

City of Sanford, North Carolina
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended June 30, 2006

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PO Box 3729
Sanford, NC 27331-3729

City of Sanford

(919) 775-8202

September 30, 2006

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, 2006 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.

Local Economy

Major industries located within the City of Sanford's corporate limits or in close proximity include several manufacturing facilities. Among the largest of the manufacturing facilities are Wyeth Pharmaceuticals (pediatric vaccines), Static Control Components (static elimination equipment), Gold Kist Corporation (poultry products), Coty, USA (cosmetics) and Moen, Inc. (plumbing fixtures). In addition, the Lee County School system provides employment to over 1,200 employees and is the largest employer in the county.

The diverse economic base of manufacturing, wholesale and retail trade, services and construction contribute to the continued low unemployment rate. Also aiding the local economy is the City's close proximity to the Research Triangle area of the State as well as the Fayetteville/Ft. Bragg area. The City has begun an aggressive campaign to showcase the City to those affected by the 2005 Base Realignment and Closure. Thousands of additional high ranking troops will be relocated to the area which will increase local economic expansion.

The local economy in Sanford continued on a strong path during the past year. The value of building permits increased \$37,770,186 or 34.0% from the prior year. This strong increase was fueled by both commercial and residential growth. Residential growth included the annexation of 118 acres for future development, including the expansion of two existing subdivisions, a new multi-family complex and a new residential development.

Commercial growth continued to be led by Wyeth Pharmaceuticals, which continued the expansion of its existing facility. In addition, permits were secured for a new shopping center located on approximately thirty acres along NC Highway 87. The new shopping center, Shoppes at Sanford, will be anchored by a Super Wal Mart. The existing shopping center, Riverbirch, also received permits to begin expansion and renovation of the Belk Department store.

During the past four years, the City's expenses related to public safety and community development have increased not only in amount, but also as a percentage of total expenses (a four-year increase of 17 percent and 32 percent, respectively). The City continues to place strong emphasis on the safety of its citizens. Over the past four years several 911 telecommunicator positions have been added as well as one additional patrol officer on each shift. Additionally, the level of telecommunications has been increased to an EMD level, so communicators can now assist 911 callers with procedures while they await emergency medical personnel.

The growth in the community development area reflects a continued emphasis on code enforcement activities. The staffing for code enforcement has doubled in the past four years. The increase also reflects efforts to enhance and rebuild the historic Depot Park in downtown Sanford. The park serves as the home for the Railroad Museum as well as host to weekly musical concerts during the summer months.

Major Initiatives

The City of Sanford continued \$7,000,000 in utility system improvements that were begun in fiscal year 2004-05. These improvements include a new raw water pump station, construction to remove solids at the water treatment plant, and various improvements and equipment replacements. The City continued its efforts to rehabilitate the aging sewer system with \$750,000 of cured-in-place liners to reduce inflow and infiltration. Finally, the City began an aggressive graffiti removal program to eliminate and deter graffiti within the city limits.

For the next fiscal year, the City will continue sewer rehabilitation efforts by using debt financing of \$3,000,000. The City will also improve the Little Buffalo Creek lift station with grant funds of \$1,900,000 as well as a \$1,000,000 cash match.

Independent Audit

The General Statutes of North Carolina require an annual independent financial audit of all local government units in the state. McGladrey & Pullen, LLP, 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

Award and Acknowledgements

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, 2005. The City has received the award every year since 1981.

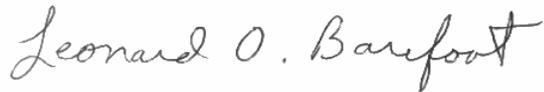
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal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

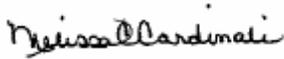
In addition, the City of Sanford also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2005. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

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, 2005

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.



Carla E. Perry

President

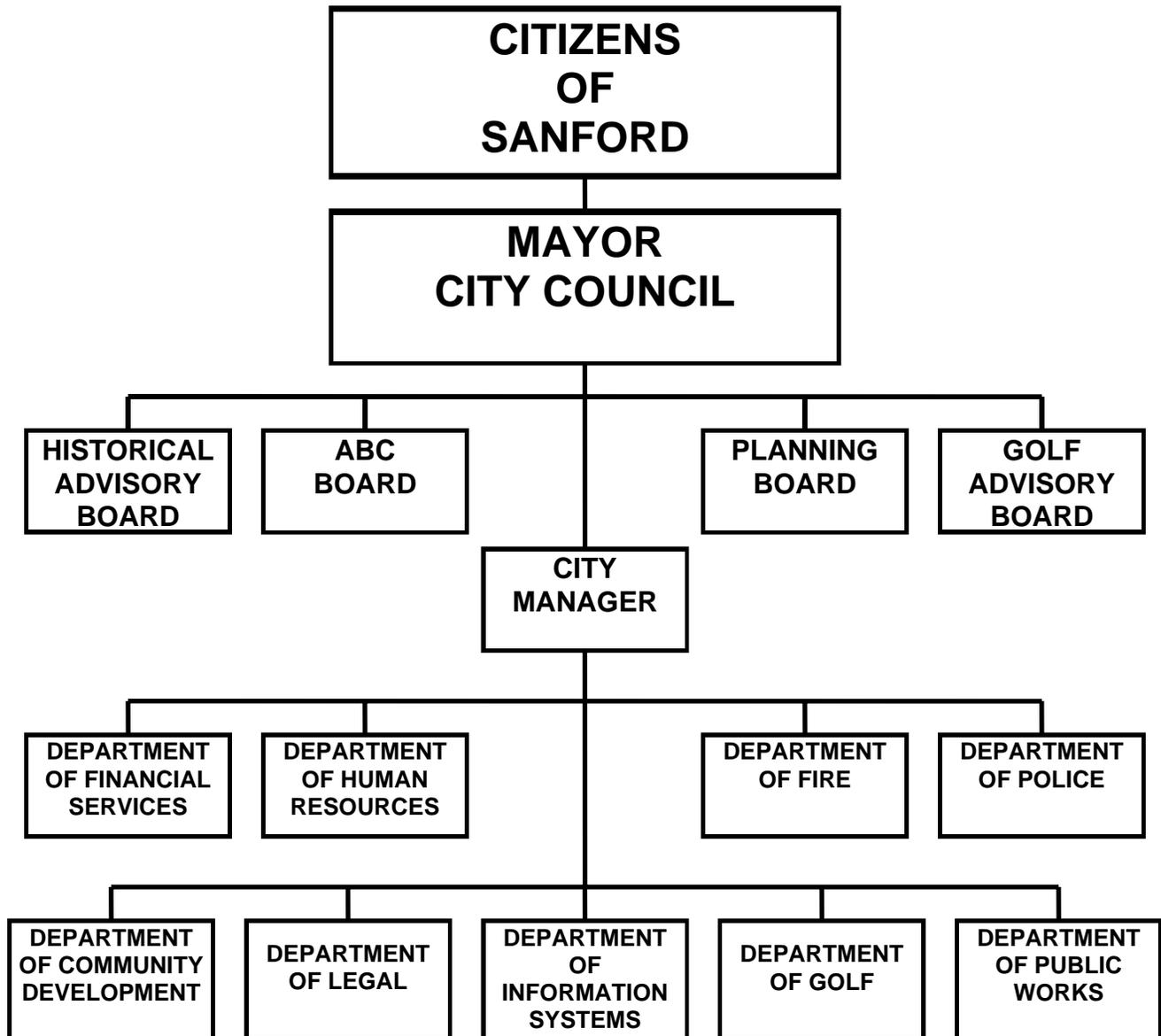
Jeffrey R. Emer

Executive Director

CITY OF SANFORD



ORGANIZATIONAL CHART





GOVERNING BODY

THE HONORABLE CORNELIA P. OLIVE, MAYOR

MAYOR PRO TEM WALTER H. MCNEIL, JR.

COUNCIL MEMBERS

STEPHEN M. BREWER

DANIEL A. HARRINGTON

JOSEPH E. MARTIN

LINWOOD S. MANN, SR.

MICHAEL C. STONE

JAMES G. WILLIAMS

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
the Members of the 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, and the aggregate remaining fund information of the City of Sanford, North Carolina, as of and for the year ended June 30, 2006, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the City of Sanford ABC Board, the component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Sanford ABC Board, is based solely on the report of the other auditors.

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 and the report of the other auditors, 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 City's component unit, each major fund, and the aggregate remaining fund information of the City of Sanford, North Carolina, as of June 30, 2006, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 on our consideration of the City of Sanford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions on pages 10 through 19 and 57 through 58, respectively, are not a required part of the basic financial statements but are supplementary information required by the 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 on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sanford, North Carolina's basic financial statements. The accompanying supplementary information, such as the introductory section, combining and individual nonmajor fund financial statements, other schedules, statistical tables, as well as the accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act and are not a required part of the basic financial statements. The supplementary information and the accompanying schedule of expenditures of federal and state awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and 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.

McGladrey & Pullen, LLP

Greensboro, North Carolina
September 1, 2006

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, 2006. 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.

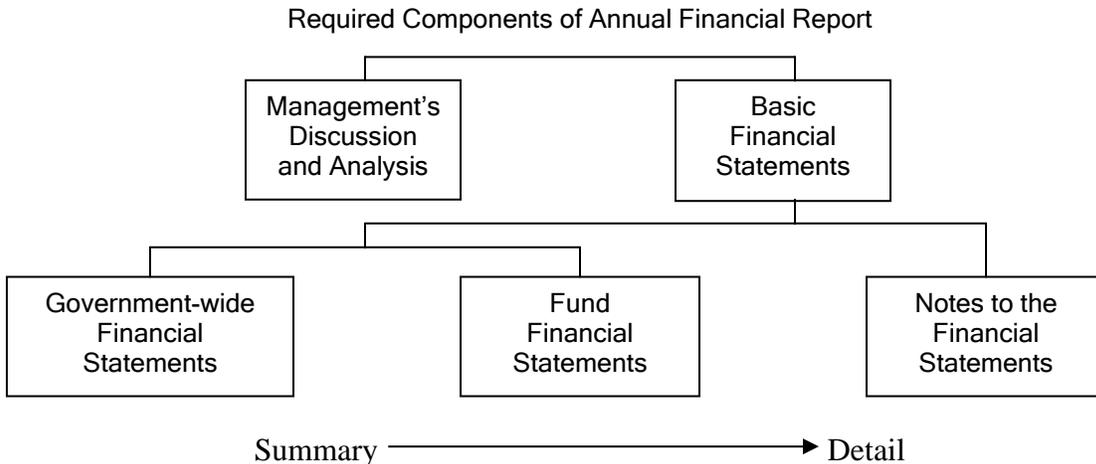
Financial Highlights

- The assets of the City of Sanford exceeded its liabilities at the close of the fiscal year by \$96,743,405 (net assets).
- The government's total net assets increased by \$8,991,895, primarily due to increases in the governmental 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 \$10,117,896 a decrease of \$442,372 in comparison with the prior year. Of this total amount, 80.2% or \$8,117,366, 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 \$7,590,494, or 39.7% of total general fund expenditures for the fiscal year.
- The City of Sanford's total net debt decreased by \$4,057,910 (13.3%) during the current fiscal year. The City entered into one installment purchase contract in the amount of \$124,748 for equipment.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the 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.

