

**Town of Chapel Hill, North Carolina  
Comprehensive Annual Financial Report  
For the fiscal year ended June 30, 2003**

Prepared by:

Town of Chapel Hill Finance Department

## **TABLE OF CONTENTS**

**Page**

### **INTRODUCTORY SECTION**

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

### **FINANCIAL SECTION**

INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets.....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	18
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds .....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds .....	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Annual Budget and Actual – General Fund .....	23
Statement of Fund Net Assets – Proprietary Funds .....	31
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds .....	32
Statement of Cash Flows – Proprietary Funds.....	33
Notes to the Financial Statements .....	35

## TABLE OF CONTENTS

Page

### REQUIRED SUPPLEMENTAL FINANCIAL SCHEDULES

Law Enforcement Officers' Special Separation Allowance Required Supplementary Information:	
Schedule of Funding Progress .....	57
Schedule of Employer Contributions .....	58

### COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

Combining Balance Sheet – Nonmajor Governmental Funds .....	61
Combining Balance Sheet – Nonmajor Governmental Funds – Special Revenue Funds .....	62
Combining Balance Sheet – Nonmajor Governmental Funds – Capital Projects Funds .....	64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds .....	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Special Revenue Funds .....	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Capital Projects Funds .....	68
Combining Statement of Net Assets – Internal Service Funds .....	71
Combining Statement of Revenues, Expenses and Changes in Net Assets – Internal Service Funds .....	72
Combining Statement of Cash Flows – Internal Service Funds .....	73

### CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

Capital Assets Used in the Operation of Governmental Funds – Schedule of Function and Activity .....	76
Capital Assets Used in the Operation of Governmental Funds – Schedule of Change in Function and Activity .....	78

### SUPPLEMENTAL INFORMATION

Transit Grant Projects Ordinance Fund Schedule of Revenues and Expenditures - Budget and Actual .....	81
Public Housing Operating Fund Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual .....	82
Public Housing Projects: Drug Elimination Grant 2001 Schedule of Revenues and Expenditures - Budget and Actual .....	83
Capital Fund 2000 Schedule of Revenues and Expenditures - Budget and Actual .....	84
Capital Fund 2001 Schedule of Revenues and Expenditures - Budget and Actual .....	85

## TABLE OF CONTENTS

	Page
Capital Fund 2002	
Schedule of Revenues and Expenditures - Budget and Actual .....	86
Transitional Housing Fund	
Schedule of Revenues and Expenditures - Budget and Actual .....	87
Revolving Acquisition Fund	
Schedule of Revenues and Expenditures - Budget and Actual .....	88
Community Development Entitlement Grant Projects	
Ordinance Fund Schedule of Revenues and Expenditures - Budget and Actual.....	89
Disaster Recovery Initiative Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual .....	90
Downtown Service District Fund – Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual .....	91
Cable Public Access Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual .....	92
Land Trust Fund	
Schedule of Revenues and Expenditures – Budget and Actual .....	93
Housing Loan Trust Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual .....	94
Library Gift Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual .....	95
Capital Projects Ordinance Fund	
Schedule of Revenues and Expenditures - Budget and Actual .....	96
Capital Projects Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual .....	97
Debt Service Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual .....	98
Transportation Fund - Schedule of Revenues and Expenditures Budget and Actual (Modified Accrual Basis).....	99
Parking Facilities Fund - Schedule of Revenues and Expenditures Budget and Actual (Modified Accrual Basis).....	101
Vehicle Replacement Fund - Schedule of Revenues and Expenditures Budget and Actual (Modified Accrual Basis).....	102
Vehicle Maintenance Fund - Schedule of Revenues and Expenditures Budget and Actual (Modified Accrual Basis).....	103
Computer Equipment Replacement Fund - Schedule of Revenues and Expenditures Budget and Actual (Modified Accrual Basis).....	104
Public Housing Supplemental Data Schedules .....	105

## STATISTICAL SECTION

General Governmental Expenditures by Function .....	108
General Governmental Revenues by Source.....	110
Property Tax Levies and Collections.....	112
Taxable Property Assessed Value .....	114
Property Tax Rates - Direct and Overlapping Governments per \$100 of Assessed Value .....	115
Special Assessments Collections .....	116

## TABLE OF CONTENTS

	Page
Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt Per Capita .....	117
Computation of Legal Debt Margin .....	118
Computation of Direct and Overlapping Bonded Debt .....	119
Ratio of Annual Debt Service Expenditures for General Bonded Debt to General Governmental Expenditures .....	120
Demographic Statistics .....	121
Property Value and Construction .....	122
Principal Taxpayers .....	124
Miscellaneous Statistics .....	125

### SINGLE AUDIT SECTION

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> .....	127
Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act.....	128
Report on Compliance with Requirements Applicable to Each Major State Program and on Internal Control over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act .....	130
Schedule of Findings and Questioned Costs .....	132
Summary Schedule of Prior Audit Findings .....	134
Schedule of Expenditures of Federal and State Awards.....	135

September 5, 2003

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, 2003.

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, 2003, 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, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

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

The Town is located principally in Orange County and slightly in Durham County in the north central portion of North Carolina on the Piedmont Plateau, approximately equidistant between Washington, D.C. and Atlanta, Georgia. The area's topography is characterized by rolling hills. The Town, which was chartered in 1819, presently covers an area of 21.1 square miles, serves an official State population of 52,440, 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 January. 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, 2003.

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 20,000 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 \$30 to \$42 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. In the event that the Town did not receive any federal funds, the Town would need to finance the full cost of the facility. In the more likely case, the Town would need to finance approximately \$19 to \$25 million not covered by federal 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. The Town Council has begun the process necessary to issue \$16.26 million in General Obligation bonds to finance an expansion of the Town's current Library if approved in a referendum by Town citizens.

In addition to the Library Building Program, the Council has recommended that the citizens of Chapel Hill consider bond financing for several other proposals. The following chart includes all the proposals for bond financed projects currently under consideration for a bond referendum in November 2003:

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	<u>500,000</u>	Establish an energy bank
Total	\$ <u>29,360,000</u>	

The potential effect on future property tax rates for these projects will be affected by the bond referendum in November 2003, 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 1.5% during fiscal year 2002-03. The Town earned interest revenue of \$187,590 on governmental funds for the year ended June 30, 2003.

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, 2003 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 \$10,000 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, 2002.

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 2002-2003. 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,

W. Calvin Horton  
Town Manager

James M. Baker  
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, 2002

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.



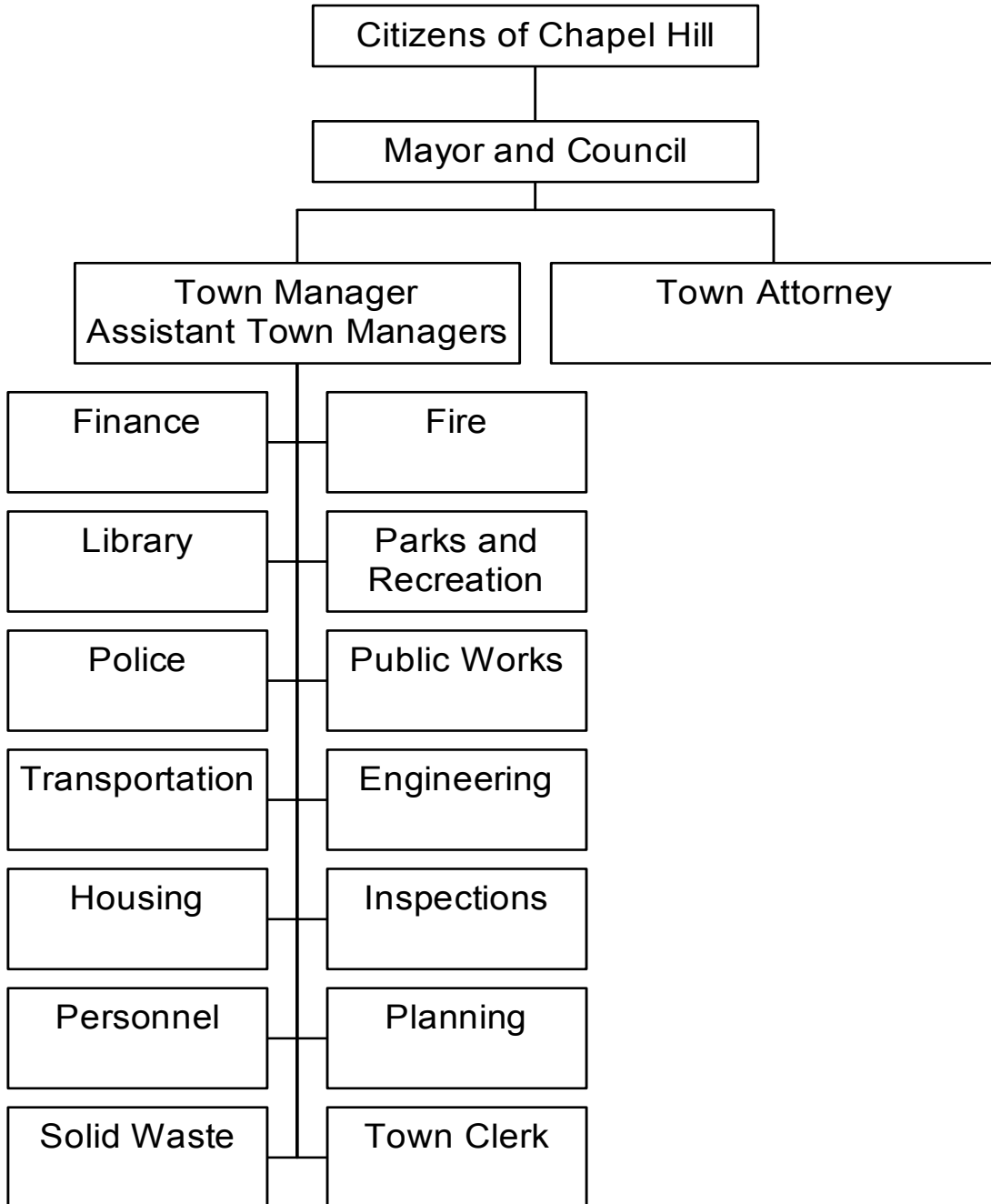
*William Patrick Barte*

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, 2003  
MEMBERS OF THE GOVERNING BODY**

Mayor

Kevin Foy

Council Members

Flicka Bateman

Pat Evans

Ed Harrison

William Strom

Mark Kleinschmidt

James Ward

Dorothy Verkerk

Edith Wiggins

Officials

W. Calvin Horton

Town Manager

Sonna M. Loewenthal

Assistant Town Manager

Florentine M. Miller

Assistant Town Manager

James M. Baker

Finance Director

Ralph D. Karpinos

Town Attorney

# McGladrey & Pullen

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina (the "Town"), as of and for the year ended June 30, 2003, 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 an opinion 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, each major fund, and the aggregate remaining fund information of the Town of Chapel Hill, North Carolina, as of June 30, 2003, 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 K to the financial statements, on July 1, 2002, the Town has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The management's discussion and analysis (pages 3-13) and the required supplementary information (pages 57-58) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2003 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 and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 supplemental 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 4, 2003



## 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, 2003. 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 assets of the Town of Chapel Hill exceeded its liabilities at the close of the fiscal year by \$70,889,779 (*net assets*).
- The government's total net assets increased by \$264,837 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 \$18,878,474, an increase of \$5,027,419 in comparison with the prior year. Approximately 46.2% of this total amount, or \$8,715,334, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6,933,825, or 19.9% of total general fund expenditures for the fiscal year.
- The Town of Chapel Hill's total debt increased by \$1,691,534 (5.3%) during the current fiscal year. The key factor in this increase was the issuance of general obligation bonds of \$4,250,000 for parks and recreation, open space, streets and sidewalks, public works facilities, and public safety facility improvements.
- The Town of Chapel Hill maintained its AAA bond rating for the 5th consecutive year.

### Overview of the Financial Statements

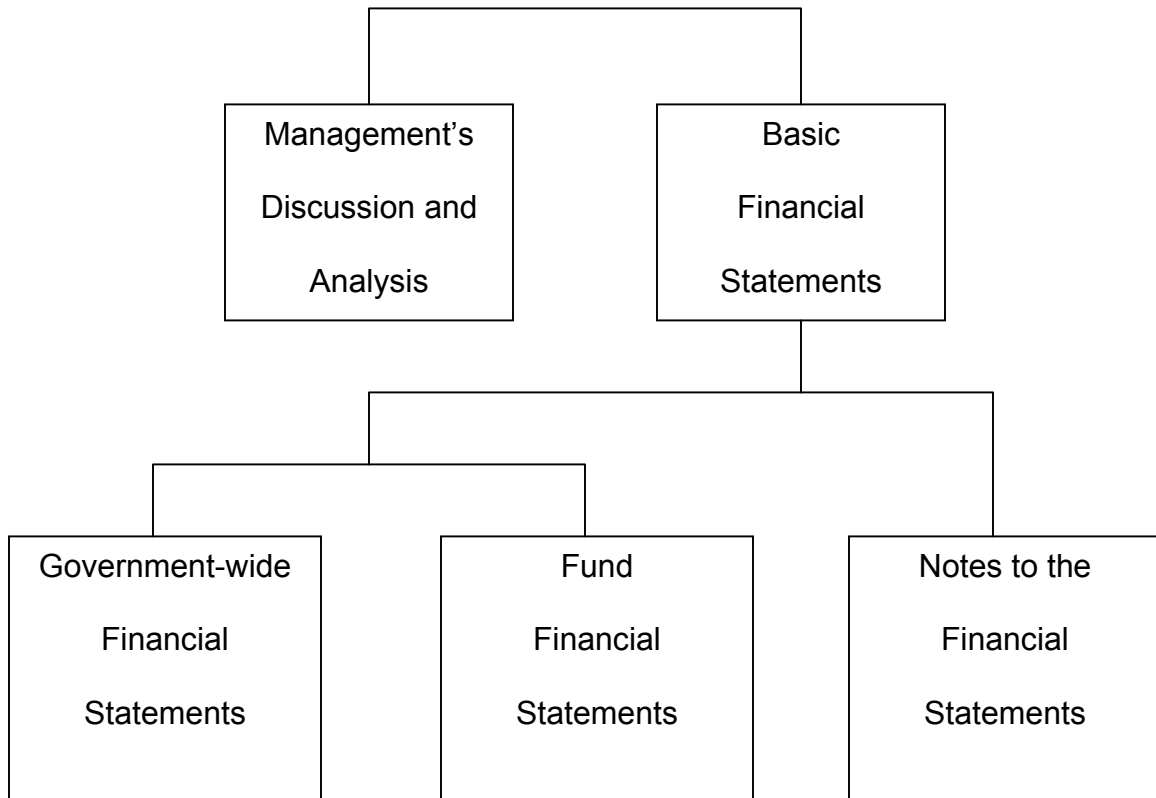
This discussion and analysis is intended to serve as an introduction to the Town of Chapel Hill's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (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 and 5.

**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 19 and 22.

**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 35 through 56 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 57 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 current financial reports from the financial reports for fiscal year 2002. The

Town of Chapel Hill is required to implement these changes for the fiscal year ended June 30, 2003. Because of the new reporting model, comparative data for all facets of this report are not available this year.

**Town of Chapel Hill's Net Assets**  
**Figure 2**

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Current and other assets	\$ 23,339,197	\$ 2,450,874	\$ 25,790,071
Capital assets	60,276,392	22,066,804	82,343,196
Total assets	<u>83,615,589</u>	<u>24,517,678</u>	<u>108,133,267</u>
Long-term liabilities outstanding	24,338,731	6,523,076	30,861,807
Other liabilities	5,747,738	633,943	6,381,681
Total liabilities	<u>30,086,469</u>	<u>7,157,019</u>	<u>37,243,488</u>
Net assets:			
Invested in capital assets, net of related debt	34,352,685	15,716,804	50,069,489
Restricted	2,575,243		2,575,243
Unrestricted	16,601,192	1,643,855	18,245,047
Total net assets	<u>\$ 53,529,120</u>	<u>\$ 17,360,659</u>	<u>\$ 70,889,779</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 \$70,889,780 as of June 30, 2003. The Town's net assets increased by \$121,739 for the fiscal year ended June 30, 2003. However, the largest portion (70.6%) 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 (2.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$18,245,047 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 Utility Franchise Tax in fiscal year 2003 of approximately \$1 million.

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.98.
- Increased sales tax revenues of approximately \$550,000 due to economic growth in the Town.
- Continued low cost of debt due to the Town's high bond rating.

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

Figure 3

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Revenues:			
Program revenues:			
Charges for services	\$ 4,276,458	\$ 2,380,633	\$ 6,657,091
Operating grants and contributions	7,843,128	7,095,258	14,938,386
Capital grants and contributions		1,260,802	1,260,802
General revenues:			
Property taxes	29,251,469	1,786,132	31,037,601
Grants and contributions not restricted to specific programs	2,979,967		2,979,967
Other	1,035,901	22,853	1,058,754
Total revenues	<u>45,386,923</u>	<u>12,545,678</u>	<u>57,932,601</u>
Expenses:			
General government	4,719,210		4,719,210
Environment and development	18,685,215		18,685,215
Public safety	15,846,918		15,846,918
Leisure activities	4,400,420		4,400,420
Nondepartmental	823,903		823,903
Interest expense	782,855		782,855
Transportation		10,720,485	10,720,485
Parking Facilities		1,688,758	1,688,758
Total expenses	<u>45,258,521</u>	<u>12,409,243</u>	<u>57,667,764</u>
Increase in net assets before transfers	128,402	136,435	264,837
Transfers	1,103,692	(1,103,692)	-
Increase (decrease ) in net assets	1,232,094	(967,257)	264,837
Net assets, July 1	<u>52,297,026</u>	<u>18,327,916</u>	<u>70,624,942</u>
Net assets, June 30	<u>\$ 53,529,120</u>	<u>\$ 17,360,659</u>	<u>\$ 70,889,779</u>

**Governmental activities.** Governmental activities increased the Town's net assets by \$1,232,094, thereby accounting for all of the total growth in the net assets of the Town of Chapel Hill. Since the increase in the Town's net assets is related only to the Town's

governmental activities, the key elements are the same for governmental activities as for the government-wide net assets.

