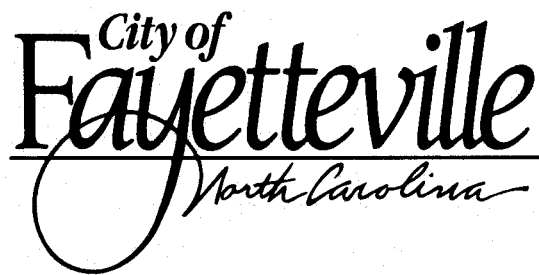


COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006





COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR 2005-2006



Prepared By
the Finance Department
Lisa T. Smith, Chief Financial Officer

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CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

INTRODUCTORY SECTION

- * Transmittal Letter
- * List of Principal Officials
- * Organization Chart



October 23, 2006

The Honorable Mayor,
Members of the City Council and Citizens
City of Fayetteville
Fayetteville, North Carolina

Dear Mayor, Members of the City Council, and Citizens:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Fayetteville, North Carolina for the fiscal year ended June 30, 2006. State law requires that every local government publish a complete set of audited financial statements within four months of the close of each fiscal year. The financial statements must be 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. This report complies with these requirements.

The CAFR consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed to protect City assets and to compile information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Cherry, Bekaert & Holland, LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Fayetteville's financial statements for the fiscal year ended June 30, 2006. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE CITY

Fayetteville is a thriving community located in the Sandhills region of southeastern North Carolina and is the seat of Cumberland County. The City is approximately 60 miles south of the State capital of Raleigh. Fayetteville is located adjacent to Interstate Highway 95, a major north-south corridor linking the City to New York to the north and Miami to the south.

Fayetteville has been recognized twice as an All-America City by the National Civic League and is known as a community of "History, Heroes and a Hometown Feeling". In 1762, the town of Campbellton, located on the Cape Fear River, was chartered by the colonial assembly. In 1778, the neighboring towns of Cross Creek and Campbellton were united to become Upper and Lower Campbellton. In 1783, the North Carolina General Assembly approved the town's official renaming to Fayetteville in honor of the Marquis de Lafayette.

Adjacent to the City are Fort Bragg Army Base and Pope Air Force Base, which form one of the largest military complexes in the world. The bases add significantly to the culture of the community and the local economy. Fort Bragg, located ten miles north of the City's downtown is the home of the Army's only Airborne Corps and the 82nd Airborne Division, the elite "Green Berets" and the Army's largest support command. Pope Air Force Base, located adjacent to Fort Bragg, provides the fixed-wing aviation assets required to support Fort Bragg's missions. The Airborne and Special Operations Museum in downtown Fayetteville is just one indicator of the community pride and gratitude for these local heroes.

Fayetteville is the sixth largest municipality in the State with a current population estimated at 174,422 and encompassing 92.7 square miles. The City's population has increased by 44.1% or 53,407 residents since the last U.S. Census on April 1, 2000. Fayetteville is empowered by State statute to extend its corporate limits through annexation. Most recently, the City completed an annexation, Phase V, of approximately 43,000 residents and 27 square miles in September 2005.

The City has a council-manager form of government. Nine members of the City Council are elected from districts and the Mayor is elected at large. Each of the Council Members and the Mayor serve two-year concurrent terms. The City Council has policy making and legislative authority. The Council is responsible for the approval of the budget and appointment of the City Manager, City Attorney, the Public Works Commission and members of other City boards, committees and commissions. The City Manager is responsible for implementing Council policies and City ordinances, managing daily operations and appointing department directors.

The City provides its citizens with a full range of services, including police and fire protection, solid waste services, the construction and maintenance of streets, curbs, gutters, sidewalks and other infrastructure, recreation and cultural activities, fixed-route and demand-response transit service, airport service, and electric, water and wastewater utilities. This report includes all of the City's activities in delivering and administering these services.

The Council is required to adopt a budget by July 1 of each year. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City's budget ordinance creates a legal limit on spending authorizations, and serves as the foundation for Fayetteville's financial planning and control. The annual budget is authorized at the department level in the General Fund, in operating, capital and transfer expenditure categories for the Electric, Water and Wastewater Funds and at the fund level for all other funds.

LOCAL ECONOMY

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 City operates.

The economy of Fayetteville is stabilized by the presence of Fort Bragg Army Base and Pope Air Force Base. Almost 48,000 military personnel are currently stationed at Fort Bragg alone, with support from approximately 8,000 additional civilian employees. The direct impact of this payroll alone adds \$2.3 billion to the regional economy. Other major employers in the area include manufacturers such as the Goodyear Tire & Rubber Company, which has one of the largest tire producing factories in the world, and Purolator Products and M.J. Soffe which produce auto filters and sports apparel, respectively. Substantial employment opportunities are also offered in the government sector through the local health system, school system, college, university, and county and city governments. During the past five years, annual unemployment rates have ranged from a low of 5.5% to a high of 7.0%, according to the United States Department of Labor.

Unemployment Rates*			
Year	Cumberland County	North Carolina	United States
2005	5.7	5.2	5.1
2004	5.5	5.5	5.5
2003	6.5	6.4	6.0
2002	7.0	6.6	5.8
2001	6.1	5.6	4.7
* Percentage of unemployment reported by the United States Department of Labor – Bureau of Labor Statistics			

During the fiscal year, the City approved 93 new commercial building permits, almost 700 single family residential construction permits and permits for more than 1,100 new multi-family residential units. Significant community projects approved during the fiscal year include \$84.8 million in improvements at the Cape Fear Valley Health System, a \$10.8 million retail facility and three hotels totaling \$12.2 million.

The City is a major regional trade center in eastern North Carolina, with a significant number and variety of shopping plazas, centers and independent retailers. Evidence of the strong retail sector is reflected by one of the largest shopping areas of the Carolinas, a two-square mile area located within the city. Cross Creek Mall, with more than one million square feet of floor space and four major department stores, is one of the largest indoor malls between Washington, D.C. and Florida. Taxable sales in Fayetteville for

fiscal year 2006 totaled approximately \$2.1 billion. Historical sales for Fayetteville and Cumberland County are provided in the table below.

Retail /Taxable Sales*				
Fiscal Year	City of Fayetteville	% Change	Cumberland County	% Change
2006	\$2,061,503,490*	N/A	2,504,743,152*	N/A
2005	2,986,871,674	11.44	3,683,503,849	9.9
2004	2,680,161,606	10.72	3,351,729,316	11.07
2003	2,420,757,553	.04	3,017,709,876	1.46
2002	2,419,886,274	-3.18	2,974,131,160	-1.63

*Fiscal Year (FY) 2006 sales are not comparable to previous fiscal year sales data. The FY2006 sales data represents taxable sales. The data represents gross retail sales for fiscal years 2002 through 2005.

A notable economic development during the fiscal year was the phased closing of Black & Decker Manufacturing, which ultimately resulted in the loss of approximately 825 jobs by August 2006. The combined impact of new employers, workforce expansions and reductions has added 128 jobs to the local economy during the fiscal year.

The Base Realignment and Closure report approved by Congress in November 2005 projects positive impacts for the local economy. Over the next five years, base realignments are expected to add over 12,000 military personnel, family members and civilian employees to the region.

Overall, Fayetteville's economy is expected to remain stable. Council has adopted a fiscal year 2007 budget based on a moderate rate of growth. In planning for the future, the City continues to maintain a high priority on both the delivery of quality services and financial stability.

LONG-TERM FINANCIAL PLANNING and MAJOR INITIATIVES

The City's long-term vision is evident in Fayetteville's strong commitment to neighborhoods, enhancing the local economy, revitalization of its historic downtown, increasing leisure opportunities for its citizens, its diverse culture, rich heritage, and partnership with citizens, while maintaining a strong financial position.

The City Council has committed to key goals and targets for action consistent with Fayetteville's vision. These goals and targets for action are discussed in the City's strategic plan on the City's website at www.ci.fayetteville.nc.us.

As demonstration of the City's commitment to financial planning and fiscal health, unreserved, undesignated fund balance in the general fund was \$18.5 million or 17.3% of total general fund expenditures and transfers out at June 30, 2006, which exceeds the minimum 10 percent policy guideline set by Council for budgetary and planning purposes. In addition, the City maintained its Aa3 and AA- bond ratings on the City's general obligation bonds and the underlying ratings of A1 and A+ for its revenue bonds.

The City also accomplished or continued work on several other financial and economic development goals including:

- The North Carolina General Assembly adopted the 2005 Appropriations Act in August 2005, which included a \$2.3 million grant to the City of Fayetteville for the development of a North Carolina Veterans Park in the downtown area. The funds will be used to acquire land located near the Airborne and Special Operations Museum, building demolition, and site preparation for the park.
- In November 2005, the City, in conjunction with PWC, issued \$142.1 million in revenue notes. The notes were issued to allow PWC to take advantage of an opportunity to prepay a portion of its power supply contract with Progress Energy Carolinas (PEC). The prepayment agreement required PWC to pay \$141.1 million to PEC for capacity and energy valued at \$157.6 million. PWC's estimated net present value savings calculated at the date of the transaction was \$9.0 million.
- Fayetteville executed a 20-year master lease for the Festival Park Plaza Office Building in November 2005. The master lease facilitated the construction of this \$6.8 million facility in the downtown area. The building is approximately 44,000 square feet and contains office and retail space that will be subleased to various tenants. This significant achievement is the result of a public-private partnership between the City, the Cumberland County Business Council, the developer and investors. As of September 2006, approximately 72 percent of the building has been leased to subtenants.
- In June 2006, City Council adopted the funding plan for the first sewer installation project in the Phase V annexation areas. Approximately 1,100 homes will be served by this project at a current estimated cost of \$10.8 million, excluding any estimate for contingencies.
- The City continued redevelopment work on the 300 Block of Hay Street project, which is a public-private partnership, negotiated through the Cumberland County Business Council. The City expects to invest over \$1.5 million for land acquisition, parking lot construction and streetscape enhancements. Developers plan to invest approximately \$11 million to buy a portion of the land and build a four-story, 46,000-square-foot retail and office space building, 18 townhouses and 24 condominiums.

During the year, the City funded and managed many significant projects including the following:

- The Festival Park project continued with installation of the pedestrian bridge, construction of the promenade and parking lot on the south side of the park. In September 2005, the City awarded a contract for the development of the north side of the park. This contract, including subsequent amendments, provides for the construction of the concession and restroom building, performance stage and building, seating and vendor area, promenade on the north side of the park and access road. It is expected to be completed in the spring of 2007 at a projected cost of \$7.4 million.
- Phase one of the Linear Park, located in the heart of downtown, was completed in March 2006 at a cost of \$872,000. The development of the park was

spearheaded by a non-profit organization created by the City and primarily funded by private contributions.

- The \$3 million Westover Recreation Facility was completed in October 2005. The recreation center is approximately 20,000 square feet with program rooms, banquet and kitchen facilities, and a gymnasium. The park has a picnic shelter, multi-purpose fields and greenspace, paved walking path, playground and parking facilities.
- The \$3 million Fayetteville Area Transportation Museum, located in the historical Cape Fear and Yadkin Valley Railroad Depot, opened in May 2006. All forms of transportation prior to automobiles will be exhibited in the old depot. The Transportation Museum Annex, next door to the museum, is a work in progress and will soon feature Fayetteville's automobile and flight history.
- Progress was made on projects funded by the \$8.45 million general obligation bonds issued in 2005. Those projects include drainage improvements, street and sidewalk improvements, land acquisition for a future park along the Cape Fear River, and Fire Station 14.
- Fire Station 14, located on Langdon Street, was completed in October 2005 at a cost of \$3.5 million. The fire station combines a working station with a Fire Science curriculum through Fayetteville State University (FSU), Fayetteville Technical Community College and EE Smith High School. Students in the program have the opportunity to put classroom knowledge to practice at this station that is located across from the main campus of FSU. Fayetteville was chosen from among dozens of candidates to participate in the National League of Cities' 2005 "City Showcase" to share the innovative partnership between the City and the area's educational community. The City also received the James C. Holland Gold Award for Community Enrichment from the National League of Cities.
- A temporary fire station (Fire Station 15) was established on Buhmann Drive in April 2006 to provide enhanced fire protection services to a portion of the areas annexed in September 2005. The City awarded the design contract for the permanent station in November 2005. The permanent station is projected to cost \$2.2 million.
- The City moved forward with its plan for a new recreation center to be located at the EE Miller Elementary School. The design contract for the 13,500 square-foot recreation center was awarded by the City in November 2005. The recreation center is projected to be completed by January 2008 at an estimated cost of \$2.2 million.
- In June 2006, Fayetteville awarded contracts in the amount of \$2.2 million for renovations in Fayetteville Regional Airport's terminal building. The renovations will include replacement of certain ceilings, lighting and flooring as well as modifications to the security checkpoint area. Renovations are expected to be completed in May 2007.

- Active utility projects include the continued construction of a \$13 million expansion and upgrade of the Rockfish Creek Water Reclamation Facility along with various improvements to the Cross Creek Water Reclamation Facility totaling \$4 million, both of which are funded by a State revolving loan. Completion is projected for fiscal year 2007 with additional capacity expected to meet the PWC's wastewater treatment needs for the next 10 years. The PWC also completed the wastewater utility installation of the City's Phase IV-B annexation area at a total cost of \$14 million. The City expects to levy \$5.7 million in assessments for this phase in 2007. Capital spending for the electric system amounted to \$16 million for various projects, with a large portion invested in the electric distribution system. Additionally, commitments were made during the year to begin a \$2.5 million project to install new fuel nozzles on all gas turbines at the Butler Warner Generation Plant to improve environmental performance of the units.
- The PWC also began working with Harnett County on a joint proposal to supply Fort Bragg Army Base and Pope Air Force Base 100% of its potable water needs. In September 2006, a 40-year contract was awarded to the PWC and Harnett County. The design of necessary connecting facilities with an expected cost of \$9 million reimbursable by Fort Bragg to PWC is underway.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting for comprehensive annual financial reports (CAFR) that are submitted to the program and meet certain criteria. To receive a Certificate in Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. The Certificate is valid for a period of one year only. While this is the City's first submission, we believe this CAFR will meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for this certificate.

This report is the work of the efficient and dedicated staff of the Finance Department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report and to the entire City staff for their cooperation and assistance. Credit is also due to the Mayor and the members of the City Council for their unfailing support of the highest standards of professionalism in the management of Fayetteville's finances.

Respectfully submitted,



Kyle Sonnenberg
Acting City Manager



Lisa Smith
Chief Financial Officer

CITY OF FAYETTEVILLE, NORTH CAROLINA

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FAYETTEVILLE CITY COUNCIL 2005-2006

Mayor:

Anthony G. Chavonne

City Council:

Robert Massey, Mayor Pro Tem
District 3

Keith Bates
District 1

Charles Evans
District 2

Darrell J. Haire
District 4

Lois Kirby
District 5

Paul A. Williams
District 6

Curtis Worthy
District 7

Juanita M. Gonzalez
District 8

Wesley Meredith
District 9

CITY ADMINISTRATIVE AND FINANCIAL STAFF

Kyle R. Sonnenberg, Acting City Manager

Stanley Victrum, Assistant City Manager

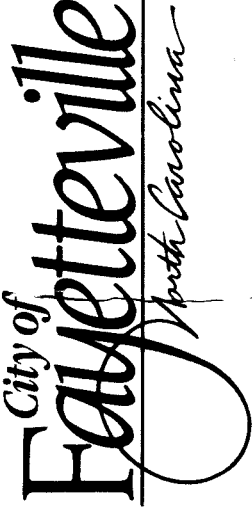
Karen M. McDonald, City Attorney

Candice H. White, City Clerk

Lisa T. Smith, Chief Financial Officer

CITY OF FAYETTEVILLE, NORTH CAROLINA

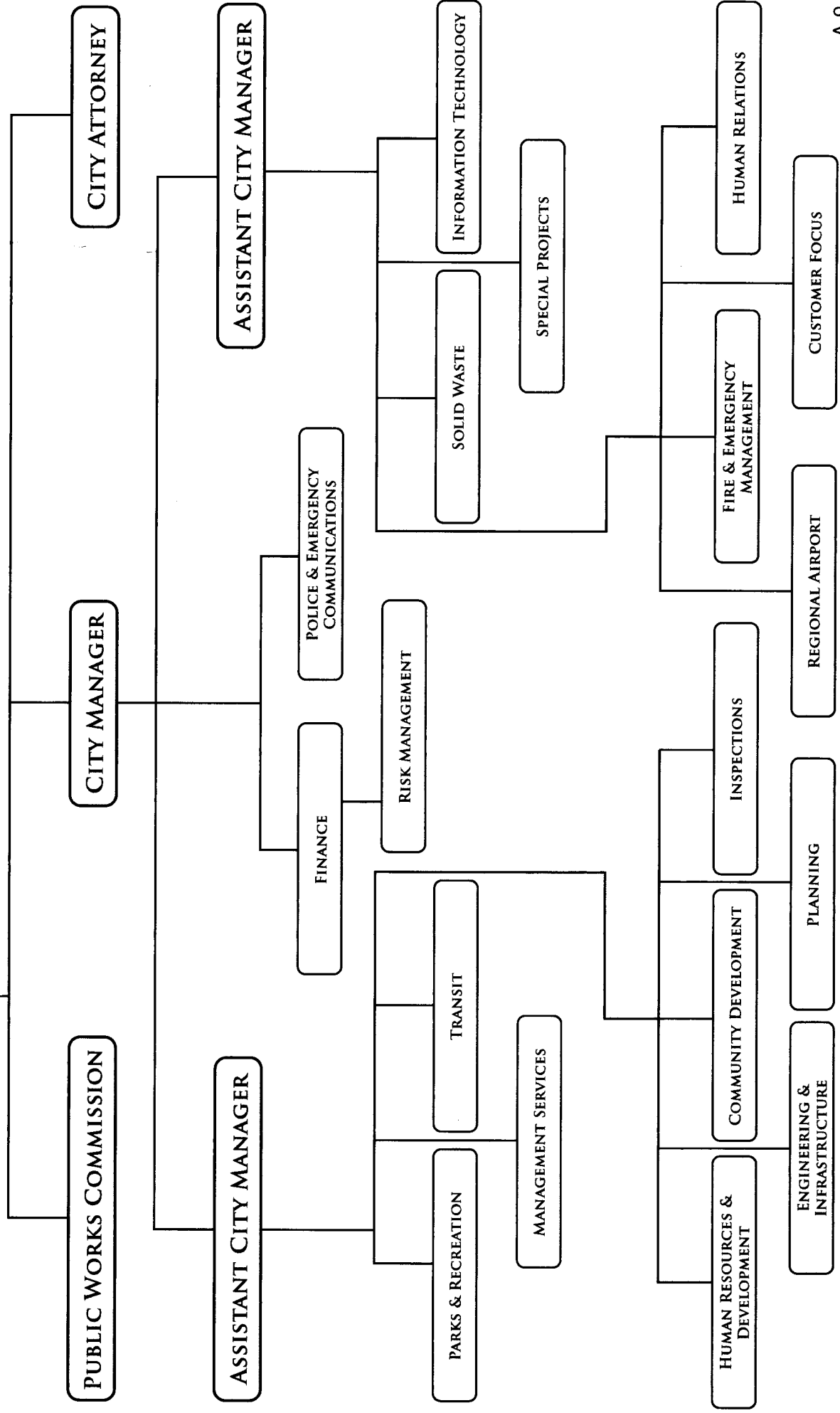
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CITIZENS OF FAYETTEVILLE

MAYOR & CITY COUNCIL

ADVISORY BOARDS



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL SECTION

- * Independent Auditors Report
- * Management's Discussion and Analysis
- * Basic Financial Statements
- * Notes to the Financial Statements

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

INDEPENDENT AUDITOR'S REPORT



CITY OF FAYETTEVILLE, NORTH CAROLINA

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor
and Members of the City Council
City of Fayetteville
Fayetteville, 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 City of Fayetteville, North Carolina (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows where appropriate, and the respective budgetary position of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions for the Law Enforcement Officers' Special Separation Allowance and the Public Works Commission are not required parts 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 on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules, as well as the accompanying schedules of expenditures of Federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and schedule of expenditures of Passenger Facility Charges as required by the *Passenger Facility Charge Audit Guide for Public Agencies*, for the year ended June 30, 2006, and the combining and individual fund financial statements and schedules for the year ended June 30, 2005, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2006, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and, accordingly, we express no opinion on such data.

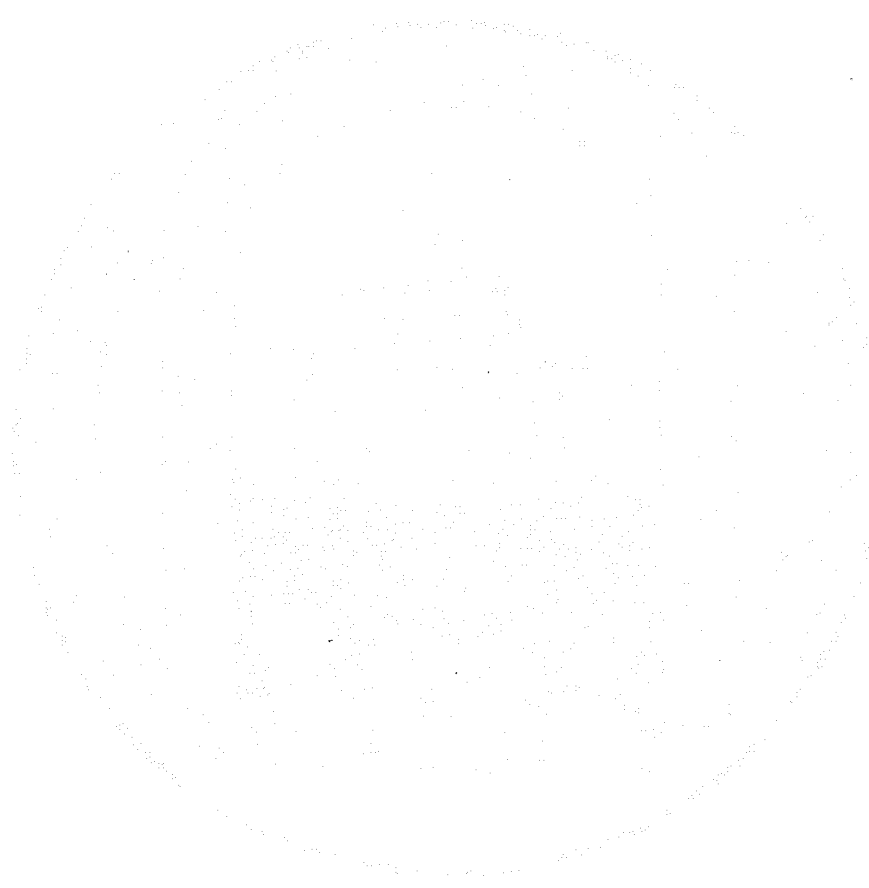
CHERRY, BEKAERT & HOLLAND, L.L.P.

Cherry, Bekaert + Holland, LLP

Fayetteville, North Carolina
October 23, 2006

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS



CITY OF FAYETTEVILLE, NORTH CAROLINA

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$954.6 million (*net assets*). Of this amount, \$167.0 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net assets increased by \$125.6 million.
- Net assets increased \$94.7 million to \$423.2 million in fiscal year 2006 up from \$328.5 million in fiscal year 2005 in the Governmental activities. By far, the largest portion of the increase in net assets, \$89.6 million or 94.5 percent, reflects the contribution of the infrastructure assets related to the areas annexed on September 30, 2005.
- Net assets increased \$29.3 million to \$500.4 million in fiscal year 2006 up from \$471.1 million in fiscal year 2005 in the Electric, Water and Wastewater activities. By far, the largest portion of these net assets, \$408.0 million or 81.5 percent, reflects the investment in capital assets less any related debt still outstanding that was issued to acquire those assets. Capital contributions and operating funds offset by capital asset depreciation contributed to the \$7.4 million increase in Capital Assets, Net of Related Debt.

Current and Other Assets increased \$122.8 million or 98.6 percent predominantly due to the \$119.3 million remaining balance of the prepaid power agreement. The prepaid power agreement is the result of a current year prepayment to Progress Energy Carolinas Inc.

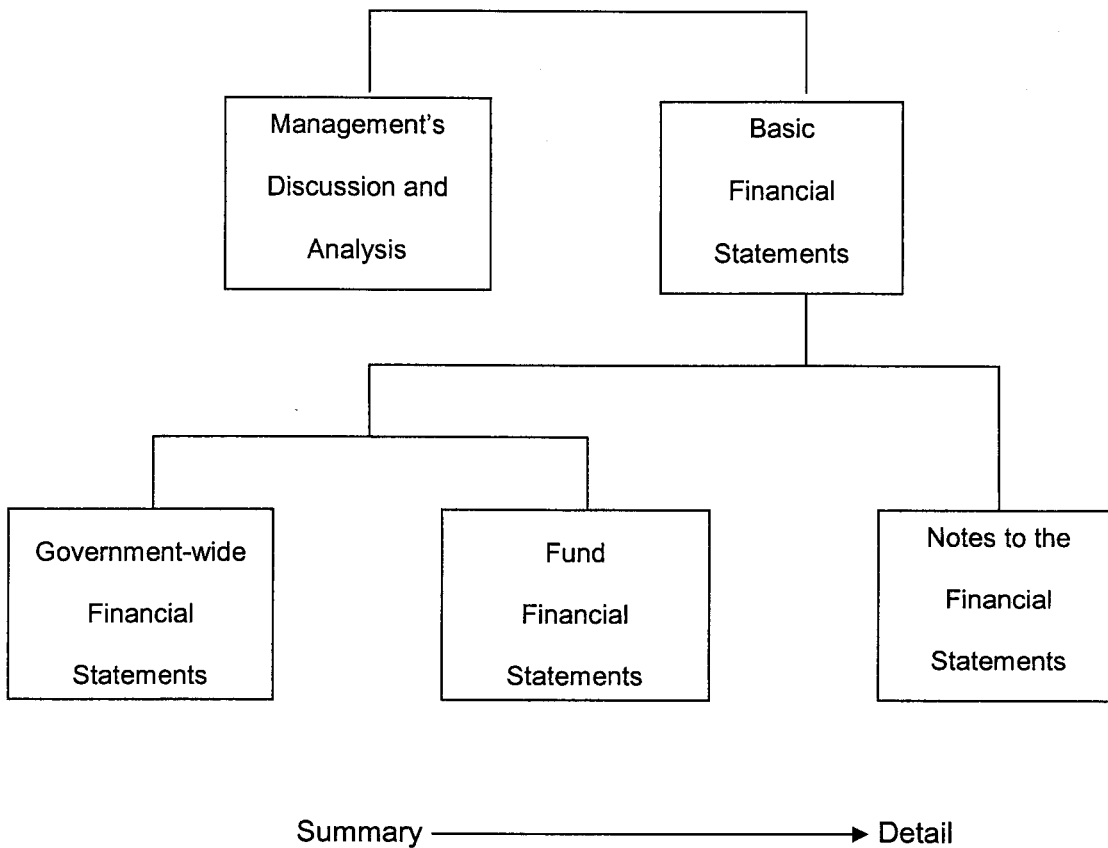
- As of the close of fiscal year 2006, the City's governmental funds reported an ending fund balance of \$63.2 million, a decrease of \$6.6 million in comparison to prior year. Approximately 64.1 percent of total fund balance, or \$40.5 million is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of fiscal year 2006, unreserved fund balance for the general fund was \$29.3 million or 27.4 percent of total general fund expenditures and transfers out for the fiscal year. Of this amount, \$10.8 million has been designated for subsequent year expenditures, special purposes, or debt service, bringing the undesignated general fund balance to \$18.5 million or 17.3 percent of general fund expenditures and transfers out.
- The City's total debt increased by \$103.3 million during fiscal year 2006.
- The City's most recent general obligation bond issue (governmental activities) was rated Aa3 (Moody's Investor Services) and AA- (Standard & Poor's). In fiscal year 1998, the Public Works Commission received an underlying rating of A1 and A+ by Moody's and Standard and Poor's, respectively. The City's most recent bond issue in the Electric and Water and Wastewater Funds (business-type activities) are rated Aaa/VMIG1 (Moody's) and AAA/A-1+ (Standard & Poor's) based on municipal bond insurance policies. These ratings were affirmed during a bond refinancing in fiscal year 2004.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City 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 City.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's non-major governmental and proprietary funds and the internal service funds. The governmental and internal service funds are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as general administration, public safety, environmental protection, transportation, economic and physical development, and recreation and community facilities. Property and other taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the electric, water and wastewater, airport and transit services offered by the City or its Public Works Commission.

The government-wide financial statements are on pages D-1 and D-2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City'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 City, 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 or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City'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 current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between governmental 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 City 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 City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement on page E-5 of this report uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balance. The statement shows four columns: 1) the original budget as adopted by the City Council; 2) the final budget as amended by the City 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.

Proprietary Funds – The City has two 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 City uses enterprise funds to account for its electric, water and wastewater, mass transit, and airport 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 City. The City uses an internal service fund to account for its fleet leasing program, fleet maintenance, and risk management activities. Because these operations benefit predominately governmental rather than business-type activities, the internal service funds have been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds – Trust funds are used to account for the activities of funds the City holds in trust for others. The City has two pension trust funds and two private-purpose trust funds.

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 F-1 – F-39 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page G-1 of this report.

Government-wide Financial Analysis

Net Assets. The City's combined net assets increased \$125.6 million, or 15.2% from fiscal year 2005 to 2006. Net assets may serve over time as one useful indicator of a government's financial condition. The information provided below provides a more detailed view of the City's net assets.

The City's Net Assets
Figure 2

CITY OF FAYETTEVILLE'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$ 99,677,113	\$ 94,641,433	\$ 129,119,300	\$ 254,328,037	\$ 228,796,413	\$ 348,969,470
Capital assets	317,804,597	409,126,857	603,826,419	622,910,392	921,631,016	1,032,037,249
Total assets	<u>417,481,710</u>	<u>503,768,290</u>	<u>732,945,719</u>	<u>877,238,429</u>	<u>1,150,427,429</u>	<u>1,381,006,719</u>
Long-term liabilities outstanding*	74,302,804	69,999,476	192,884,609	303,760,496	267,187,413	373,759,972
Other liabilities*	14,669,592	10,526,154	39,527,066	42,093,685	54,196,658	52,619,839
Total liabilities	<u>88,972,396</u>	<u>80,525,630</u>	<u>232,411,675</u>	<u>345,854,181</u>	<u>321,384,071</u>	<u>426,379,811</u>
Net assets:						
Invested in capital assets, net of related debt	263,057,769	351,170,168	426,048,564	432,390,389	689,106,333	783,560,557
Restricted	2,446,529	2,702,713	1,330,169	1,336,485	3,776,698	4,039,198
Unrestricted	63,005,016	69,369,779	73,155,311	97,657,374	136,160,327	167,027,153
Total net assets	<u>\$ 328,509,314</u>	<u>\$ 423,242,660</u>	<u>\$ 500,534,044</u>	<u>\$ 531,384,248</u>	<u>\$ 829,043,358</u>	<u>\$ 954,626,908</u>

* FY 2005 has been restated, transferring \$2.8 million in compensated absences from Other Liabilities to Long-term Liabilities Outstanding in the Electric, Water and Wastewater funds.

The assets of the City exceeded liabilities by \$954.6 million as of June 30, 2006. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$783.6 million, Restricted net assets of \$4.0 million and Unrestricted net assets \$167.0 million.

The invested in capital assets, net of related debt category is defined as the City's investment in City owned capital assets (e.g. infrastructure, land, buildings, automotive equipment, office and other equipment, and electric, water, and wastewater systems), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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.

Another category of net assets is restricted net assets. This represents resources that are subject to external restrictions on how they may be used.

The final category of net assets is unrestricted net assets. This balance may be used to meet the government's ongoing obligations to citizens and creditors. At June 30, 2006, \$167.0 million, or 17.5% of the total net assets reported of \$954.6 million, is unrestricted.

The City's Changes in Net Assets

Figure 3

CITY OF FAYETTEVILLE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues:						
Charges for services	\$ 6,352,622	\$ 9,975,462	\$ 196,356,176	\$ 210,959,851	\$ 202,708,798	\$ 220,935,313
Operating grants and contributions	13,067,772	6,122,470	1,900,622	2,097,336	14,968,394	8,219,806
Capital grants and contributions	3,567,891	5,051,345	17,687,389	15,514,527	21,255,280	20,565,872
General revenues:						
Property taxes	39,344,522	47,823,150	-	-	39,344,522	47,823,150
Other taxes	34,023,971	35,863,026	-	-	34,023,971	35,863,026
Grants and contributions not restricted to specific programs	571,232	578,491	-	-	571,232	578,491
Other	2,660,787	2,660,023	2,298,675	3,229,540	4,959,462	5,889,563
Total revenues	<u>99,588,797</u>	<u>108,073,967</u>	<u>218,242,862</u>	<u>231,801,254</u>	<u>317,831,659</u>	<u>339,875,221</u>
Expenses:						
Administration	11,641,665	13,268,585	-	-	11,641,665	13,268,585
Public safety	47,285,832	52,752,676	-	-	47,285,832	52,752,676
Environmental protection	7,514,882	9,940,477	-	-	7,514,882	9,940,477
Transportation	14,018,733	17,115,971	-	-	14,018,733	17,115,971
Economic and physical development	5,827,998	5,132,048	-	-	5,827,998	5,132,048
Recreation and community facilities	9,305,228	10,501,677	-	-	9,305,228	10,501,677
Interest and fees	2,541,380	2,786,700	-	-	2,541,380	2,786,700
Electric	-	-	131,305,788	137,856,324	131,305,788	137,856,324
Water and wastewater	-	-	45,275,518	45,859,650	45,275,518	45,859,650
Transit	-	-	4,910,142	4,864,135	4,910,142	4,864,135
Airport	-	-	3,806,671	3,769,259	3,806,671	3,769,259
Total expenses	<u>98,135,718</u>	<u>111,498,134</u>	<u>185,298,119</u>	<u>192,349,368</u>	<u>283,433,837</u>	<u>303,847,502</u>
Increase in net assets before transfers and special items	1,453,079	(3,424,167)	32,944,743	39,451,886	34,397,822	36,027,719
Transfers	8,418,200	8,601,682	(8,418,200)	(8,601,682)	-	-
Special Item	-	89,555,831	-	-	-	89,555,831
Increase in net assets	9,871,279	94,733,346	24,526,543	30,850,204	34,397,822	125,583,550
Net assets, July 1 (as previously stated)	315,217,642	328,509,314	476,007,501	500,534,044	791,225,143	829,043,358
Prior period adjustment	3,420,393	-	-	-	3,420,393	-
Net assets - July 1 (restated)	<u>318,638,035</u>	<u>328,509,314</u>	<u>476,007,501</u>	<u>500,534,044</u>	<u>794,645,536</u>	<u>829,043,358</u>
Net assets, June 30	<u>\$ 328,509,314</u>	<u>\$ 423,242,660</u>	<u>\$ 500,534,044</u>	<u>\$ 531,384,248</u>	<u>\$ 829,043,358</u>	<u>\$ 954,626,908</u>

Governmental activities: Revenues for the City's governmental activities were \$108.1 million, while total expenses were \$111.5 million in fiscal year 2006. The increase in net assets for governmental activities, after transfers in and a special item, was \$94.7 million. By far, the largest portion of the increase in net assets was an \$89.6 million special item consisting of infrastructure asset contributions related to the areas annexed on September 30, 2005 (referred to as the Phase V annexation).

The Phase V annexation of approximately 27 square miles with a resident population of approximately 43,000 also impacted charges for services, operating grants and contributions, property tax revenues and various governmental expenses. Particularly, the fiscal year 2006 property tax revenues of \$47.8 million include \$6.4 million in 2005 real and personal property taxes related to the Phase V annexation areas. Since the annexation was effective on September 30, 2005, the 2005 property taxes have been levied for the period of October 1, 2005 through June 30, 2006. While property taxes in the amount of \$6.4 million have been recorded as revenues in the Statement of Activities and taxes receivable in the Statement of Net Assets at June 30, 2006, payment of these taxes will be due in three installments in fiscal years 2007 through 2009 as a result of legislation approved by the North Carolina General Assembly in May 2006.

Business-type activities: Revenues for the City's business-type activities were \$231.8 million, while total expenses were \$192.3 million in fiscal year 2006. The increase in net assets for business-type activities, after transfers out of \$8.6 million, was \$30.9 million, resulting in net assets of \$531.4 million.

Particularly, net assets increased in the electric, water and wastewater activities by \$29.3 million, resulting in net assets of \$500.4 million in fiscal year 2006, compared to \$471.1 million in fiscal year 2005. By far, the largest portion of these net assets, \$408.0 million or 81.5 percent, reflects the investment in capital assets less any related debt still outstanding that was issued to acquire those assets. Capital contributions and operating funds offset by capital asset depreciation contributed to the \$7.4 million increase in the Capital Assets, Net of Related Debt in the electric, water and wastewater activities.

Current and Other Assets in the electric, water and wastewater activities increased \$122.8 million, or 98.6 percent, predominantly due to the remaining \$119.3 million asset related to the prepayment power supply agreement with Progress Energy Carolinas Inc. This agreement was executed in November 2005 and is further described in the transmittal letter on page A-3.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City'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 City. At the end of fiscal year 2006, unreserved fund balance of the General Fund was \$29.3 million, while total fund balance reached \$43.5 million. 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 and transfers out. Unreserved fund balance represents 27.4 percent of total General Fund expenditures and transfers, while total fund balance represents 40.8 percent of that same amount.

At June 30, 2006, the governmental funds of the City reported a combined fund balance of \$63.2 million, a 9.5 percent decrease from the previous year.

General Fund Budgetary Highlights

The most important factor impacting the budget for fiscal year 2006 was the planned Phase V annexation of approximately 27 square miles with a resident population of approximately 43,000. A stay of the annexation issued by the North Carolina Supreme Court on July 12, 2004, remained in place until the North Carolina Supreme Court declined to hear the appeals on August 19, 2005. The original fiscal year 2006 budget approved by City Council on May 23, 2005, assumed that the Phase V annexation would not be effective in fiscal year 2006; however the budget included sufficient funding to maintain existing service levels for the City's current residents while ensuring readiness to serve the annexation area within 30 days of a favorable court decision.

The City Council originally approved a \$98.8 million general fund budget for fiscal year 2006, which represented a \$13.1 million or 11.7% decrease from the original budget for fiscal year 2005, which included funding to serve the annexation areas. The tax rate remained the same at 53 cents per \$100 value. The primary reasons for the budget decrease were the exclusion of \$11 million in expenditures due to the annexation stay, a \$6.2 million appropriation in the fiscal year 2005 budget for one-time expenditures for the 800 MHz radio system upgrade and the acquisition of fire district assets, and \$1.4 million in payroll savings projected due to employee turnover. These reductions were partially offset by increases of \$2 million for employee pay increases based on 4 percent of pay range "midpoints", and \$1.3 million for operating and equipment expenses for three new facilities (Fire Station 14, Festival Park and the Transportation Museum) and the new computerized traffic signal system, \$850,000 in expanded utility and vehicle operation expenses and \$566,000 for additional debt service and loan repayment to the Vehicle Warranty Fund.

During fiscal year 2006, the City Council approved budget increases of \$16.7 million or 16.9% bringing the General Fund budget for fiscal year 2006 to \$115.5 million. 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 cover items encumbered or designated for a special purpose in the previous year's budget but remain unexpended at the end of the previous year.

For fiscal year 2006, however, the budget expansion was primarily due to requirements to serve the Phase V annexation areas effective September 30, 2005. Over \$6.8 million was appropriated to extend services to the annexation area and \$1.9 million was appropriated to restore funding reductions initiated to mitigate the financial impact of the annexation stay. The appropriation increases also included approximately \$3.8 million for expenditure items previously encumbered or designated from the fiscal year 2005 budget, \$882,000 due to the impact of increased fuel costs, \$765,000 for solid waste and communications initiatives approved by City Council, \$750,000 for an economic development loan for the Capitol Project, \$422,000 to fund additional fire fighters to serve the current city, \$325,000 for increased vehicle replacement expenditures, \$191,000 for the Gillespie Streetscape project and \$197,000 for Festival Park development.

The increased budget appropriations were primarily funded by additional fund balance appropriations of \$13.0 million, of which \$3.8 million related to prior fiscal year encumbrances and designations. Major revenue sources for the Phase V annexation area (such as ad valorem taxes, sales taxes and intergovernmental revenues) were not available for the fiscal year 2006 budget due to the delayed effective date of September 30, 2005. Revenue increases of approximately \$938,000 from other taxes, \$376,000 from ad valorem taxes, \$354,000 from functional revenues and \$3.8 million of capital lease proceeds and a decrease of \$1.8 million of intergovernmental revenues were also budgeted.

Actual revenues and other financing sources for the General Fund were less than the final amended budget by \$9.2 million. This was primarily due to a budgeted fund balance appropriation of \$16.7 million, which is an other financing source that is not reflected as actual current year revenue.

Additionally, ad valorem taxes exceeded the final budget by \$1.8 million, other taxes exceeded the final budget by \$2.7 million, other functional revenues exceeded the final budget by \$1.4 million, and other revenue sources combined exceeded the final budget by \$1.5 million.

Actual expenditures and other financing uses were less than the final amended budget by \$8.7 million. There were approximately \$5.0 million in expenditures budgeted for fiscal year 2006 which were encumbered or designated at June 30, 2006 to be re-appropriated in fiscal year 2007. The remaining variance primarily results from a variety of departmental operating expenditures being under budget.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$1.0 billion (net of accumulated depreciation). These assets include infrastructure; buildings; improvements; automotive equipment; office and other equipment; and electric, water, and wastewater utility systems.

Major capital asset investments and contributions during the fiscal year included the following:

- \$98.9 million added to street infrastructure, \$8.5 million to stormwater infrastructure and \$0.8 million in sidewalk infrastructure as a result of the Phase V annexation effective September 30, 2005
- \$3.6 million in street infrastructure projects, \$0.7 million in drainage infrastructure projects, and \$0.5 million in sidewalk infrastructure projects
- \$2.0 million for Fire Station 14 building and improvements (located across from Fayetteville State University)
- \$1.1 million for Westover Recreation Center building
- \$0.8 million for train depot building
- \$1.6 million for Festival Park construction in progress
- \$0.6 million for Amtrak Station construction in progress
- \$0.9 million in Cape Fear River Park land
- \$0.6 million for Linear Park land and improvements
- \$4.4 million for the Rockfish Water Resource Facility expansion and improvements
- \$3.7 million for completed water and wastewater main rehabilitation
- \$3.3 million for installation of water and wastewater utility infrastructure in newly annexed areas
- \$1.8 million for installation of underground cable in planned developments
- \$1.4 million for electric distribution system transformers
- \$1.4 million for electric service extensions
- \$1.1 million for purchase and installation of water meters
- \$0.9 million in police vehicles and equipment
- \$1.3 million in fire vehicles and equipment
- \$1.1 million in maintenance vehicles and equipment

The City's Capital Assets

Figure 4

CITY OF FAYETTEVILLE'S CAPITAL ASSETS (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 36,632,906	\$ 14,032,134	\$ 50,665,040
Infrastructure	314,730,613	-	314,730,613
Electric utility system	-	160,832,348	160,832,348
Wastewater system	-	219,958,210	219,958,210
Water system	-	129,226,176	129,226,176
Equipment and machinery	-	8,962,793	8,962,793
Buildings and improvements	39,563,198	48,011,863	87,575,061
Equipment, furniture and fixtures	5,722,192	773,323	6,495,515
Computer programs	-	4,363,290	4,363,290
Vehicles	6,611,640	3,011,120	9,622,760
Construction in progress	5,866,308	33,739,135	39,605,443
Total	\$ 409,126,857	\$ 622,910,392	\$ 1,032,037,249

Additional information on the City's capital assets can be found in Note 3 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2006, The City had total bonded debt outstanding of \$215.8 million, of which \$40.0 million is debt backed by the full faith and credit of the City. In addition, the City has a number of capital leases and several installment notes outstanding. A summary of total long-term debt is shown in Figure 5.

