

**CITY OF FAYETTEVILLE
NORTH CAROLINA**

*Report of Independent Certified Public Accountants
Financial Statements and Schedules
Year ended June 30, 2005*

CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report
Year Ended June 30, 2005

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2005, 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, 2005, 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 10, 2005 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 schedule of expenditures of Federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, for the year ended June 30, 2005, and the combining and individual fund financial statements and schedules for the year ended June 30, 2004, 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, 2005, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cherry, Rickett & Habel, L.L.P.

Fayetteville, North Carolina
October 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. 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 \$829.0 million (*net assets*). Of this amount, \$136.2 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 \$34.4 million. Net assets increased \$23.7 million to \$471.1 million in fiscal year 2005 up from \$447.4 million in fiscal year 2004 in the Electric, Water and Wastewater activities. By far, the largest portion of these net assets, \$400.6 million or 85.0 percent, reflects the investment in capital assets less any related debt still outstanding that was issued to acquire those assets. The use of the proceeds of bonds issued in fiscal year 2004, capital contributions, and operating funds, taken together, provided a \$17.5 million increase in Capital Assets, Net of Related Debt.

Other liabilities increased due to the recognition of \$6.3 million due to the NC Department of Transportation (DOT) for various water and wastewater relocation projects completed this year.

Net assets increased \$9.9 million to \$328.5 million in fiscal year 2005 up from \$318.6 million in fiscal year 2004 in the Governmental activities, primarily due to increases in local sales tax and current year property taxes, Federal and State revenues, County recreation and fire district taxes, functional revenues, Linear Park contributions, donated fire protection and parks and recreation assets, and revenues resulting from the service territory agreement with Lumbee River Electric Membership Corporation.

These revenues were offset with increases in expenditures primarily due to the merger of City and County parks and recreation programs, fire protection services in the LaFayette and Lake Rim Fire Districts and for personnel costs incurred to maintain the City's ability to provide policing services once the annexation legal cases were resolved, Community Development Block Grant and HOME program activities and a decrease in Environmental Protection for roll-out carts purchased and other operating costs incurred in fiscal year 2004 in preparation to serve the Phase V annexation area.

- As of the close of fiscal year 2005, the City's governmental funds reported an ending fund balance of \$69.8 million an increase of \$14.6 million in comparison to prior year. Approximately 66 percent of total fund balance, or \$46.4 million is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of fiscal year 2005, unreserved fund balance for the general fund was \$31.4 million or 34.0 percent of total general fund expenditures for the fiscal year. Of this amount, \$11.3 million has been designated for subsequent year expenditures, special purposes, or debt service, bringing the undesignated general fund balance to \$20.1 million or 20.5 percent of general fund expenditures and transfers out.
- The City's total debt increased by \$7.5 million during fiscal year 2005.
- The City's most recent 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.

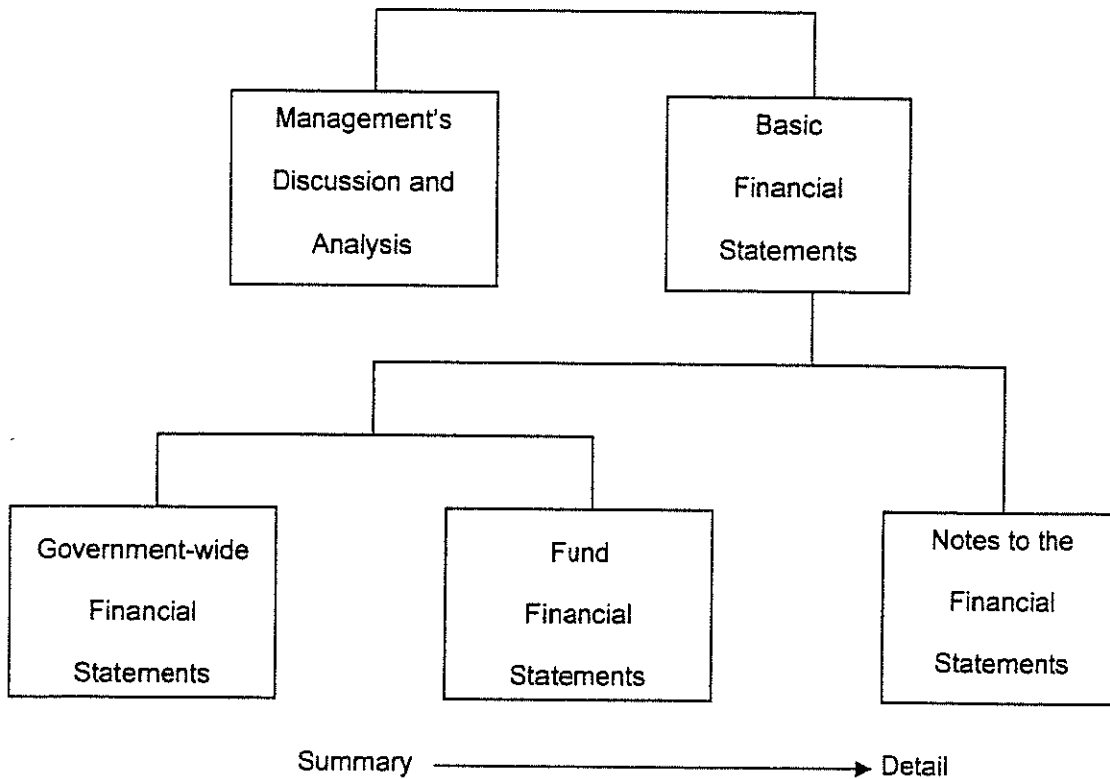
Overview of the Financial Statements

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 14 and 15 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 two categories: governmental funds and proprietary 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 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 27 – 63 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 64 of this report.

Government-wide Financial Analysis

Net Assets. The City's combined net assets increased \$34.4 million, as restated, or 4.3% from fiscal year 2004, as restated, to 2005. 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	
	2004	2005	2004	2005	2004	2005
Current and other assets	\$ 82,188,258	\$ 99,677,113	\$ 126,198,950	\$ 129,119,300	\$ 208,387,208	\$ 228,796,413
Capital assets	307,992,156	317,804,597	580,165,321	603,826,419	888,157,477	921,631,016
Total assets	390,180,414	417,481,710	706,364,271	732,945,719	1,096,544,685	1,150,427,429
Long-term liabilities outstanding	62,975,347	74,302,804	196,157,991	192,884,609	259,133,338	267,187,413
Other liabilities	11,987,425	14,669,592	34,198,779	39,527,066	46,186,204	54,196,658
Total liabilities	74,962,772	88,972,396	230,356,770	232,411,675	305,319,542	321,384,071
Net assets:						
Invested in capital assets, net of related debt	252,737,261	263,057,769	384,136,802	426,048,564	636,874,063	689,106,333
Restricted	2,369,817	2,446,529	19,951,896	1,330,169	22,321,713	3,776,698
Unrestricted	60,110,564	63,005,016	71,918,803	73,155,311	132,029,367	136,160,327
Total net assets	\$ 315,217,642	\$ 328,509,314	\$ 476,007,501	\$ 500,534,044	\$ 791,225,143	\$ 829,043,358

The assets of the City exceeded liabilities by \$829.0 million as of June 30, 2005. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$689.1 million, Restricted net assets of \$3.8 million and Unrestricted net assets \$136.2 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, 2005, \$136.2 million, or 16.4% of the total net assets reported of \$829.0 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	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,888,149	\$ 6,352,622	\$ 190,226,458	\$ 196,356,176	\$ 196,114,607	\$ 202,708,798
Operating grants and contributions	7,171,923	13,067,772	1,903,066	1,900,622	9,074,989	14,968,394
Capital grants and contributions	2,695,396	3,567,891	10,417,903	17,687,389	13,113,299	21,255,280
General revenues:						
Property taxes	38,495,985	39,344,522	-	-	38,495,985	39,344,522
Other taxes	31,127,455	34,023,971	-	-	31,127,455	34,023,971
Grants and contributions not restricted to specific programs						
	569,087	571,232	-	-	569,087	571,232
Other	892,911	2,660,787	2,432,690	2,298,675	3,325,601	4,959,462
Total revenues	<u>86,840,906</u>	<u>99,588,797</u>	<u>204,980,117</u>	<u>218,242,862</u>	<u>291,821,023</u>	<u>317,831,659</u>
Expenses:						
Administration	10,560,827	11,641,665	-	-	10,560,827	11,641,665
Public safety	43,682,505	47,285,832	-	-	43,682,505	47,285,832
Environmental protection	8,871,462	7,514,882	-	-	8,871,462	7,514,882
Transportation	13,846,642	14,018,733	-	-	13,846,642	14,018,733
Economic and physical development	4,416,477	5,827,998	-	-	4,416,477	5,827,998
Recreation and community facilities	6,134,504	9,305,228	-	-	6,134,504	9,305,228
Interest and fees	2,542,194	2,541,380	-	-	2,542,194	2,541,380
Electric activities	-	-	132,677,111	131,305,788	132,677,111	131,305,788
Water and wastewater activities	-	-	44,147,344	45,275,518	44,147,344	45,275,518
Transit	-	-	5,021,030	4,910,142	5,021,030	4,910,142
Airport	-	-	3,450,196	3,806,671	3,450,196	3,806,671
Total expenses	<u>90,054,611</u>	<u>98,135,718</u>	<u>185,295,681</u>	<u>185,298,119</u>	<u>275,350,292</u>	<u>283,433,837</u>
Increase in net assets before transfers	(3,213,705)	1,453,079	19,684,436	32,944,743	16,470,731	34,397,822
Transfers	8,171,258	8,418,200	(8,171,258)	(8,418,200)	-	-
Increase in net assets	4,957,553	9,871,279	11,513,178	24,526,543	16,470,731	34,397,822
Net assets, July 1 (as previously stated)	310,260,089	315,217,642	464,494,323	476,007,501	774,754,412	791,225,143
Prior period adjustment	-	3,420,393	-	-	-	3,420,393
Net assets - July 1 (restated)	<u>310,260,089</u>	<u>318,638,035</u>	<u>464,494,323</u>	<u>476,007,501</u>	<u>774,754,412</u>	<u>794,645,536</u>
Net assets, June 30	<u>\$ 315,217,642</u>	<u>\$ 328,509,314</u>	<u>\$ 476,007,501</u>	<u>\$ 500,534,044</u>	<u>\$ 791,225,143</u>	<u>\$ 829,043,358</u>

Governmental activities. Governmental activities increased the City's net assets by \$9.87 million. Key elements of this increase are as follows:

- Local sales tax revenues increased \$1.8 million
- Investment earnings increased \$0.9 million
- Current year property taxes increased \$1.1 million
- County recreation taxes of \$3.2 million and county recreation program income of \$0.3 million

- Fire district taxes increased \$1.3 million
- Federal grant revenues for the HOME program increased \$0.8 million
- Federal and State revenues for transportation projects increased \$0.5 million
- Permit and fees increased \$0.4 million
- Linear Park contributions increased \$0.2 million
- Donated fire protection and parks and recreation assets valued at \$0.5 million
- Federal grant revenues for Cape Fear/Yadkin Valley Depot Transportation Museum increased \$0.7 million
- Revenues from the service territory agreement with Lumbee River Electric Membership Corporation \$0.6 million
- These increases were offset by the following:
 - \$2.6 million increase in expenditures for County Parks and Recreation
 - \$3.6 million increase in expenditures for Public Safety primarily due to providing fire protection services in the LaFayette and Lake Rim Fire Districts and personnel costs incurred to maintain the City's ability to provide policing services once the annexation legal cases were resolved
 - \$1.1 million increase in Economic and Physical Development expenditures for Community Development Block Grant and HOME program activities
 - \$0.9 million decrease in Environmental Protection for roll-out carts purchased and other operating costs incurred in fiscal year 2004 in preparation to serve the Phase V annexation area

Business-type activities: Business-type activities increased the City's net assets by \$24.5 million, or 71.3% of the total increase. Net assets increased \$23.7 million to \$471.1 million in fiscal year 2005 up from \$447.4 million in fiscal year 2004 in the Electric, Water and Wastewater activities. By far, the largest portion of these net assets, \$400.6 million or 85.0 percent, reflects the investment in capital assets less any related debt still outstanding that was issued to acquire those assets. The use of the proceeds of bonds issued in fiscal year 2004, capital contributions, and operating funds, taken together, provided a \$17.5 million increase in Capital Assets, Net of Related Debt.

Other liabilities increased due to the recognition of \$6.3 million due to the NC Department of Transportation (DOT) for various water and wastewater relocation projects completed this year.

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 the fiscal year 2005, unreserved fund balance of the General Fund was \$31.4 million, while total fund balance reached \$44.0 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. Unreserved fund balance represents 31.9 percent of total General Fund expenditures and transfers, while total fund balance represents 44.7 percent of that same amount.

At June 30, 2005, the governmental funds of the City reported a combined fund balance of \$69.8 million, a 26.4 percent increase from the previous year.

General Fund Budgetary Highlights:

On June 28, 2004, the City Council approved a \$111.9 million General Fund budget for fiscal year 2005, which represented a \$27.4 million or 32.4% increase over the original budget for fiscal year 2004. The primary reason for the budget increase was the inclusion of \$16.6 million to serve the "Phase V annexation" areas (described below). In addition, the City assumed oversight of the recently merged City/County parks and recreation program effective July 1, 2004, at an increased budgeted cost of \$2.4 million, and also budgeted for an upgrade of the 800 MHz public safety radio system. The tax rate remained at 53 cents per \$100 value and the City budgeted \$6.8 million in installment financing proceeds to fund the radio system upgrade, annexation equipment and facilities, and police vehicle replacement.

The Phase V annexation was planned for June 30, 2004, as an annexation of approximately 27 square miles with a resident population of approximately 43,000. The annexation areas include the existing City of Fayetteville limits to the Hoke County line, Lagrange Subdivision, McArthur Road, Oakmont Circle, Oates Drive, Andover Road, Raynor Drive, five unincorporated areas along Ramsey Street and Plymouth Street. In late June, 2004, several lawsuits were filed challenging the Phase V annexation. On July 12, 2004, the North Carolina Supreme Court issued a stay of the City's annexation pending resolution of the litigation. The stay of the annexation remained in effect for the duration of fiscal year 2005.

The City took the following actions to mitigate the negative budget impact of the delay of the Phase V annexation: instituted a hiring freeze on certain positions, postponed the purchase of police replacement vehicles, postponed employee pay increases for approximately two months, and contracted with Cumberland County to provide fire protection in the Lafayette Village and Lake Rim fire districts. The fire service assets of these districts were acquired by the City prior to the North Carolina Supreme Court's issuance of the stay of the annexation.

The City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to 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. Total amendments to the General Fund decreased revenues and expenditures by \$4.5 million or 4.0%. The major amendments which contributed to the net decrease were a \$6.9 million fund balance appropriation to cover items encumbered or designated as of June 30, 2004, a \$2.5 million fund balance appropriation for capital projects authorized by City Council, and an amendment which reduced the appropriation by \$14.1 million primarily due to expenditure reductions associated with the stay of the Phase V annexation.

Actual revenues and other financing sources for the General Fund were less than the final amended budget amount by \$6.8 million. This is primarily due to a fund balance appropriation of \$8.6 million, which is an other financing source that is not reflected as actual current year revenue.

Actual expenditures and other financing uses were less than the final amended budget by \$8.9 million. The primary reason for this variance is due to the uncertainty surrounding the Phase V annexation. Management placed a citywide hold on purchases and hiring to mitigate the negative impact resulting from not annexing the Phase V area. Approximately \$4.8 million in unexpended equipment and capital improvement funds were designated at June 30, 2005 to be re-appropriated in fiscal year 2006.

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, 2005, totals \$921.6 million (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 transactions during the fiscal year included the following:

- \$6.4 million for the Rockfish WRF expansion and improvements
- \$6.4 million for DOT projects to relocate water and wastewater systems
- \$6.3 million of developer contributed water and wastewater utility infrastructure
- \$4.5 million for installation water and wastewater utility infrastructure in newly annexed areas
- \$2.9 million for completed water and wastewater main rehabilitation
- \$1.5 million for electric distribution system transformers
- \$1.0 for purchase and installation of water meters
- \$1.3 million in fire vehicles and equipment
- \$0.2 million in police vehicles and equipment
- \$1.0 million for Fayetteville State University fire station building
- \$0.6 million in land and building, purchased for various fire purposes
- \$1.2 million train depot building
- \$1.7 million for Westover Recreation Center building
- \$1.4 million in parks and recreation land, and Festival Park and Cape Fear River Trail improvements
- \$3.4 million for 800Mhz equipment upgrade
- \$0.8 million in street maintenance vehicles and equipment
- \$1.7 million in solid waste vehicles
- \$0.8 million in land for the 300 block of Hay Street Project

The City's Capital Assets

Figure 4

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

	Governmental Activities	Business-type Activities	Total
Land	\$ 35,675,191	\$ 13,865,944	\$ 49,541,135
Infrastructure	232,475,368	-	232,475,368
Electric utility system	-	162,490,099	162,490,099
Wastewater system	-	199,373,421	199,373,421
Water system	-	123,123,626	123,123,626
Equipment and machinery	-	9,048,519	9,048,519
Buildings and improvements	26,630,228	49,833,153	76,463,381
Equipment, furniture and fixtures	5,823,136	955,699	6,778,835
Computer programs	-	5,899,317	5,899,317
Vehicles	5,860,171	3,301,506	9,161,677
Construction in progress	11,340,503	35,935,135	47,275,638
Total	\$ 317,804,597	\$ 603,826,419	\$ 921,631,016

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, 2005, The City had total bonded debt outstanding of \$231.1 million, of which \$44.5 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	
	2004	2005	2004	2005	2004	2005
Bonded debt	\$ 45,978,341	\$ 56,634,500	\$ 184,160,805	\$ 174,446,344	\$ 230,139,146	\$ 231,080,844
Obligations under capital leases	13,341,744	13,551,475	-	-	13,341,744	13,551,475
Installment note payable	185,000	125,000	11,867,713	18,303,144	12,052,713	18,428,144
Total long-term debt	\$ 59,505,085	\$ 70,310,975	\$ 196,028,518	\$ 192,749,488	\$ 255,533,603	\$ 263,060,463

The City's total debt increased by \$7.5 million, or 2.9%, during the past fiscal year. The increase is primarily due to draws on a new state revolving loan.

The City's most recent bond ratings, received in connection with the Series 2005 General Obligation Public Improvement Bonds and the Series 2003B variable rate revenue refunding bonds, are shown below:

City (governmental activities):	
Moody's Investor Services	Aa3
Standard & Poor's	AA-
Public Works Commission (business-type activities):	
Moody's Investor Services	A1
Standard & Poor's	A+

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.

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 \$ 498.7 million. The City has no bonds authorized but unissued at June 30, 2005.

Additional information regarding the City's long-term debt can be found in Note 5 on pages 44 –52 of this report.

Economic Factors and Next Year's Budget and Rates

Budget Highlights for the Fiscal Year Ending June 30, 2006

Governmental Activities: 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. The tax rate remains 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 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.

The City Council has approved budget increases of \$11.8 million or 11.9% bringing the General Fund budget for fiscal year 2006 to \$110.6 million. The budget expansion is primarily due to servicing the Phase V annexation area 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 increases also include approximately \$900,000 each for equipment purchases and park improvements previously encumbered or designated from the fiscal year 2005 budget, and to cover increased fuel costs, \$765,000 for solid waste and communications initiatives approved by City Council, and \$422,000 to fund additional fire fighters to serve the current city.

For fiscal year 2006, the annexation is expected to result in a net loss of revenues of approximately \$600,000, as a result of the delayed billing of 2005 ad valorem taxes on real and personal property and the loss of revenues from interlocal agreements with Cumberland County for fire and recreation services; however, the City expects to obtain \$3.5 million in installment financing proceeds to fund vehicle and equipment acquisition. In subsequent years, the Phase V annexation is expected to increase Fayetteville's property tax base by \$1.7 billion, increasing the estimated current year property tax revenue by \$8.6 million and other revenues by \$6.3 million.

Business – type Activities: The City considered many factors when setting the Fiscal Year 2006 budget, user fees and charges. Purchased power and generation expenses represent the largest expenditure in these funds, at \$96.8 million. The power supply contract with Progress Energy took effect on July 1, 2003, generating savings on the bulk purchase of power; however, the volatility of the fuel market has mitigated total savings at this time. The impact of the high cost of fuel for power generation is projected to be mitigated by a \$7.0 million fuel adjustment charge collected from customers. The FY2006 budget does not reflect an increase in electric base rates. The cost of service and rates for electric customers will be reviewed during FY2006. Additional funds needed in the FY2006 water and wastewater budget have been provided through a combination of increased water and wastewater rates effective September 1, 2005 and an appropriation of retained earnings.

Transfers to the General Fund are expected to be \$9.6 million in fiscal year 2006 due to the 5% electric sales transfer policy, street lighting and a transfer to pay the General Fund's share of existing utility related infrastructure debt service.

The Electric and Water and Wastewater Fund fiscal year 2006 budgets supports 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 Fleet Maintenance Internal Service Fund accounts for revenues and expenditures of consolidated fleet maintenance functions previously performed separately by the City and Public Works Commission. In addition, a 2% employee performance pay allowance plus a CPI increase of 3% is included in the Electric, Water and Wastewater fiscal year 2006 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.

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

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total Primary Government</u>
Assets			
Cash and investments	\$ 60,355,366	\$ 32,534,429	\$ 92,889,795
Taxes receivable	3,415,703	-	3,415,703
Accounts receivable	4,656,479	33,557,655	38,214,134
Internal balances	372,511	(372,511)	-
Assessment receivable	483,606	-	483,606
Due from other governments	6,952,468	3,687	6,956,155
Inventories	425,826	11,007,383	11,433,209
Prepaid expenses	266,935	252,124	519,059
Noncurrent portion of note receivable	6,131,964	-	6,131,964
Restricted asset - cash and investments	16,616,255	46,830,913	63,447,168
Restricted asset - accounts receivable	-	886,078	886,078
Restricted asset - collateral pledged	-	243,302	243,302
Other assets	-	4,176,240	4,176,240
Capital assets:			
Land and construction in progress	47,015,694	49,801,080	96,816,774
Other capital assets, net of depreciation	270,788,903	554,025,339	824,814,242
Total assets	<u>417,481,710</u>	<u>732,945,719</u>	<u>1,150,427,429</u>
Liabilities			
Accounts payable and accrued expenses	13,486,188	32,283,621	45,769,809
Restricted liabilities - accounts payable	-	5,168,208	5,168,208
Unearned revenues	1,122,079	39,910	1,161,989
Unearned deposits	61,325	2,035,327	2,096,652
Long-term liabilities:			
Due within one year	10,969,659	12,836,029	23,805,688
Due in more than one year	63,333,145	180,048,580	243,381,725
Total liabilities	<u>88,972,396</u>	<u>232,411,675</u>	<u>321,384,071</u>
Net assets			
Invested in capital assets, net of related	263,057,769	426,048,564	689,106,333
Restricted for:			
Capital projects	-	512,536	512,536
Debt service	-	817,633	817,633
Other purposes	2,446,529	-	2,446,529
Unrestricted	63,005,016	73,155,311	136,160,327
Total net assets	<u>\$ 328,509,314</u>	<u>\$ 500,534,044</u>	<u>\$ 829,043,358</u>

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Primary government:							
Governmental activities:							
Administration	\$ 11,641,665	\$ 728,451	\$ 7,501	\$ -	\$ (10,905,713)	\$ -	\$ (10,905,713)
Public safety	47,285,832	2,661,753	2,489,423	514,389	(41,620,267)	-	(41,620,267)
Environmental protection	7,514,882	23,956	-	-	(7,490,926)	-	(7,490,926)
Transportation	14,018,733	1,466,881	4,254,601	-	(8,297,251)	-	(8,297,251)
Economic and physical development	5,827,998	715,099	2,743,690	2,060,539	(308,670)	-	(308,670)
Recreation and community facilities	9,305,228	756,482	3,572,557	992,963	(3,983,226)	-	(3,983,226)
Interest and fees	2,541,380	-	-	-	(2,541,380)	-	(2,541,380)
Total governmental activities	98,135,718	6,352,622	13,067,772	3,567,891	(75,147,433)	-	(75,147,433)
Business-type activities:							
Electric	131,305,788	146,069,329	-	951,384	-	15,714,925	15,714,925
Water and wastewater	45,275,518	47,044,634	-	13,900,547	-	15,669,663	15,669,663
Transit	4,910,142	836,084	1,900,622	417,242	-	(1,756,194)	(1,756,194)
Airport	3,806,671	2,406,129	-	2,418,216	-	1,017,674	1,017,674
Total business-type activities	185,298,119	196,356,176	1,900,622	17,687,389	-	30,646,068	30,646,068
Total primary government	\$ 283,433,837	\$ 202,708,798	\$ 14,968,394	\$ 21,255,280	(75,147,433)	30,646,068	(44,501,365)
General revenues:							
Ad valorem taxes					39,344,522	-	39,344,522
Other taxes					34,023,971	-	34,023,971
Unrestricted grants and contributions					571,232	-	571,232
Interest earned on investments					1,752,579	2,018,035	3,770,614
Miscellaneous					908,208	280,640	1,188,848
Transfers					8,418,200	(8,418,200)	-
Total general revenues and transfers					85,018,712	(6,119,525)	78,899,187
Change in net assets					9,871,279	24,526,543	34,397,822
Net assets - beginning (as previously stated)					315,217,642	476,007,501	791,225,143
Prior period adjustment					3,420,393	-	3,420,393
Net assets - beginning (restated)					318,638,035	476,007,501	794,645,536
Net assets - ending					\$ 328,509,314	\$ 500,534,044	\$ 829,043,358

