

CITY OF SANFORD, NORTH CAROLINA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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City of Sanford

(919) 775-8202

October 27, 2003

Honorable Mayor and City Council
City of Sanford
Sanford, North Carolina

The Comprehensive Annual Financial Report of the City of Sanford, North Carolina, for the year ended June 30, 2003 submitted herewith in compliance with North Carolina General Statutes Section 159-34 which requires an annual independent audit and report on the financial activity of the City. This report is composed of four major sections. The introductory section includes the letter of transmittal. The financial section includes the auditors' opinion, management's discussion and analysis, general purpose financial statements, footnotes, combining and individual fund statements. The statistical section includes various tables reflecting the social and economic information, financial trends and fiscal capacity of the City.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments and Non Profit Organizations* and the State Single Audit Implementation Act. Information related to this single audit, including the schedule of expenditures federal and state awards findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations, are included in the compliance section of this report.

The City is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City and its component unit as measured by the financial activity of its various funds and that all disclosures necessary to enable the reader to gain understanding of the City's financial activity have been included.

In accordance with the criteria in Governmental Accounting Standards Council (GASB) Statement 14, the Sanford ABC Board is considered a component unit of the City. The Board members are appointed by the City Council and the City is financially accountable for the ABC Board even though it is legally separate from the City. The discretely presented component unit is reported in a separate column in the City's financial statements.

Although the Board members of the Sanford Housing Authority are appointed, it is considered to be a related organization, however the City is not financially accountable for the Housing Authority. The Sanford Housing Authority's financial statements are not included within this report.

Profile of the Government

The City of Sanford is the county seat of Lee County and is located in the central piedmont area of North Carolina. The City was incorporated in 1874 and presently has a land area of 24.82 square miles and a population of 23,522. The City is empowered to levy a property tax on both real and personal property located within its boundaries. Lee County is the only overlapping governmental unit which has the authority to levy a tax. The City has the power by statute to extend its corporate limits by annexation which is done periodically when deemed appropriate by the Council.

The City of Sanford is operated under a council-manager form of government which was adopted in 1944. Policy making and legislative authority is vested in a City Council consisting of a mayor and seven aldermen who are elected for four-year terms in odd numbered years. The City Manager is appointed by the Council and is responsible to the Council for the administration of the affairs of the municipality. The City provides a full range of municipal services which include administrative services, police, fire, sanitation, streets, public improvements and planning. The City also operates a water and sewer system which provides water and sewer services to its citizens and people living in the area around the City.

In developing and evaluating the City's accounting system, consideration has been given to the adequacy of the internal accounting functions. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluation occurs within the above framework. In an effort to strengthen internal control, a comprehensive departmental procedures manual was prepared by the finance department and adopted by the City Council. In 1992, the City won the State Treasurer's Governmental Accounting/Financial Management Award for Cities with populations from 7,500 to 25,000 for preparation of this manual. It provides a source of standard procedures for other departments and finance department personnel. The manual includes Council adopted policies on travel and investments and provides sample entries for the proper recording of various transactions. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

Budgeting control is maintained at the department level by employing the encumbrance method of accounting whereby estimated amounts are established for expenditures through the use of a purchase order system. Before the release of purchase orders to vendors, the appropriation account is checked to see if adequate funds are available for the payment of the purchase order, and purchase orders which would result in an over expenditure of the departmental balance are not released until additional appropriations have been made to the department. All encumbrances are finalized at June 30 and lapse together with all unspent appropriations.

Factors Affecting Financial Condition

Cash management - The City uses a central depository system to pool monies from all funds to facilitate disbursements and investments. All depositories are designated by the Council and collateralized according to North Carolina General Statute 159-31. Investments are made in accordance with North Carolina General Statute 159-30 and a Council-adopted investment policy.

Cash temporarily idle during the year was invested in interest bearing demand deposits, certificates of deposit, treasuries and agencies, commercial paper and the North Carolina Capital Management Trust. Total interest amounted to \$252,919 and was the equivalent of 1.2 cents on the City tax rate. When compared to the prior fiscal year, this represents a decrease in investment earnings of \$173,712.

Risk Management - The City has had an awareness of risk management concepts and considerations for a number of years. The infrastructure and facilities have been constructed with a keen regard for safety and limitation of municipal liability. The City's internal systems and procedures have been developed in

accordance with the highest risk management standards and principles. A Risk Management Office was established in fiscal year 94/95. The Risk Management Officer is responsible for the administration of the following programs on a daily basis; Liability Insurance, Health & Safety, and Workers Compensation. Deductibles are routinely analyzed and raised when doing so appears favorable for the City.

The Human Resources Department advises the City in pension administration, management of health insurance, and the development of a compensation and benefits program. The Health and Safety Program utilizes a three component approach to ensure the safety of employees and citizens of the City. The components are a training program, a written policy, and a safety committee system with personnel from all departments.

Prospects for the Future - The local economy in Sanford has been strong during the past year. The City annexed over 37 acres during the fiscal year. Building permits were up \$2,101,000 or 6.9% from the prior year. This increase includes 97,593 square feet of new commercial space for new restaurants, retail establishments and a ten (10) screen movie theatre. Additionally, permits were issued for 100,000 square feet of new manufacturing space. In the coming year the City of Sanford and Lee County will see the construction of a new high school and a major expansion at the community college.

In the fiscal year ended June 30, 2003, the City of Sanford completed improvements to the water treatment plant including rehabilitation of water treatment filter media, sludge removal modifications, and valve replacements. A chloramination system was added to improve the disinfecting process to insure compliance with federal mandates. Further improvements are expected to begin in the next fiscal year. These utility system improvements include a new raw water pump station, construction to remove solids at the water plant, and various improvement and equipment replacements. Finally, street improvements begun in the fiscal year 02/03 will continue into the next year.

Independent Audit

The General Statutes of North Carolina require an annual independent financial audit of all local government units in the state. Dixon Odom, PLLC, a firm of independent certified public accountants, has examined all financial records of the City and their opinion has been included in this report. In addition to meeting the requirements set forth in the state statutes, the audit was designed to meet the requirements of the Federal Single Audit Act of 1984, related OMB Circular A-133, and the State Single Audit Implementation Act. The auditors' report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The auditors' reports related specifically to the single audit are included in the Compliance Section

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sanford, North Carolina, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. The City has received the award every year since 1981.

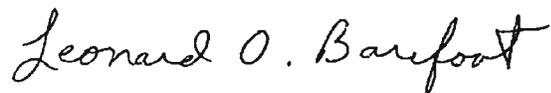
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the Government Finance Officers Association to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the financial services department. We would like to express our appreciation to all members of the department who assisted and contributed to its preparation. Credit must also go to the Mayor and members of the City Council for their interest and support for maintaining the highest standards of professionalism in the management of the City of Sanford's finances.

Respectfully submitted,



Leonard O. Barefoot
City Manager



Melissa C. Cardinali
Financial Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sanford,
North Carolina

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

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.



William Patrick Harte

President

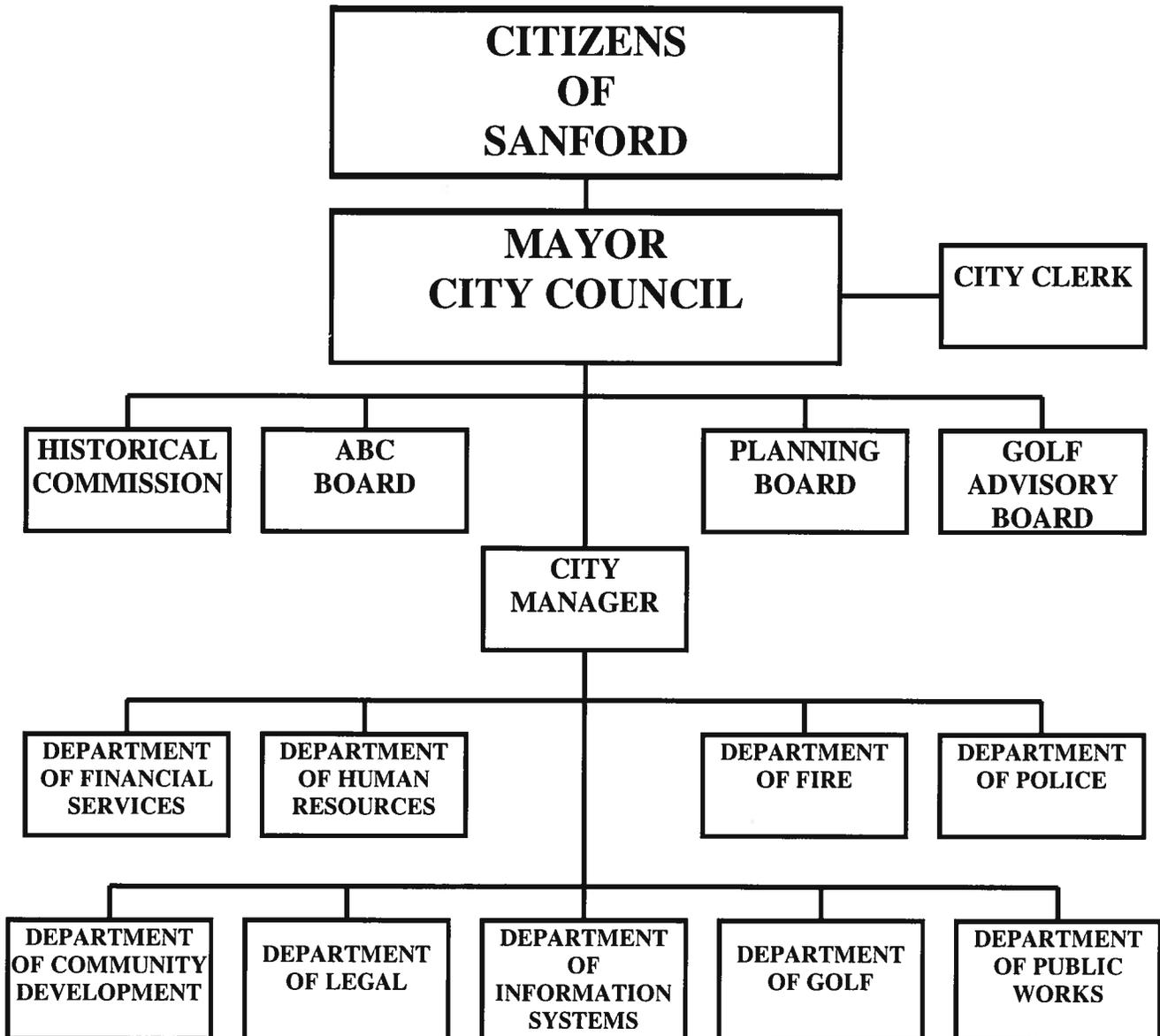
Jeffrey R. Emer

Executive Director

CITY OF SANFORD



ORGANIZATIONAL CHART





GOVERNING BODY

THE HONORABLE WINSTON C. HESTER, MAYOR

MAYOR PRO TEM PHILIP E. DUSENBURY

COUNCIL MEMBERS

WALTER H. MCNEIL, JR.

LINWOOD S. MANN, SR.

JAMES G. WILLIAMS

JO ANN D. KIRKMAN

CLAWSON ELLIS

JOSEPH E. MARTIN

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Sanford
Sanford, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the respective budgetary comparison for the general fund of the City of Sanford, North Carolina, as of and for the year ended June 30, 2003, which collectively comprise the City's basis financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sanford's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Sanford ABC Board were not audited in accordance with Government Auditing Standards. 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 opinion.

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

As described in Note 2 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement Number 34 during the year ended June 30, 2003.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2003 on our consideration of the City of Sanford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the basic financial statements of the City of Sanford, North Carolina, taken as a whole. The combining and individual fund and account group financial statements and supplemental financial data as listed in the table of contents, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information (except those schedules and information presented therein marked unaudited on which we express no opinion) has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dixon Odom PLLC

August 29, 2003

A member of
Moore's Rowland International



An association of independent
accounting firms throughout the world.

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CITY OF SANFORD, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

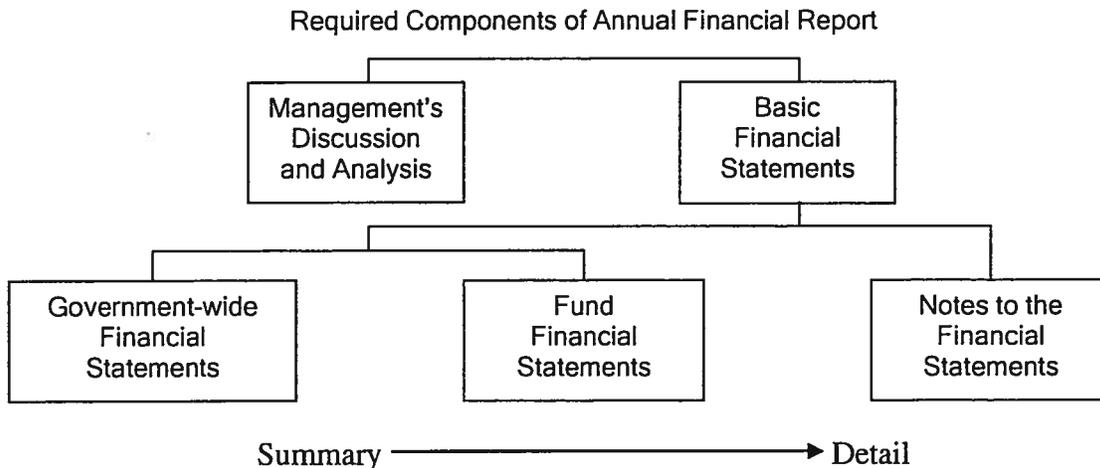
As management of the City of Sanford, we offer readers of the City of Sanford's financial statements this narrative overview and analysis of the financial activities of the City of Sanford for the fiscal year ended June 30, 2003. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Sanford exceeded its liabilities at the close of the fiscal year by \$62,532,991 (net assets).
- The government's total net assets increased by \$3,364,901, primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the City of Sanford's governmental funds reported combined ending fund balances of \$8,705,420 an increase of \$602,436 in comparison with the prior year. Approximately 65.98 percent of this total amount, or \$5,743,531, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$5,098,784, or 29.24 percent of total general fund expenditures for the fiscal year.
- The City of Sanford's total debt decreased by \$1,970,564 (8.32%) during the current fiscal year. The City entered a \$1,000,000 installment purchase agreement for street improvements and retired over \$3,000,000 in debt, resulting in the net decrease.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Sanford's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). 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 of Sanford.



Basic Financial Statements

The first two statements in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the City's financial status.

The next statements are Fund Financial Statements. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary 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 individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, sanitation and general administration. Property 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 water and sewer services offered by the City of Sanford and the municipal golf course. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City because the City exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the City.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sanford, 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 of Sanford can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him

CITY OF SANFORD, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Sanford 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 Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 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 Sanford has one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Sanford uses enterprise funds to account for its water and sewer activity and for its golf course 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.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Sanford's own programs. The accounting used for fiduciary funds is much like that used for proprietary 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 20-45 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 of Sanford's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2003 are the beginning of a new era in financial reporting for the City of Sanford, and many other units of government across the United States. Prior to this year, the City of Sanford maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Sanford. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the

CITY OF SANFORD, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

City of Sanford's financial reports as well as those of many other units of government. While the City of Sanford was required to implement these changes for the fiscal year ended June 30, 2003, other units were required to implement Statement 34 in 2002, and any remaining governments will be implementing in 2004.

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

The City of Sanford's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 10,174,088	\$ 9,397,032	\$ 10,008,092	\$ 12,260,690	\$ 20,182,180	\$ 21,657,722
Capital assets	10,145,890	9,337,480	56,855,003	55,399,481	67,000,893	64,736,961
Total assets	<u>20,319,978</u>	<u>18,734,512</u>	<u>66,863,095</u>	<u>67,660,171</u>	<u>87,183,073</u>	<u>86,394,683</u>
Long-term liabilities outstanding	3,873,610	3,522,785	19,202,602	21,587,182	23,076,212	25,109,967
Other liabilities	837,318	595,348	736,552	1,521,278	1,573,870	2,116,626
Total liabilities	<u>4,710,928</u>	<u>4,118,133</u>	<u>19,939,154</u>	<u>23,108,460</u>	<u>24,650,082</u>	<u>27,226,593</u>
Net assets:						
Invested in capital assets, net of related debt	7,389,070	7,101,394	37,051,638	34,037,755	44,440,708	41,139,149
Restricted	239,704	209,635	639,177	-	878,881	209,635
Unrestricted	7,980,276	7,305,350	9,233,126	10,513,956	17,213,402	17,819,306
Total net assets	<u>\$ 15,609,050</u>	<u>\$ 14,616,379</u>	<u>\$ 46,923,941</u>	<u>\$ 44,551,711</u>	<u>\$ 62,532,991</u>	<u>\$ 59,168,090</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. In the case of the City of Sanford, assets exceeded liabilities by \$62,532,991 as of June 30, 2003. The City's net assets increased by \$3,364,901 for the fiscal year ended June 30, 2003. However, the largest portion (67.29%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Sanford uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Sanford'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. An additional portion of the City of Sanford's net assets (0.39%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$20,218,845 is unrestricted.

CITY OF SANFORD, NORTH CAROLINA

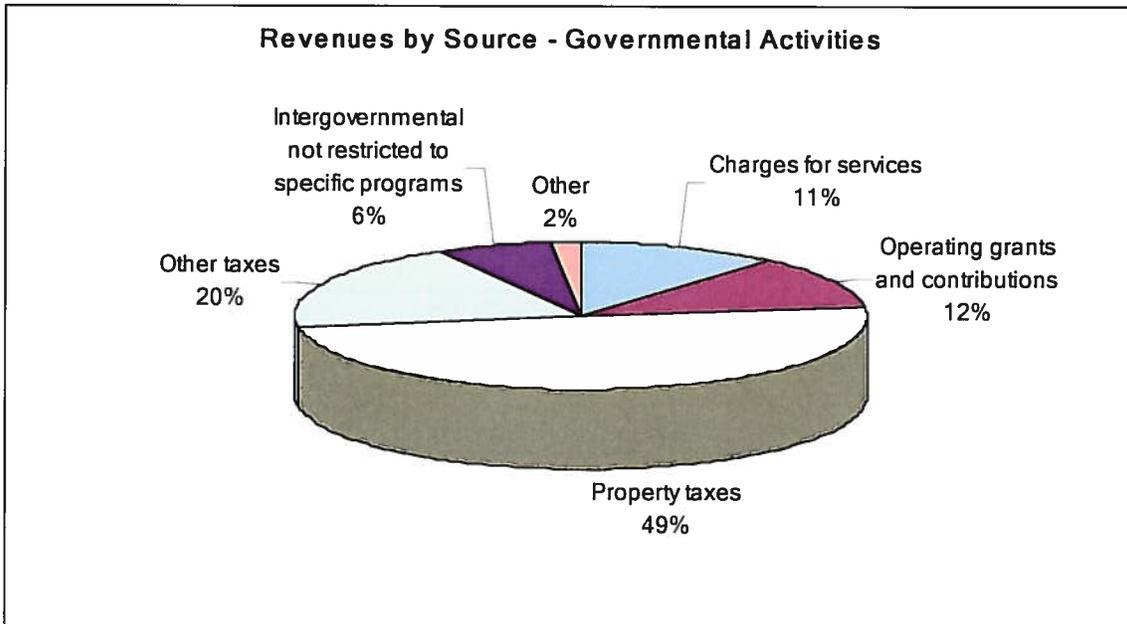
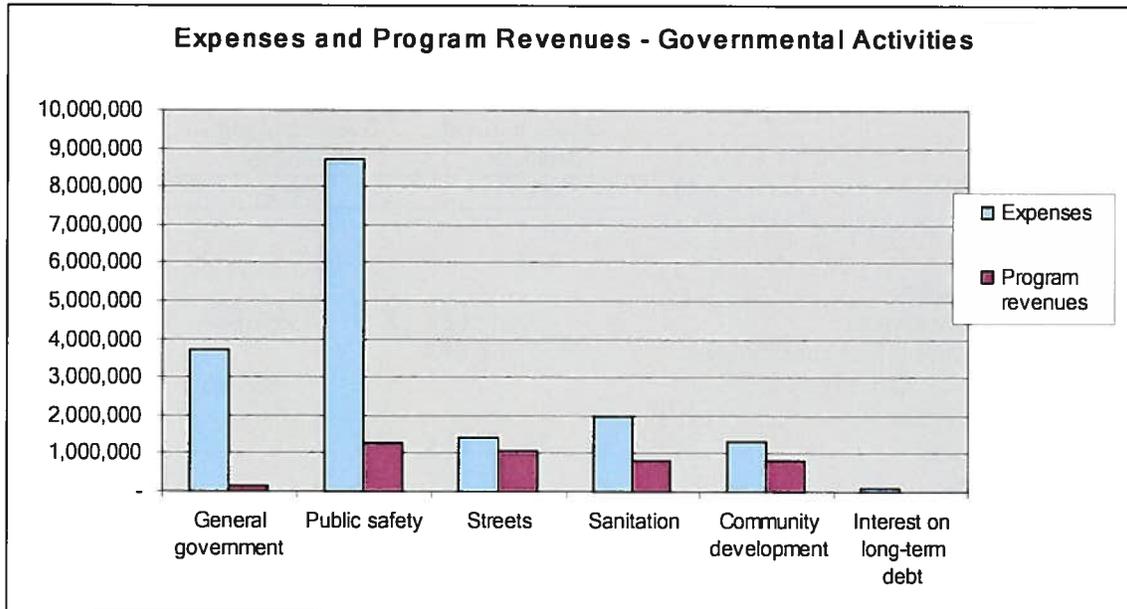
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CITY OF SANFORD CHANGES IN NET ASSETS

