

City of Sanford, North Carolina
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 2005

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Sanford, NC 27331-3729

City of Sanford

(919) 775-8202

September 30, 2005

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, 2005 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, 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, 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 25.29 square miles and a population of 23,832. 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 council members 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 \$442,074 and was the equivalent of 2.6 cents on the City tax rate. When compared to the prior fiscal year, this represents an increase in investment earnings of \$277,223.

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 continued on a strong path during the past year. The value of building permits increased \$50,360,416 or 83.1% from the prior year. This strong increase was fueled by both commercial and residential growth. Residential growth included the annexation of 95 lots for future development along with the expansion of two existing subdivisions and a new multi-family complex.

Commercial growth was led by Wyeth Pharmaceuticals which added over 100,000 square feet to its existing facility. In addition, the restoration of the historic W.B. Wicker school began in the 2005 fiscal year and several new businesses opened including an Applebee's restaurant on the US Highway #1 corridor and an Autozone on Highway 421.

During the 2004/05 fiscal year, the City purchased the Lee County water system. This purchase allows residents and businesses of the City and County access to one consolidated water system. Consolidation will also allow and promote seamless growth throughout the area, benefiting the region's economy. The purchase was financed through an installment purchase in the amount of \$6,830,000.

The City of Sanford also began \$7,000,000 in utility system improvements. These improvements include a new raw water pump station, construction to remove solids at the water treatment plant, and various improvements and equipment replacements.

Independent Audit

The General Statutes of North Carolina require an annual independent financial audit of all local government units in the state. Dixon Hughes, PLLC, a firm of independent certified public accountants, has audited 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, 2004. 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.

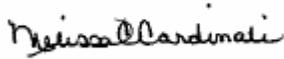
Acknowledgments

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, 2004

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.



Nancy L. Zelle

President

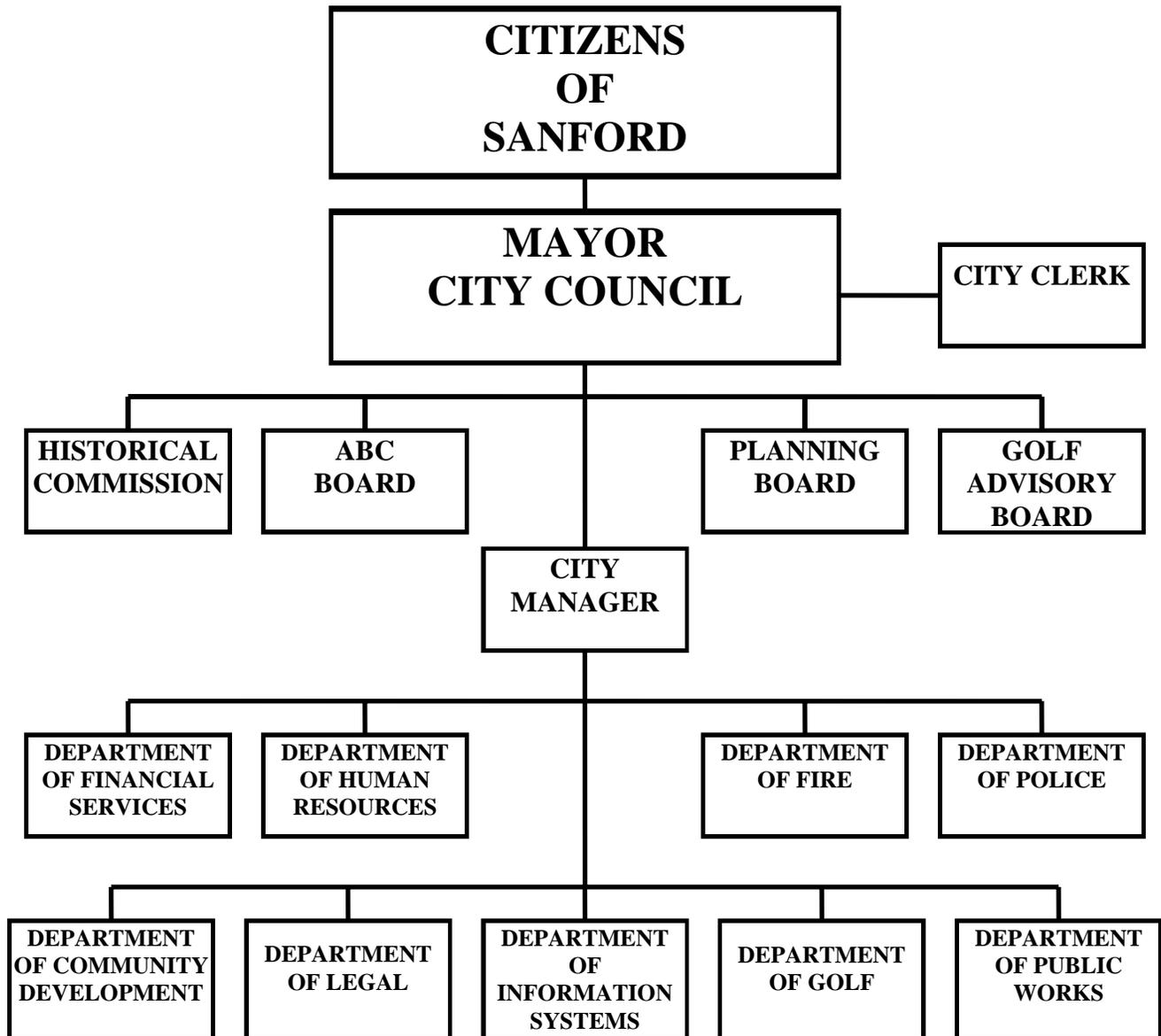
Jeffrey R. Enos

Executive Director

CITY OF SANFORD



ORGANIZATIONAL CHART





GOVERNING BODY

THE HONORABLE WINSTON C. HESTER, MAYOR

MAYOR PRO TEM JOSEPH E. MARTIN

COUNCIL MEMBERS

WALTER H. MCNEIL, JR.

LINWOOD S. MANN, SR.

JAMES G. WILLIAMS

CLAWSON ELLIS

CORNELIA OLIVE

PHILIP E. DUSENBURY



DIXON HUGHES PLLC
Certified Public Accountants and Advisors

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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sanford's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

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, 2005 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the City of Sanford's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Sanford, North Carolina, taken as a whole. The introductory information, combining and individual fund financial statements and schedules and the statistical tables, 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 basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 30, 2005
Sanford, North Carolina

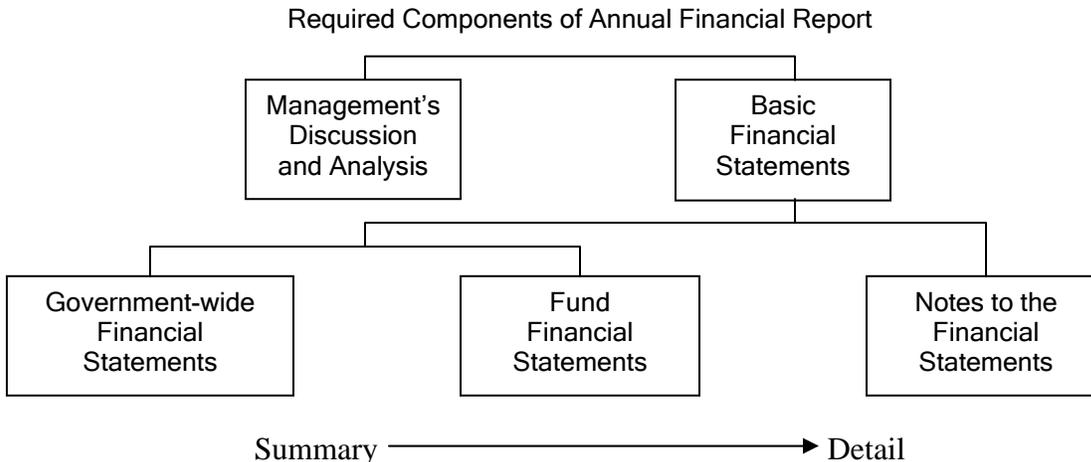
As management of the City of Sanford, we offer readers of the City of Sanford's financial statements this narrative overview and analysis of the financial activities of the City of Sanford for the fiscal year ended June 30, 2005. We encourage readers to read the information presented here in conjunction 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 \$76,239,384 (net assets).
- The government's total net assets increased by \$8,827,677, 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 \$10,560,268 an increase of \$955,671 in comparison with the prior year. Of this total amount, 72.9% or \$7,693,007, 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 \$7,311,936, or 39.6% of total general fund expenditures for the fiscal year.
- The City of Sanford's total debt increased by \$4,496,232 (17.2%) during the current fiscal year. The City entered a \$6,830,000 installment purchase agreement to purchase the Lee County Water District water system. This purchase consolidates the City and County systems into one utility system. In addition, the City retired approximately \$3,230,018 in debt.

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.

The government-wide financial statements are on pages 19 and 20 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City 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 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 30-53 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. Required supplementary information can be found beginning on page 54 of this report.

Government-Wide Financial Analysis

The City of Sanford's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets	\$ 11,643,503	\$ 10,976,550	\$ 17,119,024	\$ 17,282,159	\$ 28,762,527	\$ 28,258,709
Capital assets	12,020,073	10,789,647	69,661,909	57,418,495	81,681,982	68,208,142
Total assets	23,663,576	21,766,197	86,780,933	74,700,654	110,444,509	96,468,851
Long-term liabilities outstanding	2,490,475	2,877,477	26,625,087	21,108,218	29,115,562	23,985,695
Other liabilities	1,150,304	1,445,246	3,939,259	3,624,205	5,089,563	5,069,451
Total liabilities	3,640,779	4,322,723	30,564,346	24,732,423	34,205,125	29,055,146
Net assets:						
Invested in capital assets, net of related debt	9,938,162	8,375,002	39,031,667	32,823,282	48,969,829	41,198,284
Restricted	428,645	591,238	2,509,316	6,940,623	2,937,961	7,531,861
Unrestricted	9,655,990	8,477,236	14,675,604	10,204,326	24,331,594	18,681,562
Total net assets	\$ 20,022,797	\$ 17,443,476	\$ 56,216,587	\$ 49,968,231	\$ 76,239,384	\$ 67,411,707

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 \$76,239,384 as of June 30, 2005. The City's net assets increased by \$8,827,679 for the fiscal year ended June 30, 2005. However, the largest portion of net assets (64.2%) 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 (3.9 %) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24,331,594 is unrestricted.

Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

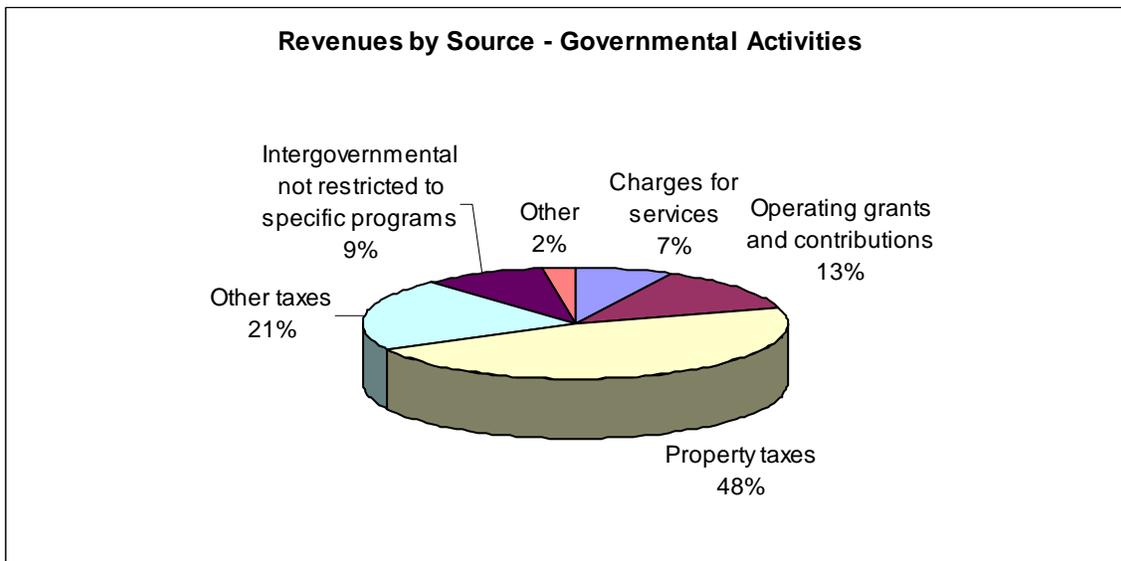
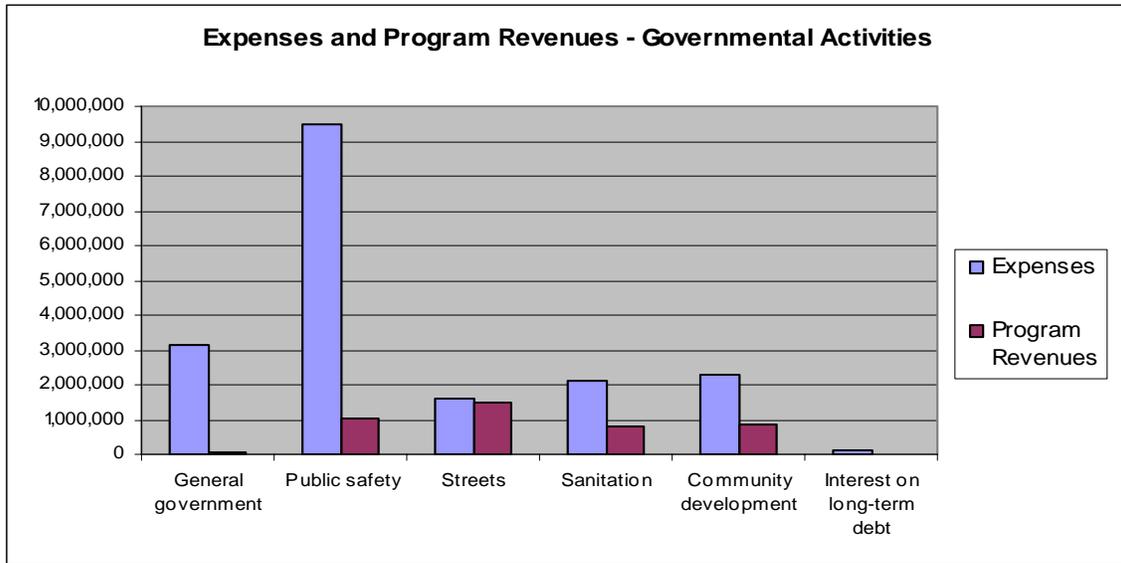
- Consistent collection of property taxes resulting in a tax collection percentage of 96.41%.
- Increased sales tax revenue of \$229,625 due to a continued strong local economy.