Figure 1



Basic Financial Statements

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

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the Fiduciary Fund Statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's 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, sales 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 20 and 21 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City'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 31-56 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 57 of this report.

Government-Wide Financial Analysis

The City of Sanford's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 11,472,718	\$ 11,643,503	\$ 17,190,308	\$ 17,119,024	\$ 28,663,026	\$ 28,762,527
Capital assets	24,864,718	12,020,073	73,779,143	69,661,909	98,643,861	81,681,982
Total assets	36,337,436	23,663,576	90,969,451	86,780,933	127,306,887	110,444,509
Long term liabilities outstanding	1,816,327	2,490,475	22,871,120	26,625,087	24,687,447	29,115,562
Other liabilities	1,686,013	1,150,304	4,190,023	3,939,259	5,876,036	5,089,563
Total liabilities	3,502,340	3,640,779	27,061,143	30,564,346	30,563,483	34,205,125
Net assets:						
Invested in capital , net of related debt	23,153,417	21,450,288	47,921,941	39,031,667	71,075,358	60,481,955
Restricted	526,872	428,645	4,065,136	2,509,316	4,592,008	2,937,961
Unrestricted	9,154,808	9,655,990	11,921,231	14,675,604	21,076,039	24,331,594
Total net assets	\$ 32,835,097	\$ 31,534,923	\$ 63,908,308	\$ 56,216,587	\$ 96,743,405	\$ 87,751,510

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 \$96,743,405 as of June 30, 2006. The City's net assets increased by \$8,991,895 for the fiscal year ended June 30, 2006. However, the largest portion of net assets (73.5%) 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 (4.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$21,076,039 is unrestricted.

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

- Consistent collection of property taxes resulting in a tax collection percentage of 96.74%.
- Increased sales tax revenue of \$311,757 due to a continued strong local economy.
- Increased water revenue of \$884,985 as a result of residential and business growth.

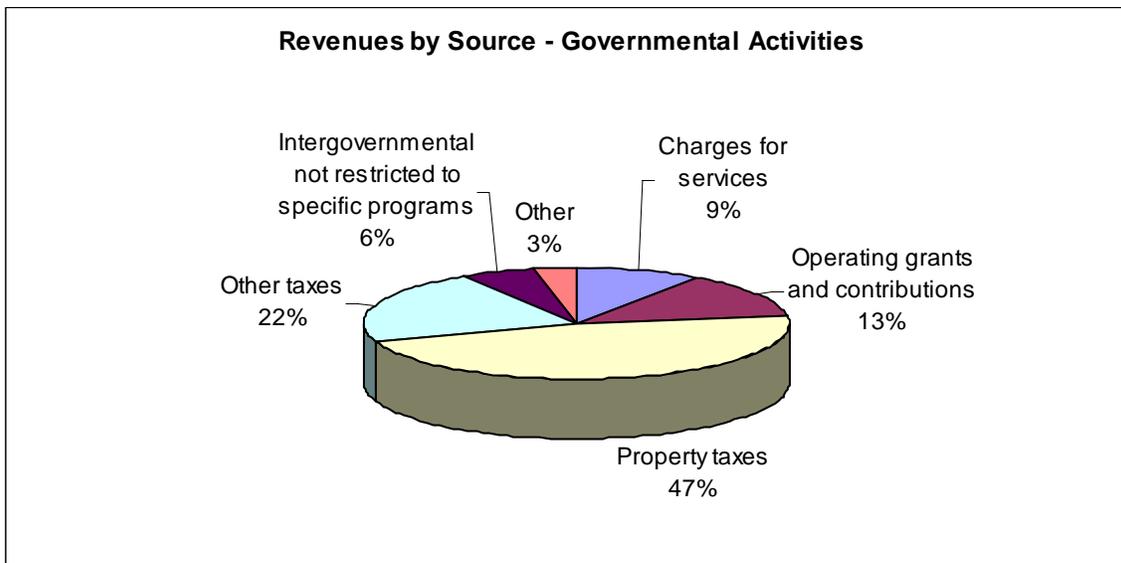
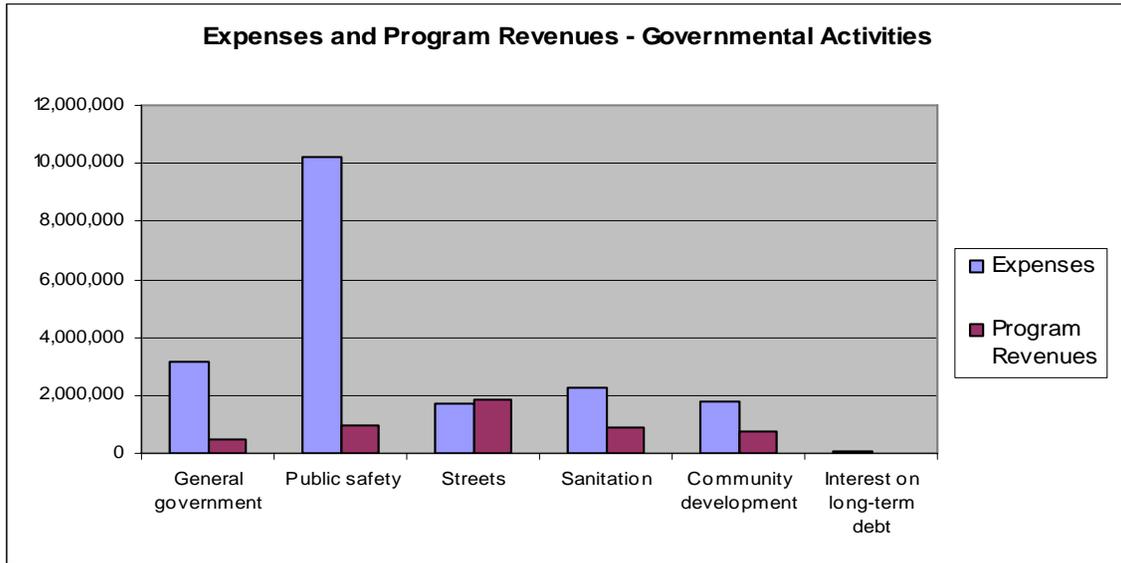
CITY OF SANFORD, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

The City of Sanford's Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 2,053,466	\$ 1,571,750	\$ 15,465,429	\$ 15,033,395	\$ 17,518,895	\$ 16,605,145
Operating grants & contrib	2,907,472	2,696,774	-	-	2,907,472	2,696,774
Capital grants & contrib	-	-	2,141,852	2,338,700	2,141,852	2,338,700
General revenues:						
Property taxes	10,260,692	9,991,908	-	-	10,260,692	9,991,908
Other taxes	4,742,098	4,418,700	-	-	4,742,098	4,418,700
Intergovernmental not restricted	1,234,297	1,986,022	-	-	1,234,297	1,986,022
Other	714,619	528,094	534,450	237,547	1,249,069	765,641
Total revenues	<u>21,912,644</u>	<u>21,193,248</u>	<u>18,141,731</u>	<u>17,609,642</u>	<u>40,054,375</u>	<u>38,802,890</u>
Expenses:						
General government	3,168,790	3,119,589	-	-	3,168,790	3,119,589
Public safety	10,184,773	9,459,227	-	-	10,184,773	9,459,227
Streets	1,728,330	1,571,521	-	-	1,728,330	1,571,521
Sanitation	2,286,229	2,090,286	-	-	2,286,229	2,090,286
Community development	1,779,276	2,277,388	-	-	1,779,276	2,277,388
Interest on long-term debt	80,310	95,916	-	-	80,310	95,916
Utility	-	-	11,162,038	10,723,386	11,162,038	10,723,386
Golf	-	-	672,734	637,900	672,734	637,900
Total expenses	<u>19,227,708</u>	<u>18,613,927</u>	<u>11,834,772</u>	<u>11,361,286</u>	<u>31,062,480</u>	<u>29,975,213</u>
Increase in net assets before release of interfund debt	2,684,936	2,579,321	6,306,959	6,248,356	8,991,895	8,827,677
Release of interfund debt	(1,384,762)	-	1,384,762	-	-	-
Increase in net assets	1,300,174	2,579,321	7,691,721	6,248,356	8,991,895	8,827,677
Net assets beginning [restated]	<u>31,534,923</u>	<u>17,443,476</u>	<u>56,216,587</u>	<u>49,968,231</u>	<u>87,751,510</u>	<u>67,411,707</u>
Net assets, ending	<u>\$ 32,835,097</u>	<u>\$ 20,022,797</u>	<u>\$ 63,908,308</u>	<u>\$ 56,216,587</u>	<u>\$ 96,743,405</u>	<u>\$ 76,239,384</u>

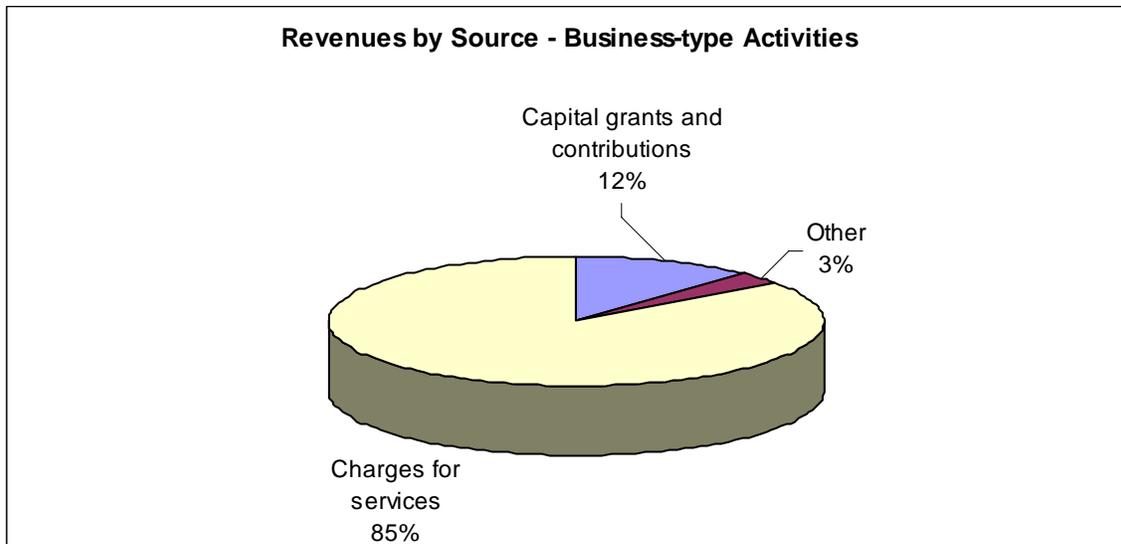
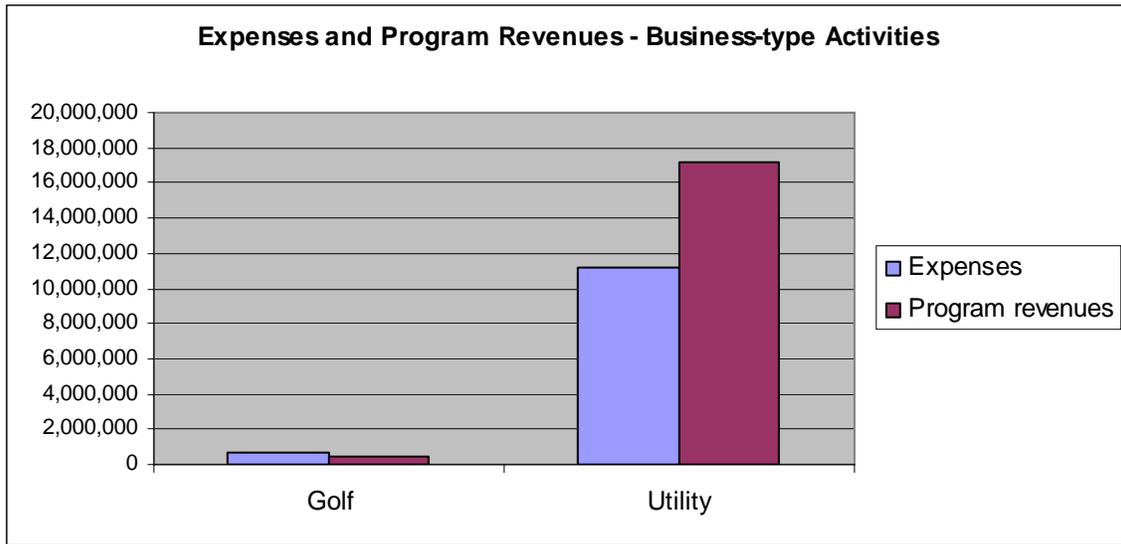
Governmental activities. Governmental activities increased the City's net assets by \$1,300,174, thereby accounting for 14.5% of the total growth in the net assets of the City of Sanford. Key elements of this increase are as follows:

- Sales tax revenue increased due to the continued strong economy.
- Tax revenues increased as a result of a consistent collection rate.
- The City retired approximately \$416,000 in general government debt.
- Investment income experienced significant growth of \$159,109 or 77.8%.



Business-type activities: Business-type activities increased the City of Sanford's net assets by \$7,691,721, accounting for 85.5% 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 continued residential and business growth.
- Capital contributions by developers remained strong at just over \$2,100,000.
- Investment income more than doubled, increasing by \$277,362.
- Interfund debt owed by the Golf Fund to the General Fund was released in the amount of \$1,384,762.



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 \$7,590,494, while total fund balance reached \$9,591,024. 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 39.7 percent of total General Fund expenditures, while total fund balance represents 50.1 percent of that same amount.

At June 30, 2006, the governmental funds of City of Sanford reported a combined fund balance of \$10,117,896, a 4.2 percent decrease over last year. Included in this change in fund balance is a decrease in the General Fund fund balance and an increase in Special Revenue Funds fund balance. The decrease in the General Fund fund balance is the result of releasing \$1,384,762 in interfund debt owed by the Golf Fund to the General Fund.

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 there was a \$387,227 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$160,000 supplemental appropriation to departments for increasing fuel costs;
- \$25,000 supplemental appropriation to the information systems department for start up costs associated with a new public access television station to provide expanded communication with the citizens;
- \$37,000 supplemental appropriation to the shop department for a new inventory tracking and work order system;
- \$77,300 appropriation for drug forfeiture funds in the police department for direct use by the City-County drug unit.

The increase was possible because of additional unanticipated revenues. Those revenues included a favorable interest rate environment resulting in additional interest income \$137,000, additional revenue realized from the sale of capital assets \$57,000, and recognition of drug forfeiture funds \$77,300.

Proprietary Funds. The City of Sanford's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$11,965,872, and a deficit for the Golf Fund of (\$44,641). The total growth in net assets for the Utility Fund was \$6,565,646 with an increase in Golf Fund net assets of \$1,126,075. 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, 2006, totals \$98,643,861, (net of accumulated depreciation). These assets include buildings, roads and bridges, land, treatment plants, utility lines, machinery and equipment, golf facilities, and vehicles.

CITY OF SANFORD, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

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

- Completed construction in progress for water and sewer capital assets of \$7,446,005.
- No major demolitions were recorded this year.

City of Sanford's Capital Assets
(Net of Depreciation)

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 3,198,572	\$ 1,425,248	\$ 233,476	\$ 233,476	\$ 3,432,048	\$ 1,658,724
Buildings	4,881,628	5,113,922	151,876	165,949	5,033,504	5,279,871
Plants	-	-	26,876,771	21,533,340	26,876,771	21,533,340
Tanks and Lines	-	-	42,861,678	41,185,665	42,861,678	41,185,665
Course & improvements	-	-	1,249,291	1,318,008	1,249,291	1,318,008
Streets	14,577,735	3,296,288	-	-	14,577,735	3,296,288
Equipment	2,203,796	2,142,201	1,165,839	1,077,509	3,369,635	3,219,710
Construction in progress	2,987	42,414	1,240,212	4,147,962	1,243,199	4,190,376
Total	\$ 24,864,718	\$ 12,020,073	\$ 73,779,143	\$ 69,661,909	\$ 98,643,861	\$ 81,681,982

Additional information on the City's capital assets can be found in note 8, beginning on page 40 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2006, the City of Sanford had total bonded debt outstanding of \$5,472,108. 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	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ -	\$ -	\$ 5,472,108	\$ 6,610,774	\$ 5,472,108	\$ 6,610,774
Notes payable	-	-	1,560,000	1,657,500	1,560,000	1,657,500
Lease purchase agreements	176,472	287,928	57,612	87,108	234,084	375,036
Installment purchase contracts	1,534,829	1,771,461	17,717,482	20,160,131	19,252,311	21,931,592
Annexation liability	21,011	22,522	-	-	21,011	22,522
Total	\$ 1,732,312	\$ 2,081,911	\$ 24,807,202	\$ 28,515,513	\$ 26,539,514	\$ 30,597,424

The City of Sanford's total debt decreased by \$4,186,692 (13.3%) during the past fiscal year. The City issued \$124,748 in installment purchase financing for equipment and an additional \$4,034 in annexation liability debt.

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 \$115,713,568. Additional information regarding the City of Sanford's long-term debt can be found in note 9, beginning on page 43, 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.

- The unemployment rate dropped 0.3 of one percentage point from the prior year. This is the third straight year the rate has decreased. The local unemployment rate is only 0.3 of one percentage point above the State unemployment rate.
- The value of building permits increased 34.0% from the prior year, with 147 new commercial and 624 new residential permits issued. This is the fourth straight year that has seen an increase in the value of building permits.

Budget Highlights for the Fiscal Year Ending June 30, 2007

Governmental Activities: Governmental revenues will continue to benefit from strong sales tax collections and steady property tax collections. In addition, a two cent tax rate increase was approved for the 2006-07 fiscal year. These revenues will assist with maintaining the City's high service level provided to its citizens. Expenditures for these services will be maintained at an 8.4% increase from the 2006 fiscal year. A graffiti removal program which began late in the 2005-06 fiscal year was expanded in the 2006-07 fiscal year.

Business-type Activities: The City will hold existing utility (water and sewer) rates at fiscal year 2006 levels. The City will complete a multi-year 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. Additionally, the City will borrow \$3,000,000 to address aging sewer lines and reduce inflow and infiltration. The City will also undertake a project largely funded by grants to construct a lift station to support current and future commercial growth.

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, 2006

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit ABC Board
ASSETS				
Current assets -				
Cash, cash equivalents and investments	\$ 8,929,169	\$ 14,570,211	\$ 23,499,380	\$ 984,323
Property taxes receivable, net of allowance for uncollectible accounts	495,050	-	495,050	-
Accounts receivable, net of allowance for uncollectible accounts	155,385	2,425,587	2,580,972	469
Due from other governmental agencies	1,624,683	39,696	1,664,379	-
Prepaid items	185,289	56,677	241,966	18,816
Inventories	83,142	98,137	181,279	322,293
Total current assets	<u>11,472,718</u>	<u>17,190,308</u>	<u>28,663,026</u>	<u>1,325,901</u>
Non-current assets -				
Capital assets, non-depreciable	3,201,559	1,473,688	4,675,247	233,069
Capital assets, net of depreciation	21,663,159	72,305,455	93,968,614	640,359
Total non-current assets	<u>24,864,718</u>	<u>73,779,143</u>	<u>98,643,861</u>	<u>873,428</u>
TOTAL ASSETS	<u>36,337,436</u>	<u>90,969,451</u>	<u>127,306,887</u>	<u>2,199,329</u>
LIABILITIES				
Current liabilities -				
Current portion long term debt	357,842	3,088,749	3,446,591	-
Accounts payable	395,132	547,486	942,618	155,227
Accrued interest payable	6,396	-	6,396	-
Due to other governmental agencies	-	75,000	75,000	-
Deposits	-	202,164	202,164	-
Unearned revenue	169,366	14,010	183,376	-
Accrued liabilities	253,828	243,075	496,903	84,303
Compensated absences	503,449	19,539	522,988	-
Total current liabilities	<u>1,686,013</u>	<u>4,190,023</u>	<u>5,876,036</u>	<u>239,530</u>
Non-current liabilities -				
Long-term debt	1,374,470	21,718,453	23,092,923	-
Net pension obligation	77,987	-	77,987	-
Compensated absences	363,870	177,667	541,537	-
Due to other governmental agencies	-	975,000	975,000	-
Other postemployment benefits	-	-	-	326,556
Total non-current liabilities	<u>1,816,327</u>	<u>22,871,120</u>	<u>24,687,447</u>	<u>326,556</u>
TOTAL LIABILITIES	<u>3,502,340</u>	<u>27,061,143</u>	<u>30,563,483</u>	<u>566,086</u>
NET ASSETS				
Investment in capital assets, net	23,153,417	47,921,941	71,075,358	873,428
Restricted for:				
Special revenue fund	526,872	-	526,872	-
Capital projects	-	4,065,136	4,065,136	-
Working capital	-	-	-	107,358
Unrestricted	9,154,808	11,921,231	21,076,039	652,457
TOTAL NET ASSETS	<u>\$ 32,835,097</u>	<u>\$ 63,908,308</u>	<u>\$ 96,743,405</u>	<u>\$1,633,243</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

