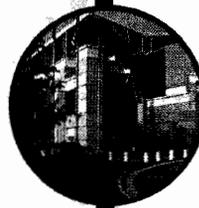


Comprehensive Annual Financial Report

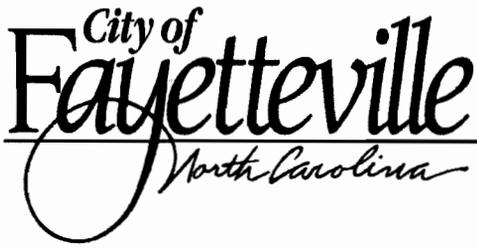


2007

Fiscal Year Ended June 30, 2007



The photos on the cover represent what is best about our city. We are known as the City of Dogwoods, with a revitalized downtown, new four mile trail along the Cape Fear River and a variety of fountains. The Airborne Special Operations Museum is one of the most visited attractions here and is at the gateway to our historic downtown area. This year Fayetteville celebrated the 250th anniversary of the Marquis de Lafayette's birth, for whom we are named, and his statue is in one of our downtown parks. We are a city of "History, Heroes, A Hometown Feeling."



Comprehensive Annual Financial Report

Prepared by the City of Fayetteville Finance Department

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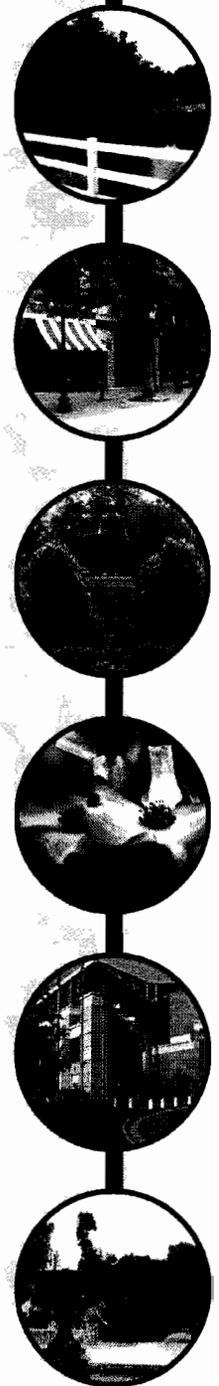
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CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

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INTRODUCTORY SECTION

- Transmittal Letter
- List of Principal Officials
- Organization Chart



Comprehensive Annual Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA



October 29, 2007

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

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

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Fayetteville, North Carolina for the fiscal year ended June 30, 2007. State law requires that every local government publish a complete set of audited financial statements within four months of the close of each fiscal year. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of certified public accountants. This report complies with these requirements.

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

Cherry, Bekaert & Holland, LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Fayetteville's financial statements for the fiscal year ended June 30, 2007. The independent auditors' report is located at the front of the financial section of this report.

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

PROFILE OF THE CITY

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

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

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

Fayetteville is the sixth largest municipality in the State with a current population estimated at 173,898 and encompassing 92.9 square miles. The City's population has increased by 43.7% or 52,883 residents since the last U.S. Census on April 1, 2000. Fayetteville is empowered by State statute to extend its corporate limits through annexation. Most recently, the City completed an annexation, Phase V, of approximately 42,000 residents and 27 square miles in September 2005.

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

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

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

LOCAL ECONOMY

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

The economy of Fayetteville is stabilized by the presence of Fort Bragg Army Base and Pope Air Force Base. Approximately 53,000 military personnel are stationed at Fort Bragg and Pope, with support from approximately 10,800 additional civilian employees. The direct impact of payroll alone adds over \$2.6 billion to the regional economy. Substantial employment opportunities are also offered in the government sector through the local health system, school system, college, university, and county and city governments. Other major employers in the area include manufacturers such as the Goodyear Tire & Rubber Company, which has one of the largest tire producing factories in the world, and Purolator Products and M.J. Softe which produce auto filters and sports apparel, respectively. During the past five years, annual unemployment rates have ranged from a low of 5.3% to a high of 6.8%, according to the United States Department of Labor.

Unemployment Rates*			
Year	Cumberland County	North Carolina	United States
2006	5.5	4.8	4.6
2005	5.4	5.2	5.1
2004	5.3	5.5	5.5
2003	6.3	6.5	6.0
2002	6.8	6.6	5.8
* Percentage of unemployment reported by the United States Department of Labor – Bureau of Labor Statistics			

During the fiscal year, the City approved a record setting 1,154 permits for new multi-family residential units valued at \$85 million. In addition, 88 new commercial building permits and 586 single-family residential construction permits were issued in fiscal year 2007.

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

fiscal year 2007 totaled approximately \$2.3 billion. Historical sales for Fayetteville and Cumberland County are provided in the table below.

Retail / Taxable Sales*				
Fiscal Year	City of Fayetteville	% Change	Cumberland County	% Change
2007	\$2,253,207,756*	9.30	\$2,746,626,602*	9.7
2006	2,061,503,490*	N/A	2,504,743,152*	N/A
2005	2,986,871,674	11.44	3,683,503,849	9.9
2004	2,680,161,606	10.72	3,351,729,316	11.07
2003	2,420,757,553	.04	3,017,709,876	1.46

*Fiscal Year (FY) 2006 and 2007 sales are not comparable to previous fiscal year sales data. The FY2006 and FY2007 sales data represents taxable sales. The data represents gross retail sales for fiscal years 2003 through 2005.

A notable economic development during the fiscal year was the phased closing of Black & Decker Manufacturing, which resulted in the loss of approximately 675 jobs by September 2006.

In September 2007, the State of North Carolina enacted legislation authorizing cash grants up to \$60 million to be split between the Fayetteville Goodyear plant and a Bridgestone Firestone plant in Wilson. Goodyear must make a \$200million investment in facility upgrades and maintain at least 2,000 jobs to be eligible for a grant.

The Base Realignment and Closure report approved by Congress in November 2005 projects positive impacts for the local economy. By 2011, base realignments are expected to result in a net increase of 2,632 military personnel, 4,995 family members and 1,756 civilian employees and contractors to the region.

Overall, Fayetteville's economy is expected to remain stable. Council has adopted a fiscal year 2008 budget based on a moderate rate of growth. In planning for the future, the City continues to maintain a high priority on both the delivery of quality services and financial stability.

LONG-TERM FINANCIAL PLANNING and MAJOR INITIATIVES

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

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

A key financial goal of the City for many years has been to maintain a minimum 10% undesignated fund balance level in the general fund. In addition, the City's practice has been to appropriate fund balance for one-time expenditures or significant capital needs. These goals were met in fiscal year 2007 and were used to develop the fiscal year 2008 operating budget. Undesignated fund balance in the general fund was \$21.2 million or

17.3% of total general fund expenditures and transfers out at June 30, 2007, which exceeds the minimum 10 percent goal established by Council.

Consistent with debt management policy, the City also dedicated an amount equivalent to 7.28 cents of the 53 cent ad valorem tax rate, as well as specifically earmarked revenues, for the repayment of principal and interest on installment financing agreements for facilities and general obligation debt in fiscal year 2007. The City designates any excess dedicated revenues at year-end and accumulated fund balance resulting from the debt management plan for future debt service. The City's commitment to the debt management plan will generate significant debt capacity in future fiscal years. In addition, the City maintained its Aa3 and AA- bond ratings on the City's general obligation bonds, consistent with Council policy, and the underlying ratings of A1 and A+ for its revenue bonds.

Annually, the City adopts a six-year capital improvement program (CIP) for its electric, water and wastewater utility funds. The City is also developing a five-year capital improvement program that will include other major capital improvements for its airport, transit, public safety, parks, transportation and storm water functions.

The City also followed other practices designed to avoid using one-time revenues for recurring expenditures, to ensure an ongoing mix of pay-as-you-go and long-term debt funding of capital needs, and to periodically monitor revenues and expenditures to budget.

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

- The Cumberland County Business Council, in a partnership with the City of Fayetteville and Cumberland County, has reviewed sites, completed a feasibility study and evaluated design concepts to develop a military business park. A 215 acre tract has been selected near Fort Bragg for the park. The current proposal includes developing office space, a retail section, and a hotel and conference center.
- Fayetteville executed a 20-year master lease for the Festival Park Plaza Office Building in November 2005. The master lease facilitated the construction of this \$6.8 million facility in the downtown area. The building is approximately 44,000 square feet and contains office and retail space that will be subleased to various tenants. This significant achievement is the result of a public-private partnership between the City, the Cumberland County Business Council, the developer and investors. As of October 2007, approximately 77 percent of the building has been leased to subtenants.
- In June 2006, City Council adopted the funding plan for the first wastewater installation project in the Phase V annexation areas. Approximately 1,020 homes in the LaGrange, Arran Lakes and Brentwood neighborhoods will be served by this project at an estimated cost of \$13.5 million.
- The City continued redevelopment work on the 300 Block of Hay Street project, which is a public-private partnership, negotiated through the Cumberland County Business Council. The City expects to invest over \$1.8 million for waiver of

permit fees, land acquisition, parking lot construction and streetscape enhancements. Developers plan to invest approximately \$11 million to buy a portion of the land and build a four-story, 46,000-square-foot retail and office space building, 18 townhouses and 24 condominiums. Construction of the project is underway and projected completion is May 2008.

- The City, through its Public Works Commission (PWC), accomplished or continued work on several utility system financial and economic development policies and goals including:
 - Working closely with local and state leaders to provide utility incentives for Goodyear Tire, one of the largest electric customers and private employers in the area. The incentives are part of the state's industry retention plans.
 - Achieved a 60-day operating reserve, recovered costs through revised fees and charges and received an affirmation of its A+ bond rating after review by Standard and Poor's. As a result, the utility system can continue to provide reliable service, stable rates and invest in capital improvements.
 - Extended its economic incentive development plan for an additional year, which waives facility investment fees in designated zones of the City.
 - Re-evaluated its fuel adjustment policy, and in support of local industry, continued to exempt industrial customers from the charge.

During the year, the City continued or completed work on many significant capital projects including the following:

- The North Carolina General Assembly adopted the 2005 Appropriations Act in August 2005, which included a \$2.3 million grant to the City of Fayetteville for the development of a North Carolina Veterans Park in the downtown area. Most of the funds have been used to acquire land located near the Airborne and Special Operations Museum. The remainder of the grant will be used for building demolition, park design and site preparation.
- Major construction at the Festival Park was completed in April 2007. At final completion, the park is projected to cost approximately \$7.5 million. Park features include a promenade, performance stage, concession and restroom facility, significant green space and a parking lot. The annual Dogwood Festival, International Folk Festival and several other events have been held at the popular park since its' opening.
- The \$2.2 million EE Miller Recreation Center was under construction at the end of the fiscal year and was subsequently completed in October 2007. The recreation center is approximately 13,500 square feet and includes a gymnasium, fitness room, activity rooms and kitchen.
- Progress was made on projects funded by the \$8.45 million general obligation bonds issued in 2005. Those projects include drainage improvements, street and sidewalk improvements.

- Fire Station 15 was established in a temporary building on Buhmann Drive in April 2006 to provide enhanced fire protection services to a portion of the areas annexed in September 2005. Construction of the permanent station is underway with a projected completion date of January 2008 and an estimated cost of \$2.6 million.
- In June 2006, Fayetteville awarded contracts in the amount of \$2.2 million for renovations in Fayetteville Regional Airport's terminal building. The renovations include replacement of lighting, flooring and bag lifts, as well as modifications to the security checkpoint area. Renovations were completed in September 2007.
- The North Carolina Clean Water Management Fund awarded the City's PWC a \$2.6 million grant to be used toward reducing storm water pollution in Glenville Lake, one of the City's two water sources.
- Phase II of the Rockfish Creek Water Reclamation Facility expansion project was completed in fiscal year 2007. This project expanded the capacity of this facility from 16 million gallons per day (MGD) to 21 MGD to serve the western portion of the City and Cumberland County.
- Plans for major wastewater outfalls to extend the utility service area were completed or initiated. Preliminary design and routing of the North Fayetteville outfall was completed. Design of the Hope Mills and Baywood outfalls are in the preliminary planning stage.
- The United States of America contracted with the City's PWC and Harnett County to provide water services to Fort Bragg Army Base and Pope Air Force Base. The contract is to provide the maximum daily demand of 16 MGD. In order to meet this demand, PWC has partnered with Harnett County to provide the needed infrastructure, including water distribution piping and a pump station for Fort Bragg.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fayetteville, North Carolina for its comprehensive annual financial report for the fiscal year ended June 30, 2006. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This report is the work of the efficient and dedicated staff of the Finance Department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report and to the entire City staff for their

cooperation and assistance. Credit is also due to the Mayor and the members of the City Council for their unfailing support of the highest standards of professionalism in the management of Fayetteville's finances.

Respectfully submitted,



Dale E. Iman
City Manager



Lisa Smith
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fayetteville
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF FAYETTEVILLE, NORTH CAROLINA

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TOP ROW

Robert Massey
District 3

Charles Evans
District 2

Wesley Meredith
District 9

Paul Williams
District 6

D.J. Haire
District 4



BOTTOM ROW

Keith Bates
District 1

Juanita Gonzalez
District 8

Anthony Chavonne
Mayor

Lois Kirby
District 5

Curtis Worthy
District 7

City Administrative, Legal and Financial Staff

Dale Iman
City Manager

Doug Hewett
Assistant City Manager

Stanley Victrum
Assistant City Manager

Kyle Sonnenberg
Assistant City Manager

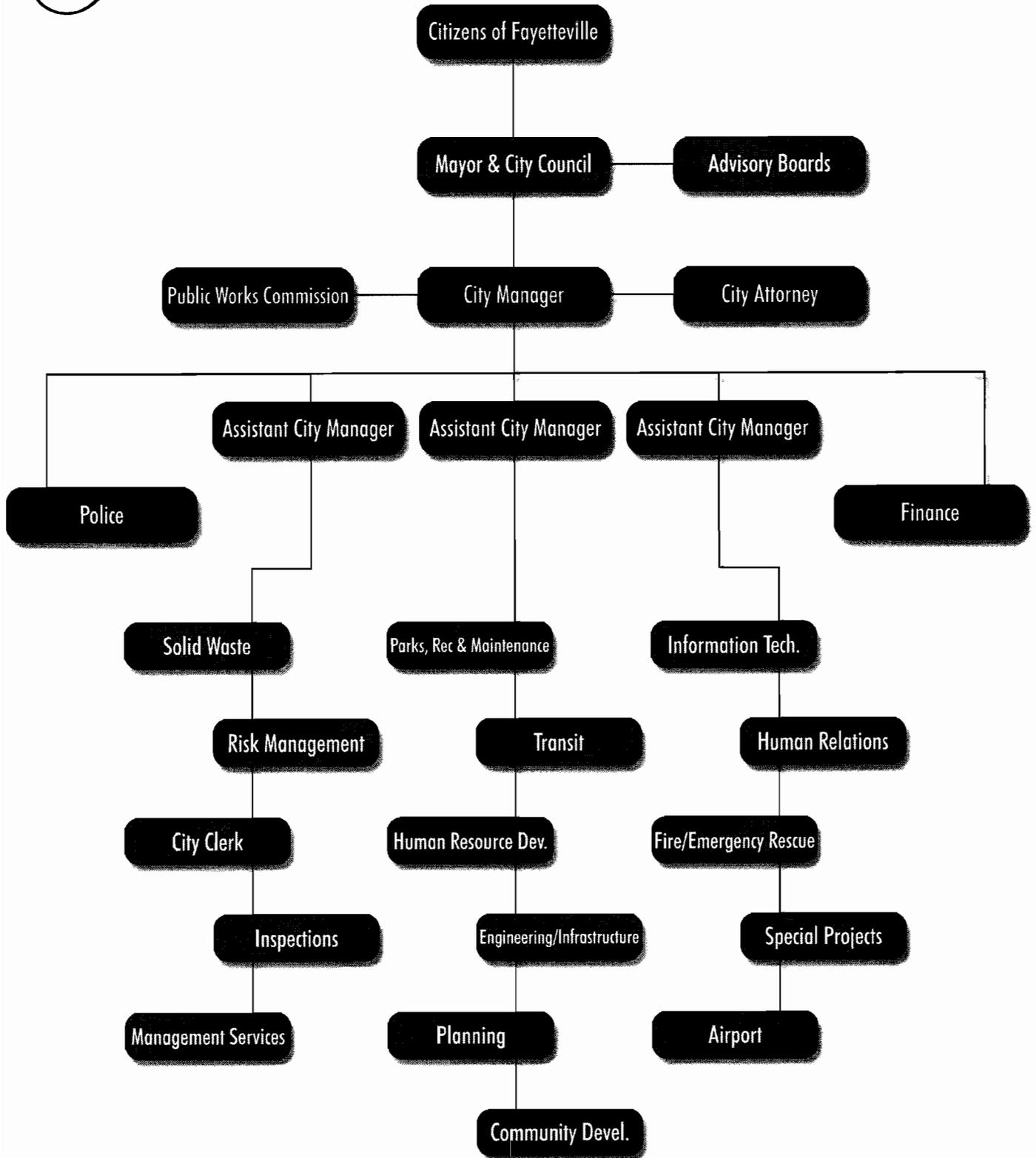
Karen McDonald
City Attorney

Lisa Smith
Chief Financial Officer

Candice White
City Clerk

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

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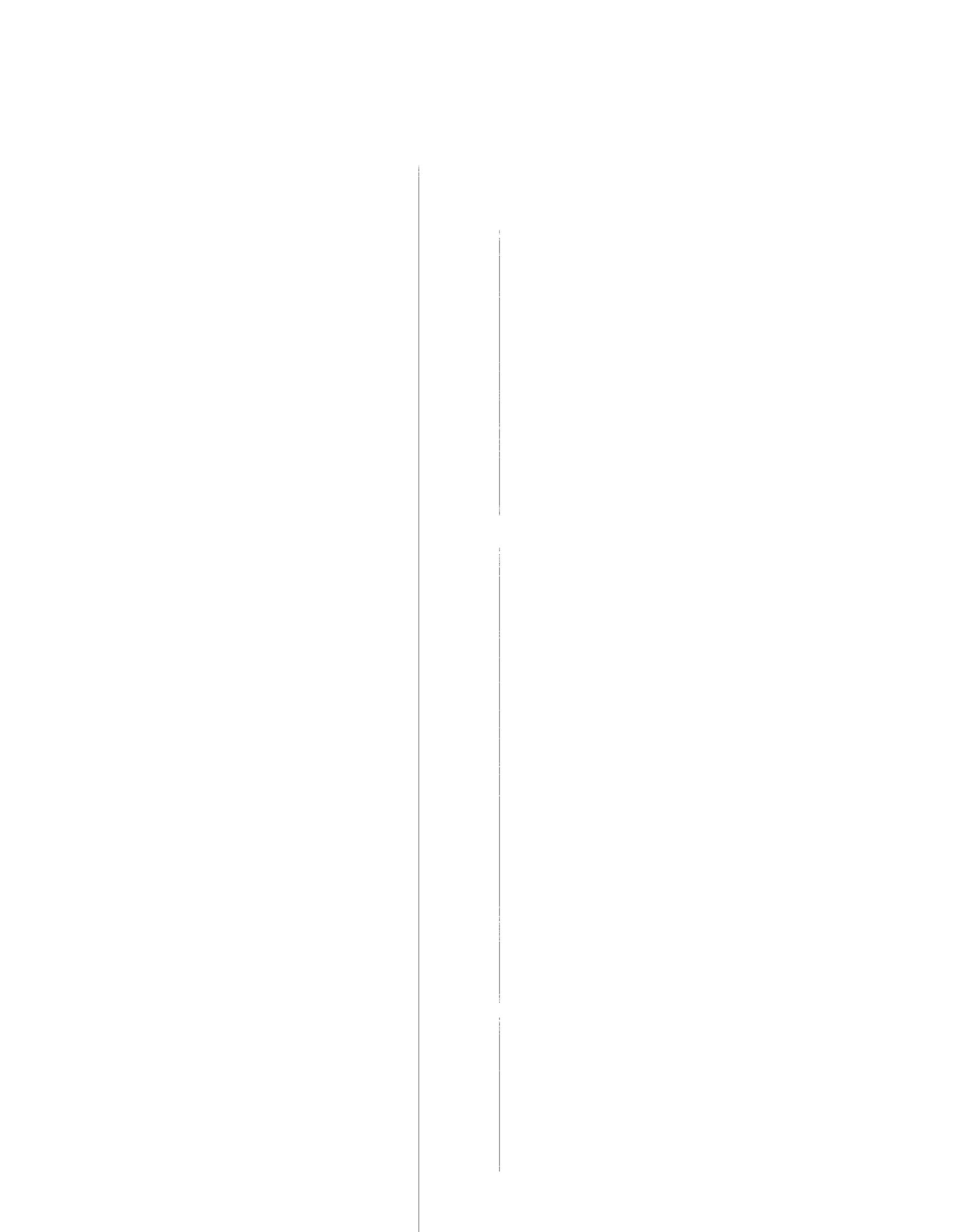
FINANCIAL SECTION

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



Comprehensive Annual

Financial Report CITY OF FAYETTEVILLE
NORTH CAROLINA



INDEPENDENT AUDITOR'S
REPORT



Comprehensive Annual
Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA

CITY OF FAYETTEVILLE, NORTH CAROLINA

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REPORT OF INDEPENDENT AUDITORS'

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fayetteville, North Carolina (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2007, and the respective changes in financial position and cash flows where appropriate, and the respective budgetary position of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions for the Law Enforcement Officers' Special Separation Allowance and the Public Works Commission are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules, other supplemental financial data, as well as the accompanying schedules of expenditures of Federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and schedule of expenditures of Passenger Facility Charges as required by the *Passenger Facility Charge Audit Guide for Public Agencies*, for the year ended June 30, 2007, and the combining and individual fund financial statements and schedules for the year ended June 30, 2006, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2007, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

Cherry, Bekaert + Holland LLP.

Fayetteville, North Carolina
October 29, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS



Comprehensive Annual Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE

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, 2007. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the transmittal letter at the front of this report and the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Fayetteville exceeded its liabilities at the close of the fiscal year by \$1.0 billion (*net assets*). Of this amount, \$195.3 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net assets increased by \$58.1 million.
- Net assets increased \$7.6 million to \$430.8 million in fiscal year 2007 up from \$423.2 million in fiscal year 2006 in the Governmental activities.
- Net assets increased \$50.5 million to \$581.8 million in fiscal year 2007 up from \$531.3 million in fiscal year 2006 in the Business type activities. By far, the largest portion of these net assets, \$432.5 million or 78.9 percent, reflects the investment in capital assets less any related debt still outstanding that was issued to acquire those assets in the Electric, Water and Wastewater activities. Capital contributions and operating funds offset by capital asset depreciation contributed to the \$24.5 million increase in Capital Assets, Net of Related Debt.

Current and Other Assets decreased \$61.3 million or 24.8 percent. The recognition of purchase power expenses reduced prepaid assets by \$78.7 million and was offset by a \$14 million increase in cash, investments and receivables in fiscal year 2007. The prepaid power asset is the result of a prior year payment to Progress Energy Carolinas Inc. that is further discussed in Note 1 of the financial statements.

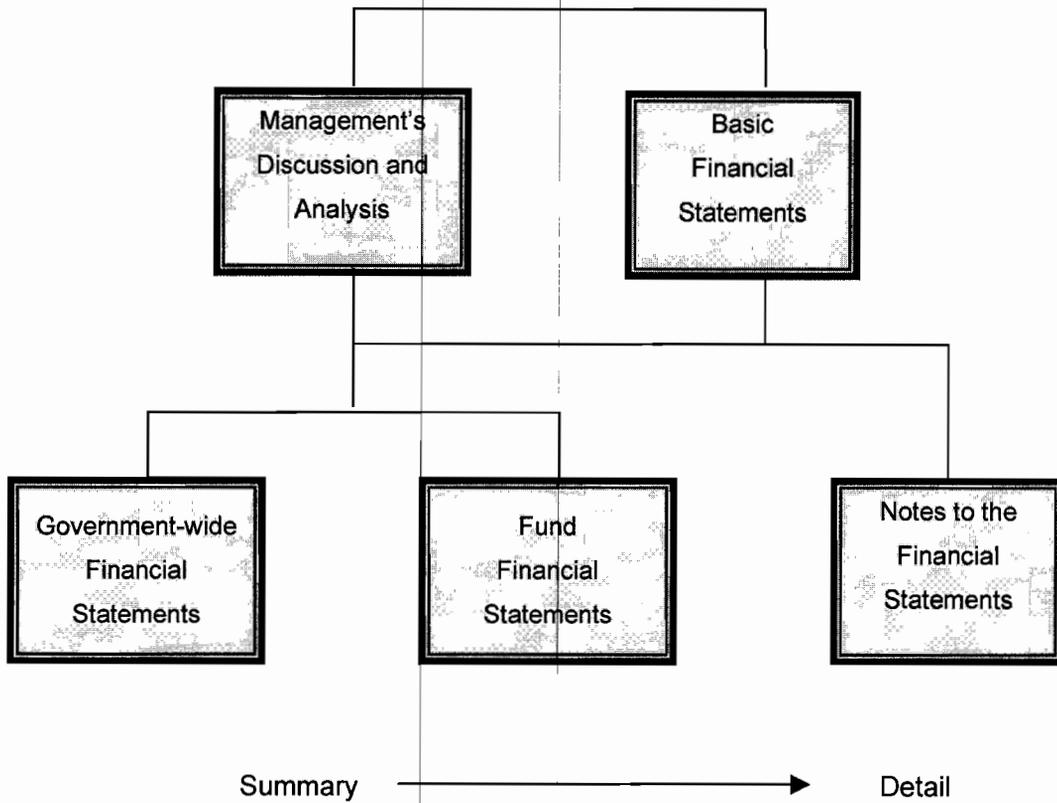
- As of the close of fiscal year 2007, the City's governmental funds reported an ending fund balance of \$66.5 million, an increase of \$3.3 million in comparison to prior year. Approximately 62.5 percent of total fund balance, or \$41.6 million is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of fiscal year 2007, unreserved fund balance for the general fund was \$30.0 million or 24.5 percent of total general fund expenditures and transfers out for the fiscal year. Of this amount, \$8.8 million has been designated for subsequent year expenditures, special purposes, and debt service, bringing the undesignated general fund balance to \$21.2 million or 17.3 percent of general fund expenditures and transfers out.
- The City's total debt decreased by \$87.0 million during fiscal year 2007.
- The City's most recent general obligation bond issue (governmental activities) was rated Aa3 (Moody's Investor Services) and AA- (Standard & Poor's). All outstanding bonds and revenue notes carry an Aaa and AAA Moody's and Standard and Poor's, respectively; based upon municipal Bond Insurance Policies. In fiscal year 1998, the Public Works Commission received underlying ratings of A1 and A+ from Moody's and Standard and Poor's, respectively. These ratings were affirmed during a bond refinancing in fiscal year 2004 and again in fiscal year 2007 by Standard and Poor's. Moody's has not performed a review since 2004.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Fayetteville's basic financial statements which consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements as shown below. 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. This report includes all funds of the City of Fayetteville as well as its component units, which are described in the following pages. Note 1 in the financial report includes further discussion of the reporting entity and description of funds.

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 of Fayetteville's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City of Fayetteville'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 of Fayetteville's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

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

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

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the City of Fayetteville's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City of Fayetteville’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City’s programs. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Fayetteville adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement on page E-5 of this report uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balance. The statement shows four columns: 1) the original budget as adopted by the City Council; 2) the final budget as amended by the City Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages F-1 – F-39 of this report.

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

CITY OF FAYETTEVILLE

Government-wide Financial Analysis

Net Assets. The following is a summary of net assets for the City of Fayetteville at June 30, 2007 with comparative data for June 30, 2006. The City's combined net assets increased \$58.1 million, or 6.1% from fiscal year 2006 to 2007. Net assets may serve over time as one useful indicator of a government's financial condition. The information provided below provides a more detailed view of the City's net assets.

City of Fayetteville's Net Assets (dollars in thousands)

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$ 94,641	\$ 99,987	\$ 254,328	\$ 193,945	\$ 348,969	\$ 293,932
Capital assets	409,127	400,750	622,910	652,235	1,032,037	1,052,985
Total assets	503,768	500,737	877,238	846,180	1,381,006	1,346,917
Long-term liabilities outstanding	69,999	56,801	303,760	230,060	373,759	286,861
Other liabilities	10,526	13,091	42,094	34,279	52,620	47,370
Total liabilities	80,525	69,892	345,854	264,339	426,379	334,231
Net assets:						
Invested in capital assets, net of related debt	351,170	353,408	432,390	459,238	783,560	812,646
Restricted	2,703	3,525	1,337	1,236	4,040	4,761
Unrestricted	69,370	73,912	97,657	121,367	167,027	195,279
Total net assets	\$ 423,243	\$ 430,845	\$ 531,384	\$ 581,841	\$ 954,627	\$ 1,012,686

The assets of the City exceeded liabilities by \$1.0 billion as of June 30, 2007. Net assets is reported in three categories: Invested in capital assets, net of related debt of \$812.6 million, Restricted net assets of \$4.8 million and Unrestricted net assets \$195.3 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, 2007, \$195.3 million, or 19.3% of the total net assets reported of \$1.0 billion, is unrestricted.

