

**CITY OF FAYETTEVILLE  
NORTH CAROLINA**

***Report of Independent Certified Public Accountants  
Financial Statements and Schedules  
Year ended June 30, 2003***



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Annual Financial Report  
For the Fiscal Year Ended June 30, 2003**

**Table of Contents**

<b><u>FINANCIAL SECTION</u></b>	<b><u>Page</u></b>
<b>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3-13
<b>BASIC FINANCIAL STATEMENTS</b>	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Assets	14
Statement of Activities	15
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	20
Balance Sheet – Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23-24
Statement of Fiduciary Net Assets – Fiduciary Funds	25
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	26
Notes to Financial Statements	27-62
REQUIRED SUPPLEMENTARY INFORMATION	
Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	63
Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions	64
Law Enforcement Officers' Special Separation Allowance – Notes to the Required Schedules	64
Public Works Commission Retirement System – Schedule of Funding Progress	65
Public Works Commission Retirement System – Schedule of Employer Contributions	66
Public Works Commission Retirement System – Notes to the Required Schedules	66
Supplemental Public Works Commission Retirement System – Schedule of Funding Progress	67
Supplemental Public Works Commission Retirement System – Schedule of Employer Contributions	68
Supplemental Public Works Commission Retirement System – Notes to the Required Schedules	68

CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report  
For the Fiscal Year Ended June 30, 2003

Table of Contents (continued)

<b><u>SUPPLEMENTAL FINANCIAL INFORMATION</u></b>	<b><u>Page</u></b>
<b>COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES</b>	
<b>GOVERNMENTAL FUNDS</b>	
<b>GENERAL FUND</b>	
Comparative Balance Sheets - General Fund	69
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	70-74
<b>NONMAJOR GOVERNMENTAL FUNDS</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	76
<b>SPECIAL REVENUE FUNDS</b>	
Combining Balance Sheet – Nonmajor Special Revenue Funds	77
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	78
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Emergency Response Fund	79
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Federal and State Financial Assistance Fund	80
Schedule of Expenditures By Project - Budget and Actual - Federal and State Financial Assistance Fund	81
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Storm Water Management Fund	82
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Fayetteville Finance Corp Fund	83
<b>CAPITAL PROJECT FUNDS</b>	
Combining Balance Sheet – Nonmajor Capital Project Funds	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Project Funds	85
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Government Fund	86
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - Public Safety Fund	87
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Recreational and Cultural Fund	88
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Transportation Fund	89
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Bond Improvement Fund	90
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Economic and Physical Development Fund	91

CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report  
For the Fiscal Year Ended June 30, 2003

Table of Contents (continued)

<b>PROPRIETARY FUNDS</b>	<b>Page</b>
<b>ENTERPRISE FUNDS</b>	
Combining Balance Sheet – Electric Fund	92
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Electric Fund	93
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Electric Fund	94-96
Schedule of Changes in the Status of Uptown Revitalization Fund	97
Schedule of Changes in the Status of Rate Stabilization Fund	98
Combining Balance Sheet – Water and Wastewater Fund	99
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Water and Wastewater Fund	100
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Water and Wastewater Fund	101-103
Schedule of Changes in the Status of Annexation Capital Project Fund – Phase III	104
Schedule of Changes in the Status of 1997 Supplemental Capital Project Fund	105
Schedule of Changes in the Status of Annexation Capital Project Fund – Phase IVA	106
Schedule of Changes in the Status of Annexation Capital Reserve Fund	107
Schedule of Changes in the Status of Annexation Capital Project Fund – Phase IVB	108
Schedule of Changes in the Status of 2002 State Revolving Loan Capital Project Fund	109
Combining Balance Sheet – Nonmajor Enterprise Funds	110
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds	111
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	112-113
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Transit Fund	114
Schedule of Changes in the Status of Transit Capital Project Fund	115
Schedule of Changes in the Status of Transit II Capital Project Fund	116
Schedule of Expenditures by Project – Transit II Capital Project Fund	117
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Airport Fund	118
Schedule of Changes in the Status of Airport Capital Project Fund	119
<b>INTERNAL SERVICE FUNDS</b>	
Combining Balance Sheet – Internal Service Funds	120
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds	121
Combining Statement of Cash Flows – Internal Service Funds	122
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Warranty Fleet Fund	123
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Fleet Maintenance Fund	124
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Insurance Fund	125

CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report  
For the Fiscal Year Ended June 30, 2003

Table of Contents (continued)

	<u>Page</u>
<b>FIDUCIARY FUNDS</b>	
<b>TRUST FUNDS</b>	
Combining Statement of Fiduciary Net Assets – Pension Trust Funds	126
Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds	127
Combining Statement of Fiduciary Net Assets – Private-purpose Trust Funds	128
Combining Statement of Changes in Fiduciary Net Assets – Private-purpose Trust Funds	129
<b><u>OTHER SUPPLEMENTAL FINANCIAL DATA</u></b>	
Schedule of Current Tax Levy	130
Schedule of Taxes Receivable	131
<b><u>OMB CIRCULAR A-133 AND STATE SINGLE AUDIT IMPLEMENTATION ACT COMPLIANCE SECTION</u></b>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	132
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	133-134
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	135-136
Schedule of Findings and Questioned Costs	137-138
Summary Schedule of Prior Year Audit Findings	139
Schedule of Expenditures of Federal and State Awards	140-142
<b><u>PASSENGER FACILITY CHARGE COMPLIANCE SECTION</u></b>	
Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Controls Over Compliance in accordance with the Passenger Facility Charge Program Audit Guide	143-144
Schedule of Findings and Questioned Costs	145
Summary Schedule of Prior Year Audit Findings	146
Schedule of Expenditures of Passenger Facility Charges	147-148

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## FINANCIAL SECTION

- \* Report of Independent Certified Public Accountants
- \* Management's Discussion and Analysis
- \* Basic Financial Statements
- \* Notes to the Financial Statements



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Mayor  
and Members of the City Council  
City of 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 City of Fayetteville, North Carolina, ("the City") as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2003, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the schedules of funding progress, employer contributions, and the notes to the required schedules for the Law Enforcement Officers' Special Separation Allowance, Public Works Commission Retirement System, and Supplemental Public Works Commission Retirement System are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2003, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the City. The combining and individual fund statements and schedules for the years ended June 30, 2003 and 2002, as well as the accompanying schedule of expenditures of federal and state awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and the accompanying schedule of expenditures of passenger facility charges required by the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, for the year ended June 30, 2003, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Cherrey, Bekaert & Holland LLP*

Fayetteville, North Carolina  
October 17, 2003

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## 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, 2003. 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 \$766,688,520 (*net assets*). Of this amount, \$123,377,068 (*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 \$5,380,701, primarily due to capital contributions in the Water and Wastewater Fund. As of the close of the current fiscal year, the City's governmental funds reported an ending fund balance of \$44,912,312, an increase of \$4,331,726 in comparison to prior year, as restated. Approximately 70 percent of total fund balance, or \$31,241,096 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$22,078,476 or 31.8 percent of total general fund expenditures for the fiscal year. Of this amount, \$6,895,477 has been designated for subsequent year expenditures, special purposes, or debt service, bringing the undesignated general fund balance to \$15,182,999 or 21.9 percent of general fund expenditures.
- The City's total debt decreased by \$2,028,855 during the current fiscal year.
- The City's most recent bond issue (governmental activities) was rated Aa3 (Moody's Investor Services) and AA- (Standard & Poor's). 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. 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. As of this date, these ratings have been upheld.

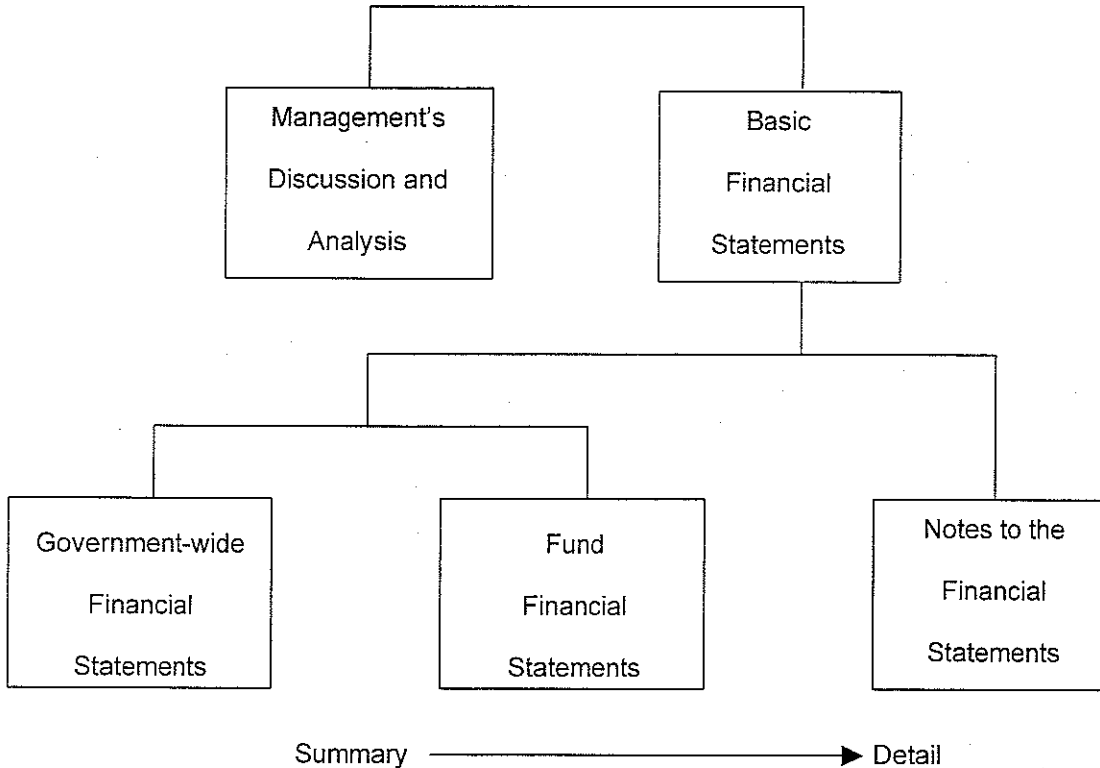
### **Overview of the Financial Statements**

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 three 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 63 of this report.

**Government-wide Financial Analysis**

**Net Assets.** The City's combined net assets increased \$5.4 million, or 0.7% from fiscal year 2002 to 2003. Net assets may serve over time as one useful indicator of a government's financial condition. The information provided below provides a more detailed view of the City's net assets.

**The City's Net Assets**

**Figure 2**

**CITY OF FAYETTEVILLE'S NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2002	2003	2002	2003	2002	2003
Current and other assets	\$ 66,367,707	\$ 68,422,735	\$ 119,175,711	\$ 123,471,956	\$ 185,543,418	\$ 191,894,691
Capital assets	305,072,525	300,244,202	570,053,622	572,309,649	875,126,147	872,553,851
Total assets	371,440,232	368,666,937	689,229,333	695,781,605	1,060,669,565	1,064,448,542
Long-term liabilities outstanding	59,806,189	59,959,087	190,469,556	188,296,908	250,275,745	248,255,995
Other liabilities	10,049,797	9,228,333	39,036,204	40,275,694	49,086,001	49,504,027
Total liabilities	69,855,986	69,187,420	229,505,760	228,572,602	299,361,746	297,760,022
Net assets:						
Invested in capital assets, net of related debt	248,607,997	248,602,580	379,321,259	384,181,318	627,929,256	632,783,898
Restricted	283,297	-	7,867,859	10,527,554	8,151,156	10,527,554
Unrestricted	52,692,952	50,876,937	72,534,455	72,500,131	125,227,407	123,377,068
Total net assets	\$ 301,584,246	\$ 299,479,517	\$ 459,723,573	\$ 467,209,003	\$ 761,307,819	\$ 766,688,520

The assets of the City exceeded liabilities by \$766,688,520 as of June 30, 2003. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$632.8 million, Restricted net assets of \$10.5 million and Unrestricted net assets \$123.4 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, 2003, \$123.4 million, or 16% of the total net assets reported of \$766,688,520, 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	
	2002	2003	2002	2003	2002	2003
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 5,025,161	\$ 4,226,266	\$ 186,554,964	\$ 192,107,747	\$ 191,580,125	\$ 196,334,013
Operating grants and contributions	7,886,293	8,610,710	1,541,766	1,672,068	9,428,059	10,282,778
Capital grants and contributions	183,122	133,554	11,255,325	14,464,226	11,438,447	14,597,780
General revenues:						
Property taxes	33,613,509	34,094,378	-	-	33,613,509	34,094,378
Other taxes	24,432,855	28,116,817	-	-	24,432,855	28,116,817
Grants and contributions not restricted to specific programs	370,032	547,091	-	-	370,032	547,091
Other	2,215,252	2,076,524	2,096,162	1,807,802	4,311,414	3,884,326
<b>Total revenues</b>	<b>73,726,224</b>	<b>77,805,340</b>	<b>201,448,217</b>	<b>210,051,843</b>	<b>275,174,441</b>	<b>287,857,183</b>
<b>Expenses:</b>						
Administration	8,501,997	12,384,637	-	-	8,501,997	12,384,637
Public safety	39,896,830	40,577,161	-	-	39,896,830	40,577,161
Environmental protection	6,450,217	7,957,261	-	-	6,450,217	7,957,261
Transportation	12,091,432	12,123,658	-	-	12,091,432	12,123,658
Economic and physical development	7,407,147	5,459,943	-	-	7,407,147	5,459,943
Recreation and community facilities	6,371,366	6,525,688	-	-	6,371,366	6,525,688
Interest and fees	2,999,151	2,783,912	-	-	2,999,151	2,783,912
Electric activities	-	-	123,644,452	141,370,184	123,644,452	141,370,184
Water and wastewater activities	-	-	43,949,463	44,649,994	43,949,463	44,649,994
Transit	-	-	5,223,850	5,073,264	5,223,850	5,073,264
Airport	-	-	3,435,908	3,570,780	3,435,908	3,570,780
<b>Total expenses</b>	<b>83,718,140</b>	<b>87,812,260</b>	<b>176,253,673</b>	<b>194,664,222</b>	<b>259,971,813</b>	<b>282,476,482</b>
Increase in net assets before transfers	(9,991,916)	(10,006,920)	25,194,544	15,387,621	15,202,628	5,380,701
Transfers	7,142,178	7,902,191	(7,142,178)	(7,902,191)	-	-
Increase in net assets	(2,849,738)	(2,104,729)	18,052,366	7,485,430	15,202,628	5,380,701
Net assets, July 1	304,433,984	301,584,246	441,671,207	459,723,573	746,105,191	761,307,819
Net assets, June 30	\$ 301,584,246	\$ 299,479,517	\$ 459,723,573	\$ 467,209,003	\$ 761,307,819	\$ 766,688,520

**Governmental activities.** Governmental activities decreased the City's net assets by \$2,104,729. Key elements of this decrease are as follows:

- Investment earnings decreased by \$440,000 in FY2003 compared to FY2002. This decrease is primarily due to an overall lower rate of return on investments during the year.
- Adjustment related to change in deferred revenue.
- Elimination of tax reimbursements by the State of North Carolina in FY2003, resulting in a \$1 million reduction in Other Taxes.
- \$683,000 in Storm Water consulting services, primarily due to the Storm Water Inventory project.

- These decreases were offset by the following:
  - \$1.6 million net increase in sales tax revenue generated from the new one-half cent tax, which became effective in December 2002.
  - In addition, certain utility franchise and excise taxes were withheld by the State of North Carolina in FY2002 and not withheld in FY2003, resulting in approximately \$2.2 million in additional revenue in FY2003.
  - \$713,000 increase in Water and Wastewater Fund transfer to cover the General Fund's share of the debt service associated with annexation infrastructure improvements.
  - Property taxes increased \$481,000 primarily due to the elimination of the 2 percent early payment discount in FY2003.

**Business-type activities:** Business-type activities increased the City's net assets by \$7,485,430, or 139.1% of the total increase. The majority of the increase was due to capital contributions in the Water and Wastewater Fund.

### **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 current fiscal year, unreserved fund balance of the General Fund was \$22,078,476, while total fund balance reached \$29,255,778. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 31.8 percent of total General Fund expenditures, while total fund balance represents 42.1 percent of that same amount.

At June 30, 2003, the governmental funds of the City reported a combined fund balance of \$44,912,312, a .373 percent decrease from last year.

#### **General Fund Budgetary Highlights:**

During the budget process for fiscal year 2003, the City's financial picture was clouded by the uncertainty surrounding the State of North Carolina's budget situation. By the conclusion of fiscal year 2003, the State had eliminated tax reimbursements and provided local governments with an option to levy an additional one-half cent sales tax to replace the reimbursements. Management took budgetary steps to address the impacts of this uncertainty and 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 \$10,551,862 or 13.5%. The primary reasons for the increase were to reflect additional revenues (budgeted at \$1.1 million) from the new one-half cent sales tax implemented in December 2002, a transfer from the Water and Wastewater Fund of \$713,473 for utility infrastructure debt service, a fund balance appropriation of \$3.1 million to cover items encumbered or designated as of June 30, 2002 and a \$5.5 million appropriation to reflect a general obligation refunding bond issue that occurred in December 2002.

Actual revenues and other financing sources for the General Fund were less than the final amended budget amount by \$3,580,836. This is primarily due to a fund balance appropriation of \$4.9 million, which is an other financing source that is not reflected as actual current year revenue. In addition, revenues exceeded the budget by \$1,376,133, of which \$307,863 was due to higher sales tax revenues and \$824,600 was due to higher utility franchise, excise and sales tax revenues.

Actual expenditures and other financing uses were less than the final amended budget amount by \$7,145,418. This can be attributed to \$1.4 million unexpended in the personnel budget (primarily due to a hiring freeze by City management), operating costs less than \$2.4 million of the budgeted amount and \$1.6 million in unspent funds for equipment, vehicles and capital improvements. A significant portion of the unexpended equipment and capital improvement funds were designated at June 30, 2003 to be re-appropriated in fiscal year 2004. In addition, encumbrances of \$734,253 were reported in the General Fund at June 30, 2003.

**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 \$38,601,288, and those for the Water and Wastewater Fund equaled \$31,380,500. The total change in net assets for both funds was an increase of \$90,045 and \$7,189,660, respectively. The majority of the increase in Net Assets in the Water and Wastewater Fund was due to capital contributions.

### **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, 2003, totals \$872,553,851 (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:

- \$1.1 million in land and land improvements, donated and purchased, for various parks and general governmental purposes
- \$200,000 in general governmental computer equipment
- \$400,000 in street maintenance equipment
- \$700,000 in parks and museum improvements
- \$1.55 million in police vehicles and computer equipment
- \$3.6 million in street and sidewalk improvements
- \$1.4 million in airport improvements
- \$3.2 million of developer contributed water and wastewater utility infrastructures
- \$2.8 million to install water and wastewater utility infrastructure in newly annexed areas
- \$1.6 million to install aqueous ammonia system for PO Hoffer and Glenville plants
- \$1.5 million to purchase electric meters
- \$1.4 million to install standby power/peak at PO Hoffer plant
- \$1.2 million in telecom fiber optics to connect PWC plant sites and various city and county facilities
- \$1.1 million to relocate electric facilities due to DOT road widening project
- \$1.0 million of computer hardware and software equipment

**The City's Capital Assets**

**Figure 4**

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

	Governmental Activities	Business-type Activities	Total
Land	\$ 33,925,650	\$ 12,434,111	\$ 46,359,761
Infrastructure	230,048,320	-	230,048,320
Electric utility system	-	155,613,254	155,613,254
Wastewater system	-	191,110,254	191,110,254
Water system	-	115,549,287	115,549,287
Equipment and machinery	-	7,404,657	7,404,657
Buildings and improvements	27,967,999	54,403,322	82,371,321
Equipment, furniture and fixtures	2,248,456	1,329,082	3,577,538
Computer programs	-	3,636,872	3,636,872
Vehicles	2,873,670	3,695,057	6,568,727
Construction in progress	3,180,107	27,133,753	30,313,860
<b>Total</b>	<b>\$ 300,244,202</b>	<b>\$ 572,309,649</b>	<b>\$ 872,553,851</b>

Additional information on the City's capital assets can be found in Note 4 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2003, The City had total bonded debt outstanding of \$231,160,350, of which \$53,582,633 is debt backed by the full faith and credit of the City. In addition to a number of capital leases, the City has 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	
	2002	2003	2002	2003	2002	2003
Bonded debt	\$ 49,735,000	\$ 49,867,633	\$ 183,069,763	\$ 181,292,717	\$ 232,804,763	\$ 231,160,350
Obligations under capital leases	6,424,530	6,479,845	-	-	6,424,530	6,479,845
Installment note payable	305,000	245,000	7,215,371	6,835,614	7,520,371	7,080,614
<b>Total long-term debt</b>	<b>\$ 56,464,530</b>	<b>\$ 56,592,478</b>	<b>\$ 190,285,134</b>	<b>\$ 188,128,331</b>	<b>\$ 246,749,664</b>	<b>\$ 244,720,809</b>

The City's total debt decreased by \$2,028,855, or 0.82%, during the past fiscal year. The decrease is due to regularly scheduled principal payments, which were offset by the issuance of \$3,625,000 Street Improvement Bonds in December 2002, a new capital lease agreement, and the issuance of revenue refunding bonds in 2003.



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	Aaa/VMIG1
Standard & Poor's	AAA/A-1+

PWC's ratings are based on municipal bond insurance policies. 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. As of this date, these ratings have been upheld.

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 \$434,140,000. The City has no bonds authorized but unissued at June 30, 2003.

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, 2004**

This budget considers the state and local economy, which has suffered from the recession and could be slow to recover.

**Governmental Activities:** The City has approved a \$84.5 million general fund budget for fiscal year 2004 which represents a \$6.6 million or 8.5% increase over the original budget for fiscal year 2003. The tax rate remains the same at 53 cents per \$100 value; however, a property revaluation was conducted in 2003 and is effective with the fiscal year 2004 budget. One of the primary reasons for the budget increase is the reflection of the new one-half cent sales tax (estimated at \$3.5 million per year) in the fiscal year 2004 budget. The new one-half cent sales tax was authorized by the state of North Carolina to replace the eliminated tax reimbursements in fiscal year 2003. This revenue increase is also offset by a budgeted \$2.1 million payment to Cumberland County in exchange for maintaining the per capita distribution method for sales tax. Another primary reason for the budget increase is an additional \$2.1 million budgeted in property taxes. The budgeted increase in property taxes is due to the June 1, 2003 annexation of the Ashton Forest, Quailridge, Queensdale and Beaver Creek neighborhoods and the property revaluation. In addition, the General Fund fiscal year 2004 budget reflects a \$1.1 million transfer from the Water and Wastewater Fund to pay debt service associated with the General Fund's share of utility infrastructure debt. This debt service item was reflected as a direct expenditure of the Water and Wastewater Fund in the original fiscal year 2003 budget.

Budgeted expenditures increased due to the \$2.1 million payment to Cumberland County for the sales tax agreement, the \$2.4 million budget for the newly annexed areas, the \$1.1 million budgeted debt service payment for the General Fund's share of the utility infrastructure debt and an \$800,000 increase in medical and property and liability insurance.

**Business – type Activities:** The City considered city and county population growth, annexation impacts, and the economy when setting its budget. The cost of power has again increased this fiscal year and is reflected in the fiscal year 2004 Electric Fund budget. The largest contributor to the rising cost of energy is fuel pricing. The new contract with Progress Energy Carolinas, Inc. was effective July 1, 2003. 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. There are no increases in water and Wastewater rates in the fiscal year 2004 budget.

Transfers to the General Fund are expected to be \$9.4 million in fiscal year 2004 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 Fund and Water and Wastewater Fund fiscal year 2004 budgets include funding for projects to improve street lighting, underground utility conversions, downtown streetscape improvements, utility extensions in annexation and urban areas, development of a central city industrial park and rural water systems, and supporting and improving service to existing industry. The 2004 budget also includes an appropriation of \$250,000 and \$276,200 from the Electric Fund to the Electric Rate Stabilization Fund and the Generation Maintenance Fund, respectively. In addition, an employee performance pay allowance, plus CPI increase is included in the Electric, Water and Wastewater fiscal year 2004 budgets.

Since the fiscal year 2004 budget was adopted, several events have occurred that will impact future budgets of the City of Fayetteville.

On September 8, 2003, the City Council adopted a Resolution of Intent to annex areas west to the Hoke County line, south to Fisher Road, north to Fort Bragg, and a few small areas with a total estimated population exceeding 43,000. On September 22, the City Council adopted the annexation report for the areas. If approved, the annexation could occur as early as June 30, 2004.

On October 6, 2003, the City Council approved a sales tax agreement with Cumberland County, and any other municipalities that will be a party to the agreement, to reimburse each party 50% of its sales tax loss resulting from annexations occurring on or after July 1, 2003. In addition, the City of Fayetteville will reimburse Cumberland County \$2.1 million in fiscal year 2005 and a relative percentage of sales tax in fiscal years 2006 and 2007. The agreement has a nine-year term, with opportunities to modify or terminate the agreement at the end of each three-year period.

The City of Fayetteville issued three series of bonds after June 30, 2003:

- \$9,000,000 General Obligation Refunding Bonds, Series 2003 (Dated October 1, 2003)

This issue refunds \$8,585,000 of the outstanding Refunding Bonds, Series 1993. The refunding bonds are associated with the City's General Fund and the PWC. In addition, the City's PWC will use \$10,615,000 from available system revenues to call the balance of the outstanding bonds. The bonds will be called on or about November 6, 2003.

- \$55,150,000 PWC Variable Rate Revenue and Revenue Refunding Bonds, Series 2003A (Dated September 11, 2003)

This issue refunds a portion of the PWC Revenue Refunding Bonds, Series 1993 and provides proceeds for the construction and installation of various capital additions to the utility system. The refunded bonds will be called on or about November 6, 2003. There is a synthetic fixed rate swap agreement associated with this bond issue.

- \$30,065,000 PWC Variable Rate Refunding Bonds, Series 2003B (Dated October 2, 2003)

This issue refunds a portion of the PWC Revenue Refunding Bonds, Series 1993. The bonds will be called on or about November 6, 2003.

### **Requests for Information**

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, City of Fayetteville, 433 Hay Street, Fayetteville, NC 28301.

