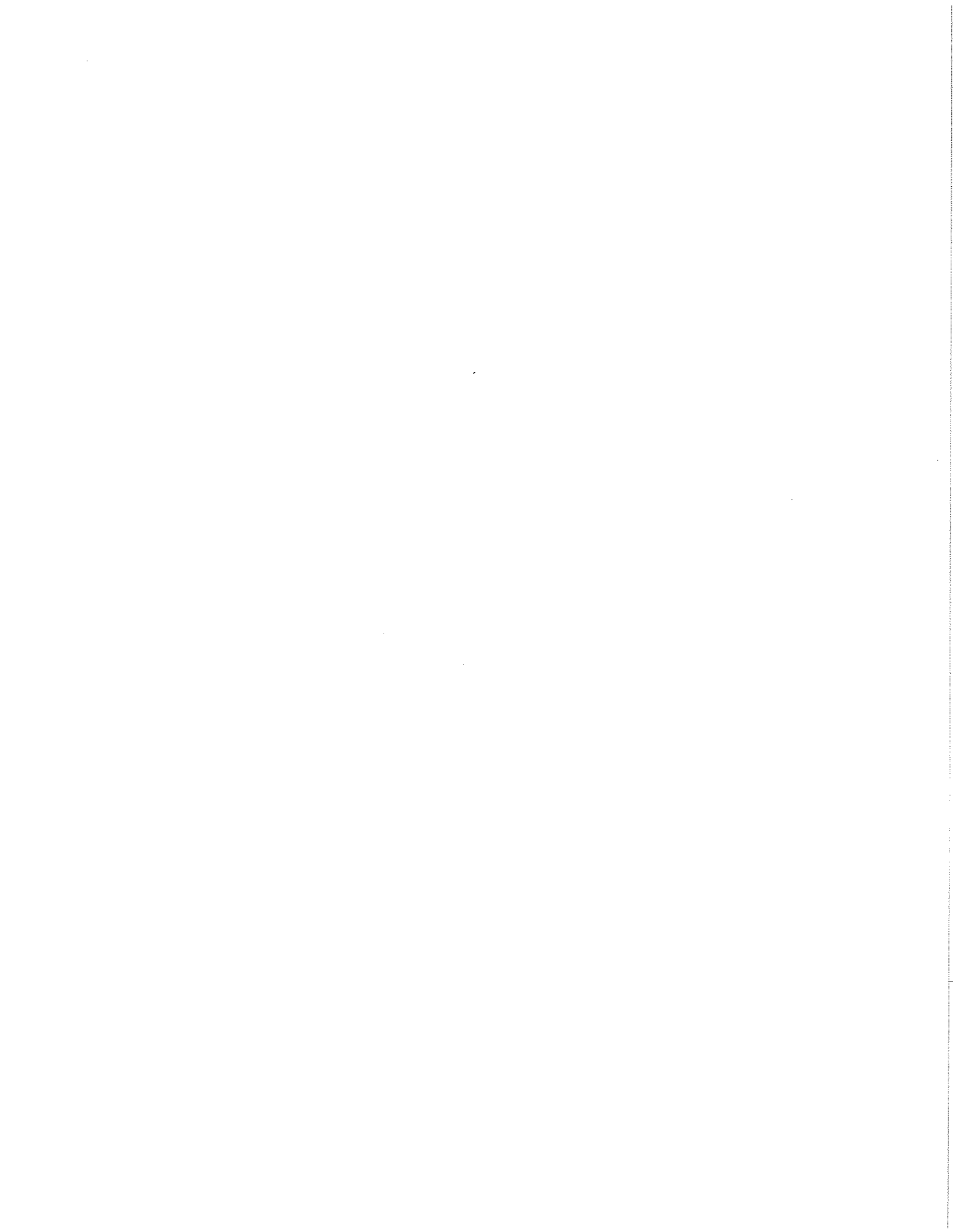


**CITY OF FAYETTEVILLE
NORTH CAROLINA**

*Report of Independent Certified Public Accountants
Financial Statements and Schedules
Year ended June 30, 2002*



CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report
For the Fiscal Year Ended June 30, 2002

Table of Contents

<u>FINANCIAL SECTION</u>	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-12
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Assets	13
Statement of Activities	14
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	19
Statement of Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22-23
Statement of Fiduciary Net Assets – Fiduciary Funds	24
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	25
Notes to Financial Statements	26-57
REQUIRED SUPPLEMENTARY INFORMATION	
Law Enforcement Officers' Special Separation Allowance – Schedule of Funding Progress	58
Law Enforcement Officers' Special Separation Allowance – Schedule of Employer Contributions	59
Law Enforcement Officers' Special Separation Allowance – Notes to the Required Schedules	59
Public Works Commission Retirement System – Schedule of Funding Progress	60
Public Works Commission Retirement System – Schedule of Employer Contributions	61
Public Works Commission Retirement System – Notes to the Required Schedules	61
<u>SUPPLEMENTAL FINANCIAL INFORMATION</u>	
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES	
GOVERNMENTAL FUNDS	
GENERAL FUND	
Comparative Balance Sheets - General Fund	62

CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report
For the Fiscal Year Ended June 30, 2002

Table of Contents (continued)

SUPPLEMENTAL FINANCIAL INFORMATION (continued)	Page
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES (continued)	
GOVERNMENTAL FUNDS (continued)	
GENERAL FUND (continued)	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	63-67
NONMAJOR GOVERNMENTAL FUNDS	
Combining Balance Sheet – Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	69
SPECIAL REVENUE FUNDS	
Combining Balance Sheet – Nonmajor Special Revenue Funds	70
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	71
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Emergency Response Fund	72
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Federal and State Financial Assistance Fund	73
Schedule of Expenditures By Project - Budget and Actual - Federal and State Financial Assistance Fund	74
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Storm Water Management Fund	75
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Fayetteville Finance Corp Fund	76
CAPITAL PROJECT FUNDS	
Combining Balance Sheet – Nonmajor Capital Project Funds	77
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Project Funds	78
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Government Fund	79
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - Public Safety Fund	80
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Recreational and Cultural Fund	81
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Transportation Fund	82
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Bond Improvement Fund	83
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Economic and Physical Development Fund	84

CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report
For the Fiscal Year Ended June 30, 2002

Table of Contents (continued)

PROPRIETARY FUNDS	<u>Page</u>
ENTERPRISE FUNDS	
Combining Statement of Net Assets – Electric Fund	85
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Electric Fund	86
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Electric Fund	87-89
Schedule of Changes in the Status of Uptown Revitalization Fund	90
Schedule of Changes in the Status of Rate Stabilization Fund	91
Schedule of Changes in the Status of Administration Building Capital Project Fund	92
Combining Statement of Net Assets – Water and Wastewater Fund	93
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Water and Wastewater Fund	94
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Water and Wastewater Fund	95-97
Schedule of Changes in the Status of Annexation Capital Project Fund – Phase III	98
Schedule of Changes in the Status of 1997 Supplemental Capital Project Fund	99
Schedule of Changes in the Status of Annexation Capital Project Fund – Phase IV	100
Schedule of Changes in the Status of Annexation Capital Reserve Fund	101
Schedule of Changes in the Status of State Revolving Loan Capital Project Fund	102
Combining Statement of Net Assets – Nonmajor Enterprise Funds	103
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds	104
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	105-106
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Transit Fund	107
Schedule of Revenues and Expenditures – Transit Capital Project Fund	108
Schedule of Revenues and Expenditures – Transit II Capital Project Fund	109
Schedule of Expenditures by Project – Transit II Capital Project Fund	110
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Airport Fund	111
Schedule of Revenues and Expenditures – Airport Capital Project Fund	112
INTERNAL SERVICE FUNDS	
Combining Statement of Net Assets – Internal Service Funds	113
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds	114
Combining Statement of Cash Flows – Internal Service Funds	115
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Warranty Fleet Fund	116
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Fleet Maintenance Fund	117
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Insurance Fund	118

CITY OF FAYETTEVILLE, NORTH CAROLINA

Annual Financial Report
For the Fiscal Year Ended June 30, 2002

Table of Contents (continued)

	<u>Page</u>
FIDUCIARY FUNDS	
TRUST FUNDS	
Combining Statement of Fiduciary Net Assets – Pension Trust Funds	119
Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds	120
Combining Statement of Fiduciary Net Assets – Private-purpose Trust Funds	121
Combining Statement of Changes in Fiduciary Net Assets – Private-purpose Trust Funds	122
<u>OTHER SUPPLEMENTAL FINANCIAL DATA</u>	
Schedule of Current Tax Levy	123
Schedule of Taxes Receivable	124
<u>OMB CIRCULAR A-133 AND STATE SINGLE AUDIT IMPLEMENTATION ACT COMPLIANCE SECTION</u>	
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>	125
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	126-127
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	128-129
Schedule of Findings and Questioned Costs	130-131
Summary Schedule of Prior Year Audit Findings	132
Schedule of Expenditures of Federal and State Awards	133-135
<u>PASSENGER FACILITY CHARGE COMPLIANCE SECTION</u>	
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	136-137
Schedule of Findings and Questioned Costs	138
Summary Schedule of Prior Year Audit Findings	139
Schedule of Expenditures of Passenger Facility Charges	140-141

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 blank intentionally

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, 2002, 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, 2002, 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.

As discussed in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, and 38 during the year ended June 30, 2002.

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 and 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 4, 2002, 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.

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

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, 2002 and 2001, 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, 2002, 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.

Cherry, Robert & Noland, LLP

Fayetteville, North Carolina
October 4, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fayetteville ("the City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2002. 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

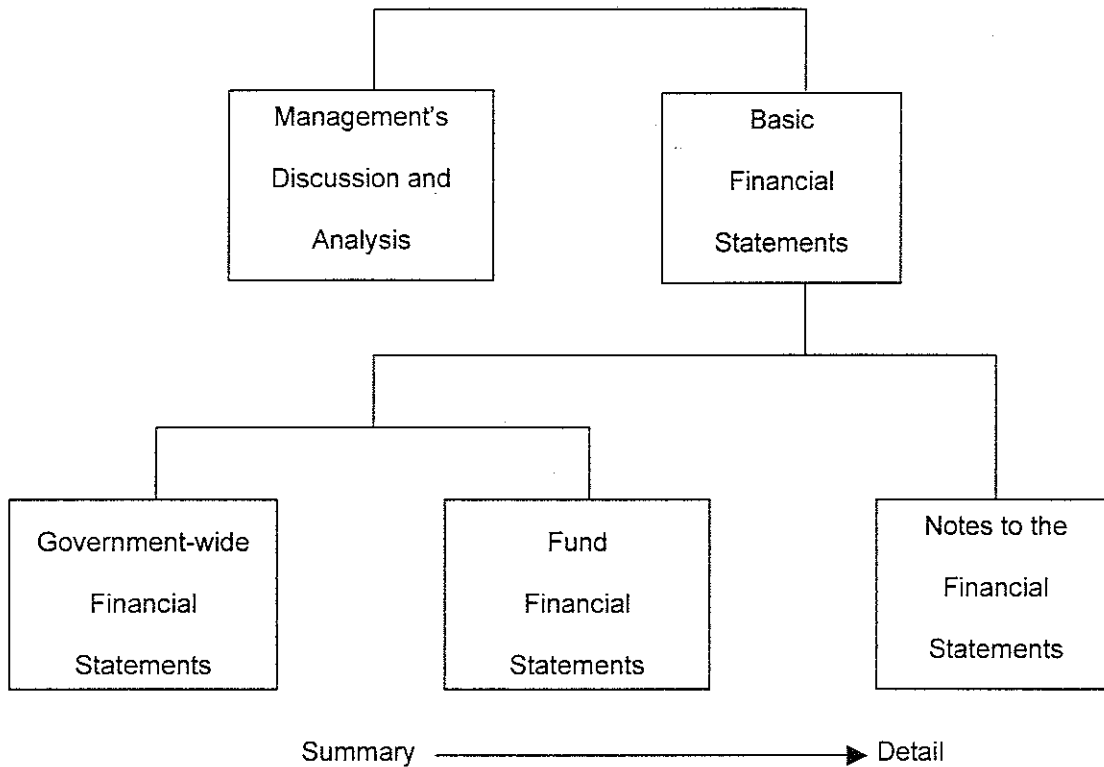
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$761,307,819 (*net assets*). Of this amount, \$125,227,407 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$15,202,628, primarily due to a reduction in power supply and generation expenses in the Electric Fund.
- As of the close of the current fiscal year, the City's governmental funds reported an ending fund balance of \$45,080,586, a decrease of \$4,276,122 in comparison with the prior year. Approximately 48 percent of total fund balance, or \$28,274,833 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 \$19,237,973 or 27.7 percent of total general fund expenditures for the fiscal year. Of this amount, \$7,496,145 has been designated for subsequent year expenditures, special purposes, or debt service, bringing the undesignated general fund balance to 11,741,828 or 16.9% of general fund expenditures.
- The City's total debt decreased by \$13,368,678 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). Bonds in the Electric and Water and Wastewater Funds (business-type activities) are rated Aaa (Moody's) and AAA (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 13 and 14 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 government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balance. The statement shows four columns: 1) the original budget as adopted by the City Council; 2) the final budget as amended by the City Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City has two kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water and wastewater, mass transit, and airport operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the City. The City uses an internal service fund to account for its fleet leasing program, fleet maintenance, and risk management activities. Because these operations benefit predominately governmental rather than business-type activities, the internal service funds have been included within the governmental activities in the government-wide financial statements.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 26 – 57 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 58 of this report.

Government-wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2002, are the beginning of a new era in financial reporting for the City, and many other units of government across the United States. Prior to this year, the City maintained its governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Government Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City's financial reports as well as those of many other units of government. While the City was required to implement these changes for the fiscal year ended June 30, 2002, other units may not be required to implement until 2003 or 2004.

Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are accessible, they have been included, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

The City's Net Assets

Figure 2

CITY OF FAYETTEVILLE'S NET ASSETS

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Current and other assets	\$ 66,367,707	\$ 119,175,711	\$ 185,543,418
Capital assets	305,072,525	570,053,622	875,126,147
Total assets	<u>371,440,232</u>	<u>689,229,333</u>	<u>1,060,669,565</u>
Long-term liabilities outstanding	59,806,189	190,469,556	250,275,745
Other liabilities	10,049,797	39,036,204	49,086,001
Total liabilities	<u>69,855,986</u>	<u>229,505,760</u>	<u>299,361,746</u>
Net assets:			
Invested in capital assets, net of related debt	248,607,997	379,321,259	627,929,256
Restricted	283,297	7,867,859	8,151,156
Unrestricted	52,692,952	72,534,455	125,227,407
Total net assets	<u>\$ 301,584,246</u>	<u>\$ 459,723,573</u>	<u>\$ 761,307,819</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City exceeded liabilities by \$761,307,819 as of June 30, 2002. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$627.9 million, Restricted net assets of \$8.2 million and Unrestricted net assets \$125.2 million.

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

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

The final category of net assets is unrestricted net assets. This balance may be used to meet the government's ongoing obligations to citizens and creditors. At June 30, 2002, approximately \$125 million, or 16% of the total net assets reported of \$761,307,819, 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
Revenues:			
Program revenues:			
Charges for services	\$ 5,025,161	\$ 186,554,964	\$ 191,580,125
Operating grants and contributions	7,886,293	1,541,766	9,428,059
Capital grants and contributions	183,122	11,255,325	11,438,447
General revenues:			
Property taxes	33,613,509	-	33,613,509
Other taxes	24,432,855	-	24,432,855
Grants and contributions not restricted to specific programs	370,032	-	370,032
Other	2,215,252	2,096,162	4,311,414
Total revenues	73,726,224	201,448,217	275,174,441
Expenses:			
Administration	8,501,997	-	8,501,997
Public safety	39,896,830	-	39,896,830
Environmental protection	6,450,217	-	6,450,217
Transportation	12,091,432	-	12,091,432
Economic and physical development	7,407,147	-	7,407,147
Recreation and community facilities	6,371,366	-	6,371,366
Interest and fees	2,999,151	-	2,999,151
Electric activities	-	123,644,452	123,644,452
Water and wastewater activities	-	43,949,463	43,949,463
Transit	-	5,223,850	5,223,850
Airport	-	3,435,908	3,435,908
Total expenses	83,718,140	176,253,673	259,971,813
Increase in net assets before transfers	(9,991,916)	25,194,544	15,202,628
Transfers	7,142,178	(7,142,178)	-
Increase in net assets	(2,849,738)	18,052,366	15,202,628
Net assets, July 1	304,433,984	441,671,207	746,105,191
Net assets, June 30	\$ 301,584,246	\$ 459,723,573	\$ 761,307,819

Governmental activities. Governmental activities decreased the City's net assets by \$2,849,738. Key elements of this decrease are as follows:

- Unrestricted investment earnings decreased by \$1.6 million during the year. This decrease is primarily due to an overall lower rate of return on investments during the year.
- Intergovernmental revenues decreased by an estimated \$2.6 million as a result of the withholding of state shared revenues by the State.

- These decreases were offset by a \$1 million increase in property taxes due to the annexation of the Tiffany Pines, Warrenwood, Rollingwood and Pleasant Acres areas and adjustments to property valuations.

Business-type activities: Business-type activities increased the City's net assets by \$18,052,366, or 118.7% of the total increase. The majority of the increase was due to a \$10 million reduction in expenses for electric power supply and generation and a \$4 million increase in net operating revenues for water and wastewater operations.

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 \$19,237,973, while total fund balance reached \$30,191,196. 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 27.7 percent of total General Fund expenditures, while total fund balance represents 43.5 percent of that same amount.

At June 30, 2002, the governmental funds of the City reported a combined fund balance of \$45,080,586, an 8.68 percent decrease from last year. The primary reason for this decrease was a reduction in sales tax revenues, shared revenues from the state, and lower investment earnings.

General Fund Budgetary Highlights:

During fiscal year 2002, the City's financial picture was clouded by the uncertainty surrounding the State of North Carolina's budget situation. The State continues to face difficulty in balancing its budget, which was further complicated by the events of September 11, 2001 and the resulting impact on the economy. Part of the State's solution involved sequestering funds due to local governments. These conditions created an unfavorable impact on the City budget. Management took budgetary steps to address the impacts 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 maintain services. Total amendments to the General Fund increased revenues and expenditures by only \$2,435,775 or 3.1%.

The actual operating revenues for the General Fund were less than the budgeted amount by \$3,178,980 of which 2,587,318 or 81% was due to lower sales tax revenues as the result of the lagging economy and various taxes and other reimbursements withheld by the state. The City was able to offset this shortfall though reductions in expenditures in various departments including recreation and administration. As a result, actual operating expenditures were less than the budgeted amount by \$6,356,597.

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 \$42,097,389, and those for the Water and Wastewater Fund equaled \$28,449,363. The total growth in net assets for both funds was \$10,431,388 and \$7,774,731, respectively. The primary factors affecting the growth in these funds were addressed in the discussion of the City's business-type activities.

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, 2002, totals \$875,126,147 (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:

- \$5.1 million to install water and wastewater utility infrastructure in newly annexed areas
- \$3.3 million of developer contributed water and wastewater lines
- \$1.9 million to relocate electric, water and wastewater facilities due to DOT road widening projects
- \$1.4 million to purchase and install standby power generators at the Hoffer Water Treatment Facility
- \$1.2 million for fiber optic cable installation in conjunction with DOT modernization of the City's centralized signal system
- \$1.0 million for electric distribution system transformers
- \$0.9 million in fiber optic backbone connecting PWC plant sites and various City and County facilities
- \$0.7 million for electric meters
- \$0.4 million for Eastover Water Improvements
- \$0.4 million for fiber optic network electronics
- \$1.9 million for airport improvements
- \$3.7 million for street and drainage construction and improvements and \$2.4 million for transportation improvements
- \$0.5 million for police and fire vehicles
- \$0.5 for recreation and community facilities
- Disposal of surplus items at auction

The City's Capital Assets

Figure 4

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

	Governmental Activities	Business-type Activities	Total
Land	\$ 33,101,771	\$ 12,167,490	\$ 45,269,261
Infrastructure	234,891,813	-	234,891,813
Electric utility system	-	156,325,407	156,325,407
Wastewater system	-	192,334,101	192,334,101
Water system	-	112,239,427	112,239,427
Equipment and machinery	-	6,225,690	6,225,690
Buildings and improvements	29,118,147	57,197,543	86,315,690
Equipment, furniture and fixtures	3,032,572	1,650,840	4,683,412
Computer programs	-	4,216,953	4,216,953
Vehicles	2,554,734	4,317,713	6,872,447
Construction in progress	2,373,488	23,378,458	25,751,946
Total	\$ 305,072,525	\$ 570,053,622	\$ 875,126,147

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, 2002, The City had total bonded debt outstanding of \$238,985,000, of which \$55,390,000 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	2002	2002
Bonded debt	\$ 49,735,000	\$ 189,250,000	\$ 238,985,000
Obligations under capital leases	6,424,529	-	6,424,529
Installment note payable	305,000	7,215,371	7,520,371
Total long-term debt	\$ 56,464,529	\$ 196,465,371	\$ 252,929,900

The City's total debt decreased by \$13,368,678 or 5.02% during the past fiscal year. The decrease is due to regularly scheduled principal payments, which were slightly set off by the issuance of additional capital leases for \$785,000.

The City's most recent bond ratings, received in connection with the 2000 general obligation issue and the 2001 revenue refunding utility bond issue, 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
Standard & Poor's		AAA

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 nearly \$428,600,000. The City has no bonds authorized but unissued at June 30, 2002.

Additional information regarding The City's long-term debt can be found in Note 5 on pages 40 – 46 of this report.

Economic Factors and Next Year's Budgets and Rates

Budget Highlights for the Fiscal Year Ending June 30, 2003

Governmental Activities: The City has approved a \$78.0 million general fund budget for fiscal year 2003 which represents a \$2.8 million or 3.5% decrease over the final amended budget for fiscal year 2002. This will be accomplished with no change in the property tax rate. The City's budget reflects the loss of reimbursements revenue taken by the state of North Carolina to balance its budget. The City is aware that Cumberland County is considering a change in its formula for distribution of sales tax revenues. If Cumberland County changes the formula by April 2003, the City's sales tax revenue would decrease by an estimated \$3.8 million in fiscal year 2004. Additional sources of revenue in the 2003 budget include increased building inspection fees and the elimination of the discount for early payment of taxes.

This budget considers the economy, which is still in recession and could be slow to begin to recover.

Budgeted expenditures include an increase of \$1.2 million for healthcare costs for employees. The City continues to restructure and eliminate positions; 18 are expected to be eliminated in 2003 not including positions added for an annexation that will be effective June 1, 2003. Pay increases are budgeted for a 1.5 percent pay range adjustment and a 2 percent cost-of-living adjustment.

Expenditures have been reduced by eliminating all vehicle replacements except for police, fire, and solid waste, eliminating the purchase of parkland, and elimination of "pay as you go" capital improvement funding for fiscal year 2003.

Business – type Activities: The City considered city and county population growth, annexation impacts, and the economy when setting its budget. Expected power supply cost has been reduced in the fiscal year 2003 budget because the continuing rise in power costs subsided during the past fiscal year. Correspondingly, the power cost adjustment charged to customers has been removed, resulting in a \$6 million reduction in estimated billings. Water and wastewater rates were increased for 2002-2003 to offset budgeted increases in equipment and infrastructure replacement, including a number of NC Department of Transportation road widening projects and an allocation of \$2 million to cover annexation costs.

The 2003 budget also includes an appropriation of \$650,000 from the Electric Fund to partially replenish the Electric Rate Stabilization Fund. Approximately \$4 million was transferred out of the Electric Rate Stabilization Fund in 2001 to assist consumers by offsetting part of the significant power cost increases in that year. During fiscal year 2002, the fund was partially replenished by \$2.25 million.

Normal transfers and street lighting service from the Electric Fund to the General Fund are expected to remain consistent at \$8.3 million in 2002-2003. The City also plans to use the utility funds to pay an additional \$713,000 for debt service payments associated with annexation and infrastructure improvements.