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and investments	\$ 40,994,201	\$ 11,501,478	\$ 52,495,679
Taxes receivable	3,089,741	102,238	3,191,979
Accounts receivable	10,141,018	7,427,980	17,568,998
Interfund receivable	372,511	1,329,502	1,702,013
Assessments receivable	478,454	5,152	483,606
Inventories	149,279	-	149,279
Restricted asset - cash and investments	-	16,616,255	16,616,255
Total assets	\$ 55,225,204	\$ 36,982,605	\$ 92,207,809
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 6,173,705	\$ 2,909,541	\$ 9,083,246
Interfund payables	-	1,329,502	1,329,502
Unearned deposits	61,325	-	61,325
Deferred revenues	5,026,126	6,915,336	11,941,462
Total liabilities	11,261,156	11,154,379	22,415,535
Fund balances:			
Reserved			
By State statute	9,500,835	2,623,026	12,123,861
For encumbrances	1,713,453	8,184,011	9,897,464
For inventories	149,279	-	149,279
For downtown	430,746	-	430,746
For wireless 911	-	20,487	20,487
For county recreation	773,259	-	773,259
Unreserved			
Designated			
For subsequent years	3,671,062	-	3,671,062
For special purpose	3,529,340	220,000	3,749,340
For debt service	4,069,134	-	4,069,134
Undesignated	20,126,940	-	20,126,940
Unreserved, reported in nonmajor:			
Designated for subsequent years			
Special revenue	-	852,207	852,207
Capital projects	-	12,668,139	12,668,139
Undesignated			
Special revenue	-	1,260,356	1,260,356
Total fund balances	43,964,048	25,828,226	69,792,274
Total liabilities and fund balances	\$ 55,225,204	\$ 36,982,605	\$ 92,207,809

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, 2005

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

Ending fund balance - governmental funds	\$ 69,792,274
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	317,561,137
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	10,822,736
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.	505,529
Prepaid expenses are current-period expenditures in the funds, but are assets not available to pay current-period expenditures and, therefore, are capitalized.	446,073
Accrued tax penalties receivable are not available to pay for current-period expenditures and, therefore, are not recorded in the funds.	223,722
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 activities.	4,911,329
Accrued interest payable on long-term debt is not a current expenditure and therefore not recorded in the funds.	(631,730)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(75,121,756)</u>
Net assets of governmental activities	<u><u>\$ 328,509,314</u></u>

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Ad valorem taxes	\$ 39,622,100	\$ -	\$ 39,622,100
Other taxes	30,882,137	3,156,143	34,038,280
Intergovernmental	9,684,982	5,066,899	14,751,881
Other functional	5,003,604	-	5,003,604
Miscellaneous	1,348,255	2,555,019	3,903,274
Interest earned on investments	1,292,092	266,605	1,558,697
Total revenues	<u>87,833,170</u>	<u>11,044,666</u>	<u>98,877,836</u>
Expenditures			
Current:			
Administration	11,840,445	54	11,840,499
Public safety	49,581,422	1,628,435	51,209,857
Environmental protection	7,465,262	2,424,089	9,889,351
Transportation	6,487,083	1,506,124	7,993,207
Economic and physical development	689,833	8,834,602	9,524,435
Recreation and community facilities	8,726,534	3,449,947	12,176,481
Debt service:			
Principal	5,927,967	1,069,473	6,997,440
Interest and fees	1,767,430	494,673	2,262,103
Issue costs	-	368,693	368,693
Total expenditures	<u>92,485,976</u>	<u>19,776,090</u>	<u>112,262,066</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,652,806)</u>	<u>(8,731,424)</u>	<u>(13,384,230)</u>
Other financing sources (uses)			
Refunding Bonds	-	21,261,589	21,261,589
Capital leases	3,104,407	-	3,104,407
Transfers in	9,624,200	5,710,009	15,334,209
Transfers out	(5,916,009)	-	(5,916,009)
Payment to refund bond escrow agent	-	(6,265,297)	(6,265,297)
Premium on bonds	-	431,212	431,212
Total other financing sources (uses)	<u>6,812,598</u>	<u>21,137,513</u>	<u>27,950,111</u>
Net change in fund balances	2,159,792	12,406,089	14,565,881
Fund balance - beginning	<u>41,804,256</u>	<u>13,422,137</u>	<u>55,226,393</u>
Fund balance - ending	<u>\$ 43,964,048</u>	<u>\$ 25,828,226</u>	<u>\$ 69,792,274</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, 2005

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

Net change in fund balances - total governmental funds	\$	14,565,881
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 exceeded capital outlay in the current period.		14,460,723
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.		(8,011,644)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		955,583
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, governmental 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.		(11,534,470)
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.		(107,944)
The net revenue of certain activities of internal service funds is reported with governmental activities.		<u>(456,850)</u>
Change in net assets of governmental activities	\$	<u>9,871,279</u>

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 46,519,044	\$ 39,373,126	\$ 39,622,100	\$ 248,974
Other taxes	33,269,053	30,440,667	30,882,137	441,470
Intergovernmental	8,546,486	9,726,483	9,684,982	(41,501)
Other functional	3,531,513	4,460,426	5,003,604	543,178
Miscellaneous	1,243,283	1,134,445	1,348,255	213,810
Interest earned on investments	629,000	806,500	1,292,092	485,592
Total revenues	<u>93,738,379</u>	<u>85,941,647</u>	<u>87,833,170</u>	<u>1,891,523</u>
EXPENDITURES				
Current:				
Administration	15,135,809	12,930,232	11,840,445	1,089,787
Public safety	55,109,066	52,284,837	49,581,422	2,703,415
Environmental protection	7,438,347	8,155,703	7,465,262	690,441
Transportation	8,030,299	7,154,186	6,487,083	667,103
Economic and physical development	842,726	1,100,492	689,833	410,659
Recreation and community facilities	9,854,932	9,902,537	8,726,534	1,176,003
Debt service:				
Principal	8,614,207	7,554,585	5,927,967	1,626,618
Interest and fees	2,243,272	1,921,005	1,767,430	153,575
Total expenditures	<u>107,268,658</u>	<u>101,003,577</u>	<u>92,485,976</u>	<u>8,517,601</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,530,279)</u>	<u>(15,061,930)</u>	<u>(4,652,806)</u>	<u>10,409,124</u>
OTHER FINANCING SOURCES (USES)				
Capital leases	6,835,678	3,100,000	3,104,407	4,407
Transfers in	9,591,161	9,661,561	9,624,200	(37,361)
Transfers out	(4,593,125)	(6,314,119)	(5,916,009)	398,110
Appropriated fund balance	1,696,565	8,614,488	-	(8,614,488)
Total other financing sources (uses)	<u>13,530,279</u>	<u>15,061,930</u>	<u>6,812,598</u>	<u>(8,249,332)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	2,159,792	<u>\$ 2,159,792</u>
FUND BALANCE - BEGINNING			<u>41,804,256</u>	
FUND BALANCE - ENDING			<u>\$ 43,964,048</u>	

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Net Assets
Proprietary Funds
June 30, 2005

Assets	Enterprise Funds				Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds	Total	
Current assets					
Cash and investments	\$ 19,844,855	\$ 9,420,710	\$ 3,268,864	\$ 32,534,429	\$ 7,859,689
Accounts receivable	18,676,311	13,834,817	1,050,214	33,561,342	171,912
Interfund receivable	(267,391)	267,391	-	-	-
Inventories	9,925,113	1,060,713	21,557	11,007,383	276,546
Prepaid expenses	123,412	128,712	-	252,124	165,833
Total unrestricted current assets	48,302,300	24,712,343	4,340,635	77,355,278	8,473,980
Restricted current assets					
Restricted cash and investments	19,860,842	26,457,535	512,536	46,830,913	-
Accounts receivable	10,549	875,529	-	886,078	-
Collateral pledged in lieu of deposits	243,302	-	-	243,302	-
Total restricted current assets	20,114,693	27,333,064	512,536	47,960,293	-
Total current assets	68,416,993	52,045,407	4,853,171	125,315,571	8,473,980
Noncurrent assets					
Other assets	1,430,727	2,657,513	88,000	4,176,240	-
Capital assets	213,661,430	364,719,286	25,445,703	603,826,419	243,460
Total noncurrent assets	215,092,157	367,376,799	25,533,703	608,002,659	243,460
Total assets	283,509,150	419,422,206	30,386,874	733,318,230	8,717,440
Liabilities and net assets					
Current liabilities to be paid from unrestricted assets					
Accounts payable and accrued expenses	15,278,809	16,634,941	369,871	32,283,621	3,771,212
Current portion of long term debt	6,987,085	5,713,813	-	12,700,908	2,303
Interfund payables	-	-	372,511	372,511	-
Accrued vacation	-	-	135,121	135,121	22,133
Total current liabilities to be paid from unrestricted assets	22,265,904	22,348,754	877,503	45,492,161	3,795,648
Current liabilities to be paid from restricted assets					
Accounts payable and accrued expenses	3,883,570	1,284,638	-	5,168,208	-
Total current liabilities to be paid from restricted assets	3,883,570	1,284,638	-	5,168,208	-
Total current liabilities	26,149,474	23,633,392	877,503	50,660,369	3,795,648
Noncurrent liabilities					
Unearned deposits	-	2,035,327	-	2,035,327	-
Deferred revenues	-	-	39,910	39,910	3,353
Long-term debt	43,909,947	136,138,633	-	180,048,580	7,112
Total noncurrent liabilities	43,909,947	138,173,960	39,910	182,123,817	10,465
Total liabilities	70,059,421	161,807,352	917,413	232,784,186	3,806,113
Net assets					
Invested in capital assets, net of related debt	164,636,492	235,966,369	25,445,703	426,048,564	234,045
Restricted net assets	-	-	512,536	512,536	-
Debt service	413,005	404,628	-	817,633	-
Unrestricted	48,400,232	21,243,857	3,511,222	73,155,311	4,677,282
Total net assets	\$ 213,449,729	\$ 257,614,854	\$ 29,469,461	\$ 500,534,044	\$ 4,911,327

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended June 30, 2005

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Operating revenues					
Charges for services	\$ 146,069,329	\$ 47,044,634	\$ 3,120,683	\$ 196,234,646	\$ -
Other revenue from operations	-	-	317,874	317,874	99,722
Interfund charges and employee contributions	-	-	-	-	13,420,182
Total operating revenues	146,069,329	47,044,634	3,438,557	196,552,520	13,519,904
Operating expenses					
General and administrative	9,117,951	9,526,870	-	18,644,821	-
Power supply and generation and electric operations	105,502,250	-	-	105,502,250	-
Water purification and distribution	-	8,891,171	-	8,891,171	-
Sewer collection and treatment	-	8,477,993	-	8,477,993	-
Personnel	-	-	3,370,140	3,370,140	1,451,086
Maintenance and operations	-	-	2,625,034	2,625,034	11,726,529
Depreciation	13,510,921	11,802,521	2,174,602	27,488,044	36,260
Total operating expenses	128,131,122	38,698,555	8,169,776	174,999,453	13,213,875
Operating income (loss)	17,938,207	8,346,079	(4,731,219)	21,553,067	306,029
Nonoperating revenue (expense)					
Interest earned on investments	998,866	951,680	67,489	2,018,035	236,028
Federal and State grants	-	-	1,953,992	1,953,992	-
Passenger facility charges	-	-	438,428	438,428	-
Miscellaneous revenue	-	-	91,796	91,796	-
Gain (loss) on disposal of capital assets	(273,155)	66,536	-	(206,619)	1,403
Interest expense	(1,845,636)	(5,317,637)	(23,217)	(7,186,490)	(310)
Amortization	(893,597)	(932,976)	(22,000)	(1,848,573)	-
Miscellaneous expense	-	-	(271,023)	(271,023)	-
Issue costs	(162,278)	(392,886)	-	(555,164)	-
Total nonoperating revenue (expense)	(2,175,800)	(5,625,283)	2,235,465	(5,565,618)	237,121
Income (loss) before transfers and contributions	15,762,407	2,720,796	(2,495,754)	15,987,449	543,150
Transfers in	-	-	1,206,000	1,206,000	-
Transfers out	(8,564,156)	(1,060,044)	-	(9,624,200)	(1,000,000)
Capital contributions	951,384	13,900,547	2,105,363	16,957,294	-
Change in net assets	8,149,635	15,561,299	815,609	24,526,543	(456,850)
Total net assets - beginning	205,300,094	242,053,555	28,653,852	476,007,501	5,368,177
Total net assets - ending	\$ 213,449,729	\$ 257,614,854	\$ 29,469,461	\$ 500,534,044	\$ 4,911,327

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Operating activities					
Cash received from customers	\$ 146,217,060	\$ 47,594,298	\$ 3,602,058	\$ 197,413,416	\$ 13,386,340
Other operating revenue	-	-	336,470	336,470	99,722
Cash received as deferred revenues	-	-	-	-	(7,378)
Cash paid to or on behalf of employees for services	(9,978,240)	(10,697,513)	(3,364,491)	(24,040,244)	(1,508,872)
Cash paid for goods and services	(19,249,683)	(18,985,153)	(2,617,704)	(40,852,540)	(11,656,013)
Cash paid for power supply and generation	(85,180,416)	-	-	(85,180,416)	-
Net cash provided by (used in) operating activities	31,808,721	17,911,632	(2,043,667)	47,676,686	313,799
Noncapital financing activities					
Transfers in	-	-	1,206,000	1,206,000	-
Federal and state grants	-	-	1,953,992	1,953,992	-
Nonoperating revenues	-	-	530,224	530,224	-
Transfers out	(8,481,253)	(1,142,947)	-	(9,624,200)	(1,000,000)
Other	-	-	(271,023)	(271,023)	-
Net cash provided (used) by noncapital financing activities	(8,481,253)	(1,142,947)	3,419,193	(6,205,007)	(1,000,000)
Capital and related financing activities					
Proceeds from sale of assets	28,498	86,035	-	114,533	1,403
Proceeds from debt issuance	-	6,815,186	-	6,815,186	-
Contributed capital received	951,384	5,731,036	186,445	6,868,865	-
Capital contributions - Federal grant	-	-	1,918,918	1,918,918	-
Acquisition and construction of capital assets	(12,625,941)	(20,739,847)	(2,263,152)	(35,628,940)	(7,650)
Principal paid on debt maturities	(6,737,880)	(4,896,876)	(26,410)	(11,661,166)	(2,236)
Interest paid on debt maturities	(2,007,914)	(5,710,523)	(23,217)	(7,741,654)	(310)
Other capital asset transactions	-	-	-	-	28,421
Net cash provided (used) by capital and related financing activities	(20,391,853)	(18,714,989)	(207,416)	(39,314,258)	19,628
Investing activities					
Interest and dividends	998,866	951,680	67,489	2,018,035	236,028
Net change in investments	(183,165)	(2,157,973)	-	(2,341,138)	-
Net cash provided (used) by investing activities	815,701	(1,206,293)	67,489	(323,103)	236,028
Net increase (decrease) in cash and cash equivalents/investments	3,751,316	(3,152,597)	1,235,599	1,834,318	(430,545)
Cash and cash equivalents/investments					
Beginning of year	26,891,850	24,930,105	2,545,801	54,367,756	8,290,234
End of year	\$ 30,643,166	\$ 21,777,508	\$ 3,781,400	\$ 56,202,074	\$ 7,859,689
Cash and cash equivalents	\$ 30,643,166	\$ 21,777,508	\$ 3,781,400	\$ 56,202,074	\$ 7,859,689
Investments	9,062,531	14,100,737	-	23,163,268	-
Total cash and cash equivalents/investments	\$ 39,705,697	\$ 35,878,245	\$ 3,781,400	\$ 79,365,342	\$ 7,859,689
Unrestricted cash and equivalents/investments	\$ 19,844,855	\$ 9,420,710	\$ 3,268,864	\$ 32,534,429	\$ 7,859,689
Restricted cash and equivalents/investments	19,860,842	26,457,535	512,536	46,830,913	-
Total cash and cash equivalents/investments	\$ 39,705,697	\$ 35,878,245	\$ 3,781,400	\$ 79,365,342	\$ 7,859,689

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	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)	\$ 17,938,207	\$ 8,346,079	\$ (4,731,219)	\$ 21,553,067	\$ 306,029
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	13,510,921	11,802,521	2,174,602	27,488,044	36,260
Allowance for uncollectible accounts	(22,110)	6,260	-	(15,850)	-
Change in assets and liabilities					
(Increase) decrease in accounts receivable	183,169	543,404	492,079	1,218,652	(145,206)
(Increase) decrease in inventory	311,524	(144,890)	(11,199)	155,435	117,525
(Increase) decrease in prepaid items	-	-	-	-	88,039
(Increase) decrease in internal balances	262,901	(262,901)	-	-	-
(Increase) decrease in other current assets	(48,308)	(37,569)	-	(85,877)	-
(Increase) decrease in other assets	(676,767)	(991,678)	-	(1,668,445)	-
Increase (decrease) in accounts payable and accrued liabilities	349,184	1,227,463	7,825	1,584,472	(23,684)
Increase (decrease) in accrued compensated absences	-	-	5,649	5,649	(57,786)
Increase (decrease) in deferred revenues	-	-	18,596	18,596	(7,378)
Increase (decrease) in unearned deposits	-	(2,577,057)	-	(2,577,057)	-
Total adjustments	<u>13,870,514</u>	<u>9,565,553</u>	<u>2,687,552</u>	<u>26,123,619</u>	<u>7,770</u>
Net cash provided by (used in) operating activities	<u>\$ 31,808,721</u>	<u>\$ 17,911,632</u>	<u>\$ (2,043,667)</u>	<u>\$ 47,676,686</u>	<u>\$ 313,799</u>
Noncash investing, capital, and financing activities:					
Contributed capital assets	<u>\$ (82,903)</u>	<u>\$ 14,554,690</u>	<u>\$ -</u>	<u>\$ 14,471,787</u>	<u>\$ -</u>

City of Fayetteville, North Carolina

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Pension Trust Fund	Private-purpose Trusts
Assets		
Cash and investments	\$ 5,925,482	\$ 1,250,847
Accounts receivable	11,883	3,270
Total assets	<u>5,937,365</u>	<u>1,254,117</u>
Liabilities		
Accounts payable	<u>24,736</u>	-
Total liabilities	<u>24,736</u>	-
Net assets		
Held in Trust for:		
Held in Trust	5,912,629	1,254,117
Total net assets	<u>\$ 5,912,629</u>	<u>\$ 1,254,117</u>

City of Fayetteville, North Carolina

Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 Year Ended June 30, 2005

	Pension Trust Fund	Private-purpose Trusts
Additions		
Other revenue from operations	\$ -	\$ 42,797
Contributions	356,876	122,679
Investment earnings	357,327	29,351
Total additions	<u>714,203</u>	<u>194,827</u>
Deductions		
Benefit payments and premiums	<u>408,901</u>	<u>329,344</u>
Total deductions	<u>408,901</u>	<u>329,344</u>
Change in net assets	305,302	(134,517)
Total net assets - beginning	<u>5,607,327</u>	<u>1,388,634</u>
Total net assets - ending	<u>\$ 5,912,629</u>	<u>\$ 1,254,117</u>

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

Notes to Financial Statements

June 30, 2005

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: public safety, environmental protection, transportation, economic and physical development, recreation and community facilities, electric, water and wastewater utility services and general administrative 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 defines 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 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

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.

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 Fayetteville Finance Corp Fund accounts for debt service on certain municipal buildings and park improvements.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

B - Basis of Presentation (continued)

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 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 Water and Sewer Fund accounts for Lumbree River Electric Membership Corporation Territory Agreement revenues and associated activities.

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 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.

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.

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

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.

The City's enterprise 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

C - Measurement Focus and Basis of Accounting (continued)

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 2004 through February 2005 apply to the fiscal year ended June 30, 2005. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the 2005-2006 fiscal year and are not shown as receivables at June 30, 2005. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements, if material, and are offset by deferred revenues because the due date and the date upon which interest begins to accrue is prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2005 because they are intended to finance the City's operations during the 2006 fiscal year.

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.

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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

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).

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, 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, 2004.

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 (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

E - Assets, Liabilities, and Fund Equity (continued)

Allowance for Uncollectible Receivables (continued)

The receivables shown on the Statement of Net Assets are presented net of the following allowances for doubtful accounts as of June 30, 2005:

Fund

General Fund:

Taxes receivable	\$ 740,574
Accounts receivable	1,045,760
Assessments receivable	163,467

Special Revenue Fund:

Taxes receivable	14,316
Accounts receivable	1,923,580

Transit Operating

Accounts receivable	2,001
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Airport Operating

Accounts receivable	1,602
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Electric Fund:

Accounts receivable	229,193
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Water and Wastewater Fund:

Accounts receivable	61,851
Total	<u>\$ 4,182,344</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, 2005, are recorded as prepaid items.

Notes to Financial Statements (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

E – Assets, Liabilities, and Fund Equity (continued)

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.

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. Although GASB 34 allows retroactive reporting of the storm water network infrastructure to be delayed until June 30, 2007, the City has reported it this year effective July 1, 2004. 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:

Asset Class	Estimated Useful Lives (Years)
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."

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

E - Assets, Liabilities, and Fund Equity (continued)

Other Assets

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 PWC.

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.

Notes to Financial Statements (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

E - Assets, Liabilities, and Fund Equity (continued)

Net Assets/Fund Balances (continued)

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.

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 2005 - 2006 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 (continued)

June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

G - Prior Period Adjustment

During the year, the City capitalized infrastructure assets related to the Stormwater inventory as allowed by GASB Statement No. 34. These assets were capitalized as of July 1, 2004. The result of this prior period adjustment was to increase in the City's net assets for governmental activities and its infrastructure assets by \$3,420,393.

H - 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.

I - Upcoming Pronouncements

GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," will be effective for fiscal periods beginning after December 15, 2004. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The City does not expect this pronouncement to have a significant impact on the financial statements.

GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" is 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 1 governments (those with total annual revenues of \$100 million or more); after December 15, 2007, for phase 2 governments (those with total annual revenues of \$10 million or more but less than \$100 million); and after December 15, 2008, for phase 3 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 has not yet determined the effect that this pronouncement will have on their financial statements.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

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.

At June 30, 2005, the City's deposits had a carrying amount of \$23,731,637 and a bank balance of \$24,525,425. Of the bank balance, Federal Deposit Insurance covered \$379,071, and the remaining balance was covered by collateral under the Pooling Method. The City had \$13,325 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, 2005, the City Investment balances were as follows:

	Reported Value	Fair Value	Less than 6		
			Months	6-12 Months	1-5 Years
U.S. Government Securities	\$ 4,296	\$ 4,296	\$ -	\$ -	\$ 4,296
U.S. Government Agencies	54,631,786	54,605,566	6,561,620	5,103,256	42,940,690
Commercial Paper	27,990,805	28,030,185	28,030,185	-	-
N.C. Education Assistance Authority	16,300,000	16,300,000	16,300,000	-	-
N.C. Capital Management Trust	35,652,424	35,652,424	35,471,564	180,860	-
Total Primary Government	134,579,311	134,592,471	86,363,369	5,284,116	42,944,986
U.S. Government Agencies - Fiduciary Funds	1,074,420	1,074,420	1,074,420	-	-
Equity Mutual Funds-Fiduciary Funds	4,114,599	4,114,599	4,114,599	-	-
Reporting Entity Total	\$ 139,768,330	\$ 139,781,490	\$ 91,552,388	\$ 5,284,116	\$ 42,944,986

At June 30, 2005, the City of Fayetteville had \$35,471,564 invested with the North Carolina Capital Management Trust's Cash Portfolio. For extended duration of 0.9 years (329 days) the City had \$180,860 invested in the Term Portfolio. Third-party custodians who take delivery of the investment securities on behalf of the City held investments of \$4,114,599 for the Supplemental PWC Pension Trust Fund.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

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

B – Investments (continued)

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.

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, 2005, 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, 2005. The City's investments in the NC Capital Management Trust Term Portfolio is 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, Wachovia Overnight Commercial Paper, Nord L/B Lux Commercial Paper, Federal Home Loan Banks and Fannie Mae. These investments are 12.11%, 11.02%, 5.92%, 26.91% and 9.87%, respectively, of the City's total investments. All government agency investments for the fiduciary funds are in Federal Home Loan Mortgage securities.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

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

B – Investments (continued)

Reconciliation to cash and investments:

Totals per Footnote:

Total investments	\$ 139,768,330
Cash (demand deposits)	17,344,625
Cash (escrow)	5,642,292
Fireman's Relief CD	165,000
Lumbee River Contract CD	579,720
Petty cash	13,325
Total cash and investments	<u>\$ 163,513,292</u>

Totals per Balance Sheet

Cash and investments - unrestricted	\$ 92,889,795
Cash and investments - restricted	63,447,168
Pension trust cash and investments	5,925,482
Private-purpose trust cash and investments	1,250,847
Total Cash and Cash Equivalents	<u>\$ 163,513,292</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

Primary Government

	(As Previously Reported) Balance July 1, 2004	Prior Period Adjustment	(Restated) Balance July 1, 2004	Increases	Decreases	Adjustments	Transfers	Balance June 30, 2005
Governmental activities:								
Capital assets not being depreciated:								
Land	\$ 34,367,330	\$ -	\$ 34,367,330	\$ 1,449,588	\$ (141,827)	\$ -	\$ -	\$ 35,675,191
Construction in progress	9,208,642	-	9,208,642	6,623,572	(4,491,711)	-	-	11,340,503
Total capital assets not being depreciated	43,575,972	-	43,575,972	8,073,260	(4,633,538)	-	-	47,015,694
Capital assets being depreciated:								
Infrastructure	309,828,000	13,183,742	323,011,742	8,105,848	-	-	-	331,117,590
Buildings and improvements	42,932,357	-	42,932,357	717,945	(18,920)	-	-	43,631,382
Equipment, furniture and fixtures	14,634,390	-	14,634,390	4,480,838	(1,375,424)	223,171	223,235	18,186,210
Vehicles	24,316,350	-	24,316,350	3,900,926	(654,466)	357,979	(96,738)	27,824,051
Total capital assets being depreciated	391,711,097	13,183,742	404,894,839	17,205,557	(2,048,810)	581,150	126,497	420,759,233
Less accumulated depreciation for:								
Infrastructure	(79,886,201)	(9,763,349)	(89,649,550)	(8,992,672)	-	-	-	(98,642,222)
Buildings and improvements	(15,681,819)	-	(15,681,819)	(1,331,949)	12,614	-	-	(17,001,154)
Equipment, furniture and fixtures	(11,644,967)	-	(11,644,967)	(1,885,555)	1,374,153	(206,705)	-	(12,363,074)
Vehicles	(20,081,926)	-	(20,081,926)	(2,117,019)	647,299	(285,737)	(126,497)	(21,963,886)
Total accumulated depreciation	(127,294,913)	(9,763,349)	(137,058,262)	\$ (14,327,195)	\$ 2,034,066	\$ (492,442)	\$ (126,497)	(149,970,330)
Total capital assets being depreciated, net	264,416,184	3,420,393	267,836,577					270,788,903
Governmental activity capital assets, net	\$ 307,992,156		\$ 311,412,549					\$ 317,804,597

See note 1G related to prior period adjustment.

