the Trust Agreement (except with respect to a parity pledge for the benefit of the Owners of Additional Bonds), or (viii) deprive any Owner of the lien created by the Trust Agreement on such property.

In addition, if moneys or Federal Securities have been deposited or set aside with the Trustee pursuant to the Trust Agreement for the payment of Bonds and those Bonds have not in fact actually been paid in full, no amendment to the provisions of those particular provisions of the Trust Agreement may be made without the consent of the Owner of each Bond affected.

Under the Trust Agreement, it is expressly contemplated and agreed that any underwriter or initial purchaser of Bonds may give consent with respect to those Bonds upon its purchase of Bonds and before its resale or redelivery of Bonds to subsequent purchasers, even if such sale or redelivery is to take place on the date of the initial delivery of those Bonds by such initial purchaser.

Consent of Town and LGC Required. No amendment or supplement to the Documents will become effective unless the Town and the LGC deliver to the Trustee their respective prior written consents to the amendment or supplement.

THE DEED OF TRUST

Grant of Security Interest in Facilities, Site and Fixtures

In the Deed of Trust, the Town grants a security interest in the Mortgaged Property, including the Facilities, the Site, and the Fixtures to secure the Town's performance of its obligations under the Documents and any Additional Bonds executed and delivered pursuant to the Trust Agreement (up to a maximum aggregate principal amount of \$60,000,000).

Releases; Grants of Easements

So long as no Event of Default is continuing, the Company and the Deed of Trust Trustee will, upon the Town's request and at any time, execute and deliver all documents necessary to effect the release of Mortgaged Property from the lien of the Deed of Trust upon the Town's compliance with the requirements of the Deed of Trust.

In connection with the release of a portion (but less than all) of the Mortgaged Property, the Town must file with the Company and the Deed of Trust Trustee evidence that the appraised, tax or insured value of that portion of the Mortgaged Property that is proposed as the portion that is to remain subject to the lien of the Deed of Trust is not less than 50% of the aggregate outstanding principal component of the Installment Payments.

In the case of a proposed release of all the Mortgaged Property, the Town must pay to the Trustee (or other fiduciary) an amount (a) which is sufficient to provide for the payment in full of all Outstanding Bonds in accordance with the defeasance provisions of the Trust Agreement and (b) which is required to be used for such payment.

In addition to the provisions for release described above, the Town may from time to time grant easements, licenses, rights-of-way and other similar rights with respect to any part of the Mortgaged Property, and the Town may release such interests, with or without consideration. The Town must send

notice of any such grant or release to the Company, along with a certificate that such grant or release will not materially impair the intended use of the Facilities.

The Town may dispose of any inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary Fixture, subject to certain limitations and conditions on disposition set out in the Deed of Trust.

Advances for Performance of Town's Obligations.

If the Town fails to perform any of its obligations under the Documents, the Deed of Trust Trustee and the Company are authorized, but not obligated, to perform or cause to be performed such obligation. All such expenditures, together with interest thereon at the rate of 4.00% per year, will be secured as obligations under the Deed of Trust.

Environmental Indemnification

To the extent permitted by law, the Town will indemnify and hold the Company and the Deed of Trust Trustee harmless from and against (a) any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs), judgments and expenses (including attorneys', consultants' or experts' fees and expenses) of every kind and nature suffered by or asserted against the Company or the Deed of Trust Trustee as a direct or indirect result of any of the Town's representations or warranties as to environmental matters made in the Deed of Trust being false or untrue in any material respect, or (b) any requirement under any law or regulation which requires the elimination or removal of any hazardous materials, substances, wastes or other environmentally regulated substances by the Company, the Town or any transferee or assignee of the Town of the Company.

Substitute Trustees

If the Deed of Trust Trustee dies, becomes incapable of acting or renounces its trust, or if for any reason the Company desires to replace the Deed of Trust Trustee, then the Company has the unqualified right to appoint one or more substitute or successor Deed of Trust Trustees. Any such removal or appointment may be made at any time without notice, without specifying any reason therefor and without any court approval. Any such appointee becomes vested with title to the Mortgaged Property and with all rights, powers and duties conferred upon the Deed of Trust Trustee by the Deed of Trust in the same manner and to the same effect as though such Deed of Trust Trustee were named as the original Deed of Trust Trustee.

