

**CITY OF FAYETTEVILLE
NORTH CAROLINA**

***Report of Independent Certified Public Accountants
Financial Statements and Schedules
Year ended June 30, 2004***

CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report
For the Fiscal Year Ended June 30, 2004

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FINANCIAL SECTION

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- * Basic Financial Statements
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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, the discretely presented component unit, 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, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2004, and the respective changes in financial position, and the cash flows where appropriate, thereof and the respective budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2004 on our consideration of the City's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, the analysis 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 opinions 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, 2004, and the combining and individual fund financial statements and schedules for the year ended June 30, 2003, 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, 2004, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cherry, Robert A. Nelson, C.I.P.

Fayetteville, North Carolina
October 8, 2004

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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, 2004. 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

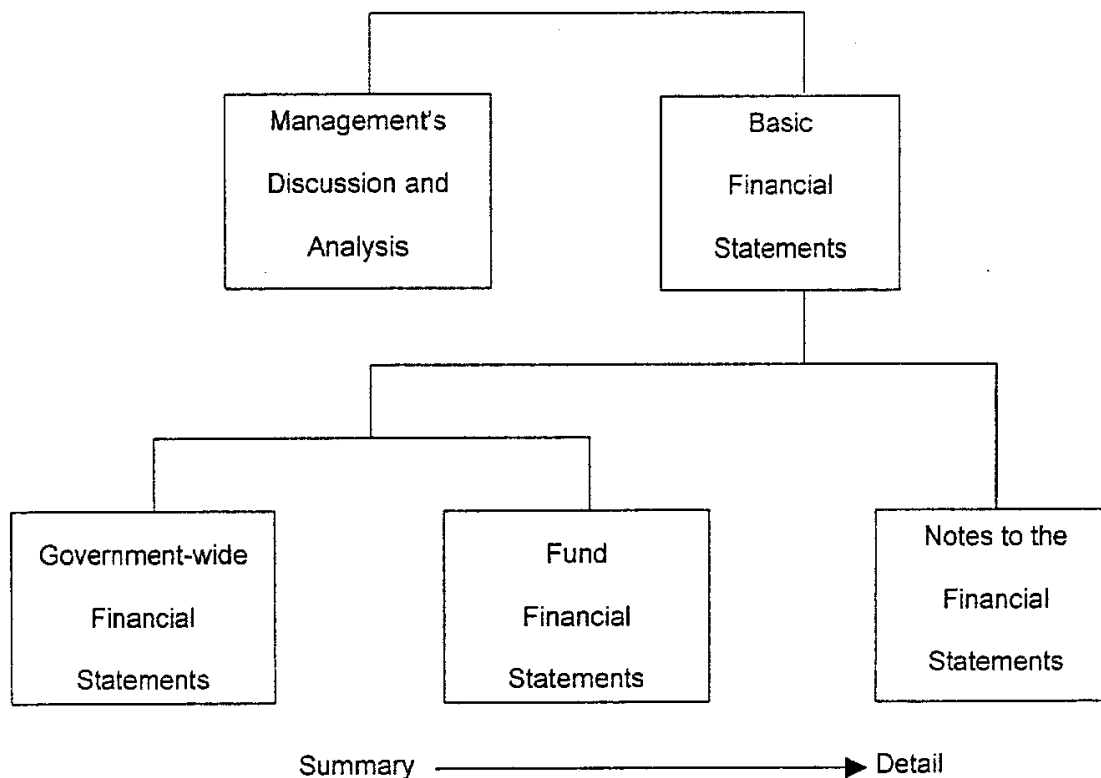
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$791.2 million (*net assets*). Of this amount, \$132.0 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$16.5 million, primarily due to a decrease in the purchased power and generation expenses, partially offset by the reduction in the amount of fuel adjustment charges assessed to electric customers in the Electric Fund.
- As of the close of fiscal year 2004, the City's governmental funds reported an ending fund balance of \$55.2 million an increase of \$7.8 million in comparison to prior year, as restated. Approximately 63 percent of total fund balance, or \$34.9 million is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of fiscal year 2004, unreserved fund balance for the general fund was \$28.5 million or 35.9 percent of total general fund expenditures for the fiscal year. Of this amount, \$9.3 million has been designated for subsequent year expenditures, special purposes, or debt service, bringing the undesignated general fund balance to \$19.2 million or 22.5 percent of general fund expenditures and transfers out.
- The City's total debt increased by \$10.8 million during fiscal year 2004.
- 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 three categories: 1) governmental activities; 2) business-type activities; and 3) component units. 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 final category is the component units. Although legally separate from the City, Fayetteville Air Cargo Facilities, Inc. is important to the City because the City exercises control over the Board by appointing a majority of its members and having the authority to remove appointed members at will.

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 – 62 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 \$16.5 million, or 2.1% from fiscal year 2003, as restated, to 2004. 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

	Governmental Activities		Business-type Activities		Total	
	2003 (As restated)	2004	2003 (As restated)	2004	2003 (As restated)	2004
Current and other assets	\$ 70,947,057	\$ 82,188,258	\$ 120,757,276	\$ 126,198,950	\$ 191,704,333	\$ 208,387,208
Capital assets	308,500,452	307,992,156	572,309,649	580,165,321	880,810,101	888,157,477
Total assets	379,447,509	390,180,414	693,066,925	706,364,271	1,072,514,434	1,096,544,685
Long-term liabilities outstanding	59,959,087	62,975,347	188,296,908	196,157,991	248,255,995	259,133,338
Other liabilities	9,228,333	11,987,425	40,275,694	34,198,779	49,504,027	46,186,204
Total liabilities	69,187,420	74,962,772	228,572,602	230,356,770	297,760,022	305,319,542
Net assets:						
Invested in capital assets, net of related debt	256,858,830	252,737,261	384,181,318	384,136,802	641,040,148	636,874,063
Restricted	-	2,369,817	10,527,554	19,951,896	10,527,554	22,321,713
Unrestricted	53,401,259	60,110,564	69,785,451	71,918,803	123,186,710	132,029,367
Total net assets	\$ 310,260,089	\$ 315,217,642	\$ 464,494,323	\$ 476,007,501	\$ 774,754,412	\$ 791,225,143

The assets of the City exceeded liabilities by \$791.2 million as of June 30, 2004. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$636.9 million, Restricted net assets of \$22.3 million and Unrestricted net assets \$132.0 million.

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

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

The final category of net assets is unrestricted net assets. This balance may be used to meet the government's ongoing obligations to citizens and creditors. At June 30, 2004, \$132.0 million, or 16.7% of the total net assets reported of \$791.2 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	
	2003	2004	2003	2004	2003	2004
	<u>As restated</u>		<u>As restated</u>		<u>As restated</u>	
Revenues:						
Program revenues:						
Charges for services	\$ 4,226,266	\$ 5,888,149	\$ 192,107,747	\$ 190,226,458	\$ 196,334,013	\$ 196,114,607
Operating grants and contributions	8,610,710	7,171,923	1,672,068	1,903,066	10,282,778	9,074,989
Capital grants and contributions	133,554	2,695,396	14,464,226	10,417,903	14,597,780	13,113,299
General revenues:						
Property taxes	34,094,378	38,495,985	-	-	34,094,378	38,495,985
Other taxes	30,641,139	31,127,455	-	-	30,641,139	31,127,455
Grants and contributions not restricted to specific programs	547,091	569,087	-	-	547,091	569,087
Other	2,076,524	892,911	1,807,802	2,432,690	3,884,326	3,325,601
Total revenues	<u>80,329,662</u>	<u>86,840,906</u>	<u>210,051,843</u>	<u>204,980,117</u>	<u>290,381,505</u>	<u>291,821,023</u>
Expenses:						
Administration	12,384,637	10,560,827	-	-	12,384,637	10,560,827
Public safety	40,577,161	43,682,505	-	-	40,577,161	43,682,505
Environmental protection	7,957,261	8,871,462	-	-	7,957,261	8,871,462
Transportation	12,123,658	13,846,642	-	-	12,123,658	13,846,642
Economic and physical development	5,459,943	4,416,477	-	-	5,459,943	4,416,477
Recreation and community facilities	6,525,688	6,134,504	-	-	6,525,688	6,134,504
Interest and fees	2,783,912	2,542,194	-	-	2,783,912	2,542,194
Electric activities	-	-	142,761,403	132,677,111	142,761,403	132,677,111
Water and wastewater activities	-	-	45,973,455	44,147,344	45,973,455	44,147,344
Transit	-	-	5,073,264	5,021,030	5,073,264	5,021,030
Airport	-	-	3,570,780	3,450,196	3,570,780	3,450,196
Total expenses	<u>87,812,260</u>	<u>90,054,611</u>	<u>197,378,902</u>	<u>185,295,681</u>	<u>285,191,162</u>	<u>275,350,292</u>
Increase in net assets before transfers	(7,482,598)	(3,213,705)	12,672,941	19,684,436	5,190,343	16,470,731
Transfers	7,902,191	8,171,258	(7,902,191)	(8,171,258)	-	-
Special Item	8,256,250	-	-	-	8,256,250	-
Increase in net assets	8,675,843	4,957,553	4,770,750	11,513,178	13,446,593	16,470,731
Net assets, July 1	301,584,246	310,260,089	459,723,573	464,494,323	761,307,819	774,754,412
Net assets, June 30	<u>\$ 310,260,089</u>	<u>\$ 315,217,642</u>	<u>\$ 464,494,323</u>	<u>\$ 476,007,501</u>	<u>\$ 774,754,412</u>	<u>\$ 791,225,143</u>

Governmental activities. Governmental activities increased the City's net assets by \$4.96 million. Key elements of this increase are as follows:

- Current year property taxes increased \$4.4 million primarily due to the annexation of "Area 4B" and the property revaluation, which became effective with the fiscal year ending June 30, 2004.
- Cablevision franchise taxes increased \$0.8 million.
- Local sales tax revenues increased \$2.6 million

- These increases were offset by the following:
 - Investment earnings decreased by \$0.7 million in FY2004 compared to FY2003. This decrease is primarily due to an overall lower rate of return on investments during the year.
 - \$2.1 million payment to Cumberland County for sales tax.

Business-type activities: Business-type activities increased the City's net assets by \$11.5 million, or 69.9% of the total increase. The majority of the increase was due to a decrease in the purchased power and generation expenses, partially offset by the reduction in the amount of fuel adjustment charges assessed to electric customers.

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 2004, unreserved fund balance of the General Fund was \$28.5 million, while total fund balance reached \$41.8 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 33.5 percent of total General Fund expenditures and transfers, while total fund balance represents 52.6 percent of that same amount.

At June 30, 2004, the governmental funds of the City reported a combined fund balance of \$55.2 million, a 16.4 percent increase from the previous year as restated.

General Fund Budgetary Highlights:

During fiscal year 2004, the City prepared for the Phase V annexation of approximately 27 square miles and 42,000 residents by acquiring vehicles and equipment and hiring police officers, firefighters and other staff to serve the area. Near the conclusion of fiscal year 2004, several legal challenges against the annexation were filed, resulting in a decision by the North Carolina Supreme Court to stay the annexation pending legal resolution of the cases. To address the impact of this uncertainty, management postponed filling certain positions and purchasing certain equipment and the City finished the year in sound financial condition.

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 increased revenues and expenditures by \$18.1 million or 21.4%. The primary reasons for the increase were to reflect \$3.2 million expenditures associated with Phase V pre-annexation costs, \$6.8 million equipment purchases associated with Phase V pre-annexation, a fund balance appropriation of \$2.25 million to cover items encumbered or designated as of June 30, 2003 and a \$3.8 million appropriation to defease outstanding bonds in connection with a general obligation refunding bond issue that occurred in October 2003.

Actual revenues and other financing sources for the General Fund were less than the final amended budget amount by \$3.7 million. This is primarily due to a fund balance appropriation of \$8.2 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 \$13.7 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. Over \$7.5 million can be attributed to unexpended capital outlay primarily associated with annexation capital equipment and vehicle replacement and \$4.7 million can be attributed to unexpended funds for operations. Approximately \$4.8 million in unexpended equipment and capital improvement funds were designated at June 30, 2004 to be re-appropriated in fiscal year 2005.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Electric Fund at the end of the fiscal year amounted to \$46.2 million, and those for the Water and Wastewater Fund equaled \$22.5 million. The total change in net assets, as restated, for both funds was \$2.5 million and \$8.1 million, respectively. The increase in Net Assets is due to the decrease in purchased power and generation expenses of \$10.8 million, partially offset by the \$4.8 million reduction in the amount of fuel adjustment charges assessed to electric customers.

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, 2004, totals \$888.2 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 year include:

- \$1.7 million in police vehicles and computer equipment
- \$1.2 million in land and land improvements, purchased for various parks and general governmental purposes
- \$0.9 million in fire vehicles and equipment
- \$0.5 million in general governmental telephone and computer equipment
- \$0.4 million in parks vehicles and equipment
- \$0.4 million in street maintenance vehicles and equipment
- \$0.3 million in solid waste vehicles and equipment
- \$0.7 million for Fayetteville Air Cargo building
- \$1.7 million in airport land and improvements
- \$5.3 million of developer contributed water and wastewater utility infrastructures
- \$4.6 million to expand Rockfish Creek Water Reclamation Facility, PH II
- \$4.2 million to install water and wastewater utility infrastructure in newly annexed areas
- \$3.9 million of computer hardware and software equipment
- \$2.1 million in telecom fiber optics
- \$1.5 million for electric distribution system transformers
- \$1.4 million for certain uptown utility infrastructure projects
- \$0.9 million for water main rehabilitation

The City's Capital Assets

Figure 4

	Governmental Activities	Business-type Activities	Total
Land	\$ 34,367,330	\$ 13,664,886	\$ 48,032,216
Infrastructure	229,941,799	-	229,941,799
Electric utility system	-	163,808,686	163,808,686
Wastewater system	-	191,656,371	191,656,371
Water system	-	115,935,433	115,935,433
Equipment and machinery	-	8,803,742	8,803,742
Buildings and improvements	27,250,538	52,514,257	79,764,795
Equipment, furniture and fixtures	2,989,423	959,357	3,948,780
Computer programs	-	6,002,074	6,002,074
Vehicles	4,234,424	3,461,148	7,695,572
Construction in progress	9,208,642	23,359,367	32,568,009
Total	\$ 307,992,156	\$ 580,165,321	\$ 888,157,477

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, 2004, The City had total bonded debt outstanding of \$230.1 million, of which \$39.6 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.

General Obligation, Capital Leases and Installment Notes Payable

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Bonded debt	\$ 49,867,633	\$ 45,978,341	\$ 181,292,717	\$ 184,160,805	\$ 231,160,350	\$ 230,139,146
Obligations under capital leases	6,479,845	13,341,744	-	-	6,479,845	13,341,744
Installment note payable	245,000	185,000	6,835,614	11,867,713	7,080,614	12,052,713
Total long-term debt	\$ 56,592,478	\$ 59,505,085	\$ 188,128,331	\$ 196,028,518	\$ 244,720,809	\$ 255,533,603

The City's total debt increased by \$10.8 million, or 4.4%, during the past fiscal year. The increase is due to a revenue bond restructuring which refinanced and cash defeased certain older higher rate bonds and provided new money for capital projects, a new capital lease agreement and draws on a new state revolving loan.

The City's most recent bond ratings, received in connection with the Series 2003 general obligation refunding 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 \$ 502.7 million. The City has no bonds authorized but unissued at June 30, 2004.

Additional information regarding The City's long-term debt can be found in Note 5 on pages 42 –50 of this report.

Economic Factors and Next Year's Budgets and Rates

Budget Highlights for the Fiscal Year Ending June 30, 2005

Governmental Activities: Three significant factors affected the fiscal year 2005 General Fund original budget: the planned June 30, 2004 annexation of approximately 27 square miles with a resident population of approximately 42,000, merger of the City of Fayetteville and Cumberland County parks and recreation programs and employee pay increases based on 4 percent of pay range "midpoints". The annexation areas, known as the "Phase V annexation" 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. Also, effective, July 1, 2004, the City of Fayetteville assumed oversight of the new City of Fayetteville/Cumberland County parks and recreation program.

The City Council has approved a \$111.9 million general fund budget for fiscal year 2005, which represents a \$27.4 million or 32.4% increase over the original budget for fiscal year 2004. The tax rate remains the same at 53 cents per \$100 value. The primary reasons for the budget increase are due to the inclusion of the \$16.6 million budget to serve the "Phase V" annexation areas, \$2.4 million for Cumberland County's portion of the parks and recreation program and \$4.7 million for the upgrade to the 800 MHz public safety radio system.

The annexation is estimated to increase Fayetteville's property tax base by \$1.7 billion, increasing the estimated current year property tax revenue by \$8.6 million, and increase other revenues by an additional \$6.3 million. In addition, the City expects to obtain \$6.8 million in installment financing proceeds to fund the 800 MHz radio system upgrade, annexation equipment and facilities and police vehicle replacement.

In late June 2004, several lawsuits were filed challenging the scheduled annexation. On July 12, 2004, the North Carolina Supreme Court issued a stay of the City's annexation pending legal resolution of the cases. Legal resolution of the cases is expected to take several years. The City Council intends to reduce the City's General Fund budget by approximately \$13.3 million or 11.9%, if the annexation does not become effective in fiscal year 2005.

The City has taken the following actions to mitigate the negative impact of the delay in annexation: instituted a hiring freeze for certain positions, postponed the purchase of replacement vehicles in fiscal year 2005 due to the recent acquisition of various vehicles for the Phase V annexation, 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. These fire districts were absorbed into the boundaries of the City of Fayetteville prior to the Supreme Court's issuance of a stay of the annexation on July 12, 2004. The City anticipates that it will use an additional \$1.4 million in fund balance by June 30, 2005, if the annexation does not become effective in fiscal year 2005.

Business – type Activities: The City considered many factors when setting the Fiscal Year 2005 budget to include user fees and charges. The cost of power is unpredictable; therefore, higher power costs are reflected in the fiscal year 2005 Electric Fund budget. The largest contributor to the higher cost of energy is the price of fuel. The new contract with Progress Energy Carolinas, Inc. has been in effect for one fiscal year. While savings were expected to reduce electric rates, the volatility of the fuel market has mitigated any savings at this time. Fuel costs over budgeted amounts will be recovered from the fuel adjustment collected from customers. The new electric cost of service study will be reviewed and recommendations for electric rate changes may be considered in the latter part of fiscal year 2005. Due to an increase in water and wastewater rates late in fiscal year 2004, there are no additional rate increases budgeted for fiscal year 2005.

Transfers to the General Fund are expected to be \$9.6 million in fiscal year 2005 due to the 5% electric sales transfer policy, street lighting and a transfer to pay the General Fund's share of utility infrastructure debt service.

The Electric and Water and Wastewater Fund fiscal year 2005 budget includes funding for projects to improve street lighting, downtown utility system upgrades, downtown streetscape improvements, new street lighting in annexed areas, re-development of a central city industrial park area and supporting and improving service to existing industry. The 2005 budget also includes an appropriation of \$250 thousand from the Electric Fund to the Electric Rate Stabilization Fund. In addition, a 2% employee performance pay allowance, plus CPI increase of 2%, is included in the Electric, Water and Wastewater fiscal year 2005 budget.

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, 2004

	Governmental Activities	Business Type Activities	Total Primary Government	Fayetteville Air Cargo Facilities
Assets				
Cash and investments	\$ 55,576,700	\$ 23,978,457	\$ 79,555,157	\$ -
Taxes receivable	3,707,590	-	3,707,590	-
Accounts receivable	3,973,536	35,423,678	39,397,214	-
Internal balances	398,921	(398,921)	-	-
Assessment receivable	462,777	-	462,777	-
Due from other governments	7,793,586	799,771	8,593,357	-
Inventories	539,098	11,162,818	11,701,916	-
Prepaid expenses	548,872	166,247	715,119	-
Noncurrent portion of note receivable	4,936,989	-	4,936,989	-
Restricted asset - cash and investments	4,169,312	51,211,429	55,380,741	-
Restricted asset - accounts receivable	-	796,341	796,341	-
Restricted asset - collateral pledged	-	229,974	229,974	-
Other assets	80,877	2,829,156	2,910,033	-
Capital assets:				
Land and construction in progress	43,575,972	37,024,253	80,600,225	-
Other capital assets, net of depreciation	264,416,184	543,141,068	807,557,252	-
Total assets	390,180,414	706,364,271	1,096,544,685	-
Liabilities				
Accounts payable and accrued expenses	11,399,814	23,291,286	34,691,100	-
Restricted liabilities - accounts payable	-	6,273,795	6,273,795	-
Unearned revenues	492,100	21,314	513,414	-
Unearned deposits	95,511	4,612,384	4,707,895	-
Long-term liabilities:				
Due within one year	9,394,619	11,764,228	21,158,847	-
Due in more than one year	53,580,728	184,393,763	237,974,491	-
Total liabilities	74,962,772	230,356,770	305,319,542	-
Net assets				
Invested in capital assets, net of related	252,737,261	384,136,802	636,874,063	-
Restricted for:				
Capital projects	-	10,953,452	10,953,452	-
Debt service	-	8,998,444	8,998,444	-
Other purposes	2,369,817	-	2,369,817	-
Unrestricted	60,110,564	71,918,803	132,029,367	-
Total net assets	\$ 315,217,642	\$ 476,007,501	\$ 791,225,143	\$ -

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

CITY OF FAYETTEVILLE, NORTH CAROLINA
Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Fayetteville Air Cargo Facilities
	Expenses	Charges for Services	Operating		Primary Government		Total	
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
Administration	\$ 10,560,827	\$ 719,892	\$ 5,215	\$ -	\$ (9,835,720)	\$ -	\$ (9,835,720)	\$ -
Public safety	43,682,505	2,138,108	1,345,821	5,750	(40,192,826)	-	(40,192,826)	-
Environmental protection	8,871,462	66,150	-	-	(8,805,312)	-	(8,805,312)	-
Transportation	13,846,642	1,454,034	3,920,822	-	(8,471,786)	-	(8,471,786)	-
Economic and physical development	4,416,477	1,073,627	1,792,478	1,526,900	(23,472)	-	(23,472)	-
Recreation and community facilities	6,134,504	436,338	107,587	1,162,746	(4,427,833)	-	(4,427,833)	-
Interest and fees	2,542,194	-	-	-	(2,542,194)	-	(2,542,194)	-
Total governmental activities	<u>90,054,611</u>	<u>5,888,149</u>	<u>7,171,923</u>	<u>2,695,386</u>	<u>(74,299,143)</u>	<u>-</u>	<u>(74,299,143)</u>	<u>-</u>
Business-type activities:								
Electric	132,677,111	141,981,920	-	116,186	-	9,420,995	9,420,995	-
Water and wastewater	44,147,344	45,282,126	-	8,028,173	-	9,163,955	9,163,955	-
Transit	5,021,030	842,658	1,888,267	269,732	-	(2,020,373)	(2,020,373)	-
Airport	3,450,196	2,119,754	14,799	2,002,812	-	687,169	687,169	-
Total business-type activities	<u>185,295,681</u>	<u>190,226,458</u>	<u>1,903,066</u>	<u>10,417,903</u>	<u>-</u>	<u>17,251,746</u>	<u>17,251,746</u>	<u>-</u>
Total primary government	<u>\$ 275,350,292</u>	<u>\$ 196,114,607</u>	<u>\$ 9,074,989</u>	<u>\$ 13,113,299</u>	<u>(74,299,143)</u>	<u>17,251,746</u>	<u>(57,047,397)</u>	<u>-</u>
Component unit:								
Fayetteville Air Cargo Facilities	\$ 27,145	\$ 19,497	\$ -	\$ -	-	-	-	(7,648)
Total component unit	<u>\$ 27,145</u>	<u>\$ 19,497</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,648)</u>
General revenues:								
Ad valorem taxes					38,495,985	-	38,495,985	-
Other taxes					31,127,455	-	31,127,455	-
Unrestricted grants and contributions					569,087	-	569,087	-
Interest earned on investments					507,806	1,493,186	2,000,992	7,648
Miscellaneous					385,105	237,004	622,109	-
Transfers					8,171,258	(8,171,258)	-	-
Extraordinary item					-	702,500	702,500	-
Total general revenues and transfers					<u>79,256,696</u>	<u>(5,738,568)</u>	<u>73,518,128</u>	<u>7,648</u>
Change in net assets					4,957,553	11,513,178	16,470,731	-
Net assets - beginning (as previously stated)					299,479,517	467,209,003	766,688,520	-
Prior period adjustment					10,780,572	(2,714,680)	8,065,892	-
Net assets - beginning (restated)					<u>310,260,089</u>	<u>464,494,323</u>	<u>774,754,412</u>	<u>-</u>
Net assets - ending					<u>\$ 315,217,642</u>	<u>\$ 476,007,501</u>	<u>\$ 791,225,143</u>	<u>\$ -</u>

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2004**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and investments	\$ 38,194,634	\$ 9,091,832	\$ 47,286,466
Taxes receivable	3,376,391	115,350	3,491,741
Accounts receivable	9,636,025	7,041,380	16,677,405
Interfund receivable	398,921	-	398,921
Assessments receivable	457,626	5,151	462,777
Inventories	145,027	-	145,027
Restricted asset - cash and investments	-	4,169,312	4,169,312
Total assets	\$ 52,208,624	\$ 20,423,025	\$ 72,631,649
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 5,194,277	\$ 1,886,855	\$ 7,081,132
Unearned deposits	95,511	-	95,511
Deferred revenues	5,114,580	5,114,033	10,228,613
Total liabilities	10,404,368	7,000,888	17,405,256
Fund balances:			
Reserved			
By State statute	9,181,667	2,101,733	11,283,400
For encumbrances	3,676,094	4,878,237	8,554,331
For inventories	145,027	-	145,027
For downtown	306,339	-	306,339
For wireless 911	-	11,111	11,111
Unreserved			
Designated			
For subsequent years	1,696,565	-	1,696,565
For special purpose	5,713,518	45,000	5,758,518
For debt service	1,926,997	-	1,926,997
Undesignated	19,158,049	-	19,158,049
Unreserved, reported in nonmajor:			
Designated for subsequent years			
Special revenue	-	614,874	614,874
Capital projects	-	4,213,485	4,213,485
Undesignated			
Special revenue	-	1,557,697	1,557,697
Total fund balances	41,804,256	13,422,137	55,226,393
Total liabilities and fund balances	\$ 52,208,624	\$ 20,423,025	\$ 72,631,649