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

Administration	\$ 347,340
Public safety	2,943,397
Environmental protection	981,166
Transportation	9,416,793
Economic and physical development	6,164
Recreation and community facilities	596,075
Capital assets held by certain internal service funds are charged to the various governmental functions based on the usage of the funds.	36,260
Total depreciation expense	<u>\$ 14,327,195</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 3 - Capital Assets (continued)

	Balance July 1, 2004	Increases	Decreases	Transfers	Balance June 30, 2005
Business-type activities:					
Electric Fund					
Capital assets not being depreciated:					
Land	\$ 4,471,216	\$ 38,284	\$ (8,700)	\$ -	\$ 4,500,800
Construction in progress	4,731,007	9,725,407	(8,858,642)	-	5,597,772
Total capital assets not being depreciated	<u>9,202,223</u>	<u>9,763,691</u>	<u>(8,867,342)</u>	<u>-</u>	<u>10,098,572</u>
Capital assets being depreciated:					
Electric utility system	299,832,231	9,209,471	(1,736,420)	-	307,305,282
Buildings and improvements	38,038,391	131,633	-	-	38,170,024
Equipment and machinery	12,489,046	919,424	(119,807)	-	13,288,663
Computer programs	9,228,422	1,150,188	(70,168)	14,740	10,323,182
Vehicles	4,554,000	172,727	(166,544)	-	4,560,183
Office equipment	1,817,811	51,351	(86,199)	(925)	1,782,138
Total capital assets being depreciated	<u>365,960,001</u>	<u>11,634,794</u>	<u>(2,179,138)</u>	<u>13,815</u>	<u>375,429,472</u>
Less accumulated depreciation for:					
Electric utility system	(136,023,545)	(10,263,386)	1,471,748	-	(144,815,183)
Buildings and improvements	(7,828,798)	(1,262,357)	-	-	(8,891,155)
Equipment and machinery	(5,163,905)	(738,770)	104,992	-	(5,797,683)
Computer programs	(6,237,767)	(1,049,529)	59,393	(11,547)	(7,239,450)
Vehicles	(3,831,798)	(93,055)	166,544	-	(3,758,309)
Office equipment	(1,345,444)	(103,824)	83,509	925	(1,364,834)
Total accumulated depreciation	<u>(160,231,257)</u>	<u>\$ (13,510,921)</u>	<u>\$ 1,886,186</u>	<u>\$ (10,622)</u>	<u>(171,866,614)</u>
Total capital assets being depreciated, net	<u>205,728,744</u>				<u>203,562,858</u>
Electric fund capital assets, net	<u>\$ 214,930,967</u>				<u>\$ 213,661,430</u>
Water and Wastewater Fund					
Capital assets not being depreciated:					
Land	\$ 6,995,620	\$ 59,649	\$ (4,968)	\$ -	\$ 7,050,301
Construction in progress	16,624,593	35,222,933	(25,304,852)	-	26,542,674
Total capital assets not being depreciated	<u>23,620,213</u>	<u>35,282,582</u>	<u>(25,309,820)</u>	<u>-</u>	<u>33,592,975</u>
Capital assets being depreciated:					
Wastewater system	277,140,366	13,802,108	-	-	290,942,474
Water system	182,708,681	11,308,402	-	-	194,017,083
Buildings and improvements	5,393,647	19,475	-	-	5,413,122
Equipment and machinery	7,034,303	395,729	(93,259)	-	7,336,773
Computer programs	8,681,150	801,976	(43,239)	(14,740)	9,425,147
Vehicles	4,233,408	310,518	(165,732)	-	4,378,194
Office equipment	910,149	51,360	(65,263)	925	897,171
Total capital assets being depreciated	<u>486,101,704</u>	<u>26,689,568</u>	<u>(367,493)</u>	<u>(13,815)</u>	<u>512,409,964</u>
Less accumulated depreciation for:					
Wastewater system	(85,483,995)	(6,085,058)	-	-	(91,569,053)
Water system	(66,773,248)	(4,120,209)	-	-	(70,893,457)
Buildings and improvements	(2,007,747)	(176,044)	-	-	(2,183,791)
Equipment and machinery	(5,555,702)	(315,675)	92,143	-	(5,779,234)
Computer programs	(5,669,731)	(983,894)	32,516	11,547	(6,609,562)
Vehicles	(3,495,546)	(90,506)	165,732	-	(3,420,320)
Office equipment	(858,747)	(31,135)	62,571	(925)	(828,236)
Total accumulated depreciation	<u>(169,844,716)</u>	<u>\$ (11,802,521)</u>	<u>\$ 352,962</u>	<u>\$ 10,622</u>	<u>(181,283,653)</u>
Total capital assets being depreciated, net	<u>316,256,988</u>				<u>331,126,311</u>
Water and Wastewater fund capital assets, net	<u>\$ 339,877,201</u>				<u>\$ 364,719,286</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 3 - Capital Assets (continued)

	Balance July 1, 2004	Increases	Decreases	Transfers	Balance June 30, 2005
Business-type activities (continued):					
Nonmajor funds					
Capital assets not being depreciated:					
Land	\$ 2,198,050	\$ 116,793	\$ -	\$ -	\$ 2,314,843
Construction in progress	2,003,767	1,790,922	-	-	3,794,689
Total capital assets not being depreciated	<u>4,201,817</u>	<u>1,907,715</u>	<u>-</u>	<u>-</u>	<u>6,109,532</u>
Capital assets being depreciated:					
Buildings and improvements	40,177,231	9,372	-	-	40,186,603
Furniture, fixtures and equipment	2,046,897	203,037	-	36,598	2,286,532
Vehicles	7,175,245	143,028	-	(163,095)	7,155,178
Total capital assets being depreciated	<u>49,399,373</u>	<u>355,437</u>	<u>-</u>	<u>(126,497)</u>	<u>49,628,313</u>
Less accumulated depreciation for:					
Buildings and improvements	(21,458,467)	(1,403,183)	-	-	(22,861,650)
Furniture, fixtures and equipment	(1,611,409)	(205,663)	-	-	(1,817,072)
Vehicles	(5,174,161)	(565,756)	-	126,497	(5,613,420)
Total accumulated depreciation	<u>(28,244,037)</u>	<u>\$ (2,174,602)</u>	<u>\$ -</u>	<u>\$ 126,497</u>	<u>(30,292,142)</u>
Total capital assets being depreciated, net	<u>21,155,336</u>				<u>19,336,171</u>
Nonmajor fund capital assets, net	<u>\$ 25,357,153</u>				<u>\$ 25,445,703</u>
Business-type activities capital assets, net	<u>\$ 580,165,321</u>				<u>\$ 603,826,419</u>

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

Electric	\$ 13,510,921
Water and Wastewater	11,802,521
Transit	803,782
Airport	1,370,820
Total depreciation expense	<u>\$ 27,488,044</u>

Note 4 – Accounts Payable

Accounts payable and accrued expenses consist of the following:

	General	Nonmajor Governmental	Internal Service	Subtotal	Enterprise	Fiduciary
Accounts payable	\$ 2,800,615	\$ 651,480	\$ 3,743,507	\$ 7,195,602	\$ 33,931,997	\$ 24,736
Contracts payable	365,369	1,743,988	-	2,109,357	-	-
Retainage payable	-	513,213	-	513,213	1,257,823	-
Salaries and benefits payable	3,007,721	860	27,705	3,036,286	2,262,009	-
Total	<u>\$ 6,173,705</u>	<u>\$ 2,909,541</u>	<u>\$ 3,771,212</u>	<u>12,854,458</u>	<u>\$ 37,451,829</u>	<u>\$ 24,736</u>
Adjustment for interest payable				631,730		
				<u>\$ 13,486,188</u>		

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

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, 2005, are as follows:

Governmental and Business-type 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%.	\$ 700,000
\$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%.	2,095,000
\$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%.	8,375,000
\$2,750,000 1999 Public Improvement Bonds due in various annual installments beginning March 1, 2001 through March 1, 2017; interest at 4.30%.	1,850,000
\$4,900,000 1999 Street Improvement Bonds due in various installments beginning March 1, 2001 through March 1, 2017; interest at 4.32%.	3,250,000
\$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%.	3,200,000
\$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%.	2,200,000
\$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% 2.5%.	3,640,000

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 5 - Long-Term Obligations (continued)

A - General Obligation Indebtedness (continued)

\$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%.	\$ 3,225,000
\$5,535,000 2002 Refunding Bonds due in various annual installments through June 1, 2016; interest at various rates between 2% and 4%.	4,905,000
\$3,805,000 2003 Refunding Bonds due in various annual installments through June 1, 2010; interest at various rates between 2% and 3%.	2,560,000
\$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>8,450,000</u>
	<u>\$ 44,450,000</u>

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, 2005, are as follows:

Governmental activities:

\$16,390,000 1996 Municipal Building Projects Bonds due in various annual installments through February 1, 2018; interest at 5.83%.	\$ 4,235,000
\$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%.	5,835,000
\$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%	3,920,000
\$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>2,685,000</u>
Total governmental revenue bonds	<u>16,675,000</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 5 - Long-Term Obligations (continued)

B - Revenue Bonds (continued)

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 6.75%.	\$ 5,495,000
\$40,755,000 1997 Water and Sewer Bonds due in various annual installments through March 1, 2010; interest at various rates between 4.40% and 5.25%.	4,785,000
\$19,325,000 1999 Water and Sewer Bonds due in various installments through March 1, 2010; interest at various rates between 4.60% and 5.00%.	3,925,000
\$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 3.7% and 5.50%.	15,850,000
\$78,280,000 2003 Revenue Refunding Bonds due in various annual installments through March 1, 2024; fixed rate swap at 3.42%.	76,395,000
\$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%.	54,050,000
\$30,065,000 2003 Series B Variable Rate Revenue Refunding Bonds due in various annual installments through March 1, 2009; interest resets weekly.	<u>23,820,000</u>
Total business-type revenue bonds	<u>184,320,000</u>
Total revenue bonds	<u>\$ 200,995,000</u>

C - Interest Rate Swap

The City has two-interest rate swap agreements in effect at June 30, 2005 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. The City also has an interest rate cap in effect for its Series 2003B Variable Rate Revenue Refunding Bonds ("Series 2003B").

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%. In addition, in order to protect itself from rising interest rates, the City entered into a 3 year 6% interest rate cap agreement for the Series 2003B bonds.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 5 - Long-Term Obligations (continued)

C - Interest Rate Swap (continued)

The terms, fair values, and credit ratings of the outstanding swaps and cap as of June 30, 2005 are as follows. The notional amount of the swaps matches the principal amount of the associated debt and decline with the principal amortization on the bonds. The notional amount of the cap began at \$10 million and is reduced by the principal amortization on the bonds until the final termination date of March 1, 2006.

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	\$ 76,395,000	1/22/03	3.42%	59% of LIBOR + 34.5 bps	\$ (3,182,415)	March 2024	Aa1/AA-/AA+
Series 2003A	54,050,000	9/11/03	3.74%	62.8 % of LIBOR + 31 bps	(2,978,421)	March 2020	Aa1/AA-/AA+
Interest Rate Cap							
Series 2003B	3,755,000	10/2/03	n/a			March 2006	Aa1/AA-/AA+
	<u>\$ 134,200,000</u>				<u>\$ (6,160,836)</u>		

(1) LIBOR - London Interbank Offered Rate

(2) Counterparty's guarantor

As of June 30, 2005 the negative fair values of the agreements would be offset by lower fixed rates available in today's market versus the dates of execution of the actual 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.

The swaps expose the City to basis risk should the relationship between LIBOR and Bond Market Association (BMA) converges, 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, 2005 of 3.51% and 3.75%. As of June 30, 2005, the rate on the City's Series 2003 and 2003 A bonds was 2.27% whereas the variable rate from the counterparty was 2.18% and 2.26%, respectively. For fiscal year 2005, the City experienced an actual synthetic rate of 3.54% and 3.81%, respectively, which demonstrated a performance greater than the intended fixed rates.

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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 5 - Long-Term Obligations (continued)

C - Interest Rate Swap (continued)

Using rates as of June 30, 2005, 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 Swap, Net	Total
	Principal	Interest		
2006	\$ 625,000	\$ 2,961,102	\$ 1,744,662	\$ 5,330,764
2007	650,000	2,946,914	1,736,679	5,333,593
2008	665,000	2,932,159	1,728,387	5,325,546
2009	2,715,000	2,917,064	1,719,908	7,351,972
2010	6,250,000	2,855,433	1,686,023	10,791,456
2011-2015	49,535,000	11,404,026	6,704,507	67,643,533
2016-2020	52,505,000	5,239,614	3,011,971	60,756,585
2021-2024	17,500,000	1,209,116	660,146	19,369,262
	<u>\$ 130,445,000</u>	<u>\$ 32,465,428</u>	<u>\$ 18,992,283</u>	<u>\$ 181,902,711</u>

D - 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.

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%. \$ 125,000

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. 6,076,102

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 5 - Long-Term Obligations (continued)

D - Notes Payable (continued)

\$17,442,000 State revolving loan due in 20 annual installments beginning May 1, 2006; interest at 2.66% with 1 st payment due May 1, 2006 and semiannually thereafter; construction draws not yet complete.	\$ 11,831,042
\$396,000 SREMC Loan due in 10 annual installments beginning April 5, 2006; no interest	<u>396,000</u>
Total	<u>\$ 18,428,144</u>

E - 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 \$50,000 in 2005 including interest at 4.55%	\$ 4,120,853
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Capital lease obligations payable in various monthly installments of approximately \$200,000 in 2005 including interest at rates ranging from 3.40% to 5.87%.	7,439,805
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Capital lease obligations payable in various monthly Installments of approximately \$50,000 to begin in fiscal year 2006 including interest at 3.05%	<u>3,346,770</u>
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Less: amount representing interest	<u>14,907,428</u>
Present value of the minimum lease payments	<u>\$ 13,551,475</u>

The following is an analysis of leased property under capital leases as of June 30, 2005:

Classes of Property	Cost	Depreciation	Value
Equipment	\$ 9,235,946	\$ 3,197,975	\$ 6,037,971
Vehicles	4,702,216	1,935,626	2,766,590
Buildings and improvement	6,087,521	1,412,223	4,675,298
Total	<u>\$ 20,025,683</u>	<u>\$ 6,545,824</u>	<u>\$ 13,479,859</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 5 - Long-Term Obligations (continued)

F. 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, 2005:

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
Governmental activities:					
Bonded debt	\$ 46,470,000	\$ 15,060,000	\$ 4,045,000	\$ 57,485,000	\$ 5,245,000
Capitalized leases	13,341,744	3,104,409	2,894,678	13,551,475	3,173,143
Notes payable	185,000	-	60,000	125,000	60,000
Arbitrage payable	44,414	253,166	150,334	147,246	-
Compensated absences	<u>3,425,848</u>	<u>2,000,445</u>	<u>1,581,710</u>	<u>3,844,583</u>	<u>2,491,516</u>
	63,467,006	<u>\$ 20,418,020</u>	<u>\$ 8,731,722</u>	75,153,304	10,969,659
Less: loss on defeasance (net of amortization)	<u>(491,659)</u>			<u>(850,500)</u>	-
Total governmental activities	<u>\$ 62,975,347</u>			<u>\$ 74,302,804</u>	<u>\$ 10,969,659</u>

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

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
Business-type activities:					
General obligation debt	\$ 4,585,000	\$ -	\$ 945,000	\$ 3,640,000	\$ 935,000
Revenue bonds	194,630,000	-	10,310,000	184,320,000	10,755,000
Notes payable	11,867,713	6,815,187	379,756	18,303,144	1,010,908
Compensated absences	<u>129,473</u>	<u>112,753</u>	<u>107,105</u>	<u>135,121</u>	<u>135,121</u>
	211,212,186	<u>\$ 6,927,940</u>	<u>\$ 11,741,861</u>	206,398,265	12,836,029
Less: loss on defeasance (net of amortization)	<u>(15,054,195)</u>			<u>(13,513,656)</u>	-
Total business-type activities	<u>\$ 196,157,991</u>			<u>\$ 192,884,609</u>	<u>\$ 12,836,029</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 5 – Long-Term Obligations (continued)

G - Maturities of Long-Term Obligations

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

Governmental activities:

Year Ended	Bonds Payable		Lease Revenue Bonds		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 3,510,000	\$ 1,714,919	\$ 1,735,000	\$ 819,119	\$ 60,000	\$ 6,124
2007	3,545,000	1,570,589	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	-	-
2011-2015	14,205,000	3,688,643	5,290,000	1,594,346	-	-
2016-2019	5,505,000	1,050,875	3,130,000	376,856	-	-
2020-2025	3,325,000	423,438	-	-	-	-
	<u>40,810,000</u>	<u>12,308,245</u>	<u>16,675,000</u>	<u>5,163,535</u>	<u>125,000</u>	<u>8,549</u>
Less: loss on defeasance (net of amortization)	<u>(850,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 39,959,500</u>	<u>\$ 12,308,245</u>	<u>\$ 16,675,000</u>	<u>\$ 5,163,535</u>	<u>\$ 125,000</u>	<u>\$ 8,549</u>

Year Ended	Construction and Improvement Leases		Capitalized Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 376,501	\$ 149,895	\$ 2,796,642	\$ 257,660	\$ 8,478,143	\$ 2,947,717
2007	376,501	132,764	2,570,429	188,346	8,356,930	2,599,415
2008	376,501	115,633	2,386,097	121,937	8,177,598	2,296,006
2009	376,501	98,502	1,795,227	46,264	7,301,728	1,980,003
2010	376,501	81,371	614,569	9,406	5,886,070	1,724,808
2011-2015	1,506,006	154,177	-	-	21,001,006	5,437,166
2016-2019	-	-	-	-	8,635,000	1,427,731
2020-2025	-	-	-	-	3,325,000	423,438
	<u>3,388,511</u>	<u>732,342</u>	<u>10,162,964</u>	<u>623,613</u>	<u>71,161,475</u>	<u>18,836,284</u>
Less: loss on defeasance (net of amortization)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(850,500)</u>	<u>-</u>
	<u>\$ 3,388,511</u>	<u>\$ 732,342</u>	<u>\$ 10,162,964</u>	<u>\$ 623,613</u>	<u>\$ 70,310,975</u>	<u>\$ 18,836,284</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 5 - Long-Term Obligations (continued)

G - Maturities of Long-Term Obligations (continued)

The following schedule includes the City's expected estimated schedule of maturity for the \$7,595,127 State Revolving Loan noted above as well as the annual requirements to amortize all long-term debt outstanding (excluding compensated absences and arbitrage payable).

Business-type activities:

Year Ended	Bonds Payable		Notes Payable		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	11,690,000	6,828,275	1,010,908	342,491	\$ 12,700,908	\$ 7,170,766
2007	12,065,000	6,391,209	1,010,908	447,075	13,075,908	6,838,284
2008	12,550,000	5,956,005	1,010,908	421,466	13,560,908	6,377,471
2009	13,035,000	5,523,916	1,010,908	395,858	14,045,908	5,919,774
2010	10,075,000	5,110,206	1,010,908	370,249	11,085,908	5,480,455
2011-2015	56,850,000	19,415,184	5,054,543	1,467,109	61,904,543	20,882,293
2016-2020	54,195,000	8,187,217	4,856,543	826,885	59,051,543	9,014,102
2021-2025	17,500,000	1,821,663	3,337,518	245,904	20,837,518	2,067,567
	<u>187,960,000</u>	<u>59,233,675</u>	<u>18,303,144</u>	<u>4,517,037</u>	<u>206,263,144</u>	<u>63,750,712</u>
Less: Loss on defeasance (net of amortization)	<u>(13,513,656)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,513,656)</u>	<u>-</u>
	<u>\$ 174,446,344</u>	<u>\$ 59,233,675</u>	<u>\$ 18,303,144</u>	<u>\$ 4,517,037</u>	<u>\$ 192,749,488</u>	<u>\$ 63,750,712</u>

H - Legal Debt Margin

The legal debt margin of the City at June 30, 2005, approximated \$498,676,127.

I - Authorized But Un-issued Debt

At June 30, 2005, the City had no bonds authorized but un-issued.

J - Interest Expense

Interest expense during the year totaled \$9,528,652.

K - 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, 2005.

Notes to Financial Statements (continued)

June 30, 2005

Note 6 - Defeasance of Debt

A – 2005 Municipal Building Projects Refunding Bonds

On January 5, 2005 the City issued \$5,835,000 2005 Municipal Building Projects Refunding Bonds for the purpose of advance refunding \$5,830,000 of the 1996 Municipal Building Projects Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, the obligations are considered defeased and the liability for those obligations have been removed from the City's general ledger.

B – Prior Year 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, 2005, the amount of prior year defeased debt outstanding and removed from the City's liabilities amounted to \$46,590,000.

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, 1989 Certificates of Participation, General Obligation Refunding Bonds, Series 2003 and the General Obligation Refunding Bonds, Series 2002, have been adjusted for the loss from defeasance (net of amortization) of \$13,945,601.

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)	\$ 445,236	\$ 445,236
Prepaid retiree insurance premiums (Internal Service)	3,353	3,353
Unearned rent (Proprietary)	39,910	39,910
Unearned grant receipts (Special Revenue)	93,770	93,770
Unearned receipts (Capital Project)	579,720	579,720
Taxes receivable, net (General)	3,089,741	-
Taxes receivable, net (Special Revenue)	102,238	-
Accounts and notes receivable (General)	858,326	-
Accounts and notes receivable (Special Revenue)	6,131,964	-
Special assessments receivable, net (General)	632,822	-
Special assessments receivable, net (Special Revenue)	7,645	-
Total	<u>\$ 11,984,725</u>	<u>\$ 1,161,989</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

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, 2005), 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.

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, 2005, 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, 2005, a liability for incurred but not reported claims of \$4,354,680 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.

	<u>2005</u>	<u>2004</u>
Liability at June 30,	\$ 4,472,499	\$ 4,382,484
Current year claims and changes in estimates	13,881,768	13,110,432
Actual claim payments	<u>(13,999,587)</u>	<u>(13,020,417)</u>
Liability at June 30,	<u>\$ 4,354,680</u>	<u>\$ 4,472,499</u>

Notes to Financial Statements (continued)

June 30, 2005

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.

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 \$138.8 million for capital additions and construction of various electric, water and wastewater projects. At June 30, 2005, cumulative expenditures to date totaled approximately \$97.5 million leaving an unexpended balance of \$41.3 million for projects that are expected to be completed at various dates through the year ended 2006.

In 2002, the City entered into a new purchased power arrangement with Progress Energy Company (PEC). Starting in July 2003, the City is committed to purchasing 279 MW and increasing to 301 MW in July 2008 until the end of the contract in June 2012. The remaining capacity and energy will either be produced at the Butler-Warner Generation Plant or bought 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, 2005, the net purchased power costs paid to PEC was \$84,907,456. There was no power sold on the open market in fiscal year 2005.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

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 2006 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>
2006	\$ 454,446
2007	452,271
2008	397,898
2009	301,597
2010	63,595
Future years	<u>147,233</u>
Total	<u>\$1,817,040</u>

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

For the fiscal year ended June 30, 2005, the City has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$29,021 for the 126 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 11 - Employee Retirement Systems (continued)

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.

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, 2005, 2004 and 2003, were \$4,570,266, \$4,237,759 and \$2,517,077, 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 11 - Employee Retirement Systems (continued)

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

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, 2005 was 0% of annual covered payroll.

The annual required contribution calculation for June 30, 2005 was determined as part of the July 1, 2005, 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.

The actuarial value of assets was determined by using the market value at June 30, 2005. 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, 2004, the Separation Allowance's membership consisted of:

Retirees receiving benefits	19
Active plan members	<u>342</u>
Total	<u>361</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 11- Employee Retirement Systems (continued)

C - Law Enforcement Officers' Special Separation Allowance (continued)

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 \$356,878, or 2.64% 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.

The annual required contribution for the current year was determined as part of the December 31, 2003 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	\$ 318,276
Interest on net pension obligation	(21,388)
Adjustment to annual required contribution	<u>16,549</u>
Annual pension cost	313,437
Contributions made	<u>356,878</u>
Increase (decrease) in net pension obligation	(43,441)
Net pension obligation beginning of year	<u>(295,001)</u>
Net pension obligation end of year	<u>\$ (338,442)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 11 - Employee Retirement Systems (continued)

C - Law Enforcement Officers' Special Separation Allowance (continued)

Annual Pension Cost and Net Pension Obligation (continued)

Three-Year Trend Information			
Fiscal Year	Annual	Percentage	Net Pension
Ending	Pension	of APC	Obligation
	Cost (APC)	Contributed	
2003	\$ 281,551	110.49	\$ (284,281)
2004	301,448	103.82	(295,001)
2005	331,437	113.86	(338,442)

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.