CITY OF FAYETTEVILLE

City of Fayetteville's Changes in Net Assets (dollars in thousands)

Figure 3

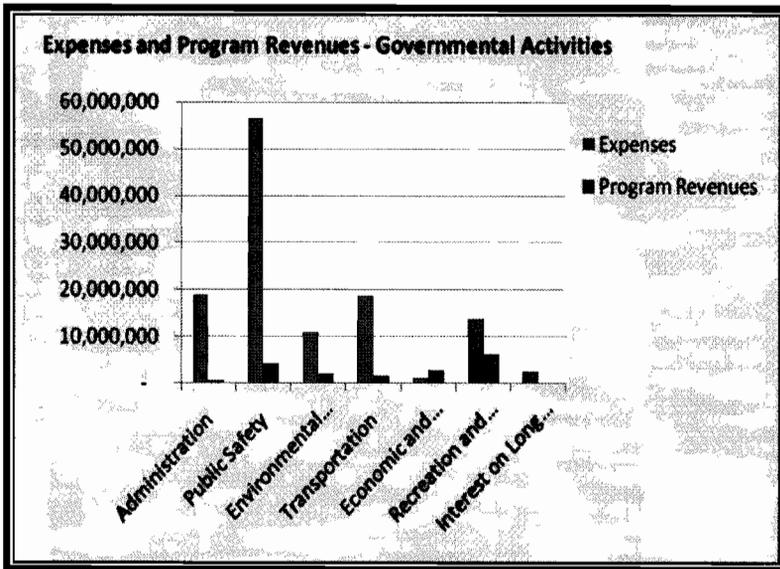
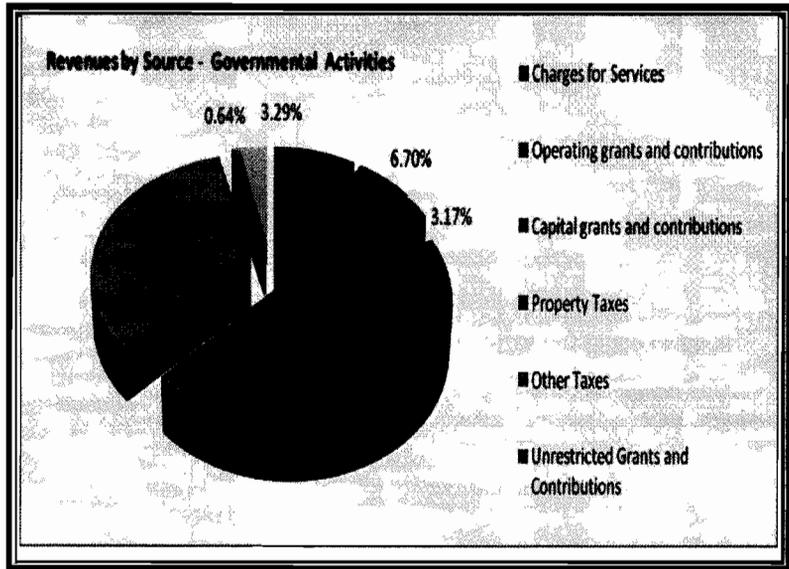
	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenues:						
Program revenues:						
Charges for services	\$ 9,976	\$ 9,525	\$ 210,960	\$ 218,004	\$ 220,936	\$ 227,529
Operating grants and contributions	8,311	10,499	2,097	2,037	10,408	12,536
Capital grants and contributions	5,051	3,895	15,514	21,432	20,565	25,327
General revenues:						
Property taxes	47,823	52,929	-	-	47,823	52,929
Other taxes	33,675	41,308	-	-	33,675	41,308
Grants and contributions not restricted to specific programs	578	788	-	-	578	788
Other	2,660	4,725	3,230	5,552	5,890	10,277
Total revenues	108,074	123,669	231,801	247,025	339,875	370,694
Expenses:						
Administration	13,268	19,033	-	-	13,268	19,033
Public safety	52,753	56,610	-	-	52,753	56,610
Environmental protection	9,940	11,001	-	-	9,940	11,001
Transportation	17,116	18,702	-	-	17,116	18,702
Economic and physical development	5,132	1,229	-	-	5,132	1,229
Recreation and community facilities	10,502	14,020	-	-	10,502	14,020
Interest and fees	2,787	2,622	-	-	2,787	2,622
Electric	-	-	137,856	130,839	137,856	130,839
Water and wastewater	-	-	45,860	49,623	45,860	49,623
Transit	-	-	4,864	4,865	4,864	4,865
Airport	-	-	3,769	4,091	3,769	4,091
Total expenses	111,498	123,217	192,349	189,418	303,847	312,635
Increase in net assets before transfers and special items	(3,424)	452	39,452	57,607	36,028	58,059
Transfers	8,602	7,150	(8,602)	(7,150)	-	-
Special Item	89,556	-	-	-	89,556	-
Increase in net assets	94,734	7,602	30,850	50,457	125,584	58,059
Net assets, July 1	328,509	423,243	500,534	531,384	829,043	954,627
Net assets, June 30	\$ 423,243	\$ 430,845	\$ 531,384	\$ 581,841	\$ 954,627	\$ 1,012,686

Note: Other taxes and operating grants and contributions reflects a reclassification of presentation.

Governmental activities: Revenues for the City's governmental activities were \$123.7 million, while total expenses were \$123.2 million in fiscal year 2007. The increase in net assets for governmental activities, after transfers in, was \$7.6 million. Key elements of this increase are as follows:

CITY OF FAYETTEVILLE

- Ad valorem property tax revenues were \$52.9 million reflecting a 10.7 percent increase over fiscal year 2006. The increase is primarily attributed to the first full year of property taxes resulting from the Phase V annexation.
- Other taxes totaled \$41.3 million, reflecting a 22.7 percent increase over the prior fiscal year. This change is primarily due to a \$7.0 million increase in sales tax revenues resulting from natural revenue growth and the first year impact of the Phase V annexation population on the distribution of this revenue source.



- Program revenues consisting of charges for services, operating and capital grants and contributions totaled \$23.9 million and represented a 2.5 percent increase.
- Other revenues totaled \$5.5 million reflecting a 70 percent increase over fiscal year 2006. Which can be primarily be attributed to an increase in investment earnings of \$1.7 million.
- Governmental expenses totaled

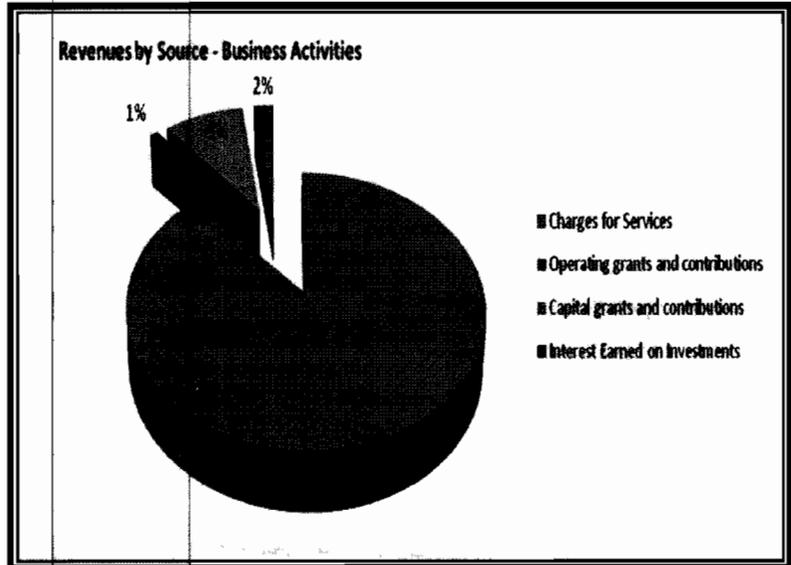
\$123.2 million compared to \$111.5 million in fiscal year 2006. Major increases include \$3.9 million for public safety operations, \$1.1 million in environmental protection, \$1.6 million for transportation operations, \$3.5 million for recreation and community facilities and \$5.8 million in administration costs. These increases can be partially attributed to providing twelve months of service to the Phase V annexation area in fiscal year 2007 compared to nine months of service in fiscal year 2006, an additional \$2.8 million in sales tax reimbursements to Cumberland County and local municipalities and \$1.6 million due to the Cumberland County Board of Education for the Safelight agreement. These increases offset by a \$3.9 million decrease in economic and physical development expenses result in an overall increase of \$11.7 million increase in fiscal year 2007 compared to the previous fiscal year.

Business-type activities:

Revenues for the City's business-type activities were \$247.0 million, while total expenses were \$189.4 million in fiscal year 2007. The increase in net assets for business-type activities, after transfers out of \$7.2 million, was \$50.4 million, resulting in net assets of \$581.8 million. Particularly, net assets increased in the electric, water and wastewater activities by \$47.6 million, resulting in net assets of \$548.0 million in fiscal year 2007, compared to \$500.4 million in fiscal year 2006. By far, the largest portion of these net assets, \$432.5 million or 78.9 percent, reflects the investment in capital assets less any related debt still

outstanding that was issued to acquire those assets. Capital contributions and operating funds offset by capital asset depreciation contributed to the \$24.5 million increase in Capital Assets, Net of Related Debt in the electric, water and wastewater activities.

Current and Other Assets in the electric, water and wastewater activities decreased \$61.3 million or 24.8 percent. The recognition of purchase power expenses reduced prepaid assets by \$78.7 million and was offset by a \$14 million increase in cash, investments and receivables in fiscal year 2007. The prepaid power asset is the result of a prior year payment to Progress Energy Carolinas Inc. that is further discussed in Note 1 of the financial statements.



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 financial requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of fiscal year 2007, unreserved fund balance of the General Fund was \$30.0 million, while total fund balance reached \$49.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved fund balance represents 24.5 percent of total General Fund expenditures and transfers, while total fund balance represents 40.6 percent of that same amount.

The North Carolina Local Government Commission strongly recommends that local governments maintain an available fund balance of at least 8 percent of annual general fund expenditures. The City's goal is to maintain an undesignated fund balance of at least 10 percent of the succeeding year's expenditure budget. Undesignated fund balance is the component of unreserved fund balance after consideration for management's policy designations. The City's unreserved fund balance totals \$30.0 million. Of this amount, \$3.6 million is designated for fiscal year 2008 appropriations and \$5.2 million is designated for specific purposes. The remaining unreserved fund balance of \$21.2 million is undesignated.

The unreserved fund balance of the City's general fund increased by \$0.7 million during the current fiscal year. Key factors in this increase are as follows:

- Overall revenues increased \$26.1 million in fiscal year 2007. Specifically, current year property taxes increased \$17.2 million reflecting the increased tax base after Phase V annexation and collection of \$6.0 million of the fiscal year 2006 nine-month taxes, for which collection was delayed due to the effective date of the annexation.
- Overall expenditures increased \$15.2 million in fiscal year 2007. Major increases include \$6.0 million for public safety operations, \$1.8 million in environmental protection services, \$.8 million for economic and physical development projects and \$4.5 million in general government costs. The increase in general government expenditures resulted from an additional \$2.8 million in sales tax reimbursements to Cumberland County and local municipalities and \$1.6 million due to the Cumberland County Board of Education for the Safelight agreement.

At June 30, 2007, the governmental funds of the City reported a combined fund balance of \$66.5 million, a 5.3 percent increase from the previous year.

General Fund Budgetary Highlights

There were two important factors that impacted the general fund budget for fiscal year 2007. Fiscal year 2007 was the first year to include twelve months of service and revenues for the Phase V annexation areas that were annexed effective September 30, 2005. The second important issue that impacted the fiscal year 2007 budget was employee pay increases, which were necessary to reestablish market competitive rates of pay.

The City Council originally approved a \$123.6 million general fund budget for fiscal year 2007, which represented a \$24.8 million or 25.1% increase from the original budget for fiscal year 2006 that did not include funding to serve the annexation areas. The tax rate remained the same at 53 cents per \$100 value. Approximately \$17.9 million of the fiscal year 2007 general fund budget is related to expenditures to provide services to the newly annexed areas compared to \$5.3 million in the original fiscal year 2006 budget. Additionally, pay increases to reach market competitive pay levels for public safety and general employees added \$4.3 million to the budget, vehicle and equipment replacements required \$4.6 million beyond the original fiscal year 2006 budget, and restoration of positions frozen to mitigate the impact of the annexation stay added approximately \$1.7 million to the budget.

The original revenue and other financing sources budget for the General fund reflected expected increases of \$20.2 million related to the Phase V annexation, which included \$2.1 million for the first of three installments of nine-month fiscal year 2006 ad valorem taxes. Natural growth was expected to generate an additional \$4.9 million in ad valorem and other taxes compared to the fiscal year 2006 original budget. Intergovernmental revenues were budgeted \$2.1 million lower than the original fiscal year 2006 budget due to the reduced area of the County Parks & Recreation District and the end of City-provided contract fire service in fire districts annexed into the City. A fund balance appropriation of \$5.1 million for one-time expenditures and use of debt management plan reserves exceeded the \$3.7 million fund balance appropriation originally budgeted in fiscal year 2006.

During fiscal year 2007, the City Council approved budget increases of \$11.4 million or 9.3% bringing the General Fund budget for fiscal year 2007 to \$135.0 million. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to cover items encumbered or designated for a special purpose in the previous year's budget but remain unexpended at the end of the previous year.

Fiscal year 2007 budget appropriation increases included approximately \$4.8 million for expenditure items previously encumbered or designated from the fiscal year 2006 budget, \$1.7 million for the purchase of solid waste equipment to prepare to serve customers previously serviced by contractors, \$1.4 million for a settlement agreement with Cumberland County Schools for Safelight proceeds, \$645,000 in additional funding for vehicle replacements including a Fire Pumper destroyed in a collision, \$540,000 for additional vehicle maintenance expenditures, \$387,000 to fund Solid Waste service improvement initiatives, \$150,000 for increased streetlight expenditures and \$143,000 for additional contributions to the Phase 4B annexation area infrastructure improvements.

The increased budget appropriations were primarily funded by additional fund balance appropriations of \$8.5 million, of which \$4.8 million related to prior fiscal

CITY OF FAYETTEVILLE

year encumbrances and designations. Other revenue and other financing source increases budgeted during the fiscal year included \$2.1 million in ad valorem taxes primarily related to payment of nine-month fiscal year 2006 Phase V area taxes earlier than required, \$265,000 in sales tax revenues, and a total of \$488,000 in interfund transfers from the Electric, Water and Wastewater, Transportation and Fleet Maintenance funds.

Actual revenues and other financing sources for the General Fund were less than the final amended budget by \$6.4 million. This shortage primarily relates to a budgeted fund balance appropriation of \$13.6 million, which is an other financing source that is not reflected as actual current year revenue. The \$13.6 million fund balance appropriation was offset by ad valorem taxes which exceeded the final budget by \$3.2 million, interest earned on investments which exceeded the final budget by \$1.8 million, other taxes which exceeded the final budget by \$1.6 million, and other revenue and financing sources combined which exceeded the final budget by \$525,000.

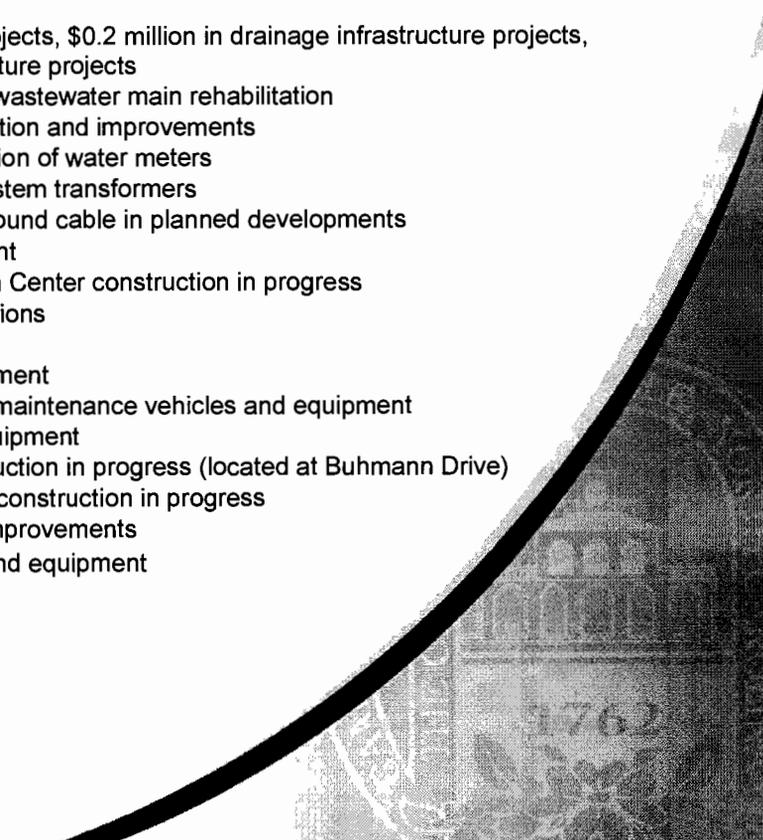
Actual expenditures and other financing uses were less than the final amended budget by \$12.6 million. There were approximately \$7.8 million in expenditures budgeted for fiscal year 2007 which were encumbered or designated at June 30, 2007 to be re-appropriated in fiscal year 2008. Across all departmental budgets, there were significant positive budget variances of \$1.4 million in personnel costs and \$532,000 in debt service due to delayed issuance of debt for new facilities. The balance of the variance results from a variety of departmental operating expenditures being under budget.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, totals \$1.1 billion (net of accumulated depreciation). These assets include infrastructure; buildings; improvements; automotive equipment; office and other equipment; and electric, water, and wastewater utility systems.

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

- \$4.7 million in street infrastructure projects, \$0.2 million in drainage infrastructure projects, and \$0.4 million in sidewalk infrastructure projects
- \$4.2 million for completed water and wastewater main rehabilitation
- \$3.6 million for Festival Park construction and improvements
- \$2.8 million for purchase and installation of water meters
- \$2.5 million for electric distribution system transformers
- \$2.4 million for installation of underground cable in planned developments
- \$2.4 million for vehicles and equipment
- \$1.9 million for E. E. Miller Recreation Center construction in progress
- \$1.7 million for electric service extensions
- \$1.7 million in Veterans Park land
- \$1.5 million in fire vehicles and equipment
- \$1.4 million in solid waste and street maintenance vehicles and equipment
- \$1.3 million in police vehicles and equipment
- \$0.6 million for Fire Station 15 construction in progress (located at Buhmann Drive)
- \$0.6 million for 300 Block Hay Street construction in progress
- \$0.5 million for Bonnie Doone Park improvements
- \$0.3 million in storm water vehicles and equipment



CITY OF FAYETTEVILLE

**City of Fayetteville's Capital Assets (dollars in thousands)
(net of accumulated depreciation)
Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Land	\$ 36,633	\$ 36,858	\$ 14,032	\$ 14,553	\$ 50,665	\$ 51,411
Infrastructure	314,731	298,967	-	-	314,731	298,967
Electric utility system	-	-	160,833	167,014	160,833	167,014
Wastewater system	-	-	219,958	243,760	219,958	243,760
Water system	-	-	129,226	137,421	129,226	137,421
Equipment and machinery	-	-	8,963	9,997	8,963	9,997
Buildings and improvements	39,563	46,164	48,012	45,476	87,575	91,640
Equipment, furniture and fixtures	5,722	4,786	773	530	6,495	5,316
Computer programs	-	-	4,363	3,748	4,363	3,748
Vehicles	6,612	8,759	3,011	3,775	9,623	12,534
Construction in progress	5,866	5,216	33,739	25,960	39,605	31,176
Total	\$ 409,127	\$ 400,750	\$ 622,910	\$ 652,234	\$ 1,032,037	\$ 1,052,984

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

CITY OF FAYETTEVILLE

Long-term Debt. As of June 30, 2007, The City had total bonded debt outstanding of \$211.1 million (before loss on defeasance, see Note 5 in the financial statements), of which \$35.6 million is debt backed by the full faith and credit of the City. In addition, the City has a number of capital leases and several installment notes outstanding. A summary of total long-term debt is shown in Figure 5.

Bonded Debt, Capital Leases and Installment Notes Payable (dollars in thousands)

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Bonded debt	\$ 51,483	\$ 37,444	\$ 164,297	\$ 162,554	\$ 215,780	\$ 199,998
Obligations under capital leases	14,203	14,991	-	-	14,203	14,991
Installment note payable	65	5	136,358	64,396	136,423	64,401
Total long-term debt	\$ 65,751	\$ 52,440	\$ 300,655	\$ 226,950	\$ 366,406	\$ 279,390

The City's total debt decreased by \$87 million, or 23.8%, during the past fiscal year. This decrease is primarily due to principal payments of \$84.5 million in the electric fund, of which \$71.2 million is attributed to the purchase power revenue notes.

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

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

All outstanding utility system revenue bonds carry an Aaa and AAA rating from Moody's and Standard & Poor's, respectively, based on municipal bond insurance policies. In fiscal year 1998, the City received underlying bond ratings for its revenue bonds as shown below. These ratings were affirmed during a bond refinancing in fiscal year 2004 and again in fiscal year 2007 by Standard and Poor's. Moody's has not performed a review since 2004.

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

CITY OF FAYETTEVILLE

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City is approximately \$706.5 million. The City has no bonds authorized but unissued at June 30, 2007.

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

Economic Factors and Next Year's Budget and Rates

Budget Highlights for the Fiscal Year Ending June 30, 2008

Governmental Activities: The City Council originally approved a \$128.9 million general fund budget for fiscal year 2008, which represented a \$5.4 million or 4.3% increase from the original budget for fiscal year 2007. The tax rate remained the same at 53 cents per \$100 value. Consistent with City Council strategic priorities, fiscal year 2008 budget appropriation increases are primarily attributed to a \$3.6 million increase in employee compensation to maintain market competitive pay levels for public safety and general employees, a \$1.1 million increase in street resurfacing funding and a combined increase of \$608,000 for replacement computers and increased information technology staffing. Additionally, the budget includes continued enhanced vehicle and equipment replacement funding initiated in fiscal year 2007.

Natural growth is expected to generate an additional \$1.8 million in ad valorem taxes and \$2.7 million in other taxes compared to the fiscal year 2007 original budget. Other revenue and financing sources combined are projected to increase by \$1.7 million, despite the loss of \$575,000 of program revenues due to the termination of the Safelight program. The City also expects to receive \$1.8 million in capital lease proceeds by financing the purchases of new solid waste vehicles and equipment. The \$3.6 million fund balance appropriation for one-time expenditures and use of debt management plan reserves for fiscal year 2008 was lower than the \$5.1 million fund balance appropriation originally budgeted in fiscal year 2007.

The City Council has since approved budget increases of \$7.9 million or 6.1% bringing the General Fund budget for fiscal year 2008 to \$136.8 million. The budget increase is primarily due to \$7.8 million appropriated by Council for expenditures encumbered or designated at June 30, 2007.

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.



Comprehensive Annual Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Net Assets
June 30, 2007**

	Governmental Activities	Business Type Activities	Total Primary Government
Assets			
Cash and investments	\$ 69,560,595	\$ 46,187,410	\$ 115,748,005
Taxes receivable	3,946,578	-	3,946,578
Accounts receivable	4,957,285	37,171,890	42,129,175
Internal balances	(1,624,494)	1,624,494	-
Assessment receivable	551,639	-	551,639
Due from other governments	8,396,528	464,928	8,861,456
Inventories	331,837	13,453,231	13,785,068
Prepaid expenses	711,374	40,604,668	41,316,042
Noncurrent portion of note receivable	6,575,015	-	6,575,015
Restricted asset - cash and investments	6,872,837	48,710,487	55,583,324
Restricted asset - accounts receivable	-	128,147	128,147
Restricted asset - collateral pledged	-	181,596	181,596
Other assets	(292,148)	5,418,571	5,126,423
Capital assets:			
Land and construction in progress	42,074,089	40,513,032	82,587,121
Other capital assets, net of depreciation	358,676,063	611,721,282	970,397,345
Total assets	500,737,198	846,179,736	1,346,916,934
Liabilities			
Accounts payable and accrued expenses	11,602,713	21,006,453	32,609,166
Restricted liabilities - accounts payable	-	5,864,140	5,864,140
Unearned revenues	1,387,375	30,113	1,417,488
Unearned deposits	100,645	2,966,060	3,066,705
Long-term liabilities:			
Due within one year	11,576,145	58,754,636	70,330,781
Due in more than one year	45,225,171	171,305,512	216,530,683
Other liabilities	-	4,412,509	4,412,509
Total liabilities	69,892,049	264,339,423	334,231,472
Net assets			
Invested in capital assets, net of related debt	353,407,779	459,237,550	812,645,329
Restricted for:			
Capital projects	-	420,040	420,040
Debt service	-	816,070	816,070
Other purposes	3,525,148	-	3,525,148
Unrestricted	73,912,222	121,366,653	195,278,875
Total net assets	\$ 430,845,149	\$ 581,840,313	\$ 1,012,685,462

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, 2007

Functions/Programs Primary government:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:	\$ 19,032,872	\$ 800,275	\$ 32,298	\$ -	\$ (18,200,299)	\$ -	\$ (18,200,299)
Administration	56,609,521	3,708,443	673,108	95,867	(52,132,103)	-	(52,132,103)
Public safety	11,000,841	40,785	2,259,339	-	(8,700,717)	-	(8,700,717)
Environmental protection	18,702,014	1,224,243	5,710,433	13,446	(11,753,892)	-	(11,753,892)
Transportation	1,229,375	-	1,778,840	1,163,385	1,712,850	-	1,712,850
Economic and physical development	14,020,434	3,751,071	45,213	2,622,609	(7,601,541)	-	(7,601,541)
Recreation and community facilities	2,621,502	-	-	-	(2,621,502)	-	(2,621,502)
Interest and fees	123,216,559	9,524,817	10,499,231	3,895,307	(99,297,204)	-	(99,297,204)
Total governmental activities							
Business-type activities:	\$ 130,839,305	\$ 159,647,302	-	977,641	29,785,638	29,785,638	29,785,638
Electric	49,623,073	54,520,183	-	16,730,748	21,627,858	21,627,858	21,627,858
Water and wastewater	4,864,526	801,186	1,922,181	157,361	(1,983,798)	(1,983,798)	(1,983,798)
Transit	4,091,032	3,035,265	114,380	3,565,784	2,624,397	2,624,397	2,624,397
Airport	189,417,936	218,003,936	2,036,561	21,431,534	52,054,095	52,054,095	52,054,095
Total business-type activities							
Total primary government	\$ 312,634,495	\$ 227,928,753	\$ 12,535,792	\$ 25,326,841	(99,297,204)	52,054,095	(47,243,109)
General revenues:							
Ad valorem taxes					52,929,323	-	52,929,323
Other taxes							
Sales tax					30,488,647	-	30,488,647
Utility franchise tax					6,554,283	-	6,554,283
Vehicle license tax					645,276	-	645,276
Privilege license					920,196	-	920,196
Cablevision franchise tax					1,243,013	-	1,243,013
Vehicle gross receipts tax					391,124	-	391,124
E-911 Subscriber and wireless tax					1,064,599	-	1,064,599
Unrestricted grants and contributions					788,290	-	788,290
Interest earned on investments					4,050,088	5,173,628	9,223,716
Miscellaneous					474,945	366,079	841,024
Gain on sale of capital assets					199,853	12,319	212,172
Transfers					7,150,056	(7,150,056)	-
Total general revenues and transfers					106,899,693	(1,598,030)	105,301,663
Change in net assets					7,602,489	50,456,065	58,058,554
Net assets - beginning					423,242,660	531,384,248	954,626,908
Net assets - ending					\$ 430,845,149	\$ 581,840,313	\$ 1,012,685,462

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and investments	\$ 46,163,255	\$ 11,427,321	\$ 57,590,576
Taxes receivable	3,717,738	-	3,717,738
Accounts receivable	12,083,219	7,282,865	19,366,084
Interfund receivable	314,702	216,233	530,935
Assessments receivable	551,639	-	551,639
Inventories	174,993	-	174,993
Restricted asset - cash and investments	156,401	6,716,436	6,872,837
Total assets	\$ 63,161,947	\$ 25,642,855	\$ 88,804,802
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 7,585,610	\$ 1,185,818	\$ 8,771,428
Interfund payables	-	216,233	216,233
Unearned deposits	100,645	-	100,645
Deferred revenues	5,825,396	7,360,962	13,186,358
Total liabilities	13,511,651	8,763,013	22,274,664
Fund balances:			
Reserved			
By State statute	11,492,910	865,606	12,358,516
For encumbrances	6,554,473	4,301,289	10,855,762
For inventories	174,993	-	174,993
For downtown	197,061	-	197,061
For wireless 911	-	118,972	118,972
For county recreation	1,097,826	-	1,097,826
For streets - Powell Bill	156,401	-	156,401
For JP Riddle Stadium	14,585	-	14,585
Unreserved			
Designated			
For subsequent year's expenditures	3,598,129	-	3,598,129
For special purpose	1,710,539	-	1,710,539
For debt service	3,450,644	-	3,450,644
Undesignated	21,202,735	-	21,202,735
Unreserved, reported in nonmajor:			
Designated for subsequent year's expenditures			
Special revenue	-	245,321	245,321
Capital projects	-	8,024,751	8,024,751
Undesignated	-	3,323,903	3,323,903
Total fund balances	49,650,296	16,879,842	66,530,138
Total liabilities and fund balances	\$ 63,161,947	\$ 25,642,855	\$ 88,804,802