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Revenues:			
Program revenues:			
Charges for services	\$ 2,042,867	\$ 11,267,956	\$ 13,310,823
Operating grants and contributions	2,104,623	-	2,104,623
Capital grants and contributions	-	765,845	765,845
General revenues:			
Property taxes	8,903,023	-	8,903,023
Other taxes	3,585,691	-	3,585,691
Intergovernmental not restricted to specific programs	1,110,374	-	1,110,374
Other	266,177	132,554	398,731
Total revenues	<u>18,012,755</u>	<u>12,166,355</u>	<u>30,179,110</u>
Expenses:			
General government	3,735,534	-	3,735,534
Public safety	8,701,819	-	8,701,819
Streets	1,403,196	-	1,403,196
Sanitation	1,983,873	-	1,983,873
Community development	1,347,451	-	1,347,451
Interest on long-term debt	117,180	-	117,180
Utility	-	9,366,099	9,366,099
Golf	-	428,026	428,026
Total expenses	<u>17,289,053</u>	<u>9,794,125</u>	<u>27,083,178</u>
Increase in net assets before transfers	723,702	2,372,230	3,095,932
Transfers	<u>268,969</u>	<u>-</u>	<u>268,969</u>
Increase in net assets	992,671	2,372,230	3,364,901
Net assets, beginning	<u>14,616,379</u>	<u>44,551,711</u>	<u>59,168,090</u>
Net assets, ending	<u>\$ 15,609,050</u>	<u>\$ 46,923,941</u>	<u>\$ 62,532,991</u>

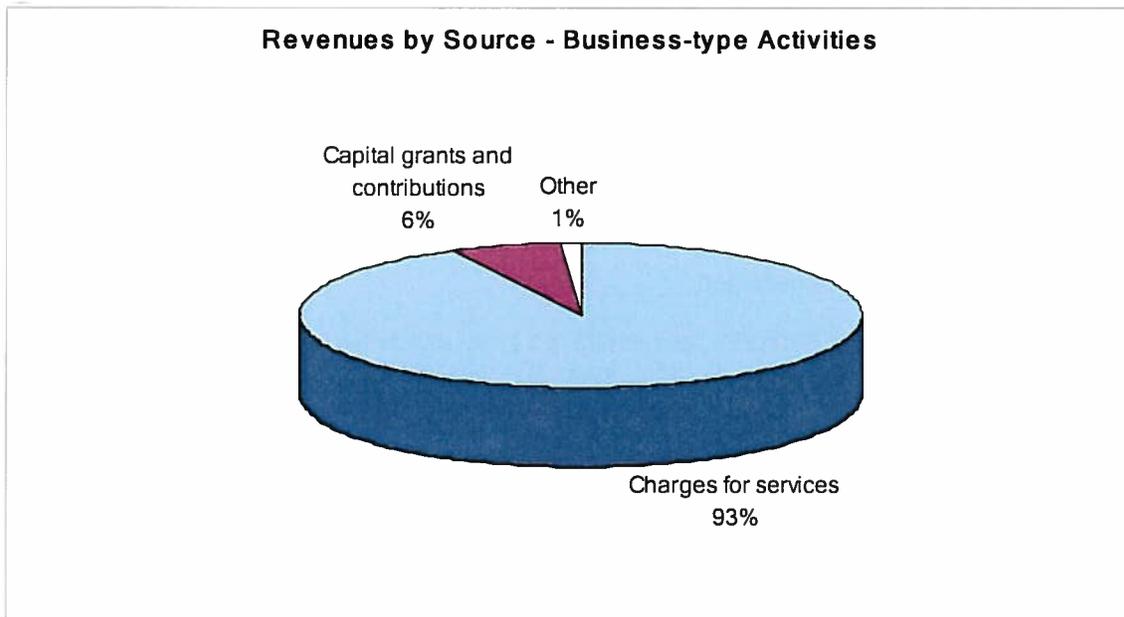
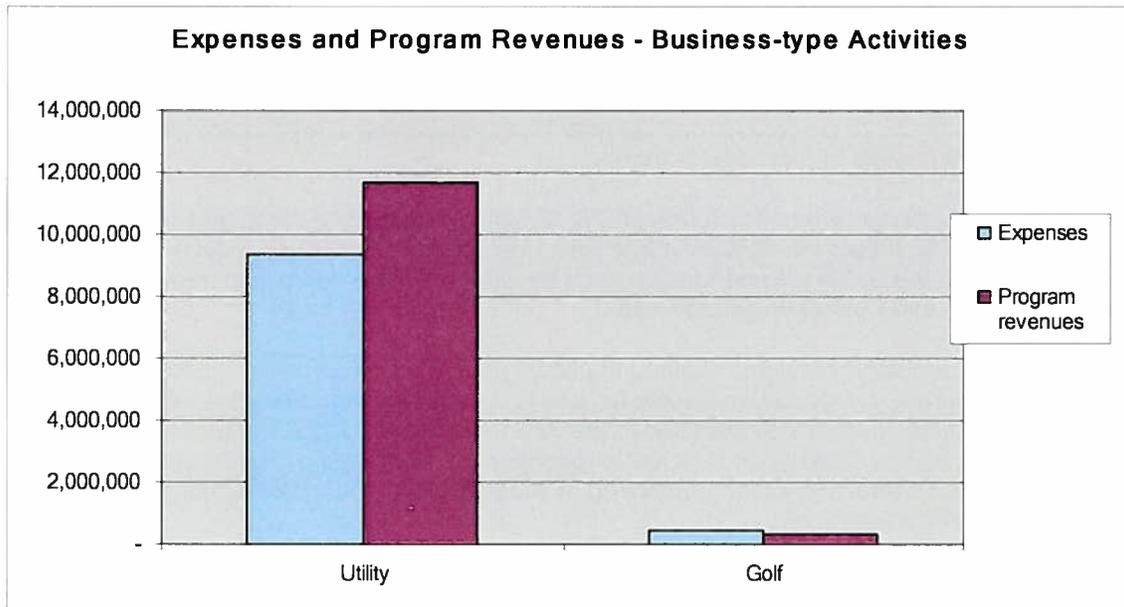
Governmental activities. Governmental activities increased the City's net assets by \$992,671, thereby accounting for 29.50% of the total growth in the net assets of the City of Sanford. Key elements of this increase are as follows:

- Sales tax revenue increased due to an additional one-half cent tax effective January 1, 2003.
- Unrestricted intergovernmental revenues were strong due to a full year's distribution of the utility franchise tax.
- The shop fund was dissolved at July 1 as an internal service fund and the assets were transferred to the general fund.
- Tax revenues remained steady.



Business-type activities: Business-type activities increased the City of Sanford's net assets by \$2,372,230, accounting for 70.50% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Charges for services increased as a result of an across-the-board rate increase.
- After being closed for major renovations, the golf course re-opened for approximately 9 months of the fiscal year.



Financial Analysis of the City's Funds

As noted earlier, the City of Sanford uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Sanford'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 of Sanford's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

CITY OF SANFORD, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The general fund is the chief operating fund of the City of Sanford. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,091,984, while total fund balance reached \$7,805,195. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 29.20 percent of total General Fund expenditures, while total fund balance represents 44.76 percent of that same amount.

At June 30, 2003, the governmental funds of City of Sanford reported a combined fund balance of \$8,705,420, a 7.44 percent increase over last year. Included in this change in fund balance is a slight decrease in the General Fund fund balance coupled with fund balance increases in the Special Revenue and Capital Projects Funds.

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues slightly exceeded budgeted amounts primarily because sales tax revenue was stronger than expected. Expenditures were less than budgeted amounts in all areas, allowing the City to comply with its budgetary requirements.

Proprietary Funds. The City of Sanford's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$11,546,240, and those for the Golf Fund amounted to \$53,152. The total growth in net assets for the Utility Fund was \$2,474,669 with a decrease in Golf Fund net assets of \$102,439. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Sanford's business-type activities.

Capital Asset and Debt Administration

Capital assets. The City of Sanford's investment in capital assets for its governmental and business-type activities as of June 30, 2003, totals \$67,000,893 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, golf facilities, and vehicles.

Major capital asset transactions during the year include the following additions:

- Construction in progress for water and sewer capital assets of \$3,300,142.
- Construction in progress of \$457,388 in governmental-type activities for street improvement projects.
- No major demolitions were recorded this year.

CITY OF SANFORD, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**City of Sanford Capital Assets
(net of depreciation)**

	Governmental		Business-type		Total	
	Activities		Activities		2003	
	2003		2003		2003	
Land	\$	2,634,256	\$	183,239	\$	2,817,495
Buildings		4,075,543		205,961		4,281,504
Plants		-		19,671,535		19,671,535
Tanks and lines		-		30,496,740		30,496,740
Course and improvements		-		205,653		205,653
Equipment		2,978,703		906,396		3,885,099
Construction in progress		457,388		5,185,479		5,642,867
Total	\$	10,145,890	\$	56,855,003	\$	67,000,893

Additional information on the City's capital assets can be found in note 8 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2003, the City of Sanford had total bonded debt outstanding of \$8,938,106. This debt backed by the full faith and credit of the City. The remainder of the City's debt represents notes payable, lease purchase agreements and installment purchase agreements.

**City of Sanford's Outstanding Debt
General Obligation Bonds, Notes, Leases and Installment Purchases**

	Governmental		Business-type		Total	
	Activities		Activities		2003	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ -	\$ -	\$ 8,938,106	\$ 10,126,771	\$ 8,938,106	\$ 10,126,771
Notes payable	-	-	1,927,790	2,100,580	1,927,790	2,100,580
Lease purchase agreements	483,525	719,567	162,760	306,081	646,285	1,025,648
Installment purchase contracts	2,238,554	1,516,519	7,949,962	8,887,554	10,188,516	10,404,073
	\$ 2,722,079	\$ 2,236,086	\$ 18,978,618	\$ 21,420,986	\$ 21,700,697	\$ 23,657,072

The City of Sanford's total debt decreased by \$1,970,564 (8.32%) during the past fiscal year. The government also issued \$1,000,000 in installment purchase financing for street improvements.

The City of Sanford maintained its A1 bond rating from Moody's Investor Service and A1 rating from Standard and Poor's Corporation and 83 from North Carolina Municipal Council. These bond ratings are a clear indication of the sound financial condition of City of Sanford. These favorable ratings are keeping interest costs low on the City's outstanding debt.

North Carolina general statutes limit 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 City of Sanford is \$121,661,384.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

- The City's largest employer expanded its manufacturing facility adding jobs to the local economy.
- Issuance of building permits included two new restaurants, several retail establishments, a ten-screen movie theatre and 348 new units in three apartment complexes.
- The unemployment rate dropped a percentage point from the prior year.

Budget Highlights for the Fiscal Year Ending June 30, 2004

Governmental Activities: Governmental revenues will continue to benefit from the additional one-half cent sales tax implemented in 2003. Property taxes were re-valued in 2003. Based on these new values, the property tax rate will effectively be increased to .56 cents.

The City will use these increases in revenues to finance the existing services provided to its citizens. Expenditures for these services will be maintained at the budgeted level of fiscal year 2002-03.

Business-type Activities: The City will increase utility (water and sewer) rates by 7% to cover increased costs of operations. This increase will also help provide revenue for additional debt service on required capital projects the City must undertake in the next three to four years.

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 Director of Finance, City of Sanford, P.O. Box 3729, Sanford, NC 27331-3729.

CITY OF SANFORD, NORTH CAROLINA

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit ABC Board
ASSETS				
Current assets -				
Cash, cash equivalents and investments	\$ 6,634,992	\$ 8,741,743	\$ 15,376,735	\$ 856,872
Property taxes receivable, net of allowance for uncollectible accounts	527,199	-	527,199	-
Accounts receivable, net of allowance for uncollectible accounts	206,837	1,646,379	1,853,216	353
Due from other governmental agencies	1,928,975	373,292	2,302,267	
Prepaid expenses	-	-	-	23,303
Due from other funds	824,747	(824,747)	-	-
Inventories	51,338	71,425	122,763	223,686
Total current assets	<u>10,174,088</u>	<u>10,008,092</u>	<u>20,182,180</u>	<u>1,104,214</u>
Capital assets - net	<u>10,145,890</u>	<u>56,855,003</u>	<u>67,000,893</u>	<u>937,400</u>
TOTAL ASSETS	<u>20,319,978</u>	<u>66,863,095</u>	<u>87,183,073</u>	<u>2,041,614</u>
LIABILITIES				
Current liabilities -				
Accounts payable	295,521	232,887	528,408	105,348
Deposits	4,757	159,880	164,637	-
Deferred and unearned revenue	144,477	8,091	152,568	-
Accrued liabilities	462,759	335,694	798,453	372,026
Compensated absences	194,463	44,797	239,260	-
Net pension obligation	74,281	-	74,281	-
Total current liabilities	<u>1,176,258</u>	<u>781,349</u>	<u>1,957,607</u>	<u>477,374</u>
Non-current liabilities -				
Long-term debt	2,756,820	18,978,618	21,735,438	-
Compensated absences	777,850	179,187	957,037	8,147
Total non-current liabilities	<u>3,534,670</u>	<u>19,157,805</u>	<u>22,692,475</u>	<u>8,147</u>
TOTAL LIABILITIES	<u>4,710,928</u>	<u>19,939,154</u>	<u>24,650,082</u>	<u>485,521</u>
NET ASSETS				
Investment in capital assets, net	7,389,070	37,051,638	44,440,708	937,400
Restricted for:				
Capital projects	239,704	639,177	878,881	-
Unrestricted	7,980,276	9,233,126	17,213,402	618,693
TOTAL NET ASSETS	<u>\$ 15,609,050</u>	<u>\$ 46,923,941</u>	<u>\$ 62,532,991</u>	<u>\$ 1,556,093</u>

See notes to financial statements

CITY OF SANFORD, NORTH CAROLINA
 STATEMENT OF ACTIVITIES
 JUNE 30, 2003

Functions / Programs Primary government:	Program Revenues			Primary Government		Component Unit ABC Board	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		Business-type Activities
Governmental activities:							
General government	\$ 3,735,534	\$ 168,715	\$ 7,064	\$ -	\$ (3,559,755)	\$ -	\$ (3,559,755)
Public safety	8,701,819	433,517	834,889	-	(7,433,413)	-	(7,433,413)
Streets	1,403,196	334,914	751,708	-	(316,574)	-	(316,574)
Sanitation	1,983,873	805,628	-	-	(1,178,245)	-	(1,178,245)
Community development	1,347,451	300,093	510,962	-	(536,396)	-	(536,396)
Interest on long-term debt	117,180	-	-	-	(117,180)	-	(117,180)
Total governmental activities	17,289,053	2,042,867	2,104,623	-	(13,141,563)	-	(13,141,563)
Business-type activities:							
Utility	9,366,099	10,946,100	-	762,718	-	2,342,719	2,342,719
Golf	428,026	321,856	-	3,127	-	(103,043)	(103,043)
Total business-type activities	9,794,125	11,267,956	-	765,845	-	2,239,676	2,239,676
Total primary government	\$ 27,083,178	\$ 13,310,823	\$ 2,104,623	\$ 765,845	\$ (13,141,563)	\$ 2,239,676	\$ (10,901,887)
Component unit:							
ABC Board	3,181,131	3,168,289	-	-	-	-	(12,842)
Total component unit	\$ 3,181,131	\$ 3,168,289	\$ -	\$ -	\$ -	\$ -	\$ (12,842)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					8,903,023	-	8,903,023
Other taxes					3,585,691	-	3,585,691
Intergovernmental revenues, unrestricted				1,110,374	-	-	1,110,374
Investment earnings, unrestricted				120,365	132,554	-	252,919
Miscellaneous				145,812	-	-	145,812
Transfers				268,969	-	-	268,969
Total general revenues, special items and transfers				14,134,234	132,554	-	14,266,788
Change in net assets				992,671	2,372,230	-	3,364,901
Net assets - beginning				14,616,379	44,551,711	-	59,168,090
Net assets - ending				\$ 15,609,050	\$ 46,923,941	\$ 62,532,991	\$ 1,556,093

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2003

	Major Fund - General	Non-major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Assets -			
Cash, cash equivalents and investments	\$ 6,019,678	\$ 615,314	\$ 6,634,992
Property taxes receivable, net of allowance for uncollectible accounts	515,385	11,814	527,199
Accounts receivable, net of allowance for uncollectible accounts	206,837	-	206,837
Due from other governmental agencies	1,626,380	302,595	1,928,975
Due from other funds	824,747	-	824,747
Inventories	51,338	-	51,338
TOTAL ASSETS	<u>\$ 9,244,365</u>	<u>\$ 929,723</u>	<u>\$ 10,174,088</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities -			
Accounts payable	\$ 277,849	\$ 17,672	\$ 295,521
Deposits	4,757	-	4,757
Accrued liabilities	453,577	-	453,577
Deferred and unearned revenues	702,987	11,826	714,813
Total liabilities	<u>1,439,170</u>	<u>29,498</u>	<u>1,468,668</u>
Fund balance -			
Reserved - restricted by state statute	2,661,873	302,595	2,964,468
- inventories	51,338	-	51,338
Unreserved -			
Designated- subsequent year's budget	747,374	6,800	754,174
Undesignated, General Fund	4,344,610	-	4,344,610
Unreserved, reported in:			
Special Revenue funds	-	100,866	100,866
Capital Projects Fund	-	489,964	489,964
Total fund balances	<u>7,805,195</u>	<u>900,225</u>	<u>8,705,420</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,244,365</u>	<u>\$ 929,723</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,145,890
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	570,336
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,812,596)</u>
Net assets of governmental activities	<u>\$ 15,609,050</u>

CITY OF SANFORD, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Major Fund - General Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES -			
Ad valorem taxes	\$ 8,532,606	\$ 42,494	\$ 8,575,100
Other taxes	3,585,691	-	3,585,691
Penalties and interest	60,790	-	60,790
Licenses and permits	354,198	-	354,198
Intergovernmental revenues	3,046,428	510,962	3,557,390
Investment income	117,889	2,476	120,365
Sales and service	1,020,985	-	1,020,985
Miscellaneous revenues	488,805	51,519	540,324
Total revenues	<u>17,207,392</u>	<u>607,451</u>	<u>17,814,843</u>
EXPENDITURES -			
Current operating			
General government	3,202,601	-	3,202,601
Public safety	8,491,523	-	8,491,523
Streets	1,325,054	-	1,325,054
Sanitation	1,913,821	-	1,913,821
Community development	820,817	503,965	1,324,782
Debt service	680,928	-	680,928
Capital outlay	1,005,056	537,611	1,542,667
Total expenditures	<u>17,439,800</u>	<u>1,041,576</u>	<u>18,481,376</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>(232,408)</u>	<u>(434,125)</u>	<u>(666,533)</u>
OTHER FINANCING SOURCES (USES) -			
Transfers in	283,969	60,000	343,969
Transfers out	(60,000)	(15,000)	(75,000)
Installment purchase	-	1,000,000	1,000,000
Total other financing sources (uses)	<u>223,969</u>	<u>1,045,000</u>	<u>1,268,969</u>
INCREASE (DECREASE) IN FUND BALANCE	(8,439)	610,875	602,436
FUND BALANCE, BEGINNING OF YEAR	<u>7,813,634</u>	<u>289,350</u>	<u>8,102,984</u>
FUND BALANCE, END OF YEAR	<u>\$ 7,805,195</u>	<u>\$ 900,225</u>	<u>\$ 8,705,420</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA

RECONCILIATION of the STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

Amounts reported for governmental activities in the statement of activities (page 20) are different because:

Increase in fund balance - total governmental funds (page 22)	\$ 602,436
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 outlays exceeded depreciation in the current period.	808,410
Revenues in the statement of activities that do not provide current financial resources are not available as revenues in the funds.	24,939
The issuance of long-term debt 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 has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	528,196
Accrued interest expense	(2,982)
Installment purchase proceeds	(1,000,000)
Some expenses reported in the statement of activities do no require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	33,041
Net pension obligation	<u>(1,369)</u>
Change in net assets of governmental activities (page 13)	<u>\$ 992,671</u>

