

**Town of Chapel Hill, North Carolina  
Comprehensive Annual Financial Report  
For the fiscal year ended June 30, 2012**

Prepared by:

Town of Chapel Hill  
Business Management Department



## TABLE OF CONTENTS

Page

### INTRODUCTORY SECTION

Letter of Transmittal.....	i
Certificate of Achievement for Excellence in Financial Reporting.....	viii
Organizational Chart .....	ix
The Town Governing Body and Officials .....	x

### FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT .....	I
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3

### **BASIC FINANCIAL STATEMENTS**

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

Statement of Net Assets.....	15
Statement of Activities .....	16

#### **FUND FINANCIAL STATEMENTS:**

<b>MAJOR FUNDS</b> .....	19
--------------------------	----

##### **Governmental Funds:**

Balance Sheet.....	21
Reconciliation of the Balance Sheet to the Statement of Net Assets.....	23
Statement of Revenues, Expenditures and Changes in Fund Balances.....	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities .....	26
General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual.....	27

##### **Proprietary Funds:**

Statement of Fund Net Assets.....	28
Statement of Revenues, Expenses and Changes in Net Assets .....	30
Statement of Cash Flows .....	32

<b>NOTES TO THE FINANCIAL STATEMENTS</b> .....	37
--	----

### **REQUIRED SUPPLEMENTARY INFORMATION**

Law Enforcement Officers' Special Separation Allowance:	
Schedule of Funding Progress .....	75
Schedule of Employer Contributions .....	76
Other Postemployment Benefits:	
Schedule of Funding Progress .....	77
Schedule of Employer Contributions .....	78

## TABLE OF CONTENTS

---

Page

### COMBINING NON-MAJOR FUND STATEMENTS AND SCHEDULES

<b>Non-Major Governmental Funds:</b> .....	79
Combining Balance Sheets:	
Other Governmental Funds.....	81
Special Revenue Funds .....	82
Capital Projects Funds.....	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances:	
Nonmajor Governmental Funds .....	85
Special Revenue Funds.....	86
Capital Projects Funds.....	88
 <b>Internal Service Funds</b> .....	89
Combining Statement of Net Assets.....	90
Combining Statement of Revenues, Expenses and Changes in Net Assets .....	91
Combining Statement of Cash Flow .....	92

### BUDGETARY STATEMENTS

#### Major Governmental Funds

##### Statement of Revenues, Expenditures and Changes in Fund Balances –

###### Budget and Actual:

General Fund .....	95
Debt Service Fund.....	100
Capital Projects Ordinance Fund .....	101

#### Non-major Governmental Funds

##### Statement of Revenues, Expenditures and Changes in Fund Balances –

###### Budget and Actual:

Capital Projects Fund .....	103
Capital Reserve Fund .....	104
Transit Grant Projects Ordinance Fund.....	105
Public Housing Capital Grants Fund.....	106
Community Development Grant Fund.....	107
Affordable Housing Fund.....	108
Transitional Housing Fund .....	109
Land Trust Fund .....	110
Grants Fund .....	111
Downtown Service District Fund.....	112
Housing Loan Trust Fund.....	113
Library Gift Fund.....	114

## **TABLE OF CONTENTS**

### **Page**

#### **Enterprise Funds**

##### Statement of Revenues, Expenditures and Changes in Fund Balances –

##### Budget and Actual (Modified Accrual Basis):

Transit Fund .....	115
Parking Facilities Fund .....	117
Public Housing Operating Fund.....	118
Public Housing Supplemental Data Schedules.....	119
Stormwater Management Fund .....	121

#### **Internal Service Funds**

##### Statement of Revenues, Expenditures and Changes in Fund Balances –

##### Budget and Actual (Modified Accrual Basis):

Vehicle Replacement Fund .....	122
Vehicle Maintenance Fund .....	123
Computer Equipment Replacement Fund .....	124

#### **Other Supplemental Schedules**

Schedule of Ad Valorem Taxes Receivable .....	125
Analysis of Current Tax Levy.....	126

## **STATISTICAL SECTION**

<b>Statistical Section Summary .....</b>	<b>127</b>
Net Assets by Component.....	128
Changes in Net Assets .....	129
Fund Balances, Governmental Funds.....	132
Changes in Fund Balance, Governmental Funds .....	134
Governmental Funds Tax Revenue by Source .....	137
Assessed Value and Actual Value of Taxable Property .....	138
Direct and Overlapping Property Tax Rates.....	140
Principal Property Tax Payers.....	142
Property Tax Levies and Collections .....	145
Ratios of Outstanding Debt by Type.....	146
Ratios of Net General Bonded Debt Outstanding.....	148
Direct and Overlapping Governmental Debt.....	151
Legal Debt Margin Information.....	152
Demographics and Economic Statistics .....	154
Principal Employers .....	155
Operating Indicators .....	156
Capital Asset Statistics.....	158
Full Time Equivalent Town Employees by Function.....	160

## TABLE OF CONTENTS

---

Page

### SINGLE AUDIT SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> .....	161
Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act.....	163
Report on Compliance with Requirements Applicable to Each Major State Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act .....	165
Schedule of Findings and Questioned Costs.....	167
Summary Schedule of Prior Year Findings and Questioned Costs.....	169
Schedule of Expenditures of Federal and State Awards.....	171



MANAGER'S OFFICE  
Town of Chapel Hill  
405 Martin Luther King Jr. Blvd.  
Chapel Hill, NC 27514-5705

phone (919) 968-2743 fax (919) 969-2063  
[www.townofchapelhill.org](http://www.townofchapelhill.org)

October 26, 2012

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

Ladies and Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the Town of Chapel Hill for the fiscal year ended June 30, 2012 (FY 2011-12) is hereby submitted. North Carolina general statutes require each unit of local government to publish within four months after the close of the fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles and audited by a firm of licensed certified public accountants in accordance with generally accepted auditing standards. To the best of our knowledge and belief, the enclosed data accurately presents the financial position and the results of operations of the Town as measured by the financial activity of its various funds. This report reflects the sound fiscal policies our elected officials have established to achieve their annual priorities for programs, services and capital improvements. The town's strong financial position is demonstrated by the highest credit rating attainable in the national bond markets.

Management of the Town of Chapel Hill, North Carolina, is responsible for the integrity and objectivity of financial statements and other representations contained in this annual report. The town's annual financial report, prepared in accordance with generally accepted accounting principles ("GAAP") for units of local government, consists of management's representations concerning the financial position and results of operations for the fiscal year ended June 30, 2012.

The town engaged Martin Starnes and Associates, independent auditors, to perform an audit of the town's reported financial position and results of operations contained in the government-wide and fund financial statements and notes to the financial statements.

Their audit consists of an objective outside review in order to provide reasonable rather than absolute assurance that the financial statements are free from material misstatements. Working with the town's professional financial staff, they reviewed and made appropriate tests of data included in the financial statements, and evaluated the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the financial statements of the Town of Chapel Hill for the fiscal year ended June 30, 2012 are presented in conformity with generally accepted accounting principles. The report of the independent auditors is presented as the first component of the financial section of this report.

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

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

The town's system of internal accounting controls is designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with state statutes, authorization of the Town Council and GAAP, and that financial records are a reliable basis for preparation of both interim and annual financial statements. To provide a reasonable basis for making these representations, management of the Town of Chapel Hill has established a comprehensive internal control framework that is designed both to protect the Town's assets from loss, theft, or misuses and to compile sufficient reliable information for the preparation of the Town of Chapel Hill's financial statements in conformity with GAAP. The system requires selection and training of qualified personnel, an organization structure that provides appropriate delegation of authority and separation of responsibilities, financial policies and procedures and their dissemination throughout the town organization. Because the cost of internal controls should not outweigh their benefits, the Town of Chapel Hill's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge, this financial report is complete and reliable in all material respects.

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

The annual budget serves as the foundation for the Town of Chapel Hill's financial planning and control. All departments of the Town are required to submit requests for appropriation to the Town Manager in February of each year. The Town Manager uses these requests as the starting point for developing a proposed budget. The Town Manager presents the proposed budget to the Council in April or early May. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by June 30. Formal budgetary accounting is employed for all funds as a management control required by North Carolina General Statutes.



Budgets are legally enacted by passage of an Annual Budget Ordinance and Project Budget Ordinances which may be formally amended as required. The Town Manager is authorized to transfer budget authorizations within departments and between departments within major functional areas, but changes of functions and total budgets of any fund require approval by the Town Council.

Budgetary control is maintained at the functional level. Neither an operational expenditure nor an encumbrance is processed when the transaction would result in a department overrun. Open encumbrances are a component of restricted fund balances at June 30, 2012.

The signature and authorization of the Town's Business Management Director are required on all expenditure documents before checks are processed. Payroll checks are authorized by department heads and controlled by the budgeted position list maintained in the computerized payroll system.

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other. Each accounting entity is accounted for in a separate "fund". A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

### **Profile of the Town of Chapel Hill**

The Town is located principally in Orange County and slightly in Durham County in the north central portion of North Carolina on the Piedmont Plateau, approximately equidistant between Washington, D.C. and Atlanta, Georgia. The area's topography is characterized by rolling hills. The Town, which was chartered in 1819, presently covers an area of 21.3 square miles, serves an official population of 57,432 and is the home of the University of North Carolina at Chapel Hill.

The Town is empowered by statute to levy an annual ad valorem tax on the appraised value of all taxable real and tangible personal property within its boundaries. Orange and Durham Counties are the other units levying such taxes within the corporate limits of the Town. The Town is also empowered by statute to extend its corporate limits by annexation.

The Town operates under a council-manager form of government. Policy-making and legislative authority are vested in the governing Town Council consisting of a mayor and eight other members. The Town Council appoints the members of various boards and commissions, the Town Manager, and Town Attorney. The Mayor presides over Council meetings and has full voting privileges.

The Mayor and all Council members are elected at large. Council members serve four-year terms. The Mayor and four Council members are elected every two years. All municipal elections are non-partisan. The Town Manager is the chief administrative officer of the Town. He is the professional administrator who serves at the pleasure of the Town Council for an indefinite term.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Chapel Hill operates.

**Local economy.** The Town of Chapel Hill is a part of the Triangle region of North Carolina, which includes the Research Triangle Park, a major complex of research and research-oriented manufacturing facilities. Despite the recent economic down-turn, the Town, Orange County and the Research Triangle Park area continue to experience growth and are considered to be among the most desirable areas of the country to live and work. In 2009, the U.S. Conference of Mayors named Chapel Hill the “most liveable city” and the Town frequently appears in national “best place to live” listings.

The economy of the Town is characterized by a high degree of institutional and public sector activity, plus office, commercial and service-oriented businesses. The University of North Carolina at Chapel Hill and the University of North Carolina Health Care System are the largest employers in the Town, providing about 20,000 jobs. These institutions contribute significantly to the low unemployment rate in the Town and Orange County when compared to the rest of the state. The Town's unemployment rate has been below State and national rates over the last five years. The Town's economy is expected to remain relatively strong in the foreseeable future because of the benefits derived from the low unemployment rate and a stable employment base.

**Long-term financial planning.** The Town began several new capital projects which affected Town borrowings and will impact future debt payments.

On April 14, 2003 the Town Council unanimously adopted the Library Building Program as a part of the Library Master Plan. The revised Plan calls for the expansion of the present library building from 27,000 square feet to 68,000 square feet, the addition of user seating to accommodate 282 users instead of the current 120, and an increase in books and other materials. In addition to the Library Building Program, the Council recommended that the citizens of Chapel Hill consider bond financing for several other proposal as follows:

Project	Amount	Purpose
Library Building Improvements	\$ 16,260,000	Expansion of the Town library
Sidewalk and Streets	5,600,000	Construct 50% of sidewalk priorities Upgrade pedestrian amenities Make improvements for bicycle and pedestrian safety Make downtown streetscape improvements
Parks and Recreation Facilities	5,000,000	Construct 50% of greenway plans
Open Spaces and Areas	2,000,000	Purchase open space
Public Buildings	500,000	Establish an energy bank
Total	<u>\$ 29,360,000</u>	

In November 2003, voters of the Town of Chapel Hill approved a bond referendum for a variety of projects totaling \$29.36 million. The bonds were sold in three issues, first \$4 million in 2004 and \$4.95 million in 2006. The last of the authorized bond sales, delayed with the economic downturn, included the majority of the library bonds and were sold in a single \$20.41 million issuance in October 2010. The bonds were sold in a combination of general obligation bonds and Build America Bonds, which are eligible for an interest subsidy from the federal government through the American Recovery and Reinvestment Act.

The \$20.41 million in bonds were sold for the Library renovation and other purposes as follows, with the projects under way in 2011-12:

Library Building Improvements	\$ 14,260,000
Sidewalk and Streets	1,400,000
Upgrade pedestrian amenities	200,000
Bicycle and pedestrian safety	350,000
Downtown streetscape improvements	500,000
Parks and Recreation Facilities	<u>3,700,000</u>
Bond sale October 2010	<u>\$ 20,410,000</u>

The Town of Chapel Hill also committed to up to \$7.2 million for a \$75 million public/private development project to construct a three-section building complex combining condominiums, retail and underground parking. The complex is being constructed on town-owned Parking Lot 5, facing both Franklin and Rosemary Streets. The project, in addition to retail space, will include 137 condominiums with 21 affordable housing units which will be placed in the Land Trust, nearly 30,000 square feet of office/retail space, and 345 parking spaces. The project will also include about 27,000 square feet of open public space and public art. The town will retain ownership of the site with a land lease and will own 161 parking spaces with 169 spaces for condominium owners.

The downtown development project will stimulate the town center, reduce dependency on the automobile and increase the tax-base. When completed, the project is expected to generate

new property and sales taxes and parking revenue. The construction phase of this project began in FY2011 and is nearing completion. The Town's funding commitment for this project is effective upon completion, estimated to be approximately first quarter of calendar year 2013.

In June 2012, the Town sold \$28.8 million in Limited Obligation Bonds, taking advantage of favorable interest rates to both refinance existing debt and to borrow additional funds to meet the obligations for the downtown development. The LOBs refunded the existing certificates of participation for construction of the Town Operation Center and Wallace Parking Deck, as well as two installment purchase agreements for building parks projects. The new debt will pay for parking spaces in the mixed-use development, capital repairs of the Wallace Deck and renovations to the Town Operations Center.

Favorable rates in FY12 also led to refunding of portions of general obligation bonds from 1996, 2003 and 2004. In May, the Town issued \$4.655 million in refunding bonds, refinancing bonds that were issued for a variety of parks and recreation, streets and municipal building projects.

In addition to the Town's plans, The University of North Carolina is planning a new satellite campus on approximately 1,000 acres called Carolina North. The new development (on land formerly used by the Horace Williams Airport) will combine a research park with academic buildings, businesses, residential areas, green space and public schools. On June 22, 2009, the Chapel Hill Town Council approved a development agreement with the University for the Carolina North Project. The actual campus of Carolina North will cover approximately 250 acres of the Horace Williams Tract and will be built in phases over the next 50 years.

The Town and the University have engaged in extensive, long-range planning for the expansion, including a fiscal impact analysis. Carolina North will best serve the university and the state if it also strengthens the local community, enhances its quality of life, respects its character and values, and embraces its spirit of collaboration. Businesses incubated at Carolina North ideally would be retained within the community once they leave Carolina North, and such efforts should be supported through communication, cooperative planning and assistance to the maximum extent possible.

In 2011-12, the Town engaged the community in the creation of a new comprehensive plan, Chapel Hill 2020. The 2020 process brought together all stakeholders, including people who live, work, invest or play in the town, through a year-long series of discussions to provide input into the development of a guiding document that articulates the comprehensive vision and direction of the Town. The Town Council adopted Chapel Hill 2020 in June 2012, and directed a review to the Town's Land Use Management Plan as the first implementation phase of the new comprehensive plan.

**Financial Policies.** The Town's management has relied upon sound financial policies and procedures to manage the operations of the Town to weather the economic downturn while maintaining core service levels and providing for Council priorities.

- Maintaining an adequate fund balance has helped the Town to weather the prospect of revenue shortfalls without an interruption of Town services.
- The dedication of a portion of the tax rate to debt service in 2008, along with the opportunity to pay off existing debt during the delay, allow the Debt Fund to meet debt service needs from fund balance. Although the issuance of the final 2003 bonds brought debt service costs temporarily above the established guideline of 12% of general fund expenditures, debt service is expected to fall below 12% by 2014-15.
- The principle of preserving fund balance for use on one-time expenses was maintained in the 2011-12 budget, with the allocation of fund balance for a one-time payment to employees in lieu of a raise and for capital maintenance projects.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Chapel Hill for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011.

The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of State and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another Certificate.

In addition, the Town also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for 2011-12. In order to qualify for the Distinguished Budget Presentation Award, the Town's budget document was judged to be proficient in all required categories, as a policy document, a financial plan, an operations guide, and a communications device.

The presentation of this report could not have been accomplished without the efficient and dedicated services of the entire finance staff of the Business Management Department and the various employees from other departments. We would like to express our appreciation to all

members of the Department, other employees, and to the independent certified public accountants, Martin Starnes and Associates, who assisted and contributed to its preparation.

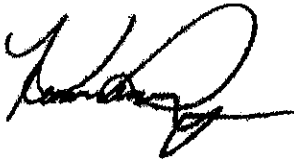
We would also like to thank the Mayor and members of the Town Council for their interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

Respectfully submitted,

Roger L. Stancil  
Town Manager

A handwritten signature in black ink, appearing to read 'R. Stancil', with a stylized flourish at the end.

Kenneth C. Pennoyer  
Business Management Director

A handwritten signature in black ink, appearing to read 'K. Pennoyer', with a stylized flourish at the end.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Chapel Hill  
North Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

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



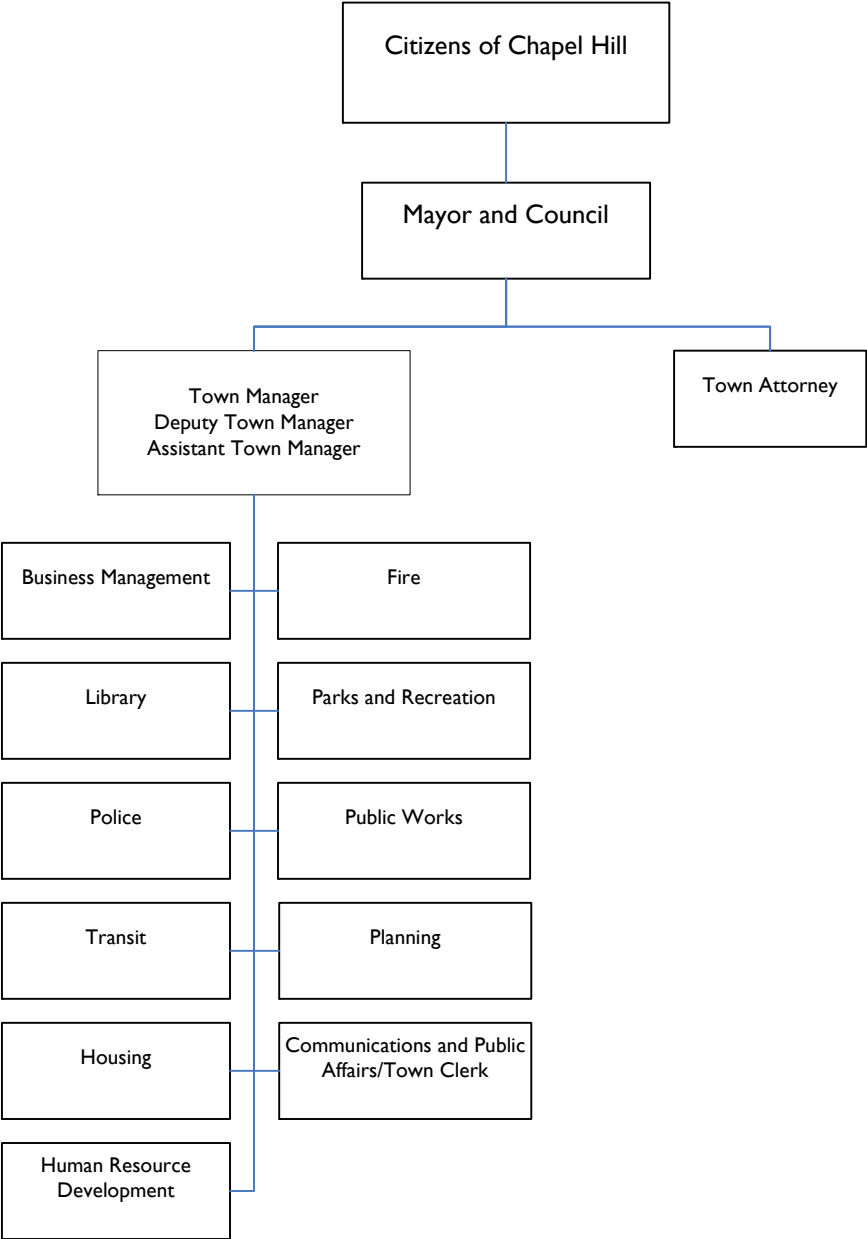
*Linda C. Sandison*

President

*Jeffrey R. Emer*

Executive Director

# TOWN OF CHAPEL HILL ORGANIZATIONAL CHART





**TOWN OF CHAPEL HILL, NORTH CAROLINA  
THE TOWN GOVERNING BODY AND OFFICIALS  
JUNE 30, 2012  
MEMBERS OF THE GOVERNING BODY**

**Mayor**

Mark Kleinschmidt

**Mayor pro tem**

Ed Harrison

**Council Members**

Donna Bell

Matt Czajkowski

Laurin Easthom

Gene Pease

Penny Rich

Lee Storrow

Jim Ward

**Officials**

Roger L. Stancil

Town Manager

Florentine M. Miller

Deputy Town Manager

Kenneth C. Pennoyer

Director Business Management

Ralph D. Karpinos

Town Attorney

*This page intentionally left blank.*

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Chapel Hill's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina, as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2012, on our consideration of the Town of Chapel Hill's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance and the Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of the Town of Chapel Hill, North Carolina, as a whole. The introductory section, combining and individual nonmajor fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.

October 26, 2012

# 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, 2012. 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, 2012, include:

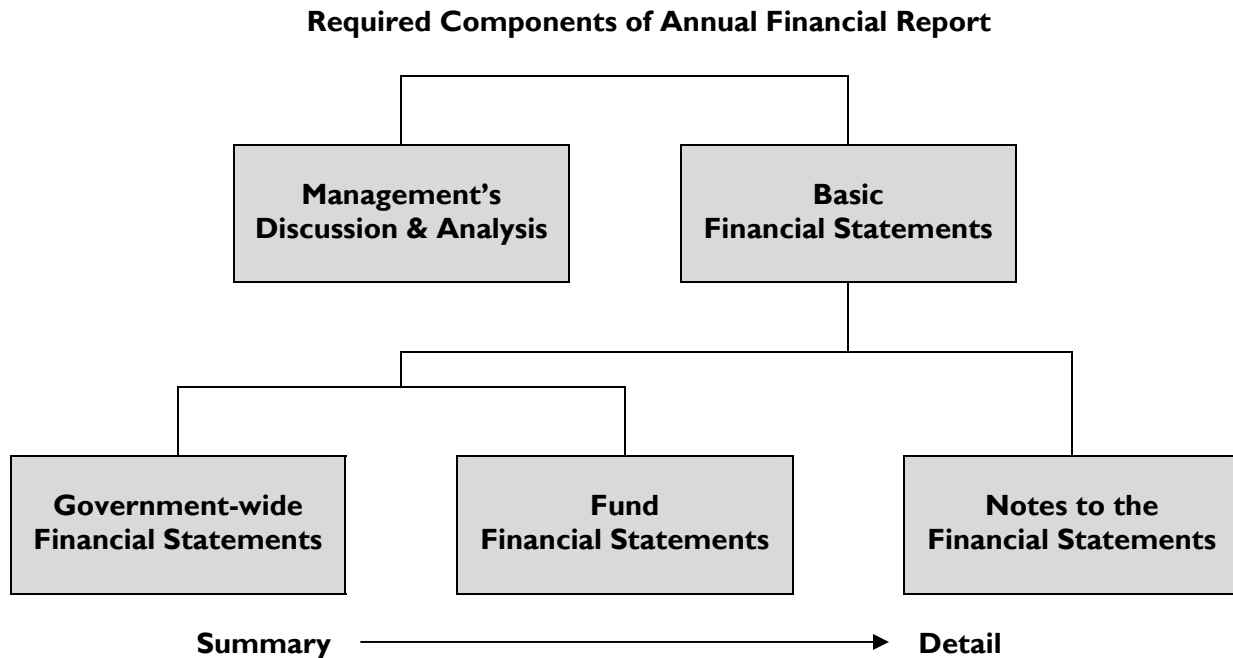
- The financial highlight of the fiscal year was the slow recovery from the 2008 recession and the measures that were undertaken to deal with it. In fiscal year 2012, the management of the Town continued with budget initiatives that began in the fall of 2008 to deal with potential revenue shortfalls and to align revenues with expenditures.
- The strategies for dealing with the possibility of reduced revenues proved successful. Without a tax increase and with minimal service cuts, assets decreased by \$3.1 million, and liabilities increased by \$2.6 million, for a net use of net assets of about \$5.8 million.
- With signs of an improving economy, another financial highlight of FY12 is the Town's sale of \$33.45 million in bonds. 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. \$4.655 million in refunding bonds were issued to refinance portions of 1996, 2003, 2004 bonds for parks, streets and municipal building projects. \$28,800,000 in limited obligation bonds were issued to both refinance existing debt and to provide for parking and improvements to other municipal facilities. The new debt includes funding for the Downtown Initiative and for renovations to the Wallace Deck and the Town Operations Center. The LOBs issue provided for refunding the Town Operations Center and Wallace Deck certifications of participation, and refunding of two installment purchase agreements for parks capital projects. Savings on the refunding are estimated at about \$800,000.
- At June 30, 2012, total net assets of \$156.5 million represents capital assets and restricted net assets which have been reserved for specific purposes, with a deficit of \$743,000 in unreserved assets. Restrictions for Stabilization by State Statute accounts for \$31.5 million of net assets,

# Management's Discussion and Analysis

largely representing outstanding purchase orders for the ongoing Library expansion project (\$9.2 million,) purchase of replacement buses (\$9 million,) other capital projects (\$3 million) and ongoing Town operating costs (\$2.3 million.)

- As of the close of the current fiscal year, Chapel Hill's governmental funds reported combined ending fund balances of approximately \$59 million, an increase of \$6 million in comparison with the prior year, largely reflecting the bond sale.
- Unassigned fund balance of the General Fund (totaling approximately \$13.3 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 \$3.7 million to \$71.4 million as a net of the new debt issuance and the payoff of existing debt. The Town sold \$28.8 million in limited obligation bonds and \$4.65 million in general obligation bonds, refunding \$23.5 million in existing debt.
- Property taxes supported 49% of the governmental services to citizens and the community in fiscal year 2012.
- 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



# Management's Discussion and Analysis

## Basic Financial Statements

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

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

## 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

# Management's Discussion and Analysis

requirements, such as the General Statutes, grantor provisions and the Town's budget ordinance. Fund Financial Statements are divided into governmental and proprietary funds statements.

**Governmental Funds** are used to account for basic services and are reported as governmental activities in the government-wide financial statements. Governmental funds use an accounting method called modified accrual accounting. This method provides a short-term spending focus. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

**Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 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. The budgetary comparison statements use the budgetary basis of accounting and are presented using the same format, language and classifications as the legal budget document. The statements show four columns: the original budget as adopted by the Council, the final budget as amended, the actual resources, charges to appropriations and ending balances and the difference or variance between the final budget and the actuals.



# Management's Discussion and Analysis

## Government-Wide Financial Analysis

Figure 2 below is a summary of net assets for the Town of Chapel Hill at June 30, 2012 (as shown in Exhibit 1) with comparative data from June 30, 2011.