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	\$ 3,168,790	\$ 452,217	\$ 40,782	\$ -	\$ (2,675,791)	\$ -	\$ (2,675,791)	\$ -
Public safety	10,184,773	564,382	411,139	-	(9,209,252)	-	(9,209,252)	-
Streets	1,728,330	170,529	1,713,355	-	155,554	-	155,554	-
Sanitation	2,286,229	866,338	-	-	(1,419,891)	-	(1,419,891)	-
Community development	1,779,276	-	742,196	-	(1,037,080)	-	(1,037,080)	-
Interest on long-term debt	80,310	-	-	-	(80,310)	-	(80,310)	-
Total governmental activities	<u>19,227,708</u>	<u>2,053,466</u>	<u>2,907,472</u>	<u>-</u>	<u>(14,266,770)</u>	<u>-</u>	<u>(14,266,770)</u>	<u>-</u>
Business-type activities:								
Utility	11,162,038	15,062,707	-	2,141,852	-	6,042,521	6,042,521	-
Golf	672,734	402,722	-	-	-	(270,012)	(270,012)	-
Total business-type activities	<u>11,834,772</u>	<u>15,465,429</u>	<u>-</u>	<u>2,141,852</u>	<u>-</u>	<u>5,772,509</u>	<u>5,772,509</u>	<u>-</u>
Total primary government	<u>\$ 31,062,480</u>	<u>\$ 17,518,895</u>	<u>\$ 2,907,472</u>	<u>\$ 2,141,852</u>	<u>\$ (14,266,770)</u>	<u>\$ 5,772,509</u>	<u>\$ (8,494,261)</u>	<u>\$ -</u>
Component unit:								
ABC Board	2,748,155	2,804,914	-	-	-	-	-	56,759
Total component unit	<u>\$ 2,748,155</u>	<u>\$ 2,804,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,759</u>
General revenues:								
Taxes:								
Property taxes, levied for general purpose					10,260,692	-	10,260,692	-
Other taxes					4,742,098	-	4,742,098	-
Intergovernmental revenues, unrestricted					1,234,297	-	1,234,297	-
Investment earnings, unrestricted					363,636	514,909	878,545	21,738
Miscellaneous					350,983	19,541	370,524	224
Total general revenues					<u>16,951,706</u>	<u>534,450</u>	<u>17,486,156</u>	<u>21,962</u>
Special items:								
Release of interfund debt					<u>(1,384,762)</u>	<u>1,384,762</u>	<u>-</u>	<u>-</u>
Change in net assets					1,300,174	7,691,721	8,991,895	78,721
Net assets - beginning [as restated]					<u>31,534,923</u>	<u>56,216,587</u>	<u>87,751,510</u>	<u>1,554,522</u>
Net assets - ending					<u>\$ 32,835,097</u>	<u>\$ 63,908,308</u>	<u>\$ 96,743,405</u>	<u>\$ 1,633,243</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

	Major Fund - General	Non-major Governmental Funds	Total Governmental Funds
ASSETS			
Assets -			
Cash, cash equivalents and investments	\$ 8,357,935	\$ 571,234	\$ 8,929,169
Property taxes receivable, net of allowance for uncollectible accounts	494,512	538	495,050
Accounts receivable, net of allowance for uncollectible accounts	155,385	-	155,385
Due from other governmental agencies	1,615,733	8,950	1,624,683
Due from other funds	2,426	-	2,426
Prepaid items	185,289	-	185,289
Inventories	83,142	-	83,142
TOTAL ASSETS	<u>\$ 10,894,422</u>	<u>\$ 580,722</u>	<u>\$ 11,475,144</u>
LIABILITIES AND FUND BALANCES			
Liabilities -			
Accounts payable	\$ 387,888	\$ 7,244	\$ 395,132
Due to other funds	-	2,426	2,426
Accrued liabilities	253,828	-	253,828
Deferred and unearned revenues	661,682	44,180	705,862
Total liabilities	<u>1,303,398</u>	<u>53,850</u>	<u>1,357,248</u>
Fund balance -			
Reserved - restricted by state statute	1,917,388	-	1,917,388
- inventories	83,142	-	83,142
Unreserved -			
Designated- subsequent year's budget	873,864	143,500	1,017,364
Undesignated, General Fund	6,716,630	-	6,716,630
Unreserved, reported in:			
Special Revenue funds	-	383,372	383,372
Total fund balances	<u>9,591,024</u>	<u>526,872</u>	<u>10,117,896</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,894,422</u>	<u>\$ 580,722</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.	24,864,718
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	536,496
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,684,013)</u>
Net assets of governmental activities	<u><u>\$ 32,835,097</u></u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006

	Major Fund - General Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES -			
Ad valorem taxes	\$ 10,060,049	\$ 57,073	\$ 10,117,122
Other taxes	4,741,988	-	4,741,988
Penalties and interest	57,315	-	57,315
Licenses and permits	375,724	-	375,724
Intergovernmental revenues	2,925,571	742,196	3,667,767
Investment income	358,878	4,758	363,636
Sales and service	985,189	-	985,189
Miscellaneous revenues	514,412	24,288	538,700
Total revenues	<u>20,019,126</u>	<u>828,315</u>	<u>20,847,441</u>
EXPENDITURES -			
Current operating			
General government	2,803,071	-	2,803,071
Public safety	9,672,365	-	9,672,365
Streets	2,302,944	-	2,302,944
Sanitation	2,076,981	-	2,076,981
Community development	932,938	837,407	1,770,345
Debt service	491,742	-	491,742
Capital outlay	849,977	-	849,977
Total expenditures	<u>19,130,018</u>	<u>837,407</u>	<u>19,967,425</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>889,108</u>	<u>(9,092)</u>	<u>880,016</u>
OTHER FINANCING SOURCES (USES) -			
Transfers in (out)	(107,319)	107,319	-
Installment purchase contract	62,374	-	62,374
Total other financing sources (uses)	<u>(44,945)</u>	<u>107,319</u>	<u>62,374</u>
SPECIAL ITEM -			
Release of interfund debt	<u>(1,384,762)</u>	<u>-</u>	<u>(1,384,762)</u>
NET CHANGE IN FUND BALANCE	(540,599)	98,227	(442,372)
FUND BALANCE, BEGINNING OF YEAR	<u>10,131,623</u>	<u>428,645</u>	<u>10,560,268</u>
FUND BALANCE, END OF YEAR	<u>\$ 9,591,024</u>	<u>\$ 526,872</u>	<u>\$ 10,117,896</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
 For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities (page 21) are different because:

Increase in fund balance - total governmental funds (page 23)	\$	(442,372)
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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	12,964,827
Current year depreciation expense	(11,570,496)
Disposed capital assets	(61,812)

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	107,628
---	---------

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	411,972
Accrued interest expense	972
Installment purchase proceeds	(62,374)

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	(47,014)
Net pension obligation	(1,157)

Change in net assets of governmental activities (page 21)	\$	<u>1,300,174</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
For the Year Ended June 30, 2006

	Budget		Actual	Variance
	Original	Final		
REVENUES -				
Ad valorem taxes	\$ 9,846,792	\$ 9,846,792	#####	\$ 213,257
Other taxes	4,484,350	4,484,350	4,741,988	257,638
Penalties and interest	45,000	45,000	57,315	12,315
Licenses and permits	355,000	355,000	375,724	20,724
Intergovernmental revenues	2,777,728	2,895,776	2,925,571	29,795
Investment income	150,000	287,000	358,878	71,878
Sales and services	851,000	908,000	985,189	77,189
Miscellaneous revenues	665,000	696,150	514,412	(181,738)
Total revenues	<u>19,174,870</u>	<u>19,518,068</u>	<u>20,019,126</u>	<u>501,058</u>
EXPENDITURES -				
Current operating -				
General government	3,829,222	3,701,255	3,163,973	537,282
Public safety	10,099,189	10,324,438	9,897,573	426,865
Streets	2,836,240	2,957,330	2,768,459	188,871
Sanitation	2,432,294	2,481,389	2,362,022	119,367
Community development	1,031,125	1,040,885	937,991	102,894
Total expenditures	<u>20,228,070</u>	<u>20,505,297</u>	<u>19,130,018</u>	<u>1,375,279</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>(1,053,200)</u>	<u>(987,229)</u>	<u>889,108</u>	<u>1,876,337</u>
OTHER FINANCING SOURCES (USES) -				
Transfers from other funds	-	-	2,681	2,681
Transfers to other funds	-	(110,000)	(110,000)	-
Lease purchase proceeds	165,000	165,000	62,374	(102,626)
Total other financing sources (uses)	<u>165,000</u>	<u>55,000</u>	<u>(44,945)</u>	<u>(99,945)</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING US	<u>(888,200)</u>	<u>(932,229)</u>	<u>844,163</u>	<u>1,776,392</u>
APPROPRIATED FUND BALANCE	<u>888,200</u>	<u>932,229</u>	<u>-</u>	<u>(932,229)</u>
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED FUND BALANCE IN EXCESS OF EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>844,163</u>	<u>\$ 844,163</u>
SPECIAL ITEM - Release of interfund debt			(1,384,762)	
FUND BALANCE, BEGINNING OF YEAR			<u>10,131,623</u>	
FUND BALANCE, END OF YEAR			<u>\$ 9,591,024</u>	

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF NET ASSETS (DEFICIENCY) - PROPRIETARY FUNDS
June 30, 2006