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## **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, 2003**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total Primary Government</b>	<b>Fayetteville Air Cargo Facilities</b>
<b>Assets</b>				
Cash and investments	\$ 45,867,612	\$ 30,871,039	\$ 76,738,651	\$ -
Taxes receivable	3,645,530	-	3,645,530	-
Accounts receivable	2,448,316	36,841,176	39,289,492	1,584
Internal balances	54,569	(54,569)	-	-
Assessment receivable	478,421	-	478,421	-
Due from other governments	5,805,510	261,562	6,067,072	-
Inventories	390,660	11,075,905	11,466,565	-
Prepaid expenses	422,680	195,835	618,515	-
Noncurrent portion of note receivable	4,531,198	-	4,531,198	248,537
Restricted asset - cash and investments	4,705,856	35,962,469	40,668,325	-
Restricted asset - accounts receivable	-	469,080	469,080	-
Restricted asset - collateral pledged	-	148,060	148,060	-
Other assets	72,383	7,701,399	7,773,782	-
Capital assets:				
Land and construction in progress	37,105,757	39,567,864	76,673,621	-
Other capital assets, net of depreciation	263,138,445	532,741,785	795,880,230	-
<b>Total assets</b>	<u>368,666,937</u>	<u>695,781,605</u>	<u>1,064,448,542</u>	<u>250,121</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	8,422,669	23,892,687	32,315,356	1,584
Overdraft payable	-	6,384,188	6,384,188	-
Restricted liabilities - accounts payable	-	5,034,006	5,034,006	-
Unearned revenues	766,354	56,060	822,414	-
Unearned deposits	39,310	4,908,753	4,948,063	-
Long-term liabilities:				
Due within one year	7,473,448	11,063,333	18,536,781	58,404
Due in more than one year	52,485,639	177,233,575	229,719,214	190,133
<b>Total liabilities</b>	<u>69,187,420</u>	<u>228,572,602</u>	<u>297,760,022</u>	<u>250,121</u>
<b>Net assets</b>				
Invested in capital assets, net of related	248,602,580	384,181,318	632,783,898	-
Restricted for:				
Capital projects	-	25,695	25,695	-
Debt service	-	10,501,859	10,501,859	-
Unrestricted	50,876,937	72,500,131	123,377,068	-
<b>Total net assets</b>	<u>\$ 299,479,517</u>	<u>\$ 467,209,003</u>	<u>\$ 766,688,520</u>	<u>\$ -</u>

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, 2003

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Fayetteville Air Cargo Facilities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
<b>Governmental activities:</b>							
Administration	\$ 12,384,637	\$ 670,144	\$ 5,325	\$ -	\$ (11,709,168)	\$ -	\$ -
Public safety	40,577,161	1,883,207	1,113,043	133,554	(37,447,357)	-	(37,447,357)
Environmental protection	7,957,261	52,591	-	-	(7,904,670)	-	(7,904,670)
Transportation	12,123,658	1,146,925	3,919,568	-	(7,057,165)	-	(7,057,165)
Economic and physical development	5,459,943	79,387	3,262,985	-	(2,117,571)	-	(2,117,571)
Recreation and community facilities	6,525,688	394,012	309,789	-	(5,821,887)	-	(5,821,887)
Interest and fees	2,783,912	-	-	-	(2,783,912)	-	(2,783,912)
Total governmental activities	87,812,260	4,226,266	8,610,710	133,554	(74,841,730)	-	(74,841,730)
<b>Business-type activities:</b>							
Electric	141,370,184	145,617,727	-	3,632,702	-	7,880,245	7,880,245
Water and wastewater	44,649,994	43,008,035	-	8,605,351	-	6,963,392	6,963,392
Transit	5,073,264	1,128,706	1,553,753	234,884	-	(2,155,921)	(2,155,921)
Airport	3,570,780	2,353,279	118,315	1,991,289	-	892,103	892,103
Total business-type activities	194,664,222	192,107,747	1,672,068	14,464,226	-	13,579,819	13,579,819
<b>Total primary government</b>	<b>\$ 282,476,482</b>	<b>\$ 196,334,013</b>	<b>\$ 10,282,778</b>	<b>\$ 14,597,780</b>	<b>(74,841,730)</b>	<b>13,579,819</b>	<b>(61,261,911)</b>
<b>Component unit:</b>							
Fayetteville Air Cargo Facilities	\$ 53,179	\$ 32,166	\$ -	\$ -	-	-	(21,013)
<b>Total component unit</b>	<b>\$ 53,179</b>	<b>\$ 32,166</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>(21,013)</b>
<b>General revenues:</b>							
Ad valorem taxes					34,094,378		34,094,378
Other taxes					28,116,817		28,116,817
Unrestricted grants and contributions					547,091		547,091
Interest earned on investments					1,197,764	1,723,505	2,921,269
Miscellaneous					878,760	84,297	963,057
Transfers					7,902,191	(7,902,191)	-
Total general revenues and transfers					72,737,001	(6,094,389)	66,642,612
Change in net assets					(2,104,729)	7,485,430	5,380,701
Net assets - beginning					301,584,246	459,723,573	761,307,819
Net assets - ending					\$ 299,479,517	\$ 467,209,003	\$ 766,688,520

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Balance Sheet  
Governmental Funds  
June 30, 2003**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and investments	\$ 26,899,566	\$ 11,453,535	\$ 38,353,101
Taxes receivable	3,299,863	117,856	3,417,719
Accounts receivable	7,430,142	5,336,974	12,767,116
Interfund receivable	423,798	-	423,798
Assessments receivable	472,269	6,152	478,421
Inventories	81,256	-	81,256
Restricted asset - cash and investments	-	4,705,856	4,705,856
<b>Total assets</b>	<b>\$ 38,606,894</b>	<b>\$ 21,620,373</b>	<b>\$ 60,227,267</b>
<b>Liabilities and fund balances</b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 3,289,852	\$ 1,011,963	\$ 4,301,815
Unearned deposits	39,310	-	39,310
Deferred revenues	6,021,954	4,951,876	10,973,830
<b>Total liabilities</b>	<b>9,351,116</b>	<b>5,963,839</b>	<b>15,314,955</b>
<b>Fund balances:</b>			
<b>Reserved</b>			
By State statute	6,078,348	799,492	6,877,840
For encumbrances	734,253	5,628,214	6,362,467
For inventories	81,256	-	81,256
For downtown	283,445	-	283,445
For wireless 911	-	66,208	66,208
<b>Unreserved</b>			
<b>Designated</b>			
For subsequent years	1,673,126	-	1,673,126
For special purpose	4,000,994	229,330	4,230,324
For debt service	1,221,357	-	1,221,357
Undesignated	15,182,999	-	15,182,999
<b>Unreserved, reported in nonmajor:</b>			
<b>Designated for subsequent years</b>			
Special revenue	-	1,184,932	1,184,932
Capital projects	-	6,246,683	6,246,683
<b>Undesignated</b>			
Special revenue	-	1,501,675	1,501,675
<b>Total fund balances</b>	<b>29,255,778</b>	<b>15,656,534</b>	<b>44,912,312</b>
<b>Total liabilities and fund balances</b>	<b>\$ 38,606,894</b>	<b>\$ 21,620,373</b>	<b>\$ 60,227,267</b>

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, 2003**

---

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

Ending fund balance - governmental funds	\$ 44,912,312
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	300,012,720
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	10,207,765
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.	99,353
Prepaid expenses are current-period expenditures in the funds, but are assets not available to pay current-period expenditures and, therefore, are capitalized.	284,280
Accrued tax penalties receivable are not available to pay for current-period expenditures and, therefore, are not recorded in the funds.	227,813
Internal service funds are used by management to charge the costs of Warranty fleet expenses, fleet maintenance expenses and insurance expenses to individual funds. The assets and liabilities of the internal service funds are included in governmental activities.	4,220,728
Accrued interest payable on long-term debt is not a current expenditure and therefore not recorded in the funds.	(581,138)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(59,904,316)</u>
Net assets of governmental activities	<u><u>\$ 299,479,517</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, 2003**

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Ad valorem taxes	\$ 33,720,313	\$ -	\$ 33,720,313
Other taxes	24,767,471	3,083,211	27,850,682
Intergovernmental	4,884,358	3,632,317	8,516,675
Other functional	3,494,800	-	3,494,800
Miscellaneous	1,165,788	987,450	2,153,238
Interest earned on investments	867,291	200,651	1,067,942
Total revenues	<u>68,900,021</u>	<u>7,903,629</u>	<u>76,803,650</u>
<b>Expenditures</b>			
Current:			
Administration	8,005,040	200,945	8,205,985
Public safety	38,526,878	1,903,373	40,430,251
Environmental protection	4,614,983	3,379,044	7,994,027
Transportation	5,284,977	1,846,676	7,131,653
Economic and physical development	702,591	6,219,433	6,922,024
Recreation and community facilities	6,270,473	308,802	6,579,275
Debt service:			
Principal	3,852,232	895,000	4,747,232
Interest and fees	2,100,426	711,035	2,811,461
Issue costs	65,737	38,248	103,985
Total expenditures	<u>69,423,337</u>	<u>15,502,556</u>	<u>84,925,893</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(523,316)</u>	<u>(7,598,927)</u>	<u>(8,122,243)</u>
<b>Other financing sources (uses)</b>			
Bonds	5,543,741	3,644,293	9,188,034
Capital leases	1,162,548	-	1,162,548
Transfers in	9,257,917	5,221,778	14,479,695
Transfers out	(6,407,096)	(500,000)	(6,907,096)
Payment to refund bond escrow agent	(5,469,212)	-	(5,469,212)
Total other financing sources (uses)	<u>4,087,898</u>	<u>8,366,071</u>	<u>12,453,969</u>
<b>Net change in fund balances</b>	<u>3,564,582</u>	<u>767,144</u>	<u>4,331,726</u>
<b>Fund balance - beginning (as previously stated)</b>	30,191,196	14,889,390	45,080,586
<b>Prior period adjustment</b>	(4,500,000)	-	(4,500,000)
<b>Fund balance - beginning (restated)</b>	<u>25,691,196</u>	<u>14,889,390</u>	<u>40,580,586</u>
<b>Fund balance - ending</b>	<u>\$ 29,255,778</u>	<u>\$ 15,656,534</u>	<u>\$ 44,912,312</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, 2003**

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

Net change in fund balances - total governmental funds	\$ 4,331,726
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.	(4,312,522)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.	(515,801)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(2,700,151)
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.	8,234
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.	(12,564)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>1,096,349</u>
Change in net assets of governmental activities	<u><u>\$ (2,104,729)</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  
Budget and Actual - General Fund  
Year Ended June 30, 2003**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>REVENUES</b>				
Ad valorem taxes	\$ 34,339,007	\$ 33,786,603	\$ 33,720,313	\$ (66,290)
Other taxes	22,092,674	23,468,437	24,767,471	1,299,034
Intergovernmental	4,841,498	4,774,211	4,884,358	110,147
Other functional	3,149,657	3,445,392	3,494,800	49,408
Miscellaneous	874,760	1,213,346	1,165,788	(47,558)
Interest earned on investments	799,701	835,899	867,291	31,392
<b>Total revenues</b>	<b>66,097,297</b>	<b>67,523,888</b>	<b>68,900,021</b>	<b>1,376,133</b>
<b>EXPENDITURES</b>				
Current:				
Administration	8,308,208	9,951,618	8,005,040	1,946,578
Public safety	39,596,614	39,603,521	38,526,878	1,076,643
Environmental protection	5,561,726	5,623,092	4,614,983	1,008,109
Transportation	6,113,342	6,122,227	5,284,977	837,250
Economic and physical development	960,996	989,089	702,591	286,498
Recreation and community facilities	6,732,181	7,528,197	6,270,473	1,257,724
Debt service:				
Principal	7,184,858	7,689,546	3,852,232	3,837,314
Interest and fees	42,378	42,378	2,100,426	(2,058,048)
Issue costs	-	65,737	65,737	-
<b>Total expenditures</b>	<b>74,500,303</b>	<b>77,615,405</b>	<b>69,423,337</b>	<b>8,192,068</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(8,403,006)</b>	<b>(10,091,517)</b>	<b>(523,316)</b>	<b>9,568,201</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds	-	5,543,741	5,543,741	-
Capital leases	1,686,362	1,356,344	1,162,548	(193,796)
Transfers in	8,395,597	9,109,070	9,257,917	148,847
Transfers out	(3,392,898)	(5,356,217)	(6,407,096)	(1,050,879)
Appropriated fund balance	1,713,945	4,912,020	-	(4,912,020)
Payment to refund bond escrow agent	-	(5,473,441)	(5,469,212)	4,229
<b>Total other financing sources (uses)</b>	<b>8,403,006</b>	<b>10,091,517</b>	<b>4,087,898</b>	<b>(6,003,619)</b>
<b>Net change in fund balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>3,564,582</b>	<b>\$ 3,564,582</b>
FUND BALANCE - BEGINNING (AS PREVIOUSLY STATED)			30,191,196	
PRIOR PERIOD ADJUSTMENT			(4,500,000)	
FUND BALANCE - BEGINNING (RESTATED)			25,691,196	
FUND BALANCE - ENDING			<u>\$ 29,255,778</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, 2003**

	Enterprise Funds				Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds	Total	
<b>Assets</b>					
<b>Current assets</b>					
Cash and investments	\$ 20,081,781	\$ 8,087,217	\$ 2,702,041	\$ 30,871,039	\$ 7,514,510
Accounts receivable	21,542,271	14,658,241	902,226	37,102,738	17,908
Interfund receivable	389,714	(20,485)	-	369,229	-
Inventories	9,929,150	1,138,204	8,551	11,075,905	309,404
Prepaid expenses	88,137	107,698	-	195,835	138,400
Total unrestricted current assets	52,031,053	23,970,875	3,612,818	79,614,746	7,980,222
<b>Restricted current assets</b>					
Cash and investments	13,399,154	22,563,315	-	35,962,469	-
Accounts receivable	3,336	465,744	-	469,080	-
Collateral pledged in lieu of deposits	148,060	-	-	148,060	-
Total restricted current assets	13,550,550	23,029,059	-	36,579,609	-
Total current assets	65,581,603	46,999,934	3,612,818	116,194,355	7,980,222
<b>Noncurrent assets</b>					
Other assets	2,719,017	4,850,382	132,000	7,701,399	-
Capital assets	217,740,347	329,360,026	25,209,276	572,309,649	231,482
Total noncurrent assets	220,459,364	334,210,408	25,341,276	580,011,048	231,482
<b>Total assets</b>	<b>\$ 286,040,967</b>	<b>\$ 381,210,342</b>	<b>\$ 28,954,094</b>	<b>\$ 696,205,403</b>	<b>\$ 8,211,704</b>
<b>Liabilities and net assets</b>					
<b>Current liabilities to be paid from unrestricted assets</b>					
Accounts payable and accrued expenses	\$ 17,177,155	\$ 6,137,492	\$ 578,040	\$ 23,892,687	\$ 3,908,946
Overdraft payable	6,384,188	-	-	6,384,188	-
Current portion of long term debt	3,362,345	7,532,411	-	10,894,756	-
Interfund payables	-	-	423,798	423,798	-
Accrued vacation	-	-	168,577	168,577	81,741
Total current liabilities to be paid from unrestricted assets	26,923,688	13,669,903	1,170,415	41,764,006	3,990,687
<b>Current liabilities to be paid from restricted assets</b>					
Accounts payable and accrued expenses	3,191,032	1,842,974	-	5,034,006	-
Total current liabilities to be paid from restricted assets	3,191,032	1,842,974	-	5,034,006	-
Total current liabilities	30,114,720	15,512,877	1,170,415	46,798,012	3,990,687
<b>Noncurrent liabilities</b>					
Unearned deposits	-	4,908,753	-	4,908,753	-
Deferred revenues	-	-	56,060	56,060	289
Long-term debt	51,750,847	125,482,728	-	177,233,575	-
Total noncurrent liabilities	51,750,847	130,391,481	56,060	182,198,388	289
Total liabilities	81,865,567	145,904,358	1,226,475	228,996,400	3,990,976
<b>Net assets</b>					
Invested in capital assets, net of related debt	162,627,155	196,344,887	25,209,276	384,181,318	231,482
<b>Restricted net assets</b>					
Capital projects	-	25,695	-	25,695	-
Debt service	2,946,957	7,554,902	-	10,501,859	-
Unrestricted	38,601,288	31,380,500	2,518,343	72,500,131	3,989,246
Total net assets	204,175,400	235,305,984	27,727,619	467,209,003	4,220,728
<b>Total liabilities and net assets</b>	<b>\$ 286,040,967</b>	<b>\$ 381,210,342</b>	<b>\$ 28,954,094</b>	<b>\$ 696,205,403</b>	<b>\$ 8,211,704</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
Year Ended June 30, 2003**

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
<b>Operating revenues</b>					
Charges for services	\$ 145,617,727	\$ 43,008,035	\$ 3,356,280	\$ 191,982,042	\$ -
Other revenue from operations	-	-	125,705	125,705	133,355
Interfund charges and employee contributions	-	-	-	-	11,234,748
Total operating revenues	145,617,727	43,008,035	3,481,985	192,107,747	11,368,103
<b>Operating expenses</b>					
General and administrative	8,304,691	8,639,521	-	16,944,212	-
Power supply and generation	115,904,320	-	-	115,904,320	-
Water purification and distribution	-	9,222,880	-	9,222,880	-
Sewer collection and treatment	-	8,220,611	-	8,220,611	-
Personnel	-	-	3,529,423	3,529,423	1,411,897
Maintenance and operations	-	-	2,319,988	2,319,988	9,372,086
Depreciation	12,890,217	11,407,197	2,312,571	26,609,985	53,279
Total operating expenses	137,099,228	37,490,209	8,161,982	182,751,419	10,837,262
<b>Operating income (loss)</b>	<b>8,518,499</b>	<b>5,517,826</b>	<b>(4,679,997)</b>	<b>9,356,328</b>	<b>530,841</b>
<b>Nonoperating revenue (expense)</b>					
Interest earned on investments	876,930	817,055	41,586	1,735,571	182,637
Federal and State grants	-	-	1,660,002	1,660,002	-
Passenger facility charges	-	-	322,372	322,372	-
Miscellaneous revenue	-	-	84,297	84,297	-
Gain (loss) on disposal of capital assets	(864,850)	(13,386)	-	(878,236)	-
Interest expense	(2,955,731)	(6,393,205)	(26,196)	(9,375,132)	-
Amortization	(450,375)	(753,194)	(22,000)	(1,225,569)	-
Miscellaneous expense	-	-	(263,085)	(263,085)	-
Total nonoperating revenue (expense)	(3,394,026)	(6,342,730)	1,796,976	(7,939,780)	182,637
<b>Income (loss) before transfers and contributions</b>	<b>5,124,473</b>	<b>(824,904)</b>	<b>(2,883,021)</b>	<b>1,416,548</b>	<b>713,478</b>
Transfers in	-	-	1,355,726	1,355,726	329,592
Transfers out	(8,667,130)	(590,787)	-	(9,257,917)	-
Capital contributions	3,632,702	8,605,351	1,733,020	13,971,073	-
<b>Change in net assets</b>	<b>90,045</b>	<b>7,189,660</b>	<b>205,725</b>	<b>7,485,430</b>	<b>1,043,070</b>
<b>Total net assets - beginning</b>	<b>204,085,355</b>	<b>228,116,324</b>	<b>27,521,894</b>	<b>459,723,573</b>	<b>3,177,658</b>
<b>Total net assets - ending</b>	<b>\$ 204,175,400</b>	<b>\$ 235,305,984</b>	<b>\$ 27,727,619</b>	<b>\$ 467,209,003</b>	<b>\$ 4,220,728</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2003

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
<b>Operating activities</b>					
Cash received from customers	\$ 145,036,392	\$ 42,696,648	\$ 3,657,550	\$ 191,390,590	\$ 11,597,423
Other operating revenue	-	-	181,701	181,701	133,355
Cash received as deferred revenues	-	-	-	-	(2,970)
Cash paid to or on behalf of employees for services	(8,928,887)	(10,048,129)	(3,545,268)	(22,522,284)	(1,407,743)
Cash paid for goods and services	(24,627,086)	(14,490,682)	(2,083,624)	(41,201,392)	(9,586,834)
Cash paid for power supply and generation	(88,156,736)	-	-	(88,156,736)	-
<b>Net cash provided by (used in) operating activities</b>	<b>23,323,683</b>	<b>18,157,837</b>	<b>(1,789,641)</b>	<b>39,691,879</b>	<b>733,231</b>
<b>Noncapital financing activities</b>					
Transfers in	-	122,686	1,355,726	1,478,412	329,592
Federal and state grants	-	-	1,660,002	1,660,002	-
Nonoperating revenues	-	-	406,669	406,669	-
Transfers out	(8,667,130)	(713,473)	-	(9,380,603)	-
Other	-	-	(263,085)	(263,085)	-
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(8,667,130)</b>	<b>(590,787)</b>	<b>3,159,312</b>	<b>(6,098,605)</b>	<b>329,592</b>
<b>Capital and related financing activities</b>					
Proceeds from sale of assets	(659,555)	(9,655)	-	(669,210)	-
Proceeds from debt issuance	6,335,380	71,944,620	40,213	78,320,213	-
Gain on refunding	(473,626)	(7,187,992)	-	(7,661,618)	-
Amount paid for refunding	(5,185,000)	(57,475,000)	-	(62,660,000)	-
Contributed capital received	3,586,750	4,296,308	64,103	7,947,161	-
Capital contributions - State grant	-	-	78,138	78,138	-
Capital contributions - Federal grant	-	-	1,466,745	1,466,745	-
Acquisition and construction of capital assets	(13,779,554)	(10,537,841)	(1,540,427)	(25,857,822)	(4,210)
Principal paid on debt maturities	(3,669,280)	(7,110,477)	(63,644)	(10,843,401)	-
Interest paid on debt maturities	(2,955,731)	(6,393,205)	(26,196)	(9,375,132)	-
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(16,800,616)</b>	<b>(12,473,242)</b>	<b>18,932</b>	<b>(29,254,926)</b>	<b>(4,210)</b>
<b>Investing activities</b>					
Interest and dividends	876,930	817,055	41,586	1,735,571	182,637
Net change in investments	7,855,065	(4,104,379)	-	3,750,686	-
<b>Net cash provided (used) by investing activities</b>	<b>8,731,995</b>	<b>(3,287,324)</b>	<b>41,586</b>	<b>5,486,257</b>	<b>182,637</b>
<b>Net increase in cash and cash equivalents/investments</b>	<b>6,587,932</b>	<b>1,806,484</b>	<b>1,430,189</b>	<b>9,824,605</b>	<b>1,241,250</b>
<b>Cash and cash equivalents/investments</b>					
<b>Beginning of year</b>	<b>13,944,268</b>	<b>16,543,469</b>	<b>1,271,852</b>	<b>31,759,589</b>	<b>6,273,260</b>
<b>End of year</b>	<b>\$ 20,532,200</b>	<b>\$ 18,349,953</b>	<b>\$ 2,702,041</b>	<b>\$ 41,584,194</b>	<b>\$ 7,514,510</b>
Cash and cash equivalents	\$ 20,532,200	\$ 18,349,953	\$ 2,702,041	\$ 41,584,194	\$ 7,514,510
Investments	12,948,735	12,300,579	-	25,249,314	-
<b>Total cash and cash equivalents/investments</b>	<b>\$ 33,480,935</b>	<b>\$ 30,650,532</b>	<b>\$ 2,702,041</b>	<b>\$ 66,833,508</b>	<b>\$ 7,514,510</b>
Unrestricted cash and equivalents/investments	\$ 20,081,781	\$ 8,087,217	\$ 2,702,041	\$ 30,871,039	\$ 7,514,510
Restricted cash and equivalents/investments	13,399,154	22,563,315	-	35,962,469	-
<b>Total cash and cash equivalents/investments</b>	<b>\$ 33,480,935</b>	<b>\$ 30,650,532</b>	<b>\$ 2,702,041</b>	<b>\$ 66,833,508</b>	<b>\$ 7,514,510</b>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows  
 Proprietary Funds  
 Year Ended June 30, 2003

	Enterprise Funds				Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds	Total	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
Operating income (loss)	\$ 8,518,499	\$ 5,517,826	\$ (4,679,997)	\$ 9,356,328	\$ 530,841
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	12,890,217	11,407,197	2,312,571	26,609,985	53,279
Allowance for uncollectible accounts	(76)	(4,824)	-	(4,900)	-
Change in assets and liabilities					
(Increase) decrease in accounts receivable	(585,554)	(306,563)	302,452	(589,665)	369,851
(Increase) decrease in inventory	972,773	(187,867)	(1,483)	783,423	-
(Increase) decrease in prepaid items	-	-	-	-	(87,584)
(Increase) decrease in internal balances	(1,618,370)	1,618,370	-	-	-
(Increase) decrease in other current assets	(28,757)	(23,005)	-	(51,762)	-
(Increase) decrease in other assets	196,070	1,030,976	-	1,227,046	-
Increase (decrease) in accounts payable and accrued liabilities	1,471,855	(887,141)	236,665	821,379	(134,340)
Increase (decrease) in accrued compensated absences	-	-	(15,845)	(15,845)	4,154
Increase (decrease) in deferred revenues	-	-	55,996	55,996	(2,970)
Increase (decrease) in overdraft payable	1,507,026	-	-	1,507,026	-
Increase (decrease) in unearned deposits	-	(7,132)	-	(7,132)	-
Total adjustments	14,805,184	12,640,011	2,890,356	30,335,551	202,390
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 23,323,683</b>	<b>\$ 18,157,837</b>	<b>\$ (1,789,641)</b>	<b>\$ 39,691,879</b>	<b>\$ 733,231</b>



City of Fayetteville, North Carolina

Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2003

	Pension Trust Funds	Private-purpose Trusts
<b>Assets</b>		
Cash and investments	\$ 5,576,050	\$ 1,331,895
Accounts receivable	4,231	75,324
Total assets	<u>5,580,281</u>	<u>1,407,219</u>
<b>Liabilities</b>		
Accounts payable	8,865	-
Total liabilities	<u>8,865</u>	<u>-</u>
<b>Net assets</b>		
Held in Trust for:		
Pension benefits	5,571,416	-
Private purpose	-	1,407,219
Total net assets	<u>\$ 5,571,416</u>	<u>\$ 1,407,219</u>

City of Fayetteville, North Carolina

Statement of Changes in Fiduciary Net Assets  
 Fiduciary Funds  
 Year Ended June 30, 2003

	Pension Trust Funds	Private-purpose Trusts
<b>Additions</b>		
Other revenue from operations	\$ -	\$ 20,292
Contributions	2,698,000	71,275
Investment earnings	(2,733,417)	42,428
Total additions	<u>(35,417)</u>	<u>133,995</u>
<b>Deductions</b>		
Benefit payments and premiums	2,830,251	52,701
Transfer to Local Government Employee Retirement System Plan	49,671,773	-
Transfer in	4,000,000	-
Transfer out	(4,000,000)	-
Total deductions	<u>52,502,024</u>	<u>52,701</u>
<b>Change in net assets</b>	(52,537,441)	81,294
<b>Total net assets - beginning</b>	<u>58,108,857</u>	<u>1,325,925</u>
<b>Total net assets - ending</b>	<u>\$ 5,571,416</u>	<u>\$ 1,407,219</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## **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**

(This page left intentionally blank)

# CITY OF FAYETTEVILLE, NORTH CAROLINA

## Notes to Financial Statements

June 30, 2003

### 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 Statement number 14 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, 2003

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.

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, 2003

**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 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, 2003

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, public employee retirement system. The PWC Pension Fund accounts for the Public Works Retirement System, a single-employer, defined benefit pension plan; this was its final year. 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 60 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, 2003**

**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 2002 through February 2003 apply to the fiscal year ended June 30, 2003. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the 2003-2004 fiscal year and are not shown as receivables at June 30, 2003. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements, 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, 2003 because they are intended to finance the City's operations during the 2004 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, 2003**

**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 SuperNOW 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; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The City's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (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, 2002.

**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, 2003

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, 2003:

**Fund**

General Fund:	
Taxes receivable	\$ 688,096
Accounts receivable	6,203,976
Assessments receivable	129,350
Tax penalties receivable	492,831
Special Revenue Fund	
Taxes receivable	12,005
Capital Project Fund	
Accounts receivable	750
Transit Operating	
Accounts receivable	5,851
Airport Operating	
Accounts receivable	1,467
Electric Fund:	
Accounts receivable	292,541
Water and Wastewater Fund:	
Accounts receivable	54,056
Total	<u>\$ 7,880,923</u>

Receivables for Fayetteville Air Cargo Facilities, Inc. are presented net of a \$0 allowance for doubtful accounts.

**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, 2003, are recorded as prepaid items.

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**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.

**Capital Assets**

Capital assets are defined by the City as assets with an initial, individual cost of more than \$3,000 (\$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:

<u>Asset Class</u>	<u>Estimated Useful Lives (Years)</u>
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 fixed 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, 2003**

**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, 2003

**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 2003 - 2004 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, the 2002 figures have been reclassified, where appropriate, to conform with the financial statement presentation used in 2003.

# CITY OF FAYETTEVILLE, NORTH CAROLINA

## Notes to Financial Statements (continued)

June 30, 2003

### Note 1 - Summary of Significant Accounting Policies (continued)

#### G - Prior Period Adjustment

Beginning fund balance in the General Fund has been adjusted and restated to properly reflect deferred revenue under the modified accrual basis of accounting.

#### 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.

At June 30, 2003, the City's deposits had a carrying amount of \$7,621,828 and a bank balance of \$8,384,557. Of the bank balance, \$317,405 was covered by Federal Deposit Insurance, and \$8,067,152 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 securities are held by the City or its agent in the City's name. 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.



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

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

**B – Investments (continued)**

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Value</u>	<u>Fair Value</u>
U. S. Government Agencies	\$ 29,878,732	\$ 15,407,302	\$ -	\$ 45,286,034	\$ 45,352,241
Commercial Paper	16,025,228	9,355,559	-	25,380,787	25,390,553
Other investments	-	<u>4,250,000</u>	-	<u>4,250,000</u>	<u>4,250,000</u>
	<u>\$ 45,903,960</u>	<u>\$ 29,012,861</u>	<u>\$ -</u>	74,916,821	74,992,794
Supplemental PWC Pension Trust				3,991,154	3,991,154
N. C. Capital Management Trust				<u>31,387,305</u>	<u>31,387,305</u>
				<u>\$ 110,295,280</u>	<u>\$ 110,371,253</u>

The above investments with maturities of more than three months amounted to \$57,802,137.

Reconciliation to cash and investments:

Totals per Footnote:

Total investments	\$ 110,295,280
Cash (demand deposits)	7,621,828
Petty cash	13,625
Total cash and investments	<u>\$ 117,930,733</u>

Totals per Balance Sheet

Cash and investments - unrestricted	\$ 76,738,651
Cash and investments - restricted	40,668,325
Overdraft	(6,384,188)
Pension trust cash and investments	5,576,050
Private-purpose trust cash and investments	1,331,895
Total Cash and Cash Equivalents	<u>\$ 117,930,733</u>

The City invests in callable securities to hedge against a rise in interest rates. The first permitted call date is July 24, 2003, 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

**Note 3 – Notes Receivable**

Notes receivable include loans made under the federal Community Development Block Grant and HOME Partnership programs at rates of 5-8%. Included in accounts receivable is a note receivable for \$4,500,000. This note includes interest at the rate of 5.83%. The note carries a 100% allowance for the principal and accrued interest.