Defaults and Remedies; Foreclosure

Defaults and Remedies. Upon the occurrence and continuation of an Event of Default, the Company may pursue its rights and remedies as provided under the Financing Contract and the Deed of Trust.

Foreclosure; Sale under Power of Sale.

Right to foreclosure or sale. Upon the continuation of an Event of Default, at the Company's request, the Deed of Trust Trustee must foreclose the Deed of Trust by judicial proceedings or, at the Company's option, the Deed of Trust Trustee must sell (and is empowered to sell) all or any part of the Mortgaged Property (and if in part, any such sale will in no way adversely affect the lien created by the Deed of Trust against the remainder) at public sale to the last and highest bidder for cash (free of any equity of redemption, homestead, dower, curtesy or other exemption, all of which the Town in the Deed of Trust expressly waives to the extent permitted by law) after compliance with applicable State laws

relating to foreclosure sales under power of sale. The Deed of Trust Trustee will execute and deliver a proper deed or deeds to the successful purchaser at such sale.

Company's Bid. The Company may bid and become the purchaser at any sale under the Deed of Trust. Instead of paying cash, the Company may make settlement for the purchase price by crediting against the Obligations the sale price net of sale expenses, including the Deed of Trust Trustee's commission, and after payment of such taxes and assessments as may be a lien on the Mortgaged Property superior to the lien of the Deed of Trust (unless the Mortgaged Property is sold subject to such liens and assessments, as provided by law).

Town's Bid. The Town may bid for all or any part or parts of the Mortgaged Property at any foreclosure sale, but the Town may not bid less than an amount sufficient to provide for full payment of the Obligations unless the Company otherwise consents in writing.

Successful bidder's deposit. At any sale the Deed of Trust Trustee may, at its option, require any successful bidder (other than the Company) immediately to make a deposit with the Deed of Trust Trustee against the successful bid in the form of cash or a certified check in an amount of up to 5% of the sale price. Notice of any such requirement need not be included in the advertisement of the notice of such sale.

Application of sale proceeds. The Deed of Trust Trustee must apply the proceeds of any foreclosure sale in the manner and in the order prescribed by State law. The expenses of any sale will include a commission to the Deed of Trust Trustee equal to one-half of one percent of the gross sales price (but not exceeding a total of \$25,000) for all services performed by the Deed of Trust Trustee under the Deed of Trust. Any proceeds of any sale remaining after the payment of all Obligations and the prior application thereof in accordance with State law will be paid to the Town.

Possession of Mortgaged Property. Upon the continuation of any Event of Default, the Company, to the extent permitted by law, may (a) take possession of the Mortgaged Property, with or without legal action, (b) lease the Mortgaged Property, (c) collect all rents and profits therefrom, with or without taking possession of the Mortgaged Property, and (d) after deducting all costs of collection and administration expenses, apply the net rents and profits to the payment of necessary maintenance and insurance costs, and then apply such amounts to the Town's account and in reduction of the Obligations in accordance with the provisions of the Trust Agreement. The Company will be liable to account only for rents and profits it actually receives.

DEFINITIONS

The following are definitions of certain terms used in the Financing Contract, the Trust Agreement and the Deed of Trust.

"2012 Bonds" means the 2012 Bonds issued pursuant to the Trust Agreement.

"Additional Bonds" means any Bonds delivered pursuant to the Trust Agreement after the initial delivery of the 2012 Bonds.

"Additional Payments" means the reasonable and customary fees and expenses of the Company or the Trustee, any of the Company's or the Trustee's expenses (including attorneys' fees) in prosecuting or defending any action or proceeding in connection with the Financing Contract and any taxes or any other expenses, including, but not limited to, the Company's administrative or legal costs (including costs of maintaining its existence and good standing), licenses, permits, state and local sales and use or ownership taxes or property taxes which the Company is required to pay as a result of the Financing Contract, inspection and reinspection fees, or any other amounts payable by the Town as a result of its

covenants under the Documents (together with interest that may accrue on any of the above if the Town fails to pay the same, as set forth in the Financing Contract).