<b>Town of Chapel Hill's Net Assets</b>						
<b>Figure 2</b>						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 67,585,439	\$ 62,299,592	\$ 9,984,359	\$ 17,008,963	\$ 77,569,798	\$ 79,308,555
Capital assets	112,602,812	112,016,672	50,829,655	52,845,110	163,432,467	164,861,782
<b>Total assets</b>	<b>180,188,251</b>	<b>174,316,264</b>	<b>60,814,014</b>	<b>69,854,073</b>	<b>241,002,265</b>	<b>244,170,337</b>
Current liabilities	11,571,177	11,767,107	1,497,730	2,286,340	13,068,907	14,053,447
Non-current liabilities	67,566,118	61,156,211	3,834,471	6,574,882	71,400,589	67,731,093
<b>Total liabilities</b>	<b>79,137,295</b>	<b>72,923,318</b>	<b>5,332,201</b>	<b>8,861,222</b>	<b>84,469,496</b>	<b>81,784,540</b>
Net assets:						
Invested in capital assets, net of related debt	74,391,633	77,405,641	50,829,655	48,230,110	125,221,288	125,635,751
Restricted for:						
Stabilization by State Statute	31,938,580	9,964,543	-	-	31,938,580	9,964,543
Capital projects	118,938	96,217	-	-	118,938	96,217
Public housing	104,905	755,136	-	-	104,905	755,136
Other functions	267,781	283,465	-	-	267,781	283,465
Unrestricted	(5,770,881)	12,887,944	4,652,158	12,762,741	(1,118,723)	25,650,685
<b>Total net assets</b>	<b>\$ 101,050,956</b>	<b>\$ 101,392,946</b>	<b>\$ 55,481,813</b>	<b>\$ 60,992,851</b>	<b>\$ 156,532,769</b>	<b>\$ 162,385,797</b>

The assets of the Town of Chapel Hill exceeded liabilities by \$156.5 million as of June 30, 2012. The Town's net assets decreased by a total of \$5.8 million for the fiscal year, with \$5.5 million of the decrease in business-type activities.

The largest portion (80%) 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 (about \$32.4 million) represents resources that are subject to external restrictions on how they may be used, leaving a deficit of \$1.1 million in unrestricted net assets.

# Management's Discussion and Analysis

Figure 3 presents a summary of government-wide activity (as presented in Exhibit 2) for the year ended June 30, 2012, with comparative data for June 30, 2011.

## Town of Chapel Hill's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 4,948,921	\$ 4,865,401	\$ 5,863,317	\$ 5,324,686	\$ 10,812,238	\$ 10,190,087
Operating grants and contributions	3,839,686	4,246,757	12,148,941	14,502,035	15,988,627	18,748,792
Capital grants and contributions	3,124,515	3,255,411	2,884,220	199,996	6,008,735	3,455,407
General revenues:						
Taxes	43,862,452	42,477,404	2,965,320	2,929,657	46,827,772	45,407,061
Grants and contributions not restricted to specific programs	3,914,798	3,906,365	-	-	3,914,798	3,906,365
Investment earnings	34,258	71,324	8,709	25,411	42,967	96,735
Other	3,342,645	2,133,013	(204,093)	155,666	3,138,552	2,288,679
Total revenues	63,067,275	60,955,675	23,666,414	23,137,451	86,733,689	84,093,126
Expenses:						
General government	9,246,224	8,672,259	-	-	9,246,224	8,672,259
Environment and development	21,804,182	18,613,025	-	-	21,804,182	18,613,025
Public safety	21,140,258	20,363,725	-	-	21,140,258	20,363,725
Leisure activities	10,245,527	9,725,448	-	-	10,245,527	9,725,448
Interest expense	2,453,129	2,046,519	-	-	2,453,129	2,046,519
Transportation	-	-	21,454,457	20,945,401	21,454,457	20,945,401
Parking facilities	-	-	2,212,712	1,785,780	2,212,712	1,785,780
Stormwater management	-	-	1,825,682	1,739,239	1,825,682	1,739,239
Housing operations	-	-	2,204,546	1,982,144	2,204,546	1,982,144
Total expenses	64,889,320	59,420,976	27,697,397	26,452,564	92,586,717	85,873,540
Increase (decrease) in net assets before transfers	(1,822,045)	1,534,699	(4,030,983)	(3,315,113)	(5,853,028)	(1,780,414)
Transfers	1,480,055	226,775	(1,480,055)	(226,775)	-	-
Increase (decrease) in net assets	(341,990)	1,761,474	(5,511,038)	(3,541,888)	(5,853,028)	(1,780,414)
Net assets, July 1	101,392,946	99,631,472	60,992,851	64,534,739	162,385,797	164,166,211
Net assets, June 30	\$ 101,050,956	\$ 101,392,946	\$ 55,481,813	\$ 60,992,851	\$ 156,532,769	\$ 162,385,797

**Governmental activities.** Governmental activities show a decrease in net assets of about \$342,000. The minimal decrease was achieved through conservative budget practices and with improvement in certain revenues, like sales taxes.

# Management's Discussion and Analysis

**Business-type activities:** Business-type activities decreased Chapel Hill's net assets by a net of \$5.5 million overall. The Housing Operating Fund gained \$857,000 in net assets, with capital contributions of over \$1 million completing capital renovations. Transit, Stormwater and Parking Funds show a decrease in net assets, primarily from the Transit Fund which saw a reduction in grants for both operating and capital uses, combined with a spike in fuel prices and other costs. The Stormwater Management Fund and Parking Facilities Funds had anticipated decrease in net assets, with Stormwater's decrease being the result of operations, while Parking completed installation of new parking meters.

## 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, 2012, the governmental funds of Chapel Hill reported a combined fund balance of \$59 million, an increase of \$6 million or 11.4% over last year. This change is largely the result of the premium on issuance of new 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 \$13.3 million, with total fund balance of \$22.2 million. The fund balance available for appropriation according to the statutory calculation is 32.5% of expenditures for FY12. 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 27.3%, and total fund balance, which includes reserves and designated amounts, represents 45.4% of total 2011-12 General Fund expenditures and other uses, respectively. The total fund balance increased by about \$1.8 million. This increase was achieved by positive variances in both departmental expenditures and overall revenues. Sales taxes in particular returned in FY12 to pre-recession levels, and revenues exceeded estimates in both property taxes and occupancy taxes.

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 \$3.27 million in FY12. The change is the net of \$4.6 million received in premium on issuance of the new debt and the planned use of \$1.3 million of fund balance toward debt payments and debt issuance costs.

The Capital Projects Ordinance Fund reflects a \$128,000 decrease in fund balance. \$5.4 million of the FY12 expenditures of \$7 million are for the Library renovation project undertaken with bond funds. The remainder is largely for street improvement projects undertaken with bond 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 economy showing signs of recovery, the actual revenues were about \$1.1 million more than budgeted.

# Management's Discussion and Analysis

Sales taxes receipts were budgeted conservatively, and saw a return to pre-recession levels, exceeding estimates by about \$611,000. Property tax receipts remained resilient to the economic downturn and exceeded budget by \$130,000 in the year. Signs of recovery were also reflected in development-related income, with Licenses and Permits \$124,000 over budget, while Occupancy taxes came in \$141,000 over budget. Other revenue sources slightly exceeded budget, while intergovernmental revenues were just under budget.

Expenditures were about \$3.8 million less than budgeted. The Public Works budget benefitted from another fairly mild winter during 2011-12, reducing the requirements for road clearing, debris cleanup and heating of buildings, and delayed hiring positions pending a Solid Waste study in light of the impending closure of the Orange County landfill. In addition to efforts to curtail spending through the delayed hiring of open positions and other cost-cutting measures, the savings include \$400,000 budgeted to fund Other Post-Employment Benefits that have not yet been placed in trust, and about \$1.7 million 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 \$2.8 million for the Transit Fund, \$2.7 million for the Housing Operating Fund and \$1.1 million for the Stormwater Management Fund. The Parking Facilities Fund shows a slight decrease in overall net assets of \$366,000, comprised of a deficit in unrestricted net assets of \$2 million with \$4.4 million invested in capital assets, net of related debt. The Transit Fund's \$6 million decrease in net assets reflects a reduction in federal operating and capital grants, and the transfer of \$1,067,500 to the Transit Capital Grants Fund to provide for matching funds for pending capital bus purchases. 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 on the next page 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, 2012, capital assets totaled \$163,432,467 compared with \$164,861,782 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.

# Management's Discussion and Analysis

**Town of Chapel Hill Capital Assets  
(net of depreciation)  
Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 27,001,106	\$ 26,895,011	\$ 6,962,311	\$ 6,950,161	\$ 33,963,417	\$ 33,845,172
Easements	78,159	77,359	-	-	78,159	-
Land improvements	14,105,763	13,253,107	3,737,760	3,162,306	17,843,523	16,415,413
Infrastructure	15,895,812	16,981,929	-	-	15,895,812	16,981,929
Buildings and building improvements	39,890,452	42,429,921	22,162,051	22,786,724	62,052,503	65,216,645
Equipment	987,077	988,023	1,069,805	1,174,072	2,056,882	2,162,095
Vehicles	4,307,028	4,797,234	16,885,303	18,016,923	21,192,331	22,814,157
Construction in progress	10,337,415	6,594,088	12,425	754,924	10,349,840	7,349,012
<b>Total</b>	<b>\$ 112,602,812</b>	<b>\$ 112,016,672</b>	<b>\$ 50,829,655</b>	<b>\$ 52,845,110</b>	<b>\$ 163,432,467</b>	<b>\$ 164,861,782</b>

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

- \$ 1,044,686 for Public Housing renovations;
- \$ 742,499 for Burning Tree Drive drainage improvements;
- \$ 829,687 for streets, sidewalks and traffic improvements;
- \$ 289,027 for Booker Creek linear park;
- \$ 97,727 for other parks and trails;

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.

**Long-term Debt.** As shown in Figure 5 on the next page, as of June 30, 2012 the Town of Chapel Hill had total outstanding bonded debt, backed by the full faith and credit of the Town, of \$31,445,000. The Town also had \$28,800,000 of debt in certificates of participation to refund certificates of participation for funding construction of the Town Operations Center and construction of the Wallace Parking Deck, to refund installment notes for parks construction projects and to fund Parking projects and renovations to the Town Operations Center. Total debt of about \$80 million includes the addition of other postemployment benefits totaling \$11.8 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

## Town of Chapel Hill Outstanding Debt Figure 5

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 31,445,000	\$ 34,110,000	\$ -	\$ -	\$ 31,445,000	\$ 34,110,000
Limited obligation bonds	28,800,000	-	-	-	28,800,000	-
Bond premium	-	1,038,392	-	-	-	1,038,392
Bond discount	-	(120,180)	-	-	-	(120,180)
Installment notes payable	4,650,441	7,452,516	-	-	4,650,441	7,452,516
Orange County loan payable	123,146	123,146	-	-	123,146	123,146
Separation allowance	246,648	269,438	-	-	246,648	269,438
Compensated absences	2,348,310	2,347,100	603,706	637,503	2,952,016	2,984,603
Other postemployment benefits	7,997,013	4,420,209	3,828,675	2,198,173	11,825,688	6,618,382
Certificates of participation	-	19,040,000	-	4,615,000	-	23,655,000
Total	\$ 75,610,558	\$ 68,680,621	\$ 4,432,381	\$ 7,450,676	\$ 80,042,939	\$ 76,131,297

The Town's total debt from governmental activities increased by \$6.9 million or 10%, to \$75.6 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 \$28.8 million in limited obligation bonds and \$4.655 million in general obligation bonds.

Business-type debt decreased by about \$3 million to \$4.4 million, a net of the addition to post-employment benefits of \$1.6 million and the reduction of \$4.6 million in certificates of participation with the refunding. During the year, the Town also added installment financing for vehicle replacement of \$887,000 and there was a slight decrease 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, 2012 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 about \$550 million, well above the town's outstanding debt for general obligation bonds of approximately \$31.4 million, which is about 5.4% 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.

# Management's Discussion and Analysis

## 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 5.6% at June 30, 2012, well below the state average of 9.4%.
- Stable property tax base with a continuing property tax collection rate in excess of 99%.

## Budget Highlights for the Fiscal Year Ending June 30, 2013

### Governmental Activities:

General Fund revenues budgeted for FY13 total \$52.5 million, including the use of \$1.5 million in fund balance, reflecting a 4% increase from the budget for 2011-12. Property values were last reassessed by Orange County in 2009, with revaluation historically occurring every four years. Based on the scarcity of sales upon which to base a new valuation, Orange County has decided to delay revaluation until 2015-16. The Town maintained a revenue-neutral property tax rate for 2013 and retained the split of the property tax between the General Fund, Debt Fund and Transit Fund as shown below.

Tax Rate	Cents per \$100 valuation		
	FY11-12	FY12-13	\$ Change
General Fund	\$ 37.8	\$ 37.8	\$ -
Debt Fund	7.5	7.5	-
Transit Fund	4.1	4.1	-
Total Tax Rate	<u>\$ 49.4</u>	<u>\$ 49.4</u>	<u>\$ -</u>

Tax collection rates in Orange County have been maintained in excess of 99% despite the economic downturn. The continuation of collection rates and modest growth lead to estimates of an increase of 1.5% or \$416,000 over 2011-12 for the General Fund. The delay in the issuance of approved bonds in 2010 allowed for the payoff of existing debt, and the savings achieved through refunding existing debt in FY12 enabled the Debt Fund to meet debt service requirements with appropriated fund balance.

Sales taxes are budgeted at \$9.8 million, a 9.6% increase from 2011-12's budget as we anticipate a continuation of economic recovery. Occupancy taxes also reflect a 5% increase, along with modest increases in charges for services, particularly in Parks and Recreation usage fees. Other significant General Fund revenues are relatively flat.

General Fund expenditures of \$52.5 million represent a 4% increase from 2011-12. The goals of the budget for 2012-13 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 economic recovery is expected to continue. The budget maintains service levels and includes a 3% decrease in medical insurance costs a slight decrease in the employer's contribution to the Local Government Employees

# Management's Discussion and Analysis

Retirement System. The budget also includes funding for a 3% raise in employee pay, the first since 2008-09.

The reduction in the use of fund balance affected the allocation for capital improvements, which was reduced as a budget saving measure, reduced again this year from historic levels of about \$1 million to \$594,000, to allow for capital maintenance and minimal levels of facility improvements.

Debt service costs in 2012-13 are budgeted at \$7 million, while the Build America Bonds entitle the Town to receive an interest subsidy of \$183,000 to recoup some of the expense. The Debt Service tax rate of \$7.5 cents per \$100 in valuation is expected to generate about \$5.4 million. The use of about \$941,000 in fund balance will provide for debt payments due in FY13.

Other governmental activities budgeted for 2012-13 reflect a continuation of existing service levels in keeping with the budget goals for FY13.

## **Business – type Activities:**

The Transit Fund's 2012-13 budget of \$18.6 million continues the fare-free system with an increase in contributions from the system partners, the University of North Carolina and Town of Carrboro. The Transit Fund's portion of property taxes is budgeted at \$2.9 million. The Transit budget is balanced with a transfer from the General Fund of \$364,000.

The 2011-12 budget for the Transit Fund includes continuation of a Bus Advertising program, and the use of \$306,000 in fund balance to balance the budget that increased by \$977,000 or 5.5% over 2011-12.

Parking Facilities Fund revenues are budgeted to increase approximately 2% overall in 2012-13. 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 2012-13.

Housing Operating revenues reflect a decrease in HUD contributions of 21.8%, requiring the use of \$453,000 in fund balance to balance expenditures of nearly \$2 million. The 15.4% increase in expenditures include \$108,000 in one-time costs for providing access to the Town's Municipal fiber project to public housing residents, along with \$138,000 for contract landscaping, previously provided by the Town's Parks and Recreation department. The budget also includes increases in personnel and maintenance costs.

Stormwater Management's budget for 2012-13 is nearly unchanged from 2011-12 and is balanced with the use of about \$110,000 in fund balance.

## **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, 2012**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 30,015,491	\$ 12,903,704	\$ 42,919,195	\$ 21,812,623
Taxes receivable, net	302,304	23,560	325,864	-
Accounts receivable, net	363,673	312,380	676,053	4,721,161
Due from other governments	4,714,173	380,055	5,094,228	-
Internal balances	4,600,981	(4,600,981)	-	-
Inventories	131,240	821,615	952,855	813,611
Prepaid items	52,999	78,045	131,044	16,669
Restricted cash and cash equivalents	887,283	65,981	953,264	6,997,651
Total current assets	41,068,144	9,984,359	51,052,503	34,361,715
Non-current assets:				
Restricted cash and cash equivalents	26,517,295	-	26,517,295	125,721
Deferred charges	-	-	-	789,581
Capital assets (Note F):				
Land and construction in progress	37,416,680	6,974,736	44,391,416	24,977,518
Other capital assets, net of accumulated depreciation	75,186,132	43,854,919	119,041,051	266,724,670
Total capital assets	112,602,812	50,829,655	163,432,467	291,702,188
Total non-current assets	139,120,107	50,829,655	189,949,762	292,617,490
Total assets	180,188,251	60,814,014	241,002,265	326,979,205
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	3,204,732	751,004	3,955,736	2,336,533
Customer deposits	96,048	-	96,048	1,268,864
Unearned revenue	131,864	82,835	214,699	-
Liabilities payable from restricted assets	94,093	65,981	160,074	1,587,952
Current portion of long-term liabilities	8,044,440	597,910	8,642,350	5,877,144
Total current liabilities	11,571,177	1,497,730	13,068,907	11,070,493
Non-current liabilities:				
Due in more than one year	67,566,118	3,834,471	71,400,589	89,096,359
Total liabilities	79,137,295	5,332,201	84,469,496	100,166,852
<b>NET ASSETS</b>				
Invested in capital assets, net of debt	74,391,633	50,829,655	125,221,288	200,603,988
Restricted for:				
Stabilization by State Statute	31,938,580	-	31,938,580	-
Capital projects	118,938	-	118,938	-
Public housing	104,905	-	104,905	-
Other functions	267,781	-	267,781	-
Water and sewer	-	-	-	125,721
Unrestricted	(5,770,881)	4,652,158	(1,118,723)	26,082,644
Total net assets	\$ 101,050,956	\$ 55,481,813	\$ 156,532,769	\$ 226,812,353

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, 2012**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ 9,246,224	\$ 1,731,073	\$ -
Environment and development	21,804,182	2,172,242	2,204,526
Public safety	21,140,258	93,583	1,172,182
Leisure activities	10,245,527	952,023	462,978
Interest expense	2,453,129	-	-
<b>Total governmental activities</b>	<b>64,889,320</b>	<b>4,948,921</b>	<b>3,839,686</b>
Business-type activities:			
Transportation	21,454,457	1,359,239	10,829,469
Parking Facilities	2,212,712	2,071,035	-
Housing Operations	2,204,546	618,132	1,319,472
Stormwater Management	1,825,682	1,814,911	-
<b>Total business-type activities</b>	<b>27,697,397</b>	<b>5,863,317</b>	<b>12,148,941</b>
<b>Total primary government</b>	<b>\$ 92,586,717</b>	<b>\$ 10,812,238</b>	<b>\$ 15,988,627</b>
Component unit - Orange Water and Sewer Authority	\$ 31,801,115	\$ 36,489,149	\$ -

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.

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
\$ -	\$ (7,515,151)	\$ -	\$ (7,515,151)	\$ -
2,942,009	(14,485,405)	-	(14,485,405)	-
-	(19,874,493)	-	(19,874,493)	-
182,506	(8,648,020)	-	(8,648,020)	-
-	(2,453,129)	-	(2,453,129)	-
3,124,515	(52,976,198)	-	(52,976,198)	-
1,804,533	-	(7,461,216)	(7,461,216)	-
-	-	(141,677)	(141,677)	-
1,079,687	-	812,745	812,745	-
-	-	(10,771)	(10,771)	-
2,884,220	-	(6,800,919)	(6,800,919)	-
\$ 6,008,735	(52,976,198)	(6,800,919)	(59,777,117)	-
\$ 2,467,785	-	-	-	7,155,819
	33,083,532	2,965,320	36,048,852	-
	9,765,972	-	9,765,972	-
	956,496	-	956,496	-
	56,452	-	56,452	-
	3,914,798	-	3,914,798	-
	34,258	8,709	42,967	17,964
	3,342,645	(204,093)	3,138,552	1,918,195
	51,154,153	2,769,936	53,924,089	1,936,159
	1,480,055	(1,480,055)	-	-
	52,634,208	1,289,881	53,924,089	1,936,159
	(341,990)	(5,511,038)	(5,853,028)	9,091,978
	101,392,946	60,992,851	162,385,797	217,720,375
\$ 101,050,956	\$ 55,481,813	\$ 156,532,769	\$ 226,812,353	

*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 capital and 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, 2012

	Major Funds				
	General	Debt Service	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 20,109,618	\$ 1,894,574	\$ 443,608	\$ 3,910,851	\$ 26,358,651
Receivables:					
Due from other funds	313,131	4,461,144	-	-	4,774,275
Property taxes, net	259,214	43,090	-	-	302,304
Governmental units and agencies	4,034,369	-	316,802	363,002	4,714,173
Other	290,822	-	41,620	-	332,442
Inventories	3,341	-	-	16,538	19,879
Prepaid items	40,844	12,000	-	155	52,999
Restricted cash and equivalents	-	-	25,920,125	597,170	26,517,295
<b>TOTAL ASSETS</b>	<u>25,051,339</u>	<u>6,410,808</u>	<u>26,722,155</u>	<u>4,887,716</u>	<u>63,072,018</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ -	\$ -	\$ 173,294	\$ 173,294
Accounts payable	1,234,739	86,695	735,247	58,008	2,114,689
Accrued liabilities	977,345	-	-	1,035	978,380
Deferred revenue	413,840	43,090	-	-	456,930
Unearned revenue	87,198	-	-	44,666	131,864
Deposits	83,916	-	-	12,132	96,048
Accounts payable from restricted assets	-	-	-	87,145	87,145
Other liabilities payable from restricted	-	-	-	6,948	6,948
Total liabilities	<u>2,797,038</u>	<u>129,785</u>	<u>735,247</u>	<u>383,228</u>	<u>4,045,298</u>

Continued

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2012

	Major Funds				
	General	Debt Service	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
FUND BALANCES					
Nonspendable					
Inventories	\$ 3,341	\$ -	\$ -	\$ 16,538	\$ 19,879
Prepaid items	40,844	12,000	-	155	52,999
Restricted					
Stabilization by State Statute	6,271,859	4,461,144	10,959,344	10,246,233	31,938,580
Employee appreciation	97,890	-	-	-	97,890
Parks capital projects	28,776	-	4,591,757	-	4,620,533
Streets capital projects	110,310	-	3,485,868	-	3,596,178
Municipal buildings projects	-	-	7,532,019	-	7,532,019
Public housing	-	-	-	104,905	104,905
Public safety	158,867	-	-	8,180	167,047
Transit	-	-	-	2,844	2,844
Library	-	-	10,270,681	266,300	10,536,981
Committed					
Debt service payments	-	6,281,023	-	-	6,281,023
Transit capital purchase	-	-	-	1,067,500	1,067,500
Infrastructure capital projects	-	-	-	799,493	799,493
Public housing	-	-	-	810,388	810,388
Economic development	-	-	106,583	-	106,583
Assigned					
Subsequent year's expenditures	1,528,622	-	-	92,394	1,621,016
Other post employment benefits	400,000	-	-	-	400,000
Parks capital projects	-	-	-	44,254	44,254
Workforce Development	99,443	-	-	-	99,443
Municipal buildings projects	-	-	-	485,027	485,027
Streets capital projects	-	-	-	88,000	88,000
Economic development	157,246	-	-	-	157,246
Unassigned	13,357,103	(4,473,144)	(10,959,344)	(9,527,723)	(11,603,108)
Total fund balances	22,254,301	6,281,023	25,986,908	4,504,488	59,026,720
TOTAL LIABILITIES AND FUND BALANCES					
	\$ 25,051,339	\$ 6,410,808	\$ 26,722,155	\$ 4,887,716	\$ 63,072,018

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, 2012

Fund balances - total governmental funds	\$ 59,026,720
--	---------------

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	162,994,964	
Less accumulated depreciation	<u>54,476,232</u>	108,518,732

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	(60,455,000)	
Other postemployment benefits	(7,851,547)	
Orange County loan payable	(123,146)	
Net pension obligation for separation allowance	(246,648)	
Accrued vacation payable	<u>(2,316,278)</u>	(70,992,619)

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

456,930

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	<u>4,041,193</u>
---	------------------

Net assets of governmental activities	<u><u>\$ 101,050,956</u></u>
---------------------------------------	------------------------------

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

## GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2012

	Major Funds				Total Governmental Funds
	General	Debt Service	Capital Projects Ordinance	Other Governmental Funds	
<b>REVENUES</b>					
Taxes	\$ 38,200,415	\$ 5,427,762	\$ -	\$ 234,275	\$ 43,862,452
Licenses and permits	1,917,775	-	-	-	1,917,775
Fines and forfeitures	28,772	-	-	-	28,772
Intergovernmental revenues					
Federal government	9,582	182,506	445,134	2,848,022	3,485,244
State government	6,446,906	-	13,062	224,065	6,684,033
Other	429,131	-	60,496	220,095	709,722
Charges for services	2,885,709	-	(783)	7,706	2,892,632
Interest on investments	14,679	2,928	13,856	2,795	34,258
Franchise rental fees	-	-	-	53,815	53,815
Program income	-	-	-	55,927	55,927
Donations	100,060	-	41,620	122,201	263,881
Revenue in lieu	12,140	-	-	240,000	252,140
Other	684,176	-	-	3,310	687,486
<b>Total revenues</b>	<b>50,729,345</b>	<b>5,613,196</b>	<b>573,385</b>	<b>4,012,211</b>	<b>60,928,137</b>
<b>EXPENDITURES</b>					
General government	8,838,537	-	-	-	8,838,537
Environment and development	12,443,617	-	-	1,223,301	13,666,918
Public safety	18,982,495	-	-	341,329	19,323,824
Leisure activities	8,033,608	-	-	60,488	8,094,096
Capital projects	-	-	7,716,235	3,400,124	11,116,359
Debt service:					
Principal	-	4,490,000	-	-	4,490,000
Interest and fiscal charges	-	2,271,774	-	-	2,271,774
Bond issuance costs	-	181,355	-	-	181,355
<b>Total expenditures</b>	<b>48,298,257</b>	<b>6,943,129</b>	<b>7,716,235</b>	<b>5,025,242</b>	<b>67,982,863</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>2,431,088</b>	<b>(1,329,933)</b>	<b>(7,142,850)</b>	<b>(1,013,031)</b>	<b>(7,054,726)</b>

Continued

## GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2012

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Capital Projects Ordinance		
OTHER FINANCING SOURCES (USES)					
Issuance of debt	\$ -	\$ 26,417,739	\$ 7,037,261	\$ -	\$ 33,455,000
Advance refunding	-	(26,499,557)	-	-	(26,499,557)
Premium on sale of bonds	-	4,683,695	-	-	4,683,695
Transfer from other funds	72,148	-	-	2,165,431	2,237,579
Transfer to other funds	(676,896)	-	(22,524)	(58,779)	(758,199)
Total other financing sources (uses)	(604,748)	4,601,877	7,014,737	2,106,652	13,118,518
NET CHANGE IN TOTAL FUND BALANCES	1,826,340	3,271,944	(128,113)	1,093,621	6,063,792
FUND BALANCES, BEGINNING	20,427,961	3,009,079	26,115,021	3,410,867	52,962,928
FUND BALANCES, ENDING	\$ 22,254,301	\$ 6,281,023	\$ 25,986,908	\$ 4,504,488	\$ 59,026,720

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

**TOWN OF CHAPEL HILL, NORTH CAROLINA****Exhibit 6****GOVERNMENTAL FUNDS****RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES****Year Ended June 30, 2012**

Net change in fund balances - total governmental funds \$ 6,063,792

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	6,162,969	
Current year's depreciation	<u>5,167,712</u>	995,257

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	28,445,000
--------------------	------------

The issuance of long-term debt provides current financial resources to governmental funds and does not have any effect on net assets. (33,455,000)

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. 1,038,392

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. (120,180)

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	(5,363)
Change in long-term separation allowance	22,790
Other postemployment benefits	(3,506,127)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 25,197

Internal service funds are used by management to charge the costs of certain activities to individual funds 154,252

Change in net assets of governmental activities \$ (341,990)