CITY OF SANFORD, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 1,571,750	\$ 2,059,926	\$ 15,033,395	\$ 12,921,578	\$ 16,605,145	\$ 14,981,504
Operating grants & contrib	2,696,774	1,040,643	-	-	2,696,774	1,040,643
Capital grants & contrib	-	-	2,338,700	1,185,411	2,338,700	1,185,411
General revenues:						
Property taxes	9,991,908	9,738,025	-	-	9,991,908	9,738,025
Other taxes	4,418,700	4,183,806	-	-	4,418,700	4,183,806
Intergovernmental not restricted	1,986,022	1,414,000	-	-	1,986,022	1,414,000
Other	528,094	746,845	237,547	84,238	765,641	831,083
Total revenues	21,193,248	19,183,245	17,609,642	14,191,227	38,802,890	33,374,472
Expenses:						
General government	3,119,589	3,490,001	-	-	3,119,589	3,490,001
Public safety	9,459,227	9,213,129	-	-	9,459,227	9,213,129
Streets	1,571,521	1,454,461	-	-	1,571,521	1,454,461
Sanitation	2,090,286	2,016,535	-	-	2,090,286	2,016,535
Community development	2,277,388	1,307,926	-	-	2,277,388	1,307,926
Interest on long-term debt	95,916	112,497	-	-	95,916	112,497
Utility	-	-	10,723,386	10,592,499	10,723,386	10,592,499
Golf	-	-	637,900	554,438	637,900	554,438
Total expenses	18,613,927	17,594,549	11,361,286	11,146,937	29,975,213	28,741,486
Increase in net assets	2,579,321	1,588,696	6,248,356	3,044,290	8,827,677	4,632,986
Net assets, beginning	17,443,476	15,854,780	49,968,231	46,923,941	67,411,707	62,778,721
Net assets, ending	\$ 20,022,797	\$ 17,443,476	\$ 56,216,587	\$ 49,968,231	\$ 76,239,384	\$ 67,411,707

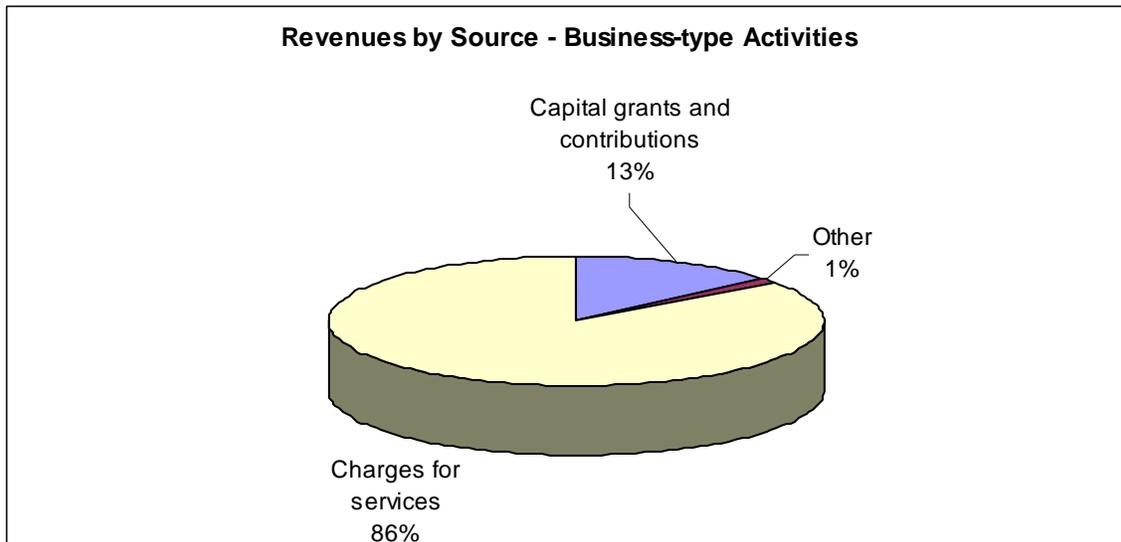
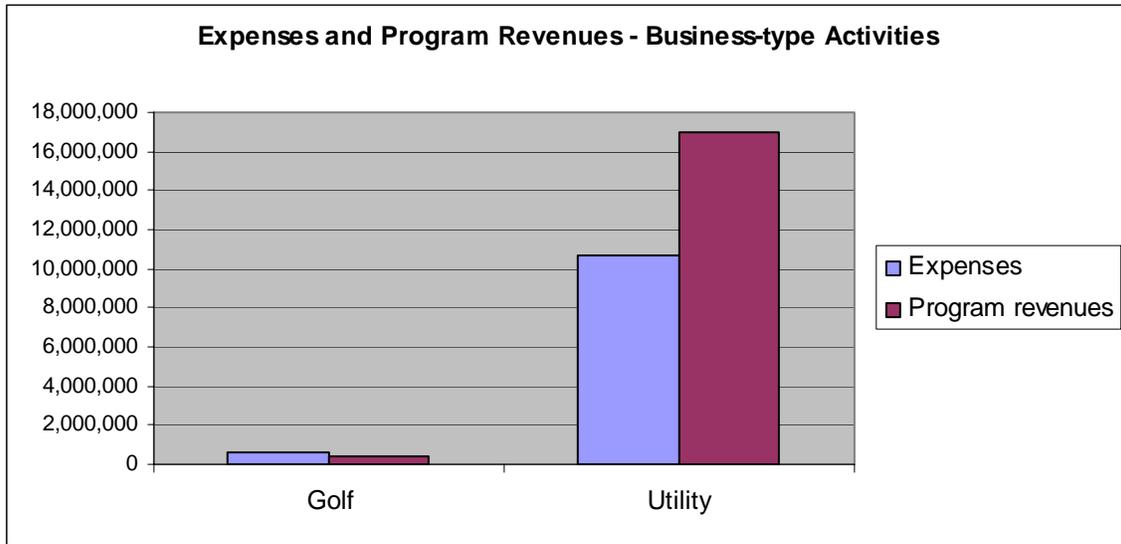
Governmental activities. Governmental activities increased the City's net assets by \$2,579,321, thereby accounting for 29.2% of the total growth in the net assets of the City of Sanford. Key elements of this increase are as follows:

- Sales tax revenue increased due to the continued strong economy.
- Tax revenues increased as a result of a higher collection rate.
- The City retired approximately \$429,000 in general government debt.



Business-type activities: Business-type activities increased the City of Sanford's net assets by \$6,248,356, accounting for 70.8% 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 the purchase of the Lee County water district system and the addition of more than 4,000 customers.
- Capital contributions by developers increased.



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.

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 \$7,311,936, while total fund balance reached \$10,131,623. 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 39.6 percent of total General Fund expenditures, while total fund balance represents 54.8 percent of that same amount.

At June 30, 2005, the governmental funds of City of Sanford reported a combined fund balance of \$10,560,268, a 10.0 percent increase over last year. Included in this change in fund balance is an increase in the General Fund fund balance and a decrease in Special Revenue Funds fund balance.

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.

During the year the City revised the budget to reflect the receipt of public safety grants, to recognize forfeiture funds for the police department, and to reflect the installment purchase of a leaf vacuum truck for the refuse department.

Revenues exceeded budgeted amounts primarily because of increased property tax and sales tax collections. 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 \$14,901,892, and a deficit for the Golf Fund of (\$226,288). The total growth in net assets for the Utility Fund was \$6,494,234 with a decrease in Golf Fund net assets of \$245,878. 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, 2005, totals \$81,681,982, (net of accumulated depreciation). These assets include buildings, roads and bridges, land, treatment plants, utility lines, machinery and equipment, golf facilities, and vehicles.

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

- Completed construction in progress for water and sewer capital assets of \$639,861.
- No major demolitions were recorded this year.
- Purchase of Lee County water system for \$8,030,000.

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

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,425,248	\$ 1,266,856	\$ 233,476	\$ 183,239	\$ 1,658,724	\$ 1,450,095
Buildings	5,113,922	5,261,493	165,949	182,047	5,279,871	5,443,540
Plants	-	-	21,533,340	21,765,085	21,533,340	21,765,085
Tanks and lines	-	-	41,185,665	32,347,258	41,185,665	32,347,258
Course & improvements	-	-	1,318,008	1,386,725	1,318,008	1,386,725
Equipment	5,438,489	4,261,298	1,077,509	977,328	6,515,998	5,238,626
Construction in progress	42,414	-	4,147,962	576,813	4,190,376	576,813
Total	\$ 12,020,073	\$ 10,789,647	\$ 69,661,909	\$ 57,418,495	\$ 81,681,982	\$ 68,208,142

Additional information on the City's capital assets can be found in note 8, beginning on page 39 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2005, the City of Sanford had total bonded debt outstanding of \$6,610,774. This debt is 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 Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ -	\$ -	\$ 6,610,774	\$ 7,764,440	\$ 6,610,774	\$ 7,764,440
Notes payable	-	-	1,657,500	1,755,000	1,657,500	1,755,000
Lease purchase agreements	287,928	382,526	87,108	184,163	375,036	566,689
Installment purchase contracts	1,771,461	2,006,004	20,160,131	13,982,944	21,931,592	15,988,948
Annexation liability for fire protection	22,522	26,115	-	-	22,522	26,115
Total	\$ 2,081,911	\$ 2,414,645	\$ 28,515,513	\$ 23,686,547	\$ 30,597,424	\$ 26,101,192

The City of Sanford's total debt increased by \$4,496,232 (17.3%) during the past fiscal year. The government issued \$6,830,000 in installment purchase financing and entered into an interlocal agreement of \$1,200,000 for the purchase of the Lee County water system.

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 \$110,323,794. Additional information regarding the City of Sanford's long-term debt can be found in note 9, beginning on page 42, of the Basic Financial Statements.

Economic Factors and Next Year's Budget and Rates

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

- A new, additional high school was completed in fiscal year 04/05.
- The unemployment rate dropped 0.6 of one percentage point from the prior year. This is the third straight year the rate has decreased.
- The value of building permits increased 83.1% from the prior year, with 50 new commercial and 370 new residential permits issued.

Budget Highlights for the Fiscal Year Ending June 30, 2006

Governmental Activities: Governmental revenues will continue to benefit from strong sales tax collections and steady property tax collections. These revenues will assist with maintaining the City's high service level provided to its citizens. Expenditures for these services will be maintained at a modest 3.4% increase from the 2005 fiscal year.

Business-type Activities: The City will hold existing utility (water and sewer) rates at fiscal year 2005 levels. Fiscal year 2006 will be the first full year of the consolidated county wide water system. The City will complete a project it began in the 2005 fiscal year to provide a higher level of treatment for discharge at the water treatment plant, as well as renovate an existing raw water pump station.

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

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit ABC Board
ASSETS				
Current assets -				
Cash, cash equivalents and investments	\$ 8,298,322	\$ 15,555,336	\$ 23,853,658	\$ 891,084
Property taxes receivable, net of allowance for uncollectible accounts	407,507	-	407,507	-
Accounts receivable, net of allowance for uncollectible accounts	381,866	2,316,872	2,698,738	401
Due from other governmental agencies	1,323,594	306,759	1,630,353	-
Prepaid expenses	-	-	-	8,191
Internal balances	1,166,951	(1,166,951)	-	-
Inventories	65,263	107,008	172,271	287,557
Total current assets	<u>11,643,503</u>	<u>17,119,024</u>	<u>28,762,527</u>	<u>1,187,233</u>
Capital assets - net	<u>12,020,073</u>	<u>69,661,909</u>	<u>81,681,982</u>	<u>911,613</u>
TOTAL ASSETS	<u>23,663,576</u>	<u>86,780,933</u>	<u>110,444,509</u>	<u>2,098,846</u>
LIABILITIES				
Current liabilities -				
Current portion long term debt	403,447	3,136,016	3,539,463	-
Accounts payable	323,057	231,933	554,990	128,674
Due to other governmental agencies	-	75,000	75,000	-
Deposits	16,315	210,551	226,866	-
Unearned revenue	114,454	11,907	126,361	-
Accrued liabilities	207,907	254,508	462,415	74,992
Compensated absences	85,124	19,344	104,468	-
Total current liabilities	<u>1,150,304</u>	<u>3,939,259</u>	<u>5,089,563</u>	<u>203,666</u>
Non-current liabilities -				
Long-term debt	1,678,464	25,379,497	27,057,961	-
Net pension obligation	76,830	-	76,830	-
Compensated absences	735,181	195,590	930,771	-
Due to other governmental agencies	-	1,050,000	1,050,000	-
Other postemployment benefits	-	-	-	340,658
Total non-current liabilities	<u>2,490,475</u>	<u>26,625,087</u>	<u>29,115,562</u>	<u>340,658</u>
TOTAL LIABILITIES	<u>3,640,779</u>	<u>30,564,346</u>	<u>34,205,125</u>	<u>544,324</u>
NET ASSETS				
Investment in capital assets, net	9,938,162	39,031,667	48,969,829	911,613
Restricted for:				
Special revenue fund	428,645	-	428,645	-
Capital projects	-	2,509,316	2,509,316	-
Working capital	-	-	-	101,270
Unrestricted	9,655,990	14,675,604	24,331,594	541,639
TOTAL NET ASSETS	<u>\$ 20,022,797</u>	<u>\$ 56,216,587</u>	<u>\$ 76,239,384</u>	<u>\$1,554,522</u>

See notes to financial statements

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF ACTIVITIES
June 30, 2005

Functions / Programs	Expenses	Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	ABC Board
Primary government:								
Governmental activities:								
General government	\$ 3,119,589	\$ 81,385	\$ -	\$ -	\$ (3,038,204)	\$ -	\$ (3,038,204)	\$ -
Public safety	9,459,227	551,739	498,572	-	(8,408,916)	-	(8,408,916)	-
Streets	1,571,521	124,342	1,335,641	-	(111,538)	-	(111,538)	-
Sanitation	2,090,286	814,284	-	-	(1,276,002)	-	(1,276,002)	-
Community development	2,277,388	-	862,561	-	(1,414,827)	-	(1,414,827)	-
Interest on long-term debt	95,916	-	-	-	(95,916)	-	(95,916)	-
Total governmental activities	<u>18,613,927</u>	<u>1,571,750</u>	<u>2,696,774</u>	<u>-</u>	<u>(14,345,403)</u>	<u>-</u>	<u>(14,345,403)</u>	<u>-</u>
Business-type activities:								
Utility	10,723,386	14,641,373	-	2,338,700	-	6,256,687	6,256,687	-
Golf	637,900	392,022	-	-	-	(245,878)	(245,878)	-
Total business-type activities	<u>11,361,286</u>	<u>15,033,395</u>	<u>-</u>	<u>2,338,700</u>	<u>-</u>	<u>6,010,809</u>	<u>6,010,809</u>	<u>-</u>
Total primary government	<u>\$ 29,975,213</u>	<u>\$ 16,605,145</u>	<u>\$ 2,696,774</u>	<u>\$ 2,338,700</u>	<u>\$ (14,345,403)</u>	<u>\$ 6,010,809</u>	<u>\$ (8,334,594)</u>	<u>\$ -</u>
Component unit:								
ABC Board	3,318,890	3,321,833	-	-	-	-	-	2,943
Total component unit	<u>\$ 3,318,890</u>	<u>\$ 3,321,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,943</u>
General revenues:								
Taxes:								
Property taxes, levied for general purpose					9,991,908	-	9,991,908	-
Other taxes					4,418,700	-	4,418,700	-
Intergovernmental revenues, unrestricted					1,986,022	-	1,986,022	-
Investment earnings, unrestricted					204,527	237,547	442,074	12,705
Miscellaneous					323,567	-	323,567	140
Total general revenues and special items					<u>16,924,724</u>	<u>237,547</u>	<u>17,162,271</u>	<u>12,845</u>
Change in net assets					2,579,321	6,248,356	8,827,677	15,788
Net assets - beginning					<u>17,443,476</u>	<u>49,968,231</u>	<u>67,411,707</u>	<u>1,538,734</u>
Net assets - ending					<u>\$ 20,022,797</u>	<u>\$ 56,216,587</u>	<u>\$ 76,239,384</u>	<u>\$ 1,554,522</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2005

	Major Fund - General	Non-major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Assets -			
Cash, cash equivalents and investments	\$ 7,865,330	\$ 432,992	\$ 8,298,322
Property taxes receivable, net of allowance for uncollectible accounts	407,476	31	407,507
Accounts receivable, net of allowance for uncollectible accounts	381,866	-	381,866
Due from other governmental agencies	1,276,020	47,574	1,323,594
Due from other funds	1,200,941	-	1,200,941
Inventories	65,263	-	65,263
TOTAL ASSETS	<u>\$ 11,196,896</u>	<u>\$ 480,597</u>	<u>\$ 11,677,493</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities -			
Accounts payable	\$ 319,739	\$ 3,318	\$ 323,057
Due to other funds	-	33,990	33,990
Deposits	1,800	14,515	16,315
Accrued liabilities	200,540	-	200,540
Deferred and unearned revenues	543,194	129	543,323
Total liabilities	<u>1,065,273</u>	<u>51,952</u>	<u>1,117,225</u>
Fund balance -			
Reserved - restricted by state statute	2,754,424	47,574	2,801,998
- inventories	65,263	-	65,263
Unreserved -			
Designated- subsequent year's budget	888,200	33,372	921,572
Undesignated, General Fund	6,423,736	-	6,423,736
Unreserved, reported in:			
Special Revenue funds	-	347,699	347,699
Capital Projects Fund	-	-	-
Total fund balances	<u>10,131,623</u>	<u>428,645</u>	<u>10,560,268</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,196,896</u>	<u>\$ 480,597</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.	12,020,073
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	428,869
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.	(2,986,413)
Net assets of governmental activities	<u>\$ 20,022,797</u>

See notes to financial statements

CITY OF SANFORD, NORTH CAROLINA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 June 30, 2005

	Major Fund - General Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES -			
Ad valorem taxes	\$ 9,882,373	\$ 48,124	\$ 9,930,497
Other taxes	4,418,700	-	4,418,700
Penalties and interest	61,666	-	61,666
Licenses and permits	369,131	-	369,131
Intergovernmental revenues	3,031,458	615,354	3,646,812
Investment income	202,279	2,248	204,527
Sales and service	979,711	-	979,711
Miscellaneous revenues	569,312	21,554	590,866
Total revenues	<u>19,514,630</u>	<u>687,280</u>	<u>20,201,910</u>
EXPENDITURES -			
Current operating			
General government	2,936,399	-	2,936,399
Public safety	9,250,411	-	9,250,411
Streets	1,734,376	-	1,734,376
Sanitation	1,993,291	-	1,993,291
Community development	1,007,144	839,462	1,846,606
Debt service	522,256	-	522,256
Capital outlay	998,739	60,411	1,059,150
Total expenditures	<u>18,442,616</u>	<u>899,873</u>	<u>19,342,489</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>1,072,014</u>	<u>(212,593)</u>	<u>859,421</u>
OTHER FINANCING SOURCES (USES) -			
Transfers in (out)	(50,000)	50,000	-
Installment purchase contract	96,250	-	96,250
Total other financing sources (uses)	<u>46,250</u>	<u>50,000</u>	<u>96,250</u>
INCREASE (DECREASE) IN FUND BALANCE	1,118,264	(162,593)	955,671
FUND BALANCE, BEGINNING OF YEAR	<u>9,013,359</u>	<u>591,238</u>	<u>9,604,597</u>
FUND BALANCE, END OF YEAR	<u>\$ 10,131,623</u>	<u>\$ 428,645</u>	<u>\$ 10,560,268</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
 June 30, 2005

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

Increase in fund balance - total governmental funds (page 22)	\$	955,671
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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.