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, 2004

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

Ending fund balance - governmental funds	\$ 55,226,393
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	307,691,665
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	9,747,244
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.	80,877
Prepaid expenses are current-period expenditures in the funds, but are assets not available to pay current-period expenditures and, therefore, are capitalized.	295,000
Accrued tax penalties receivable are not available to pay for current-period expenditures and, therefore, are not recorded in the funds.	215,849
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.	5,368,177
Accrued interest payable on long-term debt is not a current expenditure and therefore not recorded in the funds.	(523,786)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(62,883,777)</u>
Net assets of governmental activities	<u><u>\$ 315,217,642</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, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 38,431,862	\$ -	\$ 38,431,862
Other taxes	29,272,013	3,164,181	32,436,194
Intergovernmental	4,797,693	4,239,750	9,037,443
Other functional	3,925,901	-	3,925,901
Miscellaneous	938,205	1,448,151	2,386,356
Interest earned on investments	361,878	60,490	422,368
Total revenues	<u>77,727,552</u>	<u>8,912,572</u>	<u>86,640,124</u>
Expenditures			
Current:			
Administration	10,921,742	216,228	11,137,970
Public safety	42,507,812	2,386,978	44,894,790
Environmental protection	6,218,845	2,746,316	8,965,161
Transportation	6,564,698	1,574,015	8,138,713
Economic and physical development	753,325	5,366,146	6,119,471
Recreation and community facilities	6,231,435	1,826,999	8,058,434
Debt service:			
Principal	4,315,181	925,000	5,240,181
Interest and fees	1,840,891	665,522	2,506,413
Issue costs	58,084	-	58,084
Total expenditures	<u>79,412,013</u>	<u>15,707,204</u>	<u>95,119,217</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,684,461)</u>	<u>(6,794,632)</u>	<u>(8,479,093)</u>
Other financing sources (uses)			
Bonds	3,815,605	-	3,815,605
Capital leases	7,851,063	219,365	8,070,428
Transfers in	9,487,469	4,485,370	13,972,839
Transfers out	(5,657,081)	(144,500)	(5,801,581)
Payment to refund bond escrow agent	(3,788,439)	-	(3,788,439)
Total other financing sources (uses)	<u>11,708,617</u>	<u>4,560,235</u>	<u>16,268,852</u>
Net change in fund balances	10,024,156	(2,234,397)	7,789,759
Fund balance - beginning (as previously stated)	29,255,778	15,656,534	44,912,312
Prior period adjustment	2,524,322	-	2,524,322
Fund balance - beginning (restated)	<u>31,780,100</u>	<u>15,656,534</u>	<u>47,436,634</u>
Fund balance - ending	<u>\$ 41,804,256</u>	<u>\$ 13,422,137</u>	<u>\$ 55,226,393</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, 2004

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

Net change in fund balances - total governmental funds	\$ 7,789,759
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.	(73,171)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.	(435,126)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(460,521)
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.	(2,980,319)
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.	(68,070)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>1,185,001</u>
Change in net assets of governmental activities	<u>\$ 4,957,553</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, 2004**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 36,474,277	\$ 36,474,277	\$ 38,431,862	\$ 1,957,585
Other taxes	26,421,990	26,421,990	29,272,013	2,850,023
Intergovernmental	4,687,617	4,778,517	4,797,693	19,176
Other functional	3,215,333	3,244,901	3,925,901	681,000
Miscellaneous	1,014,113	1,014,113	938,205	(75,908)
Interest earned on investments	732,099	732,099	361,878	(370,221)
Total revenues	<u>72,545,429</u>	<u>72,665,897</u>	<u>77,727,552</u>	<u>5,061,655</u>
EXPENDITURES				
Current:				
Administration	13,240,555	13,142,595	10,921,742	2,220,853
Public safety	40,312,729	47,334,065	42,507,812	4,826,253
Environmental protection	5,601,605	9,239,695	6,218,845	3,020,850
Transportation	6,642,996	7,503,323	6,564,698	938,625
Economic and physical development	848,888	981,503	753,325	228,178
Recreation and community facilities	6,292,281	7,319,671	6,231,435	1,088,236
Debt service:				
Principal	4,704,693	5,148,544	4,315,181	833,363
Interest and fees	2,007,060	2,199,652	1,840,891	358,761
Issue costs	-	58,084	58,084	-
Total expenditures	<u>79,650,807</u>	<u>92,927,132</u>	<u>79,412,013</u>	<u>13,515,119</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,105,378)</u>	<u>(20,261,235)</u>	<u>(1,684,461)</u>	<u>18,576,774</u>
OTHER FINANCING SOURCES (USES)				
Bonds	-	3,815,606	3,815,605	(1)
Capital leases	771,000	8,438,120	7,851,063	(587,057)
Transfers in	9,507,507	9,497,477	9,487,469	(10,008)
Transfers out	(4,846,255)	(5,879,561)	(5,657,081)	222,480
Appropriated fund balance	1,673,126	8,178,032	-	(8,178,032)
Payment to refund bond escrow agent	-	(3,788,439)	(3,788,439)	-
Total other financing sources (uses)	<u>7,105,378</u>	<u>20,261,235</u>	<u>11,708,617</u>	<u>(8,552,618)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>10,024,156</u>	<u>\$ 10,024,156</u>
FUND BALANCE - BEGINNING (AS PREVIOUSLY STATED)			29,255,778	
PRIOR PERIOD ADJUSTMENT			<u>2,524,322</u>	
FUND BALANCE - BEGINNING (RESTATE)			<u>31,780,100</u>	
FUND BALANCE - ENDING			<u>\$ 41,804,256</u>	

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Balance Sheet
Proprietary Funds
June 30, 2004

	Enterprise Funds				Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds	Total	
Assets					
Current assets					
Cash and investments	\$ 13,985,085	\$ 7,757,299	\$ 2,236,073	\$ 23,978,457	\$ 8,290,234
Accounts receivable	18,837,370	15,843,786	1,542,293	36,223,449	26,706
Interfund receivable	(4,490)	4,490	-	-	-
Inventories	10,236,637	915,823	10,358	11,162,818	394,071
Prepaid expenses	75,104	91,143	-	166,247	253,872
Total unrestricted current assets	43,129,706	24,612,541	3,788,724	71,530,971	8,964,883
Restricted current assets					
Restricted cash and investments	21,786,131	29,115,570	309,728	51,211,429	-
Accounts receivable	10,549	785,792	-	796,341	-
Collateral pledged in lieu of deposits	229,974	-	-	229,974	-
Total restricted current assets	22,026,654	29,901,362	309,728	52,237,744	-
Total current assets	65,156,360	54,513,903	4,098,452	123,768,715	8,964,883
Noncurrent assets					
Other assets	873,230	1,845,926	110,000	2,829,156	-
Capital assets	214,930,967	339,877,201	25,357,153	580,165,321	300,491
Total noncurrent assets	215,804,197	341,723,127	25,467,153	582,994,477	300,491
Total assets	\$ 280,960,557	\$ 396,237,030	\$ 29,565,605	\$ 706,763,192	\$ 9,265,374
Liabilities and net assets					
Current liabilities to be paid from unrestricted assets					
Accounts payable and accrued expenses	\$ 13,833,757	\$ 9,095,483	\$ 362,046	\$ 23,291,286	\$ 3,794,896
Current portion of long term debt	6,737,880	4,896,876	-	11,634,756	2,244
Interfund payables	-	-	398,921	398,921	-
Accrued vacation	-	-	129,472	129,472	79,919
Total current liabilities to be paid from unrestricted assets	20,571,637	13,992,359	890,439	35,454,435	3,877,059
Current liabilities to be paid from restricted assets					
Accounts payable and accrued expenses	4,979,438	1,294,357	-	6,273,795	-
Total current liabilities to be paid from restricted assets	4,979,438	1,294,357	-	6,273,795	-
Total current liabilities	25,551,075	15,286,716	890,439	41,728,230	3,877,059
Noncurrent liabilities					
Unearned deposits	-	4,612,384	-	4,612,384	-
Deferred revenues	-	-	21,314	21,314	10,731
Long-term debt	50,109,388	134,284,375	-	184,393,763	9,407
Total noncurrent liabilities	50,109,388	138,896,759	21,314	189,027,461	20,138
Total liabilities	75,660,463	154,183,475	911,753	230,755,691	3,897,197
Net assets					
Invested in capital assets, net of related debt	158,083,699	200,695,950	25,357,153	384,136,802	288,840
Restricted net assets					
Capital projects	-	10,953,452	-	10,953,452	-
Debt service	1,060,732	7,937,712	-	8,998,444	-
Unrestricted	46,155,663	22,486,441	3,296,699	71,918,803	5,079,337
Total net assets	205,300,094	242,053,555	28,653,852	476,007,501	5,368,177
Total liabilities and net assets	\$ 280,960,557	\$ 396,237,030	\$ 29,565,605	\$ 706,763,192	\$ 9,265,374

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended June 30, 2004

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Operating revenues					
Charges for services	\$ 141,981,920	\$ 45,282,126	\$ 2,808,967	\$ 190,073,013	\$ -
Other revenue from operations	-	-	359,306	359,306	243,058
Interfund charges and employee contributions	-	-	-	-	11,925,666
Total operating revenues	141,981,920	45,282,126	3,168,273	190,432,319	12,168,724
Operating expenses					
General and administrative	8,241,402	9,248,266	-	17,489,668	-
Power supply and generation	106,118,723	-	-	106,118,723	-
Water purification and distribution	-	8,999,876	-	8,999,876	-
Sewer collection and treatment	-	8,192,255	-	8,192,255	-
Personnel	-	-	3,395,339	3,395,339	1,389,139
Maintenance and operations	-	-	2,289,152	2,289,152	9,636,410
Depreciation	13,023,350	11,341,587	2,217,074	26,582,011	37,552
Total operating expenses	127,383,475	37,781,984	7,901,565	173,067,024	11,063,101
Operating income (loss)	14,598,445	7,500,142	(4,733,292)	17,365,295	1,105,623
Nonoperating revenue (expense)					
Interest earned on investments	588,332	901,132	18,521	1,507,985	45,491
Federal and State grants	-	-	1,960,934	1,960,934	-
Passenger facility charges	-	-	396,263	396,263	-
Miscellaneous revenue	-	-	31,143	31,143	-
Gain (loss) on disposal of capital assets	(1,092,556)	85,039	(55,109)	(1,062,626)	(3,665)
Interest expense	(1,995,508)	(5,491,645)	(24,751)	(7,511,904)	-
Amortization	(783,728)	(958,754)	(22,000)	(1,764,482)	-
Miscellaneous expense	-	-	(237,004)	(237,004)	-
Issue costs	(154,337)	(1,267,507)	-	(1,421,844)	-
Total nonoperating revenue (expense)	(3,437,797)	(6,731,735)	2,067,997	(8,101,535)	41,826
Income (loss) before transfers and contributions	11,160,648	768,407	(2,665,295)	9,263,760	1,147,449
Transfers in	-	-	1,316,211	1,316,211	-
Transfers out	(8,760,921)	(726,548)	-	(9,487,469)	-
Capital contributions	116,186	8,029,173	1,572,817	9,718,176	-
Extraordinary items	-	-	702,500	702,500	-
Change in net assets	2,515,913	8,071,032	926,233	11,513,178	1,147,449
Total net assets - beginning (as previously stated)	204,175,400	235,305,984	27,727,619	467,209,003	4,220,728
Prior period adjustment	(1,391,219)	(1,323,461)	-	(2,714,680)	-
Total net assets - beginning (restated)	202,784,181	233,982,523	27,727,619	464,494,323	4,220,728
Total net assets - ending	\$ 205,300,094	\$ 242,053,555	\$ 28,653,852	\$ 476,007,501	\$ 5,368,177

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Operating activities					
Cash received from customers	\$ 144,966,923	\$ 43,776,533	\$ 2,172,451	\$ 190,915,907	\$ 11,917,372
Other operating revenue	-	-	324,560	324,560	243,058
Cash received as deferred revenues	-	-	-	-	10,442
Cash paid to or on behalf of employees for services	(9,731,589)	(10,341,567)	(3,454,841)	(23,527,997)	(1,389,438)
Cash paid for goods and services	(26,975,343)	(12,341,306)	(2,485,992)	(41,802,641)	(9,952,124)
Cash paid for power supply and generation	(85,517,015)	-	-	(85,517,015)	-
Net cash provided by (used in) operating activities	<u>22,742,976</u>	<u>21,093,660</u>	<u>(3,443,822)</u>	<u>40,392,814</u>	<u>829,312</u>
Noncapital financing activities					
Transfers in	-	348,112	1,316,211	1,664,323	-
Federal and state grants	-	-	1,960,934	1,960,934	-
Nonoperating revenues	-	-	427,406	427,406	-
Transfers out	(8,760,921)	(1,074,660)	-	(9,835,581)	-
Other	-	-	(237,004)	(237,004)	-
Net cash provided (used) by noncapital financing activities	<u>(8,760,921)</u>	<u>(726,548)</u>	<u>3,467,547</u>	<u>(6,019,922)</u>	<u>-</u>
Capital and related financing activities					
Proceeds from sale of assets	84,942	109,831	-	194,773	-
Proceeds from debt issuance	43,199,900	52,621,956	40,213	95,862,069	9,407
Gain on refunding	(1,573,276)	(1,685,950)	-	(3,259,226)	-
Amount paid for refunding	(37,248,000)	(29,777,000)	-	(67,025,000)	-
Contributed capital received	-	2,659,081	38,935	2,698,016	-
Capital contributions - Federal grant	-	-	1,533,882	1,533,882	-
Acquisition and construction of capital assets	(11,275,282)	(16,513,462)	(1,717,560)	(29,506,304)	(110,226)
Principal paid on debt maturities	(3,318,545)	(15,701,211)	(65,090)	(19,084,846)	2,244
Interest paid on debt maturities	(2,149,845)	(6,759,152)	(24,751)	(8,933,748)	-
Net cash provided (used) by capital and related financing activities	<u>(12,280,106)</u>	<u>(15,045,907)</u>	<u>(194,371)</u>	<u>(27,520,384)</u>	<u>(98,575)</u>
Investing activities					
Interest and dividends	588,332	901,132	14,406	1,503,870	44,987
Net change in investments	4,069,369	357,815	-	4,427,184	-
Net cash provided (used) by investing activities	<u>4,657,701</u>	<u>1,258,947</u>	<u>14,406</u>	<u>5,931,054</u>	<u>44,987</u>
Net increase in cash and cash equivalents/investments	<u>6,359,650</u>	<u>6,580,152</u>	<u>(156,240)</u>	<u>12,783,562</u>	<u>775,724</u>
Cash and cash equivalents/investments					
Beginning of year	<u>20,532,200</u>	<u>18,349,953</u>	<u>2,702,041</u>	<u>41,584,194</u>	<u>7,514,510</u>
End of year	<u>\$ 26,891,850</u>	<u>\$ 24,930,105</u>	<u>\$ 2,545,801</u>	<u>\$ 54,367,756</u>	<u>\$ 8,290,234</u>
Cash and cash equivalents	\$ 26,891,850	\$ 24,930,105	\$ 2,545,801	\$ 54,367,756	\$ 8,290,234
Investments	8,879,366	11,942,764	-	20,822,130	-
Total cash and cash equivalents/investments	<u>\$ 35,771,216</u>	<u>\$ 36,872,869</u>	<u>\$ 2,545,801</u>	<u>\$ 75,189,886</u>	<u>\$ 8,290,234</u>
Unrestricted cash and equivalents/investments	\$ 13,985,085	\$ 7,757,299	\$ 2,236,073	\$ 23,978,457	\$ 8,290,234
Restricted cash and equivalents/investments	21,786,131	29,115,570	309,728	51,211,429	-
Total cash and cash equivalents/investments	<u>\$ 35,771,216</u>	<u>\$ 36,872,869</u>	<u>\$ 2,545,801</u>	<u>\$ 75,189,886</u>	<u>\$ 8,290,234</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	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)	\$ 14,598,445	\$ 7,500,142	\$ (4,733,292)	\$ 17,365,295	\$ 1,105,623
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	13,023,350	11,341,587	2,217,074	26,582,011	37,552
Allowance for uncollectible accounts	(41,238)	1,535	-	(39,703)	-
Change in assets and liabilities					
(Increase) decrease in accounts receivable	3,108,155	(1,507,128)	(635,952)	965,075	(8,294)
(Increase) decrease in inventory	(307,487)	222,382	(1,807)	(86,912)	(84,667)
(Increase) decrease in prepaid items	-	-	-	-	(115,472)
(Increase) decrease in internal balances	24,975	(24,975)	-	-	-
(Increase) decrease in other current assets	13,033	17,252	-	30,285	-
(Increase) decrease in other assets	262,923	1,429,860	-	1,692,783	-
Increase (decrease) in accounts payable and accrued liabilities	(1,554,992)	2,409,374	(215,994)	638,388	(114,050)
Increase (decrease) in accrued compensated absences	-	-	(39,105)	(39,105)	(1,822)
Increase (decrease) in deferred revenues	-	-	(34,746)	(34,746)	10,442
Increase (decrease) in overdraft payable	(6,384,188)	-	-	(6,384,188)	-
Increase (decrease) in unearned deposits	-	(296,369)	-	(296,369)	-
Total adjustments	8,144,531	13,593,518	1,289,470	23,027,519	(276,311)
Net cash provided by (used in) operating activities	\$ 22,742,976	\$ 21,093,660	\$ (3,443,822)	\$ 40,392,814	\$ 829,312
Noncash investing, capital, and financing activities:					
Contributed capital assets	\$ 116,186	\$ 5,370,092	\$ -	\$ 5,486,278	\$ -
Dissolution of Fayetteville Air Cargo	\$ -	\$ -	\$ 702,500	\$ 702,500	\$ -

City of Fayetteville, North Carolina

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Pension Trust Fund</u>	<u>Private-purpose Trusts</u>
Assets		
Cash and investments	\$ 5,612,434	\$ 1,373,295
Accounts receivable	5,980	15,339
Total assets	<u>5,618,414</u>	<u>1,388,634</u>
Liabilities		
Accounts payable	11,087	-
Total liabilities	<u>11,087</u>	<u>-</u>
Net assets		
Held in Trust for:		
Held in Trust	5,607,327	1,388,634
Total net assets	<u>\$ 5,607,327</u>	<u>\$ 1,388,634</u>

City of Fayetteville, North Carolina

Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 Year Ended June 30, 2004

	Pension Trust Fund	Private-purpose Trusts
Additions		
Other revenue from operations	\$ -	\$ 24,317
Contributions	318,168	305
Investment earnings	42,307	17,126
Total additions	<u>360,475</u>	<u>41,748</u>
Deductions		
Benefit payments and premiums	<u>324,564</u>	<u>60,332</u>
Total deductions	<u>324,564</u>	<u>60,332</u>
Change in net assets	35,911	(18,584)
Total net assets - beginning	<u>5,571,416</u>	<u>1,407,218</u>
Total net assets - ending	<u>\$ 5,607,327</u>	<u>\$ 1,388,634</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, 2004

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 a new police administration building and defease the City's outstanding 1989 certificates of participation. The City leases the new police building 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. The corporation had no activity during the year.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

A – Reporting Entity (continued)

Fayetteville Air Cargo Facilities, Inc.

Fayetteville Air Cargo Facilities, Inc. (FACF) is a non-profit corporation formed for the purpose of acquisition, construction, equipping, expansion, enlargement, improvement, financing, refinancing, leasing, management and operation of air cargo facilities in Fayetteville, North Carolina. FACF has issued industrial revenue bonds for the construction of air cargo facilities at the Fayetteville Regional Airport. The proceeds of the bonds have been loaned to a private corporation, which is responsible for the actual construction. The City has leased the land for the construction to FACF, which has subleased it to the private corporation. In consideration of the sublease and lease, the private corporation pays rent to FACF, which in turn pays rent to the City. A voting majority of the board of directors is appointed by the City Council. The City can remove any director with or without cause. FACF is an enterprise fund type and is shown in a discrete presentation. It does not issue separate financial statements.

In November 2003, the \$1.2 million industrial revenue bond issued by Fayetteville Air Cargo for the construction of air cargo facilities in Fayetteville was paid off. The Fayetteville Air Cargo Facilities, Inc.'s operations were subsequently dissolved. At the time of dissolution the assets reverted to the City resulting in an extraordinary item of \$702,500, which has been reported in the financial statements.

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 unit. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

B - Basis of Presentation (continued)

The City reports the following major governmental fund:

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

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.

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 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

B - Basis of Presentation (continued)

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.

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, 2004

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 2003 through February 2004 apply to the fiscal year ended June 30, 2004. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the 2004-2005 fiscal year and are not shown as receivables at June 30, 2004. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements, 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, 2004 because they are intended to finance the City's operations during the 2005 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, 2004

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, 2003.

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, 2004

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, 2004:

Fund

General Fund:	
Taxes receivable	\$ 714,082
Accounts receivable	871,745
Assessments receivable	133,021
Special Revenue Fund:	
Taxes receivable	13,250
Accounts receivable	1,795,022
Internal Service Fund:	
Accounts receivable	423
Economic & Physical Development Capital Project Fund:	
Accounts receivable	750
Transit Operating	
Accounts receivable	1,314
Airport Operating	
Accounts receivable	1,602
Electric Fund:	
Accounts receivable	251,303
Water and Wastewater Fund:	
Accounts receivable	55,591
Total	<u>\$ 3,838,103</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, 2004, are recorded as prepaid items.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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. With the exception of the storm water network, general infrastructure assets acquired prior to July 1, 2001 are reported at estimated historical cost using deflated current cost. As allowed by GASB 34, retroactive reporting of the storm water network infrastructure will be delayed until June 30, 2007. 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 – 50
Improvements	4 – 15
Vehicles	4 – 20
Furniture and equipment	4 – 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, 2004

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.

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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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.

Unreserved

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

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2004 - 2005 budget ordinance.

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, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

G - Prior Period Adjustment

During the prior year, the Electric, Water and Wastewater funds transferred the assets of the Employee's Retirement Plan (ERP) to the Local Government Employees Retirement System (LGERS) and the Supplemental Employees Retirement Plan (SERP). At that time, the prepaid pension assets that had been recorded as a result of accounting for the ERP plan should have been written off as a special item and treated as a termination of the ERP plan. The result of this prior period adjustment on beginning net assets was a reduction in the Electric fund net asset balance for \$1,391,219 and a reduction in the net asset balance of the Water and Wastewater fund for \$1,323,461.

During the year, the state of North Carolina changed its distribution method for Local Option Sales Tax that it collects on behalf of local governments. These taxes are now distributed on a monthly rather than a quarterly basis. Taxes on sales for the month of June 2004 are distributed by the state on or around September 15, 2004. Beginning in the current fiscal year, on advice from the North Carolina State Treasurer's Office, the City now considers sales tax distributions as revenue as of June 30 if it is received within 90 days of year-end. The City previously considered sales tax receivables as revenue only if it was received within 60 days of year-end. The result of this prior period adjustment was to increase net assets and fund balance by \$2,524,322.

During the year, the City acquired the infrastructure assets as a result of the passing of the 4B annexation that was effective as of June 1, 2003. The City had not previously reported the infrastructure assets. The result of this prior period adjustment is an increase in the infrastructure assets of the City's governmental activities, fund balance and net assets of \$8,256,250.

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.

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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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

At June 30, 2004, the City's deposits had a carrying amount of \$18,013,669 and a bank balance of \$10,002,668. Of the bank balance, Federal Deposit Insurance covered \$308,440, and the remaining balance was covered by collateral under the Pooling Method.

B – Investments

The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the City or its agent in the City's name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. Investments of the Supplemental PWC Pension Trust Fund are exempt from risk categorization because third-party custodians take delivery of the investment securities on behalf of the City. Investments in the North Carolina Capital Management Trust are exempt from custodial risk categorization because the City does not own any identifiable securities, but is a shareholder of a percentage of the fund.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Value</u>	<u>Fair Value</u>
U. S. Government Agencies	\$ 43,301,350	\$ 11,053,992	\$ -	\$ 54,355,342	\$ 53,874,084
Commercial Paper	7,764,955	14,018,183	-	21,783,138	21,786,574
Other investments	-	<u>6,100,000</u>	-	<u>6,100,000</u>	<u>6,100,000</u>
	<u>\$ 51,066,305</u>	<u>\$ 31,172,175</u>	<u>\$ -</u>	82,238,480	81,760,658
Supplemental PWC Pension Trust				3,973,917	3,973,917
N. C. Capital Management Trust				<u>37,681,961</u>	<u>37,681,961</u>
				<u>\$ 123,894,358</u>	<u>\$ 123,416,536</u>

The above investments with maturities of more than three months amounted to \$64,123,480.

Reconciliation to cash and investments:

Totals per Footnote:

Total investments	\$ 123,894,358
Cash (demand deposits)	18,013,669
Petty cash	13,600
Total cash and investments	<u>\$ 141,921,627</u>

Totals per Balance Sheet

Cash and investments - unrestricted	\$ 79,555,157
Cash and investments - restricted	55,380,741
Pension trust cash and investments	5,612,434
Private-purpose trust cash and investments	1,373,295
Total Cash and Cash Equivalents	<u>\$ 141,921,627</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

B – Investments (continued)

The City invests in callable securities to hedge against a rise in interest rates. The first permitted call date is July 24, 2004, and the security may be called by the issuer at any interest payment date. The issuer will be required to pay a call premium on the redemption based on the call date at which the issuer elects to redeem the securities.