“Appropriate Consultant” means one or more independent public accountants or firms of public accountants, or architects or firms of architects, engineers or firms of engineers, professional management consultants or firms of management consultants, or such other independent persons, having (at the time retained for the purposes of the Financing Contract) a favorable reputation for skill and experience in an appropriate area of expertise, as may be selected by the Town and approved by the Company from time to time to perform and carry out the duties imposed on an Appropriate Consultant.

"Budget Officer" means the Town officer from time to time charged with preparation of the draft Town budget initially submitted to the Town Council for its consideration.

"Business Day" means any day (a) other than a day on which banks in New York, New York, or the city to which notices to the Trustee under the Trust Agreement are to be sent, are required or authorized to close, and (b) on which the New York Stock Exchange is not closed.

"Bonds" means, together, the 2012 Bonds and all Additional Bonds.

"Closing Date" means the date on which the Financing Contract is first executed and delivered by the parties.

"Code" means the Internal Revenue Code of 1986, as amended, including regulations, rulings and revenue procedures promulgated thereunder or under the Internal Revenue Code of 1954, as amended, as applicable to the Bonds or the Town's obligations under the Financing Contract. Reference to any specific Code provision will be deemed to include any successor provisions thereto.

"Contract Payments" means Installment Payments and Additional Payments.

“Event of Default” has the meaning set forth in the Financing Contract. See the section in these summaries above captioned “THE FINANCING CONTRACT -- Default and Remedies under Financing Contract – Events of Default.”

"Event of Nonappropriation" means a determination by the Town Council not to include an appropriation for Contract Payments in the Town budget for any Fiscal Year, as contemplated in the Financing Contract, or any subsequent action by the Town Council to delete or reduce such an appropriation from an approved Town budget, all as contemplated under the Financing Contract.

“Facilities” has the meaning described in the Deed of Trust, and generally includes the Town Operations Center on Millhouse Road in Chapel Hill, North Carolina.

"Federal Securities" means, to the extent such are legal investments for the Town's funds at the time of purchase, (a) direct obligations of the United States of America for which its full faith and credit are pledged, or (b) securities or obligations evidencing direct ownership interests in specified portions (principal or interest) of obligations described in (a).

“Financing Costs” means all professional and administrative costs related to the authorization and execution and delivery of the Bonds, including printing and publication costs and legal, accounting, advisory and other fees and expenses.

"Fiscal Year" means the Town's fiscal year beginning July 1, or such other fiscal year as the Town may later lawfully establish.

“Fixtures” means all articles of personal property attached or affixed to the Facilities, including but not limited to all apparatus, machinery, motors, elevators, fittings and all plumbing, heating, lighting, electrical, laundry, ventilating, refrigerating, incinerating, air-conditioning, fire and theft protection and sprinkler equipment, including all renewals and replacements thereof and all additions thereto, and all articles in substitution thereof, and all proceeds of all the foregoing in whatever form.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court in the State that is selected by the Town and approved by the Company.

"Installment Payments" means the payments payable by the Town pursuant to the Financing Contract to repay the advance to the Town of the proceeds from the sale of the 2012 Bonds.

“LGC” means the North Carolina Local Government Commission, or any successor to its functions.

“Majority Owners” means, as of any date, the Owners of at least a majority in principal amount of the Bonds then Outstanding.

"Mortgaged Property" has the meaning assigned in the Deed of Trust, and generally includes the Site and the Facilities.

"Net Proceeds" means all payments and proceeds derived from (a) claims made on account of insurance coverages required under the Financing Contract, (b) any exercise of condemnation or eminent domain authority related to all or any portion of the Mortgaged Property, (c) proceeds of title insurance related to the Mortgaged Property, or (d) any sale of the Facilities, as well as all judgments, settlements or other payments in lieu of any of the foregoing, in any case reduced by the sum of (i) all expenses (including attorneys' fees and costs) incurred in the collection of such proceeds and (ii) all amounts expended by the Town, the Company or the Trustee to remedy the event giving rise to such proceeds, all of which amounts will be paid or reimbursed from the gross proceeds.