The budget also supports a number of projects to improve areas such as street lighting, underground utility conversions, downtown streetscape improvements, utility extensions for annexation and urbanized areas, development of a central city industrial park and rural water systems, and supporting and improving service to existing industry. Pay increases are budgeted for a general increase of 2 percent in addition to a 3 percent performance allowance for Public Works Commission employees.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Net Assets

June 30, 2002

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total Primary Government</u>	<u>Fayetteville Air Cargo Facilities</u>
Assets				
Cash and investments	\$ 45,727,039	\$ 31,040,317	\$ 76,767,356	\$ -
Taxes receivable	3,228,985	-	3,228,985	-
Accounts receivable	15,844,309	36,829,468	52,673,777	1,918
Internal balances	447,229	(447,229)	-	-
Assessment receivable	416,661	-	416,661	-
Current portion of note receivable	-	-	-	58,404
Inventories	397,927	11,859,328	12,257,255	-
Prepaid expenses	305,557	144,073	449,630	-
Noncurrent portion of note receivable	-	-	-	248,537
Restricted asset - cash and investments	-	29,719,272	29,719,272	-
Restricted asset - accounts receivable	-	392,980	392,980	-
Restricted asset - collateral pledged in lieu of deposits	-	152,355	152,355	-
Other assets	-	9,485,147	9,485,147	-
Capital assets:				
Land and construction in progress	35,475,259	35,545,948	71,021,207	-
Other capital assets, net of depreciation	269,597,266	534,507,674	804,104,940	-
Total assets	<u>371,440,232</u>	<u>689,229,333</u>	<u>1,060,669,565</u>	<u>308,859</u>
Liabilities				
Accounts payable and accrued expenses	9,571,883	22,273,669	31,845,552	1,918
Overdraft payable	-	4,877,162	4,877,162	-
Restricted liabilities - accounts payable and accrued expenses	-	5,831,645	5,831,645	-
Unearned revenues	441,904	-	441,904	-
Unearned deposits	36,010	6,053,728	6,089,738	-
Long-term liabilities:				
Due within one year	6,923,870	10,084,178	17,008,048	58,404
Due in more than one year	52,882,319	180,385,378	233,267,697	248,537
Total liabilities	<u>69,855,986</u>	<u>229,505,760</u>	<u>299,361,746</u>	<u>308,859</u>
Net assets				
Invested in capital assets, net of related debt	248,607,997	379,321,259	627,929,256	-
Restricted for:				
Capital projects	-	4,572,922	4,572,922	-
Debt service	-	3,294,937	3,294,937	-
Other purposes	283,297	-	283,297	-
Unrestricted	52,692,952	72,534,455	125,227,407	-
Total net assets	<u>\$ 301,584,246</u>	<u>\$ 459,723,573</u>	<u>\$ 761,307,819</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, 2002

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities			Total
			Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities		
Primary governmental activities:									
Governmental activities:									
Administration	\$ 8,501,997	\$ 652,799	\$ 1,720	\$ -	\$ (7,847,478)	\$ -	\$ (7,847,478)	\$ -	
Public safety	39,896,830	1,541,852	822,450	183,122	(37,349,406)	-	(37,349,406)	-	
Environmental protection	6,450,217	38,943	61,000	-	(6,350,274)	-	(6,350,274)	-	
Transportation	12,091,432	1,206,998	4,191,727	-	(6,692,707)	-	(6,692,707)	-	
Economic and physical development	7,407,147	1,208,072	2,739,278	-	(3,459,797)	-	(3,459,797)	-	
Recreation and community facilities	6,371,366	376,487	70,118	-	(5,924,751)	-	(5,924,751)	-	
Interest and fees	2,999,151	-	-	-	(2,999,151)	-	(2,999,151)	-	
Total governmental activities	83,718,140	5,025,161	7,886,293	183,122	(70,623,564)	-	(70,623,564)	-	
Business-type activities:									
Electric	123,644,452	139,814,919	-	1,596,355	-	17,766,822	17,766,822	-	
Water and wastewater	43,949,463	43,703,832	-	7,184,899	-	6,939,268	6,939,268	-	
Transit	5,223,850	1,058,298	1,541,766	280,513	-	(2,343,273)	(2,343,273)	-	
Airport	3,435,908	1,977,915	-	2,193,558	-	735,565	735,565	-	
Total business-type activities	176,253,673	186,554,964	1,541,766	11,255,325	-	23,098,382	23,098,382	-	
Total primary government	\$ 259,971,813	\$ 191,580,125	\$ 9,428,059	\$ 11,438,447	(70,623,564)	23,098,382	(47,525,182)	-	
Component unit:									
Fayetteville Air Cargo Facilities	\$ 57,096	\$ 32,166	\$ -	\$ -	-	-	-	(24,930)	
Total component unit	\$ 57,096	\$ 32,166	\$ -	\$ -	-	-	-	(24,930)	
General revenues:									
Ad valorem taxes					33,613,509	-	33,613,509	-	
Other taxes					24,432,855	-	24,432,855	-	
Unrestricted grants and contributions					370,032	-	370,032	-	
Interest earned on investments					1,637,590	2,011,865	3,649,455	24,930	
Miscellaneous					577,662	84,297	661,959	-	
Transfers					7,142,178	(7,142,178)	-	-	
Total general revenues and transfers					67,773,826	(5,046,016)	62,727,810	24,930	
Change in net assets					(2,849,738)	18,052,366	15,202,628	-	
Net assets - beginning					304,433,984	441,671,207	746,105,191	-	
Net assets - ending					\$ 301,584,246	\$ 459,723,573	\$ 761,307,819	\$ -	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2002**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and investments	\$ 24,139,154	\$ 15,314,625	\$ 39,453,779
Taxes receivable	2,911,754	93,102	3,004,856
Accounts receivable	10,906,163	4,557,563	15,463,726
Interfund receivable	447,229	-	447,229
Assessments receivable	409,131	7,530	416,661
Inventories	81,347	-	81,347
Total assets	<u>\$ 38,894,778</u>	<u>\$ 19,972,820</u>	<u>\$ 58,867,598</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 3,627,240	\$ 1,277,201	\$ 4,904,441
Unearned deposits	36,010	-	36,010
Deferred revenues	5,040,332	3,806,229	8,846,561
Total liabilities	<u>8,703,582</u>	<u>5,083,430</u>	<u>13,787,012</u>
Fund balances:			
Reserved			
By State statute	10,066,920	857,635	10,924,555
For encumbrances	545,287	4,971,267	5,516,554
For inventories	81,347	-	81,347
For downtown	259,669	-	259,669
For wireless 911	-	23,628	23,628
Unreserved			
Designated			
For subsequent years	1,713,945	-	1,713,945
For special purpose	4,553,122	-	4,553,122
For debt service	1,229,078	-	1,229,078
Undesignated	11,741,828	-	11,741,828
Unreserved, reported in nonmajor:			
Designated for subsequent years			
Special revenue	-	644,530	644,530
Capital projects	-	5,418,130	5,418,130
Undesignated			
Special revenue	-	3,020,177	3,020,177
Capital projects	-	(45,977)	(45,977)
Total fund balances	<u>30,191,196</u>	<u>14,889,390</u>	<u>45,080,586</u>
Total liabilities and fund balances	<u>\$ 38,894,778</u>	<u>\$ 19,972,820</u>	<u>\$ 58,867,598</u>

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2002

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

Ending fund balance - governmental funds	\$ 45,080,586
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	304,770,304
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	8,284,302
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 in the statement of net assets.	3,177,658
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(59,728,604)</u>
Net assets of governmental activities	<u>\$ 301,584,246</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, 2002**

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 33,134,815	-	\$ 33,134,815
Other taxes	21,825,339	3,024,985	24,850,324
Intergovernmental	4,684,658	3,058,931	7,743,589
Other functional	3,124,847	-	3,124,847
Miscellaneous	1,655,764	451,511	2,107,275
Interest earned on investments	1,218,402	378,271	1,596,673
Total revenues	65,643,825	6,913,698	72,557,523
Expenditures			
Current:			
Administration	8,300,090	204,605	8,504,695
Public safety	36,844,247	1,497,861	38,342,108
Environmental protection	4,631,474	2,745,684	7,377,158
Transportation	5,797,345	2,357,712	8,155,057
Economic and physical development	796,529	6,755,028	7,551,557
Recreation and community facilities	6,780,738	114,169	6,894,907
Debt service:			
Principal	4,101,409	867,665	4,969,074
Interest and fees	2,205,578	754,267	2,959,845
Total expenditures	69,457,410	15,296,991	84,754,401
Excess (deficiency) of revenues over (under) expenditures	(3,813,585)	(8,383,293)	(12,196,878)
Other financing sources (uses)			
Capital leases	785,283	-	785,283
Transfers in	8,483,328	3,453,769	11,937,097
Transfers out	(4,801,624)	-	(4,801,624)
Total other financing sources (uses)	4,466,987	3,453,769	7,920,756
Net change in fund balances	653,402	(4,929,524)	(4,276,122)
Fund balance - beginning	29,537,794	19,818,914	49,356,708
Fund balance - ending	\$ 30,191,196	\$ 14,889,390	\$ 45,080,586

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, 2002

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

Net change in fund balances - total governmental funds	\$ (4,276,122)
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 capital outlay exceeded depreciation in the current period.	(3,984,667)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.	(195,351)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	968,238
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.	4,102,787
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.	(12,376)
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>547,753</u>
Change in net assets of governmental activities	<u><u>\$ (2,849,738)</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, 2002

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 33,468,709	\$ 33,468,709	\$ 33,134,815	\$ (333,894)
Other taxes	24,162,657	24,412,657	21,825,339	(2,587,318)
Intergovernmental	5,068,655	5,164,050	4,684,658	(479,392)
Other functional	3,515,619	3,515,619	3,124,847	(390,772)
Miscellaneous	923,770	923,770	1,655,764	731,994
Interest earned on investments	1,338,000	1,338,000	1,218,402	(119,598)
Total revenues	68,477,410	68,822,805	65,643,825	(3,178,980)
EXPENDITURES				
Current:				
Administration	10,518,830	11,345,651	8,300,090	3,045,561
Public safety	36,698,782	37,571,189	36,844,247	726,942
Environmental protection	5,115,701	5,336,234	4,631,474	704,760
Transportation	6,476,517	6,229,638	5,797,345	432,293
Economic and physical development	901,960	1,017,961	796,529	221,432
Recreation and community facilities	6,840,115	7,945,510	6,780,738	1,164,772
Debt service:				
Principal	6,770,740	6,289,546	4,101,409	2,188,137
Interest and fees	77,832	78,278	2,205,578	(2,127,300)
Total expenditures	73,400,477	75,814,007	69,457,410	6,356,597
Excess (deficiency) of revenues over (under) expenditures	(4,923,067)	(6,991,202)	(3,813,585)	3,177,617
OTHER FINANCING SOURCES (USES)				
Capital leases	-	-	785,283	785,283
Transfers in	8,463,636	8,436,156	8,483,328	47,172
Transfers out	(4,986,712)	(5,008,957)	(4,801,624)	207,333
Appropriated fund balance	1,446,143	3,564,003	-	(3,564,003)
Total other financing sources (uses)	4,923,067	6,991,202	4,466,987	(2,524,215)
Net change in fund balances	\$ -	\$ -	653,402	\$ 653,402
FUND BALANCE - BEGINNING			29,537,794	
FUND BALANCE - ENDING			<u>\$ 30,191,196</u>	

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Net Assets
Proprietary Funds
June 30, 2002

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Assets					
Current assets					
Cash and investments	\$ 21,472,393	\$ 8,296,072	\$ 1,271,852	\$ 31,040,317	\$ 6,273,260
Accounts receivable	21,329,206	14,419,618	1,080,644	36,829,468	380,583
Interfund receivable	(1,597,885)	1,597,885	-	-	-
Inventories	10,901,923	950,337	7,068	11,859,328	316,580
Prepaid expenses	59,380	84,693	-	144,073	50,816
Total unrestricted current assets	52,165,017	25,348,605	2,359,564	79,873,186	7,021,239
Restricted current assets					
Cash and investments	13,275,675	16,443,597	-	29,719,272	-
Accounts receivable	-	392,980	-	392,980	-
Collateral pledged in lieu of deposits	152,355	-	-	152,355	-
Total restricted current assets	13,428,030	16,836,577	-	30,264,607	-
Total current assets	65,593,047	42,185,182	2,359,564	110,137,793	7,021,239
Noncurrent assets					
Other assets	3,047,474	6,283,673	154,000	9,485,147	-
Capital assets	217,010,353	327,061,849	25,981,420	570,053,622	280,551
Total noncurrent assets	220,057,827	333,345,522	26,135,420	579,538,769	280,551
Total assets	\$ 285,650,874	\$ 375,530,704	\$ 28,494,984	\$ 689,676,562	\$ 7,301,790
Liabilities and net assets					
Current liabilities to be paid from unrestricted assets					
Accounts payable and accrued expenses	\$ 16,004,214	\$ 5,928,080	\$ 341,375	\$ 22,273,669	\$ 4,043,286
Overdraft payable	4,877,162	-	-	4,877,162	-
Current portion of long term debt	3,598,000	6,301,756	-	9,899,756	-
Interfund payables	-	-	447,229	447,229	-
Accrued vacation	-	-	184,422	184,422	77,587
Total current liabilities to be paid from unrestricted assets	24,479,376	12,229,836	973,026	37,682,238	4,120,873
Current liabilities to be paid from restricted assets					
Accounts payable and accrued expenses	2,892,118	2,939,527	-	5,831,645	-
Total current liabilities to be paid from restricted assets	2,892,118	2,939,527	-	5,831,645	-
Total current liabilities	27,371,494	15,169,363	973,026	43,513,883	4,120,873
Noncurrent liabilities					
Unearned deposits	-	6,053,664	64	6,053,728	-
Deferred revenues	-	-	-	-	3,259
Long-term debt	54,194,025	126,191,353	-	180,385,378	-
Total noncurrent liabilities	54,194,025	132,245,017	64	186,439,106	3,259
Total liabilities	81,565,519	147,414,380	973,090	229,952,989	4,124,132
Net assets					
Invested in capital assets, net of related debt	159,218,328	194,568,740	25,534,191	379,321,259	-
Restricted net assets					
Capital Projects	-	4,572,922	-	4,572,922	-
Debt service	2,769,638	525,299	-	3,294,937	-
Unrestricted	42,097,389	28,449,363	1,987,703	72,534,455	3,177,658
Total net assets	204,085,355	228,116,324	27,521,894	459,723,573	3,177,658
Total liabilities and net assets	\$ 285,650,874	\$ 375,530,704	\$ 28,494,984	\$ 689,676,562	\$ 7,301,790

City of Fayetteville, North Carolina

This page left blank intentionally

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended June 30, 2002

	Enterprise Funds				Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds	Total	
Operating revenues					
Charges for services	\$ 139,814,919	\$ 43,703,832	\$ 2,900,441	\$ 186,419,192	\$ -
Other revenue from operations	-	-	135,772	135,772	885
Interfund charges and employee contributions	-	-	-	-	10,792,240
Total operating revenues	139,814,919	43,703,832	3,036,213	186,554,964	10,793,125
Operating expenses					
General and administrative	6,997,288	7,575,034	-	14,572,322	-
Power supply and generation	99,458,514	-	-	99,458,514	-
Water purification and distribution	-	9,281,523	-	9,281,523	-
Sewer collection and treatment	-	8,189,731	-	8,189,731	-
Personnel	-	-	3,562,570	3,562,570	1,503,971
Maintenance and operations	-	-	2,156,044	2,156,044	9,170,471
Depreciation	12,881,165	11,517,250	2,350,109	26,748,524	106,534
Total operating expenses	119,336,967	36,563,538	8,068,723	163,969,228	10,780,976
Operating income (loss)	20,477,952	7,140,294	(5,032,510)	22,585,736	12,149
Nonoperating revenue (expense)					
Interest earned on investments	1,154,599	835,463	21,803	2,011,865	150,159
Federal and State grants	-	-	1,541,766	1,541,766	-
Passenger facility charges	-	-	338,462	338,462	-
Miscellaneous revenue	-	-	84,297	84,297	414,939
Gain (loss) on disposal of capital assets	(694,460)	23,316	(457,180)	(1,128,324)	(36,166)
Interest expense	(3,165,872)	(6,806,566)	(27,558)	(9,999,796)	(33)
Amortization	(447,353)	(602,675)	(22,000)	(1,072,028)	-
Miscellaneous expense	-	-	(84,297)	(84,297)	-
Total nonoperating revenue (expense)	(3,152,886)	(6,550,462)	1,395,293	(8,308,055)	528,899
Income (loss) before transfers and contributions	17,325,066	589,832	(3,637,217)	14,277,681	541,048
Transfers in	-	-	1,347,855	1,347,855	6,705
Transfers out	(8,490,033)	-	-	(8,490,033)	-
Capital contributions	1,596,355	7,184,899	2,135,609	10,916,863	-
Change in net assets	10,431,388	7,774,731	(153,753)	18,052,366	547,753
Total net assets - beginning	193,653,967	220,341,593	27,675,647	441,671,207	2,629,905
Total net assets - ending	\$ 204,085,355	\$ 228,116,324	\$ 27,521,894	\$ 459,723,573	\$ 3,177,658

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2002

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Operating activities					
Cash received from customers	\$ 138,536,977	\$ 43,559,966	\$ 2,701,834	\$ 184,798,777	\$ 10,447,186
Other operating revenues	-	-	135,772	135,772	885
Customer deposits received	-	-	14	14	-
Cash received as deferred revenues	-	-	-	-	3,249
Cash paid to or on behalf of employees for services	(8,346,151)	(9,479,530)	(3,530,644)	(21,356,325)	(1,518,483)
Cash paid for goods and services	(7,190,179)	(17,656,291)	(2,184,665)	(27,031,135)	(8,832,475)
Cash paid for power supply and generation	(89,549,683)	-	-	(89,549,683)	-
Net cash provided by (used in) operating activities	33,450,964	16,424,145	(2,877,689)	46,997,420	100,362
Noncapital financing activities					
Transfers in	-	-	1,347,855	1,347,855	6,705
Federal and state grants	-	-	1,468,388	1,468,388	-
Nonoperating revenues	-	-	338,462	338,462	414,940
Transfers out	(8,490,033)	-	-	(8,490,033)	-
Net cash provided by (used in) noncapital financing activities	(8,490,033)	-	3,154,705	(5,335,328)	421,645
Capital and related financing activities					
Proceeds from sale of assets	141,734	-	724	142,458	-
Proceeds from debt issuance	-	21,524	-	21,524	-
Capital contributions - State grant	-	-	115,845	115,845	-
Capital contributions - Federal grant	1,596,355	3,905,026	2,894,458	8,395,839	-
Acquisition and construction of capital assets	(12,283,356)	(11,944,385)	(3,358,341)	(27,586,082)	(12,024)
Principal paid on debt maturities	(3,355,750)	(5,929,006)	(22,070)	(9,306,826)	(2,659)
Interest paid on debt maturities	(3,165,672)	(6,806,566)	(27,558)	(9,999,796)	(33)
Other capital asset transactions	(108,817)	108,817	-	-	-
Net cash provided by (used in) capital and related financing activities	(17,175,506)	(20,644,590)	(396,942)	(38,217,038)	(14,716)
Investing activities					
Interest and dividends	1,154,599	835,463	21,803	2,011,865	150,159
Net change in investments	(3,603,800)	(7,396,200)	-	(11,000,000)	-
Net cash provided by (used in) investing activities	(2,449,201)	(6,560,737)	21,803	(8,988,135)	150,159
Net increase (decrease) in cash and cash equivalents/investments	5,336,224	(10,781,182)	(98,123)	(5,543,081)	657,450
Cash and cash equivalents/investments					
Beginning of year	8,608,044	27,324,651	1,369,975	37,302,670	5,615,810
End of year	\$ 13,944,268	\$ 16,543,469	\$ 1,271,852	\$ 31,759,589	\$ 6,273,260
Cash and cash equivalents	\$ 13,944,268	\$ 16,543,469	\$ 1,271,852	\$ 31,759,589	\$ 6,273,260
Investments	20,803,800	8,196,200	-	29,000,000	-
Total cash and cash equivalents/investments	\$ 34,748,068	\$ 24,739,669	\$ 1,271,852	\$ 60,759,589	\$ 6,273,260
Unrestricted cash and equivalents/ investments	\$ 21,472,393	\$ 8,296,072	\$ 1,271,852	\$ 31,040,317	\$ 6,273,260
Restricted cash and equivalents/investments	13,275,675	16,443,597	-	29,719,272	-
Total cash and cash equivalents/investments	\$ 34,748,068	\$ 24,739,669	\$ 1,271,852	\$ 60,759,589	\$ 6,273,260

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2002

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 20,477,952	\$ 7,140,294	\$ (5,032,510)	\$ 22,585,736	\$ 12,149
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	12,881,165	11,517,250	2,350,109	26,748,524	106,534
Changes in assets/liabilities reported as noncapital financing transactions	-	-	73,378	73,378	-
Changes in assets/liabilities reported as capital and related financing transactions	-	-	292,197	292,197	-
Allowance for uncollectible accounts	(75,265)	11,920	-	(63,345)	-
Writeoff of Construction Work in Progress	483,930	-	-	483,930	-
Change in assets and liabilities					
(increase) decrease in accounts receivable	(1,202,677)	(155,786)	602,709	(755,754)	(345,054)
(Increase) decrease in inventory	176,875	(217,861)	(711)	(41,697)	(16,201)
(Increase) decrease in prepaid items	-	-	-	-	37,489
(Increase) decrease in internal balances	1,329,464	(1,329,464)	-	-	-
(Increase) decrease in other current assets	(49,675)	12,307	-	(37,368)	-
(Increase) decrease in other asset	142,761	23,400	-	166,161	-
Increase (decrease) in accounts payable and accrued liabilities	1,641,656	(633,458)	(1,194,787)	(186,589)	316,708
Increase (decrease) in accrued compensated absences	-	-	31,926	31,926	(14,512)
Increase (decrease) in deferred revenues	-	-	-	-	3,249
Increase (decrease) in overdraft payable	(2,355,222)	-	-	(2,355,222)	-
Increase (decrease) in unearned deposits	-	55,543	-	55,543	-
Total adjustments	12,973,012	9,283,851	2,154,821	24,411,684	88,213
Net cash provided by (used in) operating activities	\$ 33,450,964	\$ 16,424,145	\$ (2,877,689)	\$ 46,997,420	\$ 100,362

City of Fayetteville, North Carolina

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

	<u>Pension Trust Funds</u>	<u>Private-purpose Trust Funds</u>
Assets		
Cash and investments	\$ 58,109,009	\$ 1,254,630
Accounts receivable	8,669	71,295
Total assets	<u>58,117,678</u>	<u>1,325,925</u>
Liabilities		
Accounts payable and accrued expenses	<u>8,820</u>	<u>-</u>
Total liabilities	<u>8,820</u>	<u>-</u>
Net assets		
Held in trust	<u>\$ 58,108,858</u>	<u>\$ 1,325,925</u>

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

City of Fayetteville, North Carolina

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2002**

	Pension Trust Fund	Private-purpose Trust Funds
Additions		
Other revenue from operations	\$ -	\$ 38,280
Contributions	3,427,990	67,915
Interest earned on investments	(2,043,876)	26,946
Total additions	<u>1,384,114</u>	<u>133,141</u>
Deductions		
Benefit payments and premiums	3,246,658	93,265
Total deductions	<u>3,246,658</u>	<u>93,265</u>
Change in net assets	(1,862,544)	39,876
Total net assets - beginning	<u>59,971,402</u>	<u>1,286,049</u>
Total net assets - ending	<u>\$ 58,108,858</u>	<u>\$ 1,325,925</u>

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

City of Fayetteville, North Carolina

This page left blank intentionally

NOTES TO FINANCIAL STATEMENTS

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements

June 30, 2002

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, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

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, 2002

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 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 fund types:

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

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

C - Measurement Focus and Basis of Accounting (continued)

The City's Electric and Water and Wastewater funds, which are 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 expense 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.

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 2001 through February 2002 apply to the fiscal year ended June 30, 2002. 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 2002-2003 fiscal year and are not shown as receivables at June 30, 2002. 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, 2002 because they are intended to finance the City's operations during the 2003 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

C – Measurement Focus and Basis of Accounting (continued)

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 expenditures 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.

As required by General Statute 159-26(d), the City maintains encumbrance accounts which are considered to be "budgetary accounts." Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. At June 30, 2002, \$5,516,554 of open purchase orders and unperformed contracts were outstanding. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the Governmental Fund balance sheet and will be charged against the subsequent year's budget.

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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

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

Deposits and Investments (continued)

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, 2001. Ad valorem taxes are reported net of discounts.

Allowance for Uncollectible Receivables

The City operates electric, water and wastewater facilities and provides 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.

The receivables shown on the Statement of Net Assets are presented net of the following allowances for doubtful accounts as of June 30, 2002:

Fund	June 30, 2002
General Fund:	
Taxes receivable	\$ 1,028,748
Accounts receivable	1,233,016
Assessments receivable	79,699
Special revenue Fund	
Taxes receivable	9,224
Electric Fund:	
Accounts receivable	292,617
Water and Wastewater Fund:	
Accounts receivable	58,880
Assessments receivable	375,156
Total	<u>\$ 3,077,340</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

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

Allowance for Uncollectible Receivables (continued)

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, 2002, are recorded as prepaid items.

Restricted Assets and Liabilities

In the 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 four years. 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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

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

Capital Assets (continued)

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

Asset Class	Estimated Useful Lives (Years)
Infrastructure	15 – 50
Buildings	40
Utility plant systems	20 – 50
Improvements	4 – 15
Vehicles	4 – 20
Furniture and equipment	4 – 10
Computer equipment	3

Interest expense that relates to the cost of acquiring or constructing 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."

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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

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

Long-Term Obligations

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

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

Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

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

State law (G.S. 159-13(b) (16)) restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

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

Reserved (continued)

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 2002 - 2003 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 2001 figures have been reclassified, where appropriate, to conform with the financial statement presentation used in 2002.

The Transit II Capital Project Fund is included among the nonmajor enterprise funds in the current year. The Transit II Capital Project Fund was previously included in the Special Revenue Federal and State Financial Assistance Fund. Prior year amounts related to the Transit II Capital Project Fund, including fund balance of \$8,619, have been removed from the prior year amounts previously reported in the Federal and State Financial Assistance Fund so that they can be reported separately as an enterprise-type capital project fund.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 1 - Summary of Significant Accounting Policies (continued)

G - Use of Estimates

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

H - New Pronouncements

The City has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and related standards. This new standard provides for significant changes in terminology and presentation and for the inclusion of Management's Discussion and Analysis as required supplementary information.

In addition, the City adopted GASB Statement No. 37, *Basic Financial statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, which amended GASB Statements No. 21 and 34. Finally, the City adopted GASB Statement No. 38, *Certain Financial Statement Disclosures*, which modified disclosure requirements related to significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short term debt, disaggregating of receivable and payable balances and interfund balances and transfers.