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

Primary Government

	Balance July 1, 2003 (as restated)	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 33,925,650	\$ 570,040	\$ (128,360)	\$ 34,367,330
Construction in progress	3,180,107	6,117,295	(88,760)	9,208,642
Total capital assets not being depreciated	<u>37,105,757</u>	<u>6,687,335</u>	<u>(217,120)</u>	<u>43,575,972</u>
Capital assets being depreciated:				
Infrastructure	309,328,516	499,484	-	309,828,000
Buildings and improvements	42,416,690	637,737	(122,070)	42,932,357
Equipment, furniture and fixtures	14,469,504	1,998,933	(1,834,047)	14,634,390
Vehicles	21,467,608	2,875,016	(26,274)	24,316,350
Total capital assets being depreciated	<u>387,682,318</u>	<u>6,011,170</u>	<u>(1,982,391)</u>	<u>391,711,097</u>
Less accumulated depreciation for:				
Infrastructure	(71,023,946)	(8,862,255)	-	(79,886,201)
Buildings and improvements	(14,448,691)	(1,329,461)	96,333	(15,681,819)
Equipment, furniture and fixtures	(12,221,048)	(1,063,731)	1,639,812	(11,644,967)
Vehicles	(18,593,938)	(1,516,228)	28,240	(20,081,926)
Total accumulated depreciation	<u>(116,287,623)</u>	<u>\$ (12,771,675)</u>	<u>\$ 1,764,385</u>	<u>(127,294,913)</u>
Total capital assets being depreciated, net	<u>271,394,695</u>			<u>264,416,184</u>
Governmental activity capital assets, net	<u>\$ 308,500,452</u>			<u>\$ 307,992,156</u>

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

Administration	\$ 277,077
Public safety	2,138,684
Environmental protection	300,698
Transportation	9,334,943
Economic and physical development	1,412
Recreation and community facilities	681,309
Capital assets held by certain internal service funds are charged to the various governmental functions based on the usage of the funds.	37,552
Total depreciation expense	<u>\$ 12,771,675</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 3 - Capital Assets (continued)

	Balance July 1, 2003	Increases	Decreases	Transfers	Balance June 30, 2004
Business-type activities:					
Electric Fund					
Capital assets not being depreciated:					
Land	\$ 4,385,611	\$ 70,155	\$ -	\$ 15,450	\$ 4,471,216
Construction in progress	17,239,285	8,950,193	(21,458,471) *	-	4,731,007
Total capital assets not being depreciated	<u>21,624,896</u>	<u>9,020,348</u>	<u>(21,458,471)</u>	<u>15,450</u>	<u>9,202,223</u>
Capital assets being depreciated:					
Electric utility system	284,076,932	18,774,458	(3,014,343)	(4,816)	299,832,231
Buildings and improvements	37,977,057	61,334	-	-	38,038,391
Equipment and machinery	10,886,220	2,506,338	(883,848)	(19,664)	12,489,046
Computer programs	7,381,221	1,819,270	(4,229)	32,160	9,228,422
Vehicles	4,460,197	421,600	(305,438)	(22,359)	4,554,000
Office equipment	1,824,239	-	(6,177)	(151)	1,817,911
Total capital assets being depreciated	<u>346,605,866</u>	<u>23,583,000</u>	<u>(4,214,035)</u>	<u>(14,830)</u>	<u>365,960,001</u>
Less accumulated depreciation for:					
Electric utility system	(128,463,678)	(10,039,891)	2,480,024	-	(136,023,545)
Buildings and improvements	(6,361,924)	(1,266,874)	-	-	(7,628,798)
Equipment and machinery	(4,928,978)	(705,327)	463,340	7,060	(5,163,905)
Computer programs	(5,417,752)	(823,708)	4,229	(536)	(6,237,767)
Vehicles	(4,084,742)	(69,118)	305,438	16,824	(3,831,798)
Office equipment	(1,233,341)	(118,432)	6,177	152	(1,345,444)
Total accumulated depreciation	<u>(150,490,415)</u>	<u>\$ (13,023,350)</u>	<u>\$ 3,259,208</u>	<u>\$ 23,300</u>	<u>(160,231,257)</u>
Total capital assets being depreciated, net	<u>196,115,451</u>				<u>205,728,744</u>
Electric fund capital assets, net	<u>\$ 217,740,347</u>				<u>\$ 214,930,967</u>
Water and Wastewater Fund					
Capital assets not being depreciated:					
Land	\$ 6,915,799	\$ 79,821	\$ -	\$ -	\$ 6,995,620
Construction in progress	8,246,529	21,056,115	(12,678,051) *	-	16,624,593
Total capital assets not being depreciated	<u>15,162,328</u>	<u>21,135,936</u>	<u>(12,678,051)</u>	<u>-</u>	<u>23,620,213</u>
Capital assets being depreciated:					
Wastewater system	270,656,774	6,483,592	-	-	277,140,366
Water system	178,287,251	4,421,430	-	-	182,708,681
Buildings and improvements	5,374,140	19,507	-	-	5,393,647
Equipment and machinery	7,004,670	349,535	(328,932)	9,030	7,034,303
Computer programs	6,602,810	2,118,028	(7,528)	(32,160)	8,681,150
Vehicles	4,582,028	44,167	(415,146)	22,359	4,233,408
Office equipment	918,242	-	(8,245)	152	910,149
Total capital assets being depreciated	<u>473,425,915</u>	<u>13,436,259</u>	<u>(759,851)</u>	<u>(619)</u>	<u>486,101,704</u>
Less accumulated depreciation for:					
Wastewater system	(79,546,520)	(5,937,475)	-	-	(85,483,995)
Water system	(62,737,964)	(4,035,284)	-	-	(66,773,248)
Buildings and improvements	(1,823,944)	(183,803)	-	-	(2,007,747)
Equipment and machinery	(5,557,255)	(308,856)	317,469	(7,060)	(5,555,702)
Computer programs	(4,929,407)	(748,389)	7,529	536	(5,669,731)
Vehicles	(3,810,886)	(83,183)	415,147	(16,624)	(3,495,546)
Office equipment	(822,241)	(44,597)	8,243	(152)	(858,747)
Total accumulated depreciation	<u>(159,228,217)</u>	<u>\$ (11,341,587)</u>	<u>\$ 748,388</u>	<u>\$ (23,300)</u>	<u>(169,844,716)</u>
Total capital assets being depreciated, net	<u>314,197,698</u>				<u>316,256,988</u>
Water and Wastewater fund capital assets, net	<u>\$ 329,360,026</u>				<u>\$ 339,877,201</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 3 - Capital Assets (continued)

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance June 30, 2004</u>
Business-type activities (continued):					
Nonmajor funds					
Capital assets not being depreciated:					
Land	\$ 1,132,701	\$ 1,065,349	\$ -	\$ -	\$ 2,198,050
Construction in progress	1,647,939	503,238	(141,217)	(6,193)	2,003,767
Total capital assets not being depreciated	<u>2,780,640</u>	<u>1,568,587</u>	<u>(141,217)</u>	<u>(6,193)</u>	<u>4,201,817</u>
Capital assets being depreciated:					
Buildings and improvements	39,320,739	967,486	(117,187)	6,193	40,177,231
Furniture, fixtures and equipment	2,179,495	31,399	(163,997)	-	2,046,897
Vehicles	7,182,876	-	(7,631)	-	7,175,245
Total capital assets being depreciated	<u>48,683,110</u>	<u>998,885</u>	<u>(288,815)</u>	<u>6,193</u>	<u>49,399,373</u>
Less accumulated depreciation for:					
Buildings and improvements	(20,082,746)	(1,460,241)	84,520	-	(21,458,467)
Furniture, fixtures and equipment	(1,537,312)	(209,457)	135,360	-	(1,611,409)
Vehicles	(4,634,416)	(547,376)	7,631	-	(5,174,161)
Total accumulated depreciation	<u>(26,254,474)</u>	<u>\$ (2,217,074)</u>	<u>\$ 227,511</u>	<u>\$ -</u>	<u>(28,244,037)</u>
Total capital assets being depreciated, net	<u>22,428,636</u>				<u>21,155,336</u>
Nonmajor fund capital assets, net	<u>\$ 25,209,276</u>				<u>\$ 25,357,153</u>
Business-type activities capital assets, net	<u>\$ 572,309,649</u>				<u>\$ 580,165,321</u>

*Disposals in Construction in progress are shown as additions to Capital assets being depreciated.

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

Electric	\$ 13,023,350
Water and Wastewater	11,341,587
Transit	812,435
Airport	1,404,639
Total depreciation expense	<u>\$ 26,582,011</u>

Note 4 - Accounts Payable

Accounts payable and accrued expenses consist of the following:

	General	Nonmajor Governmental	Internal Service	Subtotal	Enterprise	Fiduciary
Accounts payable	\$ 2,585,555	\$ 860,086	\$ 3,733,571	\$ 7,179,212	\$ 29,366,595	\$ -
Contracts payable	172,137	594,689	-	766,826	36,823	-
Retainage payable	-	431,220	-	431,220	9,580	-
Salaries and benefits payable	2,436,585	860	61,325	2,498,770	152,083	11,087
Total	<u>\$ 5,194,277</u>	<u>\$ 1,886,855</u>	<u>\$ 3,794,896</u>	<u>10,876,028</u>	<u>\$ 29,565,081</u>	<u>\$ 11,087</u>

Adjustment for interest payable

523,786
<u>\$ 11,399,814</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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. Principal and interest payments are appropriated when due. General obligation bonds outstanding for the year ended June 30, 2004, 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%.	\$ 900,000
\$6,900,000 1994 Public Improvement Bonds due in various annual installments through December 1, 2016; interest at rates 6.2% and 6.25%.	350,000
\$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%.	2,220,000
\$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%.	9,150,000
\$2,750,000 1999 Public Improvement Bonds due in various annual installments beginning March 1, 2001 through March 1, 2017; interest at 4.30%.	2,000,000
\$4,900,000 1999 Street Improvement Bonds due in various installments beginning March 1, 2001 through March 1, 2017; interest at 4.32%.	3,525,000
\$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%.	3,400,000
\$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%.	2,250,000
\$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%.	4,585,000

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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%.	\$ 3,425,000
\$5,335,000 2002 Refunding Bonds due in various annual installments through June 1, 2016; interest at various rates between 2% and 4%.	5,120,000
\$3,805,000 2003 Refunding Bonds due in various annual installments through June 1, 2010; interest at various rates between 2% and 3%.	<u>3,150,000</u>
	<u>\$ 40,075,000</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, 2004, 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%.	\$ <u>10,980,000</u>
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Business-type activities:

\$34,985,000 1995 Series A Revenue Buildings/Water and Sewer Bonds due in various annual installments through March 1, 2008; interest at various rates between 5.15% and 6.75%.	7,110,000
\$40,755,000 1997 Water and Sewer Bonds due in various annual installments through March 1, 2010; interest at various rates between 4.4% and 5.25%.	5,795,000
\$19,325,000 1999 Water and Sewer Bonds due in various installments through March 1, 2010; interest at various rates between 4.50% and 5.00%.	4,600,000
\$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%.	17,355,000

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 5 - Long-Term Obligations (continued)

B - Revenue Bonds (continued)

\$78,280,000 2003 Revenue Refunding Bonds due in various installments through March 1, 2024; fixed rate swap at 3.42%.	\$ 76,905,000
\$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%.	54,150,000
\$30,065,000 2003 Series B Variable Rate Revenue Refunding Bonds due in various annual installments through March 1, 2009; interest resets weekly.	<u>28,715,000</u>
Total business-type revenue bonds	<u>194,630,000</u>
Total revenue bonds	<u>\$ 205,610,000</u>

C - Interest Rate Swap

The City has two-interest rate swap agreements in effect at June 30, 2004 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 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.

The terms, fair values, and credit ratings of the outstanding swaps and cap as of June 30, 2004 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 5 - Long-Term Obligations (continued)

C - Interest Rate Swap (continued)

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received (1)	Fair Values	Termination Date	Counterparty Credit Rating (2)
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Swaps

Series 2003	\$ 76,905,000	1/22/03	3.42%	59% of LIBOR + 34.5 bps	\$ 55,824	March 2024	Aa1/AA-/AA+
Series 2003A	54,150,000	9/11/03	3.74%	62.8 % of LIBOR + 31 bps	(1,020,550)	March 2020	Aa1/AA-/AA+

Interest Rate Cap

Series 2003B	<u>8,650,000</u>	10/2/03	n/a			<u>7</u> March 2006	Aa1/AA-/AA+
	<u>\$ 139,705,000</u>					<u>\$ (964,719)</u>	

(1) LIBOR - London Interbank Offered Rate

(2) Counterparty's guarantor

As of June 30, 2004 the positive fair values of the agreements represent the City's exposure to credit risk. Should the counterparty to the swaps fail to perform according to the terms of the swap contract, the City faces a maximum possible loss equivalent to the positive fair value of the swap. The negative fair value of the Series 2003A swap may be countered by reductions in the total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. 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, 2004 of 3.49% and 3.80%. As of June 30, 2004, the rate on the City's Series 2003 and 2003 A bonds was 1.07% whereas the variable rate from the counterparty was 1.00% and 1.01%, respectively. For fiscal year 2004, the City experienced an actual synthetic rate of 3.36% and 3.73%, 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, 2004

Note 5 - Long-Term Obligations (continued)

C - Interest Rate Swap (continued)

Using rates as of June 30, 2004, 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		
2005	\$ 610,000	\$ 1,402,289	\$ 3,339,396	\$ 5,351,685
2006	625,000	1,395,762	3,324,324	5,345,086
2007	650,000	1,389,074	3,308,889	5,347,963
2008	665,000	1,382,119	3,292,849	5,339,968
2009	2,715,000	1,375,004	3,276,446	7,366,450
2010 - 2014	45,110,000	5,858,143	13,952,292	64,920,435
2015 - 2019	56,290,000	3,072,077	7,228,116	66,590,193
2020 - 2024	24,390,000	830,909	1,886,629	27,107,538
	<u>\$ 131,055,000</u>	<u>\$ 16,705,377</u>	<u>\$ 39,608,941</u>	<u>\$ 187,369,318</u>

D - Notes Payable

Notes payable financed by the governmental funds are 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 \$14,889,720 with the State of North Carolina. The loans were used for a Wastewater 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% \$ 185,000

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. 6,455,857

\$14,889,720 State revolving loan due in various annual installments once draw down is complete for 20 years; interest at 2.66%. 5,411,856

Total \$ 12,052,713

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 5 - Long-Term Obligations (continued)

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 2004 including interest at 4.55% \$ 4,664,380

Capital lease obligations payable in various monthly installments of approximately \$100,000 in 2004 plus interest at rates ranging from 3.40% to 5.87%. 11,739,199

Less: amount representing interest 16,403,579
 Present value of the minimum lease payments (3,061,835)
\$ 13,341,744

The following is an analysis of leased property under capital leases as of June 30, 2004:

Classes of Property	Cost	Depreciation	Value
Equipment	\$ 55,808	\$ 13,272	\$ 42,536
Vehicles	3,174,266	2,028,729	1,145,537
Buildings and improvement	5,647,518	1,158,251	4,489,267
Total	<u>\$ 8,877,592</u>	<u>\$ 3,200,252</u>	<u>\$ 5,677,340</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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, 2004:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Current Portion
Governmental activities:					
Bonded debt	\$ 50,265,000	\$ 3,805,000	\$ 7,600,000	\$ 46,470,000	\$ 4,045,000
Capitalized leases	6,479,845	8,082,079	1,220,180	13,341,744	2,894,678
Notes payable	245,000	-	60,000	185,000	60,000
Arbitrage payable	129,778	150,334	235,698	44,414	-
Compensated absences	3,236,831	3,279,237	3,090,220	3,425,848	2,394,941
	<u>60,356,454</u>	<u>\$ 15,316,650</u>	<u>\$ 12,206,098</u>	63,467,006	9,394,619
Less: loss on defeasance (net of amortization)	(397,367)			(491,659)	-
Total business-type activities	<u>\$ 59,959,087</u>			<u>\$ 62,975,347</u>	<u>\$ 9,394,619</u>

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

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Current Portion
Business-type activities:					
General obligation debt	\$ 15,560,000	\$ 5,195,000	\$ 16,170,000	\$ 4,585,000	\$ 945,000
Revenue bonds	178,910,000	85,215,000	69,495,000	194,630,000	10,310,000
Notes payable	6,835,614	5,411,856	379,757	11,867,713	379,755
Compensated absences	168,577	220,322	259,426	129,473	129,473
	<u>201,474,191</u>	<u>\$ 96,042,178</u>	<u>\$ 86,304,183</u>	211,212,186	11,764,228
Less: loss on defeasance (net of amortization)	(13,177,283)			(15,054,195)	-
Total business-type activities	<u>\$ 188,296,908</u>			<u>\$ 196,157,991</u>	<u>\$ 11,764,228</u>
Discretely presented component units:					
Revenue bonds	\$ 248,537	\$ -	\$ 248,537	\$ -	\$ -
Total discretely presented component units long-term liabilities	<u>\$ 248,537</u>	<u>\$ -</u>	<u>\$ 248,537</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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 Notes		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 3,130,000	\$ 1,504,300	\$ 915,000	\$ 607,653	\$ 60,000	\$ 9,955
2006	3,085,000	1,383,525	965,000	559,615	60,000	6,124
2007	3,120,000	1,261,338	1,015,000	508,470	60,000	2,263
2008	3,135,000	1,136,988	1,070,000	453,660	5,000	162
2009	3,150,000	1,009,663	785,000	394,810	-	-
2010-2014	12,985,000	3,184,299	3,080,000	1,425,225	-	-
2015-2018	5,660,000	707,500	3,150,000	455,063	-	-
2019-2021	1,225,000	117,875	-	-	-	-
	<u>35,490,000</u>	<u>10,305,488</u>	<u>10,980,000</u>	<u>4,404,496</u>	<u>185,000</u>	<u>18,504</u>
Less: loss on defeasance (net of amortization)	(491,659)	-	-	-	-	-
	<u>\$ 34,998,341</u>	<u>\$ 10,305,488</u>	<u>\$ 10,980,000</u>	<u>\$ 4,404,496</u>	<u>\$ 185,000</u>	<u>\$ 18,504</u>

Year Ended	Construction and Improvement Leases		Capitalized Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 376,501	\$ 167,025	\$ 2,518,177	\$ 241,218	\$ 6,999,678	\$ 2,530,151
2006	376,501	149,895	2,202,310	1,711,292	6,688,811	3,810,451
2007	376,501	132,764	1,957,727	120,349	6,529,228	2,025,184
2008	376,501	115,633	1,754,456	72,878	6,340,957	1,779,321
2009	376,501	98,502	1,144,062	16,730	5,455,563	1,519,705
2010-2014	1,882,507	235,549	-	-	17,947,507	4,845,073
2015-2018	-	-	-	-	8,810,000	1,162,563
2019-2021	-	-	-	-	1,225,000	117,875
	<u>3,765,012</u>	<u>899,368</u>	<u>9,576,732</u>	<u>2,162,467</u>	<u>59,996,744</u>	<u>17,790,323</u>
Less: loss on defeasance (net of amortization)	-	-	-	-	(491,659)	-
	<u>\$ 3,765,012</u>	<u>\$ 899,368</u>	<u>\$ 9,576,732</u>	<u>\$ 2,162,467</u>	<u>\$ 59,505,085</u>	<u>\$ 17,790,323</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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 \$5,411,856 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
2005	\$ 11,255,000	\$ 7,240,123	\$ 379,755	\$ 166,207	\$ 11,634,755	\$ 7,406,330
2006	11,690,000	6,828,275	650,349	240,734	12,340,349	7,069,009
2007	12,065,000	6,391,209	650,349	283,217	12,715,349	6,674,426
2008	12,550,000	5,956,005	650,349	266,146	13,200,349	6,222,151
2009	13,035,000	5,523,916	650,349	249,074	13,685,349	5,772,990
2010-2014	54,640,000	21,500,628	3,251,747	989,297	57,891,747	22,489,925
2015-2019	59,590,000	10,370,225	3,251,747	562,514	62,841,747	10,932,739
2020-2024	24,390,000	2,663,417	2,112,477	170,284	26,502,477	2,833,701
2025-2029	-	-	270,591	7,198	270,591	7,198
	<u>199,215,000</u>	<u>66,473,798</u>	<u>11,867,713</u>	<u>2,934,671</u>	<u>211,082,713</u>	<u>69,408,469</u>
Less: Loss on defeasance (net of amortization)	(15,054,195)	-	-	-	(15,054,195)	-
	<u>\$ 184,160,805</u>	<u>\$ 66,473,798</u>	<u>\$ 11,867,713</u>	<u>\$ 2,934,671</u>	<u>\$ 196,028,518</u>	<u>\$ 69,408,469</u>

H - Legal Debt Margin

The legal debt margin of the City at June 30, 2004, approximated \$502,650,586.

I - Authorized but Un-issued Debt

At June 30, 2004, the City had no bonds authorized but un-issued.

J - Interest Expense

Interest expense during the year totaled \$10,029,347. No interest was capitalized this year.

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, 2004.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 6- Defeasance of Debt

A – Variable Rate Revenue and Revenue Refunding Bonds, Series 2003A

On September 11, 2003, the City issued \$55,150,000 in Variable Rate Revenue and Revenue Refunding Bonds, Series 2003A (converted to a fixed rate of 3.74% through the execution of an interest rate swap agreement) to construct electric, water and sewer projects and to advance refund \$29,022,198 (\$32,315,000 net of unamortized bond issue costs of (\$332,316), bond discount of (\$618,443), unamortized loss on refunding of (\$2,385,295) and outstanding accrued interest payable of \$43,252) of a portion of the outstanding 1993 Revenue Refunding Electric/ Water and Sewer Bonds with an average interest rate of 4.82%. The net proceeds of \$55,386,171 (\$55,150,000 net of issuance cost and other related costs of (\$471,329) plus \$707,500 of released debt service fund deposits) were used to fund a \$32,895,345 escrow for the advanced refunded bonds and a \$22,490,826 construction fund for construction and cost of issuance expenditures. The escrow was funded with U.S. government securities deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the portion of the 1993 Revenue Refunding Electric / Water and Sewer Bonds that were advance refunded. As a result, a portion of the 1993 Revenue Refunding Electric / Water and Sewer bonds is considered to be defeased and the liability for those bonds has been removed from the electric and water and wastewater funds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,873,147. This difference net of the current year's amortization of \$297,671, reported in the accompanying financial statements as a deduction from revenue bonds, is being charged to operations through the year 2020 using the straight-line method, which approximates the effective interest method. The City completed the advance refunding to reduce its total debt service payments over 17 years by \$4,661,453 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$560,475.

B – Variable Rate and Revenue Refunding Bonds, Series 2003B

On October 2, 2003, the City issued \$30,065,000 in Revenue Refunding Bonds, Series 2003B to advance refund \$26,825,363 (\$29,765,000, net of unamortized bond issue costs of (\$305,131), bond discount of (\$567,851), unamortized loss on refunding of (\$2,190,161) and outstanding accrued interest payable of \$123,506) of the remaining balance of the outstanding 1993 Revenue Refunding Electric/ Water and Sewer Bonds with an average interest rate of 4.82%. The net proceeds of \$30,299,762 (\$30,065,000 net of issuance and other related costs of (\$230,948) plus released debt service fund deposits of \$653,122 and a cost of issuance account deposit of (\$187,412)) 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 on the remaining portion of the 1993 Revenue Refunding Electric / Water and Sewer Bonds that were advance refunded. As a result, the remaining portion of the 1993 Revenue Refunding Electric / Water and Sewer bonds is considered to be defeased and the liability for those bonds has been removed from the electric and water and wastewater funds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,474,399. This difference net of the current year's amortization of \$481,071, reported in the accompanying financial statements as a deduction from revenue bonds, is being charged to operations through the year 2009 using the straight-line method, which approximates the effective interest method. The City completed the advance refunding to reduce its total debt service payments over 6 years by \$5,636,325 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,331,696.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 6- Defeasance of Debt (continued)

C – General Obligation Refunding Bonds, Series 2003

On October 2, 2003, for the benefit of the Water and Wastewater funds, the City issued \$5,195,000 in "Double Barrel" General Obligation Refunding Bonds, Series 2003 with an average interest rate of 2.28% to advance refund \$4,684,005 (\$4,945,000, net of unamortized bond issue costs of (\$53,284), bond premium of \$9,847, unamortized loss on refunding of (\$321,448) and outstanding accrued interest payable of \$103,890) of outstanding 1993 GO Refunding Bonds with an average interest rate of 4.99%. The "Double Barrel" General Obligation Bonds, Series 2003 are payable from the revenues of the Electric and Water and Wastewater funds and are additionally secured by the full faith and credit of the City. The remaining balance of the 1993 GO Refunding Bonds of \$10,615,000 was cash defeased on November 6, 2003. The net proceeds of \$5,201,935 (\$5,195,000 net of issuance and other related costs of \$6,935) 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 on the 1993 GO Refunding. As a result, the 1993 GO Refunding Bonds are considered to be defeased and the liability for those bonds has been removed from the electric and water and wastewater funds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$487,136. This difference net of the current year's amortization of \$65,436, reported in the accompanying financial statements as a deduction from revenue bonds, is being charged to operations through the year 2009 using the straight-line method, which approximates the effective interest method. The City completed the advance refunding to reduce its total debt service payments over 6 years by \$731,856 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$375,252.

D – 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, 2004, the amount of prior year defeased debt outstanding and removed from the City's liabilities amounted to \$66,410,000.

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 and the 2003 Variable Rate Revenue Refunding Electric Water and Sewer Bonds have been adjusted for the loss from defeasance (net of amortization) of \$8,063,691 combined with the carrying value of the loss from defeasance (net of amortization) of \$6,990,504 related to the advance refunding occurring in the current year for a total loss of defeasance of \$15,054,195.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

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)	\$ 427,284	\$ 427,284
Prepaid retiree insurance premiums (Internal Service)	10,731	10,731
Unearned rent (Proprietary)	21,314	21,314
Unearned grant receipts (Special Revenue)	53,885	53,885
Unearned grant receipts (Capital Projects)	200	200
Taxes receivable, net (General)	3,376,391	-
Taxes receivable, net (Special Revenue)	115,350	-
Accounts and notes receivable (General)	708,077	-
Accounts and notes receivable (Special Revenue)	4,936,990	-
Special assessments receivable, net (General)	602,828	-
Special assessments receivable, net (Special Revenue)	7,608	-
Total	<u>\$ 10,260,658</u>	<u>\$ 513,414</u>

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 \$100,000 per employee and approximately \$7,720,046 for all employees for the policy ending December 31, 2003), general liability (up to \$500,000 per occurrence), workers' compensation (\$400,000 per occurrence), public officials liability (up to \$500,000 per occurrence), law enforcement liability (\$500,000 per occurrence), and automobile liability (up to \$500,000 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 \$100,000 per employee. 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 \$75,000 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. These funds maintain an investment account amounting to \$3,500,000 to cover possible worker's compensation 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, 2004, 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 8 - Risk Management (continued)

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.

An analysis of claims activity for the City and the Electric and Water and Wastewater Funds is presented below.

	<u>2004</u>	<u>2003</u>
Liability at June 30,	\$ 4,382,484	\$ 4,361,852
Current year claims and changes in estimates	13,110,432	11,373,647
Actual claim payments	<u>(13,020,417)</u>	<u>(11,353,015)</u>
Liability at June 30,	<u>\$ 4,472,499</u>	<u>\$ 4,382,484</u>

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 \$84,515,623 for capital additions and construction of various electric, water and wastewater projects. At June 30, 2004, cumulative expenditures to date totaled approximately \$41,401,205 leaving an unexpended balance of \$43,114,418 for projects that are expected to be completed at various dates through the year ended 2005.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 9 - Commitments and Contingent Liabilities (continued)

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, 2004, the net purchased power costs paid to PEC was \$85,249,334 (which is net of \$200,800 which was sold on the open market).

