

**Town of Chapel Hill, North Carolina
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2006**

Prepared by:

Town of Chapel Hill Finance Department

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October 20, 2006

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

Ladies and Gentlemen:

State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we are pleased to submit to you the Comprehensive Annual Financial Report of the Town of Chapel Hill, North Carolina for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the Town of Chapel Hill. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. 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. 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.

The Town of Chapel Hill's financial statements have been audited by Dixon Hughes PLLC, a firm of independent licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Chapel Hill for the fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating 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 Town of Chapel Hill's financial statements for the fiscal year ended June 30, 2006 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Generally Accepted Accounting Principles require 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.

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 21.1 square miles, serves an official State population of 52,397 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.

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, police and rescue), streets, sanitation, recreation, planning and zoning, inspections, general administration, parking and transportation. The Orange Water and Sewer Authority (OWASA) is the Town's 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.

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 January 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. 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, but changes of functions and total budgets of any fund require approval by the Town Council.

Budgetary control is maintained at the department level. Neither an operational expenditure nor an encumbrance is processed when the transaction would result in a department overrun. Open encumbrances are reported as reservations of fund balances at June 30, 2006.

The signature and authorization of the Town's Finance 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.

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. The Town and 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, according to several national surveys.

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 22,000 jobs. These institutions contribute significantly to the low unemployment rate in the Town and Orange County. The Town's unemployment rate has been below State and national rates 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 is considering several new capital projects which could affect Town borrowings and 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 Plan calls for the expansion of the present library building from 27,000 square feet to 75,500 square feet, the addition of user seating to accommodate 279 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 proposals.

In November 2003, voters of the Town of Chapel Hill approved a bond referendum for the following projects:

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>	

The Council planned to sell the bonds in four installments. The first installment of \$4 million of these bonds was sold in fall of 2004. The remaining three installment sales total \$25.36 million and are proposed as follows:

Year of Issuance	2006-07	2008-09	2009-10	Total
Amount	\$4.95 Million	\$11.455 Million	\$8.955 Million	\$25.36 Million

The potential effect of these projects on future property tax rates will be affected by the prevailing interest rates at the time of the various issuances, and the timing of the

implementation of the proposed projects and the availability of other sources or cost savings to fund the projects.

Cash and Revenue Management. Cash temporarily idle during the year was invested in a time deposit account and the State Treasurer's investment pool. The average yield on investments was approximately 4.26% during fiscal year 2005-06. The Town earned interest revenue of \$1,689,568 on governmental funds for the year ended June 30, 2006.

The Town's investment policy emphasizes safety and liquidity while maintaining a competitive yield on its portfolio. Accordingly, the majority of deposits were either insured by federal depository insurance or fully collateralized. Over 95 percent of the investments held by the Town at June 30, 2006 are classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board. This percentage did not fall below 75 percent at any time during the year.

Risk Management. 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. The Town also participates in the Interlocal Risk Management Pool of North Carolina for workers' compensation. The Town's potential loss for liability coverages is limited to the deductible amount of \$2,500 per claim for all coverages, except public officials, which is limited to the deductible amount of \$5,000 per claim. The potential loss for workers' compensation is limited to the deductible amount of \$5,000 per claim.

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, 2005.

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 2005-06. 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 staff of the Finance 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, Dixon Hughes PLLC, 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,



W. Calvin Horton
Town Manager



Kay Johnson
Finance Director

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, 2005

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.



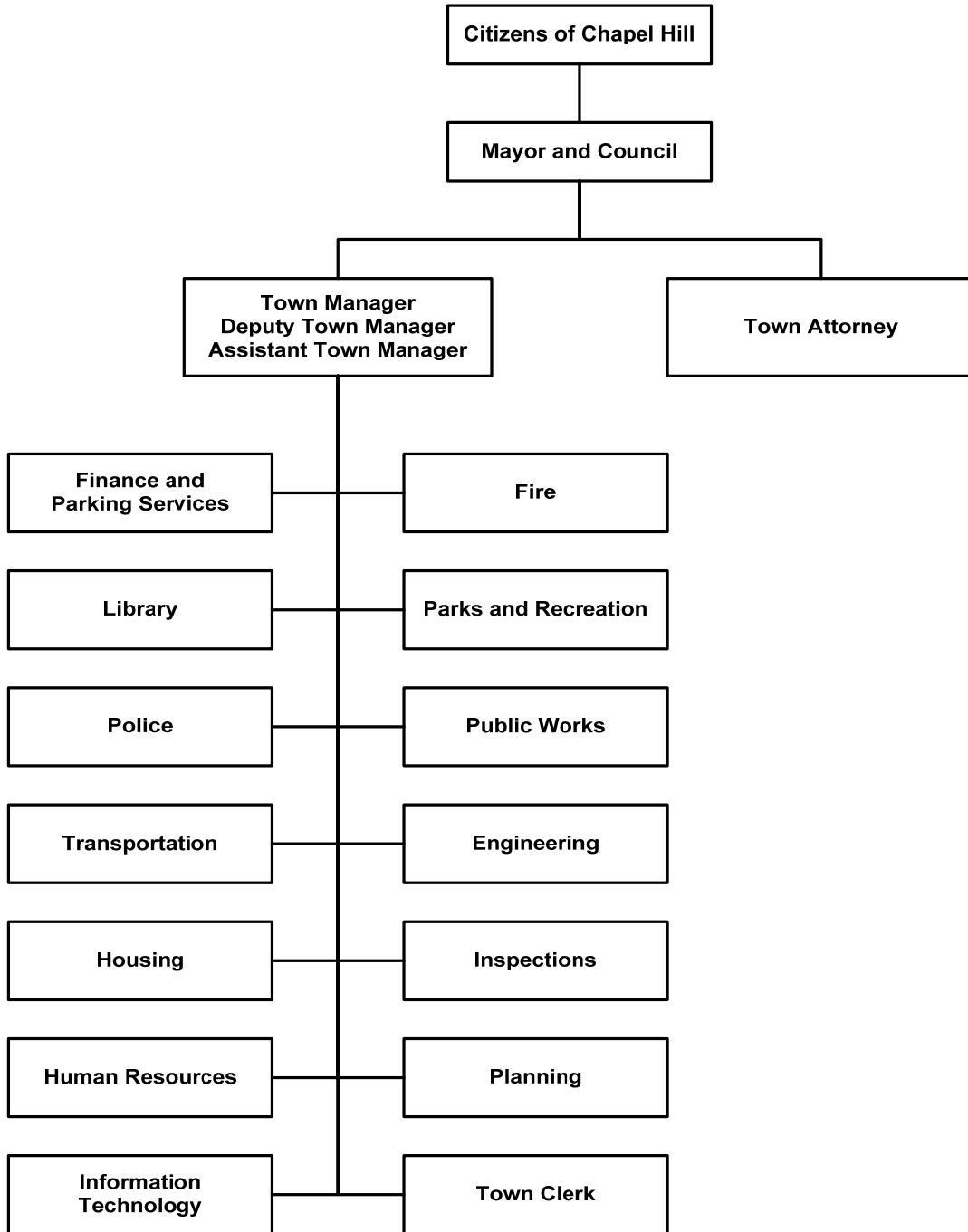
Carla E. Fudge

President

Jeffrey R. Emen

Executive Director

TOWN OF CHAPEL HILL ORGANIZATIONAL CHART



**TOWN OF CHAPEL HILL, NORTH CAROLINA
THE TOWN GOVERNING BODY AND OFFICIALS
JUNE 30, 2006
MEMBERS OF THE GOVERNING BODY**

Mayor
Kevin Foy

Mayor pro tem
Bill Strom

Council Members

Laurin Easthom	Sally Greene
Ed Harrison	Cam Hill
Mark Kleinschmidt	Bill Thorpe
Jim Ward	

Officials

W. Calvin Horton	Town Manager
Florentine M. Miller	Deputy Town Manager
Bruce A. Heflin II	Assistant Town Manager
Kathleen A. Johnson	Finance Director
Ralph D. Karpinos	Town Attorney

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DIXON HUGHES P.A.
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina as of and for the year ended June 30, 2006 which collectively comprise the Town of Chapel Hill's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Chapel Hill's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Orange Water and Sewer Authority representing 60%, 41%, and 25%, respectively, of the assets, net assets, and revenues of the financial reporting entity, which consist of governmental activities, business-type activities, and discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Orange County Water and Sewer Authority, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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DIXON HUGHES P.C.

Certified Public Accountants and Advisors

In accordance with *Government Auditing Standards*, we have also issued our report dated *October 20, 2006* on our consideration of the Town of Chapel Hill's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 12, and the Chapel Hill Police Officers' Retirement and Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 65 and 66 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

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

Dixon Hughes P.C.

October 20, 2006

Management's Discussion and Analysis

As management of the Town of Chapel Hill, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follows this narrative.

Financial Highlights

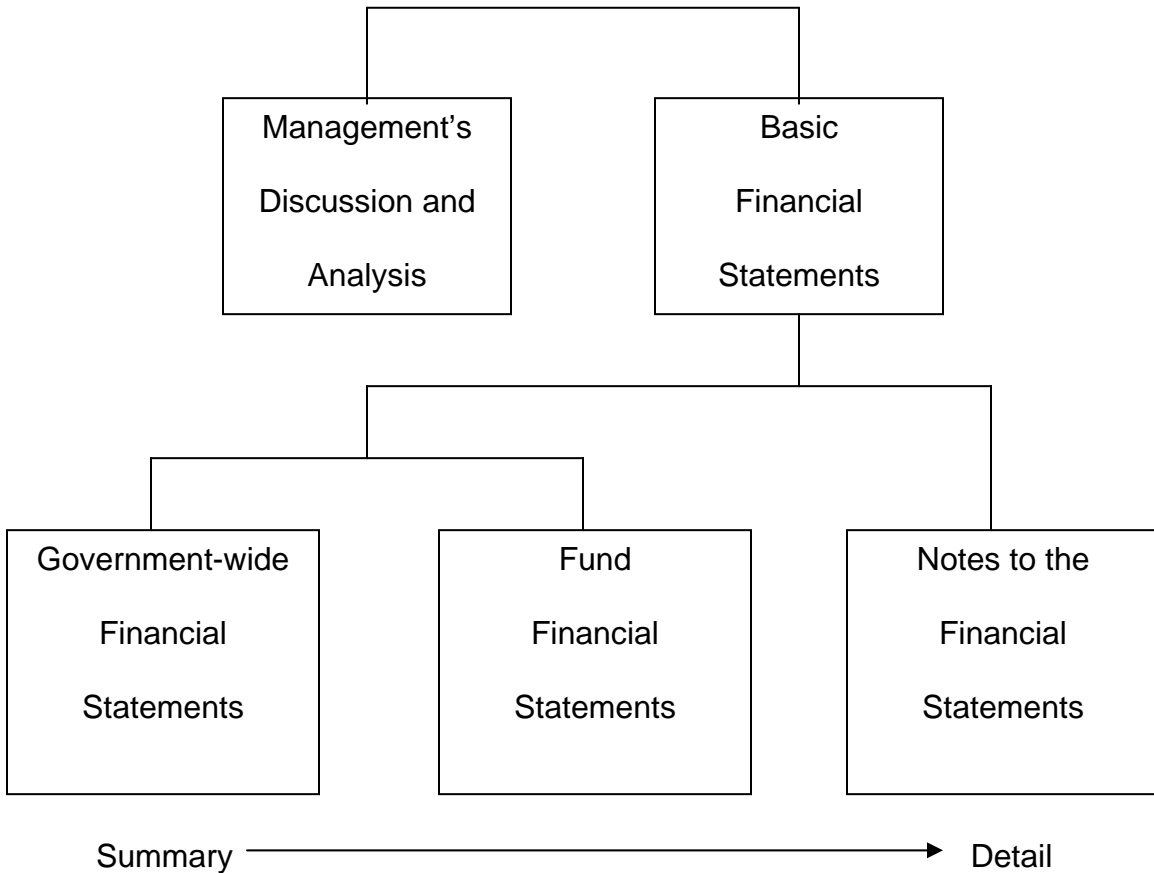
- The net assets of the Town of Chapel Hill exceeded its liabilities at the close of the fiscal year by \$52,774,966.
- In the year ended June 30, 2006, the government's total net assets increased by \$22,934,655.
- As of the close of the current fiscal year, the Town of Chapel Hill's governmental funds reported combined ending fund balances of \$38,322,080, a decrease of \$8,734,962 in comparison with the prior year. The decrease in governmental funds is largely due to the decrease in the Capital Projects Ordinance fund's reserve for capital improvements as the construction of the Town Operations Center (TOC) for Public Works progressed.
- Approximately 27% of the total governmental fund balance, or \$10,464,496, is available for spending at the government's discretion (*unreserved fund balance*). Of the available balance, the Town has designated \$1,981,178 for the 2006-07 budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$11,790,161, or 26% of total general fund expenditures for the fiscal year. \$1,879,000 of this amount was appropriated to balance the 2006-07 budget.
- The Town of Chapel Hill's total debt decreased by \$2,069,148 (3.4%) during the current fiscal year. The Town's increase in installment notes payable was offset by payments to decrease existing debt.
- The Town of Chapel Hill maintained its Aaa bond rating for the 7th consecutive year from Moody's and its Aa+ rating from Standard and Poor's.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Chapel Hill's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the 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.

The final section of the Town of Chapel Hill's financial statements is the federally mandated "Single Audit". The Single Audit Section 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.

Required Components of Annual Financial Report
Figure 1



Government-wide Financial Statements

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

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown on pages 21 and 25.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. Governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and State and federal grants finance most of these activities. Business-type activities are those that the Town manages like a for-profit business. These include the Parking

Fund, where profits from parking cover the cost of parking services, the Transportation Fund, which is managed like a for-profit business although the Town continues to provide fare-free service for most of the transportation services, and the Stormwater Management Fund, where fee revenue covers the costs of mitigation of stormwater damage including maintenance of drainage systems and soil erosion. The Housing Operations fund operates the Town's conventional public housing program and is presented for the first time as a business-type activity in the 2005-06 statements.

The final category is the component unit. Although legally separate from the Town, the Town shows Orange Water and Sewer Authority (OWASA) as a component unit on its financial statements because the Town exercises control over OWASA's Board by appointing a majority of its members.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like all other governmental entities in North Carolina, the Town of Chapel Hill uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes and the Town's budget ordinance.

All of the funds of the Town of Chapel Hill can be divided into two categories: governmental funds and proprietary funds. There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 3) the proprietary funds statements. The Town's Fund Financial Statements are on Exhibits 3 through 9.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps the reader determine if there is an increase or decrease in financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Proprietary Funds – The Town of Chapel Hill has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Chapel Hill uses enterprise funds to account for transportation, parking operations, public housing operations and stormwater management. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the Town of Chapel Hill. The Town uses internal service funds to account for three activities – 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 – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 35 through 63 of this report.

Supplemental Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Chapel Hill's progress in funding its obligation to provide separation allowance for law enforcement officers. Required supplementary information can be found beginning on page 65 of this report.

Non-Major Funds – To facilitate comparison and present information at the individual fund level, the financial statements include a section that details non-major funds that demonstrates how they are combined to accumulate totals used in the fund financial statements.

Budgetary Statements

Budgetary information required by the General Statutes can be found in this part of the statements.

The Town adopts an annual budget for its General Fund and other governmental funds, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the Town Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statements demonstrate how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. 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. For annually budgeted funds, the statements show four columns: 1) the original budget as adopted by the Council, 2) the final budget as amended by the Council, 3) the actual resources, charges to appropriations, and ending balances in the General Fund, and 4) the difference or variance between the final budget and the actual resources and charges.

Government-Wide Financial Analysis

The Town uses the financial statement reporting model mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the format of the Town's financial reports beginning with the financial reports for fiscal year 2002-03.

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. Figure 2 summarizes the Town's assets, liabilities and net assets. Governmental and business-type activities are show separately and combined, with comparison figures from the prior fiscal year.

Town of Chapel Hill's Net Assets
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 26,416,543	\$ 25,174,317	\$ 8,687,547	\$ 6,000,873	\$ 35,104,090	\$ 31,175,190
Non-current assets	107,248,984	107,140,793	37,379,277	20,356,869	144,628,261	127,497,662
Total assets	133,665,527	132,315,110	46,066,824	26,357,742	179,732,351	158,672,852
Current liabilities	9,016,569	7,943,115	804,134	1,255,327	9,820,703	9,198,442
Non-current liabilities	47,991,310	50,178,528	5,696,781	5,946,777	53,688,091	56,125,305
Total liabilities	57,007,879	58,121,643	6,500,915	7,202,104	63,508,794	65,323,747
Net assets:						
Invested in capital assets, net of related debt	55,806,867	53,543,531	31,162,444	13,888,036	86,969,311	67,431,567
Restricted	1,296,492	5,574,623	-	-	1,296,492	5,574,623
Unrestricted	19,554,289	15,075,313	8,403,465	5,267,602	27,957,754	20,342,915
Total net assets	\$ 76,657,648	\$ 74,193,467	\$ 39,565,909	\$ 19,155,638	\$ 116,223,557	\$ 93,349,105

The assets of the Town of Chapel Hill exceeded liabilities by \$116,223,557 as of June 30, 2006. The Town's net assets increased by \$22,874,452 for the fiscal year ended June 30, 2006. However, the largest portion (74.8%) of net assets reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Chapel Hill uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Chapel Hill's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A portion of the Town of Chapel Hill's net assets (\$1,296,492) represents resources that are subject to external restrictions on how they may be used. The total unrestricted net assets show a balance of \$27,957,754.

Several particular aspects of the Town's financial operations influenced the total unrestricted governmental net assets:

- Actual revenues in excess of budget of \$2.2 million, including about \$920,000 in sales taxes, \$400,000 in interest income, \$235,000 in utility franchise taxes and over \$500,000 in a combination of General Fund property tax revenue, occupancy tax, and cable franchise fees.
- General fund expenditure were under budget by about \$3.6 million, a result of staffing vacancies, an unusually mild winter and planned carryforward to the next year.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.49.
- Low cost of debt due to the Town's high bond rating and the current bond market.

Town of Chapel Hill's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 4,511,490	\$ 4,888,510	\$ 4,720,164	\$ 4,191,544	\$ 9,231,654	\$ 9,080,054
Operating grants and contributions	15,779,489	7,904,015	10,899,022	9,551,828	26,678,511	17,455,843
Capital grants and contributions	913,613	-	10,320,462	1,217,846	11,234,075	1,217,846
General revenues:						
Taxes	35,771,454	32,782,589	2,547,914	2,623,385	38,319,368	35,405,974
Grants and contributions not restricted to specific programs	2,559,529	2,478,791	-	-	2,559,529	2,478,791
Other	3,385,269	1,590,621	310,253	97,458	3,695,522	1,688,079
Total revenues	62,920,844	49,644,526	28,797,815	17,682,061	91,718,659	67,326,587
Expenses:						
General government	4,327,313	4,113,954	-	-	4,327,313	4,113,954
Environment and development	21,954,945	16,536,622	-	-	21,954,945	16,536,622
Public safety	17,003,191	15,501,769	-	-	17,003,191	15,501,769
Leisure activities	4,947,783	4,694,967	-	-	4,947,783	4,694,967
Nondepartmental	1,475,398	1,324,805	-	-	1,475,398	1,324,805
Interest expense	887,200	884,070	-	-	887,200	884,070
Transportation	-	-	13,280,263	12,457,941	13,280,263	12,457,941
Parking facilities	-	-	1,590,227	1,614,306	1,590,227	1,614,306
Stormwater management	-	-	2,257,924	1,065,666	2,257,924	1,065,666
Housing operations	-	-	1,119,963	-	1,119,963	-
Total expenses	50,595,830	43,056,187	18,248,377	15,137,913	68,844,207	58,194,100
Increase (decrease) in net assets before transfers	12,325,014	6,588,339	10,549,438	2,544,148	22,874,452	9,132,487
Transfers	586,538	991,713	(586,538)	(991,713)	-	-
Increase (decrease) in net assets	12,911,552	7,580,052	9,962,900	1,552,435	22,874,452	9,132,487
Net assets, July 1, as previously reported	74,193,467	65,778,172	19,155,638	17,603,203	93,349,105	83,381,375
Restatement (See Note J)	(10,447,371)	835,243	10,447,371	-	-	835,243
Net assets, July 1, as restated	63,746,096	66,613,415	29,603,009	17,603,203	93,349,105	84,216,618
Net assets, June 30	\$ 76,657,648	\$ 74,193,467	\$ 39,565,909	\$ 19,155,638	\$ 116,223,557	\$ 93,349,105

Governmental activities. Governmental activities show an increase in net assets of \$12,911,552. The increase is primarily due to the purchase of open space land and construction of the Town Operations Center at a cost of \$1,067,500 and \$14,064,305, respectively. The total net assets of governmental activities reflect the reduction of the Housing Operating Fund's reclassification to a business-type activity, as reflected in the restated July 1 net assets.

Business-type activities: Business-type activities increased the Town of Chapel Hill's net assets by \$9,962,900. The increase in net assets comes primarily from the Transportation Fund where capital contributions from capital grants totaled \$10,320,462. Both the Parking Facilities Fund and the Stormwater Management Fund had increases in net assets as a result of operations, while the Housing Operating Fund saw a reduction of net assets as operating expenses exceeded revenues by \$803,815.

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 the Town of Chapel Hill's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Chapel Hill. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$11,790,161 of which \$9,911,161 is undesignated, while total fund balance reached \$17,595,433. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 21.9% of total General Fund expenditures, while total fund balance represents 38.9% of that same amount.

At June 30, 2006, the governmental funds of the Town of Chapel Hill reported a combined fund balance of \$38,322,080, a 20.6% decrease over last year. Included in this change is a decrease in fund balance in the Capital Projects Ordinance Fund as debt proceeds are spent for construction and the movement of the Housing Operating Fund to proprietary status.