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, 2002, the City's deposits had a carrying amount of \$7,656,102 and a bank balance of \$5,258,375. Of the bank balance, \$500,267 was covered by Federal Deposit Insurance, and \$4,758,108 was covered by collateral under the Pooling Method.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

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

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 PWC Pension Trust Fund are exempt from risk categorization because third-party custodians take delivery of the investment securities on behalf of the City. Investments in the North Carolina Capital Management Trust are exempt from custodial risk categorization because the City does not own any identifiable securities, but is a shareholder of a percentage of the fund.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Value</u>	<u>Fair Value</u>
U. S. Government Agencies	\$ 49,850,651	\$10,000,000	-	\$ 59,850,651	\$ 59,957,004
Commercial Paper	<u>1,996,597</u>	<u>4,332,795</u>	-	<u>6,329,392</u>	<u>6,329,915</u>
	<u>\$ 51,847,248</u>	<u>\$14,332,795</u>	<u>\$ -</u>	66,180,043	66,286,919
N. C. Capital Management Trust				30,457,945	30,457,945
PWC Pension Trust				<u>56,666,077</u>	<u>56,666,077</u>
				<u>\$153,304,065</u>	<u>\$ 153,410,941</u>

The above investments with maturities of more than three months amounted to \$29,000,000.

The net decrease in the fair value of the City's investments during 2002 was \$196,939. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The City's unrealized gain on investments held at year-end was \$71,864.

The City invests in callable securities to hedge against a rise in interest rates. The first permitted call date is July 10, 2002, 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.

Interest earned on investments is allocated to all funds based on the cash balances outstanding at the end of each month.

Note 3 – Note Receivable

Included in accounts receivable is a note receivable from the Airborne and Special Operations Museum Foundation for \$4,500,000. This note includes interest at the rate of 5.83%. A one-time payment of \$868,841 was required on September 30, 2002. Annual payments of \$606,491 are required beginning September 30, 2003. As discussed in note 14, the payment due September 30, 2002, was not made. While management believes the principal balance will eventually be collected in full, collection of accrued interest to date is less certain. Management has recorded an allowance of \$470,584, which is equal to the amount of accrued interest at June 30, 2002.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

Primary Government

	Balance July 1, 2001	Increases	Decreases	Transfers	Balance June 30, 2002
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 32,824,164	\$ 277,607	\$ -	\$ -	\$ 33,101,771
Construction in progress	107,889	2,265,599	-	-	2,373,488
Total capital assets not being depreciated	<u>32,932,053</u>	<u>2,543,206</u>	-	-	<u>35,475,259</u>
Capital assets being depreciated:					
Infrastructure	288,334,424	4,199,483	-	-	292,533,907
Buildings and improvements	42,306,301	76,703	(134,672)	-	42,248,332
Equipment, furniture and fixtures	14,201,330	1,215,520	(1,135,604)	3,185	14,284,431
Vehicles	19,835,043	733,597	(880,884)	-	19,687,756
Total capital assets being depreciated	<u>364,677,098</u>	<u>6,225,303</u>	<u>(2,151,160)</u>	<u>3,185</u>	<u>368,754,426</u>
Less accumulated depreciation for:					
Infrastructure	(49,378,599)	(8,263,495)	-	-	(57,642,094)
Buildings and improvements	(11,877,103)	(1,358,810)	105,728	-	(13,130,185)
Equipment, furniture and fixtures	(10,942,893)	(1,346,493)	1,040,712	(3,185)	(11,251,859)
Vehicles	(16,049,008)	(1,893,382)	809,368	-	(17,133,022)
Total accumulated depreciation	<u>(88,247,603)</u>	<u>\$ (12,862,180)</u>	<u>\$ 1,955,808</u>	<u>\$ (3,185)</u>	<u>(99,157,160)</u>
Total capital assets being depreciated, net	<u>276,429,495</u>				<u>269,597,266</u>
Governmental activity capital assets, net	<u>\$ 309,361,548</u>				<u>\$ 305,072,525</u>

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

Administration	\$ 303,893
Public safety	2,471,702
Environmental protection	546,086
Transportation	8,992,904
Economic and physical development	8,810
Recreation and community facilities	441,895
Capital assets held by certain internal service funds are charged to the various governmental functions based on the usage of the funds.	96,890
Total depreciation expense	<u>\$ 12,862,180</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 4 - Capital Assets (continued)

	Balance			Balance	
	July 1, 2001	Increases	Decreases	Transfers	June 30, 2002
Business-type activities:					
Electric Fund					
Capital assets not being depreciated:					
Land	\$ 4,405,004	\$ (40,123)	\$ (59,000)	\$ -	\$ 4,305,881
Construction in progress	11,501,430	8,894,461	(5,210,464) *	-	15,185,427
Total capital assets not being depreciated	<u>15,906,434</u>	<u>8,854,338</u>	<u>(5,269,464)</u>	-	<u>19,491,308</u>
Capital assets being depreciated:					
Electric utility system	272,944,494	5,886,268	(3,421,298)	-	275,409,464
Buildings and improvements	37,660,625	219,675	-	-	37,880,300
Equipment and machinery	7,800,670	1,312,195	(25,523)	60,336	9,147,678
Computer programs	6,293,749	682,344	(90,990)	10,341	6,895,444
Vehicles	4,550,810	40,824	(148,540)	-	4,443,094
Office equipment	2,032,716	14,238	(147,305)	215	1,899,864
Total capital assets being depreciated	<u>331,283,064</u>	<u>8,155,544</u>	<u>(3,833,656)</u>	<u>70,892</u>	<u>335,675,844</u>
Less accumulated depreciation for:					
Electric utility system	(111,972,850)	(9,764,638)	2,653,431	-	(119,084,057)
Buildings and improvements	(3,841,435)	(1,256,718)	-	-	(5,098,153)
Equipment and machinery	(3,869,183)	(503,065)	22,021	37,442	(4,312,765)
Computer programs	(3,780,414)	(905,759)	90,953	698	(4,594,522)
Vehicles	(3,732,704)	(297,080)	148,540	-	(3,881,244)
Office equipment	(1,173,462)	(153,905)	141,524	(215)	(1,186,058)
Total accumulated depreciation	<u>(128,370,028)</u>	<u>\$ (12,881,165)</u>	<u>\$ 3,056,469</u>	<u>\$ 37,925</u>	<u>(138,156,799)</u>
Total capital assets being depreciated, net	<u>202,913,036</u>				<u>197,519,045</u>
Electric fund capital assets, net	<u>\$ 218,819,470</u>				<u>\$ 217,010,353</u>
Water and Wastewater Fund					
Capital assets not being depreciated:					
Land	\$ 6,413,815	\$ 305,893	\$ -	\$ 9,200	\$ 6,728,908
Construction in progress	9,151,842	14,309,005	(15,515,739) *	-	7,945,108
Total capital assets not being depreciated	<u>15,565,657</u>	<u>14,614,898</u>	<u>(15,515,739)</u>	<u>9,200</u>	<u>14,674,016</u>
Capital assets being depreciated:					
Wastewater system	256,731,597	9,310,706	-	-	266,042,303
Water system	165,076,614	6,187,351	(77,069)	(123,726)	171,063,170
Buildings and improvements	5,299,109	55,791	-	-	5,354,900
Equipment and machinery	6,550,513	158,990	(121,045)	54,190	6,642,648
Computer programs	5,872,087	398,292	(118,809)	(10,341)	6,141,229
Vehicles	4,214,304	120,160	(189,317)	-	4,145,147
Office equipment	986,485	8,336	(82,112)	(215)	912,494
Total capital assets being depreciated	<u>444,730,709</u>	<u>16,239,626</u>	<u>(588,352)</u>	<u>(80,092)</u>	<u>460,301,891</u>
Less accumulated depreciation for:					
Wastewater system	(68,053,465)	(5,654,737)	-	-	(73,708,202)
Water system	(55,017,674)	(3,806,359)	290	-	(58,823,743)
Buildings and improvements	(1,456,670)	(183,124)	-	-	(1,639,794)
Equipment and machinery	(4,732,845)	(589,008)	107,424	(37,442)	(5,251,871)
Computer programs	(3,478,304)	(864,968)	118,772	(698)	(4,225,198)
Vehicles	(3,338,260)	(352,913)	189,317	-	(3,501,856)
Office equipment	(773,549)	(66,141)	76,081	215	(763,394)
Total accumulated depreciation	<u>(136,850,767)</u>	<u>\$ (11,517,250)</u>	<u>\$ 491,884</u>	<u>\$ (37,925)</u>	<u>(147,914,058)</u>
Total capital assets being depreciated, net	<u>307,879,942</u>				<u>312,387,833</u>
Water and Wastewater fund capital assets, net	<u>\$ 323,445,599</u>				<u>\$ 327,061,849</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 4 - Capital Assets (continued)

	Balance July 1, 2001	Increases	Decreases	Transfers	Balance June 30, 2002
Business-type activities (continued):					
Nonmajor funds					
Capital assets not being depreciated:					
Land	\$ 1,132,701	\$ -	\$ -	\$ -	\$ 1,132,701
Construction in progress	4,305,961	242,184	(4,750) *	(4,295,472)	247,923
Total capital assets not being depreciated	<u>5,438,662</u>	<u>242,184</u>	<u>(4,750)</u>	<u>(4,295,472)</u>	<u>1,380,624</u>
Capital assets being depreciated:					
Buildings and improvements	33,820,360	1,645,847	(479,373)	4,295,472	39,282,306
Furniture, fixtures and equipment	2,583,062	236,550	(737,803)	-	2,081,809
Vehicles	7,532,522	67,071	(557,848)	141,131	7,182,876
Total capital assets being depreciated	<u>43,935,944</u>	<u>1,949,468</u>	<u>(1,775,024)</u>	<u>4,436,603</u>	<u>48,546,991</u>
Less accumulated depreciation for:					
Buildings and improvements	(17,186,061)	(1,550,219)	150,068	4,196	(18,582,016)
Furniture, fixtures and equipment	(1,728,712)	(230,430)	611,510	53,757	(1,293,875)
Vehicles	(3,862,051)	(569,460)	149,757	211,450	(4,070,304)
Total accumulated depreciation	<u>(22,776,824)</u>	<u>\$ (2,350,109)</u>	<u>\$ 911,335</u>	<u>\$ 269,403</u>	<u>(23,946,195)</u>
Total capital assets being depreciated, net	<u>21,159,120</u>				<u>24,600,796</u>
Nonmajor fund capital assets, net	<u>\$ 26,597,782</u>				<u>\$ 25,981,420</u>
Business-type activities capital assets, net	<u>\$ 568,862,851</u>				<u>\$ 570,053,622</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	\$ 12,881,165
Water and Wastewater	11,517,250
Transit	845,819
Airport	1,504,290
Total depreciation expense	<u>\$ 26,748,524</u>

Note 5 - 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 \$18,335,000 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, 2002, 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%.

\$ 1,300,000

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 5 - Long-Term Obligations (continued)

A - General Obligation Indebtedness (continued)

<p>\$2,550,000 1991 Public Improvement Bonds due in various installments through June 1, 2010; interest at various rates between 5.9% and 6.25%.</p>	<p>\$ 1,300,000</p>
<p>\$6,933,215 1993 Refunding Bonds due in various annual installments through May 1, 2010; interest at various rates between 4.7% and 5%.</p>	<p>4,200,000</p>
<p>\$6,900,000 1994 Public Improvement Bonds due in various annual installments through December 1, 2016; interest at rates 6.2% and 6.25%.</p>	<p>4,800,000</p>
<p>\$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%.</p>	<p>2,470,000</p>
<p>\$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%.</p>	<p>10,700,000</p>
<p>\$2,750,000 1999 Public Improvement Bonds due in various annual installments beginning March 1, 2001 through March 1, 2017; interest at 4.30%.</p>	<p>2,300,000</p>
<p>\$4,900,000 1999 Street Improvement Bonds due in various installments beginning March 1, 2001 through March 1, 2017; interest at 4.32%.</p>	<p>4,075,000</p>
<p>\$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%.</p>	<p>3,560,000</p>
<p>\$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%.</p>	<p><u>2,350,000</u></p>
	<p><u>37,055,000</u></p>
<p>Business-type activities</p>	
<p>\$30,266,785 1993 Refunding Bonds due in various annual installments through May 1, 2010; interest at various rates between 4.75% and 5%.</p>	<p><u>18,335,000</u></p>
	<p><u>\$ 55,390,000</u></p>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 5 - Long-Term Debt (continued)

B - Revenue Bonds

The City has issued revenue bonds which have been used to finance the defeasance of certificates of participation and the construction of facilities used in the City's operations. The bonds are being retired by resources generated by the facilities' operations. Revenue bonds outstanding for the year ended June 30, 2002, 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% \$ 12,680,000

Business-type activities:

\$15,560,000 1992 Series B Electric Bonds due in various annual installments through March 1, 2003; interest at various rates between 5.4% and 5.5% 1,220,000

\$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% 64,505,000

\$34,985,000 1995 Series A Revenue Buildings/Water and Sewer Bonds due in various annual installments through March 1, 2020; interest at various rates between 4.8% and 6.75% 28,795,000

\$40,755,000 1997 Water and Sewer Bonds due in various installments through March 1, 2024; interest at various rates between 4.2% and 5.25% 38,475,000

\$19,235,000 2000 Water and Sewer Bonds due in various installments through March 1, 2021; interest at various rates between 4.30% and 5.75% 18,950,000

\$19,175,000 2001 Revenue Refunding Electric/Water and Wastewater Bonds due in various semiannual installments through March 1, 2016; interest at various rates between 3.25% and 5.50% 18,970,000

Total business-type revenue bonds 170,915,000

Total revenue bonds \$ 183,595,000

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 5 - Long-Term Obligations (continued)

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.

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%. \$ 305,000

Business-type activities

State revolving loan due in various annual installments through May 1, 2021; interest at 2.6% paid semiannually on May 1 and November 1. 7,215,371

Total \$ 7,520,371

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 2002 including interest at 4.55% \$ 5,802,824

Capital lease obligations payable in various monthly installments of approximately \$100,000 in 2002 plus interest at rates ranging from 3.40% to 5.87%. 2,039,163

Less: amount representing interest 7,841,987
Present value of the minimum lease payments 1,417,458
\$ 6,424,529

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 5 - Long-Term Debt (continued)

D - Lease Agreements (continued)

The following is an analysis of leased property under capital leases as of June 30, 2002:

Classes of Property	Cost	Depreciation	Value
Equipment	\$ 102,727	\$ 71,881	\$ 30,846
Vehicles	3,037,604	675,086	2,362,518
Buildings and improvement	5,647,518	875,875	4,771,643
Total	<u>\$ 8,787,849</u>	<u>\$ 1,622,842</u>	<u>\$ 7,165,007</u>

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, 2002:

Governmental activities:	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002	Current Portion
Bonded debt	\$ 53,145,000	\$ -	\$ 3,410,000	\$ 49,735,000	3,505,000
Capitalized leases	7,059,976	785,283	1,420,729	6,424,530	1,107,232
Notes payable	365,000	-	60,000	305,000	60,000
Arbitrage payable	273,942	-	129,865	144,077	-
Compensated absences	3,028,124	4,169,521	4,000,063	3,197,582	2,251,838
	<u>63,872,042</u>	<u>\$ 4,954,804</u>	<u>\$ 9,020,657</u>	<u>59,806,189</u>	<u>6,923,870</u>
Accrued interest reported elsewhere	665,888			624,157	-
Total governmental activities	<u>\$ 64,537,930</u>			<u>\$ 60,430,346</u>	<u>\$ 6,923,870</u>

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 5 - Long-Term Obligations (continued)

E - Changes in Long-Term Obligations

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002	Current Portion
Business-type activities:					
General obligation debt	\$ 21,155,000	\$ -	\$ 2,820,000	\$ 18,335,000	\$ 2,775,000
Revenue bonds	177,000,000	-	6,085,000	170,915,000	8,745,000
Notes payable	7,573,603	21,524	379,756	7,215,371	379,756
Compensated absences	152,496	286,112	254,186	184,422	184,422
	<u>205,881,099</u>	<u>\$ 307,636</u>	<u>\$ 9,538,942</u>	196,649,793	10,084,178
Less: loss on defeasance (net of amortization)	(6,700,077)			(6,180,237)	-
Total business-type activities	<u>\$ 199,181,022</u>			<u>\$ 190,469,556</u>	<u>\$ 10,084,178</u>
Discretely presented component units:					
Revenue bonds	\$ 363,911	\$ -	\$ 56,970	\$ 306,941	\$ 58,404
Total discretely presented component units long-term liabilities	<u>\$ 363,911</u>	<u>\$ -</u>	<u>\$ 56,970</u>	<u>\$ 306,941</u>	<u>\$ 58,404</u>

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		Notes Payable		Construction and Improvement Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 2,670,000	\$ 1,852,983	\$ 835,000	\$ 693,518	\$ 60,000	\$ 17,518	\$ 376,501	\$ 201,287
2004	2,700,000	1,717,555	865,000	651,767	60,000	13,755	376,501	184,156
2005	2,795,000	1,580,555	915,000	607,653	60,000	9,955	376,501	167,025
2006	2,780,000	1,438,157	965,000	559,615	60,000	6,123	376,501	149,895
2007	2,845,000	1,295,075	1,015,000	508,470	60,000	2,263	376,501	132,764
Thereafter	<u>23,265,000</u>	<u>5,661,912</u>	<u>8,085,000</u>	<u>2,728,757</u>	<u>5,000</u>	<u>162</u>	<u>2,635,510</u>	<u>449,683</u>
	<u>\$37,055,000</u>	<u>\$13,546,237</u>	<u>\$12,680,000</u>	<u>\$5,749,780</u>	<u>\$ 305,000</u>	<u>\$ 49,776</u>	<u>\$4,518,015</u>	<u>\$ 1,284,810</u>
Year Ended	Capitalized Leases		Total Debt Due					
	Principal	Interest	Principal	Interest				
2003	\$ 730,731	\$ 66,518	\$ 4,672,232	\$ 2,831,824				
2004	493,527	41,462	4,495,028	2,608,695				
2005	500,648	19,560	4,647,149	2,384,748				
2006	130,242	4,173	4,311,743	2,157,963				
2007	51,367	935	4,347,868	1,939,507				
Thereafter			<u>33,990,510</u>	<u>8,840,514</u>				
	<u>\$ 1,906,515</u>	<u>\$ 132,648</u>	<u>\$56,464,530</u>	<u>\$20,763,251</u>				

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 5 - Long-Term Obligations (continued)

F - Maturities of Long-Term Obligations (continued)

Business-type activities:

<u>Year Ended</u>	<u>Bonds Payable</u>		<u>Notes Payable</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 9,520,000	\$ 9,461,818	\$ 379,756	\$ 187,600	\$ 9,899,756	\$ 9,649,418
2004	10,020,000	8,988,770	379,756	177,726	10,399,756	9,166,496
2005	10,515,000	8,511,003	379,756	167,852	10,894,756	8,678,855
2006	11,070,000	8,002,785	379,756	157,979	11,449,756	8,160,764
2007	11,625,000	7,455,148	379,756	148,105	12,004,756	7,603,253
Thereafter	136,500,000	45,862,388	5,316,591	1,036,735	141,816,591	46,899,123
	<u>189,250,000</u>	<u>88,281,912</u>	<u>7,215,371</u>	<u>1,875,997</u>	<u>196,465,371</u>	<u>90,157,909</u>
Less: Loss on defeasance (net of amortization)	(6,180,237)	-	-	-	(6,180,237)	-
	<u>\$183,069,763</u>	<u>\$ 88,281,912</u>	<u>\$ 7,215,371</u>	<u>\$ 1,875,997</u>	<u>\$190,285,134</u>	<u>\$ 90,157,909</u>

In September 2002, the City entered into an arrangement with the State of North Carolina to accept an additional \$17,442,000 State Revolving Loan. This loan will be used to construct wastewater projects.

G - Legal Debt Margin

The legal debt margin of the City at June 30, 2002, approximated \$428,597,664.

H - Authorized but Unissued Debt

At June 30, 2002, the City had no bonds authorized but unissued.

I - Interest Expense

Interest expense during the year totaled \$13,003,812. 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, 2002.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 5 - 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, 2002, 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%. \$ 306,941

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

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 58,404	\$ 20,905
2004	58,404	16,525
2005	58,404	12,145
2006	58,404	7,765
2007	58,404	3,384
Thereafter	<u>14,921</u>	<u>161</u>
	\$ <u>306,941</u>	\$ <u>60,885</u>

Note 6 - Defeasance of Debt

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in 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, 2002, the amount of defeased debt outstanding but removed from the non-current liabilities of the City amounted to \$5,793,304.

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 \$6,180,237 in 2002.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 7 - Deferred 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 not yet earned (General)	\$ -	\$ 432,975
Prepaid retiree insurance premiums (Internal Service)	-	3,259
Unearned grant receipts (Special Revenue)		5,670
Taxes receivable, net (General)	2,911,754	-
Taxes receivable, net (Special Revenue)	93,102	-
Accounts and notes receivable (General)	1,286,472	-
Accounts and notes receivable (Special Revenue)	3,699,927	-
Special assessments receivable, net (General)	409,131	-
Special assessments receivable, net (Special Revenue)	7,530	-
Total	<u>\$ 8,407,916</u>	<u>\$ 441,904</u>

Note 8 - 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 \$4,830,258 for all employees for the policy ending December 31, 2001), general liability (up to \$250,000 per occurrence), workers' compensation (\$250,000 per occurrence), public officials liability (up to \$250,000 per occurrence), law enforcement liability (\$250,000 per occurrence), automobile liability (up to \$250,000 per occurrence), and property liability (\$250,000 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 prior year claims adjusted for industry standard trend adjustments, and for expenditures by the City of up to \$100,000 per employee. The self-insured (self-funded) risks for general liability, public officials liability, law enforcement liability, property liability and automobile liability was subject to an annual aggregate risk of loss of \$850,000 for the fiscal year ended June 30, 2002. 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 (\$150,000 and \$250,000 per occurrence). In addition, the Electric and Water and Wastewater Funds maintain excess liability insurance (\$1,000,000 - \$20,000,000) and workers' compensation (\$1,000,000 - \$5,000,000) to cover catastrophic losses. These funds maintain an investment account amounting to \$3,500,000 to cover possible worker's compensation claims. This investment is classified under restricted assets in the financial statements. Losses from asserted claims and from unasserted claims identified under the funds' incident reporting system are accrued based on estimates that incorporate the past experience of the Electric and Water and Wastewater funds, as well as other considerations including the nature of each claim and relevant trend factors. 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. 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, 2002

Note 8 - Risk Management (continued)

The Electric and Water and Wastewater Funds carry commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage since the prior year, and settled claims have not exceeded coverage in any of the last three fiscal years. The Electric and Water and Wastewater funds become fully self-insured for workers compensation effective July 1, 2002.

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

	<u>2002</u>	<u>2001</u>
Liability at June 30,	\$ 3,961,620	\$ 3,399,054
Current year claims and changes in estimates	11,223,529	10,349,045
Actual claim payments	<u>(10,823,297)</u>	<u>(9,786,479)</u>
Liability at June 30,	<u>\$ 4,361,852</u>	<u>\$ 3,961,620</u>

Note 9 - Commitments and Contingent Liabilities

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

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 \$44,434,178 for capital additions and construction of various electric, water and wastewater projects. At June 30, 2002, cumulative expenditures to date totaled approximately \$33,075,746 leaving an unexpended balance of \$11,358,432 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, 2002

Note 9 - Commitments and Contingent Liabilities (continued)

In March 1994, the City entered into a ten year contract with Carolina Power & Light Company (CP&L), which went into effect on July 1, 1994, for the purchase of electric power and energy. The City is required to purchase power and energy from CP&L 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 is supplied by CP&L 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, CP&L may supply the necessary power and energy to the City by running its own generation plant, or when the City is experiencing lower fuel costs, CP&L may instead run the City's plant and divide the cost savings. In return, CP&L reimburses the City for various costs of running the plant. All other power needs are supplied by a supplemental power arrangement with CP&L.

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 CP&L. 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 2011. 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, 2002, the net purchased power costs paid to CP&L was \$76,802,355. The City leases approximately 11,319 square feet of office space located in the Robert C. Williams Business Center at Lafayette Plaza. This constitutes 20% of the building which has a carrying value of \$7,927,459 and accumulated depreciation of \$565,190. 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>
2003	\$ 173,843
2004	175,312
2005	176,827
2006	143,522
Future years	<u>412,155</u>
Total	<u>\$1,081,659</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

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

For the fiscal year ended June 30, 2002, the City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$38,280 for the 116 employed firemen who perform firefighting duties for the City's fire department. These employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a monthly contribution paid by each member, investment income, and a State appropriation.

Note 11 - Employee Retirement Systems

The City maintains 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 participates in the statewide local governmental retirement system, a multiple-employer, cost-sharing public employee pension plan which covers substantially all employees.

A - Public Works Commission Retirement System

Plan Description

The Employees' Retirement Plan of the Public Works Commission of the City of Fayetteville, North Carolina is 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 are required to participate in the plan. Benefits vest after five years of credited service. Commission 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 Employees' Retirement 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. The City of Fayetteville City Council has the authority to establish and amend the retirement plan provisions. The Employees' Retirement Plan of the Public Works Commission of the City of Fayetteville issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the General Manager, Public Works Commission; P. O. Box 1089; Fayetteville, NC 28302 or by calling (910) 223-4001. The plan is reported in the City's report as a pension trust fund.

At June 30, 2002, the Plan's membership consisted of:

Retirees receiving benefits	231
Current employees	<u>538</u>
Total	<u>769</u>

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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 11 - Employee Retirement Systems (continued)

A - Public Works Commission Retirement System (continued)

Contributions

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. Plan members are required to contribute 5.5% of their annual covered salary. The Public Works Commission is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2002 was 4.85% of annual covered payroll.

The annual required contribution for the current year was determined as part of the July 1, 2001, 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 June 30, 2002. 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	\$ 941,329
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	941,329
Contributions made	<u>(684,062)</u>
Decrease in prepaid pension benefit	257,267
Prepaid pension benefit beginning of year	<u>(3,453,544)</u>
Prepaid pension benefit end of year	<u>\$ (3,196,277)</u>

Annual Pension Cost and Net Pension Obligation

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2000	\$ -	N/A	\$ (3,453,544)
2001	-	N/A	(3,453,544)
2002	941,329	72.66%	(3,196,277)

The City is considering a change in the pension plan to merge the Commission's plan with the Local Government Employees' Retirement System plan. Such changes will be considered during fiscal year 2003.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 11 - Employee Retirement Systems (continued)

B - Local Governmental Employees' Retirement System

Plan Description

The City, excluding the Electric and Water and Wastewater funds, 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, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.95% and 4.78%, respectively, of annual covered payroll. 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, for the years ended June 30, 2002, 2001 and 2000, were \$1,889,545, \$1,884,402 and \$1,715,831, respectively. The contributions made by the City equaled the required contributions for each year.