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Non-major Fund - Golf	Total
ASSETS			
Current assets:			
Cash, cash equivalents and investments	\$ 14,570,211	\$ -	\$ 14,570,211
Accounts receivable, net of allowance for uncollectible accounts	2,424,667	920	2,425,587
Due from other governmental agencies	39,696	-	39,696
Inventories	98,137	-	98,137
Prepaid items	53,310	3,367	56,677
Total current assets	<u>17,186,021</u>	<u>4,287</u>	<u>17,190,308</u>
Non-current assets:			
Capital assets, non-depreciable	1,471,188	2,500	1,473,688
Capital assets, net of depreciation	70,807,344	1,498,111	72,305,455
Total non-current assets	<u>72,278,532</u>	<u>1,500,611</u>	<u>73,779,143</u>
Total assets	<u>89,464,553</u>	<u>1,504,898</u>	<u>90,969,451</u>
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	3,002,729	86,020	3,088,749
Accounts payable	542,861	4,625	547,486
Due to other governmental agencies	75,000	-	75,000
Customer deposits	202,164	-	202,164
Unearned revenue	-	14,010	14,010
Accrued expenses	230,982	12,093	243,075
Compensated absences	17,901	1,638	19,539
Total current liabilities	<u>4,071,637</u>	<u>118,386</u>	<u>4,190,023</u>
Non-current liabilities:			
Long-term debt	21,401,861	316,592	21,718,453
Compensated absences	161,105	16,562	177,667
Due to other governmental agencies	975,000	-	975,000
Total non-current liabilities	<u>22,537,966</u>	<u>333,154</u>	<u>22,871,120</u>
Total liabilities	<u>26,609,603</u>	<u>451,540</u>	<u>27,061,143</u>
NET ASSETS			
Invested in capital assets, net of related debt	46,823,942	1,097,999	47,921,941
Restricted - capital projects	4,065,136	-	4,065,136
Unrestricted (deficit)	11,965,872	(44,641)	11,921,231
Total net assets	<u>\$ 62,854,950</u>	<u>\$ 1,053,358</u>	<u>\$ 63,908,308</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Nonmajor Fund - Golf Fund	Total
OPERATING REVENUES			
User charges	\$ 14,197,598	\$ 399,082	\$ 14,596,680
Monitoring fees	89,496	-	89,496
Connection and tap fees	234,661	-	234,661
Other	540,952	3,640	544,592
Total operating revenues	<u>15,062,707</u>	<u>402,722</u>	<u>15,465,429</u>
OPERATING EXPENSES			
Administration & engineering	1,568,974	-	1,568,974
Water line maintenance	1,998,564	-	1,998,564
Sewer line maintenance	936,881	-	936,881
Water plant operations	1,606,956	-	1,606,956
Sewer plant operations	1,385,951	-	1,385,951
Store expenses	8,804	-	8,804
Golf course operations	-	518,644	518,644
Depreciation	2,727,496	134,172	2,861,668
Uncollectible accounts	76,148	-	76,148
Total operating expenses	<u>10,309,774</u>	<u>652,816</u>	<u>10,962,590</u>
Operating income (loss)	4,752,933	(250,094)	4,502,839
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	514,909	-	514,909
Interest and other charges	(852,264)	(19,918)	(872,182)
Gain on disposal of assets	8,216	11,325	19,541
Total nonoperating revenues (expenses)	<u>(329,139)</u>	<u>(8,593)</u>	<u>(337,732)</u>
Income (loss) before capital contributions and special item	4,423,794	(258,687)	4,165,107
CAPITAL CONTRIBUTIONS	2,141,852	-	2,141,852
SPECIAL ITEM			
Release of interfund debt	-	1,384,762	1,384,762
Change in net assets	6,565,646	1,126,075	7,691,721
Total net assets - beginning	<u>56,289,304</u>	<u>(72,717)</u>	<u>56,216,587</u>
Total net assets - ending	<u>\$ 62,854,950</u>	<u>\$ 1,053,358</u>	<u>\$ 63,908,308</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds		
	Major Fund - Utility	Nonmajor Fund - Golf	Total
CASH FLOWS FROM (TO) OPERATING ACTIVITIES			
Cash received from customers	\$ 14,895,812	\$ 405,911	\$ 15,301,723
Cash paid for goods and services	(3,568,577)	(234,818)	(3,803,395)
Customer deposits received	181,098	-	181,098
Customer deposits returned	(189,485)	-	(189,485)
Cash payments to employees	(3,691,353)	(291,440)	(3,982,793)
Other operating revenues	324,157	-	324,157
Net cash provided (used) by operating activities	<u>7,951,652</u>	<u>(120,347)</u>	<u>7,831,305</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from general fund loan	-	217,811	217,811
Net cash provided by noncapital financing activities	<u>-</u>	<u>217,811</u>	<u>217,811</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(4,653,239)	-	(4,653,239)
Proceeds from issuance of debt	62,374	-	62,374
Principal paid on bond maturities and installment purchase debt	(3,752,704)	(89,496)	(3,842,200)
Interest paid on bond maturities and installment purchase debt	(1,078,092)	(19,918)	(1,098,010)
Principal paid on note due to other governmental agencies	(75,000)	-	(75,000)
Proceeds from the disposition of capital assets	44,975	11,950	56,925
Net cash used by capital and related financing activities	<u>(9,451,686)</u>	<u>(97,464)</u>	<u>(9,549,150)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	514,909	-	514,909
Net change in cash and cash equivalents	(985,125)	-	(985,125)
Balances - beginning of the year	15,555,336	-	15,555,336
Balances - end of the year	<u>\$ 14,570,211</u>	<u>\$ -</u>	<u>\$ 14,570,211</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 4,752,933	\$ (250,094)	\$ 4,502,839
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,727,496	134,172	2,861,668
Write-off of uncollectible accounts	76,148	-	76,148
Changes in asset and liabilities:			
(Increase) decrease in accounts receivable	(109,801)	1,086	(108,715)
Decrease in due from other governmental agency	267,063	-	267,063
Decrease in inventories	8,871	-	8,871
Increase in prepaid items	(53,310)	(3,367)	(56,677)
Increase (decrease) in accounts payable	315,917	(364)	315,553
Decrease in compensated absences	(13,345)	(4,383)	(17,728)
Increase (decrease) in accrued expenses	(11,933)	500	(11,433)
Increase in customer deposits	(8,387)	-	(8,387)
Increase in deferred revenues	-	2,103	2,103
Total adjustments	<u>3,198,719</u>	<u>129,747</u>	<u>3,328,466</u>
Net cash provided (used) by operating activities	<u>\$ 7,951,652</u>	<u>\$ (120,347)</u>	<u>\$ 7,831,305</u>
Noncash capital activities and noncapital financing activities:			
Contributed capital assets	\$ 2,141,852	\$ -	\$ 2,141,852
Release of interfund debt	<u>\$ -</u>	<u>\$ 1,384,762</u>	<u>\$ 1,384,762</u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

	Pension Trust Fund	Agency Funds
ASSETS		
Cash, cash equivalents, and investments	\$ 525,590	\$ 374,519
Accounts receivable	-	28,055
	<u>525,590</u>	<u>402,574</u>
LIABILITIES		
Due to plan participants	-	402,574
	<u>-</u>	<u>402,574</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 525,590</u></u>	<u><u>\$ -</u></u>

See notes to financial statements.

CITY OF SANFORD, NORTH CAROLINA
STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND
For the Year Ended June 30, 2006

	<u>2006</u>
ADDITIONS:	
Employer contributions	\$ 110,799
Net investment income	<u>21,041</u>
Total additions	<u>131,840</u>
DEDUCTIONS:	
Benefits	82,793
Administrative expense	<u>6,334</u>
Total deductions	<u>89,127</u>
Net increase	42,713
Net assets - held in trust for pension benefits, beginning of year	<u>482,877</u>
Net assets - held in trust for pension benefits, end of year	<u><u>\$ 525,590</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 \$0.79 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 (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at 2116 S. Horner Blvd., Sanford, NC 27330.

1. 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.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

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 must be 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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 prohibit expenditures in excess of appropriations. All appropriations lapse at year-end.

A budget prepared using the modified accrual basis 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 reports compensated absences in governmental funds only if they have matured. The City has assumed a first-in, first-out method of using accumulated compensated time.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005 through February 2006 apply to the fiscal year ended June 30, 2006. 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 2006-07 fiscal year and are not shown as receivables at June 30, 2006. 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, 2006 because they are intended to finance the City's operations during the 2007 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. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. Donated capital assets are recorded at the fair value on the date of the gift. Cost of repairs and minor renewals that do not add to the value of the asset or materially extend the asset's life are excluded from capital assets. When an asset is disposed of, the related cost and accumulated depreciation are removed from the accounts.

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

The City evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The governmental fund types classify fund balances as follows:

Reserved:

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

Reserved 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 2006 - 2007 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 that exceed 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 under collateralization and this risk

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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, 2006, the City's deposits had a carrying amount of \$7,842,100 and a bank balance of \$9,533,346. Of the bank balance, \$414,474 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 \$981,423 and the bank balance was \$967,413. 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, 2006, the City's cash on hand totaled \$1,650 while cash on hand for the ABC Board totaled \$2,900.

Investment balances as of June 30, 2006 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	\$ 6,444,501	\$ 4,475,831	\$ 1,968,670	\$ -
Commercial paper	4,827,338	3,802,921	1,024,417	-
NC Capital Management Trust	<u>5,283,900</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total	<u>\$ 16,555,739</u>	<u>\$ 8,278,752</u>	<u>\$ 2,993,087</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, 2006, 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, 2006. 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 formal 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, 2006, 29% of the City's investments were in 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, 2006, the ABC Board held no investments of this nature.

4. PROPERTY TAXES RECEIVABLE

Property taxes receivable as of June 30, 2006 reflect the uncollected portion of property tax levies reduced for a portion not expected to be collected and are summarized as follows:

	General Fund	Special Revenue Fund	Total
Property taxes receivable	\$ 833,017	\$ 2,293	\$ 835,310
Less allowance for uncollectibles	<u>338,505</u>	<u>1,755</u>	<u>340,260</u>
Net property taxes receivable	<u>\$ 494,512</u>	<u>\$ 538</u>	<u>\$ 495,050</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Enterprise Funds
Accounts receivable		
Special assessments	\$ 13,320	\$ 198,567
Waste management fees	44,149	-
Privilege licenses	390	-
Employee computer purchase	51,695	15,186
Other	22,244	13,464
Cable franchise fees	40,000	-
Utility user charges	-	2,828,614
Total receivables	<u>171,798</u>	<u>3,055,831</u>
Less: allowance for uncollectibles	<u>16,413</u>	<u>630,244</u>
Net total receivables	<u>\$ 155,385</u>	<u>\$ 2,425,587</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, 2006 consist of amounts due classified as follows:

	General	Special Revenue	Utility	Total
Notes	\$ 237,245	\$ -	\$ -	\$ 237,245
Tax refunds	1,268,185	-	-	1,268,185
Grants	8,970	8,950	39,696	57,616
Reimbursements	<u>101,333</u>	<u>-</u>	<u>-</u>	<u>101,333</u>
Total	<u>\$ 1,615,733</u>	<u>\$ 8,950</u>	<u>\$ 39,696</u>	<u>\$ 1,664,379</u>

CITY OF SANFORD, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

7. DUE FROM OTHER FUNDS

At June 30, 2006, \$2,426 was due to the general fund from the community development fund.

8. CAPITAL ASSETS

At June 30, 2006, capital asset activity was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions/ Reclasses</u>	<u>Deletions/ Reclasses</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,425,248	\$1,773,324	\$ -	\$ 3,198,572
Construction in progress	<u>42,414</u>	<u>2,987</u>	<u>(42,414)</u>	<u>2,987</u>
Total capital assets, not being depreciated	<u>1,467,662</u>	<u>1,776,311</u>	<u>(42,414)</u>	<u>3,201,559</u>
Capital assets, being depreciated:				
Municipal center and other bldgs.	9,314,352	3,247	-	9,317,599
Streets	7,458,932	17,199,878	-	24,658,810
Equipment	<u>3,454,326</u>	<u>5,497,517</u>	<u>(177,750)</u>	<u>8,774,093</u>
Total capital assets being depreciated	<u>20,227,610</u>	<u>22,700,642</u>	<u>(177,750)</u>	<u>42,750,502</u>
Less accumulated depreciation for:				
Municipal center and other bldgs.	(4,200,430)	(235,541)	-	(4,435,971)
Streets	(158,038)	(9,923,037)	-	(10,081,075)
Equipment	<u>(5,316,731)</u>	<u>(1,411,918)</u>	<u>158,352</u>	<u>(6,570,297)</u>
Total accumulated depreciation	<u>(9,675,199)</u>	<u>(11,570,496)</u>	<u>158,352</u>	<u>(21,087,343)</u>
Total capital assets, being depreciated, net	<u>10,552,411</u>	<u>11,130,146</u>	<u>(19,398)</u>	<u>21,663,159</u>
Governmental activities capital assets, net	<u>\$12,020,073</u>			<u>\$24,864,718</u>

