

**Comprehensive
Annual
Financial
Report**



**Town of
Chapel Hill, North Carolina**

Year Ended June 30, 2004

**Town of Chapel Hill, North Carolina
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2004**

Prepared by:

Town of Chapel Hill Finance Department

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TOWN OF CHAPEL HILL

September 8, 2004

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, 2004.

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 McGladrey & Pullen, LLP, 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, 2004, 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, 2004, 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 51,485, 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, 2004.

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 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 approximately 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. The first of these projects is the new Town Operations Center which will be needed by the end of 2006 at a cost of approximately \$43 million. The Chapel Hill Public Works/Transit operations facilities have been located on the University's Horace Williams tract since 1977. The lease expires on December 31, 2006, and the lease will not be renewed after that date.

The Town has acquired a site on Millhouse Road, north of Eubanks Road, between I-40 and the railroad, for the new location of essential Town services. The planned operations center would house the Chapel Hill Transit System's operations, maintenance and administration functions, and the Public Works Department's solid waste, landscaping, field operations, fleet management, buildings maintenance and administration functions and a maintenance facility for

the Town's Public Housing program. It is anticipated that the design and construction of an operations center will be the largest single capital project in the Town's history.

The financing plan for the Town Operations Center includes the following: Capital Improvements Fund funding for annual payments on the Town Operations Center site purchase; anticipated partial funding from the Federal Transit Administration for the construction of the transportation facility portion of the project; anticipated partial funding from the federal Department of Housing and Urban Development; and debt financing for the construction of the remainder of the Public Works operational facility. The Town would need to finance approximately \$25 million not covered by federal grants. The Town anticipates the need for additional short-term financing of no more than \$12 million to cover cash needs in anticipation of federal and State grants.

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 has approved the sale of the first \$4 million portion of these bonds for fall of 2004. The \$4 million will include \$500,000 for library facilities planning, \$300,000 for parks and recreation facilities, \$500,000 for energy efficiency building improvements and \$1.5 million for

sidewalks, pedestrian and cyclist amenities and downtown streetscape improvements. Additional sales are proposed as follows:

Year of Issuance	2006	2008	2009	Total
Amount	\$7.75 Million	\$8.805 Million	\$8.805 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, the receipt of federal funding related to the Town Operations Center, 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 1.27% during fiscal year 2003-04. The Town earned interest revenue of \$192,595 on governmental funds for the year ended June 30, 2004.

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, 2004 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, 2003.

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 2003-04. In order to qualify for the Distinguished Budget Presentation Award, the Town's budget document was judged to be proficient in all required categories, including 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, McGladrey & Pullen, LLP, 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,

A handwritten signature in black ink that reads "W. Calvin Horton". The signature is written in a cursive style with a large, prominent initial "W".

W. Calvin Horton
Town Manager

A handwritten signature in black ink that reads "Kay Johnson". The signature is written in a cursive style with a large, prominent initial "K".

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, 2003

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.



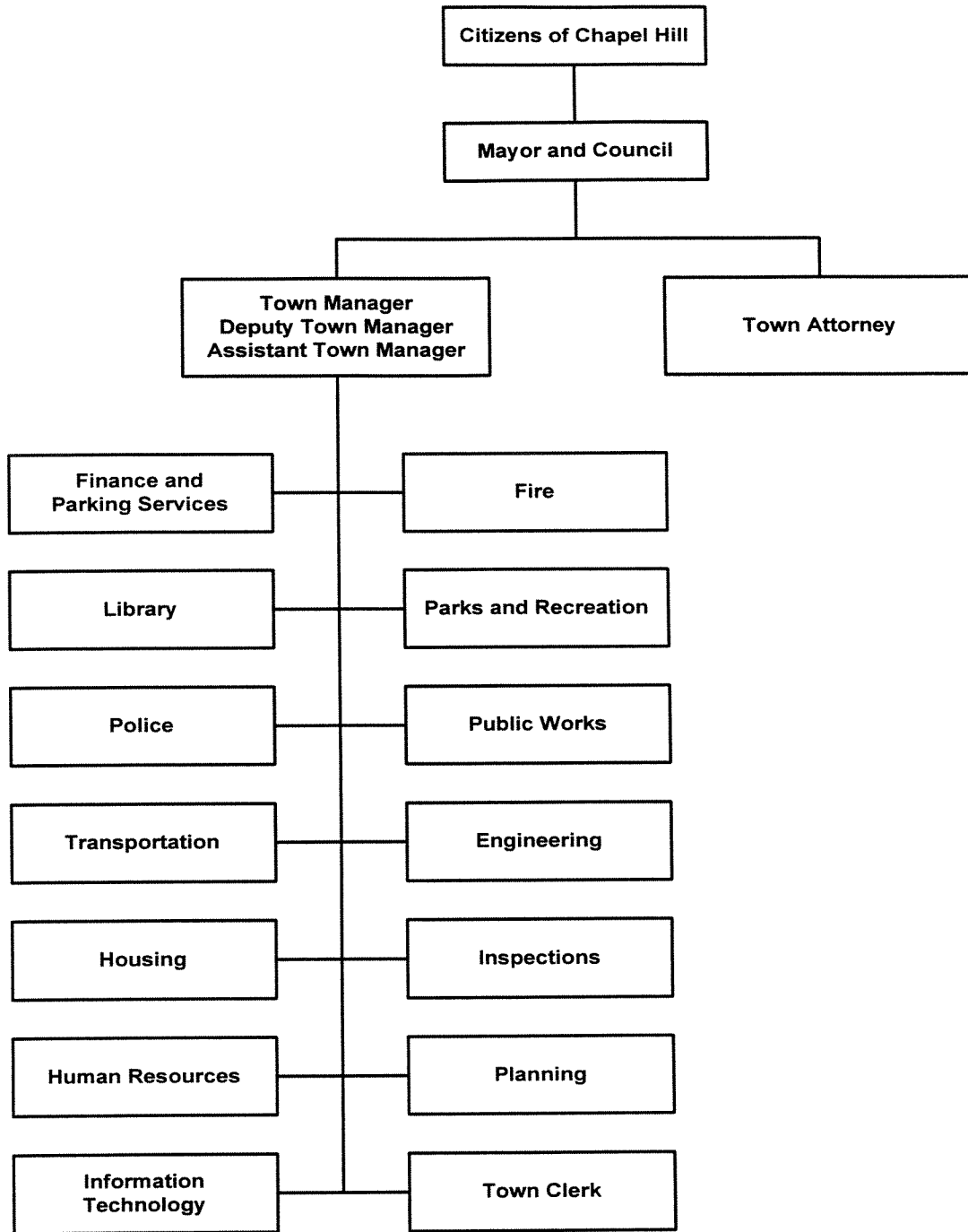
Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director

TOWN OF CHAPEL HILL ORGANIZATIONAL CHART



**TOWN OF CHAPEL HILL, NORTH CAROLINA
THE TOWN GOVERNING BODY AND OFFICIALS
JUNE 30, 2004
MEMBERS OF THE GOVERNING BODY**

Mayor
Kevin Foy

Mayor pro tem
Edith Wiggins

Council Members

Sally Greene

Ed Harrison

Cam Hill

Mark Kleinschmidt

Bill Strom

Dorothy Verkerk

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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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Town's component unit, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina (the "Town"), as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the Town's component unit, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and for the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note O to the financial statements, the June 30, 2003 financial position of the governmental activities of the Town has been restated to recognize previously unrecorded land underlying general government infrastructure fixed assets.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 7, 2004 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 3 through 13 and 67 through 68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Chapel Hill, North Carolina's basic financial statements. The accompanying supplementary information, such as the introductory section, combining and individual nonmajor fund financial statements, statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by the 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 supplementary information and the accompanying schedule of expenditures of federal and State awards has 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 section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Greensboro, North Carolina
September 7, 2004

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, 2004. 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 \$83,381,375.
- The government's total net assets increased by \$4,747,408, due to increases in the governmental activities' net assets.
- As of the close of the current fiscal year, the Town of Chapel Hill's governmental funds reported combined ending fund balances of \$16,592,073, a decrease of \$2,286,402 in comparison with the prior year. Approximately 46.6% of this total amount, or \$7,725,834 is available for spending at the government's discretion (*unreserved fund balance*). Of the available balance, the Town has designated \$1,630,818 for the 2004-05 budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,133,550, or 19.2% of total general fund expenditures for the fiscal year. \$1,499,000 of this amount was appropriated to balance the 2004-05 budget.
- The Town of Chapel Hill's total debt decreased by \$642,141 (1.9%) during the current fiscal year. The key factors in this decrease were the payoff of General Obligation debt in the amount of \$1,670,000 partially offset by an increase to installment notes payable for the purchase of vehicles and computers.
- The Town of Chapel Hill maintained its Aaa bond rating for the 6th consecutive year from Moody's and it's Aa+ rating from Standard and Poor's.

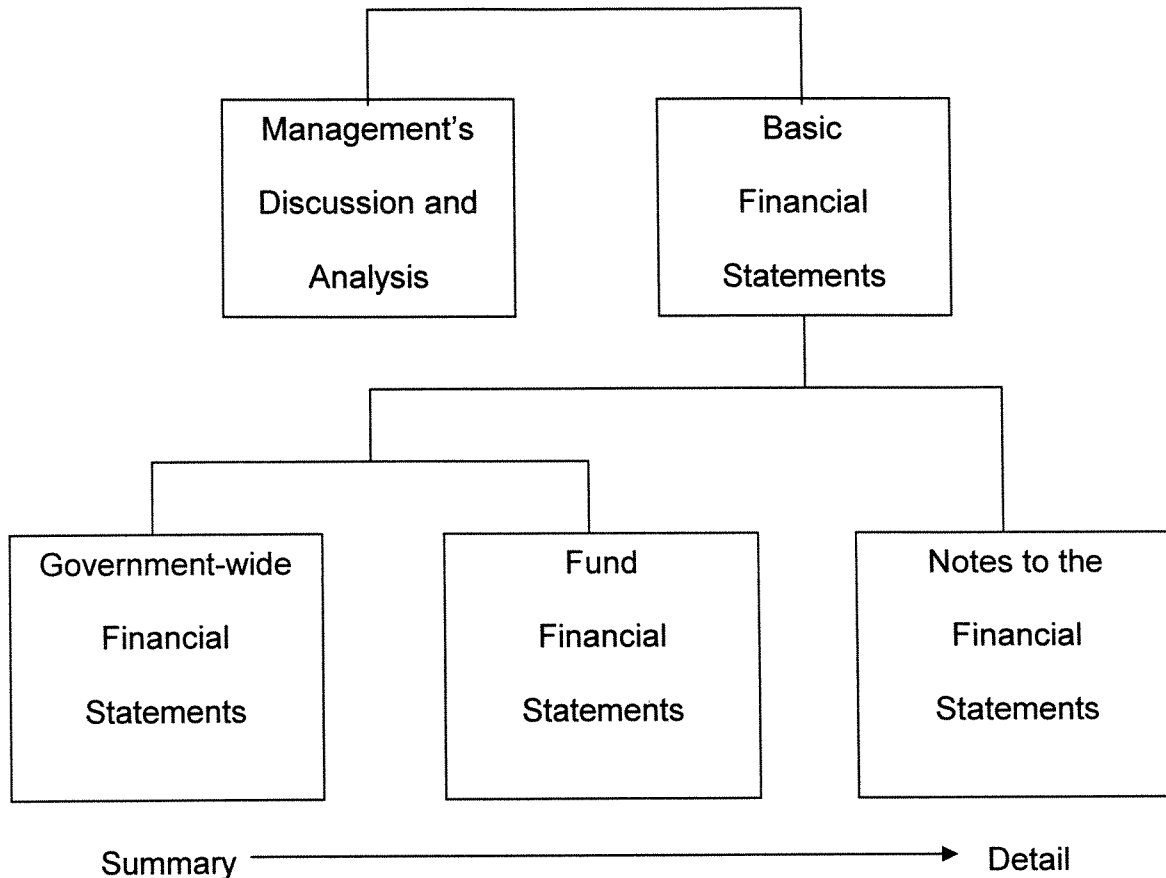
Overview of the Financial Statements

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.

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 grant funds 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, and the transportation fund,

which is managed like a for-profit business even though the Town continues to provide fare-free service for most of the transportation services.

The final category is the component unit. Although legally separate from the Town, the Town shows Orange Water and Sewer Authority 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. The Town of Chapel Hill, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes 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 three parts to the Fund Financial Statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary funds statements. The Town's Fund Financial Statements are on Exhibits 3 through 10.

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.

The Town adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the Town Council decisions 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 statement for the General Fund demonstrates 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 statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the 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. 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 22 and 25.

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 both transportation and parking operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *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 43 through 66 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. Budgetary information required by the General Statutes can be found in this part of the statements. Required supplementary information can be found beginning on page 67 of this report.

Government-Wide Financial Analysis

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

Town of Chapel Hill's Net Assets

Figure 2

	Governmental	Business-Type	Total
	Activities	Activities	
	2004	2004	2004
Current and other assets	\$ 22,587,974	3,878,281	26,466,255
Capital assets	74,286,429	20,747,385	95,033,814
Total assets	<u>96,874,403</u>	<u>24,625,666</u>	<u>121,500,069</u>
Long-term liabilities outstanding	23,605,805	6,442,397	30,048,202
Other liabilities	7,490,426	580,066	8,070,492
Total liabilities	<u>31,096,231</u>	<u>7,022,463</u>	<u>38,118,694</u>
Net assets:			
Invested in capital assets, net of related debt	48,939,875	14,367,385	63,307,260
Restricted	10,888,825	-	10,888,825
Unrestricted	5,949,472	3,235,818	9,185,290
Total net assets	<u>\$ 65,778,172</u>	<u>\$ 17,603,203</u>	<u>\$ 83,381,375</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Chapel Hill exceeded liabilities by \$83,381,375 as of June 30, 2004. The Town's net assets increased by \$4,747,408 for the fiscal year ended June 30, 2004. However, the largest portion (75.9%) 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. An additional portion of the Town of Chapel Hill's net assets (13.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,185,290 is unrestricted.

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

- Receipt of unbudgeted revenues for the current year property taxes and Utility Franchise Tax in fiscal year 2004 of approximately \$550,000 and \$355,000 million, respectively.
- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.96.
- Increased licensing and permits fees for construction, especially in the Meadowmont development.
- 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 2004	Business-Type Activities 2004	Total 2004
Revenues:			
Program revenues:			
Charges for services	\$ 4,333,546	\$ 2,419,340	\$ 6,752,886
Operating grants and contributions	6,182,753	8,482,726	14,665,479
Capital grants and contributions		599,175	599,175
General revenues:			
Taxes	30,430,218	2,190,261	32,620,479
Grants and contributions not restricted to specific programs	2,683,589		2,683,589
Other	2,703,086	117,901	2,820,987
Total revenues	46,333,192	13,809,403	60,142,595
Expenses:			
General government	3,641,608		3,641,608
Environment and development	16,793,496		16,793,496
Public safety	15,280,202		15,280,202
Leisure activities	4,617,299		4,617,299
Nondepartmental	962,489		962,489
Interest expense	880,610		880,610
Transportation		11,469,835	11,469,835
Parking Facilities		1,749,648	1,749,648
Total expenses	42,175,704	13,219,483	55,395,187
Increase in net assets before transfers	4,157,488	589,920	4,747,408
Transfers	347,376	(347,376)	-
Increase in net assets	4,504,864	242,544	4,747,408
Net assets, July 1, 2003, as previously reported	53,529,120	17,360,659	70,889,779
Restatement (See Note O)	7,744,188	-	7,744,188
Net assets, July 1, 2003, as restated	61,273,308	17,603,203	78,633,967
Net assets, June 30, 2004	\$ 65,778,172	\$ 17,603,203	\$ 83,381,375

Governmental activities. Governmental activities show an increase in net assets of \$4,504,864. The increase is primarily due to the purchases land and construction. Projects include the Town Operations Center at a cost of about \$733,000; land for Parks and Recreation projects at a costs of approximately \$1.7 million, including just over \$1 million for Dry Creek Trail, about \$470,000 for Morgan Creek Greenways with additional amounts for smaller land

purchases. The Town borrowed just over \$1 million for a number of capital repairs including roofs and tennis courts. Because the projects were largely completed before the borrowing was put into place, net assets increased. In addition, Utility Franchise Fees exceeded budget by \$355,275 and the Town has about \$96,000 in unspent Community Development program income.