**Business-type activities:** Business-type activities decreased the Town of Chapel Hill's net assets by \$967,257, accounting for none of the total growth in the government's net assets. Key elements of this decrease are as follows:

- Increased ridership created a need for additional drivers, maintenance and supervision for the Town's transportation system. As a result there was an increase in the costs for personnel of approximately \$800,000.
- Higher fuel prices and greater fuel usage added about \$100,000 to the costs of operating the transportation system.

### **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 \$6,933,825 of which \$5,643,519 is undesignated, while total fund balance reached \$11,490,107. 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 16.2% of total General Fund expenditures, while total fund balance represents 33.0% of that same amount.

At June 30, 2003, the governmental funds of the Town of Chapel Hill reported a combined fund balance of \$18,878,475, a 37.7% increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Capital Projects Funds.

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

Conservative budgeting principles result in actual revenues exceeding budget estimates. This year the actual revenues were approximately \$1,347,000 more than the revenue

budget. This difference is larger than in most years. The large difference is primarily a result of utility franchise fees from the state coming in one million dollars more than the Town anticipated at the time of the budget preparation. The State had withheld a portion of utility franchise fees in the prior fiscal year, so the Town budgeted a conservative amount, consistent with prudent financial planning. Expenditures were approximately \$2,390,000 less than budgeted. A portion of the underexpenditure represents the effect of departments spending under their total budgeted limit. (The one exception in fiscal year 2003 in the General Fund is the Fire Department which had expenditures in excess of budget of approximately \$50,000 as a result of unanticipated overtime and other personnel expenditures late in the year.) 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 \$1,056,453, and those for the Parking Facilities Fund amounted to \$587,402. The total decrease in net assets for both funds was \$601,541 and \$365,716, 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, 2003, totals \$82,343,196 (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:

- \$1,325,504 for Jones Ferry Park and Ride Lot;
- \$943,811 for land for open space, greenways and parks; and
- \$663,829 for replacements of a portion of the Town's rolling stock.
  
- Additional construction in progress of \$2,279,006 in governmental-type activities including:
  - \$884,545 for Hargraves Community Center and pool;
  - \$348,417 for Pritchard Park Public Housing; and
  - \$218,496 for renovations to Lindsay Street.
  
- No major demolitions were recorded this year.



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

**Figure 4**

	Governmental Activities	Business-type Activities	Total
	June 30, 2003	June 30, 2003	June 30, 2003
Land	\$ 14,163,432	\$ 4,190,250	\$ 18,353,682
Land improvements	3,606,785	2,294,043	5,900,828
Infrastructure	15,996,470		15,996,470
Buildings and building improvements	13,628,147	4,254,827	17,882,974
Equipment and vehicles	4,371,469	11,327,684	15,699,153
Construction in progress	8,510,089		8,510,089
<b>Total</b>	<b>\$ 60,276,392</b>	<b>\$ 22,066,804</b>	<b>\$ 82,343,196</b>

Additional information on the Town's capital assets can be found on page 45 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2003, the Town of Chapel Hill had total outstanding bonded debt, backed by the full faith and credit of the Town of \$20,070,000.

**Town of Chapel Hill  
Outstanding Debt**

**Figure 5**

	Governmental Activities	Business-type Activities	Total
	June 30, 2003	June 30, 2003	June 30, 2003
General obligation bonds	\$ 20,070,000	\$ -	\$ 20,070,000
Installment notes payable	5,442,139	-	5,442,139
Separation allowance	411,568	-	411,568
Compensated absences	1,598,413	328,076	1,926,489
Certificates of participation	-	6,350,000	6,350,000
<b>Total</b>	<b>\$ 27,522,120</b>	<b>\$ 6,678,076</b>	<b>\$ 34,200,196</b>

The Town of Chapel Hill's total debt increased by \$1,691,534 (5.1%) during the past fiscal year. The debt includes \$5,442,139 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 5<sup>th</sup> consecutive year. This bond rating is a clear indication of the Town's sound financial condition. The Town of Chapel Hill is one of the few municipalities 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 \$313 million, well above the Town's outstanding debt for general obligation bonds of approximately \$20 million.

Additional information regarding the Town of Chapel Hill's long-term debt can be found beginning on page 49 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 4.0% 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 2002, the average Chapel Hill home was valued at \$299, 358; the average Durham County home was valued at \$163,462, the average Wake County home was valued at \$212,567; and the average Orange County home was valued at \$261,895.)

### **Budget Highlights for the Fiscal Year Ending June 30, 2004**

**Governmental Activities:** State-shared revenues are expected to lead the increase in budgeted revenues in the General Fund with an increase of \$3,561,310 or 41.8%. The Town was uncertain what State-shared revenues it would receive when the 02-03 budget was put in place. The State had made its commitment to funding local government pass-through revenues by the time the Town adopted the 03-04 budget.

Property taxes (benefiting from the economic growth) are expected to increase in the General Fund by 1.9%. The Town will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to rise 7.0% to \$36,612,000. 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 on most transportation services. As a result of increased ridership, maintenance and management needs, the budget for the transportation department has increased by \$1,034,604 or 10.7%. Parking Facilities Fund revenues and expenditures are budgeted to decline next year. The decline is due to the institution of a grace period before fines are issued and because of fewer parkers downtown.

### **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.

This page intentionally left blank

**STATEMENT OF NET ASSETS**  
**JUNE 30, 2003**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and investments	\$ 17,080,013	\$ 1,913,921	\$ 18,993,934	\$ 8,686,626
Receivables, net	4,018,067	118,262	4,136,329	2,944,023
Inventories and other assets	252,309	250,953	503,262	622,293
Prepaid items	3,565	295	3,860	272,317
Restricted cash and investments	1,985,243	-	1,985,243	14,488,644
Capital assets:				
Non-depreciable	22,673,521	4,190,250	26,863,771	34,054,412
Depreciable, net	37,602,871	17,876,554	55,479,425	159,001,181
Deferred charges	-	167,443	167,443	926,540
<b>TOTAL ASSETS</b>	<b>83,615,589</b>	<b>24,517,678</b>	<b>108,133,267</b>	<b>220,996,036</b>
<b>LIABILITIES</b>				
Due to other funds	61,960	-	61,960	-
Accounts payable and accrued liabilities	2,414,355	478,943	2,893,298	2,955,419
Unearned revenues	32,472	-	32,472	-
Other	55,562	-	55,562	-
Liabilities payable from restricted assets	-	-	-	1,282,763
Non-current liabilities:				
Due within one year	3,183,389	155,000	3,338,389	3,106,741
Due in more than one year	24,338,731	6,523,076	30,861,807	60,042,924
<b>Total liabilities</b>	<b>30,086,469</b>	<b>7,157,019</b>	<b>37,243,488</b>	<b>67,387,847</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of debt	34,352,685	15,716,804	50,069,489	136,790,615
Restricted	2,575,243	-	2,575,243	10,740,702
Unrestricted	16,601,192	1,643,855	18,245,047	6,076,872
<b>Total net assets</b>	<b>\$ 53,529,120</b>	<b>\$ 17,360,659</b>	<b>\$ 70,889,779</b>	<b>\$ 153,608,189</b>

See Notes to Financial Statements.

TOWN OF CHAPEL HILL, NORTH CAROLINA

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 4,719,210	\$ 571,579	\$ -	\$ -
Environment and development	18,685,215	2,463,644	6,496,461	-
Public safety	15,846,918	41,577	982,838	-
Leisure activities	4,400,420	491,076	363,829	-
Nondepartmental	823,903	708,582	-	-
Interest expense	782,855	-	-	-
<b>Total governmental activities</b>	<b>45,258,521</b>	<b>4,276,458</b>	<b>7,843,128</b>	<b>-</b>
Business-type activities:				
Transportation	10,720,485	523,680	7,095,258	1,260,802
Parking Facilities	1,688,758	1,856,953	-	-
<b>Total business-type activities</b>	<b>12,409,243</b>	<b>2,380,633</b>	<b>7,095,258</b>	<b>1,260,802</b>
<b>Total primary government</b>	<b>\$ 57,667,764</b>	<b>\$ 6,657,091</b>	<b>\$ 14,938,386</b>	<b>\$ 1,260,802</b>
Component unit - Orange Water and Sewer Authority	\$ 21,280,940	\$ 18,672,964	\$ -	\$ 1,817,642

General revenues:

Property taxes

Grants and contributions not restricted to specific programs:

  Intergovernmental

  Investment earnings

  Miscellaneous

Transfers

**Total general revenues and transfers**

**Change in net assets**

Net assets - beginning

Net assets - ending

See Notes to Financial Statements.

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
\$ (4,147,631)	\$ -	\$ (4,147,631)	\$ -
(9,725,110)	-	(9,725,110)	-
(14,822,503)	-	(14,822,503)	-
(3,545,515)	-	(3,545,515)	-
(115,321)	-	(115,321)	-
(782,855)	-	(782,855)	-
(33,138,935)	-	(33,138,935)	-
-	(1,840,745)	(1,840,745)	-
-	168,195	168,195	-
-	(1,672,550)	(1,672,550)	-
(33,138,935)	(1,672,550)	(34,811,485)	-
-	-	-	(790,334)
29,251,469	1,786,132	31,037,601	-
2,979,967	-	2,979,967	-
187,590	30,148	217,738	337,442
848,311	(7,295)	841,016	1,856,416
1,103,692	(1,103,692)	-	-
34,371,029	705,293	35,076,322	2,193,858
1,232,094	(967,257)	264,837	1,403,524
52,297,026	18,327,916	70,624,942	152,204,665
\$ 53,529,120	\$ 17,360,659	\$ 70,889,779	\$ 153,608,189

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2003

	General	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 10,530,341	\$ 4,400,093	\$ 2,125,793	\$ 17,056,227
Receivables:				
Due from other funds	14,725	-	9,029	23,754
Property taxes, net	276,108	-	-	276,108
Governmental units and agencies	2,603,856	-	307,697	2,911,553
Other	752,982	-	69,483	822,465
Inventories	12,097	-	162,596	174,693
Prepaid items	3,565	-	-	3,565
Restricted cash and investments	-	-	773,073	773,073
<b>TOTAL ASSETS</b>	<b>14,193,674</b>	<b>4,400,093</b>	<b>3,447,671</b>	<b>22,041,438</b>
<b>LIABILITIES AND FUND BALANCES</b>				
LIABILITIES:				
Due to other funds	-	-	85,714	85,714
Accounts payable	902,787	41,534	193,006	1,137,327
Accrued liabilities	1,112,477	-	51,109	1,163,586
Deferred revenues	688,303	-	32,472	720,775
Other	-	-	55,562	55,562
<b>Total liabilities</b>	<b>2,703,567</b>	<b>41,534</b>	<b>417,863</b>	<b>3,162,964</b>
FUND BALANCES:				
Reserved	4,556,282	4,358,559	1,248,300	10,163,141
Unreserved:				
Designated for subsequent year's expenditures	1,290,306	-	236,698	1,527,004
Undesignated	5,643,519	-	1,544,810	7,188,329
<b>Total fund balances</b>	<b>11,490,107</b>	<b>4,358,559</b>	<b>3,029,808</b>	<b>18,878,474</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 14,193,674</b>	<b>\$ 4,400,093</b>	<b>\$ 3,447,671</b>	<b>\$ 22,041,438</b>

See Notes to Financial Statements.



GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2003

Fund balances - total governmental funds \$ 18,878,474

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

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

Governmental capital assets	93,711,535	
Less accumulated depreciation	<u>36,806,765</u>	56,904,770

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	(22,474,403)	
Accrued vacation payable	<u>(1,598,413)</u>	(24,072,816)

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

Deferred revenues		688,303
-------------------	--	---------

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>1,130,389</u>
---	--	------------------

Net assets of governmental activities		<u>\$ 53,529,120</u>
---------------------------------------	--	----------------------

See Notes to Financial Statements.

## GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2003

	General	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 29,180,399	\$ -	\$ 71,070	\$ 29,251,469
Licenses and permits	1,519,274	-	-	1,519,274
Fines and forfeitures	25,391	-	-	25,391
Intergovernmental revenues				
Federal government	1,072,470	12,563	3,487,570	4,572,603
State government	4,938,305	495,987	154,614	5,588,906
Other	439,487	79,000	143,099	661,586
Charges for service	1,953,963	30,506	-	1,984,469
Interest on investments	119,905	33,570	34,115	187,590
Franchise rental fees	-	-	59,973	59,973
Dwelling rental	-	-	378,181	378,181
Program income	-	-	198,829	198,829
Cable Public Access Reserve	-	-	110,341	110,341
Other	650,733	249	197,329	848,311
<b>Total revenues</b>	<b>39,899,927</b>	<b>651,875</b>	<b>4,835,121</b>	<b>45,386,923</b>
<b>EXPENDITURES</b>				
General government	3,297,515	-	-	3,297,515
Environment and development	12,977,164	-	4,992,732	17,969,896
Public safety	13,859,523	-	-	13,859,523
Leisure activities	3,822,370	-	-	3,822,370
Nondepartmental	823,903	-	-	823,903
Capital projects	-	2,460,792	993,244	3,454,036
Debt service:				
Principal	-	-	1,560,000	1,560,000
Interest and fiscal charges	-	-	782,855	782,855
<b>Total expenditures</b>	<b>34,780,475</b>	<b>2,460,792</b>	<b>8,328,831</b>	<b>45,570,098</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>5,119,452</b>	<b>(1,808,917)</b>	<b>(3,493,710)</b>	<b>(183,175)</b>

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (Continued)  
 YEAR ENDED JUNE 30, 2003

	General	Capital Projects Ordinance	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt	-	4,250,000	-	4,250,000
Transfer from other funds	640,000	436,127	3,929,692	5,005,819
Transfer to other funds	(3,266,677)	-	(635,450)	(3,902,127)
Total other financing sources	(2,626,677)	4,686,127	3,294,242	5,353,692
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES				
	2,492,775	2,877,210	(199,468)	5,170,517
FUND BALANCES, BEGINNING	8,997,332	1,481,349	3,229,276	13,707,957
FUND BALANCES, ENDING	\$ 11,490,107	\$ 4,358,559	\$ 3,029,808	\$ 18,878,474

See Notes to Financial Statements.

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2003

Net change in fund balances - total governmental funds \$ 5,170,517

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	5,139,126	
Current year's depreciation	<u>6,118,008</u>	(978,882)

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		1,560,000
--------------------	--	-----------

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

(4,250,000)

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		(100,390)
---	--	-----------

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

The net expense of the internal service funds reported within governmental activities		<u>(169,151)</u>
---	--	------------------

Change in net assets of governmental activities

\$ 1,232,094

See Notes to Financial Statements.

## GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Ad valorem taxes - current year	\$ 20,557,000	\$ 20,578,000	\$ 21,070,042	\$ 492,042
Ad valorem taxes - prior years	120,000	120,000	92,537	(27,463)
Interest on delinquent taxes	30,000	30,000	43,319	13,319
Local option sales taxes	6,168,000	6,568,000	6,974,456	406,456
Occupancy tax	625,000	625,000	563,486	(61,514)
Other taxes	428,000	428,000	436,559	8,559
<b>Total taxes</b>	<b>27,928,000</b>	<b>28,349,000</b>	<b>29,180,399</b>	<b>831,399</b>
Licenses and permits				
Motor vehicles	407,000	407,000	411,416	4,416
Privilege licenses	180,000	180,000	160,163	(19,837)
Building permits	745,000	805,000	886,311	81,311
Special use permits	50,000	50,000	37,423	(12,577)
Fire inspection fees	3,000	3,000	4,880	1,880
Police permits	15,000	15,000	19,081	4,081
<b>Total licenses and permits</b>	<b>1,400,000</b>	<b>1,460,000</b>	<b>1,519,274</b>	<b>59,274</b>
Fines and forfeitures				
Garbage citations and leash law fees	-	-	7,975	7,975
Parking tickets and towing fees	20,000	20,000	17,416	(2,584)
<b>Total fines and forfeitures</b>	<b>20,000</b>	<b>20,000</b>	<b>25,391</b>	<b>5,391</b>
Intergovernmental revenues				
Federal Government				
Transportation planning	-	-	44,927	44,927
Police aid	-	75,260	74,943	(317)
Historical grant	-	-	(7,500)	(7,500)
Solar Grant	-	4,000	4,000	-
FEMA - Disaster Assistance	-	956,100	956,100	-
<b>Total federal government</b>	<b>-</b>	<b>1,035,360</b>	<b>1,072,470</b>	<b>37,110</b>

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)  
 YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
State of North Carolina				
Beer and wine tax	-	-	221,998	221,998
Powell Bill funds	1,493,000	1,493,000	1,490,126	(2,874)
Utility franchise tax	-	981,000	2,023,320	1,042,320
State fire protection	850,000	850,000	849,764	(236)
Food stamp tax exemption	12,000	12,000	-	(12,000)
State library aid	30,000	30,000	34,284	4,284
Crime commission grant	-	35,251	113	(35,138)
FEMA - Disaster Assistance	-	318,700	318,700	-
<b>Total State of North Carolina</b>	<b>2,385,000</b>	<b>3,719,951</b>	<b>4,938,305</b>	<b>1,218,354</b>
Other				
Orange County Project Turnaround	45,000	45,000	44,424	(576)
Orange County recreational support	81,000	81,000	83,898	2,898
Orange County Library contribution	250,000	250,000	249,747	(253)
Juvenile turnaround	19,000	94,558	58,018	(36,540)
Historic preservation grant	-	-	3,400	3,400
<b>Total other</b>	<b>395,000</b>	<b>470,558</b>	<b>439,487</b>	<b>(31,071)</b>
<b>Total intergovernmental revenues</b>	<b>2,780,000</b>	<b>5,225,869</b>	<b>6,450,262</b>	<b>1,224,393</b>
Charges for services				
Library fines and fees	149,000	149,000	131,742	(17,258)
Street cuts, signing and marking	144,000	144,000	376,246	232,246
Fire districts	5,500	5,500	200	(5,300)
Solid Waste collection	217,000	217,000	235,047	18,047
Planning review	298,800	298,800	141,827	(156,973)
Turnaround client fees	7,000	7,000	31,491	24,491
Recreation	323,100	323,100	359,334	36,234
Charges to other funds	1,411,187	1,411,187	678,076	(733,111)
<b>Total charges for services</b>	<b>2,555,587</b>	<b>2,555,587</b>	<b>1,953,963</b>	<b>(601,624)</b>