CITY OF SANFORD, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

8. CAPITAL ASSETS (Continued)

	Beginning Balance	Additions/ Reclasses	Deletions/ Reclasses	Ending Balance
Business type activities:				
Utility Fund -				
Capital assets, not being depreciated:				
Land	\$ 230,976	\$ -	\$ -	\$ 230,976
Construction in progress	<u>4,147,962</u>	<u>4,538,255</u>	<u>(7,446,005)</u>	<u>1,240,212</u>
Total capital assets, not being depreciated	<u>4,378,938</u>	<u>4,538,255</u>	<u>(7,446,005)</u>	<u>1,471,188</u>
Capital assets, being depreciated:				
Treatment plants	34,342,253	6,320,469	-	40,662,722
Water tanks and lines	34,876,244	1,261,057	-	36,137,301
Sewer lines	21,807,045	1,922,460	-	23,729,505
Equipment	2,370,597	420,050	(191,343)	2,599,304
Buildings	<u>289,368</u>	<u>-</u>	<u>-</u>	<u>289,368</u>
Total capital assets, being depreciated	<u>93,685,507</u>	<u>9,924,036</u>	<u>(191,343)</u>	<u>103,418,200</u>
Less accumulated depreciation for:				
Treatment plants	(12,808,913)	(977,038)	-	(13,785,951)
Water tanks and lines	(8,635,856)	(928,065)	-	(9,563,921)
Sewer lines	(6,861,768)	(579,439)	-	(7,441,207)
Equipment	(1,481,052)	(238,285)	154,584	(1,564,753)
Buildings	<u>(250,355)</u>	<u>(4,669)</u>	<u>-</u>	<u>(255,024)</u>
Total accumulated depreciation	<u>(30,037,944)</u>	<u>(2,727,496)</u>	<u>154,584</u>	<u>(32,610,856)</u>
Total utility fund capital assets, being depreciated, net	<u>63,647,563</u>	<u>7,196,540</u>	<u>(36,759)</u>	<u>70,807,344</u>
Total utility fund capital assets	<u>68,026,501</u>			<u>72,278,532</u>
Golf Fund-				
Capital assets, not being depreciated:				
Land	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Total capital assets, not being depreciated	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Capital assets, being depreciated:				
Course and improvements	1,469,913	-	-	1,469,913
Buildings	208,477	-	-	208,477
Equipment	<u>496,184</u>	<u>-</u>	<u>(30,918)</u>	<u>465,266</u>
Total capital assets, being depreciated	<u>2,174,574</u>	<u>-</u>	<u>(30,918)</u>	<u>2,143,656</u>

CITY OF SANFORD, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

8. CAPITAL ASSETS (Continued)

	Beginning Balance	Additions/ Reclasses	Deletions/ Reclasses	Ending Balance
Less accumulated depreciation for:				
Course and improvements	\$ (151,905)	\$ (68,717)	\$ -	\$ (220,622)
Buildings	(81,541)	(9,404)	-	(90,945)
Equipment	<u>(308,220)</u>	<u>(56,051)</u>	<u>30,293</u>	<u>(333,978)</u>
Total accumulated depreciation	<u>(541,666)</u>	<u>(134,172)</u>	<u>30,293</u>	<u>(645,545)</u>
Total golf capital assets, being depreciated, net	<u>1,632,908</u>	<u>(134,172)</u>	<u>(625)</u>	<u>1,498,111</u>
Total golf fund	<u>1,635,408</u>			<u>1,500,611</u>
Business type activities, capital assets, net	<u>\$69,661,909</u>			<u>\$73,779,143</u>

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

Governmental activities:	
General government	\$ 337,332
Public safety	327,589
Streets	10,768,123
Sanitation	116,529
Community development	<u>20,923</u>
Total depreciation expense - governmental activities	<u>\$ 11,570,496</u>
Business-type activities:	
Water and sewer	2,727,496
Golf	<u>134,172</u>
Total depreciation expense - business-type activities	<u>\$ 2,861,668</u>

The following is a summary of changes in capital assets for the ABC Board at June 30, 2006:

	Beginning Balance	Additions/ Retirements	Ending Balance
Non depreciable assets:			
Land	<u>\$ 233,069</u>	<u>\$ -</u>	<u>\$ 233,069</u>
Depreciable assets:			
Buildings	848,848	-	848,848
Store fixtures	133,746	1,937	135,683
Office furniture	36,797	-	36,797
Vehicles	<u>8,500</u>	<u>-</u>	<u>8,500</u>
Total depreciable assets	<u>1,027,891</u>	<u>1,937</u>	<u>1,029,828</u>

8. CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Additions/ Retirements</u>	<u>Ending Balance</u>
Accumulated depreciation:			
Buildings	\$ 223,872	\$ 24,227	\$ 248,099
Store fixtures	90,130	13,410	103,540
Office furniture	26,845	2,485	29,330
Vehicles	<u>8,500</u>	<u>-</u>	<u>8,500</u>
Total accumulated depreciation	<u>349,347</u>	<u>40,122</u>	<u>389,469</u>
 Total depreciable assets, net	 <u>678,544</u>		 <u>640,359</u>
 Net capital assets	 <u>\$ 911,613</u>		 <u>\$ 873,428</u>

9. LONG-TERM DEBT

At June 30, 2006 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; 2.74% interest; dated December 19, 2003; due quarterly in installments of \$3,050; secured by equipment	\$ 35,743
Lease purchase; 2.78% interest; dated December 3, 2004; due quarterly in installments of \$7,909; secured by equipment	49,125
Lease purchase; 5.23% interest; dated February 28, 2000; due quarterly in installments of \$26,226; secured by equipment	39,144
Lease purchase; 3.77% interest; dated December 27, 2005; due quarterly in installments of \$5,522; secured by equipment	<u>52,460</u>
Total lease purchase agreements	<u>176,472</u>

Installment purchase contracts:

Installment purchase contract; dated November 20, 1992; monthly installments of \$3,866; interest at 4.59%; secured by a deed of trust on a compost facility	69,829
Installment purchase contract; dated April 3, 2003; annual installments of \$130,222; interest of 3.14%; secured by a deed of trust on streets	700,000
Installment purchase contract; dated December 7, 1999; quarterly installments of \$39,661; interest of 5.26%; secured by a deed of trust on service center	<u>765,000</u>
Total installment purchase contracts	<u>1,534,829</u>

CITY OF SANFORD, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

9. LONG-TERM DEBT (Continued)

Compensated absences	867,319
Annexation liability for fire protection	<u>21,011</u>
Total governmental activities debt	2,599,631
Less current portion	<u>(861,291)</u>
Total long-term debt	<u>\$ 1,738,340</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 \$332,892 unamortized difference

\$ 5,472,108

Total general obligation bonds 5,472,108

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

1,560,000

Total notes payable 1,560,000

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 56,207

Lease purchase; 4.87% interest; dated August 9, 2001; due in quarterly principal and interest installments of \$1,422; secured by equipment 1,405

Total lease purchases agreements 57,612

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 345,000

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 626,881

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	\$ 205,089
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	275,034
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	6,437,860
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%	2,576,417
Installment purchase contract; agreement dated October 13, 1998; quarterly installments of \$36,713; interest at 4.61% for fifteen years, secured by water and sewer lines	926,687
Installment purchase contract; agreement dated May 13, 2004; semi-annual installments of \$152,752; interest at 3.67% for fifteen years, secured by water plant improvements	6,272,054
Installment purchase contract; agreement dated December 27, 2005; quarterly installments of \$5,522; interest at 3.77% for three years, secured by equipment	<u>52,460</u>
Total installment purchase contracts	<u>17,717,482</u>
Total Proprietary Funds debt	24,807,202
Less current portion	<u>(3,088,749)</u>
Total long-term debt	<u>\$ 21,718,453</u>

CITY OF SANFORD, NORTH CAROLINA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006

9. LONG-TERM DEBT (Continued)

A summary of changes in long-term debt follows:

<u>Governmental Activity</u>	<u>Beginning of year</u>	<u>Additions/ Reclasses</u>	<u>Retirements</u>	<u>End of year</u>	<u>Due within one year</u>
Lease purchase agreements	\$ 287,928	\$ 62,374	\$ 173,830	\$ 176,472	\$ 115,728
Installment purchase contracts	1,771,461	-	236,632	1,534,829	238,818
Compensated absences	820,305	655,585	608,571	867,319	503,449
Annexation liability	22,522	4,034	5,545	21,011	3,296
Total	<u>\$ 2,902,216</u>	<u>\$ 721,993</u>	<u>\$ 1,024,578</u>	<u>\$ 2,599,631</u>	<u>\$ 861,291</u>
<u>Business type Funds</u>					
Water and sewer improvements	\$ 6,610,774	\$ -	\$ 1,138,666	\$ 5,472,108	\$ 1,118,666
Water improvements	1,657,500	-	97,500	1,560,000	97,500
Lease purchase agreements	87,108	-	29,496	57,612	26,020
Installment purchase contracts	20,160,131	62,374	2,505,023	17,717,482	1,846,563
Total	<u>\$ 28,515,513</u>	<u>\$ 62,374</u>	<u>\$ 3,770,685</u>	<u>\$ 24,807,202</u>	<u>\$ 3,088,749</u>

The annual requirements to retire all long-term debt (except lease purchases) outstanding as of June 30, 2006 are as follows:

<u>Year ended June 30,</u>	<u>Annexation liability for fire protection</u>	<u>Proprietary fund bonds and notes</u>	<u>Interest Payments</u>	<u>Total</u>
2007	\$ 3,296	\$ 1,216,166	\$ 319,680	\$ 1,539,142
2008	3,296	1,196,166	262,405	1,461,867
2009	3,297	1,176,166	204,295	1,383,758
2010	2,582	1,156,166	145,410	1,304,158
2011	5,545	1,214,944	87,505	1,307,994
2012-2016	2,995	487,500	114,075	604,570
2017-2021	-	487,500	50,700	538,200
2022-2026	-	97,500	2,535	100,035
Total	<u>\$ 21,011</u>	<u>\$ 7,032,108</u>	<u>\$ 1,186,605</u>	<u>\$ 8,239,724</u>

At June 30, 2006 the legal debt margin for the City was \$115,713,568.

9. LONG-TERM DEBT (Continued)

Leases, Installment Purchase Agreements and Loan from General Fund

At June 30, 2006 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>
2007	\$ 354,546	\$ 1,801,249	\$ 476,808	\$ 2,632,603
2008	260,866	1,540,464	413,167	2,214,497
2009	200,889	1,484,511	359,485	2,044,885
2010	190,000	1,260,710	312,321	1,763,031
2011	190,000	1,296,729	271,579	1,758,308
2012-2016	515,000	6,431,758	825,093	7,771,851
2017-2021	<u>-</u>	<u>3,959,673</u>	<u>115,358</u>	<u>4,075,031</u>
 Total	 <u>\$ 1,711,301</u>	 <u>\$ 17,775,094</u>	 <u>\$ 2,773,811</u>	 <u>\$ 22,260,206</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, 2006 was \$5,805,000. 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.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. This unamortized difference of \$332,892 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%. The principle owed on these bonds as of June 30, 2006 is \$1,050,000, which is presented as due to other governmental agencies on the Statement of Net Assets.

10. OPERATING LEASES

During the year ended June 30, 2006, the City leased office space under short term cancelable leases. Rental income for such leases was \$30,510.

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.

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Net property taxes receivable (General Fund)	\$ 494,512	\$ -
Net property taxes receivable (Special Revenue Funds)	538	-
Special assessments receivable (General Fund)	13,321	-
Prepaid taxes (General Fund)	-	34,112
Prepaid taxes (Special Revenue Funds)	-	126
Prepaid annuals (Golf Fund)	-	14,010
Drug forfeiture revenues (General Fund)	-	91,613
Privilege license receivable (General Fund)	390	-
Net waste management fees receivable (General Fund)	27,735	-
Contractor deposits (Special Revenue Funds)	-	43,515
	<u> </u>	<u> </u>
Total	<u>\$ 536,496</u>	<u>\$ 183,376</u>

12. 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, 2006 follows:

	<u>Transfers in</u>	
<u>Transfers out</u>	<u>Major Fund- General</u>	<u>Non-major Governmental Funds</u>
General Fund	\$ -	\$ 110,000
Special Revenue Fund	2,681	-
Total	<u>\$ 2,681</u>	<u>\$ 110,000</u>

13. PROJECT GRANT BUDGETS

The budgets for the Community Development Fund (Special Revenue Fund) and Utility Capital Projects Fund are adopted on a project/grant basis. Following is a summary of activity from inception through June 30, 2006 for the programs.