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, 2007

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

Ending fund balance - governmental funds	\$ 66,530,138
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	398,456,065
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	11,807,878
Costs of bond issuance are current-period expenditures in the funds, but will be deferred in the statement of net assets and amortized over the life of the outstanding debt.	(292,148)
Prepaid expenses are current-period expenditures in the funds, but are assets not available to pay current-period expenditures and, therefore, are capitalized.	462,401
Accrued tax penalties receivable are not available to pay for current-period expenditures and, therefore, are not recorded in the funds.	228,840
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.	10,753,282
Accrued interest payable on long-term debt is not a current expenditure and therefore not recorded in the funds.	(415,315)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(56,685,992)</u>
Net assets of governmental activities	<u><u>\$ 430,845,149</u></u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007**

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 58,574,670	\$ -	\$ 58,574,670
Other taxes and fees	40,220,282	3,323,938	43,544,220
Intergovernmental	9,464,150	4,360,361	13,824,511
Other functional	5,475,181	-	5,475,181
Miscellaneous	2,200,461	2,343,214	4,543,675
Interest earned on investments	2,901,379	793,849	3,695,228
Total revenues	118,836,123	10,821,362	129,657,485
Expenditures			
Current:			
Administration	18,518,104	17,284	18,535,388
Public safety	57,713,998	1,893,363	59,607,361
Environmental protection	9,513,456	2,238,353	11,751,809
Transportation	8,027,392	3,511,154	11,538,546
Economic and physical development	1,537,607	5,013,078	6,550,685
Recreation and community facilities	10,602,170	7,507,862	18,110,032
Debt service:			
Principal	7,196,081	1,963,306	9,159,387
Interest and fees	2,009,064	715,000	2,724,064
Total expenditures	115,117,872	22,859,400	137,977,272
Excess (deficiency) of revenues over (under) expenditures	3,718,251	(12,038,038)	(8,319,787)
Other financing sources (uses)			
Capital leases, bonds and other debt	-	4,537,000	4,537,000
Transfers in	9,727,693	5,556,126	15,283,819
Transfers out	(7,292,408)	(866,355)	(8,158,763)
Total other financing sources (uses)	2,435,285	9,226,771	11,662,056
Net change in fund balances	6,153,536	(2,811,267)	3,342,269
Fund balance - beginning	43,496,760	19,691,109	63,187,869
Fund balance - ending	\$ 49,650,296	\$ 16,879,842	\$ 66,530,138

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, 2007

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

Net change in fund balances - total governmental funds	\$	3,342,269
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$17,926,531) exceeded depreciation (\$17,544,057) in the current period.</p>		
		382,474
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets, including a transfer of infrastructure of \$8,781,704 to business-type activities.</p>		
		(8,635,201)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(4,695,659)
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.</p>		
		13,322,363
Principal repayments	\$ 9,159,387	
Transfer to business-type activities	8,781,704	
Other miscellaneous	(81,728)	
New issuance - capital lease	(4,537,000)	
	\$ 13,322,363	
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		115,029
<p>The internal service fund is used by management to charge the costs of dental insurance costs.</p>		
Change in accrued interest	\$ 127,048	
Change in compensated absences	14,393	
Change in bond issue costs	(26,412)	
	\$ 115,029	
<p>The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		
		3,771,214
Change in net assets of governmental activities	\$	7,602,489

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 53,269,300	\$ 55,348,022	\$ 58,574,670	\$ 3,226,648
Other taxes and fees	38,401,190	38,666,928	40,220,282	1,553,354
Intergovernmental	9,365,922	9,379,422	9,464,150	84,728
Other functional	4,985,598	4,985,598	5,475,181	489,583
Miscellaneous	1,820,298	1,898,976	2,200,461	301,485
Interest earned on investments	1,056,000	1,056,000	2,901,379	1,845,379
Total revenues	<u>108,898,308</u>	<u>111,334,946</u>	<u>118,836,123</u>	<u>7,501,177</u>
EXPENDITURES				
Current:				
Administration	19,136,761	20,339,418	18,518,104	1,821,314
Public safety	57,802,255	62,304,878	57,713,998	4,590,880
Environmental protection	8,312,098	12,754,966	9,513,456	3,241,510
Transportation	8,585,469	8,769,905	8,027,392	742,513
Economic and physical development	1,642,821	2,186,503	1,537,607	648,896
Recreation and community facilities	10,734,275	11,420,950	10,602,170	818,780
Debt service:				
Principal	7,598,477	7,496,109	7,196,081	300,028
Interest and fees	2,350,469	2,241,410	2,009,064	232,346
Total expenditures	<u>116,162,625</u>	<u>127,514,139</u>	<u>115,117,872</u>	<u>12,396,267</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,264,317)</u>	<u>(16,179,193)</u>	<u>3,718,251</u>	<u>19,897,444</u>
OTHER FINANCING SOURCES (USES)				
Capital leases, bonds and other debt	750,000	750,000	-	(750,000)
Transfers in	8,840,627	9,328,311	9,727,693	399,382
Transfers out	(7,387,731)	(7,468,090)	(7,292,408)	175,682
Appropriated fund balance	5,061,421	13,568,972	-	(13,568,972)
Total other financing sources (uses)	<u>7,264,317</u>	<u>16,179,193</u>	<u>2,435,285</u>	<u>(13,743,908)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>6,153,536</u>	<u>\$ 6,153,536</u>
FUND BALANCE - BEGINNING			<u>43,496,760</u>	
FUND BALANCE - ENDING			<u>\$ 49,650,296</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Net Assets
Proprietary Funds
June 30, 2007

Assets	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Current assets					
Cash and investments	\$ 26,808,013	\$ 14,592,670	\$ 4,786,727	\$ 46,187,410	\$ 11,970,019
Accounts receivable	19,071,557	17,411,824	1,153,437	37,636,818	562,744
Interfund receivable	74,260	45,360	-	119,620	(119,620)
Inventories	12,447,203	993,551	12,477	13,453,231	156,844
Prepaid expenses	40,583,315	21,353	-	40,604,668	248,975
Total unrestricted current assets	98,984,348	33,064,758	5,952,641	138,001,747	12,818,962
Restricted current assets					
Restricted cash and investments	25,530,289	22,770,538	409,660	48,710,487	-
Accounts receivable	10,380	117,767	-	128,147	-
Collateral pledged in lieu of deposits	181,596	-	-	181,596	-
Total restricted current assets	25,722,265	22,888,305	409,660	49,020,230	-
Total current assets	124,706,613	55,953,063	6,362,301	187,021,977	12,818,962
Noncurrent assets					
Other assets	2,098,442	3,276,129	44,000	5,418,571	-
Capital assets	218,621,362	406,971,277	26,641,675	652,234,314	2,294,087
Total noncurrent assets	220,719,804	410,247,406	26,685,675	657,652,885	2,294,087
Total assets	345,426,417	466,200,469	33,047,976	844,674,862	15,113,049
Liabilities and net assets					
Current liabilities to be paid from unrestricted assets					
Accounts payable and accrued expenses	11,354,990	9,111,675	539,788	21,006,453	2,415,971
Current portion of long term debt	51,836,390	6,752,383	-	58,588,773	94,428
Interfund payables	-	-	314,702	314,702	-
Accrued vacation	-	-	165,863	165,863	15,492
Total current liabilities to be paid from unrestricted assets	63,191,380	15,864,058	1,020,353	80,075,791	2,525,891
Current liabilities to be paid from restricted assets					
Accounts payable and accrued expenses	4,287,314	1,576,826	-	5,864,140	-
Total current liabilities to be paid from restricted assets	4,287,314	1,576,826	-	5,864,140	-
Total current liabilities	67,478,694	17,440,884	1,020,353	85,939,931	2,525,891
Noncurrent liabilities					
Unearned deposits	-	2,966,060	-	2,966,060	-
Deferred revenues	-	-	30,113	30,113	8,896
Long-term debt	30,567,894	140,737,618	-	171,305,512	5,404
Other liabilities	26,398	4,386,111	-	4,412,509	-
Total noncurrent liabilities	30,594,292	148,089,789	30,113	178,714,194	14,300
Total liabilities	98,072,986	165,530,673	1,050,466	264,654,125	2,540,191
Net assets					
Invested in capital assets, net of related debt	178,648,187	253,947,688	26,641,675	459,237,550	2,294,087
Restricted net assets					
Capital projects	10,380	-	409,660	420,040	-
Debt service	411,923	404,147	-	816,070	-
Unrestricted	68,282,941	46,317,961	4,946,175	119,547,077	10,278,771
Total net assets	\$ 247,353,431	\$ 300,669,796	\$ 31,997,510	580,020,737	\$ 12,572,858

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities. 1,819,576

Net assets of business-type activities \$ 581,840,313

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2007**

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Operating revenues					
Charges for services	\$ 159,647,302	\$ 53,107,856	\$ 3,479,615	\$ 216,234,773	\$ -
Other revenue from operations	-	-	356,836	356,836	173,557
Interfund charges and employee contributions	-	-	-	-	19,952,580
Proprietary operating revenue	-	1,412,327	-	1,412,327	-
Total operating revenues	159,647,302	54,520,183	3,836,451	218,003,936	20,126,137
Operating expenses					
General and administrative	9,142,743	9,986,828	-	19,129,571	-
Power supply and generation	101,813,270	-	-	101,813,270	-
Water purification and distribution	-	10,887,004	-	10,887,004	-
Sewer collection and treatment	-	9,143,898	-	9,143,898	-
Personnel	-	-	3,524,978	3,524,978	380,588
Maintenance and operations	-	-	3,083,676	3,083,676	15,888,622
Depreciation	13,579,303	12,898,335	2,003,050	28,480,688	373,811
Total operating expenses	124,535,316	42,916,065	8,611,704	176,063,085	16,643,021
Operating income (loss)	35,111,986	11,604,118	(4,775,253)	41,940,851	3,483,116
Nonoperating revenue (expense)					
Interest earned on investments	3,079,241	1,872,230	222,157	5,173,628	550,826
Federal and State grants	-	-	2,073,530	2,073,530	-
Miscellaneous revenue	-	-	358,579	358,579	-
Gain (loss) on disposal of capital assets	(295,047)	(191,200)	12,319	(473,928)	(92,042)
Interest expense	(4,515,105)	(5,215,468)	(19,858)	(9,750,431)	-
Amortization	(1,373,230)	(932,976)	(22,000)	(2,328,206)	-
Miscellaneous expense	-	-	(301,996)	(301,996)	-
Issue costs	(138,709)	(385,466)	-	(524,175)	-
Total nonoperating revenue (expense)	(3,242,850)	(4,852,880)	2,322,731	(5,772,999)	458,784
Income (loss) before transfers	31,869,136	6,751,238	(2,452,522)	36,167,852	3,941,900
Transfers in	-	754,611	1,544,345	2,298,956	200,000
Transfers out	(8,894,162)	(554,850)	-	(9,449,012)	(334,482)
Capital contributions	977,641	16,730,748	3,693,676	21,402,065	-
Change in net assets	23,952,615	23,681,747	2,785,499	50,419,861	3,807,418
Total net assets - beginning	223,400,816	276,988,049	29,212,011		8,765,440
Total net assets - ending	\$ 247,353,431	\$ 300,669,796	\$ 31,997,510		\$ 12,572,858

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

36,204

Change in net assets of business-type activities

\$ 50,456,065

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007**

	Enterprise Funds			Total	Internal Service Funds
	Electric Fund	Water and Wastewater Fund	Other Enterprise Funds		
Operating activities					
Cash received from customers	\$ 159,780,095	\$ 50,899,282	\$ 3,315,382	\$ 213,994,759	\$ 19,901,681
Other operating revenue	-	-	365,324	365,324	173,557
Cash received as deferred revenues	-	-	-	-	(4,424)
Cash paid to or on behalf of employees for services	(12,607,432)	(12,713,854)	(3,521,726)	(28,843,012)	(1,855,797)
Cash paid for goods and services	(7,213,654)	(18,774,365)	(2,747,445)	(28,735,464)	(15,456,737)
Cash paid for power supply and generation	(21,110,688)	-	-	(21,110,688)	-
Net cash provided by (used in) operating activities	118,848,321	19,411,063	(2,588,465)	135,670,919	2,758,280
Noncapital financing activities					
Transfers in	4,535,827	17,811,412	1,544,345	23,891,584	200,000
Federal and State grants	-	-	2,073,530	2,073,530	-
Nonoperating revenues	-	-	358,579	358,579	-
Transfers out	(13,429,989)	(17,611,651)	-	(31,041,640)	(334,482)
Other	-	-	(301,996)	(301,996)	-
Net cash provided (used) by noncapital financing activities	(8,894,162)	199,761	3,674,458	(5,019,943)	(134,482)
Capital and related financing activities					
Proceeds from sale of assets	108,087	43,533	12,319	163,939	74,467
Proceeds from debt issuance	-	488,033	-	488,033	-
Contributed capital received	977,641	8,206,806	3,693,676	12,878,123	-
Acquisition and construction of capital assets	(18,472,700)	(17,838,534)	(4,284,636)	(40,595,870)	(225,313)
Principal paid on debt maturities	(78,389,370)	(6,125,086)	(29,769)	(84,544,225)	-
Interest paid on debt maturities	(4,515,105)	(5,600,934)	(19,858)	(10,135,897)	-
Other capital asset transactions	-	-	-	-	(191,029)
Net cash provided (used) by capital and related financing activities	(100,291,447)	(20,826,182)	(628,268)	(121,745,897)	(341,875)
Investing activities					
Interest and dividends	3,079,241	1,872,230	222,157	5,173,628	550,826
Net change in investments	(9,810,022)	(4,490,009)	-	(14,300,031)	-
Net cash provided (used) by investing activities	(6,730,781)	(2,617,779)	222,157	(9,126,403)	550,826
Net increase (decrease) in cash and cash equivalents/investments	2,931,931	(3,833,137)	679,882	(221,324)	2,832,749
Cash and cash equivalents/investments					
Beginning of year	23,322,658	19,515,102	4,516,505	47,354,265	9,137,270
End of year	\$ 26,254,589	\$ 15,681,965	\$ 5,196,387	\$ 47,132,941	\$ 11,970,019
Cash and cash equivalents	\$ 26,254,589	\$ 15,681,965	\$ 5,196,387	\$ 47,132,941	\$ 11,970,019
Investments	26,083,713	21,681,243	-	47,764,956	-
Total cash and cash equivalents/investments	\$ 52,338,302	\$ 37,363,208	\$ 5,196,387	\$ 94,897,897	\$ 11,970,019
Unrestricted cash and equivalents/investments	\$ 5,997,736	\$ 6,004,947	\$ 4,786,727	\$ 16,789,410	\$ 11,970,019
Restricted cash and equivalents/investments	20,256,853	9,677,018	409,660	30,343,531	-
Total cash and cash equivalents/investments	\$ 26,254,589	\$ 15,681,965	\$ 5,196,387	\$ 47,132,941	\$ 11,970,019

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007**

	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)	\$ 35,111,986	\$ 11,604,118	\$ (4,775,253)	\$ 41,940,851	\$ 3,483,116
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	13,579,303	12,898,335	2,003,050	28,480,688	373,811
Allowance for uncollectible accounts	(20,854)	11,515	-	(9,339)	-
Recognition of prepaid purchase cost, net of related discount	70,472,807	-	-	70,472,807	-
Change in assets and liabilities					
(Increase) decrease in accounts receivable	73,029	(3,632,416)	(175,071)	(3,734,458)	(51,558)
(Increase) decrease in inventory	(1,011,018)	368,150	11,429	(631,439)	116,021
(Increase) decrease in prepaid items	-	-	-	-	232,033
(Increase) decrease in internal balances	95,679	172,217	-	267,896	(267,896)
(Increase) decrease in other current assets	39,747	46,348	-	86,095	-
(Increase) decrease in other assets	(476,834)	(582,564)	-	(1,059,398)	-
(Increase) decrease in unearned deposits	-	(204,343)	-	(204,343)	-
Increase (decrease) in accounts payable and accrued liabilities	977,617	(1,264,220)	335,640	49,037	(1,217,732)
Increase (decrease) in accrued compensated absences	6,859	(6,077)	3,252	4,034	94,909
Increase (decrease) in deferred revenues	-	-	8,488	8,488	(4,424)
Total adjustments	83,736,335	7,806,945	2,186,788	93,730,068	(724,836)
Net cash provided by (used in) operating activities	\$ 118,848,321	\$ 19,411,063	\$ (2,588,465)	\$ 135,670,919	\$ 2,758,280
Noncash investing, capital, and financing activities:					
Contributed capital assets	\$ -	\$ 9,064,904	\$ -	\$ 9,064,904	\$ -
FIF Credits Awarded	\$ -	\$ (1,022,539)	\$ -	\$ (1,022,539)	\$ -
FIF Credits Applied	\$ -	\$ 480,306	\$ -	\$ 480,306	\$ -

City of Fayetteville, North Carolina

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	<u>Pension Trust Fund</u>	<u>Private-purpose Trusts</u>
Assets		
Cash and investments	\$ 6,676,271	\$ 1,317,211
Accounts receivable	16,743	19,381
Total assets	<u>6,693,014</u>	<u>1,336,592</u>
Liabilities		
Accounts payable	<u>35,764</u>	-
Total liabilities	<u>35,764</u>	<u>-</u>
Net assets		
Held in Trust for:		
Held in Trust for benefits and other purposes	<u>6,657,250</u>	<u>1,336,592</u>
Total net assets	<u>\$ 6,657,250</u>	<u>\$ 1,336,592</u>

City of Fayetteville, North Carolina

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2007**

	Pension Trust Fund	Private-purpose Trusts
Additions		
Other revenue from operations	\$ -	\$ 33,442
Contributions	385,939	114,455
Investment earnings	634,009	69,991
Total additions	<u>1,019,948</u>	<u>217,888</u>
Deductions		
Benefit payments and premiums	<u>480,148</u>	<u>185,569</u>
Total deductions	<u>480,148</u>	<u>185,569</u>
Change in net assets	539,800	32,319
Total net assets - beginning	<u>6,117,450</u>	<u>1,304,273</u>
Total net assets - ending	<u>\$ 6,657,250</u>	<u>\$ 1,336,592</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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NOTES TO FINANCIAL STATEMENTS

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies

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

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

A - Reporting Entity

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

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

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

City of Fayetteville Finance Corporation

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

City of Fayetteville Linear Park, Inc.

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

B - Basis of Presentation

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

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

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

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

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

The City reports the following major governmental fund:

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

The City reports the following nonmajor governmental funds:

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

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

The City reports the following major enterprise funds:

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

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

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

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

The City reports the following fund types:

Internal Service Fund. Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the City, on a cost reimbursement basis. The Warranty Fleet Fund is used to account for the accumulation and allocation of costs associated with internally leasing vehicles. The Fleet Maintenance Fund is used to account for the accumulation and allocation of costs associated with miscellaneous maintenance costs. The City expects to close this fund in FY2008 since this function has been transferred to the PWC Fleet Maintenance Fund. The Insurance Fund is used to account for the accumulation and allocation of costs associated with health, workers compensation, and liability claims. The PWC Fleet Maintenance Fund accounts for the accumulation and allocation of costs associated with the City's and PWC's fleet maintenance activities.

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

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

C - Measurement Focus and Basis of Accounting

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

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

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

The City's proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the funds' principal ongoing operations. The principal operating revenues of the City's utility funds are charges to customers for sales and services. Operating expenses for the City's utility funds include the costs of sales and services, general and administrative services and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, 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 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes that were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the annual registration into the staggered registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

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

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

D – Budgetary Data

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

E - Assets, Liabilities, and Fund Equity

Deposits and Investments

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

State law (G.S. 159-30(c)) authorizes the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority (including the North Carolina Educational Assistance Authority); obligations of certain no guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

The City's investments with maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contract are reported at amortized cost. Nonparticipating interest earning investment contracts are reported at cost.

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

Cash and Cash Equivalents

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

Ad Valorem Taxes Receivable

In accordance with State law [F.S. 105-347 and G.S. 159-136(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. The taxes are based on the assessed values as of January 1, 2006.

Receivables

The receivables in the utility funds consist primarily of customer receivables for utility services. The City provides allowances for uncollectible receivables equal to the estimated collection losses to be incurred. The estimated losses are computed using the experience method. The City grants credit to residential, business and industrial customers, substantially all of whom are local to the City of Fayetteville area.

Allowance for Uncollectible Receivables

The City recorded a receivable in the general fund related to the red-light camera program. During fiscal year 2007, the Cumberland County Board of Education (Board) required the City to pay the Board the "clear proceeds" from civil citations issued for red-light violations at camera controlled intersections from fiscal year 2004 through fiscal year 2006. Due to this claim, the program ceased operations and the remaining receivables are not expected to be collected. Therefore, an allowance for \$1,217,304 has been included in allowance for uncollectible accounts. The City also recorded a receivable in the special revenue fund for \$2,260,668 related to grants or other financial assistance that has been awarded. Many of these awarded grants are not expected to be collected and are scheduled to be forgiven based upon note compliance; therefore, they are included in allowance for uncollectible accounts.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

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

The receivables shown on the Statement of Net Assets are presented net of the following allowances for doubtful accounts as of June 30, 2007:

<u>Fund</u>	
General Fund:	
Taxes receivable	\$ 809,506
Accounts receivable	1,223,348
Assessments receivable	120,820
Special Revenue Fund:	
Accounts receivable	2,272,101
Transit Operating:	
Accounts receivable	1,623
Airport Operating:	
Accounts receivable	8,987
Electric Fund:	
Accounts receivable	224,438
Water and Wastewater Fund:	
Accounts receivable	78,220
Total	<u>\$ 4,739,043</u>

Interfund Receivables and Payables

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

Inventories

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items.

On November 30, 2005, the City entered into a Prepayment Agreement with Progress Energy Carolinas, Inc. (PEC) to make a prepayment for an estimated 24 months' capacity and energy for its electric system. The Prepayment Agreement provided for a prepayment of \$141,111,075 by the City for the capacity and energy to be delivered by PEC beginning January 2006 under the existing Master Power Purchase and Sale Agreement between PEC and the City (see Note 9), having a value under such agreement of \$157,550,000, resulting in a discount of \$16,438,925 or 10.4341%, on the purchase price of such capacity and energy that would otherwise be due. The prepayment is recorded as a prepaid asset and is amortized monthly based on the actual capacity and energy billed by PEC, whereas, the discount is recorded as a liability and is amortized monthly at 10.4341% of the actual capacity and energy billed. The City's purchase power expenses include the capacity and energy charges net of the recognized discount. During the year ended 2007, the City recognized \$78,682,632 of capacity and energy charges under the prepayment agreement which reduced the prepayment to its June 30, 2007 balance of \$40,572,791. As a result, the discount was amortized by \$8,209,824, leaving an unrecognized discount balance of \$4,233,406. The City issued \$142,140,000 in Revenue Notes to provide funds for the prepayment (see Note 5).

A Summary of the current year activity is as follows:

	<u>Original Payment</u>	<u>Discount</u>
Balance at June 30, 2006	\$ 119,255,423	\$ (12,443,230)
Recognized during the year ended June 30, 2007	<u>(78,682,632)</u>	<u>8,209,824</u>
Balance at June 30, 2007	<u>\$ 40,572,791</u>	<u>\$ (4,233,406)</u>

Financial Statement Presentation:

Other prepaid assets	\$ 40,572,791	Accounts payable and accrued expenses	\$ 4,233,406
Total prepaid assets	<u>\$ 40,572,791</u>	Total discount	<u>\$ 4,233,406</u>

Restricted Assets and Liabilities

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

Interest Rate Swaps

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

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

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

Unearned Deposits

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

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

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with an original maturity date of three months or less to be cash equivalent.

Long-Term Obligations

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

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

Net Assets/Fund Balances

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

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

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

The governmental fund types classify fund balances as follows:

Reserved

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

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

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

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

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

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

Reserved for J.P. Riddle Stadium – portion of fund balance available to pay for the operation of the J.P. Riddle Stadium.

Reserved for Streets - Powell Bill – portion of fund balance available for appropriation but legally segregated for street expenditures. It represents the balance of the total unexpended Powell Bill funds which is an annual grant received by the City from the N.C. Department of Transportation.

Unreserved

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2007 - 2008 budget ordinance.

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

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 - Summary of Significant Accounting Policies (continued)

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

F - Reclassification

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

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 – Upcoming Pronouncements

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

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 2 - Cash, Cash Equivalents and Investments

A - Deposits

All of the City's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal Depository Insurance coverage level are collateralized with securities held by the City's agents in the City's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

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

At June 30, 2007, the City's deposits had a carrying amount of \$26,825,835 less a sweep of \$18,756,000 and a bank balance of \$11,604,884. Of the bank balance, Federal Deposit Insurance covered \$500,000, and \$11,104,884 was covered by collateral under the Pooling Method. The City had \$13,655 in the petty cash and change funds.

B – Investments

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

At June 30, 2007, the City Investment balances were as follows:

	Fair Value	Less than 6		
		Months	6-12 Months	1-5 Years
U.S. Government Securities	\$ 1,186	\$ -	\$ -	\$ 1,186
U.S. Treasuries	3,571,173	3,571,173		
U.S. Government Agencies	83,161,344	15,893,280	6,989,700	60,278,364
Commercial Paper	32,229,347	32,229,347		
N.C. Education Assistance Authority	21,650,000	21,650,000		
N.C. Capital Management Trust - Cash portfolio	25,871,578	25,871,578		
N.C. Capital Management Trust - Term portfolio	195,898	195,898		
Total Primary Government	166,680,526	99,411,276	6,989,700	60,279,550
Equity Mutual Funds - Fiduciary Funds	4,560,795	4,560,795	-	-
Reporting Entity Total	\$ 171,241,321	\$ 103,972,071	\$ 6,989,700	\$ 60,279,550

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

B – Investments (continued)

Third-party custodians who take delivery of the investment securities on behalf of the City held investments of \$4,560,792 for the Supplemental PWC Pension Trust Fund.