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

Conservative budgeting principles result in actual revenues exceeding budget estimates. This year the actual revenues were approximately \$2,221,460 more than the revenue budget. This difference is because of conservative budgeting with property taxes exceeding budget by about \$181,000, utility franchise fees exceeding budget by about \$235,000 and interest income exceeding budget by about \$408,000. Sales taxes revenues exceeded budget by approximately \$920,000. Expenditures were approximately \$3,689,000 less than budgeted. A portion of the underexpenditure represents the effect of departments spending under their total budgeted limit due in large part to the mild winter. A portion of the excess of budget over actual expenditures represents purchase orders open at year end that, with the approval of the Town Council, are carried forward to the new year. The Town plans for actual revenues to exceed actual expenditures by at least the \$800,000 each year to become a part of appropriated fund balance in the following year.

Proprietary Funds. The Town of Chapel Hill's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets at the end of the fiscal year were \$5,043,258 for the Transportation Fund, \$1,699,408 for the Parking Facilities Fund, \$798,643 for the Stormwater Management Fund and \$862,156 for the Housing Operating Fund. The total change in net assets for the four funds was \$9,860,293, \$337,559, \$568,863 and (\$803,815) respectively. 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. The Town of Chapel Hill's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$125,462,413 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

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

- \$1,067,500 for additional open space land;
- \$ 889,382 for land improvements to sidewalks, curbs, gutters and bridges;
- \$ 123,000 for the purchase of an additional house for the Transitional Housing program.

Additional construction in progress of in governmental-type activities includes:

- \$11,298,168 for work on the Town Operations Center;
- \$ 277,736 for renovations to Homestead Aquatics Center;
- \$ 248,493 for work on the Police Generator project;
- \$ 180,624 on various sidewalks and other pedestrian amenities.

No major demolitions were recorded this year.

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

	Governmental Activities		Business-type Activities		Total	
	2006	2005 (as restated)	2006	2005 (as restated)	2006	2005 (as restated)
Land	\$ 25,168,135	\$ 23,059,130	\$ 6,551,034	\$ 6,491,084	\$ 31,719,169	\$ 29,550,214
Land improvements	4,772,151	4,124,543	1,865,151	2,056,773	6,637,302	6,181,316
Infrastructure	21,132,273	17,376,978	-	-	21,132,273	17,376,978
Buildings and building improvements	14,516,633	10,876,840	9,719,454	10,774,972	24,236,087	21,651,812
Equipment and vehicles	4,033,300	4,319,421	10,647,601	8,790,546	14,680,901	13,109,967
Construction in progress	18,752,477	10,361,244	8,304,204	1,154,873	27,056,681	11,516,117
Total	\$ 88,374,969	\$ 70,118,156	\$ 37,087,444	\$ 29,268,248	\$ 125,462,413	\$ 99,386,404

Additional information on the Town's capital assets can be found on pages 46-49 of the Notes to the Financial Statements.

Long-term Debt. As of June 30, 2006, the Town of Chapel Hill had total outstanding bonded debt, backed by the full faith and credit of the Town, of \$18,545,000. The Town also had \$25,500,000 of debt in certificates of participation to fund construction of the Town Operations Center.

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

	Governmental Activities		Business-type Activities		Total	
	2006	2005 (as restated)	2006	2005 (as restated)	2006	2005 (as restated)
General obligation bonds	\$ 18,545,000	\$ 20,725,000	\$ -	\$ -	\$ 18,545,000	\$ 20,725,000
Installment notes payable	5,668,038	5,069,836	-	-	5,668,038	5,069,836
Orange County loan payable	123,146	-	-	-	123,146	-
Separation allowance	399,867	405,290	-	-	399,867	405,290
Compensated absences	1,774,258	1,681,819	438,294	400,806	2,212,552	2,082,625
Certificates of participation	25,500,000	26,000,000	5,925,000	6,160,000	31,425,000	32,160,000
Total	\$ 52,010,309	\$ 53,881,945	\$ 6,363,294	\$ 6,560,806	\$ 58,373,603	\$ 60,442,751

The Town of Chapel Hill's total debt from governmental activities decreased by \$1,871,636 or 3.5%, to \$52,010,309 during the past fiscal year. Business-type activity debt decreased by \$197,512 to \$6,363,294, bringing total debt to \$58,373,603.

As mentioned in the financial highlights section of this document, at June 30, 2006 the Town of Chapel Hill maintained its Aaa bond rating from Moody's Investor Service and AA+ rating from Standard and Poor's Corporation for the 6th consecutive year. This bond rating is a clear indication of the Town's sound financial condition. 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 is a primary factor in keeping interest costs low on the Town's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Chapel Hill is \$380 million, well above the Town's outstanding debt for general obligation bonds of approximately \$18.5 million and Certificates of Participation of \$25.5 million.

Additional information regarding the Town of Chapel Hill's long-term debt can be found beginning on page 50 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town:

- Low unemployment. The Town of Chapel Hill unemployment rate of about 3.6% is below the State average of 4.6%.
- Stable property tax base with a continuing property tax collection rate in excess of 99%.

- Housing values. Average housing values within the Town continue to exceed those of surrounding jurisdictions. (At June 30, 2006, the average Chapel Hill home sold was valued at \$330,000, the average Durham home sold was valued at \$190,000 and the average Cary home was valued at \$252,000.)

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental Activities: Property taxes are expected to increase 2.8% in 2006-07 over 2005-06, standard growth for a year that does not include revaluation. Sales taxes and State-shared revenues are budgeted to increase revenues in the General Fund by \$1,609,000, a 12.6% increase comparing original budget 2005-06 to original budget 2006-07. The Town will use these increases in revenues to finance programs currently in place and to make debt service payments on the \$26 million that the Town borrowed at the end of fiscal year 2004-05 for the Town Operations Center. The new Operations Center is expected to be completed by January 2007 and would replace the current Public Works facilities when the lease with the University of North Carolina at Chapel Hill expires. The debt service on the borrowing will be approximately \$2.166 million in 2006-07. In addition, the Town intends to sell \$4,950,000 in bonds authorized in 2003 for improvements to sidewalks and streets, renovation of Library and Parks and Recreation facilities and for open space land purchases.

Budgeted expenditures in the General Fund are expected to rise 6.2% to \$49,247,000. The largest expenditure increase is for the fore mentioned debt service requirement of the Town Operations Center along with additional debt service payments for new bonds and for funding renovations to the Aquatics Center and Southern Community Park. Other incremental increases are for employee compensation, including funding compensation and benefits adjustments.

Business – type Activities: The Town continued the policy of providing fare-free service for most transportation services. As a result of the increased cost of fuel and the increases for employee compensation and benefit adjustments, the budget for the transportation department has increased by \$1,816,000 or 14.8%. Parking Facilities Fund revenues are budgeted to remain approximately the same next year as this year, with expenditures expected to increase about \$15,000 to fund compensation and benefits adjustments. Also budgeted is the potential use of fund balance of \$300,000 toward parking for affordable housing units as part of the public-private partnership being discussed to develop lots 2 and 5 with commercial and retail space. Stormwater Management and Housing Operating revenues and expenditures are budgeted to remain about the same as this year.

Requests for Information

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 17,644,852	\$ 7,888,880	\$ 25,533,732	\$ 801,354
Investments	-	-	-	6,615,746
Taxes receivable, net	183,718	-	183,718	-
Accounts receivable, net	816,218	95,929	912,147	3,589,918
Due from other governments	4,942,242	38,665	4,980,907	-
Inventories	108,974	595,851	704,825	609,485
Prepaid items	-	-	-	271,007
Restricted cash and cash equivalents	2,720,539	68,222	2,788,761	5,792,668
Total current assets	<u>26,416,543</u>	<u>8,687,547</u>	<u>35,104,090</u>	<u>17,680,178</u>
Non-current assets:				
Restricted cash and cash equivalents	18,710,914	-	18,710,914	1,943,427
Deferred charges	-	291,833	291,833	948,226
Bond discount	163,101	-	163,101	-
Capital assets (Note F):				
Land and construction in progress	43,920,612	14,855,238	58,775,850	79,819,842
Other capital assets, net of accumulated depreciation	44,454,357	22,232,206	66,686,563	172,403,648
Total capital assets	<u>88,374,969</u>	<u>37,087,444</u>	<u>125,462,413</u>	<u>252,223,490</u>
Total non-current assets	<u>107,248,984</u>	<u>37,379,277</u>	<u>144,628,261</u>	<u>255,115,143</u>
Total assets	<u>133,665,527</u>	<u>46,066,824</u>	<u>179,732,351</u>	<u>272,795,321</u>
LIABILITIES				
Current liabilities:				
Internal balances	838,096	(838,096)	-	-
Accounts payable and accrued liabilities	2,340,798	975,717	3,316,515	5,285,618
Customer deposits	126,406	-	126,406	-
Unearned revenue	273,027	-	273,027	-
Other	9,996	-	9,996	-
Liabilities payable from restricted assets	-	-	-	1,750,509
Non-current liabilities due within one year	5,428,246	666,513	6,094,759	4,042,159
Total current liabilities	<u>9,016,569</u>	<u>804,134</u>	<u>9,820,703</u>	<u>11,078,286</u>
Non-current liabilities:				
Bond premium	1,409,247	-	1,409,247	-
Debt service	46,582,063	5,696,781	52,278,844	92,365,723
Total non-current liabilities	<u>47,991,310</u>	<u>5,696,781</u>	<u>53,688,091</u>	<u>92,365,723</u>
Total liabilities	<u>57,007,879</u>	<u>6,500,915</u>	<u>63,508,794</u>	<u>103,444,009</u>
NET ASSETS				
Invested in capital assets, net of debt	55,806,867	31,162,444	86,969,311	160,813,755
Restricted for:				
Capital projects	49,047	-	49,047	-
Affordable housing	831,324	-	831,324	-
Public safety	212,620	-	212,620	-
Culture and recreation	203,501	-	203,501	-
Water and sewer	-	-	-	1,925,585
Unrestricted	19,554,289	8,403,465	27,957,754	6,611,972
Total net assets	<u>\$ 76,657,648</u>	<u>\$ 39,565,909</u>	<u>\$ 116,223,557</u>	<u>\$ 169,351,312</u>

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

TOWN OF CHAPEL HILL, NORTH CAROLINA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ 4,327,313	\$ 564,548	\$ -
Environment and development	21,954,945	3,225,722	13,255,667
Public safety	17,003,191	65,244	2,190,476
Leisure activities	4,947,783	655,976	333,346
Nondepartmental	1,475,398	-	-
Interest expense	887,200	-	-
Total governmental activities	<u>50,595,830</u>	<u>4,511,490</u>	<u>15,779,489</u>
Business-type activities:			
Transportation	13,280,263	608,420	9,859,005
Parking Facilities	1,590,227	2,080,546	-
Housing Operations	1,119,963	1,651,616	1,040,017
Stormwater Management	2,257,924	379,582	-
Total business-type activities	<u>18,248,377</u>	<u>4,720,164</u>	<u>10,899,022</u>
Total primary government	<u>\$ 68,844,207</u>	<u>\$ 9,231,654</u>	<u>\$ 26,678,511</u>
Component unit - Orange Water and Sewer Authority	<u>\$ 25,520,643</u>	<u>\$ 24,431,382</u>	<u>\$ -</u>

General revenues:

Property taxes

Grants and contributions not restricted to specific programs:

 Intergovernmental

 Investment earnings

 Miscellaneous

Transfers

Total general revenues, proceeds and transfers

Change in net assets

Net assets - beginning of year, as previously reported

Restatement (see Note J)

Net assets - beginning of year, as restated

Net assets - end of year

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

Net (Expense) Revenue and Changes in Net Assets				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
\$ -	\$ (3,762,765)	\$ -	\$ (3,762,765)	\$ -
913,613	(4,559,943)	-	(4,559,943)	-
-	(14,747,471)	-	(14,747,471)	-
-	(3,958,461)	-	(3,958,461)	-
-	(1,475,398)	-	(1,475,398)	-
-	(887,200)	-	(887,200)	-
<u>913,613</u>	<u>(29,391,238)</u>	<u>-</u>	<u>(29,391,238)</u>	<u>-</u>
10,320,462	-	7,507,624	7,507,624	-
-	-	490,319	490,319	-
-	-	1,571,670	1,571,670	-
-	-	(1,878,342)	(1,878,342)	-
<u>10,320,462</u>	<u>-</u>	<u>7,691,271</u>	<u>7,691,271</u>	<u>-</u>
<u>\$ 11,234,075</u>	<u>(29,391,238)</u>	<u>7,691,271</u>	<u>(21,699,967)</u>	<u>-</u>
<u>\$ 3,459,835</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,370,574</u>
	35,771,454	2,547,914	38,319,368	-
	2,559,529	-	2,559,529	-
	1,689,568	281,467	1,971,035	742,010
	1,695,701	28,786	1,724,487	2,308,651
	<u>586,538</u>	<u>(586,538)</u>	<u>-</u>	<u>-</u>
	<u>42,302,790</u>	<u>2,271,629</u>	<u>44,574,419</u>	<u>3,050,661</u>
	12,911,552	9,962,900	22,874,452	5,421,235
	74,193,467	19,155,638	93,349,105	163,930,077
	<u>(10,447,371)</u>	<u>10,447,371</u>	<u>-</u>	<u>-</u>
	<u>63,746,096</u>	<u>29,603,009</u>	<u>93,349,105</u>	<u>163,930,077</u>
	<u>\$ 76,657,648</u>	<u>\$ 39,565,909</u>	<u>\$ 116,223,557</u>	<u>\$ 169,351,312</u>

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MAJOR FUNDS

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

GOVERNMENTAL FUNDS

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

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

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

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

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

BUSINESS-TYPE FUNDS

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

Transportation 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, 2006

	Major Funds				Total Governmental Funds
	General	Capital Projects Ordinance	Transit Grants Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 14,586,024	\$ -	\$ -	\$ 2,822,736	\$ 17,408,760
Receivables:					
Due from other funds	1,372,190	-	-	213,276	1,585,466
Property taxes, net	183,718	-	-	-	183,718
Governmental units and agencies	3,390,110	313,563	1,176,651	61,918	4,942,242
Other	293,451	113,486	-	409,281	816,218
Inventories	1,928	-	-	16,538	18,466
Restricted cash and equivalents	-	18,514,228	-	196,686	18,710,914
TOTAL ASSETS	19,827,421	18,941,277	1,176,651	3,720,435	43,665,784
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other funds	\$ -	\$ 1,167,172	\$ 1,043,696	\$ 212,694	\$ 2,423,562
Accounts payable	682,115	148,783	64,818	186,630	1,082,346
Accrued liabilities	1,168,455	185	4,200	17,891	1,190,731
Unearned revenues	52,931	49,047	26,262	144,787	273,027
Deferred revenues	199,961	-	37,675	-	237,636
Deposits	126,406	-	-	-	126,406
Other	2,120	-	-	7,876	9,996
Total liabilities	2,231,988	1,365,187	1,176,651	569,878	5,343,704

Continued

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2006

	Major Funds				Total Governmental Funds
	General	Capital Projects Ordinance	Transit Grants Fund	Other Governmental Funds	
FUND BALANCES					
Reserved:					
Reserved for encumbrances	\$ 1,297,402	\$ -	\$ -	\$ 1,111,691	\$ 2,409,093
Reserved by State statute	3,912,064	427,049	1,176,651	465,540	5,981,304
Reserved for capital improvements	381,258	17,576,090	-	196,686	18,154,034
Reserved for police	212,620	-	-	-	212,620
Reserved for inventories	1,928	-	-	-	1,928
Reserved for debt service	-	-	-	635,619	635,619
Reserved for community development	-	-	-	61,524	61,524
Reserved for interest subsidies	-	-	-	68,108	68,108
Reserved for land in trust	-	-	-	129,853	129,853
Reserved for aid to library operations	-	-	-	203,501	203,501
Unreserved:					
Designated for subsequent year's expenditures, reported in:					
General fund	1,879,000	-	-	-	1,879,000
Special revenue funds	-	-	-	102,178	102,178
Undesignated:					
General fund	9,911,161	-	-	-	9,911,161
Special revenue funds	-	-	-	31,084	31,084
Capital project funds	-	(427,049)	(1,176,651)	144,773	(1,458,927)
Total fund balances	<u>17,595,433</u>	<u>17,576,090</u>	<u>-</u>	<u>3,150,557</u>	<u>38,322,080</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 19,827,421</u>	<u>\$ 18,941,277</u>	<u>\$ 1,176,651</u>	<u>\$ 3,720,435</u>	<u>\$ 43,665,784</u>

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

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Fund balances - total governmental funds		\$	38,322,080
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	115,375,232		
Less accumulated depreciation	<u>30,086,344</u>		85,288,888
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	(46,004,867)		
Orange County loan payable	(123,146)		
Accrued vacation payable	(1,751,077)		
Bond premium	<u>(1,246,146)</u>		(49,125,236)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements			237,636
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>1,934,280</u>
Net assets of governmental activities		\$	<u>76,657,648</u>

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

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GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006

	Major Funds				Total Governmental Funds
	General	Capital Projects Ordinance	Transit Grants Fund	Other Governmental Funds	
REVENUES					
Taxes	\$ 35,691,158	\$ -	\$ -	\$ 80,296	\$ 35,771,454
Licenses and permits	1,652,945	-	-	-	1,652,945
Fines and forfeitures	33,643	-	-	-	33,643
Intergovernmental revenues					
Federal government	38,676	(3,325)	5,068,739	2,267,314	7,371,404
State government	5,107,114	(38,481)	6,022,560	201,385	11,292,578
Other	379,668	79,899	63,990	65,092	588,649
Charges for services	2,583,796	33,375	-	-	2,617,171
Interest on investments	596,152	1,002,984	-	90,432	1,689,568
Franchise rental fees	-	-	-	74,396	74,396
Program income	-	-	-	12,828	12,828
Cable Public Access Reserves	-	-	-	120,507	120,507
Donations	-	-	-	72,365	72,365
Other	1,473,700	23,636	-	126,000	1,623,336
Total revenues	47,556,852	1,098,088	11,155,289	3,110,615	62,920,844
EXPENDITURES					
General government	4,079,736	-	-	-	4,079,736
Environment and development	12,503,632	-	11,277,118	1,980,326	25,761,076
Public safety	16,041,731	-	-	858,632	16,900,363
Leisure activities	4,282,116	-	-	-	4,282,116
Nondepartmental	1,475,398	-	-	-	1,475,398
Capital projects	-	15,216,290	-	1,460,165	16,676,455
Debt service:					
Principal	-	-	-	2,180,000	2,180,000
Interest and fiscal charges	-	-	-	887,200	887,200
Total expenditures	38,382,613	15,216,290	11,277,118	7,366,323	72,242,344
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	9,174,239	(14,118,202)	(121,829)	(4,255,708)	(9,321,500)

Continued

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006

	Major Funds				Total Governmental Funds
	General	Capital Projects Ordinance	Transit Grants Fund	Other Governmental Funds	
OTHER FINANCING SOURCES (USES)					
Transfer from other funds	260,175	1,838,391	374,147	4,977,326	7,450,039
Transfer to other funds	(6,814,199)	-	-	(49,302)	(6,863,501)
Total other financing sources (uses)	(6,554,024)	1,838,391	374,147	4,928,024	586,538
NET CHANGE IN TOTAL FUND BALANCES	2,620,215	(12,279,811)	252,318	672,316	(8,734,962)
FUND BALANCES, BEGINNING AS PREVIOUSLY REPORTED	14,975,218	29,855,901	-	3,453,083	48,284,202
Prior period adjustment (Note J)	-	-	(252,318)	(974,842)	(1,227,160)
FUND BALANCES, BEGINNING AS RESTATED	14,975,218	29,855,901	(252,318)	2,478,241	47,057,042
FUND BALANCES, ENDING	\$ 17,595,433	\$ 17,576,090	\$ -	\$ 3,150,557	\$ 38,322,080

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

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds		(8,734,962)
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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	21,208,339	
Current year's depreciation	<u>2,704,201</u>	18,504,138

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net assets.		(131,649)
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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		2,905,000
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The issuance of long-term debt provides current financial resources to governmental funds and does not have any effect on net assets.		(123,146)
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The amortization of bond premium in the current year is reported on the fund financial statements when debt is issued but amortized in the statement of activities.		65,587
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund

Change in long-term compensated absences		(69,258)
Change in long-term separation allowance		5,423
Change in Prepaid Expenses		(3,690)

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

	<u>494,109</u>
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Change in net assets of governmental activities		<u>\$ 12,911,552</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF CHAPEL HILL, NORTH CAROLINA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Transportation Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 4,560,798	\$ 1,509,145	\$ 1,006,686	\$ 812,251
Restricted cash and cash equivalents	-	-	68,222	-
Receivables:				
Accounts receivable, net	3,772	5,233	45,827	40,273
Due from other funds	1,043,696	-	-	-
Governmental units and agencies	38,665	-	-	-
Other	-	824	-	-
Prepaid items	-	-	-	-
Inventories	442,664	-	153,187	-
Total current assets	<u>6,089,595</u>	<u>1,515,202</u>	<u>1,273,922</u>	<u>852,524</u>
NONCURRENT ASSETS				
Restricted assets:				
Restricted cash and cash equivalents	-	-	-	-
Deferred charges	-	291,833	-	-
Total restricted assets	<u>-</u>	<u>291,833</u>	<u>-</u>	<u>-</u>
Capital assets:				
Land and other non-depreciable assets	10,403,741	2,749,838	1,701,659	-
Other capital assets, net of accumulated depreciation	12,160,852	3,222,663	6,827,423	21,268
Total capital assets, net	<u>22,564,593</u>	<u>5,972,501</u>	<u>8,529,082</u>	<u>21,268</u>
Total noncurrent assets	<u>22,564,593</u>	<u>6,264,334</u>	<u>8,529,082</u>	<u>21,268</u>
TOTAL ASSETS	<u>28,654,188</u>	<u>7,779,536</u>	<u>9,803,004</u>	<u>873,792</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	418,665	9,327	20,636	29,330
Accrued liabilities	287,628	59,112	135,404	15,615
Due to other funds	-	-	205,600	-
Compensated absences	340,044	26,311	46,222	8,936
Installment purchase agreements	-	-	-	-
Certificates of participation	-	245,000	-	-
Total current liabilities	<u>1,046,337</u>	<u>339,750</u>	<u>407,862</u>	<u>53,881</u>
NONCURRENT LIABILITIES				
Compensated absences	-	12,877	3,904	-
Installment purchase agreements	-	-	-	-
Certificates of participation	-	5,680,000	-	-
Total noncurrent liabilities	<u>-</u>	<u>5,692,877</u>	<u>3,904</u>	<u>-</u>
Total liabilities	<u>1,046,337</u>	<u>6,032,627</u>	<u>411,766</u>	<u>53,881</u>
NET ASSETS				
Invested in capital assets, net of related debt	22,564,593	47,501	8,529,082	21,268
Restricted	-	-	-	-
Unrestricted	5,043,258	1,699,408	862,156	798,643
Total net assets	<u>\$ 27,607,851</u>	<u>\$ 1,746,909</u>	<u>\$ 9,391,238</u>	<u>\$ 819,911</u>