Bonded Debt, Capital Leases and Installment Notes Payable

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Bonded debt	\$ 56,634,500	\$ 51,482,699	\$ 174,446,344	\$ 164,296,884	\$ 231,080,844	\$ 215,779,583
Obligations under capital leases	13,551,475	14,203,330	-	-	13,551,475	14,203,330
Installment note payable	125,000	65,000	18,303,144	136,357,559	18,428,144	136,422,559
Total long-term debt	\$ 70,310,975	\$ 65,751,029	\$ 192,749,488	\$ 300,654,443	\$ 263,060,463	\$ 366,405,472

The City's total debt increased by \$103.3 million, or 39.3%, during the past fiscal year. The increase is primarily due to the issuance of revenue notes of \$142.1 million to finance the prepayment agreement with Progress Energy Carolinas Inc. and draws on the current state revolving loan of \$4.7 million, offset by principal payments of \$40.4 million.

The City's most recent general obligation bond ratings, received in connection with the Series 2005 General Obligation Public Improvement Bonds, are shown below:

City (governmental activities):	
Moody's Investor Services	Aa3
Standard & Poor's	AA-

All outstanding utility system revenue bonds carry an Aaa and AAA rating from Moody's and Standard & Poor's, respectively, based on municipal bond insurance policies. In 1998, the City received underlying bond ratings for its revenue bonds as shown below. These ratings were reaffirmed during the issuance of the Series 2003B Variable Rate Revenue Refunding Bonds.

Public Works Commission (business-type activities):	
Moody's Investor Services	A1
Standard & Poor's	A+

The State of North Carolina limits 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 the City is approximately \$530.7 million. The City has no bonds authorized but unissued at June 30, 2006.

Additional information regarding the City's long-term debt can be found in Note 5 on pages F-20 – F-27 of this report.

Economic Factors and Next Year's Budget and Rates

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental Activities: Two important factors impacted the budget for fiscal year 2007. Fiscal year 2007 is the first fiscal year to include twelve months of services for the Phase V annexation areas that were annexed effective September 30, 2005. The second important issue impacting the fiscal year 2007 budget was employee pay increases necessary to reestablish market competitive rates of pay.

The City Council originally approved a \$123.6 million general fund budget for fiscal year 2007, which represented a \$24.8 million or 25.1% increase from the original budget for fiscal year 2006. The tax rate remained the same at 53 cents per \$100 value. Approximately \$17.9 million of the fiscal year 2007 general fund budget is related to expenditures to provide services to the newly annexed areas compared to \$5.3 million in the original fiscal year 2006 budget. Additionally, pay increases to reach market competitive pay levels for public safety and general employees added \$4.3 million to the budget, vehicle and equipment replacements required \$4.6 million beyond the original fiscal year 2006 budget, and restoration of positions frozen to mitigate the impact of the annexation stay added approximately \$1.7 million to the budget.

General fund revenues are expected to increase by \$20.2 million due to the Phase V annexation, which includes \$2.1 million for the first of three installments of nine months of 2005 ad valorem taxes. Natural

growth is expected to generate an additional \$4.9 million in ad valorem and other taxes compared to the fiscal year 2006 original budget. Intergovernmental revenues are budgeted \$2.1 million lower than the original fiscal year 2006 budget due to the reduced area of the County Parks & Recreation District and the end of City-provided contract fire service in fire districts annexed into the City. A fund balance appropriation of \$5.1 million for one-time expenditures and use of debt management plan reserves exceeded the \$3.7 million fund balance appropriation originally budgeted in fiscal year 2006.

The City Council has since approved budget increases of \$5.6 million or 4.5% bringing the General Fund budget for fiscal year 2007 to \$129.1 million. The budget increase is primarily due to \$4.9 million appropriated by Council for expenditures encumbered or designated at June 30, 2006. Additional appropriation increases included \$387,000 to fund Solid Waste improvement initiatives and \$175,000 for the purchase of a fuel management system. These increases have primarily been funded by additional fund balance appropriations.

Business – type Activities: The City considered many factors when setting the fiscal year 2007 budget, user fees and charges. Purchased power and generation expenses represent the largest expenditure in these funds, at \$98.5 million. This figure includes an estimated prepaid power discount of \$8.4 million. Fiscal year 2007 is the fourth year of the nine-year power supply contract with Progress Energy through which the majority of the power supply will again be purchased. The fiscal year 2007 budget reflects an increase in electric base rates that became effective May 1, 2006. The cost of fuel for power generation is again anticipated to be high, however, \$6.1 million was incorporated into rates and the fuel adjustment for customers is anticipated to be lower based on budgeted fuel cost projections. No rate adjustments for the water and sanitary sewer rates are part of this budget, however, the Public Works Commission will review rates in the spring of 2007.

Transfers to the General Fund for the 5% electric sales transfer policy and street lighting services are expected to be \$8.8 million in fiscal year 2007.

The Electric, Water and Wastewater Funds fiscal year 2007 budgets support a number of projects to improve areas such as street lighting upgrades and special requests, downtown utility system upgrades, downtown streetscape improvements, new street lighting in annexed areas, utility relocation for many roadway widening projects, and supporting and improving service to existing industry. The fiscal year 2007 budget for the Water and Wastewater Fund also includes an appropriation of \$2.5 million to establish an Annexation Fund to begin implementation of the joint sewer extension plan for the Phase V annexation areas. In addition, a 1.5% employee performance pay allowance plus a CPI increase of 3.5% is included in the Electric, Water and Wastewater fiscal year 2007 budgets.

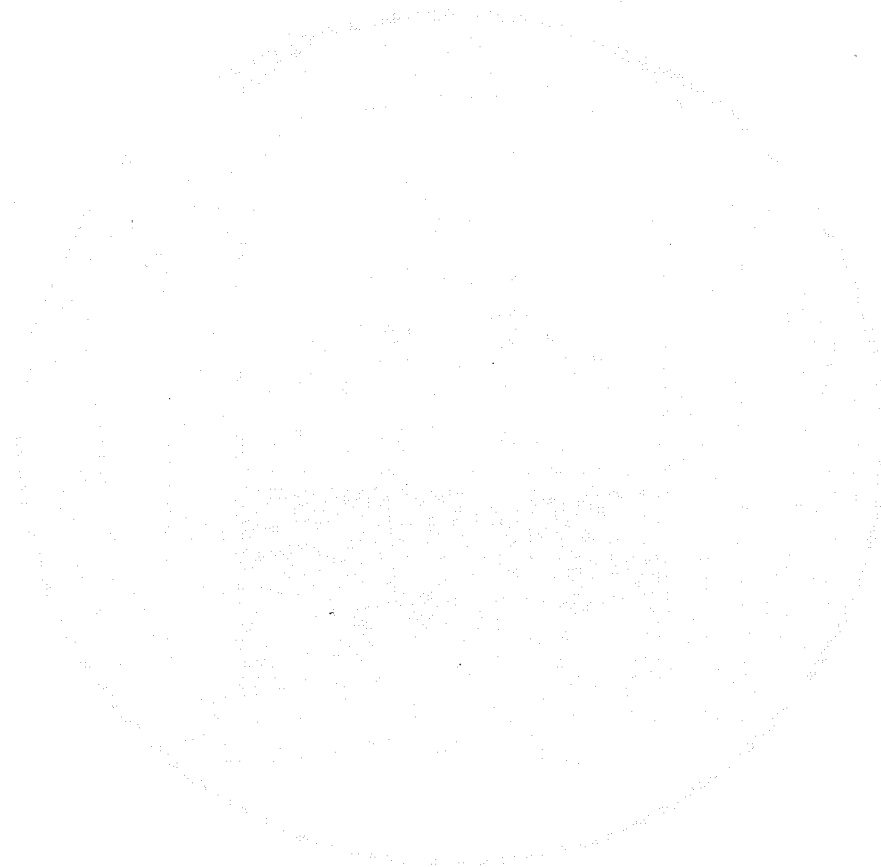
Requests for Information

This report is designed to provide an overview of the City'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 Chief Financial Officer, City of Fayetteville, 433 Hay Street, Fayetteville, NC 28301.

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

BASIC FINANCIAL STATEMENTS

These basic financial statements provide a summary of the financial position of all governmental and business activities and the major and nonmajor funds. They also serve as an introduction to the more detailed schedules that follow in subsequent sections.



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total Primary Government
Assets			
Cash and investments	\$ 59,307,457	\$ 37,638,297	\$ 96,945,754
Taxes receivable	9,640,631	-	9,640,631
Accounts receivable	4,188,428	33,849,442	38,037,870
Internal balances	(1,826,417)	1,826,417	-
Assessment receivable	400,250	-	400,250
Due from other governments	6,978,197	41,490	7,019,687
Inventories	405,726	12,821,791	13,227,517
Prepaid expenses	989,194	81,065,355	82,054,549
Noncurrent portion of note receivable	6,324,886	-	6,324,886
Restricted asset - cash and investments	8,551,641	43,180,893	51,732,534
Restricted asset - accounts receivable	-	130,236	130,236
Restricted asset - collateral pledged	-	262,214	262,214
Other assets	(318,560)	43,511,902	43,193,342
Capital assets:			
Land and construction in progress	42,499,214	47,771,269	90,270,483
Other capital assets, net of depreciation	366,627,643	575,139,123	941,766,766
Total assets	503,768,290	877,238,429	1,381,006,719
Liabilities			
Accounts payable and accrued expenses	9,722,448	25,228,189	34,950,637
Restricted liabilities - accounts payable	-	5,615,096	5,615,096
Unearned revenues	728,968	21,625	750,593
Unearned deposits	74,738	2,628,170	2,702,908
Long-term liabilities:			
Due within one year	11,694,380	86,069,241	97,763,621
Due in more than one year	58,305,096	217,691,255	275,996,351
Other liabilities	-	8,600,605	8,600,605
Total liabilities	80,525,630	345,854,181	426,379,811
Net assets			
Invested in capital assets, net of related	351,170,168	432,390,389	783,560,557
Restricted for:			
Capital projects	-	527,965	527,965
Debt service	-	808,520	808,520
Other purposes	2,702,713	-	2,702,713
Unrestricted	69,369,779	97,657,374	167,027,153
Total net assets	\$ 423,242,660	\$ 531,384,248	\$ 954,626,908

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

CITY OF FAYETTEVILLE, NORTH CAROLINA
Statement of Activities
Year Ended June 30, 2006

Functions/Programs Primary government:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating		Primary Government			
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:								
Administration	\$ 13,268,585	\$ 702,004	\$ 5,632	\$ -	\$ (12,560,949)	\$ -	\$ -	(12,560,949)
Public safety	52,752,676	4,446,932	480,476	367,540	(47,457,728)	-	-	(47,457,728)
Environmental protection	9,940,477	80,998	-	-	(9,859,479)	-	-	(9,859,479)
Transportation	17,115,971	537,081	3,833,510	98,785	(12,646,595)	-	-	(12,646,595)
Economic and physical development	5,132,048	57,172	1,742,466	2,423,512	(908,898)	-	-	(908,898)
Recreation and community facilities	10,501,677	4,151,275	60,386	2,161,508	(4,128,508)	-	-	(4,128,508)
Interest and fees	2,786,700	-	-	-	(2,786,700)	-	-	(2,786,700)
Total governmental activities	111,498,134	9,975,462	6,122,470	5,051,345	(90,348,857)	-	-	(90,348,857)
Business-type activities:								
Electric	137,856,324	155,773,020	-	178,965	-	18,095,661	-	18,095,661
Water and wastewater	45,859,650	51,508,272	-	14,125,818	-	19,774,440	-	19,774,440
Transit	4,864,135	828,623	2,097,336	63,915	-	(1,874,261)	-	(1,874,261)
Airport	3,769,259	2,849,936	-	1,145,829	-	226,506	-	226,506
Total business-type activities	192,349,368	210,959,851	2,097,336	15,514,527	-	36,222,346	-	36,222,346
Total primary government	\$ 303,847,502	\$ 220,935,313	\$ 8,219,806	\$ 20,565,872	(90,348,857)	36,222,346	-	(54,126,511)
General revenues:								
Ad valorem taxes					47,823,150	-	-	47,823,150
Other taxes					35,863,026	-	-	35,863,026
Unrestricted grants and contributions					578,491	-	-	578,491
Interest earned on investments					2,327,165	3,137,307	-	5,464,472
Miscellaneous					169,866	84,297	-	254,163
Gain on sale of capital assets					162,992	7,936	-	170,928
Transfers					8,601,682	(8,601,682)	-	-
Special item (Notes 3 and 14)					89,555,831	-	-	89,555,831
Total general revenues and transfers					185,082,203	(5,372,142)	-	179,710,061
Change in net assets					94,733,346	30,850,204	-	125,583,550
Net assets - beginning					328,509,314	500,534,044	-	829,043,358
Net assets - ending					\$ 423,242,660	\$ 531,384,248	-	\$ 954,626,908

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and investments	\$ 38,438,122	\$ 11,732,064	\$ 50,170,186
Taxes receivable	9,377,480	70,961	9,448,441
Accounts receivable	9,560,899	7,419,425	16,980,324
Interfund receivable	344,471	458,731	803,202
Assessments receivable	395,098	5,152	400,250
Inventories	132,861	-	132,861
Restricted asset - cash and investments	496,968	8,054,673	8,551,641
Total assets	<u>\$ 58,745,899</u>	<u>\$ 27,741,006</u>	<u>\$ 86,486,905</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 4,541,791	\$ 1,004,591	\$ 5,546,382
Interfund payables	-	458,731	458,731
Unearned deposits	74,738	-	74,738
Deferred revenues	10,632,610	6,586,575	17,219,185
Total liabilities	<u>15,249,139</u>	<u>8,049,897</u>	<u>23,299,036</u>
Fund balances:			
Reserved			
By State statute	9,697,696	1,430,984	11,128,680
For encumbrances	2,644,129	6,946,660	9,590,789
For inventories	132,861	-	132,861
For downtown	227,132	-	227,132
For wireless 911	-	68,274	68,274
For county recreation	1,071,808	-	1,071,808
For Powell Bill	439,083	-	439,083
For JP Riddle Stadium	10,142	-	10,142
Unreserved			
Designated			
For subsequent year's expenditures	5,061,421	-	5,061,421
For special purpose	2,929,525	22,000	2,951,525
For debt service	2,783,491	-	2,783,491
Undesignated	18,499,472	-	18,499,472
Unreserved, reported in nonmajor:			
Designated for subsequent year's expenditures			
Special revenue	-	521,984	521,984
Capital projects	-	8,842,547	8,842,547
Undesignated			
Special revenue	-	1,858,660	1,858,660
Total fund balances	<u>43,496,760</u>	<u>19,691,109</u>	<u>63,187,869</u>
Total liabilities and fund balances	<u>\$ 58,745,899</u>	<u>\$ 27,741,006</u>	<u>\$ 86,486,905</u>

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

CITY OF FAYETTEVILLE, NORTH CAROLINA
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2006

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

Ending fund balance - governmental funds	\$ 63,187,869
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	406,708,792
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	16,503,537
Costs of bond issuance are current-period expenditures in the funds, but will be deferred in the statement of net assets and amortized over the life of the outstanding debt.	(318,560)
Prepaid expenses are current-period expenditures in the funds, but are assets not available to pay current-period expenditures and, therefore, are capitalized.	508,186
Accrued tax penalties receivable are not available to pay for current-period expenditures and, therefore, are not recorded in the funds.	192,190
Internal service funds are used by management to charge the costs of Warranty fleet expenses, fleet maintenance expenses and insurance expenses to individual funds. The assets and liabilities of the internal service funds are included in governmental act	6,982,068
Accrued interest payable on long-term debt is not a current expenditure and therefore not recorded in the funds.	(542,363)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(69,979,059)</u>
Net assets of governmental activities	<u>\$ 423,242,660</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Ad valorem taxes	\$ 41,590,985	\$ -	\$ 41,590,985
Other taxes	32,700,775	3,169,487	35,870,262
Intergovernmental	8,853,592	3,564,822	12,418,414
Other functional	6,015,649	-	6,015,649
Miscellaneous	2,354,249	2,763,322	5,117,571
Interest earned on investments	1,231,669	660,946	1,892,615
Total revenues	<u>92,746,919</u>	<u>10,158,577</u>	<u>102,905,496</u>
Expenditures			
Current:			
Administration	13,266,020	31,797	13,297,817
Public safety	51,710,685	3,572,954	55,283,639
Environmental protection	7,754,865	2,511,587	10,266,452
Transportation	7,929,114	1,695,334	9,624,448
Economic and physical development	767,467	7,600,860	8,368,327
Recreation and community facilities	9,811,468	3,659,179	13,470,647
Debt service:			
Principal	6,587,439	1,890,707	8,478,146
Interest and fees	2,105,860	850,662	2,956,522
Total expenditures	<u>99,932,918</u>	<u>21,813,080</u>	<u>121,745,998</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,185,999)</u>	<u>(11,654,503)</u>	<u>(18,840,502)</u>
Other financing sources (uses)			
Capital leases	3,834,415	-	3,834,415
Transfers in	9,672,311	7,121,099	16,793,410
Transfers out	(6,788,015)	(1,603,713)	(8,391,728)
Total other financing sources (uses)	<u>6,718,711</u>	<u>5,517,386</u>	<u>12,236,097</u>
Net change in fund balances	(467,288)	(6,137,117)	(6,604,405)
Fund balance - beginning	<u>43,964,048</u>	<u>25,828,226</u>	<u>69,792,274</u>
Fund balance - ending	<u>\$ 43,496,760</u>	<u>\$ 19,691,109</u>	<u>\$ 63,187,869</u>

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

CITY OF FAYETTEVILLE, NORTH CAROLINA
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2006

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

Net change in fund balances - total governmental funds	\$	(6,604,405)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$17,615,282) exceeded capital outlay (\$17,214,587) in the current period.</p>		
		(400,695)
<p>The net effect of Annexation Phase V donated infrastructure (special item).</p>		
		89,555,828
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.</p>		
		(7,478)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		5,796,519
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.</p>		
		4,653,142
Principal repayments	\$	8,478,142
New issuance - capital lease		(3,825,000)
	<u>\$</u>	<u>4,653,142</u>
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		(330,306)
Change in accrued interest	\$	61,336
Change in compensated absences		(399,045)
Change in bond issue costs		(46,644)
Other		54,047
	<u>\$</u>	<u>(330,306)</u>
<p>The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		
		2,070,741
Change in net assets of governmental activities	\$	<u>94,733,346</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 39,417,443	\$ 39,797,192	\$ 41,590,985	\$ 1,793,793
Other taxes	29,090,218	30,028,312	32,700,775	2,672,463
Intergovernmental	10,102,051	8,279,057	8,853,592	574,535
Other functional	4,213,074	4,566,871	6,015,649	1,448,778
Miscellaneous	1,764,730	1,767,573	2,354,249	586,676
Interest earned on investments	884,500	892,000	1,231,669	339,669
Total revenues	<u>85,472,016</u>	<u>85,331,005</u>	<u>92,746,919</u>	<u>7,415,914</u>
EXPENDITURES				
Current:				
Administration	13,416,299	14,910,671	13,266,020	1,644,651
Public safety	47,488,965	54,543,276	51,710,685	2,832,591
Environmental protection	5,769,831	8,770,455	7,754,865	1,015,590
Transportation	6,830,585	8,835,076	7,929,114	905,962
Economic and physical development	872,902	1,809,445	767,467	1,041,978
Recreation and community facilities	9,957,039	10,687,459	9,811,468	875,991
Debt service:				
Principal	8,630,615	6,610,585	6,587,439	23,146
Interest and fees	292,858	2,106,595	2,105,860	735
Total expenditures	<u>93,259,094</u>	<u>108,273,562</u>	<u>99,932,918</u>	<u>8,340,644</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,787,078)</u>	<u>(22,942,557)</u>	<u>(7,185,999)</u>	<u>15,756,558</u>
OTHER FINANCING SOURCES (USES)				
Capital leases	-	3,825,000	3,834,415	9,415
Transfers in	9,643,727	9,643,727	9,672,311	28,584
Transfers out	(5,527,711)	(7,193,166)	(6,788,015)	405,151
Appropriated fund balance	3,671,062	16,666,996	-	(16,666,996)
Total other financing sources (uses)	<u>7,787,078</u>	<u>22,942,557</u>	<u>6,718,711</u>	<u>(16,223,846)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(467,288)</u>	<u>\$ (467,288)</u>
FUND BALANCE - BEGINNING			<u>43,964,048</u>	
FUND BALANCE - ENDING			<u>\$ 43,496,760</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Net Assets
Proprietary Funds
June 30, 2006**

	Enterprise Funds				Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds	Total	
Assets					
Current assets					
Cash and investments	\$ 19,950,191	\$ 13,689,238	\$ 3,998,868	\$ 37,638,297	\$ 9,137,270
Accounts receivable	19,123,563	13,789,003	978,366	33,890,932	511,186
Interfund receivable	169,939	217,577	-	387,516	(387,516)
Inventories	11,436,185	1,361,701	23,905	12,821,791	272,865
Prepaid expenses	80,998,163	67,192	-	81,065,355	481,008
Total unrestricted current assets	131,678,041	29,124,711	5,001,139	165,803,891	10,014,813
Restricted current assets					
Restricted cash and investments	19,646,158	23,017,098	517,637	43,180,893	-
Accounts receivable	10,549	119,687	-	130,236	-
Collateral pledged in lieu of deposits	262,214	-	-	262,214	-
Total restricted current assets	19,918,921	23,136,785	517,637	43,573,343	-
Total current assets	151,596,962	52,261,496	5,518,776	209,377,234	10,014,813
Noncurrent assets					
Other assets	40,572,849	2,873,053	66,000	43,511,902	-
Capital assets	214,131,099	384,419,203	24,360,090	622,910,392	2,418,065
Total noncurrent assets	254,703,948	387,292,256	24,426,090	666,422,294	2,418,065
Total assets	406,300,910	439,553,752	29,944,866	875,799,528	12,432,878
Liabilities and net assets					
Current liabilities to be paid from unrestricted assets					
Accounts payable and accrued expenses	14,646,565	10,377,476	204,148	25,228,189	3,633,703
Current portion of long term debt	79,105,452	6,801,178	-	85,906,630	1,317
Interfund payables	-	-	344,471	344,471	-
Accrued vacation	-	-	162,611	162,611	15,886
Total current liabilities to be paid from unrestricted assets	93,752,017	17,178,654	711,230	111,641,901	3,650,906
Current liabilities to be paid from restricted assets					
Accounts payable and accrued expenses	4,199,544	1,415,552	-	5,615,096	-
Total current liabilities to be paid from restricted assets	4,199,544	1,415,552	-	5,615,096	-
Total current liabilities	97,951,561	18,594,206	711,230	117,256,997	3,650,906
Noncurrent liabilities					
Unearned deposits	-	2,628,170	-	2,628,170	-
Deferred revenues	-	-	21,625	21,625	13,320
Long-term debt	80,893,732	136,797,523	-	217,691,255	3,212
Other liabilities	4,054,801	4,545,804	-	8,600,605	-
Total noncurrent liabilities	84,948,533	143,971,497	21,625	228,941,655	16,532
Total liabilities	182,900,094	162,565,703	732,855	346,198,652	3,667,438
Net assets					
Invested in capital assets, net of related debt	166,929,125	241,101,174	24,360,090	432,390,389	2,418,065
Restricted net assets					
Capital projects	10,328	-	517,637	527,965	-
Debt service	406,160	402,360	-	808,520	-
Unrestricted	56,055,203	35,484,515	4,334,284	95,874,002	6,347,375
Total net assets	\$ 223,400,816	\$ 276,988,049	\$ 29,212,011	529,600,876	\$ 8,765,440
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.				1,783,372	
Net assets of business-type activities				\$ 531,384,248	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2006**

	Enterprise Funds				Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds	Total	
Operating revenues					
Charges for services	\$ 155,773,020	\$ 51,508,272	\$ 3,308,097	\$ 210,589,389	\$ -
Other revenue from operations	-	-	370,462	370,462	1,333,977
Interfund charges and employee contributions	-	-	-	-	17,792,235
Total operating revenues	155,773,020	51,508,272	3,678,559	210,959,851	19,126,212
Operating expenses					
General and administrative	9,505,629	10,205,152	-	19,710,781	-
Power supply and generation	108,594,430	-	-	108,594,430	-
Water purification and distribution	-	8,909,582	-	8,909,582	-
Sewer collection and treatment	-	8,381,290	-	8,381,290	-
Personnel	-	-	3,401,405	3,401,405	320,848
Maintenance and operations	-	-	2,835,087	2,835,087	17,047,007
Depreciation	13,441,158	12,161,154	2,074,702	27,677,014	222,165
Total operating expenses	131,541,217	39,657,178	8,311,194	179,509,589	17,590,020
Operating income (loss)	24,231,803	11,851,094	(4,632,635)	31,450,262	1,536,192
Nonoperating revenue (expense)					
Interest earned on investments	1,795,378	1,244,635	97,294	3,137,307	220,785
Federal and State grants	-	-	2,339,483	2,339,483	-
Passenger facility charges	-	-	215,830	215,830	-
Miscellaneous revenue	-	-	84,297	84,297	-
Gain (loss) on disposal of capital assets	(441,831)	12,985	1,748	(427,098)	16,636
Interest expense	(4,491,732)	(4,847,993)	(21,588)	(9,361,313)	-
Amortization	(1,182,680)	(932,976)	(22,000)	(2,137,656)	-
Miscellaneous expense	-	-	(272,424)	(272,424)	-
Issue costs	(150,300)	(385,924)	-	(536,224)	-
Total nonoperating revenue (expense)	(4,471,165)	(4,909,273)	2,422,640	(6,957,798)	237,421
Income (loss) before transfers and contributions	19,760,638	6,941,821	(2,209,995)	24,492,464	1,773,613
Transfers in	-	-	1,200,778	1,200,778	2,080,500
Transfers out	(9,988,516)	(1,694,444)	-	(11,682,960)	-
Capital contributions	178,965	14,125,818	751,767	15,056,550	-
Change in net assets	9,951,087	19,373,195	(257,450)	29,066,832	3,854,113
Total net assets - beginning	213,449,729	257,614,854	29,469,461		4,911,327
Total net assets - ending	\$ 223,400,816	\$ 276,988,049	\$ 29,212,011		\$ 8,765,440

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities. 1,783,372

Change in net assets of business-type activities \$ 30,850,204

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Operating activities					
Cash received from customers	\$ 155,306,856	\$ 52,309,928	\$ 3,379,818	\$ 210,996,602	\$ 17,342,514
Other operating revenue	-	-	352,177	352,177	1,333,977
Cash received as deferred revenues	-	-	-	-	9,967
Cash paid to or on behalf of employees for services	(9,939,281)	(10,845,282)	(3,373,915)	(24,158,478)	(327,095)
Cash paid for goods and services	(38,607,404)	(17,199,479)	(3,003,031)	(58,809,914)	(16,993,518)
Cash paid for power supply and generation	(44,559,167)	-	-	(44,559,167)	-
Net cash provided by (used in) operating activities	62,201,004	24,265,167	(2,644,951)	83,821,220	1,365,845
Noncapital financing activities					
Transfers in	-	325,184	1,200,778	1,525,962	267,500
Federal and state grants	-	-	2,339,483	2,339,483	-
Nonoperating revenues	-	-	300,127	300,127	-
Transfers out	(9,080,944)	(1,114,200)	-	(10,195,144)	-
Other	-	-	(272,424)	(272,424)	-
Net cash provided (used) by noncapital financing activities	(9,080,944)	(789,016)	3,567,964	(6,301,996)	267,500
Capital and related financing activities					
Proceeds from sale of assets	64,278	21,007	1,748	87,033	17,460
Proceeds from debt issuance	142,140,000	4,658,772	-	146,798,772	-
Payment for power costs	(141,111,075)	-	-	(141,111,075)	-
Payment of issue cost for debt issuance	(1,027,209)	-	-	(1,027,209)	-
Contributed capital received	37,555	3,738,743	751,767	4,528,065	-
Capital contributions - State grant	-	-	-	-	-
Capital contributions - Federal grant	-	-	-	-	-
Acquisition and construction of capital assets	(15,324,508)	(22,340,963)	(989,089)	(38,654,560)	(79,130)
Principal paid on debt maturities	(35,312,095)	(5,122,261)	(28,040)	(40,462,396)	(9,415)
Interest paid on debt maturities	(4,491,732)	(4,847,993)	(21,588)	(9,361,313)	-
Other capital asset transactions	-	-	-	-	(505,464)
Net cash provided (used) by capital and related financing activities	(55,024,786)	(23,892,695)	(285,202)	(79,202,683)	(576,549)
Investing activities					
Interest and dividends	1,795,378	1,244,635	97,294	3,137,307	220,785
Net change in investments	(7,211,160)	(3,090,497)	-	(10,301,657)	-
Net cash provided (used) by investing activities	(5,415,782)	(1,845,862)	97,294	(7,164,350)	220,785
Net increase (decrease) in cash and cash equivalents/investments	(7,320,508)	(2,262,406)	735,105	(8,847,809)	1,277,581
Cash and cash equivalents/investments					
Beginning of year	30,643,166	21,777,508	3,781,400	56,202,074	7,859,689
End of year	\$ 23,322,658	\$ 19,515,102	\$ 4,516,505	\$ 47,354,265	\$ 9,137,270
Cash and cash equivalents	\$ 23,322,658	\$ 19,515,102	\$ 4,516,505	\$ 47,354,265	\$ 9,137,270
Investments	16,273,691	17,191,234	-	33,464,925	-
Total cash and cash equivalents/investments	\$ 39,596,349	\$ 36,706,336	\$ 4,516,505	\$ 80,819,190	\$ 9,137,270
Unrestricted cash and equivalents/investments	\$ 7,182,581	\$ 8,957,117	\$ 3,998,868	\$ 20,138,566	\$ 9,137,270
Restricted cash and equivalents/investments	16,140,077	10,557,985	517,637	27,215,699	-
Total cash and cash equivalents/investments	\$ 23,322,658	\$ 19,515,102	\$ 4,516,505	\$ 47,354,265	\$ 9,137,270

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 24,231,803	\$ 11,851,094	\$ (4,632,635)	\$ 31,450,262	\$ 1,536,192
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	13,441,158	12,161,154	2,074,702	27,677,014	222,165
Allowance for uncollectible accounts	16,099	4,854	-	20,953	-
Recognition of prepaid purchase cost, net of related discount	34,298,882	-	-	34,298,882	-
Change in assets and liabilities					
(Increase) decrease in accounts receivable	(463,351)	796,802	71,848	405,299	(339,274)
(Increase) decrease in inventory	(1,511,072)	(300,988)	(2,348)	(1,814,408)	3,681
(Increase) decrease in prepaid items	-	-	-	-	(315,175)
(Increase) decrease in internal balances	(437,330)	49,814	-	(387,516)	387,516
(Increase) decrease in other current assets	66,231	57,666	-	123,897	-
(Increase) decrease in other assets	(223,299)	(395,628)	-	(618,927)	-
(Increase) decrease in unearned deposits	-	164,286	-	164,286	-
Increase (decrease) in accounts payable and accrued liabilities	(7,311,161)	(166,023)	(165,723)	(7,642,907)	(137,509)
Increase (decrease) in accrued compensated absences	93,044	42,136	27,490	162,670	(1,718)
Increase (decrease) in deferred revenues	-	-	(18,285)	(18,285)	9,967
Total adjustments	37,969,201	12,414,073	1,987,684	52,370,958	(170,347)
Net cash provided by (used in) operating activities	\$ 62,201,004	\$ 24,265,167	\$ (2,644,951)	\$ 83,821,220	\$ 1,365,845
Noncash investing, capital, and financing activities:					
Contributed capital assets	\$ -	\$ 10,433,558	\$ -	\$ 10,433,558	\$ -
Transfer of assets between funds	\$ (907,572)	\$ (905,428)	\$ -	\$ (1,813,000)	\$ 1,813,000
FIF Credits Awarded	\$ -	\$ (1,969,558)	\$ -	\$ (1,969,558)	\$ -
FIF Credits Applied	\$ -	\$ 1,541,001	\$ -	\$ 1,541,001	\$ -
Discount on prepaid power costs	\$ 16,438,925	\$ -	\$ -	\$ 16,438,925	\$ -

City of Fayetteville, North Carolina

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Pension Trust Fund	Private-purpose Trusts
Assets		
Cash and investments	\$ 6,111,780	\$ 1,292,171
Accounts receivable	11,402	12,102
Total assets	<u>6,123,182</u>	<u>1,304,273</u>
Liabilities		
Accounts payable	<u>5,732</u>	-
Total liabilities	<u>5,732</u>	<u>-</u>
Net assets		
Held in Trust for:		
Held in Trust for benefits and other purposes	6,117,450	1,304,273
Total net assets	<u>\$ 6,117,450</u>	<u>\$ 1,304,273</u>

City of Fayetteville, North Carolina
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2006

	Pension Trust Fund	Private-purpose Trusts
Additions		
Other revenue from operations	\$ -	\$ 30,417
Contributions	418,762	109,121
Investment earnings	251,929	51,466
Total additions	<u>670,691</u>	<u>191,004</u>
Deductions		
Benefit payments and premiums	465,870	140,848
Total deductions	<u>465,870</u>	<u>140,848</u>
Change in net assets	204,821	50,156
Total net assets - beginning	<u>5,912,629</u>	<u>1,254,117</u>
Total net assets - ending	<u>\$ 6,117,450</u>	<u>\$ 1,304,273</u>

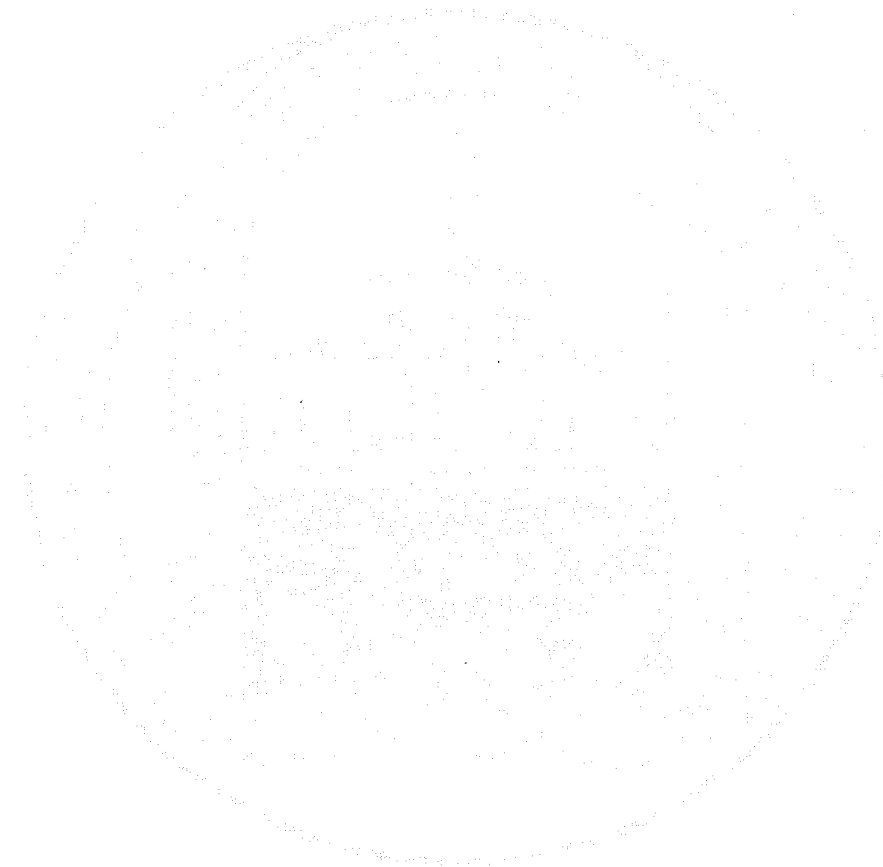
CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

NOTES TO FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read together with the financial statements.



CITY OF FAYETTEVILLE, NORTH CAROLINA

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City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The City of Fayetteville, North Carolina (the "City") was established in 1783. The City operates under a council-manager form of government and provides the following services: administration, public safety, environmental protection, transportation, economic and physical development, recreation and community facilities, electric, water and wastewater utility, transit, and airport services. The City receives substantial revenues from Federal and State sources. Ad valorem taxes on the City of Fayetteville's citizens represent a significant portion of the general government revenues.

The financial statements of the City of Fayetteville, North Carolina have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A - Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units. GASB Statements number 14 and 39 define component units as legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and a) it is able to impose its will on that organization or b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens upon, the primary government.

This statement provides two methods for reporting component units in the financial statements of the primary government: discrete presentation and blending. Discrete presentation means that data will be presented in one or more separate columns to the right of the primary government data columns. Blending means that the component unit's financial data is reported as though the unit is part of the primary government. If the units provide services or benefits exclusively, or almost exclusively, to the primary government, or if the component units and the primary government have "substantively identical boards," the legally separate component units should be incorporated by blending. If the units do not meet these criteria, their data should be incorporated by discrete presentation.

Based on evaluating these characteristics, the following is a brief review of the component units in the City's reporting entity:

City of Fayetteville Finance Corporation

The City of Fayetteville Finance Corporation is a non-profit corporation formed for the purpose of issuing bonds to build City facilities and park improvements, as well as for the defeasance and refunding of 1989 certificates of participation. The City leases the police administration building, Festival Park and Westover Recreation Center from the Corporation with rental revenues being used by the Corporation to retire the bonds. The Corporation is shown in a blended presentation as the Corporation provides services exclusively to the City. The operating fund of the Corporation is presented in the accompanying financial statements as a nonmajor special revenue fund.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

City of Fayetteville Linear Park, Inc.

The City of Fayetteville Linear Park, Inc. is a non-profit corporation formed for the purpose of assisting in the development of the Linear Park downtown. Linear Park, Inc. is shown in a blended presentation as it provides services exclusively to the City. Its operating fund is presented in the accompanying financial statements as a nonmajor capital project fund.

B - Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The Government-wide Statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. Fiduciary funds are not included in these statements.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

The City reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the City. It accounts for all financial resources of the general government except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state grants, and various other taxes and licenses. The primary expenditures are for public safety, parks and recreation, street maintenance, and solid waste.

The City reports the following nonmajor governmental funds:

Special Revenue Funds. Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. The Emergency Response Fund accounts for Enhanced and Wireless 911 revenues and related expenditures. The Federal and State Financial Assistance Fund accounts for federal and state grants. The Storm Water Management Fund accounts for specified taxes and maintenance of the storm water system. The City of Fayetteville Finance Corporation Fund accounts for debt service on certain municipal buildings and park improvements.

Capital Project Funds. Capital Project Funds account for financial resources to be used for the acquisition or construction of governmental capital assets. The General Government Fund accounts for information technology and other projects supporting the entire government. The Public Safety Fund accounts for projects supporting the public safety services provided by the City. The Recreational and Cultural Fund accounts for parks and similar projects. The Transportation Fund accounts for projects to improve transportation and related services throughout the City. The Water and Sewer Fund accounts for Lumbee River Electric Membership Corporation Territory Agreement revenues and associated activities. The Bond Improvement Fund accounts for bond proceeds and their use. The Economic and Physical Development Fund accounts for construction and improvement of various public facilities. The Linear Park Fund accounts for projects associated with development of the Linear Park Downtown.

The City reports the following major enterprise funds:

Electric Fund. This fund accounts for the operations and maintenance of the Butler-Warner Generation Plant and the transmission and distribution of electricity to the City of Fayetteville and surrounding areas.

Water and Wastewater Fund. This fund accounts for the operations of the water and wastewater facilities for the customers within the City of Fayetteville and surrounding areas.

The Electric Fund and the Water and Wastewater Fund are operated under the Public Works Commission (PWC) of the City of Fayetteville.

The City reports the following nonmajor enterprise funds: The Transit Fund accounts for operation of the municipal transit system. The Airport Fund accounts for the operation and capital asset acquisition/construction of the Fayetteville Regional Airport.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

The City reports the following fund types:

Internal Service Fund. Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the City, on a cost reimbursement basis. The Warranty Fleet Fund is used to account for the accumulation and allocation of costs associated with internally leasing vehicles. The Fleet Maintenance Fund is used to account for the accumulation and allocation of costs associated with maintenance of the City's vehicles. The Insurance Fund is used to account for the accumulation and allocation of costs associated with health, workers compensation, and liability claims. The PWC Fleet Maintenance Fund accounts for the accumulation and allocation of costs associated with the City's and PWC's fleet maintenance activities.

Pension Trust Fund. These funds accumulate contributions in order to pay retirement benefits to eligible participants. The Special Separation Allowance Pension Trust Fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, and public employee retirement system. The PWC Supplemental Pension Trust Fund accounts for the PWC Supplemental Employees' Retirement Plan, a single-employer defined benefit pension plan.

Private-Purpose Trust Fund. These funds are used to account for resources legally held in trust for use by others. The Police Benefit and Fireman's Benefit Trust Funds account for resources held in trust for these two groups of individuals. All resources of the funds, including any earnings on invested resources, may be used to support the organizations' activities. There is no requirement that any portion of these resources be preserved as capital.

C - Measurement Focus and Basis of Accounting

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

The City's 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 the funds' principal ongoing operations. The principal operating revenues of the City's utility funds are charges to customers for sales and services. Operating expenses for the City's utility funds include the costs of sales and services, general and administrative services and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on all registered motor vehicles in North Carolina. Effective with this change in the law, Cumberland County is 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 City of Fayetteville. 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 City's vehicle taxes for vehicles registered in Cumberland County from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the annual registration into the staggered registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

All GASB Statements and all Financial Accounting Standards Board ("FASB") Statements issued on or before November 30, 1989, except those that conflict with the GASB are applied in both the government-wide and proprietary fund financial statements.

Sales taxes collected and held by the State at year-end on behalf of the City 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 unearned revenues.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's electric, water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first then unrestricted resources, as they are needed.

D – Budgetary Data

Budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the general, selected special revenue, and enterprise funds. All annual appropriations lapse at fiscal year end. Project and grant ordinances are adopted for the Federal and State Financial Assistance special revenue fund and capital project funds. Enterprise capital project funds are consolidated with the operating funds for reporting purposes. The City's internal service funds are intra-governmental service funds, which operate under financial plans that were adopted by the governing board at the time the City's budget ordinance was approved, as is required by the General Statutes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for the general, selected special revenue, and proprietary funds and at the project level for selected special revenue and capital project funds. Any revisions that alter total appropriations at the department or project level, as appropriate, of any fund must be approved by the City Council. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E - Assets, Liabilities, and Fund Equity

Deposits and Investments

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

State law (G.S. 159-30(c)) authorizes the City 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 (including the North Carolina Educational Assistance Authority); obligations of certain no guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

The City's investments with 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 (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Nonparticipating interest earning investment contracts are reported at cost.

In accordance with State law, the City has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Electric and Water and Wastewater Funds consider demand deposits and investments purchased with an original maturity of three months or less to be cash and cash equivalents.

Ad Valorem Taxes Receivable

In accordance with State law [F.S. 105-347 and G.S. 159-136(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. The taxes are based on the assessed values as of January 1, 2005.