"Obligations" means all amounts payable by the Town under the Financing Contract and the Deed of Trust.

"Opinion of Counsel" or “Opinion of Special Counsel” means a written opinion of Independent Counsel or Special Counsel, as appropriate.

"Outstanding," when used with reference to Bonds, or "Bonds Outstanding," means all Bonds that have been authenticated and delivered by the Trustee under the Trust Agreement and not yet paid, except the following:

- (a) Bonds canceled or purchased by or delivered to the Trustee for cancellation;
- (b) Bonds that have become due (at maturity or on prepayment, acceleration or otherwise) and for the payment of which, including interest accrued to the due date, the Trustee holds sufficient moneys;
- (c) Bonds deemed paid in accordance with the defeasance provisions of the Trust Agreement; and
- (d) Bonds in lieu of which others have been authenticated under the provisions of the Trust Agreement relating to registration and exchange of Bonds or relating to mutilated, lost, stolen, destroyed or undelivered Bonds.

"Owner," when used with reference to Bonds, means the person in whose name such Bond is registered on the registration books maintained by the Trustee.

"Permitted Encumbrances" means, as of any particular time, (a) the "Existing Encumbrances," as defined in the Deed of Trust, (b) liens for taxes and assessments not then delinquent, or liens which may remain unpaid pursuant to the Financing Contract, (c) the Deed of Trust, (d) any lien or encumbrance made by its terms expressly subordinate to the lien of the Deed of Trust, and (e) easements and rights-of-way granted by the Town pursuant to the Deed of Trust.

"Permitted Investments" means such investments as from time to time are legal investments for the Town's funds, as determined at the time of investment.

"Project Costs" means all costs of the design, planning, constructing, acquiring, installing, equipping and improving public parking facilities for the Town, including the acquisition of a parking facility pursuant to a General Development Agreement between the Town and Ram Development Company dated as of February 12, 2007, as amended, all as determined in accordance with generally accepted accounting principles and that will not adversely affect the exclusion from gross income for federal income tax purposes of the designated interest component of Installment Payments payable by the Town under the Financing Contract. "Project Costs" include (a) sums required to reimburse the Town or its agents for advances made for any such costs, (b) interest during the construction period and for up to six months thereafter, and (c) all costs related to the financing of the parking improvements, carrying out the contemplated refinancings and the issuance of the 2012 Bonds through the Financing Contract and all related transactions.

"Refinancing Costs" means amounts used or to be used to pay principal, interest and any applicable prepayment premium on installment financing obligations previously entered into by the Town, including financings for the Town Operations Center on Millhouse Road, the Town's Wallace Parking Deck and the Town's Homestead Aquatic Center.

"Site" has the meaning ascribed to that term in the Deed of Trust, and generally includes the real property upon which the Facilities are located.

"Special Counsel" means such attorney or firm of attorneys nationally recognized on the subject of municipal obligations as may be selected by the Town and approved by the Trustee.

"State" means the State of North Carolina.

"Town Council" means the Town's governing board as from time to time constituted.

"Town Representative" means the Town Manager, Town finance officer or any other person or persons at the time designated, by a written certificate furnished to the Trustee and signed on the Town's behalf by the Town Manager or the Town's Mayor to act on the Town's behalf for the purpose of performing any act (or any specified act) under the Financing Contract.

"Trustee" means U.S. Bank National Association, and its successors as Trustee under the Trust Agreement.

This page intentionally left blank.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

This page intentionally left blank.

[Proposed form of bond counsel opinion]

June ___, 2012

Town of Chapel Hill, North Carolina

**§ _____
Limited Obligation Bonds, Series 2012**

Ladies and Gentlemen:

We have acted as bond counsel to the Town of Chapel Hill, North Carolina (the "Town"), in connection with the Town's execution and delivery today of the following documents:

(a) An Installment Financing Contract dated as of June 1, 2012 (the "Financing Contract"), between the Town and Town of Chapel Hill Public Facilities Corporation (the "Company"); and

(b) A Deed of Trust and Security Agreement dated as June 1, 2012 (the "Deed of Trust"), from the Town to a deed of trust trustee (the "Deed of Trust Trustee") for the Company's benefit.