Business-type activities: Business-type activities increased the Town of Chapel Hill's net assets by \$242,544. The increase in net assets come from the Transportation Fund where charges for services exceeded budget by about \$133,000 and personnel expenses were below budget by about \$162,000 because of vacant positions. The Parking Facilities Fund experienced a decrease in net assets of about \$63,000 primarily because of the loss of a major business parking space rental tenant at one of the Town lots. Otherwise, parking revenues were at or above budget.

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 \$7,133,550 of which \$5,634,550 is undesignated, while total fund balance reached \$11,772,637. 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 15.2% of total General Fund expenditures, while total fund balance represents 31.8% of that same amount.

At June 30, 2004, the governmental funds of the Town of Chapel Hill reported a combined fund balance of \$16,592,073, a 12.1% decrease over last year. Included in this change in fund balance is a decrease in fund balance in the Capital Projects Ordinance Fund.

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

Conservative budgeting principles result in actual revenues exceeding budget estimates. This year the actual revenues were approximately \$1,146,000 more than the revenue budget. This difference is because of conservative budgeting with property taxes exceeding budget by about \$520,000 and utility franchise fees exceeding budget by about \$355,000. Expenditures were approximately \$1,800,000 less than budgeted. A portion of the underexpenditure represents the effect of departments spending under their total budgeted limit. 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 of the Transportation Fund at the end of the fiscal year amounted to \$2,343,819, and those for the Parking Facilities Fund amounted to \$891,999. The total change in net assets for both funds was \$305,452 and (\$62,908), respectively. Other factors concerning the finances of these two 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, 2004, totals \$95,033,814 (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:

- \$1,910,571 for land for open space, greenways and parks;
- \$1,175,894 for the completion of the Hargraves Community Center and pool; and
- \$ 946,379 for replacements of a portion of the Town's rolling stock.

Additional construction in progress of \$2,337,371 in governmental-type activities include:

- \$582,013 for design work on the Town Operations Center;
- \$299,878 for land purchase for Tanyard Branch Trail; and
- \$218,685 for Inter Faith Council Shelter.

No major demolitions were recorded this year.

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

Figure 4

	Governmental Activities June 30, 2004	Business-type Activities June 30, 2004	Total June 30, 2004
Land	\$ 23,862,553	\$ 4,789,425	\$ 28,651,978
Land improvements	4,432,705	2,071,458	6,504,163
Infrastructure	15,787,646	-	15,787,646
Buildings and building improvements	18,500,818	3,878,179	22,378,997
Equipment and vehicles	4,390,820	10,008,323	14,399,143
Construction in progress	7,311,887	-	7,311,887
Total	\$ 74,286,429	\$ 20,747,385	\$ 95,033,814

Additional information on the Town's capital assets can be found on pages 53-54 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2004, the Town of Chapel Hill had total outstanding bonded debt, backed by the full faith and credit of the Town of \$18,400,000.

**Town of Chapel Hill
Outstanding Debt**

Figure 5

	Governmental Activities June 30, 2004	Business-type Activities June 30, 2004	Total June 30, 2004
General obligation bonds	\$ 18,400,000	\$ -	\$ 18,400,000
Installment notes payable	6,526,774	-	6,526,774
Separation allowance	419,780	-	419,780
Compensated absences	1,532,215	299,286	1,831,501
Certificates of participation	-	6,380,000	6,380,000
Total	\$ 26,878,769	\$ 6,679,286	\$ 33,558,055

The Town of Chapel Hill's total debt decreased by \$642,141 (1.9%) during the past fiscal year. The debt includes \$6,526,774 in installment purchase financing primarily for rolling stock and land for the Town Operations Center.

As mentioned in the financial highlights section of this document, 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 \$326 million, well above the Town's outstanding debt for general obligation bonds of approximately \$18 million.

Additional information regarding the Town of Chapel Hill's long-term debt can be found beginning on page 56 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- Low unemployment. The Town of Chapel Hill unemployment rate of 3.0% is well below the State average of 6.6%.
- Stable property tax base. The Town of Chapel Hill continues to collect property taxes at a rate in excess of 99%.
- Housing values. Average housing values within the Town continue to exceed those of surrounding jurisdictions. (For calendar year 2003, the average Chapel Hill home sold was valued at \$320,918; the average Durham County home sold was valued at \$173,844, the average Wake County home was valued at \$212,382; and the average Orange County home was valued at \$280,592.)

Budget Highlights for the Fiscal Year Ending June 30, 2005

Governmental Activities: Property taxes, benefiting from economic growth, are expected to lead the increase in budgeted revenues in the General Fund with an increase of \$1,500,000 or 7%, comparing original budget 2003-04 to original budget 2004-05. In comparing actual receipts of \$21.6 million in 2003-04 to the 2004-05 budget of \$22.6 million, the increase is 4.5%. The Town will use these increases in revenues to finance programs currently in place.

Budgeted expenditures (excluding transfers) in the General Fund are expected to rise 7% to \$39,057,500. The largest increments are in 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 increases for employee compensation and benefit adjustments, as well as additional staff for the EZ rider program, the budget for the

transportation department has increased by \$705,552 or 6.6%. Parking Facilities Fund revenues and expenditures are budgeted to remain approximately the same next year as this year, with an increase of about \$14,000 to fund compensation and benefits adjustments off-set by an increase in revenues from parking.

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, 306 N. Columbia Street, Chapel Hill, NC 27516.

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STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 14,956,073	\$ 2,289,959	\$ 17,246,032	\$ 14,483,029
Taxes receivable, net	128,535	-	128,535	-
Accounts receivable, net	494,168	16,432	510,600	3,650,509
Due from other governments	4,563,273	933,722	5,496,995	-
Inventories	247,092	312,335	559,427	575,430
Prepaid items	-	-	-	274,583
Total current assets	<u>20,389,141</u>	<u>3,552,448</u>	<u>23,941,589</u>	<u>18,983,551</u>
Restricted assets:				
Restricted cash and cash equivalents	2,198,833	-	2,198,833	38,586,427
Deferred charges	-	325,833	325,833	1,182,367
Total restricted assets	<u>2,198,833</u>	<u>325,833</u>	<u>2,524,666</u>	<u>39,768,794</u>
Capital assets (Note E):				
Land and construction in progress	31,174,440	4,789,425	35,963,865	45,373,653
Other capital assets, net of accumulated depreciation	43,111,989	15,957,960	59,069,949	163,903,927
Total capital assets	<u>74,286,429</u>	<u>20,747,385</u>	<u>95,033,814</u>	<u>209,277,580</u>
Total assets	<u>96,874,403</u>	<u>24,625,666</u>	<u>121,500,069</u>	<u>268,029,925</u>
LIABILITIES				
Current liabilities:				
Internal balances	262,740	(262,740)	-	-
Accounts payable and accrued liabilities	2,882,168	605,917	3,488,085	3,631,958
Unearned revenue	835,243	-	835,243	-
Customer deposits	175,616	-	175,616	-
Other	61,695	-	61,695	-
Liabilities payable from restricted assets	-	-	-	1,398,832
Long-term liabilities:				
Due within one year	3,272,964	236,889	3,509,853	2,397,211
Due in more than one year	23,605,805	6,442,397	30,048,202	99,680,940
Total liabilities	<u>31,096,231</u>	<u>7,022,463</u>	<u>38,118,694</u>	<u>107,108,941</u>
NET ASSETS				
Invested in capital assets, net of debt	48,939,875	14,367,385	63,307,260	110,634,726
Restricted for:				
Capital projects	2,502,868	-	2,502,868	-
Other purposes	8,385,957	-	8,385,957	34,817,584
Unrestricted	5,949,472	3,235,818	9,185,291	15,468,674
Total net assets	<u>\$ 65,778,172</u>	<u>\$ 17,603,203</u>	<u>\$ 83,381,375</u>	<u>\$ 160,920,984</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, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ 3,641,608	\$ 600,756	\$ -
Environment and development	16,793,496	3,142,701	4,665,902
Public safety	15,280,202	56,958	1,135,163
Leisure activities	4,617,299	533,131	381,688
Nondepartmental	962,489	-	-
Interest expense	880,610	-	-
Total governmental activities	42,175,704	4,333,546	6,182,753
Business-type activities:			
Transportation	11,469,835	571,436	8,482,726
Parking Facilities	1,749,648	1,847,904	-
Total business-type activities	13,219,483	2,419,340	8,482,726
Total primary government	\$ 55,395,187	\$ 6,752,886	\$ 14,665,479
Component unit - Orange Water and Sewer Authority	\$ 21,175,958	\$ 21,156,492	\$ -

General revenues:
Property taxes
Grants and contributions not restricted to specific programs:
Intergovernmental
Investment earnings
Miscellaneous
Proceeds from financing
Transfers

Total general revenues, proceeds and transfers

Change in net assets

Net assets - beginning of year, as previously reported
Restatement (see Note O)

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	
\$ -	\$ (3,040,852)	\$ -	\$ (3,040,852)	\$ -
-	(8,984,893)	-	(8,984,893)	-
-	(14,088,081)	-	(14,088,081)	-
-	(3,702,480)	-	(3,702,480)	-
-	(962,489)	-	(962,489)	-
-	(880,610)	-	(880,610)	-
-	(31,659,405)	-	(31,659,405)	-
599,175	-	(1,816,498)	(1,816,498)	-
-	-	98,256	98,256	-
599,175	-	(1,718,242)	(1,718,242)	-
\$ 599,175	(31,659,405)	(1,718,242)	(33,377,647)	-
\$ 4,359,410	-	-	-	4,339,944
	30,430,218	2,190,261	32,620,479	-
	2,683,589	-	2,683,589	-
	192,595	25,071	217,666	211,708
	1,115,491	92,830	1,208,321	2,761,143
	1,395,000	-	1,395,000	-
	347,376	(347,376)	-	-
	36,164,269	1,960,786	38,125,055	2,972,851
	4,504,864	242,544	4,747,408	7,312,795
	53,529,120	17,360,659	70,889,779	153,608,189
	7,744,188	-	7,744,188	-
	61,273,308	17,360,659	78,633,967	153,608,189
\$	65,778,172	\$ 17,603,203	\$ 83,381,375	\$ 160,920,984

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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, 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.

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.

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2004

	General	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,910,361	\$ 1,218,600	\$ 2,639,705	\$ 14,768,666
Receivables:				
Due from other funds	2,743	-	30,260	33,003
Property taxes, net	128,535	-	-	128,535
Governmental units and agencies	2,826,233	160,672	741,125	3,728,030
Other	294,017	-	180,714	474,731
Inventories	2,209	-	170,443	172,652
Restricted cash and equivalents	-	-	949,623	949,623
TOTAL ASSETS	<u>14,164,098</u>	<u>1,379,272</u>	<u>4,711,870</u>	<u>20,255,240</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	\$ -	\$ -	\$ 295,743	\$ 295,743
Accounts payable	856,341	218,106	560,706	1,635,153
Accrued liabilities	1,026,807	-	53,007	1,079,814
Unearned revenues	324,779	-	90,367	415,146
Deposits	175,616	-	-	175,616
Other	7,918	-	53,777	61,695
Total liabilities	<u>2,391,461</u>	<u>218,106</u>	<u>1,053,600</u>	<u>3,663,167</u>

Continued

GOVERNMENTAL FUNDS

BALANCE SHEET (continued)
JUNE 30, 2004

	General	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
FUND BALANCES				
Reserved:				
Reserved for encumbrances	858,238	-	50,203	908,441
Reserved by State statute	3,251,528	160,672	952,099	4,364,299
Reserved for capital improvements	427,112	1,161,166	914,590	2,502,868
Reserved for police	100,000	-	-	100,000
Reserved for inventory	2,209	-	170,443	172,652
Reserved for debt service	-	-	176,247	176,247
Reserved for community development	-	-	96,751	96,751
Reserved for interest subsidies	-	-	387,872	387,872
Reserved for land in trust	-	-	28,957	28,957
Reserved for aid to library operations	-	-	128,152	128,152
Unreserved:				
Designated for subsequent year's expenditures, reported in:				
General fund	1,499,000	-		1,499,000
Special revenue funds			131,818	131,818
Undesignated	5,634,550	(160,672)	621,138	6,095,016
Total fund balances	<u>11,772,637</u>	<u>1,161,166</u>	<u>3,658,270</u>	<u>16,592,073</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 14,164,098</u>	<u>\$ 1,379,272</u>	<u>\$ 4,711,870</u>	<u>\$ 20,255,240</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, 2004

Fund balances - total governmental funds		\$ 16,592,073
<p>Amounts reported for governmental activities in the statement of net assets are different because of the following:</p>		
Receivables, such as state sales taxes, are not available to pay for current-period expenditures and are, therefore, deferred		835,243
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	106,537,105	
Less accumulated depreciation	<u>35,519,947</u>	71,017,158
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 bond payable and installment purchases	(21,838,047)	
Accrued vacation payable	<u>(1,532,215)</u>	(23,370,262)
Unearned revenue in governmental funds is susceptible to full accrual on the entity-wide statements		
Unearned revenue		415,146
Unearned revenue from state sales taxes		(835,243)
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>1,124,057</u>
Net assets of governmental activities		<u>\$ 65,778,172</u>

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

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004

	General	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 30,361,091	\$ -	\$ 69,127	\$ 30,430,218
Licenses and permits	1,551,622	-	-	1,551,622
Fines and forfeitures	27,676	-	-	27,676
Intergovernmental revenues				
Federal government	467,456	-	2,254,381	2,721,837
State government	5,254,394	160,672	114,677	5,529,743
Other	448,908	-	165,854	614,762
Charges for services	2,041,105	33,900	-	2,075,005
Interest on investments	133,589	33,649	25,357	192,595
Franchise rental fees	-	-	62,994	62,994
Dwelling rental	-	-	317,076	317,076
Program income	-	-	186,156	186,156
Cable Public Access Reserves	-	-	113,017	113,017
Library donations	-	-	65,490	65,490
Other	624,495	55,088	370,418	1,050,001
Total revenues	40,910,336	283,309	3,744,547	44,938,192
EXPENDITURES				
General government	3,517,651	-	-	3,517,651
Environment and development	13,529,808	-	3,831,036	17,360,844
Public safety	14,976,104	-	-	14,976,104
Leisure activities	4,081,517	-	-	4,081,517
Nondepartmental	962,489	-	-	962,489
Capital projects	-	3,533,262	1,983,281	5,516,543
Debt service:				
Principal	-	-	1,670,000	1,670,000
Interest and fiscal charges	-	-	880,610	880,610
Total expenditures	37,067,569	3,533,262	8,364,927	48,965,758
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,842,767	(3,249,953)	(4,620,380)	(4,027,566)

Continued

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
 YEAR ENDED JUNE 30, 2004

	General	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt	\$ -	\$ -	\$ 1,395,000	\$ 1,395,000
Transfer from other funds	245,159	52,559	3,949,121	4,246,839
Transfer to other funds	(3,805,396)	-	(95,279)	(3,900,675)
Total other financing sources (uses)	(3,560,237)	52,559	5,248,842	1,741,164
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER EXPENDITURES	282,530	(3,197,394)	628,462	(2,286,402)
FUND BALANCES, BEGINNING	11,490,107	4,358,560	3,029,808	18,878,475
FUND BALANCES, ENDING	\$ 11,772,637	\$ 1,161,166	\$ 3,658,270	\$ 16,592,073

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, 2004

Net change in fund balances - total governmental funds		(2,286,402)
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	10,148,925	
Current year's depreciation	<u>3,061,016</u>	7,087,909
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net assets.		
		(2,018,297)
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		1,670,000
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 and separation allowance		57,986
Internal service funds are used by management to charge the costs of certain activities to individual funds		
Loss before transfers	(7,544)	
Transfer from general fund	<u>1,212</u>	<u>(6,332)</u>
Change in net assets of governmental activities		<u>\$ 4,504,864</u>

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

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Ad valorem taxes - current year	\$ 20,968,000	\$ 20,968,000	\$ 21,492,299	\$ 524,299
Ad valorem taxes - prior years	120,000	120,000	100,718	(19,282)
Interest on delinquent taxes	30,000	30,000	51,061	21,061
Local option sales taxes	7,524,610	7,524,610	7,654,959	130,349
Occupancy tax	590,000	590,000	572,932	(17,068)
Other taxes	438,000	438,000	489,122	51,122
Total taxes	29,670,610	29,670,610	30,361,091	690,481
Licenses and permits				
Motor vehicles	408,500	408,500	419,850	11,350
Privilege licenses	155,000	155,000	180,906	25,906
Building permits	675,700	675,700	729,414	53,714
Special use permits	50,000	50,000	149,634	99,634
Fire inspection fees	3,000	3,000	5,495	2,495
Traffic impact study fees	-	40,000	44,489	4,489
Police permits	15,000	15,000	21,834	6,834
Total licenses and permits	1,307,200	1,347,200	1,551,622	204,422
Fines and forfeitures				
Garbage citations and leash law fees	-	-	12,087	12,087
Parking tickets and towing fees	20,000	20,000	15,589	(4,411)
Total fines and forfeitures	20,000	20,000	27,676	7,676