CITY OF SANFORD, NORTH CAROLINA

GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2003

	Budget		Actual	Variance favorable (unfavorable)
	Original	Final		
REVENUES -				
Ad valorem taxes	\$ 8,509,000	\$ 8,509,000	\$ 8,532,606	\$ 23,606
Other taxes	3,179,000	3,379,000	3,585,691	206,691
Penalties and interest	35,000	35,000	60,790	25,790
Licenses and permits	205,700	335,700	354,198	18,498
Intergovernmental revenues	2,588,680	3,122,712	3,046,428	(76,284)
Investment income	155,000	156,500	117,889	(38,611)
Sales and services	791,350	930,850	1,020,985	90,135
Miscellaneous revenues	557,055	562,355	488,805	(73,550)
Total revenues	<u>16,020,785</u>	<u>17,031,117</u>	<u>17,207,392</u>	<u>176,275</u>
EXPENDITURES -				
Current operating -				
General government	3,643,036	3,729,671	3,386,956	342,715
Public safety	9,023,390	9,278,774	8,992,373	286,401
Streets	1,934,578	2,188,323	2,096,229	92,094
Sanitation	1,888,515	2,208,115	2,143,425	64,690
Community development	689,257	896,418	820,817	75,601
Total expenditures	<u>17,178,776</u>	<u>18,301,301</u>	<u>17,439,800</u>	<u>861,501</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>(1,157,991)</u>	<u>(1,270,184)</u>	<u>(232,408)</u>	<u>1,037,776</u>
OTHER FINANCING SOURCES (USES) -				
Transfers from other funds	15,000	410,759	283,969	(126,790)
Transfers to other funds	(60,000)	(60,000)	(60,000)	-
Loans to other funds	(86,775)	(86,775)	-	86,775
Total other financing sources (uses)	<u>(131,775)</u>	<u>263,984</u>	<u>223,969</u>	<u>(40,015)</u>
REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(1,289,766)</u>	<u>(1,006,200)</u>	<u>(8,439)</u>	<u>997,761</u>
APPROPRIATED FUND BALANCE	<u>1,289,766</u>	<u>1,006,200</u>	<u>-</u>	<u>(1,006,200)</u>
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED FUND BALANCE OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>(8,439)</u>	<u>\$ (8,439)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>7,813,634</u>	
FUND BALANCE, END OF YEAR			<u>\$ 7,805,195</u>	

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
 JUNE 30, 2003

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Non-major Fund - Golf	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments	\$ 8,628,142	\$ 113,601	\$ 8,741,743
Accounts receivable, net of allowance for uncollectible accounts	1,645,304	1,075	1,646,379
Due from other governmental agencies	373,292	-	373,292
Inventories	71,425	-	71,425
Total current assets	<u>10,718,163</u>	<u>114,676</u>	<u>10,832,839</u>
Capital assets (net)	<u>55,165,327</u>	<u>1,689,676</u>	<u>56,855,003</u>
Total assets	<u>65,883,490</u>	<u>1,804,352</u>	<u>67,687,842</u>
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	2,366,265	101,332	2,467,597
Accounts payable	223,761	9,126	232,887
Customer deposits	159,880	-	159,880
Deferred revenue	-	8,091	8,091
Accrued expenses	318,986	16,708	335,694
Total current liabilities	<u>3,068,892</u>	<u>135,257</u>	<u>3,204,149</u>
Non-current liabilities:			
Compensated absences	196,385	27,599	223,984
Long-term debt	16,008,798	502,223	16,511,021
Due to other funds	-	824,747	824,747
Total non-current liabilities	<u>16,205,183</u>	<u>1,354,569</u>	<u>17,559,752</u>
Total liabilities	<u>19,274,075</u>	<u>1,489,826</u>	<u>20,763,901</u>
NET ASSETS			
Invested in capital assets, net of related debt	36,790,264	261,374	37,051,638
Unrestricted	9,819,151	53,152	9,872,303
Total net assets of business-type activities	<u>\$ 46,609,415</u>	<u>\$ 314,526</u>	<u>\$ 46,923,941</u>

See notes to financial statements

CITY OF SANFORD, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2003

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Nonmajor Fund - Golf Fund	Total
OPERATING REVENUES			
User charges	\$ 10,119,271	\$ 308,313	\$ 10,427,584
Monitoring fees	99,396	-	99,396
Connection and tap fees	216,394	-	216,394
Special assessments	90,625	-	90,625
Other	420,414	13,543	433,957
Total operating revenues	<u>10,946,100</u>	<u>321,856</u>	<u>11,267,956</u>
OPERATING EXPENSES			
Administration & engineering	1,167,491	-	1,167,491
Water line maintenance	1,672,092	-	1,672,092
Sewer line maintenance	818,640	-	818,640
Water plant operations	1,405,028	-	1,405,028
Sewer plant operations	1,241,521	-	1,241,521
Store expenses	27,567	-	27,567
Golf course operations	-	346,437	346,437
Depreciation	2,090,806	50,517	2,141,323
Uncollectible accounts	71,031	-	71,031
Total operating expenses	<u>8,494,176</u>	<u>396,954</u>	<u>8,891,130</u>
Operating income (loss)	2,451,924	(75,098)	2,376,826
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	131,950	604	132,554
Interest and other charges	(814,376)	(31,072)	(845,448)
Loss on disposal of assets	(57,547)	-	(57,547)
Total nonoperating revenue (expenses)	<u>(739,973)</u>	<u>(30,468)</u>	<u>(770,441)</u>
Income (loss) before capital contributions	1,711,951	(105,566)	1,606,385
Capital contributions	<u>762,718</u>	<u>3,127</u>	<u>765,845</u>
Change in net assets	2,474,669	(102,439)	2,372,230
Total net assets - beginning	<u>44,134,746</u>	<u>416,965</u>	<u>44,551,711</u>
Total net assets - ending	<u>\$ 46,609,415</u>	<u>\$ 314,526</u>	<u>\$ 46,923,941</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2003

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Nonmajor Fund - Golf	Total
CASH FLOWS FROM (TO) OPERATING ACTIVITIES			
Cash received from customers	\$ 10,912,060	\$ 330,242	\$ 11,242,302
Cash paid for goods and services	(4,485,729)	(224,613)	(4,710,342)
Customer deposits received	130,519	-	130,519
Customer deposits returned	(267,019)	-	(267,019)
Cash payments to employees	(2,479,163)	(210,025)	(2,689,188)
Other operating revenues	1,589,621	295	1,589,916
Net cash provided by operating activities	<u>5,400,289</u>	<u>(104,101)</u>	<u>5,296,188</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(2,613,690)	(274,857)	(2,888,547)
Principal paid on bond maturities and installment purchase debt	(2,277,975)	(105,133)	(2,383,108)
Interest paid on bond maturities and installment purchase debt	(814,376)	(31,072)	(845,448)
Transfers available for operating purposes	-	86,775	86,775
Net cash provided (used by capital and related financing activities)	<u>(5,706,041)</u>	<u>(324,287)</u>	<u>(6,030,328)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	<u>131,950</u>	<u>604</u>	<u>132,554</u>
Net change in cash and cash equivalents	<u>(173,802)</u>	<u>(427,784)</u>	<u>(601,586)</u>
Balances - beginning of the year	8,801,944	541,385	9,343,329
Balances - end of the year	<u>\$ 8,628,142</u>	<u>\$ 113,601</u>	<u>\$ 8,741,743</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 2,451,924</u>	<u>\$ (75,098)</u>	<u>\$ 2,376,826</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,090,806	50,517	2,141,323
Write-off of uncollectible accounts	71,031	-	71,031
Changes in asset and liabilities:			
(Increase) decrease in accounts receivable	315,343	295	315,638
(Increase) decrease in due from other governmental agencies	1,169,207	-	1,169,207
(Increase) in inventories	8,361	-	8,361
Increase (decrease) in accounts payable	(372,824)	(93,324)	(466,148)
Increase in compensated absences	196,385	-	196,385
Increase (decrease) in accrued expenses	(393,444)	5,418	(388,026)
Increase in customer deposits	(136,500)	-	(136,500)
Increase in deferred revenues	-	8,091	8,091
Total adjustments	<u>2,948,365</u>	<u>(29,003)</u>	<u>2,919,362</u>
Net cash provided by operating activities	<u>\$ 5,400,289</u>	<u>\$ (104,101)</u>	<u>\$ 5,296,188</u>
Noncash capital activities:			
Contributed capital assets	<u>\$ 762,718</u>	<u>\$ 3,127</u>	<u>\$ 765,845</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA

STATEMENT OF FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2003

	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash, cash equivalents, and investments	\$ 433,806	\$ 346,811
Accounts receivable	-	194,807
Total assets	<u>433,806</u>	<u>541,618</u>
LIABILITIES		
Due to plan participants	-	310,468
Due to Lee County	-	231,150
Total liabilities	<u>-</u>	<u>541,618</u>
NET ASSETS	<u>\$ 433,806</u>	<u>\$ -</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA

STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND
YEAR ENDED JUNE 30, 2003

	<u>2003</u>
ADDITIONS:	
Employer contributions	\$ 86,340
Interest income	<u>6,285</u>
Total additions	<u>92,625</u>
DEDUCTIONS:	
Benefits	40,581
Administrative expense	<u>3,104</u>
Total deductions	<u>43,685</u>
Net increase	48,940
Net assets - reserved for benefits, beginning of year	<u>384,868</u>
Net assets - reserved for benefits, end of year	<u>\$ 433,808</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

ENDED JUNE 30, 2003

1. REPORTING ENTITY

The City, a political subdivision of Lee County, is located in the central portion of the state and has a population of 23,522. The City operates under a council-manager form of government.

The City provides services, which include general government, public safety, streets, sanitation, public improvements, planning, and zoning. The City also operates a water and sewer system, which supplies service to the City and surrounding area on a user charge basis. Additionally, the City of Sanford operates a golf course on a user charge basis. In addition to the taxes levied by the City, the county also levies a tax of \$0.78 per \$100 property valuation with which it finances county-wide services including assistance to the county's public school unit, community college, health and social services.

These financial statements present the City and its component unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

City of Sanford ABC Board

The ABC Board was organized by the state legislature and implemented by voter election. The members of the governing board are appointed by the City, however, the ABC Board selects the management. The ABC Board is required by State Statute to distribute a portion of its surpluses to the General Fund of the City and County. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at 2116 S. Horner Blvd., Sanford, NC 27330.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government and its component unit. 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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

as program revenues, including all taxes, are presented as general revenues. Within the statement of activities, expenses reported for functional activities include allocated indirect expenses.

Fund Financial Statements: The fund financial statements provide information about the City's funds including its fiduciary funds. 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 non-major 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

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

The City reports the following non-major governmental funds:

Community Development Fund. This fund is used to account for the activities of the Community Development Program financed by federal and state grants.

Central Business Tax District Fund. This fund is used to account for a special tax levied on property located in the central business district of the City. The levy is restricted to improvements of the central business district.

Capital Projects Fund. This fund is used to account for the financial resources used in the acquisition or construction of major capital facilities and improvements to the City's infrastructure.

The City reports the following major enterprise fund:

Utility Fund. This fund is used to account for the City's water and sewer operations.

The City reports the following non-major enterprise fund:

Golf Fund. This fund is used to account for the operation of the City's golf course.

The City reports the following fiduciary funds:

Firemen's Supplemental Pension Fund. This fund accounts for funds held to benefit the Firemen's Supplemental Pension Plan.

Lee County Water Fund. This fund is used to account for funds held for the Lee County water system.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus except for the agency fund. The government-wide and proprietary 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. Non-exchange 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.

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 judgements, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City considers all revenues available if they are collected within 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year.

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. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

Budgetary Accounting and Reporting - The following procedures are followed by the City in establishing the annual budgetary data reflected in the financial statements:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to April 30, budget requests are submitted to the budget officer for summary and are then submitted to the City Council prior to June 1.

The budget message is not required to be submitted at a formal meeting; however, it must be filed with the clerk and remain available for inspection until the budget ordinance is adopted. Prior to adoption, a public hearing must be held.

The City Council must adopt a budget not later than July 1.

The City operates under an annual budget ordinance adopted in accordance with the provisions of the Local Government Budget and Fiscal Control Act (North Carolina General Statutes Section 159) which requires:

A balanced budget adopted prior to the beginning of the fiscal year. The budget is considered balanced when estimated net revenues and appropriated fund balance equal appropriations. Appropriated fund balance shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as determined at the close of the fiscal year preceding the budget year.

All monies received and expended must be included in the budget ordinance. The Local Government Budget and Fiscal Control Act prohibits expenditures in excess of appropriations. All appropriations lapse at year-end.

A budget prepared using the modified accrual method of accounting is required for all funds.

The annual budget is adopted on a departmental basis and is amended as changing conditions warrant. Amendments can be made only by the governing board. The budget included in the financial statements is the budget as last amended by the Board. The City adopted a long-term project ordinance budget for its Community Development and Capital Project funds. All other funds adopt annual budgets.

Capital outlay (budgeted within departments) which benefits current and future periods and capitalized lease payments which benefit prior, current and future periods have been reclassified on the combined statements of revenues, expenditures and changes in fund balance to present expenditures by department or function. The amounts presented on the budget comparison statement are classified within the department where budgeted.

Encumbrances - The City is required by state statute to record encumbrances in its budgetary accounting system. Encumbrances include purchase orders, contracts, and other commitments related to unperformed contracts for goods and services and are recorded in the expenditure accounts in order to reserve a portion of the related appropriation. At June 30, when appropriations lapse, encumbrances outstanding, if any, are considered in the subsequent budget when determining fund balance appropriated and charged to appropriations in the ensuing year.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents - The City defines cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The ABC Board considers demand deposits and certificates of deposits with maturities of three months or less to be cash and cash equivalents. Certificates with maturities beyond three months are classified as short-term investments.

Compensated Absences - The vacation policy of the City provides for the accumulation of up to thirty days 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 and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time.

The City's sick leave policy provides for an 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 sick leave has been made.

Uncollectible accounts

Taxes - The City provides an allowance for uncollectible accounts for a portion of its tax levy which it does not expect to collect. The allowance is based on historical collection rates of prior tax levies.

Waste Management Fees - The City provides an allowance for uncollectible accounts for a portion of its waste management fees it does not expect to collect.

Water and Sewer Charges and Assessments - The City provides an allowance for uncollectible accounts for a portion of its water and sewer charges and assessments it does not expect to collect.

Property Taxes - Property is assessed for tax purposes as of January 1 (the lien date). The value at that date determines the basis for the tax levy for the fiscal year beginning July 1. Property taxes are not formally levied until the budget adoption (July 1) and are not due until September 1. Taxes are past due on January 6. By the following June 30, taxes receivable are delinquent and are not considered as a resource to finance current year operations.

Property taxes are recognized as receivables at the levy date, reduced by a provision for uncollectibles. The City records as revenue that portion of the levy collected during the year and as deferred revenue that portion expected to be collected in ensuing years.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lee 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 Sanford. For motor vehicles registered under the staggered system and for vehicles newly registered under the annual 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 Lee County from March 2002 through February 2003 apply to the fiscal year ended June 30, 2003. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the 2003-04 fiscal year and are not shown as receivables at June 30, 2003. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for renewal vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2003 because they are intended to finance the City's operations during the 2004 fiscal year.

Investments - The City's short-term investments are recorded at cost or amortized cost and are reduced for losses in value determined to be other than temporary. Long-term investments are reflected at fair market value in accordance with GASB 31.

Inventories - Inventories for the City consist of material and supply items and are recorded at the lower of average cost or market. The cost of inventory is charged to operations when consumed (consumption method). For the ABC Board, merchandise inventory is valued at the lower of cost, first-in, first-out method, or market.

Capital Assets and Depreciation - Capital assets of the City and the ABC Board which include property, plant, equipment and infrastructure are reported in the government-wide and proprietary fund financial statements. Capital assets of the City generally have an initial cost of more than \$2,500 and an estimated useful life of more than one year. All capital assets of the City and the ABC Board are recorded at cost or estimated historical cost. Donated capital assets are recorded at the fair value on the date of the gift. Cost of repairs and minor renewals are excluded from capital assets. When an asset is disposed of, the related cost is removed from the account.

Depreciation is determined by the straight-line method over the assets' estimated useful lives. Assets of the City and ABC Board are depreciated on a class life basis at the following rates:

<u>City of Sanford</u>		<u>ABC Board</u>	
Utility plant and system lines	40 years	Buildings	33-39 years
Buildings	30 years	Store fixtures	5-10 years
Equipment, fencing, and paving	4-20 years	Warehouse fixtures	5-10 years
Vehicles	3-5 years	Office furniture & fixtures	5-10 years
Golf course and garage improvements	30 years	Warehouse truck	
3 years			

The City believes this accounting method will more properly reflect the accumulation of retained earnings to eventually replace contributed assets. The effect of this method for the current year was to increase retained earnings by \$549,359 in the Enterprise Fund.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Debt - 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 cannot be appropriated or are legally segregated for specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State laws [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget on 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.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2003 - 2004 budget ordinance.

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

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments for the City in the "Total (Memorandum only)" column as of June 30, 2003 include the following:

	<u>Bank balance</u>	<u>Book balance</u>
Cash on hand		\$ 1,325
Deposits:		
Time deposits	\$ 8,709,927	\$ 8,709,927
NOW, SuperNOW and MMDA	<u>4,504,507</u>	<u>2,404,695</u>
	<u>\$ 13,214,434</u>	<u>11,114,622</u>
North Carolina Capital Management Trust		<u>4,540,310</u>
Investments		<u>501,095</u>
Total		<u>\$16,157,352</u>

Total cash and cash equivalents include cash restricted for utility and governmental capital projects of \$639,177 and \$239,704 respectively. The City takes competitive bids for banking services every three years. A contract for banking services was entered into with RBC Centura in March, 2002. The agreement requires fixed monthly fees in lieu of a compensating balance.

All deposits of the City and the ABC Board are made in board-designated official depositories and are collateralized as required by North Carolina General Statute 159-31. The City and the ABC Board may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, they may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

All of the City's and the ABC Board's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits over the federal depository insurance coverage are collateralized with securities held by the City's or ABC Board's agents in these units' names. 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 and the ABC Board, these deposits are considered to be held by the City's and ABC Board's agent 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 amount of collateral pledged for the City and the ABC Board 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.

As of June 30, 2003, \$300,000 of the City's bank balances was insured by federal depository insurance and \$12,914,434 was collateralized with securities held in the State Treasurer's name under the Pooling Method of collateralization. Of the ABC Board's bank balances, \$100,000 was

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

covered by federal depository insurance, and \$760,859 was covered by collateral held by the state treasurer under the Pooling Method.

North Carolina General Statutes [G.S.159-30(c)] also authorize the City and the ABC Board to invest in obligations of the U.S. Treasury; obligations of any agency of the United States, provided the payment of interest and principal of such obligations is fully guaranteed by the United States; certain non guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, an SEC registered money market mutual fund.

As required by Statement 31 of the Government Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued based on a computerized matrix system and/or appraisals by a pricing service. 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 contracts are reported at amortized cost.

The City's investments, when applicable, are categorized to give an indication of the level of custodial risk assumed by the entity at year-end: Column A - investments that are insured or registered or for which the securities are held by the City or its agent in the City's name; Column B - uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the City's name; Column C uninsured and unregistered investments for which the securities are held by the broker or dealer or by the financial institution's trust department or agent but not in the City's name. As of June 30, 2003, the ABC Board held no investments of this nature. The North Carolina Capital Management Trust is exempt from risk categorization because the City does not own any identifiable securities but is a shareholder of a percentage of the fund. The City's investments are categorized as follows:

	<u>Risk Category</u>			<u>Reported value</u>	<u>Fair value</u>
	<u>A</u>	<u>B</u>	<u>C</u>		
<u>Long-term:</u>					
Federal Home Loan Mortgage Corp.	\$ 500,000			\$ 501,095	\$ 501,095
North Carolina Capital Management Trust	-			<u>4,540,310</u>	<u>4,540,310</u>
Total	<u>\$ 500,000</u>			<u>\$ 5,041,405</u>	<u>\$ 5,041,405</u>

The City pools monies from several funds to facilitate disbursement and maximize investment income. Therefore, for the statement of cash flows, all Enterprise Fund cash and investments are essentially demand deposits and are considered cash and cash equivalents.