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

Credit Risk. The City has no formal policy regarding credit risk; however, the State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). The City minimizes credit risk by limiting investments to the types allowed by North Carolina General Statutes 159-30. The City diversifies the investment portfolio to minimize the impact of potential losses from any one security or from any one individual issuer. Also, the City pre-qualifies the financial institutions brokers/dealers and requires them to meet specific financial and registration conditions. As of June 30, 2007, the City's commercial paper was rated A1 by Moody's Investors Service and P1 by Standard & Poor's. The City's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2007. The City's investments in the NC Capital Management Trust Term Portfolio are not rated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina general statutes 159-30 as amended. The City's investments in US Agencies (Federal Home Loan Bank, Fannie Mae, and Federal Farm Credit Banks) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

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

Concentration of Credit Risk. The City places no limit on the amount that the City may invest in any one issuer. More than 5% of the City's investments are in NC Education Assistance Authority securities, Federal Home Loan Banks and Fannie Mae. These investments are 13.0%, 32.3%, and 9.5%, respectively, of the City's total investments. All government agency investments for the fiduciary funds are in Federal Home Loan Mortgage securities.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

Reconciliation to cash and investments:

Totals per footnote:

Total investments (including escrow)	\$ 171,241,321
Cash (demand deposits)	25,512,433
Less Sweep	(18,756,000)
Fireman's Relief Fund	1,313,402
Petty cash	13,655
Total cash and investments	<u>\$ 179,324,811</u>

Totals per Statement of Net Assets:

Cash and investments - unrestricted	\$ 115,748,005
Cash and investments - restricted	55,583,324
Pension trust cash and investments	6,676,271
Private-purpose trust cash and investments	1,317,211
Total cash and investments	<u>\$ 179,324,811</u>

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City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

Primary Government

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

	Balance July 1, 2006	Increases	Decreases	Transfers	Balance June 30, 2007
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 36,632,906	\$ 1,709,375	\$ (1,484,636)	\$ -	\$ 36,857,645
Construction in progress	5,866,308	3,815,390	(4,465,254)	-	5,216,444
Total capital assets, not being depreciated	<u>42,499,214</u>	<u>5,524,765</u>	<u>(5,949,890)</u>	<u>-</u>	<u>42,074,089</u>
Capital assets being depreciated:					
Infrastructure	444,196,239	5,279,834	(8,781,704)	-	440,694,369
Buildings and improvements	59,016,966	8,429,115	-	-	67,446,081
Equipment, furniture and fixtures	20,584,618	861,272	(261,417)	(8,751)	21,175,722
Vehicles	28,535,595	4,088,312	(1,243,942)	-	31,379,965
Total capital assets being depreciated	<u>552,333,418</u>	<u>18,658,533</u>	<u>(10,287,063)</u>	<u>(8,751)</u>	<u>560,696,137</u>
Less accumulated depreciation for:					
Infrastructure	(129,465,626)	(12,261,481)	-	-	(141,727,107)
Buildings and improvements	(19,453,769)	(1,828,631)	-	-	(21,282,400)
Equipment, furniture and fixtures	(14,862,425)	(1,829,645)	295,390	7,174	(16,389,506)
Vehicles	(21,923,955)	(1,915,473)	1,218,367	-	(22,621,061)
Total accumulated depreciation	<u>(185,705,775)</u>	<u>\$ (17,835,230)</u>	<u>\$ 1,513,757</u>	<u>\$ 7,174</u>	<u>(202,020,074)</u>
Total capital assets being depreciated, net	<u>366,627,643</u>				<u>358,676,063</u>
Governmental activity capital assets, net	<u>\$ 409,126,857</u>				<u>\$ 400,750,152</u>

Administration	\$ 237,909
Public safety	2,460,877
Environmental protection	1,155,026
Transportation	12,633,564
Economic and physical development	233,243
Recreation and community facilities	823,437
Capital assets held by certain internal service funds are charges to the various governmental functions based on the usage of the funds	<u>291,174</u>
Total depreciation expense	<u>\$ 17,835,230</u>

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 4 – Accounts Payable

Unrestricted and restricted accounts payable and accrued expenses consist of the following as of June 30, 2007:

	General	Nonmajor Governmental	Internal Service	Subtotal	Electric	Water and Wastewater	Nonmajor Enterprise	Fiduciary
Accounts payable	\$ 4,797,566	\$ 120,679	\$ 911,017	\$ 5,829,262	\$13,875,535	\$ 7,830,090	\$ 65,567	\$ 35,764
Incurring but not reported	-	-	1,411,885	1,411,885	445,761	445,761	-	-
Contracts payable	192,576	549,235	-	741,811	-	-	137,615	-
Interest payable	-	-	-	-	602,905	1,712,549	-	-
Retainage payable	-	515,904	-	515,904	-	-	285,786	-
Salaries and benefits payable	2,595,468	-	93,069	2,688,537	718,103	700,101	50,820	-
Total	<u>\$ 7,585,610</u>	<u>\$ 1,185,818</u>	<u>\$ 2,415,971</u>	11,187,399	<u>\$15,642,304</u>	<u>\$10,688,501</u>	<u>\$ 539,788</u>	<u>\$ 35,764</u>
Adjustment for interest payable				415,314				
				<u>\$11,602,713</u>				
Reconciliation to accounts payable on the financial statements:								
Unrestricted	\$ 7,585,610	\$ 1,185,818	\$ 2,415,971	\$11,187,399	\$11,354,990	\$ 9,111,675	\$ 539,788	\$ 35,764
Restricted	-	-	-	-	4,287,314	1,576,826	-	-
	<u>\$ 7,585,610</u>	<u>\$ 1,185,818</u>	<u>\$ 2,415,971</u>	\$11,187,399	<u>\$15,642,304</u>	<u>\$10,688,501</u>	<u>\$ 539,788</u>	<u>\$ 35,764</u>
Adjustment for interest payable				415,314				
				<u>\$11,602,713</u>				

Note 5 - Long-Term Obligations

A - General Obligation Indebtedness

The City has issued general obligation bonds (to include "Double Barrel" general obligation bonds for the benefit of the Electric and Water and Wastewater funds) to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith, credit, and taxing power of the City. They are serviced by the general fund with the exception of the "Double Barrel" General Obligation Bonds, which are serviced by the water and wastewater fund. Principal and interest payments are appropriated when due. General obligation bonds outstanding for the year ended June 30, 2007, 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%.	\$ 300,000
\$13,800,000 1996 Public Improvement Bonds due in various annual installments, through December 1, 2016; interest at various rates between 4.9% and 5%.	6,825,000
\$4,900,000 1999 Street Improvement Bonds due in various installments beginning March 1, 2001 through March 1, 2017; interest at 4.32%.	2,700,000

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 5 - Long-Term Obligations (continued)

\$275,000 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%.	\$ 213,296
\$2,400,000 2000 Street Improvement Bonds due in various installments beginning April 1, 2002 through April 1, 2018; interest at various rates between 4.9% and 5%.	2,050,000
\$5,535,000 2002 Refunding Bonds due in various annual installments through June 1, 2016; interest at various rates between 2% and 4%.	3,820,000
\$3,805,000 2003 Refunding Bonds due in various annual installments through June 1, 2010; interest at various rates between 2% and 3%.	1,465,000
\$8,450,000 2006 Public Improvement Bonds due in various semiannual installments through December 1, 2025; interest at various rates between 3.40% and 5.25%.	<u>7,600,000</u>
Total governmental general obligation bonds	<u>24,973,296</u>

Business-type activities

\$2,770,000 1996 Street Improvement Bonds due in various annual installments through December 1, 2014; interest at various rates between 4.9% and 5%.	1,820,000
\$2,750,000 1999 Public Improvement Bonds due in various annual installments beginning March 1, 2001 through March 1, 2017; interest at 4.30%.	1,550,000
\$3,335,000 2000 Public Improvement Bonds due in various annual installments beginning April 1, 2002 through April 1, 2021; interest at various rates between 5.0% and 5.1%.	2,586,704
\$3,625,000 2002 Street Improvement Bonds due in various installments beginning June 1, 2004 through June 1, 2021; interest at various rates between 3.5% and 4.5%.	2,825,000

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 5 - Long-Term Obligations (continued)

\$5,195,000 2003 "Double Barrel" General Obligation Refunding Bonds, Series 2003 due in various annual installments through May 1, 2009; interest at various rates between 2.0% and 2.5%.	<u>\$ 1,845,000</u>
Total business type general obligation bonds	<u>10,626,704</u>
	<u>\$ 35,600,000</u>

B - Revenue Bonds

The City has issued revenue bonds, which have been used to finance the defeasance of certificates of participation and the construction of facilities used in the City's operations. Resources generated by the facilities' operations are retiring the bonds. Revenue bonds outstanding for the year ended June 30, 2007, are as follows:

Governmental activities:

\$16,390,000 1996 Municipal Building Projects Bonds due in various annual installments through February 1, 2018; interest at various rates between 5.40% and 5.70%.	\$ 2,905,000
\$5,835,000 2005 Municipal Building Projects Refunding Bonds due in various annual installments through February 1, 2018; interest at various rates between 3.00% and 5.25%.	5,135,000
\$3,920,000 2005 Municipal Building Projects Bonds for the construction of Festival Park due in various annual installments through February 1, 2012; interest at various rates between 3.00% and 5.00%	2,800,000
\$2,685,000 2005 Municipal Building Projects Bonds for the construction of Westover Recreation Center due in various annual installments through February 1, 2019; interest at various rates between 3.00% and 5.25%.	<u>2,295,000</u>
Total governmental revenue bonds	<u>13,135,000</u>

Business-type activities

\$34,985,000 Series 1995 A Revenue Bonds due in various annual installments through March 1, 2008; interest at various rates between 5.15% and 6.50%.	1,935,000
\$40,755,000 Series 1997 Revenue Bonds due in various annual installments through March 1, 2010; interest at various rates between 4.70% and 5.25%.	2,565,000
\$19,325,000 Series 1999 Revenue Bonds due in various annual installments through March 1, 2010; interest at various rates between 4.80% and 5.00%.	2,450,000

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 5 - Long-Term Obligations (continued)

\$19,175,000 Series 2001 Revenue Refunding Bonds due in various annual installments through March 1, 2016; interest at various rates between 4.00% and 5.50%.	\$ 12,665,000
\$78,280,000 Series 2003 Revenue Refunding Bonds due in various annual installments through March 1, 2024; fixed rate swap at 3.42%.	75,320,000
\$55,150,000 Series 2003 A Variable Rate Revenue and Revenue Refunding Bonds due in various annual installments through March 1, 2020; fixed rate swap at 3.74%.	53,850,000
\$30,065,000 2003 Series B Variable Rate Revenue Refunding Bonds due in various annual installments through March 1, 2009; interest resets weekly.	<u>13,575,000</u>
Total business-type revenue bonds	<u>162,360,000</u>
Total revenue bonds	<u>\$ 175,495,000</u>

Total interest expense related to the revenue and general obligation bonds totaled \$8,075,679 for the year ended June 30, 2007 and of that amount, \$27,201 was capitalized during the year.

C - Notes Payable

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

The City has incurred debt to finance certain community development and capital project activities. The City has also entered into revolving loan agreements for \$7,595,127 and \$16,969,848 with the State of North Carolina. The loans were used for a Wastewater Project. The City has also entered into a loan agreement with South River Electric Membership Corporation (SREMC) utilizing funds made available to SREMC by USDA-Rural Development for a water capital project. These notes payable are junior, inferior and subordinate in all respects to the Revenue Bonds and General Obligation Bonds of the City of Fayetteville as to lien on and source and security for payment from the revenues and in all other respects. During 2005, the City issued \$142,140,000 in Revenue Notes to provide funds to make a prepayment under a Prepayment Agreement with PEC (see Prepaid expenses in Note 1).

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

Governmental activities

Note payable due in various quarterly installments through September 2007; interest at various rates between 5.87% and 6.49%.	\$ <u>5,000</u>
Total governmental notes payable	<u>5,000</u>

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 5 - Long-Term Obligations (continued)

Business-type activities

\$7,595,127 State Revolving Loan due in various annual installments through May 1, 2021; interest at 2.6% paid semiannually on May 1 and November 1.	\$ 5,316,588
\$16,969,848 State Revolving Loan due in annual installments through May 1, 2026; interest at 2.66% paid semiannually on may 1 and November 1.	16,097,748
\$142,140,000 Series 2005 Revenue Notes due in 24 monthly installments beginning February 15, 2006; interest at 3.50% (weighted combined rate) with 1st payment due February 15, 2006 and monthly thereafter.	42,665,000
\$396,000 SREMC Loan due in 10 annual installments beginning April 5, 2006; no interest	<u>316,800</u>
Total business-type notes payable	<u>64,396,136</u>
Total notes payable	<u>\$ 64,401,136</u>

Total interest expense related to the notes payable obligations totaled \$3,366,257 for the year ended June 30, 2007 and of that amount, \$111,479 was capitalized during the year.

D - Lease Agreements

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

Capital lease obligations are comprised of the following:

Governmental activities

Capital lease obligations payable in various semi-annual installments of approximately \$370,000 in fiscal 2007 including interest at rates ranging from 4.19% to 4.55%	\$ 9,091,728
Capital lease obligations payable in various monthly installments of approximately \$161,000 in fiscal 2007 including interest at rates ranging from 1.93% to 3.85%.	3,076,922
Capital lease obligations payable in various monthly installments of approximately \$86,000 to begin in fiscal year 2007, including interest at 3.82%.	3,098,051

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 5 - Long-Term Obligations (continued)

Capital lease obligations payable in various monthly installments of approximately \$57,000 in 2008 including interest at 3.05%

	<u>\$ 1,985,371</u>
	17,252,072
Less: amount representing interest	<u>(2,261,129)</u>
Present value of the minimum lease payments	<u>\$14,990,943</u>

The following is an analysis of leased property under capital leases as of June 30, 2007:

Classes of Property	Cost	Depreciation	Value
Equipment	\$ 14,088,178	\$ 6,905,739	\$ 7,182,439
Vehicles	3,116,457	1,159,990	1,956,467
Buildings and improvement	16,789,518	1,744,493	15,045,025
Total	\$ 33,994,153	\$ 9,810,222	\$ 24,183,931

Total interest expense related to the capital lease obligations totaled \$445,932 for the year ended June 30, 2007.

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, 2007:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion
Governmental activities:					
General obligation debt	\$ 37,300,000	\$ -	\$ 12,326,704	\$ 24,973,296	\$ 2,875,235
Revenue bonds	14,940,000	-	1,805,000	13,135,000	1,850,000
Capitalized leases	14,203,330	4,537,000	3,749,387	14,990,943	3,950,970
Notes payable	65,000	-	60,000	5,000	5,000
Arbitrage payable	-	32,220	-	32,220	-
Compensated absences	4,248,447	4,581,925	4,501,411	4,328,961	2,894,940
	70,756,777	\$ 9,151,145	\$ 22,442,502	57,465,420	11,576,145
Less: loss on defeasance (net of amortization)	(757,301)			(664,104)	
Total governmental activities	\$ 69,999,476			\$ 56,801,316	\$ 11,576,145

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 5 - Long-Term Obligations (continued)

E - Changes in Long-Term Obligations (continued)

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion
Business-type activities:					
General obligation debt	\$ 2,705,000	\$ 8,781,704	\$ 860,000	\$ 10,626,704	\$ 1,584,765
Revenue bonds	173,565,000	-	11,205,000	162,360,000	11,650,000
Notes payable	136,357,559	480,033	72,441,456	64,396,136	43,909,241
Compensated absences	3,106,053	1,663,156	1,659,325	3,109,884	1,610,630
	<u>315,733,612</u>	<u>\$ 10,924,893</u>	<u>\$ 86,165,781</u>	<u>240,492,724</u>	<u>58,754,636</u>
Less: loss on defeasance (net of amortization)	(11,973,116)			(10,432,576)	-
Total business-type activities	<u>\$ 303,760,496</u>			<u>\$ 230,060,148</u>	<u>\$ 58,754,636</u>

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

F - Maturities of Long-Term Obligations

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

Governmental activities:

Year Ended	Bonds Payable		Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 2,875,235	\$ 1,035,227	\$ 1,850,000	\$ 628,143	\$ 5,000	\$ 162
2009	2,890,235	922,002	1,555,000	548,368	-	-
2010	2,850,235	809,278	1,310,000	491,250	-	-
2011	2,060,235	694,716	1,330,000	441,000	-	-
2012	2,050,235	605,023	1,360,000	373,187	-	-
2013-2017	8,736,177	1,702,225	4,515,000	1,064,953	-	-
2018-2020	1,420,706	375,535	1,215,000	92,063	-	-
2021-2025	2,090,238	260,027	-	-	-	-
	<u>24,973,296</u>	<u>6,404,033</u>	<u>13,135,000</u>	<u>3,638,964</u>	<u>5,000</u>	<u>162</u>
Less: loss on defeasance (net of amortization)	(664,104)	-	-	-	-	-
	<u>\$ 24,309,192</u>	<u>\$ 6,404,033</u>	<u>\$ 13,135,000</u>	<u>\$ 3,638,964</u>	<u>\$ 5,000</u>	<u>\$ 162</u>

Year Ended	Construction and Improvement Leases		Capitalized Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 527,735	\$ 211,918	\$ 3,423,235	\$ 206,278	\$ 8,681,205	\$ 2,081,728
2009	678,968	278,445	2,769,001	105,173	7,893,204	1,853,988
2010	678,968	248,687	1,626,196	30,460	6,465,399	1,579,675
2011	678,968	218,929	-	-	4,069,203	1,354,645
2012	678,968	189,170	-	-	4,089,203	1,167,380
2013-2017	2,265,336	563,715	-	-	15,516,513	3,330,893
2018-2020	907,401	161,002	-	-	3,543,107	628,600
2021-2025	756,167	47,353	-	-	2,846,405	307,380
	<u>7,172,511</u>	<u>1,919,219</u>	<u>7,818,432</u>	<u>341,911</u>	<u>53,104,239</u>	<u>12,304,289</u>
Less: loss on defeasance (net of amortization)	-	-	-	-	(664,104)	-
	<u>\$ 7,172,511</u>	<u>\$ 1,919,219</u>	<u>\$ 7,818,432</u>	<u>\$ 341,911</u>	<u>\$ 52,440,135</u>	<u>\$ 12,304,289</u>

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 5 - Long-Term Obligations (continued)

F - Maturities of Long-Term Obligations

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

Business-type activities:

Year Ended	General Obligation Bonds		Revenues Bonds		Notes Payable		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 1,584,765	\$ 438,780	\$ 11,650,000	\$ 6,054,939	\$ 43,909,241	\$ 1,052,251	\$ 57,144,006	\$ 7,545,970
2009	1,629,764	388,491	12,090,000	5,573,720	1,267,849	534,616	14,987,613	6,496,827
2010	734,765	338,503	10,075,000	5,110,205	1,267,849	502,172	12,077,614	5,950,880
2011	834,764	305,815	10,500,000	4,705,139	1,267,849	469,729	12,602,613	5,480,683
2012	834,765	268,127	10,920,000	4,305,520	1,267,849	437,285	13,022,614	5,010,932
2013-2017	2,859,058	797,811	61,480,000	15,044,112	6,260,044	1,699,772	70,599,102	17,541,695
2018-2022	2,148,823	186,676	33,700,000	4,624,930	5,761,487	888,683	41,610,310	5,700,289
2023-2026	-	-	11,945,000	744,363	3,393,968	225,699	15,338,968	970,062
	<u>10,626,704</u>	<u>2,724,203</u>	<u>162,360,000</u>	<u>46,162,928</u>	<u>64,396,136</u>	<u>5,810,207</u>	<u>237,382,840</u>	<u>54,697,338</u>
Less: Loss on defeasance (net of amortization)	(159,955)	-	(10,272,621)	-	-	-	(10,432,576)	-
	<u>\$ 10,466,749</u>	<u>\$ 2,724,203</u>	<u>\$ 152,087,379</u>	<u>\$ 46,162,928</u>	<u>\$ 64,396,136</u>	<u>\$ 5,810,207</u>	<u>\$ 226,950,264</u>	<u>\$ 54,697,338</u>

G - Legal Debt Margin

The legal debt margin of the City at June 30, 2007, approximated \$706,458,012.

H - Authorized But Un-issued Debt

At June 30, 2007, the City had no bonds authorized but un-issued.

I - Restrictive Covenants

The revenue bond indentures contain significant limitations and restrictions on annual debt service requirements, use of the utility system, minimum revenue bond coverage's and require that a reserve fund be established and maintained. The reserve fund requirements have been met by the City through the purchase of surety bonds in the full amount of the bond requirement. The City is in compliance with all such significant financial limitations and restrictions at June 30, 2007.

J - Interest Rate Swap

Contracts. The City has two interest rate swap agreements in effect at June 30, 2007 for the \$78,280,000 Variable Rate Revenue Refunding Bonds Series 2003 ("Series 2003") and the \$55,150,000 Variable Rate Revenue and Revenue Refunding Bonds Series 2003A ("Series 2003A"). The swap discussions below will be referenced to the Series 2003 and Series 2003A bonds, respectively.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 5 - Long-Term Obligations (continued)

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

Terms, fair values, and credit risk. The terms, fair values, and credit ratings of the outstanding swaps and cap as of June 30, 2007 are as follows. The notional amounts of the swaps match the principal amount of the associated debt and decline with the principal amortization on the bonds.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received ⁽¹⁾	Fair Values	Termination Date	Counterparty Credit Rating ⁽²⁾
Swaps							
Series 2003	\$ 75,320,000	1/22/03	3.42%	59% of LIBOR + 34.5 bps	\$1,227,036	March 2024	Aa1/AA-/AA+
Series 2003A	53,850,000	9/11/03	3.74%	62.8 % of LIBOR + 31 bps	173,672	March 2020	Aa1/AA-/AA+
	<u>\$129,170,000</u>				<u>\$1,400,708</u>		

⁽¹⁾ LIBOR - London Interbank Offered Rate

⁽²⁾ Counterparty's guarantor

As of June 30, 2007 the positive fair values of the agreements represent the City's exposure to credit risk. Should the counterparty to the swaps fail to perform according to the terms of the swap contract, the City faces a maximum possible loss equivalent to the positive fair values of the swaps. The counterparty carries a guarantee by an entity ("counterparty guarantor") rated Aa1 by Moody's Investors Service (Moody's), AA- by Standard and Poor's (S&P), and AA+ by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreement. Such collateral would be government securities posted with a third party custodian.

Basis risk. The swaps expose the City to basis risk should the relationship between LIBOR and Bond Market Association (BMA) converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.42% and 3.74% and the synthetic rates as of June 30, 2007 of 3.68% and 3.83%. As of June 30, 2007, the rate on the City's Series 2003 and 2003A bonds was 3.74% whereas the variable rate from the counterparty was 3.48% and 3.65%, respectively. For fiscal year 2007, the City experienced an actual synthetic rate of 3.51% and 3.66%, respectively.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 5 - Long-term debt (continued)

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

Swap payments and associated debt. Using rates as of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments of the Series 2003 and Series 2003A bonds, assuming current interest rates remain the same for the term of the bonds, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year Ending June 30	Variable-Rate Bond		Interest Rate	Total
	Principal	Interest	Swap, Net	
2008	\$ 665,000	\$ 4,830,958	\$ (106)	\$ 5,495,852
2009	2,715,000	4,806,087	165	7,521,252
2010	6,250,000	4,704,546	1,744	10,956,290
2011	9,175,000	4,470,796	337	13,646,133
2012	9,525,000	4,127,651	1	13,652,652
2013-2017	55,195,000	15,012,547	(26,867)	70,180,680
2018-2022	33,700,000	4,988,786	(55,016)	38,633,770
2023-2024	11,945,000	814,011	(13,886)	12,745,125
	<u>\$ 129,170,000</u>	<u>\$ 43,755,382</u>	<u>\$ (93,628)</u>	<u>\$ 172,831,754</u>

Note 6 - Defeasance of Debt

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and related fixed earnings are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed from the City's liabilities. As of June 30, 2007, the amount of prior year defeased debt outstanding and removed from the City's liabilities amounted to \$13,075,000.

Gains and losses from debt refunding must be deferred and amortized over the lesser of the original remaining life of the old debt or the life of the new debt. In addition, gains or losses related to debt refunding are to be used in determining the carrying value of the new debt issued to finance debt refunding. The carrying values of the 2001 Revenue Refunding Electric/Water and Sewer Bonds, the 2003 Variable Rate Revenue Refunding Electric Water and Sewer Bonds, the Variable Rate Revenue and Revenue Refunding Bonds, Series 2003A, the Variable Rate and Revenue Refunding Bonds, Series 2003B and the General Obligation Refunding Bonds, Series 2003, have been adjusted for the loss from defeasance (net of amortization) of \$10,432,576.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 7 – Deferred/Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Prepaid licenses and fees not yet earned (General)	\$ 651,009	\$ 651,009
Prepaid retiree insurance premiums (Internal Service)	8,896	8,896
Unearned rent (Proprietary)	30,113	30,113
Unearned receipts (Capital Projects)	52,435	52,435
Taxes receivable, net (General)	3,717,737	
Taxes receivable, net (Special Revenue)	58,477	
Accounts and notes receivable (General)	750,000	
Accounts and notes receivable (Special Revenue)	6,575,014	
Special assessments receivable, net (General)	706,650	
Unearned grant receipts (Capital Projects)	675,036	675,036
Total	\$ 13,225,367	\$ 1,417,489

Note 8 - Risk Management

The City (excluding the utility fund) is self-insured (self-funded) with respect to insurance claims as follows: health insurance (up to \$150,000 per individual and approximately \$11,850,000 for all employees for the policy ending December 31, 2007), general liability (up to \$350,000 per occurrence), workers' compensation (\$500,000 per occurrence), public officials liability (up to \$350,000 per occurrence), law enforcement liability (\$350,000 per occurrence), and automobile liability (up to \$350,000 per occurrence). Property insurance on city buildings is insured to replacement value (less \$100,000 self-funded retention). The health insurance plan's excess coverage allows expenditures by the City up to 125% of expected claims adjusted for industry standard trend adjustments, and for expenditures by the City of up to \$150,000 per individual. Losses from asserted claims and from unasserted claims identified under the City's incident reporting system are accrued based on estimates that incorporate the City's past experience, as well as other considerations including the nature of each claim and relevant trend factors.

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 8 - Risk Management (continued)

The Electric and Water and Wastewater Funds are self-insured with respect to workers' compensation (up to approximately \$1,000,000), and self-insured with respect to health insurance claims (up to approximately \$2,000,000). In addition, these funds are self-insured with respect to certain policy deductible amounts as follows: public officials liability (up to \$100,000 per occurrence), liability claims (up to \$10,000,000 per occurrence) and property (\$250,000 per occurrence). In addition, the Electric and Water and Wastewater Funds maintain excess liability insurance (\$10,000,000) to cover catastrophic losses and "first-dollar" auto liability coverage. These funds maintain an investment account amounting to \$3,500,000 to cover possible worker's compensation and other claims. This investment is classified under restricted assets in the financial statements. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system has been made because the amount cannot be reasonably estimated. Further, a liability for outstanding claims at June 30, 2007, is not accrued, as the amount of outstanding claims is not material to the financial statements. Professional insurance consultants have been retained to assist the Electric and Water and Wastewater Funds with determining all accruals.

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

At June 30, 2007, a liability for incurred but not reported claims of \$2,912,656 is included in accounts payable and accrued expenses on the accompanying financial statements. An analysis of claims activity for the City and the Electric and Water and Wastewater Funds is presented below.

	2007	2006
Liability at June 30,	\$ 4,521,606	\$ 4,354,680
Current year claims and changes in estimates	12,026,063	15,519,160
Actual claim payments	<u>(13,635,013)</u>	<u>(15,352,234)</u>
Liability at June 30,	<u>\$ 2,912,656</u>	<u>\$ 4,521,606</u>

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

Note 9 - Commitments and Contingent Liabilities

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 9 - Commitments and Contingent Liabilities (continued)

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

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

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

The City has authorized expenditures totaling approximately \$168.3 million for capital additions and construction of various administration, public safety, recreation, transportation, economic development, bond improvement, Linear Park, electric, water and wastewater projects. At June 30, 2007, cumulative expenditures to date totaled approximately \$143 million leaving an unexpended balance of \$25.3 million for projects that are expected to be completed at various dates through the year ended 2007.

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

During the year ended June 30, 2007, the purchased power cost to PEC was \$87,210,341. This cost was without consideration of savings from the Purchased Power Prepayment Agreement. The City sold power in the amount of \$361,875 on the open market in fiscal year 2007.

Festival Park Plaza Master Lease. On August 22, 2005, City Council adopted a resolution authorizing the City to enter into a 20-year master lease agreement, subject to LGC approval, with Festival Park Plaza Office LLC. On September 6, 2005, the LGC approved the City's master lease application. The master lease was executed on November 17, 2005. Under the terms of the master lease, the City is obligated to make certain lease payments if the building is not sufficiently leased to subtenants to cover debt service on the building throughout the term of the agreement. The building is 77% leased and the City has not been required to make any payments under the master lease at this date.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 9 - Commitments and Contingent Liabilities (continued)

The City leases a portion of the office space located in the Robert C. Williams Business Center at Lafayette Plaza and the Administration Building on Old Wilmington Road to others. These lease agreements provide for minimum rental and have terms of 4 to 10 years and are due to expire at various dates from 2008 to 2013. 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>
2008	\$ 436,013
2009	388,298
2010	293,059
2011	104,755
2012	75,310
Future years	<u>45,500</u>
Total	<u>\$ 1,342,935</u>

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

For the fiscal year ended June 30, 2007, the City has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$33,442 for the 143 employed firemen who perform firefighting duties for the City's fire department. These employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a monthly contribution paid by each member, investment income, and a State appropriation.

Note 11 - Employee Retirement Systems

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

A - Local Governmental Employees' Retirement System

Plan Description

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

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 11 - Employee Retirement Systems (continued)

Funding Policy

Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, exclusive of the Electric and Water and Wastewater funds, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.92% and 4.78%, respectively, of annual covered payroll. The rate for the Electric and Water and Wastewater funds is 10.03%. The contribution requirements of members and of the City are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for all employees, including law enforcement officers and Electric and Water and Wastewater funds, for the years ended June 30, 2007, 2006 and 2005, were \$5,330,791, \$5,011,993 and \$4,570,266, respectively. The contributions made by the City equaled the required contributions for each year.

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

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

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

The contribution requirements of the plan members and the Public Works Commission are established and may be amended by the City of Fayetteville City Council. There will be no employee contributions after April 1, 2003. The Public Works Commission is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2007, 2006 and 2005 was 0% of annual covered payroll.

The annual required contribution calculation for June 30, 2007 was determined as part of the July 1, 2007, actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4% per year to retirement age. Both (a) and (b) included an inflation component of 3%. The assumptions did not include postretirement benefit increases, which are funded by the Commission's appropriations when granted.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 11 - Employee Retirement Systems (continued)

The actuarial value of assets was determined by using the market value at June 30, 2007. There was no annual required contribution for the current year under this plan; the trend information has been omitted from these statements. This benefit plan is a contributory, defined benefit retirement plan, which covers all employees who participated in the ERP plan at April 1, 2003.

C - Law Enforcement Officers' Special Separation Allowance

Plan Description

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

At December 31, 2006, the Separation Allowance's membership consisted of:

Retirees receiving benefits	26
Active plan members	<u>350</u>
Total	<u>376</u>

Summary of Significant Accounting Policies

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

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

Contributions

The City is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$385,957, or 2.30% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly.

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 12 – Post Employment Benefits (continued)

Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. For the fiscal year ended June 30, 2007, the City made contributions to the State for death benefits of \$71,391. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .13 percent and .14 percent of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

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

The City offers a death benefit equal to \$100 for every year of service with the City, up to a maximum of \$3,000. Currently, 405 retirees are eligible for post-retirement death benefits. For the fiscal year ended June 30, 2007, the City made payments for post-retirement death benefits premiums of \$29,685.

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, 2007, as the amount is not material to the financial statements. As of June 30, 2007, 62 retirees met the eligibility requirements. Expenses for post employment healthcare benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the Commission. For the year ended June 30, 2007, expenses of approximately \$434,725 were recognized for post employment healthcare.