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

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2006	2005 (as restated)	2006	2005
\$ 7,888,880	\$ 6,465,940	\$ 236,092	\$ 659,267
68,222	59,359	-	-
95,929	117,844	-	53,615
1,043,696	108,892	-	-
38,665	-	-	-
-	2,000	-	-
595,851	509,331	90,508	97,273
<u>9,731,243</u>	<u>7,263,366</u>	<u>326,600</u>	<u>810,155</u>
-	-	2,720,539	894,107
291,833	308,833	-	-
<u>291,833</u>	<u>308,833</u>	<u>2,720,539</u>	<u>894,107</u>
14,855,238	5,944,298	-	-
22,232,206	23,323,949	3,086,081	3,261,960
<u>37,087,444</u>	<u>29,268,247</u>	<u>3,086,081</u>	<u>3,261,960</u>
<u>37,379,277</u>	<u>29,577,080</u>	<u>5,806,620</u>	<u>4,156,067</u>
<u>47,110,520</u>	<u>36,840,446</u>	<u>6,133,220</u>	<u>4,966,222</u>
477,958	243,920	48,060	174,333
497,759	735,354	19,661	66,882
205,600	8,222	-	-
421,513	320,482	15,312	-
-	-	989,147	945,077
245,000	235,000	-	-
<u>1,847,830</u>	<u>1,542,978</u>	<u>1,072,180</u>	<u>1,186,292</u>
16,781	21,777	7,869	-
-	-	3,118,891	2,339,759
<u>5,680,000</u>	<u>5,925,000</u>	<u>-</u>	<u>-</u>
<u>5,696,781</u>	<u>5,946,777</u>	<u>3,126,760</u>	<u>2,339,759</u>
<u>7,544,611</u>	<u>7,489,755</u>	<u>4,198,940</u>	<u>3,526,051</u>
31,162,444	23,108,247	(1,021,957)	(22,876)
-	59,359	2,720,539	894,107
8,403,465	6,183,085	235,698	568,940
<u>\$ 39,565,909</u>	<u>\$ 29,350,691</u>	<u>\$ 1,934,280</u>	<u>\$ 1,440,171</u>

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Transportation Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
OPERATING REVENUES				
Charges for services	\$ 462,313	\$ 2,080,546	\$ 379,582	\$ 1,651,616
OPERATING EXPENSES				
Personnel	8,289,671	610,308	1,009,160	713,479
Depreciation and amortization	1,467,030	384,892	722,150	1,119
Fuel and tires	1,239,278	-	-	-
Indirect costs	844,029	52,895	-	31,271
Maintenance and repairs	549,715	-	385,289	-
Consulting	-	-	-	96,612
Other	890,540	313,413	141,325	277,482
Total operating expenses	<u>13,280,263</u>	<u>1,361,508</u>	<u>2,257,924</u>	<u>1,119,963</u>
OPERATING INCOME (LOSS)	<u>(12,817,950)</u>	<u>719,038</u>	<u>(1,878,342)</u>	<u>531,653</u>
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	1,116,088	-	1,040,017	-
State Operating Assistance Grant	3,396,290	-	-	-
University of North Carolina and Town of Carrboro operating assistance	5,346,627	-	-	-
Vehicle Licenses	146,107	-	-	-
Ad valorem taxes	2,547,914	-	-	-
Interest on investments	167,755	55,367	23,919	34,426
Interest expense	(2,926)	(225,793)	-	-
Proceeds from sale of fixed assets	-	-	9,307	-
Other	14,073	4,122	1,284	-
Total nonoperating revenues (expenses), net	<u>12,731,928</u>	<u>(166,304)</u>	<u>1,074,527</u>	<u>34,426</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(86,022)</u>	<u>552,734</u>	<u>(803,815)</u>	<u>566,079</u>
CAPITAL CONTRIBUTIONS	<u>10,320,462</u>	<u>-</u>	<u>-</u>	<u>-</u>
TRANSFERS				
Transfers in	958,884	-	-	2,784
Transfers out	(1,333,031)	(215,175)	-	-
Total transfers	<u>(374,147)</u>	<u>(215,175)</u>	<u>-</u>	<u>2,784</u>
CHANGE IN NET ASSETS	9,860,293	337,559	(803,815)	568,863
NET ASSETS, BEGINNING AS				
PREVIOUSLY REPORTED	17,495,240	1,409,350	10,195,053	251,048
Prior period adjustment (Note J)	252,318	-	-	-
NET ASSETS, BEGINNING AS RESTATED	<u>17,747,558</u>	<u>1,409,350</u>	<u>10,195,053</u>	<u>251,048</u>
NET ASSETS, ENDING	<u>\$ 27,607,851</u>	<u>\$ 1,746,909</u>	<u>\$ 9,391,238</u>	<u>\$ 819,911</u>

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

Exhibit 8

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2006	2005	2006	2005
\$ 4,574,057	\$ 4,397,244	\$ 2,158,842	\$ 2,279,978
10,622,618	10,016,490	430,403	492,144
2,575,191	1,777,123	807,011	894,864
1,239,278	899,229	-	-
928,195	1,383,179	-	-
935,004	802,508	-	-
96,612	8,340	-	-
1,622,760	1,324,091	503,149	579,607
18,019,658	16,210,960	1,740,563	1,966,615
(13,445,601)	(11,813,716)	418,279	313,363
2,156,105	2,134,344	-	-
3,396,290	2,894,246	-	-
-	-	-	-
5,346,627	5,633,005	-	-
146,107	142,675	-	-
2,547,914	2,623,385	-	-
281,467	109,059	61,848	11,176
(228,719)	(234,676)	(96,495)	(105,088)
9,307	-	110,477	-
19,479	(125,660)	-	96,663
13,674,577	13,176,378	75,830	2,751
228,976	1,362,662	494,109	316,114
10,320,462	1,217,846	-	-
961,668	1,317,561	-	-
(1,548,206)	(2,309,274)	-	-
(586,538)	(991,713)	-	-
9,962,900	1,588,795	494,109	316,114
29,350,691	27,761,896	1,440,171	1,124,057
252,318	-	-	-
29,603,009	27,761,896	1,440,171	1,124,057
\$ 39,565,909	\$ 29,350,691	\$ 1,934,280	\$ 1,440,171

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Transportation Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ (501,048)	\$ 2,085,881	\$ 371,455	\$ 1,668,214
Payments to employees	(8,408,880)	(637,852)	(984,866)	(332,860)
Payments to suppliers	(3,378,566)	(379,916)	(313,864)	(214,239)
Net cash provided by (used in) operating activities	(12,288,494)	1,068,113	(927,275)	1,121,115
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Grant funds received	4,512,378	-	1,040,017	-
Operating assistance received	5,346,627	-	-	-
Taxes and licenses received	2,694,021	-	-	-
Transfers to other funds	(1,333,031)	(215,175)	-	(573,087)
Transfers from other funds	958,884	-	-	2,784
Loan to special revenue fund	-	-	-	-
Revenue in lieu received	-	-	-	-
Other	14,073	4,122	1,284	-
Net cash provided by (used in) noncapital financing activities	12,192,952	(211,053)	1,041,301	(570,303)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from installment purchase agreements	-	-	-	-
Principal paid on Certificates of Participation and installment purchase agreements	-	(235,000)	-	-
Interest paid on Certificates of Participation and installment purchase agreements	-	(225,793)	-	-
Bond issuance costs	-	-	-	-
Sale of capital assets	-	-	9,307	-
Gain on disposal of capital assets	-	-	-	-
Capital contributions	10,320,462	-	-	-
Acquisition and construction of capital assets	(10,320,462)	(20,516)	(31,022)	(22,387)
Net cash provided by (used in) capital and related financing activities	-	(481,309)	(21,715)	(22,387)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	164,828	55,367	23,919	34,426
Net cash provided by investing activities	164,828	55,367	23,919	34,426

Continued

Exhibit 9

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2006	2005	2006	2005
\$ 3,624,502	\$ 5,294,926	\$ 2,212,457	\$ 2,245,800
(10,364,458)	(9,711,277)	(454,444)	(478,490)
(4,286,585)	(3,659,783)	(622,662)	(542,078)
(11,026,541)	(8,076,134)	1,135,351	1,225,232
5,552,395	3,918,823	-	-
5,346,627	6,742,772	-	-
2,694,021	2,766,060	-	-
(2,121,293)	(2,309,274)	-	-
961,668	1,317,561	-	-
-	153,848	-	-
-	6,635	-	-
19,479	-	-	-
12,452,897	12,596,425	-	-
-	-	1,795,500	878,400
(235,000)	(220,000)	(972,298)	(1,102,071)
-	-	-	-
(225,793)	(234,025)	(96,494)	(105,088)
-	-	-	-
9,307	62,554	123,311	118,310
-	7,776	-	-
10,320,462	1,217,846	-	-
(10,394,387)	(2,594,120)	(643,965)	(909,201)
(525,411)	(1,759,969)	206,054	(1,119,650)
278,540	108,408	61,850	11,176
278,540	108,408	61,850	11,176

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS (continued)
 YEAR ENDED JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Transportation Fund	Parking Facilities Fund	Housing Operating Fund	(Nonmajor) Stormwater Management Fund
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	69,286	431,118	116,230	562,851
CASH AND INVESTMENTS, BEGINNING	4,491,512	1,078,027	958,678	249,400
CASH AND INVESTMENTS, ENDING	<u>\$ 4,560,798</u>	<u>\$ 1,509,145</u>	<u>\$ 1,074,908</u>	<u>\$ 812,251</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (12,817,950)	\$ 719,038	\$ (1,878,342)	\$ 1,104,740
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,467,030	384,892	722,150	1,119
Changes in assets and liabilities:				
Receivables	(963,361)	5,335	(8,127)	16,598
Prepaid items	-	-	-	-
Inventories	(90,556)	-	4,036	-
Deferred charges	-	17,000	-	-
Accounts payable	235,552	(30,608)	208,714	17,757
Accrued liabilities	(168,810)	(29,387)	(25,832)	(13,566)
Accrued compensated absences	49,601	1,843	50,126	(5,533)
Net cash provided by (used in) operating activities	<u>\$ (12,288,494)</u>	<u>\$ 1,068,113</u>	<u>\$ (927,275)</u>	<u>\$ 1,121,115</u>

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

Exhibit 9

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2006	2005	2006	2005
1,179,485	2,868,730	1,403,255	116,758
6,777,617	3,656,569	1,553,375	1,436,617
<u>\$ 7,957,102</u>	<u>\$ 6,525,299</u>	<u>\$ 2,956,630</u>	<u>\$ 1,553,375</u>
\$ (12,872,514)	\$ (11,813,716)	\$ 418,278	\$ 313,363
2,575,191	2,621,294	807,010	894,864
(949,555)	897,682	53,615	(34,178)
-	(2,000)	-	-
(86,520)	(43,091)	6,763	(22,832)
17,000	17,000	-	-
431,415	(58,516)	(126,274)	60,361
(237,595)	262,241	(24,041)	13,654
96,037	42,972	-	-
<u>\$ (11,026,541)</u>	<u>\$ (8,076,134)</u>	<u>\$ 1,135,351</u>	<u>\$ 1,225,232</u>

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**TOWN OF CHAPEL HILL, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

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

Durham and Orange Counties are responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Chapel Hill. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Durham and Orange Counties from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. 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 2006-2007 fiscal year and are not shown as receivables at June 30, 2006. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2006, because they are intended to finance the Town's operations during the 2007 fiscal year.

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

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

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

The Town reports the following major governmental funds:

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

The Capital Projects Ordinance Fund - These funds are used to account for capital asset acquisition and construction of various Town projects including several major capital projects financed by government bonds. The fund reached major status in 2005-06 because of large grant awards for the construction of the new Town Operations Center for transit operations.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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

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

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

Additionally, the Town reports internal service funds as follows:

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

4. Budgetary Control

As required by North Carolina General Statutes, balanced budgets are adopted for every fund on either an annual or project life basis. A chart follows, organized by fund type, showing each fund's budget period.

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

The annual budget, which is prepared on the modified accrual basis of accounting as required by North Carolina law, is amended from time to time by the Town Council. The budgets in the supplemental section represent the budget as amended through June 30, 2006.

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

The Council's schedule for developing the 2005-06 budget included forums and hearings for citizens to express their views, raise questions and concerns and make comments on services, policies and funding items related to the budget. Forums were held in January and March. A public hearing was held on the proposed budget in May. Additional work sessions were held in May and June. The budget was adopted by the Council on June 27, 2005.

In March of each year, OWASA requests information from various departments to project the amount of appropriations for each department so that a budget may be prepared. The

proposed budget is presented to OWASA's board for review and approval before the end of April.

5. Deposits and Investments

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

State law [§159-30(c)] authorizes the Town and OWASA to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

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

6. Cash and Cash Equivalents

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

7. Restricted Assets

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

8. Property Tax Receivable

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

9. Allowances for doubtful accounts

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

10. Inventories

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

OWASA's materials and supplies inventories are valued at average cost.

11. Deferred Charges

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

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

12. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed by OWASA. The Town does not capitalize interest during the construction phase due to the insignificance of amounts.

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

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

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

13. Long-term Obligations

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

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

14. Compensated Absences

It is the Town's and OWASA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since neither the Town nor OWASA has a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the government-wide financial statement, but is limited to thirty days. The Town has assumed a first-in, first-out method of using accumulated compensated time. At June 30, 2006, OWASA had recorded a liability for accrued vacation of \$410,063.

15. Deferred and Unearned Revenues

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable and

unearned revenues reported in the governmental funds and deferred revenues on the government-wide statements were as follows:

	Unavailable	Unearned	Total
Reserve for taxes receivable	\$ 183,718	\$ 7,050	\$ 190,768
Reserve for other receivables	53,918	265,977	319,895
	<u>\$ 237,636</u>	<u>\$ 273,027</u>	<u>\$ 510,663</u>

16. Net Assets and Fund Balances

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

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

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

The governmental fund types classify fund balances as follows:

Reserved:

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

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

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

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

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

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

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

Unreserved:

Designated for subsequent year's expenditures - represents the amount of fund balance appropriated that has been designated for the adopted 2006-07 budget ordinance.

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

17. Use of Estimates

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

B. Reconciliation of Government-Wide and Fund Financial Statements

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

C. Deposits

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

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

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

At year-end, the Town's deposits had a carrying amount of \$24,254,623 and a bank balance of \$27,491,103. Of the bank balance, \$300,000 was covered by federal depository insurance, \$961,867 was covered by collateral held under the Dedicated Method and \$26,529,236 was covered by collateral held under the Pooling Method. The Town had cash on hand of \$4,094 at year end.

At year-end, OWASA's deposits had a carrying amount of \$2,457,279 and a bank balance of \$2,931,269. Of the bank balance, \$231,356 was covered by federal depository insurance and \$2,699,913 in interest-bearing deposits were covered by collateral held under the pooling method. The OWASA had cash on hand of \$575 at June 30, 2006.

D. 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, 2006, the Town had \$4,260,462 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Town also had \$18,514,228 invested in repurchase agreements, which are not rated.

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

	Fair Value
Commercial Paper	6,615,746
The North Carolina Capital Management Trust, a mutual fund	5,841,598
	<u>\$ 12,457,344</u>

Restricted cash and investments of OWASA at June 30, 2006 are as follows:

Capital Reserve Fund	\$ 1,656,500
Power Account Fund	237,997
Bond Service Fund	5,841,598
	<u>\$ 7,736,095</u>

Interest Rate Risk. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. OWASA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2006, the Authority's

maturities for the US Government Treasuries and commercial paper are less than six months. The North Carolina Capital Management Trust has a weighted average maturity of 0.8 years as of June 30, 2006.

Credit risk. The Town and OWASA have no policy regarding credit risk. OWASA's in US Government Treasuries are rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations ("NRSROs"). As of June 30, 2006, the Authority's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. The Town and OWASA's investments in the North Carolina Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2006.

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's investments in repurchase agreements are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the Town's name. 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.

E. Receivables and Allowances for Uncollectible Amounts

Receivables as of year-end for the governmental and the proprietary funds are as follows:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Property taxes, net	\$ 183,718	\$ -
Due from other governmental agencies	4,942,242	38,665
Due from other funds	1,585,466	1,043,696
Other, net	816,218	95,929
	<u>\$ 7,527,644</u>	<u>\$ 1,178,290</u>

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

Governmental activities, allowance for uncollectible property taxes	\$ 433,519
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F. **Capital Assets**

A summary of changes in the value of the Town's capital assets for the year ended June 30, 2006 follows:

	July 1, 2005	Increases	Decreases	June 30, 2006
Governmental activities:	(as restated)			
Capital assets, not being depreciated:				
Land	\$ 23,059,130	\$ 2,176,955	\$ 67,950	\$ 25,168,135
Construction in progress	10,361,244	14,841,668	6,450,435	18,752,477
Total capital assets, not being depreciated	<u>33,420,374</u>	<u>17,018,623</u>	<u>6,518,385</u>	<u>43,920,612</u>
Capital assets, being depreciated:				
Land improvements	5,034,497	889,382	-	5,923,879
Infrastructure	28,125,240	4,965,840	-	33,091,080
Buildings and building improvements	21,486,174	4,616,699	-	26,102,873
Equipment and vehicles	13,892,003	812,195	469,924	14,234,274
Total capital assets, being depreciated	<u>68,537,914</u>	<u>11,284,116</u>	<u>469,924</u>	<u>79,352,106</u>
Accumulated depreciation:				
Land improvements	909,954	241,774	-	1,151,728
Infrastructure	10,748,262	1,210,545	-	11,958,807
Buildings and building improvements	10,609,334	976,906	-	11,586,240
Equipment and vehicles	9,572,582	1,081,986	453,594	10,200,974
Total accumulated depreciation	<u>31,840,132</u>	<u>3,511,211</u>	<u>453,594</u>	<u>34,897,749</u>
Total capital assets, being depreciated, net	<u>36,697,782</u>	<u>7,772,905</u>	<u>16,330</u>	<u>44,454,357</u>
Governmental activities capital assets, net	<u>\$ 70,118,156</u>	<u>\$ 24,791,528</u>	<u>\$ 6,534,715</u>	<u>\$ 88,374,969</u>

	July 1, 2005	Increases	Decreases	June 30, 2006
Business-type activities:	(as restated)			
Transportation Fund:				
Capital assets, not being depreciated:				
Land	\$ 2,039,587	\$ 59,950	\$ -	\$ 2,099,537
Construction in progress	1,154,873	9,762,730	2,613,399	8,304,204
Total capital assets, not being depreciated	<u>3,194,460</u>	<u>9,822,680</u>	<u>2,613,399</u>	<u>10,403,741</u>
Capital assets, being depreciated:				
Land improvements	3,721,748	-	-	3,721,748
Buildings and building improvements	1,355,640	-	-	1,355,640
Equipment	19,401,513	3,111,183	2,158,249	20,354,447
Total capital assets, being depreciated	<u>24,478,901</u>	<u>3,111,183</u>	<u>2,158,249</u>	<u>25,431,835</u>
Accumulated depreciation:				
Land improvements	1,940,036	186,854	-	2,126,890
Buildings and building improvements	1,303,243	9,096	-	1,312,339
Equipment	10,718,923	1,271,080	2,158,249	9,831,754
Total accumulated depreciation	<u>13,962,202</u>	<u>1,467,030</u>	<u>2,158,249</u>	<u>13,270,983</u>
Total capital assets, being depreciated, net	<u>10,516,699</u>	<u>1,644,153</u>	<u>-</u>	<u>12,160,852</u>
Transportation fund capital assets, net	<u>\$ 13,711,159</u>	<u>\$ 11,466,833</u>	<u>\$ 2,613,399</u>	<u>\$ 22,564,593</u>
Parking Facilities Fund:				
Capital assets, not being depreciated:				
Land	\$ 2,749,838	\$ -	\$ -	\$ 2,749,838
Total capital assets, not being depreciated	<u>2,749,838</u>	<u>-</u>	<u>-</u>	<u>2,749,838</u>
Capital assets, being depreciated:				
Land improvements	382,210	-	-	382,210
Buildings and building improvements	7,274,132	-	-	7,274,132
Equipment	248,968	20,515	-	269,483
Total capital assets, being depreciated	<u>7,905,310</u>	<u>20,515</u>	<u>-</u>	<u>7,925,825</u>
Accumulated depreciation:				
Land improvements	291,564	11,797	-	303,361
Buildings and building improvements	3,824,606	363,108	-	4,187,714
Equipment	202,100	9,987	-	212,087
Total accumulated depreciation	<u>4,318,270</u>	<u>384,892</u>	<u>-</u>	<u>4,703,162</u>
Total capital assets, being depreciated, net	<u>3,587,040</u>	<u>(364,377)</u>	<u>-</u>	<u>3,222,663</u>
Parking facilities fund capital assets, net	<u>\$ 6,336,878</u>	<u>\$ (364,377)</u>	<u>\$ -</u>	<u>\$ 5,972,501</u>