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

4. PROPERTY TAXES RECEIVABLE

Property taxes receivable as of June 30, 2003 reflect the uncollected portion of property tax levies reduced for a portion not expected to be collected and are summarized as follows:

	General Fund	Special Revenue Fund	Total
Property taxes receivable	\$ 819,855	\$ 13,400	\$ 833,255
Less allowance for uncollectibles	<u>304,470</u>	<u>1,586</u>	<u>306,056</u>
Net property taxes receivable	<u>\$ 515,385</u>	<u>\$ 11,814</u>	<u>\$ 527,199</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2003, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Enterprise Funds	Agency Funds
Accounts receivable			
Special assessments	\$ -	\$ 303,306	\$ -
Waste management fees	54,708	-	-
Privilege licenses	465	-	-
Employee computer purchase	72,117	16,979	-
Other agencies	20,534	-	19,114
Franchise fees	71,049	-	-
Utility user charges	-	1,719,797	175,693
Total receivables	<u>218,873</u>	<u>2,040,082</u>	<u>194,807</u>
Less: allowance for uncollectibles	<u>12,036</u>	<u>393,703</u>	<u>-</u>
Net total receivables	<u>\$ 206,837</u>	<u>\$ 1,646,379</u>	<u>\$ 194,807</u>

6. DUE FROM OTHER GOVERNMENTAL AGENCIES

The amounts due from governmental agencies for the government's individual major funds and non-major funds as of June 30, 2003 consist of amounts due classified as follows:

	General	Special Revenue	Capital Project	Utility	Total
Notes	\$ 294,325	\$ -	\$ -	\$ -	\$ 294,325
Tax refunds	1,173,045	-	-	17,848	1,190,893
Fees for service	78,928	-	-	29,455	108,383
Grants	<u>80,082</u>	<u>248,678</u>	<u>53,917</u>	<u>325,989</u>	<u>708,666</u>
Total	<u>\$ 1,626,380</u>	<u>\$ 248,678</u>	<u>\$ 53,917</u>	<u>\$ 373,292</u>	<u>\$ 2,302,267</u>

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

7. DUE FROM OTHER FUNDS

At June 30, 2003, amounts due to the general fund were as follows:

Enterprise fund - golf \$ 824,747

8. CAPITAL ASSETS

At June 30, 2003, capital asset activity was as follows:

Primary Government

	Beginning Balance	Additions/ Transfers In	Deletions/ Transfers Out	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	1,766,357	937,856	(69,957)	2,634,256
Construction in progress	-	457,388	-	457,388
Total capital assets, not being depreciated	<u>1,766,357</u>	<u>1,395,244</u>	<u>(69,957)</u>	<u>3,091,644</u>
Capital assets, being depreciated:				
Municipal center and other bldgs.	8,409,364	-	(646,056)	7,763,308
Equipment	5,968,360	1,863,404	(307,012)	7,524,752
Total capital assets being depreciated	<u>14,377,724</u>	<u>1,863,404</u>	<u>(953,068)</u>	<u>15,288,060</u>
Less accumulated depreciation for:				
Municipal center and other bldgs.	(3,289,835)	(397,930)	-	(3,687,765)
Equipment	(3,516,766)	(1,318,193)	288,910	(4,546,049)
Total accumulated depreciation	<u>(6,806,601)</u>	<u>(1,716,123)</u>	<u>288,910</u>	<u>(8,233,814)</u>
Total capital assets, being depreciated, net	<u>7,571,123</u>	<u>147,281</u>	<u>(664,158)</u>	<u>7,054,246</u>
Governmental activities capital assets, net	<u>\$9,337,480</u>	<u>\$1,542,525</u>	<u>\$ (734,115)</u>	<u>\$10,145,890</u>

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

8. CAPITAL ASSETS (Continued)

	Beginning Balance	Additions/ Transfers In	Deletions/ Transfers Out	Ending Balance
Business-type activities:				
Utility Fund -				
Capital assets, not being depreciated:				
Land	\$ 178,739	\$ 2,000	\$ -	\$ 180,739
Construction in progress	<u>1,831,705</u>	<u>3,300,142</u>	<u>(1,163,183)</u>	<u>3,968,664</u>
Total capital assets, not being depreciated	<u>2,010,444</u>	<u>3,302,142</u>	<u>(1,163,183)</u>	<u>4,149,403</u>
Capital assets, being depreciated:				
Treatment plants	30,657,239	5,553,786	(5,711,853)	30,499,172
Water tanks and lines	24,749,975	510,893	(154,959)	25,105,909
Sewer lines	17,341,707	946,795	-	18,288,502
Equipment	2,169,206	92,787	(219,765)	2,042,228
Buildings	<u>289,368</u>	<u>-</u>	<u>-</u>	<u>289,368</u>
Total capital assets, being depreciated	<u>75,207,495</u>	<u>7,104,261</u>	<u>(6,086,577)</u>	<u>76,225,179</u>
Less accumulated depreciation for:				
Treatment plants	(10,205,958)	(621,679)	-	(10,827,637)
Water tanks and lines	(6,340,960)	(783,136)	-	(7,124,096)
Sewer lines	(5,294,159)	(479,416)	-	(5,773,575)
Equipment	(1,212,519)	(200,085)	162,217	(1,250,387)
Buildings	<u>(227,071)</u>	<u>(6,489)</u>	<u>-</u>	<u>(233,560)</u>
Total accumulated depreciation	<u>(23,280,667)</u>	<u>(2,090,805)</u>	<u>162,217</u>	<u>(25,209,255)</u>
Total utility capital assets, being depreciated, net	<u>51,926,828</u>	<u>5,013,456</u>	<u>(5,924,360)</u>	<u>51,015,924</u>
Golf Fund-				
Capital assets, not being depreciated:				
Land	-	2,500	-	2,500
Construction in progress	<u>934,082</u>	<u>299,487</u>	<u>(16,754)</u>	<u>1,216,815</u>
Total capital assets, not being depreciated	<u>934,082</u>	<u>301,987</u>	<u>(16,754)</u>	<u>1,219,315</u>
Capital assets, being depreciated:				
Course and improvements	279,976	-	-	279,976
Buildings	201,478	-	-	201,478
Equipment	<u>366,176</u>	<u>22,153</u>	<u>(51,488)</u>	<u>336,841</u>
Total capital assets, being depreciated	<u>847,630</u>	<u>22,153</u>	<u>(51,488)</u>	<u>818,295</u>

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

8. CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance</u>
Less accumulated depreciation for:				
Course and improvements	(97,676)	(8,113)	31,466	(74,323)
Buildings	(42,262)	(9,063)	-	(51,325)
Equipment	<u>(179,565)</u>	<u>(42,721)</u>	<u>-</u>	<u>(222,286)</u>
Total accumulated depreciation	<u>(319,503)</u>	<u>(59,897)</u>	<u>31,466</u>	<u>(347,934)</u>
 Total golf capital assets, being depreciated, net	 <u>528,127</u>	 <u>(37,744)</u>	 <u>(20,022)</u>	 <u>470,361</u>
 Business type activities, capital assets, net	 <u>\$55,399,481</u>	 <u>\$ 8,579,841</u>	 <u>\$(7,124,319)</u>	 <u>\$56,855,003</u>

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

Government activities:	
General government	\$ 452,115
Public safety	276,998
Streets	73,709
Sanitation	76,595
Community development	<u>12,110</u>
 Total depreciation expense - governmental activities	 <u>\$ 891,527</u>
 Business-type activities:	
Water and sewer	2,090,805
Golf	<u>50,517</u>
 Total depreciation expense - business-type activities	 <u>\$ 2,141,323</u>

The following is a summary of capital assets for the ABC Board at June 30, 2003:

Land	\$ 222,249
Buildings	834,794
Store fixtures	111,133
Office furniture and fixtures	27,554
Vehicles	<u>8,500</u>
 Total	 <u>\$ 1,204,230</u>

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM DEBT

At June 30, 2003, long-term debt consists of the following -

Governmental Activities

All governmental activity long-term debt is being repaid through general fund revenue sources.

Lease purchase agreements:

Lease purchase; 4.74% interest; dated March 8, 2001; due quarterly in installments of \$5,989; secured by equipment	\$ 40,006
Lease purchase; 4.21% interest; dated May 29, 2002; due quarterly in installments of \$6,671 secured by equipment	74,833
Lease purchase; 4.71% interest; dated February 22, 2001; due quarterly in installments of \$4,891; secured by equipment	14,333
Lease purchase; 4.79% interest; dated November 15, 1999; due quarterly in installments of \$6,625; secured by equipment	38,135
Lease purchase; 5.23% interest; dated February 28, 2000; due quarterly in installments of \$26,226; secured by equipment	274,008
Lease purchase; 5.89% interest; dated September 21, 2000; due quarterly in installments of \$5,042; secured by equipment	<u>42,210</u>
Total lease purchase agreements	<u>483,525</u>

Installment purchase contracts:

Installment purchase contract; dated November 20, 1992; monthly installments of \$130,222; interest at 4.59%; secured by a deed of trust on a compost facility	203,554
Installment purchase contract; dated April 3, 2003; annual installments of \$130,222; interest of 3.14%; secured by a deed of trust on streets	1,000,000
Installment purchase contract; dated December 7, 1999; quarterly installments of \$39,661; interest of 5.26%; secured by a deed of trust on service center	<u>1,035,000</u>
Total installment purchase contracts	<u>2,238,554</u>

Annexation liability for fire protection 34,741

Total governmental activities long-term debt \$ 2,756,820

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM DEBT (Continued)

Enterprise Funds

General obligation bonds:

Water and sewer improvement refunding bonds; 4.4% to 4.9% interest issued March 1, 1996; due serially to 2011; net of \$689,563 unamortized difference \$ 8,938,106

Total general obligation bonds 8,938,106

Notes payable:

State of North Carolina; 3.035% interest; issued September 28, 1996; due with level principal payments of \$75,290 to 2003 75,290

State of North Carolina; 2.6% interest; issued April 12, 1999; due in annual principal installments of \$97,500 with semi-annual interest installments beginning 11/1/01. Drawdowns as of June 30, 2001 total \$1,949,999 with full approved loan amount \$1,950,000. 1,852,500

Total notes payable 1,927,790

Lease purchase agreements:

Lease purchase; 5.24% interest; dated April 28, 2000; due in quarterly principal and interest installments of \$11,156; secured by equipment 84,205

Lease purchase; 4.47% interest; dated February 22, 2001; due in monthly principal and interest installments of \$3,200; secured by equipment 61,558

Lease purchase; 4.87% interest; dated August 9, 2001; due in quarterly principal and interest installments of \$1,422; secured by equipment 16,997

Total lease purchases agreements 162,760

Installment purchase contracts:

Installment purchase contract; agreement dated February 13, 2002; quarterly installments of \$21,694; interest at 4.76% for ten years, secured by golf course 525,000

Installment purchase contract; agreement dated June 28, 1994; semi-annual installments of \$112,209; interest at 4.05% for ten years, then 70% of prime for five years; secured by water lines 1,182,715

Installment purchase contract; agreement dated August 30, 2001; quarterly installments of \$24,106; interest at 4.56% for seven years; secured by water lines 447,937

Installment purchase contract; agreement dated March 31, 1997; quarterly installments of \$93,883; interest at 4.79% for ten years, secured by sludge handling facility and water improvements 1,282,011

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM DEBT (Continued)

Enterprise Funds (Continued)

Installment purchase contract; agreement dated February 13, 2002; quarterly installments of \$100,484; interest at 4.71% for fifteen years, secured by water plant improvements	\$ 3,295,417
Installment purchase contract; agreement dated October 13, 1998; quarterly installments of \$36,713; interest at 4.61% for fifteen years, secured by water and sewer lines	<u>1,216,882</u>
Total installment purchase contracts	<u>7,949,962</u>
Total Proprietary Funds debt	18,978,618
Less current portion	<u>(2,467,597)</u>
Total long-term debt	<u>\$16,511,021</u>

A summary of changes in long-term debt follows :

	<u>Beginning of year</u>	<u>Additions and reclassifications</u>	<u>Retirements</u>	<u>End of Year</u>
<u>Governmental Activity Long-Term Debt</u>				
Lease purchase agreements	\$ 719,567	\$ 59,260	\$ 295,302	\$ 483,525
Installment purchase contracts	1,516,519	1,000,000	277,965	2,238,554
Annexation liability for fire protection	48,930	-	14,189	34,741
Total	<u>\$ 2,285,016</u>	<u>\$ 1,059,260</u>	<u>\$ 587,456</u>	<u>\$ 2,756,820</u>
<u>Proprietary Funds</u>				
Water and sewer improvements	\$10,126,771	\$ -	\$ 1,188,665	\$ 8,938,106
Water improvements	2,100,580	-	172,790	1,927,790
Lease purchase agreements	306,081	-	143,321	162,760
Installment purchase contracts	8,887,554	-	937,592	7,949,962
Total	<u>\$21,420,986</u>	<u>\$ -</u>	<u>\$ 2,442,368</u>	<u>\$18,978,618</u>

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM DEBT (Continued)

The annual requirements to retire all long-term debt (except lease purchases) outstanding as of June 30, 2003 including interest payments are as follows:

Year ended June 30,	Annexation liability for fire protection	Proprietary fund bonds and notes	Interest Payments	Total
2004	\$ 6,110	\$ 1,417,790	\$ 498,850	\$ 1,922,750
2005	5,777	1,322,500	436,760	1,765,037
2006	2,899	1,307,500	377,875	1,688,274
2007	2,899	1,287,500	319,680	1,610,079
2008	2,899	1,267,500	262,405	1,532,804
Thereafter	<u>14,157</u>	<u>4,810,000</u>	<u>784,310</u>	<u>5,608,467</u>
Total	<u>\$ 34,741</u>	<u>\$ 11,412,790</u>	<u>\$ 2,679,880</u>	<u>\$ 14,127,411</u>

At June 30, 2003 the legal debt margin for the City was \$108,864,052.

Leases, Installment Purchase Agreements and Loan from General Fund

At June 30, 2003 minimum future lease payments in total and for each of the next five years (including installment purchase contracts) are as follows:

Year ended June 30,	General Long-Term Debt	Proprietary Funds	Interest payments	Total
2004	\$ 414,730	\$ 1,049,357	\$ 356,767	\$ 1,820,854
2005	387,492	1,071,375	307,777	1,766,644
2006	345,885	1,035,479	259,308	1,640,672
2007	277,962	971,262	211,233	1,460,457
2008	211,011	712,110	173,173	1,096,294
Thereafter	<u>1,084,999</u>	<u>3,273,139</u>	<u>570,612</u>	<u>4,928,750</u>
Total	<u>\$ 2,722,079</u>	<u>\$ 8,112,722</u>	<u>\$ 1,878,870</u>	<u>\$ 12,713,671</u>

On February 20, 1996, the City issued \$14,310,000 in general obligation water and sewer bonds with interest rates of 4.4% to 4.9% to advance refund \$13,185,000 of outstanding 1989 and 1991 water and sewer bonds with interest rates from 6.2% to 6.7%. The net proceeds of \$14,310,000 were used to purchase U.S. Treasury notes. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1989 and 1991 water and sewer bonds. As a result, the 1989 and 1991 water and sewer bonds are considered to be defeased and the liability for them has been removed from the Utility Fund. The amount of this debt outstanding at June 30, 2003 was \$9,485,000.

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM DEBT (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. This unamortized difference of \$546,894 is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to operations through the year 2011, the life of the new debt which is shorter than the life of the refunded debt, using the effective-interest method.

10. OPERATING LEASES

During the year ended June 30, 2003, the City leased office space under short term cancellable leases. Rental income for such leases was \$10,896.

11. DEFERRED REVENUES

As discussed in Note 2 (Significant Accounting Policies), property taxes receivable are not recognized as current revenues because they are not considered to be both measurable and available. The Governmental Accounting Standards Board publications state that property taxes that are measurable but not available should be initially recorded as deferred revenues. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenues. Other prepaid revenues and unspent grant proceeds are recorded as deferred revenues as well. Outstanding privilege licenses and waste management fees are also recorded as deferred revenues. Drug forfeiture revenues are not considered available until allowable expenditures for the funds are incurred.

	Deferred Revenue	Unearned Revenue
Net property taxes receivable (General Fund)	\$ 515,385	\$ -
Net property taxes receivable (Special Revenue Funds)	11,814	-
Prepaid taxes (General Fund)	-	28,456
Prepaid taxes (Special Revenue Funds)	-	12
Drug forfeiture revenues (General Fund)	-	116,009
Privilege license receivable (General Fund)	465	-
Net waste management fees receivable (General Fund)	42,672	-
Total	<u>\$ 570,336</u>	<u>\$ 144,477</u>

12. CONTINGENT LIABILITIES AND COMMITMENTS

Employment Security Benefits - The City and the ABC Board have elected to pay the direct cost of employment security benefits in lieu of unemployment payroll taxes. A liability for such payments could accrue in the period following the discharge of an employee.

Commitments - The City has a five year contract expiring June 30, 2008 with an annual fee of \$1,054,455 for the collection and disposal of garbage.

The City has entered into contracts relating to the construction of various water and sewer projects totaling approximately \$4,700,000. As of June 30, 2003, approximately \$2,700,000 of construction expenditures had been incurred and, accordingly, are reported in the operations of the Utility Capital Projects Fund.

12. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Claims and Judgements - At June 30, 2003 the City was a defendant to various lawsuits. In the opinion of the City's management and the City's attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

13. PENSION COST

Local Governmental Employees' Retirement System

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

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The City of Sanford and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate of employees not engaged in law enforcement and for law enforcement officers is 4.80 % and 4.78 %, respectively, of annual covered payroll. For the ABC Board, the current rate for employees is 6 % of annual covered payroll. The contribution requirements of members and of the City of Sanford and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2003, 2002 and 2001 were \$538,462, \$520,361 and \$487,368 respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2003, 2002 and 2001, were \$10,718, \$9,642, and \$9,124 respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description - The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of the G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy - Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2003 were \$181,208 which consisted of \$139,368 from the City and \$41,840 from the law enforcement officers.

Law Enforcement Officers' Special Separation Allowance

1. Plan Description

The City of Sanford 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

13. PENSION COST (Continued)

officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly.

Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Separation Allowance is reported in the City's report as a pension trust fund.

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2002, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>73</u>
Total	75

2. 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, repurchase agreements, 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.

3. 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 \$86,340 or 3.17% 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. Administration costs of the Separation Allowance are financed through investment earnings.

The annual required contribution for the current year was determined as part of the December 31, 2002 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9% to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2002 was 28 years.

13. PENSION COST (Continued)

Annual Pension Cost and Net Pension Obligation. The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 86,340
Interest on net pension obligation	5,286
Adjustment to annual required contribution	<u>(3,917)</u>
Annual pension cost	87,709
Contributions made	<u>(86,340)</u>
Decrease in net pension obligation	1,369
Net pension obligation beginning of year	<u>72,912</u>
Net pension obligation end of year	<u>\$ 74,281</u>

Three Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/01	63,352	102.36%	71,494
6/30/02	84,819	98.33%	72,912
6/30/03	87,709	98.44%	74,281

Firemen's and Rescue Squad Workers' Pension Fund

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

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

14. FIREMEN'S RELIEF FUND

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

15. TRANSFERS

Transfers from a fund receiving revenues to the fund through which the resources are to be expended are recorded as "transfers out" in the transferring fund and "transfers in" to the receiving fund.

The City elected to begin accounting within the general fund for activities associated with its shop. Those activities were formally reported within an internal service fund. As a result of this decision, the ending fund balance under the modified accrual basis at June 30, 2002 has been transferred into the City's general fund. The City has not presented operating statements for the shop fund because all current year activity was accounted for in the general fund. The net transfer from the shop fund to the general fund was \$268,969.

A summary of these transactions for the year ended June 30, 2003 follows:

<u>Transfers out</u>	<u>Transfers in</u>	
	<u>Major Fund- General</u>	<u>Non-major Governmental Funds</u>
General Fund	\$ -	\$ 60,000
Special Revenue Fund (Central Business Tax District)	15,000	-
Shop Fund	<u>268,969</u>	<u>-</u>
Total	<u>\$ 283,969</u>	<u>\$ 60,000</u>

16. PROJECT GRANT BUDGETS

The budgets for the Community Development Fund (Special Revenue Fund), General Capital Projects Fund and Utility Capital Projects Fund are adopted on a project/grant basis. Following is a summary of activity from inception through June 30, 2003 for the programs.

	<u>Project and program budgets</u>	<u>Current year</u>	<u>Prior years</u>	<u>Total to June 30, 2003</u>
<u>Special Revenue Fund</u>				
Community Development: Revenues	\$ 1,324,193	\$ 481,003	\$ 1,024,267	\$ 1,505,270
Expenditures	<u>\$ 1,324,193</u>	<u>\$ 450,934</u>	<u>\$ 814,632</u>	<u>1,265,566</u>
Project fund balance				<u>\$ 239,704</u>
<u>Capital Project Fund</u>				
Revenues	\$ 2,208,486	\$ 81,956	\$ 1,374,538	\$ 1,456,494
Other financing sources	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>1,000,000</u>
Expenditures	<u>\$ 3,208,486</u>	<u>\$ 537,611</u>	<u>\$ 1,375,002</u>	<u>1,912,613</u>
Project fund balance				<u>\$ 543,881</u>

16. PROJECT GRANT BUDGETS (Conitnued)

Utility Capital Projects Fund

Revenues	<u>\$ 9,978,944</u>	<u>\$ 733,268</u>	<u>\$ 8,812,043</u>	\$ 9,545,311
Other financing sources	<u>\$ 4,346,000</u>	<u>\$ -</u>	<u>\$ 4,338,617</u>	4,338,617
Expenditures	<u>\$ 14,324,944</u>	<u>\$ 2,772,111</u>	<u>\$ 10,260,795</u>	13,032,906
Project fund balance				<u>\$ 851,022</u>

17. OTHER POSTRETIREMENT BENEFITS

In addition to the pension benefits described in Note 14, the City Council has authorized the City to provide postretirement health care benefits to all employees who retire from the City on or after attaining age 55 with 20 years or more of creditable service or with 30 years of creditable service. Expenditures for the 30 participants currently eligible to receive benefits are financed on a pay as you go basis. The amount of postretirement health care benefits charged to expenditures during the year ended June 30, 2003 was \$142,330.