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, 2005, were \$1,466,412, which consisted of \$689,937 from the City and \$776,475 from employees.

E - Defined Contribution Plan and Trust

The Electric and Water and Wastewater funds participate in a Defined Contribution Plan and Trust (Plan), administered by the Advisory Committee appointed by the City. This Plan became effective July 1, 1999. Plan provisions are established or amended by City of Fayetteville City Council resolution. The Electric and Water and Wastewater funds' employees are not allowed to contribute to this Plan. For the fiscal year ended June 30, 2005 actual contributions by the City were \$0. The City currently contributes 0% of gross pay of each Electric and Water and Wastewater fund employee to the Defined Contribution Plan or Trust. This funding rate is subject to City Council approval. At June 30, 2005, the Plan included 486 participants. Participants vest at service inception and are entitled to 100% of vested contributions. The Plan is a profit sharing plan qualified under section 401(a) of the Internal Revenue Code. During the year the assets were transferred to the State 401(k) plan.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 11 - Employee Retirement Systems (continued)

F - 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 ten 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, 95 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, 2005, the City made payments for post-retirement health benefit premiums of \$1,370,958.

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 (continued)

June 30, 2005

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 \$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, 2005, the City made contributions to the State for death benefits of \$58,891. 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, 324 retirees are eligible for post-retirement death benefits. For the fiscal year ended June 30, 2005, the City made payments for post-retirement death benefits premiums of \$29,496.

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, 2005, as the amount is not material to the financial statements. As of June 30, 2005, 46 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, 2005, expenses of approximately \$341,272 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, 2005, consist of the following:

Due to the General Fund from the Airport Fund (loan for capital construction)	\$	372,511
Due to the Transportation Fund from the Bond Improvement Fund		1,064,204
Due to the Storm Water Management Special Revenue Fund from the Federal and State Financial Assistance Fund		<u>265,298</u>
	\$	<u>1,702,013</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2005

Note 13 – Interfund Balances and Activity (continued)

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2005, consist of the following:

General fund transfers in	\$ 9,624,200
General fund transfers out	(5,916,009)
Nonmajor governmental funds transfers in	5,710,009
Nonmajor governmental funds transfers out	-
Major enterprise funds transfers out	(9,624,200)
Nonmajor enterprise funds transfers in	1,206,000
Internal Service funds transfers out	(1,000,000)
	<u>\$ -</u>

Note 14 – Subsequent Events

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.

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 has not been executed at this date.

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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%

* 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

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1996	\$ 87,240	212.25%
1997	106,748	125.18%
1998	107,318	115.48%
1999	111,500	128.32%
2000	127,606	119.29%
2001	145,228	114.21%
2002	259,788	104.76%
2003	286,336	108.65%
2004	311,445	102.16%
2005	318,276	100.00%

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, 2004
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay closed
Remaining amortization period	26 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate return*	7.25%
Projected salary increases*	5.9% - 9.8%
* 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

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, 2005
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

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.

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.

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

**Comparative Balance Sheets
General Fund**

June 30, 2005 and 2004

ASSETS	2005		2004	
Cash and investments	\$	40,994,201	\$	38,194,634
Taxes receivable		3,089,741		3,376,391
Accounts receivable		10,141,018		9,636,025
Interfund receivable		372,511		398,921
Assessments receivable		478,454		457,626
Inventories		149,279		145,027
Total assets	\$	55,225,204	\$	52,208,624
 LIABILITIES AND FUND BALANCES				
Liabilities	\$	6,173,705	\$	5,194,277
Accounts payable and accrued expenses		61,325		95,511
Unearned deposits		5,026,126		5,114,580
Deferred revenues				
Total liabilities		11,261,156		10,404,368
Fund balances				
Fund balances:				
Reserved				
By State statute		9,500,835		9,181,667
For encumbrances		1,713,453		3,676,094
For inventories		149,279		145,027
For downtown		430,746		306,339
For county recreation		773,259		-
Unreserved				
Designated				
For subsequent years		3,671,062		1,696,565
For special purpose		3,529,340		5,713,518
For debt service		4,069,134		1,926,997
Undesignated		20,126,940		19,158,049
Total fund balances		43,964,048		41,804,256
Total liabilities and fund balances	\$	55,225,204	\$	52,208,624

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005

With Comparative Actual Statements for the Year Ended June 30, 2004

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2005 Actual</u>	<u>2004 Actual</u>
Revenues				
Ad valorem taxes				
Current year	\$ 37,771,996	\$ 180,529	\$ 37,952,525	\$ 36,877,574
Prior year	1,307,630	46,419	1,354,049	1,260,690
Penalties	293,500	22,026	315,526	293,598
Total ad valorem taxes	<u>39,373,126</u>	<u>248,974</u>	<u>39,622,100</u>	<u>38,431,862</u>
Other taxes				
Local option sales tax	22,200,000	343,521	22,543,521	20,698,993
Utility franchise tax	5,215,960	29,247	5,245,207	5,121,788
Vehicle license tax	469,475	13	469,488	444,521
Privilege license	712,232	19,487	731,719	684,806
Cablevision franchise tax	1,525,000	22,289	1,547,289	2,016,045
Vehicle gross receipt	318,000	26,913	344,913	305,860
Total other taxes	<u>30,440,667</u>	<u>441,470</u>	<u>30,882,137</u>	<u>29,272,013</u>
Intergovernmental				
Federal	19,100	72,015	91,115	36,480
State	4,544,120	21,268	4,565,388	4,282,825
Local	5,163,263	(134,784)	5,028,479	478,388
Total intergovernmental	<u>9,726,483</u>	<u>(41,501)</u>	<u>9,684,982</u>	<u>4,797,693</u>
Other functional				
Permits and fees	1,737,518	183,045	1,920,563	1,535,700
Property leases	319,631	12,712	332,343	318,340
Engineering/planning services	782,153	158,233	940,386	725,080
Public safety services	585,326	100,470	685,796	556,831
Environmental services	45,500	1,456	46,956	26,139
Recreation and cultural services	800,400	71,516	871,916	562,405
Parking revenues	72,100	11,481	83,581	75,614
Other fees and services	117,798	4,265	122,063	125,792
Total other functional	<u>4,460,426</u>	<u>543,178</u>	<u>5,003,604</u>	<u>3,925,901</u>
Miscellaneous				
Refunds and sundry	150,099	190,988	341,087	104,157
Indirect cost allocation	842,096	(21,114)	820,982	722,039
Special use assessment	88,547	34,361	122,908	100,412
Sale of assets	53,703	9,575	63,278	11,597
Total miscellaneous	<u>1,134,445</u>	<u>213,810</u>	<u>1,348,255</u>	<u>938,205</u>
Interest earned on investments	<u>806,500</u>	<u>485,592</u>	<u>1,292,092</u>	<u>361,878</u>
Total revenues	<u>85,941,647</u>	<u>1,891,523</u>	<u>87,833,170</u>	<u>77,727,552</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005
With Comparative Actual Statements for the Year Ended June 30, 2004

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Expenditures				
Current				
Administration				
Legislative				
Personnel	\$ 353,504	\$ 549	\$ 352,955	\$ 333,870
Operating	258,306	35,112	223,194	322,036
	<u>611,810</u>	<u>35,661</u>	<u>576,149</u>	<u>655,906</u>
City attorney				
Personnel	327,662	7,288	320,374	371,276
Operating	379,834	71,795	308,039	249,455
	<u>707,496</u>	<u>79,083</u>	<u>628,413</u>	<u>620,731</u>
Executive				
Personnel	699,246	127	699,119	410,727
Operating	179,791	47,571	132,220	89,130
	<u>879,037</u>	<u>47,698</u>	<u>831,339</u>	<u>499,857</u>
Human resources development				
Personnel	550,062	26,564	523,498	529,815
Operating	291,309	133,428	157,881	97,418
	<u>841,371</u>	<u>159,992</u>	<u>681,379</u>	<u>627,233</u>
Strategic initiatives				
Personnel	299,024	1,051	297,973	175,277
Operating	234,658	27,435	207,223	66,188
Inventory	130,694	9,408	121,286	139,580
Cost redistribution	(166,613)	2,573	(169,186)	(175,093)
	<u>497,763</u>	<u>40,467</u>	<u>457,296</u>	<u>205,952</u>
Information technology				
Personnel	381,644	508	381,136	403,032
Operating	813,986	116,800	697,186	552,349
Assets	434,597	220,667	213,930	439,220
	<u>1,630,227</u>	<u>337,975</u>	<u>1,292,252</u>	<u>1,394,601</u>
Human relations				
Personnel	218,597	513	218,084	215,317
Operating	47,555	9,260	38,295	36,293
	<u>266,152</u>	<u>9,773</u>	<u>256,379</u>	<u>251,610</u>
Finance				
Personnel	927,093	1,002	926,091	918,213
Operating	883,765	111,722	772,043	704,314
Assets	5,500	-	5,500	-
	<u>1,816,358</u>	<u>112,724</u>	<u>1,703,634</u>	<u>1,622,527</u>
General government				
Personnel	8,441	-	8,441	43,154
Operating	3,183,075	(87,622)	3,270,697	2,957,518
Assets	134,363	134,363	-	-
Inventory	1,099,452	19,724	1,079,728	733,400
Cost redistribution	(1,153,081)	203	(1,153,284)	(814,289)
Payments to agencies	422,833	7,729	415,104	445,600
	<u>3,695,083</u>	<u>74,397</u>	<u>3,620,686</u>	<u>3,365,383</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005
With Comparative Actual Statements for the Year Ended June 30, 2004

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Expenditures (continued)				
Current (continued)				
Administration (continued)				
Public buildings				
Personnel	\$ 636,335	\$ 2,899	\$ 633,436	\$ 658,637
Operating	966,934	137,407	829,527	612,558
Assets	64,288	43,316	20,972	-
	<u>1,667,557</u>	<u>183,622</u>	<u>1,483,935</u>	<u>1,271,195</u>
Project management				
Personnel	296,069	720	295,349	278,310
Operating	21,309	7,675	13,634	13,038
	<u>317,378</u>	<u>8,395</u>	<u>308,983</u>	<u>291,348</u>
Total administration	<u>12,930,232</u>	<u>1,089,787</u>	<u>11,840,445</u>	<u>10,806,343</u>
Public safety				
Police				
Personnel	25,258,463	367,152	24,891,311	22,364,636
Operating	4,087,549	674,399	3,413,150	4,043,540
Assets	4,185,132	595,282	3,589,850	1,690,373
Payments to agencies	3,000	-	3,000	3,000
Cost redistribution	(24,820)	(24,820)	-	(23,594)
	<u>33,509,324</u>	<u>1,612,013</u>	<u>31,897,311</u>	<u>28,077,955</u>
Fire				
Personnel	12,434,367	43,826	12,390,541	10,392,340
Operating	1,885,779	383,446	1,502,333	1,579,941
Assets	2,391,489	541,872	1,849,617	757,744
Cost redistribution	(75,000)	-	(75,000)	(75,000)
	<u>16,636,635</u>	<u>969,144</u>	<u>15,667,491</u>	<u>12,655,025</u>
Inspections				
Personnel	1,689,937	6,369	1,683,568	1,524,016
Operating	448,941	115,869	333,052	232,398
Assets	-	-	-	18,418
	<u>2,138,878</u>	<u>122,258</u>	<u>2,016,620</u>	<u>1,774,832</u>
Total public safety	<u>52,284,837</u>	<u>2,703,415</u>	<u>49,581,422</u>	<u>42,507,812</u>
Environmental protection				
Solid waste				
Personnel	2,540,449	7,128	2,533,321	2,287,448
Operating	2,607,853	369,257	2,238,596	3,176,954
Assets	2,007,229	244,787	1,762,442	325,710
	<u>7,155,531</u>	<u>621,172</u>	<u>6,534,359</u>	<u>5,790,112</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005
With Comparative Actual Statements for the Year Ended June 30, 2004

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Expenditures (continued)				
Current (continued)				
Environmental protection (continued)				
Cemeteries				
Personnel	\$ 179,104	\$ 1,395	\$ 177,709	\$ 139,623
Operating	18,758	4,297	14,461	15,031
	<u>197,862</u>	<u>5,692</u>	<u>192,170</u>	<u>154,654</u>
Urban forestry				
Personnel	96,621	36	96,585	80,442
Operating	6,185	125	6,060	7,004
	<u>102,806</u>	<u>161</u>	<u>102,645</u>	<u>87,446</u>
Street Sweeping				
Personnel	157,268	11,594	145,674	186,296
Operating	88,156	51,822	36,334	337
Assets	454,080	-	454,080	-
	<u>699,504</u>	<u>63,416</u>	<u>636,088</u>	<u>186,633</u>
Total environmental protection	<u>8,155,703</u>	<u>690,441</u>	<u>7,465,262</u>	<u>6,218,845</u>
Transportation				
Streets				
Personnel	2,107,714	19,093	2,088,621	1,899,762
Operating	3,374,040	350,749	3,023,291	2,875,614
Assets	616,507	214,194	402,313	633,789
Cost redistribution	(145,566)	(15,236)	(130,330)	(192,121)
	<u>5,952,695</u>	<u>568,800</u>	<u>5,383,895</u>	<u>5,217,044</u>
Engineering				
Personnel	846,419	12,666	833,753	886,539
Operating	164,995	80,561	84,434	247,477
Assets	8,153	-	8,153	35,875
	<u>1,019,567</u>	<u>93,227</u>	<u>926,340</u>	<u>1,169,891</u>
Parking				
Operating	181,924	5,076	176,848	177,763
	<u>181,924</u>	<u>5,076</u>	<u>176,848</u>	<u>177,763</u>
Total transportation	<u>7,154,186</u>	<u>667,103</u>	<u>6,487,083</u>	<u>6,564,698</u>
Economic and physical development				
Central business district				
Operating	258,000	200,084	57,916	50,978
Community development				
Personnel	61,969	5	61,964	55,818
Operating	220,804	120,007	100,797	129,468
Assets	600	600	-	-
	<u>283,373</u>	<u>120,612</u>	<u>162,761</u>	<u>185,286</u>
Planning and development				
Personnel	398,131	252	397,879	391,083
Operating	106,724	37,388	69,336	120,117
Payments to agencies	54,264	52,323	1,941	5,861
	<u>559,119</u>	<u>89,963</u>	<u>469,156</u>	<u>517,061</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

**Year Ended June 30, 2005
With Comparative Actual Statements for the Year Ended June 30, 2004**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2005 Actual</u>	<u>2004 Actual</u>
Expenditures (continued)				
Current (continued)				
Economic and physical development (continued)				
Total economic and physical development	\$ 1,100,492	\$ 410,659	\$ 689,833	\$ 753,325
Recreation and community facilities				
Parks & Recreation				
Personnel	5,691,443	136,594	5,554,849	3,705,760
Operating	3,428,604	695,627	2,732,977	1,937,114
Assets	782,490	338,862	443,628	588,561
Cost redistribution	-	4,920	(4,920)	-
	<u>9,902,537</u>	<u>1,176,003</u>	<u>8,726,534</u>	<u>6,231,435</u>
Total recreation and community facilities	<u>9,902,537</u>	<u>1,176,003</u>	<u>8,726,534</u>	<u>6,231,435</u>
Debt service	<u>9,475,590</u>	<u>1,780,193</u>	<u>7,695,397</u>	<u>6,329,555</u>
Total expenditures	<u>101,003,577</u>	<u>8,517,601</u>	<u>92,485,976</u>	<u>79,412,013</u>
Revenues over (under) expenditures	<u>(15,061,930)</u>	<u>10,409,124</u>	<u>(4,652,806)</u>	<u>(1,684,461)</u>
Other financing sources (uses)				
Appropriated fund balance	8,614,488	(8,614,488)	-	-
Transfers in	9,661,561	(37,361)	9,624,200	9,487,469
Transfers (out)	(6,314,119)	398,110	(5,916,009)	(5,657,081)
Payment to refund bond escrow agent	-	-	-	(3,788,439)
Capital leases, bonds and other debt	3,100,000	4,407	3,104,407	11,666,668
Total other financing sources (uses)	<u>15,061,930</u>	<u>(8,249,332)</u>	<u>6,812,598</u>	<u>11,708,617</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 2,159,792</u>	<u>2,159,792</u>	<u>10,024,156</u>
Fund balance				
Beginning of year - July 1			<u>41,804,256</u>	<u>31,780,100</u>
End of year - June 30			<u>\$ 43,964,048</u>	<u>\$ 41,804,256</u>

NONMAJOR GOVERNMENTAL FUNDS

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Assets			
Cash and investments	\$ 3,509,974	\$ 7,991,504	\$ 11,501,478
Taxes receivable	102,238	-	102,238
Accounts receivable	6,986,009	441,971	7,427,980
Interfund receivable	265,298	1,064,204	1,329,502
Assessments receivable	5,152	-	5,152
Restricted asset - cash and investments	93,770	16,522,485	16,616,255
Total assets	\$ 10,962,441	\$ 26,020,164	\$ 36,982,605
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 270,762	\$ 2,638,779	\$ 2,909,541
Interfund payables	265,298	1,064,204	1,329,502
Deferred revenues	6,335,616	579,720	6,915,336
Total liabilities	6,871,676	4,282,703	11,154,379
Fund balances:			
Reserved			
By State statute	1,116,851	1,506,175	2,623,026
For encumbrances	620,864	7,563,147	8,184,011
For wireless 911	20,487	-	20,487
Unreserved			
Designated			
For subsequent years	852,207	12,668,139	13,520,346
For special purpose	220,000	-	220,000
Undesignated	1,260,356	-	1,260,356
Total fund balances	4,090,765	21,737,461	25,828,226
Total liabilities and fund balances	\$ 10,962,441	\$ 26,020,164	\$ 36,982,605

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Other taxes	\$ 3,156,143	\$ -	\$ 3,156,143
Intergovernmental	3,338,971	1,727,928	5,066,899
Miscellaneous	499,982	2,055,037	2,555,019
Interest earned on investments	95,085	171,520	266,605
Total revenues	<u>7,090,181</u>	<u>3,954,485</u>	<u>11,044,666</u>
Expenditures			
Current:			
Administration	-	54	54
Public safety	1,628,435	-	1,628,435
Environmental protection	2,424,089	-	2,424,089
Transportation	-	1,506,124	1,506,124
Economic and physical development	3,288,101	5,546,501	8,834,602
Recreation and community facilities	-	3,449,947	3,449,947
Debt service:			
Principal	1,069,473	-	1,069,473
Interest and fees	467,811	26,862	494,673
Issue costs	148,187	220,506	368,693
Total expenditures	<u>9,026,096</u>	<u>10,749,994</u>	<u>19,776,090</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,935,915)</u>	<u>(6,795,509)</u>	<u>(8,731,424)</u>
Other financing sources (uses)			
Refunding Bonds	5,835,000	15,426,589	21,261,589
Transfers in	1,903,675	3,806,334	5,710,009
Payment to refund bond escrow agent	(6,265,297)	-	(6,265,297)
Premium on bonds	431,212	-	431,212
Total other financing sources (uses)	<u>1,904,590</u>	<u>19,232,923</u>	<u>21,137,513</u>
Net change in fund balances	<u>(31,325)</u>	<u>12,437,414</u>	<u>12,406,089</u>
Fund balance - beginning	<u>4,122,090</u>	<u>9,300,047</u>	<u>13,422,137</u>
Fund balance - ending	<u>\$ 4,090,765</u>	<u>\$ 21,737,461</u>	<u>\$ 25,828,226</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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
- * Fayetteville Finance Corp Fund

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2005**

	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	\$ 2,080,259	\$ -	\$ 1,426,215	\$ 3,500	\$ 3,509,974
Taxes receivable	-	-	102,238	-	102,238
Accounts receivable	87,452	6,882,992	15,565	-	6,986,009
Interfund receivable	-	-	265,298	-	265,298
Assessments receivable	-	5,152	-	-	5,152
Restricted asset - cash and investments	-	93,770	-	-	93,770
Total assets	\$ 2,167,711	\$ 6,981,914	\$ 1,809,316	\$ 3,500	\$ 10,962,441
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 364	\$ 204,055	\$ 62,843	\$ 3,500	\$ 270,762
Interfund payables	-	265,298	-	-	265,298
Deferred revenues	-	6,233,379	102,237	-	6,335,616
Total liabilities	364	6,702,732	165,080	3,500	6,871,676
Fund balances:					
Reserved					
By State statute	87,452	748,535	280,864	-	1,116,851
For encumbrances	-	336,276	284,588	-	620,864
For wireless 911	20,487	-	-	-	20,487
Unreserved					
Designated					
For subsequent years	343,936	-	508,271	-	852,207
For special purpose	-	-	220,000	-	220,000
Undesignated	1,715,472	(805,629)	350,513	-	1,260,356
Total fund balances	2,167,347	279,182	1,644,236	-	4,090,765
Total liabilities and fund balances	\$ 2,167,711	\$ 6,981,914	\$ 1,809,316	\$ 3,500	\$ 10,962,441

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2005

	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	\$ 996,840	\$ -	\$ 2,159,303	\$ -	\$ 3,156,143
intergovernmental	-	3,338,971	-	-	3,338,971
Miscellaneous	-	486,477	13,505	-	499,982
Interest earned on investments	37,163	-	57,362	560	95,085
Total revenues	<u>1,034,003</u>	<u>3,825,448</u>	<u>2,230,170</u>	<u>560</u>	<u>7,090,181</u>
Expenditures					
Current:					
Public safety	776,723	851,712	-	-	1,628,435
Environmental protection	-	-	2,424,089	-	2,424,089
Economic and physical development	-	3,284,508	-	3,593	3,288,101
Debt service:					
Principal	68,216	63,521	22,736	915,000	1,069,473
Interest and fees	9,445	10,442	3,148	444,776	467,811
Issue costs	-	-	-	148,187	148,187
Total expenditures	<u>854,384</u>	<u>4,210,183</u>	<u>2,449,973</u>	<u>1,511,556</u>	<u>9,026,096</u>
Excess (deficiency) of revenues over (under) expenditures	<u>179,619</u>	<u>(384,735)</u>	<u>(219,803)</u>	<u>(1,510,996)</u>	<u>(1,935,915)</u>
Other financing sources (uses)					
Refunding Bonds	-	-	-	5,835,000	5,835,000
Payment to refund bond escrow agent	-	-	-	(6,265,297)	(6,265,297)
Premium on Bonds	-	-	-	431,212	431,212
Transfers in	134,872	146,956	111,766	1,510,081	1,903,675
Total other financing sources (uses)	<u>134,872</u>	<u>146,956</u>	<u>111,766</u>	<u>1,510,996</u>	<u>1,904,590</u>
Net change in fund balances	314,491	(237,779)	(108,037)	-	(31,325)
Fund balance - beginning	<u>1,852,856</u>	<u>516,961</u>	<u>1,752,273</u>	<u>-</u>	<u>4,122,090</u>
Fund balance - ending	<u>\$ 2,167,347</u>	<u>\$ 279,182</u>	<u>\$ 1,644,236</u>	<u>\$ -</u>	<u>\$ 4,090,765</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005
(With Comparative Actual Amounts For Year Ended June 30, 2004)

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Revenues				
Other taxes	\$ 803,222	\$ (665)	\$ 802,557	\$ 882,425
Subscribers' tax	185,664	8,619	194,283	158,745
Wireless 911 funds	988,886	7,954	996,840	1,041,170
Total other taxes	-	-	-	10,000
Miscellaneous				
Interest earned on investments	-	623	623	27
Wireless 911	32,300	4,240	36,540	9,073
Enhanced 911	32,300	4,863	37,163	9,100
Total interest earned on investments	-	-	-	-
Total revenues	1,021,186	12,817	1,034,003	1,060,270
Expenditures				
Current				
Public safety				
Wireless 911	180,320	22,954	157,366	148,122
Operating	99,243	96,759	2,484	68,891
Assets	279,563	119,713	159,850	217,013
Enhanced 911	267,973	267,973	-	431,445
Personnel	732,674	382,533	350,141	362,251
Operating	234,880	2,484	232,396	103,337
Assets	59,156	24,820	34,336	74,994
Cost redistribution	1,294,583	677,810	616,873	972,027
Total public safety	1,574,246	797,523	776,723	1,189,040
Debt service				
Wireless 911	26,807	-	26,807	-
Enhanced 911	50,854	-	50,854	-
Total debt service	77,661	-	77,661	-
Total expenditures	1,651,907	797,523	854,384	1,189,040
Revenues over (under) expenditures	(630,721)	810,340	179,619	(128,770)
Other financing sources (uses)				
Appropriated fund balance	630,721	(630,721)	-	-
Capital leases	-	-	-	219,365
Transfers in	-	134,872	134,872	-
Total other financing sources (uses)	630,721	(495,849)	134,872	219,365
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 314,491	314,491	90,595
Fund balance				
Beginning of year - July 1			1,852,856	1,762,261
End of year - June 30			\$ 2,167,347	\$ 1,852,856