C - Law Enforcement Officers' Special Separation Allowance

Plan Description

The City administers a public employee retirement system (the "Separation Allowance"), a single-employer, defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G. S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Separation Allowance is reported in the City's report as a pension trust fund. All full-time City law enforcement officers are covered by the Separation Allowance.

At December 31, 2001, the Separation Allowance's membership consisted of:

Retirees receiving benefits	14
Active plan members	<u>284</u>
Total	<u>298</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.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 11 - Employee Retirement Systems (continued)

C - Law Enforcement Officers' Special Separation Allowance

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 \$272,141, or 2.4% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

The annual required contribution for the current year was determined as part of the December 31, 2000 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, 2000 was 30 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	\$ 259,788
Interest on net pension obligation	(17,231)
Adjustment to annual required contribution	<u>12,515</u>
Annual pension cost	255,072
Contributions made	<u>272,141</u>
Increase (decrease) in net pension obligation	(17,069)
Net pension obligation beginning of year	<u>(237,672)</u>
Net pension obligation end of year	<u>\$ (254,741)</u>

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	\$ 131,153	112.94	\$ (208,917)
2001	149,516	110.93	(237,672)
2002	255,072	106.69	(254,741)

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 11 - Employee Retirement Systems (continued)

D - Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description

The City contributes to the Supplemental Retirement Income Plan (the "Plan"), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City and also those non-law employees who choose to make their own contributions. Article 5 of G. S. Chapter 135 assigns the authority to establish and amend benefit provisions for the law enforcement officers to the North Carolina General Assembly.

Funding Policy

Article 12E of G. S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each law enforcement officer's salary, and all amounts contributed are vested immediately. The City does not make any contributions for non-law employees. All employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2002, were \$1,402,991 which consisted of \$592,029 from the City and \$810,962 from employees.

E - Defined Contribution Plan and Trust

The Electric and Water and Wastewater funds participate in a Defined Contribution Plan and Trust (Plan), administered by the Advisory Committee appointed by the City. This Plan became effective July 1, 1999. Plan provisions are established or amended by City of Fayetteville City Council resolution. The Electric and Water and Wastewater funds' employees are not allowed to contribute to this Plan. For the fiscal year ended June 30, 2002 actual contributions by the City were \$452,569. The City currently contributes up to 5.5% (.65% 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, 2002, the Plan included 528 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.

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

Plan Description

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

Funding Policy

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 12 – Post Employment Benefits

In addition to providing pension benefits, the City has elected to provide health care benefits to retirees of the City who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least ten years of creditable service with the City. The City 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, 108 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, 2002, the City made payments for post-retirement health benefit premiums of \$927,780.

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.

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, 2002, the City made contributions to the State for death benefits of \$57,941. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .15 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, 277 retirees are eligible for post-retirement death benefits. For the fiscal year ended June 30, 2002, the City made payments for post-retirement death benefits premiums of \$19,034.

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, 2002 as the amount is not material to the financial statements. As of June 30, 2002, 48 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, 2002, expenses of approximately \$266,000 were recognized for post employment healthcare.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to Financial Statements (continued)

June 30, 2002

Note 13 – Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2002, consist of the following:

Due to the General Fund from the Airport Capital Project Fund	<u>\$</u> 47,229
---------------------------------------------------------------	------------------

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2002, consist of the following:

From the General Fund to the Federal and State Financial Assistance Fund	\$ 124,366
From the General Fund to the Finance Corp Fund	1,526,393
From the General Fund to the Recreational and Cultural Fund	142,300
From the General Fund to the Transportation Fund	1,660,710
From the Electric Fund to the General Fund	8,483,328
From the Electric Fund to the Insurance Fund	6,705
From the General Fund to the Transit Fund	1,325,858
From the General Fund to the Transit Capital Project Fund	7,000
From the General Fund to the Transit II Capital Project Fund	14,997
Total	<u>\$</u> 13,291,657

Note 14 – Subsequent Events

The first payment for the \$4,500,000 note receivable (approximately \$868,000) was not received as scheduled on September 30, 2002. The note is for a development loan to build a museum on property owned by the City. As discussed in note 3, management believes the principal balance of the loan is collectible. The agreement provides that the City owns the property constructed and purchased with the loan proceeds. Such property has a value at least as great as the loan balance.

City of Fayetteville, North Carolina

This page left blank intentionally

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projects Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/96	\$ 824,181	\$ 1,147,821	\$ 323,640	71.80%	\$ 8,284,503	3.91%
12/31/97	893,619	1,241,152	347,533	72.00%	8,419,011	4.13%
12/31/98	878,608	1,337,500	458,892	65.69%	9,011,331	5.09%
12/31/99	958,824	1,435,311	476,487	66.80%	9,968,890	4.78%
12/31/00 *	1,228,812	2,728,524	1,499,712	45.04%	10,581,205	14.17%
12/31/01	1,382,479	3,074,210	1,691,731	44.97%	11,197,858	15.11%

* 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>
1992	\$ 72,055	213.73%
1993	77,695	167.32%
1994	80,563	167.57%
1995	80,084	160.83%
1996	87,240	212.25%
1997	106,748	125.18%
1998	107,318	115.48%
1999	111,500	128.32%
2000	127,606	119.29%
2001	145,228	114.21%
2002	259,788	104.76%

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, 2001
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay closed
Remaining amortization period	29 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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projects Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/97	\$ 42,525,932	\$ 45,873,459	\$ 3,347,527	92.70%	\$ 17,405,599	19.23%
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%

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>
1999	N/A	N/A
2000	N/A	N/A
2001	N/A	N/A
2002	\$ 941,329	72.67%

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, 2002
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

This page left blank intentionally

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 blank intentionally

GOVERNMENTAL FUNDS

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

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

City of Fayetteville, North Carolina

This page left blank intentionally

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, 2002 and 2001

ASSETS	2002	2001
Cash and investments	\$ 24,139,154	\$ 22,155,414
Taxes receivable	2,911,754	2,416,587
Accounts receivable	10,906,163	12,474,439
Interfund receivable	447,229	469,299
Assessments receivable	409,131	427,354
Inventories	81,347	99,612
Total assets	\$ 38,894,778	\$ 38,042,705
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued expenses	\$ 3,627,240	\$ 3,400,047
Unearned deposits	36,010	46,466
Deferred revenues	5,040,332	5,058,398
Total liabilities	8,703,582	8,504,911
Fund balances		
Fund balances:		
Reserved		
By State statute	10,066,920	11,100,033
For encumbrances	545,287	917,168
For inventories	81,347	99,612
For downtown	259,669	231,344
Unreserved		
Designated		
For subsequent years	1,713,945	1,446,143
For special purpose	4,553,122	4,070,545
For debt service	1,229,078	1,139,278
Undesignated	11,741,828	10,533,671
Total fund balances	30,191,196	29,537,794
Total liabilities and fund balances	\$ 38,894,778	\$ 38,042,705

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Revenues				
Ad valorem taxes				
Current year	\$ 32,549,115	\$ (418,453)	\$ 32,130,662	\$ 31,244,777
Prior year	769,439	49,639	819,078	789,435
Penalties	150,155	34,920	185,075	138,719
Total ad valorem taxes	33,468,709	(333,894)	33,134,815	32,172,931
Other taxes				
Local option sales tax	16,348,518	(1,074,607)	15,273,911	16,160,376
Utility franchise tax	4,172,859	(1,139,452)	3,033,407	4,771,319
Intangible tax reimbursement	530,250	50,502	580,752	598,325
Homestead exemption	40,500	(40,500)	-	40,584
Tax reimbursements	761,927	(320,535)	441,392	691,865
Vehicle license tax	405,110	(3,783)	401,327	396,590
Privilege license	651,850	39,381	691,231	637,683
Cablevision franchise tax	1,230,018	(126,297)	1,103,721	1,217,801
Vehicle gross receipt	271,625	27,973	299,598	269,824
Total other taxes	24,412,657	(2,587,318)	21,825,339	24,784,367
Intergovernmental				
Federal	-	105,775	105,775	218,102
State	4,641,893	(519,532)	4,122,361	4,720,478
Local	522,157	(65,635)	456,522	455,873
Total intergovernmental	5,164,050	(479,392)	4,684,658	5,394,453
Other functional				
Permits and fees	1,043,150	(32,056)	1,011,094	985,907
Property leases	280,180	(32,526)	247,654	265,490
Engineering services	1,173,772	(399,918)	773,854	1,013,795
Public safety services	400,082	8,060	408,142	424,613
Environmental services	58,700	12,389	71,089	43,532
Recreation and cultural services	409,600	75,035	484,635	393,762
Parking revenues	61,035	6,192	67,227	53,359
Other fees and services	89,100	(27,948)	61,152	75,557
Total other functional	3,515,619	(390,772)	3,124,847	3,256,015
Miscellaneous				
Refunds and sundry	11,590	591,472	603,062	455,923
Indirect cost allocation	718,400	90,019	808,419	760,271
Special use assessment	63,780	78,306	142,086	145,440
Sale of assets	130,000	(27,803)	102,197	4,151
Total miscellaneous	923,770	731,994	1,655,764	1,365,785
Interest earned on investments	1,338,000	(119,598)	1,218,402	2,244,282
Total revenues	68,822,805	(3,178,980)	65,643,825	69,217,833

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Expenditures				
Current				
Administration				
Legislative				
Personnel	\$ 270,402	\$ (14,220)	\$ 284,622	\$ 278,454
Operating	261,918	8,900	253,018	189,450
Assets	7,067	7,067	-	-
	<u>539,387</u>	<u>1,747</u>	<u>537,640</u>	<u>467,904</u>
City attorney				
Personnel	291,052	51,590	239,462	321,066
Operating	443,098	44,535	398,563	593,862
Assets	6,005	6,005	-	-
	<u>740,155</u>	<u>102,130</u>	<u>638,025</u>	<u>914,928</u>
Executive department				
Personnel	657,782	8,173	649,609	625,763
Operating	291,589	142,452	149,137	156,280
Assets	4,948	4,948	-	3,083
	<u>954,319</u>	<u>155,573</u>	<u>798,746</u>	<u>785,126</u>
Support services				
Personnel	1,007,922	14,163	993,759	977,427
Operating	731,774	233,026	498,748	495,326
Assets	28,005	7,586	20,419	140,063
Inventory	135,186	7,755	127,431	136,288
Cost redistribution	(179,247)	(10,944)	(168,303)	(190,561)
	<u>1,723,640</u>	<u>251,586</u>	<u>1,472,054</u>	<u>1,558,543</u>
Human relations department				
Personnel	196,095	2,906	193,189	143,305
Operating	50,868	16,312	34,556	48,477
Assets	6,200	6,200	-	1,741
Payments to agencies	500	500	-	500
	<u>253,663</u>	<u>25,918</u>	<u>227,745</u>	<u>194,023</u>
Finance department				
Personnel	975,591	29,189	946,402	936,276
Operating	761,559	67,139	694,420	642,215
Assets	8,846	8,846	-	14,706
Inventory	673,800	163,441	510,359	649,831
Cost redistribution	(735,800)	(159,472)	(576,328)	(717,956)
	<u>1,683,996</u>	<u>109,143</u>	<u>1,574,853</u>	<u>1,525,072</u>
General government				
Personnel	2,043	-	2,043	4,896
Operating	2,839,384	2,019,046	820,338	665,063
Payments to agencies	671,791	162,182	509,609	605,952
	<u>3,513,218</u>	<u>2,181,228</u>	<u>1,331,990</u>	<u>1,275,911</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Expenditures (continued)				
Current (continued)				
Administration (continued)				
Public buildings				
Personnel	\$ 819,073	\$ 17,893	\$ 801,180	\$ 1,150,786
Operating	793,897	142,716	651,181	866,167
Assets	28,680	23,647	5,033	26,232
	<u>1,641,650</u>	<u>184,256</u>	<u>1,457,394</u>	<u>2,043,185</u>
Project management				
Personnel	277,536	30,128	247,408	350,050
Operating	18,087	3,852	14,235	43,520
	<u>295,623</u>	<u>33,980</u>	<u>261,643</u>	<u>393,570</u>
Total administration	<u>11,345,651</u>	<u>3,045,561</u>	<u>8,300,090</u>	<u>9,158,262</u>
Public safety				
Police				
Personnel	19,369,203	5,204	19,363,999	18,123,938
Operating	2,768,524	158,938	2,609,586	2,530,879
Assets	498,668	75,464	423,204	930,171
Payments to agencies	3,000	-	3,000	-
Cost redistribution	(18,310)	11,660	(29,970)	(19,441)
	<u>22,621,085</u>	<u>251,266</u>	<u>22,369,819</u>	<u>21,565,547</u>
Fire				
Personnel	11,364,824	138,628	11,226,196	10,458,216
Operating	1,548,333	168,487	1,379,846	1,389,878
Assets	322,964	45,619	277,345	1,071,840
Cost redistribution	(86,185)	1,702	(87,887)	(84,036)
	<u>13,149,936</u>	<u>354,436</u>	<u>12,795,500</u>	<u>12,835,898</u>
Inspections				
Personnel	1,466,664	7,320	1,459,344	1,355,467
Operating	325,816	106,232	219,584	215,531
Assets	7,688	7,688	-	-
	<u>1,800,168</u>	<u>121,240</u>	<u>1,678,928</u>	<u>1,570,998</u>
Total public safety	<u>37,571,189</u>	<u>726,942</u>	<u>36,844,247</u>	<u>35,972,443</u>
Environmental protection				
Solid waste				
Personnel	2,425,154	37,302	2,387,852	2,246,353
Operating	2,715,622	577,621	2,138,001	2,349,561
Assets	71,240	71,200	40	63,997
Cost redistribution	(50,000)	8,352	(58,352)	(48,277)
	<u>5,162,016</u>	<u>694,475</u>	<u>4,467,541</u>	<u>4,611,634</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Expenditures (continued)				
Current (continued)				
Environmental protection				
(continued)				
Cemeteries				
Personnel	\$ 134,255	\$ 285	\$ 133,970	\$ 149,747
Operating	23,463	10,000	13,463	8,963
Assets	16,500	-	16,500	-
	<u>174,218</u>	<u>10,285</u>	<u>163,933</u>	<u>158,710</u>
Total environmental protection	<u>5,336,234</u>	<u>704,760</u>	<u>4,631,474</u>	<u>4,770,344</u>
Transportation				
Streets				
Personnel	1,769,231	68,520	1,700,711	1,832,186
Operating	3,070,788	169,043	2,901,745	3,153,904
Assets	56,155	30,893	25,262	135,750
Cost redistribution	(137,268)	5,893	(143,161)	(146,234)
	<u>4,758,906</u>	<u>274,349</u>	<u>4,484,557</u>	<u>4,975,606</u>
Engineering				
Personnel	1,044,095	11,649	1,032,446	864,024
Operating	159,602	77,754	81,848	168,335
Assets	10,500	501	9,999	15,512
Cost redistribution	-	1,781	(1,781)	(2,535)
	<u>1,214,197</u>	<u>91,685</u>	<u>1,122,512</u>	<u>1,045,336</u>
Parking				
Personnel	-	-	-	79,310
Operating	256,535	66,259	190,276	82,863
	<u>256,535</u>	<u>66,259</u>	<u>190,276</u>	<u>162,173</u>
Total transportation	<u>6,229,638</u>	<u>432,293</u>	<u>5,797,345</u>	<u>6,183,115</u>
Economic and physical development				
Central business district				
Operating	45,113	(12,289)	57,402	11,270
Community development				
Personnel	157,186	(1,244)	158,430	152,817
Operating	185,329	141,721	43,608	15,038
	<u>342,515</u>	<u>140,477</u>	<u>202,038</u>	<u>167,855</u>
Planning and development				
Personnel	423,628	10,058	413,570	424,684
Operating	147,224	31,971	115,253	265,319
Assets	6,560	6,560	-	-
Payments to agencies	52,921	43,977	8,944	10,579
Cost redistribution	-	678	(678)	-
	<u>630,333</u>	<u>93,244</u>	<u>537,089</u>	<u>700,582</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Expenditures (continued)				
Current (continued)				
Economic and physical development (continued)				
Total economic and physical development	\$ 1,017,961	\$ 221,432	\$ 796,529	\$ 879,707
Recreation and community facilities				
Parks				
Personnel	2,433,197	13,981	2,419,216	2,357,785
Operating	1,518,732	393,533	1,125,199	1,547,971
Assets	1,148,315	622,250	526,065	252,097
Cost redistribution	(53,982)	(4,655)	(49,327)	(48,930)
	<u>5,046,262</u>	<u>1,025,109</u>	<u>4,021,153</u>	<u>4,108,923</u>
Recreation				
Personnel	2,027,853	703	2,027,150	1,846,196
Operating	862,089	135,036	727,053	765,177
Assets	9,306	3,924	5,382	109,323
	<u>2,899,248</u>	<u>139,663</u>	<u>2,759,585</u>	<u>2,720,696</u>
Total recreation and community facilities	<u>7,945,510</u>	<u>1,164,772</u>	<u>6,780,738</u>	<u>6,829,619</u>
Debt service	<u>6,367,824</u>	<u>60,837</u>	<u>6,306,987</u>	<u>6,856,788</u>
Total expenditures	<u>75,814,007</u>	<u>6,356,597</u>	<u>69,457,410</u>	<u>70,650,278</u>
Revenues over (under) expenditures	<u>(6,991,202)</u>	<u>3,177,617</u>	<u>(3,813,585)</u>	<u>(1,432,445)</u>
Other financing sources (uses)				
Appropriated fund balance	3,564,003	(3,564,003)	-	-
Transfers in	8,436,156	47,172	8,483,328	9,714,198
Transfers (out)	(5,008,957)	207,333	(4,801,624)	(6,853,081)
Proceeds from capital leases, bonds and other debt	-	785,283	785,283	2,006,688
	<u>6,991,202</u>	<u>(2,524,215)</u>	<u>4,466,987</u>	<u>4,867,805</u>
Total other financing sources (uses)	<u>6,991,202</u>	<u>(2,524,215)</u>	<u>4,466,987</u>	<u>4,867,805</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 653,402</u>	<u>653,402</u>	<u>3,435,360</u>
Fund balance				
Beginning of year - July 1			<u>29,537,794</u>	<u>26,102,434</u>
End of year - June 30			<u>\$ 30,191,196</u>	<u>\$ 29,537,794</u>

City of Fayetteville, North Carolina

This page left blank intentionally

NONMAJOR GOVERNMENTAL FUNDS

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2002**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Assets			
Cash and investments	\$ 5,779,488	\$ 9,535,137	\$ 15,314,625
Taxes receivable	93,102	-	93,102
Accounts receivable	4,284,066	273,497	4,557,563
Assessments receivable	7,530	-	7,530
Total assets	\$ 10,164,186	\$ 9,808,634	\$ 19,972,820
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 406,867	\$ 870,334	\$ 1,277,201
Deferred revenues	3,806,229	-	3,806,229
Total liabilities	4,213,096	870,334	5,083,430
Fund balances:			
Reserved			
By State statute	584,138	273,497	857,635
For encumbrances	1,678,617	3,292,650	4,971,267
For wireless 911	23,628	-	23,628
Unreserved			
Designated			
For subsequent years	644,530	5,418,130	6,062,660
Undesignated	3,020,177	(45,977)	2,974,200
Total fund balances	5,951,090	8,938,300	14,889,390
Total liabilities and fund balances	\$ 10,164,186	\$ 9,808,634	\$ 19,972,820

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2002**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Other taxes	\$ 3,024,985	\$ -	\$ 3,024,985
Intergovernmental	2,898,026	160,905	3,058,931
Miscellaneous	262,616	206,125	468,741
Interest earned on investments	196,363	164,678	361,041
Total revenues	<u>6,381,990</u>	<u>531,708</u>	<u>6,913,698</u>
Expenditures			
Current:			
Administration	-	204,605	204,605
Public safety	1,497,861	-	1,497,861
Environmental protection	2,745,684	-	2,745,684
Transportation	-	2,357,712	2,357,712
Economic and physical development	2,722,474	4,032,554	6,755,028
Recreation and community facilities	-	114,169	114,169
Debt service:			
Principal	867,665	-	867,665
Interest and fees	754,267	-	754,267
Total expenditures	<u>8,587,951</u>	<u>6,709,040</u>	<u>15,296,991</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,205,961)</u>	<u>(6,177,332)</u>	<u>(8,383,293)</u>
Other financing sources (uses)			
Transfers in	1,650,759	1,803,010	3,453,769
Total other financing sources (uses)	<u>1,650,759</u>	<u>1,803,010</u>	<u>3,453,769</u>
Net change in fund balances	<u>(555,202)</u>	<u>(4,374,322)</u>	<u>(4,929,524)</u>
Fund balance - beginning	<u>6,506,292</u>	<u>13,312,622</u>	<u>19,818,914</u>
Fund balance - ending	<u>\$ 5,951,090</u>	<u>\$ 8,938,300</u>	<u>\$ 14,889,390</u>

City of Fayetteville, North Carolina

This page left blank intentionally

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, 2002**

	Emergency Response Fund	Federal and State Financial Assistance Fund	Storm Water Management Fund	Fayetteville Finance Corp Fund	Total Nonmajor Special Revenue Funds
Assets					
Cash and investments	\$ 1,571,874	\$ 443,080	\$ 3,762,148	\$ 2,386	\$ 5,779,488
Taxes receivable	-	-	93,102	-	93,102
Accounts receivable	82,256	4,171,601	30,209	-	4,284,066
Assessments receivable	-	7,530	-	-	7,530
Total assets	\$ 1,654,130	\$ 4,622,211	\$ 3,885,459	\$ 2,386	\$ 10,164,186
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 3,804	\$ 246,105	\$ 156,958	\$ -	\$ 406,867
Deferred revenues	-	3,713,127	93,102	-	3,806,229
Total liabilities	3,804	3,959,232	250,060	-	4,213,096
Fund balances:					
Reserved					
By State statute	82,256	471,673	30,209	-	584,138
For encumbrances	1,283	322,853	1,354,481	-	1,678,617
For wireless 911	23,628	-	-	-	23,628
Unreserved					
Designated					
For subsequent years	72,373	-	572,157	-	644,530
Undesignated	1,470,786	(131,547)	1,678,552	2,386	3,020,177
Total fund balances	1,650,326	662,979	3,635,399	2,386	5,951,090
Total liabilities and fund balances	\$ 1,654,130	\$ 4,622,211	\$ 3,885,459	\$ 2,386	\$ 10,164,186

CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2002

	Emergency Response Fund	Federal and State Financial Assistance Fund	Storm Water Management Fund	Fayetteville Finance Corp Fund	Total Nonmajor Special Revenue Funds
Revenues					
Other taxes	\$ 1,042,770	\$ -	\$ 1,982,215	\$ -	\$ 3,024,985
Intergovernmental	-	2,898,026	-	-	2,898,026
Miscellaneous	-	262,616	-	-	262,616
Interest earned on investments	52,920	-	142,919	524	196,363
Total revenues	<u>1,095,690</u>	<u>3,160,642</u>	<u>2,125,134</u>	<u>524</u>	<u>6,381,990</u>
Expenditures					
Current:					
Public safety	884,708	613,153	-	-	1,497,861
Environmental protection	-	-	2,745,684	-	2,745,684
Economic and physical development	-	2,719,099	-	3,375	2,722,474
Debt service:					
Principal	17,665	60,000	-	790,000	867,665
Interest and fees	-	21,249	-	733,018	754,267
Total expenditures	<u>902,373</u>	<u>3,413,501</u>	<u>2,745,684</u>	<u>1,526,393</u>	<u>8,587,951</u>
Excess (deficiency) of revenues over (under) expenditures	<u>193,317</u>	<u>(252,859)</u>	<u>(620,550)</u>	<u>(1,525,869)</u>	<u>(2,205,961)</u>
Other financing sources (uses)					
Transfers in	-	124,366	-	1,526,393	1,650,759
Total other financing sources (uses)	<u>-</u>	<u>124,366</u>	<u>-</u>	<u>1,526,393</u>	<u>1,650,759</u>
Net change in fund balances	193,317	(128,493)	(620,550)	524	(555,202)
Fund balance - beginning	<u>1,457,009</u>	<u>791,472</u>	<u>4,255,949</u>	<u>1,862</u>	<u>6,506,292</u>
Fund balance - ending	<u>\$ 1,650,326</u>	<u>\$ 662,979</u>	<u>\$ 3,635,399</u>	<u>\$ 2,386</u>	<u>\$ 5,951,090</u>

City of Fayetteville, North Carolina

This page left blank intentionally

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002
(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Revenues				
Other taxes				
Subscribers' tax	\$ 937,555	\$ (41,314)	\$ 896,241	\$ 900,193
Wireless 911 funds	99,060	47,469	146,529	117,315
Total other taxes	<u>1,036,615</u>	<u>6,155</u>	<u>1,042,770</u>	<u>1,017,508</u>
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,436</u>
Interest earned on investments				
Wireless 911	-	491	491	6,551
Enhanced 911	56,800	(4,371)	52,429	74,430
Total interest earned on investments	<u>56,800</u>	<u>(3,880)</u>	<u>52,920</u>	<u>80,981</u>
Total revenues	<u>1,093,415</u>	<u>2,275</u>	<u>1,095,690</u>	<u>1,108,925</u>
Expenditures				
Current				
Public safety				
Wireless 911				
Operating	153,293	(1,971)	155,264	149,061
Assets	-	(24,338)	24,338	23,343
	<u>153,293</u>	<u>(26,309)</u>	<u>179,602</u>	<u>172,404</u>
Enhanced 911				
Personnel	309,185	87,390	221,795	238,618
Operating	466,335	122,854	343,481	335,683
Assets	63,629	27,122	36,507	35,014
Cost redistribution	83,308	(20,015)	103,323	87,392
	<u>922,457</u>	<u>217,351</u>	<u>705,106</u>	<u>696,707</u>
Total public safety	<u>1,075,750</u>	<u>191,042</u>	<u>884,708</u>	<u>869,111</u>
Debt service				
Wireless 911	-	(7,066)	7,066	8,244
Enhanced 911	17,665	7,066	10,599	15,309
Total debt service	<u>17,665</u>	<u>-</u>	<u>17,665</u>	<u>23,553</u>
Total expenditures	<u>1,093,415</u>	<u>191,042</u>	<u>902,373</u>	<u>892,664</u>
Revenues over (under) expenditures	<u>-</u>	<u>193,317</u>	<u>193,317</u>	<u>216,261</u>
Other financing sources (uses)				
Transfers in	-	-	-	120,058
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,058</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 193,317</u>	<u>193,317</u>	<u>336,319</u>
Fund balance				
Beginning of year - July 1			1,457,009	1,120,690
End of year - June 30			<u>\$ 1,650,326</u>	<u>\$ 1,457,009</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, 2002

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
Federal grants	\$ 7,488,893	\$ 12,136,834	\$ 9,152,174	\$ 2,708,452	\$ 5,693,112
State grants	1,082,443	1,145,500	143,244	180,931	1,183,187
County	33,364	40,220	19,190	8,643	29,673
Total intergovernmental	<u>8,604,700</u>	<u>13,322,554</u>	<u>9,314,608</u>	<u>2,898,026</u>	<u>6,905,972</u>
Miscellaneous					
Other	644,907	1,480,261	963,135	262,616	779,742
Total revenues	<u>9,249,607</u>	<u>14,802,815</u>	<u>10,277,743</u>	<u>3,160,642</u>	<u>7,685,714</u>
Expenditures					
Current					
Public safety	3,491,285	2,666,382	172,610	613,153	3,106,925
Economic and physical development	5,785,831	11,559,904	10,275,117	2,719,099	4,003,886
Total expenditures	<u>9,277,116</u>	<u>14,226,286</u>	<u>10,447,727</u>	<u>3,332,252</u>	<u>7,110,811</u>
Revenues over (under) expenditures	<u>(27,509)</u>	<u>576,529</u>	<u>(169,984)</u>	<u>(171,610)</u>	<u>574,903</u>
Other financing sources (uses)					
Transfers in	567,163	822,501	349,894	124,366	596,973
Transfers (out)	(234,319)	(234,320)	-	-	(234,320)
Debt service	(305,335)	(373,244)	(179,910)	(81,249)	(274,583)
Owner contributions	-	6	-	-	6
Total other financing sources (uses)	<u>27,509</u>	<u>214,943</u>	<u>169,984</u>	<u>43,117</u>	<u>88,076</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 791,472</u>	<u>\$ -</u>	<u>(128,493)</u>	<u>\$ 662,979</u>
Fund balance					
Beginning of year - July 1				<u>791,472</u>	
End of year - June 30				<u>\$ 662,979</u>	

Note: The Transit II Capital Project Fund was previously included in the Special Revenue Federal and State Financial Assistance Fund. Prior year amounts related to the Transit II Capital Project Fund, including fund balance of \$8,619, have been removed from the prior year amounts previously reported in the Federal and State Financial Assistance Fund so that they can be reported separately as an enterprise-type capital project fund.