	July 1, 2005	Increases	Decreases	June 30, 2006
Business-type activities (cont):				
Stormwater Management Fund:				
Capital assets, being depreciated:				
Land improvements	-	22,387	-	22,387
Total capital assets, being depreciated	-	22,387	-	22,387
Accumulated depreciation:				
Land improvements	-	1,119	-	1,119
Total accumulated depreciation	-	1,119	-	1,119
Stormwater management fund capital assets, net	\$ -	\$ 21,268	\$ -	\$ 21,268
Housing Operating Fund:				
Capital assets, not being depreciated:				
Land	\$ 1,701,659	\$ -	\$ -	\$ 1,701,659
Total capital assets, not being depreciated	1,701,659	-	-	1,701,659
Capital assets, being depreciated:				
Land improvements	284,780	-	-	284,780
Buildings and building improvements	15,721,454	-	-	15,721,454
Equipment	589,691	31,021	14,113	606,599
Total capital assets, being depreciated	16,595,925	31,021	14,113	16,612,833
Accumulated depreciation:				
Land improvements	100,365	14,239	-	114,604
Buildings and building improvements	8,448,405	683,314	-	9,131,719
Equipment	528,603	24,597	14,113	539,087
Total accumulated depreciation	9,077,373	722,150	14,113	9,785,410
Total capital assets, being depreciated, net	7,518,552	(691,129)	-	6,827,423
Housing operating fund capital assets, net	\$ 9,220,211	\$ (691,129)	\$ -	\$ 8,529,082
Business-type activities capital assets, net	\$ 29,268,248	\$ 10,432,595	\$ 2,613,399	\$ 37,087,444

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

Governmental activities:	
General government	\$ 184,264
Environment and development	1,546,102
Public safety	299,570
Leisure activities	674,264
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	807,011
Total depreciation expense - governmental activities	<u>\$ 3,511,211</u>
Business-type activities:	
Transportation	\$ 1,467,030
Parking facilities	384,892
Stormwater Management	1,119
Housing Operating	722,150
Total depreciation expense - business-type activities	<u>\$ 2,575,191</u>

A summary of changes in the value of OWASA's capital assets for the year ended June 30, 2006, follows:

	July 1, 2005	Increases	Decreases	June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 16,698,207	\$ 591,417	\$ -	\$ 17,289,624
Construction in progress	42,897,990	20,787,144	1,154,916	62,530,218
Total capital assets, not being depreciated	<u>59,596,197</u>	<u>21,378,561</u>	<u>1,154,916</u>	<u>79,819,842</u>
Capital assets, being depreciated:				
Water treatment and distribution	105,811,097	2,937,771	26,117	108,722,751
Sewer collection and treatment	96,731,521	2,326,437	1,500	99,056,458
Fixtures and equipment	33,408,377	829,626	357,356	33,880,647
Assets under capital lease obligation	260,596	-	-	260,596
Total capital assets, being depreciated	<u>236,211,591</u>	<u>6,093,834</u>	<u>384,973</u>	<u>241,920,452</u>
Less accumulated depreciation for:				
Water treatment and distribution	25,669,009	2,599,914	10,741	28,258,182
Sewer collection and treatment	23,637,303	2,342,688	-	25,979,991
Fixtures and equipment	13,387,384	1,928,748	298,097	15,018,035
Assets under capital lease obligation	260,596	-	-	260,596
Total accumulated depreciation	<u>62,954,292</u>	<u>6,871,350</u>	<u>308,838</u>	<u>69,516,804</u>
Total capital assets, being depreciated, net	<u>173,257,299</u>	<u>(777,516)</u>	<u>76,135</u>	<u>172,403,648</u>
Total capital assets, net	<u>\$ 232,853,496</u>	<u>\$ 20,601,045</u>	<u>\$ 1,231,051</u>	<u>\$ 252,223,490</u>

G. **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities for the Town's governmental and proprietary funds are as follows:

	Governmental Funds	Proprietary Funds
Accounts payable	\$ 1,130,406	\$ 477,958
Accrued payroll and payroll related liabilities	1,210,392	497,759
Deposits	126,406	-
Other accrued liabilities	25,308	421,513
	\$ 2,492,512	\$ 1,397,230

H. **Long-Term Debt**

Long-term debt for the Town's governmental activities and the business-type activities for the year ended June 30, 2006 are as follows:

Governmental Activities:

General obligation bonds

\$7,190,000 - 1996 serial bonds payable in annual installments of \$360,000 to \$1,380,000 through 2007; interest at 4.6%	\$ 795,000
\$1,800,000 - 1996 serial bonds payable in annual installments of \$100,000 through 2015; interest at 4.8% to 5.55%	900,000
\$4,550,000 - 1998 serial bonds payable in annual installments of \$100,000 to \$400,000 through 2015; interest at 4.5% to 4.7%	3,175,000
\$4,700,000 - 2000 serial bonds payable in annual installments of \$75,000 to \$300,000 through 2019; interest at 5.2% to 5.4%	3,600,000
\$3,365,000 - 2002 refunding serial bonds payable in annual installments of \$230,000 to \$815,000 through 2010; interest at 3% to 4%	2,400,000
\$4,250,000 - 2003 serial bonds payable in annual installments of \$75,000 to \$300,000 through 2021; interest at 2% to 4%	3,875,000
\$4,000,000 - 2004 serial bonds payable in annual installments of \$200,000 through 2025; interest at 2.5% to 4.5%	3,800,000
Total general obligation bonds	\$ 18,545,000

Installment Notes Payables

Various installment purchase contracts to finance equipment additions; contracts between two and ten years; interest rates between 2.65% and 5.4%; debt secured by the equipment	\$ 1,560,000
Various installment purchase contracts to finance equipment additions; contracts between three and seven years; interest rates between 2.0% and 5.07%; debt secured by the equipment	<u>4,108,038</u>
Total installment notes payables	<u><u>\$ 5,668,038</u></u>

Certificates of Participation

\$26,000,000 - Certificates of Participation due in annual installments of \$500,000 to \$1,365,000 through 2025; interest due in semi-annual installments at 3.5% to 5.25%; to pay for the construction of the Town Operations Center	<u>\$ 25,500,000</u>
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Business-type Activities:

\$7,340,000 - Certificates of Participation due in annual installments of \$220,000 to \$445,000 through 2024; interest due in semi-annual installments at 3.7% to be paid from the Parking Facilities Fund	<u>\$ 5,925,000</u>
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In addition to the general obligation bonds, installment notes payable and certificates of participation, the Town also includes in their long-term debt an estimated liability for the Town employees' compensated absences and the law enforcement officers' special separation allowance.

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

Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,865,000	\$ 795,758	\$ 2,660,758
2008	1,865,000	719,263	2,584,263
2009	1,850,000	644,750	2,494,750
2010	1,840,000	567,700	2,407,700
2011	1,300,000	489,850	1,789,850
2012-2016	5,800,000	1,598,650	7,398,650
2017-2021	3,225,000	538,650	3,763,650
2022-2025	800,000	88,399	888,399
	<u>\$ 18,545,000</u>	<u>\$ 5,443,020</u>	<u>\$ 23,988,020</u>

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

Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,214,147	\$ 185,857	\$ 1,400,004
2008	1,098,966	148,109	1,247,075
2009	985,625	110,144	1,095,769
2010	704,034	77,508	781,542
2011	656,701	53,468	710,169
2012-2014	1,008,565	45,787	1,054,352
	<u>\$ 5,668,038</u>	<u>\$ 620,873</u>	<u>\$ 6,288,911</u>

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

Year Ending June 30,	Principal	Interest	Total
2007	\$ 1,245,000	\$ 1,382,955	\$ 2,627,955
2008	1,615,000	1,334,298	2,949,298
2009	1,630,000	1,273,768	2,903,768
2010	1,635,000	1,216,095	2,851,095
2011	1,645,000	1,158,238	2,803,238
2012-2016	8,390,000	4,727,469	13,117,469
2017-2021	8,720,000	2,713,937	11,433,937
2022-2025	6,545,000	701,355	7,246,355
	<u>\$ 31,425,000</u>	<u>\$ 14,508,115</u>	<u>\$ 45,933,115</u>

Long-term debt activity for the year ended June 30, 2006 was as follows:

	July 1, 2005	Additions	Reductions	June 30, 2006	Due Within One Year
Governmental activities:	(as restated)				
General obligation bonds	\$ 20,725,000	\$ -	\$ 2,180,000	\$ 18,545,000	\$ 1,865,000
Certificates of participation	26,000,000	-	500,000	25,500,000	1,000,000
Installment notes payable	5,069,836	1,795,500	1,197,298	5,668,038	1,214,147
Orange County loan payable	-	123,146	-	123,146	-
Separation allowance	405,290	-	5,423	399,867	-
Compensated absences	1,681,819	1,441,538	1,349,099	1,774,258	1,349,099
Long-term debt	<u>\$ 53,881,945</u>	<u>\$ 3,360,184</u>	<u>\$ 5,231,820</u>	<u>52,010,309</u>	<u>5,428,246</u>
Business-type activities:					
Certificates of participation	\$ 6,160,000	\$ -	\$ 235,000	\$ 5,925,000	\$ 245,000
Compensated absences	400,806	467,422	429,934	438,294	429,934
Long-term debt	<u>\$ 6,560,806</u>	<u>\$ 467,422</u>	<u>\$ 664,934</u>	<u>6,363,294</u>	<u>674,934</u>

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

In accordance with the provisions of the State Constitution and the Local Government Bond Act, as amended, the Town may not, with certain exceptions, have outstanding net bonded debt exceeding 8% of the appraised value of the property subject to taxation. At June 30, 2006, the legal debt margin for the Town was approximately \$381 million.

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

OWASA's long-term debt as of June 30, 2006 consists of the following:

Revenue and revenue refunding bonds payable, Series 2005 Revenue and Revenue Refunding bonds, issued June 9, 2005, with coupon rates of 3.5% to 5.0%, final maturity July 2020, net of unamortized premium and deferred refunding gain of \$240,787 at June 30, 2006	\$ 18,434,213
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 \$633,127 at June 30, 2006; Revenue bonds payable, Series 2004B Revenue Bonds in the amount of \$20,000,000, issued June 1, 2004, bearing a weekly interest rate determined by a remarketing agent (4% at June 30, 2006), final maturity July 2028	41,898,127
Revenue and revenue refunding bonds payable, Series 2003 Revenue and Revenue Refunding Bonds, issued April 9, 2003, with coupon rates of 2.0% to 5.0%, final maturity July 2016, net of unamortized premium and deferred refunding loss of \$522,429 at June 30, 2006	10,477,571
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 \$59,968 at June 30, 2006	22,934,968

Revenue and revenue refunding bonds payable, Series 1999

Revenue and Revenue Refunding Bonds, issued April 15, 1999,
with coupon rates of 3.5% to 5.25%, final maturity July 2009,
net of unamortized premium of \$18,003 at June 30, 2006

2,663,003

 96,407,882

Less current maturities:

Bonds payable, net of unamortized premiums and deferred
refunding gains and losses

4,042,159

Total long-term debt

 \$ 92,365,723

OWASA debt maturities are as follows:

	Maturities	Amortization of Premiums and Deferred Refunding Losses	Total	Interest
2007	\$ 4,060,000	\$ 17,841	\$ 4,042,159	\$ 4,013,572
2008	3,805,000	17,840	3,787,160	3,880,387
2009	4,285,000	17,840	4,267,160	3,740,608
2010	4,260,000	23,841	4,236,159	3,578,620
2011	4,630,000	23,841	4,606,159	3,405,739
2012-2016	23,170,000	119,205	23,050,795	14,042,394
2017-2021	22,525,000	(155,660)	22,680,660	8,874,852
2022-2026	19,765,000	(12,630)	19,777,630	4,436,400
2027-2030	9,960,000	-	9,960,000	887,600
Total	\$ 96,460,000	\$ 52,118	\$ 96,407,882	\$ 46,860,172

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

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

In 2004, OWASA issued \$41,265,000 of debt, at a premium of \$721,553 in Series 2005 Revenue Bonds to finance construction and improvements.

In 2003, OWASA issued \$13,875,000 of debt, at a premium of \$683,018 in Series 2004 Revenue Refunding Bonds to refund all but two installments of the remaining Series 1993 Revenue Bonds. OWASA irrevocably deposited with a trustee, securities that were used to retire the principal and

interest of the refunded bonds as they become due. As of June 30, 2005, the refunded Series were fully redeemed.

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

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

In 1985, OWASA defeased Series 1977A Revenue Bonds by placing the proceeds of new bonds, Series 1985A Revenue Bonds, in an irrevocable trust to provide for all future debt service payments on the old bonds. The gain of \$1,517,000, resulting from the refunding is being amortized over the life of the new issue. In addition to the amounts held in the trust, the trustee also has a security interest in the revenues of OWASA, after provisions have been made for the payment of current expenses, as defined in the Bond Order dated March 7, 1985. The par value of the defeased Series 1977A Revenue Bonds at June 30, 2006 was \$1,745,000.

OWASA's long-term debt activity for the year ended June 30, 2006 is as follows:

	July 1, 2005	Additions	Reductions	June 30, 2006	Due Withing One Year
Bonds payable:					
Revenue bonds	\$ 99,750,000	\$ -	\$ 3,290,000	\$ 96,460,000	\$ 4,060,000
Less deferred amounts:					
For issuance premium	2,319,569	-	166,730	2,152,839	166,731
For issuance discounts and deferred refunding	(2,389,528)	-	184,571	(2,204,957)	(184,572)
Total bonds payable	\$ 99,680,041	\$ -	\$ 3,641,301	\$ 96,407,882	\$ 4,042,159

I. Interfund Receivables, Payables and Transfers

Interfund receivables and payables. At June 30, 2006, the statements of the Town include a net of balances due to/from other funds in the amount of \$838,096 as detailed below. These amounts represent the borrowing of cash to cover expenditures not yet reimbursed by grants at year-end.

Receivable Fund	Payable Fund	Amount
Nonmajor governmental fund	Housing Operating fund	(205,600)
Transportation fund	Nonmajor governmental fund	1,043,696
		<u>\$ 838,096</u>

Interfund transfers. A schedule of interfund transfers for the year ended June 30, 2006 is as follows:

Transfers To	Transfers From	Amount
General fund	Parking facility fund	\$ 215,175
General fund	Nonmajor governmental fund	45,000
Nonmajor governmental fund	Nonmajor governmental fund	1,052
Nonmajor governmental fund	General fund	4,976,471
Capital projects ordinance fund	General fund	1,851,490
Capital projects ordinance fund	Nonmajor governmental fund	3,250
Stormwater management fund	General fund	2,783
Transportation fund	Nonmajor governmental fund	374,146
		<u>\$ 7,469,367</u>

Each year, the Parking Fund transfers to the General Fund all revenues over expenditures generated by on-street parking. The Library Gift fund transfers an amount to the General Fund each year for the purchase of library books and reference materials. The annual transfer from the General Fund to the Stormwater Management Fund is a reimbursement of a fee exemption. The Transportation fund makes a transfer each year for the required matches to federal and State grants, which totaled \$374,146 in the year ended June 30, 2006.

The General Fund transfers the amount necessary each year to fund debt service payments and annual capital projects to the Debt Service and Capital Improvement funds. The General fund also transferred \$55,405 to the Grants fund for local matching requirements for grants. There was also a one-time transfer from the Capital Improvement fund to the Capital Projects Ordinance fund of \$3,250 to consolidate funding for a multi-year project.

J. Prior Period Adjustment

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

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

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

K. Employees' Retirement System

1. North Carolina Local Governmental Employees' Retirement System

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

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

Plan members are required to contribute six percent of their annual covered salary. The Town and OWASA are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is respectively, 4.90% and 4.78% of annual covered payroll. For OWASA, the current rate for employees is 6.82% of annual covered payroll. The contribution requirements of the Town of Chapel Hill and OWASA are established and may be amended by the North Carolina General Assembly.

The Town's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$1,353,447, \$1,292,936, and \$1,238,062, respectively. OWASA's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$322,323, \$307,420 and \$290,891, respectively. The contributions made by the Town and OWASA equaled the required contribution for each year.

2. Law Enforcement Officers Special Separation Allowance

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

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2005, the Separation Allowance's membership consisted of:

Retirees receiving benefits	17
Active Plan members	<u>113</u>
TOTAL	<u>130</u>

A separate report was not issued for the plan.

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

The annual required contribution for the current year was determined as part of the December 31, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 12.3% per year. Item (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

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	\$ 220,451
b	Interest on net pension obligation	29,384
c	Adjustment to annual required contribution	(23,278)
d	Annual pension cost	\$ <u>226,557</u>
e	Employer contributions made for fiscal year ended 6/30/06	231,980
f	Increase in net pension obligation (d) – (e)	\$ (5,423)
g	Net pension obligation, beginning of fiscal year	405,290
h	Net pension obligation, end of fiscal year (f) + (g)	\$ <u><u>399,867</u></u>

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation, End of Year
6/30/2004	204,263	89.59%	419,780
6/30/2005	213,180	106.80%	405,290
6/30/2006	226,557	102.39%	399,867

3. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2006 were \$460,811, which consisted of \$263,544 from the Town and \$197,267 from law enforcement officers.

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

The Town has adopted a Supplemental Retirement Income Plan, a defined contribution plan, for regular employees. The plan is administered by Prudential Investment Management Services in accordance with Internal Revenue Code Section 401(k). The Town contributes five percent of each employee's qualified salary (excluding law enforcement officers) and all amounts are vested immediately. Employees may also make voluntary contributions. Contributions for the year ended June 30, 2006 were \$1,742,136, which consisted of \$1,109,622 from the Town and \$632,514 from employees.

L. Other Post-Employment Benefits

In addition to providing pension benefits, the Town has elected to provide post-retirement health benefits to retirees of the Town who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the Town. The Town pays all or a portion of the cost of coverage for these benefits based on years of service. Also, retirees can purchase coverage for their dependents at the Town's group rates. Currently, 146 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2006, the Town made payments for post-retirement health benefit premiums of \$493,659 and the retirees made payments of \$213,530.

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, 2006, the Town made contributions to the State for death benefits of \$29,859. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .10% 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. **Fund Balance Reserves**

At year-end, the Town's fund balance included the following reserves:

Fund Balance Reserves

General:

Reserve for encumbrances	\$ 1,297,402
Reserve by State Statute	3,912,064
Reserve for capital improvements	381,258
Reserve for police	212,620
Reserve for inventory	1,928
	<u>\$ 5,805,272</u>

Capital Projects Ordinance:

Reserve by State Statute	\$ 427,049
Reserve for capital improvements	17,576,090
	<u>\$ 18,003,139</u>

Transit Grant Project Ordinance:

Reserve by State Statute	\$ 1,176,651
	<u>\$ 1,176,651</u>

Other Governmental Funds:

Reserve for encumbrances	\$ 1,111,691
Reserve by State Statute	465,540
Reserve for capital improvements	196,686
Reserve for community development	61,524
Reserve for debt service	635,619
Reserve for land in trust	129,853
Reserve for interest subsidies	68,108
Reserve for aid to Library operations	203,501
	<u>\$ 2,872,522</u>

N. **Commitments and Contingencies**

The Town has commitments related to capital improvements of approximately \$27,179,370 at June 30, 2006. Of the total commitments, \$23,860,655 related to the construction of the Town Operations Center.

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 \$14,695,000 at June 30, 2006.

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the

grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management of the Town believes that any required refunds would be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

O. **Risk Management**

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

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

The Town currently reports its risk management activities and insurance costs by operating fund. Claims expenditures falling within the retention coverage are generally reported when amounts are paid or, in the event of significant losses, when such amounts are probable and the amounts can be determined. The amounts due at June 30, 2006 for outstanding claims and incurred but not reported claims are not considered material and, therefore, no provision is recorded within the financial statements. The amount of settlements has not exceeded insurance coverage in any of the past three years.

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

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

The Governmental Accounting Standards Board (GASB) has issued the following pronouncement prior to June 30, 2006 that has an effective date that may impact future financial presentations.

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

- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses and related liabilities, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. Implementation of GASB Statement No. 45 will be required no later than the fiscal year ending June 30, 2009. The Town

has contacted an actuarial firm to prepare preliminary estimates of the future impact on the Town's financial statements, but the impact is not known at this time.