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)  
YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
Interest on investments	252,500	252,500	119,905	(132,595)
Other				
Sales - planning and documents	24,000	24,000	17,769	(6,231)
Sales - fixed assets	30,000	30,000	1,662	(28,338)
Sales - miscellaneous	14,100	14,100	13,730	(370)
Cemetery lot sales	60,000	60,000	74,900	14,900
Mutual Aid Reimbursements	302,800	302,800	307,088	4,288
Miscellaneous	259,500	259,500	235,584	(23,916)
Total other revenues	690,400	690,400	650,733	(39,667)
TOTAL REVENUES	35,626,487	38,553,356	39,899,927	1,346,571
EXPENDITURES				
General government	3,297,638	3,555,702	3,297,515	258,187
Environment and development	12,203,898	14,150,224	12,977,164	1,173,060
Public safety	13,869,837	14,406,968	13,859,523	547,445
Leisure activities	3,944,985	4,088,257	3,822,370	265,887
Nondepartmental	894,129	978,282	823,903	154,379
Total expenditures	34,210,487	37,179,433	34,780,475	2,398,958
EXCESS OF REVENUES OVER EXPENDITURES	1,416,000	1,373,923	5,119,452	3,745,529
OTHER FINANCING SOURCES (USES)				
Transfer from Parking Facilities Fund	-	-	545,000	545,000
Transfer from Library Gift Fund	95,000	95,000	95,000	-
Transfer to Debt Service Fund	(2,343,000)	(2,513,000)	(2,513,000)	-
Transfer to Capital Projects Ordinance Fund	-	(45,677)	(45,677)	-
Transfer to Capital Projects Fund	(238,000)	(708,000)	(708,000)	-
Appropriated fund balance	1,070,000	1,797,754	-	(1,797,754)
Total other financing sources (uses)	(1,416,000)	(1,373,923)	(2,626,677)	(1,252,754)

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)  
 YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ -	2,492,775	\$ 2,492,775
FUND BALANCE, BEGINNING			8,997,332	
FUND BALANCE, ENDING			\$ 11,490,107	



TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
EXPENDITURES				
General Government				
Mayor and Town Council				
Personnel	\$ 138,473	\$ 154,564	\$ 151,519	\$ 3,045
Other	90,966	98,483	99,378	(895)
Total Mayor	229,439	253,047	250,897	2,150
Town Manager/Clerk				
Personnel	735,615	765,306	766,341	(1,035)
Other	200,564	203,184	183,795	19,389
Total Town Manager	936,179	968,490	950,136	18,354
Human Resources				
Personnel	418,946	441,310	442,754	(1,444)
Other	95,517	105,928	80,506	25,422
Total Personnel	514,463	547,238	523,260	23,978
Information Technology				
Personnel	315,188	278,002	276,334	1,668
Capital outlay	48,038	48,038	5,037	43,001
Other	174,575	313,594	190,801	122,793
Total Information Technology	537,801	639,634	472,172	167,462
Finance				
Personnel	635,366	648,069	646,066	2,003
Other	214,254	261,303	238,132	23,171
Total Finance	849,620	909,372	884,198	25,174
Legal				
Personnel	190,201	195,161	195,067	94
Other	39,935	42,760	21,785	20,975
Total Legal	230,136	237,921	216,852	21,069
Total General Government	3,297,638	3,555,702	3,297,515	258,187

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)  
 YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
Environmental and Development				
Planning				
Personnel	862,483	857,887	864,342	(6,455)
Capital outlay	2,500	2,500	-	2,500
Other	77,042	200,330	103,729	96,601
Total Planning	942,025	1,060,717	968,071	92,646
Inspections				
Personnel	614,237	624,918	590,648	34,270
Other	90,897	106,182	85,890	20,292
Total inspections	705,134	731,100	676,538	54,562
Engineering				
Personnel	809,367	825,951	802,434	23,517
Other	151,446	461,594	180,465	281,129
Total Engineering	960,813	1,287,545	982,899	304,646
Public Works				
Administration				
Personnel	434,698	449,734	450,077	(343)
Other	44,300	53,230	35,753	17,477
Total Administration	478,998	502,964	485,830	17,134
Landscaping				
Personnel	920,935	931,823	821,204	110,619
Other	387,302	418,601	377,428	41,173
Total Landscaping	1,308,237	1,350,424	1,198,632	151,792
Traffic				
Personnel	309,545	318,551	256,577	61,974
Other	450,587	490,702	504,340	(13,638)
Total Traffic	760,132	809,253	760,917	48,336

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)  
 YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
Drainage				
Personnel	555,925	566,710	485,472	81,238
Other	233,350	227,747	220,399	7,348
Total Drainage	789,275	794,457	705,871	88,586
Total field operations	3,336,642	3,457,098	3,151,250	305,848
Construction				
Personnel	500,731	513,893	396,137	117,756
Other	130,770	146,842	133,705	13,137
Total Construction	631,501	660,735	529,842	130,893
Streets				
Personnel	687,739	794,094	784,611	9,483
Other	892,396	938,231	792,078	146,153
Total Streets	1,580,135	1,732,325	1,576,689	155,636
Building Maintenance				
Personnel	455,243	467,638	461,727	5,911
Other	421,816	473,908	440,303	33,605
Total Internal Services	877,059	941,546	902,030	39,516
Sanitation				
Personnel	1,514,779	1,613,748	1,558,719	55,029
Other	1,655,810	2,665,410	2,631,126	34,284
Total Sanitation	3,170,589	4,279,158	4,189,845	89,313
Total Public Works	9,595,926	11,070,862	10,349,656	721,206
Total Environmental and Development	12,203,898	14,150,224	12,977,164	1,173,060

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (Continued)  
 YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
Public Safety				
Police				
Personnel	7,831,155	7,961,193	7,645,794	315,399
Capital outlay	1,732	19,158	9,439	9,719
Other	1,224,492	1,486,140	1,213,475	272,665
Total Police	9,057,379	9,466,491	8,868,708	597,783
Fire				
Personnel	4,178,387	4,278,073	4,332,824	(54,751)
Capital outlay	5,200	5,009	-	5,009
Other	628,871	657,395	657,991	(596)
Total Fire	4,812,458	4,940,477	4,990,815	(50,338)
Total Public Safety	13,869,837	14,406,968	13,859,523	547,445
Leisure Activities				
Parks and Recreation				
Personnel	1,482,720	1,482,764	1,438,013	44,751
Other	586,875	642,530	491,377	151,153
Total Parks and Recreation	2,069,595	2,125,294	1,929,390	195,904
Library				
Personnel	1,328,098	1,352,901	1,349,946	2,955
Capital outlay	-	10,600	8,214	2,386
Other	547,292	599,462	534,820	64,642
Total Library	1,875,390	1,962,963	1,892,980	69,983
Total Leisure Activities	3,944,985	4,088,257	3,822,370	265,887
Nondepartmental - Other	894,129	978,282	823,903	154,379
TOTAL EXPENDITURES	\$ 34,210,487	\$ 37,179,433	\$ 34,780,475	\$ 2,398,958

See Notes to Financial Statements.

## PROPRIETARY FUNDS

STATEMENT OF NET ASSETS  
JUNE 30, 2003

	Transportation Fund	Parking Facilities Fund	Total	Governmental Activities Internal Service Funds
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 1,408,010	\$ 505,911	\$ 1,913,921	\$ 23,786
Receivables:				
Accounts receivable, net	18,566	160	18,726	7,941
Due from other funds	61,960	-	61,960	-
Governmental units and agencies	15,950	-	15,950	-
Other	-	21,626	21,626	-
Prepaid items	295	-	295	-
Inventories	250,953	-	250,953	77,616
Total current assets	1,755,734	527,697	2,283,431	109,343
<b>NONCURRENT ASSETS</b>				
Restricted cash and investments	-	-	-	1,212,170
Capital assets, net	15,000,937	7,065,867	22,066,804	3,371,622
Deferred charges	-	167,443	167,443	-
Total noncurrent assets	15,000,937	7,233,310	22,234,247	4,583,792
<b>TOTAL ASSETS</b>	16,756,671	7,761,007	24,517,678	4,693,135
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	106,541	25,375	131,916	51,021
Accrued liabilities	317,131	29,896	347,027	62,421
Current portion of long-term debt	-	155,000	155,000	1,158,898
Total current liabilities	423,672	210,271	633,943	1,272,340
<b>NONCURRENT LIABILITIES</b>				
Long-term debt due after one year	275,609	6,247,467	6,523,076	2,290,406
Total liabilities	699,281	6,457,738	7,157,019	3,562,746
<b>NET ASSETS</b>				
Invested in capital assets, net of debt	15,000,937	715,867	15,716,804	(77,682)
Restricted	-	-	-	1,212,170
Unrestricted	1,056,453	587,402	1,643,855	(4,099)
Total net assets	\$ 16,057,390	\$ 1,303,269	\$ 17,360,659	\$ 1,130,389

See Notes to Financial Statements.

## PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2003

	Transportation Fund	Parking Facilities Fund	Total	Governmental Activities Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 386,541	\$ 1,856,953	\$ 2,243,494	\$ 2,048,120
OPERATING EXPENSES:				
Personnel	6,912,105	596,798	7,508,903	498,163
Depreciation and amortization	1,609,367	402,133	2,011,500	1,140,984
Fuel and tires	550,251	-	550,251	-
Indirect costs	626,324	51,752	678,076	-
Maintenance and repairs	395,764	-	395,764	-
Other	626,674	237,126	863,800	539,120
Total operating expenses	10,720,485	1,287,809	12,008,294	2,178,267
OPERATING INCOME (LOSS)	(10,333,944)	569,144	(9,764,800)	(130,147)
NONOPERATING REVENUES (EXPENSES)				
Federal Operating Assistance Grant	932,000	-	932,000	-
State Operating Assistance Grant	1,565,675	-	1,565,675	-
University of North Carolina and Town of Carrboro operating assistance	4,597,583	-	4,597,583	-
Vehicle Licenses	137,139	-	137,139	-
Ad valorem taxes	1,786,132	-	1,786,132	-
Interest on investments	20,209	9,939	30,148	16,608
Interest expense	-	(400,949)	(400,949)	(157,676)
Other	(8,445)	1,150	(7,295)	102,064
Total nonoperating revenues (expenses), net	9,030,293	(389,860)	8,640,433	(39,004)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,303,651)	179,284	(1,124,367)	(169,151)
CAPITAL CONTRIBUTIONS	1,260,802	-	1,260,802	-
TRANSFERS				
Transfers out	(558,692)	(545,000)	(1,103,692)	-
Total transfers	(558,692)	(545,000)	(1,103,692)	-
CHANGE IN NET ASSETS	(601,541)	(365,716)	(967,257)	(169,151)
NET ASSETS, BEGINNING	16,658,931	1,668,985	18,327,916	1,299,540
NET ASSETS, ENDING	\$ 16,057,390	\$ 1,303,269	\$ 17,360,659	\$ 1,130,389

See Notes to Financial Statements.

## PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2003

	Transportation Fund	Parking Facilities Fund	Total	Governmental Activities Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers	\$ 2,029,217	\$ 1,845,100	\$ 3,874,317	\$ 2,125,279
Payments to employees	(6,805,319)	(561,135)	(7,366,454)	(454,887)
Payments to suppliers	(2,773,551)	(283,022)	(3,056,573)	(804,125)
Net cash provided by (used in) operating activities	(7,549,653)	1,000,943	(6,548,710)	866,267
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Grant funds received	2,489,230	-	2,489,230	-
Operating assistance received	4,597,583	-	4,597,583	-
Taxes and licenses received	1,923,271	-	1,923,271	-
Transfers to other funds	(558,692)	(545,000)	(1,103,692)	-
Net cash provided by (used in) noncapital financing activities	8,451,392	(545,000)	7,906,392	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from installment purchase agreements	-	-	-	708,100
Principal paid on Certificates of Participation and installment purchase agreements	-	(145,000)	(145,000)	(1,274,031)
Interest paid on Certificates of Participation and installment purchase agreements	-	(400,949)	(400,949)	(157,676)
Sale of fixed assets	-	1,150	1,150	102,064
Capital contributions	1,260,802	-	1,260,802	-
Acquisition and construction of capital assets	(1,513,120)	(24,584)	(1,537,704)	(666,492)
Net cash used in capital and related financing activities	(252,318)	(569,383)	(821,701)	(1,288,035)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest on investments	20,209	9,939	30,148	16,608
Net cash provided by investing activities	20,209	9,939	30,148	16,608

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS (Continued)  
YEAR ENDED JUNE 30, 2003

	Transportation Fund	Parking Facilities Fund	Total	Governmental Activities Internal Service Funds
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	669,630	(103,501)	566,129	(405,160)
CASH AND INVESTMENTS, BEGINNING	738,380	609,412	1,347,792	1,641,116
CASH AND INVESTMENTS, ENDING	<u>\$ 1,408,010</u>	<u>\$ 505,911</u>	<u>\$ 1,913,921</u>	<u>\$ 1,235,956</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (10,333,944)	\$ 569,144	\$ (9,764,800)	\$ (130,147)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,609,367	402,133	2,011,500	1,140,984
Changes in assets and liabilities:				
Receivables	1,642,676	(11,853)	1,630,823	77,159
Prepaid items	(295)	-	(295)	-
Inventories	(30,569)	-	(30,569)	(9,414)
Accounts payable	(543,674)	5,856	(537,818)	(255,591)
Accrued liabilities	64,878	13,013	77,891	43,276
Accrued compensated absences	41,908	22,650	64,558	-
Net cash provided by (used in) operating activities	<u>\$ (7,549,653)</u>	<u>\$ 1,000,943</u>	<u>\$ (6,548,710)</u>	<u>\$ 866,267</u>

See Notes to Financial Statements.



**TOWN OF CHAPEL HILL, NORTH CAROLINA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**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 member of an 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 2002 through February 2003 apply to the fiscal year ended June 30, 2003. 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 2003-2004 fiscal year and are not shown as receivables at June 30, 2003. 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, 2003, because they are intended to finance the Town's operations during the 2004 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, 2003.

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 2002-03 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 25, 2002.

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. Cash and Investments

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 investments." 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.

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. 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.

#### 7. 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.

#### 8. 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.

9. 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.

10. Deferred Charges

The cost of patents is being amortized on a straight line basis over its remaining estimated useful live, not to exceed fifteen years.

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.

11. 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 by the Town and OWASA as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year for the Town and 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, except by the Town. 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

12. 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.

13. Deferred 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 deferred revenues reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Reserve for taxes receivable	\$ 208,695	\$ -
Reserve for other receivables	479,608	-
Prepaid rent	-	32,472
	<u>\$ 688,303</u>	<u>\$ 32,472</u>

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

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 inventories - represents total amount of inventories in the General Fund and Special Revenue Funds.

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

Designated for subsequent year's expenditures - represents the amount of fund balance appropriated that has been designated for the adopted 2002-03 budget ordinance.

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

#### 16. 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 deferred 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 deferred 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 \$17,006,673 and a bank balance of \$17,433,430. Of the bank balance, \$400,748 was covered by federal depository insurance, \$1,029,893 was covered by collateral held



under the Dedicated Method and \$16,002,789 was covered by collateral held under the Pooling Method. The Town had cash on hand of \$3,930 at year end.

At year-end, the OWASA's deposits had a carrying amount of \$12,876,655 and a bank balance of \$13,496,637. Of the bank balance, \$161,703 was covered by federal depository insurance and \$13,334,934 in interest-bearing deposits were covered by collateral held under the pooling method. The OWASA had cash on hand of \$600 at June 30, 2003.

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, 2003 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 \$3,968,576.