Allowance for Uncollectible Receivables

The City operates enterprise funds that provide credit in the normal course of business to customers primarily located in Fayetteville, North Carolina. The City performs on-going credit evaluations of its customers and maintains allowances for doubtful accounts by using the experience method to estimate collection losses to be incurred. Credit losses, when realized, have been within the range of the City's estimations and historically have not been significant. Other receivables that historically experience uncollectible accounts are also shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

The receivables shown on the Statement of Net Assets are presented net of the following allowances for doubtful accounts as of June 30, 2006:

Fund

General Fund:	
Taxes receivable	\$ 738,743
Accounts receivable	1,061,856
Assessments receivable	197,208
Special Revenue Fund:	
Taxes receivable	11,342
Accounts receivable	2,141,105
Transit Operating:	
Accounts receivable	11,175
Airport Operating:	
Accounts receivable	400
Electric Fund:	
Accounts receivable	245,292
Water and Wastewater Fund:	
Accounts receivable	66,705
Total	<u>\$ 4,473,826</u>

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "Interfund receivable" or "Interfund payable" on the balance sheet in the fund financial statements and as "internal balances" on the statement of net assets in the government-wide financial statements.

Inventories

Inventories are valued at the lower of average cost or market. The costs of governmental fund-type inventories, which consist of materials and supplies, are recorded as expenditures when they are consumed rather than when they are purchased. The costs of enterprise fund-type inventories, which consist of generation fuel, materials and spare parts, are expensed when used rather than when purchased.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

On November 30, 2005, the City entered into a Prepayment Agreement with Progress Energy Carolinas, Inc. (PEC) to make a prepayment for an estimated 24 months' capacity and energy for its electric system. The Prepayment Agreement provided for a prepayment of \$141,111,075 by the City for the capacity and energy to be delivered by PEC beginning January 2006 under the existing Master Power Purchase and Sale Agreement between PEC and the City (see Note 9), having a value under such agreement of \$157,550,000, resulting in a discount of \$16,438,925 or 10.4341%, on the purchase price of such capacity and energy that would otherwise be due. The prepayment is recorded as a prepaid asset and is amortized monthly based on the actual capacity and energy billed by PEC, whereas, the discount is recorded as a liability and is amortized monthly at 10.4341% of the actual capacity and energy billed. The City's purchase power expenses include the capacity and energy charges net of the recognized discount. During the year ended 2006, the City recognized \$38,294,577 for 6 months of capacity and energy charges under the prepayment agreement which reduced the prepayment to its June 30, 2006 balance of \$119,255,423. As a result, the discount was amortized by \$3,995,695, leaving an unrecognized discount balance of \$12,443,230. The City issued \$142,140,000 in Revenue Notes to provide funds for the prepayment (see Note 5).

A Summary of the current year activity is as follows:

	Original Payment	Discount	Transaction
November 30, 2005	\$ 157,550,000	\$ (16,438,925)	\$ 141,111,075
Recognized during the year ended June 30, 2006	(38,294,577)	3,995,695	-
Balance at June 30, 2006	\$ 119,255,423	\$ (12,443,230)	\$ 141,111,075

Financial Statement Presentation:

Prepaid expenses	\$ 80,949,875	Accounts payable and accrued expenses	\$ 8,446,391
Other assets	38,305,548	Other liabilities	3,996,839
	\$ 119,255,423		\$ 12,443,230

Restricted Assets and Liabilities

In the capital project and enterprise funds the City has classified as restricted the assets representing deposits, reserves, capital project appropriations and unexpended bond proceeds because their use is completely restricted to the purpose for which the bonds were issued or the purpose for which the funds were set aside. Liabilities due to be repaid from restricted assets are classified as restricted liabilities.

Interest rate swaps

The City enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets

The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$2,500 in the Electric and Water and Wastewater Funds) and an estimated useful life in excess of one year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2001 and storm water network assets acquired prior to July 1, 2004 are reported at estimated historical cost using deflated current cost. Utility (electric, water, and wastewater) capital assets purchased or constructed since 1958 are recorded at cost. Contributed utility assets are recorded at estimated value at the date of acquisition. Utility assets acquired prior to 1958 are carried on an estimated cost basis. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Gains and losses on dispositions of capital assets are credited or charged to operations.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (Years)</u>
Infrastructure	15 – 50
Buildings	40
Utility plant systems	20 – 45
Improvements	5 – 15
Vehicles	5 – 20
Furniture and equipment	5 – 10
Computer equipment	3

Interest expense that relates to the cost of acquiring or constructing capital assets in enterprise funds is capitalized. Interest expense incurred in connection with construction of capital assets is reduced by interest earned on the investment of funds borrowed for construction in accordance with FASB 62 "Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants."

Unearned Deposits

Facility investment fees credit is given on a dollar per dollar basis for off-site water/wastewater approach mains necessary to serve City approved projects. The facility investment fees credit, if not utilized in the initial development, will be available to the developer for use in other City approved projects for a period not to exceed 5 years from the original contract date, unless otherwise stated in contract or through extension approved by the City.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

The vacation policy of the City provides for the accumulation of up to seven (7) weeks earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences, including compensatory time and holiday pay, and the salary-related payments are recorded as the leave is earned.

The City's sick leave policy provides for unlimited accumulation of earned sick leave. Sick leave does not vest but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for that sick leave has been made. However, the City's sick leave policy for Electric and Water and Wastewater Fund employees allows 25% of accumulated sick leave to be paid at the time of retirement. A liability for the estimated amount of this sick leave to ultimately be paid is included in the financial statements.

Long-Term Obligations

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

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

Net Assets/Fund Balances

Net assets in government-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.

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

State law (G.S. 159-13(b) (16)) restricts appropriation of fund balance 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.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

The governmental fund types classify fund balances as follows:

Reserved

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts, which remain, unperformed at year-end.

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for downtown - portion of fund balance available for appropriation for projects in the Central Business District.

Reserved for wireless 911 - portion of fund balance available to pay for the acquisition and operation of wireless 911 services.

Reserved for county recreation - portion of fund balance available to pay for the recreational activities of Cumberland County.

Unreserved

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2006 - 2007 budget ordinance.

Designated for special purpose - portion of fund balance identified for specific uses in the general fund and special revenue funds.

Designated for debt service - portion of fund balance designated to meet future principal and interest payments on outstanding debt.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

F - Reclassification

For comparability, certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

G - Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H – Pronouncements Implemented in the Current Year

GASB Statement No. 42 “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”, became effective July 1, 2005. This statement established accounting and financial reporting standards for the impairment of capital assets. Under the statement a capital asset is considered to be impaired when its service utility has declined significantly and unexpectedly. Capital assets meeting the definition of impairment under this statement must be written down to fair market value. We evaluated the City’s capital assets for impairment during our audit and did not identify any situation that required existing assets to be written down.

GASB Statement No. 44 “Economic Condition Reporting: The Statistical Section”—an amendment of NCGA Statement 1 became effective July 1, 2005. This Statement amended portions of NCGA, Statement 1, Governmental Accounting and Financial Reporting Principles that provided guidance on the preparation of the statistical section. The statement required that additional schedules be added as part of the statistical section and required that some of the previously reported data be reformatted. The City added the statistical section that accompanies the financial statements in the current year to fully comply with this statement.

GASB Statement No. 46 “Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34” became effective July 1, 2005. This Statement specified the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. This Statement also required that governments disclose the portion of total net assets that is restricted by enabling legislation. This statement did not have any impact on the City during the year.

GASB Statement No. 47 “Accounting for Termination Benefits” became effective July 1, 2005. This Statement required that employers disclose or include a description of any termination benefit arrangements, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. This statement did not have a material impact on the City during the year.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

I – Upcoming Pronouncements

GASB Statement No. 45 “Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions” will be effective in three phases based on a government’s total annual revenues in the first fiscal year ending after June 15, 1999. This Statement is effective for periods beginning after December 15, 2006, for phase one governments (those with total annual revenues of \$100 million or more); after December 15, 2007, for phase two governments (those with total annual revenues of \$10 million or more but less than \$100 million); and after December 15, 2008, for phase three governments (those with total annual revenues of less than \$10 million). Earlier implementation is encouraged.

In addition to pensions, many state and local governmental employers provide other post-employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The City is currently in the process of evaluating this statement and the impact that it will have on the City.

Note 2 - Cash, Cash Equivalents and Investments

A - Deposits

All of the City'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 level are collateralized with securities held by the City's agents in the City's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest 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 City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City 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 depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The City relies on the State Treasurer to monitor those financial institutions. The City analyzes the financial soundness of any other financial institution used by the City. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 2 - Cash, Cash Equivalents and Investments (continued)

At June 30, 2006, the City's deposits had a carrying amount of \$3,547,974 and a bank balance of \$4,669,439. Of the bank balance, Federal Deposit Insurance covered \$499,850, and the remaining balance was covered by collateral under the Pooling Method. The City had \$13,330 in the petty cash and change funds.

B – Investments

The funds of the City of Fayetteville are invested in compliance with the provisions of North Carolina General Statutes 159-30 and 159-31. The City's Investment Policy is a board-approved policy.

At June 30, 2006, the City Investment balances were as follows:

	Fair Value	Less than 6		
		Months	6-12 Months	1-5 Years
U.S. Government Securities	\$ 3,533	\$ -	\$ -	\$ 3,533
U.S. Treasuries	7,486,719	7,486,719	-	-
U.S. Government Agencies	68,683,499	12,156,573	13,281,112	43,245,814
Commercial Paper	29,676,624	29,676,624	-	-
N.C. Education Assistance Authority	16,150,000	16,150,000	-	-
N.C. Capital Management Trust - Cash portfolio	26,184,484	26,184,484	-	-
N.C. Capital Management Trust - Term portfolio	186,436	186,436	-	-
Total Primary Government	148,371,295	91,840,836	13,281,112	43,249,347
Equity Mutual Funds - Fiduciary Funds	4,149,640	4,149,640	-	-
Reporting Entity Total	\$ 152,520,935	\$ 95,990,476	\$ 13,281,112	\$ 43,249,347

Third-party custodians who take delivery of the investment securities on behalf of the City held investments of \$4,149,640 for the Supplemental PWC Pension Trust Fund.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides for structuring the investment portfolio so that securities mature to meet cash requirements for the ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Also the City's investment policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities other than Treasuries, Agencies, and North Carolina state and local bonds to a final maturity of no more than three years. Treasuries, Agencies, and North Carolina state and local bonds are limited to maturities not exceeding 10 years.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 2 - Cash, Cash Equivalents and Investments (continued)

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). The City minimizes credit risk by limiting investments to the types allowed by North Carolina General Statutes 159-30. The City diversifies the investment portfolio to minimize the impact of potential losses from any one security or from any one individual issuer. Also, the City pre-qualifies the financial institutions brokers/dealers and requires them to meet specific financial and registration conditions. As of June 30, 2006, the City's commercial paper was rated A1 by Moody's Investors Service and P1 by Standard & Poor's. The City's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2006. The City's investments in the NC Capital Management Trust Term Portfolio are not rated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina general statutes 159-30 as amended. The City's investments in US Agencies (Federal Home Loan Bank, Fannie Mae, and Federal Farm Credit Banks) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City requires that investment securities are in the name of the City of Fayetteville and are held by a centralized independent third-party custodian. The City requires that the independent third-party custodian issue a safekeeping receipt to the Chief Financial Officer listing the specific instrument, rate, maturity, and other pertinent information as evidence. All investment security purchases and sales are on a delivery verses payment basis and are made through the independent third-party custodian by written instruction.

Concentration of Credit Risk. The City places no limit on the amount that the City may invest in any one issuer. More than 5% of the City's investments are in NC Education Assistance Authority securities, Citigroup Commercial Paper, Federal Home Loan Banks and Fannie Mae. These investments are 10.6%, 15.6%, 34.1% and 7.67%, respectively, of the City's total investments. All government agency investments for the fiduciary funds are in Federal Home Loan Mortgage securities.

Reconciliation to cash and investments:

Totals per footnote:

Total investments (including escrow)	\$ 152,520,935
Cash (demand deposits)	2,259,415
Fireman's Relief Fund	1,288,559
Petty cash	13,330
Total cash and investments	\$ 156,082,239

Totals per Statement of Net Assets:

Cash and investments - unrestricted	\$ 96,945,754
Cash and investments - restricted	51,732,534
Pension trust cash and investments	6,111,780
Private-purpose trust cash and investments	1,292,171
Total cash and investments	\$ 156,082,239

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

Primary Government

Depreciation expense was charged to functions/programs of the governmental activities of the primary government as follows:

	Balance July 1, 2005	Annexation Phase V	Increases	Decreases	Transfers	Balance June 30, 2006
Governmental activities:						
Capital assets not being depreciated:						
Land	\$ 35,675,191	\$ -	\$ 957,715	\$ -	\$ -	\$ 36,632,906
Construction in progress	11,340,503	-	2,659,248	-	(8,133,443)	5,866,308
Total capital assets, not being depreciated	<u>47,015,694</u>	<u>-</u>	<u>3,616,963</u>	<u>-</u>	<u>(8,133,443)</u>	<u>42,499,214</u>
Capital assets being depreciated:						
Infrastructure	331,117,590	108,187,129	4,831,656	-	59,864	444,196,239
Buildings and improvements	43,631,382	-	4,758,649	(9,577)	10,636,512	59,016,966
Equipment, furniture and fixtures	18,186,210	-	2,002,957	(81,125)	476,576	20,584,618
Vehicles	27,824,051	-	2,606,172	(2,167,664)	273,036	28,535,595
Total capital assets being depreciated	<u>420,759,233</u>	<u>108,187,129</u>	<u>14,199,434</u>	<u>(2,258,366)</u>	<u>11,445,988</u>	<u>552,333,418</u>
Less accumulated depreciation for:						
Infrastructure	(98,642,222)	(18,631,301)	(12,192,103)	-	-	(129,465,626)
Buildings and improvements	(17,001,154)	-	(1,618,446)	4,997	(839,166)	(19,453,769)
Equipment, furniture and fixtures	(12,363,074)	-	(2,152,922)	75,039	(421,468)	(14,862,425)
Vehicles	(21,963,880)	-	(1,873,976)	2,154,121	(240,220)	(21,923,955)
Total accumulated depreciation	<u>(149,970,330)</u>	<u>\$ (18,631,301)</u>	<u>\$ (17,837,447)</u>	<u>\$ 2,234,157</u>	<u>\$ (1,500,854)</u>	<u>(185,705,775)</u>
Total capital assets being depreciated, net	<u>270,788,903</u>					<u>366,627,643</u>
Governmental activity capital assets, net	<u>\$ 317,804,597</u>					<u>\$ 409,126,857</u>

Administration	\$ 320,379
Public safety	2,872,828
Environmental protection	1,019,794
Transportation	12,589,827
Economic and physical development	44,387
Recreation and community facilities	768,067
Capital assets held by certain internal service funds are charges to the various governmental functions based on the usage of the funds	<u>222,165</u>
Total depreciation expense	<u>\$ 17,837,447</u>

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3 - Capital Assets (continued)

* Disposals in construction in progress are shown as additions to capital assets being depreciated.

	Balance July 1, 2005	Increases	Decreases *	Transfers	Balance June 30, 2006
Business-type activities:					
Electric Fund					
Capital assets not being depreciated:					
Land	\$ 4,500,800	\$ 39,766	\$ -	\$ -	\$ 4,540,566
Construction in progress	5,597,772	13,059,520	(8,070,920)	-	10,586,372
Total capital assets not being depreciated	<u>10,098,572</u>	<u>13,099,286</u>	<u>(8,070,920)</u>	<u>-</u>	<u>15,126,938</u>
Capital assets being depreciated:					
Electric utility system	307,305,282	8,933,834	(1,664,063)	-	314,575,053
Buildings and improvements	38,170,024	406,475	(2,684)	(1,281,608)	37,292,207
Equipment and machinery	13,288,663	557,965	(37,291)	(191,101)	13,618,236
Computer programs	10,323,182	107,303	(125,916)	(58,401)	10,246,168
Vehicles	4,560,183	78,370	(156,551)	(118,825)	4,363,177
Office equipment	1,782,138	-	(80,434)	(6,450)	1,695,254
Total capital assets being depreciated	<u>375,429,472</u>	<u>10,083,947</u>	<u>(2,066,939)</u>	<u>(1,656,385)</u>	<u>381,790,095</u>
Less accumulated depreciation for:					
Electric utility system	(144,815,183)	(10,310,377)	1,382,855	-	(153,742,705)
Buildings and improvements	(8,891,155)	(1,236,891)	1,134	427,106	(9,699,806)
Equipment and machinery	(5,797,683)	(765,168)	30,434	165,446	(6,366,971)
Computer programs	(7,239,450)	(936,811)	122,028	32,051	(8,022,182)
Vehicles	(3,758,309)	(106,631)	156,140	117,760	(3,591,040)
Office equipment	(1,364,834)	(85,280)	80,434	6,450	(1,363,230)
Total accumulated depreciation	<u>(171,866,614)</u>	<u>\$ (13,441,158)</u>	<u>\$ 1,773,025</u>	<u>\$ 748,813</u>	<u>(182,785,934)</u>
Total capital assets being depreciated, net	<u>203,562,858</u>				<u>199,004,161</u>
Electric fund capital assets, net	<u>\$213,661,430</u>				<u>\$ 214,131,099</u>
Water and Wastewater Fund					
Capital assets not being depreciated:					
Land	\$ 7,050,301	\$ 120,674	\$ -	\$ -	\$ 7,170,975
Construction in progress	26,542,674	31,975,665	(37,819,460)	-	20,698,879
Total capital assets not being depreciated	<u>33,592,975</u>	<u>32,096,339</u>	<u>(37,819,460)</u>	<u>-</u>	<u>27,869,854</u>
Capital assets being depreciated:					
Wastewater system	290,942,474	27,011,192	-	-	317,953,666
Water system	194,017,083	10,364,948	-	-	204,382,031
Buildings and improvements	5,413,122	22,295	(2,683)	(1,281,328)	4,151,406
Equipment and machinery	7,336,773	518,010	(77,916)	(189,033)	7,587,834
Computer programs	9,425,147	212,077	(55,386)	(58,401)	9,523,437
Vehicles	4,378,194	369,120	(164,300)	(132,076)	4,450,938
Office equipment	897,171	-	(57,536)	(4,372)	835,263
Total capital assets being depreciated	<u>512,409,964</u>	<u>38,497,642</u>	<u>(357,821)</u>	<u>(1,665,210)</u>	<u>548,884,575</u>
Less accumulated depreciation for:					
Wastewater system	(91,569,053)	(6,426,403)	-	-	(97,995,456)
Water system	(70,893,457)	(4,262,398)	-	-	(75,155,855)
Buildings and improvements	(2,183,791)	(137,682)	1,133	427,302	(1,893,038)
Equipment and machinery	(5,779,234)	(340,607)	77,916	165,619	(5,876,306)
Computer programs	(6,609,562)	(862,008)	55,386	32,051	(7,384,133)
Vehicles	(3,420,320)	(117,977)	157,828	130,438	(3,250,031)
Office equipment	(828,236)	(14,079)	57,536	4,372	(780,407)
Total accumulated depreciation	<u>(181,283,653)</u>	<u>\$ (12,161,154)</u>	<u>\$ 349,799</u>	<u>\$ 759,782</u>	<u>(192,335,226)</u>
Total capital assets being depreciated, net	<u>331,126,311</u>				<u>356,549,349</u>
Water and Wastewater fund capital assets, net	<u>\$364,719,286</u>				<u>\$ 384,419,203</u>

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 3 - Capital Assets (continued)

	Balance July 1, 2005	Increases	Decreases	Transfers	Balance June 30, 2006
Business-type activities (continued):					
Nonmajor funds					
Capital assets not being depreciated:					
Land	\$ 2,314,843	\$ 5,750	\$ -	\$ -	\$ 2,320,593
Construction in progress	3,794,689	885,234	-	(2,226,039)	2,453,884
Total capital assets not being depreciated	6,109,532	890,984	-	(2,226,039)	4,774,477
Capital assets being depreciated:					
Buildings and improvements	40,186,603	3,751	-	2,226,039	42,416,393
Furniture, fixtures and equipment	2,286,532	99,248	-	-	2,385,780
Vehicles	7,155,178	1,294	(307,944)	-	6,848,528
Total capital assets being depreciated	49,628,313	104,293	(307,944)	2,226,039	51,650,701
Less accumulated depreciation for:					
Buildings and improvements	(22,861,650)	(1,393,649)	-	-	(24,255,299)
Furniture, fixtures and equipment	(1,817,072)	(182,265)	-	-	(1,999,337)
Vehicles	(5,613,420)	(498,788)	301,756	-	(5,810,452)
Total accumulated depreciation	(30,292,142)	\$ (2,074,702)	\$ 301,756	\$ -	(32,065,088)
Total capital assets being depreciated, net	19,336,171				19,585,613
Nonmajor fund capital assets, net	\$ 25,445,703				\$ 24,360,090
Business-type activities capital assets, net	\$ 603,826,419				\$ 622,910,392

Depreciation expense was charged to business-type activities of the primary government as follows:

Electric	\$ 13,441,158
Water and Wastewater	12,161,154
Transit	706,837
Airport	1,367,865
Total depreciation expense	\$ 27,677,014

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 4 – Accounts Payable

Unrestricted and restricted accounts payable and accrued expenses consist of the following as of June 30, 2006:

	General	Nonmajor Governmental	Internal Service	Subtotal	Electric	Water and Wastewater	Nonmajor Enterprise	Fiduciary
Accounts payable	\$ 2,895,243	\$ 328,006	\$ 357,352	\$3,580,601	\$16,741,969	\$ 8,490,958	\$ 121,311	\$ 5,732
IBNR	-	-	3,196,189	3,196,189	662,607	662,607	-	-
Contracts payable	17,831	526,015	-	543,846	-	-	42,406	-
Interest payable	-	-	-	-	787,422	1,969,765	-	-
Retainage payable	-	150,570	-	150,570	-	-	-	-
Salaries and benefits payable	1,628,717	-	80,162	1,708,879	654,111	669,698	40,431	-
Total	<u>\$ 4,541,791</u>	<u>\$ 1,004,591</u>	<u>\$3,633,703</u>	<u>9,180,085</u>	<u>\$18,846,109</u>	<u>\$11,793,028</u>	<u>\$ 204,148</u>	<u>\$ 5,732</u>
Adjustment for interest payable				542,363				
				<u>\$9,722,448</u>				
Reconciliation to accounts payable on the financial statements:								
Unrestricted	\$ 4,541,791	\$ 1,004,591	\$3,633,703	\$9,180,085	\$14,646,565	\$10,377,476	\$ 204,148	\$ 5,732
Restricted	-	-	-	-	4,199,544	1,415,552	-	-
	<u>\$ 4,541,791</u>	<u>\$ 1,004,591</u>	<u>\$3,633,703</u>	<u>\$9,180,085</u>	<u>\$18,846,109</u>	<u>\$11,793,028</u>	<u>\$ 204,148</u>	<u>\$ 5,732</u>
Adjustment for interest payable				542,363				
				<u>\$9,722,448</u>				

Note 5 - Long-Term Obligations

A - General Obligation Indebtedness

The City has issued general obligation bonds (to include "Double Barrel" general obligation bonds for the benefit of the Electric and Water and Wastewater funds) to provide funds for the acquisition and construction of major capital facilities and infrastructure. General obligation bonds are direct obligations and pledge the full faith, credit, and taxing power of the City. They are serviced by the general fund with the exception of the "Double Barrel" General Obligation Bonds, which are serviced by the water and wastewater fund. Principal and interest payments are appropriated when due. General obligation bonds outstanding for the year ended June 30, 2006, are as follows:

Governmental activities

\$4,300,000 1987 Public Improvement Bonds due in various annual installments through April 1, 2009; interest at various rates between 5.8% and 6.0%.	\$ 500,000
\$2,770,000 1996 Street Improvement Bonds due in various annual installments through December 1, 2015; interest at various rates between 4.09% and 5%.	1,970,000
\$13,800,000 1996 Public Improvement Bonds due in various annual installments, through December 1, 2016; interest at various rates between 4.9% and 5%.	7,600,000
\$2,750,000 1999 Public Improvement Bonds due in various annual installments beginning March 1, 2001 through March 1, 2017; interest at 4.30%.	1,700,000

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 5 - Long-Term Obligations (continued)

\$4,900,000 1999 Street Improvement Bonds due in various installments beginning March 1, 2001 through March 1, 2017; interest at 4.32%.	\$ 2,975,000
\$3,610,000 2000 Public Improvement Bonds due in various annual installments beginning April 1, 2002 through April 1, 2021; interest at various rates between 4.9% and 5.1%.	3,000,000
\$2,400,000 2000 Street Improvement Bonds due in various installments beginning April 1, 2002 through April 1, 2018; interest at various rates between 4.9% and 5%.	2,150,000
\$3,625,000 2002 Street Improvement Bonds due in various installments beginning June 1, 2004 through June 1, 2021; interest at various rates between 3.5% and 4.5%.	3,025,000
\$5,535,000 2002 Refunding Bonds due in various annual installments through June 1, 2016; interest at various rates between 2% and 4%.	4,355,000
\$3,805,000 2003 Refunding Bonds due in various annual installments through June 1, 2010; interest at various rates between 2% and 3%.	2,000,000
\$8,450,000 2005 Public Improvement Bonds due in various semiannual installments through December 1, 2025; interest at various rates between 3.40% and 5.25%.	<u>8,025,000</u>
Total governmental general obligation bonds	<u>37,300,000</u>
 Business-type activities	
\$5,195,000 2003 "Double Barrel" General Obligation Refunding Bonds, Series 2003 due in various annual installments through May 1, 2009; interest at various rates between 2.0% and 2.5%.	<u>2,705,000</u>
Total business type general obligation bonds	<u>2,705,000</u>
	<u>\$ 40,005,000</u>

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 5 - Long-Term Obligations (continued)

B - Revenue Bonds

The City has issued revenue bonds, which have been used to finance the defeasance of certificates of participation and the construction of facilities used in the City's operations. Resources generated by the facilities' operations are retiring the bonds. Revenue bonds outstanding for the year ended June 30, 2006, are as follows:

Governmental activities:

\$16,390,000 1996 Municipal Building Projects Bonds due in various annual installments through February 1, 2018; interest at various rates between 5.40% and 5.70%.	\$ 3,270,000
\$5,835,000 2005 Municipal Building Projects Refunding Bonds due in various annual installments through February 1, 2018; interest at various rates between 3.00% and 5.25%.	5,820,000
\$3,920,000 2005 Municipal Building Projects Bonds for the construction of Festival Park due in various annual installments through February 1, 2012; interest at various rates between 3.00% and 5.00%	3,360,000
\$2,685,000 2005 Municipal Building Projects Bonds for the construction of Westover Recreation Center due in various annual installments through February 1, 2019; interest at various rates between 3.00% and 5.25%.	<u>2,490,000</u>
Total governmental revenue bonds	<u>14,940,000</u>

Business-type activities

\$34,985,000 1995 Series A Revenue Electric/Water and Sewer Bonds due in various annual installments through March 1, 2008; interest at various rates between 5.15% and 6.50%.	3,770,000
\$40,755,000 1997 Water and Sewer Bonds due in various annual installments through March 1, 2010; interest at various rates between 4.70% and 5.25%.	3,715,000
\$19,325,000 1999 Water and Sewer Bonds due in various installments through March 1, 2010; interest at various rates between 4.70% and 5.00%.	3,200,000
\$19,175,000 2001 Revenue Refunding Electric/Water and Wastewater Bonds due in various semiannual installments through March 1, 2016; interest at various rates between 3.75% and 5.50%.	14,285,000
\$78,280,000 2003 Revenue Refunding Bonds due in various annual installments through March 1, 2024; fixed rate swap at 3.42%.	75,870,000

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 5 - Long-Term Obligations (continued)

\$55,150,000 2003 Series A Variable Rate Revenue and Revenue Refunding Bonds due in various annual installments through March 1, 2020; fixed rate swap at 3.74%.	53,950,000
\$30,065,000 2003 Series B Variable Rate Revenue Refunding Bonds due in various annual installments through March 1, 2009; interest resets weekly.	<u>18,775,000</u>
Total business-type revenue bonds	<u>173,565,000</u>
Total revenue bonds	<u>\$ 188,505,000</u>

Total interest expense related to the revenue and general obligation bonds totaled \$9,293,434 for the year ended June 30, 2006 and of that amount, \$351,567 was capitalized during the year.

C - Notes Payable

Notes payable financed by the governmental funds is serviced by the federal and state financial assistance fund. Notes payable financed by the Electric/Water and Wastewater Funds are accounted for in the respective funds.

The City has incurred debt to finance certain community development and capital project activities. The City has also entered into revolving loan agreements for \$7,595,127 and \$17,442,000 with the State of North Carolina. The loans were used for a Wastewater Project. The City has also entered into a loan agreement with South River Electric Membership Corporation (SREMC) utilizing funds made available to SREMC by USDA-Rural Development for a water capital project. These notes payable are junior, inferior and subordinate in all respects to the Revenue Bonds and General Obligation Bonds of the City of Fayetteville as to lien on and source and security for payment from the revenues and in all other respects. During 2006, the City issued \$142,140,000 in Revenue Notes to provide funds to make a prepayment under a Prepayment Agreement with PEC (see Prepaid expenses in Note 1).

Notes payable in the accompanying financial statements are comprised of the following:

Governmental activities

Note payable due in various quarterly installments through September 2008; interest at various rates between 5.87% and 6.49%.	\$ <u>65,000</u>
Total governmental notes payable	<u>65,000</u>

Business-type activities

\$7,595,127 State revolving loan due in various annual installments through May 1, 2021; interest at 2.6% paid semiannually on May 1 and November 1.	\$ 5,696,346
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City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 5 - Long-term debt (continued)

\$17,442,000 State revolving loan due in 20 annual installments beginning May 1, 2007; interest at 2.66% with 1st payment due May 1, 2007 and semiannually thereafter; construction draws not yet complete. 16,489,813

\$142,140,000 Series 2005 Revenue Notes due in 24 monthly installments beginning February 15, 2006; interest at 3.50% (weighted combined rate) with 1st payment due February 15, 2006 and monthly thereafter. 113,815,000

\$396,000 SREMC Loan due in 10 annual installments beginning April 5, 2006; no interest 356,400

Total business-type notes payable 136,357,559

Total notes payable \$ 136,422,559

Total interest expense related to the notes payable obligations totaled \$3,200,092 for the year ended June 30, 2006 and of that amount, \$267,595 was capitalized during the year.

D - Lease Agreements

The City has entered into lease agreements as lessee for financing certain equipment, vehicles and fixtures. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the minimum lease payments as of the date of their inception.

Capital lease obligations are comprised of the following:

Governmental activities

Capital lease obligations payable in various monthly installments of approximately \$30,000 in 2006 including interest at 4.55% \$ 3,594,457

Capital lease obligations payable in various monthly installments of approximately \$200,000 in 2006 including interest at rates ranging from 1.93% to 3.85%. 5,049,472

Capital lease obligations payable in various monthly installments of approximately \$86,000 to begin in fiscal year 2006, including interest at 3.82%. 4,130,734

Capital lease obligations payable in various monthly installments of approximately \$50,000 in 2006 including interest at 3.05% 2,666,071

Less: amount representing interest 15,440,734
 Present value of the minimum lease payments (1,237,404)
\$ 14,203,330

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 5 - Long-Term Obligations (continued)

The following is an analysis of leased property under capital leases as of June 30, 2006:

Classes of Property	Cost	Depreciation	Value
Equipment	\$ 13,025,990	\$ 3,250,508	\$ 9,775,482
Vehicles	4,178,645	1,528,031	2,650,614
Buildings and improvement	12,252,518	1,316,940	10,935,578
Total	<u>\$ 29,457,153</u>	<u>\$ 6,095,479</u>	<u>\$ 23,361,674</u>

Total interest expense related to the capital lease obligations totaled \$421,885 for the year ended June 30, 2006.

E - Changes in Long-Term Obligations

The following is a summary of changes in the City's long-term obligations for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion
Governmental activities:					
General obligation debt	\$ 40,810,000	\$ -	\$ 3,510,000	\$ 37,300,000	\$ 3,545,000
Revenue bonds	16,675,000	-	1,735,000	14,940,000	1,805,000
Capitalized leases	13,551,475	3,825,000	3,173,145	14,203,330	3,749,387
Notes payable	125,000	-	60,000	65,000	60,000
Arbitrage payable	147,246	-	147,246	-	-
Compensated absences	3,844,583	3,319,510	2,915,646	4,248,447	2,534,993
	<u>75,153,304</u>	<u>\$ 7,144,510</u>	<u>\$ 11,541,037</u>	<u>70,756,777</u>	<u>11,694,380</u>
Less: loss on defeasance (net of amortization)	<u>(850,500)</u>			<u>(757,301)</u>	-
Total governmental activities	<u>\$ 74,302,804</u>			<u>\$ 69,999,476</u>	<u>\$ 11,694,380</u>

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion
Business-type activities:					
General obligation debt	\$ 3,640,000	\$ -	\$ 935,000	\$ 2,705,000	\$ 860,000
Revenue bonds	184,320,000	-	10,755,000	173,565,000	11,205,000
Notes payable	18,303,144	146,798,771	28,744,356	136,357,559	72,393,847
Compensated absences	2,943,384	1,687,292	1,524,623	3,106,053	1,610,394
	<u>209,206,528</u>	<u>\$148,486,063</u>	<u>\$ 41,958,979</u>	<u>315,733,612</u>	<u>86,069,241</u>
Less: loss on defeasance (net of amortization)	<u>(13,513,656)</u>			<u>(11,973,116)</u>	-
Total business-type activities	<u>\$195,692,872</u>			<u>\$303,760,496</u>	<u>\$ 86,069,241</u>

Governmental compensated absences typically have been liquidated in the general fund.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 5 - Long-Term Obligations (continued)

F - Maturities of Long-Term Obligations

The following table summarizes the annual requirements to amortize all general long-term debt outstanding (excluding compensated absences and arbitrage payable).

Governmental activities:

Year Ended	Bonds Payable		Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 3,545,000	\$ 1,575,589	\$ 1,805,000	\$ 705,453	\$ 60,000	\$ 2,263
2008	3,560,000	1,430,131	1,850,000	628,143	5,000	162
2009	3,575,000	1,286,869	1,555,000	548,368	-	-
2010	3,585,000	1,142,781	1,310,000	491,250	-	-
2011	2,895,000	993,031	1,330,000	441,000	-	-
2012-2016	13,615,000	3,065,199	4,900,000	1,320,933	-	-
2017-2021	4,875,000	932,813	2,190,000	209,269	-	-
2022-2025	1,650,000	171,913	-	-	-	-
	<u>37,300,000</u>	<u>10,598,326</u>	<u>14,940,000</u>	<u>4,344,416</u>	<u>65,000</u>	<u>2,425</u>
Less: loss on defeasance (net of amortization)	(757,301)	-	-	-	-	-
	<u>\$36,542,699</u>	<u>\$10,598,326</u>	<u>\$14,940,000</u>	<u>\$4,344,416</u>	<u>\$ 65,000</u>	<u>\$ 2,425</u>

Year Ended	Construction and Improvement Leases		Capitalized Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 376,501	\$ 132,764	\$ 3,372,886	\$ 313,046	\$ 9,159,387	\$ 2,729,115
2008	376,501	115,633	3,423,235	206,278	9,214,736	2,380,347
2009	376,501	98,502	2,769,001	105,173	8,275,502	2,038,912
2010	376,501	81,371	1,626,198	30,460	6,897,699	1,745,862
2011	376,501	64,240	-	-	4,601,501	1,498,271
2012-2016	1,129,505	89,937	-	-	19,644,505	4,476,069
2017-2021	-	-	-	-	7,065,000	1,142,082
2022-2025	-	-	-	-	1,650,000	171,913
	<u>3,012,010</u>	<u>582,447</u>	<u>11,191,320</u>	<u>654,957</u>	<u>66,508,330</u>	<u>16,182,571</u>
Less: loss on defeasance (net of amortization)	-	-	-	-	(757,301)	-
	<u>\$ 3,012,010</u>	<u>\$ 582,447</u>	<u>\$11,191,320</u>	<u>\$ 654,957</u>	<u>\$65,751,029</u>	<u>\$16,182,571</u>

The following schedule includes the City's expected estimated schedule of maturity for the State Revolving Loans, noted above as well as the annual requirements to amortize all long-term debt outstanding (excluding compensated absences and arbitrage payable).

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 5 - Long-Term Obligations (continued)

Business-type activities:

Year Ended	General Obligation Bonds		Revenues Bonds		Notes Payable		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 860,000	\$ 61,075	\$ 11,205,000	\$ 6,527,647	\$ 72,393,847	\$3,709,765	\$ 84,458,847	\$ 10,298,487
2008	900,000	43,875	11,650,000	6,054,939	43,908,847	1,061,307	56,458,847	7,160,121
2009	945,000	23,625	12,090,000	5,573,721	1,243,847	523,124	14,278,847	6,120,470
2010	-	-	10,075,000	5,110,206	1,243,847	491,319	11,318,847	5,601,525
2011	-	-	10,500,000	4,705,139	1,243,847	459,513	11,743,847	5,164,652
2012-2016	-	-	59,120,000	17,272,012	6,179,640	1,820,491	65,299,640	19,092,503
2017-2021	-	-	44,925,000	6,223,749	6,021,234	1,025,363	50,946,234	7,249,112
2022-2026	-	-	14,000,000	1,223,163	4,122,450	328,971	18,122,450	1,552,134
	<u>2,705,000</u>	<u>128,575</u>	<u>173,565,000</u>	<u>52,690,576</u>	<u>136,357,559</u>	<u>9,419,853</u>	<u>312,627,559</u>	<u>62,239,004</u>
Less: Loss on defeasance (net of amortization)	(247,203)	-	(11,725,913)	-	-	-	(11,973,116)	-
	<u>\$2,457,797</u>	<u>\$128,575</u>	<u>\$161,839,087</u>	<u>\$52,690,576</u>	<u>\$136,357,559</u>	<u>\$9,419,853</u>	<u>\$300,654,443</u>	<u>\$ 62,239,004</u>

G - Legal Debt Margin

The legal debt margin of the City at June 30, 2006, approximated \$530,675,141.

H - Authorized But Un-issued Debt

At June 30, 2006, the City had no bonds authorized but un-issued.

I - Restrictive Covenants

The revenue bond indentures contain significant limitations and restrictions on annual debt service requirements, use of the utility system, minimum revenue bond coverage's and require that a reserve fund be established and maintained. The reserve fund requirements have been met by the City through the purchase of surety bonds in the full amount of the bond requirement. The City is in compliance with all such significant financial limitations and restrictions at June 30, 2006.

J - Interest Rate Swap

Contracts. The City has two interest rate swap agreements in effect at June 30, 2006 for the \$78,280,000 Variable Rate Revenue Refunding Bonds Series 2003 ("Series 2003") and the \$55,150,000 Variable Rate Revenue and Revenue Refunding Bonds Series 2003A ("Series 2003A"). The swap discussions below will be referenced to the Series 2003 and Series 2003A bonds, respectively.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 5 - Long-Term Obligations (continued)

Objectives. As a means to lower its borrowing costs and increase its savings, when compared against fixed-rate refunding bonds at the time of issuance in January 2003 and September 2003, the City entered into an interest rate swap in connection with its Series 2003 and Series 2003A bonds. The intention of the swap agreement was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.42% and 3.74%.

Terms, fair values, and credit risk. The terms, fair values, and credit ratings of the outstanding swaps and cap as of June 30, 2006 are as follows. The notional amounts of the swaps match the principal amount of the associated debt and decline with the principal amortization on the bonds.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received ⁽¹⁾	Fair Values	Termination Date	Counterparty Credit Rating ⁽²⁾
Swaps							
Series 2003	\$ 75,870,000	1/22/03	3.42%	59% of LIBOR + 34.5 bps	\$1,600,460	March 2024	Aa1/AA-/AA+
				62.8 % of LIBOR + 31			
Series 2003A	53,950,000	9/11/03	3.74%	bps	445,717	March 2020	Aa1/AA-/AA+
	<u>\$129,820,000</u>				<u>\$2,046,177</u>		

⁽¹⁾ LIBOR - London Interbank Offered Rate

⁽²⁾ Counterparty's guarantor

As of June 30, 2006 the positive fair values of the agreements represent the City's exposure to credit risk. Should the counterparty to the swaps fail to perform according to the terms of the swap contract, the City faces a maximum possible loss equivalent to the positive fair values of the swaps. The counterparty carries a guarantee by an entity ("counterparty guarantor") rated Aa1 by Moody's Investors Service (Moody's), AA- by Standard and Poor's (S&P), and AA+ by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreement. Such collateral would be government securities posted with a third party custodian.

Basis risk. The swaps expose the City to basis risk should the relationship between LIBOR and Bond Market Association (BMA) converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.42% and 3.74% and the synthetic rates as of June 30, 2006 of 4.02% and 4.18%. As of June 30, 2006, the rate on the City's Series 2003 and 2003A bonds was 3.96% whereas the variable rate from the counterparty was 3.36% and 3.52%, respectively. For fiscal year 2006, the City experienced an actual synthetic rate of 3.49% and 3.68%, respectively.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 5 - Long-term debt (continued)

Termination Risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. An additional termination event occurs if the counterparty ratings fall below the A category by Moody's, S&P, Fitch, and any other Rating Agency. The swap may be terminated by the City with 30 days notice and the counterparty can terminate the swap if the City falls below Baa3 by Moody's, BBB- by S&P, and an equivalent investment grade from any other Rating Agency, provided however that any termination must have insurer consent. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments of the Series 2003 and Series 2003A bonds, assuming current interest rates remain the same for the term of the bonds, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year Ending June 30	Variable-Rate Bond		Interest Rate	Total
	Principal	Interest	Swap, Net	
2007	\$ 650,000	\$ 5,140,872	\$ 165,523	\$ 5,956,395
2008	665,000	5,115,132	164,968	5,945,100
2009	2,715,000	5,088,798	164,404	7,968,202
2010	6,250,000	4,981,284	162,597	11,393,881
2011	9,175,000	4,733,784	153,127	14,061,911
2012 - 2016	51,440,000	17,932,662	558,670	69,931,332
2017 - 2021	44,925,000	7,061,274	171,180	52,157,454
2022 - 2024	14,000,000	1,416,294	21,693	15,437,987
	<u>\$ 129,820,000</u>	<u>\$ 51,470,100</u>	<u>\$ 1,562,162</u>	<u>\$ 182,852,262</u>

Note 6 - Defeasance of Debt

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and related fixed earnings are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed from the City's liabilities. As of June 30, 2006, the amount of prior year defeased debt outstanding and removed from the City's liabilities amounted to \$43,910,000.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 6 - Defeasance of Debt (continued)

Gains and losses from debt refunding must be deferred and amortized over the lesser of the original remaining life of the old debt or the life of the new debt. In addition, gains or losses related to debt refunding are to be used in determining the carrying value of the new debt issued to finance debt refunding. The carrying values of the 2001 Revenue Refunding Electric/Water and Sewer Bonds, the 2003 Variable Rate Revenue Refunding Electric Water and Sewer Bonds, the Variable Rate Revenue and Revenue Refunding Bonds, Series 2003A, the Variable Rate and Revenue Refunding Bonds, Series 2003B and the General Obligation Refunding Bonds, Series 2003, have been adjusted for the loss from defeasance (net of amortization) of \$11,973,116.