Note 13 – Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2007, consist of the following:

Receivable Fund:	Payable Fund:	
General	Nonmajor	Total
	Enterprise	
	\$ 314,702	\$ 314,702
	\$ 314,702	\$ 314,702

City of Fayetteville, North Carolina
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

Note 13 – Interfund Balances and Activity (continued)

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

Transfers to/from Other Funds

Transfers due to/from other funds at June 30, 2007, consist of the following:

Transfer out:	Transfer in:					Total
	General	Nonmajor Governmental	Water and Wastewater	Internal Service	Nonmajor Enterprise	
General	\$ -	\$ 5,548,063	\$ -	\$ 200,000	\$ 1,544,345	\$ 7,292,408
Nonmajor Governmental	106,744	5,000	754,611	-	-	866,355
Electric	8,891,099	3,063	-	-	-	8,894,162
Water and Wastewater	554,850	-	-	-	-	554,850
Internal Service	175,000	-	-	-	-	175,000
Totals	\$ 9,727,693	\$ 5,556,126	\$ 754,611	\$ 200,000	\$ 1,544,345	\$ 17,782,775

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

CITY OF FAYETTEVILLE, NORTH CAROLINA

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REQUIRED SUPPLEMENTARY
INFORMATION



**Comprehensive Annual
Financial Report**
CITY OF FAYETTEVILLE
NORTH CAROLINA

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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)
12/31/1996	\$824,181	\$1,147,821	\$323,640	71.80%	\$8,284,503	3.91%
12/31/1997	893,619	1,241,152	347,533	72.00%	8,419,011	4.13%
12/31/1998	878,608	1,337,500	458,892	65.69%	9,011,331	5.09%
12/31/1999	958,824	1,435,311	476,487	66.80%	9,968,890	4.78%
12/31/2000	1,228,812	2,728,524	1,499,712	45.04%	10,581,205	14.17%
12/31/2001	1,382,479	3,074,210	1,691,731	44.97%	11,197,858	15.11%
12/31/2002	1,491,666	3,356,167	1,864,501	44.45%	11,941,930	15.61%
12/31/2003	1,628,946	3,516,635	1,887,689	46.32%	12,062,456	15.65%
12/31/2004	1,657,940	3,902,435	2,244,495	42.48%	13,501,537	16.62%
12/31/2005	1,762,344	3,882,639	2,120,295	45.39%	14,117,825	15.02%
12/31/2006	2,023,488	4,632,567	2,609,079	43.68%	16,750,277	15.58%

The annual required contribution for the fiscal year ended June 30, 2007 was determined as part of the December 31, 2005 actuarial valuation using the project unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return and (b) projected salary increases ranging from 4.5% to 12.3% per year. The inflation component was 3.75%. The assumptions do not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2005 was 24 years.

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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There was no pension obligation as of July 1, 2003. Since then, the cost and contributions have been zero so there is still no net pension obligation.

Notes to the Required Schedules:

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

Valuation date	July 1, 2007
Actuarial cost method	Aggregate
Amortization method	N/A
Amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5%
Projected salary increases*	4.0%
* Includes inflation at	3.0%
Cost-of-living adjustments	None

SUPPLEMENTAL FINANCIAL INFORMATION

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

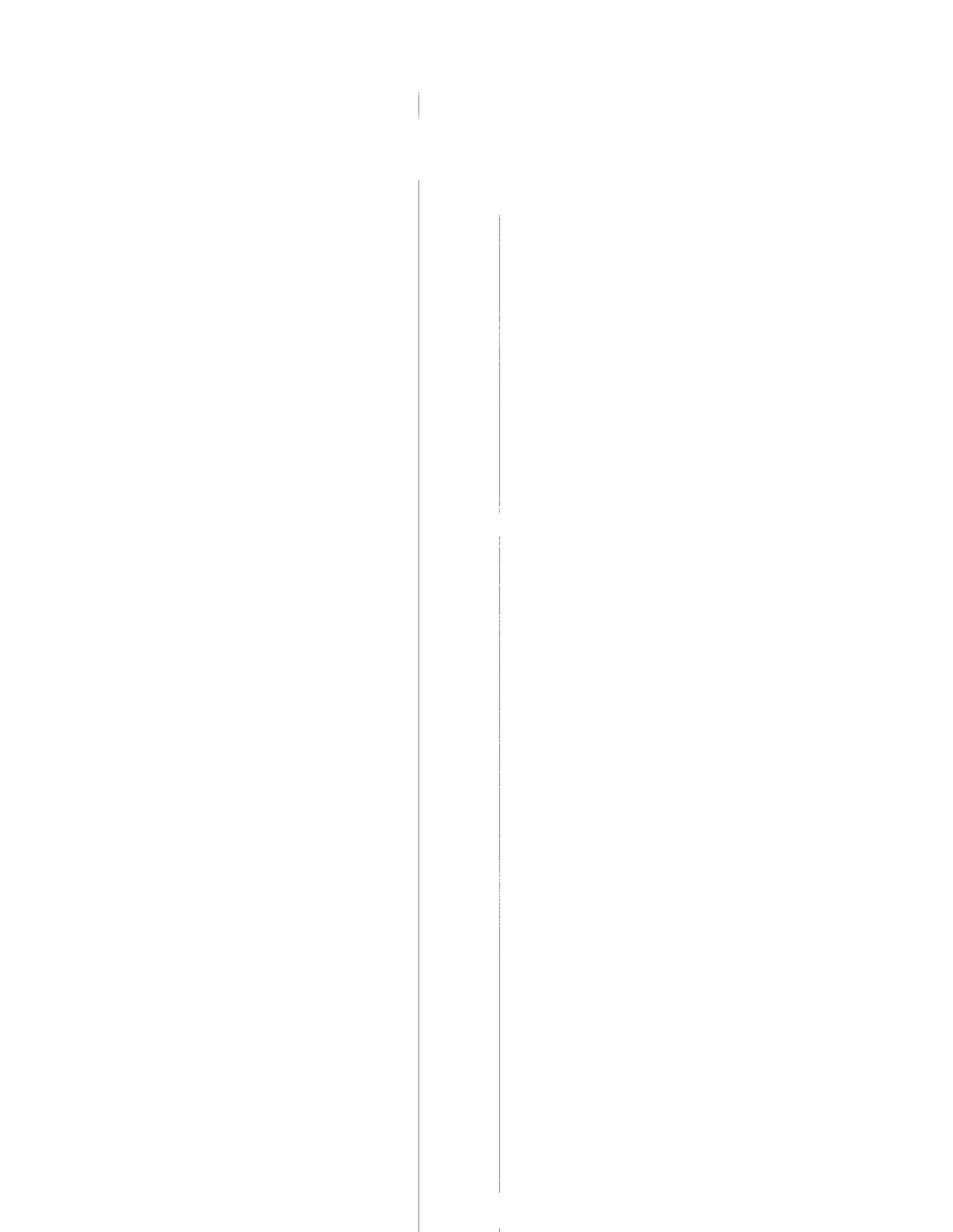
These statements/schedules provide a more detailed view of the "Basic Financial Statements" as presented in the preceding subsection.

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



Comprehensive Annual Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA



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

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GENERAL FUND

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

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

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Comparative Balance Sheets
General Fund**

June 30, 2007 and 2006

ASSETS	2007	2006
Cash and investments	\$ 46,163,255	\$ 38,438,122
Taxes receivable	3,717,738	9,377,480
Accounts receivable	12,083,219	9,560,899
Interfund receivable	314,702	344,471
Assessments receivable	551,639	395,098
Inventories	174,993	132,861
Restricted cash and investments	156,401	496,968
Total assets	\$ 63,161,947	\$ 58,745,899
 LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued expenses	\$ 7,585,610	\$ 4,541,791
Unearned deposits	100,645	74,738
Deferred revenues	5,825,396	10,632,610
Total liabilities	13,511,651	15,249,139
Fund balances		
Fund balances:		
Reserved		
By State statute	11,492,910	9,697,696
For encumbrances	6,554,473	2,644,129
For streets - Powell Bill	156,401	439,083
For inventories	174,993	132,861
For downtown	197,061	227,132
For JP Riddle - Stadium	14,585	10,142
For county recreation	1,097,826	1,071,808
Unreserved		
Designated		
For subsequent year's expenditures	3,598,129	5,061,421
For special purpose	1,710,539	2,929,525
For debt service	3,450,644	2,783,491
Undesignated	21,202,735	18,499,472
Total fund balances	49,650,296	43,496,760
Total liabilities and fund balances	\$ 63,161,947	\$ 58,745,899

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2007
With Comparative Actual Statements for the Year Ended June 30, 2006

	Budget	Variance Positive (Negative)	2007 Actual	2006 Actual
Expenditures (continued)				
Current (continued)				
Administration (continued)				
Public buildings				
Personnel	\$ 663,362	\$ 2,390	\$ 660,972	\$ 659,778
Operating	1,276,359	49,236	1,227,123	1,116,209
Assets	33,875	-	33,875	35,596
	<u>1,973,596</u>	<u>51,626</u>	<u>1,921,970</u>	<u>1,811,583</u>
Project management				
Personnel	232,143	9,179	222,964	220,949
Operating	16,651	4,611	12,040	11,230
	<u>248,794</u>	<u>13,790</u>	<u>235,004</u>	<u>232,179</u>
Total administration	<u>20,339,418</u>	<u>1,821,314</u>	<u>18,518,104</u>	<u>13,266,020</u>
Public safety				
Police				
Personnel	30,675,530	576,604	30,098,926	27,364,620
Operating	5,404,249	529,900	4,874,349	4,006,223
Assets	3,885,243	2,781,364	1,103,879	911,346
Payments to agencies	3,000	-	3,000	3,000
	<u>39,968,022</u>	<u>3,887,868</u>	<u>36,080,154</u>	<u>32,285,189</u>
Fire				
Personnel	15,648,956	187,608	15,461,348	14,008,893
Operating	2,530,418	261,917	2,268,501	1,976,110
Assets	1,575,673	121,800	1,453,873	1,259,184
Cost redistribution	(75,000)	-	(75,000)	(75,000)
	<u>19,680,047</u>	<u>571,325</u>	<u>19,108,722</u>	<u>17,169,187</u>
Inspections				
Personnel	2,183,747	14,185	2,169,562	1,935,873
Operating	473,062	117,502	355,560	320,436
	<u>2,656,809</u>	<u>131,687</u>	<u>2,525,122</u>	<u>2,256,309</u>
Total public safety	<u>62,304,873</u>	<u>4,590,880</u>	<u>57,713,998</u>	<u>51,710,685</u>
Environmental protection				
Solid waste				
Personnel	3,313,713	104,841	3,208,877	3,014,501
Operating	4,699,010	370,404	4,328,606	3,736,313
Assets	3,685,521	2,687,696	997,825	257,589
	<u>11,698,244</u>	<u>3,162,941</u>	<u>8,535,308</u>	<u>7,008,403</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2007
With Comparative Actual Statements for the Year Ended June 30, 2006

	Budget	Variance Positive (Negative)	2007 Actual	2006 Actual
Expenditures (continued)				
Current (continued)				
Environmental protection (continued)				
Cemeteries				
Personnel	\$ 158,269	\$ 10,184	\$ 148,085	\$ 186,516
Operating	24,755	6,358	18,397	13,112
	<u>183,024</u>	<u>16,542</u>	<u>166,482</u>	<u>199,628</u>
Urban forestry				
Personnel	130,522	4,037	126,485	124,921
Operating	19,688	884	18,804	9,793
	<u>150,210</u>	<u>4,921</u>	<u>145,289</u>	<u>134,714</u>
Street Sweeping				
Personnel	346,720	17,631	329,089	209,131
Operating	222,395	39,475	182,920	72,862
Assets	154,682	-	154,682	130,127
Cost redistribution	(314)	-	(314)	-
	<u>723,483</u>	<u>57,106</u>	<u>666,377</u>	<u>412,120</u>
Total environmental protection	<u>12,754,966</u>	<u>3,241,510</u>	<u>9,513,456</u>	<u>7,754,865</u>
Transportation				
Streets				
Personnel	2,526,473	100,594	2,425,879	2,182,210
Operating	4,282,999	449,311	3,833,688	3,540,097
Assets	282,809	16,000	266,809	832,864
Cost redistribution	(54,469)	12,039	(66,508)	(73,879)
	<u>7,037,812</u>	<u>577,944</u>	<u>6,459,868</u>	<u>6,481,292</u>
Engineering				
Personnel	1,267,655	53,809	1,213,846	1,078,066
Operating	229,679	101,343	128,336	148,729
Assets	34,806	9	34,797	31,517
	<u>1,532,140</u>	<u>155,161</u>	<u>1,376,979</u>	<u>1,258,312</u>
Parking				
Operating	199,953	9,408	190,545	189,510
	<u>199,953</u>	<u>9,408</u>	<u>190,545</u>	<u>189,510</u>
Total transportation	<u>8,769,905</u>	<u>742,513</u>	<u>8,027,392</u>	<u>7,929,114</u>
Economic and physical development				
Central business district				
Operating	126,100	61,645	64,455	70,174
Community development				
Personnel	93,749	16	93,733	77,951
Operating	1,347,460	440,515	906,945	135,113
	<u>1,441,209</u>	<u>440,531</u>	<u>1,000,678</u>	<u>213,064</u>
Planning and development				
Personnel	348,834	29,880	318,954	364,570
Operating	216,518	69,492	147,026	118,178
Payments to agencies	53,842	47,348	6,494	1,481
	<u>619,194</u>	<u>146,720</u>	<u>472,474</u>	<u>484,229</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2007

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

	Budget	Variance Positive (Negative)	2007 Actual	2006 Actual
Expenditures (continued)				
Current (continued)				
Economic and physical development (continued)				
Total economic and physical development	\$ 2,186,503	\$ 648,896	\$ 1,537,607	\$ 767,467
Recreation and community facilities				
Parks & Recreation				
Personnel	6,763,856	148,115	6,615,741	6,174,302
Operating	4,282,492	657,136	3,625,356	3,279,210
Assets	374,602	13,529	361,073	357,956
	<u>11,420,950</u>	<u>818,780</u>	<u>10,602,170</u>	<u>9,811,468</u>
Total recreation and community facilities	<u>11,420,950</u>	<u>818,780</u>	<u>10,602,170</u>	<u>9,811,468</u>
Debt service	<u>9,737,519</u>	<u>532,374</u>	<u>9,205,145</u>	<u>8,693,299</u>
Total expenditures	<u>127,514,139</u>	<u>12,396,267</u>	<u>115,117,872</u>	<u>99,932,918</u>
Revenues over (under) expenditures	<u>(16,179,193)</u>	<u>19,897,444</u>	<u>3,718,251</u>	<u>(7,185,999)</u>
Other financing sources (uses)				
Appropriated fund balance	13,568,972	(13,568,972)	-	-
Transfers in	9,328,311	399,382	9,727,693	9,672,311
Transfers (out)	(7,468,090)	175,682	(7,292,408)	(6,788,015)
Capital leases, bonds and other debt	750,000	(750,000)	-	3,834,415
Total other financing sources (uses)	<u>16,179,193</u>	<u>(13,743,908)</u>	<u>2,435,285</u>	<u>6,718,711</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 6,153,536</u>	<u>6,153,536</u>	<u>(467,288)</u>
Fund balance				
Beginning of year - July 1			<u>43,496,760</u>	<u>43,964,048</u>
End of year - June 30			<u>\$ 49,650,296</u>	<u>\$ 43,496,760</u>

NONMAJOR GOVERNMENTAL
FUNDS



Comprehensive Annual
Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Assets			
Cash and investments	\$ 4,389,533	\$ 7,037,788	\$ 11,427,321
Taxes receivable	-	-	-
Accounts receivable	6,938,895	343,970	7,282,865
Interfund receivable	95,577	120,656	216,233
Restricted asset - cash and investments	279,536	6,436,900	6,716,436
Total assets	\$ 11,703,541	\$ 13,939,314	\$ 25,642,855
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 135,643	\$ 1,050,175	\$ 1,185,818
Interfund payables	95,577	120,656	216,233
Deferred revenues	6,633,491	727,471	7,360,962
Total liabilities	6,864,711	1,898,302	8,763,013
Fund balances:			
Reserved			
By State statute	400,980	464,626	865,606
For encumbrances	749,654	3,551,635	4,301,289
For wireless 911	118,972	-	118,972
Unreserved			
Designated			
For subsequent year's expenditures	245,321	8,024,751	8,270,072
For special purpose	-	-	-
Undesignated	3,323,903	-	3,323,903
Total fund balances	4,838,830	12,041,012	16,879,842
Total liabilities and fund balances	\$ 11,703,541	\$ 13,939,314	\$ 25,642,855

CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2007

	Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Other taxes and fees	\$ 3,323,938	\$ -	\$ 3,323,938
Intergovernmental	2,241,637	2,118,724	4,360,361
Miscellaneous	750,829	1,592,385	2,343,214
Interest earned on investments	252,599	541,250	793,849
Total revenues	<u>6,569,003</u>	<u>4,252,359</u>	<u>10,821,362</u>
Expenditures			
Current:			
Administration	-	17,284	17,284
Public safety	1,190,274	703,089	1,893,363
Environmental protection	2,238,353	-	2,238,353
Transportation	-	3,511,154	3,511,154
Economic and physical development	2,301,103	2,711,975	5,013,078
Recreation and community facilities	-	7,507,862	7,507,862
Debt service:			
Principal	1,963,306	-	1,963,306
Interest and fees	715,000	-	715,000
Total expenditures	<u>8,408,036</u>	<u>14,451,364</u>	<u>22,859,400</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,839,033)</u>	<u>(10,199,005)</u>	<u>(12,038,038)</u>
Other financing sources (uses)			
Capital leases, bonds and other debt	-	4,537,000	4,537,000
Transfers in	2,598,063	2,958,063	5,556,126
Transfers out	(5,000)	(861,355)	(866,355)
Total other financing sources (uses)	<u>2,593,063</u>	<u>6,633,708</u>	<u>9,226,771</u>
Net change in fund balances	754,030	(3,565,297)	(2,811,267)
Fund balance - beginning	<u>4,084,800</u>	<u>15,606,309</u>	<u>19,691,109</u>
Fund balance - ending	<u>\$ 4,838,830</u>	<u>\$ 12,041,012</u>	<u>\$ 16,879,842</u>

SPECIAL REVENUE FUNDS

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

The following comprise the City's Special Revenue Funds:

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

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007**

	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	\$ 3,001,467	\$ -	\$ 1,388,066	\$ -	\$ 4,389,533
Accounts receivable	106,435	6,758,202	74,258	-	6,938,895
Interfund receivable	-	-	95,577	-	95,577
Restricted asset - cash and investments	-	279,536	-	-	279,536
Total assets	\$ 3,107,902	\$ 7,037,738	\$ 1,557,901	\$ -	\$ 11,703,541
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ -	\$ 106,302	\$ 29,341	\$ -	\$ 135,643
Interfund payables	-	95,577	-	-	95,577
Deferred revenues	-	6,575,014	58,477	-	6,633,491
Total liabilities	-	6,776,893	87,818	-	6,864,711
Fund balances:					
Reserved					
By State statute	106,435	183,188	111,357	-	400,980
For encumbrances	-	341,818	407,836	-	749,654
For wireless 911	118,972	-	-	-	118,972
Unreserved					
Designated					
For subsequent year's expenditures	37,214	-	208,107	-	245,321
Undesignated	2,845,281	(264,161)	742,783	-	3,323,903
Total fund balances	3,107,902	260,845	1,470,083	-	4,838,830
Total liabilities and fund balances	\$ 3,107,902	\$ 7,037,738	\$ 1,557,901	\$ -	\$ 11,703,541

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CAPITAL PROJECT FUNDS

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

The following comprise the City's Capital Project Funds:

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

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2007

	General Government Fund	Public Safety Fund	Recreational and Cultural Fund	Transportation Fund	Water and Sewer Fund	Bond Improvement Fund	Economic and Physical Development Fund	Linear Park Fund	Total Nonmajor Capital Project Funds
Assets									
Cash and investments	\$ 73,269	\$ -	\$ 918,639	\$ 2,339,636	\$ 2,893,242	\$ 91,638	\$ 331,550	\$ 389,814	\$ 7,037,788
Accounts receivable	-	3,548	107,184	55,091	23,907	109,317	42,786	2,137	343,970
Interfund receivable	-	-	120,656	-	-	-	-	-	120,656
Restricted asset - cash and investments	-	2,195,374	1,613,613	-	-	2,627,913	-	-	6,436,900
Total assets	\$ 73,269	\$ 2,198,922	\$ 2,760,092	\$ 2,394,727	\$ 2,917,149	\$ 2,828,868	\$ 374,336	\$ 391,951	\$ 13,939,314
Liabilities and fund balances									
Liabilities:									
Accounts payable and accrued expenses	\$ -	\$ 123,475	\$ 379,974	\$ 441,243	\$ -	\$ 104,943	\$ 540	\$ -	\$ 1,050,175
Interfund payables	-	120,656	-	-	-	-	-	-	120,656
Deferred revenues	-	-	675,036	35,000	-	-	-	17,435	727,471
Total liabilities	-	244,131	1,055,010	476,243	-	104,943	540	17,435	1,898,302
Fund balances:									
Reserved									
By State statute	-	3,548	227,840	55,091	23,907	109,317	42,786	2,137	464,626
For encumbrances	3,960	1,781,258	196,116	848,595	-	322,377	176,532	222,797	3,551,635
Unreserved									
For subsequent year's expenditures	69,309	169,985	1,281,126	1,014,798	2,893,242	2,292,231	154,478	149,582	8,024,751
Total fund balances	73,269	1,954,791	1,705,082	1,918,484	2,917,149	2,723,925	373,796	374,516	12,041,012
Total liabilities and fund balances	\$ 73,269	\$ 2,198,922	\$ 2,760,092	\$ 2,394,727	\$ 2,917,149	\$ 2,828,868	\$ 374,336	\$ 391,951	\$ 13,939,314

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

From Inception And For Year Ended June 30, 2007

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
County grants/contributions	\$ 130,000	\$ 61,315	\$ -	\$ 51,250	\$ 112,565
Total intergovernmental	<u>130,000</u>	<u>61,315</u>	<u>-</u>	<u>51,250</u>	<u>112,565</u>
Miscellaneous					
Other (Donations)	1,219,285	980,436	-	158,853	1,137,289
Total miscellaneous	<u>1,219,285</u>	<u>980,436</u>	<u>-</u>	<u>158,853</u>	<u>1,137,289</u>
Interest earned on investments	<u>715</u>	<u>16,299</u>	<u>-</u>	<u>14,255</u>	<u>30,554</u>
Total revenues	<u>1,350,000</u>	<u>1,058,050</u>	<u>-</u>	<u>222,358</u>	<u>1,280,408</u>
Expenditures					
Current					
Recreational and community facilities					
Linear Park	1,400,000	922,843	-	33,149	955,992
Total expenditures	<u>1,400,000</u>	<u>922,843</u>	<u>-</u>	<u>33,149</u>	<u>955,992</u>
Revenues over (under) expenditures	<u>(50,000)</u>	<u>135,207</u>	<u>-</u>	<u>189,209</u>	<u>324,416</u>
Other financing sources (uses)					
Transfers in	50,000	50,100	-	-	50,100
Total other financing sources (uses)	<u>50,000</u>	<u>50,100</u>	<u>-</u>	<u>-</u>	<u>50,100</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 185,307</u>	<u>\$ -</u>	<u>189,209</u>	<u>\$ 374,516</u>
Fund balance					
Beginning of year - July 1				185,307	
End of year - June 30				<u>\$ 374,516</u>	

PROPRIETARY FUNDS

- Enterprise Funds
- Internal Service Funds

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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ENTERPRISE FUNDS

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

The following comprise the City's Enterprise Funds:

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

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Balance Sheet
Electric Fund
June 30, 2007

	Electric Fund	Uptown Revitalization Special Fund	Rate Stabilization Special Fund	2003A Electric Revenue Bond Fund	Total
Assets					
Current unrestricted assets					
Cash and cash equivalents	\$ 5,997,736	\$ -	\$ -	\$ -	\$ 5,997,736
Investments	20,810,277	-	-	-	20,810,277
Receivables	19,295,995	-	-	-	19,295,995
Internal balances	74,900	(640)	-	-	74,260
Less allowance for doubtful accounts	(224,438)	-	-	-	(224,438)
Inventories	12,447,203	-	-	-	12,447,203
Other current assets	40,583,315	-	-	-	40,583,315
Total current unrestricted assets	98,984,988	(640)	-	-	98,984,348
Current restricted assets					
Cash and cash equivalents	7,489,894	16,096	12,750,863	-	20,256,853
Investments	5,273,436	-	-	-	5,273,436
Collateral pledged in lieu of deposits	181,596	-	-	-	181,596
Receivables	10,380	-	-	-	10,380
Total current restricted assets	12,955,306	16,096	12,750,863	-	25,722,265
Total current assets	111,940,294	15,456	12,750,863	-	124,706,613
Noncurrent assets					
Other assets	2,098,442	-	-	-	2,098,442
Capital assets:					
Land	4,546,467	-	-	-	4,546,467
Construction in process	9,541,476	-	-	-	9,541,476
Electric utility system	167,014,313	-	-	-	167,014,313
Water system	-	-	-	-	-
Sewer system	-	-	-	-	-
Buildings	26,567,268	-	-	-	26,567,268
Equipment and machinery	7,416,490	-	-	-	7,416,490
Computer programs	1,899,600	-	-	-	1,899,600
Vehicles	1,384,065	-	-	-	1,384,065
Office equipment	251,683	-	-	-	251,683
Capital assets, net	218,621,362	-	-	-	218,621,362
Total noncurrent assets	220,719,804	-	-	-	220,719,804
Total assets	\$ 332,660,098	\$ 15,456	\$ 12,750,863	\$ -	\$ 345,426,417
Liabilities and net assets					
Current liabilities to be paid from unrestricted current assets					
Current portion of long-term liabilities	\$ 51,836,390	\$ -	\$ -	\$ -	\$ 51,836,390
Accounts payable and accrued expenses	11,354,990	-	-	-	11,354,990
Total current liabilities to be paid from unrestricted current assets	63,191,380	-	-	-	63,191,380
Current liabilities to be paid from restricted current assets					
Accounts payable and accrued expenses	4,287,314	-	-	-	4,287,314
Total current liabilities to be paid from restricted current assets	4,287,314	-	-	-	4,287,314
Total current liabilities	67,478,694	-	-	-	67,478,694
Noncurrent liabilities					
Long-term liabilities	30,567,894	-	-	-	30,567,894
Other liabilities	26,398	-	-	-	26,398
Unearned deposits	-	-	-	-	-
Total noncurrent liabilities	30,594,292	-	-	-	30,594,292
Total liabilities	98,072,986	-	-	-	98,072,986
Net assets					
Capital assets net of related debt	178,648,187	-	-	-	178,648,187
Restricted for -	-	-	-	-	-
Capital Projects	10,380	-	-	-	10,380
Debt service	411,923	-	-	-	411,923
Unrestricted net assets	55,516,622	15,456	12,750,863	-	68,282,941
Total net assets	234,587,112	15,456	12,750,863	-	247,353,431
Total liabilities and net assets	\$ 332,660,098	\$ 15,456	\$ 12,750,863	\$ -	\$ 345,426,417

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2007
(with comparative actual amounts for the year ended June 30, 2006)

	2007			2006 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
General and administrative				
Executive	\$ 707,840	\$ 65,993	\$ 641,847	\$ 549,758
Internal audit	106,275	3,239	103,036	77,018
Public information	537,795	15,253	522,542	525,061
Financial administration	172,970	35,531	137,439	126,306
Administrative - administration	108,405	5,810	102,595	88,655
Human resources	435,990	6,008	429,982	420,910
Accounting	457,525	6,470	451,055	419,801
Accounts receivable	639,045	27,505	611,540	579,785
Payroll	66,410	9,759	56,651	56,137
Customer service administration	1,821,095	183,159	1,637,936	1,660,434
Utility field services	1,175,080	406	1,174,674	957,120
Business planning	251,850	16,960	234,890	265,245
Business development	389,380	32,353	357,027	427,380
Risk management	455,735	2,873	452,862	347,784
Capital projects	190,750	6,002	184,748	179,927
Rates	115,220	26,444	88,776	83,599
Budget	99,535	3,336	96,199	91,086
Purchasing	247,450	24,907	222,543	223,696
Warehouse	348,125	(32,956)	381,081	555,573
Business planning, development & logistics	177,020	843	176,177	173,466
Fleet maintenance	1,165,680	256,110	909,570	660,974
Facilities maintenance	170,015	4,782	165,233	159,720
Telecommunications systems	436,505	64	436,441	429,541
Information systems	1,042,995	130,111	912,884	942,707
Pension expense	7,500	788	6,712	2,234
Medical insurance	2,354,900	346,653	2,008,247	2,505,881
Other	395,100	1,049,630	(654,530)	(495,154)
Overhead clearing	(983,400)	1,722,014	(2,705,414)	(2,508,995)
Total general and administrative	13,092,790	3,950,047	9,142,743	9,505,629
Total operating expenditures	122,367,320	11,411,307	110,956,013	118,100,059
Non-operating expenditures				
Interest expense	4,361,000	(154,105)	4,515,105	4,491,732
Finance costs	137,000	(1,709)	138,709	150,300
Total non-operating expenditures	4,498,000	(155,814)	4,653,814	4,642,032

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2007
(with comparative actual amounts for the year ended June 30, 2006)