**Note 4 - Capital Assets**

Capital asset activity for the year ended June 30, 2003, was as follows:

Primary Government

	Balance July 1, 2002	Increases	Decreases	Transfers	Balance June 30, 2003
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 33,101,771	\$ 1,297,879	\$ (474,000)	\$ -	\$ 33,925,650
Construction in progress	2,373,488	2,449,892	-	(1,643,273)	3,180,107
Total capital assets not being depreciated	<u>35,475,259</u>	<u>3,747,771</u>	<u>(474,000)</u>	<u>(1,643,273)</u>	<u>37,105,757</u>
Capital assets being depreciated:					
Infrastructure	292,533,907	1,796,002	(3)	1,643,273	295,973,179
Buildings and improvements	42,248,332	224,063	(55,705)	-	42,416,690
Equipment, furniture and fixtures	14,284,431	1,140,578	(59,206)	(896,299)	14,469,504
Vehicles	19,687,756	1,081,883	(198,330)	896,299	21,467,608
Total capital assets being depreciated	<u>368,754,426</u>	<u>4,242,526</u>	<u>(313,244)</u>	<u>1,643,273</u>	<u>374,326,981</u>
Less accumulated depreciation for:					
Infrastructure	(57,642,094)	(8,282,765)	-	-	(65,924,859)
Buildings and improvements	(13,130,185)	(1,341,399)	22,893	-	(14,448,691)
Equipment, furniture and fixtures	(11,251,859)	(1,019,493)	50,304	-	(12,221,048)
Vehicles	(17,133,022)	(1,659,162)	198,246	-	(18,593,938)
Total accumulated depreciation	<u>(99,157,160)</u>	<u>\$ (12,302,819)</u>	<u>\$ 271,443</u>	<u>\$ -</u>	<u>(111,188,536)</u>
Total capital assets being depreciated, net	<u>269,597,266</u>				<u>263,138,445</u>
Governmental activity capital assets, net	<u>\$ 305,072,525</u>				<u>\$ 300,244,202</u>

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

Administration	\$ 300,395
Public safety	2,024,644
Environmental protection	385,363
Transportation	8,960,659
Economic and physical development	4,014
Recreation and community facilities	574,463
Capital assets held by certain internal service funds are charged to the various governmental functions based on the usage of the funds.	<u>53,281</u>
Total depreciation expense	<u>\$ 12,302,819</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**Note 4 - Capital Assets (continued)**

	Balance July 1, 2002	Increases	Decreases	Transfers	Balance June 30, 2003
<b>Business-type activities:</b>					
Electric Fund					
Capital assets not being depreciated:					
Land	\$ 4,305,881	\$ 79,730	\$ -	\$ -	\$ 4,385,611
Construction in progress	15,185,427	10,861,296	(8,807,438)	-	17,239,285
Total capital assets not being depreciated	<u>19,491,308</u>	<u>10,941,026</u>	<u>(8,807,438)</u>	<u>-</u>	<u>21,624,896</u>
Capital assets being depreciated:					
Electric utility system	275,409,464	9,235,134	(567,666)	-	284,076,932
Buildings and improvements	37,880,300	96,757	-	-	37,977,057
Equipment and machinery	9,147,678	1,745,001	(6,459)	-	10,886,220
Computer programs	6,895,444	504,212	(20,424)	1,989	7,381,221
Vehicles	4,443,094	97,874	(80,771)	-	4,460,197
Office equipment	1,899,864	12,797	(80,546)	(7,876)	1,824,239
Total capital assets being depreciated	<u>335,675,844</u>	<u>11,691,775</u>	<u>(755,866)</u>	<u>(5,887)</u>	<u>346,605,866</u>
Less accumulated depreciation for:					
Electric utility system	(119,084,057)	(9,748,794)	369,173	-	(128,463,678)
Buildings and improvements	(5,098,153)	(1,263,771)	-	-	(6,361,924)
Equipment and machinery	(4,312,765)	(617,868)	1,655	-	(4,928,978)
Computer programs	(4,594,522)	(842,175)	20,424	(1,479)	(5,417,752)
Vehicles	(3,881,244)	(283,472)	79,974	-	(4,084,742)
Office equipment	(1,186,058)	(134,137)	79,345	7,509	(1,233,341)
Total accumulated depreciation	<u>(138,156,799)</u>	<u>\$ (12,890,217)</u>	<u>\$ 550,571</u>	<u>\$ 6,030</u>	<u>(150,490,415)</u>
Total capital assets being depreciated, net	<u>197,519,045</u>				<u>196,115,451</u>
Electric fund capital assets, net	<u>\$ 217,010,353</u>				<u>\$ 217,740,347</u>
<b>Water and Wastewater Fund</b>					
Capital assets not being depreciated:					
Land	\$ 6,728,908	\$ 186,891	\$ -	\$ -	\$ 6,915,799
Construction in progress	7,945,108	12,507,194	(12,205,773)	-	8,246,529
Total capital assets not being depreciated	<u>14,674,016</u>	<u>12,694,085</u>	<u>(12,205,773)</u>	<u>-</u>	<u>15,162,328</u>
Capital assets being depreciated:					
Wastewater system	266,042,303	4,614,471	-	-	270,656,774
Water system	171,063,170	7,224,081	-	-	178,287,251
Buildings and improvements	5,354,900	19,240	-	-	5,374,140
Equipment and machinery	6,642,648	387,574	(25,552)	-	7,004,670
Computer programs	6,141,229	500,466	(36,896)	(1,989)	6,602,810
Vehicles	4,145,147	473,156	(36,275)	-	4,582,028
Office equipment	912,494	1,947	(4,075)	7,876	918,242
Total capital assets being depreciated	<u>460,301,891</u>	<u>13,220,935</u>	<u>(102,798)</u>	<u>5,887</u>	<u>473,425,915</u>
Less accumulated depreciation for:					
Wastewater system	(73,708,202)	(5,838,318)	-	-	(79,546,520)
Water system	(58,823,743)	(3,914,221)	-	-	(62,737,964)
Buildings and improvements	(1,639,794)	(184,150)	-	-	(1,823,944)
Equipment and machinery	(5,251,871)	(329,205)	23,821	-	(5,557,255)
Computer programs	(4,225,198)	(742,583)	36,895	1,479	(4,929,407)
Vehicles	(3,501,856)	(344,507)	35,477	-	(3,810,886)
Office equipment	(763,394)	(54,213)	2,875	(7,509)	(822,241)
Total accumulated depreciation	<u>(147,914,058)</u>	<u>\$ (11,407,197)</u>	<u>\$ 99,088</u>	<u>\$ (6,030)</u>	<u>(159,228,217)</u>
Total capital assets being depreciated, net	<u>312,387,833</u>				<u>314,197,698</u>
Water and Wastewater fund capital assets, net	<u>\$ 327,061,849</u>				<u>\$ 329,360,026</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**Note 4 - Capital Assets (continued)**

	Balance July 1, 2002	Increases	Decreases	Transfers	Balance June 30, 2003
Business-type activities (continued):					
Nonmajor funds					
Capital assets not being depreciated:					
Land	\$ 1,132,701	\$ -	\$ -	\$ -	\$ 1,132,701
Construction in progress	247,923	1,400,016	-	-	1,647,939
Total capital assets not being depreciated	<u>1,380,624</u>	<u>1,400,016</u>	<u>-</u>	<u>-</u>	<u>2,780,640</u>
Capital assets being depreciated:					
Buildings and improvements	39,282,306	38,433	-	-	39,320,739
Furniture, fixtures and equipment	2,081,809	101,978	(4,292)	-	2,179,495
Vehicles	7,182,876	-	-	-	7,182,876
Total capital assets being depreciated	<u>48,546,991</u>	<u>140,411</u>	<u>(4,292)</u>	<u>-</u>	<u>48,683,110</u>
Less accumulated depreciation for:					
Buildings and improvements	(18,582,016)	(1,500,730)	-	-	(20,082,746)
Furniture, fixtures and equipment	(1,293,875)	(247,729)	4,292	-	(1,537,312)
Vehicles	(4,070,304)	(564,112)	-	-	(4,634,416)
Total accumulated depreciation	<u>(23,946,195)</u>	<u>\$ (2,312,571)</u>	<u>\$ 4,292</u>	<u>\$ -</u>	<u>(26,254,474)</u>
Total capital assets being depreciated, net	<u>24,600,796</u>				<u>22,428,636</u>
Nonmajor fund capital assets, net	<u>\$ 25,981,420</u>				<u>\$ 25,209,276</u>
Business-type activities capital assets, net	<u>\$ 570,053,622</u>				<u>\$ 572,309,649</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	\$ 12,890,217
Water and Wastewater	11,407,197
Transit	842,009
Airport	1,470,562
Total depreciation expense	<u>\$ 26,609,985</u>

**Note 5 - Accounts Payable**

Accounts payable and accrued expenses consist of the following:

	General	Nonmajor Governmental	Internal Service	Subtotal	Enterprise	Fiduciary
Accounts payable	\$ 822,597	\$ 300,076	\$ 3,850,657	\$ 4,973,330	\$ 28,475,958	\$ -
Contracts payable	121,589	296,121	-	417,710	188,190	-
Retainage payable	-	45,676	-	45,676	130,562	-
Interfund payable	-	369,229	-	369,229	-	-
Salaries and benefits payable	2,345,666	861	58,289	2,404,816	131,983	8,865
Total	<u>\$ 3,289,852</u>	<u>\$ 1,011,963</u>	<u>\$ 3,908,946</u>	<u>8,210,761</u>	<u>\$ 28,926,693</u>	<u>\$ 8,865</u>
Adjustment for interest payable				581,138		
				<u>\$ 8,791,899</u>		

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

Note 6 - Long-Term Obligations

A - General Obligation Indebtedness

The City has issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities and infrastructure. General obligation bonds are direct obligations and pledge the full faith, credit, and taxing power of the City. They are serviced by the general fund, with the exception of \$15,560,000, which is serviced by the Electric/Water and Wastewater Funds. Principal and interest payments are appropriated when due. General obligation bonds outstanding for the year ended June 30, 2003, are as follows:

Governmental activities

\$4,300,000 1987 Public Improvement Bonds due in various annual installments through April 1, 2009; interest at various rates between 5.8% and 6.0%.	\$ 1,100,000
\$6,933,215 1993 Refunding Bonds due in various annual installments through May 1, 2010; interest at various rates between 4.7% and 5%.	3,640,000
\$6,900,000 1994 Public Improvement Bonds due in various annual installments through December 1, 2016; interest at rates 6.2% and 6.25%.	700,000
\$2,770,000 1996 Street Improvement Bonds due in various annual installments through December 1, 2015; interest at various rates between 4.09% and 5%.	2,345,000
\$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%.	9,925,000
\$2,750,000 1999 Public Improvement Bonds due in various annual installments beginning March 1, 2001 through March 1, 2017; interest at 4.30%.	2,150,000
\$4,900,000 1999 Street Improvement Bonds due in various installments beginning March 1, 2001 through March 1, 2017; interest at 4.32%.	3,800,000
\$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%.	3,500,000
\$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%.	2,300,000

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

**Note 6 - 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%.

\$ 3,625,000

\$5,335,000 2002 Refunding Bonds due in various annual installments through June 1, 2016; interest at various rates between 2% and 4%.

5,335,000  
38,420,000

Business-type activities

\$27,835,000 1993 Refunding Bonds due in various annual installments through May 1, 2009; interest at various rates between 4.75% and 5%.

15,560,000

\$ 53,980,000

**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. The bonds are being retired by resources generated by the facilities' operations. Revenue bonds outstanding for the year ended June 30, 2003, 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%.

\$ 11,845,000

Business-type activities:

\$73,955,000 1993 Revenue Refunding Bonds Electric/Water and Sewer Bonds due in various annual installments through March 1, 2014; interest at various rates between 4.3% and 5.125%.

62,080,000

\$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%.

8,625,000

\$40,755,000 1997 Water and Sewer Bonds due in various installments through March 1, 2010; interest at various rates between 4.3% and 5.25%.

6,745,000

\$19,325,000 1999 Water and Sewer Bonds due in various installments through March 1, 2010; interest at various rates between 4.40% and 5.00%.

5,250,000

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

Note 6 - Long-Term Obligations (continued)

B - Revenue Bonds (continued)

\$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 3.5% and 5.50%.	\$ 18,810,000
\$78,280,000 2003 Revenue Refunding Bonds due in various installments through March 1, 2024; fixed rate swap at 3.42%.	<u>77,400,000</u>
Total business-type revenue bonds	<u>178,910,000</u>
Total revenue bonds	<u>\$ 190,755,000</u>

The City has entered into an interest rate swap agreement for \$78,280,000 of its variable rate 2003 Series Revenue Refunding bonds. Based on the swap agreement, the City owes interest calculated at a fixed rate of 3.42% to the Swap Provider. In return, the Swap Provider owes the City interest based on a variable rate that is intended to approximate the variable rate payable on the bonds while the bonds bear interest at the weekly interest rate as defined by the swap agreement. Only the net different in interest payments is actually exchanged with the Swap Provider. The \$78,280,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

The City continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the City effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds presented in this footnote are based on that fixed rate. The City will be exposed to variable rates if the Swap Provider to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the City making or receiving a termination payment.

C - 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 Enterprise Fund.

The City has incurred debt to finance certain community development and capital project activities. The City has also entered into a revolving loan agreement for \$7,595,127 with the State of North Carolina. The loan was used for a Wastewater Project. This note payable is 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.

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**Note 6 - Long-Term Obligations (continued)**

**C - Notes Payable (continued)**

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%.	\$ 245,000
---	------------

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.	<u>6,835,614</u>
--	------------------

Total	<u>\$ 7,080,614</u>
-------	---------------------

**D - Lease Agreements**

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

Capital lease obligations are comprised of the following:

Governmental activities

Capital lease obligations payable in various monthly installments of approximately \$50,000 in 2003 including interest at 4.55%	\$ 5,225,037
---	--------------

Capital lease obligations payable in various monthly installments of approximately \$100,000 in 2003 plus interest at rates ranging from 3.40% to 5.87%.	<u>2,441,608</u>
--	------------------

Less: amount representing interest	<u>1,186,800</u>
Present value of the minimum lease payments	<u>\$ 6,479,845</u>

The following is an analysis of leased property under capital leases as of June 30, 2003:

Classes of Property	Cost	Depreciation	Value
Equipment	\$ 55,808	\$ 2,079	\$ 53,729
Vehicles	3,722,972	1,689,671	2,033,301
Buildings and improvement	5,647,518	1,017,063	4,630,455
Total	<u>\$ 9,426,298</u>	<u>\$ 2,708,813</u>	<u>\$ 6,717,485</u>



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**Note 6 - Long-Term Debt (continued)**

**E - Changes in Long-Term Obligations**

The following is a summary of changes in the City's long-term obligations for the fiscal year ended June 30, 2003:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Current Portion
Governmental activities:					
Bonded debt	\$ 49,735,000	\$ 9,160,000	\$ 8,630,000	\$ 50,265,000	\$ 3,855,000
Capitalized leases	6,424,530	1,162,548	1,107,233	6,479,845	1,220,181
Notes payable	305,000	-	60,000	245,000	60,000
Arbitrage payable	144,077	-	14,299	129,778	129,778
Compensated absences	3,197,582	3,706,989	3,667,740	3,236,831	2,208,489
	<u>59,806,189</u>	<u>\$ 14,029,537</u>	<u>\$ 13,479,272</u>	<u>60,356,454</u>	<u>7,473,448</u>
Less: loss on defeasance (net of amortization)	-			(397,367)	-
Total governmental activities	<u>\$ 59,806,189</u>			<u>\$ 59,959,087</u>	<u>\$ 7,473,448</u>

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

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Current Portion
Business-type activities:					
General obligation debt	\$ 18,335,000	\$ -	\$ 2,775,000	\$ 15,560,000	\$ 2,730,000
Revenue bonds	170,915,000	78,280,000	70,285,000	178,910,000	7,785,000
Notes payable	7,215,371	-	379,757	6,835,614	379,756
Compensated absences	184,422	166,580	182,425	168,577	168,577
	<u>196,649,793</u>	<u>\$ 78,446,580</u>	<u>\$ 73,622,182</u>	<u>201,474,191</u>	<u>11,063,333</u>
Less: loss on defeasance (net of amortization)	(6,180,237)			(13,177,283)	-
Total business-type activities	<u>\$ 190,469,556</u>			<u>\$ 188,296,908</u>	<u>\$ 11,063,333</u>
Discretely presented component units:					
Revenue bonds	\$ 306,941	\$ -	\$ 58,404	\$ 248,537	\$ 58,404
Total discretely presented component units long-term liabilities	<u>\$ 306,941</u>	<u>\$ -</u>	<u>\$ 58,404</u>	<u>\$ 248,537</u>	<u>\$ 58,404</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

June 30, 2003

**Note 6 – Long-Term Obligations (continued)**

**F - 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
2004	\$ 2,990,000	\$ 1,727,105	\$ 865,000	\$ 651,768	\$ 60,000	\$ 13,756
2005	3,085,000	1,586,305	915,000	607,653	60,000	9,954
2006	3,055,000	1,451,170	965,000	559,615	60,000	6,124
2007	3,105,000	1,314,213	1,015,000	508,470	60,000	2,262
2008	3,135,000	1,174,562	1,070,000	453,660	5,000	162
2009-2013	13,720,000	3,818,738	3,180,000	1,604,316	-	-
2014-2018	8,105,000	1,114,574	3,835,000	670,781	-	-
2019-2023	1,225,000	117,875	-	-	-	-
Less: loss on defeasance (net of amortization)	(397,367)	-	-	-	-	-
	<u>\$ 38,022,633</u>	<u>\$ 12,304,542</u>	<u>\$ 11,845,000</u>	<u>\$ 5,056,263</u>	<u>\$ 245,000</u>	<u>\$ 32,258</u>

Year Ended	Construction and Improvement Leases		Capitalized Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 376,501	\$ 184,156	\$ 843,679	\$ 59,632	\$ 5,135,180	\$ 2,636,417
2005	376,501	167,025	857,164	31,386	5,293,665	2,402,323
2006	376,501	149,895	493,237	9,520	4,949,738	2,176,324
2007	376,501	132,764	99,400	2,304	4,655,901	1,960,013
2008	376,501	115,633	44,851	434	4,631,352	1,744,451
2009-2013	1,882,506	321,202	-	-	18,782,506	5,744,256
2014-2018	376,503	12,848	-	-	12,316,503	1,798,203
2019-2023	-	-	-	-	1,225,000	117,875
Less: loss on defeasance (net of amortization)	-	-	-	-	(397,367)	-
	<u>\$ 4,141,514</u>	<u>\$ 1,083,523</u>	<u>\$ 2,338,331</u>	<u>\$ 103,276</u>	<u>\$ 56,592,478</u>	<u>\$ 18,579,862</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**Note 6 - Long-Term Obligations (continued)**

**F - Maturities of Long-Term Obligations (continued)**

Business-type activities:

Year Ended	Bonds Payable		Notes Payable		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 10,515,000	\$ 8,326,820	\$ 379,756	\$ 177,726	\$ 10,894,756	\$ 8,504,546
2005	11,025,000	7,846,830	379,756	167,852	11,404,756	8,014,682
2006	11,595,000	7,321,170	379,756	157,979	11,974,756	7,479,149
2007	12,175,000	6,755,578	379,756	148,105	12,554,756	6,903,683
2008	11,545,000	6,189,261	379,756	138,231	11,924,756	6,327,492
2009-2013	68,385,000	22,056,197	1,898,782	543,052	70,283,782	22,599,249
2014-2018	42,040,000	8,637,524	1,898,782	296,210	43,938,782	8,933,734
2019-2023	17,370,000	3,168,887	1,139,270	59,242	18,509,270	3,228,129
2023-2024	9,820,000	335,844	-	-	9,820,000	335,844
	<u>194,470,000</u>	<u>70,638,111</u>	<u>6,835,614</u>	<u>1,688,397</u>	<u>201,305,614</u>	<u>72,326,508</u>
Less: Loss on defeasance (net of amortization)	(13,177,283)	-	-	-	(13,177,283)	-
	<u>\$ 181,292,717</u>	<u>\$ 70,638,111</u>	<u>\$ 6,835,614</u>	<u>\$ 1,688,397</u>	<u>\$ 188,128,331</u>	<u>\$ 72,326,508</u>

In September 2002, the City entered into an agreement with the State of North Carolina to accept an additional \$17,442,000 State Revolving Loan. The City has incurred reimbursable expenditures under this agreement in the amount of \$780,930. The City expects to draw this amount and the remainder of the loan amount during fiscal year 2004. This note will be junior, inferior, and subordinate in all respects to the Revenue Bonds and General Obligation Bonds of the City.

**G - Legal Debt Margin**

The legal debt margin of the City at June 30, 2003, approximated \$434,139,916.

**H - Authorized but Unissued Debt**

At June 30, 2003, the City had no bonds authorized but unissued.

**I - Interest Expense**

Interest expense during the year totaled \$12,219,398. No interest was capitalized this year.

**J - Restrictive Covenants**

The revenue bond indentures contain significant limitations and restrictions on annual debt service requirements, use of the utility system, minimum revenue bond coverages 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, 2003.

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**Note 6 - Long-Term Obligations (continued)**

**K - Component Unit Debt**

Fayetteville Air Cargo Facilities, Inc. has issued industrial revenue bonds which have been used to finance the construction of facilities at the City's airport. The bonds are being retired by repayments of a note receivable which was issued for the same amount as the bonds. Revenue bonds outstanding for the year ended June 30, 2003, are as follows:

\$1,200,000 1985 Industrial Revenue Bonds due in various monthly installments through September 1, 2007; interest at 75% of the purchaser's prime rate but no lower than 7.5%. \$ 248,537

The following table summarizes debt service requirements for this outstanding debt:

Year Ended	Principal	Interest
2004	\$ 58,404	\$ 16,525
2005	58,404	12,145
2006	58,404	7,765
2007	58,404	3,384
2008	14,921	161
	<u>\$ 248,537</u>	<u>\$ 39,980</u>

**L - Subsequent Events – Bond Issuance**

During September and October 2003, the City issued Public Utility Revenue Bonds. The \$55,150,000 Revenue Refunding Bonds, Series 2003A were issued September 11, 2003. The \$30,065,000 Revenue Bonds 2003B were issued October 2, 2003. The bonds were issued to refund existing bonds and to fund additional capital projects in the Public Utility System.

Additionally, General Obligation Bonds were issued in October 2003. The \$9,000,000 General Obligation Refunding Bonds, Series 2003, were issued to refund \$8,585,000 of the outstanding Refunding Bonds, Series 1993, which are associated with General, Electric, and Water and Wastewater funds. In addition, the Electric and Water and Wastewater funds will use \$10,615,000 from available system revenues to call the balance of the outstanding bonds.

**Note 7- Defeasance of Debt**

On December 18, 2002, the City issued \$9,160,000 in General Obligation Bonds, of which \$5,535,000 was Refunding Bonds. These Refunding Bonds, with an average interest rate of 3.54%, were issued to currently refund \$1,300,000 of outstanding 1991 Public Improvement Bonds and advance refund \$3,750,000 of a portion of the outstanding 1994 General Obligation Public Improvement Bonds with a combined average interest rate of 6.25%. Both series were net of outstanding accrued interest payable of \$0. Of the net proceeds, \$4,169,210 (\$5,535,000 plus premium of 8,741 minus payment of issuance and other related costs of \$74,531 and \$1,300,000 for the current refunding) was 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 a portion of the 1994 Series bonds. As a result, the 1991 and a portion of the 1994 bonds are considered to be defeased and the liability for those bonds has been removed from the governmental funds.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

**Note 7- Defeasance of Debt (continued)**

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$419,210. This difference net of the current year's amortization of \$21,843, reported in the accompanying financial statements as a deduction from general obligation bonds, is being charged to operations through the year 2015 using the straight-line method, which approximates the effective interest method. The City completed the advance and current refundings to reduce its total debt service payments over the next 13 years by \$378,364 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$362,480.

On January 22, 2003, the City issued \$78,280,000 in Revenue Refunding Bonds with an average interest rate of 3.42% (after the execution of a fixed rate swap) to advance refund \$61,977,543 (\$62,660,000, net of unamortized bond issue costs of (\$1,582,051) and outstanding accrued interest payable of \$899,594) of outstanding 1995 Series A, 1997 and 1999 Revenue Bonds with a combined average interest rate of 5.26%. The net proceeds of \$69,639,162 (\$78,280,000 minus payment of issuance and other related costs of \$872,948 and a cash reserve of 7,767,890) 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 1995 Series A, 1997 and 1999 bonds. As a result, the 1995 Series A, 1997 and 1999 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 \$7,661,619. This difference net of the current year's amortization of \$151,415, reported in the accompanying financial statements as a deduction from revenue bonds, is being charged to operations through the year 2024 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 the next 22 years by \$5,476,383 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3,925,266.

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 trust funds. The investments and fixed earnings from the investments 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 as a liability from the City's non-current liabilities. As of June 30, 2003, the amount of defeased debt outstanding but removed from the non-current liabilities of the City amounted to \$897,346.

Gains and losses from debt refundings 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 refundings are to be used in determining the carrying value of the new debt issued to finance debt refundings. The carrying value of the 1993 Revenue Refunding Bonds and the 2001 Revenue Refunding Electric/Water and Wastewater Bonds have been adjusted for the loss from defeasance (net of amortization) of \$5,667,079 in 2003 combined with the carrying value of \$7,510,204 related to the 2003 Variable Rate Revenue Refunding Electric/Water and Sewer Bonds, which results in a total loss on defeasance of \$13,177,283.

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**Note 8 – 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)	\$ 473,869	\$ 473,869
Prepaid retiree insurance premiums (Internal Service)	289	289
Unearned rent (General)	360	360
Unearned rent (Proprietary)	56,060	56,060
Unearned grant receipts (Special Revenue)	290,386	290,386
Unearned grant receipts (Capital Projects)	1,450	1,450
Taxes receivable, net (General)	3,299,864	-
Taxes receivable, net (Special Revenue)	117,856	-
Accounts and notes receivable (General)	1,644,744	-
Accounts and notes receivable (Special Revenue)	4,533,923	-
Special assessments receivable, net (General)	603,117	-
Special assessments receivable, net (Special Revenue)	8,261	-
Total	<u>\$ 11,030,179</u>	<u>\$ 822,414</u>

**Note 9 - Risk Management**

The City is self-insured (self-funded) with respect to insurance claims as follows: health insurance (up to \$100,000 per employee and approximately \$5,468,776 for all employees for the policy ending December 31, 2002), 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 \$50,000 per occurrence) and property (\$250,000 per occurrence). In addition, the Electric and Water and Wastewater Funds maintain excess liability insurance (\$1,000,000) 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, 2003, 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, 2003**

**Note 9 - 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>2003</u>	<u>2002</u>
Liability at June 30,	\$ 4,361,852	\$ 3,961,620
Current year claims and changes in estimates	11,373,647	11,223,529
Actual claim payments	<u>(11,353,015)</u>	<u>(10,823,297)</u>
Liability at June 30,	<u>\$ 4,382,484</u>	<u>\$ 4,361,852</u>

**Note 10 - 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 \$72,010,255 for capital additions and construction of various electric, water and wastewater projects. At June 30, 2003, cumulative expenditures to date totaled approximately \$37,770,813 leaving an unexpended balance of \$34,239,442 for projects that are expected to be completed at various dates through the year ended 2004.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

**Note 10 - Commitments and Contingent Liabilities (continued)**

The Electric Fund purchased most of its fiscal year 2003 annual energy requirements under its 1994 Power Supply and Coordination Agreement (1994 PSCA) with Progress Energy Carolinas, Inc. ("PEC") (formerly Carolina Power and Light company) and less than 1% from Southeastern Power Administration. In March 1994, the City entered into the 1994 PSCA with PEC for an initial term of 10 years, effective on July 1, 1994, for the purchase of electric power and energy. The City is required to purchase power and energy from PEC in amounts required to serve the City's load (but in no event less than specified minimums ranging from 152 mW per month to 160 mW per month over the term of the contract) at rates specified in the contract. All remaining power and energy was supplied by PEC under two other sources. Replacement capacity and energy up to 229 mW is supplied in the interest of mutual cost savings. In the interest of mutual cost savings, PEC may have supplied the necessary power and energy to the City by running its own generation plant, or when the City is experiencing lower fuel costs, PEC may instead run the City's plant and divided the cost savings. In return, PEC reimbursed the City for various costs of running the plant. All other power needs were supplied by a supplemental power arrangement with PEC.

This contract extends automatically for five additional years after the initial term, unless written notice of termination is provided by either party at least five years before the expiration of the initial term. During the year ended June 30, 1999, the City notified CP&L in writing that the contract will expire at the end of the initial term and will not be automatically extended for an additional five years.

In 2002, the City entered into a new purchased power arrangement with 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, 2003, the net purchased power costs paid to PEC was \$88,156,736.

The City leases a portion of the office space located in the Robert C. Williams Business Center at Lafayette Plaza. 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>
2004	\$ 197,045
2005	192,221
2006	196,014
2007	214,044
2008	208,308
Future years	<u>659,673</u>
Total	<u>\$1,667,305</u>



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

**June 30, 2003**

**Note 11 - On-Behalf Payments for Fringe Benefits and Salaries**

For the fiscal year ended June 30, 2003, the City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$20,292 for the 114 employed firemen who perform firefighting duties for the City's fire department. These employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a monthly contribution paid by each member, investment income, and a State appropriation.

**Note 12 - Employee Retirement Systems**

The City has maintained two single-employer, defined benefit pension plans (Public Works Commission Retirement System and the Law Enforcement Officers' Special Separation Allowance System), which cover the utilities employees and 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 which covers substantially all employees.

Effective April 1, 2003, the City transferred the assets of the Employee's Retirement Plan of the Public Works Commission of the City of Fayetteville, North Carolina ("ERP plan"), a single-employer defined benefit pension plan administered by the Public Works Commission Employees' Retirement Plan Board of Trustees into two other retirement plans: The Local Governmental Employees' Retirement System plan ("LGERS") (a cost-sharing multiple-employer defined benefit plan administered by the State of North Carolina which other City departments have been participating in) and a new plan, the Supplemental Employees' Retirement Plan of the Public Works Commission of the City of Fayetteville ("SERP plan") (a single-employer defined benefit plan administered by the Public Works Commission Employees' Retirement Plan Board of Trustees). At the date of transition, approximately \$49.7 million of the plan assets were transferred to the LGERS plan and \$4 million of the plan assets were transferred to the SERP plan.

**A - Public Works Commission Retirement System**

**Plan Description**

As noted above, the assets of this plan were transferred to the LGERS and SERP plans on April 1, 2003. The following describes the plan as it existed up to the transition date of April 1, 2003.

The Employees' Retirement Plan of the Public Works Commission of the City of Fayetteville, North Carolina was a single-employer defined benefit pension plan administered by the Public Works Commission Employees' Retirement Plan Board of Trustees. All full-time Electric and Water and Wastewater fund employees were required to participate in the plan. Benefits vested after five years of credited service. Commission employees reaching the defined retirement age were 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 Employees' Retirement Plan provided retirement benefits to plan members and beneficiaries. Cost-of-living adjustments were provided to members and beneficiaries at the discretion of the Public Works Commission. The City of Fayetteville City Council had the authority to establish and amend the retirement plan provisions. The Employees' Retirement Plan of the Public Works Commission of the City of Fayetteville did not issue a separate report. Rather, the plan is reported in the City's report as a pension trust fund.

At June 30, 2003, the Plan's membership consisted of:

Retirees receiving benefits	0
Current employees	<u>0</u>
<b>Total</b>	<u><u>0</u></u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

Note 12 - Employee Retirement Systems (continued)

A - Public Works Commission Retirement System (continued)

Summary of Significant Accounting Policies

*Basis of accounting:* Financial statements for the Plan are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Commission 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 market value.

Contributions

The contribution requirements of the plan members and the Public Works Commission were established and could be amended by the City of Fayetteville City Council. Plan members were required to contribute 5.5% of their annual covered salary. The Public Works Commission was required to contribute at an actuarially determined rate. The rate for the final plan year ended March 31, 2003, was 7.55% of annual covered payroll.

The annual required contribution for the current year was determined as part of the July 1, 2002, actuarial valuation using the aggregate actuarial cost method. The actual assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5% 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 Public Works Commission's appropriations when granted. The actuarial value of assets was determined by using the market value at March 31, 2003. The Commission uses the aggregate actuarial cost method which does not identify or separately amortize the unfounded actuarial liability; however, the Schedule of Funding Progress for the Plan included in the Required Supplementary Information portion of these financial statements, is provided for informational purposes. The Public Works Commission's prepaid pension benefit, which is included in other assets on the accompanying balance sheet, in the current year was as follows:

Annual required contribution	\$ 1,518,506
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	<u>1,518,506</u>
Contributions made	<u>(1,036,910)</u>
Decrease in prepaid pension benefit	481,596
Prepaid pension benefit beginning of year	<u>(3,196,277)</u>
Prepaid pension benefit - March 31, 2003	<u>(2,714,681)</u>
Transferred to Supplemental Employees' Retirement Plan	<u>2,714,681</u>
Prepaid pension benefit end of year	<u>\$ -</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Notes to Financial Statements (continued)**

June 30, 2003

**Note 12 - Employee Retirement Systems (continued)**

**A - Public Works Commission Retirement System (continued)**

**Annual Pension Cost and Net Pension Obligation**

<b>Three-Year Trend Information</b>			
<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2001	\$ -	N/A	\$ (3,453,544)
2002	941,329	72.66%	(3,196,277)
2003	1,518,506	68.28%	(2,714,681)**

\*\* Prepaid Pension Benefit was transferred to the Supplemental Employees' Retirement Plan.