	Project and program budgets	Current year	Prior years	Total to June 30, 2006
<u>Special Revenue Fund</u>				
Community Development:				
Revenues	\$ 3,149,670	\$ 766,106	\$ 1,759,001	\$ 2,525,107
Expenditures	<u>\$ 3,149,670</u>	<u>\$ 751,537</u>	<u>\$ 1,406,840</u>	2,158,377
Project fund balance				<u>\$ 366,730</u>
 <u>Utility Capital Projects Fund</u>				
Revenues	<u>\$ 7,067,394</u>	<u>\$ 187,032</u>	<u>\$ 6,825,216</u>	\$ 7,012,248
Other financing sources	<u>\$ 11,178,733</u>	<u>\$ (749,018)</u>	<u>\$ 11,996,000</u>	11,246,982
Expenditures	<u>\$ 18,246,127</u>	<u>\$ 3,503,150</u>	<u>\$ 14,152,912</u>	17,656,062
Project fund balance				<u>\$ 603,168</u>

14. CONTINGENT LIABILITIES AND COMMITMENTS

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

Commitments - The City has a five year contract expiring June 30, 2008 with an annual fee of \$1,212,106 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 \$7,300,000. As of June 30, 2006, approximately \$6,490,000 of construction expenditures had been incurred and, accordingly, are reported in the operations of the Utility Capital Projects Fund.

Claims and Judgments - At June 30, 2006, 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.

15. PENSION PLAN OBLIGATIONS

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, 2006, 2005, and 2004 were \$600,408, \$577,146, and \$560,797 respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004, were \$12,594, \$11,874, and \$11,641 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, 2006 were \$210,897, which consisted of \$162,723 from the City and \$48,174 from the law enforcement officers.

Law Enforcement Officers' Special Separation Allowance

1. Plan Description

The City of Sanford administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the 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.

15. PENSION PLAN OBLIGATIONS (Continued)

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, 2005, 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>73</u>
Total	<u>79</u>

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 \$110,799 or 3.62% 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, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9% to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2004 was 26 years.

15. PENSION PLAN OBLIGATIONS (Continued)

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

Annual required contribution	\$ 110,799
Interest on net pension obligation	5,570
Adjustment to annual required contribution	<u>(4,413)</u>
Annual pension cost	111,956
Contributions made	<u>(110,799)</u>
Increase in net pension obligation	1,157
Net pension obligation beginning of year	<u>76,830</u>
Net pension obligation end of year	<u>\$ 77,987</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>
6/30/04	\$ 91,314	98.57%	\$ 75,591
6/30/05	99,499	98.75%	76,830
6/30/06	111,956	98.97%	77,987

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 appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

16. FIREMEN'S RELIEF FUND

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

17. OTHER EMPLOYMENT BENEFITS

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, 2006, the City made contributions to the State for death benefits of \$4,601. 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 City has elected to provide death benefits to all employees, including elected officials, through a group-term life insurance policy held with Fort Dearborn Life. An employee, other than an elected official, is eligible to receive benefits upon completion of one month of employment. Benefits for these employees are calculated at two times an employee's base annual salary (rounded to the next highest thousand) with a maximum benefit of \$200,000. Elected officials are eligible to receive benefits, based on his or her age, of up to \$50,000. All death benefits are paid from Fort Dearborn Life, therefore, the City has no liability beyond the cost of premiums. Benefits in excess of \$50,000 are considered taxable to the employee as a fringe benefit.

18. OTHER POST- EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 15, 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 71 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, 2006 was \$319,243.

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, 2006, the estimated accrued post-retirement benefit obligation for eligible employees was \$326,556. The Board has not funded the plan. During the year ended June 30, 2006, benefits paid for retired employees totaled \$21,205. The amount charged to operations for the year ended June 30, 2006 was (\$14,102).

19. 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

19. 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 City carries flood insurance through the National League of Municipalities Interlocal Risk Financing Fund of North Carolina. This policy covers property that has been designated within the "B," "C," and "X" areas declared by the Federal Emergency Management Agency. There is a \$50,000 deductible required with this policy and a limit of \$2.5 million in coverage per occurrence.

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, workers' 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.

20. 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, 2006 amounted to \$1,064,525 in total, of which \$867,319 relates to governmental funds and \$197,206 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, 2006 amounted to \$4,509,473 in total, of which \$3,930,312 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, 2006 was \$8,276. 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.

21. 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, 2006.

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

22. 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 \$9,214 to the Council during the fiscal year ended June 30, 2006.

23. RELATED ORGANIZATION

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.

The City of Sanford is also disclosed as a related organization in the notes to the financial statements for the City of Sanford Housing Authority. Complete financial statements for the Housing Authority can be obtained from the authority's office at 1000 Carthage Street, Sanford, NC 27330.

24. RELEASE OF INTERFUND DEBT

On June 6, 2006, the City Council voted to forgive the debt owed from the Golf Fund to the General Fund and close the Golf Fund into the General Fund effective July 1, 2006. The released debt includes construction loan proceeds and cash borrowed from the General Fund to operate the golf course. Additionally, this release is reflected in the accompanying financial statements in the amount of \$1,384,762.

25. RESTATEMENT OF BEGINNING NET ASSETS

In accordance with GASB Statement 34, to initially capitalize general infrastructure, the City chose to include all such items subsequent to July 1, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at estimated cost. The beginning net assets at July 1, 2005, reflect the retroactive restatement for the addition of infrastructure networks and subsystems valued at \$21,874,243 with accumulated depreciation of \$10,362,117.

25. RESTATEMENT OF BEGINNING NET ASSETS (Continued)

<u>Net Assets @6/30/05 [as previously reported]</u>	<u>Capitalized Assets (Net)</u>	<u>Net Assets @6/30/05 [Restated]</u>
\$20,022,797	\$11,512,126	\$31,534,923

26. NEW PRONOUNCEMENT

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which provides guidance on all aspects of other post employment benefits reporting by employers. This requirement will be implemented by the City as of June 30, 2009. The City has yet to determine the impact of implementing this statement.

CITY OF SANFORD, NORTH CAROLINA
 REQUIRED SUPPLEMENTARY INFORMATION - LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 SCHEDULE OF FUNDING PROGRESS
 June 30, 2006

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued 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%
12/31/2005	559,315	1,261,997	702,682	44.32%	3,232,637	21.74%

CITY OF SANFORD, NORTH CAROLINA
 REQUIRED SUPPLEMENTARY INFORMATION - LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 June 30, 2006

<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%
2006	110,799	100%

Notes to the Required Schedules:

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

Valuation date	12/31/2004
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	25 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.9 - 9.8%
Includes inflation at	3.75%
Cost-of-living adjustments	NA

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2006

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
REVENUES -				
Ad valorem taxes -				
Current year levy	\$ 9,554,292	\$ 9,797,708	\$ 243,416	\$ 9,584,761
Prior years' levy	275,000	246,160	(28,840)	281,069
Payments in lieu of taxes	17,500	16,181	(1,319)	16,543
Total - ad valorem taxes	<u>9,846,792</u>	<u>10,060,049</u>	<u>213,257</u>	<u>9,882,373</u>
Other taxes -				
Privilege licenses	150,000	167,898	17,898	156,367
Local option sales tax	4,334,350	4,574,090	239,740	4,262,333
Total - other taxes	<u>4,484,350</u>	<u>4,741,988</u>	<u>257,638</u>	<u>4,418,700</u>
Penalties and interest	45,000	57,315	12,315	61,666
Licenses and permits -				
Building permits	355,000	375,724	20,724	369,131
Total - licenses and permits	<u>355,000</u>	<u>375,724</u>	<u>20,724</u>	<u>369,131</u>
Intergovernmental revenues -				
United States of America -				
Department of Justice - Police grant	22,121	22,121	-	8,150
Department of Justice - Drug forfeiture program	57,300	16,670	(40,630)	32,419
Homeland Security grant	-	-	-	165,767
Federal Highway Administration gran	9,727	-	(9,727)	77,268
State of North Carolina -				
Utilities franchise tax	1,103,500	1,179,328	75,828	1,118,869
Wine and beer tax	48,719	52,632	3,913	52,285
Powell Bill allocatiore	790,634	768,240	(22,394)	767,741
Civil preparedness	2,400	2,400	-	2,400
Court costs and fees	15,000	17,836	2,836	19,642
Law Enforcement - Drug forfeiture program	20,000	19,680	(320)	41,841
Mowing reimbursement program	-	-	-	7,875
Safe kids grants	-	1,853	1,853	2,386
Other local governments	826,375	844,811	18,436	734,815
Total - intergovernmental revenues	<u>2,895,776</u>	<u>2,925,571</u>	<u>29,795</u>	<u>3,031,458</u>
Investment income	287,000	358,878	71,878	202,279
Sales and service -				
Sale of property	118,000	167,774	49,774	99,042
Fleet maintenance fees	-	-	-	66,385
Waste management fees	790,000	817,415	27,415	814,284
Total - sales and service	<u>908,000</u>	<u>985,189</u>	<u>77,189</u>	<u>979,711</u>
Miscellaneous revenues -				
Alcoholic beverage contro	140,000	157,500	17,500	157,500
Assessments	225,000	26,641	(198,359)	-
Interfund services providec	160,000	130,567	(29,433)	124,342
Civil violation fines	10,000	26,000	16,000	16,863
Rental income	30,000	30,510	510	15,000
Sundry	131,150	143,194	12,044	255,607
Total - miscellaneous revenues	<u>696,150</u>	<u>514,412</u>	<u>(181,738)</u>	<u>569,312</u>
Total revenues	<u>19,518,068</u>	<u>20,019,126</u>	<u>501,058</u>	<u>19,514,630</u>

(Continued)

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
For the Year Ended June 30, 2006