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, 2005

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
Federal grants	\$ 8,902,628	\$ 8,399,597	\$ 4,414,881	\$ 3,027,301	\$ 7,012,017
State grants	946,440	1,101,367	534,846	291,140	857,661
County	48,171	25,313	12,349	20,530	33,494
Total intergovernmental	<u>9,897,239</u>	<u>9,526,277</u>	<u>4,962,076</u>	<u>3,338,971</u>	<u>7,903,172</u>
Miscellaneous					
Other	510,150	1,269,255	1,213,541	486,477	542,191
Total revenues	<u>10,407,389</u>	<u>10,795,532</u>	<u>6,175,617</u>	<u>3,825,448</u>	<u>8,445,363</u>
Expenditures					
Current					
Public safety	2,912,556	2,442,547	1,030,820	851,712	2,263,439
Economic and physical development	7,591,247	8,143,363	5,335,644	3,284,508	6,092,227
Total current	<u>10,503,803</u>	<u>10,585,910</u>	<u>6,366,464</u>	<u>4,136,220</u>	<u>8,355,666</u>
Debt service	<u>393,959</u>	<u>333,274</u>	<u>29,196</u>	<u>73,963</u>	<u>378,041</u>
Total expenditures	<u>10,897,762</u>	<u>10,919,184</u>	<u>6,395,660</u>	<u>4,210,183</u>	<u>8,733,707</u>
Revenues over (under) expenditures	<u>(490,373)</u>	<u>(123,652)</u>	<u>(220,043)</u>	<u>(384,735)</u>	<u>(288,344)</u>
Other financing sources (uses)					
Transfers in	490,373	713,712	293,142	146,956	567,526
Transfers (out)	-	(73,099)	(73,099)	-	-
Total other financing sources (uses)	<u>490,373</u>	<u>640,613</u>	<u>220,043</u>	<u>146,956</u>	<u>567,526</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 516,961</u>	<u>\$ -</u>	<u>(237,779)</u>	<u>\$ 279,182</u>
Fund balance					
Beginning of year - July 1				<u>516,961</u>	
End of year - June 30				<u>\$ 279,182</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, 2005

	<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 Forfeiture	\$ 404,591	\$ 830,426	\$ 801,580	\$ 201,822	\$ 230,668
GHSP	4,350	4,006	-	-	4,006
Geographic information systems	146,640	141,452	-	5,142	146,594
Operation Ceasefire Mediablitz	30,000	8,345	-	21,655	30,000
Operation Ceasefire (GCC)	12,800	12,648	-	-	12,648
I-95 Corridor P2P Grant	74,660	74,660	-	-	74,660
Gangs across the Carolinas	32,051	-	-	31,857	31,857
Juvenile Restitution	362,270	225,566	110,229	117,772	233,109
Aggressive driving	88,720	-	-	80,222	80,222
Law Enforcement Block Grant	570,786	483,266	-	21,389	504,655
Governor's Crime Commission	-	119,011	119,011	-	-
Operation Ceasefire	250,000	43,973	-	67,640	111,613
COPS Homeland Security	292,774	22,138	-	150,036	172,174
Cyber Crimes Grant	80,575	37,466	-	31,428	68,894
FEMA Firefighter Grant	439,600	439,590	-	10	439,600
FY03 State Homeland Security	101,000	-	-	101,000	101,000
Hazmat Homeland Security	21,739	-	-	21,739	21,739
Total public safety	<u>2,912,556</u>	<u>2,442,547</u>	<u>1,030,820</u>	<u>851,712</u>	<u>2,263,439</u>
Economic and physical development					
Community Development Block Grant	5,037,030	4,998,577	2,740,086	1,810,966	4,069,457
Arsenal Park Archaeological	43,459	43,362	-	-	43,362
Assessment Payment	39,865	39,865	-	-	39,865
HOME	2,470,893	3,061,559	2,595,558	1,473,542	1,939,543
Total economic and physical development	<u>7,591,247</u>	<u>8,143,363</u>	<u>5,335,644</u>	<u>3,284,508</u>	<u>6,092,227</u>
Total expenditures by project	<u>\$ 10,503,803</u>	<u>\$ 10,585,910</u>	<u>\$ 6,366,464</u>	<u>\$ 4,136,220</u>	<u>\$ 8,355,666</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, 2005
(With Comparative Actual Amounts For Year Ended June 30, 2004)

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Revenues				
Other taxes				
Storm water tax	\$ 2,127,800	\$ 15,240	\$ 2,143,040	\$ 2,107,872
Penalties	12,000	4,263	16,263	15,139
Total other taxes	<u>2,139,800</u>	<u>19,503</u>	<u>2,159,303</u>	<u>2,123,011</u>
	-	13,505	13,505	-
Miscellaneous				
Interest earned on investments	30,000	27,362	57,362	7,939
Total revenues	<u>2,169,800</u>	<u>60,370</u>	<u>2,230,170</u>	<u>2,130,950</u>
Expenditures				
Current				
Environmental protection				
Personnel	884,540	31,019	853,521	989,939
Operating	1,869,018	605,048	1,263,970	1,555,526
Assets	221,520	85,822	135,698	33,851
Cost redistribution	170,900	-	170,900	167,000
Total environmental protection	<u>3,145,978</u>	<u>721,889</u>	<u>2,424,089</u>	<u>2,746,316</u>
	25,884	-	25,884	-
Debt service	<u>3,171,862</u>	<u>721,889</u>	<u>2,449,973</u>	<u>2,746,316</u>
Total expenditures				
Revenues over (under) expenditures	<u>(1,002,062)</u>	<u>(661,519)</u>	<u>(219,803)</u>	<u>(615,366)</u>
Other financing sources (uses)				
Transfers in	-	111,766	111,766	-
Transfers out	-	-	-	-
Appropriated fund balance	1,002,062	(1,002,062)	-	-
Total other financing sources (uses)	<u>1,002,062</u>	<u>(890,296)</u>	<u>111,766</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (108,037)</u>	<u>(108,037)</u>	<u>(615,366)</u>
Fund balance				
Beginning of year - July 1			1,752,273	2,367,639
End of year - June 30			<u>\$ 1,644,236</u>	<u>\$ 1,752,273</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005
(With Comparative Actual Amounts For Year Ended June 30, 2004)

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2005 Actual</u>	<u>2004 Actual</u>
Revenues				
Interest earned on investments	\$ -	\$ 560	\$ 560	\$ 132
Expenditures				
Current				
Economic and physical development				
Operating	159,214	155,621	3,593	3,320
Debt service	1,507,964	1	1,507,963	1,516,767
Total expenditures	<u>1,667,178</u>	<u>155,622</u>	<u>1,511,556</u>	<u>1,520,087</u>
Revenues over (under) expenditures	<u>(1,667,178)</u>	<u>(156,182)</u>	<u>(1,510,996)</u>	<u>(1,519,955)</u>
Other financing sources (uses)				
Refunding bonds	5,835,000	-	5,835,000	-
Payment to refunding escrow agent	(6,265,297)	-	(6,265,297)	-
Premium on bonds	431,212	-	431,212	-
Transfers in	1,666,263	156,182	1,510,081	1,519,955
Total financing sources (uses)	<u>1,666,263</u>	<u>156,182</u>	<u>1,510,996</u>	<u>1,519,955</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	-
Fund balance				
Beginning of year - July 1			-	-
End of year - June 30			<u>\$ -</u>	<u>\$ -</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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 Fund
- * 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
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2005

	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Water and Sewer Fund	Bond Improvement Fund	Economic and			Total Nonmajor Capital Project Funds
							Physical Development Fund	Linear Park Fund		
Assets										
Cash and investments	\$ 122,350	\$ 13,763	\$ 964,652	\$ 3,601,077	\$ 1,164,632	\$ -	\$ 1,763,030	\$ 362,000	\$ -	\$ 7,991,504
Accounts receivable	-	-	4,186	142,314	4,147	57,541	230,757	3,026	-	441,971
Interfund receivable	-	-	-	1,064,204	-	-	-	-	-	1,064,204
Restricted asset - cash and investments	-	-	-	-	-	16,522,485	-	-	-	16,522,485
Total assets	\$ 122,350	\$ 13,763	\$ 968,838	\$ 4,807,595	\$ 1,168,779	\$ 16,580,026	\$ 1,993,787	\$ 365,026	\$ -	\$ 26,020,164
Liabilities and fund balances										
Liabilities:										
Accounts payable and accrued expenses	\$ -	\$ -	\$ 6,686	\$ 201,324	\$ -	\$ 2,075,904	\$ 281,823	\$ 73,042	\$ -	\$ 2,638,779
Interfund payables	-	-	-	-	-	1,064,204	-	-	-	1,064,204
Deferred revenues	-	-	-	-	579,720	-	-	-	-	579,720
Total liabilities	-	-	6,686	201,324	579,720	3,140,108	281,823	73,042	-	4,282,703
Fund balances:										
Reserved										
By State statute	-	-	4,186	1,206,518	4,147	57,541	230,757	3,026	-	1,506,175
For encumbrances	-	-	526,301	1,529,683	-	3,967,865	1,338,796	200,502	-	7,563,147
For subsequent years	122,350	13,763	431,665	1,870,070	584,912	9,414,512	142,411	88,456	-	12,668,139
Total fund balances	122,350	13,763	962,152	4,606,271	589,059	13,439,918	1,711,964	291,984	-	21,737,461
Total liabilities and fund balances	\$ 122,350	\$ 13,763	\$ 968,838	\$ 4,807,595	\$ 1,168,779	\$ 16,580,026	\$ 1,993,787	\$ 365,026	\$ -	\$ 26,020,164

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Capital Project Funds
 Year Ended June 30, 2005

	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	\$ -	\$ -	\$ 487,309	\$ 115,429	\$ -	\$ -	\$ 1,045,190	\$ 80,000	\$ 1,727,928
Miscellaneous	-	-	135,100	13,004	574,951	10,000	1,015,137	306,845	2,055,037
Interest earned on investments	-	-	875	-	14,108	130,546	17,585	8,406	171,520
Total revenues	-	-	623,284	128,433	589,059	140,546	2,077,912	395,251	3,954,485
Expenditures									
Current:									
Administration	54	-	-	-	-	-	-	-	54
Transportation	-	-	-	1,506,124	-	-	-	-	1,506,124
Economic and physical development	-	-	-	-	-	2,966,233	2,580,268	-	5,546,501
Recreation and community facilities	-	-	784,892	-	-	2,358,665	-	306,390	3,449,947
Debt service:									
Interest and fees	-	-	-	-	-	26,862	-	-	26,862
Issue costs	-	-	-	-	-	220,506	-	-	220,506
Total expenditures	54	-	784,892	1,506,124	-	5,572,266	2,580,268	306,390	10,749,994
Excess (deficiency) of revenues over (under) expenditures	(54)	-	(161,608)	(1,377,691)	589,059	(5,431,720)	(502,356)	88,861	(6,795,509)
Other financing sources (uses)									
Refunding Bonds	-	-	-	-	-	15,426,589	-	-	15,426,589
Transfers in	-	-	585,001	1,551,333	-	210,000	1,400,000	50,000	3,806,334
Total other financing sources (uses)	-	-	585,001	1,551,333	-	15,636,589	1,400,000	50,000	19,232,923
Net change in fund balances	(54)	-	433,393	173,642	589,059	10,204,869	897,644	138,861	12,437,414
Fund balance - beginning	122,404	13,763	528,759	4,432,829	-	3,235,049	814,320	153,123	9,300,047
Fund balance - ending	\$ 122,350	\$ 13,763	\$ 982,152	\$ 4,606,471	\$ 589,059	\$ 13,439,918	\$ 1,711,964	\$ 291,984	\$ 21,737,461

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, 2005

	<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	634,307	-	54	634,361
Total expenditures	<u>756,711</u>	<u>634,307</u>	<u>-</u>	<u>54</u>	<u>634,361</u>
Revenues over (under) expenditures	<u>(756,711)</u>	<u>(634,307)</u>	<u>-</u>	<u>(54)</u>	<u>(634,361)</u>
Other financing sources (uses)					
Transfers in	756,711	756,711	-	-	756,711
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 122,404</u>	<u>\$ -</u>	<u>(54)</u>	<u>\$ 122,350</u>
Fund balance					
Beginning of year - July 1				<u>122,404</u>	
End of year - June 30				<u>\$ 122,350</u>	

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, 2005

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Miscellaneous					
Sale of assets	\$ -	\$ 2,072	\$ 2,072	\$ -	\$ -
Interest earned on investments	-	47,873	47,873	-	-
Total revenues	-	49,945	49,945	-	-
Expenditures					
Current					
Public safety					
School Road Fire Station	-	1,236,890	1,236,890	-	-
Revenues over (under) expenditures	-	(1,186,945)	(1,186,945)	-	-
Other financing sources (uses)					
Proceeds from capital leases	-	1,111,383	1,111,383	-	-
Transfers in	-	89,325	75,562	-	13,763
Total other financing sources (uses)	-	1,200,708	1,186,945	-	13,763
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 13,763	\$ -	-	\$ 13,763
Fund balance					
Beginning of year - July 1				13,763	
End of year - June 30				<u>\$ 13,763</u>	

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, 2005

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
Federal grants/contributions	\$ 1,270,287	\$ 842,080	\$ -	\$ 428,207	\$ 1,270,287
State grants/contributions	1,090,000	550,000	-	59,102	609,102
Total intergovernmental	2,360,287	1,392,080	-	487,309	1,879,389
Miscellaneous					
Other	70,000	70,000	-	-	70,000
Donations	174,605	114,605	-	135,100	249,705
Total miscellaneous	244,605	184,605	-	135,100	319,705
Interest earned on investments	119,882	119,008	-	875	119,883
Total revenues	2,724,774	1,895,693	-	623,284	2,318,977
Expenditures					
Current					
Recreational and community facilities					
Mazarick Park Greenway Trail	367,300	382,991	-	-	382,991
Arsenal Park	-	155,401	155,401	-	-
Cape Fear River Trail	2,168,287	1,532,367	-	626,087	2,158,434
Cape Fear River Park	350,000	-	-	10,000	10,000
Park improvements	10,000	9,371	-	-	9,371
Amtrak Station	600,000	-	-	65,668	65,668
Martin Luther King Park	50,000	-	-	-	-
Westover Recreation Center	192,000	91,513	-	50,805	142,318
Bonnie Doone Park	230,000	-	-	-	-
Freedom Park	424,605	233,890	-	32,352	266,242
Total expenditures	4,412,192	2,405,533	155,401	784,892	3,035,024
Revenues over (under) expenditures	(1,687,418)	(709,840)	(155,401)	(161,608)	(716,047)
Other financing sources (uses)					
Transfers in	1,687,418	1,236,243	155,401	595,001	1,675,843
Capital leases, bonds, and other debt	-	2,356	-	-	2,356
Total other financing sources (uses)	1,687,418	1,238,599	155,401	595,001	1,678,199
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 528,759	\$ -	433,393	\$ 962,152
Fund balance					
Beginning of year - July 1				528,759	
End of year - June 30				<u>\$ 962,152</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, 2005

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
State grants	\$ 358,000	\$ 160,260	\$ -	\$ 115,429	\$ 275,689
Miscellaneous					
Owner contribution	-	35,770	-	13,004	48,774
Other	68,346	88,551	-	-	88,551
Total miscellaneous	<u>68,346</u>	<u>124,321</u>	<u>-</u>	<u>13,004</u>	<u>137,325</u>
Total revenues	<u>426,346</u>	<u>284,581</u>	<u>-</u>	<u>128,433</u>	<u>413,014</u>
Expenditures					
Current					
Transportation					
Traffic control system	1,629,069	1,194,984	-	5,014	1,199,998
Sidewalks	506,463	66,949	-	165,279	232,228
Parking improvements	1,231,244	890,346	-	40,362	930,708
Transportation improvements	5,142,876	3,444,313	1,362,178	1,236,804	3,318,939
Gateway beautifications	250,000	-	-	-	-
Miscellaneous street improvements	80,000	-	-	58,665	58,665
Total expenditures	<u>8,839,652</u>	<u>5,596,592</u>	<u>1,362,178</u>	<u>1,506,124</u>	<u>5,740,538</u>
Revenues over (under) expenditures	<u>(8,413,306)</u>	<u>(5,312,011)</u>	<u>(1,362,178)</u>	<u>(1,377,691)</u>	<u>(5,327,524)</u>
Other financing sources (uses)					
Transfers in	9,077,485	10,408,829	1,362,178	1,551,333	10,597,984
Transfers (out)	(664,189)	(664,189)	-	-	(664,189)
Total other financing sources (uses)	<u>8,413,306</u>	<u>9,744,640</u>	<u>1,362,178</u>	<u>1,551,333</u>	<u>9,933,795</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 4,432,629</u>	<u>\$ -</u>	<u>173,642</u>	<u>\$ 4,606,271</u>
Fund balance					
Beginning of year - July 1				<u>4,432,629</u>	
End of year - June 30				<u>\$ 4,606,271</u>	

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, 2005

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Miscellaneous					
Service Territory Agreement	\$ -	\$ -	\$ -	\$ 574,951	\$ 574,951
Total miscellaneous	-	-	-	574,951	574,951
Interest earned on investments	-	-	-	14,108	14,108
Total revenues	-	-	-	589,059	589,059
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	589,059	<u>\$ 589,059</u>
Fund balance					
Beginning of year - July 1				-	
End of year - June 30				<u>\$ 589,059</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, 2005

	<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>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Interest earned on investments	<u>2,730,951</u>	<u>2,643,793</u>	<u>-</u>	<u>130,546</u>	<u>2,774,339</u>
Total revenues	<u>2,730,951</u>	<u>2,643,793</u>	<u>-</u>	<u>140,546</u>	<u>2,784,339</u>
Expenditures					
Current					
Economic and physical development					
Bond administration	2,514,490	1,511,909	-	35,066	1,546,975
Debt service	888,767	656,953	-	190,729	847,682
Streets	24,428,811	18,774,270	-	1,590,542	20,364,812
Water and sewer	960,161	972,154	-	(11,993)	960,161
Sidewalks	3,186,182	2,411,178	-	-	2,411,178
Drainage	7,487,731	6,687,271	-	36,922	6,724,193
	<u>39,445,942</u>	<u>31,013,735</u>	<u>-</u>	<u>1,841,266</u>	<u>32,855,001</u>
Public safety					
FSU Fire Station	3,550,000	-	-	1,204,592	1,204,592
Recreational and community facilities					
Debt service	165,887	-	-	167,743	167,743
Westover Recreational Center	2,814,531	-	-	1,720,833	1,720,833
Festival Park	3,996,173	-	-	637,832	637,832
	<u>8,976,591</u>	<u>-</u>	<u>-</u>	<u>2,526,408</u>	<u>2,526,408</u>
Total expenditures	<u>49,972,533</u>	<u>31,013,735</u>	<u>-</u>	<u>5,572,266</u>	<u>36,586,001</u>
Revenues over (under) expenditures	<u>(47,241,582)</u>	<u>(28,369,942)</u>	<u>-</u>	<u>(5,431,720)</u>	<u>(33,801,662)</u>
Other financing sources (uses)					
Transfers in	710,000	500,000	-	210,000	710,000
Capital leases, bonds, and other debt	46,531,582	31,104,991	-	15,426,588	46,531,580
Total other financing sources (uses)	<u>47,241,582</u>	<u>31,604,991</u>	<u>-</u>	<u>15,636,588</u>	<u>47,241,580</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 3,235,049</u>	<u>\$ -</u>	<u>10,204,869</u>	<u>\$ 13,439,918</u>
Fund balance					
Beginning of year - July 1				3,235,049	
End of year - June 30				<u>\$ 13,439,918</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, 2005

	<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	\$ 183,121	\$ -	\$ 9,788	\$ 192,909
State grants	2,625,702	788,930	-	1,035,402	1,804,332
Total intergovernmental	<u>2,975,702</u>	<u>952,051</u>	<u>-</u>	<u>1,045,190</u>	<u>1,997,241</u>
Miscellaneous					
Private donations	3,834,018	1,713,675	-	1,015,137	2,728,812
Total miscellaneous	<u>3,834,018</u>	<u>1,713,675</u>	<u>-</u>	<u>1,015,137</u>	<u>2,728,812</u>
Interest earned on investments	-	1,740	-	17,585	19,325
Total revenues	<u>6,809,720</u>	<u>2,667,466</u>	<u>-</u>	<u>2,077,912</u>	<u>4,745,378</u>
Expenditures					
Current					
Economic and physical development					
Brownfields Pilot Project	350,000	183,122	-	9,785	192,907
USO/Amphitheater Demo/Festival Park	3,951,950	1,741,188	-	486,582	2,227,778
Cape Fear & Yadkin Valley Depot	3,282,128	981,162	-	1,294,254	2,255,416
300 Block of Hay Street	1,400,000	-	-	789,637	789,637
Total expenditures	<u>8,984,078</u>	<u>2,885,470</u>	<u>-</u>	<u>2,580,288</u>	<u>5,465,738</u>
Revenues over (under) expenditures	<u>(2,174,358)</u>	<u>(218,004)</u>	<u>-</u>	<u>(502,356)</u>	<u>(720,380)</u>
Other financing sources (uses)					
Transfers in	2,174,358	1,032,324	-	1,400,000	2,432,324
Total other financing sources (uses)	<u>2,174,358</u>	<u>1,032,324</u>	<u>-</u>	<u>1,400,000</u>	<u>2,432,324</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 814,320</u>	<u>\$ -</u>	<u>897,644</u>	<u>\$ 1,711,964</u>
Fund balance					
Beginning of year - July 1				814,320	
End of year - June 30				<u>\$ 1,711,964</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, 2005

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
County grants/contributions	\$ 80,000	\$ -	\$ -	\$ 80,000	\$ 80,000
Total intergovernmental	80,000	-	-	80,000	80,000
Miscellaneous					
Other	1,269,285	198,100	-	306,845	504,945
Total miscellaneous	1,269,285	198,100	-	306,845	504,945
Interest earned on investments	715	533	-	8,406	8,939
Total revenues	1,350,000	198,633	-	395,251	593,884
Expenditures					
Current					
Recreational and community facilities					
Linear Park	1,400,000	45,610	-	306,390	352,000
Total expenditures	1,400,000	45,610	-	306,390	352,000
Revenues over (under) expenditures	(50,000)	153,023	-	88,861	241,884
Other financing sources (uses)					
Transfers in	50,000	100	-	50,000	50,100
Total other financing sources (uses)	50,000	100	-	50,000	50,100
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 153,123	\$ -	138,861	\$ 291,984
Fund balance					
Beginning of year - July 1				153,123	
End of year - June 30				\$ 291,984	

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.

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

Combining Balance Sheet
Electric Fund
June 30, 2005

	Electric Fund	Uptown Revitalization Social Fund	Rate Stabilization Special Fund	2003A Electric Revenue Bond Fund	Total
Assets					
Current unrestricted assets	\$ 14,330,759	\$ -	\$ -	\$ -	\$ 14,330,759
Cash and cash equivalents	5,514,096	-	-	-	5,514,096
Investments	18,905,504	-	-	-	18,905,504
Receivables	988,703	(646,259)	-	(609,835)	(267,391)
Internal balances	(229,193)	-	-	-	(229,193)
Less allowance for doubtful accounts	9,925,113	-	-	-	9,925,113
Inventories	123,412	-	-	-	123,412
Other current assets	49,558,394	(646,259)	-	(609,835)	48,302,300
Total current unrestricted assets					
Current restricted assets	5,497,323	1,062,099	7,867,445	1,885,540	16,312,407
Cash and cash equivalents	3,548,435	-	-	-	3,548,435
Investments	243,302	-	-	-	243,302
Collateral pledged in lieu of deposits	10,549	-	-	-	10,549
Receivables	9,299,609	1,062,099	7,867,445	1,885,540	20,114,693
Total current restricted assets					
Total current assets	<u>58,858,003</u>	<u>415,840</u>	<u>7,867,445</u>	<u>1,275,705</u>	<u>68,416,993</u>
Noncurrent assets	1,430,727	-	-	-	1,430,727
Other assets	-	-	-	-	-
Capital assets:	4,500,800	-	-	-	4,500,800
Land	2,055,546	326,733	-	3,215,493	5,567,772
Construction in process	162,490,099	-	-	-	162,490,099
Electric utility system	29,278,869	-	-	-	29,278,869
Buildings	7,490,980	-	-	-	7,490,980
Equipment and machinery	3,083,732	-	-	-	3,083,732
Computer programs	801,874	-	-	-	801,874
Vehicles	417,304	-	-	-	417,304
Office equipment	210,119,204	326,733	-	3,215,493	213,661,430
Capital assets, net	<u>211,549,931</u>	<u>326,733</u>	<u>-</u>	<u>3,215,493</u>	<u>215,092,157</u>
Total noncurrent assets					
Total assets	<u>\$ 270,407,934</u>	<u>\$ 742,573</u>	<u>\$ 7,867,445</u>	<u>\$ 4,491,198</u>	<u>\$ 283,509,150</u>
Liabilities and net assets					
Current liabilities to be paid from unrestricted current assets	\$ 6,987,095	\$ -	\$ -	\$ -	\$ 6,987,095
Current portion of long-term debt	15,246,773	-	-	32,036	15,278,809
Accounts payable and accrued expenses	22,233,868	-	-	32,036	22,265,904
Total current liabilities to be paid from unrestricted current assets					
Current liabilities to be paid from restricted current assets	3,883,570	-	-	-	3,883,570
Accounts payable and accrued expenses	-	-	-	-	-
Total current liabilities to be paid from restricted current assets	<u>3,883,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,883,570</u>
Total current liabilities	<u>26,117,438</u>	<u>-</u>	<u>-</u>	<u>32,036</u>	<u>26,149,474</u>
Noncurrent liabilities	43,909,947	-	-	-	43,909,947
Long-term debt	43,909,947	-	-	-	43,909,947
Total noncurrent liabilities	<u>70,027,385</u>	<u>-</u>	<u>-</u>	<u>32,036</u>	<u>70,059,421</u>
Total liabilities					
Net assets	161,094,266	326,733	-	3,215,493	164,636,492
Capital assets net of related debt	-	-	-	1,243,669	-
Restricted for -	(1,243,669)	-	-	-	413,005
Capital Projects	413,005	-	-	-	48,400,232
Debt service	40,116,947	415,840	7,867,445	-	213,449,729
Unrestricted net assets	200,380,549	742,573	7,867,445	4,459,162	
Total net assets	<u>\$ 270,407,934</u>	<u>\$ 742,573</u>	<u>\$ 7,867,445</u>	<u>\$ 4,491,198</u>	<u>\$ 283,509,150</u>
Total liabilities and net assets					