Continued

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Intergovernmental revenues				
Federal Government				
Transportation planning	\$ 27,000	\$ 151,094	\$ 106,325	\$ (44,769)
Police aid	-	44,808	19,474	(25,334)
Solar Grant	-	10,800	250	(10,550)
Endowment for the Arts grant	-	10,000	10,000	-
FEMA - Disaster assistance	-	410,175	331,407	(78,768)
Total federal government	27,000	626,877	467,456	(159,421)
State of North Carolina				
Beer and wine tax	205,000	205,000	217,614	12,614
Powell Bill funds	1,394,000	1,394,000	1,315,545	(78,455)
Utility franchise tax	2,110,700	2,110,700	2,465,975	355,275
State fire protection	850,000	850,000	849,764	(236)
UNC fire truck contribution	-	110,000	110,000	-
State library aid	30,000	30,000	38,033	8,033
Crime commission grant	2,175	40,238	40,672	434
FEMA - Disaster assistance	-	136,725	216,791	80,066
Total State of North Carolina	4,591,875	4,876,663	5,254,394	377,731
Other				
Orange County Project Turnaround	45,000	45,000	44,909	(91)
Orange County recreational support	81,000	81,000	83,760	2,760
Orange County library contribution	250,000	250,000	249,895	(105)
Orange Chatham Justice Partners	-	44,503	16,846	(27,657)
Juvenile turnaround	38,160	38,160	53,498	15,338
Carrboro planning contribution	-	4,500	-	(4,500)
Total other	414,160	463,163	448,908	(14,255)
Total intergovernmental revenues	5,033,035	5,966,703	6,170,758	204,055

Continued

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (continued)
 YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Charges for services				
Library fines and fees	\$ 140,000	\$ 140,000	\$ 147,232	\$ 7,232
Street cuts, signing and marking	178,400	178,400	234,530	56,130
Fire districts	500	500	153	(347)
Solid Waste collection	268,000	268,000	293,529	25,529
Planning review	191,000	191,000	216,107	25,107
Turnaround client fees	17,000	17,000	29,476	12,476
Recreation	348,900	354,802	385,899	31,097
Charges to other funds	743,945	743,945	734,179	(9,766)
Total charges for services	1,887,745	1,893,647	2,041,105	147,458
Interest on investments	202,500	202,500	133,589	(68,911)
Other				
Sales - planning and documents	9,500	9,500	8,665	(835)
Sales - fixed assets	30,000	30,000	32,588	2,588
Sales - miscellaneous	21,000	21,000	28,387	7,387
Cemetery lot sales	50,000	50,000	76,660	26,660
Mutual Aid Reimbursements	311,800	311,800	298,592	(13,208)
Miscellaneous	241,500	241,500	179,603	(61,897)
Total other revenues	663,800	663,800	624,495	(39,305)
TOTAL REVENUES	38,784,890	39,764,460	40,910,336	1,145,876

Continued

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
EXPENDITURES				
General government	\$ 3,641,240	\$ 3,867,801	\$ 3,517,651	\$ 350,150
Environment and development	12,789,366	13,974,480	13,529,808	444,672
Public safety	14,972,005	15,366,216	14,976,104	390,112
Leisure activities	4,157,451	4,242,286	4,081,517	160,769
Nondepartmental	1,051,938	1,430,553	962,489	468,064
Total expenditures	<u>36,612,000</u>	<u>38,881,336</u>	<u>37,067,569</u>	<u>1,813,767</u>
EXCESS OF REVENUES OVER EXPENDITURES	2,172,890	883,124	3,842,767	2,959,643
OTHER FINANCING SOURCES (USES)				
Transfer from Parking Facilities Fund	213,804	213,804	200,159	(13,645)
Transfer from Library Gift Fund	45,000	45,000	45,000	-
Transfer to Debt Service Fund	(2,552,000)	(2,552,000)	(2,552,000)	-
Transfer to Capital Projects Ordinance	-	(11,309)	(11,309)	-
Transfer to Capital Projects Fund	(1,170,000)	(1,239,650)	(1,239,650)	-
Transfer to Internal Service Fund	-	(1,212)	(1,212)	-
Transfer to Transportation Fund	-	(1,225)	(1,225)	-
Appropriated fund balance	1,290,306	2,663,468	-	(2,663,468)
Total other financing sources (uses)	<u>(2,172,890)</u>	<u>(883,124)</u>	<u>(3,560,237)</u>	<u>(2,677,113)</u>
EXCESS OF REVENUES AND OTHER SOURCES (USES) OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>\$ -</u>	282,530	<u>\$ 282,530</u>
FUND BALANCE, BEGINNING			<u>11,490,107</u>	
FUND BALANCE, ENDING			<u>\$ 11,772,637</u>	

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

**COMBINING SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
EXPENDITURES				
General Government				
Mayor and Town Council				
Salaries and benefits	\$ 201,798	\$ 201,798	\$ 180,426	\$ 21,372
Operating and Capital Outlay	104,946	105,746	97,794	7,952
Total Mayor and Council	<u>306,744</u>	<u>307,544</u>	<u>278,220</u>	<u>29,324</u>
Town Manager/Clerk				
Salaries and benefits	788,571	776,586	781,134	(4,548)
Other	201,474	234,375	222,912	11,463
Total Town Manager/Clerk	<u>990,045</u>	<u>1,010,961</u>	<u>1,004,046</u>	<u>6,915</u>
Human Resources				
Salaries and benefits	481,963	481,963	413,581	68,382
Other	112,443	125,049	91,383	33,666
Total Personnel	<u>594,406</u>	<u>607,012</u>	<u>504,964</u>	<u>102,048</u>
Information Technology				
Salaries and benefits	349,430	349,430	348,154	1,276
Other	233,268	400,607	243,797	156,810
Total Information Technology	<u>582,698</u>	<u>750,037</u>	<u>591,951</u>	<u>158,086</u>
Finance				
Salaries and benefits	678,044	682,044	651,968	30,076
Other	253,360	270,636	261,481	9,155
Total Finance	<u>931,404</u>	<u>952,680</u>	<u>913,449</u>	<u>39,231</u>
Legal				
Salaries and benefits	202,160	202,160	208,193	(6,033)
Other	33,783	37,407	16,828	20,579
Total Legal	<u>235,943</u>	<u>239,567</u>	<u>225,021</u>	<u>14,546</u>
Total General Government	<u>3,641,240</u>	<u>3,867,801</u>	<u>3,517,651</u>	<u>350,150</u>

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

**COMBINING SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Environmental and Development				
Planning				
Salaries and benefits	\$ 910,506	\$ 929,700	\$ 939,256	\$ (9,556)
Other	79,622	437,489	263,486	174,003
Total Planning	990,128	1,367,189	1,202,742	164,447
Inspections				
Salaries and benefits	610,505	633,989	629,783	4,206
Other	97,092	124,242	107,705	16,537
Total inspections	707,597	758,231	737,488	20,743
Engineering				
Salaries and benefits	863,945	862,445	872,003	(9,558)
Other	111,620	457,306	417,538	39,768
Total Engineering	975,565	1,319,751	1,289,541	30,210
Public Works				
Administration				
Salaries and benefits	463,415	459,422	457,459	1,963
Other	57,546	71,563	65,708	5,855
Total Administration	520,961	530,985	523,167	7,818
Landscaping				
Salaries and benefits	978,750	958,250	945,788	12,462
Other	412,386	452,712	436,380	16,332
Total Landscaping	1,391,136	1,410,962	1,382,168	28,794
Traffic				
Salaries and benefits	326,181	318,958	246,718	72,240
Other	461,977	488,408	494,692	(6,284)
Total Traffic	788,158	807,366	741,410	65,956

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

COMBINING SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Drainage				
Salaries and benefits	\$ 575,292	\$ 577,825	\$ 523,850	\$ 53,975
Other	252,061	255,951	253,621	2,330
Total Drainage	<u>827,353</u>	<u>833,776</u>	<u>777,471</u>	<u>56,305</u>
Total field operations	<u>3,527,608</u>	<u>3,583,089</u>	<u>3,424,216</u>	<u>158,873</u>
Construction				
Salaries and benefits	517,657	499,286	459,540	39,746
Other	166,263	171,483	176,363	(4,880)
Total Construction	<u>683,920</u>	<u>670,769</u>	<u>635,903</u>	<u>34,866</u>
Streets				
Salaries and benefits	737,937	753,081	768,080	(14,999)
Other	870,382	1,141,960	1,135,924	6,036
Total Streets	<u>1,608,319</u>	<u>1,895,041</u>	<u>1,904,004</u>	<u>(8,963)</u>
Building Maintenance				
Salaries and benefits	483,872	484,428	493,693	(9,265)
Other	434,875	474,987	438,293	36,694
Total Internal Services	<u>918,747</u>	<u>959,415</u>	<u>931,986</u>	<u>27,429</u>
Sanitation				
Salaries and benefits	1,726,823	1,738,550	1,697,884	40,666
Other	1,650,659	1,682,445	1,706,044	(23,599)
Total Sanitation	<u>3,377,482</u>	<u>3,420,995</u>	<u>3,403,928</u>	<u>17,067</u>
Total Public Works	<u>10,116,076</u>	<u>10,529,309</u>	<u>10,300,037</u>	<u>229,272</u>
Total Environmental and Development	<u>12,789,366</u>	<u>13,974,480</u>	<u>13,529,808</u>	<u>444,672</u>

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

COMBINING SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (continued)
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Public Safety				
Police				
Salaries and benefits	\$ 8,351,593	\$ 8,322,537	\$ 8,304,289	\$ 18,248
Other	1,299,011	1,582,095	1,328,981	253,114
Total Police	<u>9,650,604</u>	<u>9,904,632</u>	<u>9,633,270</u>	<u>271,362</u>
Fire				
Salaries and benefits	4,617,122	4,628,779	4,682,142	(53,363)
Other	704,279	832,805	660,692	172,113
Total Fire	<u>5,321,401</u>	<u>5,461,584</u>	<u>5,342,834</u>	<u>118,750</u>
Total Public Safety	<u>14,972,005</u>	<u>15,366,216</u>	<u>14,976,104</u>	<u>390,112</u>
Leisure Activities				
Parks and Recreation				
Salaries and benefits	1,595,683	1,560,358	1,603,553	(43,195)
Other	602,278	674,517	596,423	78,094
Total Parks and Recreation	<u>2,197,961</u>	<u>2,234,875</u>	<u>2,199,976</u>	<u>34,899</u>
Library				
Salaries and benefits	1,412,134	1,409,134	1,384,846	24,288
Other	547,356	598,277	496,695	101,582
Total Library	<u>1,959,490</u>	<u>2,007,411</u>	<u>1,881,541</u>	<u>125,870</u>
Total Leisure Activities	<u>4,157,451</u>	<u>4,242,286</u>	<u>4,081,517</u>	<u>160,769</u>
Nondepartmental - Other	<u>1,051,938</u>	<u>1,430,553</u>	<u>962,489</u>	<u>468,064</u>
TOTAL EXPENDITURES	<u>\$ 36,612,000</u>	<u>\$ 38,881,336</u>	<u>\$ 37,067,569</u>	<u>\$ 1,813,767</u>

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, 2004 (With Comparative Totals as of June 30, 2003)

	Transportation Fund	Parking Facilities Fund
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,648,991	\$ 640,968
Receivables:		
Accounts receivable, net	9,295	5,840
Due from other funds	262,740	-
Governmental units and agencies	933,722	-
Other	-	1,297
Prepaid items	-	-
Inventories	312,335	-
Total current assets	<u>3,167,083</u>	<u>648,105</u>
NONCURRENT ASSETS		
Restricted assets:		
Restricted cash and cash equivalents	-	-
Deferred charges	-	325,833
Total restricted assets	<u>-</u>	<u>325,833</u>
Capital assets:		
Land and other non-depreciable assets	2,039,587	2,749,838
Other capital assets, net of accumulated depreciation	11,979,436	3,978,524
Total capital assets, net	<u>14,019,023</u>	<u>6,728,362</u>
Total noncurrent assets	<u>14,019,023</u>	<u>7,054,195</u>
TOTAL ASSETS	<u>17,186,106</u>	<u>7,702,300</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	258,812	5,830
Accrued liabilities	300,989	40,286
Compensated absences	16,889	-
Installment purchase agreements	-	-
Certificates of participation	-	220,000
Total current liabilities	<u>576,690</u>	<u>266,116</u>
NONCURRENT LIABILITIES		
Compensated absences	246,574	35,823
Installment purchase agreements	-	-
Certificates of participation	-	6,160,000
Total noncurrent liabilities	<u>246,574</u>	<u>6,195,823</u>
Total liabilities	<u>823,264</u>	<u>6,461,939</u>
NET ASSETS		
Invested in capital assets, net of related debt	14,019,023	348,362
Restricted	-	-
Unrestricted	2,343,819	891,999
Total net assets	<u>\$ 16,362,842</u>	<u>\$ 1,240,361</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	
2004	2003	2004	2003
\$ 2,289,959	\$ 1,913,921	\$ 187,407	\$ 23,786
15,135	39,672	19,437	7,941
262,740	61,960	-	-
933,722	15,950	-	-
1,297	680	-	-
-	295	-	-
312,335	250,953	74,440	77,616
<u>3,815,188</u>	<u>2,283,431</u>	<u>281,284</u>	<u>109,343</u>
-	-	1,249,210	1,212,170
325,833	167,443	-	-
<u>325,833</u>	<u>167,443</u>	<u>1,249,210</u>	<u>1,212,170</u>
4,789,425	4,190,250	-	-
15,957,960	17,876,554	3,269,271	3,371,622
<u>20,747,385</u>	<u>22,066,804</u>	<u>3,269,271</u>	<u>3,371,622</u>
21,073,218	22,234,247	4,518,481	4,583,792
<u>24,888,406</u>	<u>24,517,678</u>	<u>4,799,765</u>	<u>4,693,135</u>
264,642	131,916	113,973	51,021
341,275	347,027	53,228	62,421
16,889	-	-	-
-	-	1,101,697	1,158,898
220,000	155,000	-	-
<u>842,806</u>	<u>633,943</u>	<u>1,268,898</u>	<u>1,272,340</u>
282,397	328,076	-	-
-	-	2,406,810	2,290,406
6,160,000	6,195,000	-	-
<u>6,442,397</u>	<u>6,523,076</u>	<u>2,406,810</u>	<u>2,290,406</u>
<u>7,285,203</u>	<u>7,157,019</u>	<u>3,675,708</u>	<u>3,562,746</u>
14,367,385	15,716,804	(239,236)	(77,682)
-	-	1,249,210	1,212,170
3,235,818	1,643,855	114,083	(4,099)
<u>\$ 17,603,203</u>	<u>\$ 17,360,659</u>	<u>\$ 1,124,057</u>	<u>\$ 1,130,389</u>

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)**

	Transportation Fund	Parking Facilities Fund
OPERATING REVENUES		
Charges for services	\$ 431,486	\$ 1,847,904
OPERATING EXPENSES		
Personnel	7,409,983	598,064
Depreciation and amortization	1,581,089	419,295
Fuel and tires	629,544	-
Indirect costs	680,155	54,024
Maintenance and repairs	430,764	-
Other	738,300	320,383
Total operating expenses	<u>11,469,835</u>	<u>1,391,766</u>
OPERATING INCOME (LOSS)	<u>(11,038,349)</u>	<u>456,138</u>
NONOPERATING REVENUES (EXPENSES)		
Federal Operating Assistance Grant	932,000	-
State Operating Assistance Grant	2,463,045	-
University of North Carolina and Town of Carrboro operating assistance	5,087,681	-
Vehicle Licenses	139,950	-
Ad valorem taxes	2,190,261	-
Interest on investments	16,489	8,582
Interest expense	-	(175,072)
Bond issuance expense	-	(182,810)
Other	62,417	30,413
Total nonoperating revenues (expenses), net	<u>10,891,843</u>	<u>(318,887)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(146,506)</u>	<u>137,251</u>
CAPITAL CONTRIBUTIONS	<u>599,175</u>	<u>-</u>
TRANSFERS		
Transfers in	1,490,504	-
Transfers out	(1,637,721)	(200,159)
Total transfers	<u>(147,217)</u>	<u>(200,159)</u>
CHANGE IN NET ASSETS	<u>305,452</u>	<u>(62,908)</u>
NET ASSETS, BEGINNING	<u>16,057,390</u>	<u>1,303,269</u>
NET ASSETS, ENDING	<u>\$ 16,362,842</u>	<u>\$ 1,240,361</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	
2004	2003	2004	2003
\$ 2,279,390	\$ 2,243,494	\$ 2,238,396	\$ 2,048,120
8,008,047	7,508,903	452,385	498,163
2,000,384	2,011,500	1,043,641	1,140,984
629,544	550,251	-	-
734,179	678,076	-	-
430,764	395,764	-	-
1,058,683	863,800	681,372	539,120
12,861,601	12,008,294	2,177,399	2,178,267
(10,582,211)	(9,764,800)	60,997	(130,147)
932,000	932,000	-	-
2,463,045	1,565,675	-	-
5,087,681	4,597,583	-	-
139,950	137,139	-	-
2,190,261	1,786,132	6,859	16,608
25,071	30,148	(117,834)	(157,676)
(175,072)	(400,949)	-	-
(182,810)	-	-	-
92,830	(7,295)	42,435	102,064
10,572,956	8,640,433	(68,540)	(39,004)
(9,255)	(1,124,367)	(7,544)	(169,151)
599,175	1,260,802	-	-
1,490,504	-	1,212	-
(1,837,880)	(1,103,692)	-	-
(347,376)	(1,103,692)	1,212	-
242,544	(967,257)	(6,332)	(169,151)
17,360,659	18,327,916	1,130,389	1,299,540
\$ 17,603,203	\$ 17,360,659	\$ 1,124,057	\$ 1,130,389