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**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)
12/31/2000	-	1,754,732	1,754,732	-	3,783,389	46.4
12/31/2001	-	1,926,984	1,926,984	-	4,429,208	43.5
12/31/2002	-	2,066,393	2,066,393	-	4,331,188	47.7
12/31/2003	-	2,162,511	2,162,511	-	4,364,190	49.5
12/31/2004	-	2,281,109	2,281,109	-	4,604,127	49.5
12/31/2005	-	2,335,038	2,335,038	-	5,197,878	44.9

**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
2001	160,296	99.64
2002	164,966	96.22
2003	188,613	93.27
2004	197,234	92.78
2005	206,295	109.71
2006	220,451	108.88

Notes to the Required Schedules:

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	December 31, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	25 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	4.5 -12.3%
*Includes inflation at	3.75%
Cost-of-living adjustments	n/a

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

CAPITAL PROJECTS FUNDS

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

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

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

DEBT SERVICE FUND

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

OTHER GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Total Special Revenue Funds	Total Capital Projects Funds	Debt Service Fund	Comparative Totals	
				2006	2005
ASSETS					
Cash and cash equivalents	\$ 798,585	\$ 1,388,532	\$ 635,619	\$ 2,822,736	\$ 2,152,572
Receivables					
Governmental units and agencies	61,918	-	-	61,918	406,807
Other	409,281	-	-	409,281	90,008
Due from other funds	213,276	-	-	213,276	17,454
Inventories and other assets	16,538	-	-	16,538	16,538
Restricted cash and cash equivalents	-	196,686	-	196,686	431,334
TOTAL ASSETS	\$ 1,499,598	\$ 1,585,218	\$ 635,619	\$ 3,720,435	\$ 3,114,713
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other funds	\$ 212,694	\$ -	\$ -	\$ 212,694	\$ 118,124
Accounts payable	154,712	31,918	-	186,630	381,617
Accrued liabilities	17,517	374	-	17,891	42,574
Unearned revenue	45,011	99,776	-	144,787	94,157
Other	7,876	-	-	7,876	-
Total liabilities	437,810	132,068	-	569,878	636,472
FUND BALANCES					
Reserved for encumbrances	-	1,111,691	-	1,111,691	624,450
Reserved by State statute	465,540	-	-	465,540	496,815
Reserved for capital improvements	-	196,686	-	196,686	431,334
Reserved for debt service	-	-	635,619	635,619	455,089
Reserved for community development	61,524	-	-	61,524	30,178
Reserved for interest subsidies	68,108	-	-	68,108	293,649
Reserved for land in trust	129,853	-	-	129,853	36,111
Reserved for aid to library operations	203,501	-	-	203,501	170,663
Unreserved					
Designated for subsequent year's expenditures	102,178	-	-	102,178	-
Undesignated	31,084	144,773	-	175,857	(60,048)
Total fund balances	1,061,788	1,453,150	635,619	3,150,557	2,478,241
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,499,598	\$ 1,585,218	\$ 635,619	\$ 3,720,435	\$ 3,114,713

TOWN OF CHAPEL HILL, NORTH CAROLINA

OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET
JUNE 30, 2006

	Public Housing Projects	Transitional Housing	Revolving Acquisition	Community Development Entitlement	Downtown Service District
ASSETS					
Cash and cash equivalents	\$ -	\$ 6,110	\$ 372,874	\$ 90,969	\$ 37,715
Receivables					
Governmental units and agencies	20,217	5,659	-	36,042	-
Other	-	-	60,000	-	-
Due from other funds	-	-	-	-	-
Inventories and other assets	-	-	-	-	-
TOTAL ASSETS	<u>\$ 20,217</u>	<u>\$ 11,769</u>	<u>\$ 432,874</u>	<u>\$ 127,011</u>	<u>\$ 37,715</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other funds	\$ 7,676	\$ -	\$ -	\$ -	\$ -
Accounts payable	12,541	3,148	-	18,850	26,153
Accrued liabilities	-	-	-	10,595	-
Deferred and unearned revenues	-	-	-	-	-
Other	-	7,876	-	-	-
Total Liabilities	<u>20,217</u>	<u>11,024</u>	<u>-</u>	<u>29,445</u>	<u>26,153</u>
FUND BALANCES					
Reserved by State statute	20,217	-	60,000	36,042	-
Reserved for community development	-	-	-	61,524	-
Reserved for interest subsidies	-	-	-	-	-
Reserved for land in trust	-	-	-	-	-
Reserved for aid to library operations	-	-	-	-	-
Unreserved					
Designated for subsequent year's expenditures	-	-	-	-	-
Undesignated	(20,217)	745	372,874	-	11,562
Total fund balances	<u>-</u>	<u>745</u>	<u>432,874</u>	<u>97,566</u>	<u>11,562</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 20,217</u>	<u>\$ 11,769</u>	<u>\$ 432,874</u>	<u>\$ 127,011</u>	<u>\$ 37,715</u>

Schedule 2

Cable Public Access	Grants Fund	Land Trust Fund	Housing Loan Trust Fund	Library Gift Fund	Total Special Revenue Funds
\$ 17,091	\$ -	\$ 2,217	\$ 68,108	\$ 203,501	\$ 798,585
-	-	-	-	-	61,918
30,474	318,807	-	-	-	409,281
-	-	-	213,276	-	213,276
-	-	16,538	-	-	16,538
<u>\$ 47,565</u>	<u>\$ 318,807</u>	<u>\$ 18,755</u>	<u>\$ 281,384</u>	<u>\$ 203,501</u>	<u>\$ 1,499,598</u>
\$ -	\$ 205,018	\$ -	\$ -	\$ -	\$ 212,694
32,164	61,856	-	-	-	154,712
-	6,922	-	-	-	17,517
-	45,011	-	-	-	45,011
-	-	-	-	-	7,876
<u>32,164</u>	<u>318,807</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>437,810</u>
30,474	318,807	-	-	-	465,540
-	-	-	-	-	61,524
-	-	-	68,108	-	68,108
-	-	18,755	111,098	-	129,853
-	-	-	-	203,501	203,501
-	-	-	102,178	-	102,178
<u>(15,073)</u>	<u>(318,807)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,084</u>
<u>15,401</u>	<u>-</u>	<u>18,755</u>	<u>281,384</u>	<u>203,501</u>	<u>1,061,788</u>
<u>\$ 47,565</u>	<u>\$ 318,807</u>	<u>\$ 18,755</u>	<u>\$ 281,384</u>	<u>\$ 203,501</u>	<u>\$ 1,499,598</u>

OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Capital Projects	Capital Reserve	Comparative Totals	
			2006	2005
ASSETS				
Cash and cash equivalents	\$ 1,388,532	\$ -	\$ 1,388,532	\$ 761,517
Restricted cash and cash equivalents	<u>-</u>	<u>196,686</u>	<u>196,686</u>	<u>431,334</u>
TOTAL ASSETS	<u>\$ 1,388,532</u>	<u>\$ 196,686</u>	<u>\$ 1,585,218</u>	<u>\$ 1,192,851</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 31,918	\$ -	\$ 31,918	\$ 84,682
Accrued liabilities	374	-	374	-
Deferred revenues	<u>99,776</u>	<u>-</u>	<u>99,776</u>	<u>-</u>
Total liabilities	<u>132,068</u>	<u>-</u>	<u>132,068</u>	<u>84,682</u>
FUND BALANCES				
Reserved for encumbrances	1,111,691	-	1,111,691	624,450
Reserved for capital improvements	-	196,686	196,686	431,334
Unreserved				
Undesignated	<u>144,773</u>	<u>-</u>	<u>144,773</u>	<u>52,385</u>
Total fund balances	<u>1,256,464</u>	<u>196,686</u>	<u>1,453,150</u>	<u>1,108,169</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,388,532</u>	<u>\$ 196,686</u>	<u>\$ 1,585,218</u>	<u>\$ 1,192,851</u>

OTHER GOVERNMENTAL FUNDS

COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Total Special Revenue Funds	Total Capital Projects Funds	Debt Service Fund	Comparative Totals	
				2006	2005
REVENUES					
Taxes	\$ 80,296	\$ -	\$ -	\$ 80,296	\$ 73,474
Intergovernmental revenues					
Federal government	2,267,314	-	-	2,267,314	2,735,531
State government	197,661	3,724	-	201,385	791,735
Other	65,092	-	-	65,092	75,000
Interest on investments	33,492	35,994	20,946	90,432	29,709
Franchise rental fees	-	74,396	-	74,396	59,769
Program income	12,828	-	-	12,828	24,101
Cable Public Access Reserves	120,507	-	-	120,507	115,002
Donations	72,365	-	-	72,365	107,786
Other	126,000	-	-	126,000	239,998
Total revenues	<u>2,975,555</u>	<u>114,114</u>	<u>20,946</u>	<u>3,110,615</u>	<u>4,252,105</u>
EXPENDITURES					
Environment and development	1,980,326	-	-	1,980,326	4,479,715
Public safety	858,632	-	-	858,632	-
Capital projects	-	1,460,165	-	1,460,165	1,331,709
Debt service:					
Principal	-	-	2,180,000	2,180,000	1,675,000
Interest and fiscal charges	-	-	887,200	887,200	884,070
Total expenditures	<u>2,838,958</u>	<u>1,460,165</u>	<u>3,067,200</u>	<u>7,366,323</u>	<u>8,370,494</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	136,597	(1,346,051)	(3,046,254)	(4,255,708)	(4,118,389)
OTHER FINANCING SOURCES (USES)					
Issuance of debt	-	-	-	-	(345,000)
Transfer from other funds	56,260	1,694,282	3,226,784	4,977,326	4,326,511
Transfer to other funds	(46,052)	(3,250)	-	(49,302)	(104,670)
Total other financing sources (uses)	<u>10,208</u>	<u>1,691,032</u>	<u>3,226,784</u>	<u>4,928,024</u>	<u>3,876,841</u>
NET CHANGE IN TOTAL FUND BALANCES	146,805	344,981	180,530	672,316	(241,548)
FUND BALANCES, BEGINNING	<u>1,889,825</u>	<u>1,108,169</u>	<u>455,089</u>	<u>3,453,083</u>	<u>3,658,271</u>
Prior period adjustment (Note J)	<u>(974,842)</u>	<u>-</u>	<u>-</u>	<u>(974,842)</u>	<u>-</u>
FUND BALANCES, BEGINNING AS RESTATED	914,983	1,108,169	455,089	2,478,241	3,658,271
FUND BALANCES, ENDING	<u>\$ 1,061,788</u>	<u>\$ 1,453,150</u>	<u>\$ 635,619</u>	<u>\$ 3,150,557</u>	<u>\$ 3,416,723</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, 2006

	Public Housing Operating	Public Housing Projects	Transitional Housing	Revolving Acquisition	Community Development Entitlement
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues					
Federal government	-	913,612	5,659	-	554,610
State government	-	-	-	-	-
Other	-	16,393	-	-	-
Interest on investments	-	-	-	11,900	-
Program income	-	-	10,828	-	-
Cable Public Access Reserves	-	-	-	-	-
Library donations	-	-	-	-	-
Other	-	-	-	126,000	-
Total revenues	-	930,005	16,487	137,900	554,610
EXPENDITURES					
Environment and development	-	930,005	14,690	-	487,222
Public safety	-	-	-	-	-
Total expenditures	-	930,005	14,690	-	487,222
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	1,797	137,900	67,388
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	-	-	-	-	-
Transfers to other funds	-	-	(1,052)	-	-
Total other financing sources (uses)	-	-	(1,052)	-	-
NET CHANGE IN TOTAL FUND BALANCES	-	-	745	137,900	67,388
FUND BALANCES, BEGINNING AS PREVIOUSLY REPORTED					
	974,842	-	-	294,974	30,178
Prior period adjustment (Note J)	(974,842)	-	-	-	-
FUND BALANCES, BEGINNING AS RESTATED	-	-	-	294,974	30,178
FUND BALANCES, ENDING	\$ -	\$ -	\$ 745	\$ 432,874	\$ 97,566

Schedule 5

Downtown Service District	Cable Public Access	Grants Fund	Land Trust Fund	Housing Loan Trust Fund	Library Gift Fund	Total Special Revenue Funds
\$ 80,296	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,296
-	-	793,433	-	-	-	2,267,314
-	-	197,661	-	-	-	197,661
-	-	48,699	-	-	-	65,092
1,910	1,245	-	98	11,227	7,112	33,492
-	-	-	-	2,000	-	12,828
-	120,507	-	-	-	-	120,507
-	-	-	-	-	72,365	72,365
-	-	-	-	-	-	126,000
82,206	121,752	1,039,793	98	13,227	79,477	2,975,555
82,206	121,752	298,814	-	43,998	1,639	1,980,326
-	-	858,632	-	-	-	858,632
82,206	121,752	1,157,446	-	43,998	1,639	2,838,958
-	-	(117,653)	98	(30,771)	77,838	136,597
-	-	55,208	-	1,052	-	56,260
-	-	-	-	-	(45,000)	(46,052)
-	-	55,208	-	1,052	(45,000)	10,208
-	-	(62,445)	98	(29,719)	32,838	146,805
11,562	15,401	62,445	18,657	311,103	170,663	1,889,825
-	-	-	-	-	-	(974,842)
11,562	15,401	62,445	18,657	311,103	170,663	914,983
\$ 11,562	\$ 15,401	\$ -	\$ 18,755	\$ 281,384	\$ 203,501	\$ 1,061,788

OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Capital Projects	Capital Reserve	Comparative Totals	
			2006	2005
REVENUES				
Interest on investments	\$ 28,927	\$ 7,067	\$ 35,994	\$ 15,058
Franchise rental fees	74,396	-	74,396	59,769
Intergovernmental revenues - state	3,724	-	3,724	(1,872)
Total revenues	<u>107,047</u>	<u>7,067</u>	<u>114,114</u>	<u>72,955</u>
EXPENDITURES				
Capital projects:				
Municipal facilities	1,026,162	-	1,026,162	642,740
Street improvements and sidewalks	111,247	-	111,247	228,637
Parks, recreation and open space	322,756	-	322,756	460,332
Total expenditures	<u>1,460,165</u>	<u>-</u>	<u>1,460,165</u>	<u>1,331,709</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,353,118)</u>	<u>7,067</u>	<u>(1,346,051)</u>	<u>(1,258,754)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	1,694,282	-	1,694,282	944,000
Transfer to Debt Service Fund	-	-	-	(55,000)
Transfer to Capital Projects Ordinance Fund	(3,250)	-	(3,250)	(4,670)
Total other financing sources (uses)	<u>1,691,032</u>	<u>-</u>	<u>1,691,032</u>	<u>884,330</u>
NET CHANGE IN TOTAL FUND BALANCES	337,914	7,067	344,981	(374,424)
FUND BALANCES, BEGINNING	<u>918,550</u>	<u>189,619</u>	<u>1,108,169</u>	<u>1,482,593</u>
FUND BALANCES, ENDING	<u>\$ 1,256,464</u>	<u>\$ 196,686</u>	<u>\$ 1,453,150</u>	<u>\$ 1,108,169</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, 2006 (With Comparative Totals as of June 30, 2005)

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Comparative Totals	
				2006	2005
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ (259,938)	\$ 261,251	\$ 234,779	\$ 236,092	\$ 659,267
Accounts receivable	-	-	-	-	53,615
Inventories	-	90,508	-	90,508	97,273
Total current assets	(259,938)	351,759	234,779	326,600	810,155
NONCURRENT ASSETS					
Restricted cash and cash equivalents	2,522,213	-	198,326	2,720,539	894,107
Capital assets, net of depreciation	3,069,515	2,898	13,668	3,086,081	3,261,960
Total noncurrent assets	5,591,728	2,898	211,994	5,806,620	4,156,067
TOTAL ASSETS	5,331,790	354,657	446,773	6,133,220	4,966,222
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	21,084	26,966	10	48,060	174,333
Accrued liabilities	-	19,661	-	19,661	28,407
Compensated absences	-	15,312	-	15,312	13,637
Installment purchase agreements	860,506	-	128,641	989,147	945,077
Total current liabilities	881,590	61,939	128,651	1,072,180	1,161,454
NONCURRENT LIABILITIES					
Compensated absences	-	7,869	-	7,869	24,838
Installment purchase agreements	3,052,965	-	65,926	3,118,891	2,339,759
Total noncurrent liabilities	3,052,965	7,869	65,926	3,126,760	2,364,597
TOTAL LIABILITIES	3,934,555	69,808	194,577	4,198,940	3,526,051
NET ASSETS					
Invested in capital assets, net of related debt	(843,956)	2,898	(180,899)	(1,021,957)	(22,876)
Restricted	2,522,213	-	198,326	2,720,539	894,107
Unrestricted	(281,022)	281,951	234,769	235,698	568,940
TOTAL NET ASSETS	\$ 1,397,235	\$ 284,849	\$ 252,196	\$ 1,934,280	\$ 1,440,171

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Vehicle	Vehicle	Computer	Comparative Totals	
	Replacement Fund	Maintenance Fund	Equipment Replacement Fund	2006	2005
OPERATING REVENUES					
Charges for services	\$ 1,020,392	\$ 942,450	\$ 196,000	\$ 2,158,842	\$ 2,279,978
OPERATING EXPENSES					
Depreciation and amortization	798,724	828	7,459	807,011	894,864
Personnel	-	430,403	-	430,403	492,144
Operations	18,284	460,114	24,751	503,149	579,607
Total operating expenses	817,008	891,345	32,210	1,740,563	1,966,615
OPERATING INCOME	203,384	51,105	163,790	418,279	313,363
NONOPERATING REVENUES (EXPENSES)					
Interest on investments	40,283	7,941	13,624	61,848	11,176
Interest expense	(88,186)	-	(8,309)	(96,495)	(105,088)
Proceeds from sale of fixed assets	103,353	-	7,124	110,477	96,663
Total nonoperating revenues (expenses), net	55,450	7,941	12,439	75,830	2,751
CHANGE IN NET ASSETS	258,834	59,046	176,229	494,109	316,114
NET ASSETS, BEGINNING	1,138,401	225,803	75,967	1,440,171	1,124,057
NET ASSETS, ENDING	\$ 1,397,235	\$ 284,849	\$ 252,196	\$ 1,934,280	\$ 1,440,171

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Vehicle	Vehicle	Computer	Comparative Totals	
	Replacement	Maintenance	Equipment	2006	2005
	Fund	Fund	Fund		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 1,020,392	\$ 996,065	\$ 196,000	\$ 2,212,457	\$ 2,245,800
Payments to employees	-	(454,444)	-	(454,444)	(478,490)
Payments to suppliers	2,799	(461,046)	(164,415)	(622,662)	(542,078)
Net cash provided by operating activities	1,023,191	80,575	31,585	1,135,351	1,225,232
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers from other funds	-	-	-	-	-
Net cash provided by noncapital financing activities	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from installment purchase agreements	1,795,500	-	-	1,795,500	878,400
Principal paid on installment purchase agreements	(798,613)	-	(173,685)	(972,298)	(1,102,071)
Interest paid on installment purchase agreements	(88,186)	-	(8,308)	(96,494)	(105,088)
Proceeds from sale of capital assets	116,187	-	7,124	123,311	118,310
Acquisition and construction of capital assets	(643,965)	-	-	(643,965)	(909,201)
Net cash provided by (used in) capital and related financing activities	380,923	-	(174,869)	206,054	(1,119,650)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	40,284	7,942	13,624	61,850	11,176
Net cash provided by investing activities	40,284	7,942	13,624	61,850	11,176
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	1,444,398	88,517	(129,660)	1,403,255	116,758
CASH AND INVESTMENTS, BEGINNING	817,877	172,733	562,765	1,553,375	1,436,617
CASH AND INVESTMENTS, ENDING	\$ 2,262,275	\$ 261,250	\$ 433,105	\$ 2,956,630	\$ 1,553,375

Continued

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS (Continued)

YEAR ENDED JUNE 30, 2006 (With Comparative Totals as of June 30, 2005)

	Vehicle	Vehicle	Computer	Comparative Totals for	
	Replacement	Maintenance	Equipment	Internal Service Funds	
	Fund	Fund	Fund	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ 203,383	\$ 51,105	\$ 163,790	\$ 418,278	\$ 313,363
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	798,724	828	7,458	807,010	894,864
Changes in assets and liabilities:					
Receivables	-	53,615	-	53,615	(34,178)
Inventories	-	6,763	-	6,763	(22,832)
Accounts payable	21,084	(7,695)	(139,663)	(126,274)	60,361
Accrued liabilities	-	(24,041)	-	(24,041)	13,654
Net cash provided by operating activities	<u>\$ 1,023,191</u>	<u>\$ 80,575</u>	<u>\$ 31,585</u>	<u>\$ 1,135,351</u>	<u>\$ 1,225,232</u>

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GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (continued)
 YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Ad valorem taxes - current year	\$ 24,894,980	\$ 24,894,980	\$ 25,041,187	\$ 146,207
Ad valorem taxes - prior years	91,300	91,300	102,378	11,078
Interest on delinquent taxes	19,000	19,000	43,386	24,386
Local option sales taxes	8,187,000	8,218,097	9,138,060	919,963
Occupancy tax	600,000	600,000	783,509	183,509
Other taxes	447,000	447,000	582,638	135,638
Total taxes	34,239,280	34,270,377	35,691,158	1,420,781
Licenses and permits				
Motor vehicles	424,200	424,200	438,322	14,122
Privilege licenses	155,000	155,000	126,226	(28,774)
Building permits	659,050	659,050	616,947	(42,103)
Special use permits	72,000	72,000	202,848	130,848
Engineering permits	29,200	29,200	45,706	16,506
Fire inspection fees	5,000	5,000	13,100	8,100
Traffic impact study fees	54,900	170,900	169,490	(1,410)
Police permits	20,000	20,000	40,306	20,306
Total licenses and permits	1,419,350	1,535,350	1,652,945	117,595
Fines and forfeitures				
Garbage citations and leash law fees	5,000	5,000	7,124	2,124
Parking tickets and towing fees	20,000	20,000	26,519	6,519
Total fines and forfeitures	25,000	25,000	33,643	8,643

Continued

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (continued)
 YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Intergovernmental revenues				
Federal Government				
FEMA - Disaster assistance	\$ -	\$ 18,133	\$ 38,676	\$ 20,543
Total federal government	-	18,133	38,676	20,543
State of North Carolina				
Beer and wine tax	210,000	210,000	229,729	19,729
Fuel tax (Powell Bill) funds	1,484,800	1,484,800	1,481,900	(2,900)
Utility franchise tax	2,055,600	2,055,600	2,290,385	234,785
State fire protection	850,000	1,063,788	1,063,553	(235)
Durham Tech contribution	2,132	2,132	2,132	-
State library aid	36,600	36,600	39,415	2,815
Total State of North Carolina	4,639,132	4,852,920	5,107,114	254,194
Other				
Orange County recreational support	83,700	83,700	83,760	60
Orange County library contribution	249,000	249,000	249,586	586
Orange Chatham Justice Partners	53,000	53,000	46,322	(6,678)
Total other	385,700	385,700	379,668	(6,032)
Total intergovernmental revenues	5,024,832	5,256,753	5,525,458	268,705

Continued

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (continued)
 YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Charges for services				
Library fines and fees	\$ 140,000	\$ 140,000	\$ 147,432	\$ 7,432
Street cuts and right of way	74,900	74,900	111,652	36,752
Traffic signals	252,500	252,500	189,923	(62,577)
Cemetery staking	3,800	3,800	2,715	(1,085)
Fire districts	500	500	562	62
Solid waste collection	482,000	482,000	415,903	(66,097)
Planning review	171,500	171,500	254,494	82,994
Turnaround client fees	20,000	20,000	24,376	4,376
Recreation	399,400	414,400	508,544	94,144
Charges to other funds	1,104,069	1,104,069	928,195	(175,874)
Total charges for services	2,648,669	2,663,669	2,583,796	(79,873)
Interest on investments	131,200	188,200	596,152	407,952
Other				
Sales - planning and documents	19,600	19,600	17,598	(2,002)
Sales - fixed assets	17,300	806,500	815,387	8,887
Sales - miscellaneous	5,000	5,000	5,957	957
Cemetery lot sales	101,600	101,600	100,740	(860)
Court fees	50,000	50,000	45,633	(4,367)
Mutual aid reimbursements	300,359	300,359	331,085	30,726
Miscellaneous	100,000	112,984	157,300	44,316
Total other revenues	593,859	1,396,043	1,473,700	77,657
TOTAL REVENUES	44,082,190	45,335,392	47,556,852	2,221,460