Addition to capital assets	2,222,419
Current year depreciation expense	(922,578)
Disposed capital assets	(69,415)

Revenues in the statement of activities that do not provide current financial resources are not available as revenues in the funds.

Change in deferred revenue for tax revenues	(255)
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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.

Long-term debt retired	428,984
Accrued interest expense	948
Installment purchase proceeds	(96,250)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	61,036
Net pension obligation	(1,239)

Change in net assets of governmental activities (page 20)	\$	<u><u>2,579,321</u></u>
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See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
June 30, 2005

	Budget		Actual	Variance
	Original	Final		
REVENUES -				
Ad valorem taxes	\$ 9,597,940	\$ 9,637,040	\$ 9,882,373	\$ 245,333
Other taxes	4,185,315	4,185,315	4,418,700	233,385
Penalties and interest	35,000	35,000	61,666	26,666
Licenses and permits	328,600	328,600	369,131	40,531
Intergovernmental revenues	2,693,444	3,112,332	3,031,458	(80,874)
Investment income	85,000	148,810	202,279	53,469
Sales and services	940,000	940,000	979,711	39,711
Miscellaneous revenues	299,200	448,624	569,312	120,688
Total revenues	<u>18,164,499</u>	<u>18,835,721</u>	<u>19,514,630</u>	<u>678,909</u>
EXPENDITURES -				
Current operating -				
General government	3,698,847	3,791,825	3,162,020	629,805
Public safety	9,881,183	10,289,645	9,891,816	397,829
Streets	2,067,248	2,197,248	2,110,250	86,998
Sanitation	2,177,852	2,295,379	2,244,457	50,922
Community development	1,144,130	1,186,852	1,034,073	152,779
Total expenditures	<u>18,969,260</u>	<u>19,760,949</u>	<u>18,442,616</u>	<u>1,318,333</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>(804,761)</u>	<u>(925,228)</u>	<u>1,072,014</u>	<u>1,997,242</u>
OTHER FINANCING SOURCES (USES) -				
Transfers to other funds	(50,000)	(50,000)	(50,000)	-
Lease purchase proceeds	-	96,251	96,250	(1)
Total other financing sources (uses)	<u>(50,000)</u>	<u>46,251</u>	<u>46,250</u>	<u>(1)</u>
REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(854,761)</u>	<u>(878,977)</u>	<u>1,118,264</u>	<u>1,997,241</u>
APPROPRIATED FUND BALANCE	<u>854,761</u>	<u>878,977</u>	<u>-</u>	<u>(878,977)</u>
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED FUND BALANCE OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>1,118,264</u>	<u>\$ 1,118,264</u>
FUND BALANCE, BEGINNING OF YEAR			<u>9,013,359</u>	
FUND BALANCE, END OF YEAR			<u>\$10,131,623</u>	

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF NET ASSETS (DEFICIENCY) - PROPRIETARY FUNDS
June 30, 2005

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Non-major Fund - Golf	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments	\$ 15,555,336	\$ -	\$ 15,555,336
Accounts receivable, net of allowance for uncollectible accounts	2,314,866	2,006	2,316,872
Due from other governmental agencies	306,759	-	306,759
Inventories	107,008	-	107,008
Total current assets	<u>18,283,969</u>	<u>2,006</u>	<u>18,285,975</u>
Capital assets (net)	<u>68,026,501</u>	<u>1,635,408</u>	<u>69,661,909</u>
Total assets	<u>86,310,470</u>	<u>1,637,414</u>	<u>87,947,884</u>
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	3,046,520	89,496	3,136,016
Accounts payable	226,944	4,989	231,933
Due to other governmental agencies	75,000	-	75,000
Customer deposits	210,551	-	210,551
Unearned revenue	-	11,907	11,907
Accrued expenses	242,915	11,593	254,508
Compensated absences	17,312	2,032	19,344
Total current liabilities	<u>3,819,242</u>	<u>120,017</u>	<u>3,939,259</u>
Non-current liabilities:			
Long-term debt	24,976,885	402,612	25,379,497
Compensated absences	175,039	20,551	195,590
Due to other governmental agencies	1,050,000	-	1,050,000
Due to other funds	-	1,166,951	1,166,951
Total non-current liabilities	<u>26,201,924</u>	<u>1,590,114</u>	<u>27,792,038</u>
Total liabilities	<u>30,021,166</u>	<u>1,710,131</u>	<u>31,731,297</u>
NET ASSETS			
Invested in capital assets, net of related debt	38,878,096	153,571	39,031,667
Restricted - capital projects	2,509,316	-	2,509,316
Unrestricted (deficit)	14,901,892	(226,288)	14,675,604
Total net assets (deficiency) of business-type activities	<u>\$ 56,289,304</u>	<u>\$ (72,717)</u>	<u>\$ 56,216,587</u>

See notes to financial statements

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
June 30, 2005

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Nonmajor Fund - Golf Fund	Total
OPERATING REVENUES			
User charges	\$ 13,245,927	\$ 390,572	\$ 13,636,499
Monitoring fees	88,704	-	88,704
Connection and tap fees	238,369	-	238,369
Special assessments	37,170	-	37,170
Other	1,031,203	1,450	1,032,653
Total operating revenues	<u>14,641,373</u>	<u>392,022</u>	<u>15,033,395</u>
OPERATING EXPENSES			
Administration & engineering	1,353,055	-	1,353,055
Water line maintenance	2,044,432	-	2,044,432
Sewer line maintenance	815,455	-	815,455
Water plant operations	1,471,157	-	1,471,157
Sewer plant operations	1,362,542	-	1,362,542
Store expenses	28,933	-	28,933
Golf course operations	-	477,614	477,614
Depreciation	2,477,908	136,451	2,614,359
Uncollectible accounts	139,431	-	139,431
Total operating expenses	<u>9,692,913</u>	<u>614,065</u>	<u>10,306,978</u>
Operating income (loss)	4,948,460	(222,043)	4,726,417
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	237,547	-	237,547
Interest and other charges	(1,029,407)	(23,835)	(1,053,242)
Loss on disposal of assets	(1,066)	-	(1,066)
Total nonoperating revenue (expenses)	<u>(792,926)</u>	<u>(23,835)</u>	<u>(816,761)</u>
Income (loss) before capital contributions	4,155,534	(245,878)	3,909,656
Capital contributions	<u>2,338,700</u>	<u>-</u>	<u>2,338,700</u>
Change in net assets	6,494,234	(245,878)	6,248,356
Total net assets - beginning	<u>49,795,070</u>	<u>173,161</u>	<u>49,968,231</u>
Total net assets (deficit) - ending	<u>\$ 56,289,304</u>	<u>\$ (72,717)</u>	<u>\$ 56,216,587</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
June 30, 2005

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Nonmajor Fund - Golf	Total
CASH FLOWS FROM (TO) OPERATING ACTIVITIES			
Cash received from customers	\$ 14,321,037	\$ 393,106	\$ 14,714,143
Cash paid for goods and services	(3,457,652)	(244,456)	(3,702,108)
Customer deposits received	219,571	-	219,571
Customer deposits returned	(191,659)	-	(191,659)
Cash payments to employees	(3,724,324)	(280,335)	(4,004,659)
Other operating revenues	364,243	-	364,243
Net cash provided (used) by operating activities	<u>7,531,216</u>	<u>(131,685)</u>	<u>7,399,531</u>
CASH FLOWS FROM (TO) NONCAPITAL FINANCING ACTIVITIES			
Proceeds from general fund loan	-	258,285	258,285
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>258,285</u>	<u>258,285</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(4,862,608)	-	(4,862,608)
Proceeds from water system purchase and consolidation	1,034,104	-	1,034,104
Principal paid on bond maturities and installment purchase debt	(2,758,331)	(113,856)	(2,872,187)
Interest paid on bond maturities and installment purchase debt	(958,254)	(23,835)	(982,089)
Principal paid on note due to other governmental agencies	(75,000)	-	(75,000)
Loss from the disposition of capital assets	(1,066)	-	(1,066)
Net cash provided (used) by capital and related financing activities	<u>(7,621,155)</u>	<u>(137,691)</u>	<u>(7,758,846)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	<u>237,547</u>	<u>-</u>	<u>237,547</u>
Net change in cash and cash equivalents	147,608	(11,091)	136,517
Balances - beginning of the year	15,407,728	11,091	15,418,819
Balances - end of the year	<u>\$ 15,555,336</u>	<u>\$ -</u>	<u>\$ 15,555,336</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 4,948,460</u>	<u>\$ (222,043)</u>	<u>\$ 4,726,417</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,477,908	136,451	2,614,359
Write-off of uncollectible accounts	139,431	-	139,431
Changes in asset and liabilities:			
(Increase) decrease in accounts receivable	(444,403)	(400)	(444,803)
(Increase) decrease in due from other governmental agencies:	488,310	-	488,310
(Increase) in inventories	(2,140)	-	(2,140)
Increase (decrease) in accounts payable	12,083	(36,580)	(24,497)
Decrease in compensated absences	2,329	(3,208)	(879)
Increase (decrease) in accrued expenses	(118,674)	(7,389)	(126,063)
Increase in customer deposits	27,912	-	27,912
Increase in deferred revenues	-	1,484	1,484
Total adjustments	<u>2,582,756</u>	<u>90,358</u>	<u>2,673,114</u>
Net cash provided by operating activities	<u>\$ 7,531,216</u>	<u>\$ (131,685)</u>	<u>\$ 7,399,531</u>
Noncash capital activities:			
Contributed capital assets	<u>\$ 2,338,700</u>	<u>\$ -</u>	<u>\$ 2,338,700</u>

Noncash investing and financing activities:
Noncash investing and financing activities for year ending June 30, 2005 consist of financing the purchase of a water system in the amount of \$7,630,000.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

	Pension Trust Fund	Agency Funds
ASSETS		
Cash, cash equivalents, and investments	\$ 482,877	\$ 340,645
Accounts receivable	-	22,701
Total assets	482,877	363,346
LIABILITIES		
Due to plan participants	-	363,346
Total liabilities	-	363,346
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 482,877	\$ -

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND
June 30, 2005

	<u>2005</u>
ADDITIONS:	
Employer contributions	\$ 98,260
Net investment income	<u>11,078</u>
Total additions	<u>109,338</u>
DEDUCTIONS:	
Benefits	79,606
Administrative expense	<u>6,090</u>
Total deductions	<u>85,696</u>
Net increase	23,642
Net assets - held in trust for pension benefits, beginning of year	<u>459,235</u>
Net assets - held in trust for pension benefits, end of year	<u><u>\$ 482,877</u></u>

See notes to financial statements.

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 23,832. 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 \$0.67 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

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. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, due to the City's purchase of the water system from Lee County on March 10, 2005. This fund is closed as of June 30, 2005.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year.

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.

In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements.

For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in other subsections of this Note.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2004 through February 2005 apply to the fiscal year ended June 30, 2005. 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 2005-06 fiscal year and are not shown as receivables at June 30, 2005. 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, 2005 because they are intended to finance the City's operations during the 2006 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 plants, tanks, and system lines	40 years	Buildings	7-39 years
Buildings	30 years	Store fixtures	5-10 years
Equipment	4-20 years	Office furniture & fixtures	5-10 years
Golf course improvements	30 years	Vehicles	3 years

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:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserved:

Reserved by State statute - portion of fund balance, in addition to 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 2005 - 2006 budget ordinance.

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

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits - 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.

At June 30, 2005, the City's deposits had a carrying amount of \$10,027,213 and a bank balance of \$10,492,087. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$887,284 and the bank balance was \$953,295. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2005, the City's petty cash fund totaled \$1,325.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investment balances as of June 30, 2005 were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 6 Months</u>	<u>6 - 12 Months</u>	<u>1 - 2 Years</u>
US Government agencies	\$ 3,007,873	\$ 2,265,838	\$ 742,035	\$ -
Commercial paper	7,432,277	6,428,395	1,003,882	-
NC Capital Management Trust - cash portfolio	<u>4,209,817</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total	<u>\$ 14,649,967</u>	<u>\$ 8,694,233</u>	<u>\$ 1,745,917</u>	<u>\$ -</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits at least 80% of the City's investment portfolio to maturities of less than 12 months, and limits all securities to a final maturity of no more than two years.

Credit Risk - State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the City's investments in commercial paper were rated P1 by Standard & Poor's, and A1 by Moody's Investors Service. The City's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2005. The City's investments in US Agencies (Federal Home Loan Bank) are rated AAA by Standard & Poor's.

Custodial Credit Risk - For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no policy on custodial credit risk.

Concentration of Credit Risk - The City places a limit on the amount of commercial paper that the City may invest in any one issuer to 30%. No more than 40% of the City's total investments may be in commercial paper.

At June 30, 2005, 37.8% of the City's portfolios was in commercial paper with 27% placed in General Electric's commercial paper, and 5% each placed in Goldman-Sachs, Bear Sterns, Association of Tractor Dealers and Maximillion Capital's commercial paper.

North Carolina General Statute 159-30 authorizes the ABC Board to invest in obligations of the U.S. Treasury; obligations of agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed by the United States; bonds and notes of any North Carolina local government or public authority; certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Cash Management Trust, an SEC registered mutual fund. As of June 30, 2005, the ABC Board held no investments of this nature.