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, 2002

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Expenditures by project:					
Public safety					
Federal Forfeiture	\$ 1,594,304	\$ 1,313,849	\$ -	\$ 177,815	\$ 1,491,664
GHSP	155,200	132,666	-	9,469	142,135
Juvenile Restitution	97,016	172,610	172,610	86,837	86,837
Juvenile Assessment Center	189,651	168,215	-	-	168,215
Law Enforcement Block Grant	877,755	301,683	-	339,032	640,715
Mobile Data Computer Project	170,484	170,484	-	-	170,484
Police Block Grant	406,875	406,875	-	-	406,875
Total public safety	<u>3,491,285</u>	<u>2,666,382</u>	<u>172,610</u>	<u>613,153</u>	<u>3,106,925</u>
Economic and physical development					
Community Development Block Grant	3,826,442	6,314,488	5,329,850	1,305,606	2,290,244
Arsenal Park Archaeological	43,459	43,362	-	-	43,362
Disaster Recovery Initiative	-	320,093	320,093	-	-
Assessment Payment	15,000	10,609	-	-	10,609
HOME	1,900,930	4,871,352	4,625,174	1,413,493	1,659,671
Total economic and physical development	<u>5,785,831</u>	<u>11,559,904</u>	<u>10,275,117</u>	<u>2,719,099</u>	<u>4,003,886</u>
Total expenditures by project	<u>\$ 9,277,116</u>	<u>\$ 14,226,286</u>	<u>\$ 10,447,727</u>	<u>\$ 3,332,252</u>	<u>\$ 7,110,811</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002
(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Revenues				
Other taxes				
Storm water tax	\$ 2,045,079	\$ (75,345)	\$ 1,969,734	\$ 1,948,454
Penalties	12,000	481	12,481	9,956
Total other taxes	<u>2,057,079</u>	<u>(74,864)</u>	<u>1,982,215</u>	<u>1,958,410</u>
Interest earned on investments	<u>165,000</u>	<u>(22,081)</u>	<u>142,919</u>	<u>310,273</u>
Total revenues	<u>2,222,079</u>	<u>(96,945)</u>	<u>2,125,134</u>	<u>2,268,683</u>
Expenditures				
Current				
Environmental protection				
Personnel	958,133	23,887	934,246	655,694
Operating	2,658,559	1,208,954	1,449,605	993,435
Assets	84,144	(1,500)	85,644	165,251
Cost redistribution	269,229	(6,960)	276,189	243,697
Total environmental protection	<u>3,970,065</u>	<u>1,224,381</u>	<u>2,745,684</u>	<u>2,058,077</u>
Revenues over (under) expenditures	<u>(1,747,986)</u>	<u>1,127,436</u>	<u>(620,550)</u>	<u>210,606</u>
Other financing sources (uses)				
Transfers out	(137,147)	137,147	-	-
Appropriated fund balance	1,885,133	(1,885,133)	-	-
Total other financing sources (uses)	<u>1,747,986</u>	<u>(1,747,986)</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (620,550)</u>	<u>(620,550)</u>	<u>210,606</u>
Fund balance				
Beginning of year - July 1			<u>4,255,949</u>	<u>4,045,343</u>
End of year - June 30			<u>\$ 3,635,399</u>	<u>\$ 4,255,949</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, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2002 Actual</u>	<u>2001 Actual</u>
Revenues				
Interest earned on investments	\$ -	\$ 524	\$ 524	\$ 947
Expenditures				
Current				
Economic and physical development				
Operating	3,825	450	3,375	3,491
Debt service	1,523,018	-	1,523,018	1,529,497
Total expenditures	<u>1,526,843</u>	<u>450</u>	<u>1,526,393</u>	<u>1,532,988</u>
Revenues over (under) expenditures	<u>(1,526,843)</u>	<u>974</u>	<u>(1,525,869)</u>	<u>(1,532,041)</u>
Other financing sources (uses)				
Transfers in	1,526,843	(450)	1,526,393	1,533,163
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 524</u>	524	1,122
Fund balance				
Beginning of year - July 1			1,862	740
End of year - June 30			<u>\$ 2,386</u>	<u>\$ 1,862</u>

City of Fayetteville, North Carolina

This page left blank intentionally

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, 2002

	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Bond Improvement Fund	Economic and		Total Nonmajor Capital Project Funds
						Physical Development Fund	Capital Project Funds	
Assets								
Cash and investments	\$ 583,548	\$ 13,013	\$ 849,033	\$ 4,493,063	\$ 3,313,590	\$ 282,890	\$ 9,535,137	
Accounts receivable	-	477	33,049	9,125	14,883	215,963	273,497	
Total assets	\$ 583,548	\$ 13,490	\$ 882,082	\$ 4,502,188	\$ 3,328,473	\$ 498,853	\$ 9,808,634	
Liabilities and fund balances								
Liabilities:								
Accounts payable and accrued expenses	\$ 43,971	\$ 4,782	\$ 42,271	\$ 470,533	\$ 287,798	\$ 20,979	\$ 870,334	
Total liabilities	43,971	4,782	42,271	470,533	287,798	20,979	870,334	
Fund balances:								
Reserved								
By State statute	-	477	33,049	9,125	14,883	215,963	273,497	
For encumbrances	61,212	-	297,962	1,690,196	935,392	307,888	3,292,650	
Unreserved								
Designated								
For subsequent years	478,365	8,231	508,800	2,332,334	2,090,400	-	5,418,130	
Undesignated	-	-	-	-	-	(45,977)	(45,977)	
Total fund balances	539,577	8,708	839,811	4,031,655	3,040,675	477,874	8,938,300	
Total liabilities and fund balances	\$ 583,548	\$ 13,490	\$ 882,082	\$ 4,502,188	\$ 3,328,473	\$ 498,853	\$ 9,808,634	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Capital Project Funds
 Year Ended June 30, 2002

	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
Revenues							
Intergovernmental	\$ -	\$ -	\$ 31,447	\$ (2,528)	\$ -	\$ 131,986	\$ 160,905
Miscellaneous	-	-	-	11,477	-	194,648	206,125
Interest earned on investments	-	-	18,954	-	145,724	-	164,678
Total revenues	-	-	50,401	8,949	145,724	326,634	531,708
Expenditures							
Current:							
Administration	204,605	-	-	-	-	-	204,605
Transportation	-	-	-	2,357,712	-	-	2,357,712
Economic and physical development	-	-	-	-	3,710,520	322,034	4,032,554
Recreation and community facilities	-	-	114,169	-	-	-	114,169
Total expenditures	204,605	-	114,169	2,357,712	3,710,520	322,034	6,709,040
Excess (deficiency) of revenues over (under) expenditures	(204,605)	-	(63,768)	(2,348,763)	(3,564,796)	4,600	(6,177,332)
Other financing sources (uses)							
Transfers in	-	-	142,300	1,660,710	-	-	1,803,010
Total other financing sources (uses)	-	-	142,300	1,660,710	-	-	1,803,010
Net change in fund balances	(204,605)	-	78,532	(688,053)	(3,564,796)	4,600	(4,374,322)
Fund balance - beginning	744,182	8,708	761,279	4,719,708	6,605,471	473,274	13,312,622
Fund balance - ending	\$ 539,577	\$ 8,708	\$ 839,811	\$ 4,031,655	\$ 3,040,675	\$ 477,874	\$ 8,938,300

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, 2002

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures					
Current					
Administration					
Information technology	756,711	12,529	-	204,605	217,134
Total expenditures	<u>756,711</u>	<u>12,529</u>	<u>-</u>	<u>204,605</u>	<u>217,134</u>
Revenues over (under) expenditures	<u>(756,711)</u>	<u>(12,529)</u>	<u>-</u>	<u>(204,605)</u>	<u>(217,134)</u>
Other financing sources (uses)					
Transfers in	756,711	756,711	-	-	756,711
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 744,182</u>	<u>\$ -</u>	<u>(204,605)</u>	<u>\$ 539,577</u>
Fund balance					
Beginning of year - July 1				744,182	
End of year - June 30				<u>\$ 539,577</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, 2002

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

From Inception And For Year Ended June 30, 2002

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
Federal grants/contributions	\$ 1,270,287	\$ -	\$ -	\$ -	\$ -
State grants/contributions	550,000	250,000	-	31,447	281,447
Total intergovernmental	<u>1,820,287</u>	<u>250,000</u>	<u>-</u>	<u>31,447</u>	<u>281,447</u>
Interest earned on investments	114,970	155,214	-	18,954	174,168
Total revenues	<u>1,935,257</u>	<u>405,214</u>	<u>-</u>	<u>50,401</u>	<u>455,615</u>
Expenditures					
Current					
Recreational and community facilities					
Mazarick Park Greenway Trail	317,300	120	-	31,328	31,448
Cape Fear River Trail	1,770,287	38,719	-	57,777	96,496
Park improvements	150,000	-	-	9,066	9,066
Recreation centers	4,148,006	4,097,631	-	(2)	4,097,629
Arsenal Park	173,826	155,401	-	-	155,401
Freedom Park	125,000	-	-	16,000	16,000
Seabrook Pool	605,000	602,644	-	-	602,644
Total expenditures	<u>7,289,419</u>	<u>4,894,515</u>	<u>-</u>	<u>114,169</u>	<u>5,008,684</u>
Revenues over (under) expenditures	<u>(5,354,162)</u>	<u>(4,489,301)</u>	<u>-</u>	<u>(63,768)</u>	<u>(4,553,069)</u>
Other financing sources (uses)					
Transfers in	716,126	612,544	-	142,300	754,844
Proceeds from capital leases, bonds and other debt	4,638,036	4,638,036	-	-	4,638,036
Total other financing sources (uses)	<u>5,354,162</u>	<u>5,250,580</u>	<u>-</u>	<u>142,300</u>	<u>5,392,880</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 761,279</u>	<u>\$ -</u>	<u>78,532</u>	<u>\$ 839,811</u>
Fund balance					
Beginning of year - July 1				<u>761,279</u>	
End of year - June 30				<u>\$ 839,811</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, 2002

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
State grants	\$ 84,000	\$ 234,000	\$ -	\$ (2,528)	\$ 231,472
Miscellaneous					
Owner contribution	25,000	31,378	-	-	31,378
Other	93,346	93,346	-	11,477	104,823
Total miscellaneous	118,346	124,724	-	11,477	136,201
Total revenues	202,346	358,724	-	8,949	367,673
Expenditures					
Current					
Transportation					
Traffic control system	962,150	749,814	-	212,336	962,150
Sidewalks	456,463	-	-	-	-
Parking improvements	1,255,744	630,590	-	172,958	803,648
Transportation improvements	10,706,172	5,697,920	-	1,972,418	7,670,338
Total expenditures	13,380,529	7,078,424	-	2,357,712	9,436,136
Revenues over (under) expenditures	(13,178,183)	(6,719,700)	-	(2,348,763)	(9,068,463)
Other financing sources (uses)					
Transfers in	13,197,872	11,459,097	-	1,660,710	13,119,807
Transfers (out)	(19,689)	(19,689)	-	-	(19,689)
Total other financing sources (uses)	13,178,183	11,439,408	-	1,660,710	13,100,118
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 4,719,708	\$ -	(688,053)	\$ 4,031,655
Fund balance					
Beginning of year - July 1				4,719,708	
End of year - June 30				<u>\$ 4,031,655</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, 2002

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Interest earned on investments	\$ 2,525,556	\$ 2,391,603	\$ -	\$ 145,724	\$ 2,537,327
Expenditures					
Current					
Economic and physical development					
Bond administration	1,743,060	567,848	-	531,675	1,099,523
Streets	19,916,601	13,880,484	-	2,368,463	16,248,947
Debt service	618,705	618,704	-	1	618,705
Sidewalks	2,411,182	2,244,698	-	279	2,244,977
Drainage	6,912,981	5,935,096	-	810,102	6,745,198
Total expenditures	<u>31,602,529</u>	<u>23,246,830</u>	<u>-</u>	<u>3,710,520</u>	<u>26,957,350</u>
Revenues over (under) expenditures	<u>(29,076,973)</u>	<u>(20,855,227)</u>	<u>-</u>	<u>(3,564,796)</u>	<u>(24,420,023)</u>
Other financing sources (uses)					
Proceeds from capital leases, bonds and other debt	29,076,973	27,460,698	-	-	27,460,698
Total other financing sources (uses)	<u>29,076,973</u>	<u>27,460,698</u>	<u>-</u>	<u>-</u>	<u>27,460,698</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 6,605,471</u>	<u>\$ -</u>	<u>(3,564,796)</u>	<u>\$ 3,040,675</u>
Fund balance					
Beginning of year - July 1				<u>6,605,471</u>	
End of year - June 30				<u>\$ 3,040,675</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, 2002

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
Federal grants	\$ 350,000	\$ 126,447	\$ -	\$ 25,794	\$ 152,241
State grants	1,789,678	-	-	106,192	106,192
Total intergovernmental	2,139,678	126,447	-	131,986	258,433
Miscellaneous					
Owners contribution	82,266	-	-	82,048	82,048
Private donations	447,420	89,750	-	112,600	202,350
Total miscellaneous	529,686	89,750	-	194,648	284,398
Total revenues	2,669,364	216,197	-	326,634	542,831
Expenditures					
Current					
Economic and physical development					
Brownfields Pilot Project	350,000	126,447	-	25,794	152,241
Uptown revitalization	5,441,156	5,441,156	-	-	5,441,156
Cape Fear & Yadkin Valley Depot	2,237,098	5,925	-	126,815	132,740
Dam Restoration Project	480,283	42,576	-	169,425	212,001
Total expenditures	8,508,537	5,616,104	-	322,034	5,938,138
Revenues over (under) expenditures	(5,839,173)	(5,399,907)	-	4,600	(5,395,307)
Other financing sources (uses)					
Transfers in	5,839,173	5,873,181	-	-	5,873,181
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 473,274	\$ -	4,600	\$ 477,874
Fund balance					
Beginning of year - July 1				473,274	
End of year - June 30				<u>\$ 477,874</u>	

City of Fayetteville, North Carolina

This page left blank intentionally

PROPRIETARY FUNDS

- * Enterprise Funds
- * Internal Service Funds

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

City of Fayetteville, North Carolina

This page left blank intentionally

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 Statement of Net Assets
Electric Fund
June 30, 2002

Assets	Electric Fund	Uptown Revitalization Special Fund	Rate Stabilization Special Fund	Administration Building Capital Project Fund	Total
Current unrestricted assets					
Cash and cash equivalents	\$ 2,278,593	\$ -	\$ -	\$ -	\$ 2,278,593
Investments	19,193,800	-	-	-	19,193,800
Receivables	21,621,823	-	-	-	21,621,823
Internal balances	(1,566,156)	(4,803)	(26,926)	-	(1,597,885)
Less allowance for doubtful accounts	(292,617)	-	-	-	(292,617)
Inventories	10,901,923	-	-	-	10,901,923
Other current assets	59,380	-	-	-	59,380
Total current unrestricted assets	<u>52,196,746</u>	<u>(4,803)</u>	<u>(26,926)</u>	<u>-</u>	<u>52,165,017</u>
Current restricted assets					
Cash and cash equivalents	3,985,951	2,526,801	5,152,923	-	11,665,675
Investments	1,610,000	-	-	-	1,610,000
Collateral pledged in lieu of deposits	152,355	-	-	-	152,355
Total current restricted assets	<u>5,748,306</u>	<u>2,526,801</u>	<u>5,152,923</u>	<u>-</u>	<u>13,428,030</u>
Total current assets	<u>57,945,052</u>	<u>2,521,998</u>	<u>5,125,997</u>	<u>-</u>	<u>65,593,047</u>
Noncurrent assets					
Other assets	3,047,474	-	-	-	3,047,474
Utility plant					
Land	4,305,881	-	-	-	4,305,881
Construction in process	13,480,924	1,704,503	-	-	15,185,427
Electric utility system	156,325,407	-	-	-	156,325,407
Buildings	32,782,147	-	-	-	32,782,147
Equipment and machinery	4,834,913	-	-	-	4,834,913
Computer programs	2,300,922	-	-	-	2,300,922
Vehicles	561,850	-	-	-	561,850
Office equipment	713,806	-	-	-	713,806
Capital assets, net	<u>215,305,850</u>	<u>1,704,503</u>	<u>-</u>	<u>-</u>	<u>217,010,353</u>
Total noncurrent assets	<u>218,353,324</u>	<u>1,704,503</u>	<u>-</u>	<u>-</u>	<u>220,057,827</u>
Total assets	<u>\$ 276,298,376</u>	<u>\$ 4,226,501</u>	<u>\$ 5,125,997</u>	<u>\$ -</u>	<u>\$ 285,650,874</u>
Liabilities and net assets					
Current liabilities to be paid from unrestricted current assets					
Current portion of long-term debt	\$ 3,598,000	\$ -	\$ -	\$ -	\$ 3,598,000
Overdraft payable	4,877,162	-	-	-	4,877,162
Accounts payable and accrued expenses	16,004,214	-	-	-	16,004,214
Total current liabilities to be paid from unrestricted current assets	<u>24,479,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,479,376</u>
Current liabilities to be paid from restricted current assets					
Accounts payable and accrued expenses	2,892,118	-	-	-	2,892,118
Total current liabilities to be paid from restricted current assets	<u>2,892,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,892,118</u>
Total current liabilities	<u>27,371,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,371,494</u>
Noncurrent liabilities					
Long-term debt	54,194,025	-	-	-	54,194,025
Total noncurrent liabilities	<u>54,194,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,194,025</u>
Total liabilities	<u>81,565,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,565,519</u>
Net assets					
Capital assets net of related debt	157,513,825	1,704,503	-	-	159,218,328
Restricted for -					
Debt service	2,769,638	-	-	-	2,769,638
Unrestricted net assets	34,449,394	2,521,998	5,125,997	-	42,097,389
Total net assets	<u>194,732,857</u>	<u>4,226,501</u>	<u>5,125,997</u>	<u>-</u>	<u>204,085,355</u>
Total liabilities and net assets	<u>\$ 276,298,376</u>	<u>\$ 4,226,501</u>	<u>\$ 5,125,997</u>	<u>\$ -</u>	<u>\$ 285,650,874</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Electric Fund
Year Ended June 30, 2002**

	<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>
Operating revenues					
Charges for services	\$ 139,814,919	\$ -	\$ -	\$ -	\$ 139,814,919
Total operating revenues	<u>139,814,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,814,919</u>
Operating expenses					
Power supply and generation	89,549,683	-	-	-	89,549,683
Electric operation	9,908,831	-	-	-	9,908,831
General and administrative	6,997,288	-	-	-	6,997,288
Depreciation	12,881,165	-	-	-	12,881,165
Total operating expenses	<u>119,336,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,336,967</u>
Operating income (loss)	<u>20,477,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,477,952</u>
Nonoperating revenue (expense)					
Interest earned on investments	1,085,486	-	69,113	-	1,154,599
Gain (loss) on disposal of assets	(694,460)	-	-	-	(694,460)
Interest expense	(3,165,672)	-	-	-	(3,165,672)
Amortization	(447,353)	-	-	-	(447,353)
Total nonoperating revenue (expense)	<u>(3,221,999)</u>	<u>-</u>	<u>69,113</u>	<u>-</u>	<u>(3,152,886)</u>
Change in net assets before transfers and contributions	<u>17,255,953</u>	<u>-</u>	<u>69,113</u>	<u>-</u>	<u>17,325,066</u>
Transfers in	218,985	1,000,000	2,250,000	-	3,468,985
Transfers out	(3,250,000)	(164,008)	-	(54,977)	(3,468,985)
Transfers out - City of Fayetteville	(8,483,328)	(6,705)	-	-	(8,490,033)
Capital contributions	1,596,355	-	-	-	1,596,355
Change in net assets	<u>7,337,965</u>	<u>829,287</u>	<u>2,319,113</u>	<u>(54,977)</u>	<u>10,431,388</u>
Total net assets - beginning	<u>187,394,892</u>	<u>3,397,214</u>	<u>2,806,884</u>	<u>54,977</u>	<u>193,653,967</u>
Total net assets - ending	<u>\$ 194,732,857</u>	<u>\$ 4,226,501</u>	<u>\$ 5,125,997</u>	<u>\$ -</u>	<u>\$ 204,085,355</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002
(with comparative actual amounts for the year ended June 30, 2001)

	2002			2001 Actual
	Budget	Variance Positive (Negative)	Actual	
Revenues				
Operating revenues				
Electric operations				
Sale of electricity	\$ 139,853,922	\$ (4,925,354)	\$ 134,928,568	\$ 137,393,433
City services	7,880,381	(6,296,365)	1,584,016	1,563,146
Non-utility charges	3,191,631	(2,653,478)	538,153	2,526,369
Service charges	1,150,000	86,066	1,236,066	1,344,230
Miscellaneous	1,610,000	(81,884)	1,528,116	1,354,955
Total operating revenues	<u>153,685,934</u>	<u>(13,871,015)</u>	<u>139,814,919</u>	<u>144,182,133</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	(694,460)	(694,460)	96,876
Interest earned on investments	1,602,901	(517,415)	1,085,486	2,751,900
Total non-operating revenues	<u>1,602,901</u>	<u>(1,211,875)</u>	<u>391,026</u>	<u>2,848,776</u>
Contributions				
Contributions	2,500,000	(903,645)	1,596,355	101,192
Total contributions	<u>2,500,000</u>	<u>(903,645)</u>	<u>1,596,355</u>	<u>101,192</u>
Transfers in				
Transfers from Rate Stabilization Fund	-	-	-	4,000,000
Total transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000,000</u>
Total revenues	<u>\$ 157,788,835</u>	<u>\$ (15,986,535)</u>	<u>\$ 141,802,300</u>	<u>\$ 151,132,101</u>
Expenditures				
Operating expenditures				
Electric operations				
Power supply and generation	\$ 99,509,175	\$ 9,959,492	\$ 89,549,683	\$ 100,070,714
Administration	304,573	59,178	245,395	786,491
Transformer shop	405,869	(60,646)	466,515	442,381
Electric meter shop	493,076	56,834	436,242	595,114
Construction and maintenance	5,468,447	(342,459)	5,810,906	5,787,103
Substation construction	841,310	77,034	764,276	798,603
Engineering	2,449,378	263,881	2,185,497	3,378,831
Total electric operations	<u>109,471,828</u>	<u>10,013,314</u>	<u>99,458,514</u>	<u>111,859,237</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(with comparative actual amounts for the year ended June 30, 2001)