	2007			2006 Actual
	Budget	Variance Positive (Negative)	Actual	
Transfers out				
Transfers to City of Fayetteville	\$ 9,016,090	\$ 124,991	\$ 8,891,099	\$ 8,558,117
Transfers to Electric Rate Stabilization Fund	2,000,000	-	2,000,000	2,000,000
Transfers to Fleet Maintenance Fund	-	-	-	33,750
Total transfers out	<u>11,016,090</u>	<u>124,991</u>	<u>10,891,099</u>	<u>10,591,867</u>
Budgetary appropriations				
Inventory increase	575,000	(249,902)	824,902	1,685,759
Vehicle and equipment	1,040,750	780,026	260,724	29,696
Debt principal payments	78,389,400	30	78,389,370	35,312,094
Capital outlay	19,786,900	658,781	19,128,119	14,279,343
Prepaid power cost	-	-	-	141,111,075
Prepaid credit adjustment	(72,503,500)	(2,030,692)	(70,472,808)	(34,298,882)
Finance costs	-	-	-	1,027,210
Appropriated net assets	3,152,340	3,152,340	-	-
Total budgetary appropriations	<u>30,440,890</u>	<u>2,310,583</u>	<u>28,130,307</u>	<u>159,146,295</u>
Total expenditures	<u>\$ 168,322,300</u>	<u>\$ 13,691,067</u>	<u>\$ 154,631,233</u>	<u>\$ 292,480,253</u>
Reconciliation of change in net assets				
Total revenues		\$ (5,471,797)	\$ 162,850,503	\$ 299,120,748
Total expenditures		<u>13,691,067</u>	<u>154,631,233</u>	<u>292,480,253</u>
Subtotal		<u>\$ 8,219,270</u>	8,219,270	6,640,495
Reconciling items:				
Budgetary appropriations			28,130,307	17,006,295
Depreciation			(13,579,303)	(13,441,158)
Amortization			(1,373,230)	(1,182,680)
Transfer of assets (to) / from the 2003A Electric Revenue Bond Fund			4,535,827	(76,665)
Transfer of assets (to) / from the Fleet Maintenance Fund			-	(907,572)
Transfer of assets (to) / from the Uptown Revitalization Capital Project Fund			-	234,977
Total reconciling items			<u>17,713,601</u>	<u>1,633,197</u>
Change in net assets			<u>\$ 25,932,871</u>	<u>\$ 8,273,692</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, 2007**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Museum land acquisition	-	2,346,547	-	2,346,547
Botanical gardens	-	55,705	-	55,705
Consulting fees	-	132,304	-	132,304
Museum construction	-	7,153,453	-	7,153,453
Transportation system	-	290,143	3,063	293,206
Land donation	-	175,000	-	175,000
Riverfront development	-	79,776	-	79,776
Hydrology study	-	6,705	-	6,705
Electric system improvements	-	3,329,201	-	3,329,201
Water and Wastewater improvements	-	912,647	-	912,647
Total expenditures	<u>14,500,000</u>	<u>14,481,481</u>	<u>3,063</u>	<u>14,484,544</u>
Revenues under expenditures	<u>(14,500,000)</u>	<u>(14,481,481)</u>	<u>(3,063)</u>	<u>(14,484,544)</u>
Other financing sources				
Transfer from Electric Fund	14,500,000	14,500,000	-	14,500,000
Total other financing sources	<u>14,500,000</u>	<u>14,500,000</u>	<u>-</u>	<u>14,500,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 18,519</u>	<u>(3,063)</u>	<u>\$ 15,456</u>
Change in net assets			<u>\$ (3,063)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Changes in the Status of Electric Rate Stabilization Fund
From Inception and for the Year Ended June 30, 2007

	Project Authorization	Total Prior Years	Current Year	Total
Revenues				
Interest earned on investments	\$ 2,225,000	\$ 1,022,504	\$ 558,634	\$ 1,581,138
Rate stabilization transfer	4,169,725	4,169,725	-	4,169,725
Total revenues	<u>6,394,725</u>	<u>5,192,229</u>	<u>558,634</u>	<u>5,750,863</u>
Expenditures				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues under expenditures	<u>6,394,725</u>	<u>5,192,229</u>	<u>558,634</u>	<u>5,750,863</u>
Other financing sources				
Transfer from Electric Fund	14,000,000	10,000,000	2,000,000	12,000,000
Transfer to Electric Fund	(5,000,000)	(5,000,000)	-	(5,000,000)
Appropriated net assets	(15,394,725)	-	-	-
Total other financing sources	<u>(6,394,725)</u>	<u>5,000,000</u>	<u>2,000,000</u>	<u>7,000,000</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 10,192,229</u>	<u>2,558,634</u>	<u>\$ 12,750,863</u>
Change in net assets			<u>\$ 2,558,634</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of 2003A Electric Revenue Bond Capital Project Fund
From Inception and for the Year Ended June 30, 2007**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Interest earned	\$ 128,873	\$ 128,873	\$ -	\$ 128,873
Total revenues	<u>128,873</u>	<u>128,873</u>	<u>-</u>	<u>128,873</u>
Expenditures				
Construction	-	3,547,483	1	3,547,484
Engineering	-	628,334	10,327	638,661
Interest costs	-	89,126	-	89,126
Other	-	1,503,194	-	1,503,194
Total expenditures	<u>5,778,465</u>	<u>5,768,137</u>	<u>10,328</u>	<u>5,778,485</u>
Revenues under expenditures	<u>(5,649,592)</u>	<u>(5,639,264)</u>	<u>(10,328)</u>	<u>(5,649,592)</u>
Other financing sources (uses)				
2003A Revenue Bond proceeds	5,622,706	5,622,706	-	5,622,706
Transfer to Electric Fund	26,886	(62,240)	-	(62,240)
Total other financing sources (uses)	<u>5,649,592</u>	<u>5,560,466</u>	<u>-</u>	<u>5,560,466</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ (78,798)</u>	<u>(10,328)</u>	<u>\$ (89,126)</u>
Reconciling items:				
Capital outlay			10,328	
Transfer of assets to the Electric Fund			(4,535,827)	
Change in net assets			<u>\$ (4,535,827)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Balance Sheet
Water and Wastewater Fund
June 30, 2007

	Water and Wastewater Fund	Annexation Capital Reserve Fund	Annexation Capital Project Fund Phase IVB	2002 State Revolving Loan Capital Project Fund	2003A Water and Wastewater Revenue Bond Fund	Water Resources Rate Stabilization Fund	Annexation Phase V Project 1 Capital Project Fund	Ft. Bragg interim Water Service Project Fund	Total
Assets									
Current unrestricted assets									
Cash and cash equivalents	\$ 6,004,947	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,004,947.0
Investments	8,587,723	-	-	-	-	-	-	-	8,587,723
Receivables	16,763,287	-	6,257	629,676	455	-	-	90,369	17,490,044
Internal balances	454,685	-	(375,973)	(206,753)	224,296	-	(50,895)	-	45,380
Less allowance for doubtful accounts	(78,220)	-	-	-	-	-	-	-	(78,220)
Inventories	993,551	-	-	-	-	-	-	-	993,551
Other current assets	21,353	-	-	-	-	-	-	-	21,353
Total current unrestricted assets	32,747,326	-	(369,718)	422,923	224,751	-	(50,895)	90,369	33,064,758
Current restricted assets									
Cash and cash equivalents	6,143,472	627,546	473,717	-	450,318	1,579,994	401,971	-	9,677,018
Investments	13,093,520	-	-	-	-	-	-	-	13,093,520
Receivables	117,767	-	-	-	-	-	-	-	117,767
Total current restricted assets	19,354,759	627,546	473,717	-	450,318	1,579,994	401,971	-	22,886,305
Total current assets	52,102,085	627,546	104,001	422,923	675,069	1,579,994	351,076	90,369	55,953,063
Noncurrent assets									
Other assets	3,276,129	-	-	-	-	-	-	-	3,276,129
Capital assets:									
Land	7,686,100	-	-	-	-	-	-	-	7,686,100
Construction in process	8,793,699	-	-	11,680	-	-	1,195,977	-	10,001,356
Water system	137,421,583	-	-	-	-	-	-	-	137,421,583
Sewer system	243,760,541	-	-	-	-	-	-	-	243,760,541
Buildings	2,195,300	-	-	-	-	-	-	-	2,195,300
Equipment and machinery	2,256,171	-	-	-	-	-	-	-	2,256,171
Computer programs	1,848,702	-	-	-	-	-	-	-	1,848,702
Vehicles	1,729,339	-	-	-	-	-	-	-	1,729,339
Office equipment	72,185	-	-	-	-	-	-	-	72,185
Capital assets, net	405,763,620	-	-	11,680	-	-	1,195,977	-	406,971,277
Total noncurrent assets	409,039,749	-	-	11,680	-	-	1,195,977	-	410,247,406
Total assets	\$461,141,834	\$ 627,546	\$ 104,001	\$ 434,603	\$ 675,069	\$1,579,994	\$ 1,547,053	\$ 90,369	\$466,200,469

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Balance Sheet
Water and Wastewater Fund
June 30, 2007

	Water and Wastewater Fund	Annexation Capital Reserve Fund	Annexation Capital Project Fund Phase IVB	2002 State Revolving Loan Capital Project Fund	2003A Water and Wastewater Revenue Bond Fund	Water Resources Rate Stabilization Fund	Annexation Phase V Project 1 Capital Project Fund	Ft. Bragg Interim Water Service Project Fund	Total
Liabilities and net assets									
Current liabilities to be paid from unrestricted current assets									
Current portion of long-term liabilities	\$ 5,927,498	\$ -	\$ -	\$ 824,885	\$ -	\$ -	\$ -	\$ -	\$ 6,752,383
Accounts payable and accrued expenses	8,560,877	-	-	422,923	-	-	37,506	90,369	9,111,675
Total current liabilities to be paid from unrestricted current assets	14,488,375	-	-	1,247,808	-	-	37,506	90,369	15,864,058
Current liabilities to be paid from restricted current assets									
Accounts payable and accrued expenses	1,576,826	-	-	-	-	-	-	-	1,576,826
Total current liabilities to be paid from restricted current assets	1,576,826	-	-	-	-	-	-	-	1,576,826
Total current liabilities	16,065,201	-	-	1,247,808	-	-	37,506	90,369	17,440,884
Noncurrent liabilities									
Long-term liabilities	124,592,655	-	-	16,144,963	-	-	-	-	140,737,618
Other liabilities	4,386,111	-	-	-	-	-	-	-	4,386,111
Unearned deposits	2,966,060	-	-	-	-	-	-	-	2,966,060
Total noncurrent liabilities	131,944,826	-	-	16,144,963	-	-	-	-	148,089,789
Total liabilities	148,010,027	-	-	17,392,771	-	-	37,506	90,369	165,530,673
Net assets									
Capital assets net of related debt	268,837,777	-	-	(16,086,067)	-	-	1,195,978	-	253,947,688
Restricted for -									
Capital Projects	-	-	-	-	675,069	-	-	-	675,069
Debt service	404,147	-	-	-	-	-	-	-	404,147
Unrestricted net assets	43,889,883	827,546	104,001	(872,101)	-	1,579,994	313,569	-	45,642,892
Total net assets	313,131,807	827,546	104,001	(16,958,168)	675,069	1,579,994	1,509,547	-	300,669,796
Total liabilities and net assets	\$461,141,834	\$ 827,546	\$ 104,001	\$ 434,603	\$ 675,069	\$ 1,579,994	\$ 1,547,053	\$ 90,369	\$466,200,469

CITY OF FAYETTEVILLE, NORTH CAROLINA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Water and Wastewater Fund
Year ended June 30, 2007

	Water and Wastewater Fund	Annexation Capital Reserve Fund	Annexation Capital Project Fund Phase IVB	2002 State Revolving Loan Capital Project Fund	2003A Revenue Bond Capital Project Fund	Water Resources Rate Stabilization Fund	Annexation Phase V Project 1 Capital Project Fund	Ft. Bragg Interim Water Service Project Fund	Total
Operating revenues									
Charges for services	\$ 53,107,856	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,107,856
Miscellaneous operating revenue	-	-	-	-	-	-	-	1,412,327	1,412,327
Total operating revenues	53,107,856	-	-	-	-	-	-	1,412,327	54,520,183
Operating expenses									
Water operations	9,695,459	-	-	-	-	-	-	1,412,327	11,107,786
Sanitary sewer operations	8,923,116	-	-	-	-	-	-	-	8,923,116
General and administrative	9,986,819	-	-	-	-	-	-	-	9,986,819
Depreciation	12,898,335	-	-	-	-	-	-	-	12,898,335
Total operating expenses	41,503,729	-	-	-	-	-	-	1,412,327	42,916,056
Operating income (loss)	11,604,127	-	-	-	-	-	-	-	11,604,127
Nonoperating revenue (expense)									
Interest earned on investments	1,781,264	31,382	-	-	-	59,259	325	-	1,872,230
Gain (loss) on disposal of assets	(191,209)	-	-	-	-	-	-	-	(191,209)
Interest expense	(5,215,468)	-	-	-	-	-	-	-	(5,215,468)
Amortization	(932,976)	-	-	-	-	-	-	-	(932,976)
Finance costs	(385,466)	-	-	-	-	-	-	-	(385,466)
Total nonoperating revenue (expense)	(4,943,855)	31,382	-	-	-	59,259	325	-	(4,852,889)
Income (loss) before transfers and contributions	6,660,272	31,382	-	-	-	59,259	325	-	8,751,238
Transfers in	14,839,032	-	206,492	111,478	645,188	500,000	754,611	-	17,056,801
Transfers out	(1,866,090)	-	(879,454)	(13,384,952)	(926,305)	-	-	-	(17,056,801)
Transfers in - City of Fayetteville	-	-	-	-	-	-	754,611	-	754,611
Transfers out - City of Fayetteville	(554,850)	-	-	-	-	-	-	-	(554,850)
Capital contributions	16,730,748	-	-	-	-	-	-	-	16,730,748
Change in net assets	35,809,112	31,382	(672,962)	(13,273,474)	(281,117)	559,259	1,509,547	-	23,681,747
Total net assets - beginning	277,322,695	596,164	776,963	(3,684,694)	956,186	1,020,735	-	-	276,988,049
Total net assets - ending	\$313,131,807	\$ 627,546	\$ 104,001	\$ (16,958,168)	\$ 675,069	\$ 1,579,994	\$ 1,509,547	\$ -	\$ 300,669,798

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2007
(with comparative actual amounts for the year ended June 30, 2006)

	2007			2006 Actual
	Budget	Variance Positive (Negative)	Actual	
Expenditures (continued)				
Operating expenditures (continued)				
General and administrative (continued)				
Telecommunications systems	\$ 431,005	\$ 964	\$ 430,041	\$ 422,387
Information systems	1,120,295	211,329	908,966	940,224
Pension expenses	7,500	788	6,712	2,235
Medical insurance	2,362,100	220,635	2,141,465	2,590,176
Other	1,560,500	486,349	1,074,151	1,165,428
Overhead clearing	(948,800)	2,031,001	(2,979,801)	(2,502,433)
Total general and administrative	<u>13,352,910</u>	<u>3,366,091</u>	<u>9,986,819</u>	<u>10,205,152</u>
Total operating expenditures	<u>33,235,870</u>	<u>4,630,476</u>	<u>28,605,394</u>	<u>27,496,024</u>
Non-operating expenditures				
Interest expense	5,229,000	13,532	5,215,468	4,847,993
Finance costs	387,000	1,534	385,466	385,924
Total non-operating expenditures	<u>5,616,000</u>	<u>15,066</u>	<u>5,600,934</u>	<u>5,233,917</u>
Transfers out				
Transfer to City of Fayetteville	554,850	-	554,850	1,114,200
Transfer to Water Resources Rate Stabilization Fund	-	(500,000)	500,000	500,000
Transfer to Annexation Phase V, Project 1 Capital Project Fund	-	(754,611)	754,611	33,750
Total transfers out	<u>554,850</u>	<u>(1,254,611)</u>	<u>1,809,461</u>	<u>1,647,950</u>
Budgetary appropriations				
Inventory increase	1,045,850	1,382,304	(336,454)	355,232
Vehicle and equipment	1,694,100	1,089,741	604,359	400,938
Debt principal payments	6,077,600	1,251,970	4,825,630	4,702,905
Note payments	-	(1,291,456)	1,291,456	419,356
NC DOT project payments	1,656,000	643,123	1,012,877	-
Capital outlay	15,576,500	844,595	14,731,905	9,978,927
Total budgetary appropriations	<u>26,050,050</u>	<u>3,920,277</u>	<u>22,129,773</u>	<u>15,857,358</u>
Total expenditures	<u>\$ 65,456,770</u>	<u>\$ 7,311,208</u>	<u>\$ 58,145,562</u>	<u>\$ 50,235,249</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2007
(with comparative actual amounts for the year ended June 30, 2006)

	2007		2006 Actual
	Budget	Variance Positive (Negative)	
Reconciliation of change in net assets			
Total revenues	\$ 6,438,081	\$ 71,894,851	\$ 56,984,686
Total expenditures	7,311,208	58,145,562	50,235,249
Subtotal	\$ 13,749,289	13,749,289	6,749,437
Reconciling items:			
Budgetary appropriations		21,663,581	15,301,328
Depreciation		(12,898,335)	(12,161,154)
Amortization		(932,976)	(932,976)
Developer and FIF credits		-	10,418,744
Transfer of assets (to) / from Annexation Capital Project Fund Phase IVB		27,774	7,006,082
Transfer of assets (to) / from Uptown Revitalization Fund		-	358,934
Transfer of net assets from the State Revolving Loan Capital Project Fund		13,273,474	3,684,694
Transfer of assets (to) / from the Fleet Maintenance Fund		-	(905,428)
Transfer (to) / from 2003A Water and Wastewater Bond Capital Project Fund		926,305	2,068,131
Total reconciling items		22,059,823	24,838,355
Change in net assets		\$ 35,809,112	\$ 31,587,792

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of 2002 State Revolving Loan Capital Project Fund
From Inception and for the Year Ended June 30, 2007**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Total revenues	\$ -	\$ -	\$ -	\$ -
Expenditures				
Construction	-	14,629,265	451,514	15,080,779
Engineering	-	1,537,385	23,674	1,561,059
Financing costs	-	267,595	111,479	379,074
Other/Contingency	-	328,010	-	328,010
Total expenditures	<u>17,442,000</u>	<u>16,762,255</u>	<u>586,667</u>	<u>17,348,922</u>
Revenues under expenditures	<u>(17,442,000)</u>	<u>(16,762,255)</u>	<u>(586,667)</u>	<u>(17,348,922)</u>
Other financing sources (uses)				
State revolving loan proceeds	17,442,000	16,489,815	480,033	16,969,848
Total other financing sources	<u>17,442,000</u>	<u>16,489,815</u>	<u>480,033</u>	<u>16,969,848</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ (272,440)</u>	<u>(106,634)</u>	<u>\$ (379,074)</u>
Reconciling items:				
Capital outlay			586,667	
Loan proceeds			(480,033)	
Transfer of assets to the Water and Wastewater fund			(13,273,474)	
Change in net assets			<u>\$ (13,273,474)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of 2003A Water and Wastewater Revenue Bond Capital Project Fund
From Inception and for the Year Ended June 30, 2007**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenue				
Interest earned on investments	\$ 116,560	\$ 66,977	\$ 41,329	\$ 108,306
Total revenues	<u>116,560</u>	<u>66,977</u>	<u>41,329</u>	<u>108,306</u>
Expenditures				
Construction	-	4,831,575	173,073	5,004,648
Engineering	-	234,961	12,500	247,461
Interest cost	-	28,173	27,201	55,374
Other	-	482,165	13,218	495,383
Total expenditures	<u>6,210,000</u>	<u>5,576,874</u>	<u>225,992</u>	<u>5,802,866</u>
Revenues under expenditures	<u>(6,093,440)</u>	<u>(5,509,897)</u>	<u>(184,663)</u>	<u>(5,694,560)</u>
Other financing sources (uses)				
2003 Revenue Bond proceeds	6,292,492	5,868,119	645,188	6,513,307
Transfer to Water and Wastewater Fund	(199,052)	(199,052)	-	(199,052)
Total other financing sources	<u>6,093,440</u>	<u>5,669,067</u>	<u>645,188</u>	<u>6,314,255</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 159,170</u>	<u>460,525</u>	<u>\$ 619,695</u>
Reconciling items:				
Capital outlay			184,663	
Transfer of assets to the Water and Wastewater Fund			(926,305)	
Change in net assets			<u>\$ (281,117)</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Water Resources Rate Stabilization Fund
From Inception and for the Year Ended June 30, 2007**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Interest earned on investments	\$ 178,300	\$ 20,736	\$ 50,250	\$ 249,286

CITY OF FAYETTEVILLE, NORTH CAROLINA

**Schedule of Changes in the Status of Ft. Bragg Interim Water Service Project Fund
From Inception and for the Year Ended June 30, 2007**

	<u>Project Authorization</u>	<u>Total Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues				
Miscellaneous Operating Revenues	\$ 6,728,945	\$ -	\$ 1,412,327	\$ 1,412,327
Total revenues	<u>6,728,945</u>	<u>-</u>	<u>1,412,327</u>	<u>1,412,327</u>
Expenditures				
Design, budget and schedule	2,343,025	-	585,756	585,756
Initial capital payment	628,524	-	-	-
Transition costs	274,112	-	274,112	274,112
Interim plant operations	3,253,284	-	542,214	542,214
Interim operations major	230,000	-	10,245	10,245
Total expenditures	<u>6,728,945</u>	<u>-</u>	<u>1,412,327</u>	<u>1,412,327</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Change in net assets			<u>\$ -</u>	

NONMAJOR ENTERPRISE
FUNDS



Comprehensive Annual
Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA

CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2007**

	Transit Fund	Airport Fund	Total Nonmajor Enterprise Funds
Assets			
Current assets			
Cash and investments	\$ 772,425	\$ 4,014,302	\$ 4,786,727
Accounts receivable	154,658	998,779	1,153,437
Inventories	7,369	5,108	12,477
Restricted cash and investments	-	409,660	409,660
Total current assets	934,452	5,427,849	6,362,301
Noncurrent assets			
Other assets	-	44,000	44,000
Capital assets	2,208,810	24,432,865	26,641,675
Total noncurrent assets	2,208,810	24,476,865	26,685,675
Total assets	\$ 3,143,262	\$ 29,904,714	\$ 33,047,976
Liabilities and net assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 68,608	\$ 471,180	\$ 539,788
Interfund payables	-	314,702	314,702
Accrued vacation	104,913	60,950	165,863
Total current liabilities	173,521	846,832	1,020,353
Noncurrent liabilities			
Deferred revenues	769	29,344	30,113
Total noncurrent liabilities	769	29,344	30,113
Total liabilities	174,290	876,176	1,050,466
Net assets			
Invested in capital assets, net of related debt	2,208,810	24,432,865	26,641,675
Capital projects	-	409,660	409,660
Unrestricted	760,162	4,186,013	4,946,175
Total net assets	2,968,972	29,028,538	31,997,510
Total liabilities and net assets	\$ 3,143,262	\$ 29,904,714	\$ 33,047,976

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

From Inception and for Year Ended June 30, 2007

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Federal grants	\$ 3,312,012	\$ 1,294,561	\$ 650,900	\$ 157,110	\$ 800,771
State grants	329,530	135,034	73,263	251	62,022
County	-	10,980	10,980	-	-
Miscellaneous	-	22,892	-	700	23,592
Total revenues	<u>3,641,542</u>	<u>1,463,467</u>	<u>735,143</u>	<u>158,061</u>	<u>886,385</u>
Expenditures					
FTA Capital 0244	-	813,625	813,625	-	-
FTA Capital 0271	1,238,560	760,725	-	31,099	791,824
FTA Capital 0292	35,000	34,998	-	2	35,000
FTA Capital 0313	1,239,430	8,690	-	8,722	17,412
FTA Capital 0327	940,000	165	-	136,975	137,140
FTA Capital 0357	555,000	-	-	14,605	14,605
FTA Capital 0378	20,000	-	-	-	-
FTA Capital 0406	50,209	-	-	4,985	4,985
Total expenditures	<u>4,078,199</u>	<u>1,618,203</u>	<u>813,625</u>	<u>196,388</u>	<u>1,000,966</u>
Revenues over (under) expenditures	<u>(436,657)</u>	<u>(154,736)</u>	<u>(78,482)</u>	<u>(38,327)</u>	<u>(114,581)</u>
Other financing sources (uses)					
Transfers in	436,657	542,628	78,482	-	464,146
Total other financing sources (uses)	<u>436,657</u>	<u>542,628</u>	<u>78,482</u>	<u>-</u>	<u>464,146</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 387,892</u>	<u>\$ -</u>	<u>\$ (38,327)</u>	<u>\$ 349,565</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ (38,327)	
Capital outlay				196,388	
Non-capitalizable items				(36,523)	
Change in net assets				<u>\$ 121,538</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

From Inception and for Year Ended June 30, 2007

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Revenues					
Intergovernmental					
Federal grants	\$ 120,000	\$ 261,560	\$ 242,600	\$ 101,040	\$ 120,000
State grants	15,000	32,804	30,434	12,630	15,000
Total intergovernmental	<u>135,000</u>	<u>294,364</u>	<u>273,034</u>	<u>113,670</u>	<u>135,000</u>
Miscellaneous					
Other	-	7,500	-	(7,500)	-
Total revenues	<u>135,000</u>	<u>301,864</u>	<u>273,034</u>	<u>106,170</u>	<u>135,000</u>
Expenditures					
Current					
Transportation	150,000	327,071	303,371	126,300	150,000
Total expenditures	<u>150,000</u>	<u>327,071</u>	<u>303,371</u>	<u>126,300</u>	<u>150,000</u>
Revenues over (under) expenditures	<u>(15,000)</u>	<u>(25,207)</u>	<u>(30,337)</u>	<u>(20,130)</u>	<u>(15,000)</u>
Other financing sources (uses)					
Transfers in	15,000	46,926	30,337	27,641	44,230
Total other financing sources (uses)	<u>15,000</u>	<u>46,926</u>	<u>30,337</u>	<u>27,641</u>	<u>44,230</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 21,719</u>	<u>\$ -</u>	<u>\$ 7,511</u>	<u>\$ 29,230</u>
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ 7,511	
Change in net assets				<u>\$ 7,511</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Expenditures by Project
Transit II Capital Project Fund

From Inception and for Year Ended June 30, 2007

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Closed Projects</u>	<u>Current Year</u>	<u>Total</u>
Expenditures by project:					
Transportation					
FTA 90.2313	\$ -	\$ 153,250	\$ 153,250	\$ -	\$ -
FTA 90.2327	-	150,000	150,000	-	-
FTA 90.2357	150,000	23,700	-	126,300	150,000
NCDOT Trolley feasibility study	-	121	121	-	-
Total transportation	<u>150,000</u>	<u>327,071</u>	<u>303,371</u>	<u>126,300</u>	<u>150,000</u>
Total expenditures by project	<u>\$ 150,000</u>	<u>\$ 327,071</u>	<u>\$ 303,371</u>	<u>\$ 126,300</u>	<u>\$ 150,000</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

**Year Ended June 30, 2007
(With Comparative Actual Amounts for Year Ended June 30, 2006)**

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2007 Actual</u>	<u>2006 Actual</u>
Operating revenues				
Charges for services	\$ 2,351,045	\$ 379,157	\$ 2,730,202	\$ 2,531,533
Other revenues from operations	271,688	33,375	305,063	318,403
Total operating revenues	<u>2,622,733</u>	<u>412,532</u>	<u>3,035,265</u>	<u>2,849,936</u>
Operating expenditures				
Personnel	1,108,266	7,253	1,101,013	1,025,634
Maintenance and operations	1,301,800	105,565	1,196,235	914,919
Capital outlay	169,439	24,401	145,038	-
Total operating expenditures	<u>2,579,505</u>	<u>137,219</u>	<u>2,442,286</u>	<u>1,940,553</u>
Operating income (loss)	<u>43,228</u>	<u>549,751</u>	<u>592,979</u>	<u>909,383</u>
Nonoperating revenues				
Interest earned on investments	40,000	116,978	156,978	63,898
Passenger facility charge	-	-	-	94,048
Miscellaneous	84,297	-	84,297	84,297
Federal and State grants	-	114,380	114,380	3,447
Proceeds from sale of assets	-	11,619	11,619	1,011
Total nonoperating revenues	<u>124,297</u>	<u>242,977</u>	<u>367,274</u>	<u>246,701</u>
Nonoperating expenditures				
Interest expense	-	(19,858)	19,858	21,588
Miscellaneous	10,579	10,579	-	-
Public safety reimbursements	301,996	-	301,996	272,424
Total nonoperating expenditures	<u>312,575</u>	<u>(9,279)</u>	<u>321,854</u>	<u>294,012</u>
Revenues over (under) expenditures	<u>(145,050)</u>	<u>783,449</u>	<u>638,399</u>	<u>862,072</u>
Other financing sources (uses)				
Transfers (out)	(129,027)	129,027	-	(14,988)
Debt service - principle payment	-	(29,769)	(29,769)	(28,040)
Appropriated fund balance	274,077	(274,077)	-	-
Total other financing sources (uses)	<u>145,050</u>	<u>(174,819)</u>	<u>(29,769)</u>	<u>(43,028)</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 608,630</u>	<u>\$ 608,630</u>	<u>\$ 819,044</u>
Reconciliation of change in net assets				
Total revenues			\$ 3,402,539	\$ 3,096,637
Total expenditures			2,793,909	2,277,593
Subtotal			<u>608,630</u>	<u>819,044</u>
Depreciation			(1,447,923)	(1,367,865)
Amortization			(22,000)	(22,000)
Change in accrued vacation			(1,416)	(11,818)
Change in inventory			(591)	2,221
Capital outlay			145,038	-
Principal payment			29,769	28,040
Subtotal			<u>(1,297,123)</u>	<u>(1,371,422)</u>
Change in net assets			<u>\$ (688,493)</u>	<u>\$ (552,378)</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