Note 7 – Deferred/Unearned Revenues

The balance in deferred revenue on the fund statements and unearned revenues on the government-wide statements at year-end is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Prepaid licenses and fees not yet earned (General)	\$ 652,358	\$ 652,358
Prepaid retiree insurance premiums (Internal Service)	13,320	13,320
Unearned rent (Proprietary)	21,625	21,625
Unearned grant receipts (Special Revenue)	9,605	9,605
Unearned receipts (Capital Projects)	53,685	53,685
Taxes receivable, net (General)	9,377,480	-
Taxes receivable, net (Special Revenue)	70,961	-
Accounts and notes receivable (General)	50,155	-
Accounts and notes receivable (Special Revenue)	6,324,886	-
Special assessments receivable, net (General)	552,617	-
Special assessments receivable, net (Special Revenue)	7,990	-
Earned grant receipts (Capital Projects)	119,448	-
Total	\$ 17,254,130	\$ 750,593

Note 8 - Risk Management

The City (excluding the utility fund) is self-insured (self-funded) with respect to insurance claims as follows: health insurance (up to \$125,000 per individual and approximately \$9,988,000 for all employees for the policy ending December 31, 2006), general liability (up to \$350,000 per occurrence), workers' compensation (\$500,000 per occurrence), public officials liability (up to \$350,000 per occurrence), law enforcement liability (\$350,000 per occurrence), and automobile liability (up to \$350,000 per occurrence). Property insurance on city buildings is insured to replacement value (less \$100,000 self-funded retention). The health insurance plan's excess coverage allows expenditures by the City up to 125% of expected claims adjusted for industry standard trend adjustments, and for expenditures by the City of up to \$125,000 per individual. Losses from asserted claims and from unasserted claims identified under the City's incident reporting system are accrued based on estimates that incorporate the City's past experience, as well as other considerations including the nature of each claim and relevant trend factors.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 8 - Risk Management (continued)

The City carries commercial coverage for all other risks of loss. Claims have not exceeded coverage in any of the last three fiscal years.

The Electric and Water and Wastewater Funds are self-insured with respect to workers' compensation, and self-insured with respect to health insurance claims (up to approximately \$2,000,000). In addition, these funds are self-insured with respect to certain policy deductible amounts as follows: public officials liability (up to \$100,000 per occurrence), liability claims (up to \$1,000,000 per occurrence) and property (\$250,000 per occurrence). In addition, the Electric and Water and Wastewater Funds maintain excess liability insurance (\$5,000,000) to cover catastrophic losses and "first-dollar" auto liability coverage. These funds maintain an investment account amounting to \$3,500,000 to cover possible worker's compensation and other claims. This investment is classified under restricted assets in the financial statements. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system has been made because the amount cannot be reasonably estimated. Further, a liability for outstanding claims at June 30, 2006, is not accrued, as the amount of outstanding claims is not material to the financial statements. Professional insurance consultants have been retained to assist the Electric and Water and Wastewater Funds with determining all accruals.

The Electric and Water and Wastewater Funds carry commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage since the prior year, and settled claims have not exceeded coverage in any of the last three fiscal years.

At June 30, 2006, a liability for incurred but not reported claims of \$4,521,606 is included in accounts payable and accrued expenses on the accompanying financial statements. An analysis of claims activity for the City and the Electric and Water and Wastewater Funds is presented below.

	2006	2005
Liability at June 30,	\$ 4,354,680	\$ 4,472,499
Current year claims and changes in estimates	15,519,160	13,881,768
Actual claim payments	<u>(15,352,234)</u>	<u>(13,999,587)</u>
Liability at June 30,	<u>\$ 4,521,606</u>	<u>\$ 4,354,680</u>

The City does not carry flood insurance through the National Flood Insurance Plan (NFIP). The City's insurance carriers performed an analysis of the flood maps and made a determination that the City was not designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency.

Note 9 - Commitments and Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial. No provision has been made in the accompanying financial statements for the refund of grant money.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 9 - Commitments and Contingent Liabilities (continued)

The City is a defendant in various lawsuits. Although the outcome of these proceedings is not presently determinable, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City is subject to laws and regulations relating to the protection of the environment. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly any future remediation and other compliance efforts, in the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial position, results of operations or cash flows of the City.

The City's bond issues are subject to Federal arbitrage regulations, and the City has elected to review its potential arbitrage liability annually on the bond issue dates. The arbitrage rebate payments are payable on the fifth anniversary of the bond issue date and every fifth year subsequent to that date. Although the actual amount to be paid is not presently determinable, the City believes that an adequate provision for arbitrage payables has been provided for in the accompanying financial statements.

The City has authorized expenditures totaling approximately \$110.9 million for capital additions and construction of various administration, public safety, recreation, transportation, economic development, bond improvement, Linear Park, electric, water and wastewater projects. At June 30, 2006, cumulative expenditures to date totaled approximately \$93.4 million leaving an unexpended balance of \$17.5 million for projects that are expected to be completed at various dates through the year ended 2007.

In March 2002, the City entered into a new nine-year purchased power arrangement with Progress Energy Carolinas, Inc. (PEC) effective July 1, 2003. Beginning in July 2003, the City was committed to purchasing a minimum load from PEC at a fixed capacity price and an annually determined energy price. The minimum load requirements range from approximately 275 MW to 300 MW during the term of the contract which ends in June 2012. The remaining capacity and energy will either be produced at the Butler-Warner Generation Plant or purchased on the open market. The lowest available price will be used to meet the City's needs. When the market price goes above the price at the Butler-Warner Generation Plant, the City may permit the marketing of its capacity and energy for sale to the open market.

During the year ended June 30, 2006, the purchased power cost to PEC was \$86,602,561. This cost was without consideration of savings from the Purchased Power Prepayment Agreement. The City sold power in the amount of \$1,477,330 on the open market in fiscal year 2006.

Festival Park Plaza Master Lease. On August 22, 2005, City Council adopted a resolution authorizing the City to enter into a 20-year master lease agreement, subject to LGC approval, with Festival Park Plaza Office LLC. On September 6, 2005, the LGC approved the City's master lease application. Under the terms of the master lease, the City would be obligated to make certain lease payments if the building is not fully leased to subtenants throughout the term of the agreement. A "rent up deficit" reserve of \$175,000 is included in the project budget. These funds would be used first before the City would be required to make any lease payments. The master lease was executed on November 17, 2005. The City has not been required to make any payments under the master lease at this date.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 9 - Commitments and Contingent Liabilities (continued)

The City leases a portion of the office space located in the Robert C. Williams Business Center at Lafayette Plaza and the Administration Building on Old Wilmington Road to others. These lease agreements provide for minimum rental and have terms of 5, 7 and 10 years and are due to expire at various dates from 2007 to 2011. Minimum lease provisions now in force will result in rental income for future years as follows:

<u>Year ending June 30</u>	<u>Rent</u>
2007	\$ 507,576
2008	455,113
2009	356,902
2010	198,872
2011	104,772
Future years	<u>120,811</u>
Total	<u>\$ 1,744,046</u>

Note 10 - On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2006, the City has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$28,801 for the 129 employed firemen who perform firefighting duties for the City's fire department. These employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a monthly contribution paid by each member, investment income, and a State appropriation.

Note 11 - Employee Retirement Systems

The City maintains a single-employer, defined benefit pension plans (the Law Enforcement Officers' Special Separation Allowance System), which covers the law enforcement officers of the City. In addition, the City continues to participate in the statewide local governmental retirement system, a multiple-employer, cost-sharing public employee pension plan that covers substantially all employees.

A - Local Governmental Employees' Retirement System

Plan Description

The City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost sharing, and 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.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 11 - Employee Retirement Systems (continued)

Funding Policy

Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, exclusive of the Electric and Water and Wastewater funds, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.93% and 4.78%, respectively, of annual covered payroll. The rate for the Electric and Water and Wastewater funds is 10.03%. The contribution requirements of members and of the City are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for all employees, including law enforcement officers and Electric and Water and Wastewater funds, for the years ended June 30, 2006, 2005 and 2004, were \$5,011,993, \$4,570,266 and \$4,237,759, respectively. The contributions made by the City equaled the required contributions for each year.

B – Supplemental Employees' Retirement Plan of the Public Works Commission of the City of Fayetteville, North Carolina

The Supplemental Employees' Retirement Plan of the Public Works Commission of the City of Fayetteville, North Carolina ("SERP plan") is a single-employer defined benefit pension plan administered by the Public Works Commission Employees' Retirement Plan Board of Trustees. This plan was established on April 1, 2003 to equalize benefits received under the LGERS plan to those formerly participating in the Employees' Retirement Plan (ERP).

The only employees eligible to participate in the SERP plan are those who met the requirements of the ERP plan. Effective, April 1, 2003 no additional employees will enter this plan. Benefits vest after five years of credited service. Electric and Water and Wastewater fund employees reaching the defined retirement age are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.8% of their final average compensation times years of credited service. The SERP plan provides retirement benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Public Works Commission. All benefit payments by the SERP plan will be offset by the benefits payable from the LGERS plan. The City of Fayetteville City Council has the authority to establish and amend the retirement plan provisions. The SERP plan does not issue a separate report. Rather, the financial report of the SERP plan is included as a pension trust fund.

The contribution requirements of the plan members and the Public Works Commission are established and may be amended by the City of Fayetteville City Council. There will be no employee contributions after April 1, 2003. The Public Works Commission is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2006 was 0% of annual covered payroll.

The annual required contribution calculation for June 30, 2006 was determined as part of the July 1, 2006, actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4% per year to retirement age. Both (a) and (b) included an inflation component of 3%. The assumptions did not include postretirement benefit increases, which are funded by the Commission's appropriations when granted.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 11 - Employee Retirement Systems (continued)

The actuarial value of assets was determined by using the market value at June 30, 2006. There was no annual required contribution for the current year under this plan; the trend information has been omitted from these statements. This benefit plan is a contributory, defined benefit retirement plan, which covers all employees who participated in the ERP plan at April 1, 2003.

C - Law Enforcement Officers' Special Separation Allowance

Plan Description

The City administers a public employee retirement system (the "Separation Allowance"), a single-employer; defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year 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. The Separation Allowance is reported in the City's report as a pension trust fund. The Separation Allowance covers all full-time City law enforcement officers.

At December 31, 2005, the Separation Allowance's membership consisted of:

Retirees receiving benefits	19
Active plan members	<u>326</u>
Total	<u>345</u>

Summary of Significant Accounting Policies

Basis of Accounting: Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: Investments are reported at fair value. Short-term debt, deposits, and the North Carolina Capital Management Trust Investments are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

Contributions

The City is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$418,762, or 2.97% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 11 - Employee Retirement Systems (continued)

The annual required contribution for the current year was determined as part of the December 31, 2004 actuarial valuation using the projected unit cost credit method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9% - 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percent of pay closed basis. The remaining amortization period at December 31, 2004 was 26 years.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 361,749
Interest on net pension obligation	(24,537)
Adjustment to annual required contribution	<u>19,438</u>
Annual pension cost	356,650
Contributions made	<u>418,762</u>
Increase (decrease) in net pension obligation	(62,112)
Net prepaid pension obligation beginning of year	<u>(338,442)</u>
Net prepaid pension obligation end of year	<u>\$ (400,554)</u>

Three-Year Trend Information			
Fiscal Year	Annual	Percentage	Net Prepaid
Ending	Pension	of APC	Pension
	Cost (APC)	Contributed	Obligation
2004	\$ 306,448	103.82%	\$ (295,001)
2005	313,437	113.86	(338,442)
2006	356,650	117.42	(400,554)

D - Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description

The City contributes to the Supplemental Retirement Income Plan (the "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 City and also those non-law employees who choose to make their own contributions. Article 5 of G. S. Chapter 135 assigns the authority to establish and amend benefit provisions for the law enforcement officers to the North Carolina General Assembly.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 11 - Employee Retirement Systems (continued)

Funding Policy

Article 12E of G. S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each law enforcement officer's salary, and all amounts contributed are vested immediately. The City does not make any contributions for non-law employees. All employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2006, were \$1,614,091, which consisted of \$797,671 from the City and \$816,420 from employees.

E - Firemen's and Rescue Squad Workers' Pension Fund

Plan Description

The State of North Carolina contributes, on behalf of the City of Fayetteville, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy

Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

Note 12 – Post Employment Benefits

In addition to providing pension benefits, the City has elected to provide health care benefits to retirees of the City who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the City. The City and retiree shares the cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates, as long as the dependent had been covered at least 5 years prior to employee's retirement. Currently, 103 retirees are eligible for post-retirement health benefits and are eligible until each employee reaches the eligible age for Medicare. For the fiscal year ended June 30, 2006, the City made payments for post-retirement health benefit premiums of \$1,428,676.

The City has elected to provide death benefits to employees through the Death Benefit Plan for Members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 12 – Post Employment Benefits (continued)

Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. For the fiscal year ended June 30, 2006, the City made contributions to the State for death benefits of \$67,370. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .13 percent and .14 percent of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Also, the City has elected to provide death benefits to retirees of the City who participate in the North Carolina Local Governmental Employees' Retirement System and have at least ten years of creditable service with the City. After the required 180 days following retirement, the City pays the full cost of coverage for the retiree.

The City offers a death benefit equal to \$100 for every year of service with the City, up to a maximum of \$3,000. Currently, 363 retirees are eligible for post-retirement death benefits. For the fiscal year ended June 30, 2006, the City made payments for post-retirement death benefits premiums of \$32,171.

In addition to the pension benefits described in Note 11, the Electric and Water and Wastewater funds (Public Works Commission) provide post employment benefit options for health care and dental insurance to eligible retirees and their dependents up through the age of 65. A liability for this obligation is not accrued at June 30, 2006, as the amount is not material to the financial statements. As of June 30, 2005, 53 retirees met the eligibility requirements. Expenses for post employment healthcare benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the Commission. For the year ended June 30, 2006, expenses of approximately \$447,826 were recognized for post employment healthcare.

Note 13 – Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2006, consist of the following:

<u>Receivable Fund:</u>	Payable Fund:		
	Nonmajor Enterprise	Internal Service	Total
General	\$ 344,471	\$ -	\$ 344,471
Electric	-	169,939	169,939
Water and Wastewater	-	217,577	217,577
	\$ 344,471	\$ 387,516	\$ 731,987

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

Note 13 – Interfund Balances and Activity (continued)

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from Other Funds

Transfers due to/from other funds at June 30, 2006, consist of the following:

Transfer out:	Transfer in:				Total
	General	Nonmajor Governmental	Internal Service	Nonmajor Enterprise	
General	\$ -	\$ 5,387,237	\$ 200,000	\$ 1,200,778	\$ 6,788,015
Nonmajor Governmental	-	1,603,713	-	-	1,603,713
Electric	8,623,219	65,041	1,300,256	-	9,988,516
Water and Wastewater	1,049,092	65,108	580,244	-	1,694,444
Totals	\$ 9,672,311	\$ 7,121,099	\$ 2,080,500	\$ 1,200,778	\$ 20,074,688

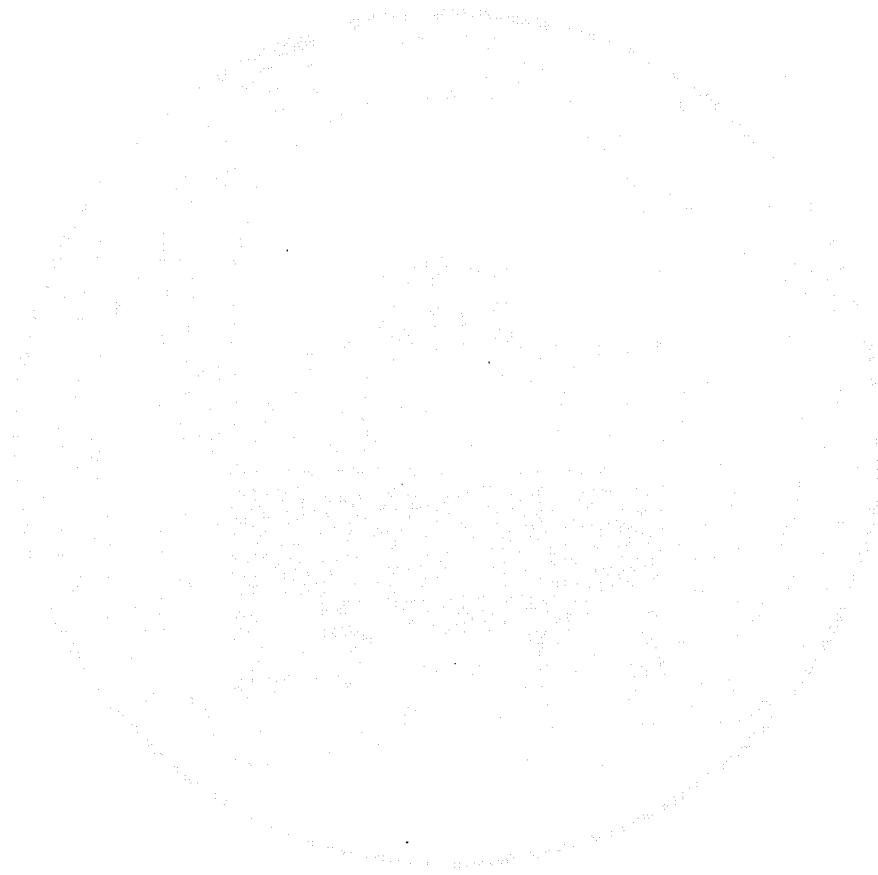
Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

Note 14 – Annexation

On April 21, 2003, City Council directed the City's staff to develop an annexation plan for consideration for areas west to the Hoke County line, south to Fisher Road, north to Fort Bragg and other areas, with a total population of approximately 43,000. City Council approved the annexation plan with an effective date of June 30, 2004. In June 2004, three lawsuits were filed to postpone the effective date of the annexation. On June 28, 2004, the Superior Court found in the City's favor and declined to stay the effective date of the annexation. The cases were appealed and heard at the North Carolina Court of Appeals on April 13, 2005. On June 7, 2005, a three-judge panel of the North Carolina Court of Appeals unanimously ruled in the City's favor that the cases were not timely filed. Subsequently, on August 19, 2005, the North Carolina Supreme Court declined to hear the cases on discretionary review, thereby as required by state law, making the annexation effective on September 30, 2005. As a result, the contribution of the infrastructure assets related to the annexed area was recorded in the government wide financial statements as an addition to capital assets on the Statement of Net Assets and a special item in the Statement of Activities.

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAYETTEVILLE, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projects Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/97	\$ 893,619	\$ 1,241,152	\$ 347,533	72.00%	\$ 8,419,011	4.13%
12/31/98	878,608	1,337,500	458,892	65.69%	9,011,331	5.09%
12/31/99	958,824	1,435,311	476,487	66.80%	9,968,890	4.78%
12/31/00 *	1,228,812	2,728,524	1,499,712	45.04%	10,581,205	14.17%
12/31/01	1,382,479	3,074,210	1,691,731	44.97%	11,197,858	15.11%
12/31/02	1,491,666	3,356,167	1,864,501	44.45%	11,941,930	15.61%
12/31/03	1,628,946	3,516,635	1,887,689	46.32%	12,062,456	15.65%
12/31/04	1,657,940	3,902,435	2,244,495	42.48%	13,501,537	16.62%
12/31/05	1,762,344	3,882,639	2,120,295	45.39%	14,117,825	15.02%

* For the December 31, 2000, valuation date, several actuarial assumptions have been revised. These revisions were due to an experience investigation prepared as of December 31, 1999, for the North Carolina Local Government Retirement System. Projected salary increases were increased from a range of 4.4%-8.5% to a range of 5.9%-9.8%. The remaining amortization period was also increased from 20 to 30 years. These changes in assumptions caused an increase in the cost of the Separation Allowance for Law Enforcement Officers.

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information**

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1998	\$ 106,748	125.18%
1999	107,318	115.48%
2000	111,500	128.32%
2001	127,606	119.29%
2002	145,228	114.21%
2003	259,788	104.76%
2004	286,336	108.65%
2005	311,445	102.16%
2006	361,749	115.76%
2007	329,364	N/A

Notes to the Required Schedules:

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

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Supplemental Public Works Commission Retirement System
Required Supplementary Information**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projects Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/01/03	\$ 3,990,343	N/A	N/A	N/A	N/A	N/A
7/01/04	3,952,504	N/A	N/A	N/A	N/A	N/A
7/01/05	4,105,589	N/A	N/A	N/A	N/A	N/A
7/01/06	4,149,640	N/A	N/A	N/A	N/A	N/A

Note that this schedule is provided for informational purposes only. The Commission uses the aggregate actuarial cost method under which such a schedule is not required. Additionally, this is the second year of this plan.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Supplemental Public Works Commission Retirement System
Required Supplementary Information

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
-------------------------------	---	-----------------------------------

There was no pension obligation as of July 1, 2003. Since then, the cost and contributions have been zero so there is still no net pension obligation.

Notes to the Required Schedules:

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2006
Actuarial cost method	Aggregate
Amortization method	N/A
Amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5%
Projected salary increases*	4.0%
* Includes inflation at	3.0%
Cost-of-living adjustments	None

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

SUPPLEMENTAL FINANCIAL INFORMATION

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

These statements/schedules provide a more detailed view of the "Basic Financial Statements" as presented in the preceding subsection.

Combining Statements are presented where there is more than one fund of a given type. Individual fund statements are presented if only one fund exists in a given fund type.

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

GOVERNMENTAL FUNDS

- * General Fund
- * Nonmajor Governmental Funds
- ** Special Revenue Funds
- ** Capital Project Funds

The focus of Governmental Fund measurement is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income determination.

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

GENERAL FUND

The General Fund is the principal fund of the City and is used to account for the receipt and expenditure of resources that are traditionally associated with local governments and that are not required to be accounted for in another fund.

Resources are provided primarily through taxes, intergovernmental revenues and transfers, and are expended for services deemed not susceptible to a user charge financing method.

The Fund is accounted for on the modified accrual basis of accounting.

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Comparative Balance Sheets
General Fund**

June 30, 2006 and 2005

ASSETS	2006		2005	
Cash and investments	\$	38,438,122	\$	40,994,201
Taxes receivable		9,377,480		3,089,741
Accounts receivable		9,560,899		10,141,018
Interfund receivable		344,471		372,511
Assessments receivable		395,098		478,454
Inventories		132,861		149,279
Restricted cash and investments		496,968		-
Total assets	\$	58,745,899	\$	55,225,204
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued expenses	\$	4,541,791	\$	6,173,705
Unearned deposits		74,738		61,325
Deferred revenues		10,632,610		5,026,126
Total liabilities		15,249,139		11,261,156
 Fund balances				
Fund balances:				
Reserved				
By State statute		9,697,696		9,500,835
For encumbrances		2,644,129		1,713,453
For Powell Bill		439,083		-
For inventories		132,861		149,279
For downtown		227,132		430,746
For JP Riddle - Stadium		10,142		-
For county recreation		1,071,808		773,259
Unreserved				
Designated				
For subsequent year's expenditures		5,061,421		3,671,062
For special purpose		2,929,525		3,529,340
For debt service		2,783,491		4,069,134
Undesignated		18,499,472		20,126,940
Total fund balances		43,496,760		43,964,048
Total liabilities and fund balances	\$	58,745,899	\$	55,225,204

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund

Year Ended June 30, 2006

With Comparative Actual Statements for the Year Ended June 30, 2005

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Revenues				
Ad valorem taxes				
Current year	\$ 38,486,619	\$ 1,447,336	\$ 39,933,955	\$ 37,952,525
Prior year	1,070,123	271,481	1,341,604	1,354,049
Penalties	240,450	74,976	315,426	315,526
Total ad valorem taxes	39,797,192	1,793,793	41,590,985	39,622,100
Other taxes				
Local option sales tax	21,081,097	2,376,352	23,457,449	22,543,521
Utility franchise tax	5,646,000	(43,452)	5,602,548	5,245,207
Vehicle license tax	488,300	45,450	533,750	469,488
Privilege license	778,907	36,249	815,156	731,719
Cablevision franchise tax	1,713,008	205,750	1,918,758	1,547,289
Vehicle gross receipt	321,000	52,114	373,114	344,913
Total other taxes	30,028,312	2,672,463	32,700,775	30,882,137
Intergovernmental				
Federal	19,551	18,184	37,735	91,115
State	4,664,688	(72,145)	4,592,543	4,565,388
Local	3,594,818	628,496	4,223,314	5,028,479
Total intergovernmental	8,279,057	574,535	8,853,592	9,684,982
Other functional				
Permits and fees	1,707,984	1,171,334	2,879,318	1,920,563
Property leases	315,957	19,361	335,318	332,343
Engineering/planning services	830,365	102,447	932,812	940,386
Public safety services	695,565	(71,674)	623,891	685,796
Environmental services	43,400	8,296	51,696	46,956
Recreation and cultural services	795,600	154,931	950,531	871,916
Parking revenues	66,650	30,103	96,753	83,581
Other fees and services	111,350	33,980	145,330	122,063
Total other functional	4,566,871	1,448,778	6,015,649	5,003,604
Miscellaneous				
Refunds and sundry	800,274	423,175	1,223,449	341,087
Indirect cost allocation	827,299	4,264	831,563	820,982
Special use assessment	90,000	31,444	121,444	122,908
Sale of assets	50,000	127,793	177,793	63,278
Total miscellaneous	1,767,573	586,676	2,354,249	1,348,255
Interest earned on investments	892,000	339,669	1,231,669	1,292,092
Total revenues	85,331,005	7,415,914	92,746,919	87,833,170

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund

Year Ended June 30, 2006
With Comparative Actual Statements for the Year Ended June 30, 2005

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Expenditures				
Current				
Administration				
Legislative				
Personnel	\$ 349,611	\$ 19,310	\$ 330,301	\$ 352,955
Operating	386,622	56,878	329,744	223,194
Assets	59,000	59,000	-	-
	<u>795,233</u>	<u>135,188</u>	<u>660,045</u>	<u>576,149</u>
City attorney				
Personnel	374,481	10,775	363,706	320,374
Operating	636,503	71,964	564,539	308,039
	<u>1,010,984</u>	<u>82,739</u>	<u>928,245</u>	<u>628,413</u>
Executive				
Personnel	831,564	6,898	824,666	699,119
Operating	249,747	57,614	192,133	132,220
	<u>1,081,311</u>	<u>64,512</u>	<u>1,016,799</u>	<u>831,339</u>
Human resources development				
Personnel	547,121	50,436	496,685	523,498
Operating	552,744	319,402	233,342	157,881
	<u>1,099,865</u>	<u>369,838</u>	<u>730,027</u>	<u>681,379</u>
Management support				
Personnel	423,321	1,540	421,781	297,973
Operating	468,237	91,519	376,718	207,223
Inventory	198,500	46,011	152,489	121,286
Cost redistribution	(233,000)	(13,508)	(219,492)	(169,186)
	<u>857,058</u>	<u>125,562</u>	<u>731,496</u>	<u>457,296</u>
Information technology				
Personnel	427,644	6	427,638	381,136
Operating	896,869	187,184	709,685	697,186
Assets	118,195	105,695	12,500	213,930
Cost redistribution	(6,588)	(5)	(6,583)	-
	<u>1,436,120</u>	<u>292,880</u>	<u>1,143,240</u>	<u>1,292,252</u>
Human relations				
Personnel	231,149	7,619	223,530	218,084
Operating	47,285	12,095	35,190	38,295
Payments to agencies	2,500	-	2,500	-
	<u>280,934</u>	<u>19,714</u>	<u>261,220</u>	<u>256,379</u>
Finance				
Personnel	1,009,669	53,556	956,113	926,091
Operating	1,073,038	99,133	973,905	772,043
Assets	-	-	-	5,500
	<u>2,082,707</u>	<u>152,689</u>	<u>1,930,018</u>	<u>1,703,634</u>
General government				
Personnel	337,005	839	336,166	8,441
Operating	3,361,937	119,317	3,242,620	3,286,262
Assets	645	645	-	-
Inventory	1,600,400	40,899	1,559,501	1,079,728
Cost redistribution	(1,690,000)	(26,381)	(1,663,619)	(1,153,284)
Payments to agencies	346,500	-	346,500	415,104
	<u>3,956,487</u>	<u>135,319</u>	<u>3,821,168</u>	<u>3,636,251</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund

Year Ended June 30, 2006
With Comparative Actual Statements for the Year Ended June 30, 2005

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Expenditures (continued)				
Current (continued)				
Administration (continued)				
Public buildings				
Personnel	\$ 668,511	\$ 8,733	\$ 659,778	\$ 633,436
Operating	1,368,590	252,381	1,116,209	829,527
Assets	35,596	-	35,596	20,972
	<u>2,072,697</u>	<u>261,114</u>	<u>1,811,583</u>	<u>1,483,935</u>
Project management				
Personnel	223,358	2,409	220,949	295,349
Operating	13,917	2,687	11,230	13,634
	<u>237,275</u>	<u>5,096</u>	<u>232,179</u>	<u>308,983</u>
Total administration	<u>14,910,671</u>	<u>1,644,651</u>	<u>13,266,020</u>	<u>11,856,010</u>
Public safety				
Police				
Personnel	28,071,560	706,940	27,364,620	24,891,311
Operating	4,976,224	970,001	4,006,223	3,413,150
Assets	1,082,708	171,362	911,346	3,589,850
Payments to agencies	3,000	-	3,000	3,000
	<u>34,133,492</u>	<u>1,848,303</u>	<u>32,285,189</u>	<u>31,897,311</u>
Fire				
Personnel	14,106,622	97,729	14,008,893	12,390,541
Operating	2,314,951	338,841	1,976,110	1,502,333
Assets	1,639,584	380,400	1,259,184	1,849,617
Cost redistribution	(75,000)	-	(75,000)	(75,000)
	<u>17,986,157</u>	<u>816,970</u>	<u>17,169,187</u>	<u>15,667,491</u>
Inspections				
Personnel	1,944,528	8,655	1,935,873	1,683,568
Operating	479,099	158,663	320,436	333,052
	<u>2,423,627</u>	<u>167,318</u>	<u>2,256,309</u>	<u>2,016,620</u>
Total public safety	<u>54,543,276</u>	<u>2,832,591</u>	<u>51,710,685</u>	<u>49,581,422</u>
Environmental protection				
Solid waste				
Personnel	3,043,866	29,365	3,014,501	2,533,321
Operating	4,146,481	410,168	3,736,313	2,238,596
Assets	637,912	380,323	257,589	1,762,442
	<u>7,828,259</u>	<u>819,856</u>	<u>7,008,403</u>	<u>6,534,359</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund

Year Ended June 30, 2006
With Comparative Actual Statements for the Year Ended June 30, 2005

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Expenditures (continued)				
Current (continued)				
Environmental protection (continued)				
Cemeteries				
Personnel	\$ 188,206	\$ 1,690	\$ 186,516	\$ 177,709
Operating	16,232	3,120	13,112	14,461
	<u>204,438</u>	<u>4,810</u>	<u>199,628</u>	<u>192,170</u>
Urban forestry				
Personnel	125,735	814	124,921	96,585
Operating	10,057	264	9,793	6,060
	<u>135,792</u>	<u>1,078</u>	<u>134,714</u>	<u>102,645</u>
Street Sweeping				
Personnel	259,156	50,025	209,131	145,674
Operating	212,683	139,821	72,862	36,334
Assets	130,127	-	130,127	454,080
	<u>601,966</u>	<u>189,846</u>	<u>412,120</u>	<u>636,088</u>
Total environmental protection	<u>8,770,455</u>	<u>1,015,590</u>	<u>7,754,865</u>	<u>7,465,262</u>
Transportation				
Streets				
Personnel	2,283,922	101,712	2,182,210	2,088,621
Operating	4,070,149	530,052	3,540,097	3,023,291
Assets	987,600	154,736	832,864	402,313
Cost redistribution	(67,986)	5,893	(73,879)	(130,330)
	<u>7,273,685</u>	<u>792,393</u>	<u>6,481,292</u>	<u>5,383,895</u>
Engineering				
Personnel	1,103,055	24,989	1,078,066	833,753
Operating	223,219	74,490	148,729	84,434
Assets	31,517	-	31,517	8,153
	<u>1,357,791</u>	<u>99,479</u>	<u>1,258,312</u>	<u>926,340</u>
Parking				
Operating	203,600	14,090	189,510	176,848
	<u>203,600</u>	<u>14,090</u>	<u>189,510</u>	<u>176,848</u>
Total transportation	<u>8,835,076</u>	<u>905,962</u>	<u>7,929,114</u>	<u>6,487,083</u>
Economic and physical development				
Central business district				
Operating	70,212	38	70,174	57,916
Community development				
Personnel	77,955	4	77,951	61,964
Operating	993,960	858,847	135,113	100,797
	<u>1,071,915</u>	<u>858,851</u>	<u>213,064</u>	<u>162,761</u>
Planning and development				
Personnel	380,655	16,085	364,570	397,879
Operating	234,340	116,162	118,178	69,336
Payments to agencies	52,323	50,842	1,481	1,941
	<u>667,318</u>	<u>183,089</u>	<u>484,229</u>	<u>469,156</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund

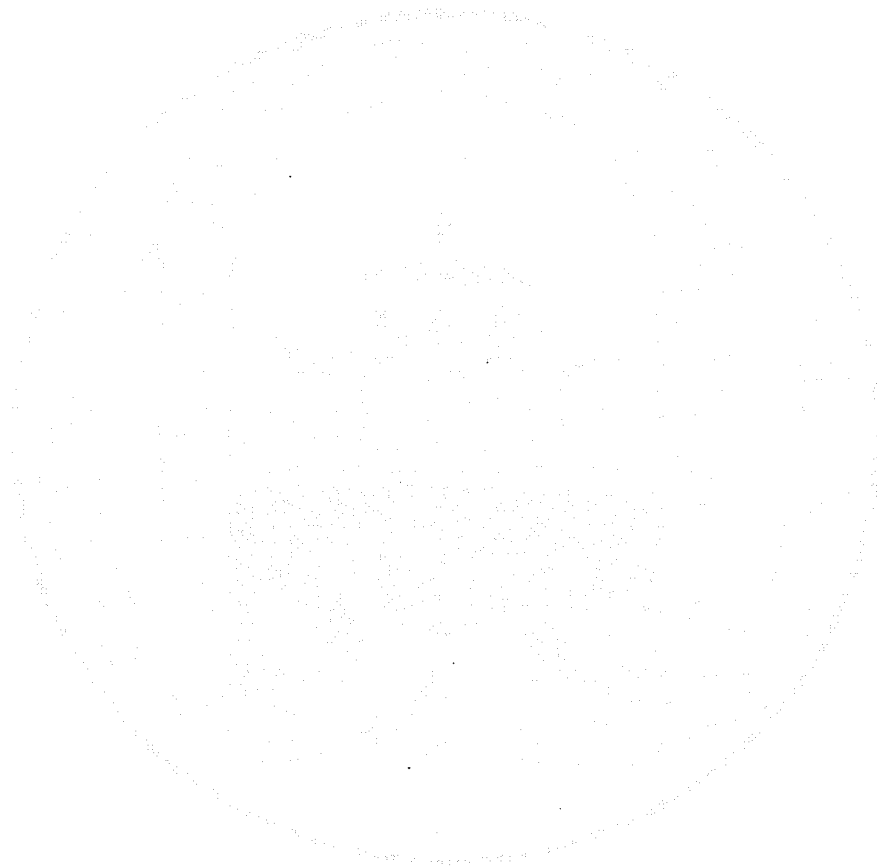
Year Ended June 30, 2006

With Comparative Actual Statements for the Year Ended June 30, 2005

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Expenditures (continued)				
Current (continued)				
Economic and physical development (continued)				
Total economic and physical development	\$ 1,809,445	\$ 1,041,978	\$ 767,467	\$ 689,833
Recreation and community facilities				
Parks & Recreation				
Personnel	6,417,750	243,448	6,174,302	5,554,849
Operating	3,738,257	459,047	3,279,210	2,732,977
Assets	530,594	172,638	357,956	443,628
Cost redistribution	858	858	-	(4,920)
	<u>10,687,459</u>	<u>875,991</u>	<u>9,811,468</u>	<u>8,726,534</u>
Total recreation and community facilities	<u>10,687,459</u>	<u>875,991</u>	<u>9,811,468</u>	<u>8,726,534</u>
Debt service	<u>8,717,180</u>	<u>23,881</u>	<u>8,693,299</u>	<u>7,679,832</u>
Total expenditures	<u>108,273,562</u>	<u>8,340,644</u>	<u>99,932,918</u>	<u>92,485,976</u>
Revenues over (under) expenditures	<u>(22,942,557)</u>	<u>15,756,558</u>	<u>(7,185,999)</u>	<u>(4,652,806)</u>
Other financing sources (uses)				
Appropriated fund balance	16,666,996	(16,666,996)	-	-
Transfers in	9,643,727	28,584	9,672,311	9,624,200
Transfers (out)	(7,193,166)	405,151	(6,788,015)	(5,916,009)
Capital leases, bonds and other debt	<u>3,825,000</u>	<u>9,415</u>	<u>3,834,415</u>	<u>3,104,407</u>
Total other financing sources (uses)	<u>22,942,557</u>	<u>(16,223,846)</u>	<u>6,718,711</u>	<u>6,812,598</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (467,288)</u>	<u>(467,288)</u>	<u>2,159,792</u>
Fund balance				
Beginning of year - July 1			<u>43,964,048</u>	<u>41,804,256</u>
End of year - June 30			<u>\$ 43,496,760</u>	<u>\$ 43,964,048</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

NONMAJOR GOVERNMENTAL FUNDS



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Cash and investments	\$ 3,992,180	\$ 7,739,884	\$ 11,732,064
Taxes receivable	70,961	-	70,961
Accounts receivable	6,838,232	581,193	7,419,425
Interfund receivable	108,831	349,900	458,731
Assessments receivable	5,152	-	5,152
Restricted asset - cash and investments	9,605	8,045,068	8,054,673
Total assets	<u>\$ 11,024,961</u>	<u>\$ 16,716,045</u>	<u>\$ 27,741,006</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 417,888	\$ 586,703	\$ 1,004,591
Interfund payables	108,831	349,900	458,731
Deferred revenues	6,413,442	173,133	6,586,575
Total liabilities	<u>6,940,161</u>	<u>1,109,736</u>	<u>8,049,897</u>
Fund balances:			
Reserved			
By State statute	619,339	811,645	1,430,984
For encumbrances	994,543	5,952,117	6,946,660
For wireless 911	68,274	-	68,274
Unreserved			
Designated			
For subsequent year's expenditures	521,984	8,842,547	9,364,531
For special purpose	22,000	-	22,000
Undesignated	1,858,660	-	1,858,660
Total fund balances	<u>4,084,800</u>	<u>15,606,309</u>	<u>19,691,109</u>
Total liabilities and fund balances	<u>\$ 11,024,961</u>	<u>\$ 16,716,045</u>	<u>\$ 27,741,006</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Other taxes	\$ 3,169,487	\$ -	\$ 3,169,487
Intergovernmental	2,335,697	1,229,125	3,564,822
Miscellaneous	456,355	2,306,967	2,763,322
Interest earned on investments	140,614	520,332	660,946
Total revenues	<u>6,102,153</u>	<u>4,056,424</u>	<u>10,158,577</u>
Expenditures			
Current:			
Administration	-	31,797	31,797
Public safety	1,336,488	2,236,466	3,572,954
Environmental protection	2,511,587	-	2,511,587
Transportation	-	1,695,334	1,695,334
Economic and physical development	2,177,548	5,423,312	7,600,860
Recreation and community facilities	-	3,659,179	3,659,179
Debt service:			
Principal	1,890,707	-	1,890,707
Interest and fees	835,369	15,293	850,662
Total expenditures	<u>8,751,699</u>	<u>13,061,381</u>	<u>21,813,080</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,649,546)</u>	<u>(9,004,957)</u>	<u>(11,654,503)</u>
Other financing sources (uses)			
Transfers in	2,643,581	4,477,518	7,121,099
Transfers out	-	(1,603,713)	(1,603,713)
Total other financing sources (uses)	<u>2,643,581</u>	<u>2,873,805</u>	<u>5,517,386</u>
Net change in fund balances	(5,965)	(6,131,152)	(6,137,117)
Fund balance - beginning	<u>4,090,765</u>	<u>21,737,461</u>	<u>25,828,226</u>
Fund balance - ending	<u>\$ 4,084,800</u>	<u>\$ 15,606,309</u>	<u>\$ 19,691,109</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources or to finance specific activities as required by law or administrative regulation.

The following comprise the City's Special Revenue Funds:

- * Emergency Response Fund
- * Federal and State Financial Assistance Fund
- * Storm Water Management Fund
- * City of Fayetteville Finance Corporation Fund

All Special Revenue Funds are accounted for on the modified accrual basis of accounting.