This benefit plan was a contributory, defined benefit retirement plan, which covered all full-time employees of the Electric and Water and Wastewater funds.

**B - Local Governmental Employees' Retirement System**

**Plan Description**

As noted above, the Electric and Water and Wastewater funds began participating in this plan during the 2003 fiscal year. The City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G. S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller; 1410 Mail Service Center; Raleigh, North Carolina 27699-1410 or by calling (919) 981-5454.

**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, 2003, 2002 and 2001, were \$2,517,077, \$1,889,545 and \$1,884,402, 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, 2003**

**Note 12 - Employee Retirement Systems (continued)**

**C – 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 ERP plan.

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, 2003 was 0% of annual covered payroll.

As this is the first year of the SERP plan, there is no annual required contribution as of June 30, 2003.

The annual required contribution calculation for June 30, 2004 was determined as part of the July 1, 2003, actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included (a) 2% investment rate of return (net of administrative expenses) until July 1, 2008 and 5% thereafter 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, 2003. The Commission's prepaid pension benefit, which is included in other assets on the accompanying balance sheet, for the current year was as follows:

Annual required contribution	\$	-
Interest on net pension obligation		-
Adjustment to annual required contribution		-
Annual pension cost		-
Contributions made		-
Change in prepaid pension benefit		-
Prepaid pension benefit transferred from ERP plan		<u>(2,714,681)</u>
Prepaid pension benefit end of year	\$	<u>(2,714,681)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

**Note 12 - Employee Retirement Systems (continued)**

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

As this is the first year of the SERP plan and 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. The 2003 payroll for the Electric and Water and Wastewater funds amounted to \$22,312,597 and included \$22,111,443 of salaries for employees covered by the plan.

**D - 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. All full-time City law enforcement officers are covered by the Separation Allowance.

At December 31, 2002, the Separation Allowance's membership consisted of:

Retirees receiving benefits	17
Active plan members	<u>292</u>
Total	<u>309</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 \$311,091, or 2.6% 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, 2003

**Note 12 - 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, 2001 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, 2001 was 29 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	\$ 286,336
Interest on net pension obligation	(18,469)
Adjustment to annual required contribution	<u>13,684</u>
Annual pension cost	281,551
Contributions made	<u>311,091</u>
Increase (decrease) in net pension obligation	(29,540)
Net pension obligation beginning of year	<u>(254,741)</u>
Net pension obligation end of year	\$ <u>(284,281)</u>

<b>Three-Year Trend Information</b>			
<b>Fiscal Year</b>	<b>Annual</b>	<b>Percentage</b>	<b>Net Pension</b>
<b>Ending</b>	<b>Pension</b>	<b>of APC</b>	<b>Obligation</b>
	<b>Cost (APC)</b>	<b>Contributed</b>	
2001	\$ 149,516	110.93	\$ (237,672)
2002	255,072	106.69	(254,741)
2003	281,551	110.49	(284,281)

**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, 2003, were \$1,476,309, which consisted of \$628,106 from the City and \$848,203 from employees.

## CITY OF FAYETTEVILLE, NORTH CAROLINA

### Notes to Financial Statements (continued)

June 30, 2003

#### Note 12 - 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, 2003 actual contributions by the City were \$44,435. The City currently contributes 0% (5.5% in 2002) 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, 2003, 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 13 - 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 pays the full 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, 117 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, 2003, the City made payments for post-retirement health benefit premiums of \$1,312,418.

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, 2003

**Note 13 – 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 payroll, 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, 2003, the City made contributions to the State for death benefits of \$52,813. 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, 2003, the City made payments for post-retirement death benefits premiums of \$23,091.

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, 2003, as the amount is not material to the financial statements. As of June 30, 2003, 51 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, 2003, expenses of approximately \$325,561 were recognized for post employment healthcare.

**Note 14 – Interfund Balances and Activity**

**Balances Due to/from Other Funds**

Balances due to/from other funds at June 30, 2003, consist of the following:

Due to the General Fund from the Airport Fund (loan for capital construction)	\$	423,798
Due to the Electric Fund from the Bond Improvement Fund (general government share of expenses for extending services to recently annexed areas)		369,229
	\$	<u>793,027</u>



CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2003

Note 14 – Interfund Balances and Activity (continued)

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2003, consist of the following:

From the General Fund to the Federal and State Financial Assistance Fund for the local match to various grants	\$ 278,884
From the General Fund to the Finance Corp Fund for debt service	1,529,229
From the General Fund to the Recreational and Cultural Fund for capital construction	109,400
From the General Fund to the Transportation Fund for capital construction	2,633,857
From the Transportation Fund to the Bond Improvement Fund for capital construction	500,000
From the General Fund to the Economic and Physical Development Fund	170,408
From the General Fund to the Transit Fund for operations and capital acquisition	1,355,726
From the General Fund to the Risk Management Fund for a one-time insurance premium	329,592
From the Electric Fund to the General Fund for operations	8,667,130
From the Water and Wastewater Fund to the General Fund for operations	590,787
	<u>\$ 16,165,013</u>

Note 15 – Subsequent Events

Other subsequent events include a Resolution of Intent to annex, a sales tax agreement with Cumberland County, and acquisition of land for the Fayetteville Regional Airport.

The Resolution of Intent to Annex, adopted September 8, 2003, is the first step in annexation of areas with an estimated population exceeding 43,000. If approved, the annexation could occur as early as June 30, 2004.

In October 2003, the City Council approved a sales tax agreement with Cumberland County, and any other municipalities that will be a party to the agreement, to reimburse each party 50% of its sales tax loss resulting from annexations occurring on or after July 1, 2003. In addition, the City of Fayetteville will reimburse Cumberland County \$2.1 million in fiscal year 2005 and a relative percentage of sales tax in fiscal years 2006 and 2007. The agreement has a nine-year term, with opportunities to modify or terminate the agreement at the end of each three-year period.

In October 2003, the City used \$1,065,000 of federal grant funds to acquire land for future expansion at the airport.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Projects Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
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%

\* For the December 31, 2000, valuation date, several actuarial assumptions were 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 rate 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>
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%

**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, 2002
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay closed
Remaining amortization period	28 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate 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**

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

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Projects Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
6/30/98	\$ 51,215,897	\$ 50,317,374	\$ (898,523)	101.79%	\$ 18,165,064	(4.95%)
6/30/99	57,855,331	55,628,833	(2,226,498)	104.00%	18,872,399	(11.80%)
6/30/00	63,620,358	62,479,563	(1,140,795)	101.83%	19,750,220	(5.78%)
7/01/01	59,186,400	64,924,454	5,738,054	91.16%	19,400,854	29.58%
7/01/02	57,006,791	67,681,200	10,674,409	84.23%	20,099,355	53.11%
3/31/03	53,671,773	N/A	N/A	N/A	N/A	N/A

2003 was the final year for this plan.

Note that this schedule is provided for informational purposes only and assumes the frozen entry actuarial cost method with a ten-year amortization period. The Commission uses the aggregate actuarial cost method under which such a schedule is not required.

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**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>
2001	N/A	N/A
2002	\$ 941,329	72.67%
2003	1,518,506 **	68.28%

\*\* 2003 was the final year for this plan. As discussed in the notes to the financial statements, assets of this plan were transferred to two other plans, effective April 1, 2003.

**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	March 31, 2003
Actuarial cost method	Aggregate
Amortization method	N/A
Amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.0%
* Includes inflation at	3.0%
Cost-of-living adjustments	None

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Projects Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
7/01/03	\$ 3,990,343	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 first 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>
-------------------------------	---	-----------------------------------

As this is the first year of the plan, there is no annual required contribution as of June 30, 2003.

**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, 2003
Actuarial cost method	Aggregate
Amortization method	N/A
Amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	2% until 7/1/08; 5% thereafter
Projected salary increases*	4.0%
* Includes inflation at	3.0%
Cost-of-living adjustments	None



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## **SUPPLEMENTAL FINANCIAL INFORMATION**

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

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

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

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## 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, 2003 and 2002**

<b>ASSETS</b>	<b>2003</b>	<b>2002</b>
Cash and investments	\$ 26,899,566	\$ 24,139,154
Taxes receivable	3,299,863	2,911,754
Accounts receivable	7,430,142	10,906,163
Interfund receivable	423,798	447,229
Assessments receivable	472,269	409,131
Inventories	81,256	81,347
<b>Total assets</b>	<b>\$ 38,606,894</b>	<b>\$ 38,894,778</b>
 <b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 3,289,852	\$ 3,627,240
Unearned deposits	39,310	36,010
Deferred revenues	6,021,954	9,540,332
<b>Total liabilities</b>	<b>9,351,116</b>	<b>13,203,582</b>
<b>Fund balances</b>		
Fund balances:		
Reserved		
By State statute	6,078,348	5,566,920
For encumbrances	734,253	545,287
For inventories	81,256	81,347
For downtown	283,445	259,669
Unreserved		
Designated		
For subsequent years	1,673,126	1,713,945
For special purpose	4,000,994	4,553,122
For debt service	1,221,357	1,229,078
Undesignated	15,182,999	11,741,828
<b>Total fund balances</b>	<b>29,255,778</b>	<b>25,691,196</b>
<b>Total liabilities and fund balances</b>	<b>\$ 38,606,894</b>	<b>\$ 38,894,778</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

Year Ended June 30, 2003

With Comparative Actual Statements for the Year Ended June 30, 2002

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Revenues</b>				
<b>Ad valorem taxes</b>				
Current year	\$ 32,613,053	\$ (90,680)	\$ 32,522,373	\$ 32,130,662
Prior year	973,350	16,355	989,705	819,078
Penalties	200,200	8,035	208,235	185,075
<b>Total ad valorem taxes</b>	<u>33,786,603</u>	<u>(66,290)</u>	<u>33,720,313</u>	<u>33,134,815</u>
<b>Other taxes</b>				
Local option sales tax	16,568,284	307,863	16,876,147	15,273,911
Utility franchise tax	4,414,763	824,600	5,239,363	3,033,407
Intangible tax reimbursement	-	-	-	580,752
Tax reimbursements	-	-	-	441,392
Vehicle license tax	397,668	10,348	408,016	401,327
Privilege license	711,400	(19,539)	691,861	691,231
Cablevision franchise tax	1,104,432	144,967	1,249,399	1,103,721
Vehicle gross receipt	271,890	30,795	302,685	299,598
<b>Total other taxes</b>	<u>23,468,437</u>	<u>1,299,034</u>	<u>24,767,471</u>	<u>21,825,339</u>
<b>Intergovernmental</b>				
Federal	-	31,903	31,903	105,775
State	4,299,727	5,479	4,305,206	4,122,361
Local	474,484	72,765	547,249	456,522
<b>Total intergovernmental</b>	<u>4,774,211</u>	<u>110,147</u>	<u>4,884,358</u>	<u>4,684,658</u>
<b>Other functional</b>				
Permits and fees	1,082,856	126,364	1,209,220	1,011,094
Property leases	323,320	(62,634)	260,686	247,654
Engineering services	690,453	37,024	727,477	750,866
Planning services	20,050	3,453	23,503	22,988
Public safety services	685,917	(121,594)	564,323	408,142
Environmental services	58,840	(14,353)	44,487	71,089
Recreation and cultural services	436,491	39,472	475,963	484,635
Parking revenues	50,015	12,672	62,687	67,227
Other fees and services	97,450	29,004	126,454	61,152
<b>Total other functional</b>	<u>3,445,392</u>	<u>49,408</u>	<u>3,494,800</u>	<u>3,124,847</u>
<b>Miscellaneous</b>				
Refunds and sundry	112,931	61,850	174,781	603,062
Indirect cost allocation	825,992	(111,430)	714,562	808,419
Special use assessment	88,780	(1,854)	86,926	142,086
Sale of assets	185,643	3,876	189,519	102,197
<b>Total miscellaneous</b>	<u>1,213,346</u>	<u>(47,558)</u>	<u>1,165,788</u>	<u>1,655,764</u>
<b>Interest earned on investments</b>	<u>835,899</u>	<u>31,392</u>	<u>867,291</u>	<u>1,218,402</u>
<b>Total revenues</b>	<u>67,523,888</u>	<u>1,376,133</u>	<u>68,900,021</u>	<u>65,643,825</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Year Ended June 30, 2003**

**With Comparative Actual Statements for the Year Ended June 30, 2002**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Expenditures</b>				
<b>Current</b>				
<b>Administration</b>				
<b>Legislative</b>				
Personnel	\$ 288,433	\$ 2,146	\$ 286,287	\$ 284,622
Operating	202,429	21,695	180,734	253,018
Payments to agencies	-	(25)	25	-
	<u>490,862</u>	<u>23,816</u>	<u>467,046</u>	<u>537,640</u>
<b>City attorney</b>				
Personnel	324,049	7,310	316,739	239,462
Operating	385,089	27,939	357,150	398,563
	<u>709,138</u>	<u>35,249</u>	<u>673,889</u>	<u>638,025</u>
<b>Executive</b>				
Personnel	584,684	25,423	559,261	649,609
Operating	328,710	220,895	107,815	149,137
	<u>913,394</u>	<u>246,318</u>	<u>667,076</u>	<u>798,746</u>
<b>Support services</b>				
Personnel	1,010,236	63,316	946,920	949,347
Operating	783,994	306,002	477,992	494,260
Assets	45,000	21,200	23,800	20,419
Inventory	139,615	16,937	122,678	127,431
Cost redistribution	(178,845)	(23,349)	(155,496)	(168,303)
	<u>1,800,000</u>	<u>384,106</u>	<u>1,415,894</u>	<u>1,423,154</u>
<b>Human relations</b>				
Personnel	207,045	(448)	207,493	193,189
Operating	50,974	21,683	29,291	34,556
Payments to agencies	500	500	-	-
	<u>258,519</u>	<u>21,735</u>	<u>236,784</u>	<u>227,745</u>
<b>Finance</b>				
Personnel	954,895	56,245	898,650	946,402
Operating	745,105	32,970	712,135	677,680
	<u>1,700,000</u>	<u>89,215</u>	<u>1,610,785</u>	<u>1,624,082</u>
<b>General government</b>				
Personnel	10,000	(724)	10,724	2,043
Operating	1,461,163	641,524	819,639	837,078
Assets	94,102	94,102	-	-
Inventory	687,276	51,582	635,694	510,359
Cost redistribution	(750,516)	(45,841)	(704,675)	(576,328)
Payments to agencies	543,287	122,578	420,709	509,609
	<u>2,045,312</u>	<u>863,221</u>	<u>1,182,091</u>	<u>1,282,761</u>



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Year Ended June 30, 2003  
With Comparative Actual Statements for the Year Ended June 30, 2002**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Expenditures (continued)</b>				
<b>Current (continued)</b>				
<b>Administration (continued)</b>				
<b>Public buildings</b>				
Personnel	\$ 831,851	\$ 49,376	\$ 782,475	\$ 845,592
Operating	822,179	174,267	647,912	655,669
Assets	60,598	3,315	57,283	5,033
	<u>1,714,628</u>	<u>226,958</u>	<u>1,487,670</u>	<u>1,506,294</u>
<b>Project management</b>				
Personnel	299,843	50,230	249,613	247,408
Operating	19,922	5,730	14,192	14,235
	<u>319,765</u>	<u>55,960</u>	<u>263,805</u>	<u>261,643</u>
<b>Total administration</b>	<u>9,951,618</u>	<u>1,946,578</u>	<u>8,005,040</u>	<u>8,300,090</u>
<b>Public safety</b>				
<b>Police</b>				
Personnel	20,326,596	58,000	20,268,596	19,363,999
Operating	2,756,286	192,193	2,564,093	2,609,586
Assets	1,000,386	18,096	982,290	423,204
Payments to agencies	3,000	-	3,000	3,000
Cost redistribution	(18,989)	12,840	(31,829)	(29,970)
	<u>24,067,279</u>	<u>281,129</u>	<u>23,786,150</u>	<u>22,369,819</u>
<b>Fire</b>				
Personnel	11,837,462	164,923	11,672,539	11,226,196
Operating	1,562,582	177,767	1,384,815	1,379,846
Assets	347,786	281,462	66,324	277,345
Cost redistribution	(87,093)	1,605	(88,698)	(87,887)
	<u>13,660,737</u>	<u>625,757</u>	<u>13,034,980</u>	<u>12,795,500</u>
<b>Inspections</b>				
Personnel	1,580,492	143,904	1,436,588	1,459,344
Operating	295,013	25,853	269,160	219,584
	<u>1,875,505</u>	<u>169,757</u>	<u>1,705,748</u>	<u>1,678,928</u>
<b>Total public safety</b>	<u>39,603,521</u>	<u>1,076,643</u>	<u>38,526,878</u>	<u>36,844,247</u>
<b>Environmental protection</b>				
<b>Solid waste</b>				
Personnel	2,362,524	62,505	2,300,019	2,387,852
Operating	2,483,693	208,867	2,274,826	2,115,626
Assets	672,429	647,929	24,500	40
Cost redistribution	(52,500)	75,352	(127,852)	(58,352)
	<u>5,466,146</u>	<u>994,653</u>	<u>4,471,493</u>	<u>4,445,166</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003

With Comparative Actual Statements for the Year Ended June 30, 2002

	Budget	Variance Positive (Negative)	2003 Actual	2002 Actual
<b>Expenditures (continued)</b>				
<b>Current (continued)</b>				
<b>Environmental protection</b>				
<b>(continued)</b>				
<b>Cemeteries</b>				
Personnel	\$ 142,521	\$ 8,822	\$ 133,699	\$ 133,970
Operating	14,425	4,634	9,791	13,463
Assets	-	-	-	16,500
	<u>156,946</u>	<u>13,456</u>	<u>143,490</u>	<u>163,933</u>
<b>Total environmental protection</b>	<u>5,623,092</u>	<u>1,008,109</u>	<u>4,614,983</u>	<u>4,609,099</u>
<b>Transportation</b>				
<b>Streets</b>				
Personnel	1,822,523	53,493	1,769,030	1,700,711
Operating	2,927,624	289,506	2,638,118	2,924,120
Assets	65,691	36,508	29,183	25,262
Cost redistribution	(144,131)	81,515	(225,646)	(143,161)
	<u>4,671,707</u>	<u>461,022</u>	<u>4,210,685</u>	<u>4,506,932</u>
<b>Engineering</b>				
Personnel	1,085,491	234,539	850,952	1,032,446
Operating	159,765	53,966	105,799	81,848
Assets	-	-	-	9,999
Cost redistribution	-	71,091	(71,091)	(1,781)
	<u>1,245,256</u>	<u>359,596</u>	<u>885,660</u>	<u>1,122,512</u>
<b>Parking</b>				
Operating	205,264	16,632	188,632	190,276
	<u>205,264</u>	<u>16,632</u>	<u>188,632</u>	<u>190,276</u>
<b>Total transportation</b>	<u>6,122,227</u>	<u>837,250</u>	<u>5,284,977</u>	<u>5,819,720</u>
<b>Economic and physical development</b>				
<b>Central business district</b>				
Operating	75,000	24,000	51,000	57,402
<b>Community development</b>				
Personnel	150,537	6,692	143,845	158,430
Operating	106,425	75,970	30,455	43,608
	<u>256,962</u>	<u>82,662</u>	<u>174,300</u>	<u>202,038</u>
<b>Planning and development</b>				
Personnel	465,634	77,220	388,414	413,570
Operating	134,516	67,492	67,024	115,253
Payments to agencies	56,977	34,125	22,852	8,944
Cost redistribution	-	999	(999)	(678)
	<u>657,127</u>	<u>179,836</u>	<u>477,291</u>	<u>537,089</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Year Ended June 30, 2003**

**With Comparative Actual Statements for the Year Ended June 30, 2002**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Expenditures (continued)</b>				
<b>Current (continued)</b>				
<b>Economic and physical     development (continued)</b>				
<b>Total economic and physical       development</b>	\$ 989,089	\$ 286,498	\$ 702,591	\$ 796,529
<b>Recreation and community facilities</b>				
<b>Parks</b>				
Personnel	2,362,569	244,150	2,118,419	2,419,216
Operating	1,388,029	336,464	1,051,565	1,125,199
Assets	886,360	492,026	394,334	526,065
Cost redistribution	(56,681)	(3,768)	(52,913)	(49,327)
	<u>4,580,277</u>	<u>1,068,872</u>	<u>3,511,405</u>	<u>4,021,153</u>
<b>Recreation</b>				
Personnel	2,114,963	93,368	2,021,595	2,027,150
Operating	810,317	76,423	733,894	727,053
Assets	22,640	19,061	3,579	5,382
	<u>2,947,920</u>	<u>188,852</u>	<u>2,759,068</u>	<u>2,759,585</u>
<b>Total recreation and       community facilities</b>	<u>7,528,197</u>	<u>1,257,724</u>	<u>6,270,473</u>	<u>6,780,738</u>
<b>Debt service</b>	<u>7,797,661</u>	<u>1,779,266</u>	<u>6,018,395</u>	<u>6,306,987</u>
<b>Total expenditures</b>	<u>77,615,405</u>	<u>8,192,068</u>	<u>69,423,337</u>	<u>69,457,410</u>
<b>Revenues over (under)   expenditures</b>	<u>(10,091,517)</u>	<u>9,568,201</u>	<u>(523,316)</u>	<u>(3,813,585)</u>
<b>Other financing sources (uses)</b>				
Appropriated fund balance	4,912,020	(4,912,020)	-	-
Transfers in	9,109,070	148,847	9,257,917	8,483,328
Transfers (out)	(5,356,217)	(1,050,879)	(6,407,096)	(4,801,624)
Payment to refund bond escrow agent	(5,473,441)	4,229	(5,469,212)	-
Capital leases, bonds and other debt	6,900,085	(193,796)	6,706,289	785,283
<b>Total other financing       sources (uses)</b>	<u>10,091,517</u>	<u>(6,003,619)</u>	<u>4,087,898</u>	<u>4,466,987</u>
<b>Revenues and other financing   sources (uses) over (under)   expenditures</b>	<u>\$ -</u>	<u>\$ 3,564,582</u>	<u>3,564,582</u>	<u>653,402</u>
<b>Fund balance</b>				
Beginning of year - July 1 (as previously stated)			30,191,196	29,537,794
Prior period adjustment			<u>(4,500,000)</u>	<u>(4,500,000)</u>
Beginning of year - July 1 (restated)			<u>25,691,196</u>	<u>25,037,794</u>
End of year - June 30			<u>\$ 29,255,778</u>	<u>\$ 25,691,196</u>

**NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2003**

	<b>Special Revenue Funds</b>	<b>Capital Project Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets</b>			
Cash and investments	\$ 5,216,891	\$ 6,236,644	\$ 11,453,535
Taxes receivable	117,856	-	117,856
Accounts receivable	4,856,776	480,198	5,336,974
Assessments receivable	6,152	-	6,152
Restricted asset - cash and investments	-	4,705,856	4,705,856
<b>Total assets</b>	<b>\$ 10,197,675</b>	<b>\$ 11,422,698</b>	<b>\$ 21,620,373</b>
<b>Liabilities and fund balances</b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 439,213	\$ 572,750	\$ 1,011,963
Deferred revenues	4,950,426	1,450	4,951,876
<b>Total liabilities</b>	<b>5,389,639</b>	<b>574,200</b>	<b>5,963,839</b>
<b>Fund balances:</b>			
<b>Reserved</b>			
By State statute	320,742	478,750	799,492
For encumbrances	1,505,149	4,123,065	5,628,214
For wireless 911	66,208	-	66,208
<b>Unreserved</b>			
<b>Designated</b>			
For subsequent years	1,184,932	6,246,683	7,431,615
For special purpose	229,330	-	229,330
Undesignated	1,501,675	-	1,501,675
<b>Total fund balances</b>	<b>4,808,036</b>	<b>10,848,498</b>	<b>15,656,534</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,197,675</b>	<b>\$ 11,422,698</b>	<b>\$ 21,620,373</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2003**

	<b>Special Revenue Funds</b>	<b>Capital Project Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues</b>			
Other taxes	\$ 3,083,211	\$ -	\$ 3,083,211
Intergovernmental	3,192,191	407,580	3,599,771
Miscellaneous	324,453	695,543	1,019,996
Interest earned on investments	130,447	70,204	200,651
Total revenues	<u>6,730,302</u>	<u>1,173,327</u>	<u>7,903,629</u>
<b>Expenditures</b>			
Current:			
Administration	-	200,945	200,945
Public safety	1,908,156	(4,783)	1,903,373
Environmental protection	3,379,044	-	3,379,044
Transportation	-	1,846,676	1,846,676
Economic and physical development	2,788,234	3,431,199	6,219,433
Recreation and community facilities	-	308,802	308,802
Debt service:			
Principal	895,000	-	895,000
Interest and fees	711,035	-	711,035
Issue costs	-	38,248	38,248
Total expenditures	<u>9,681,469</u>	<u>5,821,087</u>	<u>15,502,556</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(2,951,167)</u>	<u>(4,647,760)</u>	<u>(7,598,927)</u>
<b>Other financing sources (uses)</b>			
Bonds	-	3,644,293	3,644,293
Capital leases	-	-	-
Transfers in	1,808,113	3,413,665	5,221,778
Transfers out	-	(500,000)	(500,000)
Total other financing sources (uses)	<u>1,808,113</u>	<u>6,557,958</u>	<u>8,366,071</u>
<b>Net change in fund balances</b>	<u>(1,143,054)</u>	<u>1,910,198</u>	<u>767,144</u>
<b>Fund balance - beginning</b>	<u>5,951,090</u>	<u>8,938,300</u>	<u>14,889,390</u>
<b>Fund balance - ending</b>	<u>\$ 4,808,036</u>	<u>\$ 10,848,498</u>	<u>\$ 15,656,534</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## **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, 2003**

	<b>Emergency Response Fund</b>	<b>Federal and State Financial Assistance Fund</b>	<b>Storm Water Management Fund</b>	<b>Fayetteville Finance Corp Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>
<b>Assets</b>					
Cash and investments	\$ 1,681,457	\$ 875,477	\$ 2,659,957	\$ -	\$ 5,216,891
Taxes receivable	-	-	117,856	-	117,856
Accounts receivable	91,297	4,754,562	10,917	-	4,856,776
Assessments receivable	-	6,152	-	-	6,152
<b>Total assets</b>	<b>\$ 1,772,754</b>	<b>\$ 5,636,191</b>	<b>\$ 2,788,730</b>	<b>\$ -</b>	<b>\$ 10,197,675</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities:</b>					
Accounts payable and accrued expenses	\$ 10,493	\$ 125,485	\$ 303,235	\$ -	\$ 439,213
Deferred revenues	-	4,832,570	117,856	-	4,950,426
<b>Total liabilities</b>	<b>10,493</b>	<b>4,958,055</b>	<b>421,091</b>	<b>-</b>	<b>5,389,639</b>
<b>Fund balances:</b>					
<b>Reserved</b>					
By State statute	91,297	218,529	10,916	-	320,742
For encumbrances	129,573	784,592	590,984	-	1,505,149
For wireless 911	66,208	-	-	-	66,208
<b>Unreserved</b>					
Designated					
For subsequent years	43,368	-	1,141,564	-	1,184,932
For special purpose	-	-	229,330	-	229,330
Undesignated	1,431,815	(324,985)	394,845	-	1,501,675
<b>Total fund balances</b>	<b>1,762,261</b>	<b>678,136</b>	<b>2,367,639</b>	<b>-</b>	<b>4,808,036</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,772,754</b>	<b>\$ 5,636,191</b>	<b>\$ 2,788,730</b>	<b>\$ -</b>	<b>\$ 10,197,675</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
Year Ended June 30, 2003**