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
 Electric Fund
 Year ended June 30, 2005

	Electric Fund	Uptown Revitalization Special Fund	Rate Stabilization Special Fund	2003A Electric Revenue Bond Fund	Total
Operating revenues					
Charges for services	\$ 146,069,329	\$ -	\$ -	\$ -	\$ 146,069,329
Total operating revenues	<u>146,069,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,069,329</u>
Operating expenses					
Power supply and generation	95,399,587	-	-	-	95,399,587
Electric operation	10,102,663	-	-	-	10,102,663
General and administrative	9,117,951	-	-	-	9,117,951
Depreciation	13,510,921	-	-	-	13,510,921
Total operating expenses	<u>128,131,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,131,122</u>
Operating income (loss)	<u>17,938,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,938,207</u>
Nonoperating revenue (expense)					
Interest earned on investments	865,596	-	133,270	-	998,866
Gain (loss) on disposal of assets	(273,155)	-	-	-	(273,155)
Interest expense	(1,845,636)	-	-	-	(1,845,636)
Amortization	(893,597)	-	-	-	(893,597)
Issue costs	(162,278)	-	-	-	(162,278)
Total nonoperating revenue (expense)	<u>(2,309,070)</u>	<u>-</u>	<u>133,270</u>	<u>-</u>	<u>(2,175,800)</u>
Income (loss) before transfers and contributions	<u>15,629,137</u>	<u>-</u>	<u>133,270</u>	<u>-</u>	<u>15,762,407</u>
Transfers in	1,380,192	-	1,250,000	-	2,630,192
Transfers out	(1,250,000)	(299,551)	-	(1,163,544)	(2,713,095)
Transfers out - City of Fayetteville	(8,481,253)	-	-	-	(8,481,253)
Capital contributions	951,384	-	-	-	951,384
Change in net assets	<u>8,229,460</u>	<u>(299,551)</u>	<u>1,383,270</u>	<u>(1,163,544)</u>	<u>8,149,635</u>
Total net assets - beginning	<u>192,151,089</u>	<u>1,042,124</u>	<u>6,484,175</u>	<u>5,622,706</u>	<u>205,300,094</u>
Total net assets - ending	<u>\$ 200,380,549</u>	<u>\$ 742,573</u>	<u>\$ 7,867,445</u>	<u>\$ 4,459,162</u>	<u>\$ 213,449,729</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

**Year ended June 30, 2005
(with comparative actual amounts for the year ended June 30, 2004)**

	2005			2004 Actual
	Budget	Variance Positive (Negative)	Actual	
Revenues				
Operating revenues				
Electric operations				
Sale of electricity	\$ 138,397,400	\$ 1,152,611	\$ 139,550,011	\$ 136,405,305
City services	7,157,800	(5,346,141)	1,811,659	1,662,592
Non-utility charges	1,020,400	326,232	1,346,632	884,427
Service charges	1,150,000	171,164	1,321,164	1,248,694
Miscellaneous	1,618,850	421,213	2,039,863	1,780,902
Total operating revenues	<u>149,344,250</u>	<u>(3,274,921)</u>	<u>146,069,329</u>	<u>141,981,920</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	(273,155)	(273,155)	(1,092,556)
Interest earned on investments	600,000	265,596	865,596	547,832
Total non-operating revenues	<u>600,000</u>	<u>(7,559)</u>	<u>592,441</u>	<u>(544,724)</u>
Contributions				
Contributions	1,100,000	(148,616)	951,384	116,186
Total contributions	<u>1,100,000</u>	<u>(148,616)</u>	<u>951,384</u>	<u>116,186</u>
Total revenues	<u>\$ 151,044,250</u>	<u>\$ (3,431,096)</u>	<u>\$ 147,613,154</u>	<u>\$ 141,553,382</u>
Expenditures				
Operating expenditures				
Electric operations				
Power supply and generation	\$ 96,812,850	\$ 1,413,263	\$ 95,399,587	\$ 94,435,771
Administration	422,490	155,063	267,427	380,311
Apparatus repair shop	455,945	92,638	363,307	388,524
Electric meter shop	689,850	161,601	528,249	523,040
Construction and maintenance	6,588,905	586,364	6,002,541	7,583,651
Substation construction	1,413,750	349,944	1,063,806	1,128,098
Engineering	1,877,730	85	1,877,645	1,699,074
Overhead clearing	-	312	(312)	(19,746)
Total electric operations	<u>108,261,520</u>	<u>2,759,270</u>	<u>105,502,250</u>	<u>106,118,723</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2005
(with comparative actual amounts for the year ended June 30, 2004)

	2005			2004 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
General and administrative				
Executive	\$ 590,295	\$ 59,702	\$ 530,593	\$ 549,425
Internal audit	87,655	18,835	68,820	67,127
Public information	492,830	(11,457)	504,287	401,645
Financial administration	122,880	3,158	119,722	108,061
Administrative - administration	86,355	53	86,302	93,919
Human resources	389,795	18,884	370,911	360,343
Accounting	426,345	53,662	372,683	362,443
Accounts receivable	588,530	18,296	570,234	536,415
Payroll	61,890	4,364	57,526	58,700
Customer service administration	1,797,325	100,950	1,696,375	1,835,030
Meter reading	298,925	7,292	291,633	279,501
Utility field services	423,705	(2,123)	425,828	442,431
Business planning	251,580	9,147	242,433	230,903
Business development	382,915	29	382,886	253,529
Risk management	334,225	6,645	327,580	306,283
Capital projects	162,455	1,683	160,772	161,079
Rates	97,805	76	97,529	78,283
Budget	88,245	5,018	83,227	74,443
Purchasing	192,190	42,141	150,049	158,535
Warehouse	433,120	(323,337)	756,457	501,472
Business planning, development & logistics	205,840	23	205,817	154,375
Fleet maintenance	1,121,905	83,383	1,038,522	885,695
Facilities maintenance	155,800	4,990	150,810	151,632
Metering management	167,065	19,248	147,817	179,225
Telecommunications systems	530,190	90,932	439,258	302,244
Information systems	957,725	151	957,574	849,499
Pension expense	25,000	18,578	6,422	8,271
Medical insurance	2,191,800	(46,026)	2,237,826	2,071,650
Other	(54,810)	333,706	(388,316)	(542,418)
Overhead clearing	(2,569,705)	403,921	(2,973,626)	(2,678,338)
Total general and administrative	<u>10,039,875</u>	<u>921,924</u>	<u>9,117,951</u>	<u>8,241,402</u>
Total operating expenditures	<u>118,301,395</u>	<u>3,681,194</u>	<u>114,620,201</u>	<u>114,360,125</u>
Non-operating expenditures				
Interest expense	1,871,000	25,364	1,845,636	1,995,508
Issue costs	163,000	722	162,278	154,337
Total non-operating expenditures	<u>2,034,000</u>	<u>26,086</u>	<u>2,007,914</u>	<u>2,149,845</u>

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

Year ended June 30, 2005
(with comparative actual amounts for the year ended June 30, 2004)

	2005		2004 Actual
	Budget	Variance Positive (Negative)	
Transfers out			
Transfers to City of Fayetteville	\$ 8,469,900	\$ (11,353)	\$ 8,481,253
Transfers to Electric Rate Stabilization Fund	1,250,000	-	1,250,000
Total transfers out	<u>9,719,900</u>	<u>(11,353)</u>	<u>9,731,253</u>
Budgetary appropriations			
Inventory increase	-	244,149	(244,149)
Vehicle and equipment	-	(596,072)	596,072
Bond principal payments	6,737,900	20	6,737,880
Capital outlay	9,757,150	779,563	8,977,587
Appropriated net assets	4,493,905	4,493,905	-
Total budgetary appropriations	<u>20,988,955</u>	<u>4,921,565</u>	<u>16,067,390</u>
Total expenditures	<u>\$ 151,044,250</u>	<u>\$ 8,617,492</u>	<u>\$ 142,426,758</u>
Reconciliation of change in net assets			
Total revenues		\$ (3,431,096)	\$ 147,613,154
Total expenditures		8,617,492	142,426,758
Subtotal		<u>\$ 5,186,396</u>	5,186,396
Reconciling items:			
Budgetary appropriations			16,067,390
Depreciation			(13,510,921)
Amortization			(893,597)
Transfer of assets (to) / from the 2003A Electric Revenue Bond Fund			1,163,544
Transfer of assets (to) / from the Uptown Revitalization Capital Project Fund			216,648
Total reconciling items			<u>3,043,064</u>
Change in net assets			<u>\$ 8,229,460</u>
			<u>\$ (3,681,395)</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, 2005

	Project Authorization	Total Prior Years	Current Year	Total
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	-	7,153,454	-	7,153,454
Transportation system	-	160,000	-	160,000
Land donation	-	175,000	-	175,000
Riverfront development	-	79,776	-	79,776
Hydrology study	-	5,704	-	6,704
Electric system improvements	-	2,877,577	358,893	3,236,470
Water/Sewer improvements	-	470,809	267,391	738,200
Total expenditures	<u>14,500,000</u>	<u>13,457,876</u>	<u>626,284</u>	<u>14,084,160</u>
Revenues under expenditures	<u>(14,500,000)</u>	<u>(13,457,876)</u>	<u>(626,284)</u>	<u>(14,084,160)</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>\$ 1,042,124</u>	<u>(626,284)</u>	<u>\$ 415,840</u>
Reconciling items:				
Capital outlay			626,284	
Transfer of assets to the Electric Fund			(216,648)	
Transfer of assets to the Water and Wastewater			(82,903)	
Change in net assets			<u>\$ (299,551)</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, 2005

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 695,000	\$ 564,450	\$ 133,270	\$ 697,720
Rate stabilization transfer	4,169,725	4,169,725	-	4,169,725
Total revenues	<u>4,864,725</u>	<u>4,734,175</u>	<u>133,270</u>	<u>4,867,445</u>
Expenditures				
Total expenditures	-	-	-	-
Revenues under expenditures	<u>4,864,725</u>	<u>4,734,175</u>	<u>133,270</u>	<u>4,867,445</u>
Other financing sources				
Transfer from Electric Fund	7,000,000	6,750,000	1,250,000	8,000,000
Transfer to Electric Fund	(5,000,000)	(5,000,000)	-	(5,000,000)
Appropriated net assets	(6,864,725)	-	-	-
Total other financing sources	<u>(4,864,725)</u>	<u>1,750,000</u>	<u>1,250,000</u>	<u>3,000,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 6,484,175</u>	<u>1,383,270</u>	<u>\$ 7,867,445</u>
Reconciling items:				
Total reconciling items			-	-
Change in net assets			<u>\$ 1,383,270</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, 2005

	Project Authorization	Total Prior Years	Current Year	Total
Interest earned	\$ 45,000	\$ 38,739	\$ 60,671	\$ 99,410
Total revenues	<u>45,000</u>	<u>38,739</u>	<u>60,671</u>	<u>99,410</u>
Expenditures				
Construction	-	266,207	2,325,974	2,592,181
Engineering	-	208,230	254,643	462,873
Other	-	765,628	595,525	1,361,153
Total expenditures	<u>5,675,000</u>	<u>1,240,065</u>	<u>3,176,142</u>	<u>4,416,207</u>
Revenues under expenditures	<u>(5,630,000)</u>	<u>(1,201,326)</u>	<u>(3,115,471)</u>	<u>(4,316,797)</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>5,622,706</u>	<u>(62,240)</u>	<u>5,560,466</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 4,421,380</u>	<u>(3,177,711)</u>	<u>\$ 1,243,669</u>
Reconciling items:				
Capital outlay			3,115,471	
Transfer of assets to the Electric fund			<u>(1,101,304)</u>	
Change in net assets			<u>\$ (1,183,544)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Balance Sheet
Water and Wastewater Fund
June 30, 2005

	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	\$ 7,057,526	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,057,526
Cash and cash equivalents	2,363,184	-	-	-	-	-	-	2,363,184
Investments	12,839,672	-	-	47,630	960,430	48,936	-	13,896,668
Receivables	171,634	(47,046)	-	433,122	(357,727)	67,408	-	267,391
Internal balances	(61,851)	-	-	-	-	-	-	(61,851)
Less allowance for doubtful accounts	1,060,713	-	-	-	-	-	-	1,060,713
Inventories	128,712	-	-	-	-	-	-	128,712
Other current assets	23,559,590	(47,046)	-	480,752	602,703	116,344	-	24,712,343
Total current unrestricted assets	23,559,590	(47,046)	-	480,752	602,703	116,344	-	24,712,343
Current restricted assets								
Cash and cash equivalents	7,456,528	42,786	572,548	3,797,334	-	2,350,745	500,041	14,719,982
Investments	11,737,553	-	-	-	-	-	-	11,737,553
Receivables	119,687	4,260	-	751,582	-	-	-	875,529
Total current restricted assets	19,313,768	47,046	572,548	4,548,916	-	2,350,745	500,041	27,333,064
Total current assets	42,873,358	-	572,548	5,029,668	602,703	2,467,089	500,041	52,045,407
Noncurrent assets								
Other assets	2,657,513	-	-	-	-	-	-	2,657,513
Capital assets:								
Land	7,050,301	-	-	-	-	-	-	7,050,301
Construction in process	9,367,901	-	-	4,049,464	12,330,420	794,889	-	26,542,674
Water system	123,123,624	-	-	-	-	-	-	123,123,624
Sewer system	199,373,431	-	-	-	-	-	-	199,373,431
Buildings	3,229,330	-	-	-	-	-	-	3,229,330
Equipment and machinery	1,557,539	-	-	-	-	-	-	1,557,539
Computer programs	2,815,585	-	-	-	-	-	-	2,815,585
Vehicles	957,872	-	-	-	-	-	-	957,872
Office equipment	68,930	-	-	-	-	-	-	68,930
Capital assets, net	347,544,513	-	-	4,049,464	12,330,420	794,889	-	364,719,286
Total noncurrent assets	350,202,026	-	-	4,049,464	12,330,420	794,889	-	367,376,799
Total assets	\$ 393,075,384	\$ -	\$ 572,548	\$ 9,079,132	\$ 12,933,123	\$ 3,261,978	\$ 500,041	\$ 419,422,206
Liabilities and net assets								
Current portion of long-term debt	\$ 5,122,261	\$ -	\$ -	\$ -	\$ 591,552	\$ -	\$ -	\$ 5,713,813
Accounts payable and accrued expenses	13,999,112	-	-	1,296,087	1,102,081	237,661	-	16,634,941
Total current liabilities to be paid from unrestricted current assets	19,121,373	-	-	1,296,087	1,693,633	237,661	-	22,348,754
Current liabilities to be paid from restricted current assets								
Accounts payable and accrued expenses	1,284,638	-	-	-	-	-	-	1,284,638
Total current liabilities to be paid from restricted current assets	1,284,638	-	-	-	-	-	-	1,284,638
Total current liabilities	20,406,011	-	-	1,296,087	1,693,633	237,661	-	23,633,392
Long-term debt	124,899,143	-	-	-	11,239,490	-	-	136,138,633
Unearned deposits	2,035,327	-	-	-	-	-	-	2,035,327
Total noncurrent liabilities	126,934,470	-	-	-	11,239,490	-	-	138,173,960
Total liabilities	147,340,481	-	-	1,296,087	12,933,123	237,661	-	161,807,352
Net assets								
Capital assets net of related debt	230,622,638	-	-	4,049,464	499,378	794,889	-	235,966,369
Restricted for -								
Capital Projects	(5,963,009)	-	-	3,733,581	-	2,229,428	-	404,628
Debt service	404,628	-	-	-	(499,378)	-	500,041	21,243,857
Unrestricted net assets	20,670,646	-	572,548	7,783,045	-	3,024,317	500,041	257,614,854
Total net assets	245,734,903	-	572,548	7,783,045	-	3,024,317	500,041	257,614,854
Total liabilities and net assets	\$ 393,075,384	\$ -	\$ 572,548	\$ 9,079,132	\$ 12,933,123	\$ 3,261,978	\$ 500,041	\$ 419,422,206

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Water and Wastewater Fund
Year ended June 30, 2005

	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	\$ 47,044,634	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,044,634
Total operating revenues	47,044,634	-	-	-	-	-	-	47,044,634
Operating expenses								
Water operations	8,891,171	-	-	-	-	-	-	8,891,171
Sanitary sewer operations	8,477,993	-	-	-	-	-	-	8,477,993
General and administrative	9,526,870	-	-	-	-	-	-	9,526,870
Depreciation	11,802,521	-	-	-	-	-	-	11,802,521
Total operating expenses	38,698,555	-	-	-	-	-	-	38,698,555
Operating income (loss)	8,346,079	-	-	-	-	-	-	8,346,079
Nonoperating revenue (expense)								
Interest earned on investments	940,117	-	11,522	-	-	-	41	951,680
Gain (loss) on disposal of assets	66,536	-	-	-	-	-	-	66,536
Interest expense	(5,317,637)	-	-	-	-	-	-	(5,317,637)
Amortization	(932,976)	-	-	-	-	-	-	(932,976)
Issue costs	(392,886)	-	-	-	-	-	-	(392,886)
Total nonoperating revenue (expense)	(5,636,846)	-	11,522	-	-	-	41	(5,625,283)
Income (loss) before transfers and contributions	2,709,233	-	11,522	-	-	-	41	2,720,796
Transfers in	5,434,378	-	-	338,269	-	-	500,000	6,272,647
Transfers out	(500,000)	(334,009)	-	(3,037,311)	-	(2,318,424)	-	(6,189,744)
Transfers out - City of Fayetteville	(1,142,947)	-	-	-	-	-	-	(1,142,947)
Capital contributions	13,900,547	-	-	-	-	-	-	13,900,547
Change in net assets	20,401,211	(334,009)	11,522	(2,899,042)	-	(2,318,424)	500,041	15,561,299
Total net assets - beginning	225,333,692	334,009	561,026	10,482,087	-	5,342,741	-	242,053,555
Total net assets - ending	\$ 245,734,903	\$ -	\$ 572,548	\$ 7,783,045	\$ -	\$ 3,024,317	\$ 500,041	\$ 257,614,854

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2005
(with comparative actual amounts for the year ended June 30, 2004)

	2005		2004 Actual
	Budget	Variance Positive (Negative)	
Revenues			
Operating revenues			
Water operations			
Water sales	\$ 20,508,190	\$ (1,014,401)	\$ 19,493,789
Connection fees	660,000	265,606	925,606
City services	72,410	(4,411)	67,999
Total water operations	<u>21,240,600</u>	<u>(753,206)</u>	<u>20,487,394</u>
Sanitary sewer operations			
Sewer charges	23,983,700	157,980	24,141,680
Connection fees	400,000	521,588	921,588
City services	39,000	(612)	38,388
Total sanitary sewer operations	<u>24,422,700</u>	<u>678,956</u>	<u>25,101,656</u>
Other operating revenues			
Non-utility charges	835,800	463,668	1,299,468
Service charges	215,000	64,050	279,050
Miscellaneous	237,250	(360,184)	(122,934)
Total other operating revenues	<u>1,288,050</u>	<u>167,534</u>	<u>1,455,584</u>
Total operating revenues	<u>46,951,350</u>	<u>93,284</u>	<u>47,044,634</u>
Non-operating revenues			
Gain (loss) on asset disposal	-	66,536	66,536
Interest earned on investments	900,000	40,117	940,117
Total non-operating revenues	<u>900,000</u>	<u>106,653</u>	<u>1,006,653</u>
Contributions			
Contributions	7,342,000	(1,275,912)	6,066,088
Total contributions	<u>7,342,000</u>	<u>(1,275,912)</u>	<u>6,066,088</u>
Transfers in			
Transfers from Annexation Phase III	-	-	-
Transfers from 1997 Supplemental	-	-	-
Total transfers in	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary appropriations			
Department of Transportation financing	7,065,100	(762,824)	6,302,276
Total budgetary appropriations	<u>7,065,100</u>	<u>(762,824)</u>	<u>6,302,276</u>
Total revenues	<u>\$ 62,258,450</u>	<u>\$ (1,838,799)</u>	<u>\$ 60,419,651</u>
Expenditures			
Operating expenditures			
Water operations			
Administration and engineering	\$ 924,205	\$ 68,320	\$ 855,885
Water meter shop	756,650	262,620	494,030
Construction and maintenance	3,143,080	438,171	2,704,909
P. O. Hoffer water treatment plant	2,980,744	47,919	2,932,825
Glennville Lake water treatment plant	1,456,083	98,864	1,357,219
Water resources environmental system protection	130,885	546	130,339
Laboratory	213,220	18,118	195,102
Environmental	84,850	3,147	81,703
Watersheds	159,250	20,091	139,159
Total water operations	<u>9,848,967</u>	<u>957,796</u>	<u>8,891,171</u>

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

Year ended June 30, 2005

(with comparative actual amounts for the year ended June 30, 2004)

	2005			2004 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
Operating expenditures (continued)				
Sanitary sewer operations				
Administration and engineering	\$ 924,205	\$ 66,323	\$ 855,882	\$ 742,075
Sewer construction and maintenance	3,738,664	641,083	3,097,581	3,307,663
Cross Creek WW treatment plant	2,034,484	79,025	1,955,459	1,955,657
Rockfish Creek WW treatment plant	2,107,754	89,405	2,018,349	1,603,972
Residuals management	151,220	7,640	143,580	178,465
Water resources environmental system protection	130,885	548	130,337	122,666
Laboratory	213,220	18,117	195,103	195,369
Environmental	84,850	3,148	81,702	86,388
Total sanitary sewer operations	9,385,282	907,289	8,477,993	8,192,255
General and administrative				
Executive	275,285	97,842	177,443	211,433
Internal audit	87,665	19,394	68,271	65,218
Public information	472,720	(18,343)	491,063	414,127
Financial administration	116,670	36	116,634	107,085
Administrative administration	80,265	579	79,686	80,060
Human resources	380,685	33,924	346,761	352,720
Accounting	426,355	53,737	372,618	362,083
Accounts receivable	588,520	26,696	561,824	525,795
Payroll	61,880	4,356	57,524	58,213
Customer service administration	1,377,325	100,216	1,277,109	1,562,474
Meter reading	298,915	14,934	283,981	274,604
Utility field service	425,105	73	425,032	356,933
Business development	329,125	60,949	268,176	212,690
Business planning	259,390	14,667	244,723	237,568
Risk management	343,225	(3,760)	346,985	338,290
Capital projects	162,465	4,272	158,193	155,030
Rates	93,215	3,466	89,749	79,251
Budget	88,245	5,240	83,005	73,670
Purchasing	192,200	43,420	148,780	157,024
Warehouse	266,140	48,570	217,570	74,895
Business planning, development & logistics	171,340	(31,268)	202,608	152,663
Fleet maintenance	1,332,905	80,050	1,252,855	1,000,193
Facilities maintenance	150,500	485	150,015	150,007

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2005
(with comparative actual amounts for the year ended June 30, 2004)

	2005			2004 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
Operating expenditures (continued)				
General and administrative (continued)				
Metering management	\$ 167,065	\$ 19,312	\$ 147,753	\$ 161,353
Telecommunications systems	530,190	125,765	404,425	265,585
Information systems	942,735	(13,294)	956,029	844,994
Pension expenses	25,000	18,578	6,422	8,264
Medical insurance	2,272,200	(22,954)	2,295,154	2,121,067
Other	1,623,000	461,556	1,161,444	1,433,880
Overhead clearing	(3,816,005)	(951,043)	(2,864,962)	(2,588,903)
Total general and administrative	<u>9,724,325</u>	<u>197,455</u>	<u>9,526,870</u>	<u>9,248,266</u>
Total operating expenditures	<u>28,958,574</u>	<u>2,062,540</u>	<u>26,896,034</u>	<u>26,440,397</u>
Non-operating expenditures				
Interest expense	5,202,000	(115,637)	5,317,637	5,491,645
Issue costs	398,100	5,214	392,886	1,267,507
Total non-operating expenditures	<u>5,600,100</u>	<u>(110,423)</u>	<u>5,710,523</u>	<u>6,759,152</u>
Transfers out				
Transfer to City of Fayetteville	1,143,000	53	1,142,947	1,074,660
Transfer to Water Resources Rate Stabilization Fund	500,000	-	500,000	-
Total transfers out	<u>1,643,000</u>	<u>53</u>	<u>1,642,947</u>	<u>1,074,660</u>
Budgetary appropriations				
Inventory increase	-	(212,217)	212,217	(200,483)
Vehicle and equipment	-	(588,195)	588,195	(92,566)
Bond principal payments	4,897,000	379,880	4,517,120	15,321,455
State loan payments	-	(379,756)	379,756	379,756
NC DOT project payments	2,260,000	2,260,000	-	-
Capital outlay	18,074,350	1,294,557	16,779,793	6,583,854
Appropriation of net assets	825,426	825,426	-	-
Total budgetary appropriations	<u>26,056,776</u>	<u>3,579,695</u>	<u>22,477,081</u>	<u>21,992,016</u>
Total expenditures	<u>\$ 62,258,450 ⁺</u>	<u>\$ 5,531,865</u>	<u>\$ 56,726,585</u>	<u>\$ 56,266,225</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2005

(with comparative actual amounts for the year ended June 30, 2004)

	2005		2004 Actual
	Budget	Variance Positive (Negative)	
Reconciliation of change in net assets			
Total revenues		\$ (1,838,799)	\$ 59,115,282
Total expenditures		5,531,865	56,266,225
Subtotal		<u>\$ 3,693,066</u>	2,849,057
Reconciling items:			
Budgetary appropriations			16,174,805
Depreciation			(11,802,521)
Amortization			(932,976)
Developer and FIF credits			9,204,027
Assessments			(1,369,568)
Transfer of assets (to) / from Annexation Capital Project Fund Phase IVA			(4,260)
Transfer of assets (to) / from Annexation Capital Project Fund Phase IVB			1,978,651
Transfer of assets (to) / from Annexation Capital Project Fund Phase III			3,037,311
Transfer of assets (to) / from Uptown Revitalization Fund			(64,304)
Transfer (to) / from 2003A Bond Capital Project Fund			(349)
Total reconciling items			<u>16,708,145</u>
Change in net assets			<u>\$ (1,539,889)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Annexation Capital Project Fund - Phase IVA
From Inception and for the Year Ended June 30, 2005**