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:

	<b>Carrying Value</b>	<b>Fair Value</b>
Government and Agency Securities	\$ 262,130	\$ 262,130
The North Carolina Capital Management Trust, a mutual fund	10,035,885	10,035,885
	<u>\$ 10,298,015</u>	<u>\$ 10,298,015</u>

Restricted cash and investments of OWASA at June 30, 2003 are as follows:

Capital Reserve Fund	\$ 4,190,629
Power Account Fund	262,130
Construction Fund	6,287,943
Bond Service Fund	3,747,942
	<u>\$ 14,488,644</u>

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

Receivables as of year-end for the governmental and the business-type activities are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Property taxes, net	\$ 276,108	\$ -
Due from other governmental agencies	2,911,552	15,950
Due from other funds	-	61,960
Other, net	830,407	40,352
	<u>\$ 4,018,067</u>	<u>\$ 118,262</u>

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

Governmental activities, allowance for uncollectible property taxes	<u>\$ 287,112</u>
Governmental activities, allowance for doubtful other receivables	<u>\$ 21,695</u>

E. **Capital Assets**

A summary of changes in the value of the Town's capital assets for the year ended June 30, 2003 follows:

	<b>July 1, 2002</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2003</b>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 13,226,221	\$ 943,811	\$ 6,600	\$ 14,163,432
Construction in progress	6,661,137	2,285,471	436,519	8,510,089
Total capital assets, not being depreciated	<u>19,887,358</u>	<u>3,229,282</u>	<u>443,119</u>	<u>22,673,521</u>
Capital assets, being depreciated:				
Land improvements	3,470,273	712,213	-	4,182,486
Infrastructure	23,835,768	658,944	-	24,494,712
Buildings and building improvements	33,181,873	256,888	-	33,438,761
Equipment and vehicles	14,772,297	724,917	448,721	15,048,493
Total capital assets, being depreciated	<u>75,260,211</u>	<u>2,352,962</u>	<u>448,721</u>	<u>77,164,452</u>
Accumulated depreciation:				
Land improvements	416,774	158,927	-	575,701
Infrastructure	7,518,454	979,788	-	8,498,242
Buildings and building improvements	15,247,867	4,562,747	-	19,810,614
Equipment and vehicles	9,564,907	1,560,838	448,721	10,677,024
Total accumulated depreciation	<u>32,748,002</u>	<u>7,262,300</u>	<u>448,721</u>	<u>39,561,581</u>
Total capital assets, being depreciated, net	<u>42,512,209</u>	<u>(4,909,338)</u>	<u>-</u>	<u>37,602,871</u>
Governmental activities capital assets, net	<u>\$ 62,399,567</u>	<u>\$ (1,680,056)</u>	<u>\$ 443,119</u>	<u>\$ 60,276,392</u>

	July 1, 2002	Increases	Decreases	June 30, 2003
<b>Business-type activities:</b>				
Transportation Fund:				
Capital assets, not being depreciated:				
Land	\$ 1,440,412	\$ -	\$ -	\$ 1,440,412
Total capital assets, not being depreciated	1,440,412	-	-	1,440,412
Capital assets, being depreciated:				
Land improvements	2,397,244	1,324,504	-	3,721,748
Buildings and building improvements	1,363,410	-	-	1,363,410
Equipment	21,298,423	188,616	-	21,487,039
Total capital assets, being depreciated	25,059,077	1,513,120	-	26,572,197
Accumulated depreciation:				
Land improvements	1,399,499	142,446	-	1,541,945
Buildings and building improvements	1,270,785	13,540	-	1,284,325
Equipment	8,732,021	1,453,381	-	10,185,402
Total accumulated depreciation	11,402,305	1,609,367	-	13,011,672
Total capital assets, being depreciated, net	13,656,772	(96,247)	-	13,560,525
Transportation fund capital assets, net	\$ 15,097,184	\$ (96,247)	\$ -	\$ 15,000,937
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	358,216	23,994	-	382,210
Buildings and building improvements	7,274,132	-	-	7,274,132
Equipment	203,518	-	14,200	189,318
Total capital assets, being depreciated	7,835,866	23,994	14,200	7,845,660
Accumulated depreciation:				
Land improvements	257,373	10,597	-	267,970
Buildings and building improvements	2,735,282	363,108	-	3,098,390
Equipment	157,606	19,865	14,200	163,271
Total accumulated depreciation	3,150,261	393,570	14,200	3,529,631
Total capital assets, being depreciated, net	4,685,605	(369,576)	-	4,316,029
Parking facilities fund capital assets, net	\$ 7,435,443	\$ (369,576)	\$ -	\$ 7,065,867
Business-type activities capital assets, net	\$ 22,532,627	\$ (465,823)	\$ -	\$ 22,066,804

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

Governmental activities:	
General government	\$ 1,951,477
Environment and development	2,022,186
Public safety	1,657,377
Leisure activities	486,968
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	
	1,144,292
Total depreciation expense - governmental activities	<u>\$ 7,262,300</u>
Business-type activities:	
Transportation	\$ 1,609,367
Parking facilities	393,570
Total depreciation expense - business-type activities	<u>\$ 2,002,937</u>

A summary of changes in the value of OWASA's capital assets for the year ended June 30, 2003, follows:

	July 1, 2002	Increases	Decreases	June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 14,519,341	\$ 175,888	\$ -	\$ 14,695,229
Construction in progress	12,387,313	6,971,870	-	19,359,183
Total capital assets, not being depreciated	<u>26,906,654</u>	<u>7,147,758</u>	-	<u>34,054,412</u>
Capital assets, being depreciated:				
Water treatment and distribution	89,255,043	7,219,033	-	96,474,076
Sewer collection and treatment	89,602,687	1,953,155	-	91,555,842
Fixtures and equipment	19,558,861	2,122,278	342,218	21,338,921
Assets under capital lease obligation	260,596	-	-	260,596
Total capital assets, being depreciated	<u>198,677,187</u>	<u>11,294,466</u>	<u>342,218</u>	<u>209,629,435</u>
Less accumulated depreciation for:				
Water treatment and distribution	18,380,710	2,308,658	-	20,689,368
Sewer collection and treatment	16,873,630	2,205,992	-	19,079,622
Fixtures and equipment	9,399,987	1,467,945	269,264	10,598,668
Assets under capital lease obligation	247,860	12,736	-	260,596
Total accumulated depreciation	<u>44,902,187</u>	<u>5,995,331</u>	<u>269,264</u>	<u>50,628,254</u>
Total capital assets, being depreciated, net	<u>153,775,000</u>	<u>5,299,135</u>	<u>72,954</u>	<u>159,001,181</u>
Total capital assets, net	<u>\$ 180,681,654</u>	<u>\$ 12,446,893</u>	<u>\$ 72,954</u>	<u>\$ 193,055,593</u>

F. **Accounts Payable and Accrued Liabilities**

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

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Accounts payable	\$ 1,188,346	\$ 131,918
Accrued payroll and payroll related liabilities	1,040,345	347,025
Other accrued liabilities	185,663	-
	<u>\$ 2,414,354</u>	<u>\$ 478,943</u>

G. **Long-Term Debt**

Long-term debt for the Town's governmental activities and the business-type activities for the year ended June 30, 2003 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%	\$ 3,910,000
\$1,800,000 - 1996 serial bonds payable in annual installments of \$100,000 through 2015; interest at 4.8% to 5.55%	1,200,000
\$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%	3,525,000
\$4,700,000 - 2000 serial bonds payable in annually installments of \$75,000 to \$300,000 through 2019; interest at 5.2% to 5.4%	4,075,000
\$3,365,000 - 2002 refunding serial bonds payable in annual installments of \$230,000 to \$815,000 through 2010; interest at 3% to 4%	3,110,000
\$4,250,000 - 2003 serial bonds payable in annual installments of \$75,000 to \$300,000 through 2021; interest at 2% to 4 %	4,250,000
Total general obligation bonds	<u>\$ 20,070,000</u>

Installment Notes Payables

Various installment purchase contracts to finance equipment additions; contracts between two and ten years; interest rates between 3.88% and 5.4%; debt secured by the equipment	\$ 1,992,835
Various installment purchase contracts to finance equipment additions; contracts between two and five years; interest rates between 3.12% and 5.07%; debt secured by the equipment	3,449,304
Total installment notes payables	<u>\$ 5,442,139</u>

Business-type Activities:

\$7,340,000 - Certificates of Participation due in annual installments of \$105,000 to \$530,000 through 2024; interest due in semi-annual installments at 8.125% to 8.25% to be paid from the Parking Facilities Fund	<u>\$ 6,350,000</u>
--	---------------------

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
2004	\$ 1,670,000	\$ 818,860	\$ 2,488,860
2005	1,675,000	748,220	2,423,220
2006	1,980,000	677,250	2,657,250
2007	1,665,000	590,808	2,255,808
2008	1,665,000	519,313	2,184,313
2009-2013	6,590,000	1,880,275	8,470,275
2014-2018	3,800,000	661,744	4,461,744
2019-2021	1,025,000	66,294	1,091,294
	<u>\$ 20,070,000</u>	<u>\$ 5,962,764</u>	<u>\$ 26,032,764</u>

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

Year Ending June 30,	Principal	Interest	Total
2004	\$ 1,513,389	\$ 209,645	\$ 1,723,034
2005	1,137,666	150,034	1,287,700
2006	712,275	107,331	819,606
2007	484,229	82,767	566,996
2008	494,514	62,776	557,290
2009-2012	1,100,066	177,264	1,277,330
	<u>\$ 5,442,139</u>	<u>\$ 789,817</u>	<u>\$ 6,231,956</u>

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

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 155,000	\$ 392,846	\$ 547,846
2005	165,000	384,044	549,044
2006	170,000	374,663	544,663
2007	185,000	364,541	549,541
2008	195,000	353,518	548,518
2009-2013	1,165,000	1,570,414	2,735,414
2014-2018	1,595,000	1,141,041	2,736,041
2019-2023	2,190,000	541,608	2,731,608
2024	530,000	17,093	547,093
	<u>\$ 6,350,000</u>	<u>\$ 5,139,768</u>	<u>\$ 11,489,768</u>

Long-term debt activity for the year ended June 30, 2003 was as follows:

	<b>July 1, 2002</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2003</b>
<b>Governmental activities:</b>				
General obligation bonds	\$ 17,380,000	\$ 4,250,000	\$ 1,560,000	\$ 20,070,000
Installment note payable	6,460,553	708,100	1,726,514	5,442,139
Separation allowance	391,539	20,029	-	411,568
Compensated absences	1,518,052	80,361	-	1,598,413
	<u>\$ 25,750,144</u>	<u>\$ 5,058,490</u>	<u>\$ 3,286,514</u>	<u>27,522,120</u>
Less current maturities				3,183,389
Long-term debt				<u>\$ 24,338,731</u>
<b>Business-type activities:</b>				
Certificates of participation	\$ 6,495,000	\$ -	\$ 145,000	\$ 6,350,000
Compensated absences	263,518	64,558	-	328,076
	<u>\$ 6,758,518</u>	<u>\$ 64,558</u>	<u>\$ 145,000</u>	<u>6,678,076</u>
Less current maturities				155,000
Long-term debt				<u>\$ 6,523,076</u>

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, 2003, the legal debt margin for the Town was approximately \$313 million.

OWASA's long-term debt at June 30, 2003 consists of the following:

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 \$692,219 at June 30, 2003	\$ 13,182,781
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 \$102,200 at June 30, 2003	34,542,200
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 \$105,438 at June 30, 2003	13,675,438
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%, final maturity July 2016, net of unamortized discount and deferred refunding loss of \$3,838 at June 30, 2003	1,681,162
Notes payable, collateralized by land, payable in installments through September 2003 to February 2005, with interest ranging from 6% to 8%	68,084
	63,149,665
Less current maturities:	
Bonds payable, net of unamortized discount and deferred refunding gains and losses	3,062,263
Notes payable	44,478
	3,106,741
<b>Total long-term debt</b>	<b>\$ 60,042,924</b>

OWASA debt maturities are as follows:

	Maturities	Amortization of Discount and Deferred Refunding Loss	Total	Interest
2004	\$ 3,109,478	\$ 2,737	\$ 3,106,741	\$ 3,557,808
2005	2,393,606	38,808	2,354,798	2,662,331
2006	3,290,000	42,622	3,247,378	2,563,088
2007	3,015,000	50,772	2,964,228	2,441,424
2008	2,725,000	28,012	2,696,988	2,339,589
2009-2013	16,765,000	113,767	16,651,233	9,792,571
2014-2018	15,005,000	61,797	14,943,203	6,135,341
2019-2023	9,775,000	149,904	9,625,096	2,990,000
2024-2027	7,560,000	-	7,560,000	779,750
<b>Total</b>	<b>\$ 63,638,084</b>	<b>\$ 488,419</b>	<b>\$ 63,149,665</b>	<b>\$ 33,261,902</b>



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. The OWASA irrevocably deposited with a trustee, securities that were used to retire the principal and interest of the refunded bonds as they become due. The present value of the new debt service approximates the refunded debt service requirements. As of June 30, 2003, 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, 2003, 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, 2003, 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, 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, 2003 was \$2,405,000.

OWASA's long-term debt activity for the year ended June 30, 2003 was as follows:

	July 1, 2002	Additions	Reductions	June 30, 2003
Bonds payable:				
Revenue bonds	\$ 65,845,000	\$ 13,875,000	\$ 16,150,000	\$ 63,570,000
Less deferred amounts:				
For issuance premium	430,298	683,017	12,908	1,100,407
For issuance discounts and deferred refunding	(961,952)	(731,216)	(104,342)	(1,588,826)
<b>Total bonds payable</b>	<u>65,313,346</u>	<u>13,826,801</u>	<u>16,058,566</u>	<u>63,081,581</u>
Notes payable	203,808	-	135,724	68,084
	<u>\$ 65,517,154</u>	<u>\$ 13,826,801</u>	<u>\$ 16,194,290</u>	<u>\$ 63,149,665</u>
Less current maturities				3,106,741
<b>Total long-term debt</b>				<u><u>\$ 60,042,924</u></u>

**E. Interfund Receivables, Payables and Transfers**

A schedule of interfund receivables and payables at June 30, 2003 are as follows:

Receivable Fund	Payable Fund	Amount
Transportation fund	Nonmajor governmental fund	\$ 61,960
		<u>\$ 61,960</u>

A schedule of interfund transfers at June 30, 2003 are as follows:

T transfers To	T transfers From	Amount
General fund	Parking facility fund	\$ 545,000
General fund	Nonmajor governmental fund	95,000
Nonmajor governmental fund	General fund	3,266,677
Capital projects ordinance fund	Nonmajor governmental fund	436,127
Nonmajor governmental fund	Nonmajor governmental fund	104,323
Nonmajor governmental fund	Transportation fund	558,692
		<u>\$ 5,005,819</u>

**F. Employees' Retirement System**

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

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

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

Plan members are required to contribute six percent of their annual covered salary. The Town and OWASA are required to contribute at an actuarially determined rate. For the Town the current rate for employees not engaged in law enforcement and for law enforcement officers is respectively, 4.93% and 4.63% of annual covered payroll. For OWASA, the current rate for employees is 5.58% 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, 2003, 2002, and 2001 were \$1,172,362, \$1,128,974 and \$1,031,580, respectively. OWASA's contributions to LGERS for the years ended June 30, 2003, 2002, and 2001 were \$295,896, \$277,840 and \$287,877, 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, 2002, the Separation Allowance's membership consisted of:

Retirees receiving benefits	15
Active Plan members	<u>102</u>
TOTAL	<u>117</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, 2002 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	\$ 188,613
b	Interest on net pension obligation	28,387
c	Adjustment to annual required contribution	(21,033)
d	Annual pension cost	\$ <u>195,967</u>
e	Employer contributions made for fiscal year ended 6/30/03	<u>175,938</u>
f	Increase in net pension obligation (d) – (e)	\$ 20,029
g	Net pension obligation, beginning of fiscal year	<u>391,539</u>
h	Net pension obligation, end of fiscal year (f) + (g)	<u><u>\$ 411,568</u></u>

## Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation, End of Year
6/30/2001	\$152,393	104.81%	\$377,810
6/30/2002	172,463	92.04%	391,539
6/30/2003	195,967	89.78%	411,568

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, 2003 were \$366,998, which consisted of \$229,193 from the Town and \$137,805 from law enforcement officers.

F. **Deferred Compensation Plan**

The Town offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 401(k). The plan is administered by Branch Banking and Trust Company. The Town contributes up to 5% of qualified salary. For the year ended June 30, 2003, the contribution of the Town totaled \$967,062.

G. **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, 68 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2003, the Town made payments for post-retirement health benefit premiums of \$392,570 and the retirees made payments of \$161,132.

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, 2003, the Town made contributions to the State for death benefits of \$31,699. 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.

H. **Fund Balance Reserves**

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

General:

Reserve for encumbrances	\$ 1,044,041
Reserve by State Statute	2,959,369
Reserve for capital improvements	440,775
Reserve for police	100,000
Reserve for inventory	12,097
	<u>\$ 4,556,282</u>

Capital Projects Ordinance:

Reserve for capital improvements	<u>\$ 4,358,559</u>
----------------------------------	---------------------

Other Governmental Funds:

Reserve for encumbrances	\$ 154,482
Reserve by State Statute	28,528
Reserve for capital improvements	747,264
Reserve for debt service	171,968
Reserve for inventory	146,058
	<u>\$ 1,248,300</u>

I. **Commitments and Contingencies**

The Town has commitments related to capital improvements of approximately \$1,131,000 at June 30, 2003.

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 \$7,250,000 at June 30, 2003.

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.

J. **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, 2003 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 two fiscal years.

**K. Change in Accounting Principles**

On July 1, 2002, the Town adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. In addition to the required Management's Discussion and Analysis, the Town restated prior year's governmental activities net assets (formerly reported as fund balance) in the following amounts to convert to a full accrual basis of accounting:

Governmental fund balance per June 30, 2002 financial statements:

General fund	\$ 8,997,332	
Special revenue funds	1,081,016	
Debt service fund	1,095	
Capital project funds	2,456,134	
Fiduciary funds	1,172,381	\$ 13,707,958
Assets reported in the General Fixed Asset Account Group	65,828,689	
Infrastructure assets recognized prior to June 30, 2002	23,835,768	
Accumulated depreciation as of June 30, 2002	(30,688,757)	58,975,700
Liabilities reported in the General Long-term Debt Account Group		(21,734,909)
Internal service fund assets and liabilities for governmental activities		1,299,540
Other items		48,737
Total net assets as of July 1, 2002		<u>\$ 52,297,026</u>

**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 (AAL) PROJECTED UNIT CREDIT (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A % OF COVERED PAYROLL ((b-a)/c)
12/31/1997	\$ -	\$ 946,899	\$ 946,899	-	\$ 3,076,991	30.8 %
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

**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
1998	\$ 115,780	46.65 %
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

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, 2002
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	28 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.

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.

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.

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.