	<b>Emergency Response Fund</b>	<b>Federal and State Financial Assistance Fund</b>	<b>Storm Water Management Fund</b>	<b>Fayetteville Finance Corp Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>
<b>Revenues</b>					
Other taxes	\$ 1,055,952	\$ -	\$ 2,027,259	\$ -	\$ 3,083,211
Intergovernmental	-	3,192,191	-	-	3,192,191
Miscellaneous	-	324,453	-	-	324,453
Interest earned on investments	46,175	-	84,025	247	130,447
<b>Total revenues</b>	<b>1,102,127</b>	<b>3,516,644</b>	<b>2,111,284</b>	<b>247</b>	<b>6,730,302</b>
<b>Expenditures</b>					
<b>Current:</b>					
Public safety	990,192	917,964	-	-	1,908,156
Environmental protection	-	-	3,379,044	-	3,379,044
Economic and physical development	-	2,784,889	-	3,345	2,788,234
<b>Debt service:</b>					
Principal	-	60,000	-	835,000	895,000
Interest and fees	-	17,518	-	693,517	711,035
<b>Total expenditures</b>	<b>990,192</b>	<b>3,780,371</b>	<b>3,379,044</b>	<b>1,531,862</b>	<b>9,681,469</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>111,935</b>	<b>(263,727)</b>	<b>(1,267,760)</b>	<b>(1,531,615)</b>	<b>(2,951,167)</b>
<b>Other financing sources (uses)</b>					
Transfers in	-	278,884	-	1,529,229	1,808,113
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>278,884</b>	<b>-</b>	<b>1,529,229</b>	<b>1,808,113</b>
<b>Net change in fund balances</b>	<b>111,935</b>	<b>15,157</b>	<b>(1,267,760)</b>	<b>(2,386)</b>	<b>(1,143,054)</b>
<b>Fund balance - beginning</b>	<b>1,650,326</b>	<b>662,979</b>	<b>3,635,399</b>	<b>2,386</b>	<b>5,951,090</b>
<b>Fund balance - ending</b>	<b>\$ 1,762,261</b>	<b>\$ 678,136</b>	<b>\$ 2,367,639</b>	<b>\$ -</b>	<b>\$ 4,808,036</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Year Ended June 30, 2003  
(With Comparative Actual Amounts For Year Ended June 30, 2002)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Revenues</b>				
<b>Other taxes</b>				
Subscribers' tax	\$ 898,000	\$ (18,448)	\$ 879,552	\$ 896,241
Wireless 911 funds	127,967	48,433	176,400	146,529
<b>Total other taxes</b>	<u>1,025,967</u>	<u>29,985</u>	<u>1,055,952</u>	<u>1,042,770</u>
<b>Interest earned on investments</b>				
Wireless 911	-	689	689	491
Enhanced 911	58,000	(12,514)	45,486	52,429
<b>Total interest earned on investments</b>	<u>58,000</u>	<u>(11,825)</u>	<u>46,175</u>	<u>52,920</u>
<b>Total revenues</b>	<u>1,083,967</u>	<u>18,160</u>	<u>1,102,127</u>	<u>1,095,690</u>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
<b>Wireless 911</b>				
Operating	134,078	(19,050)	153,128	155,264
Assets	-	(3,245)	3,245	24,338
	<u>134,078</u>	<u>(22,295)</u>	<u>156,373</u>	<u>179,602</u>
<b>Enhanced 911</b>				
Personnel	446,986	73,395	373,591	221,795
Operating	466,195	91,598	374,597	343,481
Assets	180,861	175,993	4,868	36,507
Cost redistribution	91,016	10,253	80,763	103,323
	<u>1,185,058</u>	<u>351,239</u>	<u>833,819</u>	<u>705,106</u>
<b>Total public safety</b>	<u>1,319,136</u>	<u>328,944</u>	<u>990,192</u>	<u>884,708</u>
<b>Debt service</b>				
Wireless 911	-	-	-	7,066
Enhanced 911	17,665	17,665	-	10,599
<b>Total debt service</b>	<u>17,665</u>	<u>17,665</u>	<u>-</u>	<u>17,665</u>
<b>Total expenditures</b>	<u>1,336,801</u>	<u>346,609</u>	<u>990,192</u>	<u>902,373</u>
<b>Revenues over (under) expenditures</b>	<u>(252,834)</u>	<u>364,769</u>	<u>111,935</u>	<u>193,317</u>
<b>Other financing sources (uses)</b>				
Appropriated fund balance	252,834	(252,834)	-	-
<b>Total other financing sources (uses)</b>	<u>252,834</u>	<u>(252,834)</u>	<u>-</u>	<u>-</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 111,935</u>	<u>111,935</u>	<u>193,317</u>
<b>Fund balance</b>				
Beginning of year - July 1			<u>1,650,326</u>	<u>1,457,009</u>
End of year - June 30			<u>\$ 1,762,261</u>	<u>\$ 1,650,326</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, 2003

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>					
<b>Intergovernmental</b>					
Federal grants	\$ 8,264,077	\$ 5,693,112	\$ 2,264,860	\$ 2,839,109	\$ 6,267,361
State grants	1,200,971	1,183,187	218,703	341,057	1,305,541
County	46,750	29,673	-	12,025	41,698
<b>Total intergovernmental</b>	<u>9,511,798</u>	<u>6,905,972</u>	<u>2,483,563</u>	<u>3,192,191</u>	<u>7,614,600</u>
<b>Miscellaneous</b>					
Other	849,685	779,742	110,498	324,453	993,697
<b>Total revenues</b>	<u>10,361,483</u>	<u>7,685,714</u>	<u>2,594,061</u>	<u>3,516,644</u>	<u>8,608,297</u>
<b>Expenditures</b>					
<b>Current</b>					
Public safety	2,881,832	3,106,925	1,816,906	917,964	2,207,983
Economic and physical development	7,681,672	4,003,886	798,709	2,784,889	5,990,066
<b>Total current</b>	<u>10,563,504</u>	<u>7,110,811</u>	<u>2,615,615</u>	<u>3,702,853</u>	<u>8,198,049</u>
<b>Debt service</b>					
<b>Total expenditures</b>	<u>10,857,506</u>	<u>7,385,394</u>	<u>2,708,197</u>	<u>3,780,371</u>	<u>8,457,568</u>
<b>Revenues over (under) expenditures</b>	<u>(496,023)</u>	<u>300,320</u>	<u>(114,136)</u>	<u>(263,727)</u>	<u>150,729</u>
<b>Other financing sources (uses)</b>					
Transfers in	569,121	596,973	275,357	278,884	600,500
Transfers (out)	(73,098)	(234,320)	(161,221)	-	(73,099)
Owner contributions	-	6	-	-	6
<b>Total other financing sources (uses)</b>	<u>496,023</u>	<u>362,659</u>	<u>114,136</u>	<u>278,884</u>	<u>527,407</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 662,979</u>	<u>\$ -</u>	<u>15,157</u>	<u>\$ 678,136</u>
<b>Fund balance</b>					
Beginning of year - July 1				<u>662,979</u>	
End of year - June 30				<u>\$ 678,136</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, 2003

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
<b>Expenditures by project:</b>					
<b>Public safety</b>					
Federal Forfeiture	\$ 802,090	\$ 1,491,664	\$ 1,128,413	\$ 171,800	\$ 535,051
GHSP	15,300	142,135	133,287	4,497	13,345
Juvenile Restitution	215,904	86,837	-	108,206	195,043
Juvenile Assessment Center	188,173	168,215	-	(1,478)	166,737
Law Enforcement Block Grant	662,800	640,715	384,722	383,269	639,262
Mobile Data Computer Project	121,478	170,484	170,484	115,448	115,448
Police Block Grant	406,875	406,875	-	-	406,875
FEMA Firefighter Grant	439,600	-	-	105,026	105,026
Cybercrimes Grant	29,612	-	-	31,196	31,196
<b>Total public safety</b>	<b>2,881,832</b>	<b>3,106,925</b>	<b>1,816,906</b>	<b>917,964</b>	<b>2,207,983</b>
<b>Economic and physical development</b>					
Community Development Block Grant	4,663,641	2,290,244	798,709	1,799,187	3,290,722
Arsenal Park Archaeological	43,459	43,362	-	-	43,362
Assessment Payment	39,865	10,609	-	29,256	39,865
HOME	2,934,707	1,659,671	-	956,446	2,616,117
<b>Total economic and physical development</b>	<b>7,681,672</b>	<b>4,003,886</b>	<b>798,709</b>	<b>2,784,889</b>	<b>5,990,066</b>
<b>Total expenditures by project</b>	<b>\$ 10,563,504</b>	<b>\$ 7,110,811</b>	<b>\$ 2,615,615</b>	<b>\$ 3,702,853</b>	<b>\$ 8,198,049</b>

**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, 2003  
(With Comparative Actual Amounts For Year Ended June 30, 2002)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Revenues</b>				
<b>Other taxes</b>				
Storm water tax	\$ 1,996,584	\$ 20,303	\$ 2,016,887	\$ 1,969,734
Penalties	9,092	1,280	10,372	12,481
<b>Total other taxes</b>	<u>2,005,676</u>	<u>21,583</u>	<u>2,027,259</u>	<u>1,982,215</u>
<b>Interest earned on investments</b>	<u>183,000</u>	<u>(98,975)</u>	<u>84,025</u>	<u>142,919</u>
<b>Total revenues</b>	<u>2,188,676</u>	<u>(77,392)</u>	<u>2,111,284</u>	<u>2,125,134</u>
<b>Expenditures</b>				
<b>Current</b>				
<b>Environmental protection</b>				
Personnel	1,170,238	195,630	974,608	934,246
Operating	2,692,028	648,831	2,043,197	1,449,605
Assets	-	-	-	85,644
Cost redistribution	253,048	(108,191)	361,239	276,189
<b>Total environmental protection</b>	<u>4,115,314</u>	<u>736,270</u>	<u>3,379,044</u>	<u>2,745,684</u>
<b>Revenues over (under) expenditures</b>	<u>(1,926,638)</u>	<u>658,878</u>	<u>(1,267,760)</u>	<u>(620,550)</u>
<b>Other financing sources (uses)</b>				
Appropriated fund balance	1,926,638	(1,926,638)	-	-
<b>Total other financing sources (uses)</b>	<u>1,926,638</u>	<u>(1,926,638)</u>	<u>-</u>	<u>-</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ (1,267,760)</u>	<u>(1,267,760)</u>	<u>(620,550)</u>
<b>Fund balance</b>				
Beginning of year - July 1			<u>3,635,399</u>	<u>4,255,949</u>
End of year - June 30			<u>\$ 2,367,639</u>	<u>\$ 3,635,399</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, 2003  
(With Comparative Actual Amounts For Year Ended June 30, 2002)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Revenues</b>				
Interest earned on investments	\$ -	\$ 247	\$ 247	\$ 524
<b>Expenditures</b>				
<b>Current</b>				
Economic and physical development				
Operating	3,825	480	3,345	3,375
Debt service	1,528,518	1	1,528,517	1,523,018
<b>Total expenditures</b>	<u>1,532,343</u>	<u>481</u>	<u>1,531,862</u>	<u>1,526,393</u>
<b>Revenues over (under) expenditures</b>	<u>(1,532,343)</u>	<u>728</u>	<u>(1,531,615)</u>	<u>(1,525,869)</u>
<b>Other financing sources (uses)</b>				
Transfers in	1,532,343	(3,114)	1,529,229	1,526,393
<b>Revenues and other financing sources     (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ (2,386)</u>	<u>(2,386)</u>	<u>524</u>
<b>Fund balance</b>				
Beginning of year - July 1			<u>2,386</u>	<u>1,862</u>
End of year - June 30			<u>\$ -</u>	<u>\$ 2,386</u>



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## **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

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, 2003**

	Economic and						Total Nonmajor Capital Project Funds
	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Bond Improvement Fund	Physical Development Fund	
<b>Assets</b>							
Cash and investments	\$ 345,696	\$ 13,763	\$ 803,821	\$ 4,386,749	\$ 425,341	\$ 261,274	\$ 6,236,644
Accounts receivable	-	-	190,595	4,161	11,971	273,471	480,198
Restricted asset - cash and investments	-	-	-	-	4,705,856	-	4,705,856
<b>Total assets</b>	<b>\$ 345,696</b>	<b>\$ 13,763</b>	<b>\$ 994,416</b>	<b>\$ 4,390,910</b>	<b>\$ 5,143,168</b>	<b>\$ 534,745</b>	<b>\$ 11,422,698</b>
<b>Liabilities and fund balances</b>							
<b>Liabilities:</b>							
Accounts payable and accrued expenses	\$ 7,064	\$ -	\$ 23,060	\$ 54,821	\$ 461,553	\$ 26,252	\$ 572,750
Deferred revenues	-	-	-	-	-	1,450	1,450
<b>Total liabilities</b>	<b>7,064</b>	<b>-</b>	<b>23,060</b>	<b>54,821</b>	<b>461,553</b>	<b>27,702</b>	<b>574,200</b>
<b>Fund balances:</b>							
Reserved							
By State statute	-	-	190,595	4,161	11,971	272,023	478,750
For encumbrances	177,878	-	186,568	1,295,176	2,355,107	108,336	4,123,065
Unreserved							
Designated							
For subsequent years	160,754	13,763	594,193	3,036,752	2,314,537	126,684	6,246,683
<b>Total fund balances</b>	<b>338,632</b>	<b>13,763</b>	<b>971,356</b>	<b>4,336,089</b>	<b>4,681,615</b>	<b>507,043</b>	<b>10,848,498</b>
<b>Total liabilities and fund balances</b>	<b>\$ 345,696</b>	<b>\$ 13,763</b>	<b>\$ 994,416</b>	<b>\$ 4,390,910</b>	<b>\$ 5,143,168</b>	<b>\$ 534,745</b>	<b>\$ 11,422,698</b>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Capital Project Funds  
 Year Ended June 30, 2003

	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Bond Improvement Fund	Economic and Physical Development Fund	Total Nonmajor Capital Project Funds
<b>Revenues</b>							
Intergovernmental	\$ -	\$ -	\$ 228,074	\$ -	\$ -	\$ 179,506	\$ 407,580
Miscellaneous	-	272	102,518	17,253	-	575,500	695,543
Interest earned on investments	-	-	355	-	67,639	2,210	70,204
Total revenues	-	272	330,947	17,253	67,639	757,216	1,173,327
<b>Expenditures</b>							
Current:							
Administration	200,945	-	-	-	-	-	200,945
Public safety	-	(4,783)	-	-	-	-	(4,783)
Transportation	-	-	-	1,846,676	-	-	1,846,676
Economic and physical development	-	-	-	-	2,532,744	898,455	3,431,199
Recreation and community facilities	-	-	308,802	-	-	-	308,802
Debt service:							
Issue costs	-	-	-	-	38,248	-	38,248
Total expenditures	200,945	(4,783)	308,802	1,846,676	2,570,992	898,455	5,821,087
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(200,945)	5,055	22,145	(1,829,423)	(2,503,353)	(141,239)	(4,647,760)
<b>Other financing sources (uses)</b>							
Bonds	-	-	-	-	3,644,293	-	3,644,293
Transfers in	-	-	109,400	2,633,857	500,000	170,408	3,413,665
Transfers out	-	-	-	(500,000)	-	-	(500,000)
Total other financing sources (uses)	-	-	109,400	2,133,857	4,144,293	170,408	6,557,958
<b>Net change in fund balances</b>	(200,945)	5,055	131,545	304,434	1,640,940	29,169	1,910,198
<b>Fund balance - beginning</b>	539,577	8,708	839,811	4,031,655	3,040,675	477,874	8,938,300
<b>Fund balance - ending</b>	\$ 338,632	\$ 13,763	\$ 971,356	\$ 4,336,089	\$ 4,681,615	\$ 507,043	\$ 10,848,498

**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, 2003**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Expenditures</b>					
<b>Current</b>					
<b>Administration</b>					
Information technology	756,711	217,134	-	200,945	418,079
<b>Total expenditures</b>	<u>756,711</u>	<u>217,134</u>	<u>-</u>	<u>200,945</u>	<u>418,079</u>
<b>Revenues over (under) expenditures</b>	<u>(756,711)</u>	<u>(217,134)</u>	<u>-</u>	<u>(200,945)</u>	<u>(418,079)</u>
<b>Other financing sources (uses)</b>					
Transfers in	756,711	756,711	-	-	756,711
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 539,577</u>	<u>\$ -</u>	<u>(200,945)</u>	<u>\$ 338,632</u>
<b>Fund balance</b>					
Beginning of year - July 1				<u>539,577</u>	
End of year - June 30				<u>\$ 338,632</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, 2003

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>					
<b>Miscellaneous</b>					
Sale of assets	\$ -	\$ 1,800	\$ -	\$ 272	\$ 2,072
<b>Interest earned on investments</b>	44,072	47,873	-	-	47,873
<b>Total revenues</b>	44,072	49,673	-	272	49,945
<b>Expenditures</b>					
<b>Current</b>					
<b>Public safety</b>					
School Road Fire Station	1,244,780	1,241,673	-	(4,783)	1,236,890
<b>Revenues over (under) expenditures</b>	(1,200,708)	(1,192,000)	-	5,055	(1,186,945)
<b>Other financing sources (uses)</b>					
Proceeds from capital leases	1,111,383	1,111,383	-	-	1,111,383
Transfers in	89,325	89,325	-	-	89,325
<b>Total other financing sources (uses)</b>	1,200,708	1,200,708	-	-	1,200,708
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	\$ -	\$ 8,708	\$ -	5,055	\$ 13,763
<b>Fund balance</b>					
Beginning of year - July 1				8,708	
End of year - June 30				\$ 13,763	

**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, 2003**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>					
<b>Intergovernmental</b>					
Federal grants/contributions	\$ 1,270,287	\$ -	\$ -	\$ 83,020	\$ 83,020
State grants/contributions	550,000	281,447	-	145,054	426,501
<b>Total intergovernmental</b>	<u>1,820,287</u>	<u>281,447</u>	<u>-</u>	<u>228,074</u>	<u>509,521</u>
<b>Miscellaneous</b>					
Other	70,000	-	-	70,000	70,000
Donations	32,518	-	-	32,518	32,518
<b>Total miscellaneous</b>	<u>102,518</u>	<u>-</u>	<u>-</u>	<u>102,518</u>	<u>102,518</u>
<b>Interest earned on investments</b>	<u>114,971</u>	<u>174,168</u>	<u>-</u>	<u>355</u>	<u>174,523</u>
<b>Total revenues</b>	<u>2,037,776</u>	<u>455,615</u>	<u>-</u>	<u>330,947</u>	<u>786,562</u>
<b>Expenditures</b>					
<b>Current</b>					
<b>Recreational and community facilities</b>					
Mazarick Park Greenway Trail	387,300	31,448	-	145,054	176,502
Cape Fear River Trail	1,879,687	96,496	-	108,557	205,053
Park improvements	150,000	9,066	-	305	9,371
Recreation centers	4,148,006	4,097,629	-	(6,931)	4,090,698
Arsenal Park	173,826	155,401	-	-	155,401
Freedom Park	157,518	16,000	-	61,817	77,817
Seabrook Pool	605,000	602,644	-	-	602,644
<b>Total expenditures</b>	<u>7,501,337</u>	<u>5,008,684</u>	<u>-</u>	<u>308,802</u>	<u>5,317,486</u>
<b>Revenues over (under) expenditures</b>	<u>(5,463,561)</u>	<u>(4,553,069)</u>	<u>-</u>	<u>22,145</u>	<u>(4,530,924)</u>
<b>Other financing sources (uses)</b>					
Transfers in	825,526	754,844	-	109,400	864,244
Capital leases, bonds, and other debt	4,638,035	4,638,036	-	-	4,638,036
<b>Total other financing sources (uses)</b>	<u>5,463,561</u>	<u>5,392,880</u>	<u>-</u>	<u>109,400</u>	<u>5,502,280</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 839,811</u>	<u>\$ -</u>	<u>131,545</u>	<u>\$ 971,356</u>
<b>Fund balance</b>					
Beginning of year - July 1				<u>839,811</u>	
End of year - June 30				<u>\$ 971,356</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, 2003

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>					
<b>Intergovernmental</b>					
State grants	\$ 234,000	\$ 231,472	\$ -	\$ -	\$ 231,472
<b>Miscellaneous</b>					
Owner contribution	-	31,378	-	979	32,357
Other	68,346	104,823	32,546	16,274	88,551
<b>Total miscellaneous</b>	<u>68,346</u>	<u>136,201</u>	<u>32,546</u>	<u>17,253</u>	<u>120,908</u>
<b>Total revenues</b>	<u>302,346</u>	<u>367,673</u>	<u>32,546</u>	<u>17,253</u>	<u>352,380</u>
<b>Expenditures</b>					
<b>Current</b>					
<b>Transportation</b>					
Traffic control system	1,349,069	962,150	-	184,113	1,146,263
Sidewalks	456,463	-	-	-	-
Parking improvements	1,255,744	803,648	-	43	803,691
Transportation improvements	5,656,846	7,670,338	5,696,341	1,662,520	3,636,517
<b>Total expenditures</b>	<u>8,718,122</u>	<u>9,436,136</u>	<u>5,696,341</u>	<u>1,846,676</u>	<u>5,586,471</u>
<b>Revenues over (under) expenditures</b>	<u>(8,415,776)</u>	<u>(9,068,463)</u>	<u>(5,663,795)</u>	<u>(1,829,423)</u>	<u>(5,234,091)</u>
<b>Other financing sources (uses)</b>					
Transfers in	8,935,465	13,119,807	5,663,795	2,633,857	10,089,869
Transfers (out)	(519,689)	(19,689)	-	(500,000)	(519,689)
<b>Total other financing sources (uses)</b>	<u>8,415,776</u>	<u>13,100,118</u>	<u>5,663,795</u>	<u>2,133,857</u>	<u>9,570,180</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 4,031,655</u>	<u>\$ -</u>	<u>304,434</u>	<u>\$ 4,336,089</u>
<b>Fund balance</b>					
Beginning of year - July 1				<u>4,031,655</u>	
End of year - June 30				<u>\$ 4,336,089</u>	



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**From Inception And For Year Ended June 30, 2003**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>					
Interest earned on investments	\$ 2,594,033	\$ 2,537,327	\$ -	\$ 67,839	\$ 2,604,966
<b>Expenditures</b>					
<b>Current</b>					
<b>Economic and physical development</b>					
Bond administration	1,747,831	1,099,523	-	390,380	1,489,903
Streets	22,460,741	16,248,947	-	2,033,086	18,282,033
Debt service	656,954	618,705	-	38,248	656,953
Sidewalks	2,411,182	2,244,977	-	162,998	2,407,975
Drainage	6,922,316	6,745,198	-	(53,720)	6,691,478
<b>Total expenditures</b>	<u>34,199,024</u>	<u>26,957,350</u>	<u>-</u>	<u>2,570,992</u>	<u>29,528,342</u>
<b>Revenues over (under) expenditures</b>	<u>(31,604,991)</u>	<u>(24,420,023)</u>	<u>-</u>	<u>(2,503,353)</u>	<u>(26,923,376)</u>
<b>Other financing sources (uses)</b>					
Transfers in	500,000	-	-	500,000	500,000
Capital leases, bonds, and other debt	31,104,991	27,460,698	-	3,644,293	31,104,991
<b>Total other financing sources (uses)</b>	<u>31,604,991</u>	<u>27,460,698</u>	<u>-</u>	<u>4,144,293</u>	<u>31,604,991</u>
<b>Revenues and other financing sources   (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 3,040,675</u>	<u>\$ -</u>	<u>1,640,940</u>	<u>\$ 4,681,615</u>
<b>Fund balance</b>					
Beginning of year - July 1				<u>3,040,675</u>	
End of year - June 30				<u>\$ 4,681,615</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, 2003**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>					
<b>Intergovernmental</b>					
Federal grants	\$ 350,000	\$ 152,241	\$ -	\$ 25,795	\$ 178,036
State grants	2,625,702	106,192	-	153,711	259,903
<b>Total intergovernmental</b>	<u>2,975,702</u>	<u>258,433</u>	<u>-</u>	<u>179,506</u>	<u>437,939</u>
<b>Miscellaneous</b>					
Owners contribution	82,266	82,048	-	-	82,048
Private donations	1,656,426	202,350	-	575,500	777,850
<b>Total miscellaneous</b>	<u>1,738,692</u>	<u>284,398</u>	<u>-</u>	<u>575,500</u>	<u>859,898</u>
<b>Interest earned on investments</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,210</u>	<u>2,210</u>
<b>Total revenues</b>	<u>4,714,394</u>	<u>542,831</u>	<u>-</u>	<u>757,216</u>	<u>1,300,047</u>
<b>Expenditures</b>					
<b>Current</b>					
<b>Economic and physical development</b>					
Brownfields Pilot Project	350,000	152,241	-	25,796	178,037
Uptown revitalization	-	5,441,156	5,441,156	-	-
USO/Amphitheater Demo/Festival Park	1,170,408	-	-	658,168	658,168
Cape Fear & Yadkin Valley Depot	3,282,128	132,740	-	192,389	325,129
Dam Restoration Project	480,283	212,001	-	22,102	234,103
<b>Total expenditures</b>	<u>5,282,819</u>	<u>5,938,138</u>	<u>5,441,156</u>	<u>898,455</u>	<u>1,395,437</u>
<b>Revenues over (under) expenditures</b>	<u>(568,425)</u>	<u>(5,395,307)</u>	<u>(5,441,156)</u>	<u>(141,239)</u>	<u>(95,390)</u>
<b>Other financing sources (uses)</b>					
Transfers in	568,425	5,873,181	5,441,156	170,408	602,433
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 477,874</u>	<u>\$ -</u>	<u>29,169</u>	<u>\$ 507,043</u>
<b>Fund balance</b>					
Beginning of year - July 1				<u>477,874</u>	
End of year - June 30				<u>\$ 507,043</u>	

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

The following comprise the City's Enterprise Funds:

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

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Balance Sheet  
Electric Fund  
June 30, 2003

	Electric Fund	Uptown Revitalization Special Fund	Rate Stabilization Special Fund	Administration Building Capital Project Fund	Total
<b>Assets</b>					
<b>Current unrestricted assets</b>					
Cash and cash equivalents	\$ 9,378,775	\$ -	\$ -	\$ -	\$ 9,378,775
Investments	10,703,006	-	-	-	10,703,006
Receivables	22,204,041	-	-	-	22,204,041
Internal balances	122,761	(75,350)	(26,926)	-	20,485
Less allowance for doubtful accounts	(292,541)	-	-	-	(292,541)
Inventories	9,929,150	-	-	-	9,929,150
Other current assets	88,137	-	-	-	88,137
<b>Total current unrestricted assets</b>	<b>52,133,329</b>	<b>(75,350)</b>	<b>(26,926)</b>	<b>-</b>	<b>52,031,053</b>
<b>Current restricted assets</b>					
Cash and cash equivalents	4,138,030	2,544,794	4,470,601	-	11,153,425
Investments	2,245,729	-	-	-	2,245,729
Collateral pledged in lieu of deposits	148,060	-	-	-	148,060
Receivables	3,336	-	-	-	3,336
<b>Total current restricted assets</b>	<b>6,535,155</b>	<b>2,544,794</b>	<b>4,470,601</b>	<b>-</b>	<b>13,550,550</b>
<b>Total current assets</b>	<b>58,668,484</b>	<b>2,469,444</b>	<b>4,443,675</b>	<b>-</b>	<b>65,581,603</b>
<b>Noncurrent assets</b>					
Other assets	2,719,017	-	-	-	2,719,017
<b>Utility plant</b>					
Land	4,385,611	-	-	-	4,385,611
Construction in process	17,200,707	38,578	-	-	17,239,285
Electric utility system	155,613,254	-	-	-	155,613,254
Buildings	31,615,133	-	-	-	31,615,133
Equipment and machinery	5,957,242	-	-	-	5,957,242
Computer programs	1,963,469	-	-	-	1,963,469
Vehicles	375,455	-	-	-	375,455
Office equipment	590,898	-	-	-	590,898
<b>Capital assets, net</b>	<b>217,701,769</b>	<b>38,578</b>	<b>-</b>	<b>-</b>	<b>217,740,347</b>
<b>Total noncurrent assets</b>	<b>220,420,786</b>	<b>38,578</b>	<b>-</b>	<b>-</b>	<b>220,459,364</b>
<b>Total assets</b>	<b>\$ 279,089,270</b>	<b>\$ 2,508,022</b>	<b>\$ 4,443,675</b>	<b>\$ -</b>	<b>\$ 286,040,967</b>
<b>Liabilities and net assets</b>					
<b>Current liabilities to be paid from unrestricted current assets</b>					
Current portion of long-term debt	\$ 3,362,345	\$ -	\$ -	\$ -	\$ 3,362,345
Overdraft payable	6,384,188	-	-	-	6,384,188
Accounts payable and accrued expenses	17,177,155	-	-	-	17,177,155
<b>Total current liabilities to be paid from unrestricted current assets</b>	<b>26,923,688</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,923,688</b>
<b>Current liabilities to be paid from restricted current assets</b>					
Accounts payable and accrued expenses	3,191,032	-	-	-	3,191,032
<b>Total current liabilities to be paid from restricted current assets</b>	<b>3,191,032</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,191,032</b>
<b>Total current liabilities</b>	<b>30,114,720</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,114,720</b>
<b>Noncurrent liabilities</b>					
Long-term debt	51,750,847	-	-	-	51,750,847
<b>Total noncurrent liabilities</b>	<b>51,750,847</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,750,847</b>
<b>Total liabilities</b>	<b>81,865,567</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81,865,567</b>
<b>Net assets</b>					
Capital assets net of related debt	162,588,577	38,578	-	-	162,627,155
Restricted for -					
Capital Projects	-	-	-	-	-
Debt service	2,946,957	-	-	-	2,946,957
Unrestricted net assets	31,688,169	2,469,444	4,443,675	-	38,601,288
<b>Total net assets</b>	<b>197,223,703</b>	<b>2,508,022</b>	<b>4,443,675</b>	<b>-</b>	<b>204,175,400</b>
<b>Total liabilities and net assets</b>	<b>\$ 279,089,270</b>	<b>\$ 2,508,022</b>	<b>\$ 4,443,675</b>	<b>\$ -</b>	<b>\$ 286,040,967</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Electric Fund  
Year Ended June 30, 2003**

	<u>Electric Fund</u>	<u>Uptown Revitalization Special Fund</u>	<u>Rate Stabilization Special Fund</u>	<u>Administration Building Capital Project Fund</u>	<u>Total</u>
<b>Operating revenues</b>					
Charges for services	\$ 145,617,727	\$ -	\$ -	\$ -	\$ 145,617,727
Total operating revenues	<u>145,617,727</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>145,617,727</u>
<b>Operating expenses</b>					
Power supply and generation	105,199,899	-	-	-	105,199,899
Electric operation	10,704,421	-	-	-	10,704,421
General and administrative	8,304,691	-	-	-	8,304,691
Depreciation	12,890,217	-	-	-	12,890,217
Total operating expenses	<u>137,099,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,099,228</u>
<b>Operating income (loss)</b>	<u>8,518,499</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,518,499</u>
<b>Nonoperating revenue (expense)</b>					
Interest earned on investments	809,252	-	67,678	-	876,930
Gain (loss) on disposal of assets	(864,850)	-	-	-	(864,850)
Interest expense	(2,955,731)	-	-	-	(2,955,731)
Amortization	(450,375)	-	-	-	(450,375)
Total nonoperating revenue (expense)	<u>(3,461,704)</u>	<u>-</u>	<u>67,678</u>	<u>-</u>	<u>(3,394,026)</u>
<b>Change in net assets before transfers and contributions</b>	<u>5,056,795</u>	<u>-</u>	<u>67,678</u>	<u>-</u>	<u>5,124,473</u>
Transfers in	2,595,793	-	250,000	-	2,845,793
Transfers out	(250,000)	(1,718,479)	(1,000,000)	-	(2,968,479)
Transfers out - General Fund	(8,544,444)	-	-	-	(8,544,444)
Capital contributions	3,632,702	-	-	-	3,632,702
<b>Change in net assets</b>	<u>2,490,846</u>	<u>(1,718,479)</u>	<u>(682,322)</u>	<u>-</u>	<u>90,045</u>
<b>Total net assets - beginning</b>	<u>194,732,857</u>	<u>4,226,501</u>	<u>5,125,997</u>	<u>-</u>	<u>204,085,355</u>
<b>Total net assets - ending</b>	<u>\$ 197,223,703</u>	<u>\$ 2,508,022</u>	<u>\$ 4,443,675</u>	<u>\$ -</u>	<u>\$ 204,175,400</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003  
(with comparative actual amounts for the year ended June 30, 2002)