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, 2012**

	Budgeted Amounts			Variance - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Ad valorem taxes	\$ 27,264,000	\$ 27,264,000	\$ 27,421,495	\$ 157,495
Local option sales taxes	9,004,500	9,155,049	9,765,972	610,923
Other taxes	852,000	852,000	1,012,948	160,948
Licenses and permits	1,793,220	1,793,220	1,917,775	124,555
Fines and forfeitures	31,650	31,650	28,772	(2,878)
Intergovernmental revenues	6,545,800	6,889,786	6,885,619	(4,167)
Charges for services	2,873,046	2,787,046	2,885,709	98,663
Interest on investments	45,000	45,000	14,679	(30,321)
Other	649,260	717,139	796,376	79,237
TOTAL REVENUES	49,058,476	49,534,890	50,729,345	1,194,455
EXPENDITURES				
General government	9,176,940	11,053,285	8,838,537	2,214,748
Environment and development	13,000,796	13,199,243	12,443,617	755,626
Public safety	19,412,433	19,539,201	18,982,495	556,706
Leisure activities	8,195,075	8,367,631	8,033,608	334,023
Total expenditures	49,785,244	52,159,360	48,298,257	3,861,103
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(726,768)	(2,624,470)	2,431,088	5,055,558
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	359,919	206,919	72,148	(134,771)
Transfer to other funds	(754,756)	(892,393)	(676,896)	215,497
Appropriated fund balance	1,121,605	3,309,944	-	(3,309,944)
Total other financing sources (uses)	726,768	2,624,470	(604,748)	(3,229,218)
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	\$ 1,826,340	\$ 1,826,340
FUND BALANCE, BEGINNING			20,427,961	
FUND BALANCE, ENDING			\$ 22,254,301	

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**PROPRIETARY FUNDS**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)**

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 5,689,413	\$ 2,693,456	\$ 3,125,706	\$ 1,395,129
Restricted cash and cash equivalents	-	-	64,381	1,600
Receivables:				
Accounts receivable, net	159,158	23,674	11,229	118,319
Due from other funds	-	-	-	-
Governmental units and agencies	372,519	-	-	7,536
Property taxes, net	23,560	-	-	-
Prepaid items	73,600	-	-	4,445
Inventories	671,439	-	150,176	-
Total current assets	<u>6,989,689</u>	<u>2,717,130</u>	<u>3,351,492</u>	<u>1,527,029</u>
<b>NONCURRENT ASSETS</b>				
Restricted assets:				
Deferred charges	-	-	-	-
Capital assets:				
Land and other non-depreciable assets	2,099,537	3,173,540	1,701,659	-
Other capital assets, net of accumulated depreciation	33,702,161	1,280,344	7,930,989	941,425
Total capital assets, net	<u>35,801,698</u>	<u>4,453,884</u>	<u>9,632,648</u>	<u>941,425</u>
Total noncurrent assets	<u>35,801,698</u>	<u>4,453,884</u>	<u>9,632,648</u>	<u>941,425</u>
<b>TOTAL ASSETS</b>	<u>42,791,387</u>	<u>7,171,014</u>	<u>12,984,140</u>	<u>2,468,454</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	277,803	24,851	56,895	47,874
Accrued liabilities	278,615	13,291	18,726	32,949
Deposits payable from restricted assets	-	-	64,381	1,600
Due to other funds	-	4,461,144	139,837	-
Compensated absences	449,595	36,143	57,906	54,266
Unearned revenue	82,835	-	-	-
Installment purchase agreements	-	-	-	-
Certificates of participation	-	-	-	-
Total current liabilities	<u>1,088,848</u>	<u>4,535,429</u>	<u>337,745</u>	<u>136,689</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences	-	3,383	2,413	-
Other postemployment benefits	3,050,109	242,903	264,162	271,501
Installment purchase agreements	-	-	-	-
Certificates of participation	-	-	-	-
Total noncurrent liabilities	<u>3,050,109</u>	<u>246,286</u>	<u>266,575</u>	<u>271,501</u>
Total liabilities	<u>4,138,957</u>	<u>4,781,715</u>	<u>604,320</u>	<u>408,190</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	35,801,698	4,453,884	9,632,648	941,425
Unrestricted	2,850,732	(2,064,585)	2,747,172	1,118,839
Total net assets	<u>\$ 38,652,430</u>	<u>\$ 2,389,299</u>	<u>\$ 12,379,820</u>	<u>\$ 2,060,264</u>

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

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2012	2011	2012	2011
\$ 12,903,704	\$ 13,642,788	\$ 3,656,840	\$ 2,776,161
65,981	60,675	887,283	2,049,923
312,380	214,115	31,231	38,574
-	44,830	-	-
380,055	2,078,145	-	-
23,560	119,566	-	-
78,045	4,583	-	-
821,615	682,258	111,361	181,772
14,585,340	16,846,960	4,686,715	5,046,430
-	206,833	-	-
6,974,736	7,705,085	-	-
43,854,919	45,140,025	4,084,080	4,493,197
50,829,655	52,845,110	4,084,080	4,493,197
50,829,655	53,051,943	4,084,080	4,493,197
65,414,995	69,898,903	8,770,795	9,539,627
407,423	586,162	99,004	353,324
343,581	679,491	12,659	30,872
65,981	60,120	-	-
4,600,981	-	-	-
597,910	580,794	29,891	30,216
82,835	129,603	-	-
-	-	1,248,975	1,217,275
-	295,000	-	-
6,098,711	2,331,170	1,390,529	1,631,687
5,796	56,709	2,141	5,969
3,828,675	2,198,173	145,466	74,789
-	-	3,191,466	3,940,241
-	4,320,000	-	-
3,834,471	6,574,882	3,339,073	4,020,999
9,933,182	8,906,052	4,729,602	5,652,686
50,829,655	48,230,110	530,922	1,385,604
4,652,158	12,762,741	3,510,271	2,501,337
\$ 55,481,813	\$ 60,992,851	\$ 4,041,193	\$ 3,886,941

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**PROPRIETARY FUNDS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)**

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
OPERATING REVENUES				
Charges for services	\$ 924,764	\$ 2,071,035	\$ 618,132	\$ 1,814,911
OPERATING EXPENSES				
Personnel	11,673,603	830,992	921,878	1,133,657
Drainage maintenance	-	-	-	228,162
Depreciation and amortization	3,966,247	425,449	548,754	33,702
Fuel and tires	1,817,075	-	-	-
Indirect costs	982,218	73,514	-	100,288
Maintenance and repairs	-	52,094	383,687	-
Building maintenance	453,061	-	-	-
Vehicle maintenance	1,481,777	-	-	-
Utilities	-	-	169,855	-
Insurance	347,262	-	-	-
Advertising and marketing	59,203	-	-	-
Professional services	-	-	-	149,413
Tarheel Express	226,056	-	-	-
Uniforms and supplies	113,331	-	-	-
Credit card fees	-	74,006	-	-
Rent	-	131,915	-	53,082
Other	334,624	315,525	180,372	127,378
Total operating expenses	21,454,457	1,903,495	2,204,546	1,825,682
OPERATING INCOME (LOSS)	(20,529,693)	167,540	(1,586,414)	(10,771)
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	446,623	-	1,319,472	-
State Operating Assistance Grant	3,419,853	-	-	-
Operating assistance-UNC Chapel Hill	5,930,168	-	-	-
Operating assistance-Town of Carrboro	1,032,825	-	-	-
Vehicle licenses	434,475	-	-	-
Ad valorem taxes	2,965,320	-	-	-
Interest on investments	3,557	1,960	2,194	998
Insurance recovery	47,703	-	42,485	-
Interest expense	-	(309,217)	-	-
Gain (loss) on sale of capital assets	(97,448)	-	-	-
Bond issuance expense	-	(206,833)	-	-
Revenue in lieu	10,000	-	-	-
Total nonoperating revenues (expenses), net	14,193,076	(514,090)	1,364,151	998
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(6,336,617)	(346,550)	(222,263)	(9,773)
CAPITAL CONTRIBUTIONS	1,804,533	-	1,079,687	-
TRANSFERS				
Transfers in	-	-	-	4,464
Transfers out	(1,465,371)	(19,148)	-	-
Total transfers	(1,465,371)	(19,148)	-	4,464
CHANGE IN NET ASSETS	(5,997,455)	(365,698)	857,424	(5,309)
NET ASSETS, BEGINNING	44,649,885	2,754,997	11,522,396	2,065,573
NET ASSETS, ENDING	\$ 38,652,430	\$ 2,389,299	\$ 12,379,820	\$ 2,060,264

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



Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2012	2011	2012	2011
\$ 5,428,842	\$ 4,901,523	\$ 2,810,458	\$ 2,971,215
14,560,130	14,159,408	637,741	603,675
228,162	264,539	-	-
4,974,152	4,899,627	1,301,462	1,194,060
1,817,075	1,704,167	-	-
1,156,020	1,214,934	-	-
435,781	439,225	-	-
453,061	359,510	-	-
1,481,777	1,531,212	-	-
169,855	156,334	-	-
347,262	329,509	-	-
59,203	28,908	-	-
149,413	96,225	-	-
226,056	31,390	-	-
113,331	90,203	-	-
74,006	28,182	-	-
184,997	135,314	-	-
957,899	805,352	699,319	611,195
27,388,180	26,274,039	2,638,522	2,408,930
(21,959,338)	(21,372,516)	171,936	562,285
1,766,095	3,867,872	29,711	35,260
3,419,853	3,671,170	-	-
5,930,168	5,930,168	-	-
1,032,825	1,032,825	-	-
434,475	423,163	-	-
2,965,320	2,929,657	-	-
8,709	25,411	2,472	6,906
90,188	113,649	7,938	16,364
(309,217)	(178,525)	(143,679)	(140,943)
(97,448)	17,717	85,199	122,956
(206,833)	(17,000)	-	-
10,000	41,300	-	-
15,044,135	17,857,407	(18,359)	40,543
(6,915,203)	(3,515,109)	153,577	602,828
2,884,220	199,996	-	-
4,464	398,757	675	-
(1,484,519)	(625,532)	-	-
(1,480,055)	(226,775)	675	-
(5,511,038)	(3,541,888)	154,252	602,828
60,992,851	64,534,739	3,886,941	3,284,113
\$ 55,481,813	\$ 60,992,851	\$ 4,041,193	\$ 3,886,941

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**PROPRIETARY FUNDS**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)**

	Transit Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers	\$ 2,658,732	\$ 2,062,302	\$ 634,194	\$ 1,818,536
Payments to employees	(10,886,582)	(776,210)	(852,783)	(1,049,656)
Payments to suppliers	(5,864,572)	(990,579)	(708,059)	(668,351)
Net cash provided by (used in) operating activities	(14,092,422)	295,513	(926,648)	100,529
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Operating grant funds received	3,866,476	-	1,319,472	-
Operating assistance received	6,962,993	-	-	-
Taxes and licenses received	3,399,795	-	-	-
Transfers to other funds	(1,465,371)	(19,148)	-	-
Transfers from other funds	-	-	-	4,464
Loan from special revenue fund	-	-	139,837	-
Loan from debt service fund	-	4,461,144	-	-
Revenue in lieu received	10,000	-	-	-
Net cash provided by (used in) noncapital financing activities	12,773,893	4,441,996	1,459,309	4,464
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from installment purchase agreements	-	-	-	-
Principal paid on Certificates of Participation and installment purchase agreements	-	(4,615,000)	-	-
Interest paid on Certificates of Participation and installment purchase agreements	-	(309,217)	-	-
Proceeds from sale of capital assets	-	-	-	-
Gain on disposal of capital assets	2,710	-	-	-
Capital contributions	1,804,533	-	1,079,687	-
Proceeds from insurance recovery	47,703	-	42,485	-
Acquisition and construction of capital assets	(1,810,217)	(130,560)	(1,079,687)	(38,391)
Net cash provided by (used in) capital and related financing activities	44,729	(4,847,944)	42,485	(38,391)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest on investments	3,557	1,960	2,194	998
Net cash provided by investing activities	3,557	1,960	2,194	998

Continued

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2012	2011	2012	2011
\$ 7,173,764	\$ 5,183,831	\$ 2,817,801	\$ 2,990,150
(13,565,231)	(13,922,475)	(588,755)	(586,888)
(8,231,561)	(7,422,307)	(883,903)	(843,216)
(14,623,028)	(16,160,951)	1,345,143	1,560,046
5,185,948	7,539,042	29,711	35,260
6,962,993	6,962,993	-	-
3,399,795	3,352,820	-	-
(1,484,519)	(625,532)	-	35,260
4,464	398,757	675	-
139,837	-	-	-
4,461,144	-	-	-
10,000	41,300	-	-
18,679,662	17,669,380	30,386	70,520
-	-	887,000	1,600,000
(4,615,000)	(280,000)	(1,604,075)	(1,096,933)
(309,217)	(178,525)	(143,679)	(140,943)
-	17,717	89,825	258,489
2,710	-	-	-
2,884,220	199,996	-	-
90,188	113,649	7,938	16,364
(3,058,855)	(1,092,275)	(896,971)	(1,545,418)
(4,799,121)	(1,219,438)	(1,659,962)	(908,441)
8,709	25,411	2,472	6,906
8,709	25,411	2,472	6,906

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**PROPRIETARY FUNDS**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)**

	<b>Transit Fund</b>	<b>Parking Facilities Fund</b>	<b>Housing Operating Fund</b>	<b>(Nonmajor) Stormwater Management Fund</b>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(1,270,243)	(108,475)	577,340	67,600
CASH AND INVESTMENTS, BEGINNING	6,959,656	2,801,931	2,612,747	1,329,129
CASH AND INVESTMENTS, ENDING	<u>\$ 5,689,413</u>	<u>\$ 2,693,456</u>	<u>\$ 3,190,087</u>	<u>\$ 1,396,729</u>
 CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (20,529,693)	\$ 167,540	\$ (1,586,414)	\$ (10,771)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,966,247	425,449	548,754	33,702
Changes in assets and liabilities:				
Receivables	1,733,968	(8,733)	11,801	3,625
Prepaid items	(73,333)	-	-	(129)
Inventories	(166,284)	-	26,927	-
Deferred charges	-	(206,833)	-	-
Accounts payable	(29,476)	(136,692)	(1,072)	(9,899)
Accrued liabilities	(298,389)	(31,689)	(27,965)	(24,635)
Customer deposits	-	-	4,261	-
Accrued compensated absences	(31,173)	354	(757)	(2,221)
Accrued OPEB liability	<u>1,335,711</u>	<u>86,117</u>	<u>97,817</u>	<u>110,857</u>
 Net cash provided by (used in) operating activities	<u>\$ (14,092,422)</u>	<u>\$ 295,513</u>	<u>\$ (926,648)</u>	<u>\$ 100,529</u>
 Significant non-cash transactions:				
Loss on disposal of capital assets - Transit Fund	\$ 100,158			

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

Exhibit 10

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2012	2011	2012	2011
(733,778)	314,402	(281,961)	729,031
13,703,463	13,389,061	4,826,084	4,132,313
<u>\$ 12,969,685</u>	<u>\$ 13,703,463</u>	<u>\$ 4,544,123</u>	<u>\$ 4,861,344</u>
\$ (21,959,338)	\$ (21,372,516)	\$ 171,936	\$ 562,285
4,974,152	4,899,627	1,301,462	1,194,060
1,740,661	283,948	7,343	18,935
(73,462)	(2,653)	-	-
(139,357)	(2,745)	70,411	(44,088)
(206,833)	-	-	-
(177,139)	(201,905)	(254,320)	(187,933)
(382,678)	(441,718)	(18,213)	(10,491)
4,261	(1,640)	-	-
(33,797)	9,042	(4,153)	(47,511)
<u>1,630,502</u>	<u>669,609</u>	<u>70,677</u>	<u>74,789</u>
<u>\$ (14,623,028)</u>	<u>\$ (16,160,951)</u>	<u>\$ 1,345,143</u>	<u>\$ 1,560,046</u>

*This page intentionally left blank.*

**TOWN OF CHAPEL HILL, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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 following is a summary of the most significant accounting policies:

**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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. 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 2012-2013 fiscal year and are not shown as receivables at June 30, 2012.

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, 2012.

The Council's schedule for developing the 2011-12 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. An additional work session was held in May. The budget was adopted by the Council on June 13, 2011.

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, Community Development Entitlement Project Ordinance Fund and Public Housing Capital Projects Fund.

#### 7. Restricted Assets

Certain unspent proceeds of the limited obligation bonds, 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, 2012.

#### 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, 2012, OWASA had recorded a liability for accrued vacation of \$464,782.

The sick leave policy for the Town and OWASA provide for an 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:

	<b>Deferred</b>	<b>Unearned</b>
Taxes receivable, net	\$ 302,304	\$ 11,737
Grants receivable	-	44,666
Other receivables	154,626	75,461
	<u>\$ 456,930</u>	<u>\$ 131,864</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, Streets and Municipal Buildings Capital Projects – portion of fund balance that is restricted by revenue source to providing parks, buildings 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 Transit – portion of fund balance that is restricted by revenue source for support of transit 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 transit capital purchase – portion of fund balance directed by the Council to fund purchase of replacement buses.

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 parks, streets and municipal building capital projects – portion of fund balance that has been budgeted for capital projects for streets, parks and municipal buildings.

Assigned for workforce development – portion of fund balance that has been budgeted for planning for the development of the workforce to provide Town services.

Assigned for economic development – portion of fund balance that has been budgeted for economic development, including revisions to the land use management ordinance.

*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 to 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 \$44,359,738 and a bank balance of \$45,077,566. Of the bank balance, \$500,379 was covered by federal depository insurance, \$2,962,187 was covered by collateral held under the Dedicated Method and \$41,615,000 was covered by collateral held under the Pooling Method. The Town had cash on hand of \$5,229 at year end.

At year-end, OWASA's deposits had a carrying amount of \$21,912,937 and a bank balance of \$23,392,156. Of the bank balance, \$500,000 was covered by federal depository insurance and \$22,892,156 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, 2012, the Town had \$26,024,787 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, 2012, OWASA had \$7,021,883 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 .17 years as of June 30, 2012.

*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, 2012.

*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, 2012 consists of the following:

	<b>Governmental Funds</b>	<b>Business-Type Funds</b>
Sales tax refunds receivable	\$ 398,210	\$ -
Due from Federal Government	431,365	372,100
Due from State	3,758,294	419
Due from local governments	126,304	7,536
	<u>\$ 4,714,173</u>	<u>\$ 380,055</u>

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

Property taxes receivable	\$ 215,438	\$ -
Accounts receivable	46,190	64,193

**E. Capital Assets**

A summary of changes in the value of the Town's capital assets for the year ended June 30, 2012 follows:

	July 1, 2011	Increases	Decreases	June 30, 2012
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 26,895,011	\$ 106,095	\$ -	\$ 27,001,106
Easements	77,359	800	-	78,159
Construction in progress	6,594,088	6,146,671	2,403,344	10,337,415
Total capital assets, not being depreciated	33,566,458	6,253,566	2,403,344	37,416,680
Capital assets, being depreciated:				
Land improvements	16,857,882	1,686,933	-	18,544,815
Infrastructure	36,067,680	371,448	-	36,439,128
Buildings and building improvements	63,334,212	-	-	63,334,212
Equipment	5,568,142	254,366	-	5,822,508
Vehicles	13,446,608	896,971	571,134	13,772,445
Total capital assets, being depreciated	135,274,524	3,209,718	571,134	137,913,108
Accumulated depreciation:				
Land improvements	3,604,775	834,277	-	4,439,052
Infrastructure	19,085,751	1,457,565	-	20,543,316
Buildings and building improvements	20,904,291	2,539,469	-	23,443,760
Equipment	4,580,119	255,312	-	4,835,431
Vehicles	8,649,374	1,382,551	566,508	9,465,417
Total accumulated depreciation	56,824,310	6,469,174	566,508	62,726,976
Total capital assets, being depreciated, net	78,450,214	(3,259,456)	4,626	75,186,132
Governmental activities capital assets, net	\$ 112,016,672	\$ 2,994,110	\$ 2,407,970	\$ 112,602,812

	July 1, 2011	Increases	Decreases	June 30, 2012
<b>Business-type activities:</b>				
Transit Fund:				
Capital assets, not being depreciated:				
Land	\$ 2,099,537	\$ -	\$ -	\$ 2,099,537
Total capital assets, not being depreciated	2,099,537	-	-	2,099,537
Capital assets, being depreciated:				
Land improvements	5,974,008	-	-	5,974,008
Buildings and building improvements	17,623,884	-	-	17,623,884
Equipment	1,976,921	83,407	-	2,060,328
Vehicles	32,740,096	1,726,810	200,316	34,266,590
Total capital assets, being depreciated	58,314,909	1,810,217	200,316	59,924,810
Accumulated depreciation:				
Land improvements	3,156,023	187,134	-	3,343,157
Buildings and building improvements	3,367,600	817,291	-	4,184,891
Equipment	1,096,354	213,204	-	1,309,558
Vehicles	14,736,583	2,748,618	100,158	17,385,043
Total accumulated depreciation	22,356,560	3,966,247	100,158	26,222,649
Total capital assets, being depreciated, net	35,958,349	(2,156,030)	100,158	33,702,161
Transit fund capital assets, net	\$ 38,057,886	\$ (2,156,030)	\$ 100,158	\$ 35,801,698
Parking Facilities Fund:				
Capital assets, not being depreciated:				
Land	\$ 3,148,965	\$ 12,150	\$ -	\$ 3,161,115
CIP	12,425	-	-	12,425
Total capital assets, not being depreciated	3,161,390	12,150	-	3,173,540
Capital assets, being depreciated:				
Land improvements	382,210	39,501	-	421,711
Buildings and building improvements	7,284,441	-	-	7,284,441
Equipment	541,386	78,909	-	620,295
Total capital assets, being depreciated	8,208,037	118,410	-	8,326,447
Accumulated depreciation:				
Land improvements	349,334	9,893	-	359,227
Buildings and building improvements	6,007,894	364,138	-	6,372,032
Equipment	263,426	51,418	-	314,844
Total accumulated depreciation	6,620,654	425,449	-	7,046,103
Total capital assets, being depreciated, net	1,587,383	(307,039)	-	1,280,344
Parking facilities fund capital assets, net	\$ 4,748,773	\$ (294,889)	\$ -	\$ 4,453,884

	July 1, 2011	Increases	Decreases	June 30, 2012
<b>Housing Operating Fund:</b>				
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	19,416,400	1,079,687	-	20,496,087
Equipment	355,028	-	-	355,028
Vehicles	210,026	-	-	210,026
Total capital assets, being depreciated	20,304,830	1,079,687	-	21,384,517
Accumulated depreciation:				
Land improvements	190,623	16,169	-	206,792
Buildings and building improvements	12,162,507	522,931	-	12,685,438
Equipment	355,028	-	-	355,028
Vehicles	196,616	9,654	-	206,270
Total accumulated depreciation	12,904,774	548,754	-	13,453,528
Total capital assets, being depreciated, net	7,400,056	530,933	-	7,930,989
Housing operating fund capital assets, net	\$ 9,101,715	\$ 530,933	\$ -	\$ 9,632,648
<b>Stormwater Management Fund:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 742,499	\$ -	\$ 742,499	\$ -
Total capital assets, not being depreciated	742,499	-	742,499	-
Capital assets, being depreciated:				
Land improvements	206,988	780,890	-	987,878
Equipment	19,325	-	-	19,325
Total capital assets, being depreciated	226,313	780,890	-	1,007,203
Accumulated depreciation:				
Land improvements	28,296	31,741	-	60,037
Equipment	3,780	1,961	-	5,741
Total accumulated depreciation	32,076	33,702	-	65,778
Total capital assets, being depreciated, net	194,237	747,188	-	941,425
Stormwater management fund capital assets, net	\$ 936,736	\$ 747,188	\$ 742,499	\$ 941,425
Business-type activities capital assets, net	\$ 52,845,110	\$ (1,172,798)	\$ 842,657	\$ 50,829,655

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

Governmental activities:

General government	\$	74,440
Environment and development		3,344,045
Public safety		221,036
Leisure activities		1,528,191
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		1,301,462
Total depreciation expense - governmental activities	\$	<u>6,469,174</u>

Business-type activities:

Transit	\$	3,966,247
Parking facilities		425,449
Housing Operating		548,754
Stormwater Management		33,702
Total depreciation expense - business-type activities	\$	<u>4,974,152</u>

A summary of changes in the value of OWASA's capital assets for the year ended June 30, 2012, follows:

	July 1, 2011	Increases	Decreases	Transfers	June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 17,997,886	\$ -	\$ 468,794		\$ 17,529,092
Construction in progress	11,187,723	11,404,534	-	(15,143,831)	7,448,426
Total capital assets, not being depreciated	<u>29,185,609</u>	<u>11,404,534</u>	<u>468,794</u>	<u>(15,143,831)</u>	<u>24,977,518</u>
Capital assets, being depreciated:					
Water treatment and distribution	146,022,370	957,538	-	4,816,352	151,796,260
Sewer collection and treatment	181,646,165	1,439,168	-	10,226,953	193,312,286
Fixtures and equipment	40,769,120	639,954	219,696	100,526	41,289,904
Total capital assets, being depreciated	<u>368,437,655</u>	<u>3,036,660</u>	<u>219,696</u>	<u>15,143,831</u>	<u>386,398,450</u>
Less accumulated depreciation for:					
Water treatment and distribution	43,331,283	3,373,222	-	-	46,704,505
Sewer collection and treatment	42,477,912	4,273,615	-	-	46,751,527
Fixtures and equipment	24,519,560	1,893,009	194,821	-	26,217,748
Total accumulated depreciation	<u>110,328,755</u>	<u>9,539,846</u>	<u>194,821</u>	<u>-</u>	<u>119,673,780</u>
Total capital assets, being depreciated, net	<u>258,108,900</u>	<u>(6,503,186)</u>	<u>24,875</u>	<u>15,143,831</u>	<u>266,724,670</u>
Total capital assets, net	<u>\$ 287,294,509</u>	<u>\$ 4,901,348</u>	<u>\$ 493,669</u>	<u>\$ -</u>	<u>\$ 291,702,188</u>



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

Capital Assets	\$ 162,994,964
Depreciation	(54,476,232)
	<u>108,518,732</u>
Internal service fund capital assets, net of depreciation	4,084,080
Total Capital Assets, net	<u>\$ 112,602,812</u>
Debt:	
Short-term portion of debt	\$ 8,044,440
Long-term portion of debt	67,566,118
Total Debt	<u>75,610,558</u>
Less Separation allowance (unrelated to capital)	(246,648)
Less Compensated absences (unrelated to capital)	(2,348,310)
Less Other Postemployment Benefits (unrelated to capital)	(7,997,013)
Unspent proceeds, governmental funds	(25,920,125)
Unspent proceeds, internal service funds	(887,283)
Capital Related Debt	<u>38,211,179</u>
Capital assets, net of related debt	<u>\$ 74,391,633</u>

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

Total Capital Assets, net	<u>\$ 50,829,655</u>
Debt:	
Short-term portion of debt	597,910
Long-term portion of debt	3,834,471
Total Debt	<u>4,432,381</u>
Less Compensated Absences (unrelated to capital)	(603,706)
Less Other Postemployment Benefits (unrelated to capital)	(3,828,675)
Capital Related Debt	<u>-</u>
Capital assets, net of related debt	<u>\$ 50,829,655</u>

**F. Accounts Payable and Accrued Liabilities**

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

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
<u>Current liabilities:</u>		
Accounts payable	\$ 2,213,693	\$ 407,423
Accrued payroll and payroll related liabilities	991,039	343,581
Deposits	96,048	-
<u>Payable from restricted assets:</u>		
Accounts payable	87,145	-
Accrued payroll and payroll related liabilities	6,948	-
Deposits	-	65,981
	<u>\$ 3,394,873</u>	<u>\$ 816,985</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, 2012 is as follows:

Governmental Activities:	<u>Outstanding</u>
<i>General obligation bonds</i>	
<b>\$4,250,000</b> 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%	\$ 300,000
<b>\$4,000,000</b> 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%	400,000