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>
2005	\$ 233,766
2006	269,311
2007	290,902
2008	288,728
2009	234,355
Future years	<u>331,954</u>
Total	<u>\$1,649,016</u>

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

For the fiscal year ended June 30, 2004, the City has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$24,317 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 11 - Employee Retirement Systems

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

A - Local Governmental Employees' Retirement System

Plan Description

The City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost sharing, and multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G. S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller; 1410 Mail Service Center; Raleigh, North Carolina 27699-1410 or by calling (919) 981-5454.

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, 2004, 2003 and 2002, were \$4,237,759, \$2,517,077 and \$1,889,545, respectively. The contributions made by the City equaled the required contributions for each year.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 11 - Employee Retirement Systems (continued)

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

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

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

The contribution requirements of the plan members and the Public Works Commission are established and may be amended by the City of Fayetteville City Council. There will be no employee contributions after April 1, 2003. The Public Works Commission is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2004 was 0% of annual covered payroll.

The annual required contribution calculation for June 30, 2004 was determined as part of the July 1, 2004, 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, 2004. 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 11- Employee Retirement Systems (continued)

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, 2003, the Separation Allowance's membership consisted of:

Retirees receiving benefits	20
Active plan members	<u>301</u>
Total	<u>321</u>

Summary of Significant Accounting Policies

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

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

Contributions

The City is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$318,278, or 2.59% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 11 - Employee Retirement Systems (continued)

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

Contributions (continued)

The annual required contribution for the current year was determined as part of the December 31, 2002 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, 2003 was 27 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	\$ 311,445
Interest on net pension obligation	(20,538)
Adjustment to annual required contribution	<u>15,541</u>
Annual pension cost	306,448
Contributions made	<u>318,169</u>
Increase (decrease) in net pension obligation	(11,721)
Net pension obligation beginning of year	<u>(283,280)</u>
Net pension obligation end of year	<u><u>\$ (295,001)</u></u>

Three-Year Trend Information			
Fiscal Year	Annual	Percentage	Net Pension
Ending	Pension	of APC	Obligation
	Cost (APC)	Contributed	
2002	\$ 255,072	106.69	\$ (254,741)
2003	281,551	110.49	(284,281)
2004	306,448	103.82	(295,001)

E - 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, 2004, were \$1,384,638, which consisted of \$622,722 from the City and \$761,916 from employees.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 11 - Employee Retirement Systems (continued)

F - 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, 2004 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, 2004, the Plan included 530 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.

G - 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, 97 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, 2004, the City made payments for post-retirement health benefit premiums of \$1,301,489.

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, 2004

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 \$20,000. 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, 2004, the City made contributions to the State for death benefits of \$52,127. 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, 302 retirees are eligible for post-retirement death benefits. For the fiscal year ended June 30, 2004, the City made payments for post-retirement death benefits premiums of \$22,430.

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, 2004, as the amount is not material to the financial statements. As of June 30, 2004, 54 retirees meet 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, 2004, expenses of approximately \$388,841 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, 2004, consist of the following:

Due to the General Fund from the Airport Fund (loan for capital construction)	\$	398,921
	\$	<u>398,921</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2004

Note 13 – Interfund Balances and Activity (continued)

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2004, consist of the following:

General fund transfers in	\$	9,487,469
General fund transfers out		(5,657,081)
Nonmajor governmental funds transfers in		4,485,370
Nonmajor governmental funds transfers out		(144,500)
Major enterprise funds transfers out		(9,487,469)
Nonmajor enterprise funds transfers in		1,316,211
	\$	<u>-</u>

Note 14 – Subsequent Events

On July 12, 2004, the North Carolina Supreme Court issued a stay of the City's annexation, scheduled to be effective on June 30, 2004. The annexation would have increased the City's population by more than 40,000 and required significant financial investment by the City to prepare for the annexation. The stay is still in effect as of October 12, 2004 and is expected to take several months up to several years for the cases to be resolved.

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)
12/31/96	\$ 824,181	\$ 1,147,821	\$ 323,640	71.80%	\$ 8,284,503	3.91%
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%

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1992	\$ 72,055	213.73%
1993	77,695	167.32%
1994	80,563	167.57%
1995	80,084	160.83%
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%

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, 2003
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay closed
Remaining amortization period	27 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate 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

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, 2004
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, 2004 and 2003

ASSETS	2004	2003 Restated
Cash and investments	\$ 38,194,634	\$ 26,899,566
Taxes receivable	3,376,391	3,299,863
Accounts receivable	9,636,025	8,647,792
Interfund receivable	398,921	423,798
Assessments receivable	457,626	472,269
Inventories	145,027	81,256
Total assets	\$ 52,208,624	\$ 39,824,544
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued expenses	\$ 5,194,277	\$ 3,289,852
Unearned deposits	95,511	39,310
Deferred revenues	5,114,580	4,715,282
Total liabilities	10,404,368	8,044,444
Fund balances		
Fund balances:		
Reserved		
By State statute	9,181,667	8,602,670
For encumbrances	3,676,094	734,253
For inventories	145,027	81,256
For downtown	306,339	283,445
Unreserved		
Designated		
For subsequent years	1,696,565	1,673,126
For special purpose	5,713,518	4,000,994
For debt service	1,926,997	1,221,357
Undesignated	19,158,049	15,182,999
Total fund balances	41,804,256	31,780,100
Total liabilities and fund balances	\$ 52,208,624	\$ 39,824,544

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
With Comparative Actual Statements for the Year Ended June 30, 2003

	Budget	Variance Positive (Negative)	2004 Actual	2003 Restated
Revenues				
Ad valorem taxes				
Current year	\$ 35,524,461	\$ 1,353,113	\$ 36,877,574	\$ 32,522,373
Prior year	779,566	481,124	1,260,690	989,705
Penalties	170,250	123,348	293,598	208,235
Total ad valorem taxes	36,474,277	1,957,585	38,431,862	33,720,313
Other taxes				
Local option sales tax	19,296,143	1,402,850	20,698,993	18,093,797
Utility franchise tax	4,375,400	746,388	5,121,788	6,546,035
Vehicle license tax	407,372	37,149	444,521	408,016
Privilege license	695,000	(10,194)	684,806	691,861
Cablevision franchise tax	1,349,075	666,970	2,016,045	1,249,399
Vehicle gross receipt	299,000	6,860	305,860	302,685
Total other taxes	26,421,990	2,850,023	29,272,013	27,291,793
Intergovernmental				
Federal	-	36,480	36,480	31,903
State	4,312,792	(29,967)	4,282,825	4,305,206
Local	465,725	12,663	478,388	547,249
Total intergovernmental	4,778,517	19,176	4,797,693	4,884,358
Other functional				
Permits and fees	1,159,407	376,293	1,535,700	1,209,220
Property leases	278,900	39,440	318,340	260,686
Engineering/planning services	646,571	78,509	725,080	750,980
Public safety services	362,221	194,610	556,831	564,323
Environmental services	5,850	20,289	26,139	44,487
Recreation and cultural services	611,221	(48,816)	562,405	475,963
Parking revenues	85,030	(9,416)	75,614	62,687
Other fees and services	95,701	30,091	125,792	126,454
Total other functional	3,244,901	681,000	3,925,901	3,494,800
Miscellaneous				
Refunds and sundry	53,813	50,344	104,157	174,781
Indirect cost allocation	857,000	(134,961)	722,039	714,562
Special use assessment	73,300	27,112	100,412	86,926
Sale of assets	30,000	(18,403)	11,597	189,519
Total miscellaneous	1,014,113	(75,908)	938,205	1,165,788
Interest earned on investments	732,099	(370,221)	361,878	867,291
Total revenues	72,665,897	5,061,655	77,727,552	71,424,343

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
With Comparative Actual Statements for the Year Ended June 30, 2003

	Budget	Variance Positive (Negative)	2004 Actual	2003 Restated
Expenditures				
Current				
Administration				
Legislative				
Personnel	\$ 333,974	\$ 104	\$ 333,870	\$ 286,287
Operating	367,705	45,669	322,036	180,734
Payments to agencies	-	-	-	25
	<u>701,679</u>	<u>45,773</u>	<u>655,906</u>	<u>467,046</u>
City attorney				
Personnel	371,330	54	371,276	316,739
Operating	310,096	60,641	249,455	357,150
	<u>681,426</u>	<u>60,695</u>	<u>620,731</u>	<u>673,889</u>
Executive				
Personnel	560,641	13,877	546,764	559,261
Operating	364,406	254,211	110,195	107,815
Assets	6,721	6,721	-	-
	<u>931,768</u>	<u>274,809</u>	<u>656,959</u>	<u>667,076</u>
Support services				
Personnel	980,259	8,172	972,087	946,920
Operating	926,438	218,923	707,515	487,036
Assets	752,073	312,853	439,220	23,800
Inventory	882,235	9,255	872,980	758,372
Cost redistribution	(958,559)	30,823	(989,382)	(860,171)
	<u>2,582,446</u>	<u>580,026</u>	<u>2,002,420</u>	<u>1,355,957</u>
Human relations				
Personnel	216,115	798	215,317	207,493
Operating	47,424	11,131	36,293	29,291
Payments to agencies	-	-	-	-
	<u>263,539</u>	<u>11,929</u>	<u>251,610</u>	<u>236,784</u>
Finance				
Personnel	928,018	9,805	918,213	898,650
Operating	858,561	154,247	704,314	712,135
	<u>1,786,579</u>	<u>164,052</u>	<u>1,622,527</u>	<u>1,610,785</u>
General government				
Personnel	43,154	-	43,154	10,724
Operating	3,253,340	193,048	3,060,292	810,595
Assets	635,375	635,375	-	-
Inventory	-	-	-	-
Cost redistribution	-	-	-	-
Payments to agencies	499,015	53,415	445,600	420,709
	<u>4,430,884</u>	<u>881,838</u>	<u>3,549,046</u>	<u>1,242,028</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
With Comparative Actual Statements for the Year Ended June 30, 2003

	Budget	Variance Positive (Negative)	2004 Actual	2003 Restated
Expenditures (continued)				
Current (continued)				
Administration (continued)				
Public buildings				
Personnel	\$ 664,515	\$ 5,878	\$ 658,637	\$ 782,475
Operating	742,801	130,243	612,558	647,912
Assets	35,000	35,000	-	57,283
	<u>1,442,316</u>	<u>171,121</u>	<u>1,271,195</u>	<u>1,487,670</u>
Project management				
Personnel	280,026	1,716	278,310	249,613
Operating	41,136	28,098	13,038	14,192
Assets	796	796	-	-
	<u>321,958</u>	<u>30,610</u>	<u>291,348</u>	<u>263,805</u>
Total administration	<u>13,142,595</u>	<u>2,220,853</u>	<u>10,921,742</u>	<u>8,005,040</u>
Public safety				
Police				
Personnel	22,908,439	543,803	22,364,636	21,721,260
Operating	4,644,607	601,067	4,043,540	2,842,194
Assets	3,495,053	1,804,680	1,690,373	1,007,558
Payments to agencies	3,000	-	3,000	3,000
Cost redistribution	(23,594)	-	(23,594)	(45,527)
	<u>31,027,505</u>	<u>2,949,550</u>	<u>28,077,955</u>	<u>25,528,485</u>
Fire				
Personnel	10,422,830	30,490	10,392,340	10,219,875
Operating	1,787,727	207,786	1,579,941	1,106,714
Assets	2,199,535	1,441,791	757,744	41,056
Cost redistribution	(75,000)	-	(75,000)	(75,000)
	<u>14,335,092</u>	<u>1,680,067</u>	<u>12,655,025</u>	<u>11,292,645</u>
Inspections				
Personnel	1,579,080	55,064	1,524,016	1,436,588
Operating	373,968	141,570	232,398	269,160
Assets	18,420	2	18,418	-
	<u>1,971,468</u>	<u>196,636</u>	<u>1,774,832</u>	<u>1,705,748</u>
Total public safety	<u>47,334,065</u>	<u>4,826,253</u>	<u>42,507,812</u>	<u>38,526,878</u>
Environmental protection				
Solid waste				
Personnel	2,295,896	8,448	2,287,448	2,300,019
Operating	3,643,701	466,747	3,176,954	2,274,826
Assets	2,324,042	1,998,332	325,710	24,500
Cost redistribution	-	-	-	(127,852)
	<u>8,263,639</u>	<u>2,473,527</u>	<u>5,790,112</u>	<u>4,471,493</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
With Comparative Actual Statements for the Year Ended June 30, 2003

	Budget	Variance Positive (Negative)	2004 Actual	2003 Restated
Expenditures (continued)				
Current (continued)				
Environmental protection				
(continued)				
Cemeteries				
Personnel	\$ 138,316	\$ (1,307)	\$ 139,623	\$ 133,699
Operating	16,854	1,823	15,031	9,791
Assets	-	-	-	-
	<u>155,170</u>	<u>516</u>	<u>154,654</u>	<u>143,490</u>
Urban forestry				
Personnel	79,969	(473)	80,442	76,942
Operating	9,230	2,226	7,004	3,410
Cost redistribution	-	-	-	-
	<u>89,199</u>	<u>1,753</u>	<u>87,446</u>	<u>80,352</u>
Street Sweeping				
Personnel	194,975	8,679	186,296	46,781
Operating	27,673	27,336	337	228
Assets	509,039	509,039	-	-
Cost redistribution	-	-	-	(22,466)
	<u>731,687</u>	<u>545,054</u>	<u>186,633</u>	<u>24,543</u>
Total environmental protection	<u>9,239,695</u>	<u>3,020,850</u>	<u>6,218,845</u>	<u>4,719,878</u>
Transportation				
Streets				
Personnel	1,953,607	53,845	1,899,762	1,722,249
Operating	3,239,226	363,612	2,875,614	2,637,890
Assets	923,736	289,947	633,789	29,183
Cost redistribution	(198,400)	(6,279)	(192,121)	(203,180)
	<u>5,918,169</u>	<u>701,125</u>	<u>5,217,044</u>	<u>4,186,142</u>
Engineering				
Personnel	925,848	39,309	886,539	850,952
Operating	332,392	84,915	247,477	105,799
Assets	112,851	76,976	35,875	-
Cost redistribution	-	-	-	(71,091)
	<u>1,371,091</u>	<u>201,200</u>	<u>1,169,891</u>	<u>885,660</u>
Parking				
Operating	214,063	36,300	177,763	188,632
	<u>214,063</u>	<u>36,300</u>	<u>177,763</u>	<u>188,632</u>
Total transportation	<u>7,503,323</u>	<u>938,625</u>	<u>6,564,698</u>	<u>5,260,434</u>
Economic and physical development				
Central business district				
Operating	81,336	30,358	50,978	51,000
Community development				
Personnel	55,819	1	55,818	143,845
Operating	186,100	56,632	129,468	30,455
	<u>241,919</u>	<u>56,633</u>	<u>185,286</u>	<u>174,300</u>
Planning and development				
Personnel	396,483	5,400	391,083	388,414
Operating	214,640	94,523	120,117	67,024
Payments to agencies	47,125	41,264	5,861	22,852
Cost redistribution	-	-	-	(999)
	<u>658,248</u>	<u>141,187</u>	<u>517,061</u>	<u>477,291</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004

With Comparative Actual Statements for the Year Ended June 30, 2003

	Budget	Variance Positive (Negative)	2004 Actual	2003 Restated
Expenditures (continued)				
Current (continued)				
Economic and physical development (continued)				
Total economic and physical development	\$ 981,503	\$ 228,178	\$ 753,325	\$ 702,591
Recreation and community facilities				
Parks & Recreation				
Personnel	3,705,337	(423)	3,705,760	4,063,072
Operating	2,616,366	679,252	1,937,114	1,782,049
Assets	997,968	409,407	588,561	397,913
Cost redistribution	-	-	-	(52,913)
	<u>7,319,671</u>	<u>1,088,236</u>	<u>6,231,435</u>	<u>6,190,121</u>
Total recreation and community facilities	<u>7,319,671</u>	<u>1,088,236</u>	<u>6,231,435</u>	<u>6,190,121</u>
Debt service	<u>7,406,280</u>	<u>1,192,124</u>	<u>6,214,156</u>	<u>6,018,395</u>
Total expenditures	<u>92,927,132</u>	<u>13,515,119</u>	<u>79,412,013</u>	<u>69,423,337</u>
Revenues over (under) expenditures	<u>(20,261,235)</u>	<u>18,576,774</u>	<u>(1,684,461)</u>	<u>2,001,006</u>
Other financing sources (uses)				
Appropriated fund balance	8,178,032	(8,178,032)	-	-
Transfers in	9,497,477	(10,008)	9,487,469	9,257,917
Transfers (out)	(5,879,561)	222,480	(5,657,081)	(6,407,096)
Payment to refund bond escrow agent	(3,788,439)	-	(3,788,439)	(5,469,212)
Capital leases, bonds and other debt	12,253,726	(587,058)	11,666,668	6,706,289
Total other financing sources (uses)	<u>20,261,235</u>	<u>(8,552,618)</u>	<u>11,708,617</u>	<u>4,087,898</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 10,024,156</u>	<u>10,024,156</u>	<u>6,088,904</u>
Fund balance				
Beginning of year - July 1 (as previously stated)			31,780,100	30,191,196
Prior period adjustment			-	(4,500,000)
Beginning of year - July 1 (restated)			<u>31,780,100</u>	<u>25,691,196</u>
End of year - June 30			<u>\$ 41,804,256</u>	<u>\$ 31,780,100</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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NONMAJOR GOVERNMENTAL FUNDS

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Assets			
Cash and investments	\$ 3,953,038	\$ 5,138,794	\$ 9,091,832
Taxes receivable	115,350	-	115,350
Accounts receivable	5,532,138	1,509,242	7,041,380
Assessments receivable	5,151	-	5,151
Restricted asset - cash and investments	-	4,169,312	4,169,312
Total assets	\$ 9,605,677	\$ 10,817,348	\$ 20,423,025
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 369,754	\$ 1,517,101	\$ 1,886,855
Deferred revenues	5,113,833	200	5,114,033
Total liabilities	5,483,587	1,517,301	7,000,888
Fund balances:			
Reserved			
By State statute	592,693	1,509,040	2,101,733
For encumbrances	1,300,715	3,577,522	4,878,237
For wireless 911	11,111	-	11,111
Unreserved			
Designated			
For subsequent years	614,874	4,213,485	4,828,359
For special purpose	45,000	-	45,000
Undesignated	1,557,697	-	1,557,697
Total fund balances	4,122,090	9,300,047	13,422,137
Total liabilities and fund balances	\$ 9,605,677	\$ 10,817,348	\$ 20,423,025

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2004**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Other taxes	\$ 3,164,181	\$ -	\$ 3,164,181
Intergovernmental	2,744,253	1,406,931	4,151,184
Miscellaneous	319,574	1,219,425	1,538,999
Interest earned on investments	17,171	41,037	58,208
Total revenues	6,245,179	2,667,393	8,912,572
Expenditures			
Current:			
Administration	-	216,228	216,228
Public safety	2,386,978	-	2,386,978
Environmental protection	2,746,316	-	2,746,316
Transportation	-	1,574,015	1,574,015
Economic and physical development	2,156,617	3,209,529	5,366,146
Recreation and community facilities	-	1,826,999	1,826,999
Debt service:			
Principal	925,000	-	925,000
Interest and fees	665,522	-	665,522
Issue costs	-	-	-
Total expenditures	8,880,433	6,826,771	15,707,204
Excess (deficiency) of revenues over (under) expenditures	(2,635,254)	(4,159,378)	(6,794,632)
Other financing sources (uses)			
Bonds	-	-	-
Capital leases	219,365	-	219,365
Transfers in	1,729,943	2,755,427	4,485,370
Transfers out	-	(144,500)	(144,500)
Total other financing sources (uses)	1,949,308	2,610,927	4,560,235
Net change in fund balances	(685,946)	(1,548,451)	(2,234,397)
Fund balance - beginning	4,808,036	10,848,498	15,656,534
Fund balance - ending	\$ 4,122,090	\$ 9,300,047	\$ 13,422,137

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, 2004**

	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	\$ 1,771,919	\$ 263,738	\$ 1,917,381	\$ -	\$ 3,953,038
Taxes receivable	-	-	115,350	-	115,350
Accounts receivable	81,317	5,438,091	12,730	-	5,532,138
Assessments receivable	-	5,151	-	-	5,151
Total assets	\$ 1,853,236	\$ 5,706,980	\$ 2,045,461	\$ -	\$ 9,605,677
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 380	\$ 191,536	\$ 177,838	\$ -	\$ 369,754
Deferred revenues	-	4,998,483	115,350	-	5,113,833
Total liabilities	380	5,190,019	293,188	-	5,483,587
Fund balances:					
Reserved					
By State statute	81,317	498,647	12,729	-	592,693
For encumbrances	219,365	551,015	530,335	-	1,300,715
For wireless 911	11,111	-	-	-	11,111
Unreserved					
Designated					
For subsequent years	136,897	-	477,977	-	614,874
For special purpose	-	-	45,000	-	45,000
Undesignated	1,404,166	(532,701)	686,232	-	1,557,697
Total fund balances	1,852,856	516,961	1,752,273	-	4,122,090
Total liabilities and fund balances	\$ 1,853,236	\$ 5,706,980	\$ 2,045,461	\$ -	\$ 9,605,677

CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2004

	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	\$ 1,041,170	\$ -	\$ 2,123,011	\$ -	\$ 3,164,181
Intergovernmental	-	2,744,253	-	-	2,744,253
Miscellaneous	10,000	309,574	-	-	319,574
Interest earned on investments	9,100	-	7,939	132	17,171
Total revenues	<u>1,060,270</u>	<u>3,053,827</u>	<u>2,130,950</u>	<u>132</u>	<u>6,245,179</u>
Expenditures					
Current:					
Public safety	1,189,040	1,197,938	-	-	2,386,978
Environmental protection	-	-	2,746,316	-	2,746,316
Economic and physical development	-	2,153,297	-	3,320	2,156,617
Debt service:					
Principal	-	60,000	-	865,000	925,000
Interest and fees	-	13,755	-	651,767	665,522
Total expenditures	<u>1,189,040</u>	<u>3,424,990</u>	<u>2,746,316</u>	<u>1,520,087</u>	<u>8,880,433</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(128,770)</u>	<u>(371,163)</u>	<u>(615,366)</u>	<u>(1,519,955)</u>	<u>(2,635,254)</u>
Other financing sources (uses)					
Capital leases	219,365	-	-	-	219,365
Transfers in	-	209,988	-	1,519,955	1,729,943
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>219,365</u>	<u>209,988</u>	<u>-</u>	<u>1,519,955</u>	<u>1,949,308</u>
Net change in fund balances	90,595	(161,175)	(615,366)	-	(685,946)
Fund balance - beginning	<u>1,762,261</u>	<u>678,136</u>	<u>2,367,639</u>	<u>-</u>	<u>4,808,036</u>
Fund balance - ending	<u>\$ 1,852,856</u>	<u>\$ 516,961</u>	<u>\$ 1,752,273</u>	<u>\$ -</u>	<u>\$ 4,122,090</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
(With Comparative Actual Amounts For Year Ended June 30, 2003)

	Budget	Variance Positive (Negative)	2004 Actual	2003 Actual
Revenues				
Other taxes				
Subscribers' tax	\$ 938,326	\$ (55,901)	\$ 882,425	\$ 879,552
Wireless 911 funds	177,735	(18,990)	158,745	176,400
Total other taxes	<u>1,116,061</u>	<u>(74,891)</u>	<u>1,041,170</u>	<u>1,055,952</u>
Miscellaneous	-	10,000	10,000	-
Interest earned on investments				
Wireless 911	-	27	27	689
Enhanced 911	40,000	(30,927)	9,073	45,486
Total interest earned on investments	<u>40,000</u>	<u>(30,900)</u>	<u>9,100</u>	<u>46,175</u>
Total revenues	<u>1,156,061</u>	<u>(95,791)</u>	<u>1,060,270</u>	<u>1,102,127</u>
Expenditures				
Current				
Public safety				
Wireless 911				
Operating	148,123	1	148,122	153,128
Assets	68,892	1	68,891	3,245
	<u>217,015</u>	<u>2</u>	<u>217,013</u>	<u>156,373</u>
Enhanced 911				
Personnel	525,745	94,300	431,445	373,591
Operating	485,050	122,799	362,251	374,597
Assets	350,851	247,514	103,337	4,868
Cost redistribution	74,994	-	74,994	80,763
	<u>1,436,640</u>	<u>464,613</u>	<u>972,027</u>	<u>833,819</u>
Total public safety	<u>1,653,655</u>	<u>464,615</u>	<u>1,189,040</u>	<u>990,192</u>
Debt service				
Enhanced 911	13,239	13,239	-	-
Total debt service	<u>13,239</u>	<u>13,239</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,666,894</u>	<u>477,854</u>	<u>1,189,040</u>	<u>990,192</u>
Revenues over (under) expenditures	<u>(510,833)</u>	<u>382,063</u>	<u>(128,770)</u>	<u>111,935</u>
Other financing sources (uses)				
Appropriated fund balance	287,660	(287,660)	-	-
Capital leases	223,173	(3,808)	219,365	-
Total other financing sources (uses)	<u>510,833</u>	<u>(291,468)</u>	<u>219,365</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 90,595</u>	<u>90,595</u>	<u>111,935</u>
Fund balance				
Beginning of year - July 1			<u>1,762,261</u>	<u>1,650,326</u>
End of year - June 30			<u>\$ 1,852,856</u>	<u>\$ 1,762,261</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