The City has elected to provide death benefits to law enforcement employees through the Death Benefit Plan for Members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. Law enforcement employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefit may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the state. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2003, the City made contributions to the State for death benefits of \$3,903. The City's required contributions for employees engaged in law enforcement represented 0.14% of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

The ABC Board's employees hired on or before June 30, 1987 are eligible to receive postretirement health care benefits if they retire at 55 years of age with 20 years or more of creditable service or with 30 years of creditable service. As of June 30, 2003, the accrued post-retirement benefit obligation for eligible employees was \$310,697. The Board has not funded the plan. During the year ended June 30, 2003, benefits paid for retired employees totaled \$16,298. The amount charged to operations for the year ended June 30, 2003 was \$55,588.

18. SELF-INSURANCE AND RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property liability in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The City carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The ABC Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has property, general liability, auto liability, worker's compensation and employee health coverage. The Board also has liquor legal liability. There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

19. VACATION AND SICK PAY

The vacation policy for the City provides for an accumulation of vacation leave of up to 240 hours per calendar year, with the excess time rolled into the sick leave balance. Accumulated earned vacation leave at June 30, 2003 amounted to \$1,196,297 in total, of which \$972,313 relates to governmental funds and \$223,984 relates to proprietary funds.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Accumulated sick leave at June 30, 2003 amounted to approximately \$3,078,237 in total, of which \$2,600,627 relates to the governmental funds. 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 sick leave has been made.

ABC Board employees may accumulate up to 120 hours earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2003 was \$8,147. Upon termination, the Board is obligated to pay a maximum of 120 hours of earned vacation.

ABC Board employees can accumulate thirty days of sick leave. Sick leave may be used in the determination of length of service for retirement benefit purposes. Since the Board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

20. JOINT VENTURES

The City, in conjunction with Lee County, participates in a regional airport. Each participating government appoints three members to the six-member board. The Airport Authority is a joint venture established to facilitate economic expansion within the County and improve the quality of

CITY OF SANFORD, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS (Continued)

life for its citizens. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2003.

20. JOINT VENTURES (Continued)

Complete financial statements for the Airport can be obtained from the Airport's administrative offices at 106 Hillcrest Drive, Sanford, NC.

21. JOINTLY GOVERNED ORGANIZATION

The City, in conjunction with seven counties and twenty-four other municipalities, established the Triangle J Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$9,056 to the Council during the fiscal year ended June 30, 2003.

22. RELATED ORGANIZATIONS

City of Sanford Housing Authority

The five-member board of the City of Sanford Housing Authority (Housing Authority) is appointed by the mayor of the City of Sanford. The City is accountable for the Housing Authority because it appoints the governing board; however, the City is not financially accountable for the Housing Authority.

23. NET ASSETS BEGINNING OF YEAR

	<u>Government Activities</u>	<u>Business type Activities</u>
Fund equity and other credits as reported June 30, 2002	\$ 8,102,984	\$ 32,389,548
Adjustment to full accrual:		
In connection with the implementation of GASB statement No. 34, net assets of governmental activities and business activities on the statement of activities and net assets fund balance of the governmental funds in the fund financial statements have been restated as:		
Capital assets used in governmental activities net of accumulated depreciation of \$7,342,287 at June 30, 2002	9,337,480	-
Revenue resulting from long-term assets which were not available to pay for current expenditures at June 30, 2002	545,397	-
Long-term liabilities - principally installment purchases at June 30, 2002	(2,364,128)	-
Accrued compensated absences not expected to be materially liquidated with expendable available resources at June 30, 2002	(1,005,354)	-
Amounts previously reported as contributed capital were reclassified as net assets	-	12,162,163
	<u>\$14,616,379</u>	<u>\$ 44,551,711</u>

CITY OF SANFORD, NORTH CAROLINA

**REQUIRED SUPPLEMENTARY INFORMATION - LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2003**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a % of Covered Payroll ((B-A)/C)</u>
12/31/1992	-	256,033	256,033	0.00%	1,470,437	17.41%
12/31/1993	17,002	274,673	237,912	13.00%	1,683,604	14.13%
12/31/1994	29,494	287,324	257,830	10.27%	1,802,734	14.30%
12/31/1995	59,448	362,669	303,221	16.39%	1,886,277	16.08%
12/31/1996	90,120	441,921	351,801	20.39%	2,023,460	17.39%
12/31/1997	121,705	495,429	373,724	24.57%	2,025,228	18.45%
12/31/1998	160,254	516,326	356,072	31.04%	2,191,037	16.25%
12/31/1999	213,690	598,540	384,850	35.70%	2,273,458	16.93%
12/31/2000	271,540	947,768	676,228	28.65%	2,458,435	27.51%
12/31/2001	324,454	978,836	654,382	33.15%	2,673,507	24.48%
12/31/2002	384,868	1,049,746	664,878	36.66%	2,726,760	24.38%

CITY OF SANFORD, NORTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2003

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1993	33,089	0%
1994	36,761	100%
1995	40,407	100%
1996	40,742	100%
1997	49,232	100%
1998	55,314	100%
1999	59,008	100%
2000	60,267	100%
2001	64,850	100%
2002	86,340	100%
2003	90,004	100%

Notes to the Required Schedules:

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

Valuation date	12/31/2002
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	28
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.9 - 9.8%
Includes inflation at	3.75%
Cost-of-living adjustments	N/A



CITY OF SANFORD, NORTH CAROLINA

GENERAL FUND

The General Fund is the largest fund of the City. All revenues, expenditures and capital additions, except those required to be accounted for in other funds, are accounted for in the General Fund. Most of the governmental services and functions are provided through the General Fund. This includes general government, public safety, streets and sanitation. These services and functions are financed primarily by property taxes, other taxes and intergovernmental revenues.

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CITY OF SANFORD, NORTH CAROLINA

GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
REVENUES -				
Ad valorem taxes -				
Current year levy	\$ 8,324,000	\$ 8,234,496	\$ (89,504)	\$ 8,257,323
Prior years' levy	160,000	298,110	138,110	228,741
Payments in lieu of taxes	25,000	-	(25,000)	15,451
Total - ad valorem taxes	<u>8,509,000</u>	<u>8,532,606</u>	<u>23,606</u>	<u>8,501,515</u>
Other taxes -				
Privilege licenses	103,000	147,063	44,063	157,405
Intangibles personal property tax	-	-	-	247,757
Local option sales tax	3,276,000	3,438,628	162,628	3,025,002
Total - other taxes	<u>3,379,000</u>	<u>3,585,691</u>	<u>206,691</u>	<u>3,430,164</u>
Penalties and interest	<u>35,000</u>	<u>60,790</u>	<u>25,790</u>	<u>56,473</u>
Licenses and permits -				
Building permits	335,700	354,198	18,498	191,674
Total - licenses and permits	<u>335,700</u>	<u>354,198</u>	<u>18,498</u>	<u>191,674</u>
Intergovernmental revenues -				
United States of America -				
Federal Emergency Management Agency	203,695	201,965	(1,730)	-
Department of Justice - Police grant	31,982	31,982	-	37,897
Department of Justice - Drug forfeiture program	102,125	34,125	(68,000)	56,299
State of North Carolina -				
Utilities franchise tax	1,034,790	1,060,825	26,035	540,987
Wine and beer tax	45,900	49,549	3,649	-
Powell Bill allocation	759,080	751,708	(7,372)	789,456
Civil preparedness	2,400	2,400	-	2,400
Retail inventory tax	-	-	-	238,779
Emergency management program	67,900	67,322	(578)	-
Court costs and fees	16,000	13,888	(2,112)	18,036
Law Enforcement - Drug forfeiture program	-	25,919	25,919	13,329
Governor's crime grant	7,685	1,598	(6,087)	-
Mowing reimbursement program	7,065	7,064	(1)	10,426
Governor's Highway Safety Grant	10,372	3,081	(7,291)	5,181
Safe kids grants	3,600	4,105	505	3,112
Other local governments	830,118	790,897	(39,221)	751,875
Total - intergovernmental revenues	<u>3,122,712</u>	<u>3,046,428</u>	<u>(76,284)</u>	<u>2,467,777</u>
Investment income	<u>156,500</u>	<u>117,889</u>	<u>(38,611)</u>	<u>218,923</u>
Sales and service -				
Sale of property	61,350	98,474	37,124	80,310
Fleet maintenance fees	139,500	155,419	15,919	-
Waste management fees	730,000	767,092	37,092	582,887
Total - sales and service	<u>930,850</u>	<u>1,020,985</u>	<u>90,135</u>	<u>663,197</u>
Miscellaneous revenues -				
Alcoholic beverage control	70,000	70,000	-	60,000
Charges to other funds	333,600	334,914	1,314	315,258
Civil violation fines	12,000	5,724	(6,276)	15,061
Rental income	21,455	10,896	(10,559)	21,455
Sundry	125,300	67,271	(58,029)	159,690
Total - miscellaneous revenues	<u>562,355</u>	<u>488,805</u>	<u>(73,550)</u>	<u>571,464</u>
Total revenues	<u>17,031,117</u>	<u>17,207,392</u>	<u>176,275</u>	<u>16,101,187</u>

CITY OF SANFORD, NORTH CAROLINA

GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES-				
General Government:				
Governing body -				
Salaries and benefits	\$ 161,523	\$ 155,571	\$ 5,952	\$ 144,926
Current operating expenditures	52,276	44,084	8,192	39,793
Total - governing body	<u>213,799</u>	<u>199,655</u>	<u>14,144</u>	<u>184,719</u>
Administration -				
Salaries and benefits	160,475	166,861	(6,386)	159,799
Current operating expenditures	21,280	8,270	13,010	10,655
Total - administration	<u>181,755</u>	<u>175,131</u>	<u>6,624</u>	<u>170,454</u>
Budget -				
Salaries and benefits	120,464	120,793	(329)	115,449
Current operating expenditures	8,500	3,327	5,173	6,513
Total - budget	<u>128,964</u>	<u>124,120</u>	<u>4,844</u>	<u>121,962</u>
Human Resources -				
Salaries and benefits	170,731	175,798	(5,067)	151,670
Current operating expenditures	77,421	33,444	43,977	41,238
Total - human resources	<u>248,152</u>	<u>209,242</u>	<u>38,910</u>	<u>192,908</u>
Risk management -				
Salaries and benefits	19,500	18,715	785	78,170
Current operating expenditures	20,250	7,383	12,867	13,927
Total - risk management	<u>39,750</u>	<u>26,098</u>	<u>13,652</u>	<u>92,097</u>
Finance -				
Salaries and benefits	313,057	306,658	6,399	297,684
Current operating expenditures	195,835	183,188	12,647	194,913
Total - finance	<u>508,892</u>	<u>489,846</u>	<u>19,046</u>	<u>492,597</u>
Information systems -				
Salaries and benefits	128,033	128,950	(917)	120,785
Current operating expenditures	146,132	62,173	83,959	56,052
Capital outlay	9,400	9,192	208	-
Total - information systems	<u>283,565</u>	<u>200,315</u>	<u>83,250</u>	<u>176,837</u>
Legal -				
Salaries and benefits	126,399	129,014	(2,615)	114,248
Current operating expenditures	27,820	11,998	15,822	16,389
Total - legal	<u>154,219</u>	<u>141,012</u>	<u>13,207</u>	<u>130,637</u>
Geographic information systems -				
Salaries and benefits	59,673	59,959	(286)	53,100
Current operating expenditures	8,355	7,583	772	5,815
Total - geographic information systems	<u>68,028</u>	<u>67,542</u>	<u>486</u>	<u>58,915</u>

CITY OF SANFORD, NORTH CAROLINA

GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES - (Continued)				
Public buildings -				
Salaries and benefits	\$ 128,748	\$ 128,413	\$ 335	\$ 123,341
Current operating expenditures	448,555	406,388	42,167	457,744
Lease purchase	147,400	147,063	337	152,134
Capital outlay	3,340	3,336	4	142,387
Total - public buildings	<u>728,043</u>	<u>685,200</u>	<u>42,843</u>	<u>875,606</u>
Public works administration -				
Salaries and benefits	308,196	307,529	667	293,681
Current operating expenditures	17,190	11,317	5,873	14,808
Total - public works administration	<u>325,386</u>	<u>318,846</u>	<u>6,540</u>	<u>308,489</u>
Storm water-				
Salaries and benefits	20,825	-	20,825	-
Current operating expenditures	4,175	-	4,175	-
Total - storm water	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Central mimeograph -				
Current operating expenditures	58,975	49,168	9,807	56,944
Capital outlay	-	-	-	9,716
Total - Central mimeograph	<u>58,975</u>	<u>49,168</u>	<u>9,807</u>	<u>66,660</u>
Shop -				
Salaries and benefits	267,021	247,264	19,757	244,783
Current operating expenditures	488,110	449,650	38,460	313,753
Lease purchase	20,170	20,168	2	20,168
Capital outlay	5,500	4,596	904	-
Total Shop	<u>780,801</u>	<u>721,678</u>	<u>59,123</u>	<u>578,704</u>
Less: charges to other departments	<u>(639,801)</u>	<u>(608,021)</u>	<u>(31,780)</u>	<u>(537,715)</u>
Total - shop	<u>141,000</u>	<u>113,657</u>	<u>27,343</u>	<u>40,989</u>
Beautification -				
Salaries and benefits	210,260	200,355	9,905	197,937
Current operating expenditures	61,640	59,668	1,972	61,002
Total - beautification	<u>271,900</u>	<u>260,023</u>	<u>11,877</u>	<u>258,939</u>
Other appropriations & contingency -				
Associations and memberships	25,510	26,116	(606)	24,971
Regional and community support	23,000	23,000	-	38,000
Economic development	214,472	214,464	8	188,784
Intergovernmental transfers	63,520	63,521	(1)	64,745
Contingency	25,741	-	25,741	-
Total - other appropriations	<u>352,243</u>	<u>327,101</u>	<u>25,142</u>	<u>316,500</u>

CITY OF SANFORD, NORTH CAROLINA

GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES - (Continued)				
Community development:				
Community development -				
Salaries and benefits	\$ 536,170	\$ 549,428	\$ (13,258)	\$ 568,668
Current operating expenditures	114,317	73,782	40,535	111,193
Capital outlay	-	-	-	15,158
Total - community development	<u>650,487</u>	<u>623,210</u>	<u>27,277</u>	<u>695,019</u>
Code Enforcement -				
Salaries and benefits	128,516	134,713	(6,197)	-
Current operating expenditures	46,545	19,205	27,340	-
Total - public works administration	<u>175,061</u>	<u>153,918</u>	<u>21,143</u>	<u>-</u>
Downtown / Historic Preservation -				
Salaries and benefits	55,945	40,571	15,374	-
Current operating expenditures	14,925	3,118	11,807	-
Total - public works administration	<u>70,870</u>	<u>43,689</u>	<u>27,181</u>	<u>-</u>
Public safety:				
Police -				
Salaries and benefits	4,564,963	4,441,346	123,617	4,345,654
Current operating expenditures	1,018,193	912,513	105,680	830,790
Lease purchase	12,920	38,748	(25,828)	51,664
Capital outlay	315,465	304,364	11,101	113,148
Total - police	<u>5,911,541</u>	<u>5,696,971</u>	<u>214,570</u>	<u>5,341,256</u>
Fire -				
Salaries and benefits	2,516,009	2,490,780	25,229	2,402,308
Current operating expenditures	247,705	218,522	29,183	223,514
Lease purchase	122,710	122,707	3	198,176
Capital outlay	36,018	35,031	987	14,770
Total - fire	<u>2,922,442</u>	<u>2,867,040</u>	<u>55,402</u>	<u>2,838,768</u>
Inspection -				
Salaries and benefits	397,191	389,376	7,815	349,223
Current operating expenditures	47,600	38,986	8,614	42,977
Total - inspection	<u>444,791</u>	<u>428,362</u>	<u>16,429</u>	<u>392,200</u>
Streets:				
Streets				
Salaries and benefits	672,715	649,131	23,584	615,207
Current operating expenditures	1,065,208	675,922	389,286	961,518
Lease purchase	220,400	220,398	2	220,398
Capital outlay	230,000	550,778	(320,778)	253,033
Total - streets and sidewalks	<u>2,188,323</u>	<u>2,096,229</u>	<u>92,094</u>	<u>2,050,156</u>

CITY OF SANFORD, NORTH CAROLINA

GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>	<u>Actual prior year</u>
EXPENDITURES - (Continued)				
Sanitation:				
Refuse -				
Salaries and benefits	576,952	593,637	(16,685)	611,928
Current operating expenditures	390,783	318,792	71,991	238,389
Lease purchase	135,170	131,844	3,326	133,540
Capital outlay	97,760	97,760	-	-
Total - Refuse	<u>1,200,665</u>	<u>1,142,033</u>	<u>58,632</u>	<u>983,857</u>
Sanitation - Contracted services	<u>\$ 1,007,450</u>	<u>\$ 1,001,392</u>	<u>\$ 6,058</u>	<u>\$ 973,380</u>
Total expenditures	<u>18,301,301</u>	<u>17,439,800</u>	<u>861,501</u>	<u>16,762,945</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>(1,270,184)</u>	<u>(232,408)</u>	<u>1,037,776</u>	<u>(661,758)</u>
OTHER FINANCING SOURCES (USES) -				
Transfers in -				
Special Revenue Fund	15,000	15,000	-	15,000
Shop Fund	395,759	268,969	(126,790)	-
Insurance Fund	-	-	-	210,223
Capital Project Fund	-	-	-	67,325
Transfers out -				
Special Revenue Fund	(60,000)	(60,000)	-	(92,500)
Loans to Other Funds	(86,775)	-	86,775	-
Lease-purchase proceeds	-	-	-	97,760
Total - other financing sources (uses)	<u>263,984</u>	<u>223,969</u>	<u>(40,015)</u>	<u>297,808</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	<u>(1,006,200)</u>	<u>(8,439)</u>	<u>997,761</u>	<u>(363,950)</u>
APPROPRIATED FUND BALANCE	<u>1,006,200</u>	<u>-</u>	<u>(1,006,200)</u>	<u>-</u>
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED FUND BALANCE IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>(8,439)</u>	<u>\$ (8,439)</u>	<u>\$ (363,950)</u>
FUND BALANCE, BEGINNING OF YEAR, JULY 1		<u>7,813,634</u>		
FUND BALANCE, END OF YEAR, JUNE 30		<u>\$ 7,805,195</u>		

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CITY OF SANFORD, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Community Development Fund - The City uses a Community Development Fund to account for the activities of the Community Development Program financed by federal and state grants.

Central Business Tax District Fund - The Central Business Tax District Fund is used to account for a special tax levied on property located in the central business district of the City. The levy is restricted to improvements of the central business district.

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for financial resources used in the acquisition or construction of major capital facilities and improvements to the City's infrastructure.