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)

	Transportation Fund	Parking Facilities Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ (677,795)	\$ 1,862,553
Payments to employees	(7,438,271)	(604,318)
Payments to suppliers	(2,387,579)	(552,342)
Net cash provided by (used in) operating activities	<u>(10,503,645)</u>	<u>705,893</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grant funds received	3,395,045	-
Operating assistance received	5,087,681	-
Taxes and licenses received	2,330,211	-
Transfers to other funds	(1,637,721)	(200,159)
Transfers from other funds	1,490,504	-
Other	60,392	30,413
Net cash provided by (used in) noncapital financing activities	<u>10,726,112</u>	<u>(169,746)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from installment purchase agreements	-	-
Proceeds from refinancing of Certificates of Participation	-	340,000
Principal paid on Certificates of Participation and installment purchase agreements	-	(310,000)
Interest paid on Certificates of Participation and installment purchase agreements	-	(175,072)
Bond issuance costs	-	(204,950)
Sale of fixed assets	2,025	-
Capital contributions	599,175	-
Acquisition and construction of capital assets	(599,175)	(59,650)
Net cash provided by (used in) capital and related financing activities	<u>2,025</u>	<u>(409,672)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	<u>16,489</u>	<u>8,582</u>
Net cash provided by investing activities	<u>16,489</u>	<u>8,582</u>

Continued

Exhibit 10

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2004	2003	2004	2003
\$ 1,184,758	\$ 3,874,317	\$ 2,226,900	\$ 2,125,279
(8,042,589)	(7,366,454)	(461,578)	(454,887)
(2,939,921)	(3,056,573)	(615,244)	(804,125)
<u>(9,797,752)</u>	<u>(6,548,710)</u>	<u>1,150,078</u>	<u>866,267</u>
3,395,045	2,489,230	-	-
5,087,681	4,597,583	-	-
2,330,211	1,923,271	-	-
(1,837,880)	(1,103,692)	-	-
1,490,504	-	1,212	-
90,805	-	16,335	-
<u>10,556,366</u>	<u>7,906,392</u>	<u>17,547</u>	<u>-</u>
-	-	1,218,100	708,100
340,000	-	-	-
(310,000)	(145,000)	(1,158,897)	(1,274,031)
(175,072)	(400,949)	(117,834)	(157,676)
(204,950)	-	-	-
2,025	1,150	26,100	102,064
599,175	1,260,802	-	-
(658,825)	(1,537,704)	(941,291)	(666,492)
<u>(407,647)</u>	<u>(821,701)</u>	<u>(973,822)</u>	<u>(1,288,035)</u>
25,071	30,148	6,858	16,608
<u>25,071</u>	<u>30,148</u>	<u>6,858</u>	<u>16,608</u>

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS (continued)
YEAR ENDED JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)

	Transportation Fund	Parking Facilities Fund
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	240,981	135,057
CASH AND CASH EQUIVALENTS, BEGINNING	1,408,010	505,911
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,648,991</u>	<u>\$ 640,968</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (11,038,349)	\$ 456,138
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,581,089	419,295
Changes in assets and liabilities:		
Receivables	(1,109,281)	14,649
Prepaid items	295	-
Inventories	(61,382)	-
Deferred charges	-	(158,390)
Accounts payable	152,271	(19,545)
Accrued liabilities	(16,142)	10,390
Accrued compensated absences	(12,146)	(16,644)
Net cash provided by (used in) operating activities	<u>\$ (10,503,645)</u>	<u>\$ 705,893</u>

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

Exhibit 10

Enterprise Funds Comparative Totals		Internal Service Funds Comparative Totals	
2004	2003	2004	2003
376,038	566,129	200,661	(405,160)
1,913,921	1,347,792	1,235,956	1,641,116
<u>\$ 2,289,959</u>	<u>\$ 1,913,921</u>	<u>\$ 1,436,617</u>	<u>\$ 1,235,956</u>
\$ (10,582,211)	\$ (9,764,800)	\$ 60,997	\$ (130,147)
2,000,384	2,011,500	1,043,642	1,140,984
(1,094,632)	1,630,823	(11,496)	77,159
295	(295)	-	-
(61,382)	(30,569)	3,176	(9,414)
(158,390)	-	-	-
132,726	(537,818)	62,952	(255,591)
(5,752)	77,891	(9,193)	43,276
(28,790)	64,558	-	-
<u>\$ (9,797,752)</u>	<u>\$ (6,548,710)</u>	<u>\$ 1,150,078</u>	<u>\$ 866,267</u>

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**TOWN OF CHAPEL HILL, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 prepared 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 60 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 2003 through February 2004 apply to the fiscal year ended June 30, 2004. 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 2004-2005 fiscal year and are not shown as receivables at June 30, 2004. 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, 2004, because they are intended to finance the Town's operations during the 2005 fiscal year.

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, which are 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.

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 two major 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.

Additionally, the Town reports on three non-major proprietary funds:

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 Operating Fund	X	
Public Housing Grant Projects		
Ordinance Funds		X
Transitional Housing Fund		X
Revolving Acquisition Fund		X
Downtown Service District Fund	X	
Cable Public Access Reserve Fund	X	
Disaster Recovery Initiative 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, 2004.

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 2003-04 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 9, 2003.

In March of each year, OWASA requests information from various departments to project the amount of appropriations for each department manager 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

State law [G.S. 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at 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 and non-participating interest earnings and investment contracts 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 Special Revenue Fund is classified as restricted, because the cash represents tenant security deposits. Restricted cash in the Vehicle Replacement Internal Service Fund represents unspent loan proceeds restricted for the future purchase of equipment. Bond proceeds 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 (G.S. 105-347 and G.S. 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 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 \$1,000 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

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.

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:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Deferred</u>
Reserve for taxes receivable	\$ 128,535	\$ -	\$ 835,243
Reserve for other receivables	231,355	55,256	-
	<u>\$ 359,890</u>	<u>\$ 55,256</u>	<u>\$ 835,243</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 (G.S. 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 [G.S. 159-8(a)].

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

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 and Special Revenue Funds.

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.

Unreserved:

Designated for subsequent year's expenditures - represents the amount of fund balance appropriated that has been designated for the adopted 2004-05 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. Cash and Investments

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.

At year-end, the Town's deposits had a carrying amount of \$19,438,635 and a bank balance of \$20,105,437. Of the bank balance, \$100,228 was covered by federal depository insurance, \$805,532 was covered by collateral held under the Dedicated Method and \$19,199,677 was covered by collateral held under the Pooling Method. The Town had cash on hand of \$6,230 at year end.

At year-end, the OWASA's deposits had a carrying amount of \$14,482,354 and a bank balance of \$14,564,365. Of the bank balance, \$149,658 was covered by federal depository insurance and \$14,414,707 in interest-bearing deposits were covered by collateral held under the pooling method. The OWASA had cash on hand of \$675 at June 30, 2004.

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.

The Town's and OWASA's investments are generally categorized to give an indication of the level of risk assumed by the entity at year-end. None of the Town's investments are categorized at June 30, 2004 since mutual funds and pools managed by other governments are exempt from risk categorization.

At year-end, the Town's investments consist of pools managed by the State of North Carolina in the amount of \$1,720,829.

OWASA's investments are shown in the table below. Column A includes investments that are insured or registered, or for which securities are held by OWASA or its agent in OWASA's name. Column B includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in OWASA's name. Column C includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its counterparty or agent but not in OWASA's name. All of OWASA's investments are categorized in Column A.

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

	Carrying Value	Fair Value
Government and Agency Securities	\$ 265,052	\$ 265,052
The North Carolina Capital Management Trust, a mutual fund	38,321,375	38,321,375
	<u>\$ 38,586,427</u>	<u>\$ 38,586,427</u>

Restricted cash and cash equivalents of OWASA at June 30, 2004 are as follows:

Power Account Fund	\$ 265,052
Construction Fund	34,552,532
Bond Service Fund	<u>3,768,843</u>
	<u>\$ 38,586,427</u>

D. Receivables and Allowances for Uncollectible Amounts

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

	Governmental Funds	Proprietary Funds
Property taxes, net	\$ 128,535	\$ -
Due from other governmental agencies	3,728,030	933,722
Due from other funds	33,003	262,740
Other, net	474,731	16,432
	<u>\$ 4,364,299</u>	<u>\$ 1,212,894</u>

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

Governmental activities, allowance for uncollectible property taxes	\$ 389,075
Governmental activities, allowance for doubtful other receivables	\$ 2,927

E. Capital Assets

A summary of changes in the value of the Town's capital assets for the year ended June 30, 2004 follows:

	July 1, 2003	Increases	Decreases	June 30, 2004
	<u>(as restated)</u>			
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 21,907,620	\$ 2,207,251	\$ 252,318	\$ 23,862,553
Construction in progress	8,510,089	2,337,371	3,535,573	7,311,887
Total capital assets, not being depreciated	<u>30,417,709</u>	<u>4,544,622</u>	<u>3,787,891</u>	<u>31,174,440</u>
Capital assets, being depreciated:				
Land improvements	4,182,486	1,027,618	-	5,210,104
Infrastructure	24,494,712	803,088	-	25,297,800
Buildings and building improvements	33,438,761	2,591,564	-	36,030,325
Equipment and vehicles	15,048,493	1,182,033	479,662	15,750,864
Total capital assets, being depreciated	<u>77,164,452</u>	<u>5,604,303</u>	<u>479,662</u>	<u>82,289,093</u>
Accumulated depreciation:				
Land improvements	575,701	201,698	-	777,399
Infrastructure	8,498,242	1,011,912	-	9,510,154
Buildings and building improvements	19,810,614	1,450,104	3,731,211	17,529,507
Equipment and vehicles	10,677,024	1,440,943	757,923	11,360,044
Total accumulated depreciation	<u>39,561,581</u>	<u>4,104,657</u>	<u>4,489,134</u>	<u>39,177,104</u>
Total capital assets, being depreciated, net	<u>37,602,871</u>	<u>1,499,646</u>	<u>(4,009,472)</u>	<u>43,111,989</u>
Governmental activities capital assets, net	<u>\$ 68,020,580</u>	<u>\$ 6,044,268</u>	<u>\$ (221,581)</u>	<u>\$ 74,286,429</u>

	July 1, 2003	Increases	Decreases	June 30, 2004
Business-type activities:				
Transportation Fund:				
Capital assets, not being depreciated:				
Land	\$ 1,440,412	\$ 599,175	\$ -	\$ 2,039,587
Total capital assets, not being depreciated	1,440,412	599,175	-	2,039,587
Capital assets, being depreciated:				
Land improvements	3,721,748	-	-	3,721,748
Buildings and building improvements	1,363,410	-	7,770	1,355,640
Equipment	21,487,039	-	126,245	21,360,794
Total capital assets, being depreciated	26,572,197	-	134,015	26,438,182
Accumulated depreciation:				
Land improvements	1,541,945	210,788	-	1,752,733
Buildings and building improvements	1,284,325	13,540	7,770	1,290,095
Equipment	10,185,402	1,356,761	126,245	11,415,918
Total accumulated depreciation	13,011,672	1,581,089	134,015	14,458,746
Total capital assets, being depreciated, net	13,560,525	(1,581,089)	-	11,979,436
Transportation fund capital assets, net	\$ 15,000,937	\$ (981,914)	\$ -	\$ 14,019,023
Parking Facilities Fund:				
Capital assets, not being depreciated:				
Land	\$ 2,749,838	\$ -	\$ -	\$ 2,749,838
Total capital assets, not being depreciated	2,749,838	-	-	2,749,838
Capital assets, being depreciated:				
Land improvements	382,210	-	-	382,210
Buildings and building improvements	7,274,132	-	-	7,274,132
Equipment	189,318	59,650	-	248,968
Total capital assets, being depreciated	7,845,660	59,650	-	7,905,310
Accumulated depreciation:				
Land improvements	267,970	11,797	-	279,767
Buildings and building improvements	3,098,390	363,108	-	3,461,498
Equipment	163,271	22,250	-	185,521
Total accumulated depreciation	3,529,631	397,155	-	3,926,786
Total capital assets, being depreciated, net	4,316,029	(337,505)	-	3,978,524
Parking facilities fund capital assets, net	\$ 7,065,867	\$ (337,505)	\$ -	\$ 6,728,362
Business-type activities capital assets, net	\$ 22,066,804	\$ (1,319,419)	\$ -	\$ 20,747,385

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

Governmental activities:	
General government	\$ 190,034
Environment and development	2,041,769
Public safety	293,542
Leisure activities	535,671
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,043,641
Total depreciation expense - governmental activities	<u>\$ 4,104,657</u>
Business-type activities:	
Transportation	\$ 1,581,089
Parking facilities	397,155
Total depreciation expense - business-type activities	<u>\$ 1,978,244</u>

A summary of changes in the value of OWASA's capital assets for the year ended June 30, 2004, follows:

	July 1, 2003	Increases	Decreases	June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 14,695,229	\$ 1,701,068	\$ -	\$ 16,396,297
Construction in progress	19,359,183	18,379,203	8,761,030	28,977,356
Total capital assets, not being depreciated	<u>34,054,412</u>	<u>20,080,271</u>	<u>8,761,030</u>	<u>45,373,653</u>
Capital assets, being depreciated:				
Water treatment and distribution	96,474,076	6,208,175	-	102,682,251
Sewer collection and treatment	91,555,842	3,190,383	-	94,746,225
Fixtures and equipment	21,338,921	1,852,707	104,531	23,087,097
Assets under capital lease obligation	260,596	-	-	260,596
Total capital assets, being depreciated	<u>209,629,435</u>	<u>11,251,265</u>	<u>104,531</u>	<u>220,776,169</u>
Less accumulated depreciation for:				
Water treatment and distribution	20,689,368	2,435,140	-	23,124,508
Sewer collection and treatment	19,079,622	2,251,833	-	21,331,455
Fixtures and equipment	10,598,668	1,625,343	68,328	12,155,683
Assets under capital lease obligation	260,596	-	-	260,596
Total accumulated depreciation	<u>50,628,254</u>	<u>6,312,316</u>	<u>68,328</u>	<u>56,872,242</u>
Total capital assets, being depreciated, net	<u>159,001,181</u>	<u>4,938,949</u>	<u>36,203</u>	<u>163,903,927</u>
Total capital assets, net	<u>\$ 193,055,593</u>	<u>\$ 25,019,220</u>	<u>\$ 8,797,233</u>	<u>\$ 209,277,580</u>

F. **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	\$ 1,635,153	\$ 264,642
Accrued payroll and payroll related liabilities	1,079,814	341,275
Deposits	175,616	-
Other accrued liabilities	61,695	-
	\$ 2,952,278	\$ 605,917

G. **Long-Term Debt**

Long-term debt for the Town's governmental activities and the business-type activities for the year ended June 30, 2004 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%	\$ 3,045,000
\$1,800,000 - 1996 serial bonds payable in annual installments of \$100,000 through 2015; interest at 4.8% to 5.55%	1,100,000
\$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%	3,400,000
\$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%	3,875,000
\$3,365,000 - 2002 refunding serial bonds payable in annual installments of \$230,000 to \$815,000 through 2010; interest at 3% to 4%	2,880,000
\$4,250,000 - 2003 serial bonds payable in annual installments of \$75,000 to \$300,000 through 2021; interest at 2% to 4%	4,100,000
Total general obligation bonds	<u>\$ 18,400,000</u>