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES-				
General Government:				
Governing body -				
Salaries and benefits	\$ 182,798	\$ 182,829	\$ (31)	\$ 175,639
Current operating expenditures	85,620	75,108	10,512	65,492
Total - governing body	268,418	257,937	10,481	241,131
Less: Interfund reimbursements	(50,225)	(50,225)	-	(20,461)
Net - governing body	218,193	207,712	10,481	220,670
Administration -				
Salaries and benefits	175,490	181,075	(5,585)	173,442
Current operating expenditures	25,620	10,683	14,937	12,196
Capital outlay	3,600	3,587	13	-
Total - administration	204,710	195,345	9,365	185,638
Less: Interfund reimbursements	(38,765)	(38,765)	-	(17,950)
Net - administration	165,945	156,580	9,365	167,688
Budget -				
Salaries and benefits	-	-	-	110,321
Current operating expenditures	-	-	-	7,756
Capital outlay	-	-	-	1,798
Total - budget	-	-	-	119,875
Less: Interfund reimbursements	-	-	-	(12,722)
Net - budget	-	-	-	107,153
Human Resources -				
Salaries and benefits	183,112	182,026	1,086	172,872
Current operating expenditures	55,660	43,996	11,664	38,969
Capital outlay	4,000	3,949	51	-
Total - human resources	242,772	229,971	12,801	211,841
Less: Interfund reimbursements	(36,984)	(36,984)	-	(21,446)
Net - human resources	205,788	192,987	12,801	190,395
Risk management -				
Salaries and benefits	59,258	21,215	38,043	3,817
Current operating expenditures	13,065	11,336	1,729	8,986
Capital outlay	1,800	1,798	2	-
Total - risk management	74,123	34,349	39,774	12,803
Less: Interfund reimbursements	(4,326)	(4,326)	-	(5,573)
Net - risk management	69,797	30,023	39,774	7,230
Elections				
	14,000	11,855	2,145	-
Finance -				
Salaries and benefits	476,508	462,838	13,670	323,919
Current operating expenditures	223,210	216,089	7,121	198,430
Total - finance	699,718	678,927	20,791	522,349
Less: Interfund reimbursements	(138,094)	(138,094)	-	(50,206)
Net - finance	561,624	540,833	20,791	472,143
Information systems -				
Salaries and benefits	144,055	144,081	(26)	139,001
Current operating expenditures	107,166	39,749	67,417	23,182
Capital outlay	33,750	32,468	1,282	3,459
Total - information systems	284,971	216,298	68,673	165,642

(Continued)

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
For the Year Ended June 30, 2006

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES - (Continued)				
Legal -				
Salaries and benefits	\$ 143,115	\$ 142,063	\$ 1,052	\$ 136,731
Current operating expenditures	30,110	21,502	8,608	16,154
Capital outlay	1,800	1,790	10	1,343
Total - legal	175,025	165,355	9,670	154,228
Less: Interfund reimbursements	(64,819)	(64,819)	-	(30,110)
Net - legal	110,206	100,536	9,670	124,118
Geographic information systems -				
Salaries and benefits	-	-	-	67,230
Current operating expenditures	-	-	-	6,994
Total - geographic information systems	-	-	-	74,224
Public buildings -				
Salaries and benefits	142,451	143,479	(1,028)	135,329
Current operating expenditures	459,894	446,551	13,343	436,832
Lease purchase	133,200	133,198	2	137,932
Capital outlay	187,551	86,684	100,867	23,062
Total - public buildings	923,096	809,912	113,184	733,155
Public works administration -				
Salaries and benefits	341,143	340,469	674	306,008
Current operating expenditures	22,775	17,248	5,527	19,993
Capital outlay	22,700	17,160	5,540	-
Total - public works administration	386,618	374,877	11,741	326,001
Less: Interfund reimbursements	(228,109)	(228,109)	-	(108,932)
Net - public works administration	158,509	146,768	11,741	217,069
Central mimeograph -				
Current operating expenditures	60,150	53,226	6,924	42,548
Total - central mimeograph	60,150	53,226	6,924	42,548
Less: Interfund reimbursements	(4,792)	(4,792)	-	(2,100)
Net - central mimeograph	55,358	48,434	6,924	40,448
Shop -				
Salaries and benefits	252,391	246,633	5,758	245,023
Current operating expenditures	714,180	691,254	22,926	594,609
Lease purchase	5,050	5,042	8	20,168
Capital outlay	20,200	23,560	(3,360)	29,278
Total Shop	991,821	966,489	25,332	889,078
Less: charges to other departments	(770,000)	(877,398)	107,398	(795,144)
Net - shop	221,821	89,091	132,730	93,934
Beautification -				
Salaries and benefits	219,177	210,471	8,706	188,537
Current operating expenditures	75,628	65,072	10,556	64,093
Capital outlay	52,150	51,666	484	8,581
Total - beautification	346,955	327,209	19,746	261,211
Other appropriations & contingency -				
Associations and memberships	27,561	27,645	(84)	27,313
Regional and community support	44,000	43,846	154	28,000
Economic development	80,245	80,244	1	144,102
Intergovernmental transfers	212,207	134,000	78,207	87,525
Contingency	979	-	979	-
Total - other appropriations	364,992	285,735	79,257	286,940

(Continued)

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (CONTINUED)
For the Year Ended June 30, 2006

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES - (Continued)				
Community development:				
Community development -				
Salaries and benefits	\$ 588,047	\$ 580,519	\$ 7,528	\$ 586,815
Current operating expenditures	95,122	66,597	28,525	60,289
Capital outlay	5,063	5,053	10	4,497
Total - community development	<u>688,232</u>	<u>652,169</u>	<u>36,063</u>	<u>651,601</u>
Code Enforcement -				
Salaries and benefits	204,780	183,774	21,006	169,869
Current operating expenditures	51,320	16,915	34,405	32,024
Capital outlay	-	-	-	22,432
Total - code enforcement	<u>256,100</u>	<u>200,689</u>	<u>55,411</u>	<u>224,325</u>
Downtown / Historic Preservation -				
Salaries and benefits	67,956	67,563	393	64,688
Current operating expenditures	28,597	17,570	11,027	93,459
Total - downtown / historic preservator	<u>96,553</u>	<u>85,133</u>	<u>11,420</u>	<u>158,147</u>
Public safety:				
Police -				
Salaries and benefits	5,366,106	5,180,126	185,980	4,899,064
Current operating expenditures	1,123,811	1,056,829	66,982	952,756
Capital outlay	124,620	84,001	40,619	328,870
Total - police	<u>6,614,537</u>	<u>6,320,956</u>	<u>293,581</u>	<u>6,180,690</u>
Fire -				
Salaries and benefits	2,828,039	2,722,075	105,964	2,685,735
Current operating expenditures	271,554	268,696	2,858	269,332
Lease purchase	82,900	82,874	26	86,989
Capital outlay	42,100	39,455	2,645	225,546
Total - fire	<u>3,224,593</u>	<u>3,113,100</u>	<u>111,493</u>	<u>3,267,602</u>
Inspection -				
Salaries and benefits	393,908	383,182	10,726	378,209
Current operating expenditures	71,300	61,457	9,843	65,315
Capital outlay	20,100	18,878	1,222	-
Total - inspection	<u>485,308</u>	<u>463,517</u>	<u>21,791</u>	<u>443,524</u>
Streets:				
Streets				
Salaries and benefits	712,673	689,099	23,574	685,360
Current operating expenditures	1,759,100	1,613,845	145,255	1,049,016
Lease purchase	147,257	134,985	12,272	140,332
Capital outlay	338,300	330,530	7,770	235,542
Total - streets and sidewalks	<u>2,957,330</u>	<u>2,768,459</u>	<u>188,871</u>	<u>2,110,250</u>

(Continued)

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)	<u>Actual prior year</u>
EXPENDITURES - (Continued)				
Sanitation:				
Refuse -				
Salaries and benefits	\$ 682,778	\$ 645,201	\$ 37,577	\$ 631,931
Current operating expenditures:	314,861	294,087	20,774	280,811
Lease purchase	163,100	135,643	27,457	136,835
Capital outlay	169,793	149,398	20,395	114,331
Total - Refuse	<u>1,330,532</u>	<u>1,224,329</u>	<u>106,203</u>	<u>1,163,908</u>
Sanitation -				
Contracted services	<u>1,150,857</u>	<u>1,137,693</u>	<u>13,164</u>	<u>1,080,549</u>
Total expenditures	<u>20,505,297</u>	<u>19,130,018</u>	<u>1,375,279</u>	<u>18,442,616</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>(987,229)</u>	<u>889,108</u>	<u>1,876,337</u>	<u>1,072,014</u>
OTHER FINANCING SOURCES (USES) -				
Transfers in -				
Special Revenue Func	-	2,681	2,681	-
Transfers out -				
Special Revenue Func	(110,000)	(110,000)	-	(50,000)
Lease-purchase proceeds	165,000	62,374	(102,626)	96,250
Total - other financing sources (uses)	<u>55,000</u>	<u>(44,945)</u>	<u>(99,945)</u>	<u>46,250</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	<u>(932,229)</u>	<u>844,163</u>	<u>1,776,392</u>	<u>1,118,264</u>
APPROPRIATED FUND BALANCE	<u>932,229</u>	<u>-</u>	<u>(932,229)</u>	<u>-</u>
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED FUND BALANCE IN EXCESS OF EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>844,163</u>	<u>\$ 844,163</u>	<u>\$ 1,118,264</u>
SPECIAL ITEM -				
Release of interfund debt		(1,384,762)		
FUND BALANCE, BEGINNING OF YEAR		<u>10,131,623</u>		
FUND BALANCE, END OF YEAR		<u>\$ 9,591,024</u>		

CITY OF SANFORD, NORTH CAROLINA
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2006

	Special Revenue Funds		Total
	Community Development	Central Business Tax District	
ASSETS			
Cash, cash equivalents and investments	\$ 410,717	\$ 160,517	\$ 571,234
Property taxes receivable, net of allowance for uncollectible taxes of \$1,755 for 2006	-	538	538
Due from governmental agencies	8,950	-	8,950
TOTAL	\$ 419,667	\$ 161,055	\$ 580,722
LIABILITIES AND FUND BALANCE			
Liabilities -			
Accounts payable	\$ 6,996	\$ 248	\$ 7,244
Due to other funds	2,426	-	2,426
Deferred revenues	43,515	665	44,180
Total liabilities	52,937	913	53,850
Fund balance -			
Reserved-			
Restricted by state statute	-	-	-
Unreserved -			
Designated - subsequent year's budget	-	143,500	143,500
Undesignated	366,730	16,642	383,372
Total fund balance	366,730	160,142	526,872
TOTAL	\$ 419,667	\$ 161,055	\$ 580,722

CITY OF SANFORD, NORTH CAROLINA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006

	Special Revenue Funds		Total
	Community Development	Central Business Tax District	
REVENUES -			
Ad valorem taxes -			
Current year	\$ -	\$ 56,599	\$ 56,599
Prior years	-	474	474
Intergovernmental revenues -			
State of North Carolina	742,196	-	742,196
Investment income	-	4,758	4,758
Miscellaneous income	23,910	378	24,288
Total revenues	<u>766,106</u>	<u>62,209</u>	<u>828,315</u>
EXPENDITURES -			
Current:			
Downtown Revitalization	-	88,551	88,551
Community Development -			
2002 Community Development Block Grant	475,425	-	475,425
2003 Community Development Block Grant	264,230	-	264,230
Other prior program expenditures	9,201	-	9,201
Total expenditures	<u>748,856</u>	<u>88,551</u>	<u>837,407</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>17,250</u>	<u>(26,342)</u>	<u>(9,092)</u>
OTHER FINANCING SOURCES (USES) -			
Transfers in - General Fund	-	110,000	110,000
Transfers out - General Fund	(2,681)	-	(2,681)
TOTAL OTHER FINANCING SOURCES (USES) -	<u>(2,681)</u>	<u>110,000</u>	<u>107,319</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF EXPENDITURES	14,569	83,658	98,227
FUND BALANCE, BEGINNING OF YEAR	<u>352,161</u>	<u>76,484</u>	<u>428,645</u>
FUND BALANCE, END OF YEAR