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CITY OF SANFORD, NORTH CAROLINA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2003

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Community Development</u>	<u>Central Business Tax District</u>	<u>Capital Project Fund</u>	
<u>ASSETS</u>				
Cash, cash equivalents and investments	\$ -	\$ 125,350	\$ 489,964	\$ 615,314
Property taxes receivable, net of allowance for uncollectible taxes of \$1,586 for 2003	-	11,814	-	11,814
Due from governmental agencies	<u>248,678</u>	<u>-</u>	<u>53,917</u>	<u>302,595</u>
TOTAL	<u>\$ 248,678</u>	<u>\$ 137,164</u>	<u>\$ 543,881</u>	<u>\$ 929,723</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities -				
Accounts payable	\$ 8,974	\$ 8,698	\$ -	\$ 17,672
Deferred revenues	-	11,826	-	11,826
Total liabilities	<u>8,974</u>	<u>20,524</u>	<u>-</u>	<u>29,498</u>
Fund balance -				
Reserved-				
Restricted by state statute	248,678	-	53,917	302,595
Unreserved -				
Designated - subsequent year's budget	-	6,800	-	6,800
Undesignated (deficit)	<u>(8,974)</u>	<u>109,840</u>	<u>489,964</u>	<u>590,830</u>
Total fund balance	<u>239,704</u>	<u>116,640</u>	<u>543,881</u>	<u>900,225</u>
TOTAL	<u>\$ 248,678</u>	<u>\$ 137,164</u>	<u>\$ 543,881</u>	<u>\$ 929,723</u>

CITY OF SANFORD, NORTH CAROLINA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Special Revenue Funds			Total
	Community Development	Central Business Tax District	Capital Project Fund	
REVENUES -				
Ad valorem taxes -				
Current year	\$ -	\$ 41,204	\$ -	\$ 41,204
Prior years	-	1,290	-	1,290
Intergovernmental revenues -				
State of North Carolina	430,019	-	80,943	510,962
Investment income	-	1,463	1,013	2,476
Miscellaneous income	50,984	535	-	51,519
Total revenues	<u>481,003</u>	<u>44,492</u>	<u>81,956</u>	<u>607,451</u>
EXPENDITURES -				
Current:				
Downtown Revitalization	-	53,031	-	53,031
Capital Projects -				
Clean water program	-	-	80,223	80,223
Street improvements	-	-	457,388	457,388
Community Development -				
Single Family Housing Rehabilitation Program	191	-	-	191
2000 Community Development Block Grant	80,019	-	-	80,019
2002 Community Development Block Grant	350,000	-	-	350,000
Other prior program expenditures	20,724	-	-	20,724
Total expenditures	<u>450,934</u>	<u>53,031</u>	<u>537,611</u>	<u>1,041,576</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>30,069</u>	<u>(8,539)</u>	<u>(455,655)</u>	<u>(434,125)</u>
OTHER FINANCING SOURCES (USES) -				
Installment purchase proceeds	-	-	1,000,000	1,000,000
Transfers in - General Fund	-	60,000	-	60,000
Transfers out - General Fund	-	(15,000)	-	(15,000)
TOTAL OTHER FINANCING SOURCES (USES) -	<u>-</u>	<u>45,000</u>	<u>1,000,000</u>	<u>1,045,000</u>
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	30,069	36,461	544,345	610,875
FUND BALANCE, BEGINNING OF YEAR, JULY 1	<u>209,635</u>	<u>80,179</u>	<u>(464)</u>	<u>289,350</u>
FUND BALANCE, END OF YEAR, JUNE 30	<u>\$ 239,704</u>	<u>\$ 116,640</u>	<u>\$ 543,881</u>	<u>\$ 900,225</u>

CITY OF SANFORD, NORTH CAROLINA

COMMUNITY DEVELOPMENT FUND - SCHEDULE OF PROJECT REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003

	<u>Program budget</u>	<u>Current year</u>	<u>Prior years</u>	<u>Total to June 30, 2003</u>
REVENUES -				
Intergovernmental revenues -				
Single Family Housing Rehabilitation Program -				
Grant - North Carolina Housing Finance Agency	\$ 200,000	\$ -	\$ 200,191	\$ 200,191
Program Income	10,000	-	10,000	10,000
1999 Grant - North Carolina Housing Finance Agency	300,000	-	284,678	284,678
Local	25,000	-	25,000	25,000
Total - Single Family Housing Rehabilitation Program	<u>535,000</u>	<u>-</u>	<u>519,869</u>	<u>519,869</u>
2000 Community Development Block Grant-				
Grant - Division of Community Assistance, Dept. of Commerce	\$ 350,000	\$ 80,019	\$ 233,671	\$ 313,690
General Fund	17,500	-	17,500	17,500
Private contributions	20,000	20,000	-	20,000
Total - 2000 Community Development Block Grant	<u>387,500</u>	<u>100,019</u>	<u>251,171</u>	<u>351,190</u>
2002 Community Development Block Grant-				
Grant - Division of Community Assistance, Dept. of Commerce	\$ 350,000	\$ 350,000	\$ -	\$ 350,000
Total - 2002 Community Development Block Grant	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>350,000</u>
Miscellaneous				
Program Income - Land Disposition	51,693	30,984	253,227	284,211
TOTAL REVENUES	<u>\$ 1,324,193</u>	<u>481,003</u>	<u>\$ 1,024,267</u>	<u>\$ 1,505,270</u>
EXPENDITURES -				
Single Family Housing Rehabilitation Program -				
Administration	\$ 34,200	\$ 191	\$ 39,598	\$ 39,789
Rehabilitation	175,800	-	170,402	170,402
1999 Grant Administration	33,900	-	32,848	32,848
1999 Grant Rehabilitation	291,100	-	276,110	276,110
Total - Single Family Housing Rehabilitation Program	<u>535,000</u>	<u>191</u>	<u>518,958</u>	<u>519,149</u>
2000 Community Development Block Grant-				
Administration	\$ 32,300	902	\$ 29,787	\$ 30,689
Relocation	64,350	62,842	-	62,842
Clearance	16,200	15,275	-	15,275
Rehabilitation	274,650	1,000	241,384	242,384
Total - 2000 Community Development Block Grant	<u>387,500</u>	<u>80,019</u>	<u>271,171</u>	<u>351,190</u>
2002 Community Development Block Grant-				
Administration	\$ 41,525	41,525	\$ -	\$ 41,525
Salary and wages	6,275	5,429	-	5,429
Travel	300	580	-	580
Departmental supplies	150	733	-	733
Construction	301,750	301,733	-	301,733
Total - 2002 Community Development Block Grant	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>350,000</u>

CITY OF SANFORD, NORTH CAROLINA

COMMUNITY DEVELOPMENT FUND - SCHEDULE OF PROJECT REVENUES AND EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003

	<u>Program budget</u>	<u>Current year</u>	<u>Prior years</u>	<u>Total to June 30, 2003</u>
(Continued)				
Other prior program expenditures				
Rehabilitation	7,500	-	2,650	2,650
Land Disposition	14,193	724	11,853	12,577
Transfer to Community Development	30,000	20,000	10,000	30,000
Total - Other prior program expenditures	<u>51,693</u>	<u>20,724</u>	<u>24,503</u>	<u>45,227</u>
TOTAL EXPENDITURES	<u>\$ 1,324,193</u>	<u>450,934</u>	<u>\$ 814,632</u>	<u>\$ 1,265,566</u>
INCREASE IN FUND BALANCE		30,069		
FUND BALANCE, BEGINNING OF YEAR		<u>209,635</u>		
FUND BALANCE, END OF YEAR		<u>\$ 239,704</u>		

CITY OF SANFORD, NORTH CAROLINA

CENTRAL BUSINESS TAX DISTRICT FUND - SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL -
 YEAR ENDED JUNE 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>	<u>Actual prior year</u>
REVENUES -				
Ad valorem taxes -				
Current year	\$ 39,300	\$ 41,204	\$ 1,904	\$ 43,563
Prior year	500	1,290	790	1,246
Intergovernmental revenues -				
State of North Carolina				
retail inventory tax	-	-	-	5,290
Investment income	500	1,463	963	1,434
Other	1,530	250	(1,280)	2,747
Penalties and interest	100	285	185	1,366
Total revenues	<u>41,930</u>	<u>44,492</u>	<u>2,562</u>	<u>55,646</u>
EXPENDITURES -				
Operating expenditures	35,730	30,361	5,369	89,697
Downtown facade reimbursement program	11,200	9,195	2,005	10,000
Capital Outlay	50,000	13,475	36,525	-
Total expenditures	<u>96,930</u>	<u>53,031</u>	<u>43,899</u>	<u>99,697</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(55,000)</u>	<u>(8,539)</u>	<u>46,461</u>	<u>(44,051)</u>
OTHER FINANCING SOURCES (USES) -				
Transfers in - General Fund	60,000	60,000	-	75,000
Transfers out - General Fund	(15,000)	(15,000)	-	(15,000)
Total other financing sources (uses)	<u>45,000</u>	<u>45,000</u>	<u>-</u>	<u>60,000</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(10,000)	36,461	46,461	15,949
APPROPRIATED FUND BALANCE	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>	<u>-</u>
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED FUND BALANCE OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>36,461</u>	<u>\$ 36,461</u>	<u>15,949</u>
FUND BALANCE, BEGINNING OF YEAR		<u>80,179</u>		<u>64,230</u>
FUND BALANCE, END OF YEAR		<u>\$ 116,640</u>		<u>\$ 80,179</u>

CITY OF SANFORD, NORTH CAROLINA

CAPITAL PROJECT FUND - SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2003

	Budget	Current year	Prior years	Total to June 30, 2003
REVENUES -				
Intergovernmental revenues -				
Federal hazard mitigation grants	\$ 870,538	\$ -	\$ 870,538	\$ 870,538
State hazard mitigation grants	572,948	720	484,000	484,720
Clean water grant	765,000	80,223	20,000	100,223
Total - intergovernmental revenues	<u>2,208,486</u>	<u>80,943</u>	<u>1,374,538</u>	<u>1,455,481</u>
Miscellaneous revenues -				
Interest income	-	1,013	-	1,013
Total - miscellaneous revenues	<u>-</u>	<u>1,013</u>	<u>-</u>	<u>1,013</u>
Total revenues	<u>2,208,486</u>	<u>81,956</u>	<u>1,374,538</u>	<u>1,456,494</u>
EXPENDITURES -				
Current:				
Mitigation program	1,443,486	-	1,355,002	1,355,002
Clean water program	765,000	80,223	20,000	100,223
Street improvements	1,000,000	457,388	-	457,388
Total expenditures	<u>3,208,486</u>	<u>537,611</u>	<u>1,375,002</u>	<u>1,912,613</u>
REVENUES LESS THAN EXPENDITURES	<u>(1,000,000)</u>	<u>(455,655)</u>	<u>(464)</u>	<u>(456,119)</u>
OTHER FINANCING SOURCES -				
Loan proceeds	1,000,000	1,000,000	-	1,000,000
Total - other financing sources	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS (LESS THAN) OF EXPENDITURES	<u>\$ -</u>	<u>544,345</u>	<u>\$ (464)</u>	<u>\$ 543,881</u>
FUND BALANCE DEFICIT, BEGINNING OF YEAR		<u>(464)</u>		
FUND BALANCE, END OF YEAR		<u>\$ 543,881</u>		



CITY OF SANFORD, NORTH CAROLINA

ENTERPRISE FUNDS

The Enterprise Funds are used to account for City operations that are financed and operated in a manner similar to private business enterprises. The costs (including depreciation) of providing services to the general public on a continuing basis are financed primarily through user charges. The City enterprise operations consist of a water and sewer system and golf course.

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CITY OF SANFORD, NORTH CAROLINA

UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
REVENUES -				
User charges -				
Water	\$ 5,596,089	\$ 5,655,707	\$ 59,618	\$ 5,175,298
Sewer	4,318,155	4,463,564	145,409	4,236,974
Total user charges	9,914,244	10,119,271	205,027	9,412,272
Monitoring fees	106,900	99,396	(7,504)	96,228
Connection and tap fees	250,000	216,394	(33,606)	179,020
Sale of materials	-	-	-	3,169
Sales tax refunds	-	29,840	29,840	2,543
Investment income	175,000	131,950	(43,050)	186,460
Special assessments	230,000	90,625	(139,375)	186,966
Other	152,700	312,560	159,860	301,923
Charges to other funds	30,000	40,330	10,330	31,883
Contributions from other agencies	11,232	37,684	26,452	5,129
TOTAL REVENUES	10,870,076	11,078,050	207,974	10,405,593
EXPENDITURES -				
Engineering -				
Salaries and benefits	481,969	476,286	5,683	453,996
Other operating expenditures	31,380	24,444	6,936	28,113
Total - engineering	513,349	500,730	12,619	482,109
Administration -				
Salaries and benefits	332,661	336,294	(3,633)	322,433
Operating expenditures	346,750	330,467	16,283	303,812
Lease purchase	-	-	-	45,364
Total - administration	679,411	666,761	12,650	671,609
Water and sewer lines - maintenance				
Water -				
Salaries and benefits	965,420	945,511	19,909	879,025
Operating expenditures	728,023	726,581	1,442	675,250
Capital outlay	29,000	11,735	17,265	19,073
Total - water	1,722,443	1,683,827	38,616	1,573,348
Sewer -				
Salaries and benefits	504,291	469,247	35,044	398,041
Operating expenditures	379,407	349,393	30,014	339,014
Lease purchase	44,630	44,622	8	44,622
Capital outlay	-	-	-	8,029
Total - sewer	928,328	863,262	65,066	789,706

CITY OF SANFORD, NORTH CAROLINA

UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

(Continued)

YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES - (continued)				
Water plant operations -				
Salaries and benefits	\$ 479,415	\$ 445,932	\$ 33,483	\$ 453,806
Operating expenditures	1,025,607	959,096	66,511	1,043,771
Capital outlay	20,000	16,010	3,990	17,800
Total - water plant operations	<u>1,525,022</u>	<u>1,421,038</u>	<u>103,984</u>	<u>1,515,377</u>
Sewer plant operations -				
Salaries and benefits	584,570	585,304	(734)	549,254
Operating expenditures	688,293	656,217	32,076	591,227
Capital outlay	77,900	65,042	12,858	35,866
Total - sewer plant operations	<u>1,350,763</u>	<u>1,306,563</u>	<u>44,200</u>	<u>1,176,347</u>
Store -				
Salaries and benefits	36,471	32,214	4,257	33,099
Purchases and supplies	7,540	3,085	4,455	5,168
Other operating expenditures	325,000	285,898	39,102	247,157
Total - store	<u>369,011</u>	<u>321,197</u>	<u>47,814</u>	<u>285,424</u>
Less charges to other departments	<u>(309,011)</u>	<u>(293,630)</u>	<u>(15,381)</u>	<u>(244,602)</u>
Net store	<u>60,000</u>	<u>27,567</u>	<u>32,433</u>	<u>40,822</u>
Capital improvements -				
Capital outlay	<u>482,560</u>	<u>370,934</u>	<u>111,626</u>	<u>294,321</u>
Debt service -				
Interest	929,688	899,616	30,072	976,460
Installment purchase principal	877,591	877,591	-	652,294
Bonds principal	1,260,000	1,260,000	-	1,275,000
State loan principal	172,790	172,790	-	75,290
Total debt service	<u>3,240,069</u>	<u>3,209,997</u>	<u>30,072</u>	<u>2,979,044</u>
Transfers out and contingency				
Capital Reserve Fund	375,000	-	375,000	-
Capital Project Fund	-	-	-	116,323
Contingency	691	-	691	-
Total transfers and contingency	<u>375,691</u>	<u>-</u>	<u>375,691</u>	<u>116,323</u>
TOTAL EXPENDITURES	<u>10,877,636</u>	<u>10,050,679</u>	<u>826,957</u>	<u>9,639,006</u>

CITY OF SANFORD, NORTH CAROLINA

UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

(Continued)

YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
OTHER FINANCING SOURCES (USES)-				
Reimbursement from capital projects fund	\$ 7,560	\$ 7,560	\$ -	\$ -
Contribution - other	-	18,000	18,000	-
Contribution - Lee County	-	31,637	31,637	-
Loan from general fund	-	-	-	(149,415)
TOTAL OTHER FINANCING SOURCES	7,560	57,197	49,637	(149,415)
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF EXPENDITURES	\$ -	\$ 1,084,568	\$ 1,084,568	\$ -

Note: Prepared for comparison with the legally adopted budget.

Reconciliation from budgetary basis (modified accrual) to full accrual:

Revenues and appropriated fund balance over expenditures	\$ 1,084,568
Reconciling items -	
Capital outlay	463,721
Bond principal	1,260,000
State loan principal	172,790
Installment purchase principal	877,591
Lease principal	38,927
Bond refunding issuance costs (net)	(71,334)
Depreciation	(2,090,806)
Bad debt allowance	(71,031)
Loss on disposal of fixed assets	(57,547)
Capital contributions	705,521
Capitalized interest	162,269
Change in net assets	\$ 2,474,669

CITY OF SANFORD, NORTH CAROLINA

UTILITY CAPITAL PROJECTS FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Project budget</u>	<u>Current year</u>	<u>Prior years</u>	<u>Total</u>
REVENUES -				
Grants - State Clean Water Fund	\$ 7,778,000	\$ 661,682	\$ 6,635,641	\$ 7,297,323
State revolving loan	1,950,000	-	1,950,000	1,950,000
Interest income	-	20,102	18,526	38,628
Sales tax refund	-	14,784	7,326	22,110
Other revenues	250,944	36,700	200,550	237,250
Total revenues	<u>9,978,944</u>	<u>733,268</u>	<u>8,812,043</u>	<u>9,545,311</u>
EXPENDITURES -				
Water capital project - capital outlay	11,804,544	1,949,042	8,858,036	10,807,078
Sewer capital project - capital outlay	2,520,400	823,069	1,402,759	2,225,828
Total expenditures	<u>14,324,944</u>	<u>2,772,111</u>	<u>10,260,795</u>	<u>13,032,906</u>
REVENUES LESS THAN EXPENDITURES	(4,346,000)	(2,038,843)	(1,448,752)	(3,487,595)
OTHER FINANCING SOURCES -				
Contribution from other local government	50,000	-	52,294	52,294
Transfer from utility fund	126,000	-	116,323	116,323
Installment purchase proceeds	4,170,000	-	4,170,000	4,170,000
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ (2,038,843)</u>	<u>\$ 2,889,865</u>	<u>\$ 851,022</u>

Note: Included in the basic financial statements with the operations of the Utility Fund.

CITY OF SANFORD, NORTH CAROLINA

GOLF FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2003

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
OPERATING REVENUES -				
Green fees -				
Annual	\$ 100,000	\$ 100,864	\$ 864	\$ 67,741
Daily	118,000	75,145	(42,855)	82,678
Other -				
Cart fees	180,000	107,231	(72,769)	128,333
Tournament fees	28,000	16,930	(11,070)	-
Driving range fees	30,000	8,143	(21,857)	-
Interest income	2,500	604	(1,896)	4,161
Other	33,098	13,543	(19,555)	3,500
TOTAL REVENUES	<u>491,598</u>	<u>322,460</u>	<u>(169,138)</u>	<u>286,413</u>
OPERATING EXPENDITURES -				
Salaries and benefits	302,585	274,495	28,090	285,183
Current operating expenditures	297,545	258,147	39,398	179,254
Capital outlay	10,045	9,645	400	24,900
Capitalized expenditures relating to golf course renovations	(31,802)	(50,000)	18,198	(145,000)
TOTAL EXPENDITURES	<u>578,373</u>	<u>492,287</u>	<u>86,086</u>	<u>344,337</u>
OTHER FINANCING SOURCES-				
Loan proceeds - general fund	86,775	86,775	-	22,140
Lease purchase proceeds	-	-	-	25,100
TOTAL OTHER FINANCING SOURCES	<u>86,775</u>	<u>86,775</u>	<u>-</u>	<u>47,240</u>
REVENUES AND OTHER FINANCING SOURCES LESS THAN EXPENDITURES	<u>\$ -</u>	<u>\$ (83,052)</u>	<u>\$ (83,052)</u>	<u>\$ (10,684)</u>

Note: Prepared for comparison with the legally adopted budget.

Reconciliation from budgetary basis (modified accrual) to full accrual:

Revenues and other financing sources(uses) less than expenditures	\$ (83,052)
Reconciling items -	
Principal payments on debt	105,133
Capital outlay	9,645
Capital contributions	3,127
Loan proceeds - general fund	(86,775)
Depreciation	(50,517)
Change in net assets	<u>\$ (102,439)</u>

CITY OF SANFORD, NORTH CAROLINA

GOLF CAPITAL PROJECTS FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Project budget</u>	<u>Current year</u>	<u>Prior years</u>	<u>Total</u>
REVENUES-				
Interest income	\$ -	\$ -	\$ 2,257	\$ 2,257
Total revenues	<u>-</u>	<u>-</u>	<u>2,257</u>	<u>2,257</u>
EXPENDITURES-				
Capital construction - golf course renovation	1,250,000	299,487	932,785	1,232,272
Total expenditures	<u>1,250,000</u>	<u>299,487</u>	<u>932,785</u>	<u>1,232,272</u>
REVENUES LESS THAN EXPENDITURES	(1,250,000)	(299,487)	(930,528)	(1,230,015)
OTHER FINANCING SOURCES-				
Advance from general fund	650,000	-	650,000	650,000
Installment purchase proceeds	600,000	-	600,000	600,000
Sales tax refund	-	16,754	-	16,754
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ (282,733)</u>	<u>\$ 319,472</u>	<u>\$ 36,739</u>

Note: Included in the combined basic financial statements with the operations of the Golf Fund.



CITY OF SANFORD, NORTH CAROLINA

FIDUCIARY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. The city uses agency funds to account for funds held for the Firemen's Supplemental Pension Plan and the Lee County water system.

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CITY OF SANFORD, NORTH CAROLINA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2003

	<u>Balance June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2003</u>
FIREMEN'S SUPPLEMENTAL PENSION FUND -				
<u>ASSETS</u>				
Cash, cash equivalents and investments	\$ 285,230	\$ 26,099	\$ 19,975	\$ 291,354
Accounts receivable	19,205	25,009	25,100	19,114
TOTAL	<u>\$ 304,435</u>	<u>\$ 51,108</u>	<u>\$ 45,075</u>	<u>\$ 310,468</u>
<u>LIABILITIES</u>				
Amounts available for benefits	<u>\$ 304,435</u>	<u>\$ 51,108</u>	<u>\$ 45,075</u>	<u>\$ 310,468</u>
 LEE COUNTY WATER FUND -				
<u>ASSETS</u>				
Cash, cash equivalents and investments	\$ 41,064	\$ 1,340,138	\$ 1,325,745	\$ 55,457
Accounts receivable	194,735	1,841,062	1,860,104	175,693
TOTAL	<u>\$ 235,799</u>	<u>\$ 3,181,200</u>	<u>\$ 3,185,849</u>	<u>\$ 231,150</u>
<u>LIABILITIES</u>				
Due to Lee County	<u>\$ 235,799</u>	<u>\$ 3,181,200</u>	<u>\$ 3,185,849</u>	<u>\$ 231,150</u>
 TOTALS - ALL AGENCY FUNDS -				
<u>ASSETS</u>				
Cash, cash equivalents and investments	\$ 326,294	\$ 1,366,237	\$ 1,345,720	\$ 346,811
Accounts receivable	213,940	1,866,071	1,885,204	194,807
TOTAL	<u>\$ 540,234</u>	<u>\$ 3,232,308</u>	<u>\$ 3,230,924</u>	<u>\$ 541,618</u>
<u>LIABILITIES</u>				
Amounts available for benefits	\$ 304,435	\$ 51,108	\$ 45,075	\$ 310,468
Due to Lee County	235,799	3,181,200	3,185,849	231,150
TOTAL	<u>\$ 540,234</u>	<u>\$ 3,232,308</u>	<u>\$ 3,230,924</u>	<u>\$ 541,618</u>

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CITY OF SANFORD, NORTH CAROLINA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
YEAR ENDED JUNE 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
Governmental funds capital assets:		
Land	\$ 2,634,256	\$ 1,766,357
Construction in progress	457,388	-
Municipal center and other buildings	7,763,308	8,409,364
Equipment	7,524,752	5,968,360
Total governmental funds capital assets	<u>\$ 18,379,704</u>	<u>\$ 16,144,081</u>
Investments in governmental funds capital assets by source:		
General fund	\$ 17,903,060	\$ 16,124,825
Special revenue funds	476,644	19,256
Total governmental funds capital assets	<u>\$ 18,379,704</u>	<u>\$ 16,144,081</u>

Note: Amounts presented above exclude accumulated depreciation.