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

### 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, 2003

	Total Special Revenue Funds	Total Capital Projects Funds	Debt Service Fund	Total Other Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 1,717,183	\$ 236,642	\$ 171,968	\$ 2,125,793
Receivables				
Governmental units and agencies	287,264	20,433	-	307,697
Other	69,483	-	-	69,483
Due from other funds	9,029	-	-	9,029
Inventories and other assets	162,596	-	-	162,596
Restricted cash and investments	61,456	711,617	-	773,073
<b>TOTAL ASSETS</b>	<b>2,307,011</b>	<b>968,692</b>	<b>171,968</b>	<b>3,447,671</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to other funds	85,714	-	-	85,714
Accounts payable	144,038	48,968	-	193,006
Accrued liabilities	51,109	-	-	51,109
Deferred revenues	32,472	-	-	32,472
Other	55,562	-	-	55,562
<b>Total Liabilities</b>	<b>368,895</b>	<b>48,968</b>	<b>-</b>	<b>417,863</b>
<b>FUND BALANCES</b>				
Reserved for encumbrances	154,482	-	-	154,482
Reserved for inventories	146,058	-	-	146,058
Reserved by State statute	28,528	-	-	28,528
Reserved for capital improvements	562,724	184,540	-	747,264
Reserved for debt service	-	-	171,968	171,968
Unreserved				
Designated for subsequent year's expenditures	236,698	-	-	236,698
Undesignated	809,626	735,184	-	1,544,810
<b>Total fund balances</b>	<b>1,938,116</b>	<b>919,724</b>	<b>171,968</b>	<b>3,029,808</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,307,011</b>	<b>\$ 968,692</b>	<b>\$ 171,968</b>	<b>\$ 3,447,671</b>

TOWN OF CHAPEL HILL, NORTH CAROLINA

OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2003

	Transit Special Revenue Fund	Public Housing Operating	Public Housing Projects	Transitional Housing
<b>ASSETS</b>				
Cash and investments	\$ -	\$ 961,473	\$ 1,901	\$ 5,802
Receivables				
Governmental units and agencies	254,771	-	32,493	-
Other	-	39,304	-	-
Due from other funds	-	-	-	-
Inventories and other assets	-	146,058	-	-
Restricted cash and investments	-	61,456	-	-
<b>TOTAL ASSETS</b>	<b>254,771</b>	<b>1,208,291</b>	<b>34,394</b>	<b>5,802</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to other funds	61,960	7,840	6,885	-
Accounts payable	25,578	41,895	27,226	1,780
Accrued liabilities	1,198	41,933	283	-
Deferred revenues	-	32,472	-	-
Other	-	55,562	-	-
<b>Total Liabilities</b>	<b>88,736</b>	<b>179,702</b>	<b>34,394</b>	<b>1,780</b>
<b>FUND BALANCES</b>				
Reserved for encumbrances	-	154,482	-	-
Reserved for inventories	-	146,058	-	-
Reserved by State statute	-	28,528	-	-
Restricted for interest subsidies	-	-	-	-
Restricted for land in trust	-	-	-	-
Restricted for aid to library operations	-	-	-	-
Unreserved				
Designated for subsequent year's expenditures	-	236,698	-	-
Undesignated	166,035	462,823	-	4,022
<b>Total fund balances</b>	<b>166,035</b>	<b>1,028,589</b>	<b>-</b>	<b>4,022</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 254,771</b>	<b>\$ 1,208,291</b>	<b>\$ 34,394</b>	<b>\$ 5,802</b>

Statement 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
\$ 150,000	\$ 9,750	\$ 16,562	\$ 15,184	\$ 82,819	\$ 367,480	\$ 106,212	\$ 1,717,183
-	-	-	-	-	-	-	287,264
-	-	-	27,875	-	2,304	-	69,483
-	9,029	-	-	-	-	-	9,029
-	-	-	-	16,538	-	-	162,596
-	-	-	-	-	-	-	61,456
150,000	18,779	16,562	43,059	99,357	369,784	106,212	2,307,011
-	-	-	-	-	9,029	-	85,714
-	11,084	5,000	27,875	-	3,600	-	144,038
-	7,695	-	-	-	-	-	51,109
-	-	-	-	-	-	-	32,472
-	-	-	-	-	-	-	55,562
-	18,779	5,000	27,875	-	12,629	-	368,895
-	-	-	-	-	-	-	154,482
-	-	-	-	-	-	-	146,058
-	-	-	-	-	-	-	28,528
-	-	-	-	-	357,155	-	357,155
-	-	-	-	99,357	-	-	99,357
-	-	-	-	-	-	106,212	106,212
-	-	-	-	-	-	-	236,698
150,000	-	11,562	15,184	-	-	-	809,626
150,000	-	11,562	15,184	99,357	357,155	106,212	1,938,116
\$ 150,000	\$ 18,779	\$ 16,562	\$ 43,059	\$ 99,357	\$ 369,784	\$ 106,212	\$ 2,307,011

OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

COMBINING BALANCE SHEET  
JUNE 30, 2003

	Capital Projects	Capital Reserve	Total Capital Projects Funds
<b>ASSETS</b>			
Cash and investments	\$ 52,102	\$ 184,540	\$ 236,642
Due from governmental units and agencies	20,433	-	20,433
Restricted cash and investments	711,617	-	711,617
<b>TOTAL ASSETS</b>	<b>784,152</b>	<b>184,540</b>	<b>968,692</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	48,968	-	48,968
<b>Total liabilities</b>	<b>48,968</b>	<b>-</b>	<b>48,968</b>
<b>FUND BALANCES</b>			
Reserved for capital improvements			
Other capital improvements	-	184,540	184,540
Unreserved			
Undesignated	735,184	-	735,184
<b>Total fund balances</b>	<b>735,184</b>	<b>184,540</b>	<b>919,724</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 784,152</b>	<b>\$ 184,540</b>	<b>\$ 968,692</b>

## OTHER GOVERNMENTAL FUNDS

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2003**

	Total Special Revenue Funds	Total Capital Projects Funds	Debt Service Fund	Total Other Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 71,070	-	\$ -	\$ 71,070
Intergovernmental revenues				
Federal government	3,487,570	-	-	3,487,570
State government	154,614	-	-	154,614
Other	-	143,099	-	143,099
Interest on investments	25,273	8,114	728	34,115
Franchise rental fees	-	59,973	-	59,973
Dwelling rental	378,181	-	-	378,181
Program income	198,829	-	-	198,829
Cable Public Access Reserve	110,341	-	-	110,341
Other	171,331	25,998	-	197,329
<b>Total revenues</b>	<b>4,597,209</b>	<b>237,184</b>	<b>728</b>	<b>4,835,121</b>
<b>EXPENDITURES</b>				
Environment and development	4,992,732	-	-	4,992,732
Capital projects	-	993,244	-	993,244
Debt service:				
Principal	-	-	1,560,000	1,560,000
Interest and fiscal charges	-	-	782,855	782,855
<b>Total expenditures</b>	<b>4,992,732</b>	<b>993,244</b>	<b>2,342,855</b>	<b>8,328,831</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(395,523)</b>	<b>(756,060)</b>	<b>(2,342,127)</b>	<b>(3,493,710)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	708,692	708,000	2,513,000	3,929,692
Transfer to other funds	(628,450)	(7,000)	-	(635,450)
<b>Total other financing sources</b>	<b>80,242</b>	<b>701,000</b>	<b>2,513,000</b>	<b>3,294,242</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<b>(315,281)</b>	<b>(55,060)</b>	<b>170,873</b>	<b>(199,468)</b>
<b>FUND BALANCES, BEGINNING</b>	<b>2,253,397</b>	<b>974,784</b>	<b>1,095</b>	<b>3,229,276</b>
<b>FUND BALANCES, ENDING</b>	<b>\$ 1,938,116</b>	<b>\$ 919,724</b>	<b>\$ 171,968</b>	<b>\$ 3,029,808</b>

TOWN OF CHAPEL HILL, NORTH CAROLINA

OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2003

	Transit Special Revenue Fund	Public Housing Operating	Public Housing Projects	Transitional Housing
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues				
Federal government	1,280,404	1,103,971	647,046	-
State government	154,614	-	-	-
Interest on investments	-	12,603	-	-
Dwelling rental	-	378,181	-	-
Program income	-	-	-	5,441
Cable Public Access Reserve	-	-	-	-
Other	-	58,866	-	(214)
Total revenues	1,435,018	1,553,621	647,046	5,227
EXPENDITURES				
Environment and development	1,993,711	1,397,087	647,046	1,205
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(558,693)	156,534	-	4,022
OTHER FINANCING SOURCES				
Transfers - in	558,692	-	-	-
Transfers - out	-	-	-	-
Total other financing sources	558,692	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(1)	156,534	-	4,022
FUND BALANCES, BEGINNING	166,036	872,055	-	-
FUND BALANCES, ENDING	\$ 166,035	\$ 1,028,589	\$ -	\$ 4,022



Statement 5

Revolving Acquisition	Community Development Entitlement	Disaster Recovery Initiative	Downtown Service District	Cable Public Access	Land Trust Fund	Housing Loan Trust Fund	Library Gift Fund	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ 71,070	\$ -	\$ -	\$ -	\$ -	\$ 71,070
-	430,071	6,517	-	-	-	-	19,561	3,487,570
-	-	-	-	-	-	-	-	154,614
-	-	-	501	250	-	6,562	5,357	25,273
-	-	-	-	-	-	-	-	378,181
-	90,635	-	-	-	102,753	-	-	198,829
-	-	-	-	110,341	-	-	-	110,341
-	-	-	-	-	-	38,378	74,301	171,331
-	520,706	6,517	71,571	110,591	102,753	44,940	99,219	4,597,209
-	500,217	6,517	88,000	110,341	23,000	195,047	30,561	4,992,732
-	20,489	-	(16,429)	250	79,753	(150,107)	68,658	(395,523)
150,000	-	-	-	-	-	-	-	708,692
-	(20,489)	-	-	-	-	(129,511)	(478,450)	(628,450)
150,000	(20,489)	-	-	-	-	(129,511)	(478,450)	80,242
150,000	-	-	(16,429)	250	79,753	(279,618)	(409,792)	(315,281)
-	-	-	27,991	14,934	19,604	636,773	516,004	2,253,397
\$ 150,000	\$ -	\$ -	\$ 11,562	\$ 15,184	\$ 99,357	\$ 357,155	\$ 106,212	\$ 1,938,116

## OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2003**

	Capital Projects	Capital Reserve	Total Capital Projects Funds
<b>REVENUES</b>			
Interest on investments	\$ 6,118	\$ 1,996	\$ 8,114
Franchise rental fees	59,973	-	59,973
Intergovernmental revenues - other	143,099	-	143,099
Other	25,998	-	25,998
	<hr/>		
Total revenues	235,188	1,996	237,184
<hr/>			
<b>EXPENDITURES</b>			
Capital projects:			
Municipal facilities	202,329	-	202,329
Street improvements and sidewalks	289,845	-	289,845
Parks, recreation and open space	434,761	-	434,761
Technology and communications	65,589	-	65,589
Public safety	720	-	720
	<hr/>		
Total expenditures	993,244	-	993,244
<hr/>			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(758,056)	1,996	(756,060)
<hr/>			
<b>OTHER FINANCING SOURCES/ (USES)</b>			
Transfer from General Fund	708,000	-	708,000
Transfer to Capital Projects Ordinance Fund	(7,000)	-	(7,000)
	<hr/>		
Total other financing sources	701,000	-	701,000
<hr/>			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(57,056)	1,996	(55,060)
<hr/>			
FUND BALANCES, BEGINNING	792,240	182,544	974,784
<hr/>			
FUND BALANCES, ENDING	\$ 735,184	\$ 184,540	\$ 919,724
<hr/> <hr/>			

## 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.

This page intentionally left blank

## INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2003

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Total Internal Service Funds
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 5,121	\$ 18,665	\$ -	\$ 23,786
Accounts receivable	-	7,941	-	7,941
Inventories	-	77,616	-	77,616
Total current assets	5,121	104,222	-	109,343
<b>NONCURRENT ASSETS</b>				
Restricted cash and investments	952,285	-	259,885	1,212,170
Capital assets, net	3,344,715	5,561	21,346	3,371,622
Total assets	4,302,121	109,783	281,231	4,693,135
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	7,739	38,411	4,871	51,021
Accrued liabilities	-	62,421	-	62,421
Current portion of long-term debt	1,011,004	-	147,894	1,158,898
Total current liabilities	1,018,743	100,832	152,765	1,272,340
<b>NONCURRENT LIABILITIES</b>				
Long-term debt due after one year	2,194,801	-	95,605	2,290,406
Total liabilities	3,213,544	100,832	248,370	3,562,746
<b>NET ASSETS</b>				
Invested in capital assets, net of debt	138,910	5,561	(222,153)	(77,682)
Restricted	952,285	-	259,885	1,212,170
Unrestricted	(2,618)	3,390	(4,871)	(4,099)
Total net assets	\$ 1,088,577	\$ 8,951	\$ 32,861	\$ 1,130,389

## INTERNAL SERVICE FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2003**

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Total Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 1,019,380	\$ 874,370	\$ 154,370	\$ 2,048,120
OPERATING EXPENSES:				
Depreciation and amortization	1,133,379	414	7,191	1,140,984
Personnel	-	498,163	-	498,163
Operations	27,351	401,850	109,919	539,120
Total operating expenses	1,160,730	900,427	117,110	2,178,267
OPERATING INCOME (LOSS)	(141,350)	(26,057)	37,260	(130,147)
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	14,839	338	1,431	16,608
Interest expense	(151,445)	-	(6,231)	(157,676)
Gain on sale of fixed assets	102,064	-	-	102,064
Total nonoperating revenues (expenses), net	(34,542)	338	(4,800)	(39,004)
CHANGE IN NET ASSETS	(175,892)	(25,719)	32,460	(169,151)
NET ASSETS, BEGINNING	1,264,469	34,670	401	1,299,540
NET ASSETS, ENDING	\$ 1,088,577	\$ 8,951	\$ 32,861	\$ 1,130,389

## INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2003

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 1,104,480	\$ 866,429	\$ 154,370	\$ 2,125,279
Payments to employees	-	(454,887)	-	(454,887)
Payments to suppliers	(311,837)	(387,240)	(105,048)	(804,125)
Net cash provided by operating activities	792,643	24,302	49,322	866,267
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from installment purchase agreements	566,100	-	142,000	708,100
Principal paid on installment purchase agreements	(1,174,382)	-	(99,649)	(1,274,031)
Interest paid on installment purchase agreements	(151,445)	-	(6,231)	(157,676)
Proceeds from sale of capital assets	102,064	-	-	102,064
Acquisition and construction of capital assets	(660,517)	(5,975)	-	(666,492)
Net cash provided by (used in) capital and related financing activities	(1,318,180)	(5,975)	36,120	(1,288,035)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	14,839	338	1,431	16,608
Net cash provided by investing activities	14,839	338	1,431	16,608
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(510,698)	18,665	86,873	(405,160)
CASH AND INVESTMENTS, BEGINNING	1,468,104	-	173,012	1,641,116
CASH AND INVESTMENTS, ENDING	\$ 957,406	\$ 18,665	\$ 259,885	\$ 1,235,956

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS (Continued)  
 YEAR ENDED JUNE 30, 2003

	Vehicle Replacement Fund	Vehicle Maintenance Fund	Computer Equipment Replacement Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (141,350)	\$ (26,057)	\$ 37,260	\$ (130,147)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	1,133,379	414	7,191	1,140,984
Changes in assets and liabilities:				
Receivables	85,100	(7,941)	-	77,159
Inventories	-	(9,414)	-	(9,414)
Accounts payable	(284,486)	24,024	4,871	(255,591)
Accrued liabilities	-	43,276	-	43,276
Net cash provided by operating activities	<u>\$ 792,643</u>	<u>\$ 24,302</u>	<u>\$ 49,322</u>	<u>\$ 866,267</u>



CAPITAL ASSETS USED IN THE  
OPERATION OF GOVERNMENTAL FUNDS

TOWN OF CHAPEL HILL, NORTH CAROLINA

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE OF FUNCTION AND ACTIVITY  
YEAR ENDED JUNE 30, 2003

Function and Activity	Land	Land Improvements	Buildings and Building Improvements	Equipment
<b>General Government</b>				
Town Manager	\$ -	\$ -	\$ -	\$ 169,367
Personnel	-	-	-	6,491
Finance	-	-	-	418,930
Legal	-	-	-	5,960
Information Systems	-	-	-	39,565
General Government Buildings	-	-	3,094,288	-
<b>Total General Government</b>	<b>-</b>	<b>-</b>	<b>3,094,288</b>	<b>640,313</b>
<b>Environment and Development</b>				
Planning	-	47,955	-	45,742
Inspections	-	-	-	40,537
Engineering	-	257,812	-	214,385
Community Development	383,987	326,923	647,837	62,714
Housing	1,701,659	284,780	13,663,717	620,140
Transitional Housing	-	-	117,500	-
Homeless Shelter	259,128	-	1,211,014	-
Public Works	1,606,856	1,869,006	147,632	2,879,212
<b>Total Environment and Development</b>	<b>3,951,630</b>	<b>2,786,476</b>	<b>15,787,700</b>	<b>3,862,730</b>
<b>Public Safety</b>				
Police	-	-	1,375,355	1,073,681
Court Facility	255,709	-	-	-
Fire	334,961	-	1,779,594	1,679,564
<b>Total Public Safety</b>	<b>590,670</b>	<b>-</b>	<b>3,154,949</b>	<b>2,753,245</b>
<b>Leisure</b>				
Parks and Recreation	7,293,942	1,396,010	4,518,231	260,090
Library	734,128	-	5,132,412	1,405,675
<b>Total Leisure</b>	<b>8,028,070</b>	<b>1,396,010</b>	<b>9,650,643</b>	<b>1,665,765</b>
<b>Land and Leasehold Improvements and Buildings</b>				
Acquired Prior To July 1, 1977 not Allocated to Function	1,593,062	-	1,751,181	-
<b>Construction In Progress</b>				
	-	-	-	-
<b>Total Capital Assets</b>	<b>\$ 14,163,432</b>	<b>\$ 4,182,486</b>	<b>\$ 33,438,761</b>	<b>\$ 8,922,053</b>

Statement 10

Infrastructure	Construction in Progress	Total
\$ -	\$ -	\$ 169,367
-	-	6,491
-	-	418,930
-	-	5,960
-	-	39,565
-	-	3,094,288
-	-	3,734,601
-	-	93,697
-	-	40,537
-	-	472,197
-	-	1,421,461
-	-	16,270,296
-	-	117,500
-	-	1,470,142
24,494,712	-	30,997,418
24,494,712	-	50,883,248
-	-	2,449,036
-	-	255,709
-	-	3,794,119
-	-	6,498,864
-	-	13,468,273
-	-	7,272,215
-	-	20,740,488
-	-	3,344,243
-	8,510,089	8,510,089
\$ 24,494,712	\$ 8,510,089	\$ 93,711,533

## CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE OF CHANGE BY FUNCTION AND ACTIVITY  
YEAR ENDED JUNE 30, 2003

Function and Activity	Governmental Funds Capital Assets			Governmental Funds Capital Assets
	July 1, 2002	Additions	Deductions	June 30, 2003
General Government				
Town Manager	\$ 169,367	\$ -	\$ -	\$ 169,367
Personnel	6,491	-	-	6,491
Finance	418,930	-	-	418,930
Information Systems	34,528	5,037	-	39,565
Legal	5,960	-	-	5,960
General Government Buildings	3,094,288	-	-	3,094,288
Total General Government	3,729,564	5,037	-	3,734,601
Environment and Development				
Planning	93,697	-	-	93,697
Inspections	77,037	-	36,500	40,537
Engineering	325,573	153,043	6,419	472,197
Community Development	1,421,461	-	-	1,421,461
Housing	16,231,120	39,176	-	16,270,296
Transitional Housing	117,500	-	-	117,500
Homeless Shelter	1,470,142	-	-	1,470,142
Public Works	30,002,922	1,211,597	217,101	30,997,418
Total Environment and Development	49,739,452	1,403,816	260,020	50,883,248
Public Safety				
Police	2,585,624	9,439	146,027	2,449,036
Court Facility	255,709	-	-	255,709
Fire	3,802,885	7,434	16,200	3,794,119
Total Public Safety	6,644,218	16,873	162,227	6,498,864
Leisure				
Parks and Recreation	12,395,608	1,079,265	6,600	13,468,273
Library	7,150,235	121,980	-	7,272,215
Total Leisure	19,545,843	1,201,245	6,600	20,740,488
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	6,661,137	1,848,952	-	8,510,089
Total General Fixed Assets	\$ 89,664,457	\$ 4,475,923	\$ 428,847	\$ 93,711,533

## SUPPLEMENTAL INFORMATION

Budget to actual comparison for other major and nonmajor governmental funds, proprietary funds, internal service funds and fiduciary funds of the primary government.