	<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 - Phase IV-A				
Construction	-	5,556,185	-	5,556,185
Engineering	-	1,034,602	-	1,034,602
Rights of way	-	92,585	-	92,585
Less City of Fayetteville participation	-	(1,286,108)	(4,260)	(1,290,368)
Other	-	168,727	-	168,727
Total expenditures - Phase IV-A	<u>5,561,731</u>	<u>5,565,991</u>	<u>(4,260)</u>	<u>5,561,731</u>
Total expenditures	<u>5,561,731</u>	<u>5,565,991</u>	<u>(4,260)</u>	<u>5,561,731</u>
Revenues under expenditures	<u>(5,561,731)</u>	<u>(5,565,991)</u>	<u>4,260</u>	<u>(5,561,731)</u>
Other financing sources				
Transfer to Annexation Phase IV-B CP Fund	(338,269)	-	(338,269)	(338,269)
Transfer from Annexation Reserve Fund	3,500,000	3,500,000	-	3,500,000
Transfer from Annexation Phase III Capital Project Fund	<u>2,400,000</u>	<u>2,400,000</u>	<u>-</u>	<u>2,400,000</u>
Total other financing sources	<u>5,561,731</u>	<u>5,900,000</u>	<u>(338,269)</u>	<u>5,561,731</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 334,009</u>	<u>(334,009)</u>	<u>\$ -</u>
Reconciling items:				
Capital outlay			(4,260)	
Transfer of assets to the Water and Wastewater fund			<u>4,260</u>	
Change in net assets			<u>\$ (334,009)</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, 2005

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 56,127	\$ 61,026	\$ 11,522	\$ 72,548
Total revenues	<u>56,127</u>	<u>61,026</u>	<u>11,522</u>	<u>72,548</u>
Revenues under expenditures	<u>56,127</u>	<u>61,026</u>	<u>11,522</u>	<u>72,548</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	(56,127)	-	-	-
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>\$ 561,026</u>	11,522	<u>\$ 572,548</u>
Reconciling items:				
Total reconciling items			<u>-</u>	
Change in net assets			<u>\$ 11,522</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, 2005**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ -	\$ -	\$ 243,585	\$ 243,585
Total revenues	<u>-</u>	<u>-</u>	<u>243,585</u>	<u>243,585</u>
Expenditures				
Construction	-	2,463,045	4,858,828	7,321,673
Engineering	-	1,388,720	342,218	1,730,938
Rights of way	-	147,491	10,526	158,017
Less City of Fayetteville participation	-	(1,027,989)	(889,127)	(1,917,116)
Other	-	335,929	218,831	554,760
Total expenditures	<u>12,000,000</u>	<u>3,307,196</u>	<u>4,541,076</u>	<u>7,848,272</u>
Revenues under expenditures	<u>(12,000,000)</u>	<u>(3,307,196)</u>	<u>(4,297,491)</u>	<u>(7,604,687)</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>11,000,000</u>	<u>338,269</u>	<u>11,338,269</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 7,692,804</u>	<u>(3,959,222)</u>	<u>\$ 3,733,582</u>
Reconciling Items:				
Capital outlay			4,297,491	
Transfer of assets to the Water and Wastewater fund			<u>(3,037,311)</u>	
Change in net assets			<u>\$ (2,699,042)</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, 2005

	Project Authorization	Total Prior Years	Current Year	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures	-	4,678,935	6,039,917	10,718,852
Construction	-	924,839	336,485	1,261,324
Engineering	-	315,927	34,317	350,244
Other/Contingency	-	-	-	-
Total expenditures	<u>17,442,000</u>	<u>5,919,701</u>	<u>6,410,719</u>	<u>12,330,420</u>
Revenues under expenditures	<u>(17,442,000)</u>	<u>(5,919,701)</u>	<u>(6,410,719)</u>	<u>(12,330,420)</u>
Other financing sources (uses)				
State revolving loan proceeds	17,442,000	5,411,856	6,419,186	11,831,042
Total other financing sources	<u>17,442,000</u>	<u>5,411,856</u>	<u>6,419,186</u>	<u>11,831,042</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ (507,845)</u>	8,467	<u>\$ (499,378)</u>
Reconciling items:				
Capital outlay			6,410,719	
Loan proceeds			(6,419,186)	
Change in net assets			<u>\$ -</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, 2005

	Project Authorization	Total Prior Years	Current Year	Total
Revenue				
Interest earned on investments	\$ 135,000	\$ 116,215	\$ (61,570)	\$ 54,645
Total revenues	<u>135,000</u>	<u>116,215</u>	<u>(61,570)</u>	<u>54,645</u>
Expenditures				
Construction	-	1,589,929	1,400,921	2,990,850
Engineering	-	207,395	(41,840)	165,555
Other	-	44,520	293,359	337,879
Total expenditures	<u>6,003,119</u>	<u>1,841,844</u>	<u>1,652,440</u>	<u>3,494,284</u>
Revenues under expenditures	<u>(5,868,119)</u>	<u>(1,725,629)</u>	<u>(1,714,010)</u>	<u>(3,439,639)</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>5,868,119</u>	<u>(199,052)</u>	<u>5,669,067</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 4,142,490</u>	<u>(1,913,062)</u>	<u>\$ 2,229,428</u>
Reconciling items:				
Capital outlay			1,714,010	
Transfer of assets to the Water/Wastewater fund			(2,119,372)	
Change in net assets			<u>\$ (2,318,424)</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, 2005

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 500	\$ -	\$ 41	\$ 41
Total revenues	<u>500</u>	<u>-</u>	<u>41</u>	<u>41</u>
Other financing sources				
Transfer from Water/Sewer Fund	500,000	-	500,000	500,000
Appropriated net assets	(500,500)	-	-	-
Total other financing sources	<u>(500)</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	500,041	<u>\$ 500,041</u>
Reconciling items:				
Total reconciling items			<u>-</u>	
Change in net assets			<u>\$ 500,041</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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NONMAJOR ENTERPRISE FUNDS

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2005**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets			
Current assets			
Cash and investments	\$ 785,235	\$ 2,483,629	\$ 3,268,864
Accounts receivable	278,230	771,984	1,050,214
Inventories	18,079	3,478	21,557
Restricted cash and investments	-	512,536	512,536
Total current assets	<u>1,081,544</u>	<u>3,771,627</u>	<u>4,853,171</u>
Noncurrent assets			
Other assets	-	88,000	88,000
Capital assets	3,240,615	22,205,088	25,445,703
Total noncurrent assets	<u>3,240,615</u>	<u>22,293,088</u>	<u>25,533,703</u>
Total assets	<u>\$ 4,322,159</u>	<u>\$ 26,064,715</u>	<u>\$ 30,386,874</u>
Liabilities and net assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 157,187	\$ 212,684	\$ 369,871
Interfund payables	-	372,511	372,511
Accrued vacation	87,405	47,716	135,121
Total current liabilities	<u>244,592</u>	<u>632,911</u>	<u>877,503</u>
Noncurrent liabilities			
Deferred revenues	-	39,910	39,910
Total noncurrent liabilities	<u>-</u>	<u>39,910</u>	<u>39,910</u>
Total liabilities	<u>244,592</u>	<u>672,821</u>	<u>917,413</u>
Net assets			
Invested in capital assets, net of related debt	3,240,615	22,205,088	25,445,703
Restricted for capital projects	-	512,536	512,536
Unrestricted	836,952	2,674,270	3,511,222
Total net assets	<u>4,077,567</u>	<u>25,391,894</u>	<u>29,469,461</u>
Total liabilities and net assets	<u>\$ 4,322,159</u>	<u>\$ 26,064,715</u>	<u>\$ 30,386,874</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
Year Ended June 30, 2005**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues			
Charges for services	\$ 806,536	\$ 2,314,147	\$ 3,120,683
Other revenue from operations	29,548	288,326	317,874
Total operating revenues	<u>836,084</u>	<u>2,602,473</u>	<u>3,438,557</u>
Operating expenses			
Personnel	2,410,747	959,393	3,370,140
Maintenance and operations	1,464,816	1,160,218	2,625,034
Depreciation	803,782	1,370,820	2,174,602
Total operating expenses	<u>4,679,345</u>	<u>3,490,431</u>	<u>8,169,776</u>
Operating income (loss)	<u>(3,843,261)</u>	<u>(887,958)</u>	<u>(4,731,219)</u>
Nonoperating revenue (expense)			
Interest earned on investments	-	67,489	67,489
Federal and State grants	1,893,122	60,870	1,953,992
Passenger facility charges	-	438,428	438,428
Miscellaneous revenue	7,500	84,296	91,796
Interest expense	-	(23,217)	(23,217)
Amortization	-	(22,000)	(22,000)
Public safety reimbursement	-	(271,023)	(271,023)
Total nonoperating revenue (expense)	<u>1,900,622</u>	<u>334,843</u>	<u>2,235,465</u>
Income (loss) before transfers and contributions	<u>(1,942,639)</u>	<u>(553,115)</u>	<u>(2,495,754)</u>
Transfers in	1,206,000	-	1,206,000
Transfers out	-	-	-
Capital contributions	186,445	1,918,918	2,105,363
Change in net assets	<u>(550,194)</u>	<u>1,365,803</u>	<u>815,609</u>
Total net assets - beginning	<u>4,627,761</u>	<u>24,026,091</u>	<u>28,653,852</u>
Total net assets - ending	<u>\$ 4,077,567</u>	<u>\$ 25,391,894</u>	<u>\$ 29,469,461</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended June 30, 2005**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating activities			
Cash received from customers	\$ 1,205,364	\$ 2,396,694	\$ 3,602,058
Other operating revenue	29,548	306,922	336,470
Cash paid to or on behalf of employees for services	(2,402,623)	(961,868)	(3,364,491)
Cash paid for goods and services	<u>(1,482,852)</u>	<u>(1,134,852)</u>	<u>(2,617,704)</u>
Net cash provided by (used in) operating activities	<u>(2,650,563)</u>	<u>606,896</u>	<u>(2,043,667)</u>
Noncapital financing activities			
Transfers in	1,206,000	-	1,206,000
Federal and state grants	1,893,122	60,870	1,953,992
Nonoperating revenues	7,500	522,724	530,224
Other	-	<u>(271,023)</u>	<u>(271,023)</u>
Net cash provided (used) by noncapital financing activities	<u>3,106,622</u>	<u>312,571</u>	<u>3,419,193</u>
Capital and related financing activities			
Contributed capital received	186,445	-	186,445
Capital contributions - Federal grant	-	1,918,918	1,918,918
Acquisition and construction of capital assets	(198,786)	(2,064,366)	(2,263,152)
Principal paid on debt maturities	-	(26,410)	(26,410)
Interest paid on debt maturities	-	<u>(23,217)</u>	<u>(23,217)</u>
Net cash provided (used) by capital and related financing activities	<u>(12,341)</u>	<u>(195,075)</u>	<u>(207,416)</u>
Investing activities			
Interest and dividends	-	67,489	67,489
Net cash provided (used) by investing activities	<u>-</u>	<u>67,489</u>	<u>67,489</u>
Net increase in cash and cash equivalents/investments	<u>443,718</u>	<u>791,881</u>	<u>1,235,599</u>
Cash and cash equivalents/investments			
Beginning of year	<u>341,517</u>	<u>2,204,284</u>	<u>2,545,801</u>
End of year	<u>\$ 785,235</u>	<u>\$ 2,996,165</u>	<u>\$ 3,781,400</u>
Cash and cash equivalents	<u>\$ 785,235</u>	<u>\$ 2,996,165</u>	<u>\$ 3,781,400</u>
Total cash and cash equivalents/investments	<u>\$ 785,235</u>	<u>\$ 2,996,165</u>	<u>\$ 3,781,400</u>
Unrestricted cash and equivalents/investments	<u>\$ 785,235</u>	<u>\$ 2,483,629</u>	<u>\$ 3,268,864</u>
Restricted cash and equivalents/investments	<u>-</u>	<u>512,536</u>	<u>512,536</u>
Total cash and cash equivalents/investments	<u>\$ 785,235</u>	<u>\$ 2,996,165</u>	<u>\$ 3,781,400</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended June 30, 2005**

	<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)	\$ (3,843,261)	\$ (887,958)	\$ (4,731,219)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	803,782	1,370,820	2,174,602
Change in assets and liabilities			
(Increase) decrease in accounts receivable	409,532	82,547	492,079
(Increase) decrease in inventory	(10,704)	(495)	(11,199)
Increase (decrease) in accounts payable and accrued liabilities	(18,036)	25,861	7,825
Increase (decrease) in accrued compensated absences	8,124	(2,475)	5,649
Increase (decrease) in deferred revenues	-	18,596	18,596
Total adjustments	<u>1,192,698</u>	<u>1,494,854</u>	<u>2,687,552</u>
Net cash provided by (used in) operating activities	<u>\$ (2,650,563)</u>	<u>\$ 606,896</u>	<u>\$ (2,043,667)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005

(With Comparative Actual Amounts For Year Ended June 30, 2004)

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Operating revenues				
Charges for services	\$ 755,434	\$ 51,102	\$ 806,536	\$ 804,782
Other revenues from operations	32,200	(2,652)	29,548	37,876
Total operating revenues	<u>787,634</u>	<u>48,450</u>	<u>836,084</u>	<u>842,658</u>
Operating expenditures				
Personnel	2,425,295	22,672	2,402,623	2,544,270
Maintenance and operations	1,522,795	193,207	1,329,588	1,287,312
Total operating expenditures	<u>3,948,090</u>	<u>215,879</u>	<u>3,732,211</u>	<u>3,831,582</u>
Operating loss	<u>(3,160,456)</u>	<u>264,329</u>	<u>(2,896,127)</u>	<u>(2,988,924)</u>
Nonoperating revenues (expenditures)				
Federal and State grants	1,890,000	(118,903)	1,771,097	1,800,248
Interest expense	(281)	281	-	-
Total nonoperating revenues (expenditures)	<u>1,889,719</u>	<u>(118,622)</u>	<u>1,771,097</u>	<u>1,800,248</u>
Revenues under expenditures	<u>(1,270,737)</u>	<u>145,707</u>	<u>(1,125,030)</u>	<u>(1,188,676)</u>
Other financing sources (uses)				
Transfers in	1,272,765	(159,125)	1,113,640	1,193,211
Debt service-principle payments	(2,028)	2,028	-	-
Total other financing sources (uses)	<u>1,270,737</u>	<u>(157,097)</u>	<u>1,113,640</u>	<u>1,193,211</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (11,390)</u>	<u>\$ (11,390)</u>	<u>\$ 4,535</u>
Reconciliation of change in net assets:				
Total revenues			\$ 3,720,821	\$ 3,836,117
Total expenditures			3,732,211	3,831,582
Subtotal			<u>(11,390)</u>	<u>4,535</u>
Depreciation			(803,782)	(812,435)
Change in inventory			10,703	564
Loss on disposal of assets			-	(32,511)
Decrease (increase) in accrued vacation			(8,124)	25,298
Subtotal			<u>(801,203)</u>	<u>(819,084)</u>
Change in net assets			<u>\$ (812,593)</u>	<u>\$ (814,549)</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, 2005

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Federal grants	\$ 3,614,575	\$ 1,341,344	\$ -	\$ 167,307	\$ 1,508,651
State grants	399,272	146,904	-	19,138	166,042
County	-	10,980	-	-	10,980
Miscellaneous	-	19,251	-	-	19,251
Total revenues	<u>4,013,847</u>	<u>1,518,479</u>	<u>-</u>	<u>186,445</u>	<u>1,704,924</u>
Expenditures					
FTA Capital 0229	350,000	350,000	-	-	350,000
FTA Capital 0244	813,625	773,505	-	40,120	813,625
FTA Capital 0271	1,238,560	551,961	-	169,016	720,977
FTA Capital 0292	35,000	-	-	-	-
FTA Capital 0313	1,239,430	1,215	-	-	1,215
FTA Capital 0327	800,000	-	-	-	-
Total expenditures	<u>4,476,615</u>	<u>1,676,681</u>	<u>-</u>	<u>209,136</u>	<u>1,885,817</u>
Revenues over (under) expenditures	<u>(462,768)</u>	<u>(158,202)</u>	<u>-</u>	<u>(22,691)</u>	<u>(180,893)</u>
Other financing sources (uses)					
Transfers in	422,768	501,869	-	75,760	577,629
Appropriated fund balance	40,000	-	-	-	-
Total other financing sources (uses)	<u>462,768</u>	<u>501,869</u>	<u>-</u>	<u>75,760</u>	<u>577,629</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 343,667</u>	<u>\$ -</u>	<u>\$ 53,069</u>	<u>\$ 396,736</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 53,069	
Capital outlay				209,136	
Non-capitalizable items				(10,349)	
Change in net assets				<u>\$ 251,856</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, 2005

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Federal grants	\$ 362,600	\$ 214,514	\$ -	\$ 108,370	\$ 322,884
State grants	112,825	26,813	-	13,655	40,468
Miscellaneous	7,500	-	-	7,500	7,500
Total revenues	<u>475,425</u>	<u>241,327</u>	<u>-</u>	<u>129,525</u>	<u>363,352</u>
Expenditures					
Current					
Transportation	528,250	268,143	-	135,582	403,725
Total expenditures	<u>528,250</u>	<u>268,143</u>	<u>-</u>	<u>135,582</u>	<u>403,725</u>
Revenues over (under) expenditures	<u>(52,825)</u>	<u>(26,816)</u>	<u>-</u>	<u>(6,057)</u>	<u>(40,373)</u>
Other financing sources (uses)					
Transfers in	45,325	45,326	-	16,600	61,926
Total other financing sources (uses)	<u>45,325</u>	<u>45,326</u>	<u>-</u>	<u>16,600</u>	<u>61,926</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ (7,500)</u>	<u>\$ 18,510</u>	<u>\$ -</u>	<u>\$ 10,543</u>	<u>\$ 21,553</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 10,543	
Change in net assets				\$ 10,543	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures by Project
Transit II Capital Project Fund

From Inception And For Year Ended June 30, 2005

	<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	\$ -	\$ -	\$ 150,000
FTA 90.2313	153,250	115,870	-	32,604	148,474
FTA 90.2327	150,000	2,273	-	102,857	105,130
NCDOT Trolley Feasibility Study	75,000	-	-	121	121
Total transportation	<u>528,250</u>	<u>268,143</u>	<u>-</u>	<u>135,582</u>	<u>403,725</u>
Total expenditures by project	<u>\$ 528,250</u>	<u>\$ 268,143</u>	<u>\$ -</u>	<u>\$ 135,582</u>	<u>\$ 403,725</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005
(With Comparative Actual Amounts For Year Ended June 30, 2004)

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Operating revenues				
Charges for services	\$ 2,197,011	\$ 117,136	\$ 2,314,147	\$ 2,004,185
Other revenues from operations	267,126	21,200	288,326	321,430
Total operating revenues	<u>2,464,137</u>	<u>138,336</u>	<u>2,602,473</u>	<u>2,325,615</u>
Operating expenditures				
Personnel	991,307	29,439	961,868	890,174
Maintenance and operations	1,003,817	34,993	968,824	784,708
Capital outlay	166,713	36,669	130,044	831,679
Total operating expenditures	<u>2,161,837</u>	<u>101,101</u>	<u>2,060,736</u>	<u>2,506,561</u>
Operating income (loss)	<u>302,300</u>	<u>239,437</u>	<u>541,737</u>	<u>(180,946)</u>
Nonoperating revenues				
Interest earned on investments	15,200	4,250	19,450	3,722
Passenger facility charge	-	(1,146)	(1,146)	-
Miscellaneous	74,679	9,617	84,296	31,143
Federal and State grants	60,870	-	60,870	72,667
Proceeds from sale of assets	-	-	-	-
Total nonoperating revenues	<u>150,749</u>	<u>12,721</u>	<u>163,470</u>	<u>107,532</u>
Nonoperating expenditures				
Interest expense	22,902	(315)	23,217	24,751
Public safety reimbursements	271,945	922	271,023	237,004
Total nonoperating expenditures	<u>294,847</u>	<u>607</u>	<u>294,240</u>	<u>261,755</u>
Revenues over (under) expenditures	<u>158,202</u>	<u>252,765</u>	<u>410,967</u>	<u>(335,169)</u>
Other financing sources (uses)				
Transfers (out)	(206,120)	28,270	(177,850)	(282,852)
Debt service - principle payment	(26,411)	-	(26,411)	(24,876)
Appropriated fund balance	74,329	(74,329)	-	-
Total other financing sources (uses)	<u>(158,202)</u>	<u>(46,059)</u>	<u>(204,261)</u>	<u>(307,728)</u>
Extraordinary items				
	-	-	-	702,500
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 206,706</u>	<u>\$ 206,706</u>	<u>\$ 59,603</u>
Reconciliation of change in net assets				
Total revenues			\$ 2,765,943	\$ 3,135,647
Total expenditures			2,559,237	3,076,044
Subtotal			<u>206,706</u>	<u>59,603</u>
Depreciation			(1,370,820)	(1,404,639)
Amortization			(22,000)	(22,000)
Change in accrued vacation			2,475	13,807
Change in inventory			495	-
Capital outlay			130,044	831,679
Gain (loss) on disposal of assets			-	(22,598)
Principal payment			26,411	24,876
Subtotal			<u>(1,233,395)</u>	<u>(578,875)</u>
Change in net assets			<u>\$ (1,026,689)</u>	<u>\$ (519,272)</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, 2005

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Federal grants	\$ 7,066,996	\$ 9,051,100	\$ 5,539,200	\$ 1,873,664	\$ 5,385,564
State grants	552,833	494,761	289,800	45,254	250,215
Miscellaneous income	119,429	793,824	284,742	439,574	948,656
Investment income	25,000	38,635	-	48,039	86,674
Total revenues	<u>7,764,258</u>	<u>10,378,320</u>	<u>6,113,742</u>	<u>2,406,531</u>	<u>6,671,109</u>
Expenditures					
Airport Road Landscaping	50,000	49,163	-	-	49,163
Airport Road Construction	369,164	360,018	-	-	360,018
Jet Bridge Modification	46,195	38,886	-	1	38,887
Preplan Runway Safety Areas	108,600	108,600	-	-	108,600
Security system upgrade	92,815	91,511	-	-	91,511
Ramp and safety area design/ARFF proximity suits	-	238,062	238,062	-	-
NLVR/terminal rehab	2,502,737	2,204,322	39,672	254,166	2,418,836
Masterplan update & land	1,613,242	1,185,763	-	378,337	1,564,100
Loop Road	30,000	2,522	-	27,004	29,526
Future Projects	349,000	-	-	-	-
Apron & safety area improvements	-	5,872,526	5,872,526	-	-
Miscellaneous parking lot improvements	94,100	-	-	1,466,681	1,466,681
Obstruction clearing	1,504,396	-	-	22,501	22,501
Stormwater improvements	361,114	-	-	-	-
AIP-30 loop, building, beacon	1,587,712	-	-	-	-
Total expenditures	<u>8,709,075</u>	<u>10,151,373</u>	<u>6,150,260</u>	<u>2,148,710</u>	<u>6,149,823</u>
Revenues over (under) expenditures	<u>(944,817)</u>	<u>226,947</u>	<u>(36,518)</u>	<u>257,821</u>	<u>521,286</u>
Other financing sources (uses)					
Transfers in	944,817	796,255	36,518	177,850	937,587
Total other financing sources (uses)	<u>944,817</u>	<u>796,255</u>	<u>36,518</u>	<u>177,850</u>	<u>937,587</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 1,023,202</u>	<u>\$ -</u>	<u>\$ 435,671</u>	<u>\$ 1,458,873</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 435,671	
Capital outlay				2,148,710	
Non-capitalizable items				(191,889)	
Change in net assets				<u>\$ 2,392,492</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Internal Service Funds
June 30, 2005**

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	Total
Assets				
Current assets				
Cash and investments	\$ 593,133	\$ 279,340	\$ 6,987,216	\$ 7,859,689
Accounts receivable	10,629	111,868	49,415	171,912
Inventories	-	276,546	-	276,546
Prepaid expenses	-	-	165,833	165,833
Total current assets	<u>603,762</u>	<u>667,754</u>	<u>7,202,464</u>	<u>8,473,980</u>
Noncurrent assets				
Capital assets	1,594	188,707	53,159	243,460
Total noncurrent assets	<u>1,594</u>	<u>188,707</u>	<u>53,159</u>	<u>243,460</u>
Total assets	<u>\$ 605,356</u>	<u>\$ 856,461</u>	<u>\$ 7,255,623</u>	<u>\$ 8,717,440</u>
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 406	\$ 254,099	\$ 3,516,707	\$ 3,771,212
Current portion of long term debt	-	2,303	-	2,303
Accrued vacation	-	6,537	15,596	22,133
Total current liabilities	<u>406</u>	<u>262,939</u>	<u>3,532,303</u>	<u>3,795,648</u>
Noncurrent liabilities				
Deferred revenues	-	-	3,353	3,353
Long-term debt	-	7,112	-	7,112
Total noncurrent liabilities	<u>-</u>	<u>7,112</u>	<u>3,353</u>	<u>10,465</u>
Total liabilities	<u>406</u>	<u>270,051</u>	<u>3,535,656</u>	<u>3,806,113</u>
Net assets				
Invested in capital assets, net of related debt	1,594	179,292	53,159	234,045
Unrestricted	603,356	407,118	3,666,808	4,677,282
Total net assets	<u>604,950</u>	<u>586,410</u>	<u>3,719,967</u>	<u>4,911,327</u>
Total liabilities and net assets	<u>\$ 605,356</u>	<u>\$ 856,461</u>	<u>\$ 7,255,623</u>	<u>\$ 8,717,440</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2005