Continued

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (continued)
 YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Mayor/Council	\$ 335,366	\$ 384,073	\$ 363,653	\$ 20,420
Manager/Clerk	1,148,746	1,168,669	1,121,795	46,874
Human Resources	641,809	654,729	630,486	24,243
Finance	1,068,397	1,099,637	1,028,259	71,378
Information Technology	841,826	1,100,364	692,601	407,763
Legal	256,414	263,011	242,942	20,069
Total general government	<u>4,292,558</u>	<u>4,670,483</u>	<u>4,079,736</u>	<u>590,747</u>
Environment and development				
Planning	1,043,076	1,053,589	923,400	130,189
Inspections	750,389	778,556	715,910	62,646
Engineering	992,349	1,200,950	1,016,529	184,421
Public Works	10,973,426	11,184,655	9,847,793	1,336,862
Total environment and development	<u>13,759,240</u>	<u>14,217,750</u>	<u>12,503,632</u>	<u>1,714,118</u>
Public safety				
Police	10,490,472	10,554,729	10,197,765	356,964
Fire	5,917,471	6,331,654	5,843,966	487,688
Total public safety	<u>16,407,943</u>	<u>16,886,383</u>	<u>16,041,731</u>	<u>844,652</u>
Leisure activities				
Parks and recreation	2,394,950	2,460,137	2,287,517	172,620
Library	2,065,938	2,083,442	1,994,599	88,843
Total leisure activities	<u>4,460,888</u>	<u>4,543,579</u>	<u>4,282,116</u>	<u>261,463</u>
Nondepartmental	<u>1,457,042</u>	<u>1,753,891</u>	<u>1,475,398</u>	<u>278,493</u>
Total expenditures	<u>40,377,671</u>	<u>42,072,086</u>	<u>38,382,613</u>	<u>3,689,473</u>
EXCESS OF REVENUES OVER EXPENDITURES	3,704,519	3,263,306	9,174,239	5,910,933

Continued

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (continued)
 YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfer from Parking Facilities Fund	138,730	138,730	215,175	76,445
Transfer from Library Gift Fund	45,000	45,000	45,000	-
Transfer from Stormwater Fund	573,087	573,087	-	(573,087)
Transfer to Debt Service Fund	(4,817,200)	(3,226,784)	(3,226,784)	-
Transfer to Capital Projects Ordinance Fund	-	(1,851,490)	(1,835,141)	16,349
Transfer to Capital Projects Fund	(1,116,000)	(1,694,282)	(1,694,282)	-
Transfer to Grants Fund	(36,629)	(61,629)	(55,208)	6,421
Transfer to Stormwater Fund	(6,500)	(6,500)	(2,784)	3,716
Appropriated fund balance	1,514,993	2,820,562	-	(2,820,562)
Total other financing sources (uses)	(3,704,519)	(3,263,306)	(6,554,024)	(3,290,718)
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	2,620,215	\$ 2,620,215
FUND BALANCE, BEGINNING AS PREVIOUSLY REPORTED			14,975,218	
FUND BALANCE, ENDING			\$ 17,595,433	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
TRANSIT GRANT PROJECTS ORDINANCE FUND
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2006**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
REVENUES				
Intergovernmental revenue				
Federal government	\$ 19,194,731	\$ 3,336,644	\$ 5,068,739	\$ 8,405,383
State government	8,662,805	914,905	6,022,560	6,937,465
Other	200,000	69,416	63,990	133,406
	<u>28,057,536</u>	<u>4,320,965</u>	<u>11,155,289</u>	<u>15,476,254</u>
EXPENDITURES				
Construction costs	22,040,076	2,356,910	7,275,206	9,632,116
Equipment and improvements	8,098,232	2,016,366	3,626,638	5,643,004
Administration	2,002,265	1,360,396	375,274	1,735,670
	<u>32,140,573</u>	<u>5,733,672</u>	<u>11,277,118</u>	<u>17,010,790</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(4,083,037)</u>	<u>(1,412,707)</u>	<u>(121,829)</u>	<u>(1,534,536)</u>
OTHER FINANCING SOURCES				
Transfer from other funds	<u>4,083,037</u>	<u>1,160,389</u>	<u>374,147</u>	<u>1,534,536</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ (252,318)</u>	<u>\$ 252,318</u>	<u>\$ -</u>

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
PUBLIC HOUSING PROJECTS - CAPITAL FUND GRANTS
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2006**

	Project Authorization	Actual		Total to Date
		Prior Year	Current Year	
REVENUES				
Intergovernmental revenues				
Federal government	\$ 2,265,647	\$ 851,016	\$ 913,612	\$ 1,764,628
Other	15,111	-	16,393	16,393
	<u>2,280,758</u>	<u>851,016</u>	<u>930,005</u>	<u>1,781,021</u>
Total revenues				
	<u>2,280,758</u>	<u>851,016</u>	<u>930,005</u>	<u>1,781,021</u>
EXPENDITURES				
Equipment and improvements	<u>2,280,758</u>	<u>851,016</u>	<u>930,005</u>	<u>1,781,021</u>
EXCESS OF REVENUES OVER EXPENDITURES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - TRANSITIONAL HOUSING FUND
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2006**

	Project Authorization	Actual		Total to Date
		Prior Year	Current Year	
REVENUES				
Intergovernmental revenues				
Federal government	\$ 285,117	\$ 160,117	\$ 5,659	\$ 165,776
Other	75,000	75,000	-	75,000
Program income	21,042	12,605	10,828	23,433
Other	-	594	-	594
	<u>381,159</u>	<u>248,316</u>	<u>16,487</u>	<u>264,803</u>
EXPENDITURES				
Maintenance and transition activities	<u>398,659</u>	<u>266,868</u>	<u>14,690</u>	<u>281,558</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>(17,500)</u>	<u>(18,552)</u>	<u>1,797</u>	<u>(16,755)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	17,500	18,552	-	18,552
Transfer to other funds	-	-	(1,052)	(1,052)
	<u>17,500</u>	<u>18,552</u>	<u>(1,052)</u>	<u>17,500</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 745</u>	<u>\$ 745</u>
FUND BALANCE, BEGINNING			<u>-</u>	
FUND BALANCE, ENDING			<u>\$ 745</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - REVOLVING ACQUISITION FUND
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2006**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
REVENUES				
Interest on investments	\$ -	\$ 4,474	\$ 11,900	\$ 16,374
Other	-	140,500	126,000	266,500
Total revenues	-	144,974	137,900	282,874
EXPENDITURES				
Equipment and improvements	150,000	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(150,000)	144,974	137,900	282,874
OTHER FINANCING SOURCES				
Transfer from other funds	150,000	150,000	-	150,000
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ 294,974	\$ 137,900	\$ 432,874
FUND BALANCE, BEGINNING			294,974	
FUND BALANCE, ENDING			\$ 432,874	

**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, 2006**

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
REVENUES				
Intergovernmental revenues				
Federal government	\$ 2,986,392	\$ 1,720,065	\$ 554,610	\$ 2,274,675
Program income	167,153	167,203	-	167,203
Total revenues	<u>3,153,545</u>	<u>1,887,268</u>	<u>554,610</u>	<u>2,441,878</u>
EXPENDITURES				
Public improvement	984,000	550,707	184,416	735,123
Neighborhood revitalization	1,230,585	626,069	79,567	705,636
Homeownership opportunities	147,000	147,000	-	147,000
Administration	500,992	372,351	125,835	498,186
Community Services	290,968	160,963	97,404	258,367
Total expenditures	<u>3,153,545</u>	<u>1,857,090</u>	<u>487,222</u>	<u>2,344,312</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>30,178</u>	67,388	<u>97,566</u>
FUND BALANCE, BEGINNING			<u>30,178</u>	
FUND BALANCE, ENDING			<u>\$ 97,566</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DOWNTOWN SERVICE DISTRICT FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 70,000	\$ 70,000	\$ 80,296	\$ 10,296
Interest on investment	-	-	1,910	1,910
Total revenues	<u>70,000</u>	<u>70,000</u>	<u>82,206</u>	<u>12,206</u>
EXPENDITURES				
Contracted services	<u>70,000</u>	<u>70,000</u>	<u>82,206</u>	<u>12,206</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE, BEGINNING			<u>11,562</u>	
FUND BALANCE, ENDING			<u>\$ 11,562</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CABLE PUBLIC ACCESS FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ -	\$ -	\$ 1,245	\$ 1,245
Cable Public Access Reserves	<u>100,000</u>	<u>100,000</u>	<u>120,507</u>	<u>20,507</u>
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>121,752</u>	<u>21,752</u>
EXPENDITURES				
Contracted services	<u>100,000</u>	<u>100,000</u>	<u>121,752</u>	<u>(21,752)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
FUND BALANCE, BEGINNING			<u>15,401</u>	
FUND BALANCE, ENDING			<u>\$ 15,401</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GRANTS FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
Federal Government	87,978	801,663	793,433	(8,230)
State Government	47,650	268,155	197,661	(70,494)
Other	-	60,083	48,699	(11,384)
Total revenues	<u>135,628</u>	<u>1,129,901</u>	<u>1,039,793</u>	<u>(90,108)</u>
EXPENDITURES				
Environment and development	108,723	329,942	298,814	31,128
Public safety	<u>63,534</u>	<u>934,630</u>	<u>858,632</u>	<u>75,998</u>
Total expenditures	<u>172,257</u>	<u>1,264,572</u>	<u>1,157,446</u>	<u>107,126</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(36,629)</u>	<u>(134,671)</u>	<u>(117,653)</u>	<u>(90,108)</u>
OTHER FINANCING SOURCES				
Transfers from other funds	<u>36,629</u>	<u>134,671</u>	<u>55,208</u>	<u>(79,463)</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(62,445)</u>	<u>\$ (62,445)</u>
FUND BALANCE, BEGINNING			<u>62,445</u>	
FUND BALANCE, ENDING			<u>\$ -</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LAND TRUST FUND
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2006**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
REVENUES				
Intergovernmental revenues				
Federal government	\$ 231,250	\$ 203,560	\$ -	\$ 203,560
Interest on investments	-	580	98	678
Program income	-	249,390	-	249,390
	<u>231,250</u>	<u>453,530</u>	<u>98</u>	<u>453,628</u>
Total revenues	<u>231,250</u>	<u>453,530</u>	<u>98</u>	<u>453,628</u>
EXPENDITURES				
	<u>231,250</u>	<u>434,873</u>	<u>-</u>	<u>434,873</u>
EXCESS OF REVENUES OVER EXPENDITURES				
	<u>\$ -</u>	<u>\$ 18,657</u>	<u>\$ 98</u>	<u>\$ 18,755</u>
FUND BALANCE, BEGINNING				
			<u>18,657</u>	
FUND BALANCE, ENDING				
			<u>\$ 18,755</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - HOUSING LOAN TRUST FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ 900	\$ 900	\$ 11,227	\$ 10,327
Program income	-	-	2,000	2,000
Total revenues	<u>900</u>	<u>900</u>	<u>13,227</u>	<u>12,327</u>
EXPENDITURES	<u>90,080</u>	<u>188,257</u>	<u>43,998</u>	<u>144,259</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(89,180)</u>	<u>(187,357)</u>	<u>(30,771)</u>	<u>156,586</u>
OTHER FINANCING SOURCES				
Transfers from other funds	-	-	1,052	1,052
Appropriated Fund Balance	<u>89,180</u>	<u>187,357</u>	-	<u>(187,357)</u>
Total other financing sources	<u>89,180</u>	<u>187,357</u>	<u>1,052</u>	<u>(186,305)</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(29,719)</u>	<u>\$ (29,719)</u>
FUND BALANCE, BEGINNING			<u>311,103</u>	
FUND BALANCE, ENDING			<u>\$ 281,384</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LIBRARY GIFT FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 7,112	\$ 7,112
Library donations	90,000	90,000	72,365	(17,635)
Total revenues	90,000	90,000	79,477	(10,523)
EXPENDITURES	-	3,955	1,639	2,316
EXCESS OF REVENUES OVER EXPENDITURES	90,000	86,045	77,838	(8,207)
OTHER FINANCING SOURCES (USES)				
Appropriated Fund Balance	-	3,955	-	(3,955)
Transfers to other funds	(90,000)	(90,000)	(45,000)	45,000
Total other financing sources (uses)	(90,000)	(86,045)	(45,000)	41,045
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	32,838	\$ 32,838
FUND BALANCE, BEGINNING			170,663	
FUND BALANCE, ENDING			\$ 203,501	

**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, 2006**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
REVENUES				
Interest on investments	\$ 964,024	\$ 619,439	\$ 1,002,984	\$ 1,622,423
Federal Bridge Replacement Grant	212,865	268,730	-	268,730
Other Federal Grants	562,616	276,656	(3,325)	273,331
North Carolina Clean Water Grant	200,000	200,000	-	200,000
North Carolina Department of Transportation Grants	1,036,766	527,587	(47,717)	479,870
Other State Grants	854,000	324,000	9,236	333,236
Other Grants	3,317,183	686,542	79,899	766,441
Charges for services	83,607	144,663	33,375	178,038
Donations	277,193	157,193	-	157,193
Other	270,370	285,462	23,636	309,098
Total revenues	<u>7,778,624</u>	<u>3,490,272</u>	<u>1,098,088</u>	<u>4,588,360</u>
EXPENDITURES				
Parks, recreation, and open space capital improvements	18,149,661	11,320,936	1,654,829	12,975,765
Public safety capital improvements	2,326,841	2,261,437	30,886	2,292,323
Public works facility	30,585,611	3,700,362	13,096,152	16,796,514
Municipal facilities	605,770	106,838	-	106,838
Sewer capital improvements	350,385	367,035	1,160	368,195
Street and sidewalk improvements	5,217,952	3,147,352	433,263	3,580,615
Total expenditures	<u>57,236,220</u>	<u>20,903,960</u>	<u>15,216,290</u>	<u>36,120,250</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(49,457,596)</u>	<u>(17,413,688)</u>	<u>(14,118,202)</u>	<u>(31,531,890)</u>

Continued

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CAPITAL PROJECTS ORDINANCE FUND (continued)
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2006**

	Project	Actual		
	Authorization	Prior Years	Current Year	Total to Date
OTHER FINANCING SOURCES				
Proceeds from bond issuance	17,500,000	17,425,000	-	17,425,000
Proceeds from financing	28,770,000	28,511,733	-	28,511,733
Transfer from General Fund	2,177,042	325,552	1,835,141	2,160,693
Transfer from Capital Projects Fund	472,719	469,469	3,250	472,719
Transfer from Capital Reserve Fund	154,385	154,385	-	154,385
Transfer from Library Gift Fund	383,450	383,450	-	383,450
Total other financing sources	<u>49,457,596</u>	<u>47,269,589</u>	<u>1,838,391</u>	<u>49,107,980</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ 29,855,901</u>	<u>\$ (12,279,811)</u>	<u>\$ 17,576,090</u>
FUND BALANCE, BEGINNING			<u>29,855,901</u>	
FUND BALANCE, ENDING			<u>\$ 17,576,090</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 28,927	\$ 28,927
Franchise rental fees	60,000	60,000	74,396	14,396
Intergovernmental revenues - state	-	103,500	3,724	(99,776)
Other	-	50,000	-	(50,000)
Total revenues	<u>60,000</u>	<u>213,500</u>	<u>107,047</u>	<u>(106,453)</u>
EXPENDITURES				
Capital projects:				
Municipal facilities	759,000	1,357,972	1,026,162	331,810
Street improvements and sidewalks	135,000	629,104	111,247	517,857
Parks, recreation and open space	<u>282,000</u>	<u>566,266</u>	<u>322,756</u>	<u>243,510</u>
Total expenditures	<u>1,176,000</u>	<u>2,553,342</u>	<u>1,460,165</u>	<u>1,093,177</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(1,116,000)</u>	<u>(2,339,842)</u>	<u>(1,353,118)</u>	<u>986,724</u>
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	1,116,000	1,694,282	1,694,282	-
Transfer to Capital Projects				
Ordinance Fund	-	(3,250)	(3,250)	-
Appropriated fund balance	-	648,810	-	(648,810)
Total other financing sources (uses)	<u>1,116,000</u>	<u>2,339,842</u>	<u>1,691,032</u>	<u>(648,810)</u>
NET CHANGE IN TOTAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>337,914</u>	<u>\$ 337,914</u>
FUND BALANCES, BEGINNING			<u>918,550</u>	
FUND BALANCES, ENDING			<u>\$ 1,256,464</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CAPITAL RESERVE FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 7,067	\$ 7,067
Total revenues	-	-	7,067	7,067
EXPENDITURES				
Total expenditures	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	7,067	<u>\$ 7,067</u>
FUND BALANCE, BEGINNING			<u>189,619</u>	
FUND BALANCE, ENDING			<u>\$ 196,686</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 20,946	\$ 20,946
EXPENDITURES				
Debt service:				
Principal	2,680,000	2,087,025	2,180,000	(92,975)
Interest and fiscal charges	2,137,200	1,139,759	887,200	252,559
Total expenditures	4,817,200	3,226,784	3,067,200	159,584
DEFICIENCY OF REVENUES OVER EXPENDITURES	(4,817,200)	(3,226,784)	(3,046,254)	180,530
OTHER FINANCING SOURCES				
Transfer from other funds	4,817,200	3,226,784	3,226,784	-
NET CHANGE IN TOTAL FUND BALANCE	\$ -	\$ -	180,530	\$ 180,530
FUND BALANCES, BEGINNING			455,089	
FUND BALANCES, ENDING			\$ 635,619	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
(MODIFIED ACCRUAL BASIS) - TRANSPORTATION FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 416,660	\$ 416,660	\$ 462,313	\$ 45,653
OPERATING EXPENSES:				
Personnel	8,551,969	8,522,861	8,289,671	233,190
Fuel and tires	1,265,425	1,307,839	1,239,278	68,561
Indirect costs	893,381	893,381	844,029	49,352
Maintenance and repairs	385,556	866,407	549,715	316,692
Other	867,097	962,639	890,540	72,099
Total operating expenses	11,963,428	12,553,127	11,813,233	739,894
OPERATING LOSS	(11,546,768)	(12,136,467)	(11,350,920)	785,547
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	1,116,088	1,116,088	1,116,088	-
State Operating Assistance Grant	2,500,000	3,396,290	3,396,290	-
University of North Carolina and Town of Carrboro operating assistance	5,565,392	5,565,392	5,346,627	(218,765)
Vehicle licenses	145,000	145,000	146,107	1,107
Ad valorem taxes	2,499,960	2,499,960	2,547,914	47,954
Interest on investments	10,000	10,000	167,755	157,755
Interest expense	-	-	(2,926)	(2,926)
Other	2,200	2,200	14,073	11,873
Appropriated fund balance	565,480	1,145,705	-	(1,145,705)
Contribution to Reserve	(310,000)	(1,206,290)	-	1,206,290
Total nonoperating revenues (expenses), net	12,094,120	12,674,345	12,731,928	57,583
INCOME BEFORE CAPITAL				
CONTRIBUTIONS AND TRANSFERS	547,352	537,878	1,381,008	843,130
CAPITAL CONTRIBUTIONS	-	-	10,320,462	10,320,462

Continued

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
(MODIFIED ACCRUAL BASIS) - TRANSPORTATION FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
TRANSFERS				
Transfers in	269,328	1,165,618	958,884	(206,734)
Transfers out	<u>(816,680)</u>	<u>(1,703,496)</u>	<u>(1,333,031)</u>	<u>370,465</u>
Total transfers	<u>(547,352)</u>	<u>(537,878)</u>	<u>(374,147)</u>	<u>163,731</u>
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	<u>\$ -</u>	<u>\$ -</u>	11,327,323	<u>\$ 11,327,323</u>
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			<u>(1,467,030)</u>	
Change in Net Assets			<u>\$ 9,860,293</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - PARKING FACILITIES FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,874,380	\$ 1,874,380	\$ 2,080,546	\$ 206,166
OPERATING EXPENSES				
Personnel	665,946	638,088	610,308	27,780
Indirect costs	88,811	88,811	52,895	35,916
Other	550,431	651,714	313,413	338,301
Total operating expenses	1,305,188	1,378,613	976,616	401,997
OPERATING INCOME	569,192	495,767	1,103,930	608,163
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	7,000	7,000	55,367	48,367
Interest expense	(460,793)	(460,793)	(225,793)	235,000
Other	-	-	4,122	4,122
Appropriated fund balance	8,250	81,675	-	(81,675)
Total nonoperating revenues (expenses), net	(445,543)	(372,118)	(166,304)	205,814
INCOME BEFORE TRANSFERS	123,649	123,649	937,626	813,977
TRANSFERS				
Transfers out	(123,649)	(123,649)	(215,175)	(91,526)
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	722,451	\$ 722,451
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(384,892)	
Change in Net Assets			\$ 337,559	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
(MODIFIED ACCRUAL BASIS) - HOUSING OPERATING FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 410,676	\$ 410,676	\$ 379,582	\$ (31,094)
OPERATING EXPENSES:				
Personnel	1,004,918	1,004,918	1,009,160	(4,242)
Maintenance and repairs	439,041	466,343	385,289	81,054
Other	156,791	161,074	141,325	19,749
Total operating expenses	1,600,750	1,632,335	1,535,774	96,561
OPERATING LOSS	(1,190,074)	(1,221,659)	(1,156,192)	65,467
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	1,077,089	1,040,017	1,040,017	-
Interest on investments	10,364	10,364	23,919	13,555
Gain on sale of fixed assets	-	-	9,307	9,307
Other	10,130	10,130	1,284	(8,846)
Appropriated fund balance	92,491	161,148	-	(161,148)
Total nonoperating revenues (expenses), net	1,190,074	1,221,659	1,074,527	(147,132)
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	(81,665)	\$ (81,665)
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(722,150)	
Change in Net Assets			\$ (803,815)	