	2002			2001 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
General and administrative				
Executive	\$ 340,375	\$ 17,885	\$ 322,490	\$ 638,638
Internal audit	71,977	4,089	67,888	63,208
Public information	357,601	(17,274)	374,875	475,479
Financial administration	112,916	1,194	111,722	201,377
Administrative - administration	121,202	23,264	97,938	207,578
Human resources	403,727	49,109	354,618	479,362
Accounting	354,620	469	354,151	487,783
Accounts receivable	510,612	8,492	502,120	479,291
Payroll	63,927	4,568	59,359	64,664
Customer service administration	880,654	93,585	787,069	1,007,408
Call center	503,492	(14,012)	517,504	544,962
Customer programs and service	143,053	4,058	138,995	43,972
Cashiers	256,992	(30,922)	287,914	113,109
Main office	333,090	24,170	308,920	413,472
Eutaw branch	-	-	-	67,576
Morganton Road branch	-	-	-	47,801
Hope Mills Branch	-	-	-	30
Meter reading	382,299	32,600	349,699	404,779
Utility field services	383,305	(49,282)	432,587	402,460
Risk management	271,627	38,897	232,730	231,393
Capital Projects	176,380	12,182	164,198	-
Rates	104,001	22,565	81,436	116,227
Budget	93,332	13,237	80,095	86,574
Purchasing	106,949	106,949	-	3,114
Warehouse	164,577	164,577	-	450
Material management	121,531	1,435	120,096	137,569
Investigation	96,927	(10,914)	107,841	96,687
Fleet maintenance	555,040	555,040	-	199
Building and grounds maintenance	150,950	(54,194)	205,144	328,370
Metering management	87,469	(22,467)	109,936	94,543
Special projects	246,629	6,367	240,262	276,828
Telecommunications systems	303,636	40,377	263,259	347,012
Information systems	774,887	134,723	640,164	717,493
Pension expense	1,166,883	609,529	557,354	524,668
Net pension obligation adjustment	-	(128,634)	128,634	-
Medical insurance	1,440,000	(175,572)	1,615,572	1,401,650
Other	2,590,688	2,844,352	(253,664)	1,704,428
Benefits cleared to accounts	(2,881,033)	(517,415)	(2,363,618)	(2,161,142)
Total general and administrative	10,790,315	3,793,027	6,997,288	10,049,012
Total operating expenditures	120,262,143	13,806,341	106,455,802	121,908,249
Non-operating expenditures				
Interest expense	3,271,000	105,328	3,165,672	3,370,175
Total non-operating expenditures	3,271,000	105,328	3,165,672	3,370,175

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(with comparative actual amounts for the year ended June 30, 2001)

	2002			2001 Actual
	Budget	Variance Positive (Negative)	Actual	
Transfers out				
Transfers to City of Fayetteville	\$ 8,507,925	\$ 24,597	\$ 8,483,328	\$ 7,689,727
Transfers to Uptown Revitalization Fund	1,000,000	-	1,000,000	1,300,000
Transfers to Rate Stabilization Fund	2,250,000	-	2,250,000	783,736
Transfers to Administrative Building Fund	-	-	-	531,176
Total transfers out	<u>11,757,925</u>	<u>24,597</u>	<u>11,733,328</u>	<u>10,304,639</u>
Budgetary appropriations				
Inventory increase	752,500	929,375	(176,875)	567,037
Bond principal payments	3,243,000	(112,750)	3,355,750	2,991,000
Capital outlay	13,790,248	1,854,951	11,935,297	15,813,444
Appropriated net assets	4,712,019	4,712,019	-	-
Total budgetary appropriations	<u>22,497,767</u>	<u>7,383,595</u>	<u>15,114,172</u>	<u>19,371,481</u>
Total expenditures	<u>\$ 157,788,835</u>	<u>\$ 21,319,861</u>	<u>\$ 136,468,974</u>	<u>\$ 154,954,544</u>
Reconciliation of change in net assets				
Total revenues		\$(15,986,535)	\$ 141,802,300	\$ 151,132,101
Total expenditures		21,319,861	136,468,974	154,954,544
Subtotal		<u>\$ 5,333,326</u>	5,333,326	(3,822,443)
Reconciling items:				
Budgetary appropriations			15,114,172	19,371,481
Depreciation			(12,881,165)	(12,842,731)
Amortization			(447,353)	(402,720)
Transfer of assets from the Administrative Building Capital Project Fund			54,977	-
Transfer of assets from the Uptown Revitalization Capital Project Fund			164,008	-
Total reconciling items			<u>2,004,639</u>	<u>6,126,030</u>
Change in net assets			<u>\$ 7,337,965</u>	<u>\$ 2,303,587</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, 2002**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Museum land acquisition	-	2,346,547	-	2,346,547
Botanical gardens	-	55,705	-	55,705
Consulting fees	-	132,304	-	132,304
Museum construction	-	7,153,454	-	7,153,454
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	-	1,575,428	182,630	1,758,058
Water/Sewer improvements	-	-	110,453	110,453
Total expenditures	<u>14,500,000</u>	<u>11,678,214</u>	<u>299,788</u>	<u>11,978,002</u>
Revenues under expenditures	<u>(14,500,000)</u>	<u>(11,678,214)</u>	<u>(299,788)</u>	<u>(11,978,002)</u>
Other financing sources				
Transfer from Electric Fund	14,500,000	13,500,000	1,000,000	14,500,000
Total other financing sources	<u>14,500,000</u>	<u>13,500,000</u>	<u>1,000,000</u>	<u>14,500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 1,821,786</u>	700,212	<u>\$ 2,521,998</u>
Reconciling items:				
Capital outlay			293,083	
Transfer of assets to the Electric Fund			(164,008)	
Change in net assets			<u>\$ 829,287</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, 2002**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ -	\$ 387,159	\$ 69,113	\$ 456,272
Rate stabilization transfer	-	4,169,725	-	4,169,725
Total revenues	<u>-</u>	<u>4,556,884</u>	<u>69,113</u>	<u>4,625,997</u>
Expenditures				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues under expenditures	<u>-</u>	<u>4,556,884</u>	<u>69,113</u>	<u>4,625,997</u>
Other financing sources				
Transfer from Electric Fund	750,000	2,250,000	2,250,000	4,500,000
Transfer to Electric Fund	-	(4,000,000)	-	(4,000,000)
Appropriated net assets	(750,000)	-	-	-
Total other financing sources	<u>-</u>	<u>(1,750,000)</u>	<u>2,250,000</u>	<u>500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 2,806,884</u>	<u>2,319,113</u>	<u>\$ 5,125,997</u>
Reconciling items:				
Total reconciling items			-	
Change in net assets			<u>\$ 2,319,113</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Administration Building Capital Project Fund
From Inception and for the Year Ended June 30, 2002**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ -	\$ 11,719	\$ -	\$ 11,719
Total revenues	<u>-</u>	<u>11,719</u>	<u>-</u>	<u>11,719</u>
Expenditures				
Construction	-	8,157,437	54,424	8,211,861
Engineering	-	789,323	(48)	789,275
Other	-	9,983	600	10,583
Total expenditures	<u>9,000,000</u>	<u>8,956,743</u>	<u>54,976</u>	<u>9,011,719</u>
Revenues under expenditures	<u>(9,000,000)</u>	<u>(8,945,024)</u>	<u>(54,976)</u>	<u>(9,000,000)</u>
Other financing sources				
Transfer from 1995 A Revenue Bonds				
Capital Project Fund	887,605	887,605	-	887,605
Transfer from Electric Fund	2,261,176	2,261,176	-	2,261,176
Transfer from Administration Building CRF	5,851,219	5,851,219	-	5,851,219
Total other financing sources	<u>9,000,000</u>	<u>9,000,000</u>	<u>-</u>	<u>9,000,000</u>
Revenues and other financing sources	<u>\$ -</u>	<u>\$ 54,976</u>	<u>(54,976)</u>	<u>\$ -</u>
Reconciling items:				
Capital outlay			54,976	
Transfer of assets to the Electric Fund			(54,977)	
Change in net assets			<u>\$ (54,977)</u>	

Fund was closed on June 30, 2002

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Net Assets
Water and Wastewater Fund
June 30, 2002

	Water and Wastewater Fund	Annexation Capital Project Fund Phase III	1997 Supplemental Capital Project Fund	Annexation Capital Project Fund Phase IV	Annexation Capital Reserve Fund	State Revolving Loan Capital Project Fund	Total
Assets							
Current unrestricted assets							
Cash and cash equivalents	\$ 2,789,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,789,872
Investments	5,506,200	-	-	-	-	-	5,506,200
Receivables	14,478,498	-	-	-	-	-	14,478,498
Internal balances	(128,055)	2,053,218	31,087	(358,365)	-	-	1,597,885
Less allowance for doubtful accounts	(58,880)	-	-	-	-	-	(58,880)
Inventories	950,337	-	-	-	-	-	950,337
Other current assets	84,693	-	-	-	-	-	84,693
Total current unrestricted assets	23,622,665	2,053,218	31,087	(358,365)	-	-	25,348,605
Current restricted assets							
Cash and cash equivalents	5,354,668	2,490,044	4,298,679	69,079	1,541,127	-	13,753,597
Investments	2,690,000	-	-	-	-	-	2,690,000
Receivables	-	29,660	63,283	300,037	-	-	392,980
Total current restricted assets	8,044,668	2,519,704	4,361,962	369,116	1,541,127	-	16,836,577
Total current assets	31,667,333	4,572,922	4,393,049	10,751	1,541,127	-	42,185,182
Noncurrent assets							
Other assets	6,283,673	-	-	-	-	-	6,283,673
Utility plant							
Land	6,728,908	-	-	-	-	-	6,728,908
Construction in process	3,310,563	-	1,516,505	3,118,040	-	-	7,945,108
Water system	112,239,427	-	-	-	-	-	112,239,427
Sewer system	192,334,101	-	-	-	-	-	192,334,101
Buildings	3,715,106	-	-	-	-	-	3,715,106
Equipment and machinery	1,390,777	-	-	-	-	-	1,390,777
Computer programs	1,916,031	-	-	-	-	-	1,916,031
Vehicles	643,291	-	-	-	-	-	643,291
Office equipment	149,100	-	-	-	-	-	149,100
Capital assets, net	322,427,304	-	1,516,505	3,118,040	-	-	327,061,849
Total noncurrent assets	328,710,977	-	1,516,505	3,118,040	-	-	333,345,522
Total assets	\$360,378,310	\$ 4,572,922	\$ 5,909,554	\$ 3,128,791	\$ 1,541,127	\$ -	\$ 375,530,704
Liabilities and net assets							
Current liabilities and net assets							
Current portion of long-term debt	\$ 6,301,756	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,301,756
Accounts payable and accrued expenses	5,928,080	-	-	-	-	-	5,928,080
Total current liabilities to be paid from unrestricted current assets	12,229,836	-	-	-	-	-	12,229,836
Current liabilities to be paid from restricted current assets							
Accounts payable and accrued expenses	942,175	-	157,495	1,839,857	-	-	2,939,527
Total current liabilities to be paid from restricted current assets	942,175	-	157,495	1,839,857	-	-	2,939,527
Total current liabilities	13,172,011	-	157,495	1,839,857	-	-	15,169,363
Long-term debt	126,191,353	-	-	-	-	-	126,191,353
Unearned deposits	6,053,664	-	-	-	-	-	6,053,664
Total noncurrent liabilities	132,245,017	-	-	-	-	-	132,245,017
Total liabilities	145,417,028	-	157,495	1,839,857	-	-	147,414,380
Net assets							
Capital assets net of related debt	189,934,195	-	1,516,505	3,118,040	-	-	194,568,740
Restricted for -							
Capital Projects	-	4,572,922	-	-	-	-	4,572,922
Debt service	525,299	-	-	-	-	-	525,299
Unrestricted net assets	24,501,788	-	4,235,554	(1,829,106)	1,541,127	-	28,449,363
Total net assets	214,961,282	4,572,922	5,752,059	1,288,934	1,541,127	-	228,116,324
Total liabilities and net assets	\$360,378,310	\$ 4,572,922	\$ 5,909,554	\$ 3,128,791	\$ 1,541,127	\$ -	\$ 375,530,704

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Water and Wastewater Fund
 Year Ended June 30, 2002

	Water and Wastewater Fund	Annexation Capital Project Fund Phase III	1997 Supplemental Capital Project Fund	Annexation Capital Project Fund Phase IV	Annexation Capital Reserve Fund	State Revolving Loan Capital Project Fund	Total
Operating revenues							
Charges for services	\$ 43,703,832	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,703,832
Total operating revenues	43,703,832	-	-	-	-	-	43,703,832
Operating expenses							
Water operations	9,281,523	-	-	-	-	-	9,281,523
Sanitary sewer operations	8,189,731	-	-	-	-	-	8,189,731
General and administrative	7,575,034	-	-	-	-	-	7,575,034
Depreciation	11,517,250	-	-	-	-	-	11,517,250
Total operating expenses	36,563,538	-	-	-	-	-	36,563,538
Operating income (loss)	7,140,294	-	-	-	-	-	7,140,294
Nonoperating revenue (expense)							
Interest earned on investments	802,126	-	-	-	33,337	-	835,463
Gain (loss) on disposal of assets	23,316	-	-	-	-	-	23,316
Interest expense	(6,806,566)	-	-	-	-	-	(6,806,566)
Amortization	(602,675)	-	-	-	-	-	(602,675)
Total nonoperating revenue (expense)	(6,583,799)	-	-	-	33,337	-	(6,550,462)
Change in net assets before transfers and contributions	556,495	-	-	-	33,337	-	589,832
Transfers in	8,142,085	-	-	2,000,000	2,000,000	7,274,056	19,416,141
Transfers out	(9,611,459)	(6,295,865)	(297,751)	(1,211,066)	(2,000,000)	-	(19,416,141)
Capital contributions	7,184,899	-	-	-	-	-	7,184,899
Change in net assets	6,272,020	(6,295,865)	(297,751)	788,934	33,337	7,274,056	7,774,731
Total net assets - beginning	208,689,262	10,868,787	6,049,810	500,000	1,507,790	(7,274,056)	220,341,593
Total net assets - ending	\$ 214,961,282	\$ 4,572,922	\$ 5,752,059	\$ 1,288,934	\$ 1,541,127	\$ -	\$ 228,116,324

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(with comparative actual amounts for the year ended June 30, 2001)

	2002			2001 Actual
	Budget	Variance Positive (Negative)	Actual	
Revenues				
Operating revenues				
Water operations				
Water sales	\$ 18,996,349	\$ (500,277)	\$ 18,496,072	\$ 17,538,943
Connection fees	510,000	286,495	796,495	591,349
City services	65,785	19,986	85,771	66,298
Total water operations	<u>19,572,134</u>	<u>(193,796)</u>	<u>19,378,338</u>	<u>18,196,590</u>
Sanitary sewer operations				
Sewer charges	22,949,500	(387,328)	22,562,172	19,691,766
Connection fees	475,000	115,038	590,038	405,669
City services	45,228	(5,630)	39,598	33,767
Total sanitary sewer operations	<u>23,469,728</u>	<u>(277,920)</u>	<u>23,191,808</u>	<u>20,131,202</u>
Other operating revenues				
Non-utility charges	453,000	206,578	659,578	1,019,254
Service charges	215,000	25,197	240,197	216,416
Miscellaneous	25,000	208,911	233,911	65,782
Total other operating revenues	<u>693,000</u>	<u>440,686</u>	<u>1,133,686</u>	<u>1,301,452</u>
Total operating revenues	<u>43,734,862</u>	<u>(31,030)</u>	<u>43,703,832</u>	<u>39,629,244</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	23,316	23,316	474,209
Interest earned on investments	323,500	478,626	802,126	561,908
Total non-operating revenues	<u>323,500</u>	<u>501,942</u>	<u>825,442</u>	<u>1,036,117</u>
Contributions				
Contributions	4,966,400	2,218,499	7,184,899	9,696,868
Total contributions	<u>4,966,400</u>	<u>2,218,499</u>	<u>7,184,899</u>	<u>9,696,868</u>
Total revenues	<u>\$ 49,024,762</u>	<u>\$ 2,689,411</u>	<u>\$ 51,714,173</u>	<u>\$ 50,362,229</u>
Expenditures				
Operating expenditures				
Water operations				
Administration and engineering	\$ 973,045	\$ (5,323)	\$ 978,368	\$ 1,273,522
Water meter shop	740,952	(99,308)	840,260	726,463
Construction and maintenance	2,995,703	232,816	2,762,887	3,148,165
P. O. Hoffer water treatment plant	3,080,392	112,806	2,967,586	2,512,358
Glenville Lake water treatment plant	1,127,574	62,297	1,065,277	1,025,385
Laboratory	236,401	23,532	212,869	212,808
Environmental	77,349	592	76,757	91,025
Watersheds	184,933	(12,136)	197,069	180,661
Cross Connection	188,684	8,234	180,450	165,975
Total water operations	<u>9,605,033</u>	<u>323,510</u>	<u>9,281,523</u>	<u>9,336,362</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(with comparative actual amounts for the year ended June 30, 2001)

	2002		2001 Actual
	Budget	Variance Positive (Negative)	
Expenditures (continued)			
Operating expenditures (continued)			
Sanitary sewer operations			
Administration and engineering	\$ 973,044	\$ (5,324)	\$ 978,368
Sewer construction and maintenance	2,709,346	137,211	2,572,135
Lift stations	771,767	156,180	615,587
Cross Creek WW treatment plant	1,985,593	43,386	1,942,207
Rockfish Creek WW treatment plant	1,624,618	52,465	1,572,153
Residuals management	154,310	6,422	147,888
Pretreatment	110,063	38,296	71,767
Laboratory	236,401	23,531	212,870
Environmental	77,349	593	76,756
Total sanitary sewer operations	8,642,491	452,760	8,189,731
General and administrative			
Executive	340,378	143,125	197,253
Internal audit	71,973	4,998	66,975
Public information	307,604	(9,271)	316,875
Financial administration	112,918	6,635	106,283
Administrative administration	121,201	31,282	89,919
Human resources	403,724	54,423	349,301
Accounting	354,642	14,555	340,087
Accounts receivable	510,606	25,074	485,532
Payroll	63,926	5,821	58,105
Customer service administration	460,643	6,675	453,968
Call center	503,494	24,353	479,141
Main office	333,092	36,961	296,131
Eutaw branch	-	-	-
Morganton Road branch	-	-	-
Hope Mills branch	-	-	-
Customer programs and services	143,054	59,103	83,951
Cashiers	256,994	(19,464)	276,458
Claims	-	-	-
Meter reading	371,298	42,545	328,753
Utility field services	383,304	(19,467)	402,771
Risk management	271,633	48,225	223,408
Capital Projects	176,359	18,015	158,344
Rates	104,003	12,453	91,550
Budget	93,333	15,342	77,991
Purchasing	56,950	56,950	-
Warehouse	114,577	114,577	-
Material management	121,532	5,845	115,687
Fleet maintenance	355,039	355,039	-
Building and grounds maintenance	150,951	3,667	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, 2002
(with comparative actual amounts for the year ended June 30, 2001)

	2002			2001 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
Operating expenditures (continued)				
General and administrative (continued)				
Metering management	\$ 87,469	\$ (19,781)	\$ 107,250	\$ 90,728
Investigation	96,927	(5,028)	101,955	90,051
Special projects	246,628	23,108	223,520	269,606
Communication system	303,636	71,602	232,034	296,445
Information systems	774,886	150,826	624,060	675,534
Pension expenses	1,115,584	584,535	531,049	524,668
Net pension obligation adjustment	-	(128,634)	128,634	-
Medical insurance	1,560,000	(9,229)	1,569,229	1,289,532
Other	2,102,235	879,016	1,223,219	1,859,599
Benefits cleared to accounts	(2,947,934)	(636,251)	(2,311,683)	(2,072,792)
Total general and administrative	9,522,659	1,947,625	7,575,034	8,955,556
Total operating expenditures	27,770,183	2,723,895	25,046,288	27,114,090
Non-operating expenditures				
Interest expense	6,967,000	160,434	6,806,566	6,131,102
Total non-operating expenditures	6,967,000	160,434	6,806,566	6,131,102
Transfers out				
Transfer to Annexation Reserve Fund	2,000,000	-	2,000,000	2,000,000
Transfer to State Revolving Loan Fund	-	-	-	356,624
Total transfers out	2,000,000	-	2,000,000	2,356,624
Budgetary appropriations				
Inventory increase	305,000	87,139	217,861	18,702
Bond principal payments	5,852,537	(76,469)	5,929,006	4,934,000
Capital outlay	6,129,500	962,515	5,166,985	5,965,125
Appropriation of net assets	542	542	-	-
Total budgetary appropriations	12,287,579	973,727	11,313,852	10,917,827
Total expenditures	\$ 49,024,762	\$ 3,858,056	\$ 45,166,706	\$ 46,519,643
Reconciliation of change in net assets				
Total revenues		\$ 2,689,411	\$ 51,714,173	\$ 50,362,229
Total expenditures		3,858,056	45,166,706	46,519,643
Subtotal		\$ 6,547,467	6,547,467	3,842,586
Reconciling items:				
Budgetary appropriations			11,313,852	10,917,827
Depreciation			(11,517,250)	(11,334,966)
Amortization			(602,675)	(554,510)
Transfer of assets from Annexation Capital Project Fund Phase IV			1,211,066	-
Transfer of assets from Annexation Capital Project Fund Phase III			6,295,865	-
Transfer of assets from 1997 Supplemental Capital Project Fund			297,751	-
Transfer of net assets from the State Revolving Loan Capital Project Fund			(7,274,056)	-
Total reconciling items			(275,447)	(971,649)
Change in net assets			\$ 6,272,020	\$ 2,870,937

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, 2002**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ 207,633	\$ 572,276	\$ 839	\$ 573,115
Total revenues	<u>207,633</u>	<u>572,276</u>	<u>839</u>	<u>573,115</u>
Expenditures				
Construction	26,069,169	21,654,867	1,716,885	23,371,752
Engineering	4,489,039	4,482,439	193,724	4,676,163
Rights of way	867,500	419,081	-	419,081
Less City of Fayetteville participation	(8,381,718)	(5,952,665)	(1,001,340)	(6,954,005)
Financing costs	2,105,506	1,553,408	-	1,553,408
Other	2,383,137	425,060	35,750	460,810
Total expenditures	<u>27,532,633</u>	<u>22,582,190</u>	<u>945,019</u>	<u>23,527,209</u>
Revenues under expenditures	<u>(27,325,000)</u>	<u>(22,009,914)</u>	<u>(944,180)</u>	<u>(22,954,094)</u>
Other financing sources				
1999 Revenue Bond proceeds	19,325,000	19,325,000	-	19,325,000
Transfer to Water and Wastewater Fund	-	-	(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	-	946,087	-	946,087
Transfer from 1997 Supplemental Capital Project Fund	5,000,000	5,499,951	-	5,499,951
Total other financing sources	<u>27,325,000</u>	<u>28,060,066</u>	<u>(533,054)</u>	<u>27,527,012</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 6,050,152</u>	<u>(1,477,234)</u>	<u>\$ 4,572,918</u>
Reconciling items:				
Capital outlay			944,180	
Transfer of assets to the Water and Wastewater fund			(5,762,811)	
Change in net assets			<u>\$ (6,295,865)</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, 2002**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Construction	-	3,361,002	1,487,043	4,848,045
Engineering	-	443,665	126,439	570,104
Rights of way	-	2,152	5,808	7,960
Other	-	59,328	107,359	166,687
Total expenditures	<u>9,807,030</u>	<u>3,866,147</u>	<u>1,726,649</u>	<u>5,592,796</u>
Revenues under expenditures	<u>(9,807,030)</u>	<u>(3,866,147)</u>	<u>(1,726,649)</u>	<u>(5,592,796)</u>
Other financing sources				
Transfer from Water and Sewer Capital Reserve Fund	9,807,030	9,828,350	-	9,828,350
Total other financing sources	<u>9,807,030</u>	<u>9,828,350</u>	<u>-</u>	<u>9,828,350</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 5,962,203</u>	<u>(1,726,649)</u>	<u>\$ 4,235,554</u>
Reconciling items:				
Capital outlay			1,726,649	
Transfer of assets to the Water and Wastewater fund			(297,751)	
Change in net assets			<u>\$ (297,751)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Annexation Capital Project Fund - Phase IV
From Inception and for the Year Ended June 30, 2002**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures - Phase IV-A				
Construction	-	-	3,619,089	3,619,089
Engineering	-	315,835	526,786	842,621
Rights of way	-	32,376	46,929	79,305
Less City of Fayetteville participation	-	(157,917)	(566,691)	(724,608)
Other	-	-	139,334	139,334
Total expenditures - Phase IV-A	<u>-</u>	<u>190,294</u>	<u>3,765,447</u>	<u>3,955,741</u>
Expenditures - Phase IV-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
Total expenditures - Phase IV-B	<u>-</u>	<u>-</u>	<u>373,365</u>	<u>373,365</u>
Total expenditures	<u>7,094,515</u>	<u>190,294</u>	<u>4,138,812</u>	<u>4,329,106</u>
Revenues under expenditures	<u>(7,094,515)</u>	<u>(190,294)</u>	<u>(4,138,812)</u>	<u>(4,329,106)</u>
Other financing sources				
Transfer from Annexation Phase III Capital Project Fund	3,094,515	-	-	-
Transfer from Annexation Reserve Fund	4,000,000	500,000	2,000,000	2,500,000
Total other financing sources	<u>7,094,515</u>	<u>500,000</u>	<u>2,000,000</u>	<u>2,500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 309,706</u>	<u>(2,138,812)</u>	<u>\$ (1,829,106)</u>
Reconciling items:				
Capital outlay			4,138,812	
Transfer of assets to the Water and Wastewater fund			(1,211,066)	
Change in net assets			<u>\$ 788,934</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, 2002**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ -	\$ 7,790	\$ 33,337	\$ 41,127
Total revenues	<u>-</u>	<u>7,790</u>	<u>33,337</u>	<u>41,127</u>
Revenues under expenditures	<u>-</u>	<u>7,790</u>	<u>33,337</u>	<u>41,127</u>
Other financing sources				
Transfer from Water and Wastewater fund	2,000,000	2,000,000	2,000,000	4,000,000
Transfer to Annexation Phase IV Capital Project Fund	(2,000,000)	(500,000)	(2,000,000)	(2,500,000)
Total other financing sources	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 1,507,790</u>	33,337	<u>\$ 1,541,127</u>
Reconciling items:				
Total reconciling items			<u>-</u>	
Change in net assets			<u>\$ 33,337</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Expenditures				
Construction	\$ -	\$ 7,086,492	\$ (30,338)	\$ 7,056,154
Engineering	-	725,265	1,372	726,637
Financing costs	-	155,113	-	155,113
Other	-	1,213	-	1,213
Total expenditures	<u>8,310,873</u>	<u>7,968,083</u>	<u>(28,966)</u>	<u>7,939,117</u>
Revenues under expenditures	<u>(8,310,873)</u>	<u>(7,968,083)</u>	<u>28,966</u>	<u>(7,939,117)</u>
Other financing sources (uses)				
State revolving loan proceeds	7,910,743	7,573,603	21,524	7,595,127
Transfer from Water and Wastewater fund	400,130	356,624	-	356,624
Transfer to Water and Wastewater fund	-	-	(12,634)	(12,634)
Total other financing sources	<u>8,310,873</u>	<u>7,930,227</u>	<u>8,890</u>	<u>7,939,117</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ (37,856)</u>	<u>37,856</u>	<u>\$ -</u>
Reconciling items:				
Capital outlay			(28,966)	
Loan proceeds			(21,524)	
Transfer of assets to the Water and Wastewater fund			(308,437)	
Transfer of State Loan liability to the Water and Wastewater fund			7,595,127	
Change in net assets			<u>\$ 7,274,056</u>	