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006**

	Emergency Response Fund	Federal and State Financial Assistance Fund	Storm Water Management Fund	Fayetteville Finance Corp Fund	Total Nonmajor Special Revenue Funds
Assets					
Cash and investments	\$ 2,469,591	\$ -	\$ 1,522,589	\$ -	\$ 3,992,180
Taxes receivable	-	-	70,961	-	70,961
Accounts receivable	115,662	6,710,136	12,434	-	6,838,232
Interfund receivable	-	-	108,831	-	108,831
Assessments receivable	-	5,152	-	-	5,152
Restricted asset - cash and investments	-	9,605	-	-	9,605
Total assets	\$ 2,585,253	\$ 6,724,893	\$ 1,714,815	\$ -	\$ 11,024,961
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ -	\$ 156,121	\$ 261,767	\$ -	\$ 417,888
Interfund payables	-	108,831	-	-	108,831
Deferred revenues	-	6,342,481	70,961	-	6,413,442
Total liabilities	-	6,607,433	332,728	-	6,940,161
Fund balances:					
Reserved					
By State statute	115,662	382,412	121,265	-	619,339
For encumbrances	2,885	711,009	280,649	-	994,543
For wireless 911	68,274	-	-	-	68,274
Unreserved					
Designated					
For subsequent year's expenditures	-	-	521,984	-	521,984
For special purpose	-	-	22,000	-	22,000
Undesignated	2,398,432	(975,961)	436,189	-	1,858,660
Total fund balances	2,585,253	117,460	1,382,087	-	4,084,800
Total liabilities and fund balances	\$ 2,585,253	\$ 6,724,893	\$ 1,714,815	\$ -	\$ 11,024,961

CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

	Emergency Response Fund	Federal and State Financial Assistance Fund	Storm Water Management Fund	Fayetteville Finance Corp Fund	Total Nonmajor Special Revenue Funds
Revenues					
Other taxes	\$ 950,499	\$ -	\$ 2,218,988	\$ -	\$ 3,169,487
Intergovernmental	-	2,335,697	-	-	2,335,697
Miscellaneous	-	455,735	620	-	456,355
Interest earned on investments	76,841	7,255	54,855	1,663	140,614
Total revenues	<u>1,027,340</u>	<u>2,798,687</u>	<u>2,274,463</u>	<u>1,663</u>	<u>6,102,153</u>
Expenditures					
Current:					
Public safety	531,617	804,871	-	-	1,336,488
Environmental protection	-	-	2,511,587	-	2,511,587
Economic and physical development	-	2,169,823	-	7,725	2,177,548
Debt service:					
Principal	70,371	62,706	22,630	1,735,000	1,890,707
Interest and fees	7,446	6,410	2,395	819,118	835,369
Total expenditures	<u>609,434</u>	<u>3,043,810</u>	<u>2,536,612</u>	<u>2,561,843</u>	<u>8,751,699</u>
Excess (deficiency) of revenues over (under) expenditures	<u>417,906</u>	<u>(245,123)</u>	<u>(262,149)</u>	<u>(2,560,180)</u>	<u>(2,649,546)</u>
Other financing sources (uses)					
Transfers in	-	83,401	-	2,560,180	2,643,581
Total other financing sources (uses)	<u>-</u>	<u>83,401</u>	<u>-</u>	<u>2,560,180</u>	<u>2,643,581</u>
Net change in fund balances	417,906	(161,722)	(262,149)	-	(5,965)
Fund balance - beginning	<u>2,167,347</u>	<u>279,182</u>	<u>1,644,236</u>	<u>-</u>	<u>4,090,765</u>
Fund balance - ending	<u>\$ 2,585,253</u>	<u>\$ 117,460</u>	<u>\$ 1,382,087</u>	<u>\$ -</u>	<u>\$ 4,084,800</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Emergency Response Fund**

**Year Ended June 30, 2006
(With Comparative Actual Amounts For Year Ended June 30, 2005)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2006 Actual</u>	<u>2005 Actual</u>
Revenues				
Other taxes				
Subscribers' tax	\$ 895,201	\$ (166,346)	\$ 728,855	\$ 802,557
Wireless 911 funds	185,620	36,024	221,644	194,283
Total other taxes	<u>1,080,821</u>	<u>(130,322)</u>	<u>950,499</u>	<u>996,840</u>
Interest earned on investments				
Wireless 911	-	1,132	1,132	623
Enhanced 911	25,400	50,309	75,709	36,540
Total interest earned on investments	<u>25,400</u>	<u>51,441</u>	<u>76,841</u>	<u>37,163</u>
Total revenues	<u>1,106,221</u>	<u>(78,881)</u>	<u>1,027,340</u>	<u>1,034,003</u>
Expenditures				
Current				
Public safety				
Wireless 911				
Operating	186,530	7,870	178,660	157,366
Assets	14,580	14,580	-	2,484
	<u>201,110</u>	<u>22,450</u>	<u>178,660</u>	<u>159,850</u>
Enhanced 911				
Operating	982,742	695,186	287,556	350,141
Assets	30,300	2,885	27,415	232,396
Cost redistribution	37,986	-	37,986	34,336
	<u>1,051,028</u>	<u>698,071</u>	<u>352,957</u>	<u>616,873</u>
Total public safety	<u>1,252,138</u>	<u>720,521</u>	<u>531,617</u>	<u>776,723</u>
Debt service				
Wireless 911	-	-	-	26,807
Enhanced 911	77,818	1	77,817	50,854
Total debt service	<u>77,818</u>	<u>1</u>	<u>77,817</u>	<u>77,661</u>
Total expenditures	<u>1,329,956</u>	<u>720,522</u>	<u>609,434</u>	<u>854,384</u>
Revenues over (under) expenditures	<u>(223,735)</u>	<u>641,641</u>	<u>417,906</u>	<u>179,619</u>
Other financing sources (uses)				
Appropriated fund balance	223,735	(223,735)	-	-
Transfers in	-	-	-	134,872
Total other financing sources (uses)	<u>223,735</u>	<u>(223,735)</u>	<u>-</u>	<u>134,872</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 417,906</u>	<u>417,906</u>	<u>314,491</u>
Fund balance				
Beginning of year - July 1			<u>2,167,347</u>	<u>1,852,856</u>
End of year - June 30			<u>\$ 2,585,253</u>	<u>\$ 2,167,347</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Federal and State Financial Assistance Fund

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
Federal grants	\$ 10,377,961	\$ 7,012,017	\$ 828,317	\$ 2,146,888	\$ 8,330,588
State grants	675,814	857,661	383,251	176,200	650,610
County	26,772	33,494	21,061	12,609	25,042
Total intergovernmental	<u>11,080,547</u>	<u>7,903,172</u>	<u>1,232,629</u>	<u>2,335,697</u>	<u>9,006,240</u>
Miscellaneous					
Other	961,456	542,191	11,194	462,990	993,987
Total revenues	<u>12,042,003</u>	<u>8,445,363</u>	<u>1,243,823</u>	<u>2,798,687</u>	<u>10,000,227</u>
Expenditures					
Current					
Public safety	1,822,271	2,263,439	1,520,672	804,871	1,547,638
Economic and physical development	10,108,738	6,092,227	-	2,169,823	8,262,050
Total current	<u>11,931,009</u>	<u>8,355,666</u>	<u>1,520,672</u>	<u>2,974,694</u>	<u>9,809,688</u>
Debt service					
	461,676	378,041	-	69,116	447,157
Total expenditures	<u>12,392,685</u>	<u>8,733,707</u>	<u>1,520,672</u>	<u>3,043,810</u>	<u>10,256,845</u>
Revenues over (under) expenditures	<u>(350,682)</u>	<u>(288,344)</u>	<u>(276,849)</u>	<u>(245,123)</u>	<u>(256,618)</u>
Other financing sources (uses)					
Transfers in	350,682	567,526	276,849	83,401	374,078
Total other financing sources (uses)	<u>350,682</u>	<u>567,526</u>	<u>276,849</u>	<u>83,401</u>	<u>374,078</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 279,182</u>	<u>\$ -</u>	<u>(161,722)</u>	<u>\$ 117,460</u>
Fund balance					
Beginning of year - July 1				279,182	
End of year - June 30				<u>\$ 117,460</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures by Project
Budget and Actual - Federal and State Financial Assistance Fund

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Expenditures by project:					
Public safety					
Federal and State Forfeiture	\$ 494,956	\$ 230,668	\$ -	\$ 164,283	\$ 394,951
GHSP	88,720	84,228	4,006	3,745	83,967
Geographic information systems	-	146,594	146,594	-	-
Operation Ceasefire Mediablitz	-	30,000	30,000	-	-
Operation Ceasefire (GCC)	-	12,648	12,648	-	-
I-95 Corridor P2P Grant	-	74,660	74,660	-	-
Gangs across the Carolinas	27,232	31,857	31,857	27,232	27,232
Juvenile Restitution	242,895	233,109	116,448	111,691	228,352
Gang Prevention	11,000	-	-	10,120	10,120
Local Law Enforcement Grant	66,130	504,655	504,654	54,629	54,630
Justice Assistance Grant	119,094	-	-	53,798	53,798
Operation Ceasefire	250,000	111,613	-	108,138	219,751
COPS Homeland Security	292,774	172,174	-	83,865	256,039
Cyber Crimes Grant	58,849	68,894	37,466	16,749	48,177
FEMA Firefighter Grant	170,621	439,600	439,600	170,621	170,621
FY03 State Homeland Security	-	101,000	101,000	-	-
Hazmat Homeland Security	-	21,739	21,739	-	-
Total public safety	<u>1,822,271</u>	<u>2,263,439</u>	<u>1,520,672</u>	<u>804,871</u>	<u>1,547,638</u>
Economic and physical development					
Community Development Block Grant	6,580,953	4,069,457	-	1,408,794	5,478,251
Arsenal Park Archaeological	43,459	43,362	-	-	43,362
Assessment Payment	39,865	39,865	-	-	39,865
HOME	3,444,461	1,939,543	-	761,029	2,700,572
Total economic and physical development	<u>10,108,738</u>	<u>6,092,227</u>	<u>-</u>	<u>2,169,823</u>	<u>8,262,050</u>
Total expenditures by project	<u>\$ 11,931,009</u>	<u>\$ 8,355,666</u>	<u>\$ 1,520,672</u>	<u>\$ 2,974,694</u>	<u>\$ 9,809,688</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Storm Water Management Fund**

**Year Ended June 30, 2006
(With Comparative Actual Amounts For Year Ended June 30, 2005)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2006 Actual</u>	<u>2005 Actual</u>
Revenues				
Other taxes				
Storm water tax	\$ 2,159,700	\$ 43,061	\$ 2,202,761	\$ 2,143,040
Penalties	13,000	3,227	16,227	16,263
Total other taxes	<u>2,172,700</u>	<u>46,288</u>	<u>2,218,988</u>	<u>2,159,303</u>
Miscellaneous	<u>-</u>	<u>620</u>	<u>620</u>	<u>13,505</u>
Interest earned on investments	<u>20,000</u>	<u>34,855</u>	<u>54,855</u>	<u>57,362</u>
Total revenues	<u>2,192,700</u>	<u>81,763</u>	<u>2,274,463</u>	<u>2,230,170</u>
Expenditures				
Current				
Environmental protection				
Personnel	987,099	29,654	957,445	853,521
Operating	1,824,893	623,063	1,201,830	1,263,970
Assets	301,642	24,330	277,312	135,698
Cost redistribution	75,000	-	75,000	170,900
Total environmental protection	<u>3,188,634</u>	<u>677,047</u>	<u>2,511,587</u>	<u>2,424,089</u>
Debt service	<u>25,025</u>	<u>-</u>	<u>25,025</u>	<u>25,884</u>
Total expenditures	<u>3,213,659</u>	<u>677,047</u>	<u>2,536,612</u>	<u>2,449,973</u>
Revenues over (under) expenditures	<u>(1,020,959)</u>	<u>(595,284)</u>	<u>(262,149)</u>	<u>(219,803)</u>
Other financing sources (uses)				
Transfers in	-	-	-	111,766
Appropriated fund balance	1,020,959	(1,020,959)	-	-
Total other financing sources (uses)	<u>1,020,959</u>	<u>(1,020,959)</u>	<u>-</u>	<u>111,766</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (262,149)</u>	<u>(262,149)</u>	<u>(108,037)</u>
Fund balance				
Beginning of year - July 1			<u>1,644,236</u>	<u>1,752,273</u>
End of year - June 30			<u>\$ 1,382,087</u>	<u>\$ 1,644,236</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
City of Fayetteville Finance Corporation Fund

Year Ended June 30, 2006
(With Comparative Actual Amounts For Year Ended June 30, 2005)

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Revenues				
Interest earned on investments	\$ -	\$ 1,663	\$ 1,663	\$ 560
Expenditures				
Current				
Economic and physical development				
Operating	7,825	100	7,725	3,593
Debt service	2,554,119	1	2,554,118	1,507,963
Total expenditures	2,561,944	101	2,561,843	1,511,556
Revenues over (under) expenditures	(2,561,944)	(1,764)	(2,560,180)	(1,510,996)
Other financing sources (uses)				
Refunding bonds	-	-	-	5,835,000
Payment to refunding escrow agent	-	-	-	(6,265,297)
Premium on bonds	-	-	-	431,212
Transfers in	2,561,944	1,764	2,560,180	1,510,081
Total financing sources (uses)	2,561,944	1,764	2,560,180	1,510,996
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ -	-	-
Fund balance				
Beginning of year - July 1			-	-
End of year - June 30			\$ -	\$ -

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

CAPITAL PROJECT FUNDS

Capital Project Funds account for all resources used for the acquisition and construction of major capital facilities other than those financed by Proprietary Funds.

The following comprise the City's Capital Project Funds:

- * General Government Fund
- * Public Safety Fund
- * Recreational and Cultural Fun
- * Transportation Fund
- * Water and Sewer Fund
- * Bond Improvement Fund
- * Economic and Physical Development Fund
- *Linear Park Fund

All Capital Project Funds are accounted for on the modified accrual basis of accounting.

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2006

	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Water and Sewer Fund	Bond Improvement Fund	Economic and Physical Development Fund		Linear Park Fund	Total Nonmajor Capital Project Funds
							Economic and Physical Development Fund	Linear Park Fund		
Assets										
Cash and investments	\$ 90,553	\$ 207,639	\$ 1,336,133	\$ 2,689,269	\$ 2,359,138	\$ -	\$ 865,302	\$ 191,950	\$ 7,739,884	
Accounts receivable	-	-	126,009	141,083	9,037	117,401	175,521	12,142	581,193	
Interfund receivable	-	-	-	349,900	-	-	-	-	349,900	
Restricted asset - cash and investments	-	-	-	-	-	8,045,068	-	-	8,045,068	
Total assets	\$ 90,553	\$ 207,639	\$ 1,462,142	\$ 3,180,252	\$ 2,368,175	\$ 8,162,469	\$ 1,040,823	\$ 203,992	\$ 16,716,045	
Liabilities and fund balances										
Liabilities:										
Accounts payable and accrued expenses	\$ -	\$ 15,781	\$ 35,864	\$ 79,903	\$ -	\$ 417,710	\$ 37,445	\$ -	\$ 586,703	
Interfund payables	-	-	-	-	-	349,900	-	-	349,900	
Deferred revenues	-	-	-	154,448	-	-	-	18,685	173,133	
Total liabilities	-	15,781	35,864	234,351	-	767,610	37,445	18,685	1,109,736	
Fund balances:										
Reserved										
By State statute	-	-	126,009	371,535	9,037	117,401	175,521	12,142	811,645	
For encumbrances	-	189,637	82,530	1,518,431	-	4,014,391	147,128	-	5,952,117	
Unreserved										
For subsequent year's expenditures	90,553	2,221	1,217,739	1,055,935	2,359,138	3,263,067	680,729	173,165	8,842,547	
Total fund balances	90,553	191,858	1,426,278	2,945,901	2,368,175	7,394,859	1,003,378	185,307	15,606,309	
Total liabilities and fund balances	\$ 90,553	\$ 207,639	\$ 1,462,142	\$ 3,180,252	\$ 2,368,175	\$ 8,162,469	\$ 1,040,823	\$ 203,992	\$ 16,716,045	

CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended June 30, 2006

	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Water and Sewer Fund	Bond Improvement Fund	Economic and Physical Development Fund	Linear Park Fund	Total Nonmajor Capital Project Funds
Revenues									
Intergovernmental	\$ -	\$ -	\$ 575,208	\$ (20,664)	\$ -	\$ -	\$ 693,266	\$ (18,685)	\$ 1,229,125
Miscellaneous	-	-	73,938	-	1,724,855	-	32,683	475,491	2,306,967
Interest earned on investments	-	-	2,158	-	54,261	-	(241)	7,360	520,332
Total revenues	-	-	651,304	(20,664)	1,779,116	456,794	725,708	464,166	4,056,424
Expenditures									
Current:									
Administration	31,797	-	-	-	-	-	-	-	31,797
Public safety	-	15,892	-	-	-	2,220,574	-	-	2,236,466
Transportation	-	-	-	1,695,334	-	-	-	-	1,695,334
Economic and physical development	-	-	-	-	-	3,075,785	2,347,527	-	5,423,312
Recreation and community facilities	-	-	798,135	-	-	2,290,201	-	570,843	3,659,179
Debt service:									
Interest and fees	-	-	-	-	-	15,293	-	-	15,293
Total expenditures	31,797	15,892	798,135	1,695,334	-	7,601,853	2,347,527	570,843	13,061,381
Excess (deficiency) of revenues over (under) expenditures	(31,797)	(15,892)	(146,831)	(1,715,998)	1,779,116	(7,145,059)	(1,621,819)	(106,677)	(9,004,957)
Other financing sources (uses)									
Transfers in	-	193,987	610,957	1,659,341	-	1,100,000	913,233	-	4,477,518
Transfers out	-	-	-	(1,803,713)	-	-	-	-	(1,603,713)
Total other financing sources (uses)	-	193,987	610,957	55,628	-	1,100,000	913,233	-	2,873,805
Net change in fund balances	(31,797)	178,095	464,126	(1,660,370)	1,779,116	(6,045,059)	(708,586)	(106,677)	(6,131,152)
Fund balance - beginning	122,350	13,763	962,152	4,606,271	589,059	13,439,918	1,711,964	291,984	21,737,461
Fund balance - ending	\$ 90,553	\$ 191,858	\$ 1,426,278	\$ 2,945,901	\$ 2,368,175	\$ 7,394,859	\$ 1,003,378	\$ 185,307	\$ 15,606,309

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Government Fund

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Current					
Administration					
Information technology	756,711	634,361	-	31,797	666,158
Total expenditures	756,711	634,361	-	31,797	666,158
Revenues over (under) expenditures	(756,711)	(634,361)	-	(31,797)	(666,158)
Other financing sources (uses)					
Transfers in	756,711	756,711	-	-	756,711
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 122,350	\$ -	(31,797)	\$ 90,553
Fund balance					
Beginning of year - July 1				122,350	
End of year - June 30				\$ 90,553	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Public Safety Fund

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Miscellaneous					
Sale of assets	\$ -	\$ -	\$ -	\$ -	\$ -
Interest earned on investments					
	-	-	-	-	-
Total revenues					
	-	-	-	-	-
Expenditures					
Current					
Public safety					
Fire Station #15	207,750	-	-	15,892	15,892
Revenues over (under) expenditures					
	(207,750)	-	-	(15,892)	(15,892)
Other financing sources (uses)					
Proceeds from capital leases	-	-	-	-	-
Transfers in	207,750	13,763	-	193,987	207,750
Total other financing sources (uses)					
	207,750	13,763	-	193,987	207,750
Revenues and other financing sources (uses) over (under) expenditures					
	\$ -	\$ 13,763	\$ -	178,095	\$ 191,858
Fund balance					
Beginning of year - July 1				13,763	
End of year - June 30				\$ 191,858	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Recreational and Cultural Fund

From Inception And For Year Ended June 30, 2006

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
Federal grants/contributions	\$ -	\$ 1,270,287	\$ 1,270,287	\$ -	\$ -
State grants/contributions	3,174,045	609,102	550,000	575,208	634,310
Total intergovernmental	<u>3,174,045</u>	<u>1,879,389</u>	<u>1,820,287</u>	<u>575,208</u>	<u>634,310</u>
Miscellaneous					
Other	-	70,000	70,000	63,938	63,938
Donations	249,605	249,705	-	10,000	259,705
Total miscellaneous	<u>249,605</u>	<u>319,705</u>	<u>70,000</u>	<u>73,938</u>	<u>323,643</u>
Interest earned on investments	<u>-</u>	<u>119,883</u>	<u>119,883</u>	<u>2,158</u>	<u>2,158</u>
Total revenues	<u>3,423,650</u>	<u>2,318,977</u>	<u>2,010,170</u>	<u>651,304</u>	<u>960,111</u>
Expenditures					
Current					
Recreational and community facilities					
Mazarick Park Greenway Trail	-	382,991	382,991	-	-
Cape Fear River Trail	-	2,158,434	2,158,434	-	-
Cape Fear River Park	350,000	10,000	-	16,746	26,746
Park improvements	-	9,371	9,371	-	-
Freedom Park	424,605	266,242	-	111	266,353
Amtrak Station	693,500	65,668	-	587,097	652,765
Martin Luther King Park	50,000	-	-	50,000	50,000
Westover Recreation Center	192,000	142,318	-	31,416	173,734
Bonnie Doone Park	554,895	-	-	90,335	90,335
EE Miller Recreation Center	115,000	-	-	22,430	22,430
NC State Veterans Park	2,300,000	-	-	-	-
Total expenditures	<u>4,680,000</u>	<u>3,035,024</u>	<u>2,550,796</u>	<u>798,135</u>	<u>1,282,363</u>
Revenues over (under) expenditures	<u>(1,256,350)</u>	<u>(716,047)</u>	<u>(540,626)</u>	<u>(146,831)</u>	<u>(322,252)</u>
Other financing sources (uses)					
Transfers in	1,256,350	1,675,843	540,626	610,957	1,746,174
Capital leases, bonds, and other debt	-	2,356	-	-	2,356
Total other financing sources (uses)	<u>1,256,350</u>	<u>1,678,199</u>	<u>540,626</u>	<u>610,957</u>	<u>1,748,530</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 962,152</u>	<u>\$ -</u>	<u>464,126</u>	<u>\$ 1,426,278</u>
Fund balance					
Beginning of year - July 1				962,152	
End of year - June 30				<u>\$ 1,426,278</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Transportation Fund

From Inception And For Year Ended June 30, 2006

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
State grants	\$ 197,400	\$ 275,689	\$ 150,000	\$ (20,664)	\$ 105,025
Miscellaneous					
Owner contribution	48,775	48,774	-	-	48,774
Other	68,346	88,551	-	-	88,551
Total miscellaneous	117,121	137,325	-	-	137,325
Total revenues	314,521	413,014	150,000	(20,664)	242,350
Expenditures					
Current					
Transportation					
Traffic control system	1,629,069	1,199,998	-	35,893	1,235,891
Sidewalks	401,774	232,228	142,863	80,961	170,326
Parking improvements	269,363	930,708	878,947	67,687	119,448
Transportation improvements	3,905,244	3,318,939	3,084,969	1,453,854	1,687,824
Gateway beautifications	100,000	-	-	51,294	51,294
Miscellaneous street improvements	28,000	58,665	58,665	5,645	5,645
Total expenditures	6,333,450	5,740,538	4,165,444	1,695,334	3,270,428
Revenues over (under) expenditures	(6,018,929)	(5,327,524)	(4,015,444)	(1,715,998)	(3,028,078)
Other financing sources (uses)					
Transfers in	7,622,643	10,597,984	4,679,633	1,659,341	7,577,692
Transfers (out)	(1,603,714)	(664,189)	(664,189)	(1,603,713)	(1,603,713)
Total other financing sources (uses)	6,018,929	9,933,795	4,015,444	55,628	5,973,979
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 4,606,271	\$ -	(1,660,370)	\$ 2,945,901
Fund balance					
Beginning of year - July 1				4,606,271	
End of year - June 30				\$ 2,945,901	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Water and Sewer Fund

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Miscellaneous					
LREMC - Service Territory	\$ -	\$ 574,951	\$ -	\$ 1,724,855	\$ 2,299,806
Total miscellaneous	<u>-</u>	<u>574,951</u>	<u>-</u>	<u>1,724,855</u>	<u>2,299,806</u>
Interest earned on investments	<u>-</u>	<u>14,108</u>	<u>-</u>	<u>54,261</u>	<u>68,369</u>
Total revenues	<u>-</u>	<u>589,059</u>	<u>-</u>	<u>1,779,116</u>	<u>2,368,175</u>
Revenues and other financing sources (uses) over (under) expenditures					
	<u>\$ -</u>	<u>\$ 589,059</u>	<u>\$ -</u>	<u>1,779,116</u>	<u>\$ 2,368,175</u>
Fund balance					
Beginning of year - July 1				<u>589,059</u>	
End of year - June 30				<u>\$ 2,368,175</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Bond Improvement Fund**

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Miscellaneous					
Owner contribution	\$ -	\$ 10,000	\$ -	\$ -	\$ 10,000
Total miscellaneous	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Interest earned on investments	<u>2,432,027</u>	<u>2,774,339</u>	<u>653,781</u>	<u>456,794</u>	<u>2,577,352</u>
Total revenues	<u>2,432,027</u>	<u>2,784,339</u>	<u>653,781</u>	<u>456,794</u>	<u>2,587,352</u>
Expenditures					
Current					
Economic and physical development					
Bond administration	1,495,085	1,546,982	57,657	5,744	1,495,069
Debt service	755,960	847,682	112,540	15,293	750,435
Streets	17,705,470	20,364,806	7,883,599	2,237,071	14,718,278
Water and sewer	710,161	960,161	250,000	-	710,161
Sidewalks	3,196,182	2,411,178	-	410,933	2,822,111
Drainage	7,523,143	6,724,192	-	422,037	7,146,229
	<u>31,386,001</u>	<u>32,855,001</u>	<u>8,303,796</u>	<u>3,091,078</u>	<u>27,642,283</u>
Public Safety					
FSU Fire Station	3,579,000	1,204,592	-	2,220,574	3,425,166
Recreational and community facilities					
Debt service	167,743	167,743	-	-	167,743
Westover Recreational Center	2,771,016	1,720,833	-	1,047,085	2,767,918
Festival Park	4,207,832	637,832	-	364,672	1,002,504
Cape Fear River Park	1,012,000	-	-	878,444	878,444
	<u>8,158,591</u>	<u>2,526,408</u>	<u>-</u>	<u>2,290,201</u>	<u>4,816,609</u>
Total expenditures	<u>43,123,592</u>	<u>36,586,001</u>	<u>8,303,796</u>	<u>7,601,853</u>	<u>35,884,058</u>
Revenues over (under) expenditures	<u>(40,691,565)</u>	<u>(33,801,662)</u>	<u>(7,650,015)</u>	<u>(7,145,059)</u>	<u>(33,296,706)</u>
Other financing sources (uses)					
Transfers in	1,810,000	710,000	-	1,100,000	1,810,000
Capital leases, bonds, and other debt	38,881,565	46,531,580	7,650,015	-	38,881,565
Total other financing sources (uses)	<u>40,691,565</u>	<u>47,241,580</u>	<u>7,650,015</u>	<u>1,100,000</u>	<u>40,691,565</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 13,439,918</u>	<u>\$ -</u>	<u>(6,045,059)</u>	<u>\$ 7,394,859</u>
Fund balance					
Beginning of year - July 1				<u>13,439,918</u>	
End of year - June 30				<u>\$ 7,394,859</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Economic and Physical Development Fund**

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
Federal grants	\$ 350,000	\$ 192,909	\$ -	\$ 27,292	\$ 220,201
State grants	2,625,702	1,804,332	-	665,974	2,470,306
Total intergovernmental	<u>2,975,702</u>	<u>1,997,241</u>	<u>-</u>	<u>693,266</u>	<u>2,690,507</u>
Miscellaneous					
Private donations	3,058,621	2,728,812	-	32,683	2,761,495
Total miscellaneous	<u>3,058,621</u>	<u>2,728,812</u>	<u>-</u>	<u>32,683</u>	<u>2,761,495</u>
Interest earned on investments	<u>24,253</u>	<u>19,325</u>	<u>-</u>	<u>(241)</u>	<u>19,084</u>
Total revenues	<u>6,058,576</u>	<u>4,745,378</u>	<u>-</u>	<u>725,708</u>	<u>5,471,086</u>
Expenditures					
Current					
Economic and physical development					
Brownfields Pilot Project	350,000	192,907	-	27,294	220,201
USO/Amphitheater Demo/Festival Park	3,961,891	2,227,778	-	1,260,457	3,488,235
Cape Fear & Yadkin Valley Depot	3,282,128	2,255,416	-	832,466	3,087,882
300 Block of Hay Street	1,400,000	789,637	-	227,310	1,016,947
Total expenditures	<u>8,994,019</u>	<u>5,465,738</u>	<u>-</u>	<u>2,347,527</u>	<u>7,813,265</u>
Revenues over (under) expenditures	<u>(2,935,443)</u>	<u>(720,360)</u>	<u>-</u>	<u>(1,621,819)</u>	<u>(2,342,179)</u>
Other financing sources (uses)					
Transfers in	2,935,443	2,432,324	-	913,233	3,345,557
Total other financing sources (uses)	<u>2,935,443</u>	<u>2,432,324</u>	<u>-</u>	<u>913,233</u>	<u>3,345,557</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 1,711,964</u>	<u>\$ -</u>	<u>(708,586)</u>	<u>\$ 1,003,378</u>
Fund balance					
Beginning of year - July 1				1,711,964	
End of year - June 30				<u>\$ 1,003,378</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Linear Park**

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
County grants/contributions	\$ 80,000	\$ 80,000	\$ -	\$ (18,685)	\$ 61,315
Total intergovernmental	<u>80,000</u>	<u>80,000</u>	<u>-</u>	<u>(18,685)</u>	<u>61,315</u>
Miscellaneous					
Other (Donations)	1,269,285	504,945	-	475,491	980,436
Total miscellaneous	<u>1,269,285</u>	<u>504,945</u>	<u>-</u>	<u>475,491</u>	<u>980,436</u>
Interest earned on investments	<u>715</u>	<u>8,939</u>	<u>-</u>	<u>7,360</u>	<u>16,299</u>
Total revenues	<u>1,350,000</u>	<u>593,884</u>	<u>-</u>	<u>464,166</u>	<u>1,058,050</u>
Expenditures					
Current					
Recreational and community facilities					
Linear Park	1,400,000	352,000	-	570,843	922,843
Total expenditures	<u>1,400,000</u>	<u>352,000</u>	<u>-</u>	<u>570,843</u>	<u>922,843</u>
Revenues over (under) expenditures	<u>(50,000)</u>	<u>241,884</u>	<u>-</u>	<u>(106,677)</u>	<u>135,207</u>
Other financing sources (uses)					
Transfers in	50,000	50,100	-	-	50,100
Total other financing sources (uses)	<u>50,000</u>	<u>50,100</u>	<u>-</u>	<u>-</u>	<u>50,100</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 291,984</u>	<u>\$ -</u>	<u>(106,677)</u>	<u>\$ 185,307</u>
Fund balance					
Beginning of year - July 1				291,984	
End of year - June 30				<u>\$ 185,307</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

PROPRIETARY FUNDS

- * Enterprise Funds
- * Internal Service Funds

The focus of Proprietary Fund measurement is upon determination of net income, financial position and cash flows. The accounting principles used here are generally accepted in the United States of America and are applicable to similar businesses in the private sector.

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

ENTERPRISE FUNDS

Enterprise Funds account for operations that are either financed or operated in a manner similar to private businesses or for operations that the City has decided that periodic determination of net income is appropriate for capital maintenance, management control, accountability, public policy, or other purposes.

The following comprise the City's Enterprise Funds:

- * Electric Fund
- * Water and Wastewater Fund
- * Nonmajor Enterprise Funds
 - ** Transit Fund
 - Airport Fund

All Enterprise Funds are accounted for using the accrual basis of accounting.

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Electric Fund
June 30, 2006**

	Electric Fund	Uptown Revitalization Special Fund	Rate Stabilization Special Fund	2003A Electric Revenue Bond Fund	Total
Assets					
Current unrestricted assets					
Cash and cash equivalents	\$ 7,182,581	\$ -	\$ -	\$ -	\$ 7,182,581
Investments	12,767,610	-	-	-	12,767,610
Receivables	19,368,855	-	-	-	19,368,855
Internal balances	257,147	(75,158)	-	(12,050)	169,939
Less allowance for doubtful accounts	(245,292)	-	-	-	(245,292)
Inventories	11,436,185	-	-	-	11,436,185
Other current assets	80,998,163	-	-	-	80,998,163
Total current unrestricted assets	<u>131,765,249</u>	<u>(75,158)</u>	<u>-</u>	<u>(12,050)</u>	<u>131,678,041</u>
Current restricted assets					
Cash and cash equivalents	5,831,793	93,677	10,192,229	22,378	16,140,077
Investments	3,506,081	-	-	-	3,506,081
Collateral pledged in lieu of deposits	262,214	-	-	-	262,214
Receivables	10,549	-	-	-	10,549
Total current restricted assets	<u>9,610,637</u>	<u>93,677</u>	<u>10,192,229</u>	<u>22,378</u>	<u>19,918,921</u>
Total current assets	<u>141,375,886</u>	<u>18,519</u>	<u>10,192,229</u>	<u>10,328</u>	<u>151,596,962</u>
Noncurrent assets					
Other assets	40,572,849	-	-	-	40,572,849
Capital assets:					
Land	4,540,566	-	-	-	4,540,566
Construction in process	6,060,873	-	-	4,525,499	10,586,372
Electric utility system	160,832,348	-	-	-	160,832,348
Buildings	27,592,401	-	-	-	27,592,401
Equipment and machinery	7,251,265	-	-	-	7,251,265
Computer programs	2,223,986	-	-	-	2,223,986
Vehicles	772,137	-	-	-	772,137
Office equipment	332,024	-	-	-	332,024
Capital assets, net	<u>209,605,600</u>	<u>-</u>	<u>-</u>	<u>4,525,499</u>	<u>214,131,099</u>
Total noncurrent assets	<u>250,178,449</u>	<u>-</u>	<u>-</u>	<u>4,525,499</u>	<u>254,703,948</u>
Total assets	<u>\$ 391,554,335</u>	<u>\$ 18,519</u>	<u>\$ 10,192,229</u>	<u>\$ 4,535,827</u>	<u>\$ 406,300,910</u>
Liabilities and net assets					
Current liabilities to be paid from unrestricted current assets					
Current portion of long-term liabilities	\$ 79,105,452	\$ -	\$ -	\$ -	\$ 79,105,452
Accounts payable and accrued expenses	14,646,565	-	-	-	14,646,565
Total current liabilities to be paid from unrestricted current assets	<u>93,752,017</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,752,017</u>
Current liabilities to be paid from restricted current assets					
Accounts payable and accrued expenses	4,199,544	-	-	-	4,199,544
Total current liabilities to be paid from restricted current assets	<u>4,199,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,199,544</u>
Total current liabilities	<u>97,951,561</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,951,561</u>
Noncurrent liabilities					
Long-term liabilities	80,893,732	-	-	-	80,893,732
Other liabilities	4,054,801	-	-	-	4,054,801
Total noncurrent liabilities	<u>84,948,533</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,948,533</u>
Total liabilities	<u>182,900,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182,900,094</u>
Net assets					
Capital assets net of related debt	162,403,626	-	-	4,525,499	166,929,125
Restricted for -					
Capital Projects	-	-	-	10,328	10,328
Debt service	406,160	-	-	-	406,160
Unrestricted net assets	45,844,455	18,519	10,192,229	-	56,055,203
Total net assets	<u>208,654,241</u>	<u>18,519</u>	<u>10,192,229</u>	<u>4,535,827</u>	<u>223,400,816</u>
Total liabilities and net assets	<u>\$ 391,554,335</u>	<u>\$ 18,519</u>	<u>\$ 10,192,229</u>	<u>\$ 4,535,827</u>	<u>\$ 406,300,910</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Electric Fund
Year ended June 30, 2006

	Electric Fund	Uptown Revitalization Special Fund	Rate Stabilization Special Fund	2003A Electric Revenue Bond Fund	Total
Operating revenues					
Charges for services	\$ 155,773,020	\$ -	\$ -	\$ -	\$ 155,773,020
Total operating revenues	<u>155,773,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155,773,020</u>
Operating expenses					
Power supply and generation	99,348,276	-	-	-	99,348,276
Electric operation	9,246,154	-	-	-	9,246,154
General and administrative	9,505,629	-	-	-	9,505,629
Depreciation	13,441,158	-	-	-	13,441,158
Total operating expenses	<u>131,541,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,541,217</u>
Operating income (loss)	<u>24,231,803</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,231,803</u>
Nonoperating revenue (expense)					
Interest earned on investments	1,470,594	-	324,784	-	1,795,378
Gain (loss) on disposal of assets	(441,831)	-	-	-	(441,831)
Interest expense	(4,491,732)	-	-	-	(4,491,732)
Amortization	(1,182,680)	-	-	-	(1,182,680)
Finance costs	(150,300)	-	-	-	(150,300)
Total nonoperating revenue (expense)	<u>(4,795,949)</u>	<u>-</u>	<u>324,784</u>	<u>-</u>	<u>(4,471,165)</u>
Income (loss) before transfers and contributions	<u>19,435,854</u>	<u>-</u>	<u>324,784</u>	<u>-</u>	<u>19,760,638</u>
Transfers in	234,977	-	2,000,000	76,665	2,311,642
Transfers out	(3,017,987)	(593,911)	-	-	(3,611,898)
Transfers out - City of Fayetteville	(8,558,117)	(130,143)	-	-	(8,688,260)
Capital contributions	178,965	-	-	-	178,965
Change in net assets	<u>8,273,692</u>	<u>(724,054)</u>	<u>2,324,784</u>	<u>76,665</u>	<u>9,951,087</u>
Total net assets - beginning	<u>200,380,549</u>	<u>742,573</u>	<u>7,867,445</u>	<u>4,459,162</u>	<u>213,449,729</u>
Total net assets - ending	<u>\$ 208,654,241</u>	<u>\$ 18,519</u>	<u>\$ 10,192,229</u>	<u>\$ 4,535,827</u>	<u>\$ 223,400,816</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non GAAP) -
Electric Fund

Year ended June 30, 2006
(with comparative actual amounts for the year ended June 30, 2005)

	2006			2005 Actual
	Budget	Variance Positive (Negative)	Actual	
Revenues				
Operating revenues				
Electric operations				
Sale of electricity	\$ 143,016,800	\$ 5,395,963	\$ 148,412,763	\$ 139,550,011
City services	10,002,300	(8,075,273)	1,927,027	1,811,659
Non-utility charges	1,309,800	15,822	1,325,622	1,346,632
Service charges	1,150,000	196,044	1,346,044	1,321,164
Miscellaneous	2,290,000	471,564	2,761,564	2,039,863
Total operating revenues	<u>157,768,900</u>	<u>(1,995,880)</u>	<u>155,773,020</u>	<u>146,069,329</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	(441,831)	(441,831)	(273,155)
Interest earned on investments	1,460,000	10,594	1,470,594	865,596
Total non-operating revenues	<u>1,460,000</u>	<u>(431,237)</u>	<u>1,028,763</u>	<u>592,441</u>
Contributions				
Contributions	-	178,965	178,965	951,384
Total contributions	<u>-</u>	<u>178,965</u>	<u>178,965</u>	<u>951,384</u>
Budgetary appropriations				
Proceeds from 2005 revenue note	142,140,000	-	142,140,000	-
Total budgetary appropriations	<u>142,140,000</u>	<u>-</u>	<u>142,140,000</u>	<u>-</u>
Total revenues	<u>\$ 301,368,900</u>	<u>\$ (2,248,152)</u>	<u>\$ 299,120,748</u>	<u>\$ 147,613,154</u>
Expenditures				
Operating expenditures				
Electric operations				
Power supply and generation	\$ 103,969,030	\$ 4,620,754	\$ 99,348,276	\$ 95,399,587
Administration	425,410	100,652	324,758	267,427
Apparatus repair shop	352,200	29,649	322,551	363,307
Electric meter shop	595,940	47,939	548,001	528,249
Construction and maintenance	5,480,050	817	5,479,233	6,002,541
Substation construction	1,053,490	194,697	858,793	1,063,806
Engineering	1,798,400	79,922	1,718,478	1,877,645
Overhead clearing	9,000	14,660	(5,660)	(312)
Total electric operations	<u>113,683,520</u>	<u>5,089,090</u>	<u>108,594,430</u>	<u>105,502,250</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non GAAP) -
Electric Fund

Year ended June 30, 2006
(with comparative actual amounts for the year ended June 30, 2005)

	2006			2005 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
General and administrative				
Executive	\$ 580,470	\$ 30,712	\$ 549,758	\$ 530,593
Internal audit	95,020	18,002	77,018	68,820
Public information	524,560	(501)	525,061	504,287
Financial administration	161,655	35,349	126,306	119,722
Administrative - administration	88,655	-	88,655	86,302
Human resources	442,600	21,690	420,910	370,911
Accounting	432,055	12,254	419,801	372,683
Accounts receivable	607,640	27,855	579,785	570,234
Payroll	64,920	8,783	56,137	57,526
Customer service administration	1,764,265	103,831	1,660,434	1,696,375
Utility field services	958,975	1,855	957,120	865,278
Business planning	270,620	5,375	265,245	242,433
Business development	427,395	15	427,380	382,886
Risk management	394,585	46,821	347,764	327,580
Capital projects	184,130	4,203	179,927	160,772
Rates	114,785	31,186	83,599	97,529
Budget	95,990	4,904	91,086	83,227
Purchasing	253,865	30,169	223,696	150,049
Warehouse	502,145	(53,428)	555,573	756,457
Business planning, development & logistics	202,815	29,349	173,466	205,817
Fleet maintenance	694,950	33,976	660,974	1,038,522
Facilities maintenance	160,165	445	159,720	150,810
Telecommunications systems	434,725	5,184	429,541	439,258
Information systems	1,035,980	93,273	942,707	957,574
Pension expense	7,000	4,766	2,234	6,422
Medical insurance	1,871,450	(634,431)	2,505,881	2,237,826
Other	(200,465)	294,689	(495,154)	(388,316)
Overhead clearing	(2,546,700)	(37,705)	(2,508,995)	(2,973,626)
Total general and administrative	<u>9,624,250</u>	<u>118,621</u>	<u>9,505,629</u>	<u>9,117,951</u>
Total operating expenditures	<u>123,307,770</u>	<u>5,207,711</u>	<u>118,100,059</u>	<u>114,620,201</u>
Non-operating expenditures				
Interest expense	4,528,290	36,558	4,491,732	1,845,636
Finance costs	153,000	2,700	150,300	162,278
Total non-operating expenditures	<u>4,681,290</u>	<u>39,258</u>	<u>4,642,032</u>	<u>2,007,914</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non GAAP) -
Electric Fund

Year ended June 30, 2006
(with comparative actual amounts for the year ended June 30, 2005)

	2006		2005 Actual
	Budget	Variance Positive (Negative)	
Transfers out			
Transfers to City of Fayetteville	\$ 8,555,500	\$ (2,617)	\$ 8,558,117
Transfers to Electric Rate Stabilization Fund	2,000,000	-	2,000,000
Transfers to Fleet Maintenance Fund	33,750	-	33,750
Total transfers out	<u>10,589,250</u>	<u>(2,617)</u>	<u>10,591,867</u>
Budgetary appropriations			
Inventory increase	1,500,000	(185,759)	1,685,759
Vehicle and equipment	-	(29,696)	29,696
Debt principal payments	35,312,100	6	35,312,094
Capital outlay	15,134,950	855,607	14,279,343
Prepaid power cost	141,111,075	-	141,111,075
Prepaid credit adjustment	(34,715,400)	(416,518)	(34,298,882)
Finance costs	1,027,210	-	1,027,210
Appropriated net assets	3,420,655	3,420,655	-
Total budgetary appropriations	<u>162,790,590</u>	<u>3,644,295</u>	<u>159,146,295</u>
Total expenditures	<u>\$ 301,368,900</u>	<u>\$ 8,888,647</u>	<u>\$ 292,480,253</u>
Reconciliation of change in net assets			
Total revenues		\$ (2,248,152)	\$ 299,120,748
Total expenditures		8,888,647	292,480,253
Subtotal		<u>\$ 6,640,495</u>	6,640,495
Reconciling items:			
Budgetary appropriations			17,006,295
Depreciation			(13,441,158)
Amortization			(1,182,680)
Transfer of assets (to) / from the 2003A Electric Revenue Bond Fund			(76,665)
Transfer of assets (to) / from the Fleet Maintenance Fund			(907,572)
Transfer of assets (to) / from the Uptown Revitalization Capital Project Fund			234,977
Total reconciling items			<u>1,633,197</u>
Change in net assets			<u>\$ 8,273,692</u>
			<u>\$ 8,229,460</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Uptown Revitalization Fund
From Inception and for the Year Ended June 30, 2006**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Museum land acquisition	-	2,346,547	-	2,346,547
Botanical gardens	-	55,705	-	55,705
Consulting fees	-	132,304	-	132,304
Museum construction	-	7,153,453	-	7,153,453
Transportation system	-	160,000	130,143	290,143
Land donation	-	175,000	-	175,000
Riverfront development	-	79,776	-	79,776
Hydrology study	-	6,705	-	6,705
Electric system improvements	-	3,236,470	92,731	3,329,201
Water and Wastewater improvements	-	738,201	174,446	912,647
Total expenditures	<u>14,500,000</u>	<u>14,084,161</u>	<u>397,320</u>	<u>14,481,481</u>
Revenues under expenditures	<u>(14,500,000)</u>	<u>(14,084,161)</u>	<u>(397,320)</u>	<u>(14,481,481)</u>
Other financing sources				
Transfer from Electric Fund	14,500,000	14,500,000	-	14,500,000
Total other financing sources	<u>14,500,000</u>	<u>14,500,000</u>	<u>-</u>	<u>14,500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 415,839</u>	<u>(397,320)</u>	<u>\$ 18,519</u>
Reconciling items:				
Capital outlay			267,177	
Transfer of assets to the Electric Fund			(234,977)	
Transfer of assets to the Water and Wastewater			(358,934)	
Change in net assets			<u>\$ (724,054)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Electric Rate Stabilization Fund
From Inception and for the Year Ended June 30, 2006**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 4,169,725	\$ 697,720	\$ 324,784	\$ 1,022,504
Rate stabilization transfer	1,000,000	4,169,725	-	4,169,725
Total revenues	<u>5,169,725</u>	<u>4,867,445</u>	<u>324,784</u>	<u>5,192,229</u>
Expenditures				
Total expenditures	-	-	-	-
Revenues under expenditures	<u>5,169,725</u>	<u>4,867,445</u>	<u>324,784</u>	<u>5,192,229</u>
Other financing sources				
Transfer from Electric Fund	10,000,000	8,000,000	2,000,000	10,000,000
Transfer to Electric Fund	(5,000,000)	(5,000,000)	-	(5,000,000)
Appropriated net assets	(10,169,725)	-	-	-
Total other financing sources	<u>(5,169,725)</u>	<u>3,000,000</u>	<u>2,000,000</u>	<u>5,000,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 7,867,445</u>	<u>2,324,784</u>	<u>\$ 10,192,229</u>
Change in net assets			<u>\$ 2,324,784</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of 2003A Electric Revenue Bond Capital Project Fund
From Inception and for the Year Ended June 30, 2006**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Interest earned	\$ 45,000	\$ 99,410	\$ 29,463	\$ 128,873
Total revenues	<u>45,000</u>	<u>99,410</u>	<u>29,463</u>	<u>128,873</u>
Expenditures				
Construction	-	2,592,182	955,301	3,547,483
Engineering	-	462,873	165,461	628,334
Interest costs	-	-	89,126	89,126
Other	-	1,361,153	142,041	1,503,194
Total expenditures	<u>5,675,000</u>	<u>4,416,208</u>	<u>1,351,929</u>	<u>5,768,137</u>
Revenues under expenditures	<u>(5,630,000)</u>	<u>(4,316,798)</u>	<u>(1,322,466)</u>	<u>(5,639,264)</u>
Other financing sources (uses)				
2003A Revenue Bond proceeds	5,630,000	5,622,706	-	5,622,706
Transfer to Electric Fund	-	(62,240)	-	(62,240)
Total other financing sources (uses)	<u>5,630,000</u>	<u>5,560,466</u>	<u>-</u>	<u>5,560,466</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 1,243,668</u>	<u>(1,322,466)</u>	<u>\$ (78,798)</u>
Reconciling items:				
Capital outlay			1,322,466	
Transfer of assets to the Electric fund			76,665	
Change in net assets			<u>\$ 76,665</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Balance Sheet
Water and Wastewater Fund
June 30, 2006