	2003			2002 Actual
	Budget	Variance Positive (Negative)	Actual	
<b>Revenues</b>				
<b>Operating revenues</b>				
<b>Electric operations</b>				
Sale of electricity	\$ 144,570,429	\$ (3,956,858)	\$ 140,613,571	\$ 134,959,529
City services	1,584,812	27,838	1,612,650	1,553,055
Non-utility charges	552,561	142,275	694,836	537,243
Service charges	1,150,000	83,744	1,233,744	1,236,066
Miscellaneous	1,610,000	(147,074)	1,462,926	1,529,026
<b>Total operating revenues</b>	<u>149,467,802</u>	<u>(3,850,075)</u>	<u>145,617,727</u>	<u>139,814,919</u>
<b>Non-operating revenues</b>				
Gain (loss) on asset disposal	-	(864,850)	(864,850)	(694,460)
Interest earned on investments	1,400,000	(590,748)	809,252	1,085,486
<b>Total non-operating revenues</b>	<u>1,400,000</u>	<u>(1,455,598)</u>	<u>(55,598)</u>	<u>391,026</u>
<b>Contributions</b>				
Contributions	2,545,000	1,087,702	3,632,702	1,596,355
<b>Total contributions</b>	<u>2,545,000</u>	<u>1,087,702</u>	<u>3,632,702</u>	<u>1,596,355</u>
<b>Transfers in</b>				
Transfers from Rate Stabilization Fund	1,000,000	-	1,000,000	-
<b>Total transfers in</b>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>
<b>Total revenues</b>	<u>\$ 154,412,802</u>	<u>\$ (4,217,971)</u>	<u>\$ 150,194,831</u>	<u>\$ 141,802,300</u>
<b>Expenditures</b>				
<b>Operating expenditures</b>				
<b>Electric operations</b>				
Power supply and generation	\$ 103,771,409	\$ (1,428,490)	\$ 105,199,899	\$ 89,549,683
Administration	408,236	141,900	266,336	245,395
Apparatus repair shop	454,985	2,174	452,811	486,515
Electric meter shop	520,032	(34,212)	554,244	436,242
Construction and maintenance	5,933,793	(821,400)	6,755,193	5,810,906
Substation construction	973,664	79,569	894,095	764,276
Engineering	1,880,764	99,022	1,781,742	2,185,497
<b>Total electric operations</b>	<u>113,942,883</u>	<u>(1,961,437)</u>	<u>115,904,320</u>	<u>99,458,514</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003  
(with comparative actual amounts for the year ended June 30, 2002)

	2003			2002 Actual
	Budget	Variance Positive (Negative)	Actual	
<b>Expenditures (continued)</b>				
<b>General and administrative</b>				
Executive	\$ 624,346	\$ 114,967	\$ 509,379	\$ 322,490
Internal audit	72,581	(35)	72,616	67,888
Public information	370,623	(10,171)	380,794	374,875
Financial administration	120,842	6,011	114,831	111,722
Administrative - administration	105,483	23,476	82,007	97,938
Human resources	372,022	(10,698)	382,720	354,618
Accounting	382,590	56	382,534	354,151
Accounts receivable	573,711	(1,785)	575,496	502,120
Payroll	68,680	1,964	66,716	59,359
Customer service administration	973,604	199,227	774,377	787,069
Call center	566,310	2,523	563,787	517,504
Customer programs and service	196,309	56,933	139,376	138,995
Cashiers	334,387	420	333,967	287,914
Main office	308,146	8,273	299,873	308,920
Meter reading	349,806	14,345	335,461	349,699
Utility field services	391,675	183	391,492	432,587
Risk management	312,271	43,889	268,382	232,730
Capital Projects	162,593	10,548	152,045	164,198
Rates	143,862	(49,416)	193,278	81,436
Budget	92,125	8,442	83,683	80,095
Purchasing	800	801	(1)	-
Warehouse	1,000	1,000	-	-
Material management	130,165	8,264	121,901	120,096
Investigation	102,410	1,435	100,975	107,841
Fleet maintenance	700	700	-	-
Building and grounds maintenance	169,975	124	169,851	205,144
Metering management	185,548	24	185,524	109,936
Special projects	261,039	26,866	234,173	240,262
Telecommunications systems	304,176	(21,743)	325,919	263,259
Information systems	773,700	112	773,588	640,164
Pension expense	1,134,683	706,626	428,057	557,354
Net pension obligation adjustment	-	(240,798)	240,798	128,634
Medical insurance	1,440,000	(663,172)	2,103,172	1,719,186
Other	(99,540)	(91,193)	(8,347)	(357,278)
Benefits cleared to accounts	(2,835,233)	(361,500)	(2,473,733)	(2,363,618)
<b>Total general and administrative</b>	<b>8,091,389</b>	<b>(213,302)</b>	<b>8,304,691</b>	<b>6,997,288</b>
<b>Total operating expenditures</b>	<b>122,034,272</b>	<b>(2,174,739)</b>	<b>124,209,011</b>	<b>106,455,802</b>
<b>Non-operating expenditures</b>				
Interest expense	2,978,000	22,269	2,955,731	3,165,672
<b>Total non-operating expenditures</b>	<b>2,978,000</b>	<b>22,269</b>	<b>2,955,731</b>	<b>3,165,672</b>



CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003  
(with comparative actual amounts for the year ended June 30, 2002)

	2003			2002 Actual
	Budget	Variance Positive (Negative)	Actual	
<b>Transfers out</b>				
Transfers to General Fund	\$ 8,539,900	\$ (4,544)	\$ 8,544,444	\$ 8,483,328
Transfers to Uptown Revitalization Fund	-	-	-	1,000,000
Transfers to Rate Stabilization Fund	250,000	-	250,000	2,250,000
<b>Total transfers out</b>	<u>8,789,900</u>	<u>(4,544)</u>	<u>8,794,444</u>	<u>11,733,328</u>
<b>Budgetary appropriations</b>				
Inventory increase	-	972,774	(972,774)	(176,875)
Bond principal payments	3,598,000	(71,280)	3,669,280	3,355,750
Capital outlay	17,012,630	3,111,130	13,901,500	11,935,297
Appropriated net assets	-	-	-	-
<b>Total budgetary appropriations</b>	<u>20,610,630</u>	<u>4,012,624</u>	<u>16,598,006</u>	<u>15,114,172</u>
<b>Total expenditures</b>	<u>\$ 154,412,802</u>	<u>\$ 1,855,610</u>	<u>\$ 152,557,192</u>	<u>\$ 136,468,974</u>
<b>Reconciliation of change in net assets</b>				
Total revenues		\$ (4,217,971)	\$ 150,194,831	\$ 141,802,300
Total expenditures		1,855,610	152,557,192	136,468,974
<b>Subtotal</b>		<u>\$ (2,362,361)</u>	<u>(2,362,361)</u>	<u>5,333,326</u>
<b>Reconciling items:</b>				
Budgetary appropriations			16,598,006	15,114,172
Depreciation			(12,890,217)	(12,881,165)
Amortization			(450,375)	(447,353)
Transfer of assets from the Administrative Building Capital Project Fund			-	54,977
Transfer of assets from the Uptown Revitalization Capital Project Fund			1,595,793	164,008
<b>Total reconciling items</b>			<u>4,853,207</u>	<u>2,004,639</u>
<b>Change in net assets</b>			<u>\$ 2,490,846</u>	<u>\$ 7,337,965</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, 2003**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>	\$ -	\$ -	\$ -	\$ -
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenditures</b>				
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	-	1,758,059	40,309	1,798,368
Water/Sewer improvements	-	110,453	12,233	122,686
<b>Total expenditures</b>	<u>14,500,000</u>	<u>11,978,002</u>	<u>52,542</u>	<u>12,030,544</u>
<b>Revenues under expenditures</b>	<u>(14,500,000)</u>	<u>(11,978,002)</u>	<u>(52,542)</u>	<u>(12,030,544)</u>
<b>Other financing sources</b>				
Transfer from Electric Fund	14,500,000	14,500,000	-	14,500,000
<b>Total other financing sources</b>	<u>14,500,000</u>	<u>14,500,000</u>	<u>-</u>	<u>14,500,000</u>
<b>Revenues and other financing sources over expenditures</b>	<u>\$ -</u>	<u>\$ 2,521,998</u>	<u>(52,542)</u>	<u>\$ 2,469,456</u>
<b>Reconciling items:</b>				
Capital outlay			52,542	
Transfer of assets to the Electric Fund			(1,595,793)	
Transfer of assets to the Water and Wastewater			(122,686)	
Change in net assets			<u>\$ (1,718,479)</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, 2003**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>				
Interest earned on investments	\$ 522,772	\$ 456,272	\$ 67,678	\$ 523,950
Rate stabilization transfer	4,169,725	4,169,725	-	4,169,725
<b>Total revenues</b>	<u>4,692,497</u>	<u>4,625,997</u>	<u>67,678</u>	<u>4,693,675</u>
<b>Expenditures</b>	-	-	-	-
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Revenues under expenditures</b>	<u>4,692,497</u>	<u>4,625,997</u>	<u>67,678</u>	<u>4,693,675</u>
<b>Other financing sources</b>				
Transfer from Electric Fund	4,750,000	4,500,000	250,000	4,750,000
Transfer to Electric Fund	(5,000,000)	(4,000,000)	(1,000,000)	(5,000,000)
Appropriated net assets	(4,442,497)	-	-	-
<b>Total other financing sources</b>	<u>(4,692,497)</u>	<u>500,000</u>	<u>(750,000)</u>	<u>(250,000)</u>
<b>Revenues and other financing sources over expenditures</b>	<u>\$ -</u>	<u>\$ 5,125,997</u>	<u>(682,322)</u>	<u>\$ 4,443,675</u>
<b>Reconciling items:</b>				
Total reconciling items			-	
Change in net assets			<u>\$ (682,322)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Balance Sheet  
Water and Wastewater Fund  
June 30, 2003

	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	Total
<b>Assets</b>								
<b>Current unrestricted assets</b>								
Cash and cash equivalents	\$ 5,895,906	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,895,906
Investments	2,391,311	-	-	-	-	-	-	2,391,311
Receivables	14,708,652	-	-	-	-	3,645	-	14,712,297
Internal balances	1,616,791	(17,556)	135,216	426,462	-	(1,398,562)	(782,836)	(20,485)
Less allowance for doubtful accounts	(54,056)	-	-	-	-	-	-	(54,056)
Inventories	1,138,204	-	-	-	-	-	-	1,138,204
Other current assets	107,698	-	-	-	-	-	-	107,698
<b>Total current unrestricted assets</b>	<b>25,604,506</b>	<b>(17,556)</b>	<b>135,216</b>	<b>426,462</b>	<b>-</b>	<b>(1,394,917)</b>	<b>(782,836)</b>	<b>23,970,875</b>
<b>Current restricted assets</b>								
Cash and cash equivalents	6,983,761	2,191,279	2,669,470	253,477	556,060	-	-	12,654,047
Investments	9,909,268	-	-	-	-	-	-	9,909,268
Receivables	37,850	(349)	46,488	275,745	-	106,010	-	465,744
<b>Total current restricted assets</b>	<b>16,930,879</b>	<b>2,190,930</b>	<b>2,715,958</b>	<b>529,222</b>	<b>556,060</b>	<b>106,010</b>	<b>-</b>	<b>23,029,059</b>
<b>Total current assets</b>	<b>42,535,385</b>	<b>2,173,374</b>	<b>2,851,174</b>	<b>955,684</b>	<b>556,060</b>	<b>(1,288,907)</b>	<b>(782,836)</b>	<b>46,999,934</b>
<b>Noncurrent assets</b>								
Other assets	4,850,382	-	-	-	-	-	-	4,850,382
<b>Utility plant</b>								
Land	6,915,799	-	-	-	-	-	-	6,915,799
Construction in process	4,769,099	-	-	1,911,968	-	782,626	782,836	8,246,529
Water system	115,549,287	-	-	-	-	-	-	115,549,287
Sewer system	191,110,254	-	-	-	-	-	-	191,110,254
Buildings	3,550,196	-	-	-	-	-	-	3,550,196
Equipment and machinery	1,447,415	-	-	-	-	-	-	1,447,415
Computer programs	1,673,403	-	-	-	-	-	-	1,673,403
Vehicles	771,142	-	-	-	-	-	-	771,142
Office equipment	96,001	-	-	-	-	-	-	96,001
<b>Capital assets, net</b>	<b>325,882,596</b>	<b>-</b>	<b>-</b>	<b>1,911,968</b>	<b>-</b>	<b>782,626</b>	<b>782,836</b>	<b>329,360,026</b>
<b>Total noncurrent assets</b>	<b>330,732,978</b>	<b>-</b>	<b>-</b>	<b>1,911,968</b>	<b>-</b>	<b>782,626</b>	<b>782,836</b>	<b>334,210,408</b>
<b>Total assets</b>	<b>\$373,268,363</b>	<b>\$ 2,173,374</b>	<b>\$ 2,851,174</b>	<b>\$ 2,867,652</b>	<b>\$ 556,060</b>	<b>\$ (506,281)</b>	<b>\$ -</b>	<b>\$381,210,342</b>
<b>Liabilities and net assets</b>								
<b>Current portion of long-term debt</b>								
Accounts payable and accrued expenses	\$ 7,532,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,532,411
Total current liabilities to be paid from	6,061,556	-	-	-	-	75,936	-	6,137,492
	13,593,967	-	-	-	-	75,936	-	13,669,903
<b>Current liabilities to be paid from restricted current assets</b>								
Accounts payable and accrued expenses	1,085,873	-	202,119	554,982	-	-	-	1,842,974
<b>Total current liabilities to be paid from</b>	<b>1,085,873</b>	<b>-</b>	<b>202,119</b>	<b>554,982</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,842,974</b>
<b>Total current liabilities</b>	<b>14,679,840</b>	<b>-</b>	<b>202,119</b>	<b>554,982</b>	<b>-</b>	<b>75,936</b>	<b>-</b>	<b>15,512,877</b>
Long-term debt	125,482,728	-	-	-	-	-	-	125,482,728
Unearned deposits	4,908,753	-	-	-	-	-	-	4,908,753
<b>Total noncurrent liabilities</b>	<b>130,391,481</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>130,391,481</b>
<b>Total liabilities</b>	<b>145,071,321</b>	<b>-</b>	<b>202,119</b>	<b>554,982</b>	<b>-</b>	<b>75,936</b>	<b>-</b>	<b>145,904,358</b>
<b>Net assets</b>								
Capital assets net of related debt	192,867,457	-	-	1,911,968	-	782,626	782,836	196,344,887
Restricted for -								
Capital Projects	-	2,173,374	-	-	-	(1,364,843)	(782,836)	25,695
Debt service	7,554,902	-	-	-	-	-	-	7,554,902
Unrestricted net assets	27,774,683	-	2,849,055	400,702	556,060	-	-	31,380,500
<b>Total net assets</b>	<b>228,197,042</b>	<b>2,173,374</b>	<b>2,849,055</b>	<b>2,312,670</b>	<b>556,060</b>	<b>(582,217)</b>	<b>-</b>	<b>235,305,984</b>
<b>Total liabilities and net assets</b>	<b>\$373,268,363</b>	<b>\$ 2,173,374</b>	<b>\$ 2,851,174</b>	<b>\$ 2,867,652</b>	<b>\$ 556,060</b>	<b>\$ (506,281)</b>	<b>\$ -</b>	<b>\$381,210,342</b>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
 Water and Wastewater Fund  
 Year Ended June 30, 2003

	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	Total
<b>Operating revenues</b>								
Charges for services	\$ 43,008,035	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,008,035
Total operating revenues	43,008,035	-	-	-	-	-	-	43,008,035
<b>Operating expenses</b>								
Water operations	9,222,880	-	-	-	-	-	-	9,222,880
Sanitary sewer operations	8,220,611	-	-	-	-	-	-	8,220,611
General and administrative	8,639,521	-	-	-	-	-	-	8,639,521
Depreciation	11,407,197	-	-	-	-	-	-	11,407,197
Total operating expenses	37,490,209	-	-	-	-	-	-	37,490,209
<b>Operating income (loss)</b>	5,517,826	-	-	-	-	-	-	5,517,826
<b>Nonoperating revenue (expense)</b>								
Interest earned on investments	802,122	-	-	-	14,933	-	-	817,055
Gain (loss) on disposal of assets	(13,386)	-	-	-	-	-	-	(13,386)
Interest expense	(5,393,205)	-	-	-	-	-	-	(5,393,205)
Amortization	(753,194)	-	-	-	-	-	-	(753,194)
Total nonoperating revenue (expense)	(6,357,663)	-	-	-	14,933	-	-	(6,342,730)
<b>Change in net assets before transfers and contributions</b>	(839,837)	-	-	-	14,933	-	-	(824,904)
Transfers in	6,184,171	3,235,567	-	3,400,000	-	-	-	12,819,738
Transfers out	(452)	(5,635,115)	(3,103,004)	(2,376,264)	(1,000,000)	(582,217)	-	(12,697,052)
Transfers out - General Fund	(713,473)	-	-	-	-	-	-	(713,473)
Capital contributions	8,605,351	-	-	-	-	-	-	8,605,351
<b>Change in net assets</b>	13,235,760	(2,399,548)	(3,103,004)	1,023,736	(985,067)	(582,217)	-	7,189,660
<b>Total net assets - beginning</b>	214,961,282	4,572,922	5,752,059	1,288,934	1,541,127	-	-	228,116,324
<b>Total net assets - ending</b>	\$ 228,197,042	\$ 2,173,374	\$ 2,649,055	\$ 2,312,670	\$ 556,060	\$ (582,217)	\$ -	\$ 235,305,984

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003

(with comparative actual amounts for the year ended June 30, 2002)

	2003			2002 Actual
	Budget	Variance Positive (Negative)	Actual	
<b>Revenues</b>				
<b>Operating revenues</b>				
<b>Water operations</b>				
Water sales	\$ 19,877,222	\$ (1,963,590)	\$ 17,913,632	\$ 18,496,072
Connection fees	565,000	61,764	626,764	796,495
City services	109,277	(45,253)	64,024	85,771
<b>Total water operations</b>	<u>20,551,499</u>	<u>(1,947,079)</u>	<u>18,604,420</u>	<u>19,378,338</u>
<b>Sanitary sewer operations</b>				
Sewer charges	23,688,987	(716,184)	22,972,803	22,562,172
Connection fees	465,000	(47,031)	417,969	590,038
City services	42,614	(8,026)	34,588	39,598
<b>Total sanitary sewer operations</b>	<u>24,196,601</u>	<u>(771,241)</u>	<u>23,425,360</u>	<u>23,191,808</u>
<b>Other operating revenues</b>				
Non-utility charges	563,600	301,868	865,468	659,578
Service charges	215,000	65,362	280,362	240,197
Miscellaneous	50,000	(217,575)	(167,575)	233,911
<b>Total other operating revenues</b>	<u>828,600</u>	<u>149,655</u>	<u>978,255</u>	<u>1,133,686</u>
<b>Total operating revenues</b>	<u>45,576,700</u>	<u>(2,568,665)</u>	<u>43,008,035</u>	<u>43,703,832</u>
<b>Non-operating revenues</b>				
Gain (loss) on asset disposal	-	(13,386)	(13,386)	23,316
Interest earned on investments	450,000	352,122	802,122	802,126
<b>Total non-operating revenues</b>	<u>450,000</u>	<u>338,736</u>	<u>788,736</u>	<u>825,442</u>
<b>Contributions</b>				
Contributions	7,694,800	910,551	8,605,351	7,184,899
<b>Total contributions</b>	<u>7,694,800</u>	<u>910,551</u>	<u>8,605,351</u>	<u>7,184,899</u>
<b>Total revenues</b>	<u>\$ 53,721,500</u>	<u>\$ (1,319,378)</u>	<u>\$ 52,402,122</u>	<u>\$ 51,714,173</u>
<b>Expenditures</b>				
<b>Operating expenditures</b>				
<b>Water operations</b>				
Administration and engineering	\$ 1,028,503	\$ 114,849	\$ 913,654	\$ 978,368
Water meter shop	734,757	85,927	648,830	840,260
Construction and maintenance	2,976,763	88,310	2,888,453	2,762,887
P. O. Hoffer water treatment plant	2,975,811	121,051	2,854,760	2,967,586
Glennville Lake water treatment plant	1,214,908	120	1,214,788	1,065,277
Laboratory	243,446	10,163	233,283	212,869
Environmental	95,597	5,288	90,309	76,757
Watersheds	160,545	419	160,126	197,069
Cross Connection	222,643	3,966	218,677	180,450
<b>Total water operations</b>	<u>9,652,973</u>	<u>430,093</u>	<u>9,222,880</u>	<u>9,281,523</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003  
(with comparative actual amounts for the year ended June 30, 2002)

	2003			2002 Actual
	Budget	Variance Positive (Negative)	Actual	
<b>Expenditures (continued)</b>				
<b>Operating expenditures (continued)</b>				
<b>Sanitary sewer operations</b>				
Administration and engineering	\$ 1,028,504	\$ 114,853	\$ 913,651	\$ 978,368
Sewer construction and maintenance	2,854,001	101,096	2,752,905	2,572,135
Lift stations	507,308	(1,704)	509,012	615,587
Cross Creek WW treatment plant	1,994,658	97,030	1,897,628	1,942,207
Rockfish Creek WW treatment plant	1,580,788	35,295	1,545,493	1,572,153
Residuals management	175,607	2,104	173,503	147,888
Pretreatment	101,659	(3,168)	104,827	71,767
Laboratory	243,445	10,162	233,283	212,870
Environmental	95,598	5,289	90,309	76,756
<b>Total sanitary sewer operations</b>	<b>8,581,568</b>	<b>360,957</b>	<b>8,220,611</b>	<b>8,189,731</b>
<b>General and administrative</b>				
Executive	418,045	186,330	231,715	197,253
Internal audit	72,582	1,275	71,307	66,975
Public information	369,723	(29,700)	399,423	316,875
Financial administration	120,843	13,610	107,233	106,283
Administrative administration	105,482	28,383	77,099	89,919
Human resources	364,023	(5,109)	369,132	349,301
Accounting	376,490	1	376,489	340,087
Accounts receivable	584,611	10,937	573,674	485,532
Payroll	68,680	2,102	66,578	58,105
Customer service administration	478,004	32,296	445,708	453,968
Call center	556,510	2,358	554,152	479,141
Main office	308,145	13,410	294,735	296,131
Customer programs and services	196,311	85,149	111,162	83,951
Cashiers	312,486	(13,572)	326,058	276,458
Meter reading	349,806	22,095	327,711	328,753
Utility field services	369,175	233	368,942	402,771
Risk management	315,971	(14,115)	330,086	223,408
Capital Projects	162,592	12,716	149,876	158,344
Rates	141,862	66,333	75,529	91,550
Budget	92,127	9,375	82,752	77,991
Purchasing	800	801	(1)	-
Warehouse	1,000	1,000	-	-
Material management	130,165	9,500	120,665	115,687
Fleet maintenance	700	699	1	-
Building and grounds maintenance	165,974	(614)	166,588	147,284

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003

(with comparative actual amounts for the year ended June 30, 2002)

	2003		2002 Actual	
	Budget	Variance Positive (Negative)		
<b>Expenditures (continued)</b>				
<b>Operating expenditures (continued)</b>				
<b>General and administrative (continued)</b>				
Metering management	\$ 185,348	\$ 7,243	\$ 178,105	\$ 107,250
Investigation	100,310	4,100	96,210	101,955
Special projects	261,039	27,353	233,686	223,520
Communication system	302,877	27	302,850	232,034
Information systems	765,999	353	765,646	624,060
Pension expenses	1,134,682	706,625	428,057	531,049
Net pension obligation adjustment	-	(240,799)	240,799	128,634
Medical insurance	1,560,000	(577,898)	2,137,898	1,677,807
Other	1,362,207	52,359	1,309,848	1,114,641
Benefits cleared to accounts	(2,952,632)	(272,440)	(2,680,192)	(2,311,683)
<b>Total general and administrative</b>	<b>8,781,937</b>	<b>142,416</b>	<b>8,639,521</b>	<b>7,575,034</b>
<b>Total operating expenditures</b>	<b>27,016,478</b>	<b>933,466</b>	<b>26,083,012</b>	<b>25,046,288</b>
<b>Non-operating expenditures</b>				
Interest expense	6,570,000	176,795	6,393,205	6,806,566
<b>Total non-operating expenditures</b>	<b>6,570,000</b>	<b>176,795</b>	<b>6,393,205</b>	<b>6,806,566</b>
<b>Transfers out</b>				
Transfer to Annexation Reserve Fund	-	-	-	2,000,000
Transfer to General Fund	713,480	7	713,473	-
<b>Total transfers out</b>	<b>713,480</b>	<b>7</b>	<b>713,473</b>	<b>2,000,000</b>
<b>Budgetary appropriations</b>				
Inventory increase	-	(187,867)	187,867	217,861
Bond principal payments	5,922,000	(808,720)	6,730,720	5,929,006
State loan payments	379,756	-	379,756	-
Capital outlay	10,842,180	4,825,752	6,016,428	5,166,985
Appropriation of net assets	2,277,606	2,277,606	-	-
<b>Total budgetary appropriations</b>	<b>19,421,542</b>	<b>6,106,771</b>	<b>13,314,771</b>	<b>11,313,852</b>
<b>Total expenditures</b>	<b>\$ 53,721,500</b>	<b>\$ 7,217,039</b>	<b>\$ 46,504,461</b>	<b>\$ 45,166,706</b>
<b>Reconciliation of change in net assets</b>				
Total revenues		\$ (1,319,378)	\$ 52,402,122	\$ 51,714,173
Total expenditures		7,217,039	46,504,461	45,166,706
<b>Subtotal</b>		<b>\$ 5,897,661</b>	<b>5,897,661</b>	<b>6,547,467</b>
<b>Reconciling items:</b>				
Budgetary appropriations			13,314,771	11,313,852
Depreciation			(11,407,197)	(11,517,250)
Amortization			(753,194)	(602,675)
Transfer of assets from Annexation Capital Project Fund Phase IVA			2,376,264	1,211,066
Transfer of assets from Annexation Capital Project Fund Phase IVB			582,217	-
Transfer of assets from Annexation Capital Project Fund Phase III			(452)	6,295,865
Transfer of assets from 1997 Supplemental Capital Project Fund			3,103,004	297,751
Transfer of assets from Uptown Revitalization Fund			122,686	-
Transfer of net assets from the State Revolving Loan Capital Project Fund			-	(7,274,056)
<b>Total reconciling items</b>			<b>7,338,099</b>	<b>(275,447)</b>
<b>Change in net assets</b>			<b>\$ 13,235,760</b>	<b>\$ 6,272,020</b>



**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, 2003**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>	\$ 573,115	\$ 573,115	\$ -	\$ 573,115
<b>Total revenues</b>	<u>573,115</u>	<u>573,115</u>	<u>-</u>	<u>573,115</u>
<b>Expenditures</b>				
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)	-	(6,954,005)
Financing costs	1,553,409	1,553,408	-	1,553,408
Other	-	460,810	(451)	460,359
<b>Total expenditures</b>	<u>23,526,758</u>	<u>23,527,209</u>	<u>(451)</u>	<u>23,526,758</u>
<b>Revenues under expenditures</b>	<u>(22,953,643)</u>	<u>(22,954,094)</u>	451	<u>(22,953,643)</u>
<b>Other financing sources</b>				
1999 Revenue Bond proceeds	19,250,000	19,325,000	-	19,325,000
Transfer to Water and Wastewater Fund	(533,058)	(533,054)	-	(533,054)
Transfer from Annexation Phase II Capital Project Fund	3,000,000	2,289,028	-	2,289,028
Transfer from 1993 Refunding Bond Capital Project Fund	810,067	946,087	-	946,087
Transfer from 1997 Supplemental Capital Project Fund	5,000,000	5,499,951	-	5,499,951
Transfer to Annexation Phase IV Capital Project Fund	(2,400,000)	-	(2,400,000)	(2,400,000)
Transfer to Water/Sewer Fund	(2,173,366)	-	-	-
<b>Total other financing sources</b>	<u>22,953,643</u>	<u>27,527,012</u>	<u>(2,400,000)</u>	<u>25,127,012</u>
<b>Revenues and other financing sources over expenditures</b>	<u>\$ -</u>	<u>\$ 4,572,918</u>	(2,399,549)	<u>\$ 2,173,369</u>
<b>Reconciling items:</b>				
Capital outlay			(451)	
Transfer of assets to the Water and Wastewater fund			452	
Change in net assets			<u>\$ (2,399,548)</u>	

**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, 2003**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>	\$ -	\$ -	\$ -	\$ -
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenditures</b>				
Construction	-	4,848,045	1,425,588	6,273,633
Engineering	-	570,104	122,838	692,942
Rights of way	-	7,960	503	8,463
Other	-	166,687	37,570	204,257
<b>Total expenditures</b>	<u>7,241,497</u>	<u>5,592,796</u>	<u>1,586,499</u>	<u>7,179,295</u>
<b>Revenues under expenditures</b>	<u>(7,241,497)</u>	<u>(5,592,796)</u>	<u>(1,586,499)</u>	<u>(7,179,295)</u>
<b>Other financing sources</b>				
Transfer from Water and Sewer Capital Reserve Fund	9,828,350	9,828,350	-	9,828,350
Transfer to Water and Wastewater Fund	(2,586,853)	-	-	-
<b>Total other financing sources</b>	<u>7,241,497</u>	<u>9,828,350</u>	<u>-</u>	<u>9,828,350</u>
<b>Revenues and other financing sources over     expenditures</b>	<u>\$ -</u>	<u>\$ 4,235,554</u>	<u>(1,586,499)</u>	<u>\$ 2,649,055</u>
<b>Reconciling items:</b>				
Capital outlay			1,586,499	
Transfer of assets to the Water and Wastewater fund			(3,103,004)	
Change in net assets			<u>\$ (3,103,004)</u>	