From Inception And For Year Ended June 30, 2004

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
Federal grants	\$ 11,074,435	\$ 6,267,361	\$ 244,307	\$ 2,376,543	\$ 8,399,597
State grants	1,131,677	1,305,541	558,596	354,422	1,101,367
County	26,772	41,698	29,673	13,288	25,313
Total intergovernmental	<u>12,232,884</u>	<u>7,614,600</u>	<u>832,576</u>	<u>2,744,253</u>	<u>9,526,277</u>
Miscellaneous					
Other	1,125,914	993,697	34,022	309,574	1,269,249
Total revenues	<u>13,358,798</u>	<u>8,608,297</u>	<u>866,598</u>	<u>3,053,827</u>	<u>10,795,526</u>
Expenditures					
Current					
Public safety	3,416,104	2,207,983	963,374	1,197,938	2,442,547
Economic and physical development	10,128,883	5,990,066	-	2,153,297	8,143,363
Total current	<u>13,544,987</u>	<u>8,198,049</u>	<u>963,374</u>	<u>3,351,235</u>	<u>10,585,910</u>
Debt service	<u>406,002</u>	<u>259,519</u>	<u>-</u>	<u>73,755</u>	<u>333,274</u>
Total expenditures	<u>13,950,989</u>	<u>8,457,568</u>	<u>963,374</u>	<u>3,424,990</u>	<u>10,919,184</u>
Revenues over (under) expenditures	<u>(592,191)</u>	<u>150,729</u>	<u>(96,776)</u>	<u>(371,163)</u>	<u>(123,658)</u>
Other financing sources (uses)					
Transfers in	665,289	600,500	96,776	209,988	713,712
Transfers (out)	(73,098)	(73,099)	-	-	(73,099)
Owner contributions	-	6	-	-	6
Total other financing sources (uses)	<u>592,191</u>	<u>527,407</u>	<u>96,776</u>	<u>209,988</u>	<u>640,619</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 678,136</u>	<u>\$ -</u>	<u>(161,175)</u>	<u>\$ 516,961</u>
Fund balance					
Beginning of year - July 1				<u>678,136</u>	
End of year - June 30				<u>\$ 516,961</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, 2004

	<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	\$ 1,104,145	\$ 535,051	\$ -	\$ 295,378	\$ 830,429
GHSP	4,350	13,345	13,345	4,006	4,006
Juvenile Restitution	237,776	195,043	87,539	118,061	225,565
Governor's Crime Commission	387,515	313,381	168,215	173,755	318,921
I-95 Corridor P2P Grant	74,660	-	-	74,660	74,660
Law Enforcement Block Grant	502,545	1,046,137	694,275	131,403	483,265
Operation Ceasefire	250,000	-	-	43,973	43,973
COPS Homeland Security	292,774	-	-	22,138	22,138
FEMA Firefighter Grant	540,600	105,026	-	334,564	439,590
FY03 State Homeland Security	21,739	-	-	-	-
Total public safety	<u>3,416,104</u>	<u>2,207,983</u>	<u>963,374</u>	<u>1,197,938</u>	<u>2,442,547</u>
Economic and physical development					
Community Development Block Grant	6,092,009	3,290,722	-	1,707,855	4,998,577
Arsenal Park Archaeological	43,459	43,362	-	-	43,362
Assessment Payment	39,865	39,865	-	-	39,865
HOME	3,953,550	2,616,117	-	445,442	3,061,559
Total economic and physical development	<u>10,128,883</u>	<u>5,990,066</u>	<u>-</u>	<u>2,153,297</u>	<u>8,143,363</u>
Total expenditures by project	<u>\$ 13,544,987</u>	<u>\$ 8,198,049</u>	<u>\$ 963,374</u>	<u>\$ 3,351,235</u>	<u>\$ 10,585,910</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, 2004
(With Comparative Actual Amounts For Year Ended June 30, 2003)

	Budget	Variance Positive (Negative)	2004 Actual	2003 Actual
Revenues				
Other taxes				
Storm water tax	\$ 2,011,792	\$ 96,080	\$ 2,107,872	\$ 2,016,887
Penalties	11,488	3,651	15,139	10,372
Total other taxes	<u>2,023,280</u>	<u>99,731</u>	<u>2,123,011</u>	<u>2,027,259</u>
Interest earned on investments	55,000	(47,061)	7,939	84,025
Total revenues	<u>2,078,280</u>	<u>52,670</u>	<u>2,130,950</u>	<u>2,111,284</u>
Expenditures				
Current				
Environmental protection				
Personnel	1,004,872	14,933	989,939	974,608
Operating	2,530,997	975,471	1,555,526	2,043,197
Assets	154,502	120,651	33,851	-
Cost redistribution	167,000	-	167,000	361,239
Total environmental protection	<u>3,857,371</u>	<u>1,111,055</u>	<u>2,746,316</u>	<u>3,379,044</u>
Revenues over (under) expenditures	<u>(1,779,091)</u>	<u>1,163,725</u>	<u>(615,366)</u>	<u>(1,267,760)</u>
Other financing sources (uses)				
Appropriated fund balance	1,779,091	(1,779,091)	-	-
Total other financing sources (uses)	<u>1,779,091</u>	<u>(1,779,091)</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (615,366)</u>	<u>(615,366)</u>	<u>(1,267,760)</u>
Fund balance				
Beginning of year - July 1			<u>2,367,639</u>	<u>3,635,399</u>
End of year - June 30			<u>\$ 1,752,273</u>	<u>\$ 2,367,639</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, 2004
(With Comparative Actual Amounts For Year Ended June 30, 2003)

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
Revenues				
Interest earned on investments	\$ -	\$ 132	\$ 132	\$ 247
Expenditures				
Current				
Economic and physical development				
Operating	3,650	330	3,320	3,345
Debt service	1,516,768	1	1,516,767	1,528,517
Total expenditures	<u>1,520,418</u>	<u>331</u>	<u>1,520,087</u>	<u>1,531,862</u>
Revenues over (under) expenditures	<u>(1,520,418)</u>	<u>463</u>	<u>(1,519,955)</u>	<u>(1,531,615)</u>
Other financing sources (uses)				
Transfers in	1,520,418	(463)	1,519,955	1,529,229
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	(2,386)
Fund balance				
Beginning of year - July 1			-	2,386
End of year - June 30			<u>\$ -</u>	<u>\$ -</u>

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
- * 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, 2004

	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Bond Improvement Fund	Economic and Physical Development Fund	Linear Park Fund	Total Nonmajor Capital Project Funds
Assets								
Cash and investments	\$ 122,404	\$ 13,763	\$ (31,110)	\$ 4,588,313	\$ 13,280	\$ 279,170	\$ 152,974	\$ 5,138,794
Accounts receivable	-	-	693,798	28,077	10,879	776,339	149	1,509,242
Restricted asset - cash and investments	-	-	-	-	4,169,312	-	-	4,169,312
Total assets	\$ 122,404	\$ 13,763	\$ 662,688	\$ 4,616,390	\$ 4,193,471	\$ 1,055,509	\$ 153,123	\$ 10,817,348
Liabilities and fund balances								
Liabilities:								
Accounts payable and accrued expenses	\$ -	\$ -	\$ 133,929	\$ 183,761	\$ 958,422	\$ 240,989	\$ -	\$ 1,517,101
Deferred revenues	-	-	-	-	-	200	-	200
Total liabilities	-	-	133,929	183,761	958,422	241,189	-	1,517,301
Fund balances:								
Reserved								
By State statute	-	-	693,797	28,077	10,879	776,139	148	1,509,040
For encumbrances	8,016	-	363,525	118,416	1,902,362	1,185,203	-	3,577,522
For subsequent years	114,388	13,763	(528,563)	4,286,136	1,321,808	(1,147,022)	152,975	4,213,485
Total fund balances	122,404	13,763	528,759	4,432,629	3,235,049	814,320	153,123	9,300,047
Total liabilities and fund balances	\$ 122,404	\$ 13,763	\$ 662,688	\$ 4,616,390	\$ 4,193,471	\$ 1,055,509	\$ 153,123	\$ 10,817,348

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Capital Project Funds
 Year Ended June 30, 2004

	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Bond Improvement Fund	Economic and Physical Development Fund	Linear Park Fund	Total Nonmajor Capital Project Funds
Revenues								
Intergovernmental	\$ -	\$ -	\$ 882,559	\$ 10,260	\$ -	\$ 514,112	\$ -	\$ 1,406,931
Miscellaneous	-	-	82,087	3,413	-	935,825	198,100	1,219,425
Interest earned on investments	-	-	2,147	-	38,827	(470)	533	41,037
Total revenues	-	-	966,793	13,673	38,827	1,449,467	198,633	2,667,993
Expenditures								
Current:								
Administration	216,228	-	-	-	-	-	-	216,228
Public safety	-	-	-	-	-	-	-	-
Transportation	-	-	-	1,574,015	-	-	-	1,574,015
Economic and physical development	-	-	-	-	1,485,393	1,724,136	-	3,209,529
Recreation and community facilities	-	-	1,781,389	-	-	-	45,610	1,826,999
Debt service:	-	-	-	-	-	-	-	-
Issue costs	-	-	-	-	-	-	-	-
Total expenditures	216,228	-	1,781,389	1,574,015	1,485,393	1,724,136	45,610	6,826,771
Excess (deficiency) of revenues over (under) expenditures	(216,228)	-	(814,596)	(1,560,342)	(1,446,566)	(274,669)	153,023	(4,159,378)
Other financing sources (uses)								
Bonds	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Transfers in	-	-	371,999	1,801,382	-	581,946	100	2,755,427
Transfers out	-	-	-	(144,500)	-	-	-	(144,500)
Total other financing sources (uses)	-	-	371,999	1,656,882	-	581,946	100	2,610,927
Net change in fund balances	(216,228)	-	(442,597)	96,540	(1,446,566)	307,277	153,123	(1,548,451)
Fund balance - beginning	338,632	13,763	971,356	4,336,089	4,681,615	507,043	-	10,848,498
Fund balance - ending	\$ 122,404	\$ 13,763	\$ 528,759	\$ 4,432,629	\$ 3,235,049	\$ 814,320	\$ 153,123	\$ 9,300,047

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, 2004

	<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	418,079	-	216,228	634,307
Total expenditures	<u>756,711</u>	<u>418,079</u>	<u>-</u>	<u>216,228</u>	<u>634,307</u>
Revenues over (under) expenditures	<u>(756,711)</u>	<u>(418,079)</u>	<u>-</u>	<u>(216,228)</u>	<u>(634,307)</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>\$ 338,632</u>	<u>\$ -</u>	<u>(216,228)</u>	<u>\$ 122,404</u>
Fund balance					
Beginning of year - July 1				338,632	
End of year - June 30				<u>\$ 122,404</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, 2004

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Miscellaneous					
Sale of assets	\$ -	\$ 2,072	\$ -	\$ -	\$ 2,072
Interest earned on investments	44,072	47,873	-	-	47,873
Total revenues	<u>44,072</u>	<u>49,945</u>	<u>-</u>	<u>-</u>	<u>49,945</u>
Expenditures					
Current					
Public safety					
School Road Fire Station	1,244,780	1,236,890	-	-	1,236,890
Revenues over (under) expenditures	<u>(1,200,708)</u>	<u>(1,186,945)</u>	<u>-</u>	<u>-</u>	<u>(1,186,945)</u>
Other financing sources (uses)					
Proceeds from capital leases	1,111,383	1,111,383	-	-	1,111,383
Transfers in	89,325	89,325	-	-	89,325
Total other financing sources (uses)	<u>1,200,708</u>	<u>1,200,708</u>	<u>-</u>	<u>-</u>	<u>1,200,708</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 13,763</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 13,763</u>
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, 2004

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
Federal grants/contributions	\$ 1,270,287	\$ 83,020	\$ -	\$ 759,060	\$ 842,080
State grants/contributions	1,000,000	426,501	-	123,499	550,000
Total intergovernmental	2,270,287	509,521	-	882,559	1,392,080
Miscellaneous					
Other	70,000	70,000	-	-	70,000
Donations	174,605	32,518	-	82,087	114,605
Total miscellaneous	244,605	102,518	-	82,087	184,605
Interest earned on investments	42,870	174,523	57,662	2,147	119,008
Total revenues	2,557,762	786,562	57,662	966,793	1,695,633
Expenditures					
Current					
Recreational and community facilities					
Mazarick Park Greenway Trail	387,300	176,502	-	206,488	382,990
Cape Fear River Trail	1,922,557	205,053	-	1,327,314	1,532,367
Park improvements	150,000	9,371	-	-	9,371
Recreation centers	3,013,500	4,090,698	4,090,698	91,514	91,514
Arsenal Park	173,826	155,401	-	-	155,401
Freedom Park	289,605	77,817	-	158,073	233,890
Seabrook Pool	-	602,644	602,644	-	-
Amtrak Station	500,000	-	-	-	-
Total expenditures	6,446,788	5,317,486	4,693,342	1,781,389	2,405,533
Revenues over (under) expenditures	(3,889,026)	(4,530,924)	(4,635,680)	(814,596)	(709,840)
Other financing sources (uses)					
Transfers in	1,067,526	864,244	-	371,999	1,236,243
Capital leases, bonds, and other debt	2,821,500	4,638,036	4,635,680	-	2,356
Total other financing sources (uses)	3,889,026	5,502,280	4,635,680	371,999	1,238,599
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 971,358	\$ -	(442,597)	\$ 528,759
Fund balance					
Beginning of year - July 1				971,356	
End of year - June 30				<u>\$ 528,759</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, 2004

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
State grants	\$ 150,000	\$ 231,472	\$ 81,472	\$ 10,260	\$ 160,260
Miscellaneous					
Owner contribution	-	32,357	-	3,413	35,770
Other	68,346	88,551	-	-	88,551
Total miscellaneous	68,346	120,908	-	3,413	124,321
Total revenues	218,346	352,380	81,472	13,673	284,581
Expenditures					
Current					
Transportation					
Traffic control system	1,349,069	1,146,263	-	48,721	1,194,984
Sidewalks	456,463	-	-	66,949	66,949
Parking improvements	1,111,244	803,691	-	86,655	890,346
Transportation improvements	5,166,056	3,636,517	1,563,894	1,371,690	3,444,313
Total expenditures	8,082,832	5,586,471	1,563,894	1,574,015	5,596,592
Revenues over (under) expenditures	(7,864,486)	(5,234,091)	(1,482,422)	(1,560,342)	(5,312,011)
Other financing sources (uses)					
Transfers in	8,528,675	10,089,869	1,482,422	1,801,382	10,408,829
Transfers (out)	(664,189)	(519,689)	-	(144,500)	(664,189)
Total other financing sources (uses)	7,864,486	9,570,180	1,482,422	1,656,882	9,744,640
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 4,336,089	\$ -	96,540	\$ 4,432,629
Fund balance					
Beginning of year - July 1				4,336,089	
End of year - June 30				\$ 4,432,629	

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, 2004

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Interest earned on investments	\$ 2,594,033	\$ 2,604,966	\$ -	\$ 38,827	\$ 2,643,793
Expenditures					
Current					
Economic and physical development					
Bond administration	1,747,846	1,489,903	-	22,008	1,511,911
Streets	22,194,081	18,280,037	-	1,195,532	19,475,569
Debt service	656,954	656,953	-	-	656,953
Sidewalks	2,673,941	2,407,975	-	265,962	2,673,937
Drainage	6,926,202	6,683,474	-	1,891	6,695,365
Total expenditures	<u>34,199,024</u>	<u>29,528,342</u>	<u>-</u>	<u>1,485,393</u>	<u>31,013,735</u>
Revenues over (under) expenditures	<u>(31,604,991)</u>	<u>(26,923,376)</u>	<u>-</u>	<u>(1,446,566)</u>	<u>(28,369,942)</u>
Other financing sources (uses)					
Transfers in	500,000	500,000	-	-	500,000
Capital leases, bonds, and other debt	31,104,991	31,104,991	-	-	31,104,991
Total other financing sources (uses)	<u>31,604,991</u>	<u>31,604,991</u>	<u>-</u>	<u>-</u>	<u>31,604,991</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 4,681,615</u>	<u>\$ -</u>	<u>(1,446,566)</u>	<u>\$ 3,235,049</u>
Fund balance					
Beginning of year - July 1				<u>4,681,615</u>	
End of year - June 30				<u>\$ 3,235,049</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, 2004

	<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	\$ 178,036	\$ -	\$ 5,085	\$ 183,121
Slate grants	2,825,702	259,903	-	509,027	768,930
Total intergovernmental	<u>2,975,702</u>	<u>437,939</u>	<u>-</u>	<u>514,112</u>	<u>952,051</u>
Miscellaneous					
Owners contribution	-	82,048	82,048	-	-
Private donations	2,813,689	777,850	-	935,825	1,713,675
Total miscellaneous	<u>2,813,689</u>	<u>859,898</u>	<u>82,048</u>	<u>935,825</u>	<u>1,713,675</u>
Interest earned on investments	-	2,210	-	(470)	1,740
Total revenues	<u>5,789,391</u>	<u>1,300,047</u>	<u>82,048</u>	<u>1,449,467</u>	<u>2,667,466</u>
Expenditures					
Current					
Economic and physical development					
Brownfields Pilot Project	350,000	178,037	-	5,085	183,122
Uptown revitalization	-	-	-	-	-
USO/Amphitheater Demo/Festival Park	7,534,621	658,168	-	1,083,018	1,741,186
Cape Fear & Yadkin Valley Depot	3,282,128	325,129	-	636,033	961,162
Dam Restoration Project	-	234,103	234,103	-	-
Total expenditures	<u>11,166,749</u>	<u>1,395,437</u>	<u>234,103</u>	<u>1,724,136</u>	<u>2,865,470</u>
Revenues over (under) expenditures	<u>(5,377,358)</u>	<u>(95,390)</u>	<u>(152,055)</u>	<u>(274,669)</u>	<u>(218,004)</u>
Other financing sources (uses)					
Transfers in	752,358	602,433	152,055	581,946	1,032,324
Debt issuance	4,825,000	-	-	-	-
Total other financing sources (uses)	<u>5,377,358</u>	<u>602,433</u>	<u>152,055</u>	<u>581,946</u>	<u>1,032,324</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 507,043</u>	<u>\$ -</u>	<u>307,277</u>	<u>\$ 814,320</u>
Fund balance					
Beginning of year - July 1				<u>507,043</u>	
End of year - June 30				<u>\$ 814,320</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, 2004

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Miscellaneous					
Other	\$ 100,000	\$ -	\$ -	\$ 198,100	\$ 198,100
Total miscellaneous	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>198,100</u>	<u>198,100</u>
Interest earned on Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>533</u>	<u>533</u>
Total revenues	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>198,633</u>	<u>198,633</u>
Expenditures					
Current					
Recreational and community facilities					
Linear Park	100,000	-	-	45,610	45,610
Total expenditures	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>45,610</u>	<u>45,610</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,023</u>	<u>153,023</u>
Other financing sources (uses)					
Transfers in	-	-	-	100	100
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>100</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>153,123</u>	<u>\$ 153,123</u>
Fund balance					
End of year - June 30				<u>\$ 153,123</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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
PUBLIC WORKS COMMISSION

Combining Balance Sheet
Electric Fund
June 30, 2004

Assets	Electric Fund	Uptown Revitalization Special Fund	Rate Stabilization Special Fund	2003A Electric Revenue Bond Fund	Total
Current unrestricted assets					
Cash and cash equivalents	\$ 7,344,154	\$ -	\$ -	\$ -	\$ 7,344,154
Investments	6,640,931	-	-	-	6,640,931
Receivables	19,088,873	-	-	-	19,088,873
Internal balances	898,923	(6,468)	-	(894,945)	(4,480)
Less allowance for doubtful accounts	(251,303)	-	-	-	(251,303)
Inventories	10,236,637	-	-	-	10,236,637
Other current assets	75,104	-	-	-	75,104
Total current unrestricted assets	<u>44,031,119</u>	<u>(6,468)</u>	<u>-</u>	<u>(894,945)</u>	<u>43,129,706</u>
Current restricted assets					
Cash and cash equivalents	5,207,479	2,450,881	6,484,175	5,405,161	19,547,696
Investments	2,238,435	-	-	-	2,238,435
Collateral pledged in lieu of deposits	229,974	-	-	-	229,974
Receivables	10,549	-	-	-	10,549
Total current restricted assets	<u>7,686,437</u>	<u>2,450,881</u>	<u>6,484,175</u>	<u>5,405,161</u>	<u>22,026,654</u>
Total current assets	<u>51,717,556</u>	<u>2,444,413</u>	<u>6,484,175</u>	<u>4,510,216</u>	<u>65,156,360</u>
Noncurrent assets					
Other assets	810,990	-	-	62,240	873,230
Capital assets:					
Land	4,471,216	-	-	-	4,471,216
Construction in process	3,529,881	-	-	1,201,326	4,731,007
Electric utility system	163,808,686	-	-	-	163,808,686
Buildings	30,409,593	-	-	-	30,409,593
Equipment and machinery	7,325,141	-	-	-	7,325,141
Computer programs	2,990,655	-	-	-	2,990,655
Vehicles	722,202	-	-	-	722,202
Office equipment	472,467	-	-	-	472,467
Capital assets, net	<u>213,729,641</u>	<u>-</u>	<u>-</u>	<u>1,201,326</u>	<u>214,930,967</u>
Total noncurrent assets	<u>214,540,631</u>	<u>-</u>	<u>-</u>	<u>1,283,566</u>	<u>215,804,197</u>
Total assets	<u>\$ 266,258,187</u>	<u>\$ 2,444,413</u>	<u>\$ 6,484,175</u>	<u>\$ 5,773,782</u>	<u>\$ 280,960,557</u>
Liabilities and net assets					
Current liabilities to be paid from unrestricted current assets					
Current portion of long-term debt	\$ 6,737,880	\$ -	\$ -	\$ -	\$ 6,737,880
Overdraft payable	-	-	-	-	-
Accounts payable and accrued expenses	13,882,681	-	-	151,076	13,833,757
Total current liabilities to be paid from unrestricted current assets	<u>20,420,561</u>	<u>-</u>	<u>-</u>	<u>151,076</u>	<u>20,571,637</u>
Current liabilities to be paid from restricted current assets					
Accounts payable and accrued expenses	3,577,149	1,402,289	-	-	4,979,438
Total current liabilities to be paid from restricted current assets	<u>3,577,149</u>	<u>1,402,289</u>	<u>-</u>	<u>-</u>	<u>4,979,438</u>
Total current liabilities	<u>23,997,710</u>	<u>1,402,289</u>	<u>-</u>	<u>151,076</u>	<u>25,551,075</u>
Noncurrent liabilities					
Long-term debt	50,109,388	-	-	-	50,109,388
Total noncurrent liabilities	<u>50,109,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,109,388</u>
Total liabilities	<u>74,107,098</u>	<u>1,402,289</u>	<u>-</u>	<u>151,076</u>	<u>75,660,463</u>
Net assets					
Capital assets net of related debt	156,882,373	-	-	1,201,326	158,083,699
Restricted for -					
Capital Projects	-	-	-	-	-
Debt service	1,060,732	-	-	-	1,060,732
Unrestricted net assets	34,207,984	1,042,124	6,484,175	4,421,380	48,155,663
Total net assets	<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 liabilities and net assets	<u>\$ 266,258,187</u>	<u>\$ 2,444,413</u>	<u>\$ 6,484,175</u>	<u>\$ 5,773,782</u>	<u>\$ 280,960,557</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA
PUBLIC WORKS COMMISSION**

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Electric Fund
Year Ended June 30, 2004**

	Electric Fund	Uptown Revitalization Special Fund	Rate Stabilization Special Fund	2003A Electric Revenue Bond Fund	Total
Operating revenues					
Charges for services	\$ 141,981,920	\$ -	\$ -	\$ -	\$ 141,981,920
Total operating revenues	<u>141,981,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>141,981,920</u>
Operating expenses					
Power supply and generation	94,435,771	-	-	-	94,435,771
Electric operation	11,682,952	-	-	-	11,682,952
General and administrative	8,241,402	-	-	-	8,241,402
Depreciation	13,023,350	-	-	-	13,023,350
Total operating expenses	<u>127,383,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,383,475</u>
Operating income (loss)	<u>14,598,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,598,445</u>
Nonoperating revenue (expense)					
Interest earned on investments	547,832	-	40,500	-	588,332
Gain (loss) on disposal of assets	(1,092,556)	-	-	-	(1,092,556)
Interest expense	(1,995,508)	-	-	-	(1,995,508)
Amortization	(783,728)	-	-	-	(783,728)
Issue costs	(154,337)	-	-	-	(154,337)
Total nonoperating revenue (expense)	<u>(3,478,297)</u>	<u>-</u>	<u>40,500</u>	<u>-</u>	<u>(3,437,797)</u>
Income (loss) before transfers and contributions	<u>11,120,148</u>	<u>-</u>	<u>40,500</u>	<u>-</u>	<u>11,160,648</u>
Transfers in	1,117,786	-	2,000,000	5,622,706	8,740,492
Transfers out	(7,622,706)	(1,465,898)	-	-	(9,088,604)
Transfers out - City of Fayetteville	(8,412,809)	-	-	-	(8,412,809)
Capital contributions	116,186	-	-	-	116,186
Change in net assets	<u>(3,681,395)</u>	<u>(1,465,898)</u>	<u>2,040,500</u>	<u>5,622,706</u>	<u>2,515,913</u>
Total net assets - as previously reported	197,223,703	2,508,022	4,443,675	-	204,175,400
Prior period adjustment - prepaid pension	<u>(1,391,219)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,391,219)</u>
Total net assets - beginning restated	<u>195,832,484</u>	<u>2,508,022</u>	<u>4,443,675</u>	<u>-</u>	<u>202,784,181</u>
Total net assets - ending	<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>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
(with comparative actual amounts for the year ended June 30, 2003)

	2004			2003 Actual
	Budget	Variance Positive (Negative)	Actual	
Revenues				
Operating revenues				
Electric operations				
Sale of electricity	\$ 139,835,700	\$ (3,430,395)	\$ 136,405,305	\$ 140,613,571
City services	1,538,000	124,592	1,662,592	1,612,650
Non-utility charges	815,100	69,327	884,427	694,836
Service charges	1,150,000	98,694	1,248,694	1,233,744
Miscellaneous	1,384,800	396,102	1,780,902	1,462,926
Total operating revenues	<u>144,723,600</u>	<u>(2,741,680)</u>	<u>141,981,920</u>	<u>145,617,727</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	(1,092,556)	(1,092,556)	(864,850)
Interest earned on investments	1,000,000	(452,168)	547,832	809,252
Total non-operating revenues	<u>1,000,000</u>	<u>(1,544,724)</u>	<u>(544,724)</u>	<u>(55,598)</u>
Contributions				
Contributions	2,355,000	(2,238,814)	116,186	3,632,702
Total contributions	<u>2,355,000</u>	<u>(2,238,814)</u>	<u>116,186</u>	<u>3,632,702</u>
Transfers in				
Transfers from Rate Stabilization Fund	-	-	-	1,000,000
Total transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total revenues	<u>\$ 148,078,600</u>	<u>\$ (6,525,218)</u>	<u>\$ 141,553,382</u>	<u>\$ 150,194,831</u>
Expenditures				
Operating expenditures				
Electric operations				
Power supply and generation	\$ 95,748,310	\$ 1,312,539	\$ 94,435,771	\$ 105,199,899
Administration	428,060	47,749	380,311	266,336
Apparatus repair shop	430,070	41,546	388,524	452,811
Electric meter shop	598,185	75,145	523,040	554,244
Construction and maintenance	6,685,070	(898,581)	7,583,651	6,755,193
Substation construction	1,040,590	(87,508)	1,128,098	894,095
Engineering	1,940,410	241,336	1,699,074	1,781,742
Overhead clearing account	-	19,746	(19,746)	0
Total electric operations	<u>106,870,695</u>	<u>751,972</u>	<u>106,118,723</u>	<u>115,904,320</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
(with comparative actual amounts for the year ended June 30, 2003)