	Water and Wastewater Fund	Annexation Capital Project Fund Phase IVA	Annexation Capital Reserve Fund	Annexation Capital Project Fund Phase IVB	2002 State Revolving Loan Capital Project Fund	2003A Water and Wastewater Revenue Bond Fund	Water Resources Rate Stabilization Fund	Total
Assets								
Current unrestricted assets								
Cash and cash equivalents	\$ 8,957,117	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,957,117
Investments	4,732,121	-	-	-	-	-	-	4,732,121
Receivables	12,653,802	-	-	42,190	1,159,224	492	-	13,855,708
Internal balances	740,215	(212)	-	508,402	217,451	(1,248,279)	-	217,577
Less allowance for doubtful accounts	(66,705)	-	-	-	-	-	-	(66,705)
Inventories	1,361,701	-	-	-	-	-	-	1,361,701
Other current assets	67,192	-	-	-	-	-	-	67,192
Total current unrestricted assets	28,445,443	(212)	-	550,592	1,376,675	(1,247,787)	-	29,124,711
Current restricted assets								
Cash and cash equivalents	6,416,390	212	596,164	874,399	-	1,650,085	1,020,735	10,557,985
Investments	12,459,113	-	-	-	-	-	-	12,459,113
Receivables	119,687	-	-	-	-	-	-	119,687
Total current restricted assets	18,995,190	212	596,164	874,399	-	1,650,085	1,020,735	23,136,785
Total current assets	47,440,633	-	596,164	1,424,991	1,376,675	402,298	1,020,735	52,261,496
Noncurrent assets								
Other assets	2,873,053	-	-	-	-	-	-	2,873,053
Capital assets:								
Land	7,170,975	-	-	-	-	-	-	7,170,975
Construction in process	7,120,070	-	-	-	12,809,966	768,843	-	20,698,879
Water system	129,226,176	-	-	-	-	-	-	129,226,176
Sewer system	219,958,210	-	-	-	-	-	-	219,958,210
Buildings	2,258,368	-	-	-	-	-	-	2,258,368
Equipment and machinery	1,711,528	-	-	-	-	-	-	1,711,528
Computer programs	2,139,304	-	-	-	-	-	-	2,139,304
Vehicles	1,200,907	-	-	-	-	-	-	1,200,907
Office equipment	54,856	-	-	-	-	-	-	54,856
Capital assets, net	370,840,394	-	-	-	12,809,966	768,843	-	384,419,203
Total noncurrent assets	373,713,447	-	-	-	12,809,966	768,843	-	387,292,256
Total assets	\$ 421,154,080	\$ -	\$ 596,164	\$ 1,424,991	\$ 14,186,641	\$ 1,171,141	\$ 1,020,735	\$ 439,553,752
Liabilities and net assets								
Current portion of long-term liabilities								
Accounts payable and accrued expenses	\$ 5,976,687	\$ -	\$ -	\$ -	\$ 824,491	\$ -	\$ -	\$ 6,801,178
Other current liabilities	8,132,973	-	-	648,028	1,381,520	214,955	-	10,377,476
Total current liabilities to be paid from unrestricted current assets	14,109,660	-	-	648,028	2,206,011	214,955	-	17,178,654
Current liabilities to be paid from restricted current assets								
Accounts payable and accrued expenses	1,415,552	-	-	-	-	-	-	1,415,552
Total current liabilities to be paid from restricted current assets	1,415,552	-	-	-	-	-	-	1,415,552
Total current liabilities	15,525,212	-	-	648,028	2,206,011	214,955	-	18,594,206
Noncurrent liabilities								
Long-term liabilities	121,132,199	-	-	-	15,665,324	-	-	136,797,523
Other liabilities	4,545,804	-	-	-	-	-	-	4,545,804
Unearned deposits	2,628,170	-	-	-	-	-	-	2,628,170
Total noncurrent liabilities	128,306,173	-	-	-	15,665,324	-	-	143,971,497
Total liabilities	143,831,385	-	-	648,028	17,871,335	214,955	-	162,565,703
Net assets								
Capital assets net of related debt	244,012,178	-	-	-	(3,679,847)	768,843	-	241,101,174
Restricted for -								
Capital Projects	(514,280)	-	-	326,937	-	187,343	-	-
Debt service	402,360	-	-	-	-	-	-	402,360
Unrestricted net assets	33,422,437	-	596,164	450,026	(4,847)	-	1,020,735	35,484,515
Total net assets	277,322,695	-	596,164	776,963	(3,684,694)	956,188	1,020,735	276,988,049
Total liabilities and net assets	\$ 421,154,080	\$ -	\$ 596,164	\$ 1,424,991	\$ 14,186,641	\$ 1,171,141	\$ 1,020,735	\$ 439,553,752

CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Water and Wastewater Fund
Year ended June 30, 2006

	Water and Wastewater Fund	Annexation Capital Project Fund Phase IVA	Annexation Capital Reserve Fund	Annexation Capital Project Fund Phase IVB	2002 State Revolving Loan Capital Project Fund	2003A Revenue Bond Capital Project Fund	Water Resources Rate Stabilization Fund	Total
Operating revenues								
Charges for services	\$ 51,508,272	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,508,272
Total operating revenues	51,508,272	-	-	-	-	-	-	51,508,272
Operating expenses								
Water operations	9,034,434	-	-	-	-	-	-	9,034,434
Sanitary sewer operations	8,256,438	-	-	-	-	-	-	8,256,438
General and administrative	10,205,152	-	-	-	-	-	-	10,205,152
Depreciation	12,161,154	-	-	-	-	-	-	12,161,154
Total operating expenses	39,657,178	-	-	-	-	-	-	39,657,178
Operating income (loss)	11,851,094	-	-	-	-	-	-	11,851,094
Nonoperating revenue (expense)								
Interest earned on investments	1,200,325	-	23,616	-	-	-	20,694	1,244,635
Gain (loss) on disposal of assets	12,985	-	-	-	-	-	-	12,985
Interest expense	(4,847,993)	-	-	-	-	-	-	(4,847,993)
Amortization	(932,976)	-	-	-	-	-	-	(932,976)
Finance costs	(385,924)	-	-	-	-	-	-	(385,924)
Total nonoperating revenue (expens	(4,953,583)	-	23,616	-	-	-	20,694	(4,909,273)
Income (loss) before transfers and contributions	6,897,511	-	23,616	-	-	-	20,694	6,941,821
Transfers in	13,117,841	-	-	-	267,595	-	500,000	13,885,436
Transfers out	(1,439,178)	-	-	(7,006,082)	(3,952,289)	(2,068,131)	-	(14,465,680)
Transfers out - City of Fayetteville	(1,114,200)	-	-	-	-	-	-	(1,114,200)
Capital contributions	14,125,818	-	-	-	-	-	-	14,125,818
Change in net assets	31,587,792	-	23,616	(7,006,082)	(3,684,694)	(2,068,131)	520,694	19,373,195
Total net assets - beginning	245,734,903	-	572,548	7,783,045	-	3,024,317	500,041	257,614,854
Total net assets - ending	\$ 277,322,695	\$ -	\$ 596,164	\$ 776,963	\$ (3,684,694)	\$ 956,186	\$ 1,020,735	\$ 276,988,049

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues and Expenditures - Budget and Actual (Non GAAP) -
Water and Wastewater Fund**

**Year ended June 30, 2006
(with comparative actual amounts for the year ended June 30, 2005)**

	2006			2005 Actual
	Budget	Variance Positive (Negative)	Actual	
Revenues				
Operating revenues				
Water operations				
Water sales	\$ 22,060,656	\$ (3,848)	\$ 22,056,808	\$ 19,493,789
Connection fees	830,000	514,121	1,344,121	925,606
City services	60,744	42,694	103,438	67,999
Total water operations	<u>22,951,400</u>	<u>552,967</u>	<u>23,504,367</u>	<u>20,487,394</u>
Sanitary sewer operations				
Sewer charges	25,073,677	278,155	25,351,832	24,141,680
Connection fees	800,000	457,438	1,257,438	921,588
City services	42,423	7,066	49,489	38,388
Total sanitary sewer operations	<u>25,916,100</u>	<u>742,659</u>	<u>26,658,759</u>	<u>25,101,656</u>
Other operating revenues				
Non-utility charges	805,300	308,499	1,113,799	1,299,468
Service charges	275,000	1,123	276,123	279,050
Miscellaneous	(107,000)	62,224	(44,776)	(122,934)
Total other operating revenues	<u>973,300</u>	<u>371,846</u>	<u>1,345,146</u>	<u>1,455,584</u>
Total operating revenues	<u>49,840,800</u>	<u>1,667,472</u>	<u>51,508,272</u>	<u>47,044,634</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	12,985	12,985	66,536
Interest earned on investments	1,264,400	(64,075)	1,200,325	940,117
Total non-operating revenues	<u>1,264,400</u>	<u>(51,090)</u>	<u>1,213,310</u>	<u>1,006,653</u>
Contributions				
Contributions	5,940,300	(2,233,226)	3,707,074	6,066,088
Total contributions	<u>5,940,300</u>	<u>(2,233,226)</u>	<u>3,707,074</u>	<u>6,066,088</u>
Budgetary appropriations				
Department of Transportation financing	-	516,430	516,430	6,302,276
Cumberland county note proceeds	-	39,600	39,600	-
Total budgetary appropriations	<u>-</u>	<u>556,030</u>	<u>556,030</u>	<u>6,302,276</u>
Total revenues	<u>\$ 57,045,500</u>	<u>\$ (60,814)</u>	<u>\$ 56,984,686</u>	<u>\$ 60,419,651</u>
Expenditures				
Operating expenditures				
Water operations				
Administration and engineering	\$ 959,585	\$ 45,749	\$ 913,836	\$ 855,885
Water meter shop	776,950	468,004	308,946	494,030
Construction and maintenance	3,044,940	362,718	2,682,222	2,704,909
P. O. Hoffer water treatment plant	3,396,056	237,694	3,158,362	2,932,825
Glenville Lake water treatment plant	1,564,976	169,995	1,394,981	1,357,219
Water resources environmental system protection	126,190	1,338	124,852	130,339
Laboratory	220,550	2,773	217,777	195,102
Environmental	94,315	2,414	91,901	81,703
Watersheds	145,700	4,143	141,557	139,159
Total water operations	<u>10,329,262</u>	<u>1,294,828</u>	<u>9,034,434</u>	<u>8,891,171</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non GAAP) -
Water and Wastewater Fund

Year ended June 30, 2006
(with comparative actual amounts for the year ended June 30, 2005)

	2006			2005 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
Operating expenditures (continued)				
Sanitary sewer operations				
Administration and engineering	\$ 959,585	\$ 45,749	\$ 913,836	\$ 855,882
Sewer construction and maintenance	3,348,476	339,434	3,009,042	3,097,581
Cross Creek WW treatment plant	2,096,186	168,345	1,927,841	1,955,459
Rockfish Creek WW treatment plant	2,002,856	219,304	1,783,552	2,018,349
Residuals management	188,070	430	187,640	143,580
Water resources environmental system protection	126,190	1,340	124,850	130,337
Laboratory	220,550	2,773	217,777	195,103
Environmental	94,315	2,415	91,900	81,702
Total sanitary sewer operations	9,036,228	779,790	8,256,438	8,477,993
General and administrative				
Executive	309,570	105,726	203,844	177,443
Internal audit	95,020	17,655	77,365	68,271
Public information	528,460	1,024	527,436	491,063
Financial administration	161,655	41,932	119,723	116,634
Administrative administration	95,755	2,998	92,757	79,686
Human resources	442,600	75,272	367,328	346,761
Accounting	431,455	21,762	409,693	372,618
Accounts receivable	607,440	26,904	580,536	561,824
Payroll	64,920	9,574	55,346	57,524
Customer service administration	1,366,565	93,021	1,273,544	1,277,109
Utility field service	952,425	1,541	950,884	856,766
Business development	278,495	13,218	265,277	244,723
Business planning	254,920	6,127	248,793	268,176
Risk management	394,785	53,276	341,509	346,985
Capital projects	179,530	3,670	175,860	158,193
Rates	113,485	5,225	108,260	89,749
Budget	95,890	4,931	90,959	83,005
Purchasing	253,865	37,606	216,259	148,780
Warehouse	302,145	243,122	59,023	217,570
Business planning, development & logistics	202,815	35,916	166,899	202,608
Fleet maintenance	1,099,050	918	1,098,132	1,252,855
Facilities maintenance	160,165	2,457	157,708	150,015

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non GAAP) -
Water and Wastewater Fund

Year ended June 30, 2006
(with comparative actual amounts for the year ended June 30, 2005)

	2006		2005 Actual
	Budget	Variance Positive (Negative)	
Expenditures (continued)			
Operating expenditures (continued)			
General and administrative (continued)			
Telecommunications systems	\$ 433,625	\$ 11,238	\$ 422,387
Information systems	1,027,880	87,656	940,224
Pension expenses	8,000	5,765	2,235
Medical insurance	2,131,250	(458,926)	2,590,176
Other	1,833,550	668,122	1,165,428
Overhead clearing	(2,732,400)	(229,967)	(2,502,433)
Total general and administrative	11,092,915	887,763	10,205,152
Total operating expenditures	30,458,405	2,962,381	27,496,024
Non-operating expenditures			
Interest expense	5,349,000	501,007	4,847,993
Finance costs	389,000	3,076	385,924
Total non-operating expenditures	5,738,000	504,083	5,233,917
Transfers out			
Transfer to City of Fayetteville	1,114,200	-	1,114,200
Transfer to Water Resources Rate Stabilization Fund	500,000	-	500,000
Transfers to Fleet Maintenance Fund	33,750	-	33,750
Total transfers out	1,647,950	-	1,647,950
Budgetary appropriations			
Inventory increase	-	(355,232)	355,232
Vehicle and equipment	-	(400,938)	400,938
Debt principal payments	4,702,944	39	4,702,905
Note payments	379,756	(39,600)	419,356
NC DOT project payments	2,143,900	2,143,900	-
Capital outlay	10,878,550	899,623	9,978,927
Appropriation of net assets	1,095,995	1,095,995	-
Total budgetary appropriations	19,201,145	3,343,787	15,857,358
Total expenditures	\$ 57,045,500	\$ 6,810,251	\$ 50,235,249

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non GAAP) -
Water and Wastewater Fund

Year ended June 30, 2006
(with comparative actual amounts for the year ended June 30, 2005)

	2006		2005 Actual
	Budget	Variance Positive (Negative)	
Reconciliation of change in net assets			
Total revenues		\$ (60,814)	\$ 60,419,651
Total expenditures		6,810,251	56,726,585
Subtotal		<u>\$ 6,749,437</u>	3,693,066
Reconciling items:			
Budgetary appropriations			15,301,328
Depreciation			(12,161,154)
Amortization			(932,976)
Developer and FIF credits			10,418,744
Assessments			-
Transfer of assets (to) / from Annexation Capital Project Fund Phase IVA			(1,369,568)
Transfer of assets (to) / from Annexation Capital Project Fund Phase IVB			(4,260)
Transfer of assets (to) / from Uptown Revitalization Fund			7,006,082
Transfer of net assets from the State Revolving Loan Capital Project Fund			3,037,311
Transfer of assets (to) / from the Fleet Maintenance Fund			358,934
Transfer of net assets from the State Revolving Loan Capital Project Fund			82,903
Transfer of assets (to) / from the Fleet Maintenance Fund			3,684,694
Transfer (to) / from 2003A Water and Wastewater Bond Capital Project Fund			(905,428)
			-
			2,068,131
Total reconciling items			<u>24,838,355</u>
Change in net assets			<u>\$ 16,708,145</u>
			<u>\$ 31,587,792</u>
			<u>\$ 20,401,211</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Annexation Capital Reserve Fund
From Inception and for the Year Ended June 30, 2006**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 56,127	\$ 72,548	\$ 23,616	\$ 96,164
Total revenues	<u>56,127</u>	<u>72,548</u>	<u>23,616</u>	<u>96,164</u>
Revenues under expenditures	<u>56,127</u>	<u>72,548</u>	<u>23,616</u>	<u>96,164</u>
Other financing sources				
Transfer from Water and Wastewater fund	4,000,000	4,000,000	-	4,000,000
Transfer to Annexation Phase IV				
Capital Project Fund	(3,500,000)	(3,500,000)	-	(3,500,000)
Appropriated net assets	(556,127)	-	-	-
Total other financing sources	<u>(56,127)</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 572,548</u>	23,616	<u>\$ 596,164</u>
Reconciling items:				
Total reconciling items			-	
Change in net assets			<u>\$ 23,616</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Annexation Capital Project Fund - Phase IVB
From Inception and for the Year Ended June 30, 2006**

	Project Authorization	Total Prior Years	Current Year	Total
Revenues				
Interest earned on investments	\$ -	\$ 243,585	\$ 102,542	\$ 346,127
Total revenues	<u>-</u>	<u>243,585</u>	<u>102,542</u>	<u>346,127</u>
Expenditures				
Construction	-	7,321,673	4,261,239	11,582,912
Engineering	-	1,730,938	216,760	1,947,698
Rights of way	-	158,017	-	158,017
Less City of Fayetteville participation	-	(1,917,116)	(1,515,584)	(3,432,700)
Interest cost	-	-	234,268	234,268
Other	-	554,760	96,745	651,505
Total expenditures	<u>12,000,000</u>	<u>7,848,272</u>	<u>3,293,428</u>	<u>11,141,700</u>
Revenues under expenditures	<u>(12,000,000)</u>	<u>(7,604,687)</u>	<u>(3,190,886)</u>	<u>(10,795,573)</u>
Other financing sources				
Bond proceeds	12,000,000	11,000,000	-	11,000,000
Transfer from Annexation Phase IVA Fund	-	338,269	-	338,269
Total other financing sources	<u>12,000,000</u>	<u>11,338,269</u>	<u>-</u>	<u>11,338,269</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 3,733,582</u>	<u>(3,190,886)</u>	<u>\$ 542,696</u>
Reconciling items:				
Capital outlay			3,190,886	
Transfer of assets to the Water and Wastewater fund			(7,006,082)	
Change in net assets			<u>\$ (7,006,082)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of 2002 State Revolving Loan Capital Project Fund
From Inception and for the Year Ended June 30, 2006**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Construction	-	10,718,852	3,910,413	14,629,265
Engineering	-	1,261,324	276,061	1,537,385
Financing costs	-	-	267,595	267,595
Other/Contingency	-	350,244	(22,234)	328,010
Total expenditures	<u>17,442,000</u>	<u>12,330,420</u>	<u>4,431,835</u>	<u>16,762,255</u>
Revenues under expenditures	<u>(17,442,000)</u>	<u>(12,330,420)</u>	<u>(4,431,835)</u>	<u>(16,762,255)</u>
Other financing sources (uses)				
State revolving loan proceeds	17,442,000	11,831,042	4,658,773	16,489,815
Total other financing sources	<u>17,442,000</u>	<u>11,831,042</u>	<u>4,658,773</u>	<u>16,489,815</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ (499,378)</u>	226,938	<u>\$ (272,440)</u>
Reconciling items:				
Capital outlay			4,431,835	
Loan proceeds			(4,658,773)	
Transfer of assets to the Water and Wastewater fund			(3,684,694)	
Change in net assets			<u>\$ (3,684,694)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of 2003A Water and Wastewater Revenue Bond Capital Project Fund
From Inception and for the Year Ended June 30, 2006**

	Project Authorization	Total Prior Years	Current Year	Total
Revenue				
Interest earned on investments	\$ 135,000	\$ 54,645	\$ 12,332	\$ 66,977
Total revenues	<u>135,000</u>	<u>54,645</u>	<u>12,332</u>	<u>66,977</u>
Expenditures				
Construction	-	2,990,850	1,840,725	4,831,575
Engineering	-	165,555	69,406	234,961
Interest cost	-	-	28,173	28,173
Other	-	337,879	144,286	482,165
Total expenditures	<u>6,003,119</u>	<u>3,494,284</u>	<u>2,082,590</u>	<u>5,576,874</u>
Revenues under expenditures	<u>(5,868,119)</u>	<u>(3,439,639)</u>	<u>(2,070,258)</u>	<u>(5,509,897)</u>
Other financing sources (uses)				
2003 Revenue Bond proceeds	5,868,119	5,868,119	-	5,868,119
Transfer to Water and Wastewater fund	-	(199,052)	-	(199,052)
Total other financing sources	<u>5,868,119</u>	<u>5,669,067</u>	<u>-</u>	<u>5,669,067</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 2,229,428</u>	<u>(2,070,258)</u>	<u>\$ 159,170</u>
Reconciling items:				
Capital outlay			2,070,258	
Transfer of assets to the Water and Wastewater fund			(2,068,131)	
Change in net assets			<u>\$ (2,068,131)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Water Resources Rate Stabilization Capital Project Fund
From Inception and for the Year Ended June 30, 2006**

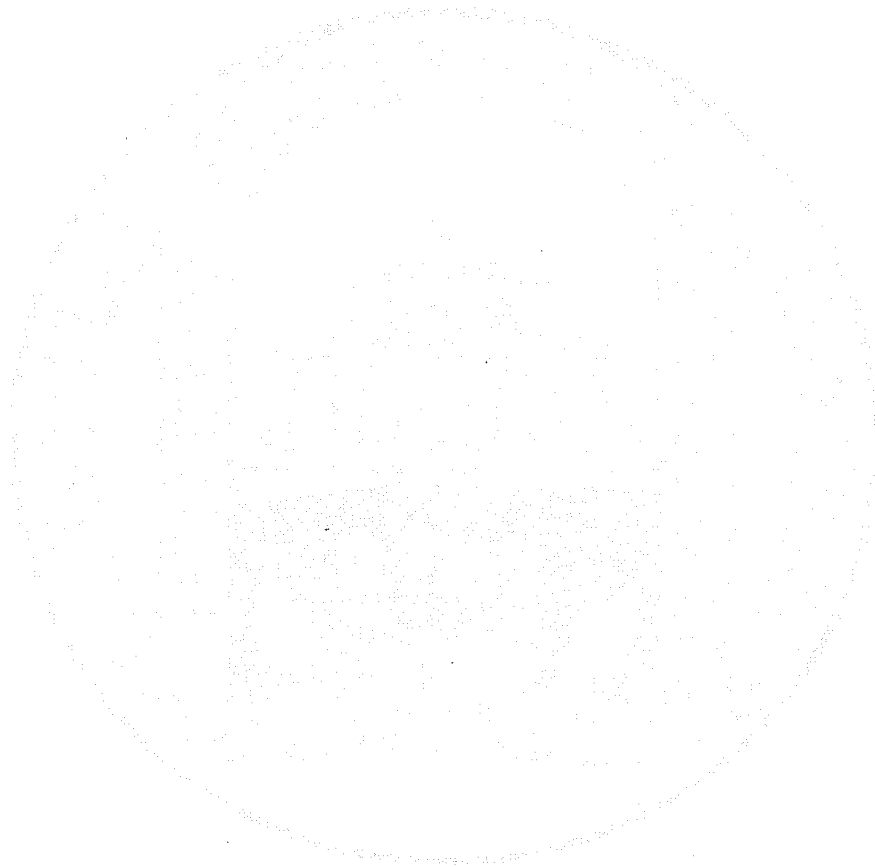
	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 19,000	\$ 41	\$ 20,694	\$ 20,735
Total revenues	<u>19,000</u>	<u>41</u>	<u>20,694</u>	<u>20,735</u>
Other financing sources				
Transfer from Water and Wastewater Fund	1,000,000	500,000	500,000	1,000,000
Appropriated net assets	(1,019,000)	-	-	-
Total other financing sources	<u>(19,000)</u>	<u>500,000</u>	<u>500,000</u>	<u>1,000,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 500,041</u>	520,694	<u>\$ 1,020,735</u>
Change in net assets			<u>\$ 520,694</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

NONMAJOR ENTERPRISE FUNDS



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2006**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets			
Current assets			
Cash and investments	\$ 515,185	\$ 3,483,683	\$ 3,998,868
Accounts receivable	505,296	473,070	978,366
Inventories	18,206	5,699	23,905
Restricted cash and investments	-	517,637	517,637
Total current assets	<u>1,038,687</u>	<u>4,480,089</u>	<u>5,518,776</u>
Noncurrent assets			
Other assets	-	66,000	66,000
Capital assets	2,602,494	21,757,596	24,360,090
Total noncurrent assets	<u>2,602,494</u>	<u>21,823,596</u>	<u>24,426,090</u>
Total assets	<u>\$ 3,641,181</u>	<u>\$ 26,303,685</u>	<u>\$ 29,944,866</u>
Liabilities and net assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 129,029	\$ 75,119	\$ 204,148
Interfund payables	-	344,471	344,471
Accrued vacation	103,077	59,534	162,611
Total current liabilities	<u>232,106</u>	<u>479,124</u>	<u>711,230</u>
Noncurrent liabilities			
Deferred revenues	1,350	20,275	21,625
Total noncurrent liabilities	<u>1,350</u>	<u>20,275</u>	<u>21,625</u>
Total liabilities	<u>233,456</u>	<u>499,399</u>	<u>732,855</u>
Net assets			
Invested in capital assets, net of related debt	2,602,494	21,757,596	24,360,090
Capital projects	-	517,637	517,637
Unrestricted	805,231	3,529,053	4,334,284
Total net assets	<u>3,407,725</u>	<u>25,804,286</u>	<u>29,212,011</u>
Total liabilities and net assets	<u>\$ 3,641,181</u>	<u>\$ 26,303,685</u>	<u>\$ 29,944,866</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
Year Ended June 30, 2006**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues			
Charges for services	\$ 776,564	\$ 2,531,533	\$ 3,308,097
Other revenue from operations	52,059	318,403	370,462
Total operating revenues	<u>828,623</u>	<u>2,849,936</u>	<u>3,678,559</u>
Operating expenses			
Personnel	2,363,953	1,037,452	3,401,405
Maintenance and operations	1,787,157	1,047,930	2,835,087
Depreciation	706,837	1,367,865	2,074,702
Total operating expenses	<u>4,857,947</u>	<u>3,453,247</u>	<u>8,311,194</u>
Operating income (loss)	<u>(4,029,324)</u>	<u>(603,311)</u>	<u>(4,632,635)</u>
Nonoperating revenue (expense)			
Interest earned on investments	-	97,294	97,294
Federal and State grants	2,097,336	242,147	2,339,483
Passenger facility charges	-	215,830	215,830
Miscellaneous revenue	-	84,297	84,297
Gain (loss) on disposal of capital assets	(2,547)	4,295	1,748
Interest expense	-	(21,588)	(21,588)
Amortization	-	(22,000)	(22,000)
Miscellaneous expense	-	(272,424)	(272,424)
Total nonoperating revenue (expense)	<u>2,094,789</u>	<u>327,851</u>	<u>2,422,640</u>
Income (loss) before transfers and contributions	<u>(1,934,535)</u>	<u>(275,460)</u>	<u>(2,209,995)</u>
Transfers in	1,200,778	-	1,200,778
Capital contributions	63,915	687,852	751,767
Change in net assets	<u>(669,842)</u>	<u>412,392</u>	<u>(257,450)</u>
Total net assets - beginning	<u>4,077,567</u>	<u>25,391,894</u>	<u>29,469,461</u>
Total net assets - ending	<u>\$ 3,407,725</u>	<u>\$ 25,804,286</u>	<u>\$ 29,212,011</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended June 30, 2006**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating activities			
Cash received from customers	\$ 549,371	\$ 2,830,447	\$ 3,379,818
Other operating revenue	53,409	298,768	352,177
Cash paid to or on behalf of employees for services	(2,348,281)	(1,025,634)	(3,373,915)
Cash paid for goods and services	(1,815,315)	(1,187,716)	(3,003,031)
Net cash provided by (used in) operating activities	<u>(3,560,816)</u>	<u>915,865</u>	<u>(2,644,951)</u>
Noncapital financing activities			
Transfers in	1,200,778	-	1,200,778
Federal and state grants	2,097,336	242,147	2,339,483
Nonoperating revenues	-	300,127	300,127
Other	-	(272,424)	(272,424)
Net cash provided (used) by noncapital financing activities	<u>3,298,114</u>	<u>269,850</u>	<u>3,567,964</u>
Capital and related financing activities			
Proceeds from sale of assets	(2,547)	4,295	1,748
Contributed capital received	63,915	687,852	751,767
Acquisition and construction of capital assets	(68,716)	(920,373)	(989,089)
Principal paid on debt maturities	-	(28,040)	(28,040)
Interest paid on debt maturities	-	(21,588)	(21,588)
Net cash provided (used) by capital and related financing activities	<u>(7,348)</u>	<u>(277,854)</u>	<u>(285,202)</u>
Investing activities			
Interest and dividends	-	97,294	97,294
Net cash provided (used) by investing activities	<u>-</u>	<u>97,294</u>	<u>97,294</u>
Net increase in cash and cash equivalents/investments	<u>(270,050)</u>	<u>1,005,155</u>	<u>735,105</u>
Cash and cash equivalents/investments			
Beginning of year	<u>785,235</u>	<u>2,996,165</u>	<u>3,781,400</u>
End of year	<u>\$ 515,185</u>	<u>\$ 4,001,320</u>	<u>\$ 4,516,505</u>
Cash and cash equivalents	\$ 515,185	\$ 4,001,320	\$ 4,516,505
Total cash and cash equivalents/investments	<u>\$ 515,185</u>	<u>\$ 4,001,320</u>	<u>\$ 4,516,505</u>
Unrestricted cash and equivalents/investments	\$ 515,185	\$ 3,483,683	\$ 3,998,868
Restricted cash and equivalents/investments	-	517,637	517,637
Total cash and cash equivalents/investments	<u>\$ 515,185</u>	<u>\$ 4,001,320</u>	<u>\$ 4,516,505</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended June 30, 2006**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (4,029,324)	\$ (603,311)	\$ (4,632,635)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	706,837	1,367,865	2,074,702
Change in assets and liabilities			
(Increase) decrease in accounts receivable	(227,066)	298,914	71,848
(Increase) decrease in inventory	(127)	(2,221)	(2,348)
Increase (decrease) in accounts payable and accrued liabilities	(28,158)	(137,565)	(165,723)
Increase (decrease) in accrued compensated absences	15,672	11,818	27,490
Increase (decrease) in deferred revenues	1,350	(19,635)	(18,285)
Total adjustments	<u>468,508</u>	<u>1,519,176</u>	<u>1,987,684</u>
Net cash provided by (used in) operating activities	<u>\$ (3,560,816)</u>	<u>\$ 915,865</u>	<u>\$ (2,644,951)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Transit Fund

Year Ended June 30, 2006

(With Comparative Actual Amounts For Year Ended June 30, 2005)

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Operating revenues				
Charges for services	\$ 811,600	\$ (35,036)	\$ 776,564	\$ 806,536
Other revenues from operations	27,200	24,859	52,059	29,548
Total operating revenues	<u>838,800</u>	<u>(10,177)</u>	<u>828,623</u>	<u>836,084</u>
Operating expenditures				
Personnel	2,412,439	64,158	2,348,281	2,402,623
Maintenance and operations	1,929,314	222,856	1,706,458	1,329,588
Total operating expenditures	<u>4,341,753</u>	<u>287,014</u>	<u>4,054,739</u>	<u>3,732,211</u>
Operating loss	<u>(3,502,953)</u>	<u>276,837</u>	<u>(3,226,116)</u>	<u>(2,896,127)</u>
Nonoperating revenues (expenses)				
Federal and State grants	1,902,839	122,499	2,025,338	1,771,097
Total nonoperating revenues (expenses)	<u>1,902,839</u>	<u>122,499</u>	<u>2,025,338</u>	<u>1,771,097</u>
Revenues under expenditures	<u>(1,600,114)</u>	<u>399,336</u>	<u>(1,200,778)</u>	<u>(1,125,030)</u>
Other financing sources (uses)				
Transfers in	1,600,114	(399,336)	1,200,778	1,113,640
Total other financing sources (uses)	<u>1,600,114</u>	<u>(399,336)</u>	<u>1,200,778</u>	<u>1,113,640</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,390)</u>
Reconciliation of change in net assets:				
Total revenues			\$ 4,054,739	\$ 3,720,821
Total expenditures			4,054,739	3,732,211
Subtotal			<u>-</u>	<u>(11,390)</u>
Depreciation			(706,837)	(803,782)
Change in inventory			128	10,703
Loss on disposal of assets			(6,188)	-
Decrease (increase) in accrued vacation			(15,672)	(8,124)
Subtotal			<u>(728,569)</u>	<u>(801,203)</u>
Change in net assets			<u>\$ (728,569)</u>	<u>\$ (812,593)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of
Transit Capital Project Fund**

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Federal grants	\$ 3,922,745	\$ 1,508,651	\$ 280,000	\$ 65,910	\$ 1,294,561
State grants	407,392	166,042	34,999	3,991	135,034
County	-	10,980	-	-	10,980
Miscellaneous	-	19,251	-	3,641	22,892
Total revenues	<u>4,330,137</u>	<u>1,704,924</u>	<u>314,999</u>	<u>73,542</u>	<u>1,463,467</u>
Expenditures					
FTA Capital 0229	-	350,000	350,000	-	-
FTA Capital 0244	813,625	813,625	-	-	813,625
FTA Capital 0271	1,238,560	720,977	-	39,748	760,725
FTA Capital 0292	35,000	-	-	34,998	34,998
FTA Capital 0313	1,239,430	1,215	-	7,475	8,690
FTA Capital 0327	940,000	-	-	165	165
FTA Capital 0357	555,000	-	-	-	-
FTA Capital 0378	20,000	-	-	-	-
Total expenditures	<u>4,841,615</u>	<u>1,885,817</u>	<u>350,000</u>	<u>82,386</u>	<u>1,618,203</u>
Revenues over (under) expenditures	<u>(511,478)</u>	<u>(180,893)</u>	<u>(35,001)</u>	<u>(8,844)</u>	<u>(154,736)</u>
Other financing sources (uses)					
Transfers in	471,478	577,629	35,001	-	542,628
Appropriated fund balance	40,000	-	-	-	-
Total other financing sources (uses)	<u>511,478</u>	<u>577,629</u>	<u>35,001</u>	<u>-</u>	<u>542,628</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 396,736</u>	<u>\$ -</u>	<u>\$ (8,844)</u>	<u>\$ 387,892</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ (8,844)	
Capital outlay				82,386	
Non-capitalizable items				(7,481)	
Change in net assets				<u>\$ 66,061</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Changes in the Status of
Transit II Capital Project Fund

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
Federal grants	\$ 362,600	\$ 322,884	\$ 120,000	\$ 58,676	\$ 261,560
State grants	112,825	40,468	15,000	7,336	32,804
Total intergovernmental	<u>475,425</u>	<u>363,352</u>	<u>135,000</u>	<u>66,012</u>	<u>294,364</u>
Miscellaneous					
Other	7,500	7,500	-	-	7,500
Total revenues	<u>482,925</u>	<u>370,852</u>	<u>135,000</u>	<u>66,012</u>	<u>301,864</u>
Expenditures					
Current					
Transportation	528,250	403,725	150,000	73,346	327,071
Total expenditures	<u>528,250</u>	<u>403,725</u>	<u>150,000</u>	<u>73,346</u>	<u>327,071</u>
Revenues over (under) expenditures	<u>(45,325)</u>	<u>(32,873)</u>	<u>(15,000)</u>	<u>(7,334)</u>	<u>(25,207)</u>
Other financing sources (uses)					
Transfers in	45,325	61,926	15,000	-	46,926
Total other financing sources (uses)	<u>45,325</u>	<u>61,926</u>	<u>15,000</u>	<u>-</u>	<u>46,926</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 29,053</u>	<u>\$ -</u>	<u>\$ (7,334)</u>	<u>\$ 21,719</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ (7,334)	
Change in net assets				\$ (7,334)	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures by Project
Transit II Capital Project Fund

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Expenditures by project:					
Transportation					
FTA 90.2292	\$ -	\$ 150,000	\$ 150,000	\$ -	\$ -
FTA 90.2313	153,250	148,474	-	4,776	153,250
FTA 90.2327	150,000	105,130	-	44,870	150,000
FTA 90.2357	150,000	-	-	23,700	23,700
NCDOT Trolley feasibility study	75,000	121	-	-	121
Total transportation	<u>528,250</u>	<u>403,725</u>	<u>150,000</u>	<u>73,346</u>	<u>327,071</u>
Total expenditures by project	<u>\$ 528,250</u>	<u>\$ 403,725</u>	<u>\$ 150,000</u>	<u>\$ 73,346</u>	<u>\$ 327,071</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Airport Fund**

**Year Ended June 30, 2006
(With Comparative Actual Amounts For Year Ended June 30, 2005)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2006 Actual</u>	<u>2005 Actual</u>
Operating revenues				
Charges for services	\$ 2,244,388	\$ 287,145	\$ 2,531,533	\$ 2,314,147
Other revenues from operations	258,177	60,226	318,403	288,326
Total operating revenues	<u>2,502,565</u>	<u>347,371</u>	<u>2,849,936</u>	<u>2,602,473</u>
Operating expenditures				
Personnel	1,043,504	17,870	1,025,634	961,868
Maintenance and operations	1,095,780	180,861	914,919	968,824
Capital outlay	68,150	68,150	-	130,044
Total operating expenditures	<u>2,207,434</u>	<u>266,881</u>	<u>1,940,553</u>	<u>2,060,736</u>
Operating income (loss)	<u>295,131</u>	<u>614,252</u>	<u>909,383</u>	<u>541,737</u>
Nonoperating revenues				
Interest earned on investments	17,000	46,898	63,898	19,450
Passenger facility charge	-	94,048	94,048	(1,146)
Miscellaneous	84,297	-	84,297	84,296
Federal and State grants	-	3,447	3,447	60,870
Proceeds from sale of assets	-	1,011	1,011	-
Total nonoperating revenues	<u>101,297</u>	<u>145,404</u>	<u>246,701</u>	<u>163,470</u>
Nonoperating expenditures				
Interest expense	21,588	-	21,588	23,217
Miscellaneous	29,595	29,595	-	-
Public safety reimbursements	289,329	16,905	272,424	271,023
Total nonoperating expenditures	<u>340,512</u>	<u>46,500</u>	<u>294,012</u>	<u>294,240</u>
Revenues over (under) expenditures	<u>55,916</u>	<u>806,156</u>	<u>862,072</u>	<u>410,967</u>
Other financing sources (uses)				
Transfers (out)	(118,039)	103,051	(14,988)	(177,850)
Debt service - principle payment	-	(28,040)	(28,040)	(26,411)
Appropriated fund balance	62,123	(62,123)	-	-
Total other financing sources (uses)	<u>(55,916)</u>	<u>12,888</u>	<u>(43,028)</u>	<u>(204,261)</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 819,044</u>	<u>\$ 819,044</u>	<u>\$ 206,706</u>
Reconciliation of change in net assets				
Total revenues			\$ 3,096,637	\$ 2,765,943
Total expenditures			2,277,593	2,559,237
Subtotal			<u>819,044</u>	<u>206,706</u>
Depreciation			(1,367,865)	(1,370,820)
Amortization			(22,000)	(22,000)
Change in accrued vacation			(11,818)	2,475
Change in inventory			2,221	495
Capital outlay			-	130,044
Principal payment			28,040	26,411
Subtotal			<u>(1,371,422)</u>	<u>(1,233,395)</u>
Change in net assets			<u>\$ (552,378)</u>	<u>\$ (1,026,689)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of
Airport Capital Project Fund**

From Inception And For Year Ended June 30, 2006

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Federal grants	\$ 8,042,800	\$ 5,385,564	\$ 534,631	\$ 889,754	\$ 5,740,687
State grants	557,818	250,215	39,688	36,798	247,325
Miscellaneous income	303,919	948,656	28,415	121,782	1,042,023
Investment income	25,000	86,674	11,770	33,396	108,300
Total revenues	<u>8,929,537</u>	<u>6,671,109</u>	<u>614,504</u>	<u>1,081,730</u>	<u>7,138,335</u>
Expenditures					
Airport Road Landscaping	-	49,163	49,163	-	-
Airport Road Construction	-	360,018	360,018	-	-
Jet Bridge Modification	-	38,887	38,887	-	-
Preplan Runway Safety Areas	-	108,600	108,600	-	-
Security system upgrade	-	91,511	91,511	-	-
NLVR/terminal rehab	2,502,737	2,418,836	-	3,752	2,422,588
Masterplan update & land	1,613,242	1,564,100	-	41,323	1,605,423
Loop Road Design	30,000	29,526	-	33	29,559
Local Match / Future Projects	349,000	-	-	-	-
Miscellaneous parking lot improvements	94,100	-	-	88,775	88,775
Obstruction clearing	1,504,396	1,466,681	-	11,014	1,477,695
Stormwater improvements	361,114	22,501	-	16,932	39,433
AIP-30 loop, building, beacon	3,203,716	-	-	807,686	807,686
Security system installation	38,000	-	-	25,801	25,801
Runway Centerline Paint	3,544	-	-	3,544	3,544
Airport Fire Training Facility	93,686	-	-	38,679	38,679
14 Unit T-Hanger	29,268	-	-	18,058	18,058
Total expenditures	<u>9,822,803</u>	<u>6,149,823</u>	<u>648,179</u>	<u>1,055,597</u>	<u>6,557,241</u>
Revenues over (under) expenditures	<u>(893,266)</u>	<u>521,286</u>	<u>(33,675)</u>	<u>26,133</u>	<u>581,094</u>
Other financing sources (uses)					
Transfers in	893,266	937,587	33,675	14,988	918,900
Proceeds from sale	-	-	-	3,284	3,284
Total other financing sources (uses)	<u>893,266</u>	<u>937,587</u>	<u>33,675</u>	<u>18,272</u>	<u>922,184</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 1,458,873</u>	<u>\$ -</u>	<u>\$ 44,405</u>	<u>\$ 1,503,278</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 44,405	
Capital outlay				1,055,597	
Non-capitalizable items				<u>(135,232)</u>	
Change in net assets				<u>\$ 964,770</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the City, on a cost reimbursement basis.

The following comprise the City's Internal Service Funds:

- * Warranty Fleet Fund
- * Fleet Maintenance Fund
- * Insurance Fund
- * PWC Fleet Maintenance Fund

All Internal Service Funds are accounted for using the accrual basis of accounting.