This page intentionally left blank

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
TRANSIT GRANT PROJECTS ORDINANCE FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
<b>REVENUES</b>				
Intergovernmental revenue				
Federal government	\$ 7,522,674	\$ 5,524,112	1,280,404	\$ 6,804,516
State of North Carolina	756,449	566,897	154,614	721,511
Other	-	145,427	-	145,427
<b>Total Revenues</b>	<b>8,279,123</b>	<b>6,236,436</b>	<b>1,435,018</b>	<b>7,671,454</b>
<b>EXPENDITURES</b>				
Equipment and improvements	7,086,132	5,540,161	1,214,552	6,754,713
Administration	2,468,913	1,258,880	779,159	2,038,039
<b>Total Expenditures</b>	<b>9,555,045</b>	<b>6,799,041</b>	<b>1,993,711</b>	<b>8,792,752</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(1,275,922)</b>	<b>(562,605)</b>	<b>(558,693)</b>	<b>(1,121,298)</b>
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	1,275,922	728,641	558,692	1,287,333
<b>Total other financing sources</b>	<b>1,275,922</b>	<b>728,641</b>	<b>558,692</b>	<b>1,287,333</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ 166,036</b>	<b>\$ (1)</b>	<b>\$ 166,035</b>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL  
PUBLIC HOUSING OPERATING FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 1,080,654	\$ 1,080,654	\$ 1,103,971	\$ 23,317
Interest on investments	22,969	22,969	12,603	(10,366)
Dwelling rental	329,858	329,858	378,181	48,323
Other	17,560	17,560	58,866	41,306
<b>Total revenues</b>	<b>1,451,041</b>	<b>1,451,041</b>	<b>1,553,621</b>	<b>102,580</b>
<b>EXPENDITURES</b>				
Administration	345,442	358,807	321,064	37,743
Tenant Services	51,208	51,486	47,542	3,944
Utilities	122,280	122,280	110,165	12,115
Ordinary maintenance	646,832	667,647	548,869	118,778
General expense	272,714	272,814	253,052	19,762
Non-routine maintenance	86,910	117,018	78,951	38,067
Capital outlay	88,686	75,126	37,444	37,682
<b>Total expenditures</b>	<b>1,614,072</b>	<b>1,665,178</b>	<b>1,397,087</b>	<b>268,091</b>
<b>OTHER FINANCING SOURCES</b>				
Appropriated fund balance	163,031	214,137	-	(214,137)
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>				
	<b>\$ -</b>	<b>\$ -</b>	<b>156,534</b>	<b>\$ 156,534</b>
<b>FUND BALANCE, BEGINNING</b>			<b>872,055</b>	
<b>FUND BALANCE, ENDING</b>			<b>\$ 1,028,589</b>	



**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, 2003**

	Project Authorization	Prior Year	Actual Current Year	Total to Date
REVENUES				
Intergovernmental revenues				
Federal government	\$ 82,552	\$ 67,376	\$ 10,798	\$ 78,174
EXPENDITURES				
Prevention activities	82,552	67,376	10,798	78,174
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
PUBLIC HOUSING PROJECTS - CAPITAL FUND 2000  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Prior Year	Actual Current Year	Total to Date
REVENUES				
Intergovernmental revenues				
Federal government	\$ 599,512	\$ 374,763	\$ 224,749	\$ 599,512
EXPENDITURES				
Equipment and improvements	599,512	374,763	224,749	599,512
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
PUBLIC HOUSING PROJECTS - CAPITAL FUND 2001  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Prior Year	Actual Current Year	Total to Date
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 611,585	\$ -	\$ 367,512	\$ 367,512
Other	-	34,750	-	34,750
	<hr/>			
Total revenues	611,585	34,750	367,512	402,262
	<hr/>			
<b>EXPENDITURES</b>				
Equipment and improvements	611,585	34,750	367,512	402,262
	<hr/>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
	<hr/> <hr/>			

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
PUBLIC HOUSING PROJECTS - CAPITAL FUND 2002  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Prior Year	Actual Current Year	Total to Date
REVENUES				
Intergovernmental revenues				
Federal government	\$ 584,065	\$ -	\$ 43,987	\$ 43,987
EXPENDITURES				
Equipment and improvements	584,065	-	43,987	43,987
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
TRANSITIONAL HOUSING FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Actual		Total to Date
		Prior Year	Current Year	
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ -	\$ 100,000	\$ -	\$ 100,000
Program income	-	-	5,441	5,441
Other	-	214	(214)	-
<b>Total revenues</b>	<b>-</b>	<b>100,214</b>	<b>5,227</b>	<b>105,441</b>
<b>EXPENDITURES</b>				
Maintenance and transition activities	-	117,714	1,205	118,919
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	-	17,500	-	17,500
<b>Total other financing sources</b>	<b>-</b>	<b>17,500</b>	<b>-</b>	<b>17,500</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,022</b>	<b>\$ 4,022</b>

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
 REVOLVING ACQUISITION FUND  
 FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
OTHER FINANCING SOURCES				
Transfer from other funds	\$ 150,000	\$ -	\$ 150,000	\$ 150,000
EXPENDITURES				
Equipment and improvements	150,000	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 150,000	\$ 150,000

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
COMMUNITY DEVELOPMENT ENTITLEMENT GRANT PROJECTS ORDINANCE FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 2,177,000	\$ 1,541,758	\$ 430,071	\$ 1,971,829
Program income	428,524	280,217	90,635	370,852
Other income	-	824	-	824
<b>Total revenues</b>	<b>2,605,524</b>	<b>1,822,799</b>	<b>520,706</b>	<b>2,343,505</b>
<b>EXPENDITURES</b>				
Public improvement	1,030,000	770,264	132,328	902,592
Neighborhood revitalization	687,384	425,387	179,022	604,409
Homeownership opportunities	376,844	260,161	80,000	340,161
Administration	357,296	279,604	77,132	356,736
Community Services	124,000	86,901	31,735	118,636
Economic development	30,000	30,000	-	30,000
<b>Total expenditures</b>	<b>2,605,524</b>	<b>1,852,317</b>	<b>500,217</b>	<b>2,352,534</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>(29,518)</b>	<b>20,489</b>	<b>(9,029)</b>
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	-	29,518	(20,489)	9,029
<b>Total other financing sources</b>	<b>-</b>	<b>29,518</b>	<b>(20,489)</b>	<b>9,029</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
DISASTER RECOVERY INITIATIVE FUND  
FROM GRANT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Prior Years	Actual Current Year	Total to Date
<b>REVENUES</b>				
Intergovernmental revenues				
Federal government	\$ 349,041	\$ 340,638	\$ 6,517	\$ 347,155
 Total revenues	 349,041	 340,638	 6,517	 347,155
<b>EXPENDITURES</b>				
Maintenance and Repairs-Grounds	-	27,197	-	27,197
Land purchases	112,000	112,000	-	112,000
Soil Erosion/Drainage-Public Housing	176,290	147,490	6,517	154,007
Erosion Drainage-Chase/Elliott	22,000	22,000	-	22,000
Curbs and Gutters	5,000	-	-	-
Capital Equipment	33,751	31,951	-	31,951
 Total expenditures	 349,041	 340,638	 6,517	 347,155
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 \$ -	 \$ -	 \$ -	 \$ -



**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DOWNTOWN SERVICE DISTRICT FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Ad valorem taxes	\$ 70,000	\$ 70,000	\$ 71,070	\$ 1,070
Interest on investment		-	501	501
<b>Total revenues</b>	<b>70,000</b>	<b>70,000</b>	<b>71,571</b>	<b>1,571</b>
<b>EXPENDITURES</b>				
Contracted services	70,000	88,000	88,000	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>(18,000)</b>	<b>(16,429)</b>	<b>1,571</b>
<b>OTHER FINANCING SOURCES</b>				
Appropriated fund balance		18,000	-	(18,000)
<b>Total other financing sources</b>	<b>-</b>	<b>18,000</b>	<b>-</b>	<b>(18,000)</b>
<b>DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(16,429)</b>	<b>\$ (16,429)</b>
FUND BALANCE, BEGINNING			27,991	
FUND BALANCE, ENDING			\$ 11,562	

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CABLE PUBLIC ACCESS FUND  
 YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest		\$ -	\$ 250	\$ 250
Cable Public Access Revenues	90,000	90,000	110,341	20,341
Total revenues	90,000	90,000	110,591	20,591
EXPENDITURES				
Contracted services	90,000	90,000	110,341	(20,341)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	250	\$ 250
FUND BALANCE, BEGINNING			14,934	
FUND BALANCE, ENDING			\$ 15,184	

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
LAND TRUST FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
REVENUES				
Intergovernmental grants	\$ 231,250	\$ 156,200	\$ -	\$ 156,200
Program revenue	-	118,000	102,753	220,753
Total revenues	231,250	274,200	102,753	376,953
EXPENDITURES	231,250	254,596	23,000	277,596
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ 19,604	\$ 79,753	\$ 99,357

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - HOUSING LOAN TRUST FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest on investments	\$ 8,000	\$ 8,000	\$ 6,562	(1,438)
Other	45,000	45,000	38,378	(6,622)
Total revenues	53,000	53,000	44,940	(8,060)
EXPENDITURES	175,000	387,012	195,047	191,965
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(122,000)	(334,012)	(150,107)	183,905
OTHER FINANCING SOURCES (USES)				
Transfers - out	-	-	(129,511)	(129,511)
Appropriated Fund Balance	122,000	334,012	-	(334,012)
Total other financing (uses)	122,000	334,012	(129,511)	(463,523)
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	\$ -	\$ -	(279,618)	\$ (279,618)
FUND BALANCE, BEGINNING			636,773	
FUND BALANCE, ENDING			\$ 357,155	

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - LIBRARY GIFT FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest on investments	\$ -	\$ -	\$ 5,357	\$ 5,357
Contributions	45,000	45,000	74,301	29,301
Intergovernmental revenues - federal	-	20,000	19,561	(439)
Total revenues	45,000	65,000	99,219	34,219
EXPENDITURES	-	31,000	30,561	439
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	45,000	34,000	68,658	34,658
OTHER FINANCING SOURCES (USES)				
Transfers - out	(95,000)	(478,450)	(478,450)	-
Appropriated Fund Balance	50,000	444,450	-	(444,450)
Total other financing (uses)	(45,000)	(34,000)	(478,450)	(444,450)
DEFICIENCY OF REVENUES UNDER EXPENDITURES AND OTHER USES	\$ -	\$ -	(409,792)	\$ (409,792)
FUND BALANCE, BEGINNING			516,004	
FUND BALANCE, ENDING			\$ 106,212	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL-  
CAPITAL PROJECTS ORDINANCE FUND  
FROM PROJECT INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003**

	Project	Actual		
	Authorization	Prior Years	Current Year	Total to Date
<b>REVENUES</b>				
Interest on investments	\$ 365,183	\$ 590,457	\$ 33,570	\$ 624,027
Federal Bridge Replacement Grant	212,865	268,730	-	268,730
Other Federal Grants	30,000	202,348	12,563	214,911
North Carolina Clean Water Grant	200,000	4,013	195,987	200,000
North Carolina Department of Transportation Grants	507,500	-	300,000	300,000
Other Grants	-	-	79,000	79,000
Charges for service	-	-	30,506	30,506
Other	1,667,913	970,931	249	971,180
<b>Total revenues</b>	<b>2,983,461</b>	<b>2,036,479</b>	<b>651,875</b>	<b>2,688,354</b>
<b>EXPENDITURES</b>				
Parks, recreation, and open space capital improvements	11,790,333	7,121,948	1,528,302	8,650,250
Public safety capital improvements	2,278,000	2,027,242	57,916	2,085,158
Public works facility	500,000	250,379	147,322	397,701
Sewer capital improvements	350,385	364,418	-	364,418
Street improvements	3,513,952	1,915,351	727,252	2,642,603
<b>Total expenditures</b>	<b>18,432,670</b>	<b>11,679,338</b>	<b>2,460,792</b>	<b>14,140,130</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(15,449,209)</b>	<b>(9,642,859)</b>	<b>(1,808,917)</b>	<b>(11,451,776)</b>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from bond issuance	13,500,000	9,175,000	4,250,000	13,425,000
Proceeds from financing	1,200,000	1,200,000	-	1,200,000
Transfer from General Fund	178,275	178,275	45,677	223,952
Transfer from Capital Projects Fund	416,549	416,549	7,000	423,549
Transfer from Capital Reserve Fund	154,385	154,385	-	154,385
Transfer from Library Gift Fund	-	-	383,450	383,450
<b>Total other financing sources</b>	<b>15,449,209</b>	<b>11,124,209</b>	<b>4,686,127</b>	<b>15,810,336</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ 1,481,350</b>	<b>\$ 2,877,210</b>	<b>\$ 4,358,560</b>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Interest on investments	\$ 5,000	\$ 5,000	\$ 6,118	\$ 1,118
Franchise rental fees	55,000	55,000	59,973	4,973
Intergovernmental revenues - other	-	200,422	143,099	(57,323)
Other	-	6,600	25,998	19,398
<b>Total revenues</b>	<b>60,000</b>	<b>267,022</b>	<b>235,188</b>	<b>(31,834)</b>
<b>EXPENDITURES</b>				
Capital projects:				
Municipal facilities	131,000	310,707	202,329	108,378
Street improvements and sidewalks	61,000	780,969	289,845	491,124
Parks, recreation and open space	218,000	517,092	434,761	82,331
Technology and communications	68,000	68,000	65,589	2,411
Public safety	-	46,734	720	46,014
<b>Total expenditures</b>	<b>478,000</b>	<b>1,723,502</b>	<b>993,244</b>	<b>730,258</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(418,000)</b>	<b>(1,456,480)</b>	<b>(758,056)</b>	<b>698,424</b>
<b>OTHER FINANCING SOURCES/ (USES)</b>				
Transfer from General Fund	238,000	708,000	708,000	-
Transfer to Capital Projects				
Ordinance Fund	-	(7,000)	(7,000)	-
Appropriated fund balance	180,000	755,480	-	755,480
<b>Total other financing sources</b>	<b>418,000</b>	<b>1,456,480</b>	<b>701,000</b>	<b>755,480</b>
<b>DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(57,056)</b>	<b>\$ (57,056)</b>
<b>FUND BALANCES, BEGINNING</b>			<b>792,240</b>	
<b>FUND BALANCES, ENDING</b>			<b>\$ 735,184</b>	

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Interest on investments	\$ -	\$ -	\$ 728	\$ -
Total revenues	-	-	728	-
<b>EXPENDITURES</b>				
Debt service:				
Principal	1,505,000	1,505,000	1,560,000	1,505,000
Interest and fiscal charges	838,000	1,008,000	782,855	1,008,000
Total expenditures	2,343,000	2,513,000	2,342,855	2,513,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,343,000)	(2,513,000)	(2,342,127)	(2,513,000)
<b>OTHER FINANCING SOURCES</b>				
Transfer from other funds	2,343,000	2,513,000	2,513,000	2,513,000
Total other financing sources	2,343,000	2,513,000	2,513,000	2,513,000
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	\$ -	\$ -	170,873	\$ -
FUND BALANCES, BEGINNING			1,095	
FUND BALANCES, ENDING			\$ 171,968	