	2004			2003 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
General and administrative				
Executive	\$ 669,610	\$ 120,185	\$ 549,425	\$ 509,379
Internal audit	74,325	7,198	67,127	72,616
Public information	443,635	41,990	401,645	380,794
Financial administration	135,530	27,469	108,061	114,831
Administrative - administration	95,550	1,631	93,919	82,007
Human resources	428,980	68,637	360,343	382,720
Accounting	413,390	50,947	362,443	382,534
Accounts receivable	604,640	68,225	536,415	575,496
Payroll	69,620	10,920	58,700	66,716
Customer service administration	1,004,305	237,756	766,549	774,377
Call center	559,810	33,043	526,767	563,787
Customer programs and service	269,538	16,009	253,529	139,376
Cashiers	339,240	(1,212)	340,452	333,967
Main office	300,680	99,418	201,262	299,873
Meter reading	325,940	46,439	279,501	335,461
Utility field services	401,167	(41,264)	442,431	391,492
Risk management	379,760	73,477	306,283	268,382
Capital Projects	184,245	23,166	161,079	152,045
Rates	139,820	61,537	78,283	193,278
Budget	96,930	22,487	74,443	83,683
Purchasing	218,490	59,955	158,535	-
Warehouse	333,355	(168,117)	501,472	-
Material management	118,470	(35,905)	154,375	121,901
Investigation	-	-	-	100,975
Fleet maintenance	997,515	111,820	885,695	-
Building and grounds maintenance	172,085	20,453	151,632	169,851
Metering management	204,960	25,735	179,225	185,524
Special projects	302,820	71,917	230,903	234,173
Telecommunications systems	332,865	30,621	302,244	325,919
Information systems	809,700	(39,799)	849,499	773,588
Pension expense	1,132,700	1,124,429	8,271	428,057
Net pension obligation adjustment	-	-	-	1,632,017
Medical insurance	1,837,800	(233,850)	2,071,650	2,030,416
Other	480,975	1,023,393	(542,418)	64,409
Clearing accounts	(4,718,660)	(2,040,322)	(2,578,338)	(2,473,733)
Total general and administrative	9,159,790	918,388	8,241,402	9,695,911
Total operating expenditures	116,030,485	1,670,360	114,360,125	125,600,231
Non-operating expenditures				
Interest expense	2,531,000	535,492	1,995,508	2,955,731
Issue costs	-	(154,337)	154,337	-
Total non-operating expenditures	2,531,000	381,155	2,149,845	2,955,731

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
(with comparative actual amounts for the year ended June 30, 2003)

	2004			2003 Actual
	Budget	Variance Positive (Negative)	Actual	
Transfers out				
Transfers to City of Fayetteville	\$ 8,469,900	\$ 57,091	\$ 8,412,809	\$ 8,544,444
Transfers to Rate Stabilization Fund	2,000,000	-	2,000,000	250,000
Total transfers out	<u>10,469,900</u>	<u>57,091</u>	<u>10,412,809</u>	<u>8,794,444</u>
Budgetary appropriations				
Inventory increase	600,000	277,244	322,756	(972,774)
Vehicle and equipment	-	-	158,633	-
Bond principal payments	2,949,600	(368,945)	3,318,545	3,669,280
Capital outlay	11,271,150	2,263,419	9,007,731	13,901,500
Appropriated net assets	4,226,465	4,226,465	-	-
Total budgetary appropriations	<u>19,047,215</u>	<u>6,239,550</u>	<u>12,807,665</u>	<u>16,598,006</u>
Total expenditures	<u>\$ 148,078,600</u>	<u>\$ 8,348,156</u>	<u>\$ 139,730,444</u>	<u>\$ 153,948,412</u>
Reconciliation of change in net assets				
Total revenues		\$ (6,525,218)	\$ 141,553,382	\$ 150,194,831
Total expenditures		<u>8,348,156</u>	<u>139,730,444</u>	<u>153,948,412</u>
Subtotal		<u>\$ 1,822,938</u>	1,822,938	(3,753,581)
Reconciling items:				
Budgetary appropriations			12,807,665	16,598,006
Depreciation			(13,023,350)	(12,890,217)
Amortization			(783,728)	(450,375)
Transfer of assets from the Uptown Revitalization Capital Project Fund			1,117,786	1,595,793
Transfer of assets to the 2003A Electric Revenue Bond Fund			(5,622,706)	-
Total reconciling items			<u>(5,504,333)</u>	<u>4,853,207</u>
Change in net assets			<u>\$ (3,681,395)</u>	<u>\$ 1,099,626</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, 2004**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Museum land acquisition	-	2,346,547	-	2,346,547
Botanical gardens	-	55,705	-	55,705
Consulting fees	-	132,304	-	132,304
Museum construction	-	7,153,453	-	7,153,453
Transportation system	-	160,000	-	160,000
Land donation	-	175,000	-	175,000
Riverfront development	-	79,776	-	79,776
Hydrology study	-	6,705	-	6,705
Electric system improvements	-	1,798,368	1,079,209	2,877,577
Water/Sewer improvements	-	122,686	348,123	470,809
Total expenditures	<u>14,500,000</u>	<u>12,030,544</u>	<u>1,427,332</u>	<u>13,457,876</u>
Revenues under expenditures	<u>(14,500,000)</u>	<u>(12,030,544)</u>	<u>(1,427,332)</u>	<u>(13,457,876)</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>\$ 2,469,456</u>	<u>(1,427,332)</u>	<u>\$ 1,042,124</u>
Reconciling items:				
Capital outlay			1,427,332	
Transfer of assets to the Electric Fund			(1,117,786)	
Transfer of assets to the Water and Wastewater Fund			(348,112)	
Change in net assets			<u>\$ (1,465,898)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Changes in the Status of Rate Stabilization Fund
From Inception and for the Year Ended June 30, 2004

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 565,972	\$ 523,950	\$ 40,500	\$ 564,450
Rate stabilization transfer	4,169,725	4,169,725	-	4,169,725
Total revenues	<u>4,735,697</u>	<u>4,693,675</u>	<u>40,500</u>	<u>4,734,175</u>
Expenditures				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues under expenditures	<u>4,735,697</u>	<u>4,693,675</u>	<u>40,500</u>	<u>4,734,175</u>
Other financing sources				
Transfer from Electric Fund	6,750,000	4,750,000	2,000,000	6,750,000
Transfer to Electric Fund	(5,000,000)	(5,000,000)	-	(5,000,000)
Appropriated net assets	(6,485,697)	-	-	-
Total other financing sources	<u>(4,735,697)</u>	<u>(250,000)</u>	<u>2,000,000</u>	<u>1,750,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 4,443,675</u>	<u>2,040,500</u>	<u>\$ 6,484,175</u>
Reconciling items:				
Total reconciling items			-	
Change in net assets			<u>\$ 2,040,500</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of 2003A Electric Revenue Bond
From Inception and for the Year Ended June 30, 2004**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 45,000	\$ -	\$ 38,739	\$ 38,739
Total revenues	<u>45,000</u>	<u>-</u>	<u>38,739</u>	<u>38,739</u>
Expenditures				
Construction	-	-	266,207	266,207
Engineering	-	-	208,230	208,230
Other	-	-	765,628	765,628
Total expenditures	<u>5,675,000</u>	<u>-</u>	<u>1,240,065</u>	<u>1,240,065</u>
Revenues under expenditures	<u>(5,630,000)</u>	<u>-</u>	<u>(1,201,326)</u>	<u>(1,201,326)</u>
Other financing sources				
2003A Revenue Bond proceeds	5,630,000	-	5,622,706	5,622,706
Total other financing sources	<u>5,630,000</u>	<u>-</u>	<u>5,622,706</u>	<u>5,622,706</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	4,421,380	<u>\$ 4,421,380</u>
Reconciling items:				
Capital outlay			1,201,326	
Change in net assets			<u>\$ 5,622,706</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Balance Sheet
Water and Wastewater Fund
June 30, 2004

Assets	Water and Wastewater Fund	Annexation Capital Project Fund III	1987 Supplemental Capital Project Fund	Annexation Capital Project Fund Phase I/A	Annexation Capital Reserve Fund	Annexation Capital Project Fund Phase I/B	2002 State Revolving Loan Capital Project Fund	2003A Water and Wastewater Revenue Bond Fund	Total
Current unrestricted assets									
Cash and cash equivalents	\$ 5,641,055	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,641,055
Investments	2,116,244	-	-	-	-	-	-	-	2,116,244
Receivables	14,314,860	-	-	-	-	-	-	-	14,314,860
Internal balances	1,506,148	-	-	(24)	-	(342,333)	1,557,825	(431,060)	15,899,377
Less allowance for doubtful accounts	(55,591)	-	-	-	-	-	-	-	4,490
Inventories	915,823	-	-	-	-	-	-	-	(55,591)
Other current assets	91,143	-	-	-	-	-	-	-	915,823
Total current unrestricted assets	24,529,682	-	-	(24)	-	(315,641)	829,584	(431,060)	24,612,541
Current restricted assets									
Cash and cash equivalents	5,354,905	-	-	41,925	561,026	8,942,526	-	4,388,568	19,289,050
Investments	9,826,520	-	-	-	-	-	-	-	9,826,520
Receivables	119,687	-	-	292,106	-	373,997	-	-	785,792
Total current restricted assets	15,301,112	-	-	334,033	561,026	9,316,523	-	4,388,568	29,901,362
Total current assets	39,830,794	-	-	334,009	561,026	9,000,982	829,584	3,957,508	54,513,903
Noncurrent assets									
Other assets	1,648,674	-	-	-	-	-	-	199,062	1,845,826
Capital assets:									
Land	6,995,620	-	-	-	-	-	-	-	6,995,620
Construction in process	8,715,358	-	-	-	-	-	-	-	8,715,358
Water system	115,935,433	-	-	-	-	2,789,283	5,919,701	1,200,251	125,844,678
Sewer system	191,656,371	-	-	-	-	-	-	-	191,656,371
Buildings	3,385,900	-	-	-	-	-	-	-	3,385,900
Equipment and machinery	1,478,601	-	-	-	-	-	-	-	1,478,601
Computer programs	3,011,419	-	-	-	-	-	-	-	3,011,419
Vehicles	737,862	-	-	-	-	-	-	-	737,862
Office equipment	51,402	-	-	-	-	-	-	-	51,402
Capital assets, net	329,967,966	-	-	-	-	2,789,283	5,919,701	1,200,251	339,877,201
Total noncurrent assets	331,614,640	-	-	-	-	2,789,283	5,919,701	1,399,303	341,723,127
Total assets	\$ 371,445,634	\$ -	\$ -	\$ 334,009	\$ 561,026	\$ 11,790,265	\$ 6,749,285	\$ 5,356,811	\$ 396,237,030
Liabilities and net assets									
Current portion of long-term debt	\$ 4,896,876	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,896,876
Accounts payable and accrued expenses	6,435,808	-	-	-	-	1,308,178	1,337,429	14,070	9,095,483
Total current liabilities to be paid from unrestricted current assets	11,332,682	-	-	-	-	1,308,178	1,337,429	14,070	13,992,359
Current liabilities to be paid from restricted current assets									
Accounts payable and accrued expenses	1,294,357	-	-	-	-	-	-	-	1,294,357
Total current liabilities to be paid from restricted current assets	1,294,357	-	-	-	-	-	-	-	1,294,357
Total current liabilities	12,627,039	-	-	-	-	1,308,178	1,337,429	14,070	15,286,716
Long-term debt	126,872,519	-	-	-	-	-	-	-	126,872,519
Unearned deposits	4,812,384	-	-	-	-	-	5,411,856	-	10,224,240
Total noncurrent liabilities	133,484,903	-	-	-	-	-	5,411,856	-	138,896,759
Total liabilities	146,111,942	-	-	-	-	1,308,178	6,749,285	14,070	154,133,475
Net assets									
Capital assets net of related debt	196,198,571	-	-	-	-	2,789,283	507,845	1,200,251	200,696,950
Restricted for -									
Capital Projects	-	-	-	-	-	7,318,807	(507,845)	4,142,490	10,953,452
Debt service	7,563,715	-	-	-	-	373,997	-	-	7,937,712
Unrestricted net assets	21,571,406	-	-	334,009	561,026	-	-	-	22,466,441
Total net assets	225,333,692	-	-	334,009	561,026	10,482,087	-	5,342,741	242,053,555
Total liabilities and net assets	\$ 371,445,634	\$ -	\$ -	\$ 334,009	\$ 561,026	\$ 11,790,265	\$ 6,749,285	\$ 5,356,811	\$ 396,237,030

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Water and Wastewater Fund
Year Ended June 30, 2004

	Water and Wastewater Fund	Annexation Capital Project Fund Phase III	1997 Supplemental Capital Project 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	Total
Operating revenues									
Charges for services	\$ 45,282,126	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,282,126
Total operating revenues	45,282,126	-	-	-	-	-	-	-	45,282,126
Operating expenses									
Water operations	8,999,878	-	-	-	-	-	-	-	8,999,878
Sanitary sewer operations	8,192,255	-	-	-	-	-	-	-	8,192,255
General and administrative	9,248,266	-	-	-	-	-	-	-	9,248,266
Depreciation	11,341,587	-	-	-	-	-	-	-	11,341,587
Total operating expenses	37,781,984	-	-	-	-	-	-	-	37,781,984
Operating Income (loss)	7,500,142	-	-	-	-	-	-	-	7,500,142
Nonoperating revenue (expense)									
Interest earned on investments	896,166	-	-	-	4,966	-	-	-	901,132
Gain (loss) on disposal of assets	85,039	-	-	-	-	-	-	-	85,039
Interest expense	(5,491,645)	-	-	-	-	-	-	-	(5,491,645)
Amortization	(958,754)	-	-	-	-	-	-	-	(958,754)
Issue costs	(1,267,507)	-	-	-	-	-	-	-	(1,267,507)
Total nonoperating revenue (expense)	(6,736,701)	-	-	-	4,966	-	-	-	(6,731,735)
Income (loss) before transfers and contributions	763,441	-	-	-	4,966	-	-	-	768,407
Transfers in	7,674,580	-	-	-	-	11,064,304	-	5,868,119	24,607,003
Transfers out	(16,932,423)	(2,173,374)	(2,649,055)	(1,978,661)	-	-	-	(525,378)	(24,258,891)
Transfers out - City of Fayetteville	(1,074,660)	-	-	-	-	-	-	-	(1,074,660)
Capital contributions	8,029,173	-	-	-	-	-	-	-	8,029,173
Change in net assets	(1,539,889)	(2,173,374)	(2,649,055)	(1,978,661)	4,966	11,064,304	-	5,342,741	8,071,032
Total net assets - as previously reported	228,197,042	2,173,374	2,649,055	2,312,870	556,060	(582,217)	-	-	235,305,984
Prior period adjustment - prepaid pension	(1,323,461)	-	-	-	-	-	-	-	(1,323,461)
Total net assets - beginning restated	226,873,581	2,173,374	2,649,055	2,312,870	556,060	(582,217)	-	-	233,982,523
Total net assets - ending	\$ 225,333,692	\$ -	\$ -	\$ 334,009	\$ 561,026	\$ 10,482,087	\$ -	\$ 5,342,741	\$ 242,053,555

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
(with comparative actual amounts for the year ended June 30, 2003)

	2004			2003 Actual
	Budget	Variance Positive (Negative)	Actual	
Revenues				
Operating revenues				
Water operations				
Water sales	\$ 21,147,800	\$ (2,754,571)	\$ 18,393,229	\$ 17,913,632
Connection fees	565,000	218,323	783,323	626,764
City services	65,200	2,359	67,559	64,024
Total water operations	<u>21,778,000</u>	<u>(2,533,889)</u>	<u>19,244,111</u>	<u>18,604,420</u>
Sanitary sewer operations				
Sewer charges	24,736,500	(1,131,535)	23,604,965	22,972,803
Connection fees	360,000	467,122	827,122	417,969
City services	41,000	(2,140)	38,860	34,588
Total sanitary sewer operations	<u>25,137,500</u>	<u>(666,553)</u>	<u>24,470,947</u>	<u>23,425,360</u>
Other operating revenues				
Non-utility charges	661,200	741,814	1,403,014	865,468
Service charges	215,000	56,612	271,612	280,362
Miscellaneous	60,800	(168,358)	(107,558)	(167,575)
Total other operating revenues	<u>937,000</u>	<u>630,068</u>	<u>1,567,068</u>	<u>978,255</u>
Total operating revenues	<u>47,852,500</u>	<u>(2,570,374)</u>	<u>45,282,126</u>	<u>43,008,035</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	85,039	85,039	(13,386)
Interest earned on investments	1,000,000	(103,834)	896,166	802,122
Total non-operating revenues	<u>1,000,000</u>	<u>(18,795)</u>	<u>981,205</u>	<u>788,736</u>
Contributions				
Contributions	4,425,000	3,604,173	8,029,173	8,605,351
Total contributions	<u>4,425,000</u>	<u>3,604,173</u>	<u>8,029,173</u>	<u>8,605,351</u>
Transfers in				
Transfers from Annexation Phase III	2,173,370	353	2,173,723	-
Transfers from 1997 Supplemental	2,586,860	62,195	2,649,055	-
Total transfers in	<u>4,760,230</u>	<u>62,548</u>	<u>4,822,778</u>	<u>-</u>
Total revenues	<u>\$ 58,037,730</u>	<u>\$ 1,077,552</u>	<u>\$ 59,115,282</u>	<u>\$ 52,402,122</u>
Expenditures				
Operating expenditures				
Water operations				
Administration and engineering	\$ 1,037,300	\$ 295,231	\$ 742,069	\$ 913,654
Water meter shop	763,105	(13,061)	776,166	648,830
Construction and maintenance	3,082,080	(97,082)	3,179,162	2,888,453
P. O. Hoffer water treatment plant	2,975,700	424,408	2,551,292	2,854,760
Glenville Lake water treatment plant	1,378,360	192,995	1,185,365	1,214,788
Water resources environmental system protection	164,665	41,999	122,666	-
Laboratory	241,525	46,156	195,369	233,283
Environmental	100,300	13,914	86,386	90,309
Watersheds	164,520	3,119	161,401	160,126
Cross Connection	-	-	-	218,677
Total water operations	<u>9,907,555</u>	<u>907,679</u>	<u>8,999,876</u>	<u>9,222,880</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
(with comparative actual amounts for the year ended June 30, 2003)

	2004			2003 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
Operating expenditures (continued)				
Sanitary sewer operations				
Administration and engineering	\$ 1,037,300	\$ 295,225	\$ 742,075	\$ 913,651
Sewer construction and maintenance	3,458,990	151,327	3,307,663	2,752,905
Lift stations	-	-	-	509,012
Cross Creek WW treatment plant	2,101,780	146,123	1,955,657	1,897,628
Rockfish Creek WW treatment plant	1,823,390	219,418	1,603,972	1,545,493
Residuals management	208,270	29,805	178,465	173,503
Water resources environmental system protection	164,665	41,999	122,666	104,827
Laboratory	241,525	46,156	195,369	233,283
Environmental	100,300	13,912	86,388	90,309
Total sanitary sewer operations	9,136,220	943,965	8,192,255	8,220,611
General and administrative				
Executive	354,610	143,177	211,433	231,715
Internal audit	74,325	9,107	65,218	71,307
Public information	443,635	29,508	414,127	399,423
Financial administration	135,530	28,445	107,085	107,233
Administrative administration	95,550	15,490	80,060	77,099
Human resources	428,980	76,260	352,720	369,132
Accounting	413,390	51,307	362,083	376,489
Accounts receivable	604,640	78,845	525,795	573,674
Payroll	69,620	11,407	58,213	66,578
Customer service administration	554,305	56,211	498,094	445,708
Call center	559,810	36,016	523,794	554,152
Main office	300,680	99,830	200,850	294,735
Customer programs and services	269,532	56,842	212,690	111,162
Cashiers	339,240	(496)	339,736	326,058
Meter reading	325,940	51,336	274,604	327,711
Utility field services	401,173	44,240	356,933	368,942
Risk management	379,760	41,470	338,290	330,086
Capital Projects	184,245	29,215	155,030	149,876
Rates	101,095	21,844	79,251	75,529
Budget	96,930	23,260	73,670	82,752
Purchasing	218,490	61,466	157,024	-
Warehouse	333,355	258,460	74,895	-
Material management	118,470	(34,193)	152,663	120,665
Fleet maintenance	977,515	(22,678)	1,000,193	-
Building and grounds maintenance	172,085	22,078	150,007	166,588

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
(with comparative actual amounts for the year ended June 30, 2003)

	2004		Actual	2003 Actual
	Budget	Variance Positive (Negative)		
Expenditures (continued)				
Operating expenditures (continued)				
General and administrative (continued)				
Metering management	\$ 188,960	\$ 27,607	\$ 161,353	\$ 178,105
Investigation	-	-	-	96,210
Special projects	302,820	65,252	237,568	233,686
Communication system	332,865	67,280	265,585	302,850
Information systems	809,700	(35,294)	844,994	765,646
Pension expenses	1,177,700	1,169,436	8,264	428,057
Net pension obligation adjustment	-	-	-	1,564,260
Medical insurance	1,772,200	(348,867)	2,121,067	2,057,002
Other	1,693,750	259,870	1,433,880	1,390,744
Clearing accounts	(4,696,960)	(2,108,057)	(2,588,903)	(2,680,192)
Total general and administrative	<u>9,533,940</u>	<u>285,674</u>	<u>9,248,266</u>	<u>9,962,982</u>
Total operating expenditures	<u>28,577,715</u>	<u>2,137,318</u>	<u>26,440,397</u>	<u>27,406,473</u>
Non-operating expenditures				
Interest expense	5,703,000	211,355	5,491,645	6,393,205
Issue costs	-	(1,267,507)	1,267,507	-
Total non-operating expenditures	<u>5,703,000</u>	<u>(1,056,152)</u>	<u>6,759,152</u>	<u>6,393,205</u>
Transfers out				
Transfer to City of Fayetteville	1,074,700	40	1,074,660	713,473
Total transfers out	<u>1,074,700</u>	<u>40</u>	<u>1,074,660</u>	<u>713,473</u>
Budgetary appropriations				
Inventory increase	-	200,483	(200,483)	187,867
Vehicle and equipment	-	92,566	(92,566)	-
Bond principal payments	15,383,500	62,045	15,321,455	6,730,720
State loan payments	-	(379,756)	379,756	379,756
Capital outlay	7,297,815	713,961	6,583,854	6,016,428
Appropriation of net assets	1,000	1,000	-	-
Total budgetary appropriations	<u>22,682,315</u>	<u>690,299</u>	<u>21,992,018</u>	<u>13,314,771</u>
Total expenditures	<u>\$ 58,037,730</u>	<u>\$ 1,771,505</u>	<u>\$ 56,266,225</u>	<u>\$ 47,827,922</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
(with comparative actual amounts for the year ended June 30, 2003)

	2004		2003 Actual
	Budget	Variance Positive (Negative)	
Reconciliation of change in net assets			
Total revenues		\$ 1,077,552	\$ 52,402,122
Total expenditures		<u>1,771,505</u>	<u>47,827,922</u>
Subtotal		<u>\$ 2,849,057</u>	4,574,200
Reconciling Items:			
Budgetary appropriations			13,314,771
Depreciation		21,992,016	(11,407,197)
Amortization		(11,341,587)	(753,194)
Transfer of assets from Annexation Capital Project Fund Phase IVA		(958,754)	2,376,264
Transfer of assets to Annexation Capital Project Fund Phase IVB		1,978,661	582,217
Transfer of assets from Annexation Capital Project Fund Phase III		(64,304)	(452)
Transfer of assets from 1997 Supplemental Capital Project Fund		(349)	3,103,004
Transfer of assets from Uptown Revitalization Fund		-	122,686
Transfer to 2003A Bond Capital Project Fund		348,112	-
Transfer from 2003A Bond Capital Project Fund		(16,868,119)	-
		<u>525,378</u>	-
Total reconciling items		<u>(4,388,946)</u>	<u>7,338,099</u>
Change in net assets		<u>\$ (1,539,889)</u>	<u>\$ 11,912,299</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Annexation Capital Project Fund - Phase III
From Inception and for the Year Ended June 30, 2004**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Total revenues	<u>\$ 573,115</u>	<u>\$ 573,115</u>	<u>\$ -</u>	<u>\$ 573,115</u>
Expenditures				
Construction	24,251,191	23,371,752	-	23,371,752
Engineering	4,676,163	4,676,163	-	4,676,163
Rights of way	-	419,081	-	419,081
Less City of Fayetteville participation	(6,954,005)	(6,954,005)	(349)	(6,954,354)
Financing costs	1,553,409	1,553,408	-	1,553,408
Other	-	460,358	-	460,358
Total expenditures	<u>23,526,758</u>	<u>23,526,757</u>	<u>(349)</u>	<u>23,526,408</u>
Revenues under expenditures	<u>(22,953,643)</u>	<u>(22,953,642)</u>	<u>349</u>	<u>(22,953,293)</u>
Other financing sources				
1999 Revenue Bond proceeds	19,325,000	19,325,000	-	19,325,000
Transfer to Water and Wastewater Fund	(2,706,424)	(533,054)	(2,173,719)	(2,706,773)
Transfer from Annexation Phase II Capital Project Fund	-	2,289,028	-	2,289,028
Transfer from 1993 Refunding Bond Capital Project Fund	-	946,087	-	946,087
Transfer from 1997 Supplemental Capital Project Fund	-	5,499,951	-	5,499,951
Transfer to Annexation Phase IV Capital Project Fund	(2,400,000)	(2,400,000)	-	(2,400,000)
Transfer from Water/ Sewer Fund	8,735,067	-	-	-
Total other financing sources	<u>22,953,643</u>	<u>25,127,012</u>	<u>(2,173,719)</u>	<u>22,953,293</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 2,173,370</u>	<u>(2,173,370)</u>	<u>\$ -</u>
Reconciling items:				
Capital outlay			(349)	
Transfer of assets to the Water and Wastewater fund			345	
Change in net assets			<u>(2,173,374)</u>	