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Internal Service Funds
June 30, 2006**

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	PWC Fleet Maintenance Fund	Total
Assets					
Current assets					
Cash and investments	\$ 421,862	\$ 235,191	\$ 8,480,217	\$ -	\$ 9,137,270
Accounts receivable	2,151	1,421	44,456	463,158	511,186
Interfund receivable	-	-	-	(387,516)	(387,516)
Inventories	-	272,865	-	-	272,865
Prepaid expenses	-	-	481,008	-	481,008
Total current assets	424,013	509,477	9,005,681	75,642	10,014,813
Noncurrent assets					
Capital assets	415,942	168,226	46,628	1,787,269	2,418,065
Total noncurrent assets	415,942	168,226	46,628	1,787,269	2,418,065
Total assets	\$ 839,955	\$ 677,703	\$ 9,052,309	\$ 1,862,911	\$ 12,432,878
Liabilities and net assets					
Current liabilities					
Accounts payable and accrued expenses	\$ -	\$ 80,376	\$ 3,251,685	\$ 301,642	\$ 3,633,703
Current portion of long term debt	-	-	-	1,317	1,317
Accrued vacation	-	-	15,886	-	15,886
Total current liabilities	-	80,376	3,267,571	302,959	3,650,906
Noncurrent liabilities					
Deferred revenues	-	-	13,320	-	13,320
Long-term debt	-	-	-	3,212	3,212
Total noncurrent liabilities	-	-	13,320	3,212	16,532
Total liabilities	-	80,376	3,280,891	306,171	3,667,438
Net assets					
Invested in capital assets, net of related debt	415,942	168,226	46,628	1,787,269	2,418,065
Unrestricted	424,013	429,101	5,724,790	(230,529)	6,347,375
Total net assets	839,955	597,327	5,771,418	1,556,740	8,765,440
Total liabilities and net assets	\$ 839,955	\$ 677,703	\$ 9,052,309	\$ 1,862,911	\$ 12,432,878

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2006**

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	PWC Fleet Maintenance Fund	Total
Operating revenues					
Other revenue from operations	\$ -	\$ -	\$ 1,333,977	\$ -	\$ 1,333,977
Interfund charges and employee contributions	223,635	-	12,727,491	4,841,109	17,792,235
Total operating revenues	<u>223,635</u>	<u>-</u>	<u>14,061,468</u>	<u>4,841,109</u>	<u>19,126,212</u>
Operating expenses					
Personnel	-	(6,537)	327,385	-	320,848
Maintenance and operations	113,815	-	11,870,354	5,062,838	17,047,007
Depreciation	91,116	3,266	16,956	110,827	222,165
Total operating expenses	<u>204,931</u>	<u>(3,271)</u>	<u>12,214,695</u>	<u>5,173,665</u>	<u>17,590,020</u>
Operating income (loss)	<u>18,704</u>	<u>3,271</u>	<u>1,846,773</u>	<u>(332,556)</u>	<u>1,536,192</u>
Nonoperating revenue (expense)					
Interest earned on investments	9,526	6,581	204,678	-	220,785
Gain (loss) on disposal of capital assets	6,775	1,065	-	8,796	16,636
Total nonoperating revenue (expense)	<u>16,301</u>	<u>7,646</u>	<u>204,678</u>	<u>8,796</u>	<u>237,421</u>
Income (loss) before transfers and contributions	<u>35,005</u>	<u>10,917</u>	<u>2,051,451</u>	<u>(323,760)</u>	<u>1,773,613</u>
Transfers in	200,000	-	-	1,880,500	2,080,500
Change in net assets	235,005	10,917	2,051,451	1,556,740	3,854,113
Total net assets - beginning	<u>604,950</u>	<u>586,410</u>	<u>3,719,967</u>	<u>-</u>	<u>4,911,327</u>
Total net assets - ending	<u>\$ 839,955</u>	<u>\$ 597,327</u>	<u>\$ 5,771,418</u>	<u>\$ 1,556,740</u>	<u>\$ 8,765,440</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2006

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	PWC Fleet Maintenance Fund	Total
Operating activities					
Cash received from customers	\$ 232,113	\$ -	\$ 12,732,450	\$ 4,377,951	\$ 17,342,514
Other operating revenue	-	-	1,333,977	-	1,333,977
Cash received as deferred revenues	-	-	9,967	-	9,967
Cash paid to or on behalf of employees for services	-	-	(327,095)	-	(327,095)
Cash paid for goods and services	(114,221)	(59,595)	(12,450,551)	(4,369,151)	(16,993,518)
Net cash provided by (used in) operating activities	117,892	(59,595)	1,298,748	8,800	1,365,845
Noncapital financing activities					
Transfers in	200,000	-	-	67,500	267,500
Net cash provided (used) by noncapital financing activities	200,000	-	-	67,500	267,500
Capital and related financing activities					
Proceeds from sale of assets	6,775	1,065	-	9,620	17,460
Acquisition and construction of capital assets	-	17,215	(10,425)	(85,920)	(79,130)
Principal paid on debt maturities	-	(9,415)	-	-	(9,415)
Other capital asset transactions	(505,464)	-	-	-	(505,464)
Net cash provided (used) by capital and related financing activities	(498,689)	8,865	(10,425)	(76,300)	(576,549)
Investing activities					
Interest and dividends	9,526	6,581	204,678	-	220,785
Net cash provided (used) by investing activities	9,526	6,581	204,678	-	220,785
Net increase in cash and cash equivalents/investments	(171,271)	(44,149)	1,493,001	-	1,277,581
Cash and cash equivalents/investments					
Beginning of year	593,133	279,340	6,987,216	-	7,859,689
End of year	\$ 421,862	\$ 235,191	\$ 8,480,217	\$ -	\$ 9,137,270
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 18,704	\$ 3,271	\$ 1,846,773	\$ (332,556)	\$ 1,536,192
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	91,116	3,266	16,956	110,827	222,165
Change in assets and liabilities					
(Increase) decrease in accounts receivable	8,478	110,447	4,959	(463,158)	(339,274)
(Increase) decrease in inventory	-	3,681	-	-	3,681
(Increase) decrease in prepaid items	-	-	(315,175)	-	(315,175)
(Increase) decrease in internal balances	-	-	-	387,516	387,516
Increase (decrease) in accounts payable and accrued liabilities	(406)	(173,723)	(265,022)	301,642	(137,509)
Increase (decrease) in accrued compensated absences	-	(6,537)	290	4,529	(1,718)
Increase (decrease) in deferred revenues	-	-	9,967	-	9,967
Total adjustments	99,188	(62,866)	(548,025)	341,356	(170,347)
Net cash provided by (used in) operating activities	\$ 117,892	\$ (59,595)	\$ 1,298,748	\$ 8,800	\$ 1,365,845
Noncash investing, capital, and financing activities:					
Transfer of assets between funds	\$ -	\$ -	\$ -	\$ 1,813,000	\$ 1,813,000

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Warranty Fleet Fund

Year Ended June 30, 2006
(With Comparative Actual Amounts For Year Ended June 30, 2005)

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 183,712	\$ 39,923	\$ 223,635	\$ 179,474
Total operating revenues	<u>183,712</u>	<u>39,923</u>	<u>223,635</u>	<u>179,474</u>
Operating expenditures				
Maintenance and operations	118,016	4,201	113,815	68,883
Capital outlay	623,000	117,537	505,463	-
Total operating expenditures	<u>741,016</u>	<u>121,738</u>	<u>619,278</u>	<u>68,883</u>
Operating income (loss)	<u>(557,304)</u>	<u>161,661</u>	<u>(395,643)</u>	<u>110,591</u>
Nonoperating revenues (expenditures)				
Interest earned on investments	8,600	926	9,526	42,397
Miscellaneous	(25,000)	25,000	-	-
Proceeds from disposal of capital assets	-	6,775	6,775	1,403
Total nonoperating revenues (expenditures)	<u>(16,400)</u>	<u>32,701</u>	<u>16,301</u>	<u>43,800</u>
Revenues over (under) expenditures	<u>(573,704)</u>	<u>194,362</u>	<u>(379,342)</u>	<u>154,391</u>
Other financing sources (uses)				
Transfers in	200,000	-	200,000	-
Transfers (out)	-	-	-	(1,000,000)
Appropriated fund balance	373,704	(373,704)	-	-
Total other financing sources (uses)	<u>573,704</u>	<u>(373,704)</u>	<u>200,000</u>	<u>(1,000,000)</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (179,342)</u>	<u>\$ (179,342)</u>	<u>\$ (845,609)</u>
Reconciliation to change in net assets:				
Total revenues			\$ 439,936	\$ 223,274
Total expenditures			619,278	1,068,883
Subtotal			<u>(179,342)</u>	<u>(845,609)</u>
Depreciation			(91,116)	(1,196)
Capital outlay			505,463	
Subtotal			<u>414,347</u>	<u>(1,196)</u>
Change in net assets			<u>\$ 235,005</u>	<u>\$ (846,805)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Fleet Maintenance Fund

Year Ended June 30, 2006
(With Comparative Actual Amounts For Year Ended June 30, 2005)

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Operating revenues				
Interfund charges and employee contributions	\$ -	\$ -	\$ -	\$ 1,165,079
Other revenues from operations	-	-	-	733
Total operating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,165,812</u>
Operating expenditures				
Personnel	-	6,537	(6,537)	1,089,730
Maintenance and operations	-	-	-	136,476
Total operating expenditures	<u>-</u>	<u>6,537</u>	<u>(6,537)</u>	<u>1,226,206</u>
Operating income (loss)	<u>-</u>	<u>6,537</u>	<u>6,537</u>	<u>(60,394)</u>
Nonoperating revenues (expenditures)				
Interest earned	-	6,581	6,581	3,671
Interest expense	-	-	-	(310)
Proceeds from disposal of capital assets	-	1,065	1,065	-
Total nonoperating revenue (expenditures)	<u>-</u>	<u>7,646</u>	<u>7,646</u>	<u>3,361</u>
Revenues over (under) expenditures	<u>-</u>	<u>14,183</u>	<u>14,183</u>	<u>(57,033)</u>
Other financing sources (uses)				
Principal payments	-	-	-	(2,237)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,237)</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 14,183</u>	<u>\$ 14,183</u>	<u>\$ (59,270)</u>
Reconciliation to change in net assets:				
Total revenues			\$ 7,646	\$ 1,169,173
Total expenditures			(6,537)	1,228,443
Subtotal			<u>14,183</u>	<u>(59,270)</u>
Depreciation			(3,266)	(20,784)
Principal payments			-	2,237
Subtotal			<u>(3,266)</u>	<u>(18,547)</u>
Change in net assets			<u>\$ 10,917</u>	<u>\$ (77,817)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Insurance Fund

Year Ended June 30, 2006

(With Comparative Actual Amounts For Year Ended June 30, 2005)

	Budget	Variance Positive (Negative)	2006 Actual	2005 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 12,519,065	\$ 208,426	\$ 12,727,491	\$ 12,075,629
Other revenues from operations	945,792	388,185	1,333,977	98,989
Total operating revenues	<u>13,464,857</u>	<u>596,611</u>	<u>14,061,468</u>	<u>12,174,618</u>
Operating expenditures				
Personnel	342,983	15,888	327,095	370,632
Maintenance and operations	13,100,349	796,500	12,303,849	11,447,566
Capital outlay	16,525	16,525	-	-
Total operating expenditures	<u>13,459,857</u>	<u>828,913</u>	<u>12,630,944</u>	<u>11,818,198</u>
Operating income (loss)	<u>5,000</u>	<u>1,425,524</u>	<u>1,430,524</u>	<u>356,420</u>
Nonoperating revenues (expenditures)				
Interest earned on investments	145,000	59,678	204,678	189,960
Misellaneous	(225,000)	225,000	-	-
Total nonoperating revenue (expenditures)	<u>(80,000)</u>	<u>284,678</u>	<u>204,678</u>	<u>189,960</u>
Revenues over (under) expenditures	<u>(75,000)</u>	<u>1,710,202</u>	<u>1,635,202</u>	<u>546,380</u>
Other financing sources (uses)				
Appropriated fund balance	75,000	(75,000)	-	-
Total other financing sources (uses)	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 1,635,202</u>	<u>\$ 1,635,202</u>	<u>\$ 546,380</u>
Reconciliation to change in net assets:				
Total revenues			\$ 14,266,146	\$ 12,364,578
Total expenditures			12,630,944	11,818,198
Subtotal			<u>1,635,202</u>	<u>546,380</u>
Depreciation			(16,956)	(14,280)
Decrease (increase) in accrued vacation			(290)	9,276
Decrease (increase) in insurance liability			433,495	(73,604)
Subtotal			<u>416,249</u>	<u>(78,608)</u>
Change in net assets			<u>\$ 2,051,451</u>	<u>\$ 467,772</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues and Expenditures - Budget and Actual (Non GAAP) -
PWC Fleet Maintenance Fund**

**Year ended June 30, 2006
(with comparative actual amounts for the year ended June 30, 2005)**

	2006			2005 Actual
	Budget	Variance Positive (Negative)	Actual	
Revenues				
Operating revenues				
City services	\$ 2,928,214	\$ 421,516	\$ 3,349,730	\$ -
PWC services	2,004,286	(513,885)	1,490,401	-
Other revenue	-	978	978	-
Total operating revenues	<u>4,932,500</u>	<u>(91,391)</u>	<u>4,841,109</u>	<u>-</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	8,796	8,796	-
Total non-operating revenues	<u>-</u>	<u>8,796</u>	<u>8,796</u>	<u>-</u>
Transfers in				
Transfers from Electric Fund	33,750	-	33,750	-
Transfers from Water and Wastewater Fund	33,750	-	33,750	-
Total non-operating revenues	<u>67,500</u>	<u>-</u>	<u>67,500</u>	<u>-</u>
Total revenues	<u>\$ 5,000,000</u>	<u>\$ (82,595)</u>	<u>\$ 4,917,405</u>	<u>\$ -</u>
Expenditures				
Operating expenditures				
Fleet Maintenance	\$ 4,932,500	\$ 130,338	\$ 5,062,838	\$ -
Total operating expenditures	<u>4,932,500</u>	<u>130,338</u>	<u>5,062,838</u>	<u>-</u>
Budgetary appropriations				
Capital outlay	67,500	17,970	85,470	-
Total budgetary appropriations	<u>67,500</u>	<u>17,970</u>	<u>85,470</u>	<u>-</u>
Total expenditures	<u>\$ 5,000,000</u>	<u>\$ 148,308</u>	<u>\$ 5,148,308</u>	<u>\$ -</u>
Reconciliation of changes in net assets				
Total revenues	\$ 5,000,000	\$ (82,595)	\$ 4,917,405	\$ -
Total expenditures	5,000,000	148,308	5,148,308	-
Subtotal	<u>\$ -</u>	<u>\$ (230,903)</u>	<u>(230,903)</u>	<u>\$ -</u>
Reconciling items:				
Budgetary appropriations			85,470	
Depreciation			(110,827)	
Transfer of assets (to) / from Electric Fund			907,572	
Transfer of assets (to) / from Water / Wastewater Fund			905,428	
Change in net assets			<u>\$ 1,556,740</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FIDUCIARY FUNDS

- * Pension Trust Funds
- * Private-purpose Trust Funds

The focus of Fiduciary Fund measurement differs among the various types of funds that may be encompassed by this classification.

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

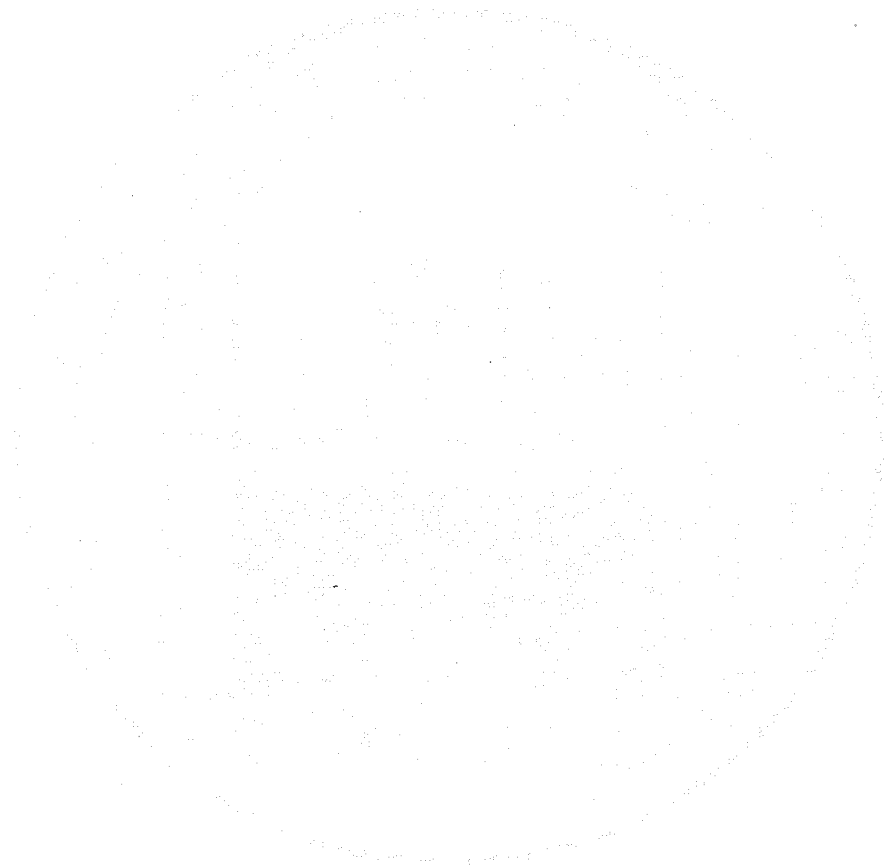
TRUST FUNDS

Trust Funds are used to account for assets held by the City in a trustee capacity.

The following comprise the City's Trust Funds:

- * Pension Trust Funds
 - ** Special Separation Allowance Trust Fund
 - ** PWC Supplemental Pension Trust Fund

- * Private-purpose Trust Funds
 - ** Police Benefit Trust Fund
 - ** Firemen's Relief Trust Fund



CITY OF FAYETTEVILLE, NORTH CAROLINA

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City of Fayetteville, North Carolina

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2006

	Special Separation Allowance Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
Assets			
Cash and investments	\$ 1,962,140	\$ 4,149,640	\$ 6,111,780
Accounts receivable	11,402	-	11,402
Total assets	<u>1,973,542</u>	<u>4,149,640</u>	<u>6,123,182</u>
Liabilities			
Accounts payable	5,732	-	5,732
Total liabilities	<u>5,732</u>	<u>-</u>	<u>5,732</u>
Net assets			
Pension benefits	1,967,810	4,149,640	6,117,450
Total net assets	<u>\$ 1,967,810</u>	<u>\$ 4,149,640</u>	<u>\$ 6,117,450</u>

City of Fayetteville, North Carolina
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
Year Ended June 30, 2006

	Special Separation Allowance Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
Additions			
Contributions	\$ 418,762	\$ -	\$ 418,762
Investment earnings	52,585	199,344	251,929
Total additions	<u>471,347</u>	<u>199,344</u>	<u>670,691</u>
Deductions			
Benefit payments and premiums	301,567	164,303	465,870
Total deductions	<u>301,567</u>	<u>164,303</u>	<u>465,870</u>
Change in net assets	169,780	35,041	204,821
Total net assets - beginning	<u>1,798,030</u>	<u>4,114,599</u>	<u>5,912,629</u>
Total net assets - ending	<u>\$ 1,967,810</u>	<u>\$ 4,149,640</u>	<u>\$ 6,117,450</u>

City of Fayetteville, North Carolina
Combining Statement of Fiduciary Net Assets
Private-purpose Trust Funds
June 30, 2006

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
Assets			
Cash and investments	\$ 3,612	\$ 1,288,559	\$ 1,292,171
Accounts receivable	24	12,078	12,102
Total assets	<u>3,636</u>	<u>1,300,637</u>	<u>1,304,273</u>
Liabilities			
Accounts payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Held in Trust for benefits and other purposes	3,636	1,300,637	1,304,273
Total net assets	<u>\$ 3,636</u>	<u>\$ 1,300,637</u>	<u>\$ 1,304,273</u>

City of Fayetteville, North Carolina

**Combining Statement of Changes in Fiduciary Net Assets
Private-purpose Trust Funds
Year Ended June 30, 2006**

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
Additions			
Other revenue from operations	\$ -	\$ 30,417	\$ 30,417
Contributions	50	109,071	109,121
Investment earnings	112	51,354	51,466
Total additions	162	190,842	191,004
Deductions			
Benefit payments and premiums	-	140,848	140,848
Total deductions	-	140,848	140,848
Change in net assets	162	49,994	50,156
Total net assets - beginning	3,474	1,250,643	1,254,117
Total net assets - ending	\$ 3,636	\$ 1,300,637	\$ 1,304,273

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

OTHER SUPPLEMENTAL FINANCIAL DATA

Other supplemental data is presented to provide a more detailed view of the current tax levy and taxes receivable. These schedules are not funds and do not measure results of operations.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Current Tax Levy

Year Ended June 30, 2006

	<u>Total Property Valuation</u>	<u>Rate Per \$100</u>	<u>Amount of Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
General Fund	\$ 7,868,262,947	\$ 0.530	\$ 41,701,794	\$ 35,886,040	\$ 5,815,754
Late Listing Penalties:					
General Fund			44,541	44,541	-
Subtotal			<u>41,746,335</u>	<u>35,930,581</u>	<u>5,815,754</u>
Discoveries:					
General Fund	47,177,660	0.530	250,042	217,198	32,844
Late Listing Penalties:					
General Fund			42,131	42,131	-
Subtotal			<u>292,173</u>	<u>259,329</u>	<u>32,844</u>
Releases:					
General Fund	(135,052,725)	0.530	(715,780)	(112,040)	(603,740)
Late Listing Penalties:					
General Fund			(11,640)	(11,640)	-
Subtotal			<u>(727,420)</u>	<u>(123,680)</u>	<u>(603,740)</u>
Adjusted Tax Levy			<u>41,311,088</u>	<u>36,066,230</u>	<u>5,244,858</u>
Uncollected Current Year Taxes at 6/30/2006			<u>(1,455,517)</u>	<u>(463,855)</u>	<u>(991,662)</u>
City-wide Current Year's Taxes Collected			<u>\$ 39,855,571</u>	<u>\$ 35,602,375</u>	<u>\$ 4,253,196</u>
City-wide Current Levy Collection Percentage			<u>96.48%</u>	<u>98.71%</u>	<u>81.09%</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Taxes Receivable

June 30, 2006

Fiscal Year Ended	Uncollected Balance June 30, 2005	Additions	Collections & Credits	Uncollected Balance June 30, 2006
2006	\$ -	\$ 41,311,088	\$ 39,855,571	\$ 1,455,517
2006 Annexation	-	6,400,613	-	6,400,613
2005	1,372,253	(95,023)	953,104	324,126
2004	470,788	(11,784)	198,375	260,629
All Prior	1,645,215	(23,364)	313,487	1,308,364
	<u>3,488,256</u>	<u>\$ 47,581,530</u>	<u>\$ 41,320,537</u>	<u>9,749,249</u>
Less: Allowance for Uncollectible Taxes				
General Fund	(738,829)			(736,695)
	<u>\$ 2,749,427</u>			<u>\$ 9,012,554</u>
General Fund Taxes Receivable				9,377,480
Less: Phase V Annexation				(6,400,613)
Less: CBTD Taxes Receivable				(5,146)
Less: Vehicle License Fee Receivable				(359,779)
General Fund Ad Valorem Taxes Receivable				<u>\$ 2,611,942</u>

Reconciliations of collections and credit
with revenues

Ad Valorem Taxes per the fund financial statements	\$ 41,590,985
Barred by State Statute-General Fund	124,225
Less Penalties & Interest	(315,425)
Less Taxes - CBTD	(79,248)
	<u>\$ 41,320,537</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

STATISTICAL SECTION

City of Fayetteville, North Carolina
Net Assets by Component
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

Schedule 1

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Activities					
Invested in capital assets, net of related debt	\$ 248,607,997	\$ 256,858,830	\$ 252,737,261	\$ 263,057,769	\$ 351,170,168
Restricted for:					
Other purposes	283,297	-	2,369,817	2,446,529	2,702,713
Unrestricted	52,692,952	53,401,259	60,110,564	63,005,016	69,369,779
Total governmental activities net assets	<u>\$ 301,584,246</u>	<u>\$ 310,260,089</u>	<u>\$ 315,217,642</u>	<u>\$ 328,509,314</u>	<u>\$ 423,242,660</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 379,321,259	\$ 384,181,318	\$ 384,136,802	\$ 426,048,564	\$ 432,390,389
Restricted for:					
Capital projects	4,572,922	-	10,953,452	512,536	527,965
Debt service	3,294,937	25,695	8,998,444	817,633	808,520
Other purposes	-	10,501,859	-	-	-
Unrestricted	72,534,455	69,785,451	71,918,803	73,155,311	97,657,374
Total business-type activities net assets	<u>\$ 459,723,573</u>	<u>\$ 464,494,323</u>	<u>\$ 476,007,501</u>	<u>\$ 500,534,044</u>	<u>\$ 531,384,248</u>
Primary Government					
Invested in capital assets, net of related debt	\$ 627,929,256	\$ 641,040,148	\$ 636,874,063	\$ 689,106,333	\$ 783,560,557
Restricted for:					
Capital projects	4,572,922	-	10,953,452	512,536	527,965
Debt service	3,294,937	25,695	8,998,444	817,633	808,520
Other purposes	283,297	10,501,859	2,369,817	2,446,529	2,702,713
Unrestricted	125,227,407	123,186,710	132,029,367	136,160,327	167,027,153
Total primary government net assets	<u>\$ 761,307,819</u>	<u>\$ 774,754,412</u>	<u>\$ 791,225,143</u>	<u>\$ 829,043,358</u>	<u>\$ 954,626,908</u>

Note: The City of Fayetteville, North Carolina implemented GASB Statement 34 in Fiscal Year 2002. In the future, up to nine (9) prior years will be presented with the current year to illustrate the City's financial performance over time.

City of Fayetteville, North Carolina
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

Schedule 2

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental Activities					
Administration	\$ 8,501,997	\$ 12,384,637	\$ 10,560,827	\$ 11,641,665	\$ 13,268,585
Public safety	39,896,830	40,577,161	43,682,505	47,285,832	52,752,676
Environmental protection	6,450,217	7,957,261	8,871,462	7,514,882	9,940,477
Transportation	12,091,432	12,123,658	13,846,642	14,018,733	17,115,971
Economic and physical development	7,407,147	5,459,943	4,416,477	5,827,998	5,132,048
Recreation and community facilities	6,371,366	6,525,688	6,134,504	9,305,228	10,501,677
Debt Service:					
Interest and fees	2,999,151	2,783,912	2,542,194	2,541,380	2,786,700
Total governmental activities	83,718,140	87,812,260	90,054,611	98,135,718	111,498,134
Business type activities					
Electric	123,644,452	142,761,403	132,677,111	131,305,788	137,856,324
Water and wastewater	43,949,463	45,973,455	44,147,344	45,275,518	45,859,650
Transit	5,223,850	5,073,264	5,021,030	4,910,142	4,864,135
Airport	3,435,908	3,570,780	3,450,196	3,806,671	3,769,259
Total business-type activities	176,253,673	197,378,902	185,295,681	185,298,119	192,349,368
Total primary government	\$ 259,971,813	\$ 285,191,162	\$ 275,350,292	\$ 283,433,837	\$ 303,847,502
Program Revenues					
Governmental Activities					
Administration					
Charges for services	652,799	670,144	719,892	728,451	702,004
Operating grants and contributions	1,720	5,325	5,215	7,501	5,632
Capital grants and contributions	-	-	-	-	-
Public Safety					
Charges for services	1,541,852	1,883,207	2,138,108	2,661,753	4,446,932
Operating grants and contributions	822,450	1,113,043	1,345,821	2,489,423	480,476
Capital grants and contributions	183,122	133,554	5,750	514,389	367,540
Environmental Protection					
Charges for services	38,943	52,591	66,150	23,956	80,998
Operating grants and contributions	61,000	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Transportation					
Charges for services	1,206,998	1,146,925	1,454,034	1,466,881	537,081
Operating grants and contributions	4,191,727	3,919,568	3,920,822	4,254,601	3,833,510

City of Fayetteville, North Carolina
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

Schedule 2

	Fiscal Year				
	2002	2003	2004	2005	2006
Capital grants and contributions	-	-	-	-	98,785
<i>Economic and physical development</i>					
Charges for services	1,208,072	79,387	1,073,627	715,099	57,172
Operating grants and contributions	2,739,278	3,262,985	1,792,478	2,743,690	1,742,466
Capital grants and contributions	-	-	1,526,900	2,060,539	2,423,512
<i>Recreation and community facilities</i>					
Charges for services	376,497	394,012	436,338	756,482	4,151,275
Operating grants and contributions	70,118	309,789	107,587	3,572,557	60,386
Capital grants and contributions	-	-	1,162,746	992,963	2,161,508
Total governmental activities programs	13,094,576	12,970,530	15,755,468	22,988,285	21,149,277
Business-type activities:					
Electric					
Charges for services	139,814,919	145,617,727	141,981,920	146,069,329	155,773,020
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	1,596,355	3,632,702	116,186	951,384	178,965
Water and wastewater					
Charges for services	43,703,832	43,008,035	45,282,126	47,044,634	51,508,272
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	7,184,899	8,605,351	8,029,173	13,900,547	14,125,818
Transit					
Charges for services	1,058,298	1,128,706	842,658	836,084	828,623
Operating grants and contributions	1,541,766	1,553,753	1,888,267	1,900,622	2,097,336
Capital grants and contributions	280,513	234,884	269,732	417,242	63,915
Airport					
Charges for services	1,977,915	2,353,279	2,119,754	2,406,129	2,849,936
Operating grants and contributions	-	118,315	14,799	-	-
Capital grants and contributions	2,193,558	1,991,289	2,002,812	2,418,216	1,145,829
Total business-type activities program	199,352,055	208,244,041	202,547,427	215,944,187	228,571,714
Total primary government program	\$ 212,446,631	\$ 221,214,571	\$ 218,302,895	\$ 238,932,472	\$ 249,720,991
Net (expense)/revenue					
Governmental activities	\$ (70,623,564)	\$ (74,841,730)	\$ (74,299,143)	\$ (75,147,433)	\$ (90,348,857)
Business-type activities	23,098,382	10,865,139	17,251,746	30,646,068	36,222,346
Total primary government net expense	\$ (47,525,182)	\$ (63,976,591)	\$ (57,047,397)	\$ (44,501,365)	\$ (54,126,511)

City of Fayetteville, North Carolina
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

Schedule 2

	Fiscal Year				
	2002	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets					
Governmental activities					
Ad valorem taxes	\$ 33,613,509	\$ 34,094,378	\$ 38,495,985	\$ 39,344,522	\$ 47,823,150
Other taxes	24,432,855	28,116,817	31,127,455	34,023,971	35,863,026
Unrestricted grants and contributions	370,032	547,091	569,087	571,232	578,491
Interest earned on investments	1,637,590	1,197,764	507,806	1,752,579	2,327,165
Miscellaneous	577,662	878,760	385,105	908,208	169,866
Gain on sale of capital assets	-	-	-	-	162,992
Transfers	7,142,178	7,902,191	8,171,258	8,418,200	8,601,682
Special Item	-	-	-	-	89,555,831
Total governmental activities	67,773,826	72,737,001	79,256,696	85,018,712	185,082,203
Business-type activities:					
Interest earned on investments	2,011,865	1,723,505	1,493,186	2,018,035	3,137,307
Miscellaneous	84,297	84,297	237,004	280,640	84,297
Transfers	(7,142,178)	(7,902,191)	(8,171,258)	(8,418,200)	7,936
Extraordinary item	-	-	702,500	-	(8,601,682)
Total business-type activities	(5,046,016)	(6,094,389)	(5,738,568)	(6,119,525)	(5,372,142)
Total primary government	\$ 62,727,810	\$ 66,642,612	\$ 73,518,128	\$ 78,899,187	\$ 179,710,061
Change in Net Assets					
Governmental activities	\$ (2,849,738)	\$ (2,104,729)	\$ 4,957,553	\$ 9,871,279	\$ 94,733,346
Business-type activities	18,052,366	4,770,750	11,513,178	24,526,543	30,850,204
Total primary government	\$ 15,202,628	\$ 2,666,021	\$ 16,470,731	\$ 34,397,822	\$ 125,583,550

Note: The City of Fayetteville, North Carolina implemented GASB Statement 34 in Fiscal Year 2002. In the future, up to nine (9) prior years will be presented with the current year to illustrate the City's financial performance over time.

City of Fayetteville, North Carolina
Fund Balances of Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year					Schedule 3
	2002	2003	2004	2005	2006	
General Fund						
Reserved	\$ 10,953,223	\$ 7,177,302	\$ 13,309,127	\$ 12,567,572	\$ 14,222,851	
Unreserved	19,237,973	22,078,476	28,495,129	31,396,476	29,273,909	
Total General Fund	<u>\$ 30,191,196</u>	<u>\$ 29,255,778</u>	<u>\$ 41,804,256</u>	<u>\$ 43,964,048</u>	<u>\$ 43,496,760</u>	
All other governmental funds						
Reserved	\$ 5,852,530	\$ 6,493,914	\$ 6,991,081	\$ 10,827,524	\$ 8,445,918	
Unreserved, reported in nonmajor:						
Special Revenue	3,664,707	2,915,937	2,217,571	2,332,563	2,402,644	
Capital Projects	5,372,153	6,246,683	4,213,485	12,668,139	8,842,547	
Total all other governmental funds	<u>\$ 14,889,390</u>	<u>\$ 15,656,534</u>	<u>\$ 13,422,137</u>	<u>\$ 25,828,226</u>	<u>\$ 19,691,109</u>	

Note: The City of Fayetteville, North Carolina implemented GASB Statement 34 in Fiscal Year 2002. In the future, up to nine (9) prior years will be presented with the current year to illustrate the City's financial performance over time.

City of Fayetteville, North Carolina
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

Schedule 4

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Ad valorem taxes	\$ 25,197,906	\$ 26,107,396	\$ 30,758,552	\$ 30,787,063	\$ 32,172,931	\$ 33,134,815	\$ 33,720,313	\$ 38,431,862	\$ 39,622,100	\$ 41,590,985
Other taxes	21,826,224	21,394,866	21,924,134	25,374,149	27,642,970	24,850,324	27,850,682	32,436,194	34,036,280	35,870,262
Intergovernmental	8,463,615	7,733,615	8,885,553	7,891,425	8,687,256	7,743,589	8,516,675	9,037,443	14,751,881	12,418,414
Other functional	2,503,652	2,970,352	2,752,238	2,870,264	3,256,015	3,124,847	3,494,800	3,925,901	5,003,604	6,015,649
Miscellaneous	1,181,270	1,084,726	1,298,114	1,623,688	1,759,276	2,107,275	2,153,238	2,366,356	3,903,274	5,117,571
Interest earned on investments	2,311,758	2,412,345	2,205,971	2,477,143	3,158,392	1,596,673	1,067,942	422,368	1,558,697	1,892,615
Total revenues	61,484,425	61,303,300	67,814,562	71,023,732	76,676,840	72,557,523	76,803,650	86,840,124	96,877,836	102,905,466
Expenditures										
Administration	5,447,688	5,126,170	7,690,771	8,582,433	9,176,326	8,469,918	8,025,614	10,665,364	11,600,043	13,235,511
Public safety	29,208,071	28,645,082	33,217,258	33,407,412	37,731,170	37,257,328	36,812,655	41,790,686	44,146,545	50,841,673
Environmental protection	6,613,791	6,415,949	5,449,574	6,036,349	6,828,421	5,889,095	7,591,417	8,605,600	6,500,062	8,970,319
Transportation	8,097,291	7,725,972	10,286,792	7,587,626	8,627,325	3,191,279	3,191,898	4,563,545	4,581,644	4,532,368
Economic and physical development	12,002,635	17,341,832	11,080,269	11,401,635	8,777,075	7,373,482	6,481,655	3,957,976	6,792,621	5,676,733
Recreation and community facilities	8,227,876	8,262,064	9,613,029	6,764,087	6,990,847	5,914,160	5,981,710	5,509,353	8,776,625	9,868,685
Capital outlay ¹	-	-	-	-	6,990,847	8,730,230	7,178,066	12,201,995	20,236,090	17,185,840
Debt Service	-	-	-	-	-	-	-	-	-	-
Principal	3,191,631	3,653,713	4,760,663	4,699,331	4,500,741	4,969,074	4,747,232	5,240,181	6,997,440	8,478,146
Interest and fees	1,844,776	2,154,390	2,343,706	3,420,671	3,909,097	2,959,845	2,811,461	2,506,413	2,262,103	2,956,522
Insurance costs	-	-	-	-	-	-	103,985	58,084	368,693	-
Total expenditures	\$ 74,633,759	\$ 79,328,172	\$ 84,442,062	\$ 81,699,544	\$ 86,541,002	\$ 84,754,401	\$ 84,925,893	\$ 95,119,217	\$ 112,262,066	\$ 121,745,998
Excess of revenues over (under) expenditures	(13,149,334)	(18,024,872)	(16,627,500)	(10,875,812)	(9,864,162)	(12,196,878)	(8,122,243)	(8,479,093)	(13,384,230)	(18,840,502)
Other financing sources (uses)										
Refunding Bonds	-	-	-	-	-	-	-	-	-	-
Proceeds from capital leases, bonds and other debt	35,115,591	8,079,135	8,039,016	-	8,016,688	785,283	9,188,034	3,815,605	21,261,589	-
Transfers in	18,806,622	15,784,788	13,002,452	17,883,042	15,257,175	11,937,097	14,479,695	13,972,839	3,104,407	3,894,415
Transfers out	(12,096,542)	(7,482,899)	(5,999,976)	(6,853,081)	(6,853,081)	(4,801,624)	(6,907,096)	(5,801,581)	(5,916,009)	(8,391,728)
Payment to refund bond escrow agent	(6,299,049)	-	-	-	-	-	(5,469,212)	(3,788,439)	(6,265,297)	-
Premium on bonds	-	-	-	-	-	-	-	-	431,212	-
Total other financing sources (uses)	35,526,622	15,781,024	15,041,492	11,982,157	16,420,782	7,920,756	12,453,969	16,268,852	27,950,111	12,236,097
Net change in fund balances	\$ 22,377,268	\$ (2,243,848)	\$ (1,566,008)	\$ 1,106,345	\$ 6,556,620	\$ (4,276,122)	\$ 4,331,726	\$ 7,789,759	\$ 14,565,681	\$ (6,604,405)
Debt service as a percentage of noncapital expenditures	6.75%	7.32%	8.41%	9.91%	9.72%	10.43%	9.86%	9.41%	10.46%	10.94%

¹ Pre-GASB 34 capital outlay is not reflected.

City of Fayetteville, North Carolina
 Tax Revenues By Source, Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (Unaudited)

Schedule 5

Fiscal Year	Ad Valorem	Sales Tax	Utility Franchise Tax	Intangible Tax Reimbursement	Homestead Exemption	Tax Reimbursements	Vehicle License Tax	Privilege License	Cablevision and Other Franchise Tax ¹	Vehicle Gross Receipt	Subscribers' Tax	Wireless 911	Storm Water	Total
2006	\$ 41,590,985	\$ 23,457,449	\$ 5,602,548	\$ -	\$ -	\$ -	\$ 533,750	\$ 815,156	\$ 1,918,758	\$ 373,114	\$ 728,655	\$ 221,644	\$ 2,218,988	\$ 77,461,247
2005	39,622,100	22,543,521	5,245,207	-	-	-	469,488	731,719	1,547,289	344,913	802,557	194,283	2,159,303	73,660,380
2004	38,431,862	20,698,993	5,121,788	-	-	-	444,521	684,806	2,016,045	305,860	882,425	158,745	2,123,011	70,868,056
2003	33,720,313	16,876,147	5,239,363	-	-	-	408,016	691,861	1,249,399	302,685	879,552	176,400	2,027,259	61,570,985
2002	33,134,815	15,273,911	3,033,407	580,752	-	-	401,327	691,231	1,103,721	299,598	896,241	146,529	1,982,215	57,985,139
2001	32,172,931	16,160,376	4,771,319	598,325	40,584	441,392	396,590	637,682	1,217,802	269,824	900,193	117,408	1,958,410	59,933,309
2000	30,787,063	15,945,010	3,908,055	589,539	40,584	788,292	386,300	285,843	459,000	-	890,570	155,114	1,925,842	56,161,212
1999	28,899,738	15,145,211	3,035,748	609,950	54,008	795,307	349,289	266,200	804,530	-	863,891	-	1,858,814	52,682,686
1998	26,107,396	13,374,166	2,682,098	615,822	54,008	783,792	335,963	241,384	723,191	-	784,482	-	1,799,960	47,502,262
1997	25,197,906	12,963,737	3,750,329	605,029	40,584	781,061	275,185	223,589	726,346	-	743,300	-	1,717,064	47,024,130

¹ In fiscal year 1999, 2000, 2001 and 2003 telecommunications franchise tax were included in totals.

City of Fayetteville, North Carolina
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)

Schedule 6

Fiscal Year Ended June 30	Real Property	Personal Property	Public Services Property	Less: Tax Exempt Real Property ²	Total Assessed Value	City General Tax Rate	Estimated Actual Taxable Value	Sales Assessment Ratio
2006	\$ 6,275,715,436	1,431,355,898	\$ 138,799,665	\$ 65,483,117	\$ 7,780,387,882	\$0.530	\$ 8,414,869,005	92.46%
2005	6,119,634,059	1,207,511,007	133,171,846	63,057,620	7,397,259,292	0.530	7,522,891,581	98.33%
2004 ⁴	6,022,674,221	1,150,100,683	127,680,027	61,704,378	7,238,750,553	0.530	7,238,750,553	100.00%
2003	5,101,782,633	1,196,714,445	120,570,113	-	6,419,067,191	0.530	6,826,616,177	94.03%
2002	5,043,337,806	1,203,550,936	135,768,309	-	6,382,657,051	0.530	6,884,540,018	92.71%
2001	4,874,168,452	1,146,688,353	134,301,127	-	6,155,157,932	0.530	6,423,667,222	95.82%
2000	4,785,838,121	1,175,928,710	123,944,198	-	6,085,711,029	0.510	6,284,943,746	96.83%
1999	4,589,090,096	1,012,291,548	110,058,489	-	5,711,440,133	0.510	5,832,165,969	97.93%
1998	4,321,506,428	915,032,010	101,138,324	-	5,337,676,762	0.495	5,337,676,762	100.00%
1997 ⁴	4,296,066,736	801,108,100	97,979,266	-	5,195,154,102	0.495	5,195,154,102	100.00%

Source: Cumberland County Tax Office

Note: A revaluation of real property is required by North Carolina General Statutes at least every eight years. Last revaluation occurred in calendar year 2003. Property is assessed at actual value; therefore, the assessed values are equal to actual value.

¹ Public service companies' property includes real and personal property of utilities, railroad and business, etc. These assessments are made by the North Carolina Department of Revenue with no distinction between real and personal property.

² Exempt real estate only. Fiscal year 1997 through 2003 real property exemptions are reflected in real property.

³ Estimated actual values and the ratio of total assessed value to total estimated actual value have been adjusted to reflect updated sales assessment ratio percentages from the North Carolina Department of Revenue.

⁴ Denotes the year in which a revaluation was effective January 1st and reflected in the following fiscal year's property value.

Source: Cumberland County Tax Office

City of Fayetteville, North Carolina
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Per \$100 of Assessed Value)
(Unaudited)

Schedule 7

Fiscal Year Ended June 30	City General Tax Rate		Central Business Tax District Rate		Overlapping Rates ¹	
	City General Tax Rate	Central Business Tax District Rate	Overlapping Rates ¹	Cumberland County	County wide	
2006	\$0.530	\$0.100	\$0.880			
2005	0.530	0.100	0.880			
2004	0.530	0.100	0.880			
2003	0.530	0.100	0.925			
2002	0.530	0.100	0.925			
2001	0.530	0.100	0.900			
2000	0.510	0.100	0.840			
1999	0.510	0.100	0.840			
1998	0.495	0.063	0.750			
1997	0.495	0.063	0.750			

Source: Cumberland County Tax Office

¹ Overlapping rates are those of local and county governments that apply to property owners within the City of Fayetteville.