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Schedule of Changes in the Status of Annexation Capital Project Fund - Phase IVA  
From Inception and for the Year Ended June 30, 2003**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>	\$ -	\$ -	\$ -	\$ -
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenditures - Phase IV-A</b>				
Construction	-	3,619,089	1,850,818	5,469,907
Engineering	-	842,621	191,600	1,034,221
Rights of way	-	79,305	12,562	91,867
Less City of Fayetteville participation	-	(724,608)	(540,682)	(1,265,290)
Other	-	139,334	29,259	168,593
<b>Total expenditures - Phase IV-A</b>	<u>6,300,000</u>	<u>3,955,741</u>	<u>1,543,557</u>	<u>5,499,298</u>
<b>Expenditures - Phase IV-B</b>				
Engineering	-	457,012	(457,012)	-
Rights of way	-	17,072	(17,072)	-
Less City of Fayetteville participation	-	(228,506)	228,506	-
Other	-	127,787	(127,787)	-
<b>Total expenditures - Phase IV-B</b>	<u>-</u>	<u>373,365</u>	<u>(373,365)</u>	<u>-</u>
<b>Total expenditures</b>	<u>6,300,000</u>	<u>4,329,106</u>	<u>1,170,192</u>	<u>5,499,298</u>
<b>Revenues under expenditures</b>	<u>(6,300,000)</u>	<u>(4,329,106)</u>	<u>(1,170,192)</u>	<u>(5,499,298)</u>
<b>Other financing sources</b>				
Transfer from Annexation Reserve Fund	3,900,000	2,500,000	1,000,000	3,500,000
Transfer from Annexation Phase III Capital Project Fund	2,400,000	-	2,400,000	2,400,000
<b>Total other financing sources</b>	<u>6,300,000</u>	<u>2,500,000</u>	<u>3,400,000</u>	<u>5,900,000</u>
<b>Revenues and other financing sources over expenditures</b>	<u>\$ -</u>	<u>\$ (1,829,106)</u>	2,229,808	<u>\$ 400,702</u>
<b>Reconciling items:</b>				
Capital outlay			1,170,192	
Transfer of assets to the Water and Wastewater fund			(2,376,264)	
Change in net assets			<u>\$ 1,023,736</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, 2003**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>				
Interest earned on investments	\$ 56,127	\$ 41,127	\$ 14,933	\$ 56,060
<b>Total revenues</b>	<u>56,127</u>	<u>41,127</u>	<u>14,933</u>	<u>56,060</u>
Revenues under expenditures	<u>56,127</u>	<u>41,127</u>	<u>14,933</u>	<u>56,060</u>
<b>Other financing sources</b>				
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)	(2,500,000)	(1,000,000)	(3,500,000)
Appropriated net assets	(556,127)	-	-	-
<b>Total other financing sources</b>	<u>(56,127)</u>	<u>1,500,000</u>	<u>(1,000,000)</u>	<u>500,000</u>
<b>Revenues and other financing sources over expenditures</b>	<u>\$ -</u>	<u>\$ 1,541,127</u>	<u>(985,067)</u>	<u>\$ 556,060</u>
<b>Reconciling items:</b>				
Total reconciling items			-	
Change in net assets			<u>\$ (985,067)</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, 2003**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>	\$ -	\$ -	\$ -	\$ -
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenditures</b>				
Construction	-	-	502,470	502,470
Engineering	-	-	1,031,607	1,031,607
Rights of way	-	-	146,452	146,452
Less City of Fayetteville participation	-	-	(566,050)	(566,050)
Other	-	-	250,364	250,364
<b>Total expenditures</b>	<u>17,500,000</u>	<u>-</u>	<u>1,364,843</u>	<u>1,364,843</u>
<b>Revenues under expenditures</b>	<u>(17,500,000)</u>	<u>-</u>	<u>(1,364,843)</u>	<u>(1,364,843)</u>
<b>Other financing sources</b>				
Bond proceeds	17,500,000	-	-	-
<b>Total other financing sources</b>	<u>17,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Revenues and other financing sources     over expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,364,843)</u>	<u>\$ (1,364,843)</u>
<b>Reconciling items:</b>				
Capital outlay			1,364,843	
Transfer of assets to the Water and Wastewater fund			(582,217)	
Change in net assets			<u>\$ (582,217)</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, 2003**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Expenditures</b>				
Construction	\$ -	\$ -	\$ 41,470	\$ 41,470
Engineering	-	-	739,460	739,460
Financing costs	-	-	-	-
Other	-	-	1,906	1,906
<b>Total expenditures</b>	<u>17,442,000</u>	<u>-</u>	<u>782,836</u>	<u>782,836</u>
<b>Revenues under expenditures</b>	<u>(17,442,000)</u>	<u>-</u>	<u>(782,836)</u>	<u>(782,836)</u>
<b>Other financing sources (uses)</b>				
State revolving loan proceeds	17,442,000	-	-	-
<b>Total other financing sources</b>	<u>17,442,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Revenues and other financing sources over expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(782,836)</u>	<u>\$ (782,836)</u>
<b>Reconciling items:</b>				
Capital outlay			782,836	
Loan proceeds			-	
Change in net assets			<u>\$ -</u>	

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

**NONMAJOR ENTERPRISE FUNDS**



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Balance Sheet  
Nonmajor Enterprise Funds  
June 30, 2003**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>Assets</b>			
Current assets			
Cash and investments	\$ 734,209	\$ 1,967,832	\$ 2,702,041
Accounts receivable	139,716	762,510	902,226
Inventories	6,811	1,740	8,551
Total current assets	<u>880,736</u>	<u>2,732,082</u>	<u>3,612,818</u>
Noncurrent assets			
Other assets	-	132,000	132,000
Capital assets	4,683,654	20,525,622	25,209,276
Total noncurrent assets	<u>4,683,654</u>	<u>20,657,622</u>	<u>25,341,276</u>
<b>Total assets</b>	<u><b>\$ 5,564,390</b></u>	<u><b>\$ 23,389,704</b></u>	<u><b>\$ 28,954,094</b></u>
<b>Liabilities and net assets</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 127,824	\$ 450,216	\$ 578,040
Interfund payables	-	423,798	423,798
Accrued vacation	104,579	63,998	168,577
Total current liabilities	<u>232,403</u>	<u>938,012</u>	<u>1,170,415</u>
Noncurrent liabilities			
Deferred revenues	64	55,996	56,060
Total noncurrent liabilities	<u>64</u>	<u>55,996</u>	<u>56,060</u>
Total liabilities	<u>232,467</u>	<u>994,008</u>	<u>1,226,475</u>
Net assets			
Invested in capital assets, net of related debt	4,683,654	20,525,622	25,209,276
Unrestricted	648,269	1,870,074	2,518,343
Total net assets	<u>5,331,923</u>	<u>22,395,696</u>	<u>27,727,619</u>
<b>Total liabilities and net assets</b>	<u><b>\$ 5,564,390</b></u>	<u><b>\$ 23,389,704</b></u>	<u><b>\$ 28,954,094</b></u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Nonmajor Enterprise Funds  
Year Ended June 30, 2003**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>Operating revenues</b>			
Charges for services	\$ 1,084,170	\$ 2,272,110	\$ 3,356,280
Other revenue from operations	44,536	81,169	125,705
Total operating revenues	<u>1,128,706</u>	<u>2,353,279</u>	<u>3,481,985</u>
<b>Operating expenses</b>			
Personnel	2,599,728	929,695	3,529,423
Maintenance and operations	1,460,746	859,242	2,319,988
Depreciation	842,009	1,470,562	2,312,571
Total operating expenses	<u>4,902,483</u>	<u>3,259,499</u>	<u>8,161,982</u>
<b>Operating income (loss)</b>	<u>(3,773,777)</u>	<u>(906,220)</u>	<u>(4,679,997)</u>
<b>Nonoperating revenue (expense)</b>			
Interest earned on investments	-	41,586	41,586
Federal and State grants	1,553,753	106,249	1,660,002
Passenger facility charges	-	322,372	322,372
Miscellaneous revenue	-	84,297	84,297
Interest expense	-	(26,196)	(26,196)
Amortization	-	(22,000)	(22,000)
Miscellaneous expense	-	(263,085)	(263,085)
Total nonoperating revenue (expense)	<u>1,553,753</u>	<u>243,223</u>	<u>1,796,976</u>
<b>Income (loss) before transfers and contributions</b>	<u>(2,220,024)</u>	<u>(662,997)</u>	<u>(2,883,021)</u>
Transfers in	1,355,726	-	1,355,726
Capital contributions	64,103	1,668,917	1,733,020
<b>Change in net assets</b>	<u>(800,195)</u>	<u>1,005,920</u>	<u>205,725</u>
<b>Total net assets - beginning</b>	<u>6,132,118</u>	<u>21,389,776</u>	<u>27,521,894</u>
<b>Total net assets - ending</b>	<u>\$ 5,331,923</u>	<u>\$ 22,395,696</u>	<u>\$ 27,727,619</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Statement of Cash Flows**

**Nonmajor Enterprise Funds**

**Year Ended June 30, 2003**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>Operating activities</b>			
Cash received from customers	\$ 1,378,956	\$ 2,278,594	\$ 3,657,550
Other operating revenue	44,536	137,165	181,701
Cash paid to or on behalf of employees for services	(2,613,221)	(932,047)	(3,545,268)
Cash paid for goods and services	(1,459,693)	(623,931)	(2,083,624)
<b>Net cash provided by (used in) operating activities</b>	<u>(2,649,422)</u>	<u>859,781</u>	<u>(1,789,641)</u>
<b>Noncapital financing activities</b>			
Transfers in	1,355,726	-	1,355,726
Federal and state grants	1,553,753	106,249	1,660,002
Nonoperating revenues	-	406,669	406,669
Other	-	(263,085)	(263,085)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>2,909,479</u>	<u>249,833</u>	<u>3,159,312</u>
<b>Capital and related financing activities</b>			
Proceeds from debt issuance	-	40,213	40,213
Contributed capital received	64,103	-	64,103
Capital contributions - State grant	-	78,138	78,138
Capital contributions - Federal grant	-	1,466,745	1,466,745
Acquisition and construction of capital assets	(46,804)	(1,493,623)	(1,540,427)
Principal paid on debt maturities	-	(63,644)	(63,644)
Interest paid on debt maturities	-	(26,196)	(26,196)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>17,299</u>	<u>1,633</u>	<u>18,932</u>
<b>Investing activities</b>			
Interest and dividends	-	41,586	41,586
<b>Net cash provided (used) by investing activities</b>	<u>-</u>	<u>41,586</u>	<u>41,586</u>
<b>Net increase in cash and cash equivalents/investments</b>	<u>277,356</u>	<u>1,152,833</u>	<u>1,430,189</u>
<b>Cash and cash equivalents/investments</b>			
Beginning of year	456,853	814,999	1,271,852
End of year	<u>\$ 734,209</u>	<u>\$ 1,967,832</u>	<u>\$ 2,702,041</u>
Cash and cash equivalents	\$ 734,209	\$ 1,967,832	\$ 2,702,041
<b>Total cash and cash equivalents/investments</b>	<u>\$ 734,209</u>	<u>\$ 1,967,832</u>	<u>\$ 2,702,041</u>
Unrestricted cash and equivalents/investments	\$ 734,209	\$ 1,967,832	\$ 2,702,041
<b>Total cash and cash equivalents/investments</b>	<u>\$ 734,209</u>	<u>\$ 1,967,832</u>	<u>\$ 2,702,041</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
Year Ended June 30, 2003**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ (3,773,777)	\$ (906,220)	\$ (4,679,997)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	842,009	1,470,562	2,312,571
Change in assets and liabilities			
(Increase) decrease in accounts receivable	295,968	6,484	302,452
(Increase) decrease in inventory	(1,182)	(301)	(1,483)
Increase (decrease) in accounts payable and accrued liabilities	1,053	235,612	236,665
Increase (decrease) in accrued compensated absences	(13,493)	(2,352)	(15,845)
Increase (decrease) in deferred revenues	-	55,996	55,996
Total adjustments	<u>1,124,355</u>	<u>1,766,001</u>	<u>2,890,356</u>
<b>Net cash provided by (used in) operating activities</b>	<u>\$ (2,649,422)</u>	<u>\$ 859,781</u>	<u>\$ (1,789,641)</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Year Ended June 30, 2003**

**(With Comparative Actual Amounts For Year Ended June 30, 2002)**

	Budget	Variance Positive (Negative)	2003 Actual	2002 Actual
<b>Operating revenues</b>				
Charges for services	\$ 955,577	\$ 128,593	\$ 1,084,170	\$ 984,460
Other revenues from operations	94,000	(49,464)	44,536	73,838
<b>Total operating revenues</b>	<u>1,049,577</u>	<u>79,129</u>	<u>1,128,706</u>	<u>1,058,298</u>
<b>Operating expenditures</b>				
Personnel	2,613,243	22	2,613,221	2,473,289
Maintenance and operations	1,322,650	(2,643)	1,325,293	1,287,546
Capital outlay	-	(4,087)	4,087	53,880
<b>Total operating expenditures</b>	<u>3,935,893</u>	<u>(6,708)</u>	<u>3,942,601</u>	<u>3,814,715</u>
<b>Operating loss</b>	<u>(2,886,316)</u>	<u>72,421</u>	<u>(2,813,895)</u>	<u>(2,756,417)</u>
<b>Nonoperating revenues</b>				
Proceeds from sale of assets	-	-	-	724
Federal and State grants	1,312,377	144,063	1,456,440	1,408,205
<b>Total nonoperating revenues</b>	<u>1,312,377</u>	<u>144,063</u>	<u>1,456,440</u>	<u>1,408,929</u>
<b>Revenues under expenditures</b>	<u>(1,573,939)</u>	<u>216,484</u>	<u>(1,357,455)</u>	<u>(1,347,488)</u>
<b>Other financing sources (uses)</b>				
Transfers in	1,573,939	(233,538)	1,340,401	1,325,858
<b>Total other financing sources (uses)</b>	<u>1,573,939</u>	<u>(233,538)</u>	<u>1,340,401</u>	<u>1,325,858</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ (17,054)</u>	<u>\$ (17,054)</u>	<u>\$ (21,630)</u>
<b>Reconciliation of change in net assets:</b>				
Total revenues			\$ 3,925,547	\$ 3,793,085
Total expenditures			3,942,601	3,814,715
<b>Subtotal</b>			<u>(17,054)</u>	<u>(21,630)</u>
Depreciation			(842,009)	(845,819)
Capital contributions			4,087	49,716
Change in inventory			-	379
Capital outlay			4,087	53,880
Non-capitalizable items			-	(469)
Loss on disposal of assets			-	(432,100)
Proceeds from sale of assets			-	(724)
Decrease (increase) in accrued vacation			13,493	(28,086)
<b>Subtotal</b>			<u>(820,342)</u>	<u>(1,203,223)</u>
<b>Change in net assets</b>			<u>\$ (837,396)</u>	<u>\$ (1,224,853)</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, 2003**

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>					
Federal grants	\$ 2,974,575	\$ 1,246,373	\$ -	\$ 56,036	\$ 1,302,409
State grants	319,272	266,530	123,606	3,980	146,904
County	-	10,980	-	-	10,980
Miscellaneous	-	19,251	-	-	19,251
<b>Total revenues</b>	<u>3,293,847</u>	<u>1,543,134</u>	<u>123,606</u>	<u>60,016</u>	<u>1,479,544</u>
<b>Expenditures</b>					
FTA Capital 0313	1,239,430	-	-	-	-
FTA Capital 0229	350,000	342,057	-	7,943	350,000
FTA Capital 0244	813,625	762,435	-	11,070	773,505
FTA Capital 0271	1,238,560	453,474	-	51,033	504,507
FTA Capital 0292	35,000	-	-	-	-
AVL Grant	-	137,340	137,340	-	-
<b>Total expenditures</b>	<u>3,676,615</u>	<u>1,695,306</u>	<u>137,340</u>	<u>70,046</u>	<u>1,628,012</u>
<b>Revenues over (under) expenditures</b>	<u>(382,768)</u>	<u>(152,172)</u>	<u>(13,734)</u>	<u>(10,030)</u>	<u>(148,468)</u>
<b>Other financing sources (uses)</b>					
Transfers in	342,768	407,603	13,734	-	393,869
Appropriated fund balance	40,000	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>382,768</u>	<u>407,603</u>	<u>13,734</u>	<u>-</u>	<u>393,869</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 255,431</u>	<u>\$ -</u>	<u>\$ (10,030)</u>	<u>\$ 245,401</u>
<b>Reconciliation of modified accrual basis to full accrual basis:</b>					
Excess of revenues over expenditures				\$ (10,030)	
Capital outlay				70,046	
Non-capitalizable items				<u>(27,330)</u>	
Change in net assets				<u>\$ 32,686</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

From Inception And For Year Ended June 30, 2003

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues</b>					
<b>Intergovernmental</b>					
Federal grants	\$ 322,600	\$ 329,772	\$ 200,000	\$ 86,501	\$ 216,273
State grants	40,325	41,222	25,000	10,813	27,035
<b>Total intergovernmental</b>	<u>362,925</u>	<u>370,994</u>	<u>225,000</u>	<u>97,314</u>	<u>243,308</u>
<b>Total revenues</b>	<u>362,925</u>	<u>370,994</u>	<u>225,000</u>	<u>97,314</u>	<u>243,308</u>
<b>Expenditures</b>					
<b>Current</b>					
Transportation	403,250	412,216	250,000	108,124	270,340
<b>Total expenditures</b>	<u>403,250</u>	<u>412,216</u>	<u>250,000</u>	<u>108,124</u>	<u>270,340</u>
<b>Revenues over (under) expenditures</b>	<u>(40,325)</u>	<u>(41,222)</u>	<u>(25,000)</u>	<u>(10,810)</u>	<u>(27,032)</u>
<b>Other financing sources (uses)</b>					
Transfers in	40,325	50,000	25,000	15,325	40,325
<b>Total other financing sources (uses)</b>	<u>40,325</u>	<u>50,000</u>	<u>25,000</u>	<u>15,325</u>	<u>40,325</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 8,778</u>	<u>\$ -</u>	<u>\$ 4,515</u>	<u>\$ 13,293</u>
<b>Reconciliation of modified accrual basis to full accrual basis:</b>					
Excess of revenues over expenditures				\$ 4,515	
Change in net assets				<u>\$ 4,515</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures by Project  
 Transit II Capital Project Fund

From Inception And For Year Ended June 30, 2003

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
<b>Expenditures by project:</b>					
<b>Transportation</b>					
FTA 90.2229	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ 100,000
FTA 90.2244	-	100,000	100,000	-	-
FTA 90.2271	-	150,000	150,000	-	-
FTA 90.2292	150,000	62,216	-	86,591	148,807
FTA 90.2313	153,250	-	-	21,533	21,533
<b>Total transportation</b>	<u>403,250</u>	<u>412,216</u>	<u>250,000</u>	<u>108,124</u>	<u>270,340</u>
<b>Total expenditures by project</b>	<u>\$ 403,250</u>	<u>\$ 412,216</u>	<u>\$ 250,000</u>	<u>\$ 108,124</u>	<u>\$ 270,340</u>



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Year Ended June 30, 2003  
(With Comparative Actual Amounts For Year Ended June 30, 2002)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Operating revenues</b>				
Charges for services	\$ 2,217,052	\$ 55,058	\$ 2,272,110	\$ 1,915,981
Other revenues from operations	48,339	32,830	81,169	61,934
<b>Total operating revenues</b>	<u>2,265,391</u>	<u>87,888</u>	<u>2,353,279</u>	<u>1,977,915</u>
<b>Operating expenditures</b>				
Personnel	1,056,513	124,466	932,047	1,057,355
Maintenance and operations	1,020,628	161,085	859,543	711,095
Capital outlay	38,629	(17,351)	55,980	4,200
<b>Total operating expenditures</b>	<u>2,115,770</u>	<u>268,200</u>	<u>1,847,570</u>	<u>1,772,650</u>
<b>Operating income (loss)</b>	<u>149,621</u>	<u>356,088</u>	<u>505,709</u>	<u>205,265</u>
<b>Nonoperating revenues</b>				
Interest earned on investments	32,000	(6,146)	25,854	26,254
Passenger facility charge	-	234,951	234,951	56,737
Miscellaneous	83,504	793	84,297	84,297
Federal and State grants	-	106,249	106,249	-
<b>Total nonoperating revenues</b>	<u>115,504</u>	<u>335,847</u>	<u>451,351</u>	<u>167,288</u>
<b>Nonoperating expenditures</b>				
Interest expense	-	(26,196)	26,196	27,558
Miscellaneous	263,086	1	263,085	84,297
<b>Total nonoperating expenditures</b>	<u>263,086</u>	<u>(26,195)</u>	<u>289,281</u>	<u>111,855</u>
<b>Revenues over (under) expenditures</b>	<u>2,039</u>	<u>665,740</u>	<u>667,779</u>	<u>260,698</u>
<b>Other financing sources (uses)</b>				
Transfers (out)	(290,985)	43,314	(247,671)	-
Appropriated fund balance	288,946	(288,946)	-	-
<b>Total other financing sources (uses)</b>	<u>(2,039)</u>	<u>(245,632)</u>	<u>(247,671)</u>	<u>-</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 420,108</u>	<u>\$ 420,108</u>	<u>\$ 260,698</u>
<b>Reconciliation of change in net assets</b>				
Total revenues			\$ 2,804,630	\$ 2,145,203
Total expenditures			<u>2,384,522</u>	<u>1,884,505</u>
<b>Subtotal</b>			420,108	260,698
Depreciation			(1,470,562)	(1,504,290)
Amortization			(22,000)	(22,000)
Change in accrued vacation			2,352	(3,840)
Change in inventory			301	331
Capital outlay			55,980	4,200
Gain (loss) on disposal of assets			-	(25,804)
Change in fair market value of investment			3,666	(4,451)
<b>Subtotal</b>			<u>(1,430,263)</u>	<u>(1,555,854)</u>
<b>Change in net assets</b>			<u>\$ (1,010,155)</u>	<u>\$ (1,295,156)</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, 2003

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
<b>Revenues</b>					
Federal grants	\$ 8,314,907	\$ 6,013,574	\$ -	\$ 1,584,251	\$ 7,597,825
State grants	459,713	329,488	-	84,666	414,154
Miscellaneous income	308,929	310,140	-	87,421	397,561
Investment income	-	11,770	-	12,066	23,836
<b>Total revenues</b>	<b>9,083,549</b>	<b>6,664,972</b>	<b>-</b>	<b>1,768,404</b>	<b>8,433,376</b>
<b>Expenditures</b>					
T-hangars	-	505,442	505,442	-	-
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	87,364	-	4,147	91,511
Ramp and safety area design/ARFF proximity suits	240,872	238,062	-	-	238,062
NLVR/terminal rehab	2,366,931	299,504	-	1,433,496	1,733,000
Additional projects	300,000	-	-	-	-
Apron & safety area improvements	6,010,000	5,872,526	-	-	5,872,526
<b>Total expenditures</b>	<b>9,584,577</b>	<b>7,559,566</b>	<b>505,442</b>	<b>1,437,643</b>	<b>8,491,767</b>
<b>Revenues over (under) expenditures</b>	<b>(501,028)</b>	<b>(894,594)</b>	<b>(505,442)</b>	<b>330,761</b>	<b>(58,391)</b>
<b>Other financing sources (uses)</b>					
Transfers in	501,028	283,733	18,000	247,671	513,404
Loan from general fund	-	447,229	487,442	40,213	-
<b>Total other financing sources (uses)</b>	<b>501,028</b>	<b>730,962</b>	<b>505,442</b>	<b>287,884</b>	<b>513,404</b>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<b>\$ -</b>	<b>\$ (163,632)</b>	<b>\$ -</b>	<b>\$ 618,645</b>	<b>\$ 455,013</b>
<b>Reconciliation of modified accrual basis to full accrual basis:</b>					
Excess of revenues over expenditures				\$ 618,645	
Loan from general fund				(40,213)	
Capital outlay				1,437,643	
<b>Change in net assets</b>				<b>\$ 2,016,075</b>	

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

## **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, 2003**

	<u>Warranty Fleet Fund</u>	<u>Fleet Maintenance Fund</u>	<u>Insurance Fund</u>	<u>Total</u>
<b>Assets</b>				
Current assets				
Cash and investments	\$ 1,307,158	\$ 330,210	\$ 5,877,142	\$ 7,514,510
Accounts receivable	3,467	-	14,441	17,908
Inventories	-	309,404	-	309,404
Prepaid expenses	-	-	138,400	138,400
Total current assets	<u>1,310,625</u>	<u>639,614</u>	<u>6,029,983</u>	<u>7,980,222</u>
Noncurrent assets				
Capital assets	<u>9,337</u>	<u>220,784</u>	<u>1,361</u>	<u>231,482</u>
Total noncurrent assets	<u>9,337</u>	<u>220,784</u>	<u>1,361</u>	<u>231,482</u>
<b>Total assets</b>	<u><b>\$ 1,319,962</b></u>	<u><b>\$ 860,398</b></u>	<u><b>\$ 6,031,344</b></u>	<u><b>\$ 8,211,704</b></u>
<b>Liabilities and net assets</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 1,611	\$ 139,210	\$ 3,768,125	\$ 3,908,946
Accrued vacation	-	61,162	20,579	81,741
Total current liabilities	<u>1,611</u>	<u>200,372</u>	<u>3,788,704</u>	<u>3,990,687</u>
Noncurrent liabilities				
Deferred revenues	-	-	289	289
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>289</u>	<u>289</u>
Total liabilities	<u>1,611</u>	<u>200,372</u>	<u>3,788,993</u>	<u>3,990,976</u>
Net assets				
Invested in capital assets, net of related debt	9,337	220,784	1,361	231,482
Unrestricted	1,309,014	439,242	2,240,990	3,989,246
Total net assets	<u>1,318,351</u>	<u>660,026</u>	<u>2,242,351</u>	<u>4,220,728</u>
<b>Total liabilities and net assets</b>	<u><b>\$ 1,319,962</b></u>	<u><b>\$ 860,398</b></u>	<u><b>\$ 6,031,344</b></u>	<u><b>\$ 8,211,704</b></u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Internal Service Funds  
Year Ended June 30, 2003**

	<b>Warranty Fleet Fund</b>	<b>Fleet Maintenance Fund</b>	<b>Insurance Fund</b>	<b>Total</b>
<b>Operating revenues</b>				
Other revenue from operations	\$ -	\$ 550	\$ 132,805	\$ 133,355
Interfund charges and employee contributions	177,392	1,187,263	9,870,093	11,234,748
<b>Total operating revenues</b>	<u>177,392</u>	<u>1,187,813</u>	<u>10,002,898</u>	<u>11,368,103</u>
<b>Operating expenses</b>				
Personnel	-	1,028,222	383,675	1,411,897
Maintenance and operations	70,964	127,437	9,173,685	9,372,086
Depreciation	18,835	32,771	1,673	53,279
<b>Total operating expenses</b>	<u>89,799</u>	<u>1,188,430</u>	<u>9,559,033</u>	<u>10,837,262</u>
<b>Operating income (loss)</b>	<u>87,593</u>	<u>(617)</u>	<u>443,865</u>	<u>530,841</u>
<b>Nonoperating revenue (expense)</b>				
Interest earned on investments	34,189	-	148,448	182,637
<b>Total nonoperating revenue (expense)</b>	<u>34,189</u>	<u>-</u>	<u>148,448</u>	<u>182,637</u>
<b>Income (loss) before transfers and contributions</b>	<u>121,782</u>	<u>(617)</u>	<u>592,313</u>	<u>713,478</u>
Transfers in	-	-	329,592	329,592
<b>Change in net assets</b>	<u>121,782</u>	<u>(617)</u>	<u>921,905</u>	<u>1,043,070</u>
<b>Total net assets - beginning</b>	<u>1,196,569</u>	<u>660,643</u>	<u>1,320,446</u>	<u>3,177,658</u>
<b>Total net assets - ending</b>	<u>\$ 1,318,351</u>	<u>\$ 660,026</u>	<u>\$ 2,242,351</u>	<u>\$ 4,220,728</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Combining Statement of Cash Flows  
Internal Service Funds  
Year Ended June 30, 2003**

	<b>Warranty Fleet Fund</b>	<b>Fleet Maintenance Fund</b>	<b>Insurance Fund</b>	<b>Total</b>
<b>Operating activities</b>				
Cash received from customers	\$ 180,811	\$ 1,187,263	\$ 10,229,349	\$ 11,597,423
Other operating revenue	-	550	132,805	133,355
Cash received as deferred revenues	-	-	(2,970)	(2,970)
Cash paid to or on behalf of employees for services	-	(1,027,605)	(380,138)	(1,407,743)
Cash paid for goods and services	(69,904)	(96,376)	(9,420,554)	(9,586,834)
<b>Net cash provided by (used in) operating activities</b>	<b>110,907</b>	<b>63,832</b>	<b>558,492</b>	<b>733,231</b>
<b>Noncapital financing activities</b>				
Transfers in	-	-	329,592	329,592
<b>Net cash provided (used) by noncapital financing activities</b>	<b>-</b>	<b>-</b>	<b>329,592</b>	<b>329,592</b>
<b>Capital and related financing activities</b>				
Acquisition and construction of capital assets	-	(4,210)	-	(4,210)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>-</b>	<b>(4,210)</b>	<b>-</b>	<b>(4,210)</b>
<b>Investing activities</b>				
Interest and dividends	34,189	-	148,448	182,637
<b>Net cash provided (used) by investing activities</b>	<b>34,189</b>	<b>-</b>	<b>148,448</b>	<b>182,637</b>
<b>Net increase in cash and cash equivalents/investments</b>	<b>145,096</b>	<b>59,622</b>	<b>1,036,532</b>	<b>1,241,250</b>
<b>Cash and cash equivalents/investments</b>				
<b>Beginning of year</b>	<b>1,162,062</b>	<b>270,588</b>	<b>4,840,610</b>	<b>6,273,260</b>
<b>End of year</b>	<b>\$ 1,307,158</b>	<b>\$ 330,210</b>	<b>\$ 5,877,142</b>	<b>\$ 7,514,510</b>
Cash and cash equivalents	\$ 1,307,158	\$ 330,210	\$ 5,877,142	\$ 7,514,510
<b>Total cash and cash equivalents/investments</b>	<b>\$ 1,307,158</b>	<b>\$ 330,210</b>	<b>\$ 5,877,142</b>	<b>\$ 7,514,510</b>
Unrestricted cash and equivalents/investments	\$ 1,307,158	\$ 330,210	\$ 5,877,142	\$ 7,514,510
<b>Total cash and cash equivalents/investments</b>	<b>\$ 1,307,158</b>	<b>\$ 330,210</b>	<b>\$ 5,877,142</b>	<b>\$ 7,514,510</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 87,593	\$ (617)	\$ 443,865	\$ 530,841
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	18,835	32,771	1,673	53,279
Change in assets and liabilities				
(Increase) decrease in accounts receivable	3,419	7,176	359,256	369,851
(Increase) decrease in prepaid items	-	-	(87,584)	(87,584)
Increase (decrease) in accounts payable and accrued liabilities	1,060	23,885	(159,285)	(134,340)
Increase (decrease) in accrued compensated absence	-	617	3,537	4,154
Increase (decrease) in deferred revenues	-	-	(2,970)	(2,970)
<b>Total adjustments</b>	<b>23,314</b>	<b>64,449</b>	<b>114,627</b>	<b>202,390</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 110,907</b>	<b>\$ 63,832</b>	<b>\$ 558,492</b>	<b>\$ 733,231</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