<b>\$4,950,000</b> 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%	3,700,000
<b>\$4,490,000</b> 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%	3,000,000
<b>\$8,160,000</b> 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%	7,140,000
<b>\$12,250,000</b> 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%	12,250,000
<b>\$4,655,000</b> Refunding 1996, 2003 and 2004 bond issues for construction and renovation to Parks and recreation facilities, streets and sidewalks, open space and greenways and public buildings and facilities - 2012 refunding serial bonds payable in annual installments of \$115,000 to \$605,000 through 2025; interest at 2% to 4%	4,655,000
<i>Total general obligation bonds</i>	<u><u>\$ 31,445,000</u></u>

*Limited Obligation Bonds*

<b>\$28,800,000</b> - Limited Obligation Bonds to refinance installment notes payable to Bank of America and SunTrust Bank for renovations to parks facilities, to refinance Certificates of Participation that were used to finance the acquisition and construction of the Town Operations Center, to finance the acquisition of parking space in a parking deck to be constructed within a mixed-use development, and to finance improvements to Town facilities including the Wallace Deck and Town Operations Center - 2012 series limited obligation bonds payable in annual installments at \$445,000 to \$2,215,000; interest at 2% to 5%	<u><u>\$ 28,800,000</u></u>
---	-----------------------------

*Installment Notes Payables*

Construction and renovation of facilities:

\$1,050,000 - to renovate various municipal facilities	\$ 210,000
--	------------

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

Purchase of fleet replacement vehicles:

\$1,599,500 -	\$ 254,272
---------------	------------

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 -	582,828
---------------	---------

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 -	148,701
---------------	---------

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

\$1,604,000 -	1,180,117
---------------	-----------

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 -	1,387,523
---------------	-----------

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

\$887,000 -	887,000
-------------	---------

BB&T installment purchase contract entered into February 2012  
payable in annual installments of \$135,039 through 2019; interest at 1.72%

---

4,440,441

*Total installment notes payables*

\$ 4,650,441
--------------

---

In addition to the general obligation bonds, limited obligation bonds and installment notes payable, 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:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 2,590,000	\$ 1,293,595	\$ 3,883,595
2014	2,560,000	1,151,698	3,711,698
2015	2,350,000	993,398	3,343,398
2016	2,060,000	919,210	2,979,210
2017	2,060,000	849,185	2,909,185
2018-2022	8,865,000	3,271,110	12,136,110
2023-2027	6,870,000	1,803,950	8,673,950
2028-2031	4,090,000	489,759	4,579,759
	<u>\$ 31,445,000</u>	<u>\$ 10,771,905</u>	<u>\$ 42,216,905</u>

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

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 2,215,000	\$ 1,199,367	\$ 3,414,367
2014	2,120,000	1,248,431	3,368,431
2015	2,115,000	1,184,831	3,299,831
2016	2,140,000	1,079,081	3,219,081
2017	2,165,000	972,081	3,137,081
2018-2022	9,730,000	3,382,155	13,112,155
2023-2027	6,255,000	1,058,174	7,313,174
2028-2032	2,060,000	253,804	2,313,804
	<u>\$ 28,800,000</u>	<u>\$ 10,377,924</u>	<u>\$ 39,177,924</u>

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

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 1,353,975	\$ 128,202	\$ 1,482,177
2014	975,592	77,584	1,053,176
2015	588,603	52,640	641,243
2016	603,595	37,647	641,242
2017	618,985	22,257	641,242
2018-2019	509,691	10,151	519,842
	<u>\$ 4,650,441</u>	<u>\$ 328,481</u>	<u>\$ 4,978,922</u>

Long-term debt activity for the year ended June 30, 2012 was as follows:

	June 30, 2011	Additions	Reductions	June 30, 2012	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 34,110,000	\$ 4,655,000	\$ 7,320,000	\$ 31,445,000	\$ 2,590,000
Limited obligation bonds	-	28,800,000	-	28,800,000	2,215,000
Bond premium	1,038,392	-	1,038,392	-	-
Bond discount	(120,180)	-	120,180	-	-
Certificates of participation	19,040,000	-	19,040,000	-	-
Installment notes payable	7,452,516	887,000	3,689,075	4,650,441	1,353,975
Orange County loan payable	123,146	-	-	123,146	-
Net pension obligation for separation allowance	269,438	-	22,790	246,648	-
Compensated absences - governmental activities	2,310,915	1,860,937	1,855,574	2,316,278	1,855,574
Compensated absences - internal service funds	36,185	25,738	29,891	32,032	29,891
Other postemployment benefits	4,345,420	3,506,127	-	7,851,547	-
Other postemployment benefits - internal service funds	74,789	70,677	-	145,466	-
Long-term debt	<u>\$ 68,680,621</u>	<u>\$ 39,805,479</u>	<u>\$ 33,115,902</u>	<u>\$ 75,610,558</u>	<u>\$ 8,044,440</u>
<b>Business-type activities:</b>					
Certificates of participation	\$ 4,615,000	\$ -	\$ 4,615,000	\$ -	\$ -
Compensated absences	637,503	597,394	631,191	603,706	597,910
Other postemployment benefits	2,198,173	1,630,502	-	3,828,675	-
Long-term debt	<u>\$ 7,450,676</u>	<u>\$ 2,227,896</u>	<u>\$ 5,246,191</u>	<u>4,432,381</u>	<u>597,910</u>

On June 27, 2012, the Town issued \$22 million in advanced refunding limited obligation bonds and defeased 2005 and 2003 certificates of participation and a 2007 installment purchase contract by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt on the old bonds and installment purchase contract. Accordingly, the trust assets and the liability for the defeased debt are not included in the Town's financial statements. The reacquisition price of the 2000 certificates of participation exceeded the net carrying amount of the old debt by \$340,000. This amount was being amortized over the life of the new certificates of participation but has been removed from the proprietary activities column of the statement of net assets with the refunding. The refinancing was undertaken to reduce total debt payments over the next 20 years and resulted in a savings of approximately \$800,000. On June 30, 2012, \$22,000,000 of certificates of participation and \$1,550,000 in installment financing is considered defeased.

On June 5, 2012, the Town issued \$4,655,000 in general obligation bonds to partially refund bonds issued in 1996, 2003 and 2004, placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt on the old bonds. The sale resulted in a savings of \$364,433 over the remaining life of the bonds. On June 30, 2012, \$4,725,000 of bonds outstanding is considered defeased.

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, 2012, the legal debt margin for the Town was approximately \$550 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, 2012 consists of the following:

**Revenue Bonds:**

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 \$1,463,659 at June 30, 2012 \$ 23,108,658

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 \$494,288 at June 30, 2012; 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 20,429,288

Revenue and revenue refunding bonds payable, Series 2005 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 \$137,593 at June 30, 2012 16,942,408

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 \$82,097 at June 30, 2012; 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, 2010), final maturity July 2029 24,102,097

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 of \$208,972 at June 30, 2012 4,676,028

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 \$3,894 at June 30, 2012 1,683,895

\$	90,942,374
----	------------

**Note Payable:**

Note payable to NCDENR in the amount of \$142,329  
issued June 1, 2012, interest at 0%, Federal Revolving Loan,  
beginning May 2013, payable in annual installments of \$7,116,  
with a final payment due in fiscal year 2032.

\$ 142,329

---

**Capital Lease:**

Capitalized equipment lease obligation due in annual  
installments of \$24,264 which includes interest at  
14.45% through February 1, 2013

\$ 13,497

---

**Total long-term debt**

\$ 91,098,200

---

OWASA debt maturities are as follows:

Fiscal Year	Maturities	Amortization of Premiums and Deferred Refunding			Interest
		Losses	Total		
2013	\$ 5,400,000	\$ 111,531	5,511,531	\$	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	5,805,000	118,832	5,923,832		3,087,875
2018-2022	23,450,000	628,560	24,078,560		11,840,782
2023-2027	24,745,000	486,844	25,231,844		6,657,295
2028-2032	14,390,000	110,791	14,500,791		1,666,250
<b>Total</b>	<b>\$ 89,245,000</b>	<b>\$ 1,697,374</b>	<b>\$ 90,942,374</b>	<b>\$</b>	<b>37,882,721</b>



Note Payable maturities are as follows:

<b>Fiscal Year</b>	<b>Maturities</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 7,116	\$ -	\$ 7,116
2014	7,116	-	7,116
2015	7,116	-	7,116
2016	7,116	-	7,116
2017	7,116	-	7,116
2018-2022	35,583	-	35,583
2023-2027	35,583	-	35,583
2028-2032	35,583	-	35,583
<b>Total</b>	<b>\$ 142,329</b>	<b>\$ -</b>	<b>\$ 142,329</b>

Capital lease maturities are as follows:

<b>Fiscal Year</b>	<b>Maturities</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 13,497	\$ 658	\$ 14,155
	\$ 13,497	\$ 658	\$ 14,155

In 2010, the OWASA defeased Series 2001 and Series 2004A Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. On June 30, 2012, \$10,430,000 of bonds outstanding is considered defeased.

OWASA's long-term debt activity for the year ended June 30, 2012 is as follows:

	<b>July 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2012</b>	<b>Due Within One Year</b>
Note Payable	\$ -	\$ 142,329	\$ -	\$ 142,329	\$ 7,116
Bonds payable:					
Revenue bonds	\$ 94,695,000	\$ -	\$ 5,450,000	\$ 89,245,000	\$ 5,400,000
Less deferred amounts:					
For issuance premiums	5,042,010	-	440,552	4,601,458	440,550
For issuance discounts and deferred refunding	(3,233,105)	-	329,021	(2,904,084)	(329,019)
Capital lease	34,159	-	20,662	13,497	13,497
Compensated absences	446,832	421,101	403,151	464,782	345,000
OPEB	2,372,000	1,166,553	128,032	3,410,521	-
<b>Total bonds payable</b>	<b>\$ 99,356,896</b>	<b>\$ 1,729,983</b>	<b>\$ 6,771,418</b>	<b>\$ 94,973,503</b>	<b>\$ 5,877,144</b>

OWASA has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$90,942,374 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 2032, 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, 2012 was \$128,825,095. Principal and interest paid in the years ended June 30, 2012 and 2011 were \$8,550,976 and 8,938,297, respectively.

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.

The debt service coverage ratio calculation for the year ended June 30, 2012, is as follows:

Operating revenues	\$38,406,169
Operating expenses *	<u>18,713,083</u>
Income available for debt service	<u>\$19,693,086</u>
Debt service, principal and interest paid	<u>\$ 8,550,976</u>
Debt service coverage ratio for parity debt	<u>2.30</u>

\* Per rate covenants, this does not include depreciation, amortization, interest expense or OPEB.

At June 30, 2012, OWASA was in compliance with the bond covenants described above.

**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	\$ 22,254,301
Less:	
Inventories	3,341
Prepaid expenses	40,844
Stabilization by State Statute	6,271,858
Cal Horton award	97,890
Parks projects	28,776
Streets projects	110,310
Public safety	158,867
OPEB allocation	400,000
Workforce development	99,443
Economic development	157,246
Appropriated in FY12 budget	1,528,622
Working capital fund balance reserve	5,887,018
Remaining fund balance	7,470,086

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	\$ 1,788,164
Capital Projects Ordinance Fund	10,600,922
Non-major funds	11,080,271

\$9 million of outstanding encumbrances in non-major funds is in the Transit Capital Grants fund and represents the purchase of fifteen replacement buses, to be purchased with 80% federal funding.

# **I. Interfund Receivables, Payables and Transfers**

*Interfund receivables and payables.* At June 30, 2012, the statements of the Town include a net of balances due to/from other funds in the amount of \$4,600,981 as detailed below. The payable in the Housing Fund represent the borrowing of cash to cover expenditures not yet reimbursed by grants at year-end. The Parking Facility Fund payable to the Debt Fund represents the COPs debt refunded by issuance of limited obligation bonds that are now carried in the Debt Fund.

Receivable Fund	Payable Fund	Amount
General fund	Housing fund	\$ 139,837
Debt fund	Parking facility fund	4,461,144
		<u>\$ 4,600,981</u>

*Interfund transfers.* A schedule of interfund transfers for the year ended June 30, 2012 is as follows:

Transfers To	Transfers From	Amount
General Fund	Parking facility fund	\$ 19,148
Nonmajor governmental	Transit fund	1,465,371
Stormwater management fund	General fund	(4,464)
	Transfers to Governmental funds	<u>\$ 1,480,055</u>
Proprietary funds:		
Nonmajor governmental	Transit fund	\$ (1,465,371)
Stormwater management fund	General fund	4,464
General Fund	Parking facility fund	<u>(19,148)</u>
	Total transfers from Proprietary funds	<u>\$ (1,480,055)</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 \$19,148 in fiscal 2012. The Transit fund makes a transfer each year for the required matches to Federal and State capital grants, which totaled \$1,465,371 in fiscal 2012. The transfer of \$4,464 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, 6.96% and 7.05% of annual covered payroll. For OWASA, the current rate for employees is 6.74% 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, 2012, 2011, and 2010 were \$2,308,242, \$2,125,113 and \$1,586,994 respectively. OWASA's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$487,997, \$440,320 and \$329,383 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, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	19
Active Plan members	<u>116</u>
<b>TOTAL</b>	<b><u>135</u></b>

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	\$ 316,355
b Interest on net pension obligation	13,472
c Adjustment to annual required contribution	<u>(16,073)</u>
d Annual pension cost (a) + (b) + (c)	\$ 313,754
e Employer contributions made for fiscal year ended 6/30/2012	<u>336,544</u>
f Increase (decrease) in net pension obligation (d) - (e)	\$ (22,790)
g Net pension obligation, beginning of fiscal year	<u>269,438</u>
h Net pension obligation, end of fiscal year (f) + (g)	\$ 246,648

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation, End of Year
6/30/2010	268,090	109.64%	254,773
6/30/2011	322,998	95.46%	269,438
6/30/2012	313,754	107.26%	246,648

*Funded Status and Funding Progress:* As of December 31, 2011, 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 \$3,185,772. The covered payroll (annual payroll of active employees covered by the plan) was \$5,995,868, and the ratio of the UAAL to the covered payroll was 53.13 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, 2012 were \$506,563, which consisted of \$305,307 from the Town and \$201,256 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, 2012 were \$2,003,513, which consisted of \$1,349,406 from the Town and \$654,107 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
	<u>892</u>

*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 has chosen to fund the healthcare benefits on a pay as you go basis. 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, 2012, the Town made payments for post-retirement health benefit premiums of \$1,191,382 and the retirees made payments of \$361,888 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.

Under GASB Statement No. 43 and GASB Statement No. 45, the OPEB liability may include an implicit subsidy amount based upon age adjusted costs reflecting the higher cost of benefits associated with older participants. For the purpose of determining the Net OPEB Obligation (NOO), the annual OPEB contributions for medical and prescription drug costs that are determined on a combined basis for actives and retirees (in this case the pre-65 retirees) has been increased to include the impact of the 35% implicit subsidy. The total contribution of \$1,515,408 includes \$324,026 due to the impact of the



35% implicit subsidy and actual cash contributions of \$1,191,382, or 3.7% of annual covered payroll, paid by the employer.

*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	\$ 6,826,000
Interest on net OPEB obligation	264,735
Adjustment to annual required contribution	<u>(368,021)</u>
Annual OPEB cost (expense)	6,722,714
Contributions (adjusted for implicit subsidy)	<u>(1,515,408)</u>
Increase in net OPEB obligation	5,207,306
Net OPEB obligation, beginning of year	<u>6,618,382</u>
Net OPEB obligation, end of year	<u><u>\$ 11,825,688</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, 2012 were as follows:

For Year Ended June 30	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 6,722,714	22.54%	\$ 11,825,688
2011	3,085,174	33.89%	6,618,382
2010	3,055,442	27.07%	4,578,877

*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%. The current annual required contribution rate (ARC) is 20.97% of annual covered payroll.

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, 2012, the Town made contributions to the State for death benefits of \$30,148. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .08% 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, capital purchases and a town-wide workforce development project at June 30, 2012 for the following:

Traffic Projects	\$ 104,910
Public Housing Renovations	105,860
Parks & Recreation Projects	152,308
Technology Projects	164,919
Miscellaneous Projects	187,729
Bolin Creek Trail	191,067
Workforce Development Projects	204,454
ARRA-Energy Projects	313,312
Streets, Paving, Drainage and Sidewalks	486,993
Municipal Fiber Project	540,555
Downtown Initiative	547,406
Library Expansion	9,169,884
Vehicle/Bus Purchases	9,648,217
	<u>\$ 21,817,614</u>

OWASA is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. OWASA's management estimates the cost to complete these contracts to be approximately \$3,524,341 at June 30, 2012.

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 \$10,000 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 \$2,070,000 for the ten structures.

In accordance with G.S. §159-29, 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, 2012 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.

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

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY PROJECTED UNIT CREDIT (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A % OF COVERED PAYROLL ((b-a)/c)
12/31/2006	-	2,596,862	2,596,862	-	5,332,846	48.70%
12/31/2007	-	2,575,455	2,575,455	-	5,533,957	46.54%
12/31/2008	-	2,680,650	2,680,650	-	5,922,981	45.26%
12/31/2009	-	3,375,079	3,375,079	-	6,037,006	55.91%
12/31/2010	-	3,157,252	3,157,252	-	6,181,559	51.08%
12/31/2011	-	3,185,772	3,185,772	-	5,995,868	53.13%

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

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2007	224,981	116.28
2008	242,203	120.50
2009	245,319	118.82
2010	265,423	110.74
2011	323,899	95.19
2012	316,355	106.38

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuation as follows:

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization method	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25 - 7.85%
* Includes inflation at	3.00%
Cost of living adjustments	N/A

**OTHER POSTEMPLOYMENT BENEFITS**  
**SUPPLEMENTAL INFORMATION ANALYSIS OF FUNDING PROGRESS**

---

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY PROJECTED UNIT CREDIT (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A % OF COVERED PAYROLL ((b-a)/c)
12/31/2005	-	45,380,700	45,380,700	-	25,322,664	179.21%
12/31/2008	-	32,451,498	32,451,498	-	32,174,140	100.86%
12/31/2010	-	64,319,378	64,319,378	-	32,549,036	197.61%

---

**OTHER POSTEMPLOYMENT BENEFITS**  
**SUPPLEMENTAL INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTION**  
**Last Three Years**

---

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2010	3,055,442	27.07%
2011	3,156,632	33.13%
2012	6,826,000	22.20%

---

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuation as follows:

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount, closed
Remaining amortization method	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	
Pre-Medicare trend rate	10.50% - 5.00%
Post-Medicare trend rate	8.50% - 5.00%
Year of ultimate trend rate	2018
* Includes inflation at	3.00%



## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

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

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

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 FUNDS

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

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

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

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.

## OTHER GOVERNMENTAL FUNDS

## COMBINING BALANCE SHEET

JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)

	Total Capital Projects Funds	Total Special Revenue Funds	Comparative Totals	
			2012	2011
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,982,463	\$ 928,388	\$ 3,910,851	\$ 2,743,033
Receivables:				
Governmental units and agencies	136,046	226,956	363,002	553,757
Property taxes, net	-	-	-	1,175
Inventories	-	16,538	16,538	16,538
Prepaid items	-	155	155	-
Restricted cash and cash equivalents	237,840	359,330	597,170	526,386
<b>TOTAL ASSETS</b>	<b>\$ 3,356,349</b>	<b>\$ 1,531,367</b>	<b>\$ 4,887,716</b>	<b>\$ 3,840,889</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to other funds	\$ 23,658	\$ 149,636	\$ 173,294	\$ 44,830
Accounts payable	95,200	49,953	145,153	231,807
Accrued liabilities	-	7,983	7,983	53,812
Deferred revenue	-	-	-	1,175
Unearned revenue	34,552	10,114	44,666	89,960
Security deposits	-	12,132	12,132	8,438
<b>Total liabilities</b>	<b>153,410</b>	<b>229,818</b>	<b>383,228</b>	<b>430,022</b>
<b>FUND BALANCES</b>				
Nonspendable				
Inventories	-	16,538	16,538	16,538
Prepaid expenses	-	155	155	-
Restricted				
Stabilization by State Statute	9,995,292	250,941	10,246,233	2,038,822
Public housing	-	104,905	104,905	104,905
Public safety	-	8,180	8,180	18,628
Library	-	266,300	266,300	133,355
Transit	-	2,844	2,844	-
Committed				
Transit capital purchase	1,067,500	-	1,067,500	-
Infrastructure capital projects	799,493	-	799,493	214,031
Public housing	-	810,388	810,388	787,943
Economic development	-	-	-	19,856
Assigned				
Subsequent year's expenditures	-	92,394	92,394	123,660
Streets capital projects	88,000	-	88,000	292,169
Municipal buildings capital projects	485,027	-	485,027	593,266
Parks capital projects	44,254	-	44,254	-
Unassigned	(9,276,627)	(251,096)	(9,527,723)	(932,306)
<b>Total fund balances</b>	<b>3,202,939</b>	<b>1,301,549</b>	<b>4,504,488</b>	<b>3,410,867</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,356,349</b>	<b>\$ 1,531,367</b>	<b>\$ 4,887,716</b>	<b>\$ 3,840,889</b>

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

**COMBINING BALANCE SHEET  
JUNE 30, 2012**

	<b>Community Development Entitlement</b>	<b>Affordable Housing</b>	<b>Transitional Housing</b>	<b>Land Trust Fund</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 779,219	\$ 25,374	\$ 30,366
Receivables:				
Governmental units and agencies	51,487	-	-	-
Property taxes, net	-	-	-	-
Inventories	-	-	-	16,538
Prepaid items	-	-	155	-
Restricted cash and cash equivalents	73,434	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 124,921</b>	<b>\$ 779,219</b>	<b>\$ 25,529</b>	<b>\$ 46,904</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Accounts payable	18,000	2,463	9,144	-
Accrued liabilities	2,016	-	-	-
Deferred revenue	-	-	-	-
Unearned revenue	-	-	987	-
Security deposits	-	-	12,132	-
<b>Total liabilities</b>	<b>20,016</b>	<b>2,463</b>	<b>22,263</b>	<b>-</b>
<b>FUND BALANCES</b>				
Nonspendable				
Inventories	-	-	-	16,538
Prepaid expenses	-	-	155	-
Restricted				
Stabilization by State Statute	57,487	9,360	-	-
Public housing	104,905	-	-	-
Public safety	-	-	-	-
Library	-	-	-	-
Transit	-	-	-	-
Committed				
Public housing	-	776,756	3,266	30,366
Economic development	-	-	-	-
Assigned				
Subsequent year's expenditures	-	-	-	-
Unassigned	(57,487)	(9,360)	(155)	-
<b>Total fund balances</b>	<b>104,905</b>	<b>776,756</b>	<b>3,266</b>	<b>46,904</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 124,921</b>	<b>\$ 779,219</b>	<b>\$ 25,529</b>	<b>\$ 46,904</b>

## Schedule 2

Grants Fund	Downtown Service District	Housing Loan Trust Fund	Library Gift Fund	Comparative Totals	
				2012	2011
\$ -	\$ 93,429	\$ -	\$ -	\$ 928,388	\$ 827,605
175,469	-	-	-	226,956	264,035
-	-	-	-	-	1,175
-	-	-	-	16,538	16,538
-	-	-	-	155	-
-	-	-	285,896	359,330	312,355
<u>\$ 175,469</u>	<u>\$ 93,429</u>	<u>\$ -</u>	<u>\$ 285,896</u>	<u>\$ 1,531,367</u>	<u>\$ 1,421,708</u>
\$ 149,636	\$ -	\$ -	\$ -	\$ 149,636	\$ -
750	-	-	19,596	49,953	99,991
4,932	1,035	-	-	7,983	53,812
-	-	-	-	-	1,175
9,127	-	-	-	10,114	53,407
-	-	-	-	12,132	8,438
<u>164,445</u>	<u>1,035</u>	<u>-</u>	<u>19,596</u>	<u>229,818</u>	<u>216,823</u>
-	-	-	-	16,538	16,538
-	-	-	-	155	-
176,608	-	-	7,486	250,941	643,709
-	-	-	-	104,905	104,905
8,180	-	-	-	8,180	18,628
-	-	-	266,300	266,300	133,355
2,844	-	-	-	2,844	-
-	-	-	-	810,388	787,943
-	-	-	-	-	19,856
-	92,394	-	-	92,394	123,660
<u>(176,608)</u>	<u>-</u>	<u>-</u>	<u>(7,486)</u>	<u>(251,096)</u>	<u>(643,709)</u>
<u>11,024</u>	<u>92,394</u>	<u>-</u>	<u>266,300</u>	<u>1,301,549</u>	<u>1,204,885</u>
<u>\$ 175,469</u>	<u>\$ 93,429</u>	<u>\$ -</u>	<u>\$ 285,896</u>	<u>\$ 1,531,367</u>	<u>\$ 1,421,708</u>

## OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

## COMBINING BALANCE SHEET

JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)

	Capital Projects	Capital Reserve	Transit Grants	Public Housing Projects	Comparative Totals	
					2012	2011
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,967,658	\$ -	\$ 1,014,805	\$ -	\$ 2,982,463	\$ 1,915,428
Due from governmental units and agencies	-	-	135,861	185	136,046	289,722
Restricted cash and cash equivalents	-	214,182	-	23,658	237,840	214,031
<b>TOTAL ASSETS</b>	<u>\$ 1,967,658</u>	<u>\$ 214,182</u>	<u>\$ 1,150,666</u>	<u>\$ 23,843</u>	<u>\$ 3,356,349</u>	<u>\$ 2,419,181</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Due to other funds	\$ -	\$ -	\$ -	\$ 23,658	\$ 23,658	\$ 44,830
Accounts payable	46,401	-	48,614	185	95,200	131,816
Unearned revenue	-	-	34,552	-	34,552	36,553
<b>Total liabilities</b>	<u>46,401</u>	<u>-</u>	<u>83,166</u>	<u>23,843</u>	<u>153,410</u>	<u>213,199</u>
<b>FUND BALANCES</b>						
Restricted						
Stabilization by State Statute	718,665	-	9,170,582	106,045	9,995,292	1,395,113
Committed						
Transit capital purchase	-	-	1,067,500	-	1,067,500	214,031
Infrastructure capital projects	585,311	214,182	-	-	799,493	-
Assigned						
Streets capital projects	88,000	-	-	-	88,000	292,169
Municipal buildings capital projects	485,027	-	-	-	485,027	593,266
Parks capital projects	44,254	-	-	-	44,254	-
Unassigned	-	-	(9,170,582)	(106,045)	(9,276,627)	(288,597)
<b>Total fund balances</b>	<u>1,921,257</u>	<u>214,182</u>	<u>1,067,500</u>	<u>-</u>	<u>3,202,939</u>	<u>2,205,982</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,967,658</u>	<u>\$ 214,182</u>	<u>\$ 1,150,666</u>	<u>\$ 23,843</u>	<u>\$ 3,356,349</u>	<u>\$ 2,419,181</u>

## OTHER GOVERNMENTAL FUNDS

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)**

	Total Capital Projects Funds	Total Special Revenue Funds	Comparative Totals	
			2012	2011
<b>REVENUES</b>				
Taxes	-	234,275	234,275	171,421
Intergovernmental revenues				
Federal government	2,115,977	732,045	2,848,022	2,490,419
State government	106,112	117,953	224,065	50,624
Other	201,228	18,867	220,095	210,112
Charges for services	7,706	-	7,706	16,800
Interest on investments	1,290	1,505	2,795	4,809
Franchise rental fees	53,815	-	53,815	54,749
Program income	-	55,927	55,927	10,635
Donations	-	122,201	122,201	99,728
Revenue in lieu	-	240,000	240,000	506,324
Other	3,310	-	3,310	1,420
	<u>2,489,438</u>	<u>1,522,773</u>	<u>4,012,211</u>	<u>3,617,041</u>
Total revenues				
	<u>2,489,438</u>	<u>1,522,773</u>	<u>4,012,211</u>	<u>3,617,041</u>
<b>EXPENDITURES</b>				
Environment and development	-	1,223,301	1,223,301	1,386,254
Public safety	-	341,329	341,329	673,387
Leisure activities	-	60,488	60,488	64,655
Capital projects	3,400,124	-	3,400,124	2,668,327
	<u>3,400,124</u>	<u>1,625,118</u>	<u>5,025,242</u>	<u>4,792,623</u>
Total expenditures				
	<u>3,400,124</u>	<u>1,625,118</u>	<u>5,025,242</u>	<u>4,792,623</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>				
	(910,686)	(102,345)	(1,013,031)	(1,175,582)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	1,907,643	257,788	2,165,431	1,939,474
Transfer to other funds	-	(58,779)	(58,779)	(67,043)
	<u>1,907,643</u>	<u>199,009</u>	<u>2,106,652</u>	<u>1,872,431</u>
Total other financing sources (uses)				
	<u>1,907,643</u>	<u>199,009</u>	<u>2,106,652</u>	<u>1,872,431</u>
NET CHANGE IN TOTAL FUND BALANCES	996,957	96,664	1,093,621	696,849
FUND BALANCES, BEGINNING	<u>2,205,982</u>	<u>1,204,885</u>	<u>3,410,867</u>	<u>2,714,018</u>
FUND BALANCES, ENDING	<u>\$ 3,202,939</u>	<u>\$ 1,301,549</u>	<u>\$ 4,504,488</u>	<u>\$ 3,410,867</u>