City of Fayetteville, North Carolina
Principal Property Taxpayers
Ten Year Comparison
(Unaudited)

Schedule 8

	2006 ¹			1997 ²		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Cumberland Associates				\$ 70,000,000	1	1.35%
Carolina Telephone and Telegraph Co.	68,824,258	2	0.88%	54,688,081	2	1.05%
Edward Rose Building Co.	14,538,147	9	0.19%	15,500,000	3	0.30%
Village at Cliffdale, LLC				14,400,000	4	0.28%
SMIC - Fayetteville, Inc.				12,500,000	5	0.24%
NC Natural Gas Corporation				12,406,869	6	0.23%
Chason Ridge Partners, Ltd.				11,684,040	7	0.23%
Heart of Fayetteville Motel				11,515,556	8	0.22%
Hospital Corp. of America				10,521,616	9	0.20%
Loch Haven Builders				10,350,000	10	0.20%
Cross Creek Mall LLC	72,650,500	1	0.93%			
Centurion Aviation Services	43,787,500	3	0.56%			
Piedmont Natural Gas Co Inc	32,623,440	4	0.42%			
UDRT of North Carolina	30,953,800	5	0.40%			
Fayetteville Publishing Company	22,466,672	6	0.29%			
Cross Creek Phase 1 LLC	17,911,425	7	0.23%			
Morganton Development LLC	16,929,398	8	0.22%			
Inland Southeast Fayetteville	13,620,300	10	0.18%			
	<u>\$ 334,305,440</u>		<u>4.30%</u>	<u>\$ 223,566,162</u>		<u>4.30%</u>

¹ Assessed valuations are as of January 1, 2005 and the associated tax levies were due in the fiscal year ended June 30, 2006.

² Assessed valuations are as of January 1, 1996 and the associated tax levies were due in the fiscal year ended June 30, 1997.

Source: Cumberland County Tax Office

City of Fayetteville, North Carolina
Property Tax Levies and Collections ¹
Last Ten Fiscal Years
(Unaudited)

Schedule 9

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years		Total Collections to Date	
		Amount	Percentage of Levy	Amount	Percentage of Levy	Amount	Percentage of Levy
2006	² \$ 41,311,089	\$ 39,855,571	96.48%	\$ -	-	\$ 39,855,571	96.48%
2005	39,252,202	37,879,950	96.50%	911,557	911,557	38,791,507	98.83%
2004	38,404,079	36,806,753	95.84%	1,202,965	1,202,965	38,009,718	98.97%
2003	34,059,814	32,457,441	95.30%	1,248,409	1,248,409	33,705,850	98.96%
2002	33,878,837	32,405,548	95.65%	1,141,667	1,141,667	33,547,215	99.02%
2001	32,664,323	31,510,275	96.47%	896,961	896,961	32,407,236	99.21%
2000	31,085,792	30,049,940	96.67%	739,751	739,751	30,789,691	99.05%
1999	29,244,301	28,153,785	96.27%	775,394	775,394	28,929,179	98.92%
1998	26,421,499	25,459,299	96.36%	714,442	714,442	26,173,741	99.06%
1997	25,716,013	24,718,282	96.12%	757,915	757,915	25,476,197	99.07%

¹ Schedule reflects the general tax levy only.

² Does not include \$6,400,613 in 2005 real and personal property taxes related to the Phase V annexation areas since payment of these taxes will be due in three installments in fiscal years 2007 through 2009 as a result of legislation approved by the North Carolina General Assembly in May 2006.

Source: Cumberland County Tax Office

City of Fayetteville, North Carolina
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

Schedule 10

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	Bonded Debt	Capitalized Leases	Notes Payable	Obligation Bonds	Revenue Bonds	Notes Payable	Government				
2006	\$52,240,000	\$ 14,203,330	\$ 65,000	\$ 2,705,000	\$ 173,565,000	\$ 136,357,559	\$ 379,135,889	N/A	\$ 2,170		
2005	57,485,000	13,551,475	125,000	3,640,000	184,320,000	18,303,144	277,424,619	N/A	2,123		
2004	46,470,000	13,341,744	185,000	4,585,000	194,630,000	11,867,713	271,079,457	0.01%	2,073		
2003	50,265,000	6,479,845	245,000	15,560,000	178,910,000	6,835,614	258,295,459	0.01%	2,078		
2002	49,735,000	6,424,530	305,000	18,335,000	170,915,000	7,215,371	252,929,901	0.01%	2,021		
2001	53,145,000	7,059,976	365,000	21,155,000	177,000,000	7,573,603	266,298,579	0.01%	2,087		
2000	50,425,000	7,092,993	425,000	24,010,000	181,140,000	4,500,110	267,593,103	0.01%	2,140		
1999	53,675,000	8,850,371	485,000	26,890,000	166,325,000	-	256,225,371	0.01%	2,084		
1998	48,765,000	10,458,447	545,000	29,750,000	169,860,000	-	259,378,447	0.01%	2,311		
1997	50,385,000	4,427,536	500,000	32,605,000	132,360,000	-	220,277,536	0.01%	1,940		

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

¹ See schedule 15 for per capita personal income and population data.

City of Fayetteville, North Carolina
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)

Schedule 11

Fiscal Year	General Bonded Debt Outstanding			Total Primary Government	Percentage of Actual Total Assessed Value of Property 1		Per Capita ¹
	General Obligation Bonds	Revenue Bonds			Property 1		
2006	\$ 54,945,000	\$ 173,565,000	\$	\$ 228,510,000	2.94%	\$	1,308
2005	61,125,000	184,320,000		245,445,000	3.32%		1,878
2004	51,055,000	194,630,000		245,685,000	3.39%		1,879
2003	65,825,000	178,910,000		244,735,000	3.81%		1,969
2002	68,070,000	170,915,000		238,985,000	3.74%		1,910
2001	74,300,000	177,000,000		251,300,000	4.08%		1,969
2000	74,435,000	181,140,000		255,575,000	4.20%		2,044
1999	80,565,000	166,325,000		246,890,000	4.32%		2,008
1998	78,515,000	169,860,000		248,375,000	4.65%		2,213
1997	82,990,000	132,360,000		215,350,000	4.15%		1,896

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

¹ See Schedule 6 for property value data.

² Population data can be found in Schedule 16.

City of Fayetteville, North Carolina
Direct and Overlapping Governmental Activities Debt
For the fiscal year ending June 30, 2006
(Unaudited)

Schedule 12

Governmental Unit	Debt Outstanding ¹	Estimated Percentage Applicable	Estimated share of Overlapping Debt
Debt repaid with property taxes:			
Cumberland County	\$ 182,833,534	51.23%	\$ 93,665,190
Subtotal, overlapping debt			93,665,190
City of Fayetteville direct debt			66,508,330
Total direct and overlapping debt			<u>\$ 160,173,520</u>

Sources: Assessed value data used to estimate applicable percentages provided by the Cumberland County Tax Administrator. Debt outstanding provided by Cumberland County.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of The City of Fayetteville. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of Cumberland County's taxable assessed value that is within the city's boundaries and dividing it by Cumberland County's total taxable assessed value.

City of Fayetteville, North Carolina
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)
(Unaudited)

Schedule 13

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt Limit	\$ 415,612,328	\$ 427,014,141	\$ 456,915,211	\$ 486,856,882	\$ 492,412,635	\$ 510,612,564	\$ 513,525,375	\$ 579,100,044	\$ 591,780,743	\$ 622,431,031
Total net debt applicable to limit	\$ 87,917,536	\$ 89,518,447	\$ 89,900,371	\$ 86,453,103	\$ 89,298,579	\$ 82,014,901	\$ 79,385,459	\$ 76,449,457	\$ 93,104,619	\$ 91,755,888
Legal debt margin	\$ 327,694,792	\$ 337,495,694	\$ 367,014,840	\$ 400,403,779	\$ 403,114,056	\$ 428,597,663	\$ 434,139,916	\$ 502,650,587	\$ 498,676,124	\$ 530,675,142

Total net debt applicable to the limit as a percentage of debt limit

	21.15%	20.96%	19.68%	17.76%	18.13%	16.06%	15.46%	13.20%	15.73%	14.74%
--	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

Legal Debt Margin Calculation for Fiscal Year 2005

Assessed Value	
Debt Limit (8% of total assessed value)	\$ 7,780,387,882
Debt applicable to limit:	
Bonded debt	622,431,031
Notes payable	54,945,000
Capitalized leases	22,607,558
Subtotal	14,203,330
Authorized and unissued debt	91,755,888
Total Gross Debt	91,755,888
Less: Statutory deductions	-
Bonds issued and outstanding for water and sewer purposes	-
Authorized and unissued debt	-
Total amount of debt applicable to debt limit	91,755,888
Legal debt margin	\$530,675,142

City of Fayetteville, North Carolina
Demographic and Economic Statistics
Last Ten Calendar Years
(Unaudited)

Schedule 15

Year	Population ¹	Personal Income	Per Capita Personal Income ²	School Enrollment ³	Unemployment Rate ⁴	Retail Sales in Billions \$	
						City	County
2006	174,747	(a) N/A	N/A	53,403	N/A	\$2,062(c)	\$2,505(c)
2005	130,692	N/A	N/A	53,399	5.7%	2,987	3,684
2004	130,762	3,847,671,850	29,425	53,092	5.5%	2,680	3,352
2003	124,319	3,420,140,009	27,511	52,223	6.5%	2,421	3,018
2002	125,155	3,271,301,390	26,138	51,725	7.0%	2,420 (b)	2,974 (b)
2001	127,602	3,152,917,818	24,709	51,243	6.1%	2,499	3,023
2000	125,043	2,988,652,743	23,901	51,349	4.5%	2,537	3,019
1999	122,925	2,788,184,850	22,682	51,315	3.9%	2,458	2,910
1998	112,231	2,468,520,845	21,995	50,965	4.2%	2,401	2,853
1997	113,561	2,404,086,370	21,170	50,870	4.4%	2,362	2,856

Sources:

1. Office of State Budget and Management, Certified Municipal Population Estimates at June, 30 prior to fiscal year begin.
- (a) Fiscal Year 2006 population figure includes the June 30, 2005 certified population estimate, plus an estimated 43,776 residents annexed effective September 30, 2005.
2. Bureau of Economic Development, US Department of Commerce. Per capita income for Cumberland County.
- Data for 2005 and 2006 not available.
3. Cumberland County Schools, District Profile.
4. Bureau of Labor Statistics, US Department of Labor. Calendar year unemployment statistics for Cumberland County.
- Data for 2006 not available.
5. North Carolina Department of Revenue, Policy Analysis and Statistics Division. State Sales and Use Tax Statistics.
- (b) Tax reporting changed to add use tax effective December 2001.
- (c) Tax reporting changed to reflect only taxable sales effective July 2005.

City of Fayetteville, North Carolina
Principal Employers ¹
Current Year and Nine Years Ago
(Unaudited)

Schedule 16

Employer	2006			1997		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
U.S. Dept. of Defense (Civil Service, Nonappropriated and Contracts)	8,857	1	7.03%	7,400	1	6.53%
Cumberland County Schools	6,447	2	5.12%	6,900	2	6.09%
Cape Fear Valley Health System	4,100	3	3.25%	3,200	3	2.82%
Goodyear Tire & Rubber Company	2,560	4	2.03%	3,200	3	2.82%
Cumberland County	2,500	5	1.98%	2,350	5	2.07%
City of Fayetteville (Incl. P.W.C.)	1,959	6	1.56%	1,766	6	1.56%
U.S. Postal Service	1,312	7	1.04%	1,370	9	1.21%
Fayetteville Technical Community College	1,250	8	0.99%	1,180	10	1.04%
Purulator Products, Inc.	1,150	9	0.91%	1,400	7	1.23%
M.J. Softe Company Inc.	1,100	10	0.87%	-	-	-
Black & Decker Manufacturing Co.	-	-	-	1,400	7	1.23%
Total Employment (Ten Largest Civilian Employers)	31,235		24.80%	30,166		26.61%

¹ Civilian employment only. Excludes approximately 48,000 military personnel in 2006 and 42,000 military personnel in 1997.

Source: Fayetteville Area Economic Development Commission

City of Fayetteville, North Carolina
 Full-time City Government Employees by Function
 Last Ten Fiscal Years
 (Unaudited)

Schedule 17

	Fiscal Year Ended									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Administration	112	117	120	114	89	92	85	84	85	76
Public Safety	624	643	634	642	650	662	674	751	800	806
Environmental Protection	81	85	81	89	90	85	101	101	108	91
Transportation	80	72	80	72	68	64	54	53	60	57
Economic and physical development	12	13	13	14	11	11	10	11	10	14
Recreation and community facilities	110	116	112	106	104	98	78	120	127	115
Electric	272	272	264	259	236	241	246	244	244	254
Internal Service	33	38	38	38	31	28	30	32	45	45
Water	168	165	171	170	158	155	154	154	153	145
Wastewater	144	138	145	141	132	131	133	134	135	133
Transit	63	65	61	66	63	63	59	48	53	52
Airport	22	20	20	19	14	13	13	13	15	14
Total	1,721	1,744	1,739	1,730	1,646	1,643	1,637	1,745	1,835	1,802

Source: City Finance Office Annual Cost Allocation Plan and Public Works Commission

City of Fayetteville, North Carolina
 Operating Indicators by Function/Program
 Last Ten Fiscal Years
 (Unaudited)

Schedule 18

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Safety										
Fire (1)										
Emergency responses	12,180	13,311	13,930	14,686	14,993	14,345	13,991	14,424	15,397	14,067 (2)
Fires extinguished	1,012	1,133	1,012	961	1,225	1,133	818	867	985	861 (2)
Fire inspections	2,841	3,955	3,432	5,785	4,633	3,286	4,860	3,358	3,369	3,713 (2)
Police (1)										
Number of law violations:										
Physical arrests	N/A	N/A	N/A	7,352	7,445	8,282	7,912	7,668	7,864	6,068 (3)
Traffic citations	N/A	N/A	N/A	18,791	26,639	37,440	28,653	26,944	22,171	13,985 (3)
Warning citations	N/A	N/A	N/A	13,559	12,915	13,386	9,669	9,026	11,528	7,995 (3)
Calls for service	188,000	187,500	191,498	179,226	186,305	189,468	174,353	185,200	191,331	154,436 (3)
Inspections										
Number of permits issued:										
Residential:										
New single family	257	200	237	165	189	188	277	335	388	691
New multi-family (apts/condominiums)										
Number of units	265	458	496	570	244	681	355	514	713	1,111
Renovations	660	640	622	695	715	623	672	735	750	1,095
Commercial:										
New	74	98	71	65	66	49	50	63	61	93
Renovations	321	326	383	324	357	302	305	300	307	281
Other:										
Miscellaneous	9,904	10,406	13,721	11,478	11,709	11,117	11,789	11,653	12,716	16,695
Yard sale	1,097	1,079	1,121	1,049	1,012	995	945	1,173	1,075	1,202

City of Fayetteville, North Carolina
Operating Indicators by Function/Program
Last Ten Fiscal Years
(Unaudited)

Schedule 18

Cultural and Recreational										
Youth Sports participants	N/A	N/A	4,582	4,704	3,705	5,078	4,689	7,905	11,953 (4)	12,718 (4)
Adult Sports participants	N/A	N/A	220	120	825	1,720	1,795	1,797	2,267 (4)	1,768 (4)
Senior participants	N/A	N/A	N/A	N/A	N/A	N/A	N/A	39,189	53,136 (4)	54,172 (4)
Therapeutic participants	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	26,926 (4)
Park programs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	25,209 (4)
Special events	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5,415 (4)
Permitted events	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	44 (4)
Mobile stage/bleacher rentals	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	48 (4)
Transportation										
Street Maintenance										
Street resurfacing (miles)	15.62	11.92	15.22	12.23	15.05	14.54	9.58	6.89	12.15	8.82
Streets maintained (miles)	425.43	461.01	478.11	479.83	496.21	496.07	523.52	529.53	532.22	688.65
Number of traffic signals maintained (e)	128	128	130	162	162	162	166	170	169	175
Engineering										
Driveway permits (residential)	N/A	N/A	N/A	N/A	N/A	N/A	255	217	345	433
Driveway permits (commercial)	N/A	N/A	N/A	N/A	N/A	N/A	52	40	66	33
Environmental Protection										
Solid Waste										
Refuse Collection										
Public Utilities										
Water System:										
Water main breaks	96	170	130	85	217	157	155	126	152	119
Average daily consumption (Mgals) (e)	22,543,623	23,119,192	24,403,724	23,212,730	22,677,475	22,405,895	20,932,532	20,523,921	20,634,921	21,850,332
Peaks (MGD) (e) (7)	38.1	39.1	42.5	37.8	38.9	33.5	33.3	30.8	33.4	32.6
Total sold (Mgals) (e)	7,787,788	8,014,334	8,523,554	8,074,364	7,867,876	7,843,308	7,303,494	7,039,476	7,136,082	7,561,199

City of Fayetteville, North Carolina
Operating Indicators by Function/Program
Last Ten Fiscal Years
(Unaudited)

Schedule 18

Sewer System:											
Main breaks	N/A	N/A	N/A	N/A	N/A	61	89	175	122	149	208
Average daily consumption (Mgals) (6)	15,054,479	15,526,027	16,111,951	15,474,581	15,014,956	15,220,893	15,220,893	14,954,674	14,940,534	15,337,249	15,810,000
Peaks (MGD) (7)	27.1	31.9	25.9	28.8	24.1	23.1	23.1	27.0	32.0	28.1	26.6
Total sold (Mgals) (8)	5,479,462	5,648,586	5,855,058	5,624,086	5,463,296	5,541,613	5,541,613	5,458,456	5,453,295	5,583,643	5,754,784
Electric System:											
Electric outages (minutes)	N/A	N/A	N/A	5,461,584	2,952,259	4,925,916	4,925,916	10,376,012	7,279,107	3,449,900	3,450,039
Peaks (MW) (9)	392.7	417.0	430.7	438.1	437.0	441.4	441.4	443.4	440.1	439.3	474.5
Total Kwh sold (10)	1,764,717,912	1,869,196,892	1,949,528,942	1,976,502,319	1,986,525,100	1,937,714,341	1,937,714,341	2,047,025,958	2,041,587,543	2,022,146,431	2,060,681,493
Average daily consumption (Kwh)	5,194,100	5,706,308	5,474,525	5,555,070	5,650,185	5,514,211	5,514,211	5,748,623	5,717,142	5,664,179	5,764,771
Airport											
Number of enplaned passengers	160,143	167,382	160,298	151,609	143,154	124,551	124,551	121,438	135,346	163,458	147,731
Number of deplaned passengers	159,175	168,446	161,985	152,813	145,039	128,115	128,115	125,417	135,364	163,382	146,762

- (1) Statistics for the fire and police functions are based on calendar years
- (2) Statistics for the Fire Department for 2006 are reflected through October 5, 2006
- (3) Statistics for the Police Department for 2006 are reflected through October 9, 2006
- (4) Statistics reflects the merger of Cumberland County and City of Fayetteville Parks and Recreation Departments
- (5) Reflects highest monthly average
- (6) Reflects the number of traffic signals maintained and owned by the City of Fayetteville
- (7) MGD = 1,000,000 gallons per day
- (8) Mgal = 1,000 gallons
- (9) MW = megawatts
- (10) Kwh = kilowatt hours

Source: Information provided by various city departments and Public Works Commission

City of Fayetteville, North Carolina
 Capital Assets Statistics by Function
 Last Ten Fiscal Years
 (Unaudited)

Schedule 19

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Safety										
Fire										
Number of stations	8	9	9	10	10	10	11	13	13	15
Police										
Number of stations	2	2	2	2	2	2	2	2	2	2
Cultural and Recreational										
Mini parks (.5 - 3 acres)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13
Neighborhood parks (7 - 15 acres)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13
Community parks (30 - 50 acres)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7
Sports complexes (40 - 80 acres)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2
Green spaces	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7
Neighborhood school-parks	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	32
Community school-parks	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1
Linear parks	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3
Special use parks	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12
Program sites	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8
Regional parks (100 - 250 acres)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4

City of Fayetteville, North Carolina
Capital Assets Statistics by Function
Last Ten Fiscal Years
(Unaudited)

Schedule 19

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Utilities										
Water System:										
Miles of water main	N/A	N/A	N/A	N/A	1,123.4	1,146.9	1,162.1	1,179.3	1,198.2	1,229.0
Number of new service connections	1,320	1,359	1,555	1,478	1,650	2,027	3,284	2,300	2,360	2,962
Maximum daily capacity of treatment plant (MGD) (1)	50.0	50.0	50.0	50.0	50.0	50.0	50.0	57.5	57.5	57.5
Storage capacity (MGD) (1)	36.1	36.1	36.1	36.1	36.1	36.1	36.1	36.1	36.1	36.1
Sewer System:										
Number of new service connections	1,008	997	1,798	1,243	2,214	2,363	2,253	2,408	2,299	3,142
Miles of sanitary/storm sewer	N/A	N/A	N/A	N/A	967.9	1,005.4	1,021.3	1,039.8	1,051.0	1,092.0
Maximum daily capacity of treatment plant (MGD) (1)	34.0	36.0	36.0	36.0	36.0	41.0	41.0	41.0	41.0	41.0
Electric System:										
Number of new service connections	584	825	981	799	451	966	1,051	1,251	1,426	2,245
Distribution line circuit miles	2,192.00	2,237.00	2,386.00	2,437.00	2,321.00	2,401.00	2,609.95	2,572.00	2,750.50	2,781.86
Transportation										
Street Maintenance										
Streets maintained (miles)	425.43	461.01	478.11	479.83	496.21	496.07	523.52	529.53	532.22	688.65
Number of traffic signals (2)	24	24	26	27	27	27	27	27	27	29

(1) Includes all vehicles assigned to Police Department

(1) MGD = 1,000,000 gallons per day

(2) Reflects the number of traffic signals owned by the City of Fayetteville

Source: Information provided by various city departments and Public Works Commission

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

**OMB CIRCULAR A-133 AND
STATE SINGLE AUDIT IMPLEMENTATION ACT
COMPLIANCE SECTION**

- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act
- Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Year Audit Findings
- Schedule of Expenditures of Federal and State Awards



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

The Honorable Mayor
and Members of the City Council
City of Fayetteville, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fayetteville, North Carolina, (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 23, 2006. 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.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated October 23, 2006.

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

Cherry, Bekaert & Holland CP

Fayetteville, North Carolina
October 23, 2006



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

The Honorable Mayor
and Members of the City Council
City of Fayetteville, North Carolina

Compliance

We have audited the compliance of the City of Fayetteville, North Carolina, (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2006. The City'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 City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 City's compliance with those requirements.

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

Internal Control Over Compliance

The management of the City 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 City'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.

The Honorable Mayor
and Members of the City Council
City of Fayetteville, North Carolina
Page 2

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

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

Cherry, Bekart + Holland LLP

Fayetteville, North Carolina
October 23, 2006



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

The Honorable Mayor
and Members of the City Council
City of Fayetteville, North Carolina

Compliance

We have audited the compliance of the City of Fayetteville, North Carolina, (the "City") with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2006. The City'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 City's management. Our responsibility is to express an opinion on the City'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; applicable sections of OMB Circular A-133 as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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 City'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 City's compliance with those requirements.

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

Internal Control Over Compliance

The management of the City 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 City's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

The Honorable Mayor
and Members of the City Council
City of Fayetteville, North Carolina
Page 2

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

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

Cherry, Behaert + Holland LLP

Fayetteville, North Carolina
October 23, 2006

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

SECTION I. Summary of 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 conditions(s) identified
that are not considered to be
material weaknesses Yes X None reported

Noncompliance material to financial
statements noted Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified Yes X No
- Reportable conditions(s) identified
that are not considered to be
material weaknesses Yes X None reported

Noncompliance material to federal
awards Yes X No

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

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

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
20.205	Highway Planning and Construction/ ISTE A 21
20.507	Federal Transportation Administration
97.036	Assistance to Firefighters

Dollar threshold used to distinguish
between Type A and Type B Programs \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2006

State Awards

Internal control over major State programs:

- Material weakness(es) identified Yes No
- Reportable conditions(s) identified that are not considered to be material weaknesses Yes None reported

Noncompliance material to State awards Yes No

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act Yes No

Identification of major State programs:

Program Name
Powell Bill
Public Transportation Division - Maintenance Assistance
Amtrak

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

None reported.

Section IV. State Award Findings and Questioned Costs

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2006

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2006

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal (Direct) & Pass-through) Expenditures	State Expenditures	Total Expenditures
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant					
Various Years' Entitlements	14.218	B-XX-MC-37-0005	\$1,197,801	\$ -	\$ 1,197,801
HOME Investment Partnership Program					
Various Years' Entitlements	14.239	M-XX-MC-37-0203	517,253	-	517,253
US DEPARTMENT OF JUSTICE					
Local Law Enforcement Block Grants Program					
Local Law Enforcement Block 2004	16.592	2004-LB-BX-1153	49,166	-	49,166
Office of Justice Programs					
Bulletproof Vest Partnership	16.607		4,509	-	4,509
Justice Assistance Grant	16.579	2005-DJ-BX-0487	53,798	-	53,798
FBI Overtime Reimbursements	16.000		12,018	-	12,018
Alcohol, Tobacco, and Firearms Overtime Reimbursements	16.000		21,210	-	21,210
Federal Forfeiture Fund	16.000		38,725	-	38,725
Operation Ceasefire Grant	16.609	2003-GP-CX-0153	108,138	-	108,138
			<u>238,398</u>	<u>-</u>	<u>238,398</u>
Cops Homeland Security Grant	16.710	2003OMX0146	62,572	-	62,572
Passed through Governor's Crime Commission					
Gangs Across the Carolinas	16.579	026-1-05-006-BH-101	27,232	-	27,232
Cyber Crimes Against Children	16.579	026-1-04-15B-AD-860	12,563	-	12,563
			<u>39,795</u>	<u>-</u>	<u>39,795</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Special Programs for the Aging					
Passed Through NC Department of Health & Human Services					
Senior Citizens Service Center	93.044	N/A	14,058	-	14,058
US DEPARTMENT OF TRANSPORTATION					
Federal Aviation Administration					
Airport Improvement Program					
Rehabilitate Terminal Building, Phase II	20.106	FAA-3-37-0021-26	74,766	-	74,766
Land, Masterplan, Snow Plows	20.106	FAA-3-37-0021-28	37,190	-	37,190
Obstruction Removal & Loop Road Design	20.106	FAA-3-37-0021-29	10,495	-	10,495
Improve Terminal Building Phase III	20.106	FAA-3-37-0021-30	767,302	-	767,302
			<u>889,753</u>	<u>-</u>	<u>889,753</u>
Passed through NC Dept of Transportation					
Highway Planning and Construction					
Enhancement Agreement - Depot	20.205	E-4118	665,973	-	665,973
ISTEA21					
Railroad Improvements	20.205	Z-4406AE	119,448	-	119,448
			<u>785,421</u>	<u>-</u>	<u>785,421</u>
Federal Transportation Administration					
Operating assistance grant	20.507	NC 90.4378	1,167,755	-	1,167,755
Capital assistance grants:					
Capital	20.507	NC 90.0244	2	-	2
Capital	20.507	NC 90.0271	31,798	-	31,798
Capital	20.507	NC 90.0292	27,998	-	27,998
Capital	20.507	NC 90.0313	5,980	-	5,980
Capital	20.507	NC 90.0327	132	-	132
Planning	20.507	NC 90.2327	35,896	-	35,896
Planning	20.507	NC 90.2313	3,820	-	3,820
Planning	20.507	NC 90.2357	18,960	-	18,960
			<u>1,292,341</u>	<u>-</u>	<u>1,292,341</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY					
Assistance to Firefighters	97.036	EMW-2004-FG-09404	119,435	-	119,435
U.S. ENVIRONMENTAL PROTECTION AGENCY, REGION 4					
Brownfields Pilots Cooperative Agreement					
Region 4 - Direct Program	66.811	#V984206-97-0	27,292	-	27,292
Passed through NCDENR, Division of Waste Management, UST Section					
Water System Improvements to Serve Toggel Avenue	N/A	N/A	8,280	-	8,280

CITY OF FAYETTEVILLE, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2006

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
STATE GRANTS:					
NC DEPARTMENT OF TRANSPORTATION					
Aviation Division					
Rehabilitate Terminal Building, Phase II	N/A	9.9544021	-	253	253
Land, Masterplan, Snow Plows	N/A	36244.27.4.3	-	2,066	2,066
Runway 4-22 Centerline Painting	N/A	36244.27.4.7	-	3,447	3,447
Runway 4-22 Centerline Painting	N/A	36244.27.6.1	-	3,190	3,190
Construct 14 Unit T-Hanger	N/A	36244.27.6.2	-	9,029	9,029
Stormwater Improvements	N/A	36244.27.5.1	-	15,239	15,239
Security System Installation	N/A	36244.27.5.2	-	7,021	7,021
			-	<u>40,245</u>	<u>40,245</u>
Public Transportation Division					
Maintenance Assistance	N/A	9.9051698	-	857,583	857,583
Capital	N/A	362237.2.1	-	3,974	3,974
Capital	N/A	36223.7.5.3	-	17	17
Planning	N/A	36223.7.4.6	-	477	477
Planning	N/A	36223.7.5.7	-	4,487	4,487
Planning	N/A	36231.3.1.1	-	2,370	2,370
			-	<u>868,908</u>	<u>868,908</u>
Powell Bill	N/A		-	3,508,806	3,508,806
Rail Division					
Amtrak	N/A	03-ST-009	-	518,728	518,728
NC DEPARTMENT OF ENVIRONMENTAL AND NATURAL RESOURCES					
Division of Water Quality					
NC Clean Water Revolving Loan & Grant Program	66.458	E-SRF-T-02-0124	-	3,827,395	3,827,395
Division of Water Resources					
Cape Fear River Basin Hydrologic Model Update			-	65,334	65,334
Clean Water Management Trust Fund					
Simple Property Acquisition and Easement Acquisition	N/A	2002B-702	-	147,209	147,209
			-	<u>4,039,938</u>	<u>4,039,938</u>
Division of Parks and Recreation					
Bonnie Doone Park	N/A	2005-398	-	56,480	56,480
NC DEPARTMENT OF HUMAN RESOURCES					
Passed through from Cumberland County Department of Social Services					
Juvenile Court Restitution	N/A	626015	-	90,072	90,072
Juvenile Justice and Delinquency	N/A		-	10,120	10,120
			-	<u>100,192</u>	<u>100,192</u>
NC DEPARTMENT OF CRIME CONTROL & PUBLIC SAFETY					
Division of Emergency Management					
Hazmat (RRT Grant)	N/A	RRT 3 2005	-	52,105	52,105
NC OFFICE OF THE STATE CONTROLLER					
NC Unauthorized Substance Tax	N/A		-	36,525	36,525
TOTAL ASSISTANCE			<u>\$ 5,241,565</u>	<u>\$ 9,221,927</u>	<u>\$ 14,463,492</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS:

- The accompanying schedule of expenditures of Federal and State awards includes the Federal and State grant activity of the City of Fayetteville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
- The total local match requirements for the Federal and State Transit operating assistance grants was \$681,135. The actual local match which the City of Fayetteville expended for the operations of the transit system was \$1,200,778.
- The total local contributions for the State Powell Bill assistance amounted to \$29,660. *This represents assessments received through 06/30/06.*
- The amount of HOME Investment Partnerships provided to CHDO's is \$250,987 as of June 30, 2006.

CITY OF FAYETTEVILLE, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

**PASSENGER FACILITY CHARGE
COMPLIANCE SECTION**

- Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and Internal Control Over Compliance in Accordance with the Passenger Facility Charge Program Audit Guide
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Year Audit Findings
- Schedule of Expenditures of Passenger Facility Charges



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY
CHARGE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
PASSENGER FACILITY CHARGE PROGRAM AUDIT GUIDE**

The Honorable Mayor
and Members of the City Council
City of Fayetteville, North Carolina

Compliance

We have audited the compliance of the City of Fayetteville, North Carolina, ("the City") with the compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2006. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its passenger facility charge program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide 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 the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City'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 City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge 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 the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to the passenger facility charge 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.

The Honorable Mayor
and Members of the City Council
City of Fayetteville, North Carolina
Page 2

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the City Council, the Federal Aviation Administration, and 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.

Cherry, Bekaert + Holland LLP

Fayetteville, North Carolina
October 23, 2006

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

SECTION I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified Yes No
- Reportable conditions(s) identified
that are not considered to be
material weaknesses Yes None reported
- Noncompliance material to financial
statements noted Yes No

Passenger Facility Charge Program

Internal control over passenger facility charge program:

- Material weakness(es) identified Yes No
- Reportable conditions(s) identified
that are not considered to be
material weaknesses Yes None reported
- Noncompliance material to passenger
facility charge program Yes No

Type of auditor's report issued on compliance for passenger facility charge program:
Unqualified

Any audit findings disclosed Yes No

Section II. Financial Statement Findings

None reported.

Section III. Passenger Facility Charge Findings and Questioned Costs

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2006

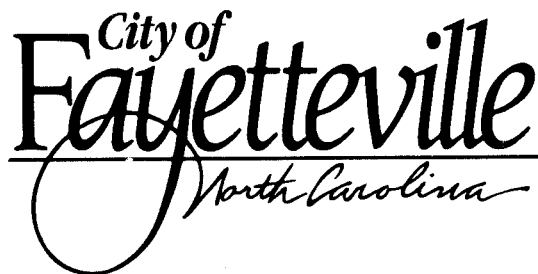
None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
 Schedule of Expenditures of Passenger Facility Charges
 Year Ended June 30, 2006

Project	Impose Effective Date	Use Effective Date	Cumulative Expenditures Actual	Approved Expenditures for PFC's	Amount of Use Approval	PFC Revenue Used in Prior Years	PFC Revenue Used in Current Year	Total PFC Revenues Used
APPLICATION 1 (# 00-01-C-00-FAY)								
Local share reimbursement AIP-12, Construction of a Fire Training Facility and Rehabilitation of a 1500-Gallon ARFF Vehicle	11/01/2000	11/01/2000	\$ 3,830,753	\$ 3,830,753	\$ 191,538	\$ 191,538	\$ -	\$ 191,538
Local share reimbursement AIP-12, Install Security Access Control System	11/01/2000	11/01/2000	757,595	757,596	37,880	37,880	-	37,880
Local share reimbursement AIP-13, Update Airport Master Plan	11/01/2000	11/01/2000	135,020	67,510	6,751	6,751	-	6,751
Local share reimbursement AIP-13, Design Highway 301 Connector	11/01/2000	11/01/2000	194,655	194,655	9,733	9,733	-	9,733
Local share reimbursement AIP-14, Installation of Taxiway Guidance Signs and Runway End Identification Lights	11/01/2000	11/01/2000	198,191	198,192	9,910	9,910	-	9,910
Local share reimbursement AIP-14, Land Acquisition	11/01/2000	11/01/2000	134,612	134,462	6,731	6,731	-	6,731
Local share reimbursement AIP-14, Improve Terminal Building	11/01/2000	11/01/2000	31,224	31,224	1,474	1,474	-	1,474
Local share reimbursement AIP-15, Design New General Aviation Area	11/01/2000	11/01/2000	206,286	206,286	10,315	10,314	-	10,314
Local share reimbursement AIP-15, Foreign Object Damage Sweeper	11/01/2000	11/01/2000	15,632	15,632	782	782	-	782
Local share reimbursement AIP-15, Design Taxiway "K"	11/01/2000	11/01/2000	16,841	16,841	842	842	-	842
Local share reimbursement AIP-15, Rehabilitate General Aviation Apron	11/01/2000	11/01/2000	29,875	29,875	1,494	1,494	-	1,494
Local share reimbursement AIP-15, Land for Development	11/01/2000	11/01/2000	49,001	48,476	2,424	2,424	-	2,424
Local share reimbursement AIP-16, Terminal Loading Bridges	11/01/2000	11/01/2000	179,808	179,808	8,990	8,990	-	8,990
Local share reimbursement AIP-17, New General Aviation Construction	11/01/2000	11/01/2000	2,362,380	2,342,376	114,860	114,860	-	114,860
Local share reimbursement AIP-18, Acquire Handicap Lift Device	11/01/2000	11/01/2000	35,680	35,680	1,784	1,784	-	1,784
Local share reimbursement AIP-18, Rehabilitate Terminal Building	11/01/2000	11/01/2000	1,820,477	1,820,478	83,367	83,367	-	83,367
Local share reimbursement AIP-19, Aircraft Rescue & Firefighting Vehicle	11/01/2000	11/01/2000	319,769	319,769	15,988	15,988	-	15,988
Local share reimbursement AIP-20, Design Non-licensed Vehicle Road	11/01/2000	11/01/2000	31,619	30,545	1,527	1,527	-	1,527
Local share reimbursement AIP-20, Design of Taxiway "K" (Revised)	11/01/2000	11/01/2000	13,287	12,887	644	644	-	644
Local share reimbursement AIP-20, Installation of Water Main	11/01/2000	11/01/2000	78,565	78,299	3,915	3,915	-	3,915
Local share reimbursement AIP-21, Airport Entrance Road	11/01/2000	11/01/2000	360,018	350,000	17,500	17,500	-	17,500
Local share reimbursement AIP-21, Jetway Bridge Modifications	11/01/2000	11/01/2000	38,887	46,195	1,945	1,944	-	1,944
Local share reimbursement AIP-21, Security System Upgrade	11/01/2000	11/01/2000	91,512	70,815	4,575	3,541	-	3,541
Local share reimbursement AIP-21, Preplan Runway Safety Areas	11/01/2000	11/01/2000	108,600	109,600	5,430	5,430	-	5,430
North GA Ramp Construction	11/01/2000	06/18/2002	1,554,453	1,404,170	77,723	70,209	-	70,209
Security System Upgrade Phase II	11/01/2000	06/18/2002	141,216	139,340	6,967	6,967	-	6,967
Design & Construct RSA, Runway 4	11/01/2000	06/18/2002	858,872	949,000	44,500	42,943	-	42,943

CITY OF FAYETTEVILLE, NORTH CAROLINA
 Schedule of Expenditures of Passenger Facility Charges
 Year Ended June 30, 2006

Project	Impose Effective Date	Use Effective Date	Cumulative Expenditures Actual	Approved Expenditures for PFC's	Amount of Use Approval	PFC Revenue Used In Prior Years	PFC Revenue Used In Current Year	Total PFC Revenues Used
Renovate Terminal, Phase II	11/01/2000	06/18/2002	\$ 2,224,052	\$ 2,475,430	\$ 252,561	\$ 92,504	\$ 18,699	\$ 111,203
RSA Construction, Runway 4, Phase II	11/01/2000	06/18/2002	858,872	949,000	44,500	40,000	-	40,000
Renovate Terminal, Phase III	11/01/2000	06/18/2002	156,998	2,475,430	116,250	-	7,731	7,731
RSA Construction, Runway 22	11/01/2000	06/18/2002	1,855,290	1,263,890	92,765	86,389	-	86,389
NLVR Construction	11/01/2000	06/18/2002	540,322	180,000	27,016	25,395	-	25,395
Jet Bridge Modification Construction	11/01/2000	06/18/2002	-	125,500	6,275	-	-	-
Taxiway K Construction	11/01/2000	06/18/2002	483,002	225,000	24,150	22,500	-	22,500
TOTAL IMPOSE AND USE APPLICATION 1			\$ 19,713,362	\$ 21,114,714	\$ 1,233,106	\$ 926,270	\$ 26,430	\$ 952,700
APPLICATION 2 (# 05-03-C-00-FAY)								
Terminal Loop Roadway(Design/Constr.)	10/01/2005	10/01/2005	\$ 560,077	\$ 614,800	\$ 30,740	\$ -	\$ 27,956	\$ 27,956
Obstruction Removal	10/01/2005	10/01/2005	1,477,695	1,531,500	76,575	-	73,700	73,700
Update Airport Master Plan	10/01/2005	10/01/2005	305,587	295,000	14,750	-	14,750	14,750
Snow Plow(s) Purchase	10/01/2005	10/01/2005	50,972	51,120	2,556	-	2,549	2,549
Handicap Lift Device	10/01/2005	10/01/2005	24,495	1,225	1,225	-	1,225	1,225
Fire Training Facility Evaluation/Study	10/01/2005	10/01/2005	4,995	4,995	4,995	-	4,995	4,995
Stormwater Management Evaluation/Study	10/01/2005	10/01/2005	9,844	10,400	1,040	-	984	984
PFC Application (Original Program)	10/01/2005	10/01/2005	12,787	12,866	12,866	-	12,787	12,787
PFC Application (Program 2)	10/01/2005	10/01/2005	7,789	8,000	8,000	-	7,789	7,789
Terminal Roof Replacement	10/01/2005	10/01/2005	123,770	123,770	61,885	-	61,885	61,885
Runway Crack Repair and Paint	10/01/2005	10/01/2005	56,073	90,540	9,054	-	5,607	5,607
Pavement Condition Index Study	10/01/2005	10/01/2005	96,110	100,000	5,000	-	4,806	4,806
Airport Beacon Replacement	10/01/2005	10/01/2005	24,060	250,000	12,500	-	1,203	1,203
Jetbridge Modifications (Gates B-2 and B-4)	10/01/2005	10/01/2005	-	190,000	9,500	-	-	-
Runway 4/22 Rehabilitation - Design	10/01/2005	10/01/2005	-	80,000	80,000	-	-	-
Generator/Vault Upgrade	10/01/2005	10/01/2005	-	570,000	28,500	-	-	-
ARFF Expansion	10/01/2005	10/01/2005	-	620,000	31,000	-	-	-
Runway 4/22 Rehabilitation - Construction	10/01/2005	10/01/2005	-	515,000	25,750	-	-	-
Replacement Jetbridge for B4	10/01/2005	10/01/2005	-	475,000	23,750	-	-	-
Rehabilitate Airfield Lighting	10/01/2005	10/01/2005	-	200,000	10,000	-	-	-
Pavement Rehabilitation (per PCI study)	10/01/2005	10/01/2005	-	750,000	37,500	-	-	-
Pave ARFF & Surveillance Road	10/01/2005	10/01/2005	-	750,000	37,500	-	-	-
Fire Training Facility Upgrade	10/01/2005	10/01/2005	-	500,000	25,000	-	-	-
Security Cameras System	10/01/2005	10/01/2005	25,801	20,000	20,000	-	20,000	20,000
Replace ARFF Vehicle	10/01/2005	10/01/2005	-	700,000	35,000	-	-	-
PFC Program Consulting	10/01/2005	10/01/2005	-	10,000	10,000	-	-	-
TOTAL IMPOSE AND USE APPLICATION 2			2,780,055	8,474,216	614,686	-	240,236	240,236
Widen Taxiway A	10/01/2005			\$ 3,200,000	\$ 160,000			
South GA Ramp Overlay/Exp.	10/01/2005			431,000	43,100			
Runway 4/22 Hold Pads	10/01/2005			350,000	17,500			
TOTAL IMPOSE ONLY APPLICATION 2			-	3,981,000	220,600	-	-	-
TOTAL APPLICATION 2			\$ 2,780,055	\$ 12,455,216	\$ 835,286	\$ -	\$ 240,236	\$ 240,236
GRAND TOTAL			\$ 22,493,417	\$ 33,569,930	\$ 2,068,392	\$ 926,270	\$ 266,666	\$ 1,192,936



Office of the City Manager

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