4. PROPERTY TAXES RECEIVABLE

Property taxes receivable as of June 30, 2005 reflect the uncollected portion of property tax levies reduced for a portion not expected to be collected and are summarized as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Property taxes receivable	\$ 778,644	\$ 1,941	\$ 780,585
Less allowance for uncollectibles	<u>371,168</u>	<u>1,910</u>	<u>373,078</u>
Net property taxes receivable	<u>\$ 407,476</u>	<u>\$ 31</u>	<u>\$ 407,507</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2005, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Agency Funds</u>
Accounts receivable			
Special assessments	\$ -	\$ 240,384	\$ -
Waste management fees	38,864	-	-
Privilege licenses	280	-	-
Employee computer purchase	38,758	14,355	-
Other agencies	56,769	-	22,701
Franchise fees	264,976	-	-
Utility user charges	-	2,616,229	-
Total receivables	<u>399,647</u>	<u>2,870,968</u>	<u>22,701</u>
Less: allowance for uncollectibles	<u>17,781</u>	<u>554,096</u>	<u>-</u>
Net total receivables	<u>\$ 381,866</u>	<u>\$ 2,316,872</u>	<u>\$ 22,701</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, 2005 consist of amounts due classified as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Utility</u>	<u>Total</u>
Notes	\$ 257,324	\$ -	\$ -	\$ 257,324
Tax refunds	987,269	-	878	988,147
Grants	-	47,574	305,881	353,455
Reimbursements	<u>31,427</u>	<u>-</u>	<u>-</u>	<u>31,427</u>
Total	<u>\$ 1,276,020</u>	<u>\$ 47,574</u>	<u>\$ 306,759</u>	<u>\$ 1,630,353</u>

CITY OF SANFORD, NORTH CAROLINA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

7. DUE FROM OTHER FUNDS

At June 30, 2005, amounts due to the general fund were as follows:

Enterprise fund - golf	\$ 1,166,951
Capital projects	<u>33,990</u>
	<u>\$ 1,200,941</u>

8. CAPITAL ASSETS

At June 30, 2005, capital asset activity was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions/ Reclasses</u>	<u>Deletions/ Reclasses</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,266,856	\$	\$ (3,550)	\$ 1,425,248
Construction in progress	<u>-</u>	<u>161,942</u>	<u>-</u>	<u>42,414</u>
		<u>42,414</u>		
Total capital assets, not being depreciated	<u>1,266,856</u>	<u>204,356</u>	<u>(3,550)</u>	<u>1,467,662</u>
Capital assets, being depreciated:				
Municipal center and other bldgs.	9,232,087	82,265	-	9,314,352
Equipment	<u>9,154,080</u>	<u>1,935,798</u>	<u>(176,620)</u>	<u>10,913,258</u>
Total capital assets being depreciated	<u>18,386,167</u>	<u>2,018,063</u>	<u>(176,620)</u>	<u>20,227,610</u>
Less accumulated depreciation for:				
Municipal center and other bldgs.	(3,970,594)	(229,836)	-	(4,200,430)
Equipment	<u>(4,892,782)</u>	<u>(692,742)</u>	<u>110,755</u>	<u>(5,474,769)</u>
Total accumulated depreciation	<u>(8,863,376)</u>	<u>(922,578)</u>	<u>110,755</u>	<u>(9,675,199)</u>
Total capital assets, being depreciated, net	<u>9,522,791</u>	<u>1,095,485</u>	<u>(65,865)</u>	<u>10,552,411</u>
Governmental activities capital assets, net	<u>\$10,789,647</u>			<u>\$12,020,073</u>
Business-type activities:				
Utility Fund -				
Capital assets, not being depreciated:				
Land	180,739	50,237	-	230,976
Construction in progress	<u>576,813</u>	<u>4,211,010</u>	<u>(639,861)</u>	<u>4,147,962</u>
Total capital assets, not being depreciated	<u>757,552</u>	<u>4,261,247</u>	<u>(639,861)</u>	<u>4,378,938</u>

CITY OF SANFORD, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

8. CAPITAL ASSETS (Continued)

	Beginning Balance	Additions/ Reclasses	Deletions/ Reclasses	Ending Balance
Capital assets, being depreciated:				
Treatment plants	\$33,635,823	\$ 706,430	\$ -	\$34,342,253
Water tanks and lines	26,347,981	8,528,263	-	34,876,244
Sewer lines	20,147,638	1,659,407	-	21,807,045
Equipment	2,100,444	343,352	(73,199)	2,370,597
Buildings	289,368	-	-	289,368
Total capital assets, being depreciated	<u>82,521,254</u>	<u>11,237,452</u>	<u>(73,199)</u>	<u>93,685,507</u>
Less accumulated depreciation for:				
Treatment plants	(11,870,738)	(938,175)	-	(12,808,913)
Water tanks and lines	(7,835,170)	(800,686)	-	(8,635,856)
Sewer lines	(6,313,191)	(548,577)	-	(6,861,768)
Equipment	(1,369,205)	(183,981)	72,134	(1,481,052)
Buildings	(243,866)	(6,489)	-	(250,355)
Total accumulated depreciation	<u>(27,632,170)</u>	<u>(2,477,908)</u>	<u>72,134</u>	<u>(30,037,944)</u>
Total utility fund capital assets, being depreciated, net	<u>54,889,084</u>	<u>8,759,544</u>	<u>(1,065)</u>	<u>63,647,563</u>
Total utility fund capital assets	<u>55,646,636</u>			<u>68,026,501</u>
Golf Fund- Capital assets, not being depreciated:				
Land	<u>2,500</u>	-	-	<u>2,500</u>
Total capital assets, not being depreciated	<u>2,500</u>	-	-	<u>2,500</u>
Capital assets, being depreciated:				
Course and improvements	1,469,913	-	-	1,469,913
Buildings	208,477	-	-	208,477
Equipment	485,977	10,207	-	496,184
Total capital assets, being depreciated	<u>2,164,367</u>	<u>10,207</u>	<u>-</u>	<u>2,174,574</u>

CITY OF SANFORD, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

8. CAPITAL ASSETS (Continued)

	Beginning Balance	Additions/ Reclasses	Deletions/ Reclasses	Ending Balance
Less accumulated depreciation for:				
Course and improvements	\$ (83,188)	\$ (68,717)	\$ -	\$ (151,905)
Buildings	(71,932)	(9,609)	-	(81,541)
Equipment	<u>(239,888)</u>	<u>(68,332)</u>	-	<u>(308,220)</u>
Total accumulated depreciation	<u>(395,008)</u>	<u>(146,658)</u>	-	<u>(541,666)</u>
Total golf capital assets, being depreciated, net	1,769,359	<u>(136,451)</u>	-	<u>1,632,908</u>
Total golf fund	<u>1,771,859</u>			<u>1,635,408</u>
Business type activities, capital assets, net	<u>\$57,418,495</u>			<u>\$69,661,909</u>

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

Governmental activities:	
General government	\$ 341,315
Public safety	311,045
Streets	175,624
Sanitation	87,603
Community development	<u>6,991</u>
Total depreciation expense - governmental activities	<u>\$ 922,578</u>
Business-type activities:	
Water and sewer	2,477,908
Golf	<u>146,658</u>
Total depreciation expense - business-type activities	<u>\$ 2,624,566</u>

The following is a summary of changes in capital assets for the ABC Board at June 30, 2005

	Beginning Balance	Additions/ Retirements	Ending Balance
Non depreciable assets:			
Land	\$ <u>222,249</u>	\$ 10,820	\$ <u>233,069</u>
Depreciable assets:			
Buildings	847,269	1,579	848,848
Store fixtures	122,299	11,447	133,746
Office furniture	33,523	3,274	36,797
Vehicles	<u>8,500</u>	-	<u>8,500</u>
Total depreciable assets	<u>1,011,591</u>	<u>16,300</u>	<u>1,027,891</u>

8. CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Additions/ Retirements</u>	<u>Ending Balance</u>
Accumulated depreciation:			
Buildings	\$ 199,610	\$ 24,262	\$ 223,872
Store fixtures	76,458	13,672	90,130
Office furniture	24,138	2,707	26,845
Vehicles	<u>8,500</u>	<u>-</u>	<u>8,500</u>
Total accumulated depreciation	<u>308,706</u>	<u>40,641</u>	<u>349,347</u>
Net capital assets	<u>\$ 925,134</u>		<u>\$ 911,613</u>

9. LONG-TERM DEBT

At June 30, 2005 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; 4.21% interest; dated May 29, 2002; due quarterly in installments of \$6,671 secured by equipment	\$ 25,996
Lease purchase; 2.74% interest; dated December 19, 2003; due quarterly in installments of \$3,050; secured by equipment	58,772
Lease purchase; 2.78% interest; dated December 3, 2004; due quarterly in installments of \$7,909; secured by equipment	80,759
Lease purchase; 5.23% interest; dated February 28, 2000; due quarterly in installments of \$26,226; secured by equipment	117,432
Lease purchase; 5.89% interest; dated September 21, 2000; due quarterly in installments of \$5,042; secured by equipment	<u>4,969</u>
Total lease purchase agreements	<u>287,928</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	116,461
Installment purchase contract; dated April 3, 2003; annual installments of \$130,222; interest of 3.14%; secured by a deed of trust on streets	800,000

9. LONG-TERM DEBT (Continued)

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	\$ 855,000
Total installment purchase contracts	<u>1,771,461</u>
Annexation liability for fire protection	<u>22,522</u>
Total governmental activities debt	2,081,911
Less current portion	<u>(403,447)</u>
Total long-term debt	<u>\$ 1,678,464</u>

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 \$404,226 unamortized difference	\$ 6,610,774
Total general obligation bonds	<u>6,610,774</u>

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.	<u>1,657,500</u>
Total notes payable	<u>1,657,500</u>

Lease purchase agreements:

Lease purchase; 2.35% interest; dated August 8, 2003; due in quarterly principal and interest installments of \$6,430; secured by equipment	80,253
Lease purchase; 4.87% interest; dated August 9, 2001; due in quarterly principal and interest installments of \$1,422; secured by equipment	<u>6,855</u>
Total lease purchases agreements	<u>87,108</u>

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	405,000
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	819,635

CITY OF SANFORD, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

9. LONG-TERM DEBT (Continued)

Enterprise Funds (Continued)

Installment purchase contract; agreement dated August 30, 2001; quarterly installments of \$24,106; interest at 4.56% for seven years; secured by water lines	\$ 289,735
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	626,797
Installment purchase contract; agreement dated March 10, 2005; quarterly installments of \$163,658; interest at 3.47% for fifteen years, secured by water and sewer lines	7,532,351
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; modified May 13, 2004; quarterly installments of \$86,017; interest rate 3.52%	2,816,083
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	1,027,885
Installment purchase contract; agreement dated May 13, 2004; quarterly installments of \$152,752; interest at 3.67% for fifteen years, secured by water plant improvements	<u>6,642,645</u>
Total installment purchase contracts	<u>20,160,131</u>
Total Proprietary Funds debt	28,515,513
Less current portion	<u>(3,136,016)</u>
Total long-term debt	<u>\$ 25,379,497</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	\$ 382,526	\$ 96,250	\$ 190,848	\$ 287,928
Installment purchase contracts	2,006,004	-	234,543	1,771,461
Annexation liability for fire protection	26,115	-	3,593	22,522
Total	<u>\$ 2,414,645</u>	<u>\$ 96,250</u>	<u>\$ 428,984</u>	<u>\$ 2,081,911</u>
<u>Proprietary Funds</u>				
Water and sewer improvements	\$ 7,764,440	\$ -	\$ 1,153,666	\$ 6,610,774
Water improvements	1,755,000	-	97,500	1,657,500
Lease purchase agreements	184,163	-	97,055	87,108
Installment purchase contracts	<u>13,982,944</u>	<u>7,630,000</u>	<u>1,452,813</u>	<u>20,160,131</u>
Total	<u>\$ 23,686,547</u>	<u>\$ 7,630,000</u>	<u>\$ 2,801,034</u>	<u>\$ 28,515,513</u>

9. LONG-TERM DEBT (Continued)

The annual requirements to retire all long-term debt (except lease purchases) outstanding as of June 30, 2005 are as follows:

Year ended June 30,	<u>Annexation liability for fire protection</u>	<u>Proprietary fund bonds and notes</u>	<u>Interest Payments</u>	<u>Total</u>
2006	\$ 5,084	\$ 1,307,500	\$ 377,875	\$ 1,690,459
2007	2,899	1,287,500	319,680	1,610,079
2008	2,899	1,267,500	262,405	1,532,804
2009	2,899	1,247,500	204,295	1,454,694
2010-2014	8,741	2,782,500	308,965	3,100,206
2015-2019	-	487,500	76,050	563,550
2020-2024	<u>-</u>	<u>292,500</u>	<u>15,210</u>	<u>307,710</u>
Total	<u>\$ 22,522</u>	<u>\$ 8,672,500</u>	<u>\$ 1,564,480</u>	<u>\$ 10,259,502</u>

At June 30, 2005 the legal debt margin for the City was \$110,323,794.

Leases, Installment Purchase Agreements and Loan from General Fund

At June 30, 2005 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,	<u>General Fund Long-Term Debt</u>	<u>Proprietary Funds</u>	<u>Interest Payments</u>	<u>Total</u>
2006	\$ 400,547	\$ 1,828,517	\$ 805,362	\$ 3,034,426
2007	334,150	1,792,602	715,652	2,842,404
2008	239,691	1,562,764	639,072	2,441,527
2009	190,000	1,518,625	571,898	2,280,523
2010-2014	190,000	6,718,679	1,972,848	8,881,527
2015-2019	705,001	6,343,655	661,417	7,710,073
2020-2024	<u>-</u>	<u>482,397</u>	<u>8,397</u>	<u>490,794</u>
Total	<u>\$ 2,059,389</u>	<u>\$ 20,247,239</u>	<u>\$ 5,374,646</u>	<u>\$ 27,681,274</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 amount of this debt outstanding at June 30, 2004 was \$7,015,000. 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.

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 \$404,226 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.

On February 1, 2005, the City entered into an inter-local agreement to make the semi-annual debt service payments for Lee County and the Lee County district #1 water bond series 1998A in the amount of \$1,200,000 plus interest. These bonds were originally issued to the County on July 1, 1998 with interest of 5.0% to 5.1%. This inter-local agreement, along with a \$6,830,000 installment purchase contract, was payment in exchange for the purchase of the water system assets totaling \$8,030,000 on March 10, 2005.

10. OPERATING LEASES

During the year ended June 30, 2005, the City leased office space under short term cancelable leases. Rental income for such leases was \$15,000.

11. DEFERRED AND UNEARNED 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
	<u> </u>	<u> </u>
Net property taxes receivable (General Fund)	\$ 407,476	\$ -
Net property taxes receivable (Special Revenue Funds)	31	-
Prepaid taxes (General Fund)	-	33,114
Prepaid taxes (Special Revenue Funds)	-	98
Prepaid annuals (Golf Fund)	-	11,907
Drug forfeiture revenues (General Fund)	-	81,242
Privilege license receivable (General Fund)	280	-
Net waste management fees receivable (General Fund)	<u>21,082</u>	<u>-</u>
Total	<u>\$ 428,869</u>	<u>\$ 126,361</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.

12. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Commitments - The City has a five year contract expiring June 30, 2008 with an annual fee of \$1,146,047 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 \$6,000,000. As of June 30, 2005, approximately \$3,400,000 of construction expenditures had been incurred and, accordingly, are reported in the operations of the Utility Capital Projects Fund.

Claims and Judgements - At June 30, 2005 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 COSTS

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, 2005, 2004 and 2003 were \$577,146, \$560,797 and \$538,462, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2005, 2004, and 2003, were \$11,874, \$11,641 and \$10,718, 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, 2005 were \$207,258 which consisted of \$156,511 from the City and \$50,747 from the law enforcement officers.

13. PENSION COSTS (Continued)

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 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, 2004, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>72</u>
Total	78

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 \$98,260 or 3.36% 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, 2003 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

13. PENSION COSTS (Continued)

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, 2004 was 26 years.

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

Annual required contribution	\$ 98,260
Interest on net pension obligation	5,480
Adjustment to annual required contribution	<u>(4,241)</u>
Annual pension cost	99,499
Contributions made	<u>(98,260)</u>
Decrease in net pension obligation	1,239
Net pension obligation beginning of year	<u>75,591</u>
Net pension obligation end of year	<u>\$ 76,830</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>
6/30/03	87,709	98.44%	74,281
6/30/04	91,314	98.57%	75,591
6/30/05	99,499	98.75%	76,830

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

14. FIREMEN'S RELIEF FUND (Continued)

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.

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.

A summary of these transactions for the year ended June 30, 2005 follows:

<u>Transfers out</u>	<u>Transfers in</u> Non-major Governmental Funds
General Fund	\$ 50,000
Total	\$ 50,000

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, 2005 for the programs.

	<u>Project and program budgets</u>	<u>Current year</u>	<u>Prior years</u>	<u>Total to June 30, 2005</u>
<u>Special Revenue Fund</u>				
Community Development:				
Revenues	\$ 2,722,670	\$ 321,204	\$ 1,437,797	\$ 1,759,001
Expenditures	\$ 2,722,670	\$ 425,060	\$ 981,780	1,406,840
Project fund balance				<u>\$ 352,161</u>
<u>Capital Project Fund</u>				
Revenues	\$ 765,000	\$ 313,599	\$ 210,204	\$ 523,803
Expenditures	\$ 765,000	\$ 313,599	\$ 210,204	523,803
Project fund balance				<u>\$ -</u>

16. PROJECT GRANT BUDGETS (Conitnued)

Utility Capital Projects Fund

Revenues	<u>\$ 7,067,394</u>	<u>\$ 104,571</u>	<u>\$ 6,720,645</u>	\$ 6,825,216
Other financing sources	<u>\$ 11,196,000</u>	<u>\$ 800,000</u>	<u>\$ 11,196,000</u>	11,996,000
Expenditures	<u>\$ 18,263,394</u>	<u>\$ 3,413,887</u>	<u>\$ 10,739,025</u>	14,152,912
Project fund balance				<u>\$ 4,668,304</u>

17. OTHER POST- EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 14, the City Council has authorized the City to provide post employment health care benefits for each unreduced and disability qualified retiree who has 15 continuous years of service with the City immediately preceding retirement or each reduced qualified retiree who has 15 years continuous years of service with the City immediately preceding retirement and has 25 years of creditable service. Expenditures for the 37 participants currently eligible to receive benefits are financed on a pay as you go basis. The amount of post employment health care benefits charged to expenditures during the year ended June 30, 2005 was \$261,744.