CITY OF SANFORD, NORTH CAROLINA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
YEAR ENDED JUNE 30, 2003**

Function and Activity	Land	Construction in Progress	Municipal Center and Other Buildings	Equipment	Total
General government					
Administration	\$ -	\$ -	\$ -	2,540	2,540
Budget	-	-	-	2,516	2,516
Human resources	-	-	-	18,184	18,184
Risk management	-	-	-	17,451	17,451
Finance	-	-	-	2,926	2,926
Information systems	-	-	-	41,225	41,225
Legal	-	-	-	4,024	4,024
Planning	-	-	-	106,248	106,248
Public buildings	2,634,256	-	7,763,308	327,005	10,724,569
Public works administration	-	-	-	53,866	53,866
Central mimeo	-	-	-	20,011	20,011
Beautification	-	-	-	70,072	70,072
Shop	-	-	-	786,242	786,242
Total general government	2,634,256	-	7,763,308	1,452,310	11,849,874
Public safety:					
Police	-	-	-	2,193,670	2,193,670
Fire	-	-	-	1,532,476	1,532,476
Inspections	-	-	-	61,159	61,159
	-	-	-	3,787,305	3,787,305
Streets		457,388		1,269,062	1,726,450
Sanitation				952,913	952,913
Community development				63,162	63,162
Total governmental funds capital assets	\$ 2,634,256	\$ 457,388	\$ 7,763,308	\$ 7,524,752	\$ 18,379,704

Note: Amounts presented above exclude accumulated depreciation.

CITY OF SANFORD, NORTH CAROLINA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
YEAR ENDED JUNE 30, 2003**

Function and Activity	Beginning of Year	Additions / Transfers In	Deductions / Transfers Out	End of Year
General government:				
Administration	\$ 2,540	\$ -	-	2,540
Budget	2,516	-	-	2,516
Human resources	18,184	-	-	18,184
Risk management	17,451	-	-	17,451
Revenue	3,514	-	3,514	-
Finance	2,926	-	-	2,926
Information systems	32,033	9,192	-	41,225
Legal	4,024	-	-	4,024
Planning	51,214	55,034	-	106,248
Public buildings	10,489,183	951,399	716,013	10,724,569
Public works administration	53,866	-	-	53,866
Central mimeo	20,011	-	-	20,011
Beautification	70,072	-	-	70,072
Shop	-	786,242	-	786,242
Total general government	10,767,534	1,801,867	719,527	11,849,874
Public safety:				
Police	2,062,137	304,364	172,831	2,193,670
Fire	1,500,864	35,031	3,419	1,532,476
Inspections	49,700	11,459	-	61,159
	3,612,701	350,854	176,250	3,787,305
Streets	772,262	1,008,167	53,979	1,726,450
Sanitation	928,422	97,760	73,269	952,913
Community development	63,162	-	-	63,162
Total governmental funds capital assets	\$ 16,144,081	\$ 3,258,648	\$ 1,023,025	\$ 18,379,704

Note: Amounts presented above exclude accumulated depreciation.

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CITY OF SANFORD, NORTH CAROLINA

SUPPLEMENTAL SCHEDULE OF UNCOLLECTED TAXES

JUNE 30, 2003

	<u>Total</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>
Prior year's levies -			
1993	\$ 43,803	\$ 43,441	\$ 362
1994	30,565	30,339	226
1995	13,570	13,504	66
1996	20,872	20,841	31
1997	23,175	23,007	168
1998	55,121	50,962	4,159
1999	24,794	24,801	(7)
2000	82,016	79,830	2,186
2001	<u>115,680</u>	<u>112,535</u>	<u>3,145</u>
Total prior year's levies	409,596	399,260	10,336
Current year's levy - 2002	<u>423,659</u>	<u>420,595</u>	<u>3,064</u>
TOTAL	833,255	819,855	13,400
LESS ALLOWANCE FOR UNCOLLECTED TAXES	<u>306,056</u>	<u>304,470</u>	<u>1,586</u>
NET UNCOLLECTED TAXES	<u>\$ 527,199</u>	<u>\$ 515,385</u>	<u>\$ 11,814</u>

CITY OF SANFORD, NORTH CAROLINA

SUPPLEMENTAL SCHEDULE OF 2002 TAX LEVY

JUNE 30, 2003

	City wide		Total levy	
	Property valuations	Total levy	Property excluding motor vehicles	Registered motor vehicles
Tax rate per \$100 value	<u>\$ 0.57</u>			
Regularly listed -				
Real and personal	\$ 1,475,064,992	\$ 8,407,880	\$ 7,538,672	\$ 869,208
Utilities	37,788,739	215,396	215,396	-
Penalties	-	8,331	8,331	-
Subtotal	<u>1,512,853,731</u>	<u>8,631,607</u>	<u>7,762,399</u>	<u>869,208</u>
Add: discoveries and late lists	14,143,834	89,629	89,629	-
Less: abatements	(6,230,262)	(66,145)	(51,561)	(14,584)
TOTAL PROPERTY VALUATION	<u>\$ 1,520,767,303</u>			
Net tax levy		8,655,091	7,800,467	854,624
Uncollected taxes @ 6/30/03		<u>(420,595)</u>	<u>(273,272)</u>	<u>(147,323)</u>
Current year's taxes collected		<u>\$ 8,234,496</u>	<u>\$ 7,527,195</u>	<u>\$ 707,301</u>
COLLECTION PERCENTAGE		<u>95.14%</u>	<u>96.50%</u>	<u>82.76%</u>

CITY OF SANFORD, NORTH CAROLINA

SUPPLEMENTAL SCHEDULE OF 2002 TAX LEVY

JUNE 30, 2003

	Central business district		Total levy	
	Property valuations	Total levy	Property excluding motor vehicles	Registered motor vehicles
Tax rate per \$100 value		<u>\$ 0.13</u>		
Regularly listed -				
Real and personal	\$ 34,002,205	\$ 44,203	\$ 42,406	\$ 1,797
Utilities	234,109	304	304	-
Penalties	-	159	159	-
Subtotal	<u>34,236,314</u>	<u>44,666</u>	<u>42,869</u>	<u>1,797</u>
Add: discoveries and late lists	109,411	297	297	-
Less: abatements	<u>(509,356)</u>	<u>(695)</u>	<u>(660)</u>	<u>(35)</u>
TOTAL PROPERTY VALUATION	<u>\$ 33,836,369</u>			
Net tax levy		44,268	42,506	1,762
Uncollected taxes @ 6/30/03		<u>(3,064)</u>	<u>(2,957)</u>	<u>(107)</u>
Current year's taxes collected		<u>\$ 41,204</u>	<u>\$ 39,549</u>	<u>\$ 1,655</u>
COLLECTION PERCENTAGE		<u>93.08%</u>	<u>93.04%</u>	<u>93.93%</u>

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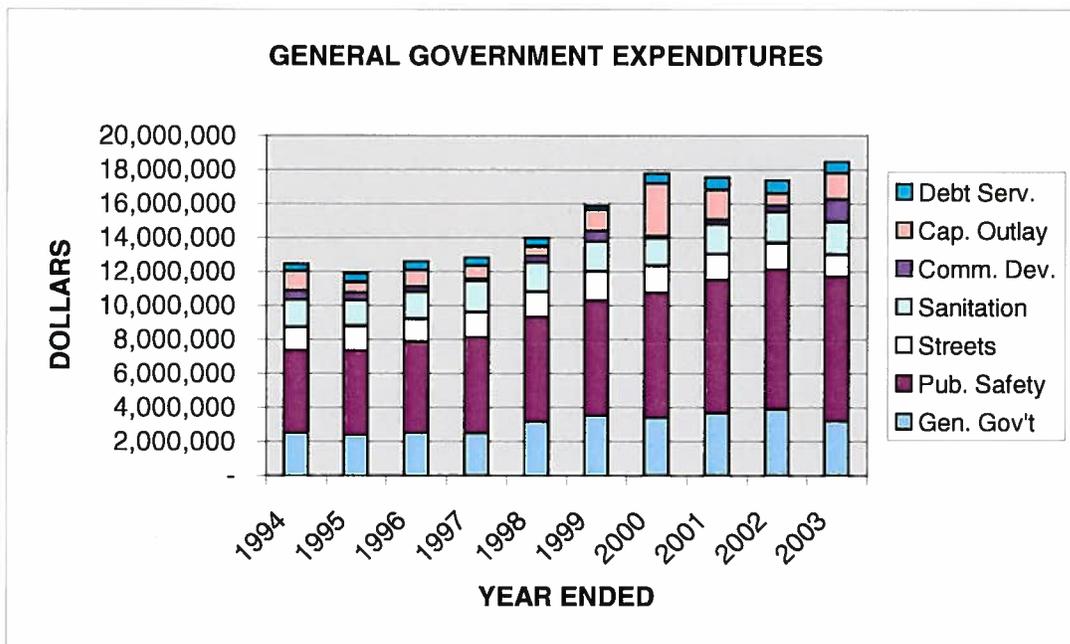
CITY OF SANFORD, NORTH CAROLINA

GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (UNAUDITED)

YEAR ENDED JUNE 30, 2003

Fiscal Year June 30	Current Operating Expenditures							Total
	General Gov't.	Public Safety	Streets	Sanitation and Waste Removal	Community Devp't.	Capital Outlay	Debt Service	
1994	2,478,116	4,865,732	1,400,982	1,584,534	530,822	1,176,206	408,442	12,444,834
1995	2,370,777	4,949,273	1,457,291	1,522,292	430,258	653,216	503,906	11,887,013
1996	2,466,610	5,385,606	1,366,397	1,609,267	273,548	993,333	489,959	12,584,720
1997	2,519,506	5,600,840	1,489,645	1,838,004	105,809	776,345	494,449	12,824,598
1998	3,161,026	6,138,056	1,506,234	1,743,492	383,544	573,532	460,255	13,966,139
1999	3,515,699	6,759,641	1,722,185	1,769,753	620,086	1,216,483	259,046	15,862,893
2000	3,394,523	7,324,031	1,612,261	1,636,063	121,090	3,101,659	579,991	17,769,618
2001	3,699,593	7,805,026	1,539,814	1,744,668	266,443	1,773,001	723,779	17,552,324
2002	3,922,641	8,194,466	1,576,725	1,823,697	361,989	740,148	755,912	17,375,578
2003	3,202,601	8,491,523	1,325,054	1,913,821	1,324,782	1,542,667	680,928	18,481,376

* Includes General Fund, Special Revenue Fund and Capital Projects Fund.



CITY OF SANFORD, NORTH CAROLINA

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL
GENERAL GOVERNMENT EXPENDITURES (UNAUDITED)
YEAR ENDED JUNE 30, 2003

<u>Fiscal year June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>General Government Expenditures</u>	<u>Ratio of Debt Service to General Government Expenditures</u>
1994	-	-	-	12,444,834	-
1995	-	-	-	11,887,013	-
1996	-	-	-	12,584,720	-
1997	-	-	-	12,824,598	-
1998	-	-	-	13,966,139	-
1999	-	-	-	15,862,893	-
2000	-	-	-	16,151,155	-
2001	-	-	-	16,307,574	-
2002	-	-	-	16,721,956	-
2003	-	-	-	17,439,800	-

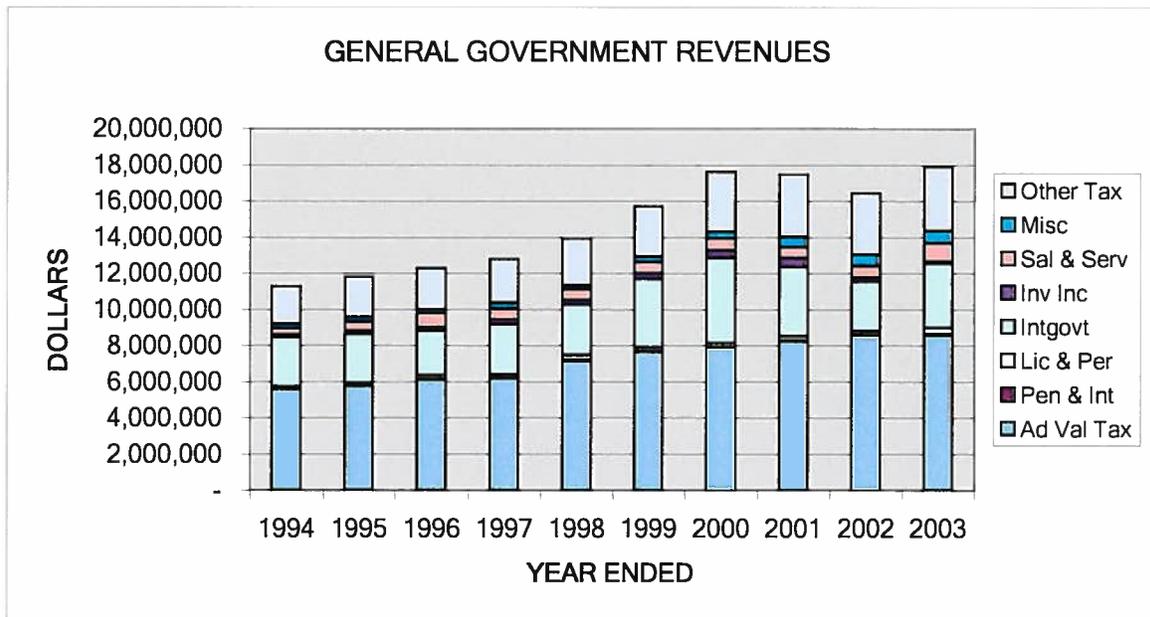
CITY OF SANFORD, NORTH CAROLINA

GENERAL GOVERNMENT REVENUES (UNAUDITED)

YEAR ENDED JUNE 30, 2003

Fiscal Year June 30	Ad valorem taxes	Penalties and interest	Licenses and permits	Inter- governmental revenues	Investment income	Sales and Service	Misc. revenues	Other taxes	Total
1994	5,596,799	32,265	91,519	2,761,783	94,395	384,680	221,872	2,103,510	11,286,823
1995	5,766,378	50,793	126,901	2,686,673	171,314	526,593	237,460	2,246,429	11,812,541
1996	6,131,077	52,730	167,829	2,480,072	186,509	776,147	188,395	2,308,265	12,291,024
1997	6,191,910	41,980	154,156	2,816,764	224,496	619,193	308,800	2,446,278	12,803,577
1998	7,147,619	45,588	264,243	2,814,166	247,650	612,421	166,730	2,646,855	13,945,272
1999	7,660,829	37,852	193,175	3,819,632	289,613	634,316	286,580	2,779,099	15,701,096
2000	7,902,593	26,421	212,281	4,728,135	392,961	687,237	357,542	3,323,827	17,630,997
2001	8,236,373	40,917	240,592	3,856,978	465,156	624,629	543,131	3,464,778	17,472,554
2002	8,546,324	57,839	191,674	2,757,215	220,357	663,197	588,584	3,430,164	16,455,354
2003	8,575,100	60,790	354,198	3,557,390	120,365	1,020,985	659,494	3,585,691	17,934,013

* Includes General Fund, Special Revenue Fund and Capital Projects Fund.



CITY OF SANFORD, NORTH CAROLINA

**RATIO OF GENERAL BONDED DEBT TO ASSESSED VALUE AND AMOUNT OF GENERAL BONDED DEBT PER CAPITA
(UNAUDITED)**

YEAR ENDED JUNE 30, 2003

<u>Fiscal year June 30,</u>	<u>Population(A)</u>	<u>Assessed value (B) (C)</u>	<u>Bonded debt (D)</u>	<u>Ratio bonded debt to assessed value</u>	<u>Bonded debt per capita</u>
1994	19,943	898,459,437	-	-	-
1995	20,385	907,422,341	-	-	-
1996	20,750	1,081,259,522	-	-	-
1997	21,100	1,118,919,038	-	-	-
1998	21,500	1,218,432,254	-	-	-
1999	21,518	1,325,661,114	-	-	-
2000	22,310	1,413,443,616	-	-	-
2001	23,330	1,455,248,574	-	-	-
2002	23,409	1,498,069,801	-	-	-
2003	23,522	1,520,767,303	-	-	-

Source of information:

(A) Office of State Budget and Management

(B) Octennial revaluation in 1995-96

(C) Assessment ratio to estimated sound value - 100%

(D) Refers only to tax supported general obligation debt

CITY OF SANFORD, NORTH CAROLINA

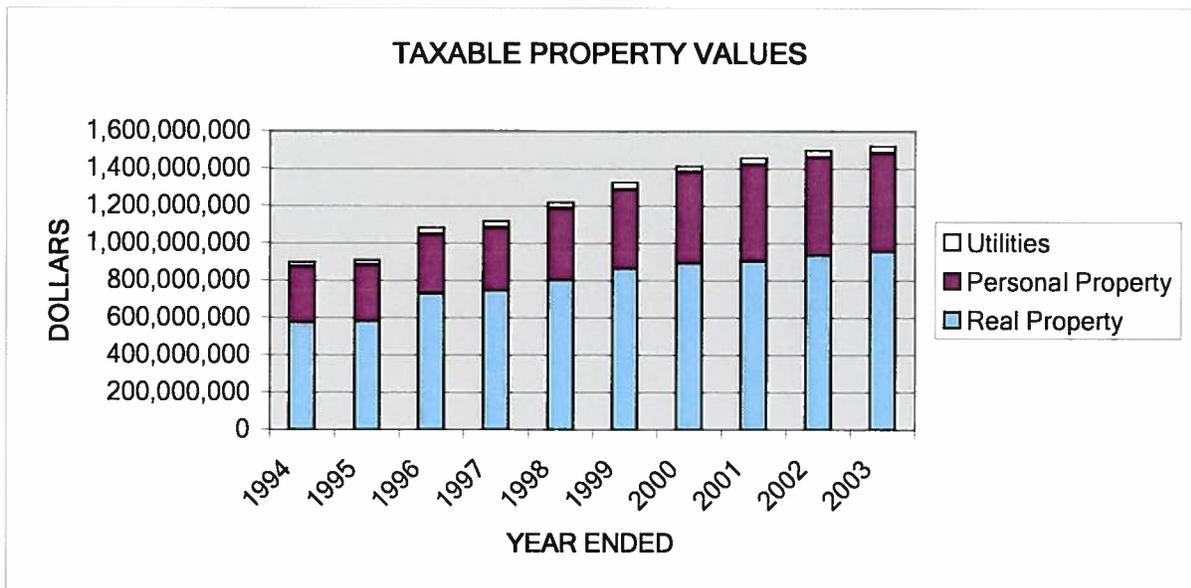
ASSESSED VALUE OF ALL TAXABLE PROPERTY (UNAUDITED)

YEAR ENDED JUNE 30, 2003

Fiscal year June 30	Real Property	Personal Property	Utilities	Total
1994	576,703,993	296,124,702	25,630,742	898,459,437
1995	580,858,211	301,396,820	25,167,310	907,422,341
1996*	731,326,671	315,809,943	34,122,908	1,081,259,522
1997	748,032,081	334,910,602	35,976,355	1,118,919,038
1998	805,168,617	379,727,329	33,536,308	1,218,432,254
1999	863,240,884	421,391,979	41,028,251	1,325,661,114
2000	894,016,733	484,591,937	34,834,946	1,413,443,616
2001	905,557,937	513,946,981	35,743,656	1,455,248,574
2002	939,174,794	518,906,756	39,988,251	1,498,069,801
2003	956,056,544	526,922,020	37,788,739	1,520,767,303

Appraised by Lee County Board of Equalization at 100% of estimated sound value

* Year of most recent octennial revaluation



CITY OF SANFORD, NORTH CAROLINA

COMPUTATION OF LEGAL DEBT MARGIN (UNAUDITED)

YEAR ENDED JUNE 30, 2003

Assessed value		<u>\$ 1,520,767,303</u>
Debt limit 8% of assessed value		\$ 121,661,384
Amount of debt applicable to debt limit:		
Outstanding debt evidenced by bonds	\$ 8,938,106	
Unissued bonds authorized by existing orders	-	
Outstanding debt not evidenced by bonds:		
Notes	1,927,790	
Installment purchase contracts	10,188,516	
Capital leases	646,285	
Annexation liability for fire protection	34,741	
	<u>21,735,438</u>	
Less deduction allowed by G.S. 159.55(a)(2) and G.S. 159.55(b) - Utility debt	<u>8,938,106</u>	<u>12,797,332</u>
LEGAL DEBT MARGIN		<u>\$ 108,864,052</u>