Fund was closed on June 30, 2002

City of Fayetteville, North Carolina

This page left blank intentionally

NONMAJOR ENTERPRISE FUNDS

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2002**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets			
Current assets			
Cash and investments	\$ 456,853	\$ 814,999	\$ 1,271,852
Accounts receivable	435,684	644,960	1,080,644
Inventories	5,629	1,439	7,068
Total current assets	<u>898,166</u>	<u>1,461,398</u>	<u>2,359,564</u>
Noncurrent assets			
Other assets	-	154,000	154,000
Capital assets	5,478,859	20,502,561	25,981,420
Total noncurrent assets	<u>5,478,859</u>	<u>20,656,561</u>	<u>26,135,420</u>
Total assets	<u><u>\$ 6,377,025</u></u>	<u><u>\$ 22,117,959</u></u>	<u><u>\$ 28,494,984</u></u>
Liabilities and net assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 126,771	\$ 214,604	\$ 341,375
Interfund payables	-	447,229	447,229
Accrued vacation	118,072	66,350	184,422
Total current liabilities	<u>244,843</u>	<u>728,183</u>	<u>973,026</u>
Noncurrent liabilities			
Unearned deposits	64	-	64
Total noncurrent liabilities	<u>64</u>	<u>-</u>	<u>64</u>
Total liabilities	<u>244,907</u>	<u>728,183</u>	<u>973,090</u>
Net assets			
Invested in capital assets, net of related debt	5,478,859	20,055,332	25,534,191
Unrestricted	653,259	1,334,444	1,987,703
Total net assets	<u>6,132,118</u>	<u>21,389,776</u>	<u>27,521,894</u>
Total liabilities and net assets	<u><u>\$ 6,377,025</u></u>	<u><u>\$ 22,117,959</u></u>	<u><u>\$ 28,494,984</u></u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
Year Ended June 30, 2002**

	Transit Fund	Airport Fund	Total Nonmajor Enterprise Funds
Operating revenues			
Charges for services	\$ 984,460	\$ 1,915,981	\$ 2,900,441
Other revenue from operations	73,838	61,934	135,772
Total operating revenues	<u>1,058,298</u>	<u>1,977,915</u>	<u>3,036,213</u>
Operating expenses			
Personnel	2,501,375	1,061,195	3,562,570
Maintenance and operations	1,445,280	710,764	2,156,044
Depreciation	845,819	1,504,290	2,350,109
Total operating expenses	<u>4,792,474</u>	<u>3,276,249</u>	<u>8,068,723</u>
Operating income (loss)	<u>(3,734,176)</u>	<u>(1,298,334)</u>	<u>(5,032,510)</u>
Nonoperating revenue (expense)			
Interest earned on investments	-	21,803	21,803
Federal and State grants	1,541,766	-	1,541,766
Passenger facility charges	-	338,462	338,462
Miscellaneous revenue	-	84,297	84,297
Gain (loss) on disposal of capital assets	(431,376)	(25,804)	(457,180)
Interest expense	-	(27,558)	(27,558)
Amortization	-	(22,000)	(22,000)
Miscellaneous expense	-	(84,297)	(84,297)
Total nonoperating revenue (expense)	<u>1,110,390</u>	<u>284,903</u>	<u>1,395,293</u>
Income (loss) before transfers and contributions	<u>(2,623,786)</u>	<u>(1,013,431)</u>	<u>(3,637,217)</u>
Transfers in	1,347,855	-	1,347,855
Capital contributions	280,513	1,855,096	2,135,609
Change in net assets	<u>(995,418)</u>	<u>841,665</u>	<u>(153,753)</u>
Total net assets - beginning	<u>7,127,536</u>	<u>20,548,111</u>	<u>27,675,647</u>
Total net assets - ending	<u>\$ 6,132,118</u>	<u>\$ 21,389,776</u>	<u>\$ 27,521,894</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended June 30, 2002**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating activities			
Cash received from customers	\$ 949,640	\$ 1,752,194	\$ 2,701,834
Other operating revenues	73,838	61,934	135,772
Customer deposits received	14	-	14
Cash paid to or on behalf of employees for services	(2,473,289)	(1,057,355)	(3,530,644)
Cash paid for goods and services	(1,432,835)	(751,830)	(2,184,665)
Net cash provided by (used in) operating activities	<u>(2,882,632)</u>	<u>4,943</u>	<u>(2,877,689)</u>
Noncapital financing activities			
Transfers in	1,347,855	-	1,347,855
Federal and state grants	1,468,388	-	1,468,388
Nonoperating revenues	-	338,462	338,462
Net cash provided by (used in) noncapital financing activities	<u>2,816,243</u>	<u>338,462</u>	<u>3,154,705</u>
Capital and related financing activities			
Proceeds from sale of assets	724	-	724
Capital contributions - State grant	32,831	83,014	115,845
Capital contributions - Federal grant	478,587	2,415,871	2,894,458
Acquisition and construction of capital assets	(413,530)	(2,944,811)	(3,358,341)
Principal paid on debt maturities	-	(22,070)	(22,070)
Interest paid on debt maturities	-	(27,558)	(27,558)
Net cash provided by (used in) capital and and related financing activities	<u>98,612</u>	<u>(495,554)</u>	<u>(396,942)</u>
Investing activities			
Interest and dividends	-	21,803	21,803
Net cash provided by (used in) investing activities	<u>-</u>	<u>21,803</u>	<u>21,803</u>
Net increase (decrease) in cash and cash equivalents/investments	<u>32,223</u>	<u>(130,346)</u>	<u>(98,123)</u>
Cash and cash equivalents/investments			
Beginning of year	<u>424,630</u>	<u>945,345</u>	<u>1,369,975</u>
End of year	<u>\$ 456,853</u>	<u>\$ 814,999</u>	<u>\$ 1,271,852</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended June 30, 2002**

	<u>Transit Fund</u>	<u>Airport Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (3,734,176)	\$ (1,298,334)	\$ (5,032,510)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	845,819	1,504,290	2,350,109
Changes in assets/liabilities reported as noncapital financing transactions	73,378	-	73,378
Changes in assets/liabilities reported as capital and related financing transactions	(116,796)	408,993	292,197
Change in assets and liabilities			
(increase) decrease in accounts receivable	122,707	480,002	602,709
(Increase) decrease in inventory	(379)	(332)	(711)
Increase (decrease) in accounts payable and accrued liabilities	(101,271)	(1,093,516)	(1,194,787)
Increase (decrease) in accrued compensated absences	28,086	3,840	31,926
Total adjustments	<u>851,544</u>	<u>1,303,277</u>	<u>2,154,821</u>
Net cash provided by (used in) operating activities	<u>\$ (2,882,632)</u>	<u>\$ 4,943</u>	<u>\$ (2,877,689)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Operating revenues				
Charges for services	\$ 953,855	\$ 30,605	\$ 984,460	\$ 1,260,090
Other revenues from operations	112,418	(38,580)	73,838	103,369
Total operating revenues	<u>1,066,273</u>	<u>(7,975)</u>	<u>1,058,298</u>	<u>1,363,459</u>
Operating expenditures				
Personnel	2,512,248	38,959	2,473,289	2,443,078
Maintenance and operations	1,376,675	89,129	1,287,546	1,204,486
Capital outlay	597	(53,283)	53,880	5,500
Total operating expenditures	<u>3,889,520</u>	<u>74,805</u>	<u>3,814,715</u>	<u>3,653,064</u>
Operating loss	<u>(2,823,247)</u>	<u>66,830</u>	<u>(2,756,417)</u>	<u>(2,289,605)</u>
Nonoperating revenues				
Interest earned	-	-	-	(383)
Proceeds from sale of assets	-	724	724	-
Federal and State grants	1,186,000	222,205	1,408,205	1,169,846
Total nonoperating revenues	<u>1,186,000</u>	<u>222,929</u>	<u>1,408,929</u>	<u>1,169,463</u>
Revenues under expenditures	<u>(1,637,247)</u>	<u>289,759</u>	<u>(1,347,488)</u>	<u>(1,120,142)</u>
Other financing sources (uses)				
Transfers in	1,637,247	(311,389)	1,325,858	1,149,048
Total other financing sources (uses)	<u>1,637,247</u>	<u>(311,389)</u>	<u>1,325,858</u>	<u>1,149,048</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (21,630)</u>	<u>\$ (21,630)</u>	<u>\$ 28,906</u>
Reconciliation of change in net assets:				
Total revenues			\$ 3,793,085	\$ 3,681,970
Total expenditures			3,814,715	3,653,064
Subtotal			<u>(21,630)</u>	<u>28,906</u>
Depreciation			(845,819)	(846,705)
Capital contributions			49,716	-
Change in inventory			379	(9,399)
Capital outlay			53,880	5,500
Non-capitalizable items			(469)	-
Loss on disposal of assets			(432,100)	-
Proceeds from sale of assets			(724)	-
Decrease (increase) in accrued vacation			(28,086)	(19,667)
Change in fair market value of investments			-	159
Subtotal			<u>(1,203,223)</u>	<u>(870,112)</u>
Change in net assets			<u>\$ (1,224,853)</u>	<u>\$ (841,206)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures
Transit Capital Project Fund

From Inception And For Year Ended June 30, 2002

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Federal grants	\$ 1,949,748	\$ 3,996,738	\$ 2,948,331	\$ 197,966	\$ 1,246,373
State grants	359,227	575,722	342,023	32,831	266,530
County	-	43,683	32,703	-	10,980
Miscellaneous	-	28,640	9,389	-	19,251
Total revenues	2,308,975	4,644,783	3,332,446	230,797	1,543,134
Expenditures					
FTA Capital 0097	-	203,590	203,590	-	-
FTA Capital 0158	-	953,849	953,849	-	-
FTA Capital 0170	-	692,323	692,323	-	-
FTA Capital 0188	-	332,940	332,940	-	-
FTA Capital 0229	350,000	263,285	-	78,772	342,057
FTA Capital 0218	-	681,246	681,246	-	-
FTA Capital 0244	813,625	733,952	-	28,483	762,435
FTA Capital 0271	1,238,560	314,837	-	138,637	453,474
FTA Capital 0292	35,000	-	-	-	-
AVL Grant	143,010	128,356	-	8,984	137,340
Section 5309 FY97	-	733,885	733,885	-	-
Total expenditures	2,580,195	5,038,263	3,597,833	254,876	1,695,306
Revenues over (under) expenditures	(271,220)	(393,480)	(265,387)	(24,079)	(152,172)
Other financing sources (uses)					
Transfers in	231,220	665,990	265,387	7,000	407,603
Appropriated fund balance	40,000	-	-	-	-
Total other financing sources (uses)	271,220	665,990	265,387	7,000	407,603
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 272,510	\$ -	\$ (17,079)	\$ 255,431
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ (17,079)	
Capital outlay				254,876	
Non-capitalizable items				(8,521)	
Change in net assets				\$ 229,276	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Revenues and Expenditures
Transit II Capital Project Fund

From Inception And For Year Ended June 30, 2002

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Intergovernmental					
Federal grants	\$ 400,000	\$ 721,049	\$ 509,997	\$ 118,720	\$ 329,772
State grants	50,000	85,334	58,953	14,841	41,222
County	-	5,237	5,237	-	-
Total intergovernmental	<u>450,000</u>	<u>811,620</u>	<u>574,187</u>	<u>133,561</u>	<u>370,994</u>
Miscellaneous					
Other	-	4,035	4,035	-	-
Total revenues	<u>450,000</u>	<u>815,655</u>	<u>578,222</u>	<u>133,561</u>	<u>370,994</u>
Expenditures					
Current					
Transportation	500,000	901,311	637,494	148,399	412,216
Total expenditures	<u>500,000</u>	<u>901,311</u>	<u>637,494</u>	<u>148,399</u>	<u>412,216</u>
Revenues over (under) expenditures	<u>(50,000)</u>	<u>(85,656)</u>	<u>(59,272)</u>	<u>(14,838)</u>	<u>(41,222)</u>
Other financing sources (uses)					
Transfers in	50,000	94,275	59,272	14,997	50,000
Total other financing sources (uses)	<u>50,000</u>	<u>94,275</u>	<u>59,272</u>	<u>14,997</u>	<u>50,000</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 8,619</u>	<u>\$ -</u>	<u>\$ 159</u>	<u>\$ 8,778</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 159	
Change in net assets				<u>\$ 159</u>	

Note: This fund was previously included in the Special Revenue Federal and State Financial Assistance Fund. Prior year amounts, including fund balance of \$8,619, have been removed from the prior year amounts previously reported in the Federal and State Financial Assistance Fund so that they can be reported here.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures by Project
Transit II Capital Project Fund

From Inception And For Year Ended June 30, 2002

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Expenditures by project:					
Transportation					
FTA Planning 90.2158	\$ -	\$ 148,000	\$ 148,000	\$ -	\$ -
FTA Capital 90.0158	-	64,919	64,919	-	-
FTA Planning 90.2170	-	110,000	110,000	-	-
FTA Capital 90.0170	-	59,575	59,575	-	-
FTA Planning 90.2188	-	80,000	80,000	-	-
FTA 90.2218	-	100,000	100,000	-	-
FTA 90.0218	-	75,000	75,000	-	-
FTA 90.2229	100,000	100,000	-	-	100,000
FTA 90.2244	100,000	95,000	-	5,000	100,000
FTA 90.2271	150,000	68,817	-	81,183	150,000
FTA 90.2292	150,000	-	-	62,216	62,216
Total transportation	<u>500,000</u>	<u>901,311</u>	<u>637,494</u>	<u>148,399</u>	<u>412,216</u>
Total expenditures by project	<u>\$ 500,000</u>	<u>\$ 901,311</u>	<u>\$ 637,494</u>	<u>\$ 148,399</u>	<u>\$ 412,216</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002
(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Operating revenues				
Charges for services	\$ 1,879,254	\$ 36,727	\$ 1,915,981	\$ 1,757,882
Other revenues from operations	93,972	(32,038)	61,934	94,937
Total operating revenues	<u>1,973,226</u>	<u>4,689</u>	<u>1,977,915</u>	<u>1,852,819</u>
Operating expenditures				
Personnel	1,182,546	125,191	1,057,355	1,138,366
Maintenance and operations	813,258	102,163	711,095	814,176
Capital outlay	46,300	42,100	4,200	6,889
Total operating expenditures	<u>2,042,104</u>	<u>269,454</u>	<u>1,772,650</u>	<u>1,959,431</u>
Operating income (loss)	<u>(68,878)</u>	<u>274,143</u>	<u>205,265</u>	<u>(106,612)</u>
Nonoperating revenues				
Interest earned on investments	40,000	(13,746)	26,254	62,717
Passenger facility charge	-	56,737	56,737	220,404
Miscellaneous	83,504	793	84,297	84,297
Total nonoperating revenues	<u>123,504</u>	<u>43,784</u>	<u>167,288</u>	<u>367,418</u>
Nonoperating expenditures				
Interest expense	-	(27,558)	27,558	25,170
Miscellaneous	83,504	(793)	84,297	84,297
Total nonoperating expenditures	<u>83,504</u>	<u>(28,351)</u>	<u>111,855</u>	<u>109,467</u>
Revenues over (under) expenditures	<u>(28,878)</u>	<u>289,576</u>	<u>260,698</u>	<u>151,339</u>
Other financing sources (uses)				
Transfers (out)	(43,314)	43,314	-	(108,000)
Appropriated fund balance	72,192	(72,192)	-	-
Total other financing sources (uses)	<u>28,878</u>	<u>(28,878)</u>	<u>-</u>	<u>(108,000)</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 260,698</u>	<u>\$ 260,698</u>	<u>\$ 43,339</u>
Reconciliation of change in net assets				
Total revenues			\$ 2,145,203	\$ 2,220,237
Total expenditures			1,884,505	2,176,898
Subtotal			<u>260,698</u>	<u>43,339</u>
Depreciation			(1,504,290)	(1,367,293)
Amortization			(22,000)	(22,000)
Change in accrued vacation			(3,840)	(10,279)
Change in inventory			331	69
Capital outlay			4,200	6,889
Gain (loss) on disposal of assets			(25,804)	-
Change in fair market value of investment			(4,451)	7,885
Subtotal			<u>(1,555,854)</u>	<u>(1,384,729)</u>
Change in net assets			<u>\$ (1,295,156)</u>	<u>\$ (1,341,390)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Revenues and Expenditures
Airport Capital Project Fund**

From Inception And For Year Ended June 30, 2002

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Federal grants	\$ 6,587,578	\$ 4,241,492	\$ -	\$ 1,772,082	\$ 6,013,574
State grants	365,975	246,474	-	83,014	329,488
Miscellaneous income	225,094	28,415	-	281,725	310,140
Investment income	-	11,770	-	-	11,770
Total revenues	<u>7,178,647</u>	<u>4,528,151</u>	<u>-</u>	<u>2,136,821</u>	<u>6,664,972</u>
Expenditures					
T-hangars	525,876	505,442	-	-	505,442
Airport Road Landscaping	50,000	43,035	-	6,128	49,163
Airport Road Construction	369,164	359,298	-	720	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	82,740	-	4,624	87,364
Ramp and safety area design/ARFF proximity suits	240,872	238,062	-	-	238,062
NLVR/terminal rehab	451,885	-	-	299,504	299,504
Apron & safety area improvements	6,010,000	4,295,472	-	1,577,054	5,872,526
Total expenditures	<u>7,895,407</u>	<u>5,671,536</u>	<u>-</u>	<u>1,888,030</u>	<u>7,559,566</u>
Revenues over (under) expenditures	<u>(716,760)</u>	<u>(1,143,385)</u>	<u>-</u>	<u>248,791</u>	<u>(894,594)</u>
Other financing sources (uses)					
Transfers in	208,884	283,733	-	-	283,733
Loan from general fund	507,876	469,299	-	(22,070)	447,229
Total other financing sources (uses)	<u>716,760</u>	<u>753,032</u>	<u>-</u>	<u>(22,070)</u>	<u>730,962</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (390,353)</u>	<u>\$ -</u>	<u>\$ 226,721</u>	<u>\$ (163,632)</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 226,721	
Loan from general fund				22,070	
Capital outlay				<u>1,888,030</u>	
Change in net assets				<u>\$ 2,136,821</u>	

City of Fayetteville, North Carolina

This page left blank intentionally

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 Statement of Net Assets
Internal Service Funds
June 30, 2002**

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	Total
Assets				
Current assets				
Cash and investments	\$ 1,162,062	\$ 270,588	\$ 4,840,610	\$ 6,273,260
Accounts receivable	6,886	-	373,697	380,583
Inventories	-	316,580	-	316,580
Prepaid expenses	-	-	50,816	50,816
Total current assets	<u>1,168,948</u>	<u>587,168</u>	<u>5,265,123</u>	<u>7,021,239</u>
Noncurrent assets				
Capital assets	28,172	249,345	3,034	280,551
Total noncurrent assets	<u>28,172</u>	<u>249,345</u>	<u>3,034</u>	<u>280,551</u>
Total assets	<u>\$ 1,197,120</u>	<u>\$ 836,513</u>	<u>\$ 5,268,157</u>	<u>\$ 7,301,790</u>
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 551	\$ 115,325	\$ 3,927,410	\$ 4,043,286
Accrued vacation	-	60,545	17,042	77,587
Total current liabilities	<u>551</u>	<u>175,870</u>	<u>3,944,452</u>	<u>4,120,873</u>
Noncurrent liabilities				
Deferred revenues	-	-	3,259	3,259
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>3,259</u>	<u>3,259</u>
Total liabilities	<u>551</u>	<u>175,870</u>	<u>3,947,711</u>	<u>4,124,132</u>
Net assets				
Unrestricted	1,196,569	660,643	1,320,446	3,177,658
Total net assets	<u>1,196,569</u>	<u>660,643</u>	<u>1,320,446</u>	<u>3,177,658</u>
Total liabilities and net assets	<u>\$ 1,197,120</u>	<u>\$ 836,513</u>	<u>\$ 5,268,157</u>	<u>\$ 7,301,790</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2002**

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	Total
Operating revenues				
Other revenue from operations	\$ -	\$ 885	\$ -	\$ 885
Interfund charges and employee contributions	187,961	1,362,871	9,241,408	10,792,240
Total operating revenues	<u>187,961</u>	<u>1,363,756</u>	<u>9,241,408</u>	<u>10,793,125</u>
Operating expenses				
Personnel	-	1,168,298	335,673	1,503,971
Maintenance and operations	72,961	119,823	8,977,687	9,170,471
Depreciation	54,131	50,520	1,883	106,534
Total operating expenses	<u>127,092</u>	<u>1,338,641</u>	<u>9,315,243</u>	<u>10,780,976</u>
Operating income (loss)	<u>60,869</u>	<u>25,115</u>	<u>(73,835)</u>	<u>12,149</u>
Nonoperating revenue (expense)				
Interest earned on investments	37,242	-	112,917	150,159
Miscellaneous revenue	-	-	414,939	414,939
Gain (loss) on disposal of capital assets	(5,250)	(25,082)	(5,834)	(36,166)
Interest expense	-	(33)	-	(33)
Total nonoperating revenue (expense)	<u>31,992</u>	<u>(25,115)</u>	<u>522,022</u>	<u>528,899</u>
Income (loss) before transfers and contributions	<u>92,861</u>	<u>-</u>	<u>448,187</u>	<u>541,048</u>
Transfers in	-	-	6,705	6,705
Change in net assets	<u>92,861</u>	<u>-</u>	<u>454,892</u>	<u>547,753</u>
Total net assets - beginning	<u>1,103,708</u>	<u>660,643</u>	<u>865,554</u>	<u>2,629,905</u>
Total net assets - ending	<u>\$ 1,196,569</u>	<u>\$ 660,643</u>	<u>\$ 1,320,446</u>	<u>\$ 3,177,658</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2002

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	Total
Operating activities				
Cash received from customers	\$ 188,435	\$ 1,362,871	\$ 8,895,880	\$ 10,447,186
Other operating revenues	-	885	-	885
Cash received as deferred revenues	-	-	3,249	3,249
Cash paid to or on behalf of employees for services	-	(1,180,312)	(338,171)	(1,518,483)
Cash paid for goods and services	(72,564)	(143,043)	(8,616,868)	(8,832,475)
Net cash provided by (used in) operating activities	115,871	40,401	(55,910)	100,362
Noncapital financing activities				
Transfers in	-	-	6,705	6,705
Nonoperating revenues	-	-	414,940	414,940
Net cash provided by (used in) noncapital financing activities	-	-	421,645	421,645
Capital and related financing activities				
Acquisition and construction of capital assets	(5,978)	(6,046)	-	(12,024)
Principal paid on debt maturities	-	(2,659)	-	(2,659)
Interest paid on debt maturities	-	(33)	-	(33)
Net cash provided by (used in) capital and related financing activities	(5,978)	(8,738)	-	(14,716)
Investing activities				
Interest and dividends	37,242	-	112,917	150,159
Net cash provided by (used in) investing activities	37,242	-	112,917	150,159
Net increase in cash and cash equivalents/investments	147,135	31,663	478,652	657,450
Cash and cash equivalents/investments				
Beginning of year	1,014,927	238,925	4,361,958	5,615,810
End of year	\$ 1,162,062	\$ 270,588	\$ 4,840,610	\$ 6,273,260
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 60,869	\$ 25,115	\$ (73,835)	\$ 12,149
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	54,131	50,520	1,883	106,534
Change in assets and liabilities				
(increase) decrease in accounts receivable	474	-	(345,528)	(345,054)
(Increase) decrease in inventory	-	(16,201)	-	(16,201)
(Increase) decrease in prepaid items	-	-	37,489	37,489
Increase (decrease) in accounts payable and accrued liabilities	397	(7,019)	323,330	316,708
Increase (decrease) in accrued compensated absences	-	(12,014)	(2,498)	(14,512)
Increase (decrease) in deferred revenues	-	-	3,249	3,249
Total adjustments	55,002	15,286	17,925	88,213
Net cash provided by (used in) operating activities	\$ 115,871	\$ 40,401	\$ (55,910)	\$ 100,362