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)**

	<b>Community Development Entitlement</b>	<b>Affordable Housing</b>	<b>Transitional Housing</b>	<b>Land Trust Fund</b>
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues				
Federal government	411,170	-	-	-
State government	-	-	-	-
Other	-	-	-	-
Interest on investments	-	651	15	22
Program income	50,119	-	5,808	-
Donations	-	-	-	-
Revenue in lieu	-	240,000	-	-
	<u>461,289</u>	<u>240,651</u>	<u>5,823</u>	<u>22</u>
Total revenues				
EXPENDITURES				
Environment and development	461,289	220,156	5,159	-
Public safety	-	-	-	-
Leisure activities	-	-	-	-
	<u>461,289</u>	<u>220,156</u>	<u>5,159</u>	<u>-</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>20,495</u>	<u>664</u>	<u>22</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	5,779	-	-
Transfers to other funds	-	-	-	-
	<u>-</u>	<u>5,779</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)				
NET CHANGE IN TOTAL FUND BALANCES	-	26,274	664	22
FUND BALANCES, BEGINNING	<u>104,905</u>	<u>750,482</u>	<u>2,602</u>	<u>46,882</u>
FUND BALANCES, ENDING	<u>\$ 104,905</u>	<u>\$ 776,756</u>	<u>\$ 3,266</u>	<u>\$ 46,904</u>



Schedule 5

Grants Fund	Downtown Service District	Housing Loan Trust Fund	Library Gift Fund	Comparative Totals	
				2012	2011
\$ -	\$ 234,275	\$ -	\$ -	\$ 234,275	\$ 171,421
320,875	-	-	-	732,045	1,101,949
117,953	-	-	-	117,953	41,413
18,867	-	-	-	18,867	29,705
-	612	4	201	1,505	2,158
-	-	-	-	55,927	10,635
-	-	-	122,201	122,201	99,728
-	-	-	-	240,000	430,900
457,695	234,887	4	122,402	1,522,773	1,887,909
374,348	162,349	-	-	1,223,301	1,386,254
341,329	-	-	-	341,329	673,387
1,631	-	-	58,857	60,488	64,655
717,308	162,349	-	58,857	1,625,118	2,124,296
(259,613)	72,538	4	63,545	(102,345)	(236,387)
252,009	-	-	-	257,788	672,665
-	-	(5,779)	(53,000)	(58,779)	(74,421)
252,009	-	(5,779)	(53,000)	199,009	598,244
(7,604)	72,538	(5,775)	10,545	96,664	361,857
18,628	19,856	5,775	255,755	1,204,885	843,028
\$ 11,024	\$ 92,394	\$ -	\$ 266,300	\$ 1,301,549	\$ 1,204,885

## OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

## COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)

	Capital Projects	Capital Reserve	Transit Grants	Public Housing Projects	Comparative Totals	
					2012	2011
<b>REVENUES</b>						
Intergovernmental revenues						
Federal government	\$ 55,467	\$ -	\$ 1,891,832	\$ 168,678	2,115,977	\$ 1,388,470
State government	22,567	-	83,545	-	106,112	9,211
Other	187,226	-	14,002	-	201,228	180,407
Charges for services	5,750	-	1,956	-	7,706	16,800
Interest on investments	1,139	151	-	-	1,290	2,651
Franchise rental fees	53,815	-	-	-	53,815	54,749
Revenue in lieu	-	-	-	-	-	75,424
Other	-	-	-	3,310	3,310	1,420
Total revenues	<u>325,964</u>	<u>151</u>	<u>1,991,335</u>	<u>171,988</u>	<u>2,489,438</u>	<u>1,729,132</u>
<b>EXPENDITURES</b>						
Capital projects:						
Municipal facilities	106,714	-	-	171,988	278,702	939,230
Street improvements and sidewalks	279,938	-	-	-	279,938	481,312
Parks, recreation and open space	354,545	-	-	-	354,545	295,870
Technology and communications	110,285	-	-	-	110,285	213,949
Transit equipment and improvements	-	-	2,376,654	-	2,376,654	737,966
Total expenditures	<u>851,482</u>	<u>-</u>	<u>2,376,654</u>	<u>171,988</u>	<u>3,400,124</u>	<u>2,668,327</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(525,518)</u>	<u>151</u>	<u>(385,319)</u>	<u>-</u>	<u>(910,686)</u>	<u>(939,195)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer from General Fund	432,300	-	-	-	432,300	1,172,800
Transfer from Transit Fund	-	-	1,452,819	-	1,452,819	94,009
Transfer from Capital Projects Ordinance Fund	22,524	-	-	-	22,524	-
Transfer to Capital Projects Ordinance Fund	-	-	-	-	-	9,858
Transfer to Grants Fund	-	-	-	-	-	(2,480)
Total other financing sources (uses)	<u>454,824</u>	<u>-</u>	<u>1,452,819</u>	<u>-</u>	<u>1,907,643</u>	<u>1,274,187</u>
NET CHANGE IN TOTAL FUND BALANCES	<u>(70,694)</u>	<u>151</u>	<u>1,067,500</u>	<u>-</u>	<u>996,957</u>	<u>334,992</u>
FUND BALANCES, BEGINNING	<u>1,991,951</u>	<u>214,031</u>	<u>-</u>	<u>-</u>	<u>2,205,982</u>	<u>1,870,990</u>
FUND BALANCES, ENDING	<u>\$ 1,921,257</u>	<u>\$ 214,182</u>	<u>\$ 1,067,500</u>	<u>\$ -</u>	<u>\$ 3,202,939</u>	<u>\$ 2,205,982</u>

## INTERNAL SERVICE FUNDS

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

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

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

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

## INTERNAL SERVICE FUNDS

## COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Comparative Totals	
				2012	2011
<b>ASSETS</b>					
CURRENT ASSETS					
Cash and cash equivalents	\$ 2,951,446	\$ 282,704	\$ 422,690	\$ 3,656,840	\$ 2,776,161
Accounts receivable	-	31,231	-	31,231	38,574
Inventories	-	111,361	-	111,361	181,772
Restricted cash and cash equivalents	887,283	-	-	887,283	2,049,923
Total current assets	3,838,729	425,296	422,690	4,686,715	5,046,430
NONCURRENT ASSETS					
Capital assets, net of depreciation	4,081,167	2,913	-	4,084,080	4,493,197
TOTAL ASSETS	7,919,896	428,209	422,690	8,770,795	9,539,627
<b>LIABILITIES</b>					
CURRENT LIABILITIES					
Accounts payable	-	99,004	-	99,004	353,324
Accrued liabilities	-	12,659	-	12,659	30,872
Compensated absences	-	29,891	-	29,891	30,216
Installment purchase agreements	1,248,975	-	-	1,248,975	1,217,275
Total current liabilities	1,248,975	141,554	-	1,390,529	1,631,687
NONCURRENT LIABILITIES					
Compensated absences	-	2,141	-	2,141	5,969
Other postemployment benefits	-	145,466	-	145,466	74,789
Installment purchase agreements	3,191,466	-	-	3,191,466	3,940,241
Total noncurrent liabilities	3,191,466	147,607	-	3,339,073	4,020,999
TOTAL LIABILITIES	4,440,441	289,161	-	4,729,602	5,652,686
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	528,009	2,913	-	530,922	1,385,604
Unrestricted	2,951,446	136,135	422,690	3,510,271	2,501,337
TOTAL NET ASSETS	\$ 3,479,455	\$ 139,048	\$ 422,690	\$ 4,041,193	\$ 3,886,941

## INTERNAL SERVICE FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)**

	<b>Vehicle Replacement Fund</b>	<b>Vehicle Maintenance Fund</b>	<b>Computer Equipment Replacement Fund</b>	<b>Comparative Totals</b>	
				<b>2012</b>	<b>2011</b>
<b>OPERATING REVENUES</b>					
Charges for services	\$ 1,486,900	\$ 1,164,183	\$ 159,375	\$ 2,810,458	\$ 2,971,215
<b>OPERATING EXPENSES</b>					
Depreciation and amortization	1,299,207	1,166	1,089	1,301,462	1,194,060
Personnel	675	637,066	-	637,741	603,675
Operations	13,155	536,549	149,615	699,319	611,195
Total operating expenses	1,313,037	1,174,781	150,704	2,638,522	2,408,930
<b>OPERATING INCOME (LOSS)</b>	173,863	(10,598)	8,671	171,936	562,285
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Insurance recovery	-	7,938	-	7,938	16,364
Interest on investments	2,021	138	313	2,472	6,906
Interest expense	(143,679)	-	-	(143,679)	(140,943)
Clean Fuels Grant	-	-	-	-	35,260
Alternative Fuels Grant	29,711	-	-	29,711	-
Gain on sale of capital assets	79,740	-	5,459	85,199	122,956
Total nonoperating revenues (expenses), net	(32,207)	8,076	5,772	(18,359)	40,543
<b>CHANGE IN NET ASSETS BEFORE TRANSFERS</b>	141,656	(2,522)	14,443	153,577	602,828
<b>TRANSFERS</b>					
Transfers in	675	-	-	675	-
<b>CHANGE IN NET ASSETS</b>	142,331	(2,522)	14,443	154,252	602,828
<b>NET ASSETS, BEGINNING</b>	3,337,124	141,570	408,247	3,886,941	3,284,113
<b>NET ASSETS, ENDING</b>	\$ 3,479,455	\$ 139,048	\$ 422,690	\$ 4,041,193	\$ 3,886,941

## INTERNAL SERVICE FUNDS

## COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Comparative Totals	
				2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 1,486,900	\$ 1,171,526	\$ 159,375	\$ 2,817,801	\$ 2,990,150
Payments to employees	-	(588,755)	-	(588,755)	(586,888)
Payments to suppliers	(184,173)	(428,687)	(271,043)	(883,903)	(843,216)
Net cash provided by (used in) operating activities	1,302,727	154,084	(111,668)	1,345,143	1,560,046
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Grant funds received	29,711	-	-	29,711	35,260
Transfers from other funds	675	-	-	675	-
Net cash provided by noncapital financing activities	30,386	-	-	30,386	35,260
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from installment purchase agreements	887,000	-	-	887,000	1,600,000
Principal paid on installment purchase agreements	(1,604,075)	-	-	(1,604,075)	(1,096,933)
Interest paid on installment purchase agreements	(143,679)	-	-	(143,679)	(140,943)
Proceeds from sale of capital assets	84,366	-	5,459	89,825	258,489
Proceeds from insurance recovery	-	7,938	-	7,938	16,364
Acquisition and construction of capital assets	(896,971)	-	-	(896,971)	(1,545,418)
Net cash provided by (used in) capital and related financing activities	(1,673,359)	7,938	5,459	(1,659,962)	(908,441)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	2,021	138	313	2,472	6,906
Net cash provided by investing activities	2,021	138	313	2,472	6,906

Continued

## INTERNAL SERVICE FUNDS

## COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012 (With Comparative Totals as of June 30, 2011)

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Comparative Totals	
				2012	2011
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(338,225)	162,160	(105,896)	(281,961)	693,771
CASH AND INVESTMENTS, BEGINNING	4,176,954	120,544	528,586	4,826,084	4,132,313
CASH AND INVESTMENTS, ENDING	<u>\$ 3,838,729</u>	<u>\$ 282,704</u>	<u>\$ 422,690</u>	<u>\$ 4,544,123</u>	<u>\$ 4,826,084</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ 173,863	\$ (10,598)	\$ 8,671	\$ 171,936	\$ 562,285
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	1,299,207	1,166	1,089	1,301,462	1,194,060
Changes in assets and liabilities:					
Receivables	-	7,343	-	7,343	18,935
Inventories	-	70,411	-	70,411	(44,088)
Accounts payable	(170,343)	37,451	(121,428)	(254,320)	(187,933)
Accrued liabilities	-	(18,213)	-	(18,213)	(10,491)
Compensated absences	-	(4,153)	-	(4,153)	(47,511)
Accrued OPEB liability	-	70,677	-	70,677	74,789
Net cash provided by operating activities	<u>\$ 1,302,727</u>	<u>\$ 154,084</u>	<u>\$ (111,668)</u>	<u>\$ 1,345,143</u>	<u>\$ 1,560,046</u>

*This page intentionally left blank.*



## GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance -
	Original	Final	Actual	Positive (Negative)
REVENUES				
Taxes				
Ad valorem taxes - current year	\$ 27,114,000	\$ 27,114,000	\$ 27,244,232	\$ 130,232
Ad valorem taxes - prior years	110,000	110,000	105,631	(4,369)
Interest on delinquent taxes	40,000	40,000	71,632	31,632
Local option sales taxes	9,004,500	9,155,049	9,765,972	610,923
Occupancy tax	815,000	815,000	956,496	141,496
Other taxes	37,000	37,000	56,452	19,452
Total taxes	37,120,500	37,271,049	38,200,415	929,366
Licenses and permits				
Motor vehicles	410,000	410,000	435,772	25,772
Privilege licenses	140,000	140,000	139,281	(719)
Building permits	846,720	846,720	771,430	(75,290)
Special use permits	150,000	150,000	314,807	164,807
Work zone traffic permits	65,000	65,000	67,100	2,100
Engineering permits	11,000	11,000	6,753	(4,247)
Fire inspection fees	4,500	4,500	3,200	(1,300)
Traffic impact study and fees	101,000	101,000	110,787	9,787
Police permits	45,000	45,000	49,495	4,495
Fire permits	20,000	20,000	19,150	(850)
Total licenses and permits	1,793,220	1,793,220	1,917,775	124,555
Fines and forfeitures				
Garbage citations and leash law fees	3,650	3,650	9,650	6,000
Parking tickets and towing fees	28,000	28,000	19,122	(8,878)
Total fines and forfeitures	31,650	31,650	28,772	(2,878)

Continued

## GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Intergovernmental revenues				
Federal Government				
USDOJ Equitable Sharing - Drug	12,000	12,000	9,582	(2,418)
Total federal government	12,000	12,000	9,582	(2,418)
State of North Carolina				
Beer and wine tax	237,000	237,000	248,837	11,837
Fuel tax (Powell Bill) funds	1,371,300	1,371,300	1,408,127	36,827
State fire protection	1,210,000	1,210,000	1,088,630	(121,370)
Utility franchise tax	2,800,000	2,800,000	2,815,873	15,873
Video programming tax	717,750	717,750	712,711	(5,039)
Supplemental PEG support	50,000	50,000	98,164	48,164
Solid waste disposal tax	20,000	20,000	39,213	19,213
State library aid	38,990	38,990	32,216	(6,774)
State Equitable Sharing - Drug	5,000	5,000	3,135	(1,865)
Total State of North Carolina	6,450,040	6,450,040	6,446,906	(3,134)
Other				
Orange County recreational support	83,760	83,760	83,760	-
Orange County library contribution	-	342,986	342,986	-
Miscellaneous local grants	-	1,000	2,385	1,385
Total other	83,760	427,746	429,131	1,385
Total intergovernmental revenues	6,545,800	6,889,786	6,885,619	(4,167)

Continued

## GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Charges for services				
Library fines and fees	\$ 246,000	\$ 150,000	\$ 135,500	\$ (14,500)
Library delinquent collection fees	10,500	10,500	4,407	(6,093)
Street cuts and right of way	55,968	55,968	102,498	46,530
Traffic signals	275,700	275,700	253,675	(22,025)
Rent revenue	104,500	104,500	123,129	18,629
Cemetery staking	4,200	4,200	3,665	(535)
Fire districts	1,500	1,500	1,726	226
Solid waste collection	350,500	350,500	342,918	(7,582)
Planning review	78,650	88,650	77,512	(11,138)
Turnaround client fees	-	-	640	640
Recreation	583,450	583,450	684,019	100,569
Charges to other funds	1,162,078	1,162,078	1,156,020	(6,058)
Total charges for services	2,873,046	2,787,046	2,885,709	98,663
Interest on investments	45,000	45,000	14,679	(30,321)
Other				
Sales - planning and documents	20,050	20,050	18,701	(1,349)
Sales - fixed assets	5,000	5,000	7,357	2,357
Sales - fuel	24,500	24,500	10,427	(14,073)
Sales - miscellaneous	3,350	3,350	4,692	1,342
Cemetery lot sales	60,100	60,100	86,140	26,040
Court fees	25,000	25,000	22,523	(2,477)
Mutual aid reimbursements	398,010	465,889	476,485	10,596
Gifts and donations	100,000	100,000	100,060	60
Revenue in lieu	-	-	12,140	12,140
Miscellaneous	13,250	13,250	57,851	44,601
Total other revenues	649,260	717,139	796,376	79,237
TOTAL REVENUES	49,058,476	49,534,890	50,729,345	1,194,455

Continued

## GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance - Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General government				
Mayor/Council	\$ 484,664	\$ 484,664	\$ 396,946	\$ 87,718
Manager/CaPA	1,818,297	1,861,131	1,688,494	172,637
Human Resources	1,321,970	1,520,489	1,221,870	298,619
Business Management	2,766,889	3,034,319	2,765,890	268,429
Attorney	294,448	295,461	284,774	10,687
Total general government	6,686,268	7,196,064	6,357,974	838,090
Environment and development				
Planning	1,530,158	1,637,209	1,320,732	316,477
Public Works	11,470,638	11,562,034	11,122,885	439,149
Total environment and development	13,000,796	13,199,243	12,443,617	755,626
Public safety				
Police	12,004,806	12,109,689	11,662,570	447,119
Fire	7,407,627	7,429,512	7,319,925	109,587
Total public safety	19,412,433	19,539,201	18,982,495	556,706
Leisure activities				
Parks and recreation	5,963,430	6,124,369	5,900,402	223,967
Library	2,231,645	2,243,262	2,133,206	110,056
Total leisure activities	8,195,075	8,367,631	8,033,608	334,023
Nondepartmental				
Liability insurance	410,000	430,000	419,579	10,421
Supplemental PEG expense	227,508	227,508	202,315	25,193
Contributions to agencies	809,700	825,700	790,600	35,100
Contribution to OPEB liability	-	1,200,000	-	1,200,000
Retiree medical insurance	924,215	964,215	957,165	7,050
General government	119,249	209,798	110,904	98,894
Total nondepartmental	2,490,672	3,857,221	2,480,563	1,376,658
Total expenditures	49,785,244	52,159,360	48,298,257	3,861,103

Continued

## GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(726,768)	(2,624,470)	2,431,088	5,055,558
OTHER FINANCING SOURCES (USES)				
Transfer from Parking Facilities Fund	153,919	153,919	19,148	(134,771)
Transfer from Library Gift Fund	206,000	53,000	53,000	-
Transfer to Vehicle Replacement Fund	-	(675)	(675)	-
Transfer to Stormwater Fund	(5,800)	(5,800)	(4,464)	1,336
Transfer to Capital Improvements Fund	(432,300)	(432,300)	(432,300)	-
Transfer to Grants Fund	(316,656)	(453,618)	(239,457)	214,161
Appropriated fund balance	1,121,605	3,309,944	-	(3,309,944)
Total other financing sources (uses)	726,768	2,624,470	(604,748)	(3,229,218)
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	1,826,340	\$ 1,826,340
FUND BALANCE, BEGINNING			20,427,961	
FUND BALANCE, ENDING			\$ 22,254,301	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - DEBT SERVICE FUND**  
**YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance -
	Original	Final	Actual	Positive (Negative)
REVENUES				
Ad valorem taxes - current year	\$ 5,380,000	\$ 5,380,000	\$ 5,404,697	\$ 24,697
Ad valorem taxes - prior years	-	-	23,065	23,065
Intergovernmental revenues				
Federal government	182,506	182,506	182,506	-
Interest on investments	3,000	3,000	2,928	(72)
Total revenues	5,565,506	5,565,506	5,613,196	47,690
EXPENDITURES				
Debt service:				
Principal	4,490,000	4,490,000	4,490,000	-
Interest and fiscal charges	2,270,930	2,270,930	2,271,774	(844)
Bond issuance costs	-	130,000	181,355	(51,355)
Total expenditures	6,760,930	6,890,930	6,943,129	(52,199)
DEFICIENCY OF REVENUES OVER EXPENDITURES				
	(1,195,424)	(1,325,424)	(1,329,933)	(4,509)
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issuance	-	-	26,417,739	26,417,739
Advanced refunding	-	-	(26,499,557)	(26,499,557)
Premium on sale of bonds	-	-	4,683,695	4,683,695
Appropriated fund balance	1,195,424	1,325,424	-	(1,325,424)
Total other financing sources (uses)	1,195,424	1,325,424	4,601,877	3,276,453
NET CHANGE IN TOTAL FUND BALANCE				
	\$ -	\$ -	3,271,944	\$ 3,271,944
FUND BALANCES, BEGINNING			3,009,079	
FUND BALANCES, ENDING			\$ 6,281,023	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CAPITAL PROJECTS ORDINANCE FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>
<b>REVENUES</b>				
Interest on investments	\$ 2,298,563	\$ 3,024,680	\$ 13,856	\$ 3,038,536
Federal Bridge Replacement Grant	212,865	268,730	-	268,730
ARRA Grants	1,739,141	1,067,127	260,083	1,327,210
FTA STPDA Grants	1,610,000	-	-	-
U.S. DOE SEEA Grant	907,041	-	126,281	126,281
Other Federal Grants	1,012,408	685,570	58,770	744,340
North Carolina Clean Water Grant	200,000	200,000	-	200,000
North Carolina Department of Transportation Grants	2,096,766	1,680,310	-	1,680,310
Parks and Recreation Trust Fund	500,000	500,000	-	500,000
Other State Grants	86,971	73,909	13,062	86,971
Orange County parks bonds	8,500,000	8,482,520	-	8,482,520
Other Grants	961,939	155,434	60,496	215,930
Charges for services	173,117	268,788	(783)	268,005
Donations	813,993	249,628	41,620	291,248
Revenue in lieu	125,592	129,592	-	129,592
Other	567,046	605,783	-	605,783
Total revenues	<u>21,805,442</u>	<u>17,392,071</u>	<u>573,385</u>	<u>17,965,456</u>
<b>EXPENDITURES</b>				
Parks, recreation, library and open space capital improvements	52,079,657	28,908,084	5,893,262	34,801,346
Public safety capital improvements	2,331,043	2,331,602	-	2,331,602
Public works facility	31,083,380	30,689,893	20,104	30,709,997
Municipal facilities	10,078,723	738,940	701,072	1,440,012
Sewer capital improvements	350,385	368,195	-	368,195
Software development	300,000	148,478	97,478	245,956
Street and sidewalk improvements	12,701,250	6,454,452	1,004,319	7,458,771
Total expenditures	<u>108,924,438</u>	<u>69,639,644</u>	<u>7,716,235</u>	<u>77,355,879</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(87,118,996)</u>	<u>(52,247,573)</u>	<u>(7,142,850)</u>	<u>(59,390,423)</u>

Continued

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CAPITAL PROJECTS ORDINANCE FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012**

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issuance	52,077,272	43,334,615	7,037,261	50,371,876
Proceeds from financing	29,861,733	29,861,733	-	29,861,733
Transfer from General Fund	3,832,071	3,832,071	-	3,832,071
Transfer from Capital Projects Fund	673,593	660,405	-	660,405
Transfer from Capital Reserve Fund	154,385	154,385	-	154,385
Transfer from Library Gift Fund	454,475	454,475	-	454,475
Transfer from Stormwater Fund	127,314	127,314	-	127,314
Transfer to Capital Projects Fund	(84,928)	(62,404)	(22,524)	(84,928)
Appropriated fund balance	23,081	-	-	-
Total other financing sources (uses)	87,118,996	78,362,594	7,014,737	85,377,331
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ 26,115,021	\$ (128,113)	\$ 25,986,908
FUND BALANCE, BEGINNING			26,115,021	
FUND BALANCE, ENDING			\$ 25,986,908	



**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - CAPITAL PROJECTS FUND**  
**YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance -
	Original	Final	Actual	Positive
				(Negative)
REVENUES				
Intergovernmental revenues:				
Federal government	\$ -	\$ 55,467	\$ 55,467	-
State government	-	30,000	22,567	(7,433)
Other	-	239,122	187,226	(51,896)
Charges for services	-	-	5,750	5,750
Interest on investments	-	-	1,139	1,139
Franchise rental fees	55,000	55,000	53,815	(1,185)
Total revenues	55,000	379,589	325,964	(53,625)
EXPENDITURES				
Capital projects:				
Municipal facilities	70,000	238,572	106,714	131,858
Street improvements and sidewalks	65,000	456,793	279,938	176,855
Parks, recreation and open space	202,524	438,847	354,545	84,302
Technology and communications	172,300	643,888	110,285	533,603
Total expenditures	509,824	1,778,100	851,482	926,618
DEFICIENCY OF REVENUES				
OVER EXPENDITURES	(454,824)	(1,398,511)	(525,518)	872,993
OTHER FINANCING SOURCES				
Transfer from General Fund	432,300	432,300	432,300	-
Transfer from Capital Projects Ordinance Fund	22,524	22,524	22,524	-
Appropriated fund balance	-	943,687	-	(943,687)
Total other financing sources	454,824	1,398,511	454,824	(943,687)
NET CHANGE IN TOTAL FUND BALANCE				
	\$ -	\$ -	(70,694)	\$ (70,694)
FUND BALANCE, BEGINNING				
			1,991,951	
FUND BALANCE, ENDING				
			\$ 1,921,257	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - CAPITAL RESERVE FUND**  
**YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 151	\$ 151
Total revenues	-	-	151	151
EXPENDITURES				
Total expenditures	-	-	-	-
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	151	<u>\$ 151</u>
FUND BALANCE, BEGINNING			214,031	
FUND BALANCE, ENDING			<u>\$ 214,182</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
TRANSIT GRANT PROJECTS ORDINANCE FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>
<b>REVENUES</b>				
Intergovernmental revenue				
Federal government	\$ 16,884,978	\$ 4,877,015	\$ 1,891,832	\$ 6,768,847
State government	678,557	302,004	83,545	385,549
Other	380,632	339,369	14,002	353,371
Charges for services	24,042	22,635	1,956	24,591
Total revenues	17,968,209	5,541,023	1,991,335	7,532,358
<b>EXPENDITURES</b>				
Bus purchases	10,657,442	-	1,666,412	1,666,412
Equipment and improvements	7,068,299	5,315,393	314,377	5,629,770
Administration	3,084,628	681,844	395,865	1,077,709
Total expenditures	20,810,369	5,997,237	2,376,654	8,373,891
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>				
	(2,842,160)	(456,214)	(385,319)	(841,533)
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	2,842,160	456,214	1,452,819	1,909,033
<b>NET CHANGE IN TOTAL FUND BALANCE</b>				
	\$ -	\$ -	1,067,500	\$ 1,067,500
<b>FUND BALANCE, BEGINNING</b>				
			-	
<b>FUND BALANCE, ENDING</b>				
			\$ 1,067,500	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
PUBLIC HOUSING PROJECTS - CAPITAL FUND GRANTS  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Project Authorization</b>	<b>Prior Year</b>	<b>Actual Current Year</b>	<b>Total to Date</b>
<b>REVENUES</b>				
Intergovernmental revenues				
Capital Grant 2008	578,700	577,371	1,329	578,700
Capital Grant 2009	595,500	205,871	17,535	223,406
Capital Grant 2010	594,401	23,161	146,067	169,228
Capital Grant 2011	506,097	-	-	-
Capital Grant 2012	448,270	-	-	-
ARRA Grant 2009	732,519	728,772	3,747	732,519
ROSS Grant	248,240	238,086	-	238,086
Total federal government	3,703,727	1,773,261	168,678	1,941,939
Other revenues	19,840	7,771	3,310	11,081
 Total revenues	 3,723,567	 1,781,032	 171,988	 1,953,020
<b>EXPENDITURES</b>				
Environment and development	3,723,567	1,781,032	171,988	1,953,020
 NET CHANGE IN TOTAL FUND BALANCE	 \$ -	 \$ -	 \$ -	 \$ -