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

**Year Ended June 30, 2003  
(With Comparative Actual Amounts For Year Ended June 30, 2002)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2003 Actual</u>	<u>2002 Actual</u>
<b>Operating revenues</b>				
Interfund charges and employee contributions	\$ 187,295	\$ (9,903)	\$ 177,392	\$ 187,961
<b>Total operating revenues</b>	<u>187,295</u>	<u>(9,903)</u>	<u>177,392</u>	<u>187,961</u>
<b>Operating expenditures</b>				
Maintenance and operations	217,295	146,331	70,964	72,961
Capital outlay	-	-	-	5,978
<b>Total operating expenditures</b>	<u>217,295</u>	<u>146,331</u>	<u>70,964</u>	<u>78,939</u>
<b>Operating income (loss)</b>	<u>(30,000)</u>	<u>136,428</u>	<u>106,428</u>	<u>109,022</u>
<b>Nonoperating revenues</b>				
Interest earned on investments	30,000	(8)	29,992	40,660
<b>Total nonoperating revenues</b>	<u>30,000</u>	<u>(8)</u>	<u>29,992</u>	<u>40,660</u>
<b>Revenues over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 136,420</u>	<u>\$ 136,420</u>	<u>\$ 149,682</u>
<b>Reconciliation to net income (loss):</b>				
Total revenues			\$ 207,384	\$ 228,621
Total expenditures			70,964	78,939
<b>Subtotal</b>			<u>136,420</u>	<u>149,682</u>
Depreciation			(18,835)	(54,131)
Capital outlay			-	5,978
Change in fair market value of investments			4,197	(3,418)
Gain (loss) on disposal of assets			-	(5,250)
<b>Subtotal</b>			<u>(14,638)</u>	<u>(56,821)</u>
<b>Change in net assets</b>			<u>\$ 121,782</u>	<u>\$ 92,861</u>



CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003  
(With Comparative Actual Amounts For Year Ended June 30, 2002)

	Budget	Variance Positive (Negative)	2003 Actual	2002 Actual
<b>Operating revenues</b>				
Interfund charges and employee contributions	\$ 1,606,438	\$ (419,175)	\$ 1,187,263	\$ 1,362,871
Other revenues from operations	-	550	550	885
<b>Total operating revenues</b>	<u>1,606,438</u>	<u>(418,625)</u>	<u>1,187,813</u>	<u>1,363,756</u>
<b>Operating expenditures</b>				
Personnel	1,435,802	408,197	1,027,605	1,180,312
Maintenance and operations	160,713	33,276	127,437	119,823
Capital outlay	9,923	5,713	4,210	6,045
<b>Total operating expenditures</b>	<u>1,606,438</u>	<u>447,186</u>	<u>1,159,252</u>	<u>1,306,180</u>
<b>Operating income (loss)</b>	<u>-</u>	<u>28,561</u>	<u>28,561</u>	<u>57,576</u>
<b>Nonoperating expenditures</b>				
Interest expense	-	-	-	33
<b>Revenues over (under) expenditures</b>	<u>-</u>	<u>28,561</u>	<u>28,561</u>	<u>57,543</u>
<b>Other financing sources (uses)</b>				
Principal payments	-	-	-	(2,659)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,659)</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 28,561</u>	<u>\$ 28,561</u>	<u>\$ 54,884</u>
<b>Reconciliation to net income (loss):</b>				
Total revenues			\$ 1,187,813	\$ 1,363,756
Total expenditures			1,159,252	1,308,872
<b>Subtotal</b>			<u>28,561</u>	<u>54,884</u>
Depreciation			(32,771)	(50,520)
Principal payments			-	2,659
Decrease (increase) in accrued vacation			(617)	12,014
Capital outlay			4,210	6,045
Gain (loss) on disposal of assets			-	(25,082)
<b>Subtotal</b>			<u>(29,178)</u>	<u>(54,884)</u>
<b>Change in net assets</b>			<u>\$ (617)</u>	<u>\$ -</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2003

(With Comparative Actual Amounts For Year Ended June 30, 2002)

	Budget	Variance Positive (Negative)	2003 Actual	2002 Actual
<b>Operating revenues</b>				
Interfund charges and employee contributions	\$ 10,263,760	\$ (393,667)	\$ 9,870,093	\$ 9,241,408
Other revenues from operations	37,000	95,805	132,805	414,939
<b>Total operating revenues</b>	<u>10,300,760</u>	<u>(297,862)</u>	<u>10,002,898</u>	<u>9,656,347</u>
<b>Operating expenditures</b>				
Personnel	377,483	(2,655)	380,138	338,170
Maintenance and operations	10,188,545	741,558	9,446,987	8,557,495
<b>Total operating expenditures</b>	<u>10,566,028</u>	<u>738,903</u>	<u>9,827,125</u>	<u>8,895,665</u>
<b>Operating income (loss)</b>	<u>(265,268)</u>	<u>441,041</u>	<u>175,773</u>	<u>760,682</u>
<b>Nonoperating revenues</b>				
Interest earned on investments	127,000	2,930	129,930	128,906
<b>Total nonoperating revenue</b>	<u>127,000</u>	<u>2,930</u>	<u>129,930</u>	<u>128,906</u>
<b>Revenues over (under) expenditures</b>	<u>(138,268)</u>	<u>443,971</u>	<u>305,703</u>	<u>889,588</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	329,592	329,592	6,705
Appropriated fund balance	138,268	(138,268)	-	-
<b>Total other financing sources (uses)</b>	<u>138,268</u>	<u>191,324</u>	<u>329,592</u>	<u>6,705</u>
<b>Revenues and other financing sources (uses) over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 635,295</u>	<u>\$ 635,295</u>	<u>\$ 896,293</u>
<b>Reconciliation to net income (loss):</b>				
Total revenues			\$ 10,462,420	\$ 9,791,958
Total expenditures			9,827,125	8,895,665
<b>Subtotal</b>			<u>635,295</u>	<u>896,293</u>
Depreciation			(1,673)	(1,883)
Decrease (increase) in accrued vacation			(3,537)	2,497
Change in fair market value of investments			18,518	(15,989)
Increase in insurance liability			273,302	(420,192)
Gain (loss) on disposal of assets			-	(5,834)
<b>Subtotal</b>			<u>286,610</u>	<u>(441,401)</u>
<b>Change in net assets</b>			<u>\$ 921,905</u>	<u>\$ 454,892</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 Fund
  - \*\* PWC Pension Fund
  - \*\* Supplemental PWC Pension Fund
- \* Private-purpose Trust Funds
  - \*\* Police Benefit Fund
  - \*\* Firemen's Relief Fund

City of Fayetteville, North Carolina

Combining Statement of Fiduciary Net Assets  
Pension Trust Funds  
June 30, 2003

	Special Separation Allowance Pension Trust Fund	PWC Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
<b>Assets</b>				
Cash and investments	\$ 1,584,896	\$ -	\$ 3,991,154	\$ 5,576,050
Accounts receivable	4,231	-	-	4,231
Total assets	<u>1,589,127</u>	<u>-</u>	<u>3,991,154</u>	<u>5,580,281</u>
<b>Liabilities</b>				
Accounts payable	8,865	-	-	8,865
Total liabilities	<u>8,865</u>	<u>-</u>	<u>-</u>	<u>8,865</u>
<b>Net assets</b>				
Pension benefits	1,580,262	-	3,991,154	5,571,416
Total net assets	<u>\$ 1,580,262</u>	<u>\$ -</u>	<u>\$ 3,991,154</u>	<u>\$ 5,571,416</u>

City of Fayetteville, North Carolina

Combining Statement of Changes in Fiduciary Net Assets  
Pension Trust Funds  
Year Ended June 30, 2003

	Special Separation Allowance Pension Trust Fund	PWC Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
<b>Additions</b>				
Contributions	\$ 310,972	\$ 2,387,028	\$ -	\$ 2,698,000
Investment earnings	41,402	(2,798,297)	23,478	(2,733,417)
Total additions	<u>352,374</u>	<u>(411,269)</u>	<u>23,478</u>	<u>(35,417)</u>
<b>Deductions</b>				
Benefit payments and premiums	214,892	2,583,035	32,324	2,830,251
Transfers to Local Government Employee Retirement System Plan	-	49,671,773	-	49,671,773
Transfer in	-	-	(4,000,000)	(4,000,000)
Transfer out	-	4,000,000	-	4,000,000
Total deductions	<u>214,892</u>	<u>56,254,808</u>	<u>(3,967,676)</u>	<u>52,502,024</u>
<b>Change in net assets</b>	137,482	(56,666,077)	3,991,154	(52,537,441)
<b>Total net assets - beginning</b>	<u>1,442,780</u>	<u>56,666,077</u>	<u>-</u>	<u>58,108,857</u>
<b>Total net assets - ending</b>	<u>\$ 1,580,262</u>	<u>\$ -</u>	<u>\$ 3,991,154</u>	<u>\$ 5,571,416</u>

City of Fayetteville, North Carolina

Combining Statement of Fiduciary Net Assets  
Private-purpose Trust Funds  
June 30, 2003

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
<b>Assets</b>			
Cash and investments	\$ 3,586	\$ 1,328,309	\$ 1,331,895
Accounts receivable	14	75,310	75,324
Total assets	<u>3,600</u>	<u>1,403,619</u>	<u>1,407,219</u>
<b>Liabilities</b>			
Accounts payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net assets</b>			
Pension benefits	3,600	1,403,619	1,407,219
Total net assets	<u>\$ 3,600</u>	<u>\$ 1,403,619</u>	<u>\$ 1,407,219</u>

City of Fayetteville, North Carolina

Combining Statement of Changes in Fiduciary Net Assets  
Private-purpose Trust Funds  
Year Ended June 30, 2003

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
<b>Additions</b>			
Other revenue from operations	\$ -	\$ 20,292	\$ 20,292
Contributions	231	71,044	71,275
Investment earnings	131	42,297	42,428
Total additions	<u>362</u>	<u>133,633</u>	<u>133,995</u>
<b>Deductions</b>			
Benefit payments and premiums	1,614	51,087	52,701
Total deductions	<u>1,614</u>	<u>51,087</u>	<u>52,701</u>
<b>Change in net assets</b>	(1,252)	82,546	81,294
<b>Total net assets - beginning</b>	<u>4,852</u>	<u>1,321,073</u>	<u>1,325,925</u>
<b>Total net assets - ending</b>	<u>\$ 3,600</u>	<u>\$ 1,403,619</u>	<u>\$ 1,407,219</u>



**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

### **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, 2003**

	<u>Total Property Valuation</u>	<u>Rate Per \$100</u>	<u>Amount of Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<b>Original levy</b>					
General fund	\$ 6,487,958,343	\$ 0.530	\$ 34,386,179	\$ 30,087,834	\$ 4,298,345
Late listings:					
General fund		Per listing	29,840	29,840	-
Subtotal			34,416,019	30,117,674	4,298,345
<b>Discoveries</b>					
General fund	28,088,207	0.530	148,867	137,987	10,880
Late listings:					
General fund		Per listing	12,591	12,591	-
Subtotal			161,458	150,578	10,880
<b>Releases</b>					
General fund	(96,979,360)	0.530	(513,991)	(106,115)	(407,876)
Late listings:					
General fund		Per listing	(3,672)	(3,672)	-
Subtotal			<u>(517,663)</u>	<u>(109,787)</u>	<u>(407,876)</u>
<b>Adjusted tax levy</b>			34,059,814	30,158,465	3,901,349
<b>Uncollected taxes at June 30, 2003</b>			<u>(1,602,373)</u>	<u>(808,730)</u>	<u>(793,643)</u>
<b>City-wide current year's taxes collected</b>			<u>\$ 32,457,441</u>	<u>\$ 29,349,735</u>	<u>\$ 3,107,706</u>
<b>City-wide current levy collection percentage</b>			<u>95.30%</u>	<u>97.32%</u>	<u>79.66%</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Schedule of Taxes Receivable**

**Year Ended June 30, 2003**

<b>Fiscal year ended</b>	<b>Uncollected Balance June 30, 2002</b>	<b>Additions</b>	<b>Collections and Credits</b>	<b>Uncollected Balance June 30, 2003</b>
2003	\$ -	\$ 34,577,478	\$ 32,975,105	\$ 1,602,373
2002	1,473,289	1,743	938,720	536,312
2001	386,672	41	93,966	292,747
2000 and prior	1,339,005	64	121,103	1,217,966
	<u>3,198,966</u>	<u>\$ 34,579,326</u>	<u>\$ 34,128,894</u>	<u>3,649,398</u>
<b>Less allowance for uncollectible taxes</b>				
General fund	<u>(529,139)</u>			<u>(687,702)</u>
	<u>\$ 2,669,827</u>			<u>\$ 2,961,696</u>
General fund				\$ 3,299,863
Less: CBTD taxes receivable				(5,466)
Less: Vehicle license fee receivable				(332,701)
<b>Total taxes receivable</b>				<u>\$ 2,961,696</u>

**Reconciliations of collections and credit  
with revenues**

Ad valorem taxes:	
General fund	\$ 33,720,313
Releases - current year	517,662
Releases - prior years	93,721
Barred by State statute	71,142
Less penalties and interest	(208,235)
Less taxes - CBTD	<u>(65,709)</u>
<b>Total collections and credits</b>	<u>\$ 34,128,894</u>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

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

- Report on Compliance and on Internal Control Over Financial Reporting 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

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 basic financial statements of the City of Fayetteville, North Carolina, ("the City") as of and for the year ended June 30, 2003, and have issued our report thereon dated October 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. 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 17, 2003.

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

*Cherry, Bekaert & Holland, LLP*

Fayetteville, North Carolina  
October 17, 2003





**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, 2003. 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, 2003.

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

This report is intended 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.

*Cheray, Behant & Holland, HP*

Fayetteville, North Carolina  
October 17, 2003



**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, 2003. 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, 2003.

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

This report is intended 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.

*Cherrey, Bekant & Holland, HP*

Fayetteville, North Carolina  
October 17, 2003

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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

Federal Awards

Internal control over major federal programs:

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

Noncompliance material to federal awards  Yes  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  No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
16.592	Local Law Enforcement Block Grant
20.205	Highway Planning and Construction Grant
20.507	Federal Transit -- Formula Grants (Urbanized Area Formula Program)

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

Auditee qualified as low-risk auditee?  Yes  No

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs (continued)

For the Year Ended June 30, 2003

State Awards

Internal control over major State programs:

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

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

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

Identification of major State programs:

Program Name

Powell Bill  
State Maintenance Assistance for Urban and Small Urban Program  
Clean Water Revolving Loan (CFDA 66.458)

**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, 2003**

None reportable.

**CITY OF FAYETTEVILLE, NORTH CAROLINA**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2003**

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
<b>FEDERAL GRANTS:</b>					
<b><u>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>					
Community Development Block Grant Various Years' Entitlements	14.218	various	\$ 1,714,098	\$ -	\$ 1,714,098
HOME investment Partnership Program Various Years' Entitlements	14.239	various	718,591	-	718,591
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>					
Office of Justice Programs					
Bulletproof Vest Partnership Program	16.607	Year 2000 and 2001	5,976	-	5,976
Local Law Enforcement Block Grants Program					
Local Law Enforcement Block 2000	16.592	2000-LB-VX-1619	222,021	-	222,021
Local Law Enforcement Block 2002	16.592	2002-LB-BX-2504	133,554	-	133,554
			<u>355,575</u>	<u>-</u>	<u>355,575</u>
Passed through Governor's Crime Commission					
Mobile Data Computer Project	16.579	026-1-02-15B-D-888	89,258	-	89,258
Cyber Crimes Against Children	16.579	026-1-02-018-D-887	19,617	-	19,617
			<u>108,875</u>	<u>-</u>	<u>108,875</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>					
Special Programs for the Aging					
Passed Through NC Department of Health & Human Services					
Senior Citizens Service Center	93.044	N/A	9,982	-	9,982
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>					
<b><u>Federal Aviation Administration</u></b>					
<b><u>Airport Improvement Program</u></b>					
Airport Road, Security System, Jetbridge, & Runway	20.106	FAA-3-37-0021-21	3,732	-	3,732
Non-licensed Vehicle Road, Terminal Rehabilitation, Security System	20.106	FAA-3-37-0021-24	65,009	-	65,009
Rehabilitate Terminal Building, Phase II	20.106	FAA-3-37-0021-26	1,189,434	-	1,189,434
Security Enhancements	20.106	FAA-3-37-0021-27	39,673	-	39,673
			<u>1,297,848</u>	<u>-</u>	<u>1,297,848</u>
Passed through NC Dept of Transportation					
Governor's Highway Safety Program					
Strict and Fair Enforcement Program	20.600	QN-02-11-01-02	1,124	-	1,124
			<u>1,124</u>	<u>-</u>	<u>1,124</u>
Highway Planning and Construction					
Cape Fear River Trail	20.205		45,997	62,560	108,557
Enhancement Agreement - Depot	20.205	E-4118	153,911	-	153,911
			<u>199,908</u>	<u>62,560</u>	<u>262,468</u>
<b><u>Federal Transportation Administration</u></b>					
Operating assistance grant	20.507	NC 90.4313	840,000	-	840,000
Operating assistance grant	20.507	NC 90.4292	3,451	-	3,451
Capital assistance grants:					
Capital/Preventative Maintenance	20.507	NC 90.0229	6,354	-	6,354
Capital/Preventative Maintenance	20.507	NC 90.0244	8,856	-	8,856
Capital/Preventative Maintenance	20.507	NC 90.0271	40,826	-	40,826
Planning	20.507	NC 90.2292	69,273	-	69,273
Planning	20.507	NC 90.2313	17,227	-	17,227
			<u>985,987</u>	<u>-</u>	<u>985,987</u>



**CITY OF FAYETTEVILLE, NORTH CAROLINA**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2003**

<u>GRANTOR/PASS-THROUGH Grantor/Program Title</u>	<u>Federal CFDA number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Total Expenditures</u>
<b><u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u></b>					
Assistance to Firefighters	85.554	EMW-2002-FG-00847	\$ 73,518	\$ -	\$ 73,518
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY, REGION 4</u></b>					
Brownfields Pilots Cooperative Agreement Region 4 - Direct Program	66.811	V984206-97-0	25,795	-	25,795
Vulnerability Assessments and Related Security Improvements at Large Drinking Water Utilities	66.476	HS830131-01-0	64,500	-	64,500
<b><u>U.S. DEPARTMENT OF THE INTERIOR</u></b>					
<b><u>National Park Service</u></b>					
Passed through NC Department of Cultural Resources					
Municipal Archeological Survey of Land Along the Cape Fear River	15.904		6,000	-	6,000
<b><u>Fish and Wildlife Service</u></b>					
Fish and Wildlife Service Agreement	15.FFB	1448-40181-99-G-109	5,000	-	5,000
<b>STATE GRANTS:</b>					
<b><u>N.C. DEPARTMENT OF TRANSPORTATION</u></b>					
<b><u>Aviation Division</u></b>					
Nonlicensed Vehicle Road, Terminal Rehabilitation, Security System	N/A	9.9544020	-	3,612	3,612
Rehabilitate Terminal Building, Phase II	N/A	9.9544021	-	66,288	66,288
			-	69,900	69,900
<b><u>Public Transportation Division</u></b>					
State Maintenance Assistance for Urban and Small Urban Program	N/A	9.9051698	-	580,989	580,989
Capital/Planning	N/A	9.9051656	-	794	794
Capital	N/A	9.9051816	-	1,107	1,107
Capital	N/A	9.9051986	-	2,078	2,078
Planning	N/A	9.9052267	-	8,659	8,659
Festival of Flight	N/A	pending	-	32,000	32,000
Planning	N/A		-	2,153	2,153
			-	627,780	627,780
Powell Bill	N/A		-	3,768,436	3,768,436
Mazarick Bike Trail	N/A		-	145,055	145,055
<b><u>N.C. DEPARTMENT OF ENVIRONMENTAL AND NATURAL RESOURCES</u></b>					
<b><u>Division of Water Quality</u></b>					
Clean Water State Revolving Fund	66.458	E-SRF-T-99-0088	-	782,836	782,836
<b><u>N.C. DEPARTMENT OF HUMAN RESOURCES</u></b>					
Passed through Cumberland County Department of Social Services					
Juvenile Court Restitution	N/A	626015	-	89,027	89,027
			<b>\$ 5,572,777</b>	<b>\$ 5,545,594</b>	<b>\$ 11,118,371</b>

**CITY OF FAYETTEVILLE, NORTH CAROLINA**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2003**

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
---	---------------------------	---	---	-----------------------	-----------------------

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

1. 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.

2. The total local contributions for the State Powell Bill assistance amounted to \$68,629.

3. Of the federal and state expenditures presented in the schedule, the City of Fayetteville provided federal and state awards to subrecipients as follows

	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
Community Development Block Grant	14.218	\$ 93,604	\$ -

4. 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 \$1,340,401. The required and actual match for the Planning Grant was \$15,325.

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

(This page left intentionally blank)

**PASSENGER FACILITY CHARGE  
COMPLIANCE SECTION**

- Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Controls 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 ON INTERNAL CONTROLS 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, 2003. Compliance with the requirements of laws and regulations 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, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations 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.

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 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 and regulations 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.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of the City Council, and the Federal Aviation Administration, and is not intended to be and should not be used by anyone other than these specified parties.

*Cherry, Bebaert & Hollana, AP*

Fayetteville, North Carolina  
October 17, 2003

**CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Schedule of Findings and Questioned Costs**

**Passenger Facility Charge Program**

**For the Year Ended June 30, 2003**

**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 | <u>  X  </u> | No            |
| - Reportable conditions(s) identified that are not considered to be material weaknesses | _____ | Yes | <u>  X  </u> | None reported |
| Noncompliance material to financial statements noted                                    | _____ | Yes | <u>  X  </u> | No            |

Passenger Facility Charge Program

Internal control over passenger facility charge program:

- |   |       |     |              |               |
|---|-------|-----|--------------|---------------|
| - Material weakness(es) identified  | _____ | Yes | <u>  X  </u> | No            |
| - Reportable conditions(s) identified that are not considered to be material weaknesses | _____ | Yes | <u>  X  </u> | None reported |
| Noncompliance material to passenger facility charge program                             | _____ | Yes | <u>  X  </u> | No            |

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

Any audit findings disclosed \_\_\_\_\_ Yes   X   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, 2003**

None reported.



CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures of Passenger Facility Charges

Year Ended June 30, 2003

Project	Impose Effective Date	Use Effective Date	Cumulative Expenditures Actual	Approved Expenditures for PFCs	Amount of Use Approved	PFC Revenue Used in Prior Years	PFC Revenue Used in Current Year	Total PFC Revenues Used
<b>APPLICATION 1 ( # 00-01-C-00-FAY )</b>								
Local share reimbursement AIP-12, Construction of a Fire Training Facility and Rehabilitation of a 1500-Gallon ARFF Vehicle	11/01/00	11/01/00	\$ 3,830,753	\$ 3,830,753	\$ 191,538	\$ 191,538	\$ -	\$ 191,538
Local share reimbursement AIP-12, install Security Access Control System	11/01/00	11/01/00	757,595	757,596	37,880	37,880	-	37,880
Local share reimbursement AIP-13, Update Airport Master Plan	11/01/00	11/01/00	135,020	67,510	6,751	6,751	-	6,751
Local share reimbursement AIP-13, Design Highway 301 Connector	11/01/00	11/01/00	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	11/01/00	11/01/00	198,191	198,192	9,910	9,910	-	9,910
Local share reimbursement AIP-14, Land Acquisition	11/01/00	11/01/00	134,612	134,462	6,731	-	6,731	6,731
Local share reimbursement AIP-14, Improve Terminal Building	11/01/00	11/01/00	31,224	31,224	1,474	-	1,474	1,474
Local share reimbursement AIP-15, Design New General Aviation Area	11/01/00	11/01/00	206,286	206,286	11,460	-	11,460	11,460
Local share reimbursement AIP-15, Foreign Object Damage Sweeper	11/01/00	11/01/00	15,632	15,632	782	-	782	782
Local share reimbursement AIP-15, Design Taxiway "K"	11/01/00	11/01/00	16,841	16,841	842	-	842	842
Local share reimbursement AIP-15, Rehabilitate General Aviation Apron	11/01/00	11/01/00	29,875	29,875	1,494	-	1,494	1,494
Local share reimbursement AIP-15, Land for Development	11/01/00	11/01/00	49,001	48,476	2,424	-	2,424	2,424
Local share reimbursement AIP-16, Installation of Terminal Loading Bridges	11/01/00	11/01/00	179,808	179,808	8,990	-	8,990	8,990
Local share reimbursement AIP-17, New General Aviation Area Construction	11/01/00	11/01/00	2,362,380	2,342,376	114,860	21,329	93,531	114,860
Local share reimbursement AIP-18, Acquire Handicap Lift Device	11/01/00	11/01/00	35,680	35,680	1,784	-	1,784	1,784
Local share reimbursement AIP-18, Rehabilitate Terminal Building	11/01/00	11/01/00	1,820,477	1,820,476	83,367	-	83,367	83,367
Local share reimbursement AIP-19, Aircraft Rescue & Firefighting Vehicle	11/01/00	11/01/00	319,769	319,769	15,988	-	15,988	15,988
Local share reimbursement AIP-20, Design Non-licensed Vehicle Road	11/01/00	11/01/00	31,619	30,545	1,527	-	1,527	1,527
Local share reimbursement AIP-20, Design of Taxiway "K" (Revised)	11/01/00	11/01/00	13,287	12,887	644	-	644	644

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures of Passenger Facility Charges

Year Ended June 30, 2003

Project	Impose Effective Date	Use Effective Date	Cumulative Expenditures Actual	Approved Expenditures for PFCs	Amount of Use Approved	PFC Revenue Used in Prior Years	PFC Revenue Used in Current Year	Total PFC Revenues Used
Local share reimbursement AIP-20, Installation of Water Main	11/01/00	11/01/00	\$ 78,565	\$ 78,299	\$ 3,915	\$ -	\$ 3,915	\$ 3,915
Local share reimbursement AIP-21, Airport Entrance Road	11/01/00	11/01/00	360,018	350,000	17,500	17,500	-	17,500
Local share reimbursement AIP-21, Jetway System Modifications	11/01/00	11/01/00	38,887	46,195	2,310	1,944	-	1,944
Local share reimbursement AIP-21, Security System Upgrade	11/01/00	11/01/00	91,512	70,815	3,541	3,541	-	3,541
Local share reimbursement AIP-21, Preplan Runway Safety Areas	11/01/00	11/01/00	108,600	109,600	5,480	5,430	-	5,430
North GA Ramp Construction	11/01/00	06/18/02	1,554,453	1,404,170	70,209	68,285	1,924	70,209
Security System Upgrade Phase II	11/01/00	06/18/02	141,216	139,340	6,967	4,481	2,486	6,967
Design & Construct RSA, Runway 4	11/01/00	06/18/02	858,871	949,000	47,450	37,553	5,390	42,943
Acquire Land	11/01/00	06/18/02	-	136,111	13,611	-	-	-
Renovate Terminal, Phase II	11/01/00	06/18/02	1,364,229	2,475,430	93,433	7,489	54,425	61,914
RSA Construction, Runway 4, Phase II	11/01/00	06/18/02	858,872	949,000	40,000	37,553	2,447	40,000
Land Acquisition	11/01/00	06/18/02	-	136,111	1,411	-	-	-
Renovate Terminal, Phase III	11/01/00	06/18/02	-	2,475,430	37,500	-	-	-
RSA Construction, Runway 22	11/01/00	06/18/02	1,855,290	1,263,890	86,389	81,120	5,269	86,389
Acquire Land	11/01/00	06/18/02	-	177,778	17,778	-	-	-
NLVR Construction	11/01/00	06/18/02	540,322	180,000	25,395	24,124	1,271	25,395
Jet Bridge Modification Construction	11/01/00	06/18/02	-	125,500	6,275	-	-	-
Taxiway K Construction	11/01/00	06/18/02	483,002	225,000	22,500	21,120	1,380	22,500
<b>TOTAL IMPOSE AND USE</b>			<u>18,696,542</u>	<u>21,564,714</u>	<u>1,009,843</u>	<u>587,281</u>	<u>309,545</u>	<u>896,826</u>
Acquire Land	11/01/00		-	166,700	-	-	-	-
<b>TOTAL IMPOSE ONLY</b>			<u>-</u>	<u>166,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
PFC's collected during the year but not applied			-	-	-	-	12,827	-
<b>TOTAL APPLICATION 1</b>			<u>\$ 18,696,542</u>	<u>\$ 21,731,414</u>	<u>\$ 1,009,843</u>	<u>\$ 587,281</u>	<u>\$ 322,372</u>	<u>\$ 896,826</u>

**CITY OF FAYETTEVILLE  
NORTH CAROLINA**

***Report of Independent Certified Public Accountants  
Financial Statements and Schedules  
Year ended June 30, 2003***