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	\$ 3,018,267
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	3,508,507
Total installment notes payables	<u>\$ 6,526,774</u>

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>\$ 6,380,000</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
2005	\$ 1,675,000	\$ 809,970	\$ 2,484,970
2006	1,980,000	739,000	2,719,000
2007	1,665,000	652,558	2,317,558
2008	1,665,000	581,063	2,246,063
2009	1,650,000	511,550	2,161,550
2010-2014	6,040,000	1,617,125	7,657,125
2015-2019	3,300,000	514,575	3,814,575
2020-2021	425,000	22,000	447,000
	<u>\$ 18,400,000</u>	<u>\$ 5,447,841</u>	<u>\$ 23,847,841</u>

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 1,515,398	\$ 218,397	\$ 1,733,795
2006	1,096,359	165,988	1,262,347
2007	875,136	131,502	1,006,638
2008	747,156	102,292	849,448
2009	761,929	74,513	836,442
2010-2014	1,530,796	103,415	1,634,211
	<u>\$ 6,526,774</u>	<u>\$ 796,107</u>	<u>\$ 7,322,881</u>

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 220,000	\$ 234,025	\$ 454,025
2006	235,000	225,793	460,793
2007	245,000	217,005	462,005
2008	250,000	207,848	457,848
2009	265,000	198,505	463,505
2010-2014	1,465,000	971,805	2,436,805
2015-2019	1,785,000	474,433	2,259,433
2020-2024	1,915,000	114,608	2,029,608
	<u>\$ 6,380,000</u>	<u>\$ 2,644,022</u>	<u>\$ 9,024,022</u>

Long-term debt activity for the year ended June 30, 2004 was as follows:

	July 1, 2003	Additions	Reductions	June 30, 2004	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 20,070,000	\$ -	\$ 1,670,000	\$ 18,400,000	\$ 1,675,000
Installment notes payable	5,442,139	2,613,100	1,528,465	6,526,774	1,515,398
Separation allowance	411,568	8,212	-	419,780	-
Compensated absences	1,598,413	1,122,106	1,188,304	1,532,215	82,566
Long-term debt	<u>\$ 27,522,120</u>	<u>\$ 3,743,418</u>	<u>\$ 4,386,769</u>	<u>26,878,769</u>	<u>3,272,964</u>
Business-type activities:					
Certificates of participation	\$ 6,350,000	\$ 6,690,000	\$ 6,660,000	\$ 6,380,000	\$ 220,000
Compensated absences	328,076	310,980	339,770	299,286	16,889
Long-term debt	<u>\$ 6,678,076</u>	<u>\$ 7,000,980</u>	<u>\$ 6,999,770</u>	<u>\$ 6,679,286</u>	<u>\$ 236,889</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, 2004, the legal debt margin for the Town was approximately \$326 million.

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

OWASA's long-term debt as of June 30, 2004 consists of the following:

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 \$718,015 at June 30, 2004; 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 (1.05% at June 30, 2004), final maturity July 2029, net of unamortized premium of \$718,015 at June 30, 2004	\$ 41,983,015
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 \$626,915 at June 30, 2004	13,208,085

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 \$94,563 at June 30, 2004	33,749,563
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 2019, net of unamortized premium of \$98,882 at June 30, 2004	13,113,882
Revenue and revenue refunding bonds payable, Series 1993 Revenue and Revenue Refunding Bonds, issued December 1, 1993, with coupon rates of 4.25% to 5.2%	-
Notes payable, collateralized by land, payable in installments through February 2005, with interest of 8.0%	23,606
	102,078,151
Less current maturities:	
Bonds payable, net of unamortized premiums and deferred refunding gains and losses	2,373,605
Notes payable	23,606
	2,397,211
Total long-term debt	\$ 99,680,940

OWASA debt maturities are as follows:

	Maturities	Amortization of Premiums and Deferred Refunding Losses	Total	Interest
2005	\$ 2,393,606	\$ (3,605)	\$ 2,397,211	\$ 2,661,626
2006	3,290,000	13,760	3,276,240	4,294,178
2007	4,060,000	21,910	4,038,090	4,093,199
2008	3,805,000	(850)	3,805,850	3,960,014
2009	4,285,000	16,440	4,268,560	3,820,235
2010-2014	23,040,000	(24,734)	23,064,734	16,363,024
2015-2019	21,875,000	(202,009)	22,077,009	11,254,631
2020-2024	18,820,000	21,733	18,798,267	2,942,475
2025-2029	17,595,000	(127,190)	17,722,190	2,173,625
2030-2034	2,630,000	-	2,630,000	92,050
Total	\$ 101,793,606	\$ (284,545)	\$ 102,078,151	\$ 51,655,057

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

In 2003, OWASA issued \$13,875,000 of debt, at a premium of \$683,018 in Series 2003 Revenue Refunding Bonds to refund all but two installments of the remaining Series 1993 Revenue Bonds. OWASA irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the refunded bonds as they become due. As of June 30, 2004, the refunded Series are 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, 2004, the refunded Series are 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 1993, OWASA issued \$32,028,500, net of a discount of \$136,500 in Series 1993 Revenue and Revenue Refunding Bonds to provide for the refunding of Series 1985A and Series 1986A Revenue Bonds and to finance construction and improvement projects. OWASA irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the Series 1985A and Series 1986A Revenue Bonds as they become due. As of June 30, 2004, both series were fully redeemed.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2,809,000. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, this loss, net of accumulated amortization, is reported in the accompanying financial statements as a deduction from bonds payable and is being amortized over the life of the new debt, using the effective interest method.

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, 2004 was \$2,200,000.

OWASA's long-term debt activity for the year ended June 30, 2004 is as follows:

	July 1, 2003	Additions	Reductions	June 30, 2004	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 63,570,000	\$ 41,265,000	\$ 3,065,000	\$ 101,770,000	\$ 2,370,000
Less deferred amounts:					
For issuance premium	1,100,407	721,553	86,600	1,735,360	112,060
For issuance discounts and deferred refunding	(1,588,826)	-	(138,011)	(1,450,815)	(108,455)
Total bonds payable	63,081,581	41,986,553	3,013,589	102,054,545	2,373,605
Notes payable	68,084	-	44,478	23,606	23,606
	\$ 63,149,665	\$ 41,986,553	\$ 3,058,067	\$ 102,078,151	\$ 2,397,211

H. Interfund Receivables, Payables and Transfers

A schedule of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Nonmajor governmental fund	\$ 2,473
Nonmajor governmental fund	Nonmajor governmental fund	30,260
Transportation fund	Nonmajor governmental fund	262,740
		<u>\$ 295,473</u>

A schedule of interfund transfers at June 30, 2004 is as follows:

Transfers To	Transfers From	Amount
General fund	Parking facility fund	\$ 200,159
General fund	Nonmajor governmental fund	45,000
Nonmajor governmental fund	General fund	3,804,171
Transportation fund	General fund	1,225
Capital projects ordinance fund	Nonmajor governmental fund	41,250
Nonmajor governmental fund	Transportation fund	151,924
		<u>\$ 4,243,729</u>

I. Employees' Retirement System

I. 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 4.89% 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, 2004, 2003, and 2002 were \$1,238,062, \$1,172,362 and \$1,128,974, respectively. OWASA's contributions to LGERS for the years ended June 30, 2004, 2003, and 2002 were \$290,891, \$295,896 and \$277,840, 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, 2003, the Separation Allowance's membership consisted of:

Retirees receiving benefits	17
Active Plan members	<u>103</u>
TOTAL	<u>120</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, 2003 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 5.9% to 9.8% 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	\$ 197,234
b	Interest on net pension obligation	28,892
c	Adjustment to annual required contribution	(21,863)
d	Annual pension cost	\$ <u>204,263</u>
e	Employer contributions made for fiscal year ended 6/30/04	182,994
f	Increase in net pension obligation (d) – (e)	\$ <u>21,269</u>
g	Net pension obligation, beginning of fiscal year	398,511
h	Net pension obligation, end of fiscal year (f) + (g)	\$ <u><u>419,780</u></u>

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation, End of Year
6/30/2002	172,463	92.04%	391,539
6/30/2003	195,967	89.78%	411,568
6/30/2004	204,263	89.59%	419,780

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, 2004 were \$390,884, which consisted of \$246,035 from the Town and \$144,849 from law enforcement officers.

J. Deferred Compensation Plan

The Town offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 401(k). Branch Banking and Trust Company administered the plan until September 2003. Currently, the plan is administered by Prudential Investment Management Services. The Town contributes up to 5% of qualified salary. For the year ended June 30, 2004, the contribution of the Town totaled \$1,024,282.

K. 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, 134 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2004, the Town made payments for post-retirement health benefit premiums of \$456,174 and the retirees made payments of \$165,222.

The Town has elected to provide death benefits to employees through the Death Trust Plan for members of the Local Governmental Employees' Retirement System (Death Trust Plan), a multiple-employer, State administered plan funded on a one-year term cost basis. Lump-sum death benefits are provided to employees 1) who die in active service after one year of contributing membership in the System, or 2) 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. Currently, the Town has nineteen retirees and terminated employees who are eligible to receive death benefits.

The death benefit payment is equal to the employee's 12 highest consecutive months salary during the 24 months prior to his/her death, but the benefit may not exceed \$20,000. All death benefit payments are made from the Death Trust Plan. The Town has no liability beyond the payment of monthly contributions for the death benefit. Annually, the State sets the Town's monthly contribution rate for death benefits.

Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. For the fiscal year ended June 30, 2004, the Town made contributions to the State for death benefits of \$33,478. The Town's required contribution is based on covered payroll: 0.14% for law enforcement officers and 0.13% for other employees. The contributions to the Death Trust Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Because the benefit payments are made by the various State-administered plans and not by the Town, the Town does not determine the number of eligible participants.

L. Fund Balance Reserves

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

Fund Balance Reserves

General:

Reserve for encumbrances	\$ 858,238
Reserve by State Statute	3,251,528
Reserve for capital improvements	427,112
Reserve for police	100,000
Reserve for inventory	2,209
	<u>\$ 4,639,087</u>

Capital Projects Ordinance:

Reserve by State Statute	\$ 160,672
Reserve for capital improvements	1,161,166
	<u>\$ 1,321,838</u>

Other Governmental Funds:

Reserve for encumbrances	\$ 50,203
Reserve by State Statute	952,099
Reserve for community development	96,751
Reserve for capital improvements	914,590
Reserve for debt service	176,247
Reserve for inventory	170,443
Reserve for land in trust	28,957
Reserve for interest subsidies	387,872
Reserve for aid to Library operations	128,152
	<u>\$ 2,905,314</u>

M. Commitments and Contingencies

The Town has commitments related to capital improvements of approximately \$2,326,000 at June 30, 2004.

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 \$40,387,000 at June 30, 2004.

The Town and OWASA have 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. Managements of the Town and OWASA believe that any required refunds would be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

N. Risk Management

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

The Town 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, 2004 for outstanding claims and incurred but not reported claims are not considered material and, therefore, no provision is recorded within the financial statements. The amount of settlements has not exceeded insurance coverage in any of the past three years.

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

O. Restatement

Non-depreciable capital assets at June 30, 2003 have been restated by an increase of \$7,744,188. This correction was made to account for management's identification of certain land underlying the general governmental infrastructure of the Town that had previously not been accounted for. The adjustment resulted in a \$7,744,188 increase in the capital assets, net of related debt reported for the governmental activities of the Town as of June 30, 2003. This correction had no effect on the change in net assets for the governmental activities of the Town for the year ended June 30, 2003.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2004 that have effective dates 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 42, "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries."
- GASB Statement Number 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans."
- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

Additionally, the Governmental Accounting Standards Board issued Statement Number 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement Number 3" and Statement Number 44, "Economic Condition Reporting: The Statistical Section" which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report (CAFR).

**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)
12/31/1998	\$ -	\$ 1,153,044	\$ 1,153,044	-	\$ 3,325,225	34.7 %
12/31/1999	-	1,290,755	1,290,755	-	3,710,978	34.8
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

**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
1999	\$ 126,328	40.70 %
2000	148,037	96.48
2001	160,296	99.64
2002	164,966	96.22
2003	188,613	93.27
2004	197,234	92.78

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, 2003
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	27 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	5.9% to 9.8%
*Includes inflation at	3.75%
Cost-of-living adjustments	None

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.

Transit Grant Projects Ordinance Fund - This fund is used to account for federal grants restricted for capital equipment, capital improvements and capital planning activities of the Town's public transit system.

Public Housing Operating Fund - This fund is used to account for federal grants restricted for the Town's conventional public housing programs.

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.

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, 2004 (With Comparative Totals as of June 30, 2003)

	Total Special Revenue Funds	Total Capital Projects Funds	Debt Service Fund	Comparative Totals	
				2004	2003
ASSETS					
Cash and cash equivalents	\$ 1,604,387	\$ 859,071	\$ 176,247	\$ 2,639,705	\$ 2,125,793
Receivables					
Governmental units and agencies	668,221	72,904	-	741,125	307,697
Other	180,714	-	-	180,714	69,483
Due from other funds	30,260	-	-	30,260	9,029
Inventories and other assets	170,443	-	-	170,443	162,596
Restricted cash and cash equivalents	60,192	889,431	-	949,623	773,073
TOTAL ASSETS	<u>\$ 2,714,217</u>	<u>\$ 1,821,406</u>	<u>\$ 176,247</u>	<u>\$ 4,711,870</u>	<u>\$ 3,447,671</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other funds	\$ 295,743	\$ -	\$ -	\$ 295,743	\$ 85,714
Accounts payable	221,893	338,813	-	560,706	193,006
Accrued liabilities	53,007	-	-	53,007	51,109
Deferred revenues	90,367	-	-	90,367	32,472
Other	53,777	-	-	53,777	55,562
Total liabilities	<u>714,787</u>	<u>338,813</u>	<u>-</u>	<u>1,053,600</u>	<u>417,863</u>
FUND BALANCES					
Reserved for encumbrances	50,203	-	-	50,203	154,482
Reserved by State statute	879,195	72,904	-	952,099	28,528
Reserved for capital improvements	25,159	889,431	-	914,590	184,540
Reserved for inventory	170,443	-	-	170,443	146,058
Reserved for debt service	-	-	176,247	176,247	171,968
Reserved for community development	96,751	-	-	96,751	-
Reserved for interest subsidies	387,872	-	-	387,872	357,155
Reserved for land in trust	28,957	-	-	28,957	99,357
Reserved for aid to library operations	128,152	-	-	128,152	106,212
Unreserved					
Designated for subsequent year's expenditures	131,818	-	-	131,818	236,698
Undesignated	100,880	520,258	-	621,138	1,544,810
Total fund balances	<u>1,999,430</u>	<u>1,482,593</u>	<u>176,247</u>	<u>3,658,270</u>	<u>3,029,808</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,714,217</u>	<u>\$ 1,821,406</u>	<u>\$ 176,247</u>	<u>\$ 4,711,870</u>	<u>\$ 3,447,671</u>

TOWN OF CHAPEL HILL, NORTH CAROLINA

OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2004

	Transit Special Revenue Fund	Public Housing Operating	Public Housing Projects	Transitional Housing
ASSETS				
Cash and cash equivalents	\$ 31,335	\$ 836,868	\$ 500	\$ 9,189
Receivables				
Governmental units and agencies	551,054	-	33,003	-
Other	-	35,111	-	-
Due from other funds	-	30,260	-	-
Inventories and other assets	-	153,905	-	-
Restricted cash and cash equivalents	-	60,192	-	-
TOTAL ASSETS	\$ 582,389	\$ 1,116,336	\$ 33,503	\$ 9,189
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	\$ 262,740	\$ -	\$ 33,003	\$ -
Accounts payable	95,984	46,016	500	3,195
Accrued liabilities	2,374	42,950	-	-
Unearned revenues	55,256	35,111	-	-
Other	-	53,777	-	-
Total Liabilities	416,354	177,854	33,503	3,195
FUND BALANCES				
Reserved for encumbrances	-	50,203	-	-
Reserved by State statute	551,054	65,371	33,003	-
Reserved for capital improvements	25,159	-	-	-
Reserved for inventory	-	153,905	-	-
Reserved for community development	-	-	-	-
Reserved for interest subsidies	-	-	-	-
Reserved for land in trust	-	-	-	-
Reserved for aid to library operations	-	-	-	-
Unreserved				
Designated for subsequent year's expenditures	-	131,818	-	-
Undesignated	(410,178)	537,185	(33,003)	5,994
Total fund balances	166,035	938,482	-	5,994
TOTAL LIABILITIES AND FUND BALANCES	\$ 582,389	\$ 1,116,336	\$ 33,503	\$ 9,189