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL -  
COMMUNITY DEVELOPMENT ENTITLEMENT GRANT PROJECTS ORDINANCE FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>
<b>REVENUES</b>				
Intergovernmental revenues				
Block Grant 02	\$ 445,000	\$ 445,000	\$ -	\$ 445,000
Block Grant 03	723,000	723,000	-	723,000
Block Grant 04	711,000	711,000	-	711,000
Block Grant 05	666,392	666,392	-	666,392
Block Grant 06	598,310	598,310	-	598,310
Block Grant 07	596,282	596,282	-	596,282
Block Grant 08	574,804	574,804	-	574,804
Block Grant 09	584,379	584,379	-	584,379
Block Grant 10	633,405	465,291	168,114	633,405
Block Grant 11	529,660	-	242,954	242,954
ARRA Grant 09	156,110	156,008	102	156,110
Program income	163,129	155,843	50,119	205,962
Total revenues	6,381,471	5,676,309	461,289	6,137,598
<b>EXPENDITURES</b>				
Public improvement	1,687,382	1,443,512	36,971	1,480,483
Neighborhood revitalization	2,911,569	2,538,131	287,144	2,825,275
Homeownership opportunities	17,000	17,000	-	17,000
Administration	1,091,328	979,713	61,716	1,041,429
Community services	674,192	593,048	75,458	668,506
Total expenditures	6,381,471	5,571,404	461,289	6,032,693
NET CHANGE IN TOTAL FUND BALANCE	-	104,905	-	104,905
FUND BALANCE, BEGINNING			104,905	
FUND BALANCE, ENDING			\$ 104,905	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - AFFORDABLE HOUSING FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>
<b>REVENUES</b>				
Interest on investments	\$ 16,300	\$ 44,024	\$ 651	\$ 44,675
Program income	650,799	650,800	-	650,800
Revenue in lieu	1,279,400	1,009,400	240,000	1,249,400
Total revenues	1,946,499	1,704,224	240,651	1,944,875
<b>EXPENDITURES</b>				
Environment and development	2,102,277	1,103,742	220,156	1,323,898
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	(155,778)	600,482	20,495	620,977
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	155,778	150,000	5,779	155,779
<b>NET CHANGE IN TOTAL FUND BALANCE</b>	<b>\$ -</b>	<b>\$ 750,482</b>	<b>\$ 26,274</b>	<b>\$ 776,756</b>
<b>FUND BALANCE, BEGINNING</b>			750,482	
<b>FUND BALANCE, ENDING</b>			<b>\$ 776,756</b>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - TRANSITIONAL HOUSING FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012**

	Project		Actual	
	Authorization	Prior	Current	Total to
		Year	Year	Date
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 285,117	\$ 165,776	\$ -	\$ 165,776
Other	75,000	75,000	-	75,000
Interest on investments	762	539	15	554
Program income	76,173	58,989	5,808	64,797
Other	-	300	-	300
	<u>437,052</u>	<u>300,604</u>	<u>5,823</u>	<u>306,427</u>
Total revenues				
	<u>437,052</u>	<u>300,604</u>	<u>5,823</u>	<u>306,427</u>
<b>EXPENDITURES</b>				
Environment and development	<u>454,552</u>	<u>315,502</u>	<u>5,159</u>	<u>320,661</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(17,500)</u>	<u>(14,898)</u>	<u>664</u>	<u>(14,234)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	<u>17,500</u>	<u>17,500</u>	<u>-</u>	<u>17,500</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ 2,602</u>	<u>\$ 664</u>	<u>\$ 3,266</u>
<b>FUND BALANCE, BEGINNING</b>				
			<u>2,602</u>	
<b>FUND BALANCE, ENDING</b>				
			<u>\$ 3,266</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - LAND TRUST FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Actual Current Year</b>	<b>Total to Date</b>
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 231,250	\$ 230,658	\$ -	\$ 230,658
Interest on investments	-	1,707	22	1,729
Program income	-	249,390	-	249,390
	<u>231,250</u>	<u>481,755</u>	<u>22</u>	<u>481,777</u>
Total revenues				
	<u>231,250</u>	<u>481,755</u>	<u>22</u>	<u>481,777</u>
<b>EXPENDITURES</b>				
Environment and development	<u>231,250</u>	<u>434,873</u>	<u>-</u>	<u>434,873</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ 46,882</u>	<u>\$ 22</u>	<u>\$ 46,904</u>
FUND BALANCE, BEGINNING			<u>46,882</u>	
FUND BALANCE, ENDING			<u>\$ 46,904</u>	



**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GRANTS FUND**  
**YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues				
Federal Government	177,000	267,403	320,875	53,472
State Government	51,364	151,248	117,953	(33,295)
Other	1,277	23,694	18,867	(4,827)
Total revenues	229,641	442,345	457,695	15,350
EXPENDITURES				
Environment and development	297,080	421,852	374,348	47,504
Public safety	252,456	378,723	341,329	37,394
Leisure activities	-	1,631	1,631	-
Total expenditures	549,536	802,206	717,308	84,898
DEFICIENCY OF REVENUES OVER EXPENDITURES				
	(319,895)	(359,861)	(259,613)	100,248
OTHER FINANCING SOURCES				
Transfers from General Fund	316,656	328,618	239,457	(89,161)
Transfers from Transit Fund	3,239	12,615	12,552	(63)
Appropriated fund balance	-	18,628	-	(18,628)
Total other financing sources	319,895	359,861	252,009	(107,852)
NET CHANGE IN TOTAL FUND BALANCE				
	\$ -	\$ -	(7,604)	\$ (7,604)
FUND BALANCE, BEGINNING				
			18,628	
FUND BALANCE, ENDING				
			\$ 11,024	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - DOWNTOWN SERVICE DISTRICT FUND**  
**YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 166,000	\$ 166,000	\$ 234,275	\$ 68,275
Interest on investments	-	-	612	612
Total revenues	166,000	166,000	234,887	68,887
EXPENDITURES				
Environment and development	166,000	166,000	162,349	3,651
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	72,538	\$ 72,538
FUND BALANCE, BEGINNING			19,856	
FUND BALANCE, ENDING			\$ 92,394	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - HOUSING LOAN TRUST FUND**  
**YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 4	\$ 4
Total revenues	-	-	4	4
EXPENDITURES				
Environment and development	1,260	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,260)	-	4	4
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	-	(5,778)	(5,779)	(1)
Appropriated fund balance	1,260	5,778	-	(5,778)
Total other financing sources (uses)	1,260	-	(5,779)	(5,779)
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	(5,775)	\$ (5,775)
FUND BALANCE, BEGINNING			5,775	
FUND BALANCE, ENDING			\$ -	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - LIBRARY GIFT FUND**  
**YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 201	\$ 201
Library donations	116,000	156,000	122,201	(33,799)
Total revenues	116,000	156,000	122,402	(33,598)
EXPENDITURES				
Leisure activities	32,400	75,400	58,857	16,543
EXCESS OF REVENUES OVER EXPENDITURES	83,600	80,600	63,545	(17,055)
OTHER FINANCING SOURCES (USES)				
Transfer to General Fund	(206,000)	(53,000)	(53,000)	-
Contribution to reserve	-	(30,600)	-	30,600
Appropriated fund balance	122,400	3,000	-	(3,000)
Total other financing sources (uses)	(83,600)	(80,600)	(53,000)	27,600
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	10,545	\$ 10,545
FUND BALANCE, BEGINNING			255,755	
FUND BALANCE, ENDING			\$ 266,300	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
(MODIFIED ACCRUAL BASIS) - TRANSIT FUND  
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance - Positive (Negative)
	Original	Final	Actual	
OPERATING REVENUES				
Charges for services:				
Tarheel Express	\$ 390,445	\$ 390,445	\$ 417,605	\$ 27,160
Bus advertising	13,132	163,132	59,684	(103,448)
Other	342,488	342,488	447,475	104,987
Total charges for services	746,065	896,065	924,764	28,699
OPERATING EXPENSES				
Personnel	10,529,968	11,216,658	11,673,603	(456,945)
Fuel and tires	2,488,058	2,340,938	1,817,075	523,863
Indirect costs	981,005	981,005	982,218	(1,213)
Building maintenance	550,174	553,747	453,061	100,686
Vehicle maintenance	1,670,591	1,982,033	1,481,777	500,256
Insurance	448,064	448,064	347,262	100,802
Advertising and marketing	110,550	172,729	59,203	113,526
Tarheel Express	303,617	306,117	226,056	80,061
Uniforms and supplies	173,476	210,692	113,331	97,361
Other	405,661	709,239	334,624	374,615
Total operating expenses	17,661,164	18,921,222	17,488,210	1,433,012
OPERATING LOSS	(16,915,099)	(18,025,157)	(16,563,446)	1,461,711
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	1,900,000	2,766,501	446,623	(2,319,878)
State Operating Assistance Grant	3,319,737	3,421,862	3,419,853	(2,009)
Operating assistance-UNC Chapel Hill	5,930,168	5,930,168	5,930,168	-
Operating assistance-Town of Carrboro	1,032,825	1,032,825	1,032,825	-
Vehicle licenses	415,000	415,000	434,475	19,475
Ad valorem taxes	2,943,720	2,943,720	2,965,320	21,600
Interest on investments	10,000	10,000	3,557	(6,443)
Insurance recovery	-	-	47,703	47,703
Capital outlay	-	(35,684)	(5,684)	30,000
Loss from sale of fixed assets	12,300	12,300	(97,448)	(109,748)
Revenue in lieu	-	-	10,000	10,000
Appropriated fund balance	1,713,512	3,815,463	-	(3,815,463)
Total nonoperating revenues (expenses), net	17,277,262	20,312,155	14,187,392	(6,124,763)
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS				
	362,163	2,286,998	(2,376,054)	(4,663,052)

Continued

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
(MODIFIED ACCRUAL BASIS) - TRANSIT FUND  
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
CAPITAL CONTRIBUTIONS	-	-	1,804,533	1,804,533
TRANSFERS				
Transfers out	(362,163)	(2,286,998)	(1,465,371)	821,627
Total transfers	(362,163)	(2,286,998)	(1,465,371)	821,627
DEFICIENCY OF REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	(2,036,892)	\$ (2,036,892)
Reconciliation of modified accrual basis to full accrual basis:				
Capital outlay			5,684	
Depreciation and amortization			(3,966,247)	
Change in Net Assets			\$ (5,997,455)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - PARKING FACILITIES FUND  
YEAR ENDED JUNE 30, 2012**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,069,580	\$ 2,104,580	\$ 2,071,035	\$ (33,545)
<b>OPERATING EXPENSES</b>				
Personnel	823,666	832,539	830,992	1,547
Maintenance and repairs	153,040	69,013	52,094	16,919
Credit card fees	37,520	80,930	74,006	6,924
Lot rent	116,460	132,460	131,915	545
Indirect costs	78,279	80,291	73,514	6,777
Other	278,213	362,649	315,525	47,124
Total operating expenses	1,487,178	1,557,882	1,478,046	79,836
<b>OPERATING INCOME</b>	582,402	546,698	592,989	46,291
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest on investments	7,250	7,250	1,960	(5,290)
Debt service	(463,073)	(463,073)	(604,217)	(141,144)
Bond issuance expense	-	-	(206,833)	(206,833)
Capital outlay	-	(212,110)	(130,560)	81,550
Appropriated fund balance	27,340	275,154	-	(275,154)
Total nonoperating revenues (expenses), net	(428,483)	(392,779)	(939,650)	(546,871)
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	153,919	153,919	(346,661)	(500,580)
<b>TRANSFERS</b>				
Transfer to General Fund	(153,919)	(153,919)	(19,148)	134,771
<b>DEFICIENCY OF REVENUES OVER EXPENSES AND TRANSFERS</b>	\$ -	\$ -	(365,809)	\$ (365,809)
Reconciliation of modified accrual basis to full accrual basis:				
Capital outlay			130,560	
Debt principal retirement			4,615,000	
Debt payoff - due to Debt Service fund			(4,320,000)	
Depreciation and amortization			(425,449)	
Change in Net Assets			\$ (365,698)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
(MODIFIED ACCRUAL BASIS) - HOUSING OPERATING FUND  
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 395,380	\$ 395,380	\$ 618,132	\$ 222,752
OPERATING EXPENSES				
Personnel	965,722	965,722	921,878	43,844
Maintenance and repairs	343,966	414,725	383,687	31,038
Utilities	156,570	156,570	169,855	(13,285)
Other	256,512	235,169	180,372	54,797
Total operating expenses	1,722,770	1,772,186	1,655,792	116,394
OPERATING LOSS	(1,327,390)	(1,376,806)	(1,037,660)	339,146
NONOPERATING REVENUES				
Federal Operating Assistance Grant	1,323,490	1,323,490	1,319,472	(4,018)
Interest on investments	3,900	3,900	2,194	(1,706)
Insurance recovery	-	42,485	42,485	-
Appropriated fund balance	-	6,931	-	(6,931)
Total nonoperating revenues	1,327,390	1,376,806	1,364,151	(12,655)
INCOME BEFORE CAPITAL CONTRIBUTIONS	-	-	326,491	326,491
CAPITAL CONTRIBUTIONS	-	-	1,079,687	1,079,687
EXCESS OF REVENUES OVER EXPENSES	\$ -	\$ -	1,406,178	\$ 1,406,178
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(548,754)	
Change in Net Assets			\$ 857,424	



Line Item #	Account Description	Low Rent 14.850	CGP 14.859	TOTAL
<b>ASSETS:</b>				
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents:				
111	Cash - unrestricted	\$ 3,125,706	\$ 23,658	3,149,364
112	Cash - restricted - modernization and development	-	-	-
114	Cash - tenant security deposits	64,381	-	64,381
100	Total cash	3,190,087	23,658	3,213,745
Accounts and notes receivables:				
124	Accounts receivable - Other Governmental	-	185	185
126	Accounts receivable - tenants - dwelling rents	18,641	-	18,641
126.1	Allowance for doubtful accounts - dwelling rents	(7,412)	-	(7,412)
120	Total receivables, net allowances for uncollectibles	11,229	185	11,414
Current investments:				
143	Inventories	151,637	-	151,637
143.1	Allowance for Obsolete Inventories	(1,461)	-	(1,461)
	Total current investments	150,176	-	150,176
150	<b>TOTAL CURRENT ASSETS</b>	3,351,492	23,843	3,375,335
<b>NONCURRENT ASSETS:</b>				
Fixed assets:				
161	Land	2,025,035	-	2,025,035
162	Building	20,496,087	-	20,496,087
164	Furniture, Equipment, & Machinery -Administration	565,054	-	565,054
166	Accumulated depreciation	(13,453,528)	-	(13,453,528)
160	Total fixed assets, net of accumulated depreciation	9,632,648	-	9,632,648
180	<b>TOTAL NONCURRENT ASSETS</b>	9,632,648	-	9,632,648
190	<b>TOTAL ASSETS</b>	\$ 12,984,140	\$ 23,843	\$ 13,007,983
<b>LIABILITIES AND EQUITY:</b>				
<b>LIABILITIES:</b>				
<b>CURRENT LIABILITIES:</b>				
312	Accounts payable ≤ 90 days	\$ 56,895	\$ 185	57,080
321	Accrued wage/payroll taxes payable	18,726	-	18,726
322	Accrued compensated absences - current portion	57,906	-	57,906
341	Tenant security deposits	64,381	-	64,381
345	Other current liabilities	139,837	23,658	163,495
310	<b>TOTAL CURRENT LIABILITIES</b>	337,745	23,843	361,588
354	Accrued compensated absences - non-current portion	266,575	-	266,575
350	<b>TOTAL NON-CURRENT LIABILITIES</b>	266,575	-	266,575
300	<b>TOTAL LIABILITIES</b>	604,320	23,843	628,163
<b>EQUITY:</b>				
508	Investment in general fixed assets	9,632,648	-	9,632,648
512	Undesignated fund balance/retained earnings	2,747,172	-	2,747,172
513	<b>TOTAL EQUITY</b>	12,379,820	-	12,379,820
600	<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 12,984,140	\$ 23,843	\$ 13,007,983

Line Item #	Account Description	Low Rent 14.850	CGP 14.859	TOTAL
<b>REVENUE:</b>				
Tenant revenues:				
703	Net tenant rental revenue	\$ 617,422	\$ -	\$ 617,422
705	Total tenant revenue	617,422	-	617,422
Other revenues:				
706	HUD PHA grants	1,319,472	-	1,319,472
706.1	Capital Grants	-	168,678	168,678
711	Investment income - unrestricted	2,194	-	2,194
715	Other revenue	43,195	3,310	46,505
	Total other revenue	1,364,861	171,988	1,536,849
700	<b>TOTAL REVENUE</b>	1,982,283	171,988	2,154,271
<b>EXPENSES:</b>				
<b>OPERATING EXPENSES:</b>				
Administrative:				
911	Administrative salaries	236,388		236,388
912	Auditing fees	-		-
915	Compensated Absences	(756)		(756)
915	Employee benefit contributions - administrative	192,113		192,113
919	Other operating - administrative	68,619	69,790	138,409
Tenant services:				
924	Tenant services-other	3,128		3,128
Utilities:				
931	Water	132,923	-	132,923
932	Electricity	32,277	-	32,277
933	Gas	4,655	-	4,655
Ordinary maintenance & operations:				
941	Ordinary maintenance and operations - labor	358,254	-	358,254
942	Ordinary maintenance and operations - materials	127,818		127,818
943	Ordinary maintenance and operations - contract costs	212,277	-	212,277
945	Employee benefit contributions - ordinary maintenance	135,879	-	135,879
General expenses:				
961	Insurance premiums	73,396	-	73,396
962	Other general expenses	1,932	-	1,932
964	Bad debt - tenant rents	33,297	-	33,297
969	<b>TOTAL OPERATING EXPENSES</b>	1,612,200	69,790	1,681,990
970	<b>EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER OPERATING EXPENSES</b>	370,083	102,198	472,281
<b>NON-OPERATING EXPENSES:</b>				
971	Extraordinary maintenance	43,592	102,198	145,790
974	Depreciation Expense	548,754	-	548,754
900	<b>TOTAL EXPENSES</b>	2,204,546	171,988	2,376,534
1003	Operating transfers from/to Primary Government	-	-	-
1000	<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	(222,263)	-	(222,263)
1104	Capital Outlays Enterprise Fund	1,079,687	-	1,079,687
1103	<b>BEGINNING EQUITY</b>	11,522,396	-	11,522,396
	<b>ENDING EQUITY</b>	\$ 12,379,820	\$ -	\$ 12,379,820

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - STORMWATER MANAGEMENT FUND  
YEAR ENDED JUNE 30, 2012**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,744,200	\$ 1,744,200	\$ 1,814,911	\$ 70,711
<b>OPERATING EXPENSES</b>				
Personnel	1,096,180	1,096,180	1,133,657	(37,477)
Drainage maintenance	273,210	267,610	228,162	39,448
Indirect costs	102,794	102,794	100,288	2,506
Professional services	60,000	246,609	149,413	97,196
Office rent	53,346	53,346	53,082	264
Other	234,436	248,821	127,378	121,443
Total operating expenses	1,819,966	2,015,360	1,791,980	223,380
<b>OPERATING INCOME (LOSS)</b>	(75,766)	(271,160)	22,931	294,091
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest on investments	-	-	998	998
Capital outlay	(100,000)	(105,600)	(38,391)	67,209
Appropriated fund balance	169,966	370,960	-	(370,960)
Total nonoperating revenues (expenses), net	69,966	265,360	(37,393)	(302,753)
<b>LOSS BEFORE TRANSFERS</b>	(5,800)	(5,800)	(14,462)	(8,662)
<b>TRANSFERS</b>				
Transfer from General Fund	5,800	5,800	4,464	(1,336)
<b>DEFICIENCY OF REVENUES OVER EXPENSES AND TRANSFERS</b>	\$ -	\$ -	(9,998)	\$ (9,998)
Reconciliation of modified accrual basis to full accrual basis:				
Capital outlay			38,391	
Depreciation and amortization			(33,702)	
Change in Net Assets			\$ (5,309)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - VEHICLE REPLACEMENT FUND  
YEAR ENDED JUNE 30, 2012**

	<b>Budgeted Amounts</b>			<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
OPERATING REVENUES				
Charges for services	\$ 1,486,900	\$ 1,486,900	\$ 1,486,900	\$ -
OPERATING EXPENSES				
Personnel	-	675	675	-
Operations	25,000	28,600	13,155	15,445
Total operating expenses	25,000	29,275	13,830	15,445
OPERATING INCOME	1,461,900	1,457,625	1,473,070	15,445
NONOPERATING REVENUES (EXPENSES)				
Alternative Fuels Grant	-	31,577	29,711	(1,866)
Interest on investments	3,000	3,000	2,021	(979)
Capital outlay	(887,000)	(1,811,087)	(896,971)	914,116
Debt service	(1,510,000)	(1,510,000)	(1,361,558)	148,442
Proceeds from sale of capital assets	100,000	100,000	79,740	(20,260)
Issuance of installment notes	887,000	887,000	887,000	-
Contribution to reserve	(54,900)	(54,900)	-	54,900
Appropriated fund balance	-	896,110	-	(896,110)
Total nonoperating revenues (expenses), net	(1,461,900)	(1,458,300)	(1,260,057)	198,243
INCOME (LOSS) BEFORE TRANSFERS	-	(675)	213,013	213,688
TRANSFERS				
Transfers in	-	675	675	-
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	213,688	\$ 213,688
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(1,299,207)	
Capital outlay			896,971	
Debt service principal			1,217,879	
Proceeds from installment notes			(887,000)	
Change in net assets			\$ 142,331	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - VEHICLE MAINTENANCE FUND  
YEAR ENDED JUNE 30, 2012**

	<b>Budgeted Amounts</b>			<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
OPERATING REVENUES				
Charges for services	\$ 1,128,000	\$ 1,128,000	\$ 1,164,183	\$ 36,183
OPERATING EXPENSES				
Personnel	608,329	606,929	637,066	(30,137)
Operations	539,671	541,222	536,549	4,673
Total operating expenses	1,148,000	1,148,151	1,173,615	(25,464)
OPERATING LOSS	(20,000)	(20,151)	(9,432)	10,719
NONOPERATING REVENUES				
Insurance recovery	20,000	20,000	7,938	(12,062)
Interest on investments	-	-	138	138
Appropriated fund balance	-	151	-	(151)
Total nonoperating revenues	20,000	20,151	8,076	(12,075)
DEFICIENCY OF REVENUES OVER EXPENSES	\$ -	\$ -	\$ (1,356)	\$ (1,356)
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(1,166)	
Change in net assets			\$ (2,522)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - COMPUTER EQUIPMENT REPLACEMENT FUND  
YEAR ENDED JUNE 30, 2012**

	<b>Budgeted Amounts</b>			<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
OPERATING REVENUES				
Charges for services	\$ 159,375	\$ 159,375	\$ 159,375	\$ -
OPERATING EXPENSES				
Operations	250,000	265,263	149,615	115,648
OPERATING INCOME (LOSS)	(90,625)	(105,888)	9,760	115,648
NONOPERATING REVENUES				
Interest on investments	-	-	313	313
Proceeds from sale of capital assets	-	-	5,459	5,459
Appropriated fund balance	90,625	105,888	-	(105,888)
Total nonoperating revenues	90,625	105,888	5,772	(100,116)
EXCESS OF REVENUES OVER EXPENSES	\$ -	\$ -	15,532	\$ 15,532
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(1,089)	
Change in net assets			\$ 14,443	

**TOWN OF CHAPEL HILL, NORTH CAROLINA**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2012**

Fiscal Year	Uncollected Balance 07/01/11	Additions	Collections and Credits	Uncollected Balance 06/30/11
2011-2012	\$ -	\$ 35,887,926 a	\$ 35,604,067 b	\$ 283,859 c
2010-2011	320,047	-	258,936	61,111
2009-2010	45,463	-	17,484	27,979
2009-prior	402,279	-	233,926	168,353
Totals	<u>\$ 767,789</u>		<u>\$ 36,114,413</u>	541,302
Less: allowance for uncollectible accounts				<u>215,438</u>
Ad valorem taxes receivable-net				<u>\$ 325,864</u>
Reconciliation with revenues:				
Ad Valorem taxes - General Fund				\$ 27,349,863
Ad Valorem taxes - Debt Fund				5,427,762
Ad Valorem taxes - Transit Fund				<u>2,965,320</u>
Total Ad Valorem taxes				\$ 35,742,945
Reconciling item				
Taxes written off				<u>371,468</u>
Total collections				<u>\$ 36,114,413</u>

\*Note: The Town's taxes are collected by Orange and Durham Counties.