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 186,538	\$ 1,423	\$ 187,961	\$ 196,183
Total operating revenues	<u>186,538</u>	<u>1,423</u>	<u>187,961</u>	<u>196,183</u>
Operating expenditures				
Maintenance and operations	135,173	62,212	72,961	71,613
Capital outlay	86,365	80,387	5,978	-
Total operating expenditures	<u>221,538</u>	<u>142,599</u>	<u>78,939</u>	<u>71,613</u>
Operating income (loss)	<u>(35,000)</u>	<u>144,022</u>	<u>109,022</u>	<u>124,570</u>
Nonoperating revenues				
Interest earned on investments	35,000	5,660	40,660	54,236
Total nonoperating revenues	<u>35,000</u>	<u>5,660</u>	<u>40,660</u>	<u>54,236</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 149,682</u>	<u>\$ 149,682</u>	<u>\$ 178,806</u>
Reconciliation to net income (loss):				
Total revenues			\$ 228,621	\$ 250,419
Total expenditures			78,939	71,613
Subtotal			<u>149,682</u>	<u>178,806</u>
Depreciation			(54,131)	(88,972)
Capital outlay			5,978	-
Change in fair market value of investments			(3,418)	7,376
Gain (loss) on disposal of assets			(5,250)	-
Subtotal			<u>(56,821)</u>	<u>(81,596)</u>
Change in net assets			<u>\$ 92,861</u>	<u>\$ 97,210</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002
(With Comparative Actual Amounts For Year Ended June 30, 2001)

	Budget	Variance Positive (Negative)	2002 Actual	2001 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 1,710,560	\$ (347,689)	\$ 1,362,871	\$ 1,626,466
Other revenues from operations	1,500	(615)	885	1,210
Total operating revenues	<u>1,712,060</u>	<u>(348,304)</u>	<u>1,363,756</u>	<u>1,627,676</u>
Operating expenditures				
Personnel	1,426,320	246,008	1,180,312	1,256,380
Maintenance and operations	213,903	94,080	119,823	285,912
Capital outlay	72,145	66,100	6,045	42,537
Total operating expenditures	<u>1,712,368</u>	<u>406,188</u>	<u>1,306,180</u>	<u>1,584,829</u>
Operating income (loss)	<u>(308)</u>	<u>57,884</u>	<u>57,576</u>	<u>42,847</u>
Nonoperating revenues				
Interest earned	3,000	(3,000)	-	-
Total nonoperating revenue	<u>3,000</u>	<u>(3,000)</u>	<u>-</u>	<u>-</u>
Nonoperating expenditures				
Interest expense	33	-	33	232
Revenues over (under) expenditures	<u>2,659</u>	<u>54,884</u>	<u>57,543</u>	<u>42,615</u>
Other financing sources (uses)				
Principal payments	(2,659)	-	(2,659)	-
Total other financing sources (uses)	<u>(2,659)</u>	<u>-</u>	<u>(2,659)</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 54,884</u>	<u>\$ 54,884</u>	<u>\$ 42,615</u>
Reconciliation to net income (loss):				
Total revenues			\$ 1,363,756	\$ 1,627,676
Total expenditures			1,308,872	1,585,061
Subtotal			<u>54,884</u>	<u>42,615</u>
Depreciation			(50,520)	(63,901)
Principal payments			2,659	-
Decrease (increase) in accrued vacation			12,014	(15,752)
Capital outlay			6,045	42,537
Gain (loss) on disposal of assets			(25,082)	-
Subtotal			<u>(54,884)</u>	<u>(37,116)</u>
Change in net assets			<u>\$ -</u>	<u>\$ 5,499</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2002

(With Comparative Actual Amounts For Year Ended June 30, 2001)

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2002 Actual</u>	<u>2001 Actual</u>
Operating revenues				
Interfund charges and employee contributions	\$ 8,925,515	\$ 315,893	\$ 9,241,408	\$ 7,783,760
Other revenues from operations	43,000	371,939	414,939	136,786
Total operating revenues	<u>8,968,515</u>	<u>687,832</u>	<u>9,656,347</u>	<u>7,920,546</u>
Operating expenditures				
Personnel	355,263	17,093	338,170	324,447
Maintenance and operations	8,903,251	345,756	8,557,495	7,759,545
Capital outlay	-	-	-	-
Total operating expenditures	<u>9,258,514</u>	<u>362,849</u>	<u>8,895,665</u>	<u>8,083,992</u>
Operating income (loss)	<u>(289,999)</u>	<u>1,050,681</u>	<u>760,682</u>	<u>(163,446)</u>
Nonoperating revenues				
Interest earned on investments	150,000	(21,094)	128,906	227,442
Total nonoperating revenue	<u>150,000</u>	<u>(21,094)</u>	<u>128,906</u>	<u>227,442</u>
Revenues over (under) expenditures	<u>(139,999)</u>	<u>1,029,587</u>	<u>889,588</u>	<u>63,996</u>
Other financing sources (uses)				
Transfers in	-	6,705	6,705	-
Appropriated fund balance	139,999	(139,999)	-	-
Total other financing sources (uses)	<u>139,999</u>	<u>(133,294)</u>	<u>6,705</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 896,293</u>	<u>\$ 896,293</u>	<u>\$ 63,996</u>
Reconciliation to net income (loss):				
Total revenues			\$ 9,791,958	\$ 8,147,988
Total expenditures			8,895,665	8,083,992
Subtotal			<u>896,293</u>	<u>63,996</u>
Depreciation			(1,883)	(7,410)
Decrease (increase) in accrued vacation			2,497	(4,517)
Change in fair market value of investments			(15,989)	33,921
Increase in insurance liability			(420,192)	(485,334)
Gain (loss) on disposal of assets			(5,834)	-
Subtotal			<u>(441,401)</u>	<u>(463,340)</u>
Change in net assets			<u>\$ 454,892</u>	<u>\$ (399,344)</u>

City of Fayetteville, North Carolina

This page left blank intentionally

FIDUCIARY FUNDS

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

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

City of Fayetteville, North Carolina

This page left blank intentionally

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
- * 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, 2002

	Special Separation Allowance Pension Trust Fund	PWC Pension Trust Fund	Total
Assets			
Cash and investments	\$ 1,442,932	\$ 56,666,077	\$ 58,109,009
Accounts receivable	8,669	-	8,669
Total assets	<u>1,451,601</u>	<u>56,666,077</u>	<u>58,117,678</u>
Liabilities			
Accounts payable and accrued expenses	8,820	-	8,820
Total liabilities	<u>8,820</u>	<u>-</u>	<u>8,820</u>
Net assets			
Held in trust	<u>\$ 1,442,781</u>	<u>\$ 56,666,077</u>	<u>\$ 58,108,858</u>

City of Fayetteville, North Carolina

**Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
Year Ended June 30, 2002**

	Special Separation Allowance Pension Trust Fund	PWC Pension Trust Fund	Total
Additions			
Contributions	\$ 272,141	\$ 3,155,849	\$ 3,427,990
Interest earned on investments	45,616	(2,089,492)	(2,043,876)
Total additions	<u>317,757</u>	<u>1,066,357</u>	<u>1,384,114</u>
Deductions			
Benefit payments and premiums	204,444	3,042,214	3,246,658
Total deductions	<u>204,444</u>	<u>3,042,214</u>	<u>3,246,658</u>
Change in net assets	113,313	(1,975,857)	(1,862,544)
Total net assets - beginning	<u>1,329,468</u>	<u>58,641,934</u>	<u>59,971,402</u>
Total net assets - ending	<u>\$ 1,442,781</u>	<u>\$ 56,666,077</u>	<u>\$ 58,108,858</u>

City of Fayetteville, North Carolina

Combining Statement of Fiduciary Net Assets
Private-purpose Trust Funds
June 30, 2002

	<u>Police Benefit Trust Fund</u>	<u>Fireman's Benefit Trust Fund</u>	<u>Total</u>
Assets			
Cash and investments	\$ 4,822	\$ 1,249,808	\$ 1,254,630
Accounts receivable	30	71,265	71,295
Total assets	<u>4,852</u>	<u>1,321,073</u>	<u>1,325,925</u>
Net assets			
Held in trust	<u>\$ 4,852</u>	<u>\$ 1,321,073</u>	<u>\$ 1,325,925</u>

City of Fayetteville, North Carolina

**Combining Statement of Changes in Fiduciary Net Assets
Private-purpose Trust Funds
Year Ended June 30, 2002**

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
Additions			
Other revenue from operations	\$ -	\$ 38,280	\$ 38,280
Contributions	-	67,915	67,915
Interest earned on investments	145	26,801	26,946
Total additions	<u>145</u>	<u>132,996</u>	<u>133,141</u>
Deductions			
Benefit payments and premiums	-	93,265	93,265
Total deductions	<u>-</u>	<u>93,265</u>	<u>93,265</u>
Change in net assets	145	39,731	39,876
Total net assets - beginning	<u>4,707</u>	<u>1,281,342</u>	<u>1,286,049</u>
Total net assets - ending	<u>\$ 4,852</u>	<u>\$ 1,321,073</u>	<u>\$ 1,325,925</u>

City of Fayetteville, North Carolina

This page left blank intentionally

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, 2002

	<u>Total Property Valuation</u>	<u>Rate Per \$100</u>	<u>Amount of Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy					
General fund	\$ 6,446,417,853	\$ 0.530	\$ 34,166,015	\$ 29,912,638	\$ 4,253,377
Late listings:					
General fund		Per listing	31,972	31,972	-
Subtotal			34,197,987	29,944,610	4,253,377
Discoveries					
General fund	29,113,147	0.530	154,300	140,118	14,182
Late listings:					
General fund		Per listing	29,594	29,594	-
Subtotal			183,894	169,712	14,182
Releases					
General fund	(92,873,949)	0.530	(492,232)	(92,351)	(399,881)
Late listings:					
General fund		Per listing	(10,812)	(10,812)	-
Subtotal			(503,044)	(103,163)	(399,881)
Adjusted tax levy			33,878,837	30,011,159	3,867,678
Uncollected taxes at June 30, 2002			<u>(1,473,289)</u>	<u>(727,139)</u>	<u>(746,150)</u>
City-wide current year's taxes collected			<u>\$ 32,405,548</u>	<u>\$ 29,284,020</u>	<u>\$ 3,121,528</u>
City-wide current levy collection percentage			<u>95.65%</u>	<u>97.58%</u>	<u>80.71%</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Taxes Receivable

June 30, 2002

Fiscal year ended	Uncollected Balance June 30, 2001	Additions	Collections and Credits	Uncollected Balance June 30, 2002
2002	\$ -	\$ 34,381,881	\$ 32,908,592	\$ 1,473,289
2001	1,154,048	416	767,792	386,672
2000	360,286	-	77,560	282,726
1999 and prior	1,153,600	35,858	133,179	1,056,279
	<u>2,667,934</u>	<u>\$ 34,418,155</u>	<u>\$ 33,887,123</u>	<u>3,198,966</u>
Less allowance for uncollectible taxes				
General fund	(458,277)			(528,139)
	<u>\$ 2,209,657</u>			<u>\$ 2,670,827</u>
General fund				\$ 2,911,754
Less: CBTD taxes receivable				(4,671)
Less: Vehicle license fee receivable				(236,256)
Total taxes receivable				<u>\$ 2,670,827</u>

**Reconciliations of collections and credit
with revenues**

Ad valorem taxes:	
General fund	\$ 33,134,815
Releases - current year	492,232
Releases - prior years	81,673
Other	10,812
Discounts	337,823
Barred by State statute	78,540
Less penalties and interest	(185,075)
Less taxes - CBTD	(63,697)
Total collections and credits	<u>\$ 33,887,123</u>

City of Fayetteville, North Carolina

This page left blank intentionally

**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 blank intentionally



**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, 2002, and have issued our report thereon dated October 4, 2002. 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 4, 2002.

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, C.P.A.

Fayetteville, North Carolina
October 4, 2002



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, 2002. 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, 2002.

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.

Cherry, Robert + H. L. P.

Fayetteville, North Carolina
October 4, 2002



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, 2002. 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, 2002.

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.

Chung, Robert + Hulse, L.L.P.

Fayetteville, North Carolina
October 4, 2002

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2002

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
14.218	Community Development Block Grant

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, 2002

State Awards

Internal control over major State programs:

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

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

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

Identification of major State programs:

- Program Name
- Powell Bill
- 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, 2002

None reportable.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2002

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
FEDERAL GRANTS:					
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Community Development Block Grant 19th to 27th Year Entitlement	14.218	various	\$ 1,234,240	\$ -	\$ 1,234,240
HOME Investment Partnership Program HOME - FY 94 to FY 02 allocation	14.239	various	1,178,277	-	1,178,277
U.S. DEPARTMENT OF JUSTICE					
Office of Justice Programs					
Bulletproof Vest Partnership Program	16.607	Year 2000	6,211	-	6,211
Local Law Enforcement Block Grants Program					
Local Law Enforcement Block 1999	16.592	1999-LB-VX-8526	122,006	-	122,006
Local Law Enforcement Block 2001	16.592	2001-LB-BX-3433	183,122	-	183,122
			305,128	-	305,128
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Special Programs for the Aging Passed Through NC Department of Health & Human Services					
Senior Citizens Service Center	93.044	N/A	17,869	-	17,869
U.S. DEPARTMENT OF TRANSPORTATION					
Federal Aviation Administration					
Airport Improvement Program					
Airport Road, Security System, Jetbridge, & Runway	20.106	FAA-3-37-0021-21	7,683	-	7,683
Apron & Safety Area Improvements	20.106	FAA-3-37-0021-23	1,502,607	-	1,502,607
Non-licensed Vehicle Road, Terminal Rehabilitation, Security System	20.106	FAA-3-37-0021-24	261,792	-	261,792
			1,772,082	-	1,772,082
Passed through NC Dept of Transportation					
Division of Bicycle & Pedestrian Transportation					
Bicycle Helmet Program	20.600	PS-01-07-01	2,000	-	2,000
Governor's Highway Safety Program					
Checkpoint Signs Program	20.600	LRF-01-07	3,184	-	3,184
Strict and Fair Enforcement Program	20.600	QN-01-11-02-02	310	-	310
Strict and Fair Enforcement Program	20.600	QN-02-11-01-02	3,149	-	3,149
			8,643	-	8,643
Highway Planning and Construction					
Maintenance Agreement	20.205	N/A	173,558	-	173,558
Enhancement Agreement - Depot	20.205	E-4118	106,192	-	106,192
			279,750	-	279,750
Federal Transportation Administration					
Operating assistance grant	20.507	NC 90.4271	54,789	-	54,789
Operating assistance grant	20.507	NC 90.4292	773,549	-	773,549
Capital assistance grants:					
Capital/Preventative Maintenance	20.507	NC 90.0229	63,017	-	63,017
Capital/Preventative Maintenance	20.507	NC 90.0244	22,787	-	22,787
Capital/Preventative Maintenance	20.507	NC 90.0271	112,161	-	112,161
Planning	20.507	NC 90.2292	49,773	-	49,773
Planning	20.507	NC 90.2271	64,946	-	64,946
Planning	20.507	NC 90.2244	4,000	-	4,000
			1,145,022	-	1,145,022

CITY OF FAYETTEVILLE, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2002

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>					
Passed through the NC Department of Crime Control and Public Safety- Division of Emergency Management					
Disaster Assistance	83.548	HMGP-1134-0112	\$ 76,643	\$ -	\$ 76,643
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY, REGION 4</u>					
Brownfields Pilots Cooperative Agreement					
Region 4 - Direct Program	66.811	V984206-97-0	25,794	-	25,794
<u>U.S. DEPARTMENT OF THE INTERIOR</u>					
<u>National Park Service</u>					
Passed through NC Department of Cultural Resources					
Fayetteville Municipal Architectural Survey	15.904	11-1/HPO	3,900	-	3,900
<u>Fish and Wildlife Service</u>					
Watershed Preservation	15.FFB	1448-4018498-G-075	8,575	-	8,575
STATE GRANTS:					
<u>N.C. DEPARTMENT OF TRANSPORTATION</u>					
Aviation Division					
Airport Road, Security System, Jetbridge, & Runway	N/A	9.9544000	-	(465)	(465)
Apron & Safety Area Improvements	N/A	9.9544002	-	83,478	83,478
			-	83,013	83,013
Public Transportation Division					
State Maintenance Assistance for Urban and Small Urban Program	N/A	9.9051698	-	579,296	579,296
Capital/Planning	N/A	9.9051656	-	7,877	7,877
Capital	N/A	9.9051816	-	2,848	2,848
Planning	N/A	9.9051830	-	500	500
Planning	N/A	9.9052267	-	6,222	6,222
Capital	N/A	9.9051986	-	14,020	14,020
Planning	N/A	9.9051987	-	8,118	8,118
Tier I Technology	N/A	9.9051963	-	732	732
AVL System	N/A	9.9051566	-	8,086	8,086
			-	627,699	627,699
U3421A Airborne Museum	NA		-	95,395	95,395
Powell Bill	N/A	110.5043.1	-	4,009,097	4,009,097
Mazarick Bike Trail	N/A		-	31,447	31,447
<u>N.C. DEPARTMENT OF ENVIRONMENTAL AND NATURAL RESOURCES</u>					
Division of Water Quality					
Clean Water State Revolving Fund	66.458	E-SRF-T-99-0088	-	7,215,371	7,215,371
Clean Water Management Trust Fund					
Property Acquisition, Little Cross Creek Water Supply Water	N/A	1997A-119	-	120,657	120,657
<u>N.C. DEPARTMENT OF HUMAN RESOURCES</u>					
Passed through Cumberland County Department of Social Services					
Juvenile Court Restitution	N/A	626015	-	72,375	72,375

CITY OF FAYETTEVILLE, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2002

<u>GRANTOR/PASS-THROUGH</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>number</u>	<u>State/</u> <u>Pass-through</u> <u>Grantor's</u> <u>Number</u>	<u>Fed. (Direct</u> <u>& Pass-through)</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>	<u>Total</u> <u>Expenditures</u>
<u>N.C. DEPARTMENT OF CRIME CONTROL & PUBLIC SAFETY</u>					
<u>Division of Emergency Management</u>					
Disaster Assistance	N/A	HMGP-1134-0112	\$ -	\$ 19,020	\$ 19,020
			<u>\$ 6,062,134</u>	<u>\$12,274,074</u>	<u>\$ 18,336,208</u>

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

- The accompanying schedule of expenditures of Federal and State awards includes the Federal and State grant activity of the City of Fayetteville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
- The total local contributions for the State Powell Bill assistance amounted to \$113,005.
- Loans Outstanding**
City of Fayetteville had the following loan balances outstanding at June 30, 2002. These loan balances outstanding are also included in the state expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Pass-through</u> <u>Grantor's</u> <u>Number</u>	<u>Amount</u> <u>Outstanding</u>
Clean Water State Revolving Fund	66.458	E-SRF-T-99-0088	\$7,215,371

- 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</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>
Community Development Block Grant	14.218	\$ 152,768	\$ -
U3421A Airborne Museum	N/A	-	95,395

City of Fayetteville, North Carolina

This page left blank intentionally

**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, 2002. 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, 2002.

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, Richard + Hesse, L.L.P.

Fayetteville, North Carolina
October 4, 2002

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Passenger Facility Charge Program

For the Year Ended June 30, 2002

SECTION I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial
statements noted Yes No

Passenger Facility Charge Program

Internal control over passenger facility charge program:

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

Noncompliance material to passenger
facility charge program Yes No

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

Any audit findings disclosed Yes No

Section II. Financial Statement Findings

None reported.

Section III. Passenger Facility Charge Findings and Questioned Costs

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
Passenger Facility Charge Program
For the Year Ended June 30, 2002

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures of Passenger Facility Charges

Year Ended June 30, 2002

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
APPLICATION 1 (# 00-01-C-00-FAY)								
Local share reimbursement AIP-12, Construction of a Fire Training Facility and Rehabilitation of a 1500-Gallon ARFF Vehicle	11/01/2000	11/01/2000	\$ 3,830,753	\$ 3,830,753	\$ 191,538	\$ 191,538	\$ -	\$ 191,538
Local share reimbursement AIP-12, Install Security Access Control System	11/01/2000	11/01/2000	757,595	757,596	37,880	28,866	9,014	37,880
Local share reimbursement AIP-13, Update Airport Master Plan	11/01/2000	11/01/2000	135,020	67,510	6,751	-	6,751	6,751
Local share reimbursement AIP-13, Design Highway 301 Connector	11/01/2000	11/01/2000	194,655	194,655	9,733	-	9,733	9,733
Local share reimbursement AIP-14, Installation of Taxiway Guidance Signs and Runway End Identification Lights	11/01/2000	11/01/2000	198,191	198,192	9,910	-	9,910	9,910
Local share reimbursement AIP-14, Land Acquisition	11/01/2000	11/01/2000	134,612	134,462	6,731	-	-	-
Local share reimbursement AIP-14, Improve Terminal Building	11/01/2000	11/01/2000	31,224	31,224	1,474	-	-	-
Local share reimbursement AIP-15, Design New General Aviation Area	11/01/2000	11/01/2000	206,286	206,286	11,460	-	-	-
Local share reimbursement AIP-15, Foreign Object Damage Sweeper	11/01/2000	11/01/2000	15,632	15,632	782	-	-	-
Local share reimbursement AIP-15, Design Taxiway "K"	11/01/2000	11/01/2000	16,841	16,841	842	-	-	-
Local share reimbursement AIP-15, Rehabilitate General Aviation Apron	11/01/2000	11/01/2000	29,875	29,875	1,494	-	-	-
Local share reimbursement AIP-15, Land for Development	11/01/2000	11/01/2000	49,001	48,476	2,424	-	-	-
Local share reimbursement AIP-16, Installation of Terminal Loading Bridges	11/01/2000	11/01/2000	179,808	179,808	8,990	-	-	-
Local share reimbursement AIP-17, New General Aviation Area Construction	11/01/2000	11/01/2000	2,362,380	2,342,376	114,860	-	21,329	21,329
Local share reimbursement AIP-18, Acquire Handicap Lift Device	11/01/2000	11/01/2000	35,680	35,680	1,784	-	-	-
Local share reimbursement AIP-18, Rehabilitate Terminal Building	11/01/2000	11/01/2000	1,820,477	1,820,478	83,367	-	-	-
Local share reimbursement AIP-19, Aircraft Rescue & Firefighting Vehicle	11/01/2000	11/01/2000	319,769	319,769	15,988	-	-	-
Local share reimbursement AIP-20, Design Non-licensed Vehicle Road	11/01/2000	11/01/2000	31,619	30,545	1,527	-	-	-
Local share reimbursement AIP-20, Design of Taxiway "K" (Revised)	11/01/2000	11/01/2000	13,287	12,887	644	-	-	-

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures of Passenger Facility Charges

Year Ended June 30, 2002

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	11/01/2000	11/01/2000	\$ 78,565	\$ 78,299	\$ 3,915	\$ -	\$ -	\$ -
Local share reimbursement AIP-21, Airport Entrance Road	11/01/2000	11/01/2000	360,018	350,000	17,500	17,500	-	17,500
Local share reimbursement AIP-21, Jetway System Modifications	11/01/2000	11/01/2000	38,887	46,195	2,310	1,944	-	1,944
Local share reimbursement AIP-21, Security System Upgrade	11/01/2000	11/01/2000	85,903	70,815	3,541	3,541	-	3,541
Local share reimbursement AIP-21, Preplan Runway Safety Areas	11/01/2000	11/01/2000	108,600	109,600	5,480	5,430	-	5,430
North GA Ramp Construction	11/01/2000	06/18/2002	1,554,453	1,404,170	70,209	-	68,285	68,285
Security System Upgrade Phase II	11/01/2000	06/18/2002	85,455	139,340	6,967	-	4,481	4,481
Design & Construct RSA, Runway 4	11/01/2000	06/18/2002	858,871	949,000	47,450	-	37,553	37,553
Acquire Land	11/01/2000	06/18/2002	-	136,111	13,611	-	-	-
Renovate Terminal, Phase II	11/01/2000	06/18/2002	142,839	2,475,430	93,433	-	7,489	7,489
RSA Construction, Runway 4, Phase II	11/01/2000	06/18/2002	858,872	949,000	40,000	-	37,553	37,553
Land Acquisition	11/01/2000	06/18/2002	-	136,111	1,411	-	-	-
Renovate Terminal, Phase III	11/01/2000	06/18/2002	-	2,475,430	37,500	-	-	-
RSA Construction, Runway 22	11/01/2000	06/18/2002	1,855,290	1,263,890	86,389	-	81,120	81,120
Acquire Land	11/01/2000	06/18/2002	-	177,778	17,778	-	-	-
NLVR Construction	11/01/2000	06/18/2002	540,322	180,000	25,395	-	24,124	24,124
Jet Bridge Modification Construction	11/01/2000	06/18/2002	-	125,500	6,275	-	-	-
Taxiway K Construction	11/01/2000	06/18/2002	483,002	225,000	22,500	-	21,120	21,120
TOTAL IMPOSE AND USE			17,413,782	21,564,714	1,009,843	248,819	338,462	587,281
Acquire Land	11/01/2000		-	166,700	-	-	-	-
TOTAL IMPOSE ONLY			-	166,700	-	-	-	-
TOTAL APPLICATION 1			\$ 17,413,782	\$ 21,731,414	\$ 1,009,843	\$ 248,819	\$ 338,462	\$ 587,281