Capital Project closed at June 30, 2004

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Changes in the Status of 1997 Supplemental Capital Project Fund
From Inception and for the Year Ended June 30, 2004

	Project Authorization	Total Prior Years	Current Year	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Construction	-	6,273,633	-	6,273,633
Engineering	-	692,942	-	692,942
Rights of way	-	8,463	-	8,463
Other	-	204,257	-	204,257
Total expenditures	<u>7,241,497</u>	<u>7,179,295</u>	<u>-</u>	<u>7,179,295</u>
Revenues under expenditures	<u>(7,241,497)</u>	<u>(7,179,295)</u>	<u>-</u>	<u>(7,179,295)</u>
Other financing sources				
Transfer from Water and Sewer Capital Reserve Fund	9,828,350	9,828,350	-	9,828,350
Transfer to Water and Wastewater Fund	<u>(2,586,853)</u>	<u>-</u>	<u>(2,649,055)</u>	<u>(2,649,055)</u>
Total other financing sources	<u>7,241,497</u>	<u>9,828,350</u>	<u>(2,649,055)</u>	<u>7,179,295</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 2,649,055</u>	<u>(2,649,055)</u>	<u>\$ -</u>
Reconciling items:				
Capital outlay			-	
Transfer of assets to the Water and Wastewater fund			-	
Change in net assets			<u>\$ (2,649,055)</u>	

Capital Project closed at June 30, 2004

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, 2004

	Project Authorization	Total Prior Years	Current Year	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures - Phase IV-A				
Construction	-	5,469,907	86,278	5,556,185
Engineering	-	1,034,220	382	1,034,602
Rights of way	-	91,867	718	92,585
Less City of Fayetteville participation	-	(1,265,290)	(20,818)	(1,286,108)
Other	-	168,594	133	168,727
Total expenditures - Phase IV-A	<u>6,300,000</u>	<u>5,499,298</u>	<u>66,693</u>	<u>5,565,991</u>
Expenditures - Phase IV-B				
Engineering	-	-	-	-
Rights of way	-	-	-	-
Less City of Fayetteville participation	-	-	-	-
Other	-	-	-	-
Total expenditures - Phase IV-B	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,300,000</u>	<u>5,499,298</u>	<u>66,693</u>	<u>5,565,991</u>
Revenues under expenditures	<u>(6,300,000)</u>	<u>(5,499,298)</u>	<u>(66,693)</u>	<u>(5,565,991)</u>
Other financing sources				
Transfer from Annexation Reserve Fund	3,900,000	3,500,000	-	3,500,000
Transfer from Annexation Phase III				
Capital Project Fund	2,400,000	2,400,000	-	2,400,000
Total other financing sources	<u>6,300,000</u>	<u>5,900,000</u>	<u>-</u>	<u>5,900,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 400,702</u>	<u>(66,693)</u>	<u>\$ 334,009</u>
Reconciling items:				
Capital outlay			66,693	
Transfer of assets to the Water and Wastewater fund			(1,978,661)	
Change in net assets			<u>\$ (1,978,661)</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, 2004**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 56,127	\$ 56,060	\$ 4,966	\$ 61,026
Total revenues	<u>56,127</u>	<u>56,060</u>	<u>4,966</u>	<u>61,026</u>
Revenues under expenditures	<u>56,127</u>	<u>56,060</u>	<u>4,966</u>	<u>61,026</u>
Other financing sources				
Transfer from Water and Wastewater fund	4,000,000	4,000,000	-	4,000,000
Transfer to Annexation Phase IV Capital Project Fund	(3,500,000)	(3,500,000)	-	(3,500,000)
Appropriated net assets	(556,127)	-	-	-
Total other financing sources	<u>(56,127)</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 556,060</u>	4,966	<u>\$ 561,026</u>
Reconciling items:				
Total reconciling items			-	
Change in net assets			<u>\$ 4,966</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, 2004**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures				
Construction	-	502,470	1,960,575	2,463,045
Engineering	-	1,031,607	357,113	1,388,720
Rights of way	-	146,452	1,039	147,491
Less City of Fayetteville participation	-	(566,050)	(461,939)	(1,027,989)
Other	-	250,364	85,565	335,929
Total expenditures	<u>12,000,000</u>	<u>1,364,843</u>	<u>1,942,353</u>	<u>3,307,196</u>
Revenues under expenditures	<u>(12,000,000)</u>	<u>(1,364,843)</u>	<u>(1,942,353)</u>	<u>(3,307,196)</u>
Other financing sources				
Bond proceeds	12,000,000	-	11,000,000	11,000,000
Total other financing sources	<u>12,000,000</u>	<u>-</u>	<u>11,000,000</u>	<u>11,000,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ (1,364,843)</u>	9,057,647	<u>\$ 7,692,804</u>
Reconciling items:				
Capital outlay			1,942,353	
Transfer of assets to the Water and Wastewater fund			64,304	
Change in net assets			<u>\$ 11,064,304</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, 2004**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Expenditures				
Construction	\$ -	\$ 41,470	\$ 4,637,465	\$ 4,678,935
Engineering	-	739,460	185,379	924,839
Other	-	1,906	314,021	315,927
Total expenditures	<u>17,442,000</u>	<u>782,836</u>	<u>5,136,865</u>	<u>5,919,701</u>
Revenues under expenditures	<u>(17,442,000)</u>	<u>(782,836)</u>	<u>(5,136,865)</u>	<u>(5,919,701)</u>
Other financing sources (uses)				
State revolving loan proceeds	<u>17,442,000</u>	-	5,411,856	5,411,856
Total other financing sources	<u>17,442,000</u>	<u>-</u>	<u>5,411,856</u>	<u>5,411,856</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ (782,836)</u>	274,991	<u>\$ (507,845)</u>
Reconciling items:				
Capital outlay			5,136,865	
Loan proceeds			(5,411,856)	
Change in net assets			<u>\$ -</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Changes in the Status of 2003A Water and Wastewater Revenue Bond
From Inception and for the Year Ended June 30, 2004

	Project Authorization	Total Prior Years	Current Year	Total
Revenues				
Interest earned on investments	\$ 2,681,865	\$ -	\$ 116,215	\$ 116,215
Total revenues	<u>2,681,865</u>	<u>-</u>	<u>116,215</u>	<u>116,215</u>
Expenditures				
Construction	-	-	1,589,929	1,589,929
Engineering	-	-	207,395	207,395
Other	-	-	44,520	44,520
Total expenditures	<u>19,571,865</u>	<u>-</u>	<u>1,841,844</u>	<u>1,841,844</u>
Revenues under expenditures	<u>(16,890,000)</u>	<u>-</u>	<u>(1,725,629)</u>	<u>(1,725,629)</u>
Other financing sources (uses)				
2003A Revenue Bond proceeds	16,890,000	-	5,868,119	5,868,119
Total other financing sources	<u>16,890,000</u>	<u>-</u>	<u>5,868,119</u>	<u>5,868,119</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	4,142,490	<u>\$ 4,142,490</u>
Reconciling items:				
Capital outlay			1,725,629	
Transfer of assets to the Water /Wastewater Fund			(525,378)	
Change in net assets			<u>\$ 5,342,741</u>	

NONMAJOR ENTERPRISE FUNDS

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2004**

Assets	Transit Fund	Airport Fund	Total Nonmajor Enterprise Funds
Current assets			
Cash and investments	\$ 341,517	\$ 1,894,556	\$ 2,236,073
Accounts receivable	687,762	854,531	1,542,293
Inventories	7,375	2,983	10,358
Restricted cash and investments	-	309,728	309,728
Total current assets	<u>1,036,654</u>	<u>3,061,798</u>	<u>4,098,452</u>
Noncurrent assets			
Other assets	-	110,000	110,000
Capital assets	3,845,611	21,511,542	25,357,153
Total noncurrent assets	<u>3,845,611</u>	<u>21,621,542</u>	<u>25,467,153</u>
Total assets	<u>\$ 4,882,265</u>	<u>\$ 24,683,340</u>	<u>\$ 29,565,605</u>
 Liabilities and net assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 175,223	\$ 186,823	\$ 362,046
Interfund payables	-	398,921	398,921
Accrued vacation	79,281	50,191	129,472
Total current liabilities	<u>254,504</u>	<u>635,935</u>	<u>890,439</u>
Noncurrent liabilities			
Deferred revenues	-	21,314	21,314
Total noncurrent liabilities	<u>-</u>	<u>21,314</u>	<u>21,314</u>
Total liabilities	<u>254,504</u>	<u>657,249</u>	<u>911,753</u>
Net assets			
Invested in capital assets, net of related debt	3,845,612	21,511,541	25,357,153
Unrestricted	782,149	2,514,550	3,296,699
Total net assets	<u>4,627,761</u>	<u>24,026,091</u>	<u>28,653,852</u>
Total liabilities and net assets	<u>\$ 4,882,265</u>	<u>\$ 24,683,340</u>	<u>\$ 29,565,605</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
Year Ended June 30, 2004**

	Transit Fund	Airport Fund	Total Nonmajor Enterprise Funds
Operating revenues			
Charges for services	\$ 804,782	\$ 2,004,185	\$ 2,808,967
Other revenue from operations	37,876	321,430	359,306
Total operating revenues	<u>842,658</u>	<u>2,325,615</u>	<u>3,168,273</u>
Operating expenses			
Personnel	2,518,972	876,367	3,395,339
Maintenance and operations	1,426,315	862,837	2,289,152
Depreciation	812,435	1,404,639	2,217,074
Total operating expenses	<u>4,757,722</u>	<u>3,143,843</u>	<u>7,901,565</u>
Operating income (loss)	<u>(3,915,064)</u>	<u>(818,228)</u>	<u>(4,733,292)</u>
Nonoperating revenue (expense)			
Interest earned on investments	-	18,521	18,521
Federal and State grants	1,888,267	72,667	1,960,934
Passenger facility charges	-	396,263	396,263
Miscellaneous revenue	-	31,143	31,143
Gain (loss) on disposal of capital assets	(32,511)	(22,598)	(55,109)
Interest expense	-	(24,751)	(24,751)
Amortization	-	(22,000)	(22,000)
Miscellaneous expense	-	(237,004)	(237,004)
Total nonoperating revenue (expense)	<u>1,855,756</u>	<u>212,241</u>	<u>2,067,997</u>
Income (loss) before transfers and contributions	<u>(2,059,308)</u>	<u>(605,987)</u>	<u>(2,665,295)</u>
Transfers in	1,316,211	-	1,316,211
Capital contributions	38,935	1,533,882	1,572,817
Extraordinary items	-	702,500	702,500
Change in net assets	<u>(704,162)</u>	<u>1,630,395</u>	<u>926,233</u>
Total net assets - beginning	<u>5,331,923</u>	<u>22,395,696</u>	<u>27,727,619</u>
Total net assets - ending	<u>\$ 4,627,761</u>	<u>\$ 24,026,091</u>	<u>\$ 28,653,852</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2004

	Transit Fund	Airport Fund	Total Nonmajor Enterprise Funds
Operating activities			
Cash received from customers	\$ 256,172	\$ 1,916,279	\$ 2,172,451
Other operating revenue	37,812	286,748	324,560
Cash paid to or on behalf of employees for services	(2,563,046)	(891,795)	(3,454,841)
Cash paid for goods and services	(1,360,140)	(1,125,852)	(2,485,992)
Net cash provided by (used in) operating activities	(3,629,202)	185,380	(3,443,822)
Noncapital financing activities			
Transfers in	1,316,211	-	1,316,211
Federal and state grants	1,888,267	72,667	1,960,934
Nonoperating revenues	-	427,406	427,406
Other	-	(237,004)	(237,004)
Net cash provided (used) by noncapital financing activities	3,204,478	263,069	3,467,547
Capital and related financing activities			
Proceeds from debt issuance	-	40,213	40,213
Contributed capital received	38,935	-	38,935
Capital contributions - Federal grant	-	1,533,882	1,533,882
Acquisition and construction of capital assets	(6,903)	(1,710,657)	(1,717,560)
Principal paid on debt maturities	-	(65,090)	(65,090)
Interest paid on debt maturities	-	(24,751)	(24,751)
Net cash provided (used) by capital and related financing activities	32,032	(226,403)	(194,371)
Investing activities			
Interest and dividends	-	14,406	14,406
Net cash provided (used) by investing activities	-	14,406	14,406
Net increase in cash and cash equivalents/investments	(392,692)	236,452	(156,240)
Cash and cash equivalents/investments			
Beginning of year	734,209	1,967,832	2,702,041
End of year	\$ 341,517	\$ 2,204,284	\$ 2,545,801
Cash and cash equivalents	\$ 341,517	\$ 2,204,284	\$ 2,545,801
Total cash and cash equivalents/investments	\$ 341,517	\$ 2,204,284	\$ 2,545,801
Unrestricted cash and equivalents/investments	\$ 341,517	\$ 1,894,556	\$ 2,236,073
Restricted cash and equivalents/investments	-	309,728	309,728
Total cash and cash equivalents/investments	\$ 341,517	\$ 2,204,284	\$ 2,545,801

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2004

	<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)	\$ (3,915,064)	\$ (818,228)	\$ (4,733,292)
Adjustments to reconcile operating income (loss)			
to net cash provided by (used in) operating			
activities:			
Depreciation	812,435	1,404,639	2,217,074
Change in assets and liabilities			
(Increase) decrease in accounts receivable	(548,046)	(87,906)	(635,952)
(Increase) decrease in inventory	(564)	(1,243)	(1,807)
Increase (decrease) in accounts payable			
and accrued liabilities	47,399	(263,393)	(215,994)
Increase (decrease) in accrued compensated			
absences	(25,298)	(13,807)	(39,105)
Increase (decrease) in deferred revenues	(64)	(34,682)	(34,746)
Total adjustments	<u>285,862</u>	<u>1,003,608</u>	<u>1,289,470</u>
Net cash provided by (used in) operating activities	<u>\$ (3,629,202)</u>	<u>\$ 185,380</u>	<u>\$ (3,443,822)</u>
Noncash investing, capital, and financing activities:			
Dissolution of Fayetteville Air Cargo	<u>\$ -</u>	<u>\$ 702,500</u>	<u>\$ 702,500</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004

(With Comparative Actual Amounts For Year Ended June 30, 2003)

	Budget	Variance Positive (Negative)	2004 Actual	2003 Actual
Operating revenues				
Charges for services	\$ 1,117,830	\$ (313,048)	\$ 804,782	\$ 1,084,170
Other revenues from operations	42,200	(4,324)	37,876	44,536
Total operating revenues	<u>1,160,030</u>	<u>(317,372)</u>	<u>842,658</u>	<u>1,128,706</u>
Operating expenditures				
Personnel	2,551,750	7,480	2,544,270	2,613,221
Maintenance and operations	1,441,695	154,947	1,286,748	1,325,293
Capital outlay	-	-	-	4,087
Total operating expenditures	<u>3,993,445</u>	<u>162,427</u>	<u>3,831,018</u>	<u>3,942,601</u>
Operating loss	<u>(2,833,415)</u>	<u>(154,945)</u>	<u>(2,988,360)</u>	<u>(2,813,895)</u>
Nonoperating revenues				
Federal and State grants	1,390,000	410,248	1,800,248	1,456,440
Total nonoperating revenues	<u>1,390,000</u>	<u>410,248</u>	<u>1,800,248</u>	<u>1,456,440</u>
Revenues under expenditures	<u>(1,443,415)</u>	<u>255,303</u>	<u>(1,188,112)</u>	<u>(1,357,455)</u>
Other financing sources (uses)				
Transfers in	1,443,415	(250,204)	1,193,211	1,340,401
Total other financing sources (uses)	<u>1,443,415</u>	<u>(250,204)</u>	<u>1,193,211</u>	<u>1,340,401</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 5,099</u>	<u>\$ 5,099</u>	<u>\$ (17,054)</u>
Reconciliation of change in net assets:				
Total revenues			\$ 3,836,117	\$ 3,925,547
Total expenditures			<u>3,831,018</u>	<u>3,942,601</u>
Subtotal			5,099	(17,054)
Depreciation			(812,435)	(842,009)
Capital contributions			-	4,087
Capital outlay			-	4,087
Loss on disposal of assets			(32,511)	-
Decrease (increase) in accrued vacation			25,298	13,493
Subtotal			<u>(819,648)</u>	<u>(820,342)</u>
Change in net assets			<u>\$ (814,549)</u>	<u>\$ (837,396)</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, 2004

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Federal grants	\$ 3,614,575	\$ 1,302,409	\$ -	\$ 38,935	\$ 1,341,344
State grants	399,272	146,904	-	-	146,904
County	-	10,980	-	-	10,980
Miscellaneous	-	19,251	-	-	19,251
Total revenues	4,013,847	1,479,544	-	38,935	1,518,479
Expenditures					
FTA Capital 0313	1,239,430	-	-	1,215	1,215
FTA Capital 0229	350,000	350,000	-	-	350,000
FTA Capital 0244	813,625	773,505	-	-	773,505
FTA Capital 0271	1,238,560	504,507	-	47,454	551,961
FTA Capital 0292	35,000	-	-	-	-
FTA Capital 0327	800,000	-	-	-	-
Total expenditures	4,476,615	1,628,012	-	48,669	1,676,681
Revenues over (under) expenditures	(462,768)	(148,468)	-	(9,734)	(158,202)
Other financing sources (uses)					
Transfers in	422,768	393,869	-	108,000	501,869
Appropriated fund balance	40,000	-	-	-	-
Total other financing sources (uses)	462,768	393,869	-	108,000	501,869
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 245,401	\$ -	\$ 98,266	\$ 343,667
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 98,266	
Capital outlay				48,669	
Non-capitalizable items				(41,765)	
Change in net assets				\$ 105,170	

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, 2004

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
Federal grants	\$ 362,600	\$ 216,273	\$ 80,000	\$ 78,241	\$ 214,514
State grants	45,325	27,035	10,001	9,779	26,813
Total intergovernmental	407,925	243,308	90,001	88,020	241,327
Total revenues	407,925	243,308	90,001	88,020	241,327
Expenditures					
Current					
Transportation	453,250	270,340	100,000	97,803	268,143
Total expenditures	453,250	270,340	100,000	97,803	268,143
Revenues over (under) expenditures	(45,325)	(27,032)	(9,999)	(9,783)	(26,816)
Other financing sources (uses)					
Transfers in	45,325	40,325	9,999	15,000	45,326
Total other financing sources (uses)	45,325	40,325	9,999	15,000	45,326
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 13,293	\$ -	\$ 5,217	\$ 18,510
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 5,217	
Change in net assets				\$ 5,217	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures by Project
Transit II Capital Project Fund

From Inception And For Year Ended June 30, 2004

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Expenditures by project:					
Transportation					
FTA 90.2229	\$ -	\$ 100,000	\$ 100,000	\$ -	\$ -
FTA 90.2292	150,000	148,807	-	1,193	150,000
FTA 90.2313	153,250	21,533	-	94,337	115,870
FTA 90.2327	150,000	-	-	2,273	2,273
Total transportation	<u>453,250</u>	<u>270,340</u>	<u>100,000</u>	<u>97,803</u>	<u>268,143</u>
Total expenditures by project	<u>\$ 453,250</u>	<u>\$ 270,340</u>	<u>\$ 100,000</u>	<u>\$ 97,803</u>	<u>\$ 268,143</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004
 (With Comparative Actual Amounts For Year Ended June 30, 2003)

	Budget	Variance Positive (Negative)	2004 Actual	2003 Actual
Operating revenues				
Charges for services	\$ 1,938,942	\$ 65,243	\$ 2,004,185	\$ 2,272,110
Other revenues from operations	141,424	180,006	321,430	81,169
Total operating revenues	<u>2,080,366</u>	<u>245,249</u>	<u>2,325,615</u>	<u>2,353,279</u>
Operating expenditures				
Personnel	893,964	3,790	890,174	932,047
Maintenance and operations	909,440	124,732	784,708	859,543
Capital outlay	176,960	(654,719)	831,679	55,980
Total operating expenditures	<u>1,980,364</u>	<u>(526,197)</u>	<u>2,506,561</u>	<u>1,847,570</u>
Operating income (loss)	<u>100,002</u>	<u>(280,948)</u>	<u>(180,946)</u>	<u>505,709</u>
Nonoperating revenues				
Interest earned on investments	20,000	(4,632)	15,368	25,854
Passenger facility charge	-	-	-	234,951
Miscellaneous	84,297	(53,154)	31,143	84,297
Federal and State grants	75,836	(3,169)	72,667	106,249
Total nonoperating revenues	<u>180,133</u>	<u>(60,955)</u>	<u>119,178</u>	<u>451,351</u>
Nonoperating expenditures				
Interest expense	49,700	24,949	24,751	26,196
Miscellaneous	281,258	44,254	237,004	283,085
Public safety reimbursements	-	-	-	-
Total nonoperating expenditures	<u>330,958</u>	<u>69,203</u>	<u>261,755</u>	<u>289,281</u>
Revenues over (under) expenditures	<u>(50,823)</u>	<u>(272,700)</u>	<u>(323,523)</u>	<u>667,779</u>
Other financing sources (uses)				
Transfers (out)	(326,166)	43,314	(282,852)	(247,671)
Debt service - principle payment	-	(24,876)	(24,876)	-
Appropriated fund balance	376,989	(376,989)	-	-
Total other financing sources (uses)	<u>50,823</u>	<u>(358,551)</u>	<u>(307,728)</u>	<u>(247,671)</u>
Extraordinary items	<u>-</u>	<u>702,500</u>	<u>702,500</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 71,249</u>	<u>\$ 71,249</u>	<u>\$ 420,108</u>
Reconciliation of change in net assets				
Total revenues			\$ 3,147,293	\$ 2,804,630
Total expenditures			3,076,044	2,384,522
Subtotal			<u>71,249</u>	<u>420,108</u>
Depreciation			(1,404,639)	(1,470,562)
Amortization			(22,000)	(22,000)
Change in accrued vacation			13,807	2,352
Change in inventory			-	301
Capital outlay			831,679	55,980
Gain (loss) on disposal of assets			(22,598)	-
Principal payment			24,876	-
Change in fair market value of investment			(11,648)	3,666
Subtotal			<u>(590,521)</u>	<u>(1,430,263)</u>
Change in net assets			<u>\$ (519,272)</u>	<u>\$ (1,010,155)</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, 2004

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Federal grants	\$ 9,766,825	\$ 7,597,825	\$ -	\$ 1,453,275	\$ 9,051,100
State grants	540,375	414,154	-	80,607	494,761
Miscellaneous income	321,929	397,561	-	396,263	793,824
Investment income	-	23,836	-	14,799	38,635
Total revenues	10,629,129	8,433,376	-	1,944,944	10,378,320
Expenditures					
Airport Road Landscaping	50,000	49,163	-	-	49,163
Airport Road Construction	369,164	360,018	-	-	360,018
Jet Bridge Modification	46,195	38,887	-	-	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	240,872	238,062	-	-	238,062
NLVR/terminal rehab	2,517,783	1,733,000	-	471,321	2,204,321
Masterplan update & land	1,613,242	-	-	1,185,763	1,185,763
Loop Road	30,000	-	-	2,522	2,522
Future Projects	349,000	-	-	-	-
Apron & safety area improvements	6,010,000	5,872,526	-	-	5,872,526
Total expenditures	11,427,671	8,491,767	-	1,659,606	10,151,373
Revenues over (under) expenditures	(798,542)	(58,391)	-	285,338	226,947
Other financing sources (uses)					
Transfers in	798,542	513,404	-	282,851	796,255
Total other financing sources (uses)	798,542	513,404	-	282,851	796,255
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 455,013	\$ -	\$ 568,189	\$ 1,023,202
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 568,189	
Capital outlay				1,659,606	
Non-capitalizable items				(78,128)	
Change in net assets				\$ 2,149,667	

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, 2004

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	Total
Assets				
Current assets				
Cash and investments	\$ 1,419,104	\$ 294,489	\$ 6,576,641	\$ 8,290,234
Accounts receivable	5,114	504	21,088	26,706
Inventories	-	394,071	-	394,071
Prepaid expenses	-	-	253,872	253,872
Total current assets	<u>1,424,218</u>	<u>689,064</u>	<u>6,851,601</u>	<u>8,964,883</u>
Noncurrent assets				
Capital assets	31,211	209,491	59,789	300,491
Total noncurrent assets	<u>31,211</u>	<u>209,491</u>	<u>59,789</u>	<u>300,491</u>
Total assets	<u>\$ 1,455,429</u>	<u>\$ 898,555</u>	<u>\$ 6,911,390</u>	<u>\$ 9,265,374</u>
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 3,674	\$ 167,629	\$ 3,623,593	\$ 3,794,896
Current portion of long term debt	-	2,244	-	2,244
Accrued vacation	-	55,048	24,871	79,919
Total current liabilities	<u>3,674</u>	<u>224,921</u>	<u>3,648,464</u>	<u>3,877,059</u>
Noncurrent liabilities				
Deferred revenues	-	-	10,731	10,731
Long-term debt	-	9,407	-	9,407
Total noncurrent liabilities	<u>-</u>	<u>9,407</u>	<u>10,731</u>	<u>20,138</u>
Total liabilities	<u>3,674</u>	<u>234,328</u>	<u>3,659,195</u>	<u>3,897,197</u>
Net assets				
Invested in capital assets, net of related debt	31,211	197,840	59,789	288,840
Unrestricted	<u>1,420,544</u>	<u>466,387</u>	<u>3,192,406</u>	<u>5,079,337</u>
Total net assets	<u>1,451,755</u>	<u>664,227</u>	<u>3,252,195</u>	<u>5,368,177</u>
Total liabilities and net assets	<u>\$ 1,455,429</u>	<u>\$ 898,555</u>	<u>\$ 6,911,390</u>	<u>\$ 9,265,374</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2004**