From Inception and for Year Ended June 30, 2007

	Project Authorization	Prior Years	Closed Projects	Current Year	Total
Revenues					
Federal grants	\$ 9,170,209	\$ 5,740,687	\$ -	\$ 3,114,996	\$ 8,855,683
State grants	1,029,067	247,325	-	450,788	698,113
Local income	294,183	-	-	281,782	281,782
Miscellaneous income	328,919	1,042,023	-	-	1,042,023
Investment income	25,000	108,300	-	65,179	173,479
Total revenues	10,847,378	7,138,335	-	3,912,745	11,051,080
Expenditures					
NLVR/terminal rehab	2,502,737	2,422,588	-	-	2,422,588
Masterplan update & land	1,613,242	1,605,423	-	-	1,605,423
Loop Road design	30,000	29,559	-	-	29,559
Local match / future projects	349,000	-	-	-	-
Public seating upgrade	105,000	-	-	-	-
Security screening area	103,000	-	-	-	-
Miscellaneous parking lot improvements	94,100	88,775	-	-	88,775
Obstruction clearing	1,504,396	1,477,695	-	-	1,477,695
Stormwater improvements	361,114	39,433	-	179,226	218,659
AIP-30 loop, building, beacon	3,403,716	807,686	-	2,239,722	3,047,408
Security system installation	43,000	25,801	-	15,000	40,801
Runway Centerline Paint	3,544	3,544	-	-	3,544
Airport Fire Training Facility	1,186,746	38,679	-	1,000,544	1,039,223
14 Unit T-Hanger	588,366	18,058	-	543,665	561,723
Total expenditures	11,887,961	6,557,241	-	3,978,157	10,535,398
Revenues over (under) expenditures	(1,040,583)	581,094	-	(65,412)	515,682
Other financing sources (uses)					
Transfers in	1,040,583	918,900	-	-	918,900
Proceeds from sale	-	3,284	-	-	3,284
Total other financing sources (uses)	1,040,583	922,184	-	-	922,184
Revenues and other financing sources (uses) over (under) expenditures	\$ -	\$ 1,503,278	\$ -	\$ (65,412)	\$ 1,437,866
Reconciliation of modified accrual basis to full accrual basis:					
Excess of revenues over expenditures				\$ (65,412)	
Capital outlay				3,978,157	
Non-capitalizable items				-	
Change in net assets				\$ 3,912,745	

INTERNAL SERVICE FUNDS

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

The following comprise the City's Internal Service Funds:

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

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

**Combining Balance Sheet
Internal Service Funds
June 30, 2007**

	Warranty Fleet Fund	Fleet Maintenance Fund	Insurance Fund	PWC Fleet Maintenance Fund	Total
Assets					
Current assets					
Cash and investments	\$ 618,160	\$ 19,881	\$ 11,331,978	\$ -	\$ 11,970,019
Accounts receivable	5,896	2,080	78,151	476,617	562,744
Interfund receivable	-	-	-	(119,620)	(119,620)
Inventories	-	156,844	-	-	156,844
Prepaid expenses	-	-	248,975	-	248,975
Total current assets	624,056	178,805	11,659,104	356,997	12,818,962
Noncurrent assets					
Capital assets	482,306	-	49,952	1,761,829	2,294,087
Total noncurrent assets	482,306	-	49,952	1,761,829	2,294,087
Total assets	\$ 1,106,362	\$ 178,805	\$ 11,709,056	\$ 2,118,826	\$ 15,113,049
Liabilities and net assets					
Current liabilities					
Accounts payable and accrued expenses	\$ -	\$ 8,737	\$ 2,065,659	\$ 341,575	\$ 2,415,971
Current portion of long term debt	-	-	-	94,428	94,428
Accrued vacation	-	-	15,492	-	15,492
Total current liabilities	-	8,737	2,081,151	436,003	2,525,891
Noncurrent liabilities					
Deferred revenues	-	-	8,896	-	8,896
Long-term debt	-	-	-	5,404	5,404
Total noncurrent liabilities	-	-	8,896	5,404	14,300
Total liabilities	-	8,737	2,090,047	441,407	2,540,191
Net assets					
Invested in capital assets, net of related debt	482,306	-	49,952	1,761,829	2,294,087
Unrestricted	624,056	170,068	9,569,057	(84,410)	10,278,771
Total net assets	1,106,362	170,068	9,619,009	1,677,419	12,572,858
Total liabilities and net assets	\$ 1,106,362	\$ 178,805	\$ 11,709,056	\$ 2,118,826	\$ 15,113,049

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2007
(With Comparative Actual Amounts for Year Ended June 30, 2006)

	Budget	Variance Positive (Negative)	2007 Actual	2006 Actual
Operating revenues				
Interfund charges and employee contributions	\$ 204,466	\$ 97,344	\$ 301,810	\$ 223,635
Total operating revenues	<u>204,466</u>	<u>97,344</u>	<u>301,810</u>	<u>223,635</u>
Operating expenditures				
Maintenance and operations	166,502	17,613	148,889	113,815
Capital outlay	243,025	51,996	191,029	505,463
Total operating expenditures	<u>409,527</u>	<u>69,609</u>	<u>339,918</u>	<u>619,278</u>
Operating income (loss)	<u>(205,061)</u>	<u>166,953</u>	<u>(38,108)</u>	<u>(395,643)</u>
Nonoperating revenues (expenditures)				
Interest earned on investments	10,000	15,308	25,308	9,526
Miscellaneous	(35,032)	35,032	-	-
Proceeds from disposal of capital assets	-	12,843	12,843	6,775
Total nonoperating revenues (expenditures)	<u>(25,032)</u>	<u>63,183</u>	<u>38,151</u>	<u>16,301</u>
Revenues over (under) expenditures	<u>(230,093)</u>	<u>230,136</u>	<u>43</u>	<u>(379,342)</u>
Other financing sources (uses)				
Transfers in	200,000	-	200,000	200,000
Appropriated fund balance	30,093	(30,093)	-	-
Total other financing sources (uses)	<u>230,093</u>	<u>(30,093)</u>	<u>200,000</u>	<u>200,000</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 200,043</u>	<u>\$ 200,043</u>	<u>\$ (179,342)</u>
Reconciliation to change in net assets:				
Total revenues			\$ 539,961	\$ 439,936
Total expenditures			339,918	619,278
Subtotal			<u>200,043</u>	<u>(179,342)</u>
Depreciation			(124,665)	(91,116)
Capital outlay			191,029	505,463
Subtotal			<u>66,364</u>	<u>414,347</u>
Change in net assets			<u>\$ 266,407</u>	<u>\$ 235,005</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2007
(With Comparative Actual Amounts for Year Ended June 30, 2006)

	Budget	Variance Positive (Negative)	2007 Actual	2006 Actual
Operating revenues				
Other revenues from operations	\$ -	\$ 43	\$ 43	\$ -
Total operating revenues	<u>-</u>	<u>43</u>	<u>43</u>	<u>-</u>
Operating expenditures				
Personnel	-	-	-	(6,537)
Total operating expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,537)</u>
Operating income (loss)	<u>-</u>	<u>43</u>	<u>43</u>	<u>6,537</u>
Nonoperating revenues (expenditures)				
Interest earned	-	13,782	13,782	6,581
Proceeds (loss) from disposal of capital assets	-	(106,602)	(106,602)	1,065
Total nonoperating revenue (expenditures)	<u>-</u>	<u>(92,820)</u>	<u>(92,820)</u>	<u>7,646</u>
Revenues over (under) expenditures	<u>-</u>	<u>(92,777)</u>	<u>(92,777)</u>	<u>14,183</u>
Other financing sources (uses)				
Transfers out	(175,000)	(159,482)	(334,482)	-
Appropriated fund balance	175,000	(175,000)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(334,482)</u>	<u>(334,482)</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ (427,259)</u>	<u>\$ (427,259)</u>	<u>\$ 14,183</u>
Reconciliation to change in net assets:				
Total revenues			\$ 13,825	\$ 7,646
Total expenditures			441,084	(6,537)
Subtotal			<u>(427,259)</u>	<u>14,183</u>
Depreciation			-	(3,266)
Subtotal			<u>-</u>	<u>(3,266)</u>
Change in net assets			<u>\$ (427,259)</u>	<u>\$ 10,917</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year Ended June 30, 2007

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

	<u>Budget</u>	<u>Variance Positive (Negative)</u>	<u>2007 Actual</u>	<u>2006 Actual</u>
Operating revenues				
Interfund charges and employee contributions	\$ 15,092,005	\$ (1,249,355)	\$ 13,842,650	\$ 12,727,491
Other revenues from operations	86,967	86,547	173,514	1,333,977
Total operating revenues	<u>15,178,972</u>	<u>(1,162,808)</u>	<u>14,016,164</u>	<u>14,061,468</u>
Operating expenditures				
Personnel	395,610	14,628	380,982	327,095
Maintenance and operations	13,717,886	2,376,142	11,341,744	12,303,849
Capital outlay	31,868	-	31,868	-
Total operating expenditures	<u>14,145,364</u>	<u>2,390,770</u>	<u>11,754,594</u>	<u>12,630,944</u>
Operating income (loss)	<u>1,033,608</u>	<u>1,227,962</u>	<u>2,261,570</u>	<u>1,430,524</u>
Nonoperating revenues (expenditures)				
Interest earned on investments	185,000	326,736	511,736	204,678
Misellaneous	(1,239,261)	1,239,261	-	-
Total nonoperating revenue (expenditures)	<u>(1,054,261)</u>	<u>1,565,997</u>	<u>511,736</u>	<u>204,678</u>
Revenues over (under) expenditures	<u>(20,653)</u>	<u>2,793,959</u>	<u>2,773,306</u>	<u>1,635,202</u>
Other financing sources (uses)				
Appropriated fund balance	20,653	(20,653)	-	-
Total other financing sources (uses)	<u>20,653</u>	<u>(20,653)</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 2,773,306</u>	<u>\$ 2,773,306</u>	<u>\$ 1,635,202</u>
Reconciliation to change in net assets:				
Total revenues			\$ 14,527,900	\$ 14,266,146
Total expenditures			11,754,594	12,630,944
Subtotal			<u>2,773,306</u>	<u>1,635,202</u>
Depreciation			(28,544)	(16,956)
Decrease (increase) in accrued vacation			394	(290)
Capital outlay			31,868	-
Decrease (increase) in insurance liability			1,070,567	433,495
Subtotal			<u>1,074,285</u>	<u>416,249</u>
Change in net assets			<u>\$ 3,847,591</u>	<u>\$ 2,051,451</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

Year ended June 30, 2007

(With Comparative Actual Amounts for the Year Ended June 30, 2006)

	2007			2006
	Budget	Variance Positive (Negative)	Actual	Actual
Revenues				
Operating revenues				
City services	\$ 3,871,460	\$ 2,543	\$ 3,874,003	\$ 3,349,730
PWC services	2,038,480	(105,065)	1,933,415	1,490,401
Other revenue	-	1,055	1,055	978
Total operating revenues	<u>5,909,940</u>	<u>(101,467)</u>	<u>5,808,473</u>	<u>4,841,109</u>
Non-operating revenues				
Gain (loss) on asset disposal	-	1,717	1,717	(8,796)
Total non-operating revenues	<u>-</u>	<u>1,717</u>	<u>1,717</u>	<u>(8,796)</u>
Transfers in				
Transfers from Electric Fund	-	-	-	-
Transfers from Water and Wastewater Fund	-	-	-	-
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>\$ 5,909,940</u>	<u>\$ (99,750)</u>	<u>\$ 5,810,190</u>	<u>\$ 4,832,313</u>
Expenditures				
Operating expenditures				
Fleet Maintenance	\$ 5,406,420	\$ 62,489	\$ 5,468,909	\$ 5,062,838
Total operating expenditures	<u>5,406,420</u>	<u>62,489</u>	<u>5,468,909</u>	<u>5,062,838</u>
Budgetary appropriations				
Capital outlay	116,000	(116,000)	-	-
Appropriated net assets	387,520	(387,520)	-	-
Total budgetary appropriations	<u>503,520</u>	<u>(503,520)</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 5,909,940</u>	<u>\$ (441,031)</u>	<u>\$ 5,468,909</u>	<u>\$ 5,062,838</u>
Reconciliation of changes in net assets				
Total revenues	\$ 5,909,940	\$ (99,750)	\$ 5,810,190	\$ 4,832,313
Total expenditures	5,909,940	(441,031)	5,468,909	5,062,838
Subtotal	<u>\$ -</u>	<u>\$ 341,281</u>	<u>341,281</u>	<u>\$ (230,525)</u>
Reconciling items:				
Depreciation			(220,602)	
Change in net assets			<u>\$ 120,679</u>	

CITY OF FAYETTEVILLE, NORTH CAROLINA

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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.



Comprehensive Annual

Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA

CITY OF FAYETTEVILLE, NORTH CAROLINA

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TRUST FUNDS

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

The following comprise the City's Trust Funds:

- Pension Trust Funds
 - Special Separation Allowance Trust Fund
 - PWC Supplemental Pension Trust Fund
- Private-purpose Trust Funds
 - Police Benefit Trust Fund
 - Firemen's Relief Trust Fund



CITY OF FAYETTEVILLE, NORTH CAROLINA

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City of Fayetteville, North Carolina

**Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2007**

	Special Separation Allowance Pension Trust Fund	PWC Supplemental Pension Trust Fund	Total
Assets			
Cash and investments	\$ 2,115,479	\$ 4,560,792	\$ 6,676,271
Accounts receivable	16,743	-	16,743
Total assets	<u>2,132,222</u>	<u>4,560,792</u>	<u>6,693,014</u>
Liabilities			
Accounts payable	11,667	24,097	35,764
Total liabilities	<u>11,667</u>	<u>24,097</u>	<u>35,764</u>
Net assets			
Pension benefits	2,120,555	4,536,695	6,657,250
Total net assets	<u>\$ 2,120,555</u>	<u>\$ 4,536,695</u>	<u>\$ 6,657,250</u>

City of Fayetteville, North Carolina
Combining Statement of Changes in Fiduciary Net Assets
Private-purpose Trust Funds
Year Ended June 30, 2007

	Police Benefit Trust Fund	Fireman's Benefit Trust Fund	Total
Additions			
Other revenue from operations	\$ -	\$ 33,442	\$ 33,442
Contributions	-	114,455	114,455
Investment earnings	203	69,788	69,991
Total additions	<u>203</u>	<u>217,685</u>	<u>217,888</u>
Deductions			
Benefit payments and premiums	-	185,569	185,569
Total deductions	<u>-</u>	<u>185,569</u>	<u>185,569</u>
Change in net assets	203	32,116	32,319
Total net assets - beginning	<u>3,636</u>	<u>1,300,637</u>	<u>1,304,273</u>
Total net assets - ending	<u>\$ 3,839</u>	<u>\$ 1,332,753</u>	<u>\$ 1,336,592</u>

OTHER SUPPLEMENTAL FINANCIAL DATA

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Current Tax Levy

Year Ended June 30, 2007

	<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	\$ 9,979,651,055	\$ 0.530	\$ 52,892,151	\$ 46,211,069	\$ 6,681,082
Late Listing Penalties:					
General Fund			42,089	42,089	-
Subtotal			<u>52,934,240</u>	<u>46,253,158</u>	<u>6,681,082</u>
Discoveries:					
General Fund	90,762,677	0.530	481,042	465,513	15,529
Late Listing Penalties:					
General Fund			56,667	56,667	-
Subtotal			<u>537,709</u>	<u>522,180</u>	<u>15,529</u>
Releases:					
General Fund	(171,412,598)	0.530	(908,487)	(206,473)	(702,014)
Late Listing Penalties:					
General Fund			(29,280)	(29,280)	-
Subtotal			<u>(937,767)</u>	<u>(235,753)</u>	<u>(702,014)</u>
Adjusted Tax Levy			<u>52,534,182</u>	<u>46,539,585</u>	<u>5,994,597</u>
Uncollected Current Year Taxes at 6/30/2007			<u>(1,569,690)</u>	<u>(465,697)</u>	<u>(1,103,993)</u>
City-wide Current Year's Taxes Collected			<u>\$ 50,964,492</u>	<u>\$ 46,073,888</u>	<u>\$ 4,890,604</u>
City-wide Current Levy Collection Percentage			<u>97.01%</u>	<u>99.00%</u>	<u>81.58%</u>

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Taxes Receivable

June 30, 2007

Fiscal Year Ended	Uncollected Balance June 30, 2006	Additions & Releases	Collections	Uncollected Balance June 30, 2007
2007	\$ -	\$ 52,534,184	\$ 50,964,494	\$ 1,569,690
2006 Annexation	6,400,613	172,211	6,048,817	524,007
2006	1,455,517	(130,981)	955,240	369,296
2005	324,126	(9,854)	78,505	235,767
All Prior	1,568,993	(10,520)	121,993	1,436,480
	<u>9,749,249</u>	<u>\$ 52,555,040</u>	<u>\$ 58,169,049</u>	<u>4,135,240</u>
Less: Allowance for Uncollectible Taxes				
General Fund	(736,695)			(809,178)
	<u>\$ 9,012,554</u>			<u>\$ 3,326,062</u>
General Fund Taxes Receivable				3,717,738
Less: Phase V Annexation				(524,007)
Less: CBTD Taxes Receivable				(1,214)
Less: Vehicle License Fee Receivable				(390,461)
General Fund Ad Valorem Taxes Receivable				<u>\$ 2,802,056</u>
Reconciliations of collections and credit with revenues				
Ad Valorem Taxes per the fund financial statements			\$ 58,574,670	
Less Penalties & Interest			(321,961)	
Less Taxes - CBTD			(83,660)	
			<u>\$ 58,169,049</u>	

STATISTICAL SECTION



Comprehensive Annual Financial Report

CITY OF FAYETTEVILLE
NORTH CAROLINA

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City of Fayetteville, North Carolina
STATISTICAL SECTION
(Unaudited)

This part of the City of Fayetteville's Comprehensive Annual Financial Report presents detailed information as a context for understanding how the information in the financial statements, note disclosures, and required supplementary information depicts the government's overall financial health.

CONTENTS

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance has changed over time.

Revenue Capacity

These schedules contain trend information to help the reader assess the City's most significant local revenue source.

Debt Capacity

These schedules contain trend information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year. The City implemented GASB Statement No. 34 in 2002; schedules presenting government-wide information include information beginning in that year.

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

Schedule 2

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Expenses						
Governmental Activities						
Administration	8,501,997	12,384,837	10,560,827	11,641,665	13,268,565	19,032,872
Public safety	39,896,830	40,577,161	43,682,505	47,285,832	52,752,676	56,609,521
Environmental protection	6,450,217	7,957,261	8,871,462	7,514,862	9,940,477	11,000,841
Transportation	12,091,432	12,123,658	13,846,642	14,018,733	17,115,971	18,702,014
Economic and physical development	7,407,147	5,459,843	4,416,477	5,827,998	5,132,048	1,229,375
Recreation and community facilities	6,371,366	6,525,888	6,134,504	9,305,228	10,501,677	14,020,434
Debt Service:						
Interest and fees	2,999,151	2,783,912	2,542,194	2,541,380	2,786,700	2,621,502
Total governmental activities	83,718,140	87,812,260	90,054,611	98,135,718	111,498,134	123,216,559
Business type activities						
Electric	123,644,452	142,761,403	132,677,111	131,305,788	137,856,324	130,839,305
Water and wastewater	43,949,463	45,973,455	44,147,344	45,275,578	45,859,650	49,623,073
Transit	5,223,850	5,073,264	5,021,030	4,910,142	4,864,135	4,864,526
Airport	3,435,908	3,570,780	3,450,196	3,806,671	3,769,259	4,091,032
Total business-type activities	176,253,673	197,378,902	185,295,681	185,298,119	192,349,368	189,417,936
Total primary government	259,971,813	285,191,162	275,350,292	283,433,837	303,847,502	312,634,495
Program Revenues						
Governmental Activities						
Administration	652,799	670,144	719,892	728,451	702,004	800,275
Charges for services	1,720	5,325	5,215	7,501	5,632	32,298
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-
Public Safety						
Charges for services	1,541,852	1,883,207	2,138,108	2,661,753	4,446,932	3,708,443
Operating grants and contributions	822,450	1,113,043	1,345,821	2,489,423	480,476	673,108
Capital grants and contributions	183,122	133,554	5,750	514,389	367,540	95,867
Environmental Protection						
Charges for services	38,943	52,591	66,150	23,956	80,998	40,785
Operating grants and contributions	61,000	-	-	-	-	2,259,339
Capital grants and contributions	-	-	-	-	-	-
Transportation						
Charges for services	1,206,998	1,146,925	1,454,034	1,466,881	537,081	1,224,243
Operating grants and contributions	4,191,727	3,919,568	3,920,822	4,254,601	3,833,510	5,710,433

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

	Fiscal Year						Schedule 2
	2002	2003	2004	2005	2006	2007	
Capital grants and contributions	-	-	-	-	98,785	13,446	
<i>Economic and physical development</i>							
Charges for services	1,208,072	79,387	1,073,627	715,099	57,172	-	
Operating grants and contributions	2,739,278	3,262,985	1,792,478	2,743,690	1,742,466	1,778,840	
Capital grants and contributions	-	-	1,526,900	2,060,539	2,423,512	1,163,385	
<i>Recreation and community facilities</i>							
Charges for services	376,497	394,012	436,338	756,482	4,151,275	3,751,071	
Operating grants and contributions	70,118	309,789	107,587	3,572,557	60,386	45,213	
Capital grants and contributions	-	-	1,162,746	992,963	2,161,508	2,622,609	
Total governmental activities programs	13,094,576	12,970,530	15,755,468	22,988,285	21,149,277	23,919,355	
Business-type activities:							
<i>Electric</i>							
Charges for services	139,814,919	145,617,727	141,981,920	146,069,329	155,773,020	159,647,302	
Operating grants and contributions	-	-	-	-	-	-	
Capital grants and contributions	1,596,355	3,632,702	116,186	951,384	178,965	977,641	
Water and wastewater							
Charges for services	43,703,832	43,008,035	45,282,126	47,044,634	51,508,272	54,520,183	
Operating grants and contributions	-	-	-	-	-	-	
Capital grants and contributions	7,184,899	8,605,351	8,029,173	13,900,547	14,125,818	16,730,748	
<i>Transit</i>							
Charges for services	1,058,298	1,128,706	842,658	836,084	828,623	801,186	
Operating grants and contributions	1,541,766	1,553,753	1,888,267	1,900,622	2,097,336	1,922,181	
Capital grants and contributions	280,513	234,884	269,732	417,242	63,915	157,361	
<i>Airport</i>							
Charges for services	1,977,915	2,353,279	2,119,754	2,406,129	2,849,936	3,035,265	
Operating grants and contributions	-	118,315	14,799	-	-	114,380	
Capital grants and contributions	2,193,558	1,991,289	2,002,812	2,418,216	1,145,829	3,565,784	
Total business-type activities program	199,352,055	208,244,041	202,547,427	215,944,187	228,571,714	241,472,031	
Total primary government program	212,446,631	221,214,571	218,302,895	238,932,472	249,720,991	265,391,386	
Net (expense)/revenue							
Governmental activities	\$ (70,623,564)	\$ (74,841,730)	\$ (74,299,143)	\$ (75,147,433)	\$ (90,348,857)	\$ (99,297,204)	
Business-type activities	23,098,382	10,865,139	17,251,746	30,646,068	36,222,346	52,054,095	
Total primary government net expense	\$ (47,525,182)	\$ (63,976,591)	\$ (57,047,397)	\$ (44,501,365)	\$ (54,126,511)	\$ (47,243,109)	

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

Schedule 4

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Ad valorem taxes	\$ 26,107,396	\$ 30,758,552	\$ 30,787,063	\$ 32,172,931	\$ 33,134,815	\$ 33,720,313	\$ 38,431,862	\$ 39,622,100	\$ 41,590,985	\$ 58,574,670
Other taxes	21,394,866	21,924,134	25,374,149	27,642,970	24,850,324	27,850,682	32,436,194	34,038,280	35,870,262	43,544,220
Intergovernmental	7,733,615	8,885,553	7,891,425	8,687,256	7,743,589	9,516,675	9,037,443	14,751,881	12,418,414	13,824,511
Other functional	2,570,352	2,752,238	2,870,264	3,256,015	3,124,847	3,494,800	3,925,901	5,003,604	6,015,849	5,475,181
Miscellaneous	1,084,726	1,288,114	1,623,688	1,759,276	2,107,275	2,153,238	2,386,356	3,903,274	5,117,571	4,543,675
Interest earned on investments	2,412,345	2,205,971	2,477,143	3,158,392	1,586,673	1,067,942	422,368	1,558,697	1,892,615	3,695,228
Total revenues	61,303,300	67,814,562	71,023,732	76,676,840	72,587,523	76,803,650	86,640,124	98,877,836	102,905,496	129,657,485
Expenditures										
Administration	5,126,170	7,690,771	8,562,433	9,176,326	8,469,918	8,025,614	10,685,384	11,600,043	13,235,511	18,261,328
Public safety	28,645,082	33,217,258	33,407,412	37,731,170	37,257,328	38,812,855	41,790,686	44,146,545	50,841,673	56,216,348
Environmental protection	6,418,949	5,449,574	6,036,349	6,828,421	5,899,085	7,591,417	8,605,600	6,500,062	8,970,319	10,075,527
Transportation	7,725,972	10,286,792	7,587,826	8,627,395	3,191,279	3,491,898	4,563,545	4,532,369	4,532,369	7,559,579
Economic and physical development	17,341,832	11,080,269	11,401,635	8,777,075	7,373,482	6,481,655	3,957,976	6,792,621	5,676,733	1,079,188
Recreation and community facilities	8,262,064	9,613,029	6,764,087	6,990,847	5,914,160	5,981,710	5,509,353	6,776,625	9,868,885	13,481,672
Capital outlay ¹	-	-	-	-	8,730,230	7,178,066	12,201,995	20,236,090	17,185,840	19,409,969
Debt Service	-	-	-	-	-	-	-	-	-	-
Principal	3,653,713	4,760,663	4,699,331	4,500,741	4,969,074	4,747,232	5,240,181	6,997,440	8,478,146	9,159,387
Interest and fees	2,154,390	2,343,706	3,420,671	3,909,097	2,959,845	2,811,461	2,506,413	2,262,103	2,956,522	2,724,064
Insurance costs	-	-	-	-	-	103,985	58,084	368,693	-	-
Total expenditures	\$ 79,328,172	\$ 84,442,062	\$ 81,899,544	\$ 86,541,002	\$ 84,754,401	\$ 84,925,893	\$ 95,119,217	\$ 112,262,066	\$ 121,745,998	\$ 137,977,272
Excess of revenues over (under) expenditures	(18,024,872)	(16,627,500)	(10,875,812)	(9,864,162)	(12,196,878)	(8,122,243)	(8,479,093)	(13,384,230)	(18,840,502)	(8,319,787)
Other financing sources (uses)										
Refunding Bonds	-	-	-	-	-	9,188,034	3,815,605	21,261,589	-	-
Proceeds from capital leases, bonds and other debt	8,079,135	8,039,016	-	8,016,688	785,283	1,162,548	8,070,428	3,104,407	3,834,415	4,537,000
Transfers in	15,184,788	13,002,452	17,883,042	15,257,175	11,937,087	14,479,685	13,972,839	15,334,209	16,793,410	15,289,819
Transfers out	(7,482,899)	(5,999,976)	(5,900,885)	(6,853,081)	(4,801,624)	(6,907,096)	(5,801,581)	(5,916,009)	(8,391,728)	(8,158,763)
Payment to refund bond escrow agent	-	-	-	-	-	(5,469,212)	(3,788,439)	(6,265,297)	-	-
Premium on bonds	-	-	-	-	-	-	-	431,212	-	-
Total other financing sources (uses)	15,781,024	15,041,492	11,982,157	16,420,782	7,920,756	12,453,969	16,268,852	27,950,111	12,236,097	11,662,056
Net change in fund balances	\$ (2,243,848)	\$ (1,586,008)	\$ 1,106,345	\$ 6,556,620	\$ (4,276,122)	\$ 4,331,726	\$ 7,789,759	\$ 14,565,881	\$ (6,604,405)	\$ 3,342,269
Debt service as a percentage of noncapital expenditures	7.32%	8.41%	9.91%	9.72%	10.43%	9.86%	9.41%	10.46%	10.94%	10.02%

¹ Pre-GASB 34 capital outlay is not reflected.