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	Total
Operating revenues				
Other revenue from operations	\$ -	\$ 733	\$ 98,989	\$ 99,722
Interfund charges and employee contributions	179,474	1,165,079	12,075,629	13,420,182
Total operating revenues	179,474	1,165,812	12,174,618	13,519,904
Operating expenses				
Personnel	-	1,089,730	361,356	1,451,086
Maintenance and operations	68,883	136,476	11,521,170	11,726,529
Depreciation	1,196	20,784	14,280	36,260
Total operating expenses	70,079	1,246,990	11,896,806	13,213,875
Operating income (loss)	109,395	(81,178)	277,812	306,029
Nonoperating revenue (expense)				
Interest earned on investments	42,397	3,671	189,960	236,028
Gain (loss) on disposal of capital assets	1,403	-	-	1,403
Interest expense	-	(310)	-	(310)
Total nonoperating revenue (expense)	43,800	3,361	189,960	237,121
Income (loss) before transfers and contributions	153,195	(77,817)	467,772	543,150
Transfers out	(1,000,000)	-	-	(1,000,000)
Change in net assets	(846,805)	(77,817)	467,772	(456,850)
Total net assets - beginning	1,451,755	664,227	3,252,195	5,368,177
Total net assets - ending	\$ 604,950	\$ 586,410	\$ 3,719,967	\$ 4,911,327

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2005

	<u>Warranty Fleet Fund</u>	<u>Fleet Maintenance Fund</u>	<u>Insurance Fund</u>	<u>Total</u>
Operating activities				
Cash received from customers	\$ 173,959	\$ 1,165,079	\$ 12,047,302	\$ 13,386,340
Other operating revenue	-	733	98,989	99,722
Cash received as deferred revenues	-	-	(7,378)	(7,378)
Cash paid to or on behalf of employees for services	-	(1,138,241)	(370,631)	(1,508,872)
Cash paid for goods and services	(72,151)	(43,845)	(11,540,017)	(11,656,013)
Net cash provided by (used in) operating activities	<u>101,808</u>	<u>(16,274)</u>	<u>228,265</u>	<u>313,799</u>
Noncapital financing activities				
Transfers out	(1,000,000)	-	-	(1,000,000)
Net cash provided (used) by noncapital financing activities	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>
Capital and related financing activities				
Acquisition and construction of capital assets	-	-	(7,650)	(7,650)
Net cash provided (used) by capital and related financing activities	<u>29,824</u>	<u>(2,546)</u>	<u>(7,650)</u>	<u>19,628</u>
Investing activities				
Interest and dividends	42,397	3,671	189,960	236,028
Net cash provided (used) by investing activities	<u>42,397</u>	<u>3,671</u>	<u>189,960</u>	<u>236,028</u>
Net increase in cash and cash equivalents/investments	<u>(825,971)</u>	<u>(15,149)</u>	<u>410,575</u>	<u>(430,545)</u>
Cash and cash equivalents/investments				
Beginning of year	1,419,104	294,489	6,576,641	8,290,234
End of year	<u>\$ 593,133</u>	<u>\$ 279,340</u>	<u>\$ 6,987,216</u>	<u>\$ 7,859,689</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 109,395	\$ (81,178)	\$ 277,812	\$ 306,029
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,196	20,784	14,280	36,260
Change in assets and liabilities				
(Increase) decrease in accounts receivable	(5,515)	(111,364)	(28,327)	(145,206)
(Increase) decrease in prepaid items	-	-	88,039	88,039
Increase (decrease) in accounts payable and accrued liabilities	(3,268)	86,470	(106,886)	(23,684)
Increase (decrease) in accrued compensated absence	-	(48,511)	(9,275)	(57,786)
Increase (decrease) in deferred revenues	-	-	(7,378)	(7,378)
Total adjustments	<u>(7,587)</u>	<u>64,904</u>	<u>(49,547)</u>	<u>7,770</u>
Net cash provided by (used in) operating activities	<u>\$ 101,808</u>	<u>\$ (16,274)</u>	<u>\$ 228,265</u>	<u>\$ 313,799</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005
(With Comparative Actual Amounts For Year Ended June 30, 2004)

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 211,720	\$ (32,246)	\$ 179,474	\$ 203,299
Total operating revenues	<u>211,720</u>	<u>(32,246)</u>	<u>179,474</u>	<u>203,299</u>
Operating expenditures				
Maintenance and operations	75,226	6,343	68,883	70,590
Capital outlay	155,000	155,000	-	-
Total operating expenditures	<u>230,226</u>	<u>161,343</u>	<u>68,883</u>	<u>70,590</u>
Operating income (loss)	<u>(18,506)</u>	<u>129,097</u>	<u>110,591</u>	<u>132,709</u>
Nonoperating revenues (expenditures)				
Interest earned on investments	25,000	17,397	42,397	9,273
Interest expense	(790)	790	-	-
Total nonoperating revenues (expenditures)	<u>24,210</u>	<u>18,187</u>	<u>42,397</u>	<u>9,273</u>
Revenues over (under) expenditures	<u>5,704</u>	<u>147,284</u>	<u>152,988</u>	<u>141,982</u>
Other financing sources (uses)				
Proceeds from sale of assets	-	1,403	1,403	-
Principal payments	(5,704)	5,704	-	-
Transfers (out)	(1,000,000)	-	(1,000,000)	-
Appropriated fund balance	1,000,000	(1,000,000)	-	-
Total other financing sources (uses)	<u>(5,704)</u>	<u>(992,893)</u>	<u>(998,597)</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (845,609)</u>	<u>\$ (845,609)</u>	<u>\$ 141,982</u>
Reconciliation to net income (loss):				
Total revenues			\$ 223,274	\$ 212,572
Total expenditures			1,068,883	70,590
Subtotal			<u>(845,609)</u>	<u>141,982</u>
Depreciation			(1,196)	(8,578)
Change in net assets			<u>\$ (846,805)</u>	<u>\$ 133,404</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005
(With Comparative Actual Amounts For Year Ended June 30, 2004)

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 1,673,059	\$ (507,980)	\$ 1,165,079	\$ 1,234,417
Other revenues from operations	-	733	733	-
Total operating revenues	<u>1,673,059</u>	<u>(507,247)</u>	<u>1,165,812</u>	<u>1,234,417</u>
Operating expenditures				
Personnel	1,138,610	48,880	1,089,730	1,050,816
Maintenance and operations	310,792	174,316	136,476	159,080
Total operating expenditures	<u>1,449,402</u>	<u>223,196</u>	<u>1,226,206</u>	<u>1,209,896</u>
Operating income (loss)	<u>223,657</u>	<u>(284,051)</u>	<u>(60,394)</u>	<u>24,521</u>
Nonoperating revenues (expenditures)				
Interest earned	-	3,671	3,671	1,807
Interest expense	(459)	149	(310)	-
Total nonoperating revenue (expenditures)	<u>(459)</u>	<u>3,820</u>	<u>3,361</u>	<u>1,807</u>
Revenues over (under) expenditures	<u>223,198</u>	<u>(280,231)</u>	<u>(57,033)</u>	<u>26,328</u>
Other financing sources (uses)				
Transfer out	(219,885)	219,885	-	-
Principal payments	(3,313)	1,076	(2,237)	-
Total other financing sources (uses)	<u>(223,198)</u>	<u>220,961</u>	<u>(2,237)</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (59,270)</u>	<u>\$ (59,270)</u>	<u>\$ 26,328</u>
Reconciliation to net income (loss):				
Total revenues			\$ 1,169,173	\$ 1,236,224
Total expenditures			1,228,443	1,209,896
Subtotal			<u>(59,270)</u>	<u>26,328</u>
Depreciation			(20,784)	(24,576)
Principal payments			2,237	-
Decrease (increase) in accrued vacation			-	6,114
Gain (loss) on disposal of assets			-	(3,665)
Subtotal			<u>(18,547)</u>	<u>(22,127)</u>
Change in net assets			<u>\$ (77,817)</u>	<u>\$ 4,201</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2005

(With Comparative Actual Amounts For Year Ended June 30, 2004)

	Budget	Variance Positive (Negative)	2005 Actual	2004 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 13,057,416	\$ (981,787)	\$ 12,075,629	\$ 10,487,950
Other revenues from operations	33,252	65,737	98,989	243,058
Total operating revenues	<u>13,090,668</u>	<u>(916,050)</u>	<u>12,174,618</u>	<u>10,731,008</u>
Operating expenditures				
Personnel	379,160	8,528	370,632	340,144
Maintenance and operations	12,794,533	1,346,967	11,447,566	9,466,717
Capital outlay	11,125	-	-	-
Total operating expenditures	<u>13,184,818</u>	<u>1,355,495</u>	<u>11,818,198</u>	<u>9,806,861</u>
Operating income (loss)	<u>(94,150)</u>	<u>450,570</u>	<u>356,420</u>	<u>924,147</u>
Nonoperating revenues (expenditures)				
Interest earned on investments	95,000	94,960	189,960	34,411
Interest expense	(104)	104	-	-
Total nonoperating revenues (expenditures)	<u>94,896</u>	<u>95,064</u>	<u>189,960</u>	<u>34,411</u>
Revenues over (under) expenditures	<u>\$ 746</u>	<u>\$ 545,634</u>	<u>\$ 546,380</u>	<u>\$ 958,558</u>
Other financing sources (uses)				
Principal payments	(746)	746	-	-
Total other financing sources (uses)	<u>(746)</u>	<u>746</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 546,380</u>	<u>\$ 546,380</u>	<u>\$ 958,558</u>
Reconciliation to net income (loss):				
Total revenues			\$ 12,364,578	\$ 10,765,419
Total expenditures			<u>11,818,198</u>	<u>9,806,861</u>
Subtotal			<u>546,380</u>	<u>958,558</u>
Depreciation			(14,280)	(4,398)
Decrease (increase) in accrued vacation			9,276	(4,293)
Increase in insurance liability			<u>(73,604)</u>	<u>59,977</u>
Subtotal			<u>(78,608)</u>	<u>51,286</u>
Change in net assets			<u>\$ 467,772</u>	<u>\$ 1,009,844</u>

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.

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

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2005

	Special Separation Allowance Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
Assets			
Cash and investments	\$ 1,810,883	\$ 4,114,599	\$ 5,925,482
Accounts receivable	11,883	-	11,883
Total assets	<u>1,822,766</u>	<u>4,114,599</u>	<u>5,937,365</u>
Liabilities			
Accounts payable	24,736	-	24,736
Total liabilities	<u>24,736</u>	<u>-</u>	<u>24,736</u>
Net assets			
Pension benefits	1,798,030	4,114,599	5,912,629
Total net assets	<u>\$ 1,798,030</u>	<u>\$ 4,114,599</u>	<u>\$ 5,912,629</u>

City of Fayetteville, North Carolina

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
Year Ended June 30, 2005

	Special Separation Allowance Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
Additions			
Contributions	\$ 356,876	\$ -	\$ 356,876
Investment earnings	47,712	309,615	357,327
Total additions	<u>404,588</u>	<u>309,615</u>	<u>714,203</u>
Deductions			
Benefit payments and premiums	239,968	168,933	408,901
Total deductions	<u>239,968</u>	<u>168,933</u>	<u>408,901</u>
Change in net assets	164,620	140,682	305,302
Total net assets - beginning	<u>1,633,410</u>	<u>3,973,917</u>	<u>5,607,327</u>
Total net assets - ending	<u>\$ 1,798,030</u>	<u>\$ 4,114,599</u>	<u>\$ 5,912,629</u>

City of Fayetteville, North Carolina

**Combining Statement of Fiduciary Net Assets
Private-purpose Trust Funds
June 30, 2005**

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
Assets			
Cash and investments	\$ 3,444	\$ 1,247,403	\$ 1,250,847
Accounts receivable	30	3,240	3,270
Total assets	<u>3,474</u>	<u>1,250,643</u>	<u>1,254,117</u>
Liabilities			
Accounts payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Held in Trust	3,474	1,250,643	1,254,117
Total net assets	<u>\$ 3,474</u>	<u>\$ 1,250,643</u>	<u>\$ 1,254,117</u>

City of Fayetteville, North Carolina

Combining Statement of Changes in Fiduciary Net Assets
 Private-purpose Trust Funds
 Year Ended June 30, 2005

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
Additions			
Other revenue from operations	\$ -	\$ 42,797	\$ 42,797
Contributions	750	121,929	122,679
Investment earnings	119	29,232	29,351
Total additions	<u>869</u>	<u>193,958</u>	<u>194,827</u>
Deductions			
Benefit payments and premiums	1,315	328,029	329,344
Total deductions	<u>1,315</u>	<u>328,029</u>	<u>329,344</u>
Change in net assets	(446)	(134,071)	(134,517)
Total net assets - beginning	<u>3,920</u>	<u>1,384,714</u>	<u>1,388,634</u>
Total net assets - ending	<u>\$ 3,474</u>	<u>\$ 1,250,643</u>	<u>\$ 1,254,117</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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, 2005

	<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	\$ 7,469,565,374	\$ 0.530	\$ 39,588,696	\$ 34,906,765	\$ 4,681,931
Late Listing Penalties:					
General Fund			21,892	21,892	-
Subtotal			<u>39,610,588</u>	<u>34,928,657</u>	<u>4,681,931</u>
Discoveries:					
General Fund	32,055,515	0.530	169,894	158,371	11,523
Late Listing Penalties:					
General Fund			33,506	33,506	-
Subtotal			<u>203,400</u>	<u>191,877</u>	<u>11,523</u>
Releases:					
General Fund	(104,361,596)	0.530	(553,117)	(35,187)	(517,930)
Late Listing Penalties:					
General Fund			(8,669)	(8,669)	-
Subtotal			<u>(561,786)</u>	<u>(43,856)</u>	<u>(517,930)</u>
Adjusted Tax Levy			<u>39,252,202</u>	<u>35,076,678</u>	<u>4,175,524</u>
Uncollected Current Year Taxes at 6/30/05			<u>(1,372,253)</u>	<u>(597,212)</u>	<u>(775,041)</u>
City-wide Current Year's Taxes Collected			<u>37,879,950</u>	<u>\$ 34,479,466</u>	<u>\$ 3,400,483</u>
City-wide Current Levy Collection Percentage			<u>96.50%</u>	<u>98.30%</u>	<u>81.44%</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Taxes Receivable

June 30, 2005

Fiscal Year Ended	Uncollected Balance June 30, 2004	Additions	Collections & Credits	Uncollected Balance June 30, 2005
2005	\$ -	\$ 39,813,989	\$ 38,441,736	\$ 1,372,253
2004	1,597,296	770	1,127,279	470,787
2003	536,827	120	205,204	331,743
All Prior	<u>1,614,816</u>	<u>134</u>	<u>316,708</u>	<u>1,298,242</u>
	<u>3,748,939</u>	<u>\$ 39,815,013</u>	<u>\$ 40,090,927</u>	<u>3,473,025</u>
Less: Allowance for Uncollectible Taxes				
General Fund	<u>(713,017)</u>			<u>(738,829)</u>
	<u>\$ 3,035,922</u>			<u>\$ 2,734,196</u>
General Fund Taxes Receivable				3,089,741
Less: CBTD Taxes Receivable				(4,996)
Less: Vehicle License Fee Receivable				<u>(350,549)</u>
General Fund Ad Valorem Taxes Receivable				<u>\$ 2,734,196</u>

Reconciliations of collections and credit
with revenues

Ad Valorem Taxes	\$ 39,622,100
Releases Current Year-General Fund	561,786
Releases of other than current year-General Fund	157,602
Barred by State Statute-General Fund	138,531
Less Penalties & Interest	(315,526)
Less Taxes - CBTD	<u>(73,566)</u>
	<u>\$ 40,090,927</u>

**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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 10, 2005. 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 10, 2005.

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, L.L.C.

Fayetteville, North Carolina
October 10, 2005



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, 2005. 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, 2005.

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, Lambert & Habel, L.L.P.

Fayetteville, North Carolina
October 10, 2005



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, 2005. 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, 2005.

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.



Fayetteville, North Carolina
October 10, 2005

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

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>
14.218	Community Development Block Grant
14.239	Home Investment Partnership Program
16.710	COPS Homeland Security Grant

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, 2005

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
NC Clean Water Revolving Loan & Grant Program

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

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CITY OF FAYETTEVILLE, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2005

None reportable.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2005

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	\$1,669,810	\$ -	\$ 1,669,810
HOME Investment Partnership Program Various Years' Entitlements	14.239	M-XX-MC-37-0203	1,063,973	-	1,063,973
US DEPARTMENT OF JUSTICE					
Local Law Enforcement Block Grants Program	16.592	2002-LB-BX-2504	15,434	-	15,434
Local Law Enforcement Block 2002	16.592	2003-LB-BX-2466	1,917	-	1,917
Local Law Enforcement Block 2003			17,351	-	17,351
Office of Justice Programs			18,371	-	18,371
Bulletproof Vest Partnership	16.607		12,731	-	12,731
FBI Overtime Reimbursements			16,699	-	16,699
Alcohol, Tobacco, and Firearms Overtime Reimbursements	16.000		25,292	-	25,292
Federal Equitable Sharing Fund	16.609	2003-GP-CX-0153	67,640	-	67,640
Operation Ceasefire Grant			43,314	-	43,314
Inaugural OT			184,047	-	184,047
Cops Homeland Security Grant	16.710	2003OMX0146	112,527	-	112,527
Passed through Governor's Crime Commission			3,856	-	3,856
Geographic Information Systems Project	16.579	026-1-03-15B-AD-234	21,655	-	21,655
Operation Ceasefire Media Blitz	16.579	026-1-03-001-AZ-060	23,894	-	23,894
Gangs Across the Carolinas	16.579	026-1-02-004-AD-168	23,570	-	23,570
Cyber Crimes Against Children	16.579	026-1-04-15B-AD-860	72,975	-	72,975
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	12,984	-	12,984
US DEPARTMENT OF TRANSPORTATION					
Federal Aviation Administration					
Airport Improvement Program	20.106	FAA-3-37-0021-26	114,160	-	114,160
Rehabilitate Terminal Building, Phase II	20.106	FAA-3-37-0021-28	340,504	-	340,504
Land, Masterplan, Snow Plows	20.106	FAA-3-37-0021-29	1,419,000	-	1,419,000
Obstruction Removal & Loop Road Design			1,873,664	-	1,873,664
Passed through NC Dept of Transportation Governor's Highway Safety Program Strict and Fair Enforcement Program	20.600	QN-05-10-01-40	60,186	-	60,166
Highway Planning and Construction Enhancement Agreement - Depot	20.205	E-4118	1,035,403	-	1,035,403
ISTEA21 Cape Fear River Trail	20.205	E-4539	426,207	-	428,207
			1,463,610	-	1,463,610
Federal Transportation Administration			914,271	-	914,271
Operating assistance grant	20.507	NC 90.4357	32,094	-	32,094
Capital assistance grants:					
Capital	20.507	NC 90.0244	135,213	-	135,213
Capital	20.507	NC 90.0271	82,285	-	82,285
Capital	20.507	NC 90.2327	26,085	-	26,085
Planning	20.507	NC 90.2313	1,189,948	-	1,189,948
Planning			7	-	7
FEDERAL EMERGENCY MANAGEMENT AGENCY					
Assistance to Firefighters	85.554	EMW-2002-FG-00847	70,700	-	70,700
Assistance to Firefighters	85.554	EMW-2003-FG-05673	70,707	-	70,707
U.S. ENVIRONMENTAL PROTECTION AGENCY, REGION 4					
Brownfields Pilots Cooperative Agreement Region 4 - Direct Program	66.811	#V984206-97-0	9,788	-	9,788
U.S. DEPARTMENT OF COMMERCE					
Economic Development Administration Cedar Creek Industrial Park Sewer Extension Project	11.300	04-01-05110	3,523	-	3,523

CITY OF FAYETTEVILLE, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2005

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:					
DEPARTMENT OF TRANSPORTATION					
Aviation Division					
Rehabilitate Terminal Building, Phase II	N/A	9.9544021	-	6,086	6,086
Land, Masterplan, Snow Plows	N/A	36244.27.4.3	-	18,917	18,917
Stormwater Improvements	N/A	36244.27.5.1	-	20,250	20,250
Snowplows and Maintenance Vehicles	N/A	36244.27.4.6	-	36,860	36,860
Stormwater Improvements Design	N/A	36244.27.4.4	-	8,860	8,860
Terminal Roof Replacement	N/A	36244.27.4.2	-	39,896	39,896
Hydraulic Rotary Motor	N/A	36244.27.4.1	-	14,149	14,149
Security Police Officer Jackets	N/A	36244.27.4.5	-	1,922	1,922
Festival of Flights	N/A	4300051182	-	9,860	9,860
			-	<u>158,800</u>	<u>158,800</u>
Municipal Transportation Division					
Maintenance Assistance	N/A	9.9051898	-	856,826	856,826
Capital	N/A	9.9051816	-	3,272	3,272
Capital	N/A	9.9051886	-	15,867	15,867
Planning	N/A	36223.7.5.7	-	10,285	10,285
Planning	N/A	36223.7.4.6	-	3,260	3,260
			-	<u>889,510</u>	<u>889,510</u>
			-	<u>3,971,946</u>	<u>3,971,946</u>
Powell Bill	N/A		-	109	109
Trolley Feasibility	N/A	04-DG-012	-	89,364	89,364
Hope Mills Sidewalk	N/A	WBS 36321	-	59,102	59,102
Rail Division	N/A	03-ST-009	-	-	-
Amtrak			-	-	-
DEPARTMENT OF ENVIRONMENTAL AND NATURAL RESOURCES					
Division of Water Quality					
NC Clean Water Revolving Loan & Grant Program	66.458	E-SRF-T-02-0124	-	6,376,402	6,376,402
Division of Water Resources					
Cape Fear River Basin Hydrologic Model Update			-	130,231	130,231
Clean Water Management Trust Fund	N/A	2002B-702	-	161,009	161,009
Simple Property Acquisition and Easement Acquisition			-	6,667,642	6,667,642
Division of Parks and Recreation					
Railroad improvements at Hillsboro St and Cumberland Rd	20.205	Z-4406AD	-	26,065	26,065
DEPARTMENT OF HUMAN RESOURCES					
Passed through from Cumberland County Department of Social Services					
Juvenile Court Restitution	N/A	626015	-	95,706	95,706
NC DEPARTMENT OF CRIME CONTROL & PUBLIC SAFETY					
Division of Emergency Management					
Hazmat (Terrorism)	N/A	DOJ-02-158	-	1,979	1,979
Hazmat (Terrorism)	N/A	HS-TE-03-4106	-	21,739	21,739
Hazmat (RRT Grant)	N/A	RRT 3 2004	-	49,996	49,996
			-	73,714	73,714
NC OFFICE OF THE STATE CONTROLLER					
NC Unauthorized Substance Tax	N/A		-	40,553	40,553
TOTAL ASSISTANCE			<u>\$ 7,805,073</u>	<u>\$ 12,070,511</u>	<u>\$ 19,875,584</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." 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 \$1,113,639.82
- The total local contributions for the State Powell Bill assistance amounted to \$86,126.78 (this represents assessments received through 06/30/05).
- The amount of HOME Investment Partnerships provided to CHDO's is \$329,220 as of June 30, 2005

CITY OF FAYETTEVILLE, NORTH CAROLINA

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**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, 2005. 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, 2005.

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
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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.

Clayton, Robert & Hahn, LLP

Fayetteville, North Carolina
October 10, 2005

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

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, 2005

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 (# 09-01-C-04-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	757,595	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	11,460	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	1,820,476	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	2,310	1,944	-	1,944
Local share reimbursement AIP-21, Security System Upgrade	11/01/2000	11/01/2000	91,512	70,915	3,541	3,541	-	3,541
Local share reimbursement AIP-21, Preplan Runway Safety Areas	11/01/2000	11/01/2000	108,600	109,600	5,480	5,430	-	5,430
North GA Ramp Construction	11/01/2000	06/18/2002	1,554,453	1,404,170	70,209	70,209	-	70,209

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
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	47,450	42,943	-	42,943
Acquire Land	11/01/2000	06/18/2002	-	136,111	13,611	-	-	-
Renovate Terminal, Phase II	11/01/2000	06/18/2002	1,921,145	2,475,430	93,433	86,055	6,449	92,504
RSA Construction, Runway 4, Phase II	11/01/2000	06/18/2002	858,872	949,000	40,000	40,000	-	40,000
Land Acquisition	11/01/2000	06/18/2002	-	136,111	1,411	-	-	-
Renovate Terminal, Phase III	11/01/2000	06/18/2002	-	2,475,430	37,500	-	-	-
RSA Construction, Runway 22	11/01/2000	06/18/2002	1,855,290	1,283,890	86,389	86,389	-	86,389
Acquire Land	11/01/2000	06/18/2002	-	177,778	17,778	-	-	-
NLVR Construction	11/01/2000	06/18/2002	540,322	180,000	25,395	25,395	-	25,395
Jet Bridge Modification Construction	11/01/2000	06/18/2002	-	125,500	6,275	-	-	-
Taxway K Construction	11/01/2000	06/18/2002	483,002	225,000	22,500	22,500	-	22,500
TOTAL IMPOSE AND USE			19,253,457	21,664,714	1,009,843	919,821	6,449	926,270
Acquire Land	11/01/2000		1,065,349	1,065,349	16,670	-	-	-
TOTAL IMPOSE ONLY			1,065,349	1,065,349	16,670	-	-	-
TOTAL APPLICATION 1			\$ 20,318,806	\$ 22,630,063	\$ 1,026,513	\$ 919,821	\$ 6,449	\$ 926,270