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 not less than \$25,000 and no more than \$50,000. 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, 2005, the City made contributions to the State for death benefits of \$4,435. 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 post employment 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, 2005, the estimated accrued post-retirement benefit obligation for eligible employees was \$340,658. The Board has not funded the plan. During the year ended June 30, 2005, benefits paid for retired employees totaled \$21,470. The amount charged to operations for the year ended June 30, 2005 was \$1,656.

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

18. SELF-INSURANCE AND RISK MANAGEMENT (Continued)

\$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, 2005 amounted to \$922,809 in total, of which \$752,783 relates to governmental funds and \$170,026 relates to proprietary funds. Compensated absences typically have been liquidated in the general fund.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Accumulated sick leave at June 30, 2005 amounted to approximately \$4,342,763 in total, of which \$3,752,307 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, 2005 was \$8,246. 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 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, 2005.

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 \$9,177 to the Council during the fiscal year ended June 30, 2005.

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.

CITY OF SANFORD, NORTH CAROLINA
 REQUIRED SUPPLEMENTARY INFORMATION - LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 SCHEDULE OF FUNDING PROGRESS
 June 30, 2005

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
12/31/1992	-	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%
12/31/2003	374,314	1,120,498	746,184	33.41%	2,870,576	25.99%
12/31/2004	519,546	1,365,986	846,440	38.03%	3,063,657	27.63%

CITY OF SANFORD, NORTH CAROLINA
 REQUIRED SUPPLEMENTARY INFORMATION - LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 June 30, 2005

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1995	36,761	100%
1996	40,407	100%
1997	40,742	100%
1998	49,232	100%
1999	55,314	100%
2000	59,008	100%
2001	60,267	100%
2002	64,850	100%
2003	86,340	100%
2004	90,004	100%
2005	98,260	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	
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	
Projected salary increases	5.9 - 9.8%
Includes inflation at	
Cost-of-living adjustments	NA

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
June 30, 2005

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
REVENUES -				
Ad valorem taxes -				
Current year levy	\$ 9,367,390	\$ 9,584,761	\$ 217,371	\$ 8,925,323
Prior years' levy	250,000	281,069	31,069	353,698
Payments in lieu of taxes	19,650	16,543	(3,107)	37,364
Total - ad valorem taxes	<u>9,637,040</u>	<u>9,882,373</u>	<u>245,333</u>	<u>9,316,385</u>
Other taxes -				
Privilege licenses	150,000	156,367	6,367	151,098
Local option sales tax	4,035,315	4,262,333	227,018	4,032,708
Total - other taxes	<u>4,185,315</u>	<u>4,418,700</u>	<u>233,385</u>	<u>4,183,806</u>
Penalties and interest	<u>35,000</u>	<u>61,666</u>	<u>26,666</u>	<u>65,376</u>
Licenses and permits -				
Building permits	328,600	369,131	40,531	377,070
Total - licenses and permits	<u>328,600</u>	<u>369,131</u>	<u>40,531</u>	<u>377,070</u>
Intergovernmental revenues -				
United States of America -				
Federal Emergency Management Agency	-	-	-	5,439
Department of Justice - Police grant	8,150	8,150	-	18,340
Department of Justice - Drug forfeiture program	156,000	32,419	(123,581)	21,334
Homeland Security grant	165,780	165,767	(13)	-
Federal Highway Administration grant	77,268	77,268	-	-
State of North Carolina -				
Utilities franchise tax	1,075,000	1,118,869	43,869	1,052,984
Wine and beer tax	47,300	52,285	4,985	50,528
Powell Bill allocation	738,855	767,741	28,886	687,370
Civil preparedness	2,400	2,400	-	2,400
Emergency management program	-	-	-	1,813
Court costs and fees	12,000	19,642	7,642	12,795
Law Enforcement - Drug forfeiture program	-	41,841	41,841	-
Mowing reimbursement program	7,064	7,875	811	8,092
Safe kids grants	1,090	2,386	1,296	5,530
Other local governments	821,425	734,815	(86,610)	631,155
Total - intergovernmental revenues	<u>3,112,332</u>	<u>3,031,458</u>	<u>(80,874)</u>	<u>2,497,780</u>
Investment income	<u>148,810</u>	<u>202,279</u>	<u>53,469</u>	<u>78,795</u>
Sales and service -				
Sale of property	20,000	99,042	79,042	157,568
Fleet maintenance fees	160,000	66,385	(93,615)	192,418
Waste management fees	760,000	814,284	54,284	783,643
Total - sales and service	<u>940,000</u>	<u>979,711</u>	<u>39,711</u>	<u>1,133,629</u>
Miscellaneous revenues -				
Alcoholic beverage control	120,000	157,500	37,500	105,000
Interfund services provided	130,000	124,342	(5,658)	124,979
Civil violation fines	10,000	16,863	6,863	11,069
Rental income	15,000	15,000	-	16,250
Sundry	173,624	255,607	81,983	186,506
Total - miscellaneous revenues	<u>448,624</u>	<u>569,312</u>	<u>120,688</u>	<u>443,804</u>
Total revenues	<u>18,835,721</u>	<u>19,514,630</u>	<u>678,909</u>	<u>18,096,645</u>

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
June 30, 2005

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES-				
General Government:				
Governing body -				
Salaries and benefits	\$ 167,162	\$ 175,639	\$ (8,477)	\$ 166,432
Current operating expenditures	80,880	65,492	15,388	68,162
Total - governing body	248,042	241,131	6,911	234,594
Less: Interfund reimbursements	(20,461)	(20,461)	-	(17,344)
Net - governing body	227,581	220,670	6,911	217,250
Administration -				
Salaries and benefits	171,036	173,442	(2,406)	170,604
Current operating expenditures	23,300	12,196	11,104	10,460
Total - administration	194,336	185,638	8,698	181,064
Less: Interfund reimbursements	(17,950)	(17,950)	-	(16,005)
Net - administration	176,386	167,688	8,698	165,059
Budget -				
Salaries and benefits	128,751	110,321	18,430	125,539
Current operating expenditures	8,300	7,756	544	4,667
Capital outlay	1,800	1,798	2	-
Total - budget	138,851	119,875	18,976	130,206
Less: Interfund reimbursements	(12,722)	(12,722)	-	(11,451)
Net - budget	126,129	107,153	18,976	118,755
Human Resources -				
Salaries and benefits	184,893	172,872	12,021	138,054
Current operating expenditures	50,260	38,969	11,291	34,692
Total - human resources	235,153	211,841	23,312	172,746
Less: Interfund reimbursements	(21,446)	(21,446)	-	(18,113)
Net - human resources	213,707	190,395	23,312	154,633
Risk management -				
Salaries and benefits	28,819	3,817	25,002	4,373
Current operating expenditures	10,570	8,986	1,584	5,730
Total - risk management	39,389	12,803	26,586	10,103
Less: Interfund reimbursements	(5,573)	(5,573)	-	(19,653)
Net - risk management	33,816	7,230	26,586	(9,550)
Elections				
	-	-	-	12,175
Finance -				
Salaries and benefits	338,865	323,919	14,946	304,429
Current operating expenditures	208,720	198,430	10,290	210,381
Total - finance	547,585	522,349	25,236	514,810
Less: Interfund reimbursements	(50,206)	(50,206)	-	(46,252)
Net - finance	497,379	472,143	25,236	468,558
Information systems -				
Salaries and benefits	138,553	139,001	(448)	133,507
Current operating expenditures	192,956	23,182	169,774	39,345
Capital outlay	4,600	3,459	1,141	23,898
Total - information systems	336,109	165,642	170,467	196,750

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
June 30, 2005

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES - (Continued)				
Legal -				
Salaries and benefits	\$ 136,736	\$ 136,731	\$ 5	\$ 132,749
Current operating expenditures	31,010	16,154	14,856	18,630
Capital outlay	1,800	1,343	457	-
Total - legal	169,546	154,228	15,318	151,379
Less: Interfund reimbursements	(30,110)	(30,110)	-	(27,877)
Net - legal	139,436	124,118	15,318	123,502
Geographic information systems -				
Salaries and benefits	67,051	67,230	(179)	61,906
Current operating expenditures	8,471	6,994	1,477	11,139
Total - geographic information systems	75,522	74,224	1,298	73,045
Public buildings -				
Salaries and benefits	139,271	135,329	3,942	129,053
Current operating expenditures	458,192	436,832	21,360	428,317
Lease purchase	137,940	137,932	8	142,666
Capital outlay	23,000	23,062	(62)	18,095
Total - public buildings	758,403	733,155	25,248	718,131
Public works administration -				
Salaries and benefits	323,232	306,008	17,224	317,036
Current operating expenditures	17,975	19,993	(2,018)	15,920
Total - public works administration	341,207	326,001	15,206	332,956
Less: Interfund reimbursements	(108,932)	(108,932)	-	(105,308)
Net - public works administration	232,275	217,069	15,206	227,648
Central mimeograph -				
Current operating expenditures	60,400	42,548	17,852	55,961
Total - central mimeograph	60,400	42,548	17,852	55,961
Less: Interfund reimbursements	(2,100)	(2,100)	-	(2,430)
Net - central mimeograph	58,300	40,448	17,852	53,531
Shop -				
Salaries and benefits	250,650	245,023	5,627	262,350
Current operating expenditures	642,730	594,609	48,121	541,848
Lease purchase	20,170	20,168	2	20,168
Capital outlay	32,000	29,278	2,722	42,393
Total Shop	945,550	889,078	56,472	866,759
Less: charges to other departments	(735,000)	(795,144)	60,144	(697,240)
Net - shop	210,550	93,934	116,616	169,519
Beautification -				
Salaries and benefits	218,945	188,537	30,408	200,055
Current operating expenditures	67,142	64,093	3,049	64,879
Capital outlay	8,575	8,581	(6)	6,900
Total - beautification	294,662	261,211	33,451	271,834
Other appropriations & contingency -				
Associations and memberships	27,730	27,313	417	26,735
Regional and community support	28,000	28,000	-	23,000
Economic development	144,103	144,102	1	148,257
Intergovernmental transfers	168,588	87,525	81,063	50,000
Contingency	43,149	-	43,149	-
Total - other appropriations	411,570	286,940	124,630	247,992

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
June 30, 2005

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)	<u>Actual prior year</u>
EXPENDITURES - (Continued)				
Community development:				
Community development -				
Salaries and benefits	\$ 596,190	\$ 586,815	\$ 9,375	\$ 573,107
Current operating expenditures	101,323	60,289	41,034	61,674
Capital outlay	4,679	4,497	182	79
Total - community development	<u>702,192</u>	<u>651,601</u>	<u>50,591</u>	<u>634,860</u>
Code Enforcement -				
Salaries and benefits	225,727	169,869	55,858	135,546
Current operating expenditures	59,397	32,024	27,373	16,031
Capital outlay	22,783	22,432	351	-
Total - code enforcement	<u>307,907</u>	<u>224,325</u>	<u>83,582</u>	<u>151,577</u>
Downtown / Historic Preservation -				
Salaries and benefits	64,361	64,688	(327)	62,338
Current operating expenditures	112,392	93,459	18,933	3,567
Total - downtown / historic preservation	<u>176,753</u>	<u>158,147</u>	<u>18,606</u>	<u>65,905</u>
Public safety:				
Police -				
Salaries and benefits	5,076,429	4,899,064	177,365	4,707,597
Current operating expenditures	1,021,882	952,756	69,126	979,822
Capital outlay	373,799	328,870	44,929	46,216
Total - police	<u>6,472,110</u>	<u>6,180,690</u>	<u>291,420</u>	<u>5,733,635</u>
Fire -				
Salaries and benefits	2,748,052	2,685,735	62,317	2,568,864
Current operating expenditures	283,336	269,332	14,004	249,881
Lease purchase	86,990	86,989	1	91,083
Capital outlay	225,358	225,546	(188)	12,718
Total - fire	<u>3,343,736</u>	<u>3,267,602</u>	<u>76,134</u>	<u>2,922,546</u>
Inspection -				
Salaries and benefits	418,789	378,209	40,580	398,611
Current operating expenditures	55,010	65,315	(10,305)	54,985
Total - inspection	<u>473,799</u>	<u>443,524</u>	<u>30,275</u>	<u>453,596</u>
Streets:				
Streets				
Salaries and benefits	715,571	685,360	30,211	674,293
Current operating expenditures	1,066,455	1,049,016	17,439	878,962
Lease purchase	140,332	140,332	-	171,307
Capital outlay	274,890	235,542	39,348	123,782
Total - streets and sidewalks	<u>2,197,248</u>	<u>2,110,250</u>	<u>86,998</u>	<u>1,848,344</u>

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>	<u>Actual prior year</u>
EXPENDITURES - (Continued)				
Sanitation:				
Refuse -				
Salaries and benefits	\$ 657,005	\$ 631,931	\$ 25,074	\$ 620,397
Current operating expenditures	285,167	280,811	4,356	263,016
Lease purchase	136,836	136,835	1	113,846
Capital outlay	115,771	114,331	1,440	118,441
Total - Refuse	<u>1,194,779</u>	<u>1,163,908</u>	<u>30,871</u>	<u>1,115,700</u>
Sanitation -				
Contracted services	<u>1,100,600</u>	<u>1,080,549</u>	<u>20,051</u>	<u>1,041,373</u>
Total expenditures	<u>19,760,949</u>	<u>18,442,616</u>	<u>1,318,333</u>	<u>17,176,368</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>(925,228)</u>	<u>1,072,014</u>	<u>1,997,242</u>	<u>920,277</u>
OTHER FINANCING SOURCES (USES) -				
Transfers out -				
Special Revenue Fund	(50,000)	(50,000)	-	(50,000)
Lease-purchase proceeds	96,251	96,250	(1)	92,157
Total - other financing sources (uses)	<u>46,251</u>	<u>46,250</u>	<u>(1)</u>	<u>42,157</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	<u>(878,977)</u>	<u>1,118,264</u>	<u>1,997,241</u>	<u>962,434</u>
APPROPRIATED FUND BALANCE	<u>878,977</u>	<u>-</u>	<u>(878,977)</u>	<u>-</u>
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED FUND BALANCE IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>1,118,264</u>	<u>\$ 1,118,264</u>	<u>\$ 962,434</u>
FUND BALANCE, BEGINNING OF YEAR		<u>9,013,359</u>		
FUND BALANCE, END OF YEAR		<u>\$ 10,131,623</u>		

CITY OF SANFORD, NORTH CAROLINA
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2005

	<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	\$ 353,755	\$ 79,237	\$ -	\$ 432,992
Property taxes receivable, net of allowance for uncollectible taxes of \$1,910 for 2005	-	31	-	31
Due from governmental agencies	<u>47,574</u>	<u>-</u>	<u>-</u>	<u>47,574</u>
TOTAL	<u><u>\$ 401,329</u></u>	<u><u>\$ 79,268</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 480,597</u></u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities -				
Accounts payable	\$ 663	\$ 2,655	\$ -	\$ 3,318
Due to other funds	33,990	-	-	33,990
Deferred revenues	14,515	129	-	14,644
Total liabilities	<u>49,168</u>	<u>2,784</u>	<u>-</u>	<u>51,952</u>
Fund balance -				
Reserved-				
Restricted by state statute	47,574	-	-	47,574
Unreserved -				
Designated - subsequent year's budget	-	33,372	-	33,372
Undesignated (deficit)	304,587	43,112	-	347,699
Total fund balance	<u>352,161</u>	<u>76,484</u>	<u>-</u>	<u>428,645</u>
TOTAL	<u><u>\$ 401,329</u></u>	<u><u>\$ 79,268</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 480,597</u></u>

CITY OF SANFORD, NORTH CAROLINA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2005