Line Item #	Account Description	Low Rent 14.850	CGP 14.859	TOTAL
ASSETS:				
CURRENT ASSETS:				
Cash and Cash Equivalents:				
111	Cash - unrestricted	\$ 1,006,686	\$ -	1,006,686
112	Cash - restricted - modernization and development	-	-	-
114	Cash - tenant security deposits	68,222	-	68,222
100	Total cash	1,074,908	-	1,074,908
Accounts and notes receivables:				
121	Accounts Receivable - PHA Projects	-	20,217	20,217
125	Accounts receivable - miscellaneous	34,175	-	34,175
126	Accounts receivable - tenants - dwelling rents	11,652	-	11,652
126.1	Allowance for doubtful accounts - dwelling rents	-	-	-
120	Total receivables, net allowances for uncollectibles	45,827	20,217	66,044
Current investments:				
143	Inventories	154,648	-	154,648
143.1	Allowance for Obsolete Inventories	(1,461)	-	(1,461)
140	Total current investments	153,187	-	153,187
150	TOTAL CURRENT ASSETS	1,273,922	20,217	1,294,139
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	1,986,439	-	1,986,439
162	Building	15,721,454	-	15,721,454
164	Furniture, Equipment, & Machinery -Administration	606,599	-	606,599
166	Accumulated depreciation	(9,785,410)	-	(9,785,410)
160	Total fixed assets, net of accumulated depreciation	8,529,082	-	8,529,082
180	TOTAL NONCURRENT ASSETS	8,529,082	-	8,529,082
190	TOTAL ASSETS	\$ 9,803,004	\$ 20,217	\$ 9,823,221
LIABILITIES AND EQUITY:				
LIABILITIES:				
CURRENT LIABILITIES:				
312	Accounts payable ≤ 90 days	\$ 20,636	\$ 12,541	33,177
321	Accrued wage/payroll taxes payable	42,307	-	42,307
322	Accrued compensated absences - current portion	46,222	-	46,222
333	Accounts payments - other government	205,600	7,676	213,276
341	Tenant security deposits	58,922	-	58,922
342	Deferred revenues	34,175	-	34,175
310	TOTAL CURRENT LIABILITIES	407,862	20,217	428,079
354	Accrued compensated absences - non-current portion	3,904	-	3,904
350	TOTAL NON-CURRENT LIABILITIES	3,904	-	3,904
300	TOTAL LIABILITIES	411,766	20,217	431,983
EQUITY:				
501	Investment in general fixed assets	8,529,082	-	8,529,082
509	Designated fund balance	-	-	-
512	Undesignated fund balance/retained earnings	862,156	-	862,156
513	TOTAL EQUITY	9,391,238	-	9,391,238
600	TOTAL LIABILITIES AND EQUITY	\$ 9,803,004	\$ 20,217	\$ 9,823,221

continued

PUBLIC HOUSING FINANCIAL DATA SCHEDULE

Schedule 29

Line Item #	Account Description	Low Rent 14.850	CGP 14.859	TOTAL
REVENUE:				
Tenant revenues:				
703	Net tenant rental revenue	\$ 357,580	\$ -	\$ 357,580
704	Tenant revenue - other	22,002	-	22,002
705	Total tenant revenue	379,582	-	379,582
Other revenues:				
706	HUD PHA grants	1,040,017	913,612	1,953,629
711	Investment income - unrestricted	23,919	-	23,919
715	Other revenue	10,591	16,393	26,984
	Total other revenue	1,074,527	930,005	2,004,532
700	TOTAL REVENUE	1,454,109	930,005	2,384,114
EXPENSES:				
OPERATING EXPENSES:				
Administrative:				
911	Administrative salaries	253,710	33,734	287,444
912	Auditing fees	6,500	-	6,500
915	Employee benefit contributions - administrative	109,026	10,059	119,085
916	Other operating - administrative	84,165	15,719	99,884
Tenant services:				
921	Tenant services - salaries	22,004	-	22,004
922	Relocation costs	-	86	86
923	Tenant Services-Employee Benefits	7,842	-	7,842
Utilities:				
931	Water	84,005	-	84,005
932	Electricity	22,982	-	22,982
933	Gas	6,877	-	6,877
Ordinary maintenance & operations:				
941	Ordinary maintenance and operations - labor	440,311	-	440,311
942	Ordinary maintenance and operations - materials	74,589	27,068	101,657
943	Ordinary maintenance and operations - contract costs	126,341	-	126,341
945	Employee benefit contributions - ordinary maintenance	176,267	-	176,267
General expenses:				
961	Insurance premiums	47,000	-	47,000
962	Other general expenses	3,027	-	3,027
967	Interest expense	633	-	633
969	TOTAL OPERATING EXPENSES	1,465,279	86,666	1,551,945
970	EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER OPERATING EXPENSES	(11,170)	843,339	832,169
NON-OPERATING EXPENSES:				
971	Extraordinary maintenance	70,495	843,339	913,834
974	Depreciation Expense	722,150	-	722,150
976	Capital outlays - governmental funds	-	-	-
900	TOTAL EXPENSES	2,257,924	930,005	3,187,929
1000	DEFICIENCY OF REVENUE OVER EXPENDITURES	(803,815)	-	(803,815)
1103	BEGINNING EQUITY	10,168,746	-	10,168,746
1104	Prior period adjustment, Equity Transfers and Corrections	26,307	-	26,307
	ENDING EQUITY	\$ 9,391,238	\$ -	\$ 9,391,238

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - STORMWATER MANAGEMENT FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,632,430	\$ 1,632,430	\$ 1,651,616	\$ 19,186
OPERATING EXPENSES				
Personnel	423,181	394,731	713,479	(318,748)
Indirect costs	36,924	36,924	31,271	5,653
Consulting	208,000	214,241	96,612	117,629
Other	397,238	424,319	277,482	146,837
Total operating expenses	1,065,343	1,070,215	1,118,844	(48,629)
OPERATING INCOME	567,087	562,215	532,772	(29,443)
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	-	-	34,426	34,426
Interest expense	(500)	(500)	-	500
Appropriated fund balance	-	4,872	-	(4,872)
Total nonoperating revenues (expenses), net	(500)	4,372	34,426	30,054
INCOME BEFORE TRANSFERS	566,587	566,587	567,198	611
TRANSFERS				
Transfers in	6,500	6,500	2,784	(3,716)
Transfers out	(573,087)	(573,087)	-	573,087
Total transfers	(566,587)	(566,587)	2,784	569,371
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	569,982	\$ 569,982
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(1,119)	
Change in Net Assets			\$ 568,863	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - VEHICLE REPLACEMENT FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,020,392	\$ 1,020,392	\$ 1,020,392	\$ -
OPERATING EXPENSES				
Operations	-	16,500	18,284	(1,784)
OPERATING INCOME (LOSS)	1,020,392	1,003,892	1,002,108	(1,784)
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	-	-	40,283	40,283
Capital outlay	(1,823,500)	(2,057,962)	(643,965)	1,413,997
Debt service	(1,046,100)	(1,046,100)	(974,985)	71,115
Proceeds from sale of fixed assets	25,708	25,708	103,353	77,645
Issuance of installment notes	1,823,500	1,823,500	1,795,500	(28,000)
Appropriated fund balance	-	250,962	-	(250,962)
Total nonoperating revenues (expenses), net	(1,020,392)	(1,003,892)	320,186	1,324,078
DEFICIENCY OF REVENUES OVER EXPENSES	\$ -	\$ -	1,322,294	\$ 1,322,294
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(798,724)	
Capital outlay			643,965	
Debt service principal			886,799	
Proceeds from installment notes			(1,795,500)	
Change in net assets			\$ 258,834	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - VEHICLE MAINTENANCE FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 886,086	\$ 886,086	\$ 942,450	\$ 56,364
OPERATING EXPENSES				
Personnel	444,311	444,311	430,403	13,908
Operations	477,646	508,115	460,114	48,001
Total operating expenses	921,957	952,426	890,517	61,909
OPERATING INCOME (LOSS)	(35,871)	(66,340)	51,933	118,273
NONOPERATING REVENUES				
Interest on investments	500	500	7,941	7,441
Appropriated fund balance	35,371	65,840	-	(65,840)
Total nonoperating revenues	35,871	66,340	7,941	(58,399)
EXCESS OF REVENUES OVER EXPENSES	\$ -	\$ -	\$ 59,874	\$ 59,874
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(828)	
Change in net assets			\$ 59,046	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - COMPUTER EQUIPMENT REPLACEMENT FUND
YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 196,000	\$ 196,000	\$ 196,000	\$ -
OPERATING EXPENSES				
Operations	150,000	174,703	24,751	149,952
OPERATING INCOME	46,000	21,297	171,249	149,952
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	-	-	13,624	13,624
Debt service	(196,000)	(196,000)	(190,242)	5,758
Gain on sale of fixed assets	-	-	7,124	7,124
Issuance of installment notes	150,000	150,000	-	(150,000)
Appropriated fund balance	-	24,703	-	(24,703)
Total nonoperating revenues (expenses), net	(46,000)	(21,297)	(169,494)	(148,197)
EXCESS OF REVENUES OVER EXPENSES	\$ -	\$ -	1,755	\$ 1,755
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(7,459)	
Debt service principal			181,933	
Change in net assets			\$ 176,229	

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STATISTICAL SECTION

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

Table 1

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

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 Four Fiscal Years
(accrual basis of accounting)

Table 2

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

Continued

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

Table 2

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

Continued

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

Table 2

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

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

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
General Fund				
Reserved for:				
State statute	\$ 1,558,754	\$ 1,705,984	\$ 1,933,711	\$ 1,943,331
Encumbrances	1,056,308	975,375	640,653	1,475,156
Inventories	69,639	142,865	100,209	99,005
Advances to other funds	914,194	-	-	-
Capital improvements	33,096	18,962	79,808	207,835
Other	107,000	234,390	289,000	100,000
Total reserved	<u>3,738,991</u>	<u>3,077,576</u>	<u>3,043,381</u>	<u>3,825,327</u>
Unreserved:				
Designated for subsequent year's expenditures	800,000	965,000	850,000	800,000
Undesignated	<u>2,509,774</u>	<u>3,398,310</u>	<u>3,896,025</u>	<u>4,064,382</u>
Total General Fund	<u>\$ 7,048,765</u>	<u>\$ 7,440,886</u>	<u>\$ 7,789,406</u>	<u>\$ 8,689,709</u>
All Other Governmental Funds				
Reserved for:				
Capital projects	\$ 2,884,716	\$ 3,713,619	\$ 1,231,634	\$ 5,509,332
State Statute	-	-	-	163,590
Encumbrances	8,221	12,411	73,931	38,164
Inventories	60,995	72,892	93,210	116,045
Interest subsidies	-	-	-	-
Other	-	-	-	-
Debt service	176,712	415,692	189,375	190,643
Total reserved	<u>3,130,644</u>	<u>4,214,614</u>	<u>1,588,150</u>	<u>6,017,774</u>
Unreserved:				
Designated for subsequent year's expenditures	676,200	826,759	1,064,000	721,000
Undesignated	<u>827,788</u>	<u>932,583</u>	<u>1,102,141</u>	<u>1,109,829</u>
Total all other governmental funds	<u>\$ 4,634,632</u>	<u>\$ 5,973,956</u>	<u>\$ 3,754,291</u>	<u>\$ 7,848,603</u>

Table 3

Fiscal Year										
<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>					
\$ 2,107,920	\$ 2,576,308	\$ 2,959,369	\$ 3,251,528	\$ 3,250,131	\$ 3,912,064					
791,201	626,161	1,045,892	858,238	1,209,013	1,297,402					
96,498	10,246	10,246	2,209	1,472	1,928					
-	-	-	-	-	-					
265,549	298,986	440,775	427,112	531,342	381,258					
100,000	100,000	100,000	100,000	204,917	212,620					
<u>3,361,168</u>	<u>3,611,701</u>	<u>4,556,282</u>	<u>4,639,087</u>	<u>5,196,875</u>	<u>5,805,272</u>					
800,000	1,070,000	1,290,306	1,499,000	1,514,993	1,879,000					
<u>4,251,792</u>	<u>4,315,631</u>	<u>5,643,519</u>	<u>5,634,550</u>	<u>8,263,350</u>	<u>9,911,161</u>					
<u>\$ 8,412,960</u>	<u>\$ 8,997,332</u>	<u>\$ 11,490,107</u>	<u>\$ 11,772,637</u>	<u>\$ 14,975,218</u>	<u>\$ 17,595,433</u>					
\$ 2,924,364	\$ 1,481,350	\$ 5,105,823	\$ 2,075,756	\$ 30,287,235	\$ 17,772,776					
145,070	203,732	28,528	1,112,771	814,273	2,069,240					
29,448	48,556	154,482	50,203	656,035	1,111,691					
153,790	137,643	146,058	170,443	157,223	-					
-	-	-	387,872	293,649	68,108					
-	-	-	253,860	236,952	394,878					
199,967	1,095	171,968	176,247	455,089	635,619					
<u>3,452,639</u>	<u>1,872,376</u>	<u>5,606,859</u>	<u>4,227,152</u>	<u>32,900,456</u>	<u>22,052,312</u>					
405,500	180,000	236,698	131,818	124,076	102,178					
<u>1,452,665</u>	<u>1,485,869</u>	<u>1,544,810</u>	<u>460,466</u>	<u>284,452</u>	<u>(1,427,843)</u>					
<u>\$ 5,310,804</u>	<u>\$ 3,538,245</u>	<u>\$ 7,388,367</u>	<u>\$ 4,819,436</u>	<u>\$ 33,308,984</u>	<u>\$ 20,726,647</u>					

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues				
Taxes	\$ 17,849,916	\$ 19,558,996	\$ 20,551,608	\$ 22,032,598
Intergovernmental	9,698,644	7,344,202	11,096,492	8,774,761
Charges for services	1,815,278	1,811,097	1,700,313	1,533,782
Licenses and permits	839,898	1,059,355	1,385,970	1,349,780
Interest	589,354	701,072	598,116	763,966
Other	955,006	1,329,649	1,224,219	1,045,776
Total Revenues	<u>31,748,096</u>	<u>31,804,371</u>	<u>36,556,718</u>	<u>35,500,663</u>
Expenditures				
General government	2,480,430	2,625,234	2,490,722	2,748,984
Environment and development	14,126,960	11,845,965	16,639,102	14,305,633
Public safety	9,210,612	9,660,868	10,005,232	10,786,477
Leisure activities	2,892,954	2,663,536	3,068,911	3,236,540
Nondepartmental	944,006	891,557	996,914	711,717
Capital projects	1,166,416	4,255,356	3,315,929	1,888,495
Debt Service:				
Principal	1,144,529	1,249,334	1,245,829	1,355,000
Interest	866,293	775,402	918,817	834,780
Total Expenditures	<u>32,832,200</u>	<u>33,967,252</u>	<u>38,681,456</u>	<u>35,867,626</u>
Excess of revenues over (under) expenditures	<u>(1,084,104)</u>	<u>(2,162,881)</u>	<u>(2,124,738)</u>	<u>(366,963)</u>
Other Financing Sources (Uses)				
Transfers in	3,207,452	3,285,583	3,719,170	3,988,442
Transfers out	(3,265,291)	(4,165,777)	(3,645,577)	(3,515,864)
Proceeds from bonds	-	4,550,000	-	4,700,000
Proceeds from installment notes	60,372	224,520	180,000	189,000
Total other financing sources (uses)	<u>2,533</u>	<u>3,894,326</u>	<u>253,593</u>	<u>5,361,578</u>
Net change in fund balances	<u>\$ (1,081,571)</u>	<u>\$ 1,731,445</u>	<u>\$ (1,871,145)</u>	<u>\$ 4,994,615</u>
Debt service as a percentage of non capital expenditures	6.35%	6.81%	6.12%	6.44%

Table 4

Fiscal Year									
<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>				
\$ 23,328,989	\$ 26,193,450	\$ 29,251,469	\$ 30,430,218	\$ 32,782,589	\$ 35,771,454				
8,388,946	14,962,684	10,823,095	8,866,342	10,382,806	19,252,631				
1,557,250	1,706,496	1,984,469	2,075,005	2,822,100	2,617,171				
1,363,742	1,432,195	1,519,274	1,551,622	1,512,168	1,652,945				
948,173	439,531	187,590	192,595	442,649	1,689,568				
1,487,705	1,250,786	1,621,026	1,822,410	1,702,214	1,937,075				
<u>37,074,805</u>	<u>45,985,142</u>	<u>45,386,923</u>	<u>44,938,192</u>	<u>49,644,526</u>	<u>62,920,844</u>				
2,916,683	3,085,314	3,297,515	3,517,651	3,763,510	4,079,736				
15,548,497	22,793,279	17,969,896	17,360,844	18,965,051	25,761,076				
12,009,852	13,394,643	13,859,523	14,976,104	15,342,852	16,900,363				
3,507,813	3,751,287	3,822,370	4,081,517	4,118,714	4,282,116				
985,953	1,075,234	823,903	962,489	1,324,805	1,475,398				
4,013,559	3,413,124	3,454,036	5,516,543	4,672,085	16,676,455				
1,520,000	1,490,000	1,560,000	1,670,000	1,675,000	2,180,000				
1,012,046	932,731	782,855	880,610	884,070	887,200				
<u>41,514,403</u>	<u>49,935,612</u>	<u>45,570,098</u>	<u>48,965,758</u>	<u>50,746,087</u>	<u>72,242,344</u>				
<u>(4,439,598)</u>	<u>(3,950,470)</u>	<u>(183,175)</u>	<u>(4,027,566)</u>	<u>(1,101,561)</u>	<u>(9,321,500)</u>				
4,086,550	3,738,558	5,005,819	4,246,839	4,981,814	7,450,039				
(3,581,000)	(2,447,875)	(3,902,127)	(3,900,675)	(3,990,101)	(6,863,501)				
-	-	4,250,000	-	30,000,000	-				
<u>1,119,500</u>	<u>1,471,600</u>	<u>-</u>	<u>1,395,000</u>	<u>966,733</u>	<u>-</u>				
1,625,050	2,762,283	5,353,692	1,741,164	31,958,446	586,538				
<u>\$ (2,814,548)</u>	<u>\$ (1,188,187)</u>	<u>\$ 5,170,517</u>	<u>\$ (2,286,402)</u>	<u>\$ 30,856,885</u>	<u>\$ (8,734,962)</u>				
6.75%	5.21%	5.56%	5.87%	5.55%	5.52%				

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

Table 5

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Occupancy Tax</u>	<u>Other Tax</u>	<u>Total</u>
1997	\$ 12,623,656	\$ 4,667,884	\$ 556,200	\$ 2,176	\$ 17,849,916
1998	13,853,653	5,133,843	558,907	12,593	19,558,996
1999	14,436,728	5,550,277	555,150	9,453	20,551,608
2000	15,440,496	5,676,497	619,908	295,697	22,032,598
2001	16,342,318	5,879,696	636,233	470,742	23,328,989
2002	18,690,329	6,424,167	589,942	489,012	26,193,450
2003	21,276,968	6,974,456	563,486	436,559	29,251,469
2004	21,713,205	7,654,959	572,932	489,122	30,430,218
2005	23,081,521	8,456,040	675,295	569,733	32,782,589
2006	25,267,247	9,138,060	783,509	582,638	35,771,454

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

<u>Fiscal Year</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Combined Real Property</u>	<u>Personal Property</u>	<u>Public Service Companies</u> (3)
1997	\$ *	\$ *	\$ 1,924,867,361	\$ 312,971,196	\$ 57,994,746
1998 (1)	*	*	2,362,338,074	348,375,791	57,982,816
1999	*	*	2,457,855,819	365,092,224	60,078,208
2000	*	*	2,501,345,508	381,872,039	60,948,410
2001	*	*	2,589,768,417	388,087,936	61,660,255
2002 (2)	*	*	3,556,294,528	403,959,196	60,873,428
2003	*	*	3,688,289,625	415,023,471	63,868,306
2004	*	*	3,791,842,402	455,906,761	57,587,809
2005	*	*	3,918,233,860	482,128,300	57,774,008
2006 (1)	3,956,681,069	783,355,893	4,740,036,962	498,524,879	60,840,533

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

Notes:

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

Table 6

Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Ratio of Assessed Value to Estimated Actual Value
	(4)	(5)	(6)
\$ 2,295,833,303	\$ 0.596	\$ 2,380,088,434	96.46%
2,768,696,681	0.538	2,974,214,933	93.09%
2,883,026,251	0.538	3,258,393,141	88.48%
2,944,165,957	0.563	3,546,333,362	83.02%
3,039,516,608	0.578	3,145,846,210	96.62%
4,021,127,152	0.504	4,459,990,186	90.16%
4,167,181,402	0.553	4,725,767,070	88.18%
4,305,336,972	0.553	5,139,473,525	83.77%
4,458,136,168	0.575	4,664,298,146	95.58%
5,299,402,374	0.522	5,905,284,571	89.74%

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

Year Taxes Payable	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
		*			
Chapel Hill within Orange County:					
<u>Town Direct Rates:</u>					
General Fund	0.543	0.495	0.498	0.524	0.535
Transportation	0.053	0.043	0.040	0.039	0.043
Downtown Service District	0.062	0.062	0.062	0.062	0.062
<u>Overlapping Rates:</u>					
Orange County	0.998	0.873	0.902	0.919	0.929
Chapel Hill - Carrboro School District	0.190	0.179	0.192	0.220	0.220
 Total	 1.846	 1.652	 1.694	 1.764	 1.789
 Chapel Hill within Durham County:					
<u>Town Direct Rates:</u>					
General Fund	0.543	0.495	0.498	0.524	0.535
Transportation	0.053	0.043	0.040	0.039	0.043
<u>Overlapping Rates:</u>					
Durham County	0.960	0.960	0.940	0.930	0.930
 Total	 1.556	 1.498	 1.478	 1.493	 1.508

* Revaluation year

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

Table 7

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
*				*
0.461	0.510	0.502	0.516	0.474
0.043	0.043	0.051	0.059	0.048
0.062	0.062	0.062	0.062	0.062
0.805	0.845	0.880	0.880	0.843
0.202	0.192	0.200	0.200	0.183
1.573	1.652	1.695	1.717	1.610
0.461	0.510	0.502	0.516	0.474
0.043	0.043	0.051	0.059	0.048
0.729	0.753	0.763	0.790	0.809
1.233	1.306	1.316	1.365	1.331

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

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

Totals

Total Levy

Table 8

Fiscal Year 2006				Fiscal Year 1997			
Assessed Valuation	Rank	Percentage of Total Assessed Valuation		Assessed Valuation	Rank	Percentage of Total Assessed Valuation	
\$ 49,895,519	1	1.12%		\$			
43,904,279	2	0.98%					
41,499,386	3	0.93%		55,206,464	1	2.40%	
36,437,198	4	0.82%					
36,043,449	5	0.81%		24,255,919	5	1.06%	
32,584,496	6	0.73%					
24,868,917	7	0.56%					
24,845,855	8	0.56%		25,724,288	4	1.12%	
22,315,802	9	0.50%					
21,587,194	10	0.48%		21,046,148	6	0.92%	
				44,945,947	2	1.96%	
				27,881,891	3	1.21%	
				18,688,039	7	0.81%	
				14,629,581	8	0.64%	
				12,392,080	9	0.54%	
				11,276,144	10	0.49%	
<u>\$ 333,982,095</u>		<u>7.49%</u>		<u>\$ 256,046,501</u>		<u>11.15%</u>	
<u>\$ 4,458,136,168</u>				<u>\$ 2,295,833,303</u>			

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

Table 9

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes
		Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy	
1997	\$ 13,779,082	\$ 13,605,513	98.74%	\$ *	\$ *	*	\$ *
1998	14,935,217	14,840,691	99.37%	*	*	*	*
1999	15,534,727	15,413,292	99.22%	*	*	*	*
2000	16,598,182	16,453,207	99.13%	*	*	*	*
2001	17,594,559	17,466,542	99.27%	*	*	*	*
2002	20,417,001	20,271,201	99.29%	*	*	*	*
2003	23,067,472	22,919,205	99.36%	*	*	*	*
							(1) 330,090
2004	23,775,375	23,653,530	99.49%	104,063	23,757,593	99.93%	17,782
2005	25,615,621	25,480,324	99.47%	94,472	25,574,796	99.84%	40,825
2006	27,718,753	27,578,410	99.49%	-	27,578,410	99.49%	140,343

* 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 2003 and prior.