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

Schedule 5

Fiscal Year	Ad Valorem	Sales Tax	Utility Franchise Tax	Intangible Tax Reimbursement	Homestead Exemption	Tax Reimbursements	Vehicle License Tax	Privilege License	Cablevision and Other Franchise Tax ¹	Vehicle Gross Receipt	Subscribers' Tax	Wireless 911	Total
2007	\$ 58,574,670	\$ 30,488,647	\$ 6,554,283	\$ -	\$ -	\$ -	\$ 623,019	\$ 920,196	\$ 1,243,013	\$ 391,124	\$ 794,933	\$ 289,666	\$ 99,859,551
2006	41,590,985	23,457,449	5,602,548	-	-	-	533,750	815,156	1,918,758	373,114	728,855	221,644	75,242,259
2005	39,622,100	22,543,521	5,245,207	-	-	-	469,488	731,719	1,547,289	344,913	802,557	194,283	71,501,077
2004	38,431,862	20,698,993	5,121,788	-	-	-	444,521	684,806	2,016,045	305,860	882,425	188,745	68,745,045
2003	33,720,313	16,876,147	5,239,363	-	-	-	408,016	691,861	1,249,399	302,685	879,552	176,400	59,543,736
2002	33,134,815	15,273,911	3,033,407	580,752	-	441,392	401,327	691,231	1,103,721	299,598	896,241	146,529	56,002,924
2001	32,172,931	16,160,376	4,771,319	598,325	40,584	691,865	396,590	637,682	1,217,802	269,824	900,193	117,408	57,974,889
2000	30,787,063	15,945,010	3,908,055	589,539	40,584	788,292	386,300	285,843	459,000	-	890,570	155,114	54,235,370
1999	28,899,736	15,145,211	3,035,748	609,950	54,008	795,307	349,289	266,200	804,530	-	863,891	-	50,823,872
1998	26,107,396	13,374,166	2,682,098	615,822	54,008	783,792	335,963	241,384	723,191	-	784,482	-	45,702,302

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

City of Fayetteville, North Carolina
Revenue Base by Customer Class
Charges for Services
Electric Kilowatt Hours Sold
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Total Direct Rate						Usage Rate ^b ea kWh > 500
	Electric						
	Residential	Commercial	Industrial	Lighting	Other	Total	
2007	894,699,452	752,650,321	308,222,997	28,539,204	54,675,687	2,038,787,661	\$ 9.00 \$ 0.0719 \$ 0.0794
2006	911,632,771	755,229,052	356,355,125	27,855,361	53,069,016	2,104,141,325	\$ 9.00 \$ 0.0719 \$ 0.0794
2005	865,456,446	743,676,014	376,769,957	27,107,118	54,415,761	2,067,425,296	\$ 8.00 \$ 0.0710 \$ 0.0670
2004	882,688,409	744,796,652	379,140,092	26,154,369	53,410,167	2,086,189,689	\$ 8.00 \$ 0.0710 \$ 0.0670
2003	884,780,318	738,115,702	390,164,851	25,201,952	59,984,603	2,098,247,426	\$ 8.00 \$ 0.0710 \$ 0.0670
2002	800,907,102	717,171,311	410,832,605	15,061,079	68,714,828	2,012,686,925	\$ 8.00 \$ 0.0710 \$ 0.0670
2001	838,894,493	715,848,858	422,770,504	14,654,000	70,149,589	2,062,317,444	\$ 8.00 \$ 0.0710 \$ 0.0670
2000	815,471,925	709,403,720	419,406,784	14,304,547	69,013,526	2,027,600,502	\$ 8.00 \$ 0.0710 \$ 0.0670
1999	804,752,902	675,203,426	438,124,122	13,791,540	66,329,547	1,998,201,537	\$ 8.00 \$ 0.0710 \$ 0.0670
1998	779,353,947	539,981,817	520,117,104	13,117,071	230,232,359	2,082,802,298	\$ 8.00 \$ 0.0710 \$ 0.0670

Notes:

^a Rate shown is for Residential Service- basic facilities charge. See Schedule 6 for additional customer category rates.

^b Rate shown is for Residential Service-energy charge per kWh. See Schedule 6 for additional customer category rates.

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

Schedule 7

Fiscal Year Ended June 30	Real Property		Public Services Property ¹		Less: Tax Exempt Real Property ²		Total Assessed Value		City General Tax Rate		Estimated Actual Taxable Value		Sales Assessment Ratio ³	
	Property	Property	Property ¹	Property ¹	Real Property ²	Real Property ²	Value	Value	Tax Rate	Tax Rate	Value	Value	Assessment Ratio ³	Assessment Ratio ³
2007	\$ 8,166,720,922	1,634,081,615	\$ 172,573,842	\$ 74,375,245	\$ 9,899,001,134	\$ 11,041,830,601	\$ 0.530	\$ 11,041,830,601	89.65%					
2006	6,275,715,436	1,431,355,898	138,799,665	65,483,117	7,780,387,882	8,414,869,005	0.530	7,780,387,882	92.46%					
2005	6,119,634,059	1,207,511,007	133,171,846	63,057,620	7,397,259,292	7,522,891,581	0.530	7,397,259,292	98.33%					
2004 ⁴	6,022,674,221	1,150,100,683	127,680,027	61,704,378	7,238,750,553	7,238,750,553	0.530	7,238,750,553	100.00%					
2003	5,101,782,633	1,196,714,445	120,570,113	-	6,419,067,191	6,826,616,177	0.530	6,419,067,191	94.03%					
2002	5,043,337,806	1,203,550,936	135,768,309	-	6,382,657,051	6,884,540,018	0.530	6,382,657,051	92.71%					
2001	4,874,168,452	1,146,688,353	134,301,127	-	6,155,157,932	6,423,667,222	0.530	6,155,157,932	95.82%					
2000	4,785,838,121	1,175,928,710	123,944,198	-	6,085,711,029	6,284,943,746	0.510	6,085,711,029	96.83%					
1999	4,589,090,096	1,012,291,548	110,058,489	-	5,711,440,133	5,832,165,969	0.510	5,711,440,133	97.93%					
1998	4,321,506,428	915,032,010	101,138,324	-	5,337,676,762	5,337,676,762	0.495	5,337,676,762	100.00%					

Source: Cumberland County Tax Office

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

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

² Exempt real estate only. Fiscal year 1998 through 2003 real property exemptions are reflected in real property.

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

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

Source: Cumberland County Tax Office

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

Schedule 10

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years		Total Collections to Date	
		Amount	Percentage of Levy	Amount	Percentage of Levy	Amount	Percentage of Levy
2007	\$ 52,534,182	\$ 50,964,492	97.01%	\$ -	-	\$ 50,964,492	97.01%
2006	41,311,088	39,855,571	96.48%	952,451	952,451	40,808,022	98.78%
2005	39,252,202	37,879,950	96.50%	1,026,949	1,026,949	38,906,899	99.12%
2004	38,404,079	36,806,753	95.84%	1,244,339	1,244,339	38,051,092	99.08%
2003	34,059,814	32,457,441	95.30%	547,316	547,316	33,004,757	96.90%
2002	33,878,837	32,405,548	95.65%	1,161,767	1,161,767	33,567,315	99.08%
2001	32,664,323	31,510,275	96.47%	911,431	911,431	32,421,706	99.26%
2000	31,085,792	30,049,940	96.67%	747,764	747,764	30,797,704	99.07%
1999	29,244,301	28,153,785	96.27%	782,134	782,134	28,935,919	98.95%
1998	26,421,499	25,459,299	96.36%	719,296	719,296	26,178,595	99.08%

¹ Schedule reflects the general tax levy only.

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

Source: Cumberland County Tax Office

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

Schedule 11

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	Bonded Debt	Capitalized Leases	Notes Payable	General Obligation Bonds	Revenue Bonds	Notes Payable	Revenue Bonds	Notes Payable			
2007	\$ 38,108,296	\$ 14,990,943	\$ 5,000	\$ 10,626,704	\$ 162,360,000	\$ 64,396,136	\$ 162,360,000	\$ 64,396,136	\$ 290,487,079	N/A	\$ 1,670
2006	52,240,000	14,203,330	65,000	2,705,000	172,565,000	136,357,559	172,565,000	136,357,559	378,135,889	N/A	2,174
2005	57,485,000	13,551,475	125,000	3,640,000	184,320,000	18,303,144	184,320,000	18,303,144	277,424,619	0.012%	2,123
2004	46,470,000	13,341,744	185,000	4,585,000	194,630,000	11,867,713	194,630,000	11,867,713	271,079,457	0.011%	2,072
2003	50,265,000	6,479,845	245,000	15,560,000	178,910,000	6,835,614	178,910,000	6,835,614	258,295,459	0.011%	1,976
2002	49,735,000	6,424,530	305,000	18,335,000	170,915,000	7,215,371	170,915,000	7,215,371	252,929,901	0.010%	2,042
2001	53,145,000	7,059,976	365,000	21,155,000	177,000,000	7,573,603	177,000,000	7,573,603	266,298,579	0.009%	2,143
2000	50,425,000	7,092,993	425,000	24,010,000	181,140,000	4,500,110	181,140,000	4,500,110	267,593,103	0.009%	2,206
1999	53,675,000	8,850,371	485,000	26,890,000	166,325,000	-	166,325,000	-	256,225,371	0.009%	2,009
1998	48,765,000	10,458,447	545,000	29,750,000	169,860,000	-	169,860,000	-	259,378,447	0.008%	2,138

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

¹ See schedule 16 for per capita personal income and population data.

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

Schedule 12

Fiscal Year	General Bonded Debt Outstanding		Total Primary Government	Percentage of Actual Total Assessed Value of Property 1		Per Capita ¹
	General Obligation Bonds	Revenue Bonds		Property 1	Per Capita ¹	
2007	\$ 48,735,000	\$ 162,360,000	\$ 211,095,000	2.13%	\$	1,214
2006	54,945,000	172,565,000	227,510,000	2.92%		1,308
2005	61,125,000	184,320,000	245,445,000	3.32%		1,879
2004	51,055,000	194,630,000	245,685,000	3.39%		1,878
2003	65,825,000	178,910,000	244,735,000	3.81%		1,873
2002	68,070,000	170,915,000	238,985,000	3.74%		1,930
2001	74,300,000	177,000,000	251,300,000	4.08%		2,023
2000	74,435,000	181,140,000	255,575,000	4.20%		2,107
1999	80,565,000	166,325,000	246,890,000	4.32%		1,936
1998	78,515,000	169,860,000	248,375,000	4.65%		2,047

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

¹ See Schedule 7 for property value data.

² Population data can be found in Schedule 16.

City of Fayetteville, North Carolina
Direct and Overlapping Governmental Activities Debt
For the fiscal year ending June 30, 2007
(Unaudited)

Schedule 13

Governmental Unit	Debt Outstanding ¹	Estimated Percentage Applicable	Estimated share of Overlapping Debt
Debt repaid with property taxes:			
Cumberland County	\$ 169,247,904	63.02%	\$ 106,659,347
Subtotal, overlapping debt			106,659,347
City of Fayetteville direct debt			53,104,239
Total direct and overlapping debt			<u>\$ 159,763,586</u>

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

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

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

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

Schedule 16

Year	Population ¹	Personal Income	Per Capita Personal Income ²	School Enrollment ³	Unemployment Rate ⁴	Retail Sales in Billions ⁵	
						City	County
2007	173,898	N/A	N/A	53,912	N/A	\$2,253	\$2,747
2006	173,898	N/A	N/A	53,403	5.5%	2,062 (c)	2,505 (c)
2005	130,646	4,337,928,864 (a)	33,192	53,399	5.4%	2,987	3,684
2004	130,850	3,866,370,816	29,568	53,092	5.3%	2,680	3,352
2003	130,692	3,428,966,658	27,582	52,223	6.3%	2,421	3,018
2002	123,844	3,274,930,885	26,167	51,725	6.8%	2,420 (b)	2,974 (b)
2001	124,247	3,154,449,042	24,721	51,243	6.1%	2,499	3,023
2000	121,306	2,988,902,829	23,903	51,349	4.5%	2,537	3,019
1999	127,558	2,788,184,850	22,682	51,315	3.9%	2,458	2,910
1998	121,338	2,468,520,845	21,995	50,965	4.2%	2,401	2,853

Sources:

- Office of State Budget and Management, Official Municipal Population Estimates for 1998 through 2006. The 2006 population figure was used as an estimate for 2007.
- Bureau of Economic Development, US Department of Commerce. Per capita income for Cumberland County. Data for 2005 and 2006 not available.
- Cumberland County Schools, District Profile.
- Bureau of Labor Statistics, US Department of Labor. Calendar year unemployment statistics for Cumberland County. Data for 2007 not available.
- North Carolina Department of Revenue, Policy Analysis and Statistics Division. State Sales and Use Tax Statistics. (b) Tax reporting changed to add use tax effective December 2001. (c) Tax reporting changed to reflect only taxable sales effective July 2005.

**City of Fayetteville, North Carolina
Principal Employers¹
Current Year and Nine Years Ago
(Unaudited)**

Schedule 17

Employer	2007			1998		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
U.S. Dept. of Defense (Civil Service, Nonappropriated and Contracts)	8,857	1	6.27%	8,790	1	6.95%
Cumberland County Schools	6,700	2	4.74%	5,500	2	4.35%
Cape Fear Valley Health System	5,000	3	3.54%	3,169	3	2.51%
Wal-Mart (Distribution Center and Stores)	3,448	4	2.44%	-	-	-
Cumberland County Government	2,788	5	1.97%	2,350	5	1.86%
Goodyear Tire & Rubber Company	2,650	6	1.87%	3,000	4	2.37%
City of Fayetteville	1,996	7	1.41%	1,229	9	0.97%
State of North Carolina	1,530	8	1.08%	-	-	-
U.S. Postal Service	1,312	9	0.93%	1,360	8	1.08%
Methodist University	1,300	10	0.92%	-	-	-
Fayetteville State University	-	-	-	1,600	6	1.27%
Black & Decker Manufacturing Company	-	-	-	1,400	7	1.11%
Purolator, Inc.	-	-	-	1,225	10	0.97%
Total Employment (Ten Largest Civilian Employers)	35,581		25.17%	29,623		23.44%

Source: 2007 data Cumberland County Business Council and 1998 data Official Statement

CITY OF FAYETTEVILLE, NORTH CAROLINA

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

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





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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fayetteville, North Carolina, (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 07-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

CHERRY, BEKAERT & HOLLAND L.L.P.

Cherry, Bekaert + Holland L.L.P.

Fayetteville, North Carolina
October 29, 2007



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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Corrective Action Plan

Year Ended June 30, 2007

Section II. Financial Statement Findings

Finding: 07-01

Name of Contact Person: Lisa Smith, Chief Financial Officer

Corrective Action: Reviews of cash receipting processes and segregation of duties and internal audits will be conducted in ancillary departments. The internal control systems in ancillary departments will be improved where the benefit of the controls exceed the cost to implement the internal control improvements.

Proposed Date of Completion: Fiscal Year 2007-2008

Section III. Federal Award Findings and Questioned Costs

None reported.

Section IV. State Award Findings and Questioned Costs

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

None reported.

City of Fayetteville, North Carolina
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2007

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
<u>US Department of Housing & Urban Development</u>					
Community Development Block Grant					
Fiscal Year 2004-2005	14.218	B-04-MC-37-0005	\$ 23,286	\$ -	\$ 23,286
Fiscal Year 2005-2006	14.218	B-05-MC-37-0005	1,122,968	-	1,122,968
Fiscal Year 2006-2007	14.218	B-06-MC-37-0005	102,840	-	102,840
Community Development Block Grant	14.218		1,249,094	-	1,249,094
HOME Investment Partnership Program					
Fiscal Year 2003-2004	14.239	M-03-MC-37-0203	10,435	-	10,435
Fiscal Year 2004-2005	14.239	M-04-MC-37-0203	93,875	-	93,875
Fiscal Year 2005-2006	14.239	M-05-MC-37-0203	108,903	-	108,903
Fiscal Year 2006-2007	14.239	M-06-MC-37-0203	102,010	-	102,010
HOME Investment Partnership Program	14.239		315,223	-	315,223
<u>US DEPARTMENT OF JUSTICE</u>					
Local Law Enforcement Block Grants Program					
Local Law Enforcement Block 2004 Total LLEB	16.592	2004-LB-BX-1153	7,116	-	7,116
			7,116	-	7,116
Office of Justice Programs					
Justice Assistance Grant	16.579	2005-DJBX0487	18,148	-	18,148
Justice Assistance Grant	16.579	2006DJBX0352	70,603	-	70,603
			88,751	-	88,751
Bulletproof Vest Partnership	16.607		3,849	-	3,849
FBI Overtime Reimbursements	16.000		13,423	-	13,423
Alcohol, Tobacco, and Firearms Overtime Reimbursements	16.000		17,689	-	17,689
Organized Crime and Drug Enforcement Task Force	16.000		1,570	-	1,570
Federal Forfeiture Fund	16.000		16,697	-	16,697
Operation Cease Fire Grant	16.609	2003-GP-CX-0153	29,609	-	29,609
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
Special Programs for the Aging					
Pass Thru NC Department of Health & Human Services					
Senior Citizens Service Center	93.044	N/A	15,960	-	15,960
<u>US DEPARTMENT OF TRANSPORTATION</u>					
Federal Aviation Administration					
Airport Improvement Program					
Improve Terminal Building Phase III	20.106	FAA-3-37-0021-30	2,127,735	-	2,127,735
Fire Training Facility Upgrade	20.106	FAA-3-37-0021-31	987,261	-	987,261
			3,114,996	-	3,114,996
Passed through NC Dept of Transportation					
Highway Planning and Construction					
Enhancement Agreement - Depot	20.205	E-4118	-	13,433	13,433
Small Community Air Service Development Pilot Program					
Aviation Community Grant - Marketing and Advertising	20.930	TP1000475	-	114,380	114,380
			-	127,813	127,813

City of Fayetteville, North Carolina
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2007

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal (Direct) & Pass-through Expenditures	State Expenditures	Total Expenditures
<u>Federal Transportation Administration</u>					
Preventative Maintenance & American with Disabilities Act	20.507	NC 90.X406	\$ 969,163	\$ -	\$ 969,163
Capital assistance grants:					
Capital	20.507	NC 90.0271	24,880	-	24,880
Capital	20.507	NC 90.0292	2	-	2
Capital	20.507	NC 90.0313	6,977	-	6,977
Capital	20.507	NC 90.0327	109,580	-	109,580
Capital	20.507	NC 90.0357	11,684	-	11,684
Capital	20.507	NC 90.0406	3,988	-	3,988
Planning	20.507	NC 90.2357	101,040	-	101,040
			<u>258,151</u>	<u>-</u>	<u>258,151</u>
<u>US Department of Homeland Security</u>					
Hazmat Equipment Grant	97.067	2006-GE-T6-0010	63,985	-	63,985
			<u>63,985</u>	<u>-</u>	<u>63,985</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY, REGION 4</u>					
Brownfields Pilots Cooperative Agreement Region 4 - Direct Program	66.811	#V984206-97-0	118,003	-	118,003
STATE GRANTS:					
<u>NC DEPARTMENT OF TRANSPORTATION</u>					
Aviation Division					
Rehabilitate Terminal Building, Phase II	N/A	36244.27.3.2	-	4,153	4,153
Construct 14 Unit T-Hanger	N/A	36244.27.6.2	-	271,832	271,832
Stormwater Improvements	N/A	36244.27.5.1	-	161,303	161,303
Security System Install	N/A	36244.27.5.3	-	13,500	13,500
			<u>-</u>	<u>450,788</u>	<u>450,788</u>
Public Transportation Division					
Maintenance Assistance	N/A	9.9051698	-	846,848	846,848
Capital	N/A	362237.2.1	-	251	251
Planning	N/A	36231.3.1.1	-	12,630	12,630
			<u>-</u>	<u>859,729</u>	<u>859,729</u>
Powell Bill	N/A		-	4,951,861	4,951,861
Rail Division					
Amtrak	N/A	03-ST-009	-	26,201	26,201
<u>NC DEPARTMENT OF ENVIRONMENTAL AND NATURAL RESOURCES</u>					
Division of Water Quality					
NC Clean Water Revolving Loan & Grant Program	66.458	E-SRF-T-02-0124	-	586,667	586,667
Clean Water Management Trust Fund					
Glenville Lake Stormwater Management	N/A	2006A-701	-	132,073	132,073
			<u>-</u>	<u>718,740</u>	<u>718,740</u>
Division of Parks and Recreation					
Bonnie Doone Park	N/A	2005-398	-	193,033	193,033
			<u>-</u>	<u>193,033</u>	<u>193,033</u>

City of Fayetteville, North Carolina
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2007

GRANTOR/PASS-THROUGH Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Total Expenditures
<u>NC DEPARTMENT OF CRIME CONTROL & PUBLIC SAFETY</u>					
Hazmat (RRT Grant)	N/A	RRT 3 2005	\$ -	\$ 76,616	\$ 76,616
Pass through from Governor's Crime Commission					
Gangs Across the Carolinas FY06	N/A	026-1-06-005-BH-013	-	23,441	23,441
PSN Anti-Gang: Operation Ceasefire	N/A	026-1-06-001-B1-031	-	30,308	30,308
PSN Media Blitz	N/A	026-1-03-001-AZ-073	-	19,889	19,889
PSN Gun Tracer	N/A	026-1-03-001-AZ-072	-	13,412	13,412
			<u>-</u>	<u>163,666</u>	<u>163,666</u>
<u>NC DEPARTMENT OF JUVENILE JUSTICE AND DELINQUENCY PREVENTION</u>					
Pass through from Cumberland County					
Juvenile Restitution FYE 2007	N/A		-	93,047	93,047
JCPC Gang Violence Prevention	N/A		-	15,177	15,177
			<u>-</u>	<u>108,224</u>	<u>108,224</u>
<u>NC OFFICE OF THE STATE CONTROLLER</u>					
NC Unauthorized Substance Tax	N/A		-	262,765	262,765
<u>NC VETERANS AFFAIRS DIVISION</u>					
NC Veterans Parks Funds	N/A	1301-536980-17717711	-	1,624,964	1,624,964
			<u>-</u>	<u>1,624,964</u>	<u>1,624,964</u>
			<u>\$ 6,283,279</u>	<u>\$ 9,487,784</u>	<u>\$ 15,771,063</u>

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

1. The accompanying schedule of expenditures of Federal and State awards includes the Federal and State grant activity of the City of Fayetteville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statement.
2. The total local match requirements for the Federal and State Transit operating assistance grants was \$1,089,139. The actual local match which the City of Fayetteville expended for the operations of the transit system was \$1,516,704.
3. The total local contributions for the State Powell Bill assistance amounted to \$71,372 (this represents assessments received through 06/30/07).
4. The amount of HOME Investment Partnerships provided to CHDO's is \$99,056 as of June 30, 2007.
5. Powell Bill expenditures as reported above represent eligible expenditures reported to the North Carolina Department of Transportation for the fiscal year ending June 30, 2007. The City is required to report annually to the North Carolina Department of Transportation on the accumulated unexpended Powell Bill funds. Unexpended Powell Bill funds are accounted for and maintained within the general fund. The total unexpended balance on-hand at June 30, 2007 is \$156,401.

PASSENGER FACILITY CHARGE COMPLIANCE SECTION

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



CITY OF FAYETTEVILLE, NORTH CAROLINA

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

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

Compliance

We have audited the compliance of the City of Fayetteville, North Carolina, ("the City") with the compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2007. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its passenger facility charge program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to the passenger facility charge program. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance in accordance with the Guide. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer the passenger facility charge program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of the passenger facility program that is more than inconsequential will not be prevented or detected by the City's internal control.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

CHERRY, BEKAERT & HOLLAND L.L.P.

Cherry, Bekaert + Holland LLP.

Fayetteville, North Carolina
October 29, 2007

CITY OF FAYETTEVILLE, NORTH CAROLINA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

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
- Significant Deficiency(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
- Significant Deficiency(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

See finding 07-01 in the Compliance Section.

Section III. Passenger Facility Charge Findings and Questioned Costs

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA

Corrective Action Plan

Year Ended June 30, 2007

Section II. Financial Statement Findings

See finding 07-01 in the Compliance Section.

Section III. Passenger Facility Charge Findings and Questioned Costs

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

None reported.

CITY OF FAYETTEVILLE, NORTH CAROLINA
Schedule of Expenditures of Passenger Facility Charges
Year Ended June 30, 2007

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

CITY OF FAYETTEVILLE, NORTH CAROLINA
Schedule of Expenditures of Passenger Facility Charges
Year Ended June 30, 2007

Project	Impose Effective Date	Use Effective Date	Cumulative Expenditures Actual	Approved Expenditures for PFC's	Amount of Use Approval	PFC Revenue Used In Prior Years	PFC Revenue Used In Current Year	Total PFC Revenues Used
Renovate Terminal, Phase II	11/01/2000	06/18/2002	2,224,052	2,475,430	252,561	111,203	-	111,203
RSA Construction, Runway 4, Phase II	11/01/2000	06/18/2002	858,872	949,000	44,500	40,000	-	40,000
Renovate Terminal, Phase III	11/01/2000	06/18/2002	2,247,685	2,475,430	116,250	7,731	104,653	112,384
RSA Construction, Runway 22	11/01/2000	06/18/2002	1,855,290	1,263,890	92,765	86,389	-	86,389
NLVR Construction	11/01/2000	06/18/2002	540,322	180,000	27,016	25,395	172	25,567
Jet Bridge Modification Construction	11/01/2000	06/18/2002	-	125,500	6,275	-	-	-
Taxiway K Construction	11/01/2000	06/18/2002	483,002	225,000	24,150	22,500	-	22,500
TOTAL IMPOSE AND USE APPLICATION 1			\$ 21,804,049	\$ 21,114,714	\$ 1,233,106	\$ 952,700	\$ 104,825	\$ 1,057,525
APPLICATION 2 (# 05-03-C-00-FAY)								
Terminal Loop Roadway(Design/Constr.)	10/01/2005	10/01/2005	\$ 560,077	\$ 614,800	\$ 30,740	\$ 27,956	\$ 48	\$ 28,004
Obstruction Removal	10/01/2005	10/01/2005	1,477,695	1,531,500	76,575	73,700	185	73,885
Update Airport Master Plan	10/01/2005	10/01/2005	305,587	295,000	14,750	14,750	-	14,750
Snow Plow(s) Purchase	10/01/2005	10/01/2005	50,972	51,120	2,556	2,549	-	2,549
Handicap Lift Device	10/01/2005	10/01/2005	24,495	1,225	1,225	1,225	-	1,225
Fire Training Facility Evaluation/Study	10/01/2005	10/01/2005	4,995	4,995	4,995	4,995	-	4,995
Stormwater Management Evaluation/Study	10/01/2005	10/01/2005	9,844	10,400	1,040	984	-	984
PFC Application (Original Program)	10/01/2005	10/01/2005	12,787	12,866	12,866	12,787	-	12,787
PFC Application (Program 2)	10/01/2005	10/01/2005	7,789	8,000	8,000	7,789	-	7,789
Terminal Roof Replacement	10/01/2005	10/01/2005	123,770	123,770	61,885	61,885	-	61,885
Runway Crack Repair and Paint	10/01/2005	10/01/2005	56,073	90,540	9,054	5,607	-	5,607
Pavement Condition Index Study	10/01/2005	10/01/2005	96,110	100,000	5,000	4,806	-	4,806
Airport Beacon Replacement	10/01/2005	10/01/2005	173,095	250,000	12,500	1,203	7,452	8,655
Jetbridge Modifications (Gates B-2 and B-4)	10/01/2005	10/01/2005	-	190,000	9,500	-	-	-
Runway 4/22 Rehabilitation - Design	10/01/2005	10/01/2005	-	80,000	80,000	-	-	-
Generator/Vault Upgrade	10/01/2005	10/01/2005	-	570,000	28,500	-	-	-
ARFF Expansion	10/01/2005	10/01/2005	-	620,000	31,000	-	-	-
Runway 4/22 Rehabilitation - Construction	10/01/2005	10/01/2005	-	515,000	25,750	-	-	-
Replacement Jetbridge for B4	10/01/2005	10/01/2005	-	475,000	23,750	-	-	-
Rehabilitate Airfield Lighting	10/01/2005	10/01/2005	-	200,000	10,000	-	-	-
Pavement Rehabilitation (per PCI study)	10/01/2005	10/01/2005	-	750,000	37,500	-	-	-
Pave ARFF & Surveillance Road	10/01/2005	10/01/2005	-	750,000	37,500	-	-	-
Fire Training Facility Upgrade	10/01/2005	10/01/2005	1,039,222	500,000	25,000	-	25,000	25,000
Security Cameras System	10/01/2005	10/01/2005	40,801	20,000	20,000	20,000	-	20,000
Replace ARFF Vehicle	10/01/2005	10/01/2005	-	700,000	35,000	-	-	-
PFC Program Consulting	10/01/2005	10/01/2005	-	10,000	10,000	-	-	-
TOTAL IMPOSE AND USE APPLICATION 2			\$ 3,983,312	\$ 8,474,216	\$ 614,686	\$ 240,235	\$ 32,685	\$ 272,920
Widen Taxiway A	10/01/2005			3,200,000	160,000			
South GA Ramp Overlay/Exp.	10/01/2005			431,000	43,100			
Runway 4/22 Hold Pads	10/01/2005			350,000	17,500			
TOTAL IMPOSE ONLY APPLICATION 2			-	3,981,000	220,600	-	-	-
TOTAL APPLICATION 2			\$ 3,983,312	\$ 12,455,216	\$ 835,286	\$ 240,235	\$ 32,685	\$ 272,920
GRAND TOTAL			\$ 25,787,361	\$ 33,569,930	\$ 2,068,392	\$ 1,192,935	\$ 137,510	\$ 1,330,445

CITY OF FAYETTEVILLE, NORTH CAROLINA

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City of
Fayetteville
North Carolina