**TOWN OF CHAPEL HILL, NORTH CAROLINA**  
**Analysis of Current Tax Levy**  
**For the Fiscal Year Ended June 30, 2012**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Real & Personal property at current rate	\$ 7,177,517,645	0.494	\$ 35,456,937	\$ 34,379,151	\$ 1,077,786
Motor vehicles at prior year's rate	87,244,774	0.494	\$ 430,989	-	430,989
Total property valuation	\$ 7,264,762,419		\$ 35,887,926 a	\$ 34,379,151	\$ 1,508,775
Uncollected taxes at June 30, 2012			283,859 c	170,787	113,072
Current year's taxes collected			\$ 35,604,067 b	\$ 34,208,364	\$ 1,395,703
Current levy collection percentage			99.21%	99.50%	92.51%



## STATISTICAL SECTION

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

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

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

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

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

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

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

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

**Table I**

	Fiscal Year							
	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities								
Invested in capital assets, net of related debt	\$ 53,543,531	\$ 55,806,867	\$ 59,989,329	\$ 68,983,330	\$ 61,447,706	\$ 65,504,936	\$ 77,405,641	\$ 74,391,633
Restricted	5,574,623	1,296,492	1,217,399	1,661,566	1,478,689	10,218,790	11,099,361	32,430,204
Unrestricted	<u>15,075,313</u>	<u>19,554,289</u>	<u>23,279,530</u>	<u>24,337,458</u>	<u>35,270,865</u>	<u>23,907,746</u>	<u>12,887,944</u>	<u>(5,770,881)</u>
Total governmental activities net assets	<u>\$ 74,193,467</u>	<u>\$ 76,657,648</u>	<u>\$ 84,486,258</u>	<u>\$ 94,982,354</u>	<u>\$ 98,197,260</u>	<u>\$ 99,631,472</u>	<u>\$ 101,392,946</u>	<u>\$ 101,050,956</u>
Business-type activities								
Invested in capital assets, net of related debt	\$ 13,888,036	\$ 31,162,444	\$ 39,846,859	\$ 47,137,505	\$ 50,013,369	\$ 51,757,462	\$ 48,230,110	\$ 50,829,655
Unrestricted	<u>5,267,602</u>	<u>8,403,465</u>	<u>8,036,693</u>	<u>9,767,773</u>	<u>10,915,522</u>	<u>12,777,277</u>	<u>12,762,741</u>	<u>4,652,158</u>
Total business-type activities net assets	<u>\$ 19,155,638</u>	<u>\$ 39,565,909</u>	<u>\$ 47,883,552</u>	<u>\$ 56,905,278</u>	<u>\$ 60,928,891</u>	<u>\$ 64,534,739</u>	<u>\$ 60,992,851</u>	<u>\$ 55,481,813</u>
Primary government								
Invested in capital assets, net of related debt	\$ 67,431,567	\$ 86,969,311	\$ 99,836,188	\$ 116,120,835	\$ 111,461,075	\$ 117,262,398	\$ 125,635,751	\$ 125,221,288
Restricted	5,574,623	1,296,492	1,217,399	1,661,566	1,478,689	10,218,790	11,099,361	32,430,204
Unrestricted	<u>20,342,915</u>	<u>27,957,754</u>	<u>31,316,223</u>	<u>34,105,231</u>	<u>46,186,387</u>	<u>36,685,023</u>	<u>25,650,685</u>	<u>(1,118,723)</u>
Total primary government net assets	<u>\$ 93,349,105</u>	<u>\$ 116,223,557</u>	<u>\$ 132,369,810</u>	<u>\$ 151,887,632</u>	<u>\$ 159,126,151</u>	<u>\$ 164,166,211</u>	<u>\$ 162,385,797</u>	<u>\$ 156,532,769</u>
Component unit								
Invested in capital assets, net of related debt	\$ 137,441,321	\$ 160,813,755	\$ 161,812,115	\$ 177,287,377	\$ 184,466,042	\$ 188,106,716	\$ 190,756,445	\$ 190,756,445
Restricted	19,114,903	1,925,585	9,405,757	1,322,469	1,232,718	1,253,614	98,616	98,616
Unrestricted	<u>7,373,853</u>	<u>6,611,972</u>	<u>6,453,532</u>	<u>5,993,719</u>	<u>15,140,975</u>	<u>21,113,133</u>	<u>26,865,314</u>	<u>26,865,314</u>
Total component unit net assets	<u>\$ 163,930,077</u>	<u>\$ 169,351,312</u>	<u>\$ 177,671,404</u>	<u>\$ 184,603,565</u>	<u>\$ 200,839,735</u>	<u>\$ 210,473,463</u>	<u>\$ 217,720,375</u>	<u>\$ 217,720,375</u>

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

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

**Table 2**

	Fiscal Year							
	2005	2006	2007	2008	2009	2010	2011	2012
<b>Governmental activities:</b>								
Expenses								
General government	\$ 4,113,954	\$ 4,327,313	\$ 5,780,346	\$ 6,528,356	\$ 7,750,437	\$ 7,447,434	\$ 8,672,259	\$ 9,246,224
Environment and development	16,536,622	21,954,945	25,719,997	29,260,757	24,840,378	22,960,472	18,613,025	21,804,182
Public safety	15,501,769	17,003,191	17,844,886	18,593,745	19,536,555	19,932,175	20,363,725	21,140,258
Leisure activities	4,694,967	4,947,783	4,977,126	5,649,567	8,668,206	9,685,124	9,725,448	10,245,527
Nondepartmental	1,324,805	1,475,398	-	-	-	-	-	-
Interest	884,070	887,200	2,008,005	2,210,521	1,969,585	1,991,035	2,046,519	2,453,129
Total expenses	<u>43,056,187</u>	<u>50,595,830</u>	<u>56,330,360</u>	<u>62,242,946</u>	<u>62,765,161</u>	<u>62,016,240</u>	<u>59,420,976</u>	<u>64,889,320</u>
Program Revenues								
Charges for services:								
General government	\$ 607,385	\$ 564,548	\$ 2,538,610	\$ 1,642,521	\$ 1,670,604	\$ 1,741,760	\$ 1,774,913	\$ 1,731,073
Environment and development	3,607,851	3,225,722	1,147,843	3,167,844	3,059,049	2,098,051	2,020,263	2,172,242
Public safety	70,046	65,244	76,287	99,946	110,137	130,338	117,747	93,583
Leisure activities	603,228	655,976	642,478	587,957	786,346	905,626	952,478	952,023
Operating grants and contributions:								
General government	-	-	-	-	-	-	63,536	-
Environment and development	5,973,016	13,255,667	3,347,410	3,496,677	2,516,767	2,317,442	2,357,451	2,204,526
Public safety	1,183,619	2,190,476	1,318,224	1,700,774	1,691,179	1,842,949	1,452,984	1,172,182
Leisure activities	747,380	333,346	291,129	377,861	384,824	375,738	372,786	462,978
Capital grants and contributions:								
Environment and development	-	913,613	9,154,416	16,641,248	8,331,927	6,797,577	3,169,734	2,942,009
Leisure activities	-	-	-	-	-	-	85,677	182,506
Total program revenues	<u>12,792,525</u>	<u>21,204,592</u>	<u>18,516,397</u>	<u>27,714,828</u>	<u>18,550,833</u>	<u>16,209,481</u>	<u>12,367,569</u>	<u>11,913,122</u>
Total governmental activities net program expense	\$ (30,263,662)	\$ (29,391,238)	\$ (37,813,963)	\$ (34,528,118)	\$ (44,214,328)	\$ (45,806,759)	\$ (47,053,407)	\$ (52,976,198)
General revenues and other changes in net assets								
Property taxes	\$ 23,081,521	\$ 25,267,247	\$ 26,102,086	\$ 27,783,703	\$ 31,162,920	\$ 32,171,735	\$ 32,612,118	\$ 33,083,532
Sales tax	8,456,040	9,138,060	9,594,569	9,758,126	9,033,512	8,765,035	8,941,463	9,765,972
Occupancy tax	675,295	783,509	991,081	985,069	891,857	806,686	872,115	956,496
Other taxes	539,733	582,638	368,073	141,157	112,700	41,173	51,708	56,452
Grants and contributions not restricted	2,478,791	2,559,529	2,935,113	3,537,017	3,831,599	3,708,032	3,906,365	3,914,798
Investment earnings	442,649	1,689,568	1,670,377	1,112,630	261,025	88,220	71,324	34,258
Miscellaneous	1,147,972	1,695,701	1,361,301	1,476,357	1,191,127	1,293,759	2,133,013	3,342,645
Transfers	991,713	586,538	2,619,973	230,155	944,494	366,331	226,775	1,480,055
Total general revenues and other changes in net assets	<u>37,813,714</u>	<u>42,302,790</u>	<u>45,642,573</u>	<u>45,024,214</u>	<u>47,429,234</u>	<u>47,240,971</u>	<u>48,814,881</u>	<u>52,634,208</u>
Total governmental activities changes in net assets	<u>\$ 7,550,052</u>	<u>\$ 12,911,552</u>	<u>\$ 7,828,610</u>	<u>\$ 10,496,096</u>	<u>\$ 3,214,906</u>	<u>\$ 1,434,212</u>	<u>\$ 1,761,474</u>	<u>\$ (341,990)</u>

Continued

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

**Table 2**

	Fiscal Year							
	2005	2006	2007	2008	2009	2010	2011	2012
<b>Business-type activities:</b>								
Expenses								
Transportation	\$ 12,457,941	\$ 13,280,263	\$ 14,881,026	\$ 16,215,262	\$ 18,366,495	\$ 19,829,286	\$ 20,945,401	\$ 21,454,457
Parking	1,614,306	1,590,227	1,585,035	1,612,632	1,736,772	1,776,168	1,785,780	2,212,712
Housing	-	1,119,963	1,209,350	2,203,200	2,276,917	2,057,066	1,982,144	2,204,546
Stormwater	1,065,666	2,257,924	2,263,074	1,391,604	1,635,510	1,618,926	1,739,239	1,825,682
Total expenses	<u>15,137,913</u>	<u>18,248,377</u>	<u>19,938,485</u>	<u>21,422,698</u>	<u>24,015,694</u>	<u>25,281,446</u>	<u>26,452,564</u>	<u>27,697,397</u>
Program Revenues								
Charges for services:								
Transportation	\$ 549,673	\$ 608,420	\$ 694,445	\$ 612,907	\$ 735,142	\$ 1,129,028	\$ 1,096,432	\$ 1,359,239
Parking	1,933,579	2,080,546	2,138,673	2,102,350	2,043,999	1,921,724	1,879,797	2,071,035
Housing	-	1,651,616	417,725	453,821	415,568	402,701	507,305	618,132
Stormwater	1,708,292	379,582	1,741,379	1,711,271	1,740,119	1,768,208	1,841,152	1,814,911
Operating grants and contributions:								
Transportation	9,551,828	9,859,005	10,609,529	11,592,845	12,915,589	13,909,345	12,942,449	10,829,469
Housing	-	1,040,017	1,080,526	1,155,687	1,371,614	1,491,477	1,559,586	1,319,472
Stormwater	-	-	-	-	15,295	-	-	-
Capital grants and contributions:								
Transportation	1,217,846	10,320,462	11,150,111	9,927,751	6,845,483	5,665,439	180,119	1,804,533
Housing	-	-	-	-	-	-	19,877	1,079,687
Total program revenues	<u>14,961,218</u>	<u>25,939,648</u>	<u>27,832,388</u>	<u>27,556,632</u>	<u>26,082,809</u>	<u>26,287,922</u>	<u>20,026,717</u>	<u>20,896,478</u>
Total business-type activities net program expense	<u>\$ (176,695)</u>	<u>\$ 7,691,271</u>	<u>\$ 7,893,903</u>	<u>\$ 6,133,934</u>	<u>\$ 2,067,115</u>	<u>\$ 1,006,476</u>	<u>\$ (6,425,847)</u>	<u>\$ (6,800,919)</u>
General revenues and other changes in net assets								
Property taxes	\$ 2,623,385	\$ 2,547,914	\$ 2,623,726	\$ 2,794,787	\$ 2,801,353	\$ 2,890,870	\$ 2,929,657	\$ 2,965,320
Investment earnings	97,458	281,467	426,554	270,583	66,369	36,054	25,411	8,709
Miscellaneous		28,786	(6,567)	52,577	33,270	38,779	155,666	(204,093)
Transfers	(991,713)	(586,538)	(2,619,973)	(230,155)	(944,494)	(366,331)	(226,775)	(1,480,055)
Total general revenues and other changes in net assets	<u>1,729,130</u>	<u>2,271,629</u>	<u>423,740</u>	<u>2,887,792</u>	<u>1,956,498</u>	<u>2,599,372</u>	<u>2,883,959</u>	<u>1,289,881</u>
Total business-type activities changes in net assets	<u>\$ 1,552,435</u>	<u>\$ 9,962,900</u>	<u>\$ 8,317,643</u>	<u>\$ 9,021,726</u>	<u>\$ 4,023,613</u>	<u>\$ 3,605,848</u>	<u>\$ (3,541,888)</u>	<u>\$ (5,511,038)</u>
<b>Total primary government changes in net assets</b>	<u>\$ 9,102,487</u>	<u>\$ 22,874,452</u>	<u>\$ 16,146,253</u>	<u>\$ 19,517,822</u>	<u>\$ 7,238,519</u>	<u>\$ 5,040,060</u>	<u>\$ (1,780,414)</u>	<u>\$ (5,853,028)</u>

Continued

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

**Table 2**

	Fiscal Year							
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Component unit activities:</b>								
Expenses	\$ 24,142,717	\$ 25,520,643	\$ 28,043,089	\$ 27,760,906	\$ 30,379,597	\$ 31,801,115	\$ 31,840,832	\$ 31,801,115
Program Revenues								
Charges for services	21,891,667	24,431,382	25,411,160	28,794,093	29,537,290	36,489,149	36,003,830	36,489,149
Capital grants and contributions	2,566,129	3,459,835	7,425,786	3,316,663	14,493,988	2,467,785	1,269,560	2,467,785
Total component unit revenues	<u>24,457,796</u>	<u>27,891,217</u>	<u>32,836,946</u>	<u>32,110,756</u>	<u>44,031,278</u>	<u>38,956,934</u>	<u>37,273,390</u>	<u>38,956,934</u>
Total component unit net (expense)/revenue	<u>\$ 315,079</u>	<u>\$ 2,370,574</u>	<u>\$ 4,793,857</u>	<u>\$ 4,349,850</u>	<u>\$ 13,651,681</u>	<u>\$ 7,155,819</u>	<u>\$ 5,432,558</u>	<u>\$ 7,155,819</u>
General revenues and other changes in net assets								
Investment earnings	821,194	742,010	-	584,031	1,918,195	17,964	29,261	17,964
Miscellaneous	1,872,820	2,308,651	-	1,998,280	-	1,918,195	1,785,093	1,918,195
Total general revenues and other changes in net assets	<u>2,694,014</u>	<u>3,050,661</u>	<u>-</u>	<u>2,582,311</u>	<u>1,918,195</u>	<u>1,936,159</u>	<u>1,814,354</u>	<u>1,936,159</u>
Total component unit activities changes in net assets	<u>\$ 3,009,093</u>	<u>\$ 5,421,235</u>	<u>\$ 4,793,857</u>	<u>\$ 6,932,161</u>	<u>\$ 15,569,876</u>	<u>\$ 9,091,978</u>	<u>\$ 7,246,912</u>	<u>\$ 9,091,978</u>

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

**Town of Chapel Hill**  
**Fund Balances, Governmental Funds**  
**Last Three Fiscal Years**  
post-GASB 54  
(modified accrual basis of accounting)

**Table 3a**

	Fiscal Year		
	2010	2011	2012
General Fund			
Nonspendable			
Inventories	3,376	3,285	3,341
Prepaid expenses	1,012	4,702	40,844
Restricted			
Stabilization by State Statute	5,838,176	5,074,720	6,271,859
Employee appreciation	101,136	99,559	97,890
Parks capital projects	-	75,332	28,776
Streets capital projects	187,815	143,520	110,310
Public safety	256,141	165,278	158,867
Library	16,459	-	-
Assigned			
Subsequent years' expenditures	5,064,230	1,121,605	1,528,622
Other post employment benefits	-	400,000	400,000
Comprehensive plan	157,874	103,291	99,443
Economic development	-	-	157,246
Unassigned	9,926,083	13,236,669	13,357,103
Total General Fund	<u>\$ 21,552,302</u>	<u>\$ 20,427,961</u>	<u>\$ 22,254,301</u>
All Other Governmental Funds			
Nonspendable			
Inventories	16,538	16,538	16,538
Prepaid expenses	153	-	12,155
Restricted			
Stabilization by State Statute	672,532	4,889,823	25,666,721
Parks capital projects	1,360,140	4,953,598	4,591,757
Streets capital projects	2,024,909	4,384,746	3,485,868
Municipal buildings projects	782,318	-	7,532,019
Public housing	104,905	755,136	104,905
Public safety	55,284	18,628	8,180
Transit	-	-	2,844
Library	1,452,361	15,791,379	10,536,981
Committed			
Debt service payments	1,546,092	3,009,079	6,281,023
Transit capital purchase	-	-	1,067,500
Infrastructure capital projects	244,167	214,031	799,493
Public housing	377,579	787,943	810,388
Economic development	38,118	19,856	106,583
Assigned			
Subsequent year's expenditures	960	123,660	92,394
Parks capital projects	262,938	-	44,254
Streets capital projects	518,091	292,169	88,000
Municipal buildings projects	228,558	593,266	485,027
Technology projects	447,842	-	-
Comprehensive plan	354,496	-	-
Unassigned	-	(3,314,885)	(24,960,211)
Total other governmental funds	<u>\$ 10,487,981</u>	<u>\$ 32,534,967</u>	<u>\$ 36,772,419</u>

**Town of Chapel Hill**  
**Fund Balances, Governmental Funds**  
**Last Seven Fiscal Years**  
(pre-GASB 54 implementation)  
(modified accrual basis of accounting)

**Table 3b**

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
General Fund							
Reserved for:							
State statute	\$ 2,959,369	\$ 3,251,528	\$ 3,250,131	\$ 3,912,064	\$ 5,230,014	\$ 6,809,388	\$ 4,699,811
Encumbrances	1,045,892	858,238	1,209,013	1,297,402	1,272,671	1,524,640	1,079,576
Inventories	10,246	2,209	1,472	1,928	2,728	2,470	2,599
Capital improvements	440,775	427,112	531,342	381,258	231,128	353,915	364,815
Prepaid items	-	-	-	-	-	355,140	-
Other	100,000	100,000	204,917	212,620	323,997	332,888	321,798
Total reserved	4,556,282	4,639,087	5,196,875	5,805,272	7,060,538	9,378,441	6,468,599
Unreserved:							
Designated for subsequent year's expenditures	1,290,306	1,499,000	1,514,993	1,879,000	4,315,000	2,743,874	3,134,373
Undesignated	5,643,519	5,634,550	8,263,350	9,911,161	6,515,807	7,773,811	11,690,555
Total General Fund	<u>\$ 11,490,107</u>	<u>\$ 11,772,637</u>	<u>\$ 14,975,218</u>	<u>\$ 17,595,433</u>	<u>\$ 17,891,345</u>	<u>\$ 19,896,126</u>	<u>\$ 21,293,527</u>
All Other Governmental Funds							
Reserved for:							
Capital improvements	\$ 5,105,823	\$ 2,075,756	\$ 30,287,235	\$ 17,772,776	\$ 14,068,719	\$ 7,175,409	\$ 6,482,692
State Statute	28,528	1,112,771	814,273	2,069,240	2,058,864	272,580	325,537
Encumbrances	154,482	50,203	656,035	1,111,691	871,343	408,663	373,427
Inventories	146,058	170,443	157,223	-	-	16,538	16,538
Interest subsidies	-	387,872	293,649	68,108	129,523	-	-
Other	-	253,860	236,952	394,878	435,030	1,153,789	467,125
Debt service	171,968	176,247	455,089	635,619	641,042	-	1,043,175
Total reserved	5,606,859	4,227,152	32,900,456	22,052,312	18,204,521	9,026,979	8,708,494
Unreserved, reported in:							
Special revenue funds	1,046,524	232,698	688,286	133,262	39,047	608,640	381,005
Capital projects funds	735,184	359,586	(279,758)	(1,458,927)	(1,669,821)	1,978,767	2,190,234
Total all other governmental funds	<u>\$ 7,388,567</u>	<u>\$ 4,819,436</u>	<u>\$ 33,308,984</u>	<u>\$ 20,726,647</u>	<u>\$ 16,573,747</u>	<u>\$ 11,614,386</u>	<u>\$ 11,279,733</u>

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Revenues</b>				
Taxes	\$ 29,251,469	\$ 30,430,218	\$ 32,782,589	\$ 35,771,454
Intergovernmental	10,823,095	8,866,342	10,382,806	19,252,631
Charges for services	1,984,469	2,075,005	2,822,100	2,617,171
Licenses and permits	1,519,274	1,551,622	1,512,168	1,652,945
Interest	187,590	192,595	442,649	1,689,568
Other	1,621,026	1,822,410	1,702,214	1,937,075
Total Revenues	<u>45,386,923</u>	<u>44,938,192</u>	<u>49,644,526</u>	<u>62,920,844</u>
<b>Expenditures</b>				
General government	3,297,515	3,517,651	3,763,510	4,079,736
Environment and development	17,969,896	17,360,844	18,965,051	25,761,076
Public safety	13,859,523	14,976,104	15,342,852	16,900,363
Leisure activities	3,822,370	4,081,517	4,118,714	4,282,116
Nondepartmental	823,903	962,489	1,324,805	1,475,398
Capital projects	3,454,036	5,516,543	4,672,085	16,676,455
Debt Service:				
Principal	1,560,000	1,670,000	1,675,000	2,180,000
Interest	782,855	880,610	884,070	887,200
Bond issuance costs	-	-	-	-
Total Expenditures	<u>45,570,098</u>	<u>48,965,758</u>	<u>50,746,087</u>	<u>72,242,344</u>
Excess of revenues over (under) expenditures	<u>(183,175)</u>	<u>(4,027,566)</u>	<u>(1,101,561)</u>	<u>(9,321,500)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	5,005,819	4,246,839	4,981,814	7,450,039
Transfers out	(3,902,127)	(3,900,675)	(3,990,101)	(6,863,501)
Proceeds from bonds	4,250,000	-	30,000,000	-
Advance refunding	-	-	-	-
Premium on debt	-	-	-	-
Proceeds from installment notes	-	1,395,000	966,733	-
Total other financing sources (uses)	<u>5,353,692</u>	<u>1,741,164</u>	<u>31,958,446</u>	<u>586,538</u>
Net change in fund balances	<u>\$ 5,170,517</u>	<u>\$ (2,286,402)</u>	<u>\$ 30,856,885</u>	<u>\$ (8,734,962)</u>
Debt service as a percentage of non capital expenditures	5.79%	6.57%	6.34%	6.01%



Table 4

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 37,055,809	\$ 38,668,055	\$ 41,200,989	\$ 41,784,629	\$ 42,477,404	\$ 43,862,452
17,046,292	25,753,577	16,756,296	15,041,738	11,408,533	10,878,999
2,503,992	2,826,213	3,216,330	2,832,317	3,189,110	2,892,632
1,590,653	1,721,627	2,200,422	1,765,769	1,591,840	1,917,775
1,670,377	1,112,630	261,025	88,220	71,324	34,258
1,654,137	2,426,785	1,400,511	1,304,865	1,685,586	1,342,021
61,521,260	72,508,887	65,035,573	62,817,538	60,423,797	60,928,137
5,634,423	6,190,609	7,272,596	7,337,428	8,280,508	8,838,537
27,478,666	25,779,963	21,590,608	20,858,543	13,970,608	13,666,918
17,666,485	18,567,074	18,686,914	19,082,389	19,733,207	19,323,824
4,224,267	4,897,425	7,398,605	8,038,538	8,051,450	8,094,096
-	-	-	-	-	-
15,964,112	14,012,030	3,836,343	2,778,610	5,102,513	11,116,359
3,090,000	4,015,000	4,000,000	8,520,000	3,485,000	4,490,000
2,008,005	2,210,521	1,969,585	1,991,035	1,996,991	2,271,774
-	-	-	-	49,528	181,355
76,065,958	75,672,622	64,754,651	68,606,543	60,669,805	67,982,863
(14,544,698)	(3,163,735)	280,922	(5,789,005)	(246,008)	(7,054,726)
17,737	8,473,343	2,573,984	2,047,910	2,157,492	2,237,579
10,878,467	(8,264,188)	(1,792,158)	(1,548,465)	(1,930,717)	(758,199)
4,967,737	-	-	4,490,000	20,941,878	33,455,000
-	-	-	-	-	(26,499,557)
-	-	-	266,583	-	4,683,695
3,100,000	-	-	-	-	-
18,963,941	209,155	781,826	5,256,028	21,168,653	13,118,518
\$ <u>4,419,243</u>	\$ <u>(2,954,580)</u>	\$ <u>1,062,748</u>	\$ <u>(532,977)</u>	\$ <u>20,922,645</u>	\$ <u>6,063,792</u>
8.78%	10.02%	9.75%	16.17%	9.72%	10.94%

*This page intentionally left blank.*

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

**Table 5**

<b>Fiscal Year</b>		<b>Property Tax</b>		<b>Sales Tax</b>		<b>Occupancy Tax</b>		<b>Other Tax</b>		<b>Total</b>
		(1)								
2003	\$	21,276,968	\$	6,974,456	\$	563,486	\$	436,559	\$	29,251,469
2004		21,713,205		7,654,959		572,932		489,122		30,430,218
2005		23,081,521		8,456,040		675,295		569,733		32,782,589
2006		25,267,247		9,138,060		783,509		582,638		35,771,454
2007		26,102,086		9,594,569		991,081		368,073		37,055,809
2008		27,783,706		9,758,126		985,069		141,157		38,668,058
2009		31,162,920		9,033,512		891,857		112,700		41,200,989
2010		32,171,735		8,765,035		806,686		41,173		41,784,629
2011		32,612,118		8,941,463		872,115		51,708		42,477,404
2012		33,083,532		9,765,972		956,496		56,452		43,862,452

Notes:

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

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

<b>Fiscal Year</b>		<b>Residential Property</b>	<b>Commercial Property</b>	<b>Combined Real Property</b>	<b>Personal Property</b>
2003		*	*	3,688,289,625	415,023,471
2004		*	*	3,791,842,402	455,906,761
2005		*	*	3,918,233,860	482,128,300
2006	(1)	3,956,681,069	783,355,893	4,740,036,962	498,524,879
2007		3,640,445,489	1,249,997,134	4,890,442,623	520,961,320
2008		3,825,506,198	1,313,540,280	5,139,046,478	460,567,284
2009		3,945,477,182	1,354,733,971	5,300,211,153	471,708,077
2010	(1)	4,855,643,567	1,667,252,143	6,522,895,710	455,030,840
2011		5,133,443,183	1,762,638,471	6,896,081,654	452,486,487
2012		*	*	6,730,528,993	471,001,413

\* The breakdown between residential and commercial property is not available for fiscal years prior to 2006 or for 2012.

**Notes:**

- (1) Revaluation year.
- (2) Increase due to revaluation and the addition of \$200 million from a major annexation.
- (3) Public service companies valuations are provided by the North Carolina Department of Revenue. These amounts include both real and personal property.
- (4) Source is the State Department of Revenue final report of assessed valuations of NC Municipalities for the 2010/2011 fiscal year.
- (5) Per \$100 of value. Includes taxes for general fund, debt service fund and transit fund.
- (6) The estimated market value is calculated by dividing the assessed value by an assessment-to-sales ratio determined by the Department of Revenue. The ratio is based on actual property sales which took place during the fiscal year.
- (7) Source is the Property Tax Division of the North Carolina Department of Revenue.

Table 6

<b>Public Service Companies</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>	<b>Estimated Actual Taxable Value</b>	<b>Ratio of Assessed Value to Estimated Actual Value</b>
(3)	(4)	(5)	(6)	(7)
63,868,306	4,167,181,402	0.553	4,725,767,070	88.18%
57,587,809	4,305,336,972	0.553	5,139,473,525	83.77%
57,774,008	4,458,136,168	0.575	4,664,298,146	95.58%
60,840,533	5,299,402,374	0.522	5,905,284,571	89.74%
61,554,945	5,472,958,888	0.522	6,582,822,815	83.14%
60,142,623	5,659,756,385	0.522	6,807,501,064	83.14%
63,678,158	5,835,597,388	0.581	5,896,329,583	98.97%
67,647,776	7,045,574,326	0.494	7,141,991,207	98.65%
62,491,249	7,411,059,390	0.494	7,477,610,120	99.11%
63,232,013	7,264,762,419	0.494	7,200,106,033	99.11%

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

<b>Year Taxes Payable</b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
Chapel Hill within Orange County:				*
<u>Town Direct Rates:</u>				
General Fund	0.510	0.502	0.516	0.474
Transit	0.043	0.051	0.059	0.048
Debt Service **	-	-	-	-
Total outside Downtown Service District	0.553	0.553	0.575	0.522
Downtown Service District	0.062	0.062	0.062	0.053
Total Direct Rates	0.615	0.615	0.637	0.575
<u>Overlapping Rates:</u>				
Orange County	0.845	0.880	0.880	0.843
Chapel Hill - Carrboro School District	0.192	0.200	0.200	0.183
Total Overlapping Rates	1.037	1.080	1.080	1.026
Total Direct and Overlapping Rates	1.652	1.695	1.717	1.601
Chapel Hill within Durham County:				
<u>Town Direct Rates:</u>				
General Fund	0.510	0.502	0.516	0.474
Transit	0.043	0.051	0.059	0.048
Debt Service	-	-	-	-
Total Direct Rates	0.553	0.553	0.575	0.522
<u>Overlapping Rates:</u>				
Durham County	0.753	0.763	0.790	0.809
Total Direct and Overlapping rates	1.306	1.316	1.365	1.331

\* Revaluation year

\*\* For fiscal years 2007/2008 and prior, property tax revenues were allocated between the general fund and the transit fund. Beginning with the 2008/2009 fiscal year, the allocation was changed to include an allocation to the debt service fund.

Note: Overlap  
 Town of  
 although  
 rates app  
 boundari

Source: North Carolina State Department of Revenue.