The Town is and has been our only client in this transaction.

We have examined the applicable law and certified copies of proceedings and documents relating to such execution and delivery.

The Company will advance funds to the Town pursuant to the Financing Contract. The Town will use those funds to provide for the acquisition and improvement of Town parking facilities, to refinance certain existing Town financing obligations and to pay related costs. The Town has agreed in the Financing Contract to repay the amount advanced, with interest, by making Installment Payments (as defined in the Financing Contract). As security for its obligations under the Financing Contract, the Town has granted certain security interests pursuant to the Financing Contract and the Deed of Trust.

The Company will obtain the funds for its advance under the Financing Contract by providing for the delivery of the above-captioned limited obligation bonds (the "Bonds") pursuant to a Trust Agreement dated as of June 1, 2012 (the "Trust Agreement"), between the Company and a corporate trustee (the "Trustee"). Under the Trust Agreement, the Company is assigning to the Trustee substantially all of its rights under the Financing Contract and as beneficiary under the Deed of Trust, including its rights to receive Installment Payments.

Reference is made to the Bonds and the Official Statement dated June ___, 2012 (the "Official Statement"), related to the offering of the Bonds, for additional information concerning the details of the Bonds, their payment and prepayment provisions, their purpose and the proceedings pursuant to which they are

Sanford Holshouser LLP

June ____, 2012

page 2

executed and delivered.

Without undertaking to verify the same by independent investigation, we have relied on (1) computations provided to The Arbitrage Group, Inc., Buhl, Alabama, the mathematical accuracy of which has been verified by them, relating to the yield of investments in an escrow fund established in connection with the issuance of the Bonds, the sufficiency of such investments to make certain payments on certain existing Town obligations when due (as more fully described in the documents providing for the issuance of the Bonds), and the yield on the Bonds, and (2) representations and certifications by representatives of the Town, the Company, the North Carolina Local Government Commission and others as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code").

The Town has made certain covenants (the "Covenants") to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds made available to the Town pursuant to the Financing Contract and the timely payment to the United States of any arbitrage rebate required under the Code, all as set forth in the proceedings and documents providing for the authorization, execution and delivery of the Financing Contract and the Bonds.

We have assumed the capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as copies or specimens. We have assumed the Trustee's due authorization, execution and delivery of the Trust Agreement and its due authentication and delivery of the Bonds. As to the Company's due authorization, execution and delivery of the Financing Contract, the Trust Agreement and the Bonds, we have relied on an opinion dated today of the Company's counsel.

We have not examined the title to any property that the Deed of Trust purports to encumber. We therefore express no opinion as to title or perfection or priority of liens, including any matters related to the recording of the Deed of Trust. Similarly, we express no opinion, whether expressly or by implication, as to the enforceability of any remedy to the extent enforceability depends on any matters of title, perfection or priority. We direct your attention to the title insurance policy being issued in connection with this financing by _____ Title Insurance Company, which addresses some of such matters.

Based on the foregoing, as of today and under existing law, we are of the following opinions:

1. The Town has duly authorized, executed and delivered the Financing Contract. The Financing Contract is a legal, valid and binding obligation of the Town, enforceable against the Town in accordance with its terms.
2. The Town has duly authorized, executed and delivered the Deed of Trust. The Deed of Trust is a legal, valid and binding obligation of the Town, enforceable against the Town by the Company, the Trustee (as the Company's assignee under the Trust Agreement) and the Deed of Trust Trustee in accordance with its terms.
3. The Financing Contract and the Trust Agreement are legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms. The Company has assigned to the Trustee, pursuant to the Trust Agreement, substantially all the Company's rights under the Financing Contract (including the right to receive Installment Payments) and as beneficiary under the Deed of Trust.

Sanford Holshouser LLP

June ____, 2012

page 3

4. The Bonds have been validly executed and delivered and represent proportionate and undivided interests in the Town's repayment obligations under the Financing Contract, as provided in the Trust Agreement. The Bonds are secured as provided in the Financing Contract, the Trust Agreement and the Deed of Trust.

Our opinions as set forth in paragraphs 1 through 4 above are subject to the effect (a) of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, and (b) of general principles of equity, regardless of whether applied in a proceeding in equity or at law.