Schedule 2

Revolving Acquisition	Community Development Entitlement	Downtown Service District	Cable Public Access	Land Trust Fund	Housing Loan Trust Fund	Library Gift Fund	Total Special Revenue Funds
\$ 88,686	\$ 51,145	\$ 28,586	\$ 15,401	\$ 28,957	\$ 385,568	\$ 128,152	\$ 1,604,387
-	84,164	-	-	-	-	-	668,221
115,000	-	-	28,299	-	2,304	-	180,714
-	-	-	-	-	-	-	30,260
-	-	-	-	16,538	-	-	170,443
-	-	-	-	-	-	-	60,192
<u>\$ 203,686</u>	<u>\$ 135,309</u>	<u>\$ 28,586</u>	<u>\$ 43,700</u>	<u>\$ 45,495</u>	<u>\$ 387,872</u>	<u>\$ 128,152</u>	<u>\$ 2,714,217</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 295,743
-	30,875	17,024	28,299	-	-	-	221,893
-	7,683	-	-	-	-	-	53,007
-	-	-	-	-	-	-	90,367
-	-	-	-	-	-	-	53,777
-	<u>38,558</u>	<u>17,024</u>	<u>28,299</u>	-	-	-	<u>714,787</u>
-	-	-	-	-	-	-	50,203
115,000	84,164	-	28,299	-	2,304	-	879,195
-	-	-	-	16,538	-	-	25,159
-	96,751	-	-	-	-	-	170,443
-	-	-	-	-	387,872	-	96,751
-	-	-	-	28,957	-	-	387,872
-	-	-	-	-	-	128,152	28,957
-	-	-	-	-	-	-	128,152
-	-	-	-	-	-	-	131,818
<u>88,686</u>	<u>(84,164)</u>	<u>11,562</u>	<u>(12,898)</u>	-	<u>(2,304)</u>	-	<u>100,880</u>
<u>203,686</u>	<u>96,751</u>	<u>11,562</u>	<u>15,401</u>	<u>45,495</u>	<u>387,872</u>	<u>128,152</u>	<u>1,999,430</u>
<u>\$ 203,686</u>	<u>\$ 135,309</u>	<u>\$ 28,586</u>	<u>\$ 43,700</u>	<u>\$ 45,495</u>	<u>\$ 387,872</u>	<u>\$ 128,152</u>	<u>\$ 2,714,217</u>

OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

COMBINING BALANCE SHEET
JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)

	Capital Projects	Capital Reserve	Comparative Totals	
			2004	2003
ASSETS				
Cash and cash equivalents	\$ 859,071	\$ -	\$ 859,071	\$ 236,642
Due from governmental units and agencies	72,904	-	72,904	20,433
Restricted cash and cash equivalents	<u>703,027</u>	<u>186,404</u>	<u>889,431</u>	<u>711,617</u>
TOTAL ASSETS	<u>\$ 1,635,002</u>	<u>\$ 186,404</u>	<u>\$ 1,821,406</u>	<u>\$ 968,692</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 338,813	\$ -	\$ 338,813	\$ 48,968
Total liabilities	<u>338,813</u>	<u>-</u>	<u>338,813</u>	<u>48,968</u>
FUND BALANCES				
Reserved by state statute	72,904	-	72,904	-
Reserved for capital improvements	703,027	186,404	889,431	184,540
Unreserved				
Undesignated	<u>520,258</u>	<u>-</u>	<u>520,258</u>	<u>735,184</u>
Total fund balances	<u>1,296,189</u>	<u>186,404</u>	<u>1,482,593</u>	<u>919,724</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,635,002</u>	<u>\$ 186,404</u>	<u>\$ 1,821,406</u>	<u>\$ 968,692</u>

OTHER GOVERNMENTAL FUNDS

COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)

	Total Special Revenue Funds	Total Capital Projects Funds	Debt Service Fund	Comparative Totals	
				2004	2003
REVENUES					
Taxes	\$ 69,127	\$ -	\$ -	\$ 69,127	\$ 71,070
Intergovernmental revenues					
Federal government	2,254,381	-	-	2,254,381	3,487,570
State government	114,677	-	-	114,677	154,614
Other	-	165,854	-	165,854	143,099
Interest on investments	14,799	7,669	2,889	25,357	34,115
Franchise rental fees	-	62,994	-	62,994	59,973
Dwelling rental	317,076	-	-	317,076	378,181
Program income	186,156	-	-	186,156	198,829
Cable Public Access Reserves	113,017	-	-	113,017	110,341
Library donations	65,490	-	-	65,490	-
Other	309,185	61,233	-	370,418	197,329
Total revenues	3,443,908	297,750	2,889	3,744,547	4,835,121
EXPENDITURES					
Environment and development	3,831,036	-	-	3,831,036	4,992,732
Capital projects	-	1,983,281	-	1,983,281	993,244
Debt service:					
Principal	-	-	1,670,000	1,670,000	1,560,000
Interest and fiscal charges	-	-	880,610	880,610	782,855
Total expenditures	3,831,036	1,983,281	2,550,610	8,364,927	8,328,831
DEFICIENCY OF REVENUES OVER EXPENDITURES	(387,128)	(1,685,531)	(2,547,721)	(4,620,380)	(3,493,710)
OTHER FINANCING SOURCES (USES)					
Proceeds from financing	345,000	1,050,000	-	1,395,000	-
Transfer from other funds	157,471	1,239,650	2,552,000	3,949,121	3,929,692
Transfer to other funds	(54,029)	(41,250)	-	(95,279)	(635,450)
Total other financing sources	448,442	2,248,400	2,552,000	5,248,842	3,294,242
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	61,314	562,869	4,279	628,462	(199,468)
FUND BALANCES, BEGINNING	1,938,116	919,724	171,968	3,029,808	3,229,276
FUND BALANCES, ENDING	\$ 1,999,430	\$ 1,482,593	\$ 176,247	\$ 3,658,270	\$ 3,029,808

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, 2004**

	Transit Special Revenue Fund	Public Housing Operating	Public Housing Projects	Transitional Housing
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues				
Federal government	680,293	1,014,675	198,739	-
State government	114,677	-	-	-
Interest on investments	-	7,382	-	-
Dwelling rental	-	317,076	-	-
Program income	-	-	-	3,373
Cable Public Access Reserves	-	-	-	-
Library donations	-	-	-	-
Other	19,744	76,681	15,112	594
Total revenues	814,714	1,415,814	213,851	3,967
EXPENDITURES				
Environment and development	1,308,156	1,505,921	213,851	1,995
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(493,442)	(90,107)	-	1,972
OTHER FINANCING SOURCES				
Proceeds from financing	345,000	-	-	-
Transfers - in	148,442	-	-	-
Transfers - out	-	-	-	-
Total other financing sources (uses)	493,442	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(90,107)	-	1,972
FUND BALANCES, BEGINNING	166,035	1,028,589	-	4,022
FUND BALANCES, ENDING	\$ 166,035	\$ 938,482	\$ -	\$ 5,994

Schedule 5

Revolving Acquisition	Community Development Entitlement	Downtown Service District	Cable Public Access	Land Trust Fund	Housing Loan Trust Fund	Library Gift Fund	Total Special Revenue Funds
\$ -	\$ -	\$ 69,127	\$ -	\$ -	\$ -	\$ -	\$ 69,127
-	313,314	-	-	47,360	-	-	2,254,381
-	-	-	-	-	-	-	114,677
1,186	-	397	217	-	4,167	1,450	14,799
-	-	-	-	-	-	-	317,076
-	153,826	-	-	28,957	-	-	186,156
-	-	-	113,017	-	-	-	113,017
-	-	-	-	-	-	65,490	65,490
52,500	-	-	-	-	144,554	-	309,185
53,686	467,140	69,524	113,234	76,317	148,721	66,940	3,443,908
-	361,360	69,524	113,017	130,179	127,033	-	3,831,036
53,686	105,780	-	217	(53,862)	21,688	66,940	(387,128)
-	-	-	-	-	-	-	345,000
-	-	-	-	-	9,029	-	157,471
-	(9,029)	-	-	-	-	(45,000)	(54,029)
-	(9,029)	-	-	-	9,029	(45,000)	448,442
53,686	96,751	-	217	(53,862)	30,717	21,940	61,314
150,000	-	11,562	15,184	99,357	357,155	106,212	1,938,116
<u>\$ 203,686</u>	<u>\$ 96,751</u>	<u>\$ 11,562</u>	<u>\$ 15,401</u>	<u>\$ 45,495</u>	<u>\$ 387,872</u>	<u>\$ 128,152</u>	<u>\$ 1,999,430</u>

OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 YEAR ENDED JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)**

	Capital Projects	Capital Reserve	Comparative Totals	
			2004	2003
REVENUES				
Interest on investments	\$ 5,805	\$ 1,864	\$ 7,669	\$ 8,114
Franchise rental fees	62,994	-	62,994	59,973
Intergovernmental revenues - other	165,854	-	165,854	143,099
Other	61,233	-	61,233	25,998
Total revenues	<u>295,886</u>	<u>1,864</u>	<u>297,750</u>	<u>237,184</u>
EXPENDITURES				
Capital projects:				
Municipal facilities	727,646	-	727,646	202,329
Street improvements and sidewalks	500,464	-	500,464	289,845
Parks, recreation and open space	681,629	-	681,629	434,761
Technology and communications	26,021	-	26,021	65,589
Public safety	47,521	-	47,521	720
Total expenditures	<u>1,983,281</u>	<u>-</u>	<u>1,983,281</u>	<u>993,244</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,687,395)</u>	<u>1,864</u>	<u>(1,685,531)</u>	<u>(756,060)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from financing	1,050,000	-	1,050,000	-
Transfer from General Fund	1,239,650	-	1,239,650	708,000
Transfer to Capital Projects Ordinance Fund	(41,250)	-	(41,250)	(7,000)
Total other financing sources	<u>2,248,400</u>	<u>-</u>	<u>2,248,400</u>	<u>701,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>561,005</u>	<u>1,864</u>	<u>562,869</u>	<u>(55,060)</u>
FUND BALANCES, BEGINNING	<u>735,184</u>	<u>184,540</u>	<u>919,724</u>	<u>974,784</u>
FUND BALANCES, ENDING	<u>\$ 1,296,189</u>	<u>\$ 186,404</u>	<u>\$ 1,482,593</u>	<u>\$ 919,724</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, 2004 (With Comparative Totals as of June 30, 2003)

	Vehicle	Vehicle	Computer	Comparative Totals	
	Replacement	Maintenance	Equipment	2004	2003
	Fund	Fund	Fund		
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 116,789	\$ 70,618	\$ -	\$ 187,407	\$ 23,786
Accounts receivable	-	19,437	-	19,437	7,941
Inventories	-	74,440	-	74,440	77,616
Total current assets	<u>116,789</u>	<u>164,495</u>	<u>-</u>	<u>281,284</u>	<u>109,343</u>
NONCURRENT ASSETS					
Restricted cash and cash equivalents	885,310	-	363,900	1,249,210	1,212,170
Capital assets, net of depreciation	<u>3,250,563</u>	<u>4,553</u>	<u>14,155</u>	<u>3,269,271</u>	<u>3,371,622</u>
Total noncurrent assets	<u>4,135,873</u>	<u>4,553</u>	<u>378,055</u>	<u>4,518,481</u>	<u>4,583,792</u>
TOTAL ASSETS	<u>4,252,662</u>	<u>169,048</u>	<u>378,055</u>	<u>4,799,765</u>	<u>4,693,135</u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	79,045	8,556	26,372	113,973	51,021
Accrued liabilities	-	53,228	-	53,228	62,421
Installment purchase agreements	<u>940,820</u>	<u>-</u>	<u>160,877</u>	<u>1,101,697</u>	<u>1,158,898</u>
Total current liabilities	<u>1,019,865</u>	<u>61,784</u>	<u>187,249</u>	<u>1,268,898</u>	<u>1,272,340</u>
NONCURRENT LIABILITIES					
Installment purchase agreements	<u>2,230,547</u>	<u>-</u>	<u>176,263</u>	<u>2,406,810</u>	<u>2,290,406</u>
TOTAL LIABILITIES	<u>3,250,412</u>	<u>61,784</u>	<u>363,512</u>	<u>3,675,708</u>	<u>3,562,746</u>
NET ASSETS					
Invested in capital assets, net of related debt	79,196	4,553	(322,985)	(239,236)	(77,682)
Restricted	885,310	-	363,900	1,249,210	1,212,170
Unrestricted	<u>37,744</u>	<u>102,711</u>	<u>(26,372)</u>	<u>114,083</u>	<u>(4,099)</u>
TOTAL NET ASSETS	<u>\$ 1,002,250</u>	<u>\$ 107,264</u>	<u>\$ 14,543</u>	<u>\$ 1,124,057</u>	<u>\$ 1,130,389</u>

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)

	Vehicle	Vehicle	Computer	Comparative Totals	
	Replacement	Maintenance	Equipment	2004	2003
	Fund	Fund	Replacement		
			Fund		
OPERATING REVENUES					
Charges for services	\$ 1,040,637	\$ 997,759	\$ 200,000	\$ 2,238,396	\$ 2,048,120
OPERATING EXPENSES					
Depreciation and amortization	1,035,623	828	7,191	1,043,641	1,140,984
Personnel	-	452,385	-	452,385	498,163
Operations	14,666	458,464	208,242	681,372	539,120
Total operating expenses	1,050,289	911,677	215,433	2,177,399	2,178,267
OPERATING INCOME (LOSS)	(9,652)	86,082	(15,433)	60,997	(130,147)
NONOPERATING REVENUES					
(EXPENSES)					
Interest on investments	3,817	537	2,504	6,859	16,608
Interest expense	(112,445)	-	(5,389)	(117,834)	(157,676)
Gain on sale of fixed assets	26,100	-	-	26,100	102,064
Other	5,853	10,482	-	16,335	-
Total nonoperating revenues (expenses), net	(76,675)	11,019	(2,885)	(68,540)	(39,004)
INCOME (LOSS) BEFORE TRANSFERS	(86,327)	97,101	(18,318)	(7,544)	(169,151)
TRANSFERS					
Transfers in	-	1,212	-	1,212	-
CHANGE IN NET ASSETS	(86,327)	98,313	(18,318)	(6,332)	(169,151)
NET ASSETS, BEGINNING	1,088,577	8,951	32,861	1,130,389	1,299,540
NET ASSETS, ENDING	\$ 1,002,250	\$ 107,264	\$ 14,543	\$ 1,124,057	\$ 1,130,389

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)

	Vehicle	Vehicle	Computer	Comparative Totals	
	Replacement Fund	Maintenance Fund	Equipment Replacement Fund	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 1,040,637	\$ 986,263	\$ 200,000	\$ 2,226,900	\$ 2,125,279
Payments to employees	-	(461,578)	-	(461,578)	(454,887)
Payments to suppliers	56,640	(485,143)	(186,741)	(615,244)	(804,125)
Net cash provided by operating activities	1,097,277	39,542	13,259	1,150,078	866,267
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Other	5,853	10,482	-	16,335	-
Transfers from other funds	-	1,212	-	1,212	-
Net cash provided by noncapital financing activities	5,853	11,694	-	17,547	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from installment purchase agreements	1,028,100	-	190,000	1,218,100	708,100
Principal paid on installment purchase agreements	(1,062,538)	-	(96,359)	(1,158,897)	(1,274,031)
Interest paid on installment purchase agreements	(112,445)	-	(5,389)	(117,834)	(157,676)
Proceeds from sale of capital assets	26,100	-	-	26,100	102,064
Acquisition and construction of capital assets	(941,471)	180	-	(941,291)	(666,492)
Net cash provided by (used in) capital and related financing activities	(1,062,254)	180	88,252	(973,822)	(1,288,035)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	3,817	537	2,504	6,858	16,608
Net cash provided by investing activities	3,817	537	2,504	6,858	16,608
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	44,693	51,953	104,015	200,661	(405,160)
CASH AND INVESTMENTS, BEGINNING	957,406	18,665	259,885	1,235,956	1,641,116
CASH AND INVESTMENTS, ENDING	\$ 1,002,099	\$ 70,618	\$ 363,900	\$ 1,436,617	\$ 1,235,956

Continued

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2004 (With Comparative Totals as of June 30, 2003)