	Special Revenue Funds			Total
	Community Development	Central Business Tax District	Capital Project Fund	
REVENUES -				
Ad valorem taxes -				
Current year	\$ -	\$ 47,321	\$ -	\$ 47,321
Prior years	-	803	-	803
Intergovernmental revenues -				
State of North Carolina	301,755	-	313,599	615,354
Investment income	-	2,248	-	2,248
Miscellaneous income	19,449	2,105	-	21,554
Total revenues	<u>321,204</u>	<u>52,477</u>	<u>313,599</u>	<u>687,280</u>
EXPENDITURES -				
Current:				
Downtown Revitalization	-	161,214	-	161,214
Capital Projects -				
Clean water program	-	-	313,599	313,599
Community Development -				
2002 Community Development Block Grant	365,882	-	-	365,882
2003 Community Development Block Grant	58,679	-	-	58,679
Other prior program expenditures	499	-	-	499
Total expenditures	<u>425,060</u>	<u>161,214</u>	<u>313,599</u>	<u>899,873</u>
REVENUES IN EXCESS OF (LESS THAN)				
EXPENDITURES	<u>(103,856)</u>	<u>(108,737)</u>	<u>-</u>	<u>(212,593)</u>
OTHER FINANCING SOURCES (USES) -				
Transfers in - General Fund	-	50,000	-	50,000
TOTAL OTHER FINANCING SOURCES (USES) -	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(103,856)	(58,737)	-	(162,593)
FUND BALANCE, BEGINNING OF YEAR	<u>456,017</u>	<u>135,221</u>	<u>-</u>	<u>591,238</u>
FUND BALANCE, END OF YEAR	<u>\$ 352,161</u>	<u>\$ 76,484</u>	<u>\$ -</u>	<u>\$ 428,645</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, 2005

	Program budget	Current year	Prior years	Total to June 30, 2005
REVENUES -				
Intergovernmental revenues -				
Transportation Enhancement -				
2005 Grant - NC Dept of Transportation, Federal Highway Administration	\$ 150,102	\$ -	\$ -	\$ -
Local funds	37,525	-	-	-
Total - Transportation Enhancement Grant	<u>187,627</u>	<u>-</u>	<u>-</u>	<u>-</u>
Single Family Housing Rehabilitation Program -				
1999 Grant - North Carolina Housing Finance Agency	300,000	-	284,678	284,678
Local funds	25,000	-	25,000	25,000
Total - Single Family Housing Rehabilitation Grant	<u>325,000</u>	<u>-</u>	<u>309,678</u>	<u>309,678</u>
2002 Community Development Block Grant-				
Grant - Division of Community Assistance, Dept. of Commerce	1,050,000	205,551	626,572	832,123
Local funds	200,000	-	200,000	200,000
Total - 2002 Community Development Block Grant	<u>1,250,000</u>	<u>205,551</u>	<u>826,572</u>	<u>1,032,123</u>
2003 Community Development Block Grant-				
Grant - Division of Community Assistance, Dept. of Commerce	1,087,627	96,204	973	97,177
Total - 2002 Community Development Block Grant	<u>1,087,627</u>	<u>96,204</u>	<u>973</u>	<u>97,177</u>
Miscellaneous				
2004 Historic Preservation	8,350	-	3,350	3,350
Program Income - Land Disposition	51,693	19,449	297,224	316,673
TOTAL REVENUES	<u>\$ 2,910,297</u>	<u>\$ 321,204</u>	<u>\$ 1,437,797</u>	<u>\$ 1,759,001</u>
EXPENDITURES -				
Intergovernmental revenues -				
Transportation Enhancement -				
2005 Grant - NC Dept of Transportation, Federal Highway Administration	\$ 187,627	-	\$ -	\$ -
Total - Transportation Enhancement Grant	<u>187,627</u>	<u>-</u>	<u>-</u>	<u>-</u>
Single Family Housing Rehabilitation Program -				
1999 Grant Administration	33,900	-	32,848	32,848
1999 Grant Rehabilitation	291,100	-	276,110	276,110
Total - Single Family Housing Rehabilitation Grant	<u>325,000</u>	<u>-</u>	<u>308,958</u>	<u>308,958</u>
2002 Community Development Block Grant-				
Administration	111,525	29,374	72,869	102,243
Salary and wages	6,275	-	5,429	5,429
Travel	300	-	580	580
Departmental supplies	150	-	733	733
Construction	931,750	209,901	513,237	723,138
Local funds - construction	200,000	126,607	33,724	160,331
Total - 2002 Community Development Block Grant	<u>1,250,000</u>	<u>365,882</u>	<u>626,572</u>	<u>992,454</u>
2003 Community Development Block Grant-				
Clearance	33,000	-	-	-
Code enforcement	137,966	11,043	-	11,043
Historic preservation	505,185	47,636	-	47,636
Administration	9,476	-	973	973
Pedestrian improvements	402,000	-	-	-
Total - 2003 Community Development Block Grant	<u>1,087,627</u>	<u>58,679</u>	<u>973</u>	<u>59,652</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, 2005

	Program budget	Current year	Prior years	Total to June 30, 2005
Other prior program expenditures				
Historic Preservation	8,350	-	-	-
Rehabilitation	7,500	-	2,650	2,650
Land Disposition	14,193	499	12,627	13,126
Transfer to Community Development	30,000	-	30,000	30,000
Total - Other prior program expenditures	<u>60,043</u>	<u>499</u>	<u>45,277</u>	<u>45,776</u>
TOTAL EXPENDITURES	<u>\$ 2,910,297</u>	425,060	<u>\$ 981,780</u>	<u>\$ 1,406,840</u>
DECREASE IN FUND BALANCE		(103,856)		
FUND BALANCE, BEGINNING OF YEAR		<u>456,017</u>		
FUND BALANCE, END OF YEAR		<u>\$ 352,161</u>		

CITY OF SANFORD, NORTH CAROLINA
CENTRAL BUSINESS TAX DISTRICT FUND - SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
June 30, 2005

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
REVENUES -				
Ad valorem taxes -				
Current year	\$ 44,289	\$ 47,321	\$ 3,032	\$ 47,808
Prior year	1,250	803	(447)	3,746
Investment income	726	2,248	1,522	1,112
Other	1,800	1,875	75	912
Penalties and interest	100	230	130	(199)
Total revenues	<u>48,165</u>	<u>52,477</u>	<u>4,312</u>	<u>53,379</u>
EXPENDITURES -				
Operating expenditures	90,054	87,447	2,607	63,308
Downtown facade reimbursement program	35,000	13,356	21,644	21,490
Capital Outlay	110,100	60,411	49,689	-
Total expenditures	<u>235,154</u>	<u>161,214</u>	<u>73,940</u>	<u>84,798</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(186,989)</u>	<u>(108,737)</u>	<u>78,252</u>	<u>(31,419)</u>
OTHER FINANCING SOURCES (USES) -				
Transfers in - General Fund	50,000	50,000	-	50,000
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(136,989)</u>	<u>(58,737)</u>	<u>78,252</u>	<u>18,581</u>
APPROPRIATED FUND BALANCE	<u>136,989</u>	<u>-</u>	<u>(136,989)</u>	<u>-</u>
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED FUND BALANCE OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>(58,737)</u>	<u>\$ (58,737)</u>	<u>18,581</u>
FUND BALANCE, BEGINNING OF YEAR		<u>135,221</u>		<u>116,640</u>
FUND BALANCE, END OF YEAR		<u>\$ 76,484</u>		<u>\$ 135,221</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, 2005

	<u>Budget</u>	<u>Current year</u>	<u>Prior years</u>	<u>Total to June 30, 2005</u>
REVENUES -				
Intergovernmental revenues -				
Clean water grant	\$ 765,000	\$ 313,599	\$ 210,204	\$ 523,803
Total - intergovernmental revenues	<u>765,000</u>	<u>313,599</u>	<u>210,204</u>	<u>523,803</u>
EXPENDITURES -				
Current:				
Clean water program	765,000	313,599	210,204	523,803
Total expenditures	<u>765,000</u>	<u>313,599</u>	<u>210,204</u>	<u>523,803</u>
REVENUES LESS THAN EXPENDITURES	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE, BEGINNING OF YEAR		<u>-</u>		
FUND BALANCE, END OF YEAR		<u>\$ -</u>		

CITY OF SANFORD, NORTH CAROLINA
 UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 June 30, 2005

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)	Actual prior year
REVENUES -				
User charges -				
Water	\$ 7,191,950	\$ 7,531,167	\$ 339,217	\$ 6,616,731
Sewer	4,803,210	5,714,760	911,550	5,075,647
Total user charges	<u>11,995,160</u>	<u>13,245,927</u>	<u>1,250,767</u>	<u>11,692,378</u>
Monitoring fees	90,000	88,704	(1,296)	82,368
Connection and tap fees	200,000	238,369	38,369	263,672
Sales tax refunds	-	9,104	9,104	903
Investment income	195,200	237,547	42,347	84,117
Special assessments	260,000	37,170	(222,830)	28,097
Other	195,700	260,794	65,094	411,381
Charges to other funds	30,000	39,581	9,581	36,606
Contributions from other agencies	77,521	87,620	10,099	-
TOTAL REVENUES	<u>13,043,581</u>	<u>14,244,816</u>	<u>1,201,235</u>	<u>12,599,522</u>
EXPENDITURES -				
Engineering -				
Salaries and benefits	518,212	486,785	31,427	475,698
Other operating expenditures	35,696	42,710	(7,014)	32,632
Capital outlay	10,500	10,512	(12)	-
Total - engineering	<u>564,408</u>	<u>540,007</u>	<u>24,401</u>	<u>508,330</u>
Administration -				
Salaries and benefits	343,758	333,216	10,542	355,959
Operating expenditures	311,128	220,844	90,284	425,438
Interfund reimbursement	269,560	269,500	60	-
Total - administration	<u>924,446</u>	<u>823,560</u>	<u>100,886</u>	<u>781,397</u>
Water and sewer lines - maintenance				
Water -				
Salaries and benefits	1,214,107	1,192,606	21,501	1,202,136
Operating expenditures	895,727	851,826	43,901	835,478
Lease payments	21,800	-	21,800	-
Capital outlay	211,150	101,121	110,029	92,282
Total - water	<u>2,342,784</u>	<u>2,145,553</u>	<u>197,231</u>	<u>2,129,896</u>
Sewer -				
Salaries and benefits	473,800	436,787	37,013	409,666
Operating expenditures	406,665	378,668	27,997	409,077
Lease payments	44,630	44,622	8	44,622
Capital outlay	136,600	71,414	65,186	45,213
Total - sewer	<u>1,061,695</u>	<u>931,491</u>	<u>130,204</u>	<u>908,578</u>
Water plant operations -				
Salaries and benefits	525,155	501,544	23,611	489,083
Operating expenditures	1,198,485	969,613	228,872	1,044,191
Capital outlay	24,100	22,401	1,699	-
Total - water plant operations	<u>1,747,740</u>	<u>1,493,558</u>	<u>254,182</u>	<u>1,533,274</u>
Sewer plant operations -				
Salaries and benefits	631,470	621,158	10,312	601,734
Operating expenditures	856,865	741,384	115,481	730,023
Capital outlay	73,500	73,682	(182)	-
Total - sewer plant operations	<u>1,561,835</u>	<u>1,436,224</u>	<u>125,611</u>	<u>1,331,757</u>

CITY OF SANFORD, NORTH CAROLINA
 UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 (Continued)
 June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>	<u>Actual prior year</u>
EXPENDITURES - (continued)				
Store -				
Salaries and benefits	\$ 37,487	\$ 35,883	\$ 1,604	\$ 34,996
Purchases and supplies	305,000	285,331	19,669	267,943
Other operating expenditures	26,980	17,041	9,939	2,411
Total - store	<u>369,467</u>	<u>338,255</u>	<u>31,212</u>	<u>305,350</u>
Less charges to other departments	(309,467)	(309,322)	(145)	(283,968)
Net store	<u>60,000</u>	<u>28,933</u>	<u>31,067</u>	<u>21,382</u>
Capital improvements -				
Fees	6,250	6,750	(500)	-
Capital outlay	9,109,769	8,929,217	180,552	976,905
Total capital improvements	<u>9,116,019</u>	<u>8,935,967</u>	<u>180,052</u>	<u>976,905</u>
Debt service -				
Interest	992,019	991,084	935	836,808
Installment purchase principal	1,392,633	1,392,633	-	907,018
Bonds principal	1,225,000	1,225,000	-	1,245,000
State loan principal	97,500	97,500	-	172,790
Total debt service	<u>3,707,152</u>	<u>3,706,217</u>	<u>935</u>	<u>3,161,616</u>
Transfers out and contingency				
Capital Reserve Fund	50,000	50,000	-	-
Capital Project Fund	-	-	-	56
Contingency	168,600	-	168,600	-
Total transfers and contingency	<u>218,600</u>	<u>50,000</u>	<u>168,600</u>	<u>56</u>
TOTAL EXPENDITURES	<u>21,304,679</u>	<u>20,091,510</u>	<u>1,213,169</u>	<u>11,353,191</u>
OTHER FINANCING SOURCES (USES)-				
Installment purchase proceeds	8,030,000	7,630,000	(400,000)	-
Water system purchase and consolidation proceed	231,098	634,104	403,006	-
TOTAL OTHER FINANCING SOURCES	<u>8,261,098</u>	<u>8,264,104</u>	<u>3,006</u>	<u>-</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF EXPENDITURES	<u>\$ -</u>	<u>\$ 2,417,410</u>	<u>\$ 2,417,410</u>	<u>\$ 1,246,331</u>

Note: Prepared for comparison with the legally adopted budget.

CITY OF SANFORD, NORTH CAROLINA
UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(Continued)
June 30, 2005

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

Revenues and appropriated fund balance over expenditures	\$ 2,417,410
Reconciling items -	
Capital outlay	9,208,347
Bond principal	1,225,000
State loan principal	97,500
Installment purchase principal	1,215,075
Lease principal	220,756
Bond refunding issuance costs (net)	(71,334)
Depreciation	(2,477,908)
Bad debt allowance	(139,431)
Loss on disposal of fixed assets	(1,066)
Installment purchase proceeds	(7,630,000)
Capital contributions	2,338,700
Capitalized interest	91,185
Change in net assets	<u>\$ 6,494,234</u>

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, 2005

	Project budget	Current year	Prior years	Total
REVENUES -				
Grants - State Clean Water Fund	\$ 6,778,000	\$ 9,429	\$ 6,425,009	\$ 6,434,438
Interest income	23,667	95,142	43,603	138,745
Sales tax refund	14,783	-	14,783	14,783
Other revenues	250,944	-	237,250	237,250
Total revenues	<u>7,067,394</u>	<u>104,571</u>	<u>6,720,645</u>	<u>6,825,216</u>
EXPENDITURES -				
Water capital project - capital outlay	15,291,734	3,399,104	8,212,222	11,611,326
Sewer capital project - capital outlay	2,971,660	14,783	2,526,803	2,541,586
Total expenditures	<u>18,263,394</u>	<u>3,413,887</u>	<u>10,739,025</u>	<u>14,152,912</u>
REVENUES LESS THAN EXPENDITURES	(11,196,000)	(3,309,316)	(4,018,380)	(7,327,696)
OTHER FINANCING SOURCES -				
Transfer from utility fund	26,000	-	26,000	26,000
Installment purchase proceeds	11,170,000	800,000	11,170,000	11,970,000
Total other financing sources	<u>11,196,000</u>	<u>800,000</u>	<u>11,196,000</u>	<u>11,996,000</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ (2,509,316)</u>	<u>\$ 7,177,620</u>	<u>\$ 4,668,304</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
 June 30, 2005

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)	<u>Actual prior year</u>
OPERATING REVENUES -				
Green fees -				
Annual	\$ 140,000	\$ 94,919	\$ (45,081)	\$ 101,139
Daily	165,000	113,377	(51,623)	112,636
Other -				
Cart fees	240,000	157,906	(82,094)	159,074
Tournament fees	14,500	10,835	(3,665)	20,435
Driving range fees	18,000	13,535	(4,465)	11,207
Interest income	1,000	-	(1,000)	121
Other	1,301	1,450	149	1,738
TOTAL REVENUES	<u>579,801</u>	<u>392,022</u>	<u>(187,779)</u>	<u>406,350</u>
OPERATING EXPENDITURES -				
Salaries and benefits	362,074	353,997	8,077	340,049
Current operating expenditures	125,686	123,617	2,069	105,529
Debt service-				
Principal	113,856	113,856	-	118,591
Interest	24,214	23,835	379	28,325
Capital outlay	-	-	-	120,995
TOTAL EXPENDITURES	<u>625,830</u>	<u>615,305</u>	<u>10,525</u>	<u>713,489</u>
OTHER FINANCING SOURCES-				
Loan proceeds - general fund	46,029	46,029	-	-
Lease purchase proceeds	-	-	-	121,000
TOTAL OTHER FINANCING SOURCES	<u>46,029</u>	<u>46,029</u>	<u>-</u>	<u>121,000</u>
REVENUES AND OTHER FINANCING SOURCES LESS THAN EXPENDITURES	<u>\$ -</u>	<u>\$ (177,254)</u>	<u>\$ (177,254)</u>	<u>\$ (186,139)</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	\$ (177,254)
Reconciling items -	
Principal payments on debt	113,856
Loan proceeds	(46,029)
Depreciation	<u>(136,451)</u>
Change in net assets	<u>\$ (245,878)</u>