The Town's obligations under the Financing Contract are not general obligations of the Town. Pursuant to the terms of the Deed of Trust, the Financing Contract and Section 160A-20 of the North Carolina General Statutes, no deficiency judgment may be rendered against the Town in violation of such Section 160A-20.

5. Interest components of Installment Payments so designated and paid by the Town pursuant to the Financing Contract and then paid as interest with respect to the Bonds ("Interest Payments") (a) are not includable in the recipient's gross income for federal income tax purposes, and (b) are not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), Interest Payments are taken into account in determining adjusted current earnings for purposes of computing the alternative minimum income tax on corporations. The Town's failure to comply with the Covenants could cause Interest Payments to be included in gross income for federal income tax purposes retroactively to the Financing Contract's date of delivery.

6. Interest Payments are exempt from State of North Carolina income taxes.

We express no opinion regarding other tax consequences of the ownership of or receipt or accrual of interest with respect to the Bonds.

Our services as bond counsel have been limited to rendering the foregoing opinions based on our review of such proceedings and documents as we have deemed necessary. We have not made any investigation concerning the Town's operations, condition or financial resources. We express no opinion herein (a) as to the Town's ability to provide for payments due on the Bonds or otherwise under the Financing Contract, (b) as to the accuracy, completeness or fairness of any information that may have been relied on by anyone in making a decision to purchase Bonds, including the Official Statement, or (c) as to any party's compliance with any terms or conditions precedent to any purchase of Bonds.

This opinion is based on constitutional and statutory provisions and judicial decisions existing today. We assume no responsibility to update this opinion or take any other action with regard to changes in facts, circumstances or the applicable law.

Very truly yours,

[To be signed, "Sanford Holshouser LLP"]

This page intentionally left blank.

APPENDIX E
BOOK-ENTRY-ONLY SYSTEM

This page intentionally left blank.

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”) will act as securities depository for the 2012 Bonds. The 2012 Bonds will be delivered as fully registered certificates registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC.

One fully registered certificate will be issued for each series and maturity of the 2012 Bonds in the aggregate principal amount of the 2012 Bonds, and will be deposited with DTC. So long as Cede & Co. is the registered owner of the 2012 Bonds, as DTC’s partnership nominee, references herein to the owners or registered owners of the 2012 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2012 Bonds.

The following description of DTC, of procedures and record keeping of beneficial ownership interests in the 2012 Bonds, payment of interest and other payments on the 2012 Bonds to DTC Participants (as such term is defined herein) or to Beneficial Owners, confirmation and transfer of beneficial ownership interests in the 2012 Bonds and of other transactions by and between DTC, DTC Participants and Beneficial Owners is based on information furnished by DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“*DTCC*”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2012 Bond (“*Beneficial Owner*”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their

ownership interests in the 2012 Bonds, except in the event that use of the book-entry system for the 2012 Bonds is discontinued.

To facilitate subsequent transfers, all the 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2012 Bond documents. For example, Beneficial Owners of the 2012 Bonds may wish to ascertain that the nominee holding the 2012 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2012 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2012 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2012 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2012 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2012 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2012 Bonds are transferred by Direct

Participants on DTC's records and followed by a book-entry credit of tendered 2012 Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2012 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2012 Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2012 Bond certificates will be printed and delivered to DTC.

The Town, the Corporation and the Trustee cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the 2012 Bonds (a) payments of principal of or interest on the 2012 Bonds, (b) confirmations of their ownership interests in the 2012 Bonds or (c) redemption or other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of the 2012 Bonds, or that they will do so on a timely basis or that DTC, the Direct Participants or the Indirect Participants will serve and act in the manner described in this Official Statement. The information in this section preceding this paragraph concerning DTC and DTC's book-entry system has been obtained from sources that the Town and the Corporation believe to be reliable, but the Town and the Corporation take no responsibility for the accuracy thereof.

NEITHER THE TOWN, THE CORPORATION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS, INDIRECT PARTICIPATIONS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR REDEMPTION PRICE OR INTEREST ON THE 2012 BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2012 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.

This page intentionally left blank.