	Vehicle	Vehicle	Computer	Comparative Totals for	
	Replacement	Maintenance	Equipment	Internal Service Funds	
	Fund	Fund	Fund	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ (9,652)	\$ 86,082	\$ (15,433)	\$ 60,997	\$ (130,147)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	1,035,623	828	7,191	1,043,642	1,140,984
Changes in assets and liabilities:					
Receivables	-	(11,496)	-	(11,496)	77,159
Inventories	-	3,176	-	3,176	(9,414)
Accounts payable	71,306	(29,855)	21,501	62,952	(255,591)
Accrued liabilities	-	(9,193)	-	(9,193)	43,276
Net cash provided by operating activities	<u>\$ 1,097,277</u>	<u>\$ 39,542</u>	<u>\$ 13,259</u>	<u>\$ 1,150,078</u>	<u>\$ 866,267</u>

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CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE OF CHANGE BY FUNCTION AND ACTIVITY ¹
YEAR ENDED JUNE 30, 2004

Function and Activity	Governmental Funds Capital Assets as Restated July 1, 2003	Additions	Deductions	Governmental Funds Capital Assets June 30, 2004
General Government				
Town Manager	\$ 169,367	\$ -	\$ -	\$ 169,367
Personnel	6,491	-	-	6,491
Finance	418,930	9,413	-	428,343
Information Systems	39,565	52,438	-	92,003
Legal	5,960	-	-	5,960
General Government Buildings	3,094,288	-	-	3,094,288
Total General Government	<u>3,734,601</u>	<u>61,851</u>	<u>-</u>	<u>3,796,452</u>
Environment and Development				
Planning	93,697	-	-	93,697
Inspections	40,537	-	-	40,537
Engineering	472,197	131,911	-	604,108
Community Development	1,421,461	233,225	-	1,654,686
Housing	16,270,296	744,781	26,938	16,988,139
Transitional Housing	117,500	-	-	117,500
Homeless Shelter	1,470,142	-	-	1,470,142
Public Works	38,741,656	1,264,872	100,055	39,906,473
Total Environment and Development	<u>58,627,486</u>	<u>2,374,789</u>	<u>126,993</u>	<u>60,875,282</u>
Public Safety				
Police	2,448,986	7,000	62,574	2,393,412
Court Facility	255,709	-	-	255,709
Fire	3,794,119	-	-	3,794,119
Total Public Safety	<u>6,498,814</u>	<u>7,000</u>	<u>62,574</u>	<u>6,443,240</u>
Leisure				
Parks and Recreation	13,468,273	4,336,136	252,318	17,552,091
Library	7,272,215	85,400	143,705	7,213,910
Total Leisure	<u>20,740,488</u>	<u>4,421,536</u>	<u>396,023</u>	<u>24,766,001</u>
Land and Leasehold Improvements and Buildings				
Acquired Prior to July 1, 1977 Not Allocated to Function	3,344,243	-	-	3,344,243
Construction in Progress	8,510,089	2,337,371	3,535,573	7,311,887
Total General Fixed Assets	<u>\$ 101,455,721</u>	<u>\$ 9,202,547</u>	<u>\$ 4,121,163</u>	<u>\$ 106,537,105</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally the capital assets of internal service funds are included as governmental activities in the statement of net assets.

TOWN OF CHAPEL HILL, NORTH CAROLINA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF FUNCTION AND ACTIVITY¹
YEAR ENDED JUNE 30, 2004

Function and Activity	Land	Land Improvements	Buildings and Building Improvements
General Government	\$ -	\$ -	\$ -
Town Manager	-	-	-
Personnel	-	-	-
Finance	-	-	-
Legal	-	-	-
Information Systems	-	-	3,094,288
General Government Buildings	-	-	3,094,288
Total General Government	-	-	3,094,288
Environment and Development	-	47,955	-
Planning	-	-	-
Inspections	-	389,723	-
Engineering	383,987	326,923	881,062
Community Development	1,701,659	284,780	14,371,486
Housing	-	-	117,500
Transitional Housing	259,128	-	1,211,014
Homeless Shelter	9,647,724	1,993,834	152,766
Public Works	11,992,498	3,043,215	16,733,828
Total Environment and Development	-	-	-
Public Safety	-	-	1,375,355
Police	255,709	-	-
Court Facility	334,961	-	1,779,594
Fire	590,670	-	3,154,949
Total Public Safety	-	-	-
Leisure	8,952,195	2,166,889	6,163,667
Parks and Recreation	734,128	-	5,132,412
Library	9,686,323	2,166,889	11,296,079
Total Leisure	-	-	-
Land and Leasehold Improvements and Buildings	-	-	-
Acquired Prior To July 1, 1977 not Allocated to Function	1,593,062	-	1,751,181
Construction In Progress	-	-	-
Total Capital Assets	\$ 23,862,553	\$ 5,210,104	\$ 36,030,325

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally the capital assets of internal service funds are included as governmental activities in the statement of net assets.

Schedule II

Equipment	Infrastructure	Construction in Progress	Total
\$ 169,367	\$ -	\$ -	\$ 169,367
6,491	-	-	6,491
428,343	-	-	428,343
5,960	-	-	5,960
92,003	-	-	92,003
-	-	-	3,094,288
<u>702,164</u>	<u>-</u>	<u>-</u>	<u>3,796,452</u>
45,742	-	-	93,697
40,537	-	-	40,537
214,385	-	-	604,108
62,714	-	-	1,654,686
630,214	-	-	16,988,139
-	-	-	117,500
-	-	-	1,470,142
2,814,349	25,297,800	-	39,906,473
<u>3,807,941</u>	<u>25,297,800</u>	<u>-</u>	<u>60,875,282</u>
1,018,057	-	-	2,393,412
-	-	-	255,709
1,679,564	-	-	3,794,119
<u>2,697,621</u>	<u>-</u>	<u>-</u>	<u>6,443,240</u>
269,340	-	-	17,552,091
1,347,370	-	-	7,213,910
<u>1,616,710</u>	<u>-</u>	<u>-</u>	<u>24,766,001</u>
-	-	-	3,344,243
-	-	7,311,887	7,311,887
<u>\$ 8,824,436</u>	<u>\$ 25,297,800</u>	<u>\$ 7,311,887</u>	<u>\$ 106,537,105</u>

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**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
TRANSIT GRANT PROJECTS ORDINANCE FUND
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2004**

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
REVENUES				
Intergovernmental revenue				
Federal government	\$ 4,103,834	\$ 1,672,112	\$ 680,293	\$ 2,352,405
State of North Carolina	1,043,166	197,776	114,677	312,453
Other	602,000	-	19,744	19,744
Total Revenues	5,749,000	1,869,888	814,714	2,684,602
EXPENDITURES				
Equipment and improvements	22,021,945	1,451,961	1,051,256	2,503,217
Administration	1,145,017	840,631	256,900	1,097,531
Total Expenditures	23,166,962	2,292,592	1,308,156	3,600,748
DEFICIENCY OF REVENUES OVER EXPENDITURES	(17,417,962)	(422,704)	(493,442)	(916,146)
OTHER FINANCING SOURCES				
Proceeds from financing	15,030,577	-	345,000	345,000
Transfer from other funds	2,387,385	422,704	148,442	571,146
Total other financing sources	17,417,962	422,704	493,442	916,146
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - PUBLIC HOUSING OPERATING FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
Federal government	\$ 972,704	\$ 972,704	\$ 1,014,675	\$ 41,971
Interest on investments	8,680	8,680	7,382	(1,298)
Dwelling rental	410,780	410,780	317,076	(93,704)
Other	30,600	88,015	76,681	(11,334)
	<u>1,422,764</u>	<u>1,480,179</u>	<u>1,415,814</u>	<u>(64,365)</u>
Total revenues				
EXPENDITURES				
Administration	345,442	358,807	331,844	26,963
Tenant services	51,208	51,486	47,676	3,810
Utilities	125,558	125,558	113,011	12,547
Ordinary maintenance	646,832	741,124	591,948	149,176
General expense	272,714	272,814	256,821	15,993
Non-routine maintenance	129,022	196,993	100,910	96,083
Capital outlay	88,686	90,532	63,711	26,821
	<u>1,659,462</u>	<u>1,837,314</u>	<u>1,505,921</u>	<u>331,393</u>
Total expenditures				
OTHER FINANCING SOURCES				
Appropriated fund balance	236,698	357,135	-	(357,135)
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES				
	<u>\$ -</u>	<u>\$ -</u>	(90,107)	<u>\$ (90,107)</u>
FUND BALANCE, BEGINNING			<u>1,028,589</u>	
FUND BALANCE, ENDING			<u>\$ 938,482</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
PUBLIC HOUSING PROJECTS - DRUG ELIMINATION GRANT 2001
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2004**

	Project Authorization	Prior Year	Actual Current Year	Total to Date
REVENUES				
Intergovernmental revenues				
Federal government	\$ 82,552	\$ 78,174	\$ 3,100	\$ 81,274
EXPENDITURES				
Prevention activities	82,552	78,174	3,100	81,274
EXCESS OF REVENUES OVER EXPENDITURES				
	\$ -	\$ -	\$ -	\$ -

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
PUBLIC HOUSING PROJECTS - CAPITAL FUND GRANTS
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2004**

	Project Authorization	Actual		Total to Date
		Prior Year	Current Year	
REVENUES				
Intergovernmental revenues				
Federal government	\$ 1,744,876	\$ 411,499	\$ 195,639	\$ 607,138
Other	-	34,750	15,112	49,862
Total revenues	<u>1,744,876</u>	<u>446,249</u>	<u>210,751</u>	<u>657,000</u>
EXPENDITURES				
Equipment and improvements	<u>1,744,876</u>	<u>446,249</u>	<u>210,751</u>	<u>657,000</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, 2004**

	Project Authorization	Prior Year	Actual	
			Current Year	Total to Date
REVENUES				
Intergovernmental revenues				
Federal government	\$ 160,117	\$ 100,000	\$ -	\$ 100,000
Governmental revenues - other	75,000	-	-	-
Program income	12,874	5,441	3,373	8,814
Other	-	-	594	594
	<u>247,991</u>	<u>105,441</u>	<u>3,967</u>	<u>109,408</u>
EXPENDITURES				
Maintenance and transition activities	<u>265,491</u>	<u>118,919</u>	<u>1,995</u>	<u>120,914</u>
OTHER FINANCING SOURCES				
Transfer from other funds	<u>17,500</u>	<u>17,500</u>	<u>-</u>	<u>17,500</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 4,022</u>	<u>\$ 1,972</u>	<u>\$ 5,994</u>
FUND BALANCE, BEGINNING			<u>4,022</u>	
FUND BALANCE, ENDING			<u>\$ 5,994</u>	

Line Item #	Account Description	Low Rent 14.850	CGP 14.859	PIH Drug Elimin. Program 14.854	TOTAL
ASSETS:					
CURRENT ASSETS:					
Cash and Cash Equivalents:					
111	Cash - unrestricted	\$ 836,868	\$ -	\$ 500	\$ 837,368
112	Cash - restricted - modernization and development	-	-	-	-
114	Cash - tenant security deposits	60,192	-	-	60,192
100	Total cash	<u>897,060</u>	<u>-</u>	<u>500</u>	<u>897,560</u>
Accounts and notes receivables:					
121	Accounts Receivable-PHA Projects	-	33,003	-	33,003
125	Accounts receivable - miscellaneous	35,111	-	-	35,111
126	Accounts receivable - tenants - dwelling rents	2,927	-	-	2,927
126.1	Allowance for doubtful accounts-dwelling rents	(2,927)	-	-	(2,927)
120	Total receivables, net allowances for uncollectibles	<u>35,111</u>	<u>33,003</u>	<u>-</u>	<u>68,114</u>
Current investments:					
143	Inventories	155,366	-	-	155,366
143.1	Allowance for Obsolete Inventories	(1,461)	-	-	(1,461)
140	Total current investments	<u>153,905</u>	<u>-</u>	<u>-</u>	<u>153,905</u>
144	Interprogram Due From	30,260	-	-	30,260
150	TOTAL CURRENT ASSETS	<u>1,116,336</u>	<u>33,003</u>	<u>500</u>	<u>1,149,839</u>
NONCURRENT ASSETS:					
Fixed assets:					
161	Land	1,986,439	-	-	1,986,439
162	Building	14,371,486	-	-	14,371,486
164	Furniture, Equipment, & Machinery-Administration	630,214	-	-	630,214
166	Accumulated depreciation	(8,237,478)	-	-	(8,237,478)
167	Construction in progress	-	-	-	-
160	Total fixed assets, net of accumulated depreciation	<u>8,750,661</u>	<u>-</u>	<u>-</u>	<u>8,750,661</u>
180	TOTAL NONCURRENT ASSETS	<u>8,750,661</u>	<u>-</u>	<u>-</u>	<u>8,750,661</u>
190	TOTAL ASSETS	<u>\$ 9,866,997</u>	<u>\$ 33,003</u>	<u>\$ 500</u>	<u>\$ 9,900,500</u>
LIABILITIES AND EQUITY:					
LIABILITIES:					
CURRENT LIABILITIES:					
312	Accounts payable ≤ 90 days	\$ 46,016	\$ -	\$ 500	\$ 46,516
321	Accrued wage/payroll taxes payable	42,950	-	-	42,950
333	Accounts payments - other government	-	2,743	-	2,743
341	Tenant security deposits	53,777	-	-	53,777
342	Deferred revenues	35,111	-	-	35,111
345	Other current liabilities	-	-	-	-
347	Interprogram Due To	-	30,260	-	30,260
310	TOTAL CURRENT LIABILITIES	<u>177,854</u>	<u>33,003</u>	<u>500</u>	<u>211,357</u>
300	TOTAL LIABILITIES	<u>177,854</u>	<u>33,003</u>	<u>500</u>	<u>211,357</u>
EQUITY:					
501	Investment in general fixed assets	8,750,661	-	-	8,750,661
509	Designated fund balance	50,203	-	-	50,203
512	Undesignated fund balance/retained earnings	888,279	-	-	888,279
513	TOTAL EQUITY	<u>9,689,143</u>	<u>-</u>	<u>-</u>	<u>9,689,143</u>
600	TOTAL LIABILITIES AND EQUITY	<u>\$ 9,866,997</u>	<u>\$ 33,003</u>	<u>\$ 500</u>	<u>\$ 9,900,500</u>

continued

PUBLIC HOUSING FINANCIAL DATA SCHEDULE

Schedule 17

Line Item #	Account Description	Low Rent 14.850	CGP 14.859	PIH Drug Elimin. Program 14.854	TOTAL
REVENUE:					
Tenant revenues:					
703	Net tenant rental revenue	\$ 317,376	\$ -	\$ -	\$ 317,376
704	Tenant revenue - other	12,004	-	-	12,004
705	Total tenant revenue	329,380	-	-	329,380
Other revenues:					
706	HUD PHA grants	1,014,675	195,639	3,100	1,213,414
706.1	Capital Grants	-	-	-	-
711	Investment income - unrestricted	7,382	-	-	7,382
715	Other revenue	64,377	15,112	-	79,489
	Total other revenue	1,086,434	210,751	3,100	1,300,285
700	TOTAL REVENUE	1,415,814	210,751	3,100	1,629,665
EXPENSES:					
OPERATING EXPENSES:					
Administrative:					
911	Administrative salaries	247,311	28,566	-	275,877
912	Auditing fees	6,200	-	-	6,200
915	Employee benefit contributions - administrative	79,764	-	-	79,764
916	Other operating - administrative	80,833	-	-	80,833
Tenant services:					
921	Tenant services - salaries	35,111	25,620	-	60,731
922	Relocation costs	-	1,065	-	1,065
923	Tenant Services-Employee Benefits	11,135	-	-	11,135
924	Tenant services-other	1,430	7,500	3,100	12,030
Utilities:					
931	Water	89,433	-	-	89,433
932	Electricity	17,109	-	-	17,109
933	Gas	6,468	-	-	6,468
Ordinary maintenance & operations:					
941	Ordinary maintenance and operations - labor	385,135	-	-	385,135
942	Ordinary maintenance and operations - materials	48,242	9,270	-	57,512
943	Ordinary maintenance and operations - contract costs	158,571	-	-	158,571
945	Employee benefit contributions - ordinary maintenance	132,807	-	-	132,807
General expenses:					
961	Insurance premiums	38,119	-	-	38,119
962	Other general expenses	-	-	-	-
964	Bad debt - tenant rents	2,927	-	-	2,927
967	Interest expense	703	-	-	703
969	TOTAL OPERATING EXPENSES	1,341,298	72,021	3,100	1,416,419
970	EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER OPERATING EXPENSES	74,516	138,730	-	213,246
NON-OPERATING EXPENSES:					
971	Extraordinary maintenance	87,415	138,730	-	226,145
972	Casualty Losses	77,208	-	-	77,208
974	Depreciation Expense	1,039,704	-	-	1,039,704
976	Capital outlays - governmental funds	-	-	-	-
900	TOTAL EXPENSES	2,545,625	210,751	3,100	2,759,476
1000	DEFICIENCY OF REVENUE OVER EXPENDITURES	(1,129,811)	-	-	(1,129,811)
1103	BEGINNING EQUITY	10,818,954	-	-	10,818,954
1104	Prior period adjustment, Equity Transfers and Corrections	-	-	-	-
	ENDING EQUITY	\$ 9,689,143	\$ -	\$ -	\$ 9,689,143