CITY OF SANFORD, NORTH CAROLINA AGENCY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 June 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
FIREMEN'S SUPPLEMENTAL PENSION FUND -				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 314,425	\$ 26,231	\$ 11	\$ 340,645
Accounts receivable	18,786	26,699	22,784	22,701
TOTAL	<u>\$ 333,211</u>	<u>\$ 52,930</u>	<u>\$ 22,795</u>	<u>\$ 363,346</u>
<u>LIABILITIES</u>				
Amounts available for benefits	<u>\$ 333,211</u>	<u>\$ 52,930</u>	<u>\$ 22,795</u>	<u>\$ 363,346</u>
 LEE COUNTY WATER FUND -				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 67,907	\$ 1,518,931	\$ 1,586,838	\$ -
Accounts receivable	273,781	1,266,001	1,539,782	-
TOTAL	<u>\$ 341,688</u>	<u>\$ 2,784,932</u>	<u>\$ 3,126,620</u>	<u>\$ -</u>
<u>LIABILITIES</u>				
Due to Lee County	<u>\$ 341,688</u>	<u>\$ 2,784,932</u>	<u>\$ 3,126,620</u>	<u>\$ -</u>
 TOTALS - ALL AGENCY FUNDS -				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 382,332	\$ 1,545,162	\$ 1,586,849	\$ 340,645
Accounts receivable	292,567	1,292,700	1,562,566	22,701
TOTAL	<u>\$ 674,899</u>	<u>\$ 2,837,862</u>	<u>\$ 3,149,415</u>	<u>\$ 363,346</u>
<u>LIABILITIES</u>				
Amounts available for benefits	\$ 333,211	\$ 52,930	\$ 22,795	\$ 363,346
Due to Lee County	341,688	2,784,932	3,126,620	-
TOTAL	<u>\$ 674,899</u>	<u>\$ 2,837,862</u>	<u>\$ 3,149,415</u>	<u>\$ 363,346</u>

CITY OF SANFORD, NORTH CAROLINA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 COMPARATIVE SCHEDULES BY SOURCE
 June 30, 2005 and 2004

	2005	2004
Governmental funds capital assets:		
Land	\$ 1,425,248	\$ 1,266,856
Construction in progress	42,414	-
Municipal center and other buildings	9,314,352	9,232,087
Equipment	10,913,258	9,154,080
Total governmental funds capital assets	<u>\$ 21,695,272</u>	<u>\$ 19,653,023</u>
Investments in governmental funds capital assets by source:		
General fund	\$ 12,660,328	\$ 11,714,635
Special revenue funds	844,423	776,951
Capital project funds	8,142,206	7,142,205
Utility fund	48,315	19,232
Total governmental funds capital assets	<u>\$ 21,695,272</u>	<u>\$ 19,653,023</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
 June 30, 2005

Function and Activity	Land	Construction in Progress	Municipal Center and Other Buildings	Equipment	Total
General government:					
Administration	\$ -	\$ -	\$ -	\$ 2,540	2,540
Human resources	-	-	-	18,184	18,184
Finance	-	-	-	2,926	2,926
Information systems	-	-	-	72,191	72,191
Legal	-	-	-	4,024	4,024
Planning	-	-	-	-	-
Public buildings	1,425,248	42,414	9,314,352	367,521	11,149,535
Public works administration	-	-	-	53,866	53,866
Central mimeo	-	-	-	20,011	20,011
Beautification	-	-	-	69,302	69,302
Shop	-	-	-	761,855	761,855
Total general government	1,425,248	42,414	9,314,352	1,372,420	12,154,434
Public safety:					
Police	-	-	-	2,377,244	2,377,244
Fire	-	-	-	1,721,004	1,721,004
Inspections	-	-	-	50,745	50,745
	-	-	-	4,148,993	4,148,993
Streets	-	-	-	4,161,968	4,161,968
Sanitation	-	-	-	1,121,874	1,121,874
Community development	-	-	-	108,003	108,003
Total governmental funds capital assets	\$ 1,425,248	\$ 42,414	\$ 9,314,352	\$ 10,913,258	\$ 21,695,272

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
June 30, 2005

<u>Function and Activity</u>	<u>Beginning of Year</u>	<u>Additions / Transfers In</u>	<u>Deductions / Transfers Out</u>	<u>End of Year</u>
General government:				
Administration	\$ 2,540	\$ -	\$ -	\$ 2,540
Human resources	18,184	-	-	18,184
Finance	2,926	-	-	2,926
Information systems	65,123	7,068	-	72,191
Legal	4,024	-	-	4,024
Planning	54,050	-	54,050	-
Public buildings	10,825,948	337,344	13,757	11,149,535
Public works administration	53,866	-	-	53,866
Central mimeo	20,011	-	-	20,011
Beautification	69,283	6,900	6,881	69,302
Shop	758,070	26,141	22,356	761,855
Total general government	<u>11,874,025</u>	<u>377,453</u>	<u>97,044</u>	<u>12,154,434</u>
Public safety:				
Police	2,082,405	313,378	18,539	2,377,244
Fire	1,532,476	188,528	-	1,721,004
Inspections	57,813	-	7,068	50,745
	<u>3,672,694</u>	<u>501,906</u>	<u>25,607</u>	<u>4,148,993</u>
Streets	<u>3,019,416</u>	<u>1,159,649</u>	<u>17,097</u>	<u>4,161,968</u>
Sanitation	<u>1,012,235</u>	<u>109,639</u>	<u>-</u>	<u>1,121,874</u>
Community development	<u>74,653</u>	<u>73,772</u>	<u>40,422</u>	<u>108,003</u>
Total governmental funds capital assets	<u>\$ 19,653,023</u>	<u>\$ 2,222,419</u>	<u>\$ 180,170</u>	<u>\$ 21,695,272</u>

Note: Amounts presented above exclude accumulated depreciation.

CITY OF SANFORD, NORTH CAROLINA
 SUPPLEMENTAL SCHEDULE OF UNCOLLECTED TAXES
 June 30, 2005

	<u>Total</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>
Prior year's levies -			
1995	\$ 12,672	\$ 12,606	\$ 66
1996	17,076	17,045	31
1997	19,865	19,764	101
1998	22,495	22,434	61
1999	18,667	18,700	(33)
2000	46,728	46,578	150
2001	47,738	47,661	77
2002	98,830	98,498	332
2003	<u>138,683</u>	<u>138,249</u>	<u>434</u>
Total prior year's levies	422,754	421,535	1,219
Current year's levy - 2004	<u>357,831</u>	<u>357,109</u>	<u>722</u>
TOTAL	780,585	778,644	1,941
LESS ALLOWANCE FOR UNCOLLECTED TAXES	<u>373,078</u>	<u>371,168</u>	<u>1,910</u>
NET UNCOLLECTED TAXES	<u>\$ 407,507</u>	<u>\$ 407,476</u>	<u>\$ 31</u>

CITY OF SANFORD, NORTH CAROLINA
 SUPPLEMENTAL SCHEDULE OF 2004 TAX LEVY
 June 30, 2005

	City wide		Total levy	
	Property valuations	Total levy	Property excluding motor vehicles	Registered motor vehicles
Tax rate per \$100 value	<u>\$ 0.59</u>			
Regularly listed - Real and personal	\$ 1,632,160,341	\$ 9,613,271	\$ 8,696,378	\$ 916,893
Utilities	47,308,731	279,122	279,122	-
Penalties	-	18,783	18,783	-
Subtotal	<u>1,679,469,072</u>	<u>9,911,176</u>	<u>8,994,283</u>	<u>916,893</u>
Add: discoveries and late lists	5,111,373	68,479	68,479	-
Less: abatements	<u>(5,699,897)</u>	<u>(38,925)</u>	<u>(19,325)</u>	<u>(19,600)</u>
TOTAL PROPERTY VALUATION	<u>\$ 1,678,880,548</u>			
Net tax levy		9,940,730	9,043,437	897,293
Uncollected taxes @ 6/30/05		<u>(357,109)</u>	<u>(221,359)</u>	<u>(135,750)</u>
Current year's taxes collected		<u>\$ 9,583,621</u>	<u>\$ 8,822,078</u>	<u>\$ 761,543</u>
COLLECTION PERCENTAGE		<u>96.41%</u>	<u>97.55%</u>	<u>84.87%</u>

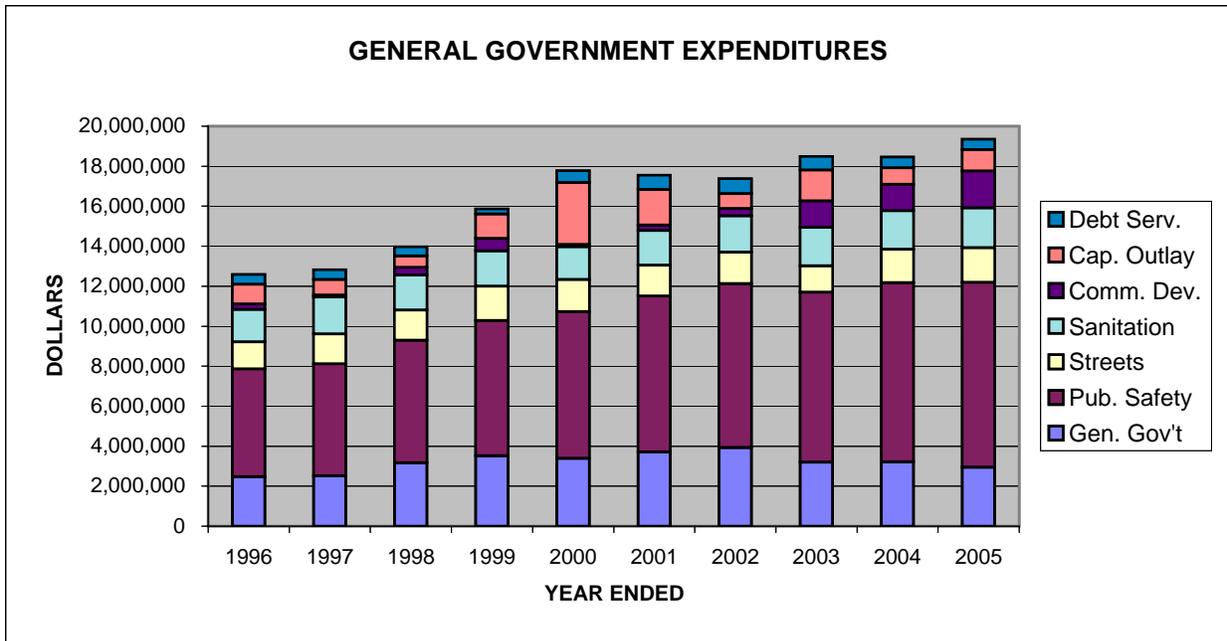
CITY OF SANFORD, NORTH CAROLINA
 SUPPLEMENTAL SCHEDULE OF 2004 TAX LEVY
 June 30, 2005

	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	\$ 36,499,603	\$ 47,607	\$ 45,357	\$ 2,250
Utilities	248,966	323	323	-
Penalties	-	-	-	-
Subtotal	<u>36,748,569</u>	<u>47,930</u>	<u>45,680</u>	<u>2,250</u>
Add: discoveries and late lists	130,933	206	206	-
Less: abatements	<u>(68,962)</u>	<u>(93)</u>	<u>(37)</u>	<u>(56)</u>
TOTAL PROPERTY VALUATION	<u>\$ 36,810,540</u>			
Net tax levy		48,043	45,849	2,194
Uncollected taxes @ 6/30/05		<u>(722)</u>	<u>(478)</u>	<u>(244)</u>
Current year's taxes collected		<u>\$ 47,321</u>	<u>\$ 45,371</u>	<u>\$ 1,950</u>
COLLECTION PERCENTAGE		<u>98.50%</u>	<u>98.96%</u>	<u>88.88%</u>

CITY OF SANFORD, NORTH CAROLINA
 GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (UNAUDITED)
 June 30, 2005

Current Operating Expenditures								
Fiscal Year June 30	General Gov't.	Public Safety	Streets	Sanitation and Waste Removal	Community Devp't.	Capital Outlay	Debt Service	Total
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
2004	3,206,427	8,972,478	1,667,041	1,924,787	1,324,715	822,987	539,070	18,457,505
2005	2,936,399	9,250,411	1,734,376	1,993,291	1,846,606	1,059,150	522,256	19,342,489

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



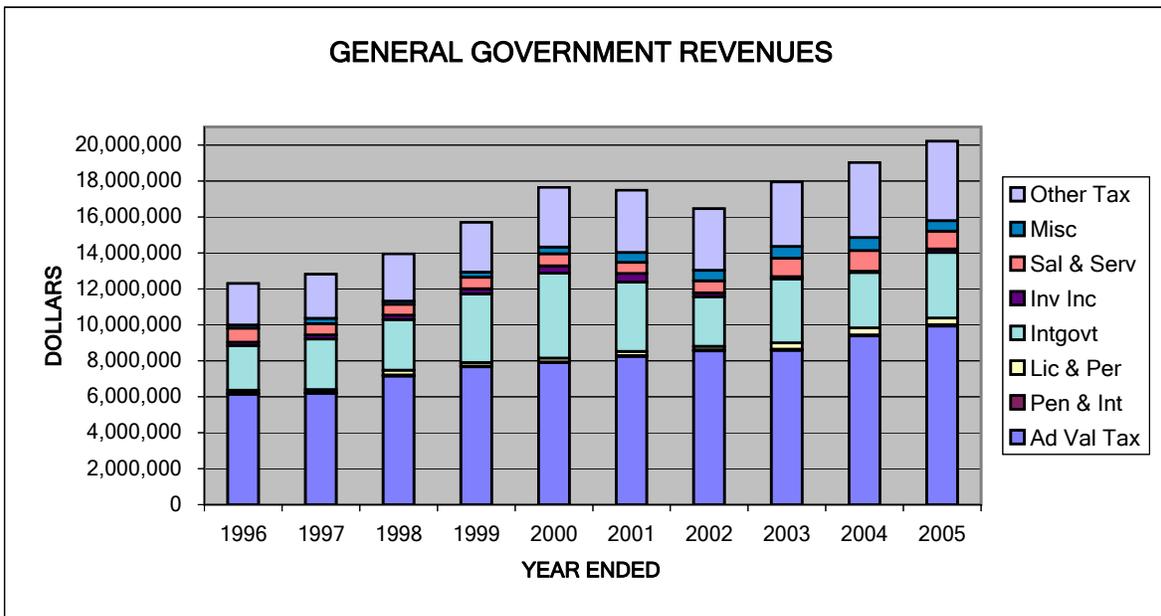
CITY OF SANFORD, NORTH CAROLINA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL
GENERAL GOVERNMENT EXPENDITURES (UNAUDITED)
June 30, 2005

Fiscal year June 30,	Principal	Interest	Total Debt Service	General Government Expenditures	Ratio of Debt Service to General Government Expenditures
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	-
2004	-	-	-	17,440,801	-
2005	-	-	-	18,442,616	-

CITY OF SANFORD, NORTH CAROLINA
 GENERAL GOVERNMENT REVENUES (UNAUDITED)
 June 30, 2005

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
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
2004	9,367,740	65,376	377,070	3,085,050	80,613	1,133,629	725,511	4,183,806	19,018,795
2005	9,930,497	61,666	369,131	3,646,812	204,527	979,711	589,714	4,418,700	20,200,758

* 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)
 June 30, 2005

Fiscal year June 30,	Population(A)	Assessed value (B) (C)	Bonded debt (D)	Ratio bonded debt to assessed value	Bonded debt per capita
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	-	-	-
2004	23,530	1,655,662,186	-	-	-
2005	23,832	1,678,880,548	-	-	-

Source of information:

(A) Office of State Budget and Management

(B) Octennial revaluation in 2003-04

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

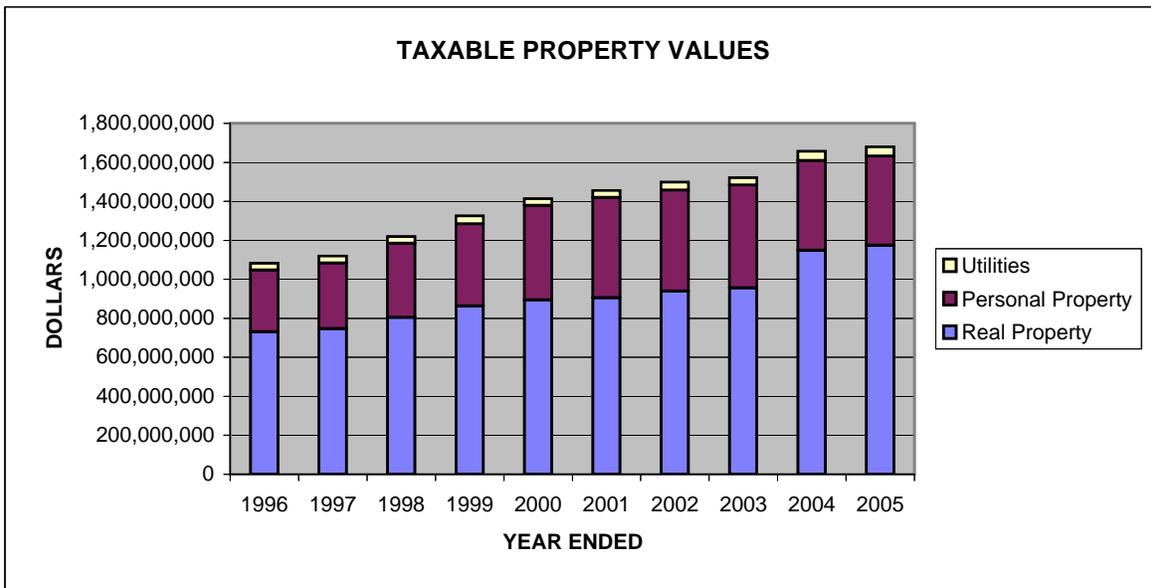
(D) Refers only to tax supported general obligation deb

CITY OF SANFORD, NORTH CAROLINA
 ASSESSED VALUE OF ALL TAXABLE PROPERTY (UNAUDITED)
 June 30, 2005

Fiscal year June 30	Real Property	Personal Property	Utilities	Total
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
2004*	1,148,068,689	461,678,958	45,914,539	1,655,662,186
2005	1,175,515,025	456,056,792	47,308,731	1,678,880,548

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

* Year of most recent octennial revaluation



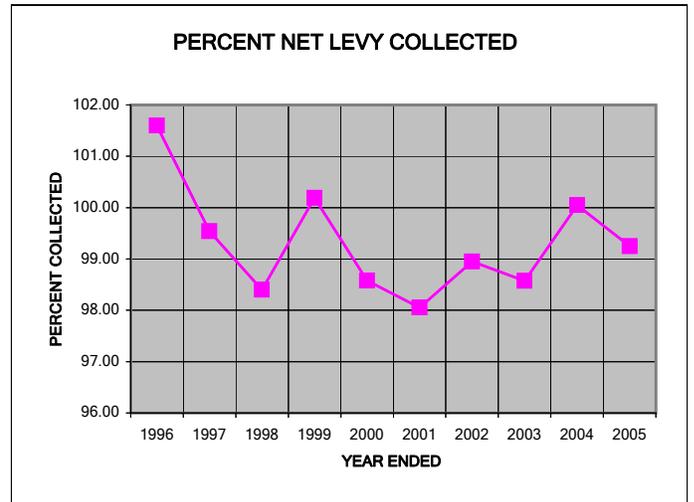
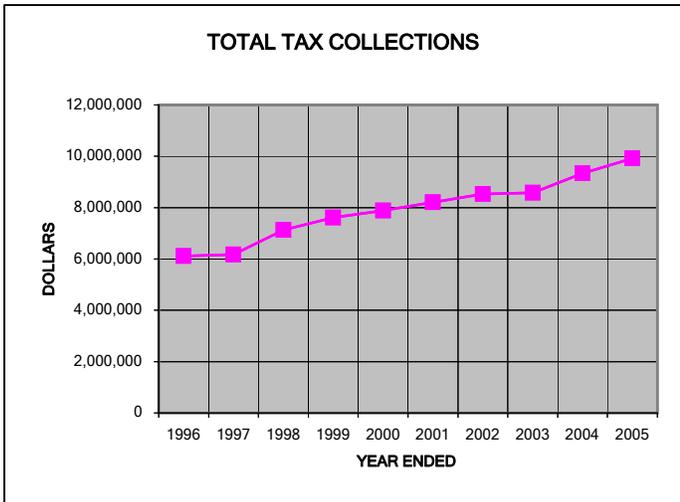
CITY OF SANFORD, NORTH CAROLINA
 COMPUTATION OF LEGAL DEBT MARGIN (UNAUDITED)
 June 30, 2005

Assessed value		<u>\$1,678,880,548</u>
Debt limit 8% of assessed value		\$ 134,310,444
Amount of debt applicable to debt limit:		
Outstanding debt evidenced by bonds	\$ 6,610,774	
Unissued bonds authorized by existing orders	-	
Outstanding debt not evidenced by bonds:		
Notes	1,657,500	
Installment purchase contracts	21,931,592	
Capital leases	375,036	
Annexation liability for fire protection	<u>22,522</u>	
	30,597,424	
Less deduction allowed by G.S. 159.55(a)(2) and G.S.159.55(b) - Utility debt	<u>6,610,774</u>	<u>23,986,650</u>
LEGAL DEBT MARGIN		<u>\$ 110,323,794</u>

CITY OF SANFORD, NORTH CAROLINA
 TAX LEVIES AND TAX COLLECTIONS* (UNAUDITED)
 June 30, 2005

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
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
2004	9,326,172	8,973,131	96.21	357,245	9,330,376	100.05	390,812	4.19
2005	9,988,773	9,632,089	96.43	281,872	9,913,961	99.25	407,507	4.08

* Includes special tax district.



CITY OF SANFORD, NORTH CAROLINA
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT (UNAUDITED),
 June 30, 2005

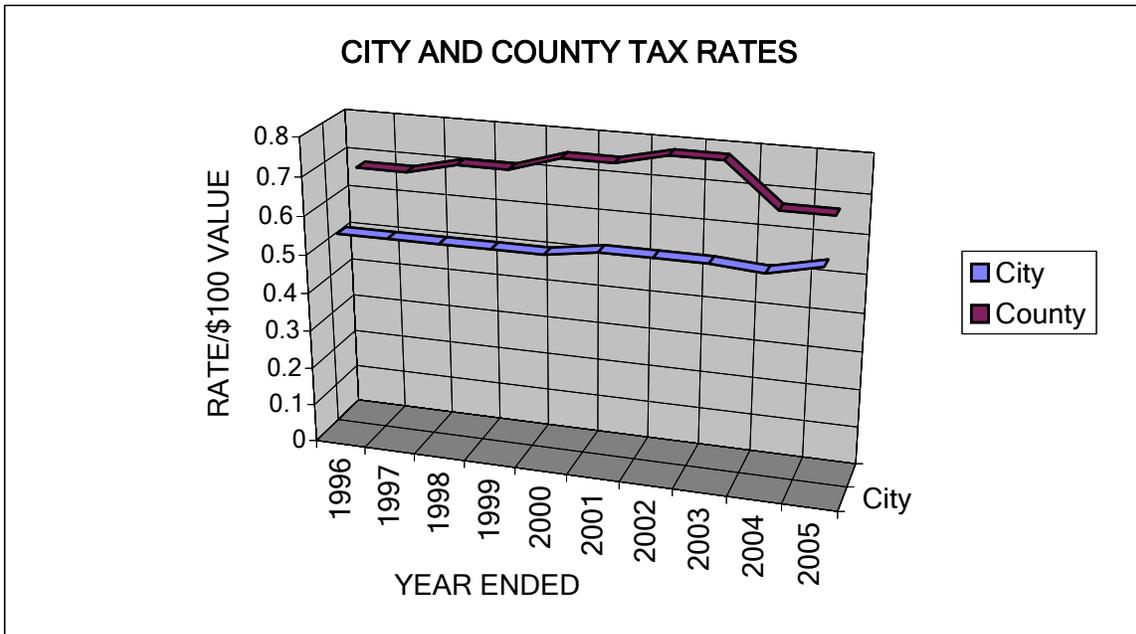
<u>Name of government unit</u>	<u>Net debt outstanding</u>	<u>*Percentage applicable to the City of Sanford</u>	<u>City of Sanford's share of debt</u>
City of Sanford - debt applicable to debt limit	\$ 23,986,650	100%	\$ 23,986,650
Lee County	<u>19,030,000</u>	45%	<u>8,563,500</u>
TOTAL	<u>\$ 43,016,650</u>		<u>\$ 32,550,150</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)
 June 30, 2005

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
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
2004*	0.56	0.67	1.23	2004	8,925,323	24,499,755	33,425,078
2005	0.59	0.67	1.26	2005	9,584,761	24,704,551	34,289,312

* Most recent revaluation



CITY OF SANFORD, NORTH CAROLINA
 DEMOGRAPHIC STATISTICS (UNAUDITED)
 June 30, 2005

Fiscal year June 30,	Population(A)	Per capita income (B)	Average daily school membership (C)	Lee County Unemployment rate (D)
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	26,680	8,604	6.0%
2002	23,409	26,983	8,438	7.7%
2003	23,522	27,669	8,472	6.7%
2004	23,530	N/A	8,924	5.8%
2005	23,832	N/A	8,958	5.2%

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

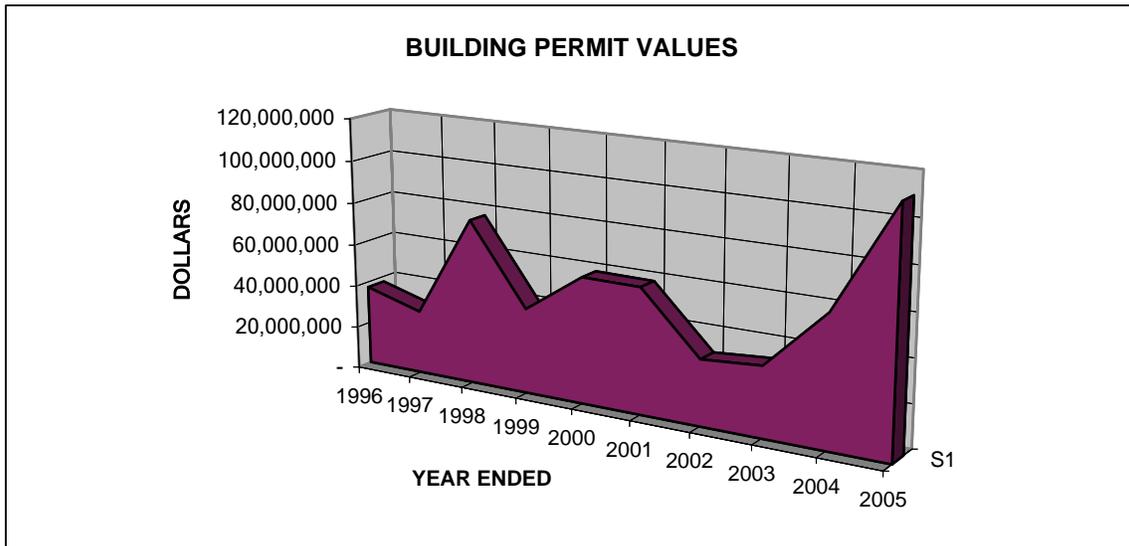
CITY OF SANFORD, NORTH CAROLINA
 PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS (UNAUDITED)
 June 30, 2005

Fiscal year June 30	Building permits		Bank deposits (B)	Assessed property values			
	Number of units (A)	Value (A)		Real property	Personal property	Utilities	Total
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	612,801,000	956,056,544	526,922,020	37,788,739	1,520,767,303
2004	376	60,634,877	612,829,000	1,148,068,689	461,678,958	45,914,539	1,655,662,186
2005	767	110,995,293	N/A	1,175,515,025	456,056,792	47,308,731	1,678,880,548

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)
 June 30, 2005

Date of incorporation	February 11, 1874
Form of government	Council - manager
Area - square miles - land	25.29
Fire protection	
Number of fire stations	3
Number of fire personnel	55
Fire calls (annual)	810
Police protection	
Number of police employees	103
Officers	79
Civilians	24
Number of calls for service (annual)	43,396
Public works	
Miles of streets	
Paved	123.56
Unpaved	2.46
Water treatment facilities	
Services (customers)	15,734
Consumption (pumped)	6.6 MGD
Facilities	
Plants (12 mgpd)	1
Treatment	Chlorination, chemical coagulation, filtration
Storage:	
finished	5,500,000 gallons
raw	60,000,000 gallons
Miles of distribution lines	547
Wastewater treatment	
Services (customers)	8,395
Average flow	3.95 MGD
Facilities	
Plant (6.8 mgpd)	1
Treatment	Tertiary
Miles of collection lines	184
Building permits issued (fiscal year)	767
Value of building permits issued	\$110,995,293
Total city employees	
Permanent	
Full-time	325
Part-time	23

CITY OF SANFORD, NORTH CAROLINA
 PRINCIPAL TAXPAYERS (UNAUDITED)
 June 30, 2005

<u>Taxpayer</u>	<u>Business</u>	<u>Assessed valuation</u>	<u>City wide taxes paid</u>	<u>Percentage of current levy</u>
Coty USA, Inc.	Cosmetics manufacturing	\$ 48,325,709	\$ 285,111	2.87%
Moen, Inc.	Faucet manufacturing	40,676,960	239,993	2.41%
Magneti Mareli USA	Automotive component manufacturing	26,914,082	160,562	1.62%
Central Carolina Hospital	Medical facility	22,073,833	158,047	1.59%
Simpson & Simpson	Real estate	26,357,735	155,492	1.56%
Alltel	Communications	23,890,026	141,052	1.42%
Static Control	Electrical industrial manufacturing	19,511,104	115,115	1.16%
Frontier Spinning Mills	Textiles	16,643,460	98,199	0.99%
The Oaks	Real estate - rental	14,645,000	86,406	0.87%
Wachovia Capital Markets	Textiles (Frontier Spinning)	13,650,900	80,540	<u>0.81%</u>
				<u><u>15.30%</u></u>



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

REPORT ON COMPLIANCE AND OTHER MATTERS 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the respective budgetary comparison for the general fund of City of Sanford, North Carolina, as of and for the year ended June 30, 2005, which collectively comprise the City of Sanford, North Carolina's basic financial statements and have issued our report thereon dated September 30, 2005. 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 and Other Matters

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, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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 Hughes Pllc

September 30, 2005
Sanford, North Carolina



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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, 2005. 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, 2005.

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

September 30, 2005
Sanford, North Carolina



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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 each of its major State programs for the year ended June 30, 2005. 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, 2005.

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

September 30, 2005
Sanford, North Carolina

CITY OF SANFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2005

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, 2005

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
Clean Water Management Trust

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, 2005

As of June 30, 2005, 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
 June 30, 2005

<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	\$ 3,712	-
Local Law Enforcement Block Grant	16.592	LB-BX-1413	1,799	-
Asset Forfeiture and Money Laundering Section Federal Equitable Sharing Program	16	NC0530100	32,419	41,841
<u>U.S. Department of Housing and Urban Development</u>				
Passed-through N.C. Department of Commerce-				
Community Development Block Grant	14.228	03-C-1133	107,152	-
Community Development Block Grant	14.228	04-C-1277	132,123	
Community Development Block Grant	14.228	03-U-1163	58,679	
<u>Federal Highway Administration</u>				
Passed-through N.C. Department of Transportation	20.205	E-4782	77,268	
<u>U.S. Department of Homeland Security</u>				
Passed-through Federal Emergency Management Agency	97.044	EMW-2004-FG-12020	<u>165,780</u>	
Total Federal Assistance			<u>\$ 578,932</u>	
State Grants:				
<u>N.C. Department of Environment and Natural Resources</u>				
Division of Water Quality Clean Water Bond Program - Clean Water Management Trust - Little Buffalo Creek				
	N/A	1998B-015	-	313,599
<u>N.C. Department of Transportation</u>				
Powell Bill Funds	N/A	N/A	-	<u>767,741</u>
Total State Assistance				<u>\$ 1,123,181</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 basic financial statements.