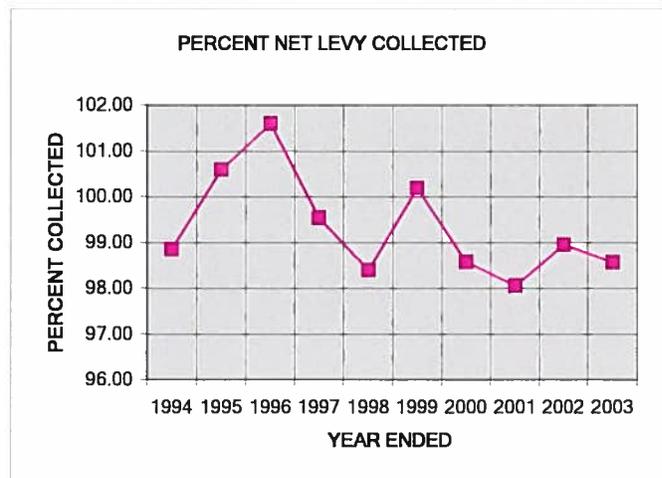
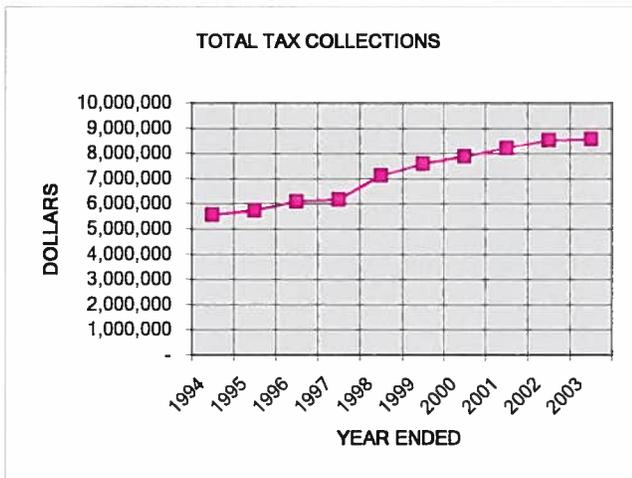
CITY OF SANFORD, NORTH CAROLINA

TAX LEVIES AND TAX COLLECTIONS* (UNAUDITED)

YEAR ENDED JUNE 30, 2003

Fiscal year Ended	Total levy (net)	Collected current levy	Percent collected	Collected-prior levies	Total collected	Ratio collected to current levy	Balance delinquent	Ratio delinquent balance to current levy
1994	5,641,343	5,438,887	96.41	137,608	5,576,495	98.85	610,871	10.83
1995	5,713,665	5,522,440	96.65	222,957	5,745,397	100.60	383,243	6.71
1996	6,015,722	5,890,289	97.92	219,402	6,109,691	101.60	308,690	5.13
1997	6,199,655	6,024,370	97.17	146,540	6,170,910	99.54	294,681	4.75
1998	7,249,743	6,982,165	96.31	151,420	7,133,585	98.40	345,879	4.77
1999	7,597,874	7,392,033	97.29	219,604	7,611,637	100.19	305,974	4.03
2000	7,995,463	7,766,070	97.13	115,523	7,881,593	98.58	462,989	5.79
2001	8,372,611	8,019,722	95.79	189,009	8,208,731	98.05	484,565	5.79
2002	8,621,779	8,300,886	96.28	229,987	8,530,873	98.95	512,510	5.95
2003	8,699,359	8,275,700	95.13	299,400	8,575,100	98.57	527,199	6.06

* Includes special tax district.



CITY OF SANFORD, NORTH CAROLINA

COMPUTATION OF DIRECT AND OVERLAPPING DEBT (UNAUDITED),

YEAR ENDED JUNE 30, 2003

<u>Name of government unit</u>	<u>Net debt outstanding</u>	<u>*Percentage applicable to the City of Sanford</u>	<u>City of Sanford's share of debt</u>
City of Sanford - debt applicable to debt limit	\$ 12,797,332	100%	\$ 12,797,332
Lee County	<u>24,805,000</u>	50%	<u>12,402,500</u>
TOTAL	<u>\$ 37,602,332</u>		<u>\$ 25,199,832</u>

* Determined by ratio of assessed valuation of taxable property within the City to the assessed valuation of taxable property within the county.

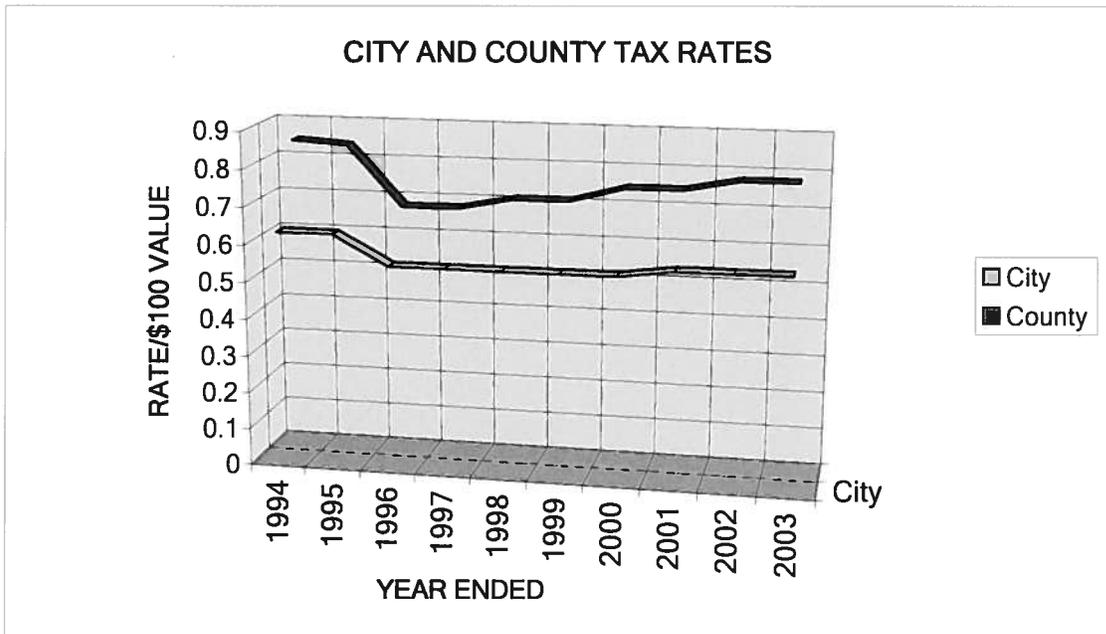
CITY OF SANFORD, NORTH CAROLINA

PROPERTY TAX RATES AND TAX LEVIES - DIRECT AND OVERLAPPING GOVERNMENTS (UNAUDITED)

YEAR ENDED JUNE 30, 2003

Tax rates per \$100 of property valuation				Tax Levies			
Fiscal year June 30	City	Lee County	Total	Fiscal year June 30	City	Lee County	Total
1994	0.63	0.85	1.48	1994	5,609,914	16,135,863	21,745,777
1995	0.63	0.84	1.47	1995	5,682,259	15,503,102	21,185,361
1996*	0.55	0.68	1.23	1996	5,981,619	15,388,753	21,370,372
1997	0.55	0.68	1.23	1997	6,164,782	15,869,400	22,034,182
1998	0.55	0.71	1.26	1998	7,249,743	15,135,390	22,385,133
1999	0.55	0.71	1.26	1999	7,554,842	19,183,266	26,738,108
2000	0.55	0.75	1.30	2000	7,960,625	20,852,055	28,812,680
2001	0.57	0.75	1.32	2001	8,336,019	21,266,214	29,602,233
2002	0.57	0.78	1.35	2002	8,574,272	22,784,612	31,358,884
2003	0.57	0.78	1.35	2003	8,655,091	23,574,692	32,229,783

* Most recent revaluation



CITY OF SANFORD, NORTH CAROLINA

DEMOGRAPHIC STATISTICS (UNAUDITED)

YEAR ENDED JUNE 30, 2003

<u>Fiscal year June 30,</u>	<u>Population(A)</u>	<u>Per capita income (B)</u>	<u>Average daily school membership (C)</u>	<u>Lee County Unemployment rate (D)</u>
1994	19,943	20,704	7,825	5.6%
1995	20,385	21,657	7,936	4.8%
1996	20,750	22,652	8,162	4.7%
1997	21,100	24,039	8,579	4.0%
1998	21,500	23,891	8,721	3.7%
1999	21,518	25,708	8,502	3.5%
2000	22,310	25,740	8,504	3.7%
2001	23,330	26,983	8,604	6.0%
2002	23,409	N/A	8,438	7.7%
2003	23,522	N/A	8,472	6.7%

Source of information:

(A) Office of State Budget and Management

(B) Bureau of Economic Analysis (State Library)

(C) Lee County Board of Education

(D) Employment Security Commission of North Carolina

N/A Not available

CITY OF SANFORD, NORTH CAROLINA

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS (UNAUDITED)

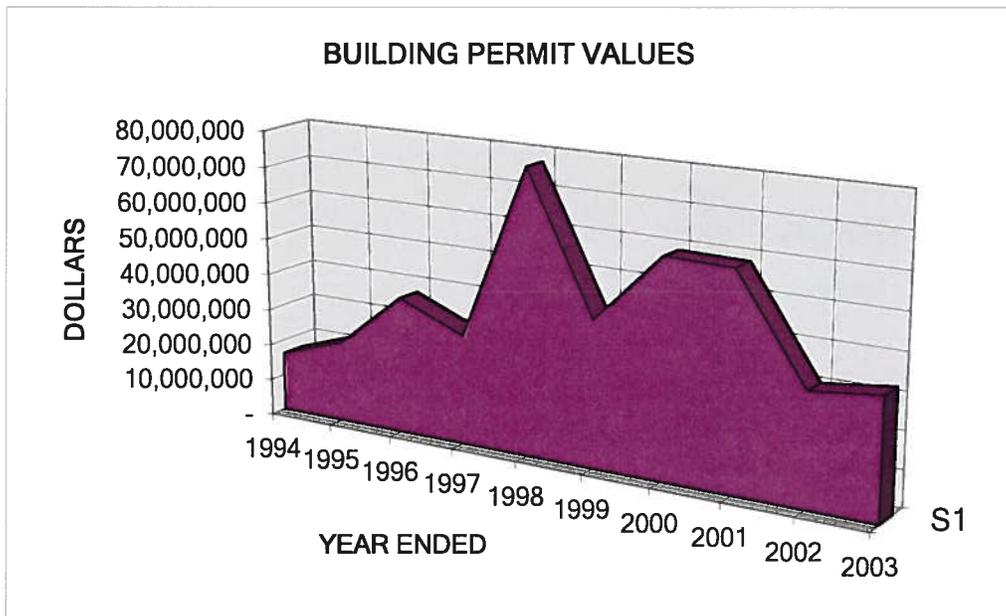
YEAR ENDED JUNE 30, 2003

Fiscal year June 30	Building permits		Bank deposits (B)	Assessed property values			
	Number of units (A)	Value (A)		Real property	Personal property	Utilities	Total
1994	353	16,196,254	496,867,000	576,703,993	296,124,702	25,630,742	898,459,437
1995	443	22,225,198	500,778,000	580,858,211	301,396,820	25,167,310	907,422,341
1996	469	37,428,292	525,244,000	731,326,671	315,809,943	34,122,908	1,081,259,522
1997	391	29,788,335	528,921,000	748,032,081	334,910,602	35,976,355	1,118,919,038
1998	565	77,371,411	541,977,000	805,168,617	379,727,329	33,536,308	1,218,432,254
1999	372	39,846,695	551,954,000	863,240,884	421,391,979	41,028,251	1,325,661,114
2000	442	58,940,414	581,620,000	894,016,733	484,591,937	34,834,946	1,413,443,616
2001	598	58,558,300	614,250,000	905,557,937	513,946,981	35,743,656	1,455,248,574
2002	369	30,513,704	599,438,000	939,174,794	518,906,756	39,988,251	1,498,069,801
2003	372	32,614,745	N/A	956,056,544	526,922,020	37,788,739	1,520,767,303

Source -

- (A) City of Sanford Inspections Department
- (B) F.D.I.C.

N/A Not available



CITY OF SANFORD, NORTH CAROLINA

MISCELLANEOUS STATISTICAL DATA (UNAUDITED)

YEAR ENDED JUNE 30, 2003

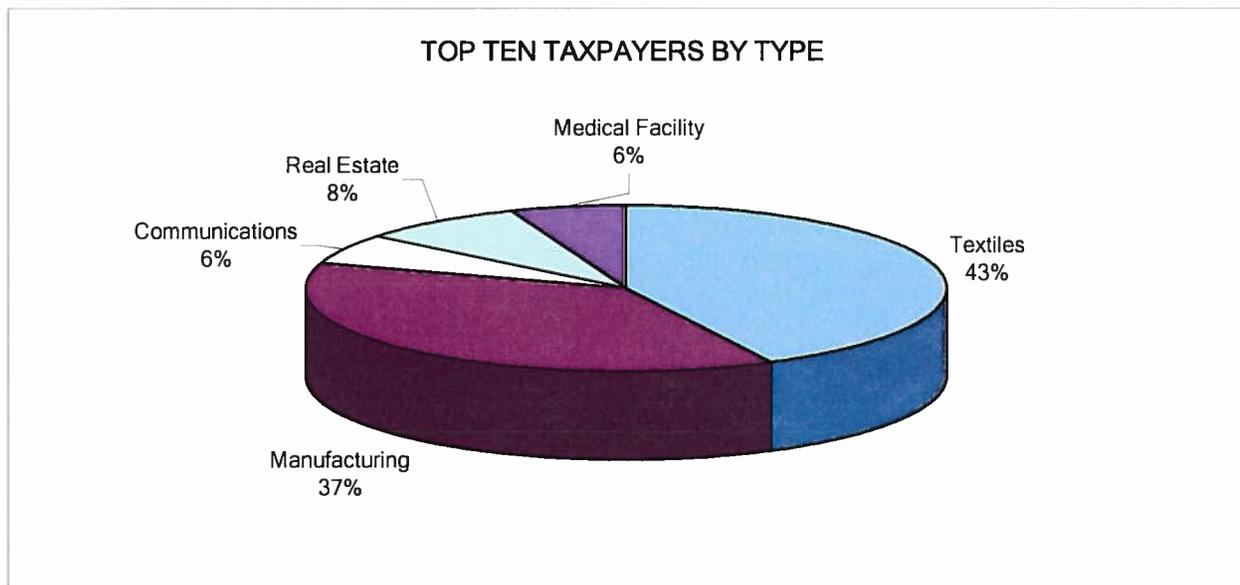
Date of incorporation	February 11, 1874
Form of government	Council - manager
Area - square miles - land	24.82
Fire protection	
Number of fire stations	3
Number of fire personnel	50
Fire calls (annual)	975
Police protection	
Number of police employees	94
Officers	75
Civilians	19
Number of calls for service (annual)	40,552
Public works	
Miles of streets	
Paved	117.35
Unpaved	2.53
Water treatment facilities	
Services (customers)	11,119
Consumption (pumped)	5.7 MGD
Facilities	
Plants (12 mgpd)	1
Treatment	Chlorination, chemical coagulation, filtration
Storage:	
finished	5,000,000 gallons
raw	60,000,000 gallons
Miles of distribution lines	271
Wastewater treatment	
Services (customers)	7,698
Average flow	4.46 MGD
Facilities	
Plant (6.8 mgpd)	1
Treatment	Tertiary
Miles of collection lines	175.4
Building permits issued (fiscal year)	372
Value of building permits issued	\$32,614,745
Total city employees	
Permanent	
Full-time	313
Part-time	1

CITY OF SANFORD, NORTH CAROLINA

PRINCIPAL TAXPAYERS (UNAUDITED)

YEAR ENDED JUNE 30, 2003

Taxpayer	Business	Assessed valuation	City wide taxes paid	Percentage of current levy
Frontier Spinning Milles LLC	Textiles	\$ 76,691,099	\$ 437,139	5.04%
Moen, Inc.	Faucet manufacturing	46,273,882	263,761	3.04%
Coty USA, Inc	Cosmetics manufacturing	43,207,993	246,286	2.84%
Magneti Marelli USA	Automotive component manufacturing	27,510,298	156,638	1.81%
Donald R. Simpson	Real estate	25,662,404	146,276	1.69%
Parkdale	Textiles	23,756,488	135,412	1.56%
Central Carolina Hospital	Medical facility	18,585,195	105,936	1.22%
Alltel	Communications	18,519,111	105,560	1.22%
Wachovia Capital Markets	Textiles (Frontier Spinning)	18,185,800	103,659	1.20%
National Textile	Textiles	13,793,386	78,622	0.91%
				20.53%



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

Honorable Mayor and City Council
City of Sanford
Sanford, North Carolina

We have audited the basic financial statements of the City of Sanford, North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Sanford ABC Board were not audited in accordance with *Government Auditing Standards*.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sanford's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of 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.

Dixon Odom PLLC

August 29, 2003

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**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**

Honorable Mayor and City Council
City of Sanford
Sanford, North Carolina

Compliance

We have audited the compliance of the City of Sanford, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2003. The City of Sanford's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Sanford's management. Our responsibility is to express an opinion on the City of Sanford'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; OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and the State Single Audit Implementation Act. Those standards, OMB Circular A-133 and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sanford'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 of Sanford's compliance with those requirements.

In our opinion, the City of Sanford complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the City of Sanford is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sanford's internal control over compliance with requirements that could have a direct and material effect on each of its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of 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.

Dixon Odom PLLC

August 29, 2003

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE
SINGLE AUDIT IMPLEMENTATION ACT**

Honorable Mayor and City Council
City of Sanford
Sanford, North Carolina

Compliance

We have audited the compliance of the City of Sanford, North Carolina, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2003. The City of Sanford's major State programs are identified in the summary of auditors' 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 of Sanford's management. Our responsibility is to express an opinion on the City of Sanford'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; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act. Those standards, OMB Circular A-133 and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Sanford'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 of Sanford's compliance with those requirements.

In our opinion, the City of Sanford complied, in all material respects, with the requirements referred to above that are applicable to its major State programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the City of Sanford 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 of Sanford's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

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

This report is intended solely for the information of the audit committee, management, other within the organization, members of 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.

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August 29, 2003

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CITY OF SANFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2003

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted *No*

Federal Awards

Internal control over major federal programs:

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

Type of auditors' report issued on compliance for major federal programs *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 *No*

Identification of major federal programs:

CFDA Numbers	Name of Federal Programs or Cluster
14.228	Community Development Block Grant

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

Auditee qualified as low-risk auditee? *Yes*

CITY OF SANFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2003

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major State program:

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

Type of auditors' report issued on compliance for a major State program *Unqualified*

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

Identification of major State programs:

Name of State Programs

Powell Bill Funds
Effluent Re-use Irrigation Project and Sanitary Sewer Rehab

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

CITY OF SANFORD, NORTH CAROLINA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

As of June 30, 2003, there are no uncorrected material findings and recommendations from prior audits that affect the financial audit.

CITY OF SANFORD, NORTH CAROLINA
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2003

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Project No.</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
<u>U.S. Department of Justice Direct Program</u>				
Local Law Enforcement Block Grant	16.592	LB-BX-2610	\$ 23,119	-
Local Law Enforcement Block Grant	16.592	LB-BX-2895	732	-
<u>Asset Forfeiture and Money Laundering Section</u>				
Federal Equitable Sharing Program	16	NC0530100	34,125	25,919
<u>U.S. Department of Housing and Urban Development</u>				
<u>Passed-through N.C. Department of Commerce-</u>				
Community Development Block Grant	14.228	00-C-0671	80,019	-
Community Development Block Grant	14.228	02-C-0921	<u>350,000</u>	-
Total Federal Assistance			<u>\$ 487,995</u>	
State Grants:				
<u>N.C. Department of Crime Control and Public Safety</u>				
Crime Commission Grant	N/A	2001-LB-BX-3438	-	3,439
Governor's Crime Grant	N/A	053-1-02-2VA-W-749	-	2,903
<u>N.C. Department of Insurance</u>				
Safe Kids Grant	N/A	N/A	-	3,596
<u>N.C. Department of Transportation</u>				
Governer's Highway Safety Program	N/A	N/A	-	(829)
<u>N.C. Department of Environment and Natural Resources</u>				
<u>Division of Water Quality Clean Water Bond Program -</u>				
Effluent Re-use Irrigation Project and Sanitary Sewer Rehab	N/A	E-SRG-T-00-0102	-	655,785
99-00 Water Grant - Water System Implementation Phase II	N/A	N/A	-	5,898
Clean Water Management Trust - Little Buffalo Creek	N/A	1998B-015	-	80,223
Clean Water Bond - Caterpillar	N/A	CI-243	-	-
<u>N.C. Department of Transportation</u>				
Powell Bill Funds	N/A	N/A	-	<u>751,708</u>
Total State Assistance				<u>\$ 1,528,642</u>

Note 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 Sanford 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-Profits Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general purpose financial statements.

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