**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
(MODIFIED ACCRUAL BASIS) - TRANSPORTATION FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 274,000	\$ 274,000	\$ 386,541	\$ 112,541
<b>OPERATING EXPENSES:</b>				
Personnel	6,733,430	6,840,920	6,912,105	(71,185)
Amortization	55,000	-	-	-
Fuel and tires	587,617	587,617	550,251	37,366
Indirect costs	547,053	547,053	626,324	(79,271)
Maintenance and repairs	517,324	517,324	395,764	121,560
Other	667,238	768,460	626,674	141,786
Total operating expenses	9,107,662	9,261,374	9,111,118	150,256
<b>OPERATING LOSS</b>	<b>(8,833,662)</b>	<b>(8,987,374)</b>	<b>(8,724,577)</b>	<b>262,797</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Federal Operating Assistance Grant	932,000	933,200	932,000	(1,200)
State Operating Assistance Grant	1,573,708	1,574,108	1,565,675	(8,433)
University of North Carolina and Town of Carrboro operating assistance	4,614,693	4,614,693	4,597,583	(17,110)
Vehicle Licenses	140,000	140,000	137,139	(2,861)
Ad valorem taxes	1,743,500	1,743,500	1,786,132	42,632
Interest on investments	45,000	45,000	20,209	(24,791)
Other	52,000	52,000	(8,445)	(60,445)
Appropriated fund balance	301,543	453,655	-	(453,655)
Total nonoperating revenues (expenses), net	9,402,444	9,556,156	9,030,293	(525,863)
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>				
	568,782	568,782	305,716	(263,066)
<b>CAPITAL CONTRIBUTIONS</b>	-	-	1,260,802	1,260,802

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
(MODIFIED ACCRUAL BASIS) - TRANSPORTATION FUND (Continued)  
YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
TRANSFERS				
Transfers in	478,782	478,782	669,536	190,754
Transfers out	(1,047,564)	(1,047,564)	(1,228,228)	(180,664)
Total transfers	(568,782)	(568,782)	(558,692)	10,090
EXCESS OF REVENUES AND NONOPERATING REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	1,007,826	\$ 1,007,826

Reconciliation of modified accrual basis to full  
accrual basis:

Depreciation and amortization 1,609,367

Change in Net Assets \$ (601,541)

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - PARKING FACILITIES FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,998,300	\$ 1,998,300	\$ 1,856,953	\$ (141,347)
OPERATING EXPENSES:				
Personnel	562,284	562,284	596,798	(34,514)
Indirect costs	52,601	52,601	51,752	849
Other	328,038	408,579	237,126	171,453
Total operating expenses	942,923	1,023,464	885,676	137,788
OPERATING INCOME	1,055,377	974,836	971,277	(3,559)
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	8,000	8,000	9,939	1,939
Interest expense	(548,645)	(548,645)	(400,949)	147,696
Other	-	-	1,150	1,150
Appropriated fund balance	200,000	280,541	-	(280,541)
Total nonoperating revenues (expenses), net	(340,645)	(260,104)	(389,860)	(129,756)
INCOME BEFORE TRANSFERS	714,732	714,732	581,417	(133,315)
TRANSFERS				
Transfers out	(714,732)	(714,732)	(545,000)	169,732
Total transfers	(714,732)	(714,732)	(545,000)	169,732
EXCESS OF REVENUES AND NONOPERATING REVENUES OVER EXPENSES AND TRANSFERS	\$ -	\$ -	36,417	\$ 36,417
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			402,133	
Change in Net Assets			\$ (365,716)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - VEHICLE REPLACEMENT FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,019,380	\$ 1,019,380	\$ 1,019,380	\$ -
OPERATING EXPENSES:				
Operations	1,548,445	1,548,445	27,351	1,521,094
Total operating expenses	1,548,445	1,548,445	27,351	1,521,094
OPERATING INCOME (LOSS)	(529,065)	(529,065)	992,029	1,521,094
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	25,000	25,000	14,839	(10,161)
Interest expense	-	-	(151,445)	(151,445)
Capital outlay	(626,800)	(1,548,445)	-	1,548,445
Debt service	(1,400,700)	(1,400,700)	-	1,400,700
Gain on sale of fixed assets	1,648,445	1,648,445	102,064	(1,546,381)
Proceeds from installment notes	626,800	626,800	-	(626,800)
Appropriated fund balance	256,320	1,177,965	-	(1,177,965)
Total nonoperating revenues (expenses), net	529,065	529,065	(34,542)	(563,607)
EXCESS OF REVENUES AND NONOPERATING REVENUES OVER EXPENSES AND NONOPERATING EXPENSES	\$ -	\$ -	957,487	\$ 957,487
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			1,133,379	
Change in net assets			\$ (175,892)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - VEHICLE MAINTENANCE FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 868,884	\$ 868,884	\$ 874,370	\$ 5,486
OPERATING EXPENSES:				
Personnel	447,676	447,676	498,163	(50,487)
Operations	421,208	438,620	401,850	36,770
Total operating expenses	868,884	886,296	900,013	(13,717)
OPERATING LOSS	-	(17,412)	(25,643)	(8,231)
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	-	-	338	338
Appropriated fund balance	-	17,412	-	(17,412)
Total nonoperating revenues (expenses), net	-	17,412	338	(17,074)
EXCESS OF REVENUES AND NONOPERATING REVENUES OVER EXPENSES AND NONOPERATING EXPENSES	\$ -	\$ -	(25,305)	\$ (25,305)
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			414	
Change in net assets			\$ (25,719)	

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
(MODIFIED ACCRUAL BASIS) - COMPUTER EQUIPMENT REPLACEMENT FUND  
YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance - Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 154,370	\$ 154,370	\$ 154,370	\$ -
OPERATING EXPENSES:				
Personnel	-	-	-	-
Operations	154,370	157,814	109,919	47,895
Total operating expenses	154,370	157,814	109,919	47,895
OPERATING INCOME (LOSS)	-	(3,444)	44,451	47,895
NONOPERATING REVENUES (EXPENSES)				
Interest on investments	-	-	1,431	1,431
Interest expense			(6,231)	(6,231)
Debt service	(150,000)	(150,000)	-	150,000
Proceeds from installment notes	150,000	150,000	-	(150,000)
Appropriated fund balance	-	3,444	-	(3,444)
Total nonoperating revenues (expenses), net	-	3,444	(4,800)	(8,244)
EXCESS OF REVENUES AND NONOPERATING REVENUES OVER EXPENSES AND NONOPERATING EXPENSES	\$ -	\$ -	39,651	\$ 39,651
Reconciliation of modified accrual basis to full accrual basis:				
Depreciation and amortization			7,191	
Change in net assets			\$ 32,460	

**PUBLIC HOUSING FINANCIAL DATA SCHEDULE**

**Schedule 35**

Line Item #	Account Description	PIH Drug Elimin. Program			TOTAL
		Low Rent 14.850	CGP 14.859	14.854	
<b>ASSETS:</b>					
<b>CURRENT ASSETS:</b>					
Cash and Cash Equivalents:					
111	Cash - unrestricted	\$ 961,473	\$ -	\$ -	\$ 961,473
112	Cash - restricted - modernization and development	-	1,714	-	1,714
114	Cash - tenant security deposits	61,456	-	186	61,642
100	Total cash	1,022,929	1,714	186	1,024,829
Accounts and notes receivables:					
121	Accounts Receivable-PHA Projects	-	32,255	238	32,493
125	Accounts receivable - miscellaneous	32,472	-	-	32,472
126	Accounts receivable - tenants - dwelling rents	28,528	-	-	28,528
126.1	Allowance for doubtful accounts-dwelling rents	(21,695)	-	-	(21,695)
120	Total receivables, net allowances for uncollectibles	39,305	32,255	238	71,798
Current investments:					
143	Inventories	146,058	-	-	146,058
140	Total current investments	146,058	-	-	146,058
150	<b>TOTAL CURRENT ASSETS</b>	1,208,292	33,969	424	1,242,685
<b>NONCURRENT ASSETS:</b>					
Fixed assets:					
161	Land	2,631,582	-	-	2,631,582
162	Building	13,662,774	-	-	13,662,774
164	Furniture, Equipment, & Machinery-Administration	621,083	-	-	621,083
166	Accumulated depreciation	(7,125,074)	-	-	(7,125,074)
167	Construction in progress	-	566,912	-	566,912
160	Total fixed assets, net of accumulated depreciation	9,790,365	566,912	-	10,357,277
180	<b>TOTAL NONCURRENT ASSETS</b>	9,790,365	566,912	-	10,357,277
190	<b>TOTAL ASSETS</b>	\$ 10,998,657	\$ 600,881	\$ 424	\$ 11,599,962
<b>LIABILITIES AND EQUITY:</b>					
<b>LIABILITIES:</b>					
<b>CURRENT LIABILITIES:</b>					
312	Accounts payable ≤ 90 days	\$ 41,896	\$ 27,084	\$ 424	\$ 69,404
321	Accrued wage/payroll taxes payable	10,435	-	-	10,435
333	Accounts payments - other government	7,840	6,885	-	14,725
341	Tenant security deposits	55,562	-	-	55,562
342	Deferred revenues	32,472	-	-	32,472
345	Other current liabilities	31,498	-	-	31,498
310	<b>TOTAL CURRENT LIABILITIES</b>	179,703	33,969	424	214,096
300	<b>TOTAL LIABILITIES</b>	179,703	33,969	424	214,096
<b>EQUITY:</b>					
501	Investment in general fixed assets	9,790,365	566,912	-	10,357,277
509	Designated fund balance	120,437	-	-	120,437
512	Undesignated fund balance/retained earnings	908,152	-	-	908,152
513	<b>TOTAL EQUITY</b>	10,818,954	566,912	-	11,385,866
600	<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 10,998,657	\$ 600,881	\$ 424	\$ 11,599,962

**PUBLIC HOUSING FINANCIAL DATA SCHEDULE**

Line Item #	Account Description	PIH Drug			TOTAL
		Low Rent 14.850	CGP 14.859	Elimin. Program 14.854	
<b>REVENUE:</b>					
Tenant revenues:					
703	Net tenant rental revenue	\$ 378,181	\$ -	\$ -	\$ 378,181
704	Tenant revenue - other	23,481	-	-	23,481
705	Total tenant revenue	401,662	-	-	401,662
Other revenues:					
706	HUD PHA grants	1,103,971	69,336	10,798	1,184,105
706.1	Capital Grants	-	566,912	-	566,912
711	Investment income - unrestricted	12,603	-	-	12,603
715	Other revenue	35,386	-	-	35,386
	Total other revenue	1,151,960	636,248	10,798	1,799,006
700	<b>TOTAL REVENUE</b>	<b>1,553,622</b>	<b>636,248</b>	<b>10,798</b>	<b>2,200,668</b>
<b>EXPENSES:</b>					
<b>OPERATING EXPENSES:</b>					
Administrative:					
911	Administrative salaries	236,397	-	-	236,397
912	Auditing fees	5,500	-	-	5,500
915	Employee benefit contributions - administrative	78,568	-	-	78,568
916	Other operating - administrative	70,556	27,625	-	98,181
Tenant services:					
921	Tenant services - salaries	43,174	-	10,324	53,498
922	Relocation costs	-	2,533	-	2,533
924	Tenant services-other	11,666	28,783	474	40,923
Utilities:					
931	Water	87,537	-	-	87,537
932	Electricity	17,261	-	-	17,261
933	Gas	5,367	-	-	5,367
Ordinary maintenance & operations:					
941	Ordinary maintenance and operations - labor	398,245	-	-	398,245
942	Ordinary maintenance and operations - materials	39,877	10,395	-	50,272
943	Ordinary maintenance and operations - contract costs	110,747	-	-	110,747
945	Employee benefit contributions - ordinary maintenance	122,743	-	-	122,743
General expenses:					
961	Insurance premiums	34,948	-	-	34,948
962	Other general expenses	1,138	-	-	1,138
964	Bad debt - tenant rents	16,272	-	-	16,272
967	Interest expense	697	-	-	697
969	<b>TOTAL OPERATING EXPENSES</b>	<b>1,280,693</b>	<b>69,336</b>	<b>10,798</b>	<b>1,360,827</b>
970	<b>EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER OPERATING EXPENSES</b>	<b>272,929</b>	<b>566,912</b>	<b>-</b>	<b>839,841</b>
<b>NON-OPERATING EXPENSES:</b>					
971	Extraordinary maintenance	112,645	-	-	112,645
972	Casualty Losses	3,750	-	-	3,750
976	Capital outlays - governmental funds	-	566,912	-	566,912
900	<b>TOTAL EXPENSES</b>	<b>1,397,088</b>	<b>636,248</b>	<b>10,798</b>	<b>2,040,384</b>
1000	<b>DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	<b>156,534</b>	<b>566,912</b>	<b>-</b>	<b>723,446</b>
1103	<b>BEGINNING EQUITY</b>	<b>872,055</b>	<b>-</b>	<b>-</b>	<b>872,055</b>
1104	Prior period adjustment, Equity Transfers and Corrections	9,790,365	-	-	9,790,365
	<b>ENDING EQUITY</b>	<b>\$ 10,818,954</b>	<b>\$ 566,912</b>	<b>\$ -</b>	<b>\$ 11,385,866</b>



STATISTICAL SECTION

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)  
 LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	General Government	Environment and Development	Public Safety	Leisure Activities	Non- departmental
1994	\$ 2,284,500	\$ 11,134,065	\$ 7,221,104	\$ 3,042,425	\$ 845,908
1995	2,206,610	10,605,928	8,021,964	3,270,025	767,735
1996	2,287,271	15,830,573	8,606,729	2,658,387	953,242
1997	2,480,430	14,126,960	9,210,612	2,892,954	944,006
1998	2,625,234	11,845,965	9,660,868	2,663,536	891,557
1999	2,490,722	16,639,102	10,005,232	3,068,911	996,914
2000	2,748,984	14,305,633	10,786,477	3,236,540	711,717
2001	2,916,683	15,548,497	12,009,852	3,507,813	985,953
2002	3,085,314	22,793,279	13,394,643	3,751,287	1,075,234
2003	3,297,515	17,969,896	13,859,523	3,822,370	823,903

Note: (1) Includes General, Special Revenue, Debt Service and Capital Projects Funds. See Exhibit 5.

**Table 1**

---

	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Total</b>
\$	3,302,171	\$ 2,261,367	\$ 30,091,540
	847,339	2,176,118	27,895,719
	868,887	1,800,757	33,005,846
	1,166,416	2,010,822	32,832,200
	4,255,356	2,024,736	33,967,252
	3,315,929	2,164,646	38,681,456
	1,888,495	2,189,780	35,867,626
	4,013,559	2,532,046	41,514,403
	3,413,124	2,422,731	49,935,612
	3,454,036	2,342,855	45,570,098

TOWN OF CHAPEL HILL, NORTH CAROLINA

GENERAL GOVERNMENTAL REVENUES BY SOURCE (1)  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	Taxes	Licenses and Permits	Fines and Forfeitures	Inter- governmental Revenues	Charges for Services
1994	\$ 15,413,848	\$ 638,483	\$ 12,800	\$ 7,349,169	\$ 1,197,899
1995	16,306,330	802,931	13,769	7,028,004	1,361,447
1996	17,233,996	811,355	16,502	10,800,153	1,475,821
1997	17,849,916	839,898	20,863	9,698,644	1,815,278
1998	19,558,996	1,059,355	17,854	7,344,202	1,811,097
1999	20,551,608	1,385,970	20,053	11,096,492	1,700,313
2000	22,032,598	1,349,780	14,231	8,774,761	1,533,782
2001	23,328,989	1,363,742	14,945	8,388,946	1,557,250
2002	26,193,450	1,432,195	19,510	14,962,684	1,706,496
2003	29,251,469	1,519,274	25,391	10,823,095	1,984,469

Note: (1) Includes General, Special Revenue, Debt service and Capital Projects Funds. See Exhibit 5.

Table 2

---

<b>Interest on Investments</b>	<b>Other</b>	<b>Total</b>
\$ 425,335	\$ 1,664,723	\$ 26,702,257
454,646	804,692	26,771,819
595,673	774,832	31,708,332
589,354	934,143	31,748,096
701,072	1,311,795	31,804,371
598,116	1,204,166	36,556,718
763,966	1,031,545	35,500,663
948,173	1,472,760	37,074,805
289,653	1,381,154	45,985,142
187,590	1,595,635	45,386,923

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Tax Year	Fiscal Year Ended June 30,	Current Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections
1993	1994	\$ 11,918,276	\$ 11,693,043	98.11	\$ 123,505
1994	1995	12,361,034	12,134,161	98.16	194,215
1995	1996	12,978,742	12,776,997	98.45	189,731
1996	1997	13,779,082	13,605,513	98.74	108,143
1997	1998	14,935,217	14,840,691	99.37	180,945
1998	1999	15,534,727	15,413,292	99.22	125,658
1999	2000	16,598,182	16,453,207	99.13	104,525
2000	2001	17,594,559	17,466,542	99.27	132,508
2001	2002	20,417,001	20,271,201	99.29	116,045
2002	2003	23,067,472	22,919,205	99.36	144,130

Table 3

---

<b>Total Tax Collections During Year</b>	<b>Percent of Total Tax Collections to Tax Levy</b>	<b>Outstanding Delinquent Taxes</b>	<b>Percent of Delinquent Taxes to Tax Levy</b>
\$ 11,816,548	99.15	\$ 320,991	2.69
12,328,376	99.74	334,792	2.71
12,966,728	99.91	382,811	2.95
13,713,656	99.53	461,312	3.35
15,021,636	100.58	467,522	3.13
15,538,950	100.03	507,815	3.27
16,557,732	99.76	464,972	2.80
17,599,050	100.03	479,986	2.73
20,387,246	99.85	530,838	2.60
23,063,335	99.98	495,807	2.15

**TAXABLE PROPERTY ASSESSED VALUE  
LAST TEN FISCAL YEARS**

<b>Tax Year</b>	<b>Fiscal Year Ended June 30</b>	<b>Real Property</b>	<b>Personal Property</b>	<b>Public Service Companies</b>	<b>Total Assessed Value</b>	<b>Ratio of Assessed Value to Estimated Actual Value</b>	
1993	(1) 1994	\$ 1,733,781,411	\$ 230,959,349	\$ 50,271,769	\$ 2,015,012,529	100	%
1994	1995	1,778,151,350	264,148,241	52,555,336	2,094,854,927	100	
1995	1996	1,862,413,539	272,394,696	55,050,922	2,189,859,157	100	
1996	1997	1,924,867,361	312,971,196	57,994,746	2,295,833,303	100	
1997	(1) 1998	2,362,338,074	348,375,791	57,982,816	2,768,696,681	100	
1998	1999	2,457,855,819	365,092,224	60,078,208	2,883,026,251	100	
1999	2000	2,501,345,508	381,872,039	60,948,410	2,944,165,957	100	
2000	2001	2,589,768,417	388,087,936	61,660,255	3,039,516,608	100	
2001	(2) 2002	3,556,294,528	403,959,196	60,873,428	4,021,127,152	100	
2002	2003	3,688,289,625	415,023,471	63,868,306	4,167,181,402	100	

Notes: (1) Increase due to revaluation.