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	Total
Operating revenues				
Other revenue from operations	\$ -	\$ -	\$ 243,058	\$ 243,058
Interfund charges and employee contributions	203,299	1,234,417	10,487,950	11,925,666
Total operating revenues	<u>203,299</u>	<u>1,234,417</u>	<u>10,731,008</u>	<u>12,168,724</u>
Operating expenses				
Personnel	-	1,044,702	344,437	1,389,139
Maintenance and operations	70,590	159,080	9,406,740	9,636,410
Depreciation	8,578	24,576	4,398	37,552
Total operating expenses	<u>79,168</u>	<u>1,228,358</u>	<u>9,755,575</u>	<u>11,063,101</u>
Operating income (loss)	<u>124,131</u>	<u>6,059</u>	<u>975,433</u>	<u>1,105,623</u>
Nonoperating revenue (expense)				
Interest earned on investments	9,273	1,807	34,411	45,491
Gain (loss) on disposal of capital assets	-	(3,665)	-	(3,665)
Total nonoperating revenue (expense)	<u>9,273</u>	<u>(1,858)</u>	<u>34,411</u>	<u>41,826</u>
Income (loss) before transfers and contributions	<u>133,404</u>	<u>4,201</u>	<u>1,009,844</u>	<u>1,147,449</u>
Transfers in	-	-	-	-
Change in net assets	<u>133,404</u>	<u>4,201</u>	<u>1,009,844</u>	<u>1,147,449</u>
Total net assets - beginning	<u>1,318,351</u>	<u>660,026</u>	<u>2,242,351</u>	<u>4,220,728</u>
Total net assets - ending	<u>\$ 1,451,755</u>	<u>\$ 664,227</u>	<u>\$ 3,252,195</u>	<u>\$ 5,368,177</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2004

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	Total
Operating activities				
Cash received from customers	\$ 201,652	\$ 1,234,417	\$ 10,481,303	\$ 11,917,372
Other operating revenue	-	-	243,058	243,058
Cash received as deferred revenues	-	-	10,442	10,442
Cash paid to or on behalf of employees for services	-	(1,049,291)	(340,145)	(1,389,436)
Cash paid for goods and services	(68,527)	(216,853)	(9,666,744)	(9,952,124)
Net cash provided by (used in) operating activities	133,125	(31,727)	727,914	829,312
Noncapital financing activities				
Transfers in	-	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-	-
Capital and related financing activities				
Proceeds from debt issuance	-	9,407	-	9,407
Acquisition and construction of capital assets	(30,452)	(16,948)	(62,826)	(110,226)
Net cash provided (used) by capital and related financing activities	(30,452)	(5,297)	(62,826)	(98,575)
Investing activities				
Interest and dividends	9,273	1,303	34,411	44,987
Net cash provided (used) by investing activities	9,273	1,303	34,411	44,987
Net increase in cash and cash equivalents/investments				
	111,946	(35,721)	699,499	775,724
Cash and cash equivalents/investments				
Beginning of year	1,307,158	330,210	5,877,142	7,514,510
End of year	\$ 1,419,104	\$ 294,489	\$ 6,576,641	\$ 8,290,234
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 124,131	\$ 6,059	\$ 975,433	\$ 1,105,623
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	8,578	24,576	4,398	37,552
Change in assets and liabilities				
(Increase) decrease in accounts receivable	(1,647)	-	(6,647)	(8,294)
(Increase) decrease in prepaid items	-	-	(115,472)	(115,472)
Increase (decrease) in accounts payable and accrued liabilities	2,063	28,419	(144,532)	(114,050)
Increase (decrease) in accrued compensated absence	-	(6,114)	4,292	(1,822)
Increase (decrease) in deferred revenues	-	-	10,442	10,442
Total adjustments	8,994	(37,786)	(247,519)	(276,311)
Net cash provided by (used in) operating activities	\$ 133,125	\$ (31,727)	\$ 727,914	\$ 829,312

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004

(With Comparative Actual Amounts For Year Ended June 30, 2003)

	Budget	Variance Positive (Negative)	2004 Actual	2003 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 215,323	\$ (12,024)	\$ 203,299	\$ 177,392
Total operating revenues	<u>215,323</u>	<u>(12,024)</u>	<u>203,299</u>	<u>177,392</u>
Operating expenditures				
Maintenance and operations	85,371	14,781	70,590	70,964
Capital outlay	151,952	151,952	-	-
Total operating expenditures	<u>237,323</u>	<u>166,733</u>	<u>70,590</u>	<u>70,964</u>
Operating income (loss)	<u>(22,000)</u>	<u>154,709</u>	<u>132,709</u>	<u>106,428</u>
Nonoperating revenues				
Interest earned on investments	22,000	4,195	26,195	29,992
Total nonoperating revenues	<u>22,000</u>	<u>4,195</u>	<u>26,195</u>	<u>29,992</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 158,904</u>	<u>\$ 158,904</u>	<u>\$ 136,420</u>
Reconciliation to net income (loss):				
Total revenues			\$ 229,494	\$ 207,384
Total expenditures			<u>70,590</u>	<u>70,964</u>
Subtotal			<u>158,904</u>	<u>136,420</u>
Depreciation			(8,578)	(18,835)
Change in fair market value of investments			<u>(16,922)</u>	<u>4,197</u>
Subtotal			<u>(25,500)</u>	<u>(14,638)</u>
Change in net assets			<u>\$ 133,404</u>	<u>\$ 121,782</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004

(With Comparative Actual Amounts For Year Ended June 30, 2003)

	Budget	Variance Positive (Negative)	2004 Actual	2003 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 1,592,388	\$ (357,971)	\$ 1,234,417	\$ 1,187,263
Other revenues from operations	-	-	-	550
Total operating revenues	<u>1,592,388</u>	<u>(357,971)</u>	<u>1,234,417</u>	<u>1,187,813</u>
Operating expenditures				
Personnel	1,102,338	51,522	1,050,816	1,027,605
Maintenance and operations	485,525	326,445	159,080	127,437
Capital outlay	25,906	25,906	-	4,210
Total operating expenditures	<u>1,613,769</u>	<u>403,873</u>	<u>1,209,896</u>	<u>1,159,252</u>
Operating income (loss)	<u>(21,381)</u>	<u>45,902</u>	<u>24,521</u>	<u>28,561</u>
Nonoperating revenues				
Interest earned	-	1,807	1,807	-
Total nonoperating revenue	<u>-</u>	<u>1,807</u>	<u>1,807</u>	<u>-</u>
Revenues over (under) expenditures	<u>(21,381)</u>	<u>47,709</u>	<u>26,328</u>	<u>28,561</u>
Other financing sources (uses)				
Capital Leases	20,610	(20,610)	-	-
Principal payments	-	-	-	-
Appropriated fund balance	771	(771)	-	-
Total other financing sources (uses)	<u>21,381</u>	<u>(21,381)</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 26,328</u>	<u>\$ 26,328</u>	<u>\$ 28,561</u>
Reconciliation to net income (loss):				
Total revenues			\$ 1,236,224	\$ 1,187,813
Total expenditures			1,209,896	1,159,252
Subtotal			<u>26,328</u>	<u>28,561</u>
Depreciation			(24,576)	(32,771)
Decrease (increase) in accrued vacation			6,114	(617)
Capital outlay			-	4,210
Gain (loss) on disposal of assets			(3,665)	-
Subtotal			<u>(22,127)</u>	<u>(29,178)</u>
Change in net assets			<u>\$ 4,201</u>	<u>\$ (617)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2004

(With Comparative Actual Amounts For Year Ended June 30, 2003)

	Budget	Variance Positive (Negative)	2004 Actual	2003 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 11,321,534	\$ (833,584)	\$ 10,487,950	\$ 9,870,093
Other revenues from operations	25,500	217,558	243,058	132,805
Total operating revenues	<u>11,347,034</u>	<u>(616,026)</u>	<u>10,731,008</u>	<u>10,002,898</u>
Operating expenditures				
Personnel	356,805	16,661	340,144	380,138
Maintenance and operations	11,084,229	1,617,512	9,466,717	9,446,987
Total operating expenditures	<u>11,441,034</u>	<u>1,634,173</u>	<u>9,806,861</u>	<u>9,827,125</u>
Operating income (loss)	<u>(94,000)</u>	<u>1,018,147</u>	<u>924,147</u>	<u>175,773</u>
Nonoperating revenues				
Interest earned on investments	94,000	8,086	102,086	129,930
Total nonoperating revenue	<u>94,000</u>	<u>8,086</u>	<u>102,086</u>	<u>129,930</u>
Revenues over (under) expenditures	<u>-</u>	<u>1,026,233</u>	<u>1,026,233</u>	<u>305,703</u>
Other financing sources (uses)				
Transfers in	-	-	-	329,592
Appropriated fund balance	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>329,592</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 1,026,233</u>	<u>\$ 1,026,233</u>	<u>\$ 635,295</u>
Reconciliation to net income (loss):				
Total revenues			\$ 10,833,094	\$ 10,462,420
Total expenditures			9,806,861	9,827,125
Subtotal			<u>1,026,233</u>	<u>635,295</u>
Depreciation			(4,398)	(1,673)
Decrease (increase) in accrued vacation			(4,293)	(3,537)
Change in fair market value of investments			(67,675)	18,518
Increase in insurance liability			59,977	273,302
Gain (loss) on disposal of assets			-	-
Subtotal			<u>(16,389)</u>	<u>286,610</u>
Change in net assets			<u>\$ 1,009,844</u>	<u>\$ 921,905</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, 2004

	Special Separation Allowance Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
Assets			
Cash and investments	\$ 1,638,517	\$ 3,973,917	\$ 5,612,434
Accounts receivable	5,980	-	5,980
Total assets	<u>1,644,497</u>	<u>3,973,917</u>	<u>5,618,414</u>
Liabilities			
Accounts payable	11,087	-	11,087
Total liabilities	<u>11,087</u>	<u>-</u>	<u>11,087</u>
Net assets			
Pension benefits	1,633,410	3,973,917	5,607,327
Total net assets	<u>\$ 1,633,410</u>	<u>\$ 3,973,917</u>	<u>\$ 5,607,327</u>

City of Fayetteville, North Carolina

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
Year Ended June 30, 2004

	Special Separation Allowance Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
Additions			
Contributions	\$ 318,168	\$ -	\$ 318,168
Investment earnings	10,384	31,923	42,307
Total additions	<u>328,552</u>	<u>31,923</u>	<u>360,475</u>
Deductions			
Benefit payments and premiums	275,404	49,160	324,564
Total deductions	<u>275,404</u>	<u>49,160</u>	<u>324,564</u>
Change in net assets	53,148	(17,237)	35,911
Total net assets - beginning	<u>1,580,262</u>	<u>3,991,154</u>	<u>5,571,416</u>
Total net assets - ending	<u>\$ 1,633,410</u>	<u>\$ 3,973,917</u>	<u>\$ 5,607,327</u>

City of Fayetteville, North Carolina

Combining Statement of Fiduciary Net Assets
Private-purpose Trust Funds
June 30, 2004

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
Assets			
Cash and investments	\$ 3,906	\$ 1,369,389	\$ 1,373,295
Accounts receivable	14	15,325	15,339
Total assets	<u>3,920</u>	<u>1,384,714</u>	<u>1,388,634</u>
Liabilities			
Accounts payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets			
Held in Trust	3,920	1,384,714	1,388,634
Total net assets	<u>\$ 3,920</u>	<u>\$ 1,384,714</u>	<u>\$ 1,388,634</u>

City of Fayetteville, North Carolina

Combining Statement of Changes in Fiduciary Net Assets
Private-purpose Trust Funds
Year Ended June 30, 2004

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
Additions			
Other revenue from operations	\$ -	\$ 24,317	\$ 24,317
Contributions	305	-	305
Investment earnings	16	17,110	17,126
Total additions	<u>321</u>	<u>41,427</u>	<u>41,748</u>
Deductions			
Benefit payments and premiums	-	60,332	60,332
Total deductions	<u>-</u>	<u>60,332</u>	<u>60,332</u>
Change in net assets	321	(18,905)	(18,584)
Total net assets - beginning	<u>3,599</u>	<u>1,403,619</u>	<u>1,407,218</u>
Total net assets - ending	<u>\$ 3,920</u>	<u>\$ 1,384,714</u>	<u>\$ 1,388,634</u>

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, 2004

	Total Property Valuation	Rate Per \$100	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
General Fund	\$ 7,342,571,636	\$ 0.530	\$ 38,915,630	\$ 34,474,890	\$ 4,440,740
Late Listing Penalties:					
General Fund			20,890	20,890	-
Subtotal			<u>38,936,520</u>	<u>34,495,780</u>	<u>4,440,740</u>
Discoveries:					
General Fund	29,828,155	0.530	158,089	146,403	11,686
Late Listing Penalties:					
General Fund			30,663	30,663	-
Subtotal			<u>188,752</u>	<u>177,066</u>	<u>11,686</u>
Releases:					
General Fund	(133,649,238)	0.530	(708,341)	(256,760)	(451,581)
Late Listing Penalties:					
General Fund			(12,852)	(12,852)	-
Subtotal			<u>(721,193)</u>	<u>(269,612)</u>	<u>(451,581)</u>
Adjusted Tax Levy			<u>38,404,079</u>	<u>34,403,234</u>	<u>4,000,845</u>
Uncollected Current Year Taxes at 6/30/04			<u>(1,597,296)</u>	<u>(811,948)</u>	<u>(785,348)</u>
City-wide Current Year's Taxes Collected			<u>\$ 36,806,783</u>	<u>\$ 33,591,286</u>	<u>\$ 3,215,497</u>
City-wide Current Levy Collection Percentage			<u>95.84%</u>	<u>97.64%</u>	<u>80.37%</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Taxes Receivable

June 30, 2004

Fiscal Year Ended	Uncollected Balance June 30, 2003	Additions	Collections & Credits	Uncollected Balance June 30, 2004
2004	\$ -	\$ 39,125,272	\$ 37,527,976	\$ 1,597,296
2003	1,602,373	488	1,066,033	536,828
2002	536,312	697	186,890	350,119
All Prior	1,510,713	57	246,073	1,264,697
	<u>3,649,398</u>	<u>\$ 39,126,514</u>	<u>\$ 39,026,972</u>	<u>3,748,940</u>
Less: Allowance for Uncollectible Taxes				
General Fund	(687,702)			(713,019)
	<u>\$ 2,961,696</u>			<u>\$ 3,035,921</u>
General Fund Taxes Receivable				3,376,391
Less: CBTD Taxes Receivable				(5,378)
Less: Vehicle License Fee Receivable				(335,092)
General Fund Ad Valorem Taxes Receivable				<u>\$ 3,035,921</u>

Reconciliations of collections and credit
with revenues

Ad Valorem Taxes	\$ 38,431,862
Releases Current Year-General Fund	721,193
Releases of other than current year-General Fund	127,591
Barred by State Statute-General Fund	111,863
Less Penalties & Interest	(293,598)
Less Taxes - CBTD	(71,939)
	<u>\$ 39,026,972</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, the aggregate discretely presented component unit, 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, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 8, 2004. 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 opinions 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. 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 8, 2004.

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.

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, Robert A. Audit, C.P.A.

Fayetteville, North Carolina
October 8, 2004



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, 2004. 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, 2004.

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.

James R. ...

Fayetteville, North Carolina
October 8, 2004



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, 2004. 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, 2004.

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.

Quincy, Robert F. Hester, C.C.P.

Fayetteville, North Carolina
October 8, 2004

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

SECTION I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial
statements noted

 Yes X No

Federal Awards

Internal control over major federal programs:

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

Noncompliance material to federal
awards

 Yes X No

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

Any audit findings disclosed that are
required to be reported in accordance
with Section 510(a) of Circular A-133

 Yes X No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
20.106	Airport Improvement Program
11.300	Cedar Creek Industrial Park Sewer Extension Project

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)
For the Year Ended June 30, 2004

State Awards

Internal control over major State 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 State awards _____ Yes X 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 X No

Identification of major State programs:

Program Name
 Powell Bill
 Clean Water Revolving Loan

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

None reported.

Section IV. State Award Findings and Questioned Costs

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2004

None reportable.

City of Fayetteville, North Carolina
Schedule of Expenditures of Federal and State Awards
for the Year Ended June 30, 2004

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA number	State/ Pass-through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
FEDERAL GRANTS:					
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant					
Various Years' Entitlements	14.218	B-XX-MC-37-0005	\$1,632,142	-	1,632,142
HOME Investment Partnership Program					
Various Years' Entitlements	14.239	M-XX-MC-37-0203	237,220	-	237,220
US DEPARTMENT OF JUSTICE					
Local Law Enforcement Block Grants Program					
Local Law Enforcement Block 2001	16.592	2001-LB-BX-3433	5,669	-	5,669
Local Law Enforcement Block 2002	16.592	2002-LB-BX-2504	81	-	81
Local Law Enforcement Block 2003	16.592	2003-LB-BX-2466	110,120	-	110,120
			115,870	-	115,870
Office of Justice Programs					
Bulletproof Vest Partnership	16.607	Year 2001	10,553	-	10,553
Operation Cease Fire Grant	16.609	2003-GP-CX-0153	43,973	-	43,973
			54,526	-	54,526
Cops Homeland Security Grant					
	16.710	2003OMX0146	16,604	-	16,604
Passed through Governor's Crime Commission					
Geographic Information Systems Project	16.579	026-1-03-15B-AD-234	106,089	-	106,089
Operation Ceasefire Media Blitz	16.579	026-1-03-001-AZ-060	8,345	-	8,345
Operation Ceasefire Equipment	16.579	026-1-03-001-AZ-075	12,648	-	12,648
Cyber Crimes Against Children	16.579	026-1-02-018-D-687	8,483	-	8,483
			135,565	-	135,565
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	10,589	-	10,589
US DEPARTMENT OF TRANSPORTATION					
Federal Aviation Administration					
Airport Improvement Program					
Rehabilitate Terminal Building, Phase II	20.106	FAA-3-37-0021-26	383,692	-	383,692
Land, Masterplan, Snow Plows	20.106	FAA-3-37-0021-28	1,067,186	-	1,067,186
Remove Obstruction in Approaches & Terminal Loop Design	20.106	FAA-3-37-0021-29	2,396	-	2,396
			1,453,274	-	1,453,274
Passed through NC Dept of Transportation					
Governor's Highway Safety Program					
Strict and Fair Enforcement Program	20.600	157(b)-03-14-02-17	4,006	-	4,006
Highway Planning and Construction					
Enhancement Agreement - Depot	20.205	E-4118	508,826	-	508,826
ISTEA21					
Cape Fear River Trail	20.205	E-4539	759,060	-	759,060
Railroad improvements at Hillsborn St and Cumberland Rd	20.205		10,260	-	10,260
			1,278,146	-	1,278,146
Federal Transportation Administration					
Operating assistance grant	20.507	NC 90.4327	972,000	-	972,000
Capital assistance grants:					
Capital	20.507	NC 90.0313	972	-	972
Capital	20.507	NC 90.0271	37,963	-	37,963
Planning	20.507	NC 90.2292	954	-	954
Planning	20.507	NC 90.2327	1,819	-	1,819
Planning	20.507	NC 90.2313	75,469	-	75,469
			1,089,177	-	1,089,177

City of Fayetteville, North Carolina
Schedule of Expenditures of Federal and State Awards
for the Year Ended June 30, 2004

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA number	State/ Pass-through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
FEDERAL EMERGENCY MANAGEMENT AGENCY					
Assistance to Firefighters	85.554	EMW-2002-FG-00847	\$234,195	-	234,195
U.S. ENVIRONMENTAL PROTECTION AGENCY, REGION 4					
Brownfields Pilots Cooperative Agreement					
Region 4 - Direct Program	66.811	#V984206-97-0	5,086	-	5,086
Vulnerability Assessments and Related Security					
Improvements at large Drinking Water Utilities	66.476	HS830131-01-0	33,458	-	33,458
U.S. DEPARTMENT OF COMMERCE					
Economic Development Administration					
Cedar Creek Industrial Park Sewer Extension Project	11.300	04-01-05110	508,690	-	508,690
U.S. DEPARTMENT OF THE INTERIOR					
Fish and Wildlife Service					
Water Shed Preservation	15.FFB	1448-4018498-G-075	3,623	-	3,623
STATE GRANTS:					
NC DEPARTMENT OF TRANSPORTATION					
Aviation Division					
Rehabilitate Terminal Building, Phase II	N/A	9.9544021	-	21,316	21,316
Land, Masterplan, Snow Plows	N/A	36244.27.4.3	-	59,288	59,288
Police Officer Jackets	N/A	36244.27.4.5	-	1,922	1,922
Stormwater Improvements Phase I	N/A	36244.27.4.4	-	8,860	8,860
Terminal Roof Replacement	N/A	36244.27.4.2	-	58,788	58,788
			-	150,174	150,174
Public Transportation Division					
Maintenance Assistance	N/A	9.9051698	-	828,248	828,248
Planning	N/A	36223.7.5.7	-	227	227
Planning	N/A	9.9052267	-	119	119
Planning	N/A	36223.7.4.6	-	9,434	9,434
			-	838,028	838,028
Mazarick Bike Trail	N/A		-	123,498	123,498
Powell Bill	N/A		-	3,597,658	3,597,658
NC DEPARTMENT OF ENVIRONMENTAL AND NATURAL RESOURCES					
Division of Water Quality					
NC Clean Water Revolving Loan & Grant Program	N/A	NEW LOAN E-SRF-T-02-0124	-	5,136,865	5,136,865
Division of Parks and Recreation					
Cape Fear River Trail	N/A	1999-95	-	250,000	250,000
NC DEPARTMENT OF HUMAN RESOURCES					
Passed through from Cumberland County Department of Social Services					
Juvenile Court Restitution	N/A	626015	-	98,347	98,347
NC DEPARTMENT OF CRIME CONTROL & PUBLIC SAFETY					
Division of Emergency Management					
Hazmat (Terrorism)		HS-TE-02-1108	-	90,752	90,752
TOTAL ASSISTANCE			\$6,812,171	10,285,322	17,097,493

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 \$1,193,211.37.
- The total local contributions for the State Powell Bill assistance amounted to \$52,907.46 (this represents assessments received through 06/30/04).
- The total amount provided to CHDO from the HOME Investment Partnership was \$202,920.15.

**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, 2004. 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, 2004.

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.

Cherry, David + Hobel, L.L.P.

Fayetteville, North Carolina
October 8, 2004

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Passenger Facility Charge Program

For the Year Ended June 30, 2004

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
Passenger Facility Charge Program
For the Year Ended June 30, 2004

None reported.

Schedule of Expenditures of
Passenger Facility Charges
Year Ended June 30, 2004

Project	Impose Effective Date	Use Effective Date	Cumulative Expenditures Actual	Approved Expenditures for PFC's	Amount of Use Approval	PFC Revenue Used in Prior Years	PFC Revenue Used in Current Year	Total PFC Revenues Used
APPLICATION 1 (# 00-01-C-00-FAY)								
Local share reimbursement AIP-12, Construction of a Fire Training Facility and Rehabilitation of a 1500-Gallon ARFF Vehicle	11/01/2000	11/01/2000	\$ 3,830,753	3,830,753	191,538	191,538	-	191,538
Local share reimbursement AIP-12, Install Security Access Control System	11/01/2000	11/01/2000	757,595	757,596	37,880	37,880	-	37,880
Local share reimbursement AIP-13, Update Airport Master Plan	11/01/2000	11/01/2000	135,020	67,510	6,751	6,751	-	6,751
Local share reimbursement AIP-13, Design Highway 301 Connector	11/01/2000	11/01/2000	194,655	194,655	9,733	9,733	-	9,733
Local share reimbursement AIP-14, Installation of Taxiway Guidance Signs and Runway End Identification Lights	11/01/2000	11/01/2000	198,191	198,192	9,910	9,910	-	9,910
Local share reimbursement AIP-14, Land Acquisition	11/01/2000	11/01/2000	134,612	134,462	6,731	6,731	-	6,731
Local share reimbursement AIP-14, Improve Terminal Building	11/01/2000	11/01/2000	31,224	31,224	1,474	1,474	-	1,474
Local share reimbursement AIP-15, Design New General Aviation Area	11/01/2000	11/01/2000	208,286	208,286	11,460	11,460	(1,146)	10,314
Local share reimbursement AIP-15, Foreign Object Damage Sweeper	11/01/2000	11/01/2000	15,832	16,632	782	782	-	782
Local share reimbursement AIP-15, Design Taxiway "K"	11/01/2000	11/01/2000	16,841	16,841	842	842	-	842
Local share reimbursement AIP-15, Rehabilitate General Aviation Apron	11/01/2000	11/01/2000	29,875	29,875	1,494	1,494	-	1,494
Local share reimbursement AIP-15, Land for Development	11/01/2000	11/01/2000	49,001	48,476	2,424	2,424	-	2,424
Local share reimbursement AIP-16, Terminal Loading Bridges	11/01/2000	11/01/2000	179,808	179,808	8,990	8,990	-	8,990
Local share reimbursement AIP-17, New General Aviation Construction	11/01/2000	11/01/2000	2,362,380	2,342,376	114,860	114,860	-	114,860
Local share reimbursement AIP-18, Acquire Handicap Lift Device	11/01/2000	11/01/2000	35,680	35,680	1,784	1,784	-	1,784
Local share reimbursement AIP-18, Rehabilitate Terminal Building	11/01/2000	11/01/2000	1,820,477	1,820,478	83,367	83,367	-	83,367
Local share reimbursement AIP-19, Aircraft Rescue & Firefighting Vehicle	11/01/2000	11/01/2000	319,769	319,769	15,988	15,988	-	15,988
Local share reimbursement AIP-20, Design Non-licensed Vehicle Road	11/01/2000	11/01/2000	31,619	30,545	1,527	1,527	-	1,527
Local share reimbursement AIP-20, Design of Taxiway "K" (Revised)	11/01/2000	11/01/2000	13,287	12,887	644	644	-	644
Local share reimbursement AIP-20, Installation of Water Main	11/01/2000	11/01/2000	78,565	78,299	3,915	3,915	-	3,915
Local share reimbursement AIP-21, Airport Entrance Road	11/01/2000	11/01/2000	360,018	350,000	17,500	17,500	-	17,500
Local share reimbursement AIP-21, Jetway Bridge Modifications	11/01/2000	11/01/2000	38,887	46,195	2,310	1,944	-	1,944
Local share reimbursement AIP-21, Security System Upgrade	11/01/2000	11/01/2000	91,512	70,815	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
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	-	138,111	13,611	-	-	-
Renovate Terminal, Phase II	11/01/2000	06/18/2002	1,921,145	2,475,430	93,433	61,914	24,141	86,055

Schedule of Expenditures of
Passenger Facility Charges
Year Ended June 30, 2004

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
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	1,263,890	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	-	-	-
Taxiway 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	21,564,714	1,009,843	896,826	22,995	919,821
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	896,826	22,995	919,821