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

Fiscal Year	Governmental Activities			
	General Obligation Bonds	Certificates of Participation	Installment Loans	Public Housing Bonds/ Notes
1997	\$ 14,755,000	\$ -	\$ 473,667	\$ 2,833,120
1998	18,090,000	-	493,193	2,798,786
1999	16,880,000	-	407,551	-
2000	20,225,000	-	447,898	-
2001	18,705,000	-	1,356,431	-
2002	17,380,000	-	6,460,553	-
2003	20,070,000	-	5,442,139	-
2004	18,400,000	-	6,526,774	-
2005	20,725,000	26,000,000	5,069,836	-
2006	18,545,000	25,500,000	5,668,038	-

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

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

Table 10

Business-type Activities			
Certificates of Participation	Total Primary Government	Percentage of Personal Income	Per Capita
		(1)	(1)
\$ 7,125,000	\$ 25,186,787	3.55%	578
7,010,000	28,391,979	4.01%	654
6,890,000	24,177,551	3.38%	550
6,765,000	27,437,898	3.66%	596
6,635,000	26,696,431	3.35%	546
6,495,000	30,335,553	2.49%	600
6,350,000	31,862,139	2.59%	625
6,380,000	31,306,774	2.52%	608
6,160,000	57,954,836	4.66%	1,125
5,925,000	55,638,038	4.40%	1,062

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

Fiscal Year	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
General bonded debt outstanding				
General obligation bonds	\$ 14,755,000	\$ 18,090,000	\$ 16,880,000	\$ 20,225,000
Percentage of estimated actual property value (1)	0.64%	0.65%	0.59%	0.69%
Per capita (2)	\$ 339	\$ 417	\$ 384	\$ 439

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

(1) See Schedule 6 for property value data.

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

Table 11

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 18,705,000	\$ 17,380,000	\$ 20,070,000	\$ 18,400,000	\$ 20,725,000	\$ 18,545,000
0.62%	0.43%	0.48%	0.43%	0.46%	0.38%
\$ 382	\$ 344	\$ 393	\$ 357	\$ 402	\$ 354

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Town of Chapel Hill
 Direct and Overlapping Governmental Activities Debt
 As of June 30, 2006

Table 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Orange County	\$ 148,175,000	43.84%	\$ 64,959,920
Durham County	265,660,000	1.26%	3,340,675
Total direct debt			<u>44,045,000</u>
Total direct and overlapping debt			<u><u>\$ 112,345,595</u></u>

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Total assessed valuation	\$ 2,295,833,303	\$ 2,768,696,681	\$ 2,883,026,251	\$ 2,944,165,957
Debt limit - 8% of total assessed valuation	183,666,664	221,495,734	230,642,100	235,533,277
Amount of debt applicable to debt limit:				
General obligation bonds	14,755,000	18,090,000	16,880,000	20,225,000
Certificates of participation	-	-	-	-
Bonds authorized but unissued	13,500,000	8,950,000	8,950,000	4,250,000
Total net debt applicable to debt limit	<u>28,255,000</u>	<u>27,040,000</u>	<u>25,830,000</u>	<u>24,475,000</u>
Legal debt margin	<u>\$ 155,411,664</u>	<u>\$ 194,455,734</u>	<u>\$ 204,812,100</u>	<u>\$ 211,058,277</u>
Total net debt applicable to the limit as a percentage of debt limit	15.38%	12.21%	11.20%	10.39%

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

Table 13

Fiscal Year									
<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>				
\$ 3,039,516,608	\$ 4,021,127,152	\$ 4,167,181,402	\$ 4,305,436,972	\$ 4,458,136,168	\$ 5,299,402,374				
243,161,329	321,690,172	333,374,512	344,434,958	356,650,893	423,952,190				
18,705,000	17,380,000	20,070,000	18,400,000	20,725,000	18,545,000				
-	-	-	-	26,000,000	25,500,000				
4,250,000	4,250,000	-	-	-	-				
<u>22,955,000</u>	<u>21,630,000</u>	<u>20,070,000</u>	<u>18,400,000</u>	<u>46,725,000</u>	<u>44,045,000</u>				
\$ <u>220,206,329</u>	\$ <u>300,060,172</u>	\$ <u>313,304,512</u>	\$ <u>326,034,958</u>	\$ <u>309,925,893</u>	\$ <u>379,907,190</u>				
9.44%	6.72%	6.02%	5.34%	13.10%	10.39%				

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

Table 14

Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Median Age	Education Level in Years of Schooling	School Enrollment	Unemployment Rate
	(1)	(2)	(3)	(3)	(3)	(4)	(5)
1997	43,539	\$ 2,959,014	\$ 16,288	24.8	14.72	32,155	1.6%
1998	43,423	3,042,049	16,288	24.8	14.72	32,375	1.6%
1999	43,977	3,169,976	16,288	24.8	14.72	32,375	1.3%
2000	46,019	3,327,229	16,288	24.8	14.72	33,520	1.2%
2001	48,902	3,583,041	16,288	24.8	14.72	34,462	1.8%
2002	50,542	3,800,280	24,133	24.2	15.82	34,628	3.1%
2003	51,005	3,877,363	24,133	24.2	15.82	37,012	4.0%
2004	51,485	3,902,027	24,133	24.2	15.82	37,587	3.0%
2005	51,519	4,122,336	24,133	24.2	15.82	37,308	4.0%
2006	52,397	*	24,133	24.2	15.82	35,260	3.9%

* Data not yet available

Notes:

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

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

Table 15

Taxpayer	Fiscal Year 2006			Fiscal Year 1997		
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
University of North Carolina at Chapel Hill	15,437	1	35.5%	9,131	1	34.6%
University of North Carolina Hospitals	6,102	2	14.0%	4,465	2	16.9%
Chapel Hill - Carrboro Schools	2,105	3	4.8%	1,376	4	5.2%
Blue Cross Blue Shield of NC	1,373	4	3.2%	2,547	3	9.6%
Town of Chapel Hill	671	5	1.5%	566	5	2.1%
Total	<u>25,688</u>		<u>59.04%</u>	<u>18,085</u>		<u>68.48%</u>
Total Town Employment	<u>43,510</u>			<u>26,408</u>		

Source: Orange County Economic Development Commission

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

Function/Program	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
General Government:				
Finance				
Purchase orders issued	2,237	2,138	2,236	2,090
Human Resources				
Recruitment for positions	115	112	129	143
Public Works				
Streets resurfaced (miles)	10.42	5.34	6.35	6
Refuse collected (tons)	21,427	21,471	22,697	23,572
Economic and development:				
Planning/Inspections				
Building permits issued	669	824	945	863
Public Safety:				
Police				
Calls for service	28,740	27,973	28,144	28,585
Traffic citations	7,192	5,776	5,116	3,917
Fire				
Emergency responses	1,780	1,732	1,843	2,187
Property losses	\$ 1,560,045	\$ 505,854	\$ 466,067	\$ 2,904,195
Inspections	1,091	1,223	1,295	1,187
Leisure activities:				
Parks and Recreation				
Program/league registrants	32,593	31,195	38,447	36,646
Transportation				
Service miles	1,103,282	1,192,793	1,312,282	1,225,800
Parking				
Citations issued	18,718	26,568	28,316	22,214
Stormwater				
Stormwater impact statement reviews				

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

Table 16

Fiscal Year					
<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
2,070	2,190	2,092	2,082	2,080	2,135
105	84	96	86	56	74
6.75	6.65	4.71	6	6.05	5.45
22,141	21,729	23,992	23,836	22,231	21,838
841	927	1,035	903	961	716
26,062	26,278	24,778	29,385	30,754	32,871
3,391	3,615	3,448	3,902	4,682	4,885
2,254	2,423	2,088	1,787	1,811	2,208
\$ 1,298,680	\$ 1,118,170	\$ 1,058,199	\$ 2,244,200	\$ 232,025	\$ 594,200
1,482	1,289	1,308	1,327	1,312	1,218
36,383	32,530	37,101	37,312	38,343	38,141
1,283,075	1,644,754	1,883,680	2,180,107	2,140,275	2,479,470
24,483	22,263	19,737	19,595	19,781	20,043
				*	258

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

Function/Program	Fiscal Year					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General Government:						
Public Works						
Streets (miles)	130	131.5	137.3	137.8	142.5	151.9
Street lights	2,406	2,414	2,395	2,412	2,482	2,691
Public Safety:						
Police						
Patrol units	4	4	4	4	4	4
Investigative units	4	4	4	4	4	5
Other specialty units	3	3	3	3	3	3
Fire						
Number of stations	4	4	4	4	4	5
Leisure activities:						
Parks and Recreation						
Number of parks	16	16	16	16	17	17
Library						
Volumes in circulation	116,550	118,391	118,350	125,598	135,671	140,550
Transportation						
Number of buses	54	66	66	61	54	74
Number of vans	7	9	9	8	9	13
Parking						
Number of spaces available	889	889	889	889	889	889
Housing						
Number of units occupied	320	317	299	327	324	325

Table 17

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
151.9	153.1	156.6	158.6
2,905	3,006	3,008	3,005
4	4	4	4
5	5	5	5
3	3	3	3
5	5	5	5
17	17	17	17
148,706	150,408	158,673	168,109
83	83	86	86
14	14	11	18
889	889	889	887
317	310	325	329

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

Table 18

Function/Program	Full-time Equivalent Employees									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government:										
Mayor and council	0.53	0.53	0.53	0.53	0.53	0.53	0.53	1	1	1
Town manager's office	7	7	7	6	6	6	6	6	6	6
Town clerk's office	4.27	4.27	4.27	4.27	4.27	4.27	4.27	4.53	4.53	4.53
Human resources	6.97	7.03	7.23	7.23	7.23	7.23	6.73	8	8	8
Finance	12.09	12.19	13.19	14.19	11.19	11.39	10.86	11.33	11.33	12.33
Information technology (A)					3	4	5	5	6	7
Legal	1	1	1	2	2	2	2	2	2	2
Public Works	117.53	119.53	126	128	120.5	122.5	116.5	128	129	129
Environment and development:										
Planning	14.53	13.53	15.03	15.03	15.53	15.53	15.53	15.53	16.19	16.19
Inspections	7	7	7	8	9	9	10.53	10.53	10.53	9
Engineering	10.53	11	12	13	13	13	13	13	12	11.8
Housing (B)	19	19	19	19	18	18	18	18	18	
Public Safety:										
Police	115.1	123.1	127.35	127.35	127.4	135.2	135.4	134	138	138
Fire	54.15	55.15	55.15	61.15	73.15	73.15	73.13	74	74.53	74.53
Leisure activities:										
Parks & Recreation	17.93	17.39	18.59	20.52	20.42	20.95	20.95	21.38	21.91	22.79
Library	25.59	25.53	25.53	25.53	25.53	28	28	28	28	28
Transportation	115.6	115.6	123.01	123.37	125.37	140.59	143.59	159.09	161.59	164.59
Parking	12	12	12	12	12	12	13.3	12.8	12.8	12.8
Housing (B)										18
Stormwater (C)									4	5.2
Landfill (D)	24.8	26	28	28						
Total	565.62	576.85	601.88	615.17	594.12	623.34	623.32	652.19	665.41	670.76

Source: Annual Adopted Budget

Notes:

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



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Orange Water and Sewer Authority representing 60%, 41%, and 25%, respectively, of the assets, net assets, and revenues of the financial reporting entity, which consist of governmental activities, business-type activities, and discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Orange Water and Sewer Authority, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Chapel Hill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.





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Compliance and Other Matters

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

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

Dixon Hughes PLLC

October 20, 2006



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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

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

Compliance

We have audited the compliance of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2006. The Town of Chapel Hill's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Chapel Hill's management. Our responsibility is to express an opinion on the Town of Chapel Hill's compliance based on our audit.

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

In our opinion, the Town of Chapel Hill complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.





DIXON HUGHES PLLC

Chartered Public Accountants and Advisors

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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be a material weakness.

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

Dixon Hughes PLLC

October 20, 2006



DIXON HUGHES P.L.C.

Chartered Public Accountants and Advisors

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

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

Compliance

We have audited the compliance of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major state programs for the year ended June 30, 2006. The Town of Chapel Hill's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major 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 noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Chapel Hill's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Chapel Hill's compliance with those requirements.

In our opinion, the Town of Chapel Hill complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2006.





DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Dixon Hughes PLLC

October 20, 2006



TOWN OF CHAPEL HILL, NORTH CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2006

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.500/20.507	Federal Transit Capital Investment Grants
97.044	Assistance to Firefighters Grant
97.004	State Homeland Security Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300.000

Auditee qualified as low-risk auditee? yes no

TOWN OF CHAPEL HILL, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

I. Summary of Auditors' Results (Continued)

State Awards

Internal control over major state programs:

- Material weaknesses identified? _____ yes X no

- Reportable conditions identified that
 are not considered to be material
 weaknesses? _____ yes X none reported

Noncompliance material to state awards? _____ yes X no

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

Any audit 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:

_____ Program Name or Cluster

Powell Bill

North Carolina Moving Ahead State Earmark

**TOWN OF CHAPEL HILL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

II. Financial Statement Findings

None reported.

III. Findings and Questioned Costs

None reported.

IV. State Award Findings and Questioned Costs

None reported.

**TOWN OF CHAPEL HILL
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2006**

There were no prior year audit findings

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

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						
<i>Direct Programs:</i>						
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-90-X361-00	\$ 4,700,000	\$ 1,797,250	\$ 84,656	\$ (376,219)
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-90-X382-00	4,900,000	-	-	-
Federal Transit Administration - Federal Transit Capital Formula Grant	20.500	NC-26-0004	1,247,914	88,913	35,562	-
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-03-0058-00	1,647,861	171,148	21,393	21,393
Federal Transit Administration - Federal Transit Capital Formula Grant	20.507	NC-03-0058-03	1,213,592	-	-	-
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-90-X351-00	1,000,000	796,596	99,575	99,574
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-03-0066-00	1,707,555	1,339,121	129,072	145,206
Federal Transit Administration - Federal Transit Capital Grant	20.507	NC-03-0066-01	814,080	-	-	-

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

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	20.507	NC-90-X227-01	1,061,280	(95)	(353)	448
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X265-00	428,130	-	(253)	253
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X281-00	247,850	(752)	-	752
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X295-00	334,326	-	(2,654)	2,654
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X330-00	518,785	-	-	-
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X345-00	690,719	236,437	2,880	56,229
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X363-00	845,706	568,877	15,894	126,325
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X381-00	682,730	16,378	1,287	2,808
Federal Transit Administration - Federal Transit Planning Formula Grant	20.505	04-08-002	67,350	(7,556)	(945)	8,501

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Federal Transit Administration - Federal Transit Planning Formula Grant	20.505	06-08-002	98,490	62,421	-	6,936
<i>Passed-Through City of Durham, North Carolina:</i>						
Federal Transit Administration - Highway Act of 1973 Section 104(f) Planning Grant	20.505	PL 104(F)	228,723	180,315	-	45,079
Total U.S. Department of Transportation				<u>5,249,053</u>	<u>386,114</u>	<u>139,939</u>
Federal Highway Administration						
<i>Passed-Through NC Department of Transportation:</i>						
NCDOT MPO Grant - Drainage Grate - MLK	20.205	U-4726 M	10,000	-	-	-
NCDOT MPO Grant - MLK & Northfield	20.205	U-4726 E	50,000	-	-	-
NCDOT MPO Grant - Culbreth at Cobble	20.205	U-4726 P	135,000	-	-	-
NCDOT MPO Grant - Culbreth at Channin	20.205	U-4726 C	45,000	-	-	-
NCDOT MPO Grant - Fordham at S Estes	20.205	U-4726 L	15,000	-	-	-
Total Federal Highway Administration				<u>-</u>	<u>-</u>	<u>-</u>
U.S. Department of Housing and Urban Development						
<i>Direct Programs:</i>						
Community Development Block Grant Entitlement	14.218	MC-37-0016	2,986,392	554,610	-	-
Economic Development Initiative Grant	14.246	B-00-SPNC-0023	231,250	-	-	-

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Public and Indian Housing Program - Operating Rental and other income	14.850	NC-046-001-06D	1,040,017 -	1,040,017 -	- -	- 414,092
Public and Indian Housing - Capital Fund	14.872	NC-19P04650102 NC-19P04650103 NC-19P04650203 NC-19P04650104 NC-19P04650105	584,065 453,453 95,773 530,628 601,728	13,199 198,597 95,773 425,993 180,049	- - - - -	- - - - -
<i>Passed-Through Orange County, North Carolina:</i>						
Public and Indian Housing - Transitional Housing Program Income	14.239		285,117	123,145 -	- -	- 15,606
Total U.S. Department of Housing and Urban Development				<u>2,631,383</u>	<u>-</u>	<u>429,698</u>
U.S. Department of Justice						
<i>Direct Programs:</i>						
Local Law Enforcement Block Grant	16.592	03-LB-BX-2596 04-LB-BX-0588 05-DJ-BX-0431	28,526 13,068 40,577	1,200 1,140 16,230	- - -	133 127 -
Total U.S. Department of Justice				<u>18,570</u>	<u>-</u>	<u>260</u>

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Department of Homeland Security						
<i>Direct Programs:</i>						
FEMA Public Assistance Grant	97.036	HSFEEM-05-P-5090	38,676	38,676	-	-
LETPP Grant	97.004	2004-GE-T4-0014	262,500	261,468	-	-
Assistance to Firefighters Grant	97.044	EMW-2004-FG-08673	345,120	310,608	-	34,512
Total Department of Homeland Security				610,752	-	34,512
Federal Mediation and Conciliation Services Youth Initiative Partnership	34.001		24,000	9,600	-	-
U.S. Department of Energy						
Passed-Through NC Department of Administration - State Energy						
Sustainable Communities Grant	81.041	13-38950-E	114,000	-	-	-
Sustainable Communities Grant - Gap Funding	81.041		38,000	-	-	-
Solar Grant	81.041		5,000	5,000	-	-
Total U.S. Department of Energy				5,000	-	-
TOTAL FEDERAL ASSISTANCE				8,524,358	386,114	604,409

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

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			1,481,900	-	1,481,900	-
Interest			3,044	-	-	3,044
State Maintenance Assistance for Urban and Small Urban Areas			3,396,290	-	3,396,290	-
NCDOT Highwoods Road			90,000	-	67,003	-
NCDOT Direct Allocation Grant - Hwy 54			170,000	-	-	-
NCDOT MPO Grant - Morgan Creek			169,375	-	12,349	1,526
NCDOT MPO Grant - Booker Creek Linear Park			437,134	-	16,562	-
NCDOT MPO Grant - Dry Creek Trail			80,000	-	-	-
NCDOT - Moving Ahead State Earmark	04-MA-001		6,689,349	-	5,539,283	615,476
North Carolina State Technology Grant	02-AT-003		211,100	-	96,013	10,667
	03-AT-056		236,000	-	-	-
Total North Carolina Department of Transportation				-	10,609,400	630,713
National Trails Program			70,000	-	9,236	-
State Library Aid			39,415	-	39,415	-
Governor's Crime Commission Grant - Crime Analysis and Mapping			68,824	-	3,371	1,323
Governor's Crime Commission Grant - Comunidad Unido			112,417	-	43,936	14,645
Criminal Justice Partnership Grant			165,476	-	80,391	-
Parks & Recreation Trust Fund Grant			500,000	-	-	-
UNC - Old Cemetary			100,000	-	224	-
NC Arts Council - Cultural Arts Grant			3,500	-	3,500	-
NC Department of Insurance - Permanent Checking Station			1,710	-	1,710	-
UNC - Camp Escapade			1,250	-	1,250	-
TOTAL STATE ASSISTANCE				-	10,792,433	646,681
TOTAL FINANCIAL ASSISTANCE				\$ 8,524,358	\$ 11,178,547	\$ 1,251,090

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

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, 2006

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, 2006. The Town is required to report annually to the NCDOT on the accumulated unspent Powell Bill funds. As of June 30, 2006, 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.