(2) Increase due to revaluation and the addition of \$200 million from a major annexation



**PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS  
PER \$100 OF ASSESSED VALUE  
LAST TEN FISCAL YEARS**

<b>CHAPEL HILL WITHIN ORANGE COUNTY</b>						
<b>Tax Year</b>	<b>Fiscal Year Ended June 30,</b>		<b>Town of Chapel Hill</b>		<b>Orange County</b>	<b>Total</b>
			<b>General Fund</b>	<b>Transportation</b>		
1993	1994	*	.543	.04800	.885	1.476
1994	1995		.543	.04800	.885	1.476
1995	1996		.543	.04800	.948	1.539
1996	1997		.543	.05300	.998	1.594
1997	1998	*	.495	.04300	.873	1.411
1998	1999		.498	.04000	.902	1.440
1999	2000		.524	.03900	.919	1.482
2000	2001		.535	.04300	.929	1.507
2001	2002	*	.461	.04300	.805	1.309
2002	2003		.510	.04300	.845	1.398

<b>CHAPEL HILL WITHIN DURHAM COUNTY</b>						
<b>Tax Year</b>	<b>Fiscal Year Ended June 30</b>		<b>Town of Chapel Hill</b>		<b>Durham County</b>	<b>Total</b>
			<b>General Fund</b>	<b>Transportation</b>		
1993	1994	*	.543	.04800	.8490	1.440
1994	1995		.543	.04800	.9427	1.534
1995	1996		.543	.04800	.9427	1.534
1996	1997		.543	.05300	.9597	1.556
1997	1998	*	.495	.04300	.9597	1.498
1998	1999		.498	.04000	.9397	1.478
1999	2000		.524	.03900	.9297	1.493
2000	2001		.535	.04300	.9297	1.508
2001	2002	*	.461	.04300	.7290	1.233
2002	2003		.510	.04300	.7530	1.306

\* Denotes revaluation year

**SPECIAL ASSESSMENTS COLLECTIONS  
LAST TEN FISCAL YEARS**

---

<b>Fiscal Year Ended June 30,</b>	<b>Current Assessments Due</b>	<b>Current Collections</b>	<b>Ratio of Collections to Amount Due</b>	<b>Total Outstanding Assessments</b>
1994	18,842	20,988	% 111	53,128
1995	25,369	16,503	65	36,623
1996	14,864	19,531	131	22,115
1997	9,685	6,637	69	15,478
1998	15,478	2,135	14	13,343
1999	13,343	3,253	24	18,731
2000	18,731	7,010	37	11,721
2001	2,717	2,717	N/A	-
2002	-	-	N/A	-
2003	-	-	N/A	-

**RATIO OF NET BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA  
LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended June 30</b>	<b>Population Estimate</b>	<b>Taxable Assessed Value</b>	<b>Net Bonded Debt</b>	<b>Ratio of Net Bonded Debt to Taxable Assessed Value</b>	<b>Net Bonded Debt Per Capita</b>
1994	41,524	2,015,012,529	15,475,000	0.77	373
1995	42,918	2,094,854,927	14,450,000	0.69	336
1996	44,848	2,189,859,157	15,865,000	0.72	354
1997	43,539	2,295,833,303	14,755,000	0.64	339
1998	43,423	2,768,696,681	18,090,000	0.65	417
1999	43,977	3,039,516,608	16,880,000	0.59	384
2000	44,015	2,944,165,957	20,225,000	0.69	460
2001	44,429	3,039,516,608	18,705,000	0.62	421
2002	51,598	4,021,127,152	17,380,000	0.43	337
2003	52,440	4,167,181,402	20,070,000	0.48	383

Note: Net bonded debt includes general obligation bonds only.

**COMPUTATION OF LEGAL DEBT MARGIN**  
**June 30, 2003**

---

Total assessed valuation at June 30, 2003	<u>\$4,167,181,402</u>
Debt limit - 8% of total assessed value	333,374,512
Amount of debt applicable to debt limit	
General obligation bonds	<u>20,070,000</u>
Legal debt margin	<u>\$ 313,304,512</u>

**COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT**  
**June 30, 2003**

<b>Jurisdiction</b>	<b>Bonded Debt</b>	<b>Applicable to</b>	<b>Applicable to</b>
Direct			
Town of Chapel Hill	\$ 20,070,000	100.0 %	<u>\$ 20,070,000</u>
Overlapping			
Orange County	113,935,000	41.6	47,396,960
Durham County	197,730,000	1.2	<u>2,372,760</u>
Total Overlapping			<u>49,769,720</u>
Total Direct and Overlapping Bonded Debt			<u><u>\$ 69,839,720</u></u>

NOTE: Bonded debt includes general obligation bonds only.

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO GENERAL  
GOVERNMENTAL EXPENDITURES  
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Debt Service Expenditures				Total	General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures	
	Principal	Interest	Other Expenses					
						(1)		
1994	\$ 1,148,206	\$ 1,113,161	\$ -	\$ 2,261,367	\$ 30,036,428	7.53	%	
1995	1,127,673	1,047,886	559	2,176,118	27,895,719	7.80		
1996	981,535	818,261	962	1,800,758	33,022,278	5.45		
1997	1,144,529	865,597	696	2,010,822	32,832,200	6.12		
1998	1,249,334	775,108	294	2,024,736	33,967,252	5.96		
1999	1,245,829	918,551	266	2,164,646	38,681,456	5.60		
2000	1,355,000	834,560	220	2,189,780	35,867,626	6.11		
2001	1,520,000	1,011,688	358	2,532,046	41,514,403	6.10		
2002	1,490,000	932,418	313	2,422,731	49,935,612	4.85		
2003	1,560,000	782,855	-	2,342,855	45,570,098	5.14		

NOTE: (1) Includes General, Special Revenue, Debt Service and Capital Projects Funds. See Exhibit 5.

**DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended June 30</b>	<b>Population (1)</b>	<b>Per Capita Income (2)</b>	<b>Median Age (2)</b>	<b>School Enrollment (3)</b>	<b>% Unemployment Rate (4)</b>
1994	41,539	\$ 16,288	24.8	31,488	2.1
1995	42,918	16,288	24.8	31,890	2.2
1996	44,848	16,288	24.8	32,245	1.9
1997	43,539	16,288	24.8	32,155	1.6
1998	43,423	16,288	24.8	32,375	1.6
1999	43,977	16,288	24.8	32,375	1.3
2000	44,015	16,288	24.8	33,520	1.2
2001	44,429	16,288	24.8	34,462	1.8
2002	51,598	24,133	24.0	34,628	3.1
2003	52,440	24,133	24.2	37,012	4.0

**SOURCES:**

- (1) Office of State Planning, State of North Carolina.
- (2) Estimated from 1990 and 2000 Census of Population, U.S. Department of Commerce Bureau of Census. Per capita income and median age data from 1994 to 2001 are calculated on 1990 census data. Per capita income and median age for 2002 to 2003 are based on the 2000 Census of Population.
- (3) Chapel Hill-Carrboro Public Schools and University of North Carolina at Chapel Hill
- (4) Department of Commerce, State of North Carolina.

TOWN OF CHAPEL HILL, NORTH CAROLINA

PROPERTY VALUE AND CONSTRUCTION  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Property Value (2)			
	Real Property	Personal Property	Public Service Companies	Total Assessed Value
1994	(1) \$ 1,733,781	\$ 230,959	\$ 50,272	\$ 2,015,012
1995	1,778,151	264,148	52,555	2,094,854
1996	1,862,414	272,395	55,051	2,189,860
1997	1,924,867	312,971	57,995	2,295,833
1998	(1) 2,362,338	348,376	57,982	2,768,696
1999	2,457,856	365,092	60,078	2,883,026
2000	2,501,345	381,872	60,948	2,944,165
2001	2,589,768	388,088	61,660	3,039,516
2002	(1) 3,556,294	403,960	60,873	4,021,127
2003	3,688,290	415,023	63,868	4,167,181

All dollar amounts are in thousands of dollars.

- (1) Increase due to revaluation.
- (2) Estimated assessed value from Table 4.
- (3) Source : Town of Chapel Hill Inspections Department.



TABLE 12

Construction (3)				
Number of Building Permits	Residential Value	Non-Residential Value	Total Value	
616	\$ 45,496	\$ 13,635	\$ 59,131	
579	55,255	21,581	76,836	
745	57,491	13,544	71,035	
669	49,166	24,761	73,927	
824	74,946	47,240	122,186	
945	86,188	47,760	133,948	
863	90,299	60,795	151,094	
841	98,861	25,307	124,168	
927	99,479	33,232	132,711	
1,035	116,538	36,407	152,945	

## PRINCIPAL TAXPAYERS

June 30, 2003

Taxpayer	Type of Business	2003 Assessed Value	% of Total Assessed Value	
Blue Cross and Blue Shield of North Carolina	Health Insurance	\$ 40,568,298	0.97	%
US GT LLC (University Square)	Shopping Center	35,126,445	0.84	
Vac Limited Partnership	Apartment Rental	32,288,674	0.77	
Bell South Telephone Company	Public Utility	29,037,989	0.70	
Corium LLC	Health Insurance	25,608,158	0.61	
University Mall Properties	Shopping Center	23,942,029	0.57	
Europa Center LLC	Office Building	23,686,155	0.57	
Meadowmont JV LLC	Development	20,783,148	0.50	
Duke Energy Corporation	Public Utility	20,543,872	0.49	
Estates at Chapel Hill	Property Owner	18,873,207	0.45	
		<u>\$ 270,457,975</u>	<u>6.47</u>	<u>%</u>

## MISCELLANEOUS STATISTICS

June 30, 2003

---

Date of incorporation	1819
Form of government	Council-Manager
Area	21.1 square miles
Miles of streets	151.9
Number of street lights	2,905
Fire protection:	
Number of stations	5
Number of firefighters and officers (exclusive of volunteer firemen)	74
Police protection:	
Number of stations	1
Number of police officers	113
Building permits issued	1,035
Recreation and culture:	
Number of parks	17
Number of libraries	1
Number of volumes	148,706
Employees:	
Full-time equivalents	656

This page intentionally left blank

# McGladrey & Pullen

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the Town of Chapel Hill, North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 4, 2003. 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.

### ***Compliance***

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

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

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

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

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
September 4, 2003

# McGladrey & Pullen

Certified Public Accountants

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

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

### ***Compliance***

We have audited the compliance of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2003. The Town of Chapel Hill's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Chapel Hill's management. Our responsibility is to express an opinion on the Town of Chapel Hill's compliance based on our audit.

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

In our opinion, the Town of Chapel Hill complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### ***Internal Control Over Compliance***

The management of the Town of Chapel Hill is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Chapel Hill's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

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

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

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
September 4, 2003

# McGladrey & Pullen

Certified Public Accountants

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

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

### ***Compliance***

We have audited the compliance of the Town of Chapel Hill, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2003. The Town of Chapel Hill's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Chapel Hill's management. Our responsibility is to express an opinion on the Town of Chapel Hill's compliance based on our audit.

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

In our opinion, the Town of Chapel Hill complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2003.

### ***Internal Control Over Compliance***

The management of the Town of Chapel Hill is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Chapel Hill's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.



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

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

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
September 4, 2003

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2003**

**I - Summary of Independent Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
 Material weakness(es) identified?            Yes     X     No  
 Reportable condition(s) identified that are  
 not considered to be material weakness(es)?            Yes     X     None Reported

Noncompliance material to financial statements noted?            Yes     X     No

Federal Awards

Internal control over the major program:  
 Material weakness(es) identified?            Yes     X     No  
 Reportable condition(s) identified not  
 considered to be material weakness(es)?            Yes     X     None Reported

Type of auditor's report issued on compliance for the major  
 program: Unqualified

Any audit findings disclosed that are required  
 to be reported in accordance with Section .510(a)  
 of OMB Circular A-133?            Yes     X     No

Identification of the major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.850	Public and Indian Housing Program
14.872	Capital Fund
83.544	Federal Emergency Management Agency

Dollar threshold used to distinguish between type A and  
 type B programs: \$ 300,000

Auditee qualified as low-risk auditee?     X     Yes            No

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2003

State Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes      X   No  
Reportable condition(s) identified not  
considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Type of auditor's report issued on compliance for major programs: \_\_\_\_\_ Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? \_\_\_\_\_ Yes      X   No

Identification of major State programs

Program Names

State Maintenance Assistance for Urban and Small Urban Areas  
Powell Bill  
Bicycles/Pedestrian Safety Program

**II. Findings Related to the Audit of the Basic Financial Statements of Town of Chapel Hill**

None Reported.

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

None.

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

None.

**TOWN OF CHAPEL HILL, NORTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2003**

---

There were no prior year audit findings.

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
<b>FEDERAL ASSISTANCE</b>						
U.S. Department of Transportation						
Direct Programs:						
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X314-00	\$ 932,000	\$ 932,000	\$ -	\$ -
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X295-00	334,326	226,461	22,190	34,425
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X281-00	247,850	108,799	10,813	16,387
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X265-00	428,130	43,586	5,448	5,448
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC90-X243-00	321,710	1,201	150	150
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC90-X227-01	1,061,280	6,460	807	808
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC90-X330	546,921	12,800	1,600	1,600
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.505	04-08-002	67,350	10,139	1,267	1,268
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X304	423,750	339,000	42,375	42,375
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X278	1,932,025	1	(5,437)	5,436
Federal Transit Administration - Federal Transit Capital Improvement Grant	20.500	NC-03-0044	710,000	491,218	61,402	252,156

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Passed-Through City of Durham, North Carolina:						
Federal Transit Administration - Thoroughfare Planning, Section 5303	20.505	03-08-002	59,340	40,739	5,092	5,093
Federal Transit Administration - Highway Act of 1973 Section 104(f) Planning Grant	20.505	PL 104(F)	44,927	44,927		8,985
Total U.S. Department of Transportation				2,257,331	145,707	374,131
Federal Emergency Management Agency						
FEMA Public Assistance Grants	83.544	135-11800-00	956,100	956,100	318,700	
Flood Mitigation Grant	83.548	FMA-PJ-99-01	207,416	12,563		
Total Federal Emergency Management Agency				968,663	318,700	-
U.S. Department of Housing and Urban Development						
Direct Programs:						
Community Development Block Grant Entitlement Program income	14.218	MC-37-0016	1,746,000	463,102		90,636
Economic Development Initiative Grant	14.246	B-00-SPNC-0023	231,250	-		
Disaster Recovery Initiative Grant	14.218	B-98-MU-37-0016	349,041	6,517		
Public and Indian Housing Program - Operating	14.850	A-3963	1,103,971	1,103,971		417,784
Public and Indian Housing - Drug Elimination	14.854	NC-19DEP0460101	82,552	10,798		
Public and Indian Housing Capital Fund	14.872	NC-19P04650100 NC-19P04650101 NC-19P04650102	599,512 611,585 584,065	224,749 367,512 43,987		
Total U.S. Department of Housing and Urban Development				2,220,636		508,420

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
U.S. Department of Justice						
Direct Programs:						
COPS More01 Grant	16.710	2001CMWX0269	30,533	30,433		10,144
Local Law Enforcement Block Grant	16.592	02-LB-BX-2505	44,510	44,510		4,451
Total U.S. Department of Justice				74,943	-	14,595
U.S. Department of Energy						
Passed-Through the NC Solar Center NC Solar Grant	81.041	2002-0080-05	4,000	4,000		
U.S. Department of Interior						
Passed-Through N. C. Department of Cultural Resources Historic Preservation - Certified Local Government Grant	15.904	53-0197094	7,500	(7,500)		
National Foundation on the Arts and Humanities						
Passed-Through the N C State Library	45.310		20,000	19,561		
<b>TOTAL FEDERAL ASSISTANCE</b>				<b>5,537,633</b>	<b>464,407</b>	<b>897,146</b>
<b>STATE ASSISTANCE</b>						
North Carolina Department of Transportation						
Powell Bill			1,490,126		1,490,126	
Interest			1,918			1,918
State Maintenance Assistance for Urban and Small Urban Areas			1,565,675		1,565,675	
Bicycles/Pedestrian Safety Grant			300,000		300,000	
North Carolina State Technology Funding		02-AT-002	211,100		8,906	990
Total North Carolina Department of Transportation					3,364,707	2,908
State Library Aid			34,284		34,284	
State Clean Water Management Grant			195,987		195,987	
Aerial Photography			122,666		122,666	
Governor's Crime Commission Grant			35,251		113	
<b>TOTAL STATE ASSISTANCE</b>					<b>3,717,757</b>	<b>2,908</b>
<b>TOTAL FINANCIAL ASSISTANCE</b>				<b>5,537,633</b>	<b>4,182,164</b>	<b>900,054</b>

Continued

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)  
 FOR THE YEAR ENDED JUNE 30, 2003

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2003

1. The accompanying schedule of expenditures of federal and State awards is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

2. Powell Bill expenditures as reported above represent eligible expenditures reports to the North Carolina Department of Transportation (NCDOT) for the fiscal year ending June 30, 2003. The Town is required to report annually to the NCDOT on the accumulated unspent Powell Bill funds. As of June 30, 2003, the Town had no unspent Powell Bill funds. The amount calculated as interest is based on the prior year interest rate. This was used as an estimate for the current year.