Table 7

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
			*		
0.474	0.474	0.423	0.360	0.360	0.378
0.048	0.048	0.048	0.041	0.041	0.041
-	-	0.110	0.093	0.093	0.075
0.522	0.522	0.581	0.494	0.494	0.494
0.090	0.090	0.071	0.071	0.071	0.071
0.612	0.612	0.652	0.565	0.565	0.565
0.903	0.950	0.998	0.858	0.858	0.858
0.189	0.204	0.230	0.188	0.188	0.188
1.092	1.154	1.228	1.046	1.046	1.046
1.704	1.766	1.880	1.611	1.611	1.611
0.474	0.474	0.423	0.360	0.360	0.378
0.048	0.048	0.048	0.041	0.041	0.041
-	-	0.110	0.093	0.093	0.075
0.522	0.522	0.581	0.494	0.494	0.494
0.809	0.834	0.708	0.690	0.746	0.746
1.331	1.356	1.289	1.184	1.240	1.240

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

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

<b>Taxpayer</b>	<b>Type of Business</b>
East 54 Associates	Development
Chapel Hill Foundation Real Estate (University Square) (formerly US GT LLC)	Shopping Center
Blue Cross and Blue Shield of North Carolina	Health Insurance
Corium LLC	Health Insurance
ACC GF III Chapel Ridge/Chapel View	Apartment Rental
Duke Energy Corporation (formerly Duke Power Company)	Public Utility
Europa Center LLP	Office Building
Southern Village Apartments	Apartment Rental
DDRM Meadowmont Village Center LLC (formerly Inland Southeast Meadowmont LLC)	Development
Exchange at Meadowmont LLC	Office Building
Vac Limited Partnership	Apartment Rental
Bell South Telephone Company	Public Utility
University Mall Properties	Shopping Center
Meadowmont JV LLC	Development
Estates at Chapel Hill	Apartment Rental

Totals

Total assessed valuation

Sources:

- (1) 2002-2003 Comprehensive Annual Financial Report.
- (2) Orange County Department of Revenue.



Table 8

Fiscal Year 2012			Fiscal Year 2003		
	(2)	Percentage of Total Assessed Valuation		(1)	Percentage of Total Assessed Valuation
Assessed Valuation	Rank		Assessed Valuation	Rank	
\$ 48,493,425	1	0.65%			
47,460,632	2	0.64%	35,126,445	2	0.87%
39,711,858	3	0.54%	40,568,298	1	1.01%
35,399,115	4	0.48%	25,608,158	5	0.64%
34,973,545	5	0.47%			
31,483,929	6	0.42%	20,543,872	9	0.51%
27,779,617	7	0.37%	23,686,155	7	0.59%
25,076,719	8	0.34%			
24,463,692	9	0.33%			
21,611,559	10	0.29%	32,288,674	3	0.80%
			29,037,989	4	0.72%
			23,942,029	6	0.60%
			20,783,148	8	0.52%
			18,873,207	10	0.47%
\$ 336,454,091		4.54%	\$ 270,457,975		6.73%
\$ 7,411,059,390			\$ 4,021,127,152		

*This page intentionally left blank.*

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

**Table 9**

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes
		Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy	
2003	23,067,472	22,919,205	99.36%	*	*	*	*
2004	23,775,375	23,653,530	99.49%	111,079	23,764,609	99.95%	*
2005	25,615,621	25,480,324	99.47%	110,800	25,591,124	99.90%	*
2006	27,718,753	27,578,410	99.49%	124,143	27,702,553	99.94%	*
2007	28,558,565	28,409,166	99.48%	111,769	28,520,935	99.87%	*
2008	30,412,485	30,240,782	99.44%	145,619	30,386,401	99.91%	(1) 115,177
2009	33,972,050	33,779,684	99.43%	139,190	33,918,874	99.84%	53,176
2010	35,119,150	34,836,717	99.20%	254,454	35,091,171	99.92%	27,979
2011	35,604,158	35,284,111	99.10%	258,936	35,543,047	99.83%	61,111
2012	35,887,926	35,604,067	99.21%	-	35,604,067	99.21%	283,859

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

Notes:

(1) This amount represents the cumulative delinquent taxes for years 2008 and prior.

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

<b>Fiscal Year</b>	<b>Governmental Activities</b>			
	<b>General Obligation Bonds</b>	<b>Limited Obligation Bonds</b>	<b>Certificates of Participation</b>	<b>Installment Loans</b>
2003	20,070,000	-	-	5,442,139
2004	18,400,000	-	-	6,526,774
2005	20,725,000	-	26,000,000	5,069,836
2006	18,545,000	-	25,500,000	5,668,038
2007	21,630,000	-	24,500,000	9,424,561
2008	19,515,000	-	23,135,000	9,080,308
2009	17,415,000	-	21,770,000	7,355,887
2010	15,285,000	-	20,405,000	7,484,449
2011	34,110,000	-	19,040,000	7,452,516
2012	31,445,000	28,800,000	-	4,650,441

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

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

Table 10

<b>Business-type Activities</b>				
<b>Certificates of Participation</b>	<b>Total Primary Government</b>	<b>Per Capita Personal Income</b>	<b>Per Capita</b>	<b>Percentage of Personal Income</b>
			(l)	(l)
6,350,000	31,862,139	33,125	625	2.59%
6,380,000	31,306,774	33,211	608	2.52%
6,160,000	57,954,836	37,121	1,125	4.66%
5,925,000	55,638,038	38,629	1,062	4.40%
5,680,000	61,234,561	41,435	1,146	2.77%
5,430,000	57,160,308	41,435	1,041	2.51%
5,165,000	51,705,887	43,844	930	2.12%
4,895,000	48,069,449	47,063	847	1.80%
4,615,000	65,217,516	47,925	1,140	2.38%
-	64,895,441	46,713	1,124	2.41%

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

<b>Fiscal Year</b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
General bonded debt outstanding				
General obligation bonds	\$ 20,070,000	\$ 18,400,000	\$ 20,725,000	\$ 18,545,000
Percentage of estimated actual property value (1)	0.48%	0.43%	0.46%	0.38%
Per capita (2)	\$ 606	\$ 554	\$ 558	\$ 480

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

(1) See Table 6 for property value data.

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

**Table 11**

<b>Fiscal Year</b>					
<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>
\$ 21,630,000	\$ 19,515,000	\$ 17,415,000	\$ 15,285,000	\$ 34,110,000	\$ 31,445,000
0.40%	0.34%	0.30%	0.22%	0.46%	0.42%
\$ 522	\$ 471	\$ 397	\$ 325	\$ 712	\$ 656

*This page intentionally left blank.*



**Town of Chapel Hill**  
**Direct and Overlapping Governmental Activities Debt**  
**As of June 30, 2012**

**Table 12**

<b><u>Governmental Unit</u></b>	<b><u>Debt Outstanding</u></b>	<b><u>Estimated Percentage Applicable</u></b>	<b><u>Estimated Share of Direct and Overlapping Debt</u></b>
Orange County	\$ 95,520,000	42.10%	\$ 40,209,180
Durham County	295,845,677	1.76%	5,221,328
Total overlapping debt			<u>45,430,508</u>
Total direct debt			<u>31,455,000</u>
Total direct and overlapping debt			<u><u>\$ 76,885,508</u></u>

Sources:

Orange County Department of Financial Services.

Durham County Department of Finance.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total assessed valuation	\$ 4,167,181,402	\$ 4,305,436,972	\$ 4,458,136,168	\$ 5,299,402,374
Debt limit - 8% of total assessed valuation	333,374,512	344,434,958	356,650,893	423,952,190
General obligation bonds	20,070,000	18,400,000	20,725,000	18,545,000
Bonds authorized but unissued	4,000,000	29,360,000	25,360,000	25,360,000
Net debt applicable to debt limit	<u>24,070,000</u>	<u>47,760,000</u>	<u>46,085,000</u>	<u>43,905,000</u>
Legal debt margin	<u>\$ 309,304,512</u>	<u>\$ 296,674,958</u>	<u>\$ 310,565,893</u>	<u>\$ 380,047,190</u>
Legal debt margin as a percentage of the debt limit	92.78%	86.13%	87.08%	89.64%

Note: Under North Carolina general statutes, a municipality's net debt should not exceed 8% of total assessed property value.  
The Town's outstanding debt that applies to this limit at June 30, 2012 totalled \$31,445,000.  
This total is less than 1% of the Town's June 30, 2012 tax base (\$7.26 billion).

\* Source: The North Carolina Department of Revenue final report of assessed property values for the 2011/2012 fiscal year.

North Carolina G.S §159-55.

**Table 13**

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 5,472,958,888	\$ 5,659,756,385	\$ 5,835,597,388	\$ 7,045,574,326	\$ 7,411,059,390	\$ 7,264,762,419
437,836,711	452,780,511	466,847,791	563,645,946	592,884,751	581,180,994
21,630,000	19,515,000	17,415,000	15,285,000	34,110,000	31,445,000
20,410,000	20,410,000	20,410,000	20,410,000	-	-
42,040,000	39,925,000	37,825,000	35,695,000	34,110,000	31,445,000
<u>\$ 395,796,711</u>	<u>\$ 412,855,511</u>	<u>\$ 429,022,791</u>	<u>\$ 527,950,946</u>	<u>\$ 558,774,751</u>	<u>\$ 549,735,994</u>
90.40%	91.18%	91.90%	93.67%	94.25%	94.59%

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

**Table 14**

<b>Year</b>	<b>Population</b>	<b>Personal Income (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
	(1)	(2)	(2)	(3)	(3)	(4)	(5)
2003	51,005	3,877,363	33,125	24.2	15.82	37,012	4.3%
2004	51,485	3,910,401	33,211	24.2	15.82	37,587	4.1%
2005	51,519	4,384,443	37,121	24.2	15.82	37,308	3.4%
2006	52,397	4,631,572	38,629	24.2	15.82	35,260	3.0%
2007	53,416	5,060,894	41,435	24.2	15.82	38,718	2.9%
2008	54,903	5,060,894	41,435	24.2	15.82	39,864	3.1%
2009	55,616	5,450,187	43,844	24.2	15.82	40,316	4.5%
2010	56,778	5,976,341	47,063	25.6	15.82	39,428	5.6%
2011	57,233	6,186,352	47,925	25.6	15.82	41,139	5.4%
2012	57,757	6,268,886	46,713	25.6	15.82	41,059	5.6%

**Notes:**

- (1) Town of Chapel Hill Department of Planning, Office of State Budget and Management
- (2) U. S. Department of Commerce, Bureau of Economic Analysis. Data available for Orange County only.  
Most recent available census data.
- (3) U. S. Department of Commerce, most recent available census data.
- (4) Chapel Hill-Carrboro City Schools and The University of North Carolina at Chapel Hill.
- (5) N. C. Employment Security Commission, Local Area Unemployment Statistics

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

**Table 15**

Taxpayer	Fiscal Year 2012			Fiscal Year 2003		
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
(1)	(2)					
University of North Carolina at Chapel Hill	16,217	1	42.9%		1	
University of North Carolina Hospitals	7,964	2	21.1%	Not	2	Not
Blue Cross Blue Shield of NC	1,239	3	3.3%	available	3	available
Carrboro-Chapel Hill Schools	2,138	4	5.7%		4	
Town of Chapel Hill	745	5	2.0%		5	
Total	28,303		74.8%			Not available
Total Town Employment	(2) 37,831			Not available		

(1) Source: Chapel Hill-Carrboro Chamber of Commerce.

(2) Source: Orange County Economic Development. Most recent year available.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Function/Program</b>				
General government:				
Finance				
Purchase orders issued	2,092	2,082	2,080	2,135
Human Resources				
Recruitment for positions	96	86	56	74
Public Works				
Streets resurfaced (miles)	4.71	6	6.05	5.45
Refuse collected (tons)	23,992	23,836	22,231	21,838
Economic and development:				
Planning/Inspections				
Building permits issued	1,035	903	961	716
Public safety:				
Police				
Calls for service*	24,778	29,385	30,754	32,871
Traffic citations	3,448	3,902	4,682	4,885
Fire				
Emergency responses	2,088	1,787	1,811	2,208
Property losses	\$ 1,058,199	\$ 2,244,200	\$ 232,025	\$ 594,200
Inspections	1,308	1,327	1,312	1,218
Leisure activities:				
Parks and Recreation				
Program/league registrants**	37,101	37,312	38,343	38,141
Pass memberships				
Class registrations				
Daily visits				
Transit				
Service miles	1,883,680	2,180,107	2,140,275	2,479,470
Parking				
Citations issued	19,737	19,595	19,781	20,043
Stormwater (est. 2004-2005 fiscal year)				
Stormwater impact statement reviews ***				258

\* Traffic and on-view arrests were not included previous to 2007.

Removing those calls would result in a 2% decrease in calls (32,193).

\*\* The Parks & Recreation Department discontinued tracking total program registration data after the 2008-2009 fiscal year.

\*\*\* The Stormwater division moved to Public Works in 2008-2009 and no longer tracks statement reviews.

Source: Town of Chapel Hill department representatives.

**Table 16**

<b>Fiscal Year</b>					
<u><b>2007</b></u>	<u><b>2008</b></u>	<u><b>2009</b></u>	<u><b>2010</b></u>	<u><b>2011</b></u>	<u><b>2012</b></u>
2,386	2,222	1,411	1,275	1,278	1,350
79	84	88	72	54	39
5.71	5.71	5.87	8.09	n/a	6.4
21,541	19,821	16,502	15,501	14,700	14,656
755	610	692	792	581	1,007
42,428	42,691	34,273	44,588	36,596	36,206
6,716	6,439	5,605	5,590	4,664	4,996
3,349	2,274	2,352	4,113	4,723	4,318
\$ 3,312,435	\$ 2,875,631	\$ 2,317,857	\$ 2,315,123	\$ 880,880	\$ 1,418,764
730	714	1,436	2,334	1,155	1,252
35,250	35,758	35,389	n/a	n/a	n/a
			3,168	2,719	3,631
			2,563	3,086	6,142
			131,840	118,605	114,450
2,396,497	2,247,250	2,190,575	2,938,507	2,800,468	2,598,465
18,731	18,864	17,136	16,977	14,949	13,130
193	223	234	n/a	n/a	n/a

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

<b>Function/Program</b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
General Government:				
Public Works				
Streets (miles)	151.9	153.1	156.6	162.3
Street lights	2,905	3,006	3,008	3,005
Public Safety:				
Police				
Patrol units	4	4	4	4
Investigative units	2	2	2	2
Other specialty units	3	3	3	3
Fire				
Number of stations	5	5	5	5
Leisure activities:				
Parks and Recreation				
Number of parks & recreational facilities	17	17	17	17
Library				
Volumes in circulation	148,706	150,408	158,673	168,109
Transportation				
Number of buses	83	83	86	86
Number of vans	14	14	11	18
Parking				
Number of spaces available	889	889	889	887
Housing				
Number of units occupied	317	310	325	329

Source: Town of Chapel Hill Department representatives.



**Table 17**

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
164.2 3,075	165.1 3,161	164.9 3,260	165.3 3,313	165.4 3,313	165.7 3,396
4	5	5	5	5	5
2	2	2	2	2	2
3	2	3	5	4	4
5	5	5	5	5	5
17	15	15	15	15	15
170,586	178,687	164,040	181,046	182,800	186,290
89	98	96	99	98	98
18	15	15	19	19	19
890	880	913	957	948	957
320	316	322	326	321	308

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

**Table 18**

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government:										
Mayor and council	0.53	1	1	1	1	1	1	1	1	1
Town manager's office	6	6	6	6	7.53	6.8	7	8	8	9.8
Communication and Public Affairs	4.27	4.53	4.53	4.53	4.53	7.53	9.13	9.13	9.13	7.33
Human resources	6.73	8	8	8	8	8	8	8	8	8
Finance	10.86	11.33	11.33	12.33	12.33	12.53	14	14	14	15
Information technology	5	5	6	7	7	7	8	8	9	8
Legal	2	2	2	2	2	2	2	2	2	2
Public Works (C,D)	116.5	128	129	129	124	114	78	76.75	85	76.25
Environment and development:										
Planning	15.53	15.53	16.19	16.19	18.56	19.56	21.1	21.06	20.53	20.53
Inspections	10.53	10.53	10.53	9	9	9	8	8	8	8
Engineering	13	13	12	11.8	19	20	23	23	23	23
Housing (A)	18	18	18	-	-	-	-	-	-	-
Public Safety:										
Police	135.4	134	138	138	144	144	144	144	145	145
Fire	73.13	74	74.53	74.53	86.53	86.53	93.5	93.53	93.53	93.53
Leisure activities:										
Parks & Recreation (C)	20.95	21.38	21.91	22.79	23.26	22.59	56.79	58.84	58.84	58.84
Library	28	28	28	28	29	29	29.2	29.2	29.08	29.08
Transit	143.59	159.09	161.59	164.59	167.79	171.46	176	185.98	195.33	195.33
Parking	13.3	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
Housing (A)	-	-	-	18	17	18	18	18	17	17
Stormwater (B,D)	-	-	4	5.2	5.2	7	14	14	14	14
Total	623.32	652.19	665.41	670.76	698.53	698.8	723.52	735.29	753.24	744.49

Notes:

(A) Housing was reported as a Special Revenue Fund through fiscal year 2004-2005 and then changed for reporting purposes to a Propriety Fund.

(B) The Stormwater Management Fund was established in 2004-2005.

(C) The Landscape division of Public Works was moved to the Parks and Recreation Department in 2008-2009.

(D) The Drainage division of Public Works was moved to the Stormwater Department in 2007-2008.

Source: Town of Chapel Hill Department of Human Resources and Development.

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With Government Auditing Standards**

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

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

Management of the Town of Chapel Hill is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Chapel Hill's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Chapel Hill's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.

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

## Compliance and Other Matters

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

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

A handwritten signature in dark ink that reads "Martin Starnes & Associates, CPAs, P.A." The signature is written in a cursive, flowing style.

Martin Starnes & Associates, CPAs, P.A.  
October 26, 2012

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Compliance With Requirements That Could Have a Direct and Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act**

### **Independent Auditors' Report**

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

#### **Compliance**

We have audited the compliance of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Town of Chapel Hill's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Chapel Hill's management. Our responsibility is to express an opinion on the Town of Chapel Hill's compliance based on our audit.

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

In our opinion, the Town of Chapel Hill complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## Internal Control Over Compliance

The management of the Town of Chapel Hill is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Chapel Hill's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
October 26, 2012

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Compliance With Requirements That Could Have a Direct and Material Effect On Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections Of OMB Circular A-133 And The State Single Audit Implementation Act**

### **Independent Auditors' Report**

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

#### **Compliance**

We have audited the compliance of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in applicable sections of OMB Circular A-133 and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012. The Town of Chapel Hill's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Chapel Hill's management. Our responsibility is to express an opinion on the Town of Chapel Hill's compliance based on our audit.

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

In our opinion, the Town of Chapel Hill complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012.

## Internal Control Over Compliance

The management of the Town of Chapel Hill is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the Town of Chapel Hill's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
October 26, 2012



# TOWN OF CHAPEL HILL, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

### 1. Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

• Material weaknesses identified? \_\_\_\_\_ Yes   X   No

• Significant deficiencies identified? \_\_\_\_\_ Yes   X   No

Non-compliance material to financial  
statements noted?

\_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major federal  
programs:

• Material weaknesses identified? \_\_\_\_\_ Yes   X   No

• Significant deficiencies identified? \_\_\_\_\_ Yes   X   No

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

Unqualified

Any audit findings disclosed that are  
required to be reported in accordance with  
Section 510(a) of Circular A-133?

\_\_\_\_\_ Yes   X   No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
CDBG- Entitlement Grants Cluster	14.218, 14.253, 14.254
Public and Indian Housing - Operating	14.850
Federal Transit Cluster	20.507, 20.500
Transit Services Programs Cluster	20.516, 20.513, 20.521
Energy Efficiency and Conservation Block	81.128

## TOWN OF CHAPEL HILL, NORTH CAROLINA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Dollar threshold used to distinguish between  
Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes      X   No

#### **State Awards**

Internal control over major State programs:

• Material weaknesses identified? \_\_\_\_\_ Yes      X   No

• Significant deficiencies identified? \_\_\_\_\_ Yes      X   No

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

Unqualified

Any findings disclosed that are required to  
be reported in accordance with the State  
Single Audit Implementation Act?

\_\_\_\_\_ Yes      X   No

Identification of major State programs:

Powell Bill/DOT

State Maintenance Assistance for Urban and Small Urban Areas

#### **II. Findings Related to the Audit of the Basic Financial Statements**

None reported

#### **III. Findings and Questioned Costs Related to the Audit of Federal Awards**

None reported

#### **IV. Findings and Questioned Costs Related to the Audit of State Awards**

None reported

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR YEAR  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

None.

*This page intentionally left blank.*

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
FEDERAL ASSISTANCE						
U.S. Department of Transportation						
Direct Programs:						
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-95-X025-00	2,870,000	52,992	-	13,248
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-04-0005	356,920	186,778	-	46,694
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-04-0013	376,200	-	-	-
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X436-00	2,433,528	219	-	54
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X436-01	2,564,520	21,130	1,290	3,993
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X478-00	2,542,369	48,218	-	12,054
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.516	NC-37-X018-00	432,474	40,053	-	41,901
Federal Transit Administration - Federal Transit Planning Formula Grant (ARRA)	20.507	NC-96-X003-00	2,714,867	15,696	-	-
Federal Transit Administration - Federal Transit Planning Formula Grant (ARRA)	20.507	NC-66-X003-00	183,000	2,090	-	(1)

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.516	NC-37-X021	215,800	-	-	24,294
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-95-X048-00	579,270	324,960	-	81,240
Federal Transit Administration - Federal Transit Planning Formula Grant	20.513	12-ED-911	120,000	-	-	-
Federal Transit Administration - Federal Transit Planning Formula Grant	20.507	NC-95-X041-00	1,505,000	125,832	-	31,458
Federal Transit Administration - Federal Transit Planning Formula Grant	20.513	11-ED-002	537,683	63,198	7,898	(9,678)
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.516	11-JA-002	750,000	594,858	74,357	74,358
Federal Transit Administration - Federal Transit Planning Formula Grant	20.507	NC-04-0040	1,349,187	740,769	-	185,193
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X497-00	82,243	-	-	-
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.500		9,000,000	-	-	-
<i>Passed-Through City of Durham, North Carolina:</i>						
Federal Transit Administration - Section 104(f) Planning Grant	20.505	PL 104(F)	86,755	69,353	-	17,335

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Federal Transit Administration - Section 5303	20.505	11-08-103	134,495	119,108	-	13,234
Federal Transit Administration Federal Transit Formula Grant	20.516	JARC - 5316	169,936	32,658	-	32,658
Federal Transit Administration Federal Transit Formula Grant	20.516	JARC - 5316	118,534	5,290	-	5,290
Federal Transit Administration Federal Transit Formula Grant	20.516	JARC - 5316	127,374	21,425	-	21,425
Federal Transit Administration Federal Transit Capital Grant	20.521	New Freedom - 5317	70,000	-	-	-
Federal Transit Administration Federal Transit Capital Grant	20.521	New Freedom - 5317	97,600	34,750	-	34,786
Federal Transit Administration Federal Transit Capital Grant	20.521	New Freedom - 5317	132,000	27,540	-	27,540
Total U.S. Department of Transportation				2,526,917	83,545	657,076
Federal Highway Administration						
<i>Passed-Through NC Department of Transportation:</i>						
NCDOT MPO Grant - Drainage Grate - MLK	20.205	U-4726 M	10,000	-	-	-
NCDOT MPO Grant - Culbreth at Cobble	20.205	U-4726 P	135,000	-	-	-
NCDOT MPO Grant - Fordham at S Estes	20.205	U-4726 L	15,000	-	-	-
NCDOT MPO Grant - Bolin Creek Trail Stairs	20.208		20,000	-	-	-
Total Federal Highway Administration				-	-	-

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
U.S. Department of Housing and Urban Development						
Direct Programs:						
Community Development Block Grant Entitlement	14.218	MC-37-0016	6,062,232	411,068	-	50,119
Community Development Block Grant Entitlement (ARRA)		MY-37-0016	156,110	102	-	-
Public and Indian Housing Program - Operating	14.850	NC046-00000112D/212D	1,319,472	1,319,472	-	-
Rental and other income			-	-	-	662,811
Public and Indian Housing - Capital Fund	14.872	NC-19P04650108	578,700	1,329	-	-
		NC-19P04650109	595,500	17,535	-	-
		NC-19P04650110	594,401	146,067	-	-
		NC-19P04650111	506,097	-	-	-
		NC-19P04650112	448,270	-	-	-
		NC-046REF025A004	248,240	-	-	-
		NC-19S04650109 (ARRA)	732,519	3,747	-	-
Passed-Through Orange County, North Carolina:						
Public and Indian Housing - Transitional Housing	14.239		285,117	-	-	-
Program Income				-	-	5,808
Total U.S. Department of Housing and Urban Development				1,899,320	-	718,738



**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
U.S. Department of Justice						
<i>Direct Programs:</i>						
Bulletproof Vest Partnership Program	16.607		31,338	235	-	234
Bulletproof Vest Partnership Program	16.607		33,172	7,994	-	7,996
<i>Passed-Through NC Department of Crime Control &amp; Public Safety:</i>						
Project Safe Orange	16.609	068-I-10-001-BB-020	58,236	43,888	-	-
<i>Passed-Through Orange County, North Carolina:</i>						
Byrne Justice Assistance Grant	16.804		9,073	9,071	-	-
Total U.S. Department of Justice				61,188	-	8,230
U.S. Department of Homeland Security						
<i>Direct Programs:</i>						
SAFER Grant	97.083	EMW-2006-FF-04309	2,671,525	-	-	252,456
<i>Passed-Through NC Department of Crime Control &amp; Public Safety:</i>						
Federal Mediation and Conciliation Services						
Youth Initiative Partnership	34.001		24,000	-	-	-
Total U.S. Department of Homeland Security				-	-	252,456
U.S. Department of Energy						
<i>Direct Programs:</i>						
Energy Efficiency and Conservation Block (ARRA)	81.128	DE-SC0002602	554,900	260,083	-	-

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Passed-Through North Carolina State University:						
Alternative Fuel/Advanced Vehicle Technology	81.041	DE-EE000157	32,252	29,711	-	675
Passed-Through Southeast Energy Efficiency Alliance:						
Energy Efficiency Retrofit (ARRA)	81.128	DE-EE0003575	165,000	126,281	-	22,715
Total U.S. Department of Energy				416,075	-	23,390
U.S. Department of the Interior						
Passed-Through NC Department of Environment & Natural Resources:						
EPA Section 319 Grant	66.460		533,620	38,770	-	47,177
Recreation Trails Program Grant	20.219	3396	100,000	55,467	-	18,489
Total U.S. Department of the Interior				94,237	-	65,666
U.S. Department of Treasury						
Build America Bonds Interest Subsidy			182,506	182,506	-	-
Total U.S. Department of Treasury				182,506	-	-
TOTAL FEDERAL ASSISTANCE				5,180,243	83,545	1,725,556

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
STATE ASSISTANCE						
North Carolina Department of Transportation:						
Powell Bill			1,408,127	-	1,408,127	-
Interest			17	-	-	17
State Maintenance Assistance for Urban and Small Urban Areas			3,419,853	-	3,419,853	-
NCDOT MPO Grant - Traffic Signal Upgrade			450,000	-	97,025	-
NCDOT MPO Grant - Booker Creek Linear Park			437,134	-	-	-
NCDOT MPO Grant - Dry Creek Trail			80,000	-	-	-
NCDOT MPO Grant - Fordham Landscape Buffer			50,000	-	-	-
NCDOT MPO Grant - Curb/Gutter			30,000	-	22,567	-
NCDOT - Advanced Technology Program		11-AT-013	100,000	-	58,788	6,532
NCDOT - Advanced Technology Program		12-AT	65,000	-	-	-
Passed-Through Triangle J Council of Government:						
Transit Demand Grant			82,930	-	36,826	36,827
Total North Carolina Department of Transportation				-	5,043,186	43,376
North Carolina Department of Environmental & Natural Resources:						
Community Recycling Grant			13,062	-	13,062	-
Total North Carolina Department of Environmental & Natural Resources				-	13,062	-
NC-E Authority			23,924	-	9,104	9,103
State Library Aid			32,216	-	32,216	-
TOTAL STATE ASSISTANCE				-	5,097,568	52,479
TOTAL FINANCIAL ASSISTANCE				\$ 5,180,243	\$ 5,181,113	\$ 1,778,035

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

1. The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Chapel Hill, North Carolina and is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Powell Bill expenditures as reported above represent eligible expenditures reported to the North Carolina Department of Transportation (NCDOT) for the fiscal year ending June 30, 2012. The Town is required to report annually to the NCDOT on the accumulated unspent Powell Bill funds. As of June 30, 2012, the Town had no unspent Powell Bill funds. The amount calculated as interest is based on the prior year interest rate which was used as an estimate for the current year.