**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, 2004**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
REVENUES				
Interest on investments	\$ -	\$ -	\$ 1,186	\$ 1,186
Other	-	-	52,500	52,500
Total revenues	-	-	53,686	53,686
EXPENDITURES				
Equipment and improvements	150,000	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(150,000)	-	53,686	53,686
OTHER FINANCING SOURCES				
Transfer from other funds	150,000	150,000	-	150,000
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES				
	\$ -	\$ 150,000	\$ 53,686	\$ 203,686
FUND BALANCE, BEGINNING			150,000	
FUND BALANCE, ENDING			\$ 203,686	

**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, 2004**

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
REVENUES				
Intergovernmental revenues				
Federal government	\$ 1,746,000	\$ 1,540,831	\$ 313,314	\$ 1,854,145
Program income	404,500	346,827	153,826	500,653
Total revenues	<u>2,150,500</u>	<u>1,887,658</u>	<u>467,140</u>	<u>2,354,798</u>
EXPENDITURES				
Public improvement	760,000	631,769	88,075	719,844
Neighborhood revitalization	594,360	511,385	146,072	657,457
Homeownership opportunities	376,844	340,161	-	340,161
Administration	295,296	294,736	99,365	394,101
Community Services	104,000	98,636	27,848	126,484
Economic Development	20,000	20,000	-	20,000
Total expenditures	<u>2,150,500</u>	<u>1,896,687</u>	<u>361,360</u>	<u>2,258,047</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	(9,029)	105,780	96,751
OTHER FINANCING SOURCES (USES)				
Transfer to other funds	-	9,029	(9,029)	-
Total other financing sources (uses)	-	9,029	(9,029)	-
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>\$ -</u>	96,751	<u>\$ 96,751</u>
FUND BALANCE, BEGINNING			-	
FUND BALANCE, ENDING			<u>\$ 96,751</u>	

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DOWNTOWN SERVICE DISTRICT FUND
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Ad valorem taxes	\$ 70,000	\$ 70,000	\$ 69,127	\$ (873)
Interest on investment	-	-	397	397
Total revenues	<u>70,000</u>	<u>70,000</u>	<u>69,524</u>	<u>(476)</u>
EXPENDITURES				
Contracted services	<u>70,000</u>	<u>88,000</u>	<u>69,524</u>	<u>(18,476)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(18,000)</u>	<u>-</u>	<u>18,000</u>
OTHER FINANCING SOURCES				
Appropriated fund balance	<u>-</u>	<u>18,000</u>	<u>-</u>	<u>(18,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>\$ -</u>	<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, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ -	\$ -	\$ 217	\$ 217
Cable Public Access Reserves	<u>90,000</u>	<u>90,000</u>	<u>113,017</u>	<u>23,017</u>
Total revenues	<u>90,000</u>	<u>90,000</u>	<u>113,234</u>	<u>23,234</u>
EXPENDITURES				
Contracted services	<u>90,000</u>	<u>90,000</u>	<u>113,017</u>	<u>(23,017)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	217	<u>\$ 217</u>
FUND BALANCE, BEGINNING			<u>15,184</u>	
FUND BALANCE, ENDING			<u>\$ 15,401</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, 2004**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
REVENUES				
Intergovernmental grants	\$ 231,250	\$ 156,200	\$ 47,360	\$ 203,560
Program revenue	-	118,000	28,957	146,957
Total revenues	<u>231,250</u>	<u>274,200</u>	<u>76,317</u>	<u>350,517</u>
EXPENDITURES	<u>231,250</u>	<u>254,596</u>	<u>130,179</u>	<u>384,775</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 19,604</u>	<u>\$ (53,862)</u>	<u>\$ (34,258)</u>
FUND BALANCE, BEGINNING			<u>99,357</u>	
FUND BALANCE, ENDING			<u>\$ 45,495</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - HOUSING LOAN TRUST FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ 8,000	\$ 8,000	\$ 4,167	\$ (3,833)
Other	45,000	45,000	144,554	99,554
Total revenues	53,000	53,000	148,721	95,721
EXPENDITURES	175,000	387,012	127,033	259,979
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(122,000)	(334,012)	21,688	355,700
OTHER FINANCING SOURCES				
Transfers - in	-	-	9,029	9,029
Appropriated Fund Balance	122,000	334,012	-	(334,012)
Total other financing sources	122,000	334,012	9,029	(324,983)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	\$ -	\$ -	30,717	\$ 30,717
FUND BALANCE, BEGINNING			357,155	
FUND BALANCE, ENDING			\$ 387,872	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LIBRARY GIFT FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 1,450	\$ 1,450
Library donations	<u>45,000</u>	<u>45,000</u>	<u>65,490</u>	<u>20,490</u>
Total revenues	<u>45,000</u>	<u>45,000</u>	<u>66,940</u>	<u>21,940</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>45,000</u>	<u>45,000</u>	<u>66,940</u>	<u>21,940</u>
OTHER FINANCING USES				
Transfers - out	<u>(45,000)</u>	<u>(45,000)</u>	<u>(45,000)</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>\$ -</u>	<u>21,940</u>	<u>\$ 21,940</u>
FUND BALANCE, BEGINNING			<u>106,212</u>	
FUND BALANCE, ENDING			<u>\$ 128,152</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CAPITAL PROJECTS ORDINANCE FUND
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2004**

	Project	Actual		
	Authorization	Prior Years	Current Year	Total to Date
REVENUES				
Interest on investments	\$ 365,183	\$ 474,150	\$ 33,649	\$ 507,799
Federal Bridge Replacement Grant	212,865	268,730	-	268,730
Other Federal Grants	237,416	214,911	-	214,911
North Carolina Clean Water Grant	200,000	200,000	-	200,000
North Carolina Department of Transportation Grants	857,207	300,000	160,672	460,672
Other Grants	3,680,200	658,000	-	658,000
Charges for services	38,107	75,188	33,900	109,088
Other	1,054,983	387,567	55,088	442,655
Total revenues	6,645,961	2,578,546	283,309	2,861,855
EXPENDITURES				
Parks, recreation, and open space capital improvements	15,258,242	8,540,442	2,403,403	10,943,845
Public safety capital improvements	2,278,000	2,085,158	123,833	2,208,991
Public works facility	24,936,677	397,701	651,016	1,048,717
Municipal facilities	596,600	-	6,647	6,647
Sewer capital improvements	350,385	364,418	-	364,418
Street improvements	3,513,952	2,642,603	348,363	2,990,966
Total expenditures	46,933,856	14,030,322	3,533,262	17,563,584
DEFICIENCY OF REVENUES OVER EXPENDITURES	(40,287,895)	(11,451,776)	(3,249,953)	(14,701,729)

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, 2004**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
OTHER FINANCING SOURCES				
Proceeds from bond issuance	14,000,000	13,425,000	-	13,425,000
Proceeds from financing	25,050,000	1,200,000	-	1,200,000
Transfer from General Fund	235,261	223,952	11,309	235,261
Transfer from Capital Projects Fund	464,799	423,549	41,250	464,799
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>40,287,895</u>	<u>15,810,336</u>	<u>52,559</u>	<u>15,862,895</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 4,358,560</u>	<u>\$ (3,197,394)</u>	<u>\$ 1,161,166</u>
FUND BALANCE, BEGINNING			<u>4,358,560</u>	
FUND BALANCE, ENDING			<u>\$ 1,161,166</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 5,805	\$ 5,805
Franchise rental fees	55,000	55,000	62,994	7,994
Intergovernmental revenues - other	-	262,464	165,854	(96,610)
Other	-	51,700	61,233	9,533
Total revenues	<u>55,000</u>	<u>369,164</u>	<u>295,886</u>	<u>(73,278)</u>
EXPENDITURES				
Capital projects:				
Municipal facilities	573,000	1,451,266	727,646	723,620
Street improvements and sidewalks	95,000	932,677	500,464	432,213
Parks, recreation and open space	529,000	809,123	681,629	127,494
Technology and communications	28,000	28,000	26,021	1,979
Public safety	-	53,857	47,521	6,336
Total expenditures	<u>1,225,000</u>	<u>3,274,923</u>	<u>1,983,281</u>	<u>1,291,642</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(1,170,000)</u>	<u>(2,905,759)</u>	<u>(1,687,395)</u>	<u>1,218,364</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from financing	-	1,130,632	1,050,000	(80,632)
Transfer from General Fund	1,170,000	1,239,650	1,239,650	-
Transfer to Capital Projects Ordinance Fund	-	(41,250)	(41,250)	-
Appropriated fund balance	-	576,727	-	(576,727)
Total other financing sources (uses)	<u>1,170,000</u>	<u>2,905,759</u>	<u>2,248,400</u>	<u>(657,359)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>561,005</u>	<u>\$ 561,005</u>
FUND BALANCES, BEGINNING			<u>735,184</u>	
FUND BALANCES, ENDING			<u>\$ 1,296,189</u>	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CAPITAL RESERVE FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 1,864	\$ 1,864
Total revenues	-	-	1,864	1,864
EXPENDITURES				
Total expenditures	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	1,864	\$ 1,864
FUND BALANCE, BEGINNING			184,540	
FUND BALANCE, ENDING			\$ 186,404	

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 2,889	\$ 2,889
EXPENDITURES				
Debt service:				
Principal	1,670,000	1,670,000	1,670,000	-
Interest and fiscal charges	882,000	882,000	880,610	1,390
Total expenditures	2,552,000	2,552,000	2,550,610	1,390
DEFICIENCY OF REVENUES OVER EXPENDITURES	(2,552,000)	(2,552,000)	(2,547,721)	4,279
OTHER FINANCING SOURCES				
Transfer from other funds	2,552,000	2,552,000	2,552,000	-
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	\$ -	\$ -	4,279	\$ 4,279
FUND BALANCES, BEGINNING			171,968	
FUND BALANCES, ENDING			\$ 176,247	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
(MODIFIED ACCRUAL BASIS) - TRANSPORTATION FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 298,000	\$ 298,000	\$ 431,486	\$ 133,486
OPERATING EXPENSES:				
Personnel	7,575,837	7,571,882	7,409,983	161,899
Fuel and tires	604,239	595,739	629,544	(33,805)
Indirect costs	724,660	724,660	680,155	44,505
Maintenance and repairs	409,962	394,086	430,764	(36,678)
Other	774,328	848,864	738,300	110,564
Total operating expenses	10,089,026	10,135,231	9,888,746	246,485
OPERATING LOSS	(9,791,026)	(9,837,231)	(9,457,260)	379,971
NONOPERATING REVENUES				
Federal Operating Assistance Grant	932,000	932,000	932,000	-
State Operating Assistance Grant	1,573,708	2,463,045	2,463,045	-
University of North Carolina and Town of Carrboro operating assistance	5,263,375	5,263,375	5,087,681	(175,694)
Vehicle Licenses	140,000	140,000	139,950	(50)
Ad valorem taxes	2,136,500	2,136,500	2,190,261	53,761
Interest on investments	15,000	15,000	16,489	1,489
Other	27,000	28,225	62,417	34,192
Appropriated fund balance	325,465	370,445	-	(370,445)
Total nonoperating revenues	10,413,048	11,348,590	10,891,843	(456,747)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	622,022	1,511,359	1,434,583	(76,776)
CAPITAL CONTRIBUTIONS	-	-	599,175	599,175

Continued

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
(MODIFIED ACCRUAL BASIS) - TRANSPORTATION FUND (continued)
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
TRANSFERS				
Transfers in	599,942	1,489,279	1,490,504	1,225
Transfers out	<u>(1,221,964)</u>	<u>(3,000,638)</u>	<u>(1,637,721)</u>	<u>1,362,917</u>
Total transfers	<u>(622,022)</u>	<u>(1,511,359)</u>	<u>(147,217)</u>	<u>1,364,142</u>
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	<u>\$ -</u>	<u>\$ -</u>	1,886,541	<u>\$ 1,886,541</u>
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			<u>(1,581,089)</u>	
Change in Net Assets			<u>\$ 305,452</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - PARKING FACILITIES FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,891,360	\$ 1,891,360	\$ 1,847,904	\$ (43,456)
OPERATING EXPENSES				
Personnel	626,035	626,035	598,064	27,971
Indirect costs	64,072	64,072	54,024	10,048
Other	439,804	553,586	320,383	233,203
Total operating expenses	1,129,911	1,243,693	972,471	271,222
OPERATING INCOME	761,449	647,667	875,433	227,766
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	1,000	1,000	8,582	7,582
Interest expense	(548,645)	(548,645)	(175,072)	373,573
Bond issuance expense	-	-	(182,810)	(182,810)
Other	-	-	30,413	30,413
Appropriated fund balance	-	113,782	-	(113,782)
Total nonoperating revenues (expenses), net	(547,645)	(433,863)	(318,887)	114,976
INCOME BEFORE TRANSFERS	213,804	213,804	556,546	342,742
TRANSFERS				
Transfers out	(213,804)	(213,804)	(200,159)	13,645
EXCESS OF REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	356,387	\$ 356,387
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(419,295)	
Change in Net Assets			\$ (62,908)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - VEHICLE REPLACEMENT FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,040,637	\$ 1,040,637	\$ 1,040,637	\$ -
OPERATING EXPENSES				
Operations	-	-	14,666	(14,666)
OPERATING INCOME	<u>1,040,637</u>	<u>1,040,637</u>	<u>1,025,971</u>	<u>(14,666)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	17,000	17,000	3,817	(13,183)
Interest expense	-	-	(112,445)	(112,445)
Capital outlay	(1,076,000)	(1,850,468)	-	1,850,468
Debt service	(1,300,000)	(1,300,000)	-	1,300,000
Gain on sale of fixed assets	100,000	100,000	26,100	(73,900)
Proceeds from installment notes	1,076,000	1,076,000	-	(1,076,000)
Other	-	-	5,853	5,853
Appropriated fund balance	142,363	916,831	-	(916,831)
Total nonoperating revenues (expenses), net	<u>(1,040,637)</u>	<u>(1,040,637)</u>	<u>(76,675)</u>	<u>963,962</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ -</u>	<u>\$ -</u>	<u>949,296</u>	<u>\$ 949,296</u>
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			<u>(1,035,623)</u>	
Change in net assets			<u>\$ (86,327)</u>	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - VEHICLE MAINTENANCE FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 897,423	\$ 897,423	\$ 997,759	\$ 100,336
OPERATING EXPENSES				
Personnel	471,379	472,591	452,385	20,206
Operations	426,044	454,422	458,464	(4,042)
Total operating expenses	897,423	927,013	910,849	16,164
OPERATING INCOME (LOSS)	-	(29,590)	86,910	116,500
NONOPERATING REVENUES				
Interest on investments	-	-	537	537
Other	-	-	10,482	10,482
Appropriated fund balance	-	28,378	-	(28,378)
Total nonoperating revenues	-	28,378	11,019	(17,359)
INCOME BEFORE TRANSFERS	-	(1,212)	97,929	99,141
TRANSFERS				
Transfers in	-	1,212	1,212	-
EXCESS OF REVENUES AND TRANSFERS OVER EXPENSES	\$ -	\$ -	99,141	\$ 99,141
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(828)	
Change in net assets			\$ 98,313	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(MODIFIED ACCRUAL BASIS) - COMPUTER EQUIPMENT REPLACEMENT FUND
YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
OPERATING EXPENSES				
Operations	190,000	339,957	208,242	131,715
OPERATING INCOME (LOSS)	10,000	(139,957)	(8,242)	131,715
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	-	-	2,504	2,504
Interest expense	(10,000)	(10,000)	(5,389)	4,611
Debt service	(195,000)	(245,000)	-	245,000
Proceeds from installment notes	195,000	378,510	-	(378,510)
Appropriated fund balance	-	16,447	-	(16,447)
Total nonoperating revenues (expenses), net	(10,000)	139,957	(2,885)	(142,842)
DEFICIENCY OF REVENUES OVER EXPENSES	\$ -	\$ -	(11,127)	\$ (11,127)
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			(7,191)	
Change in net assets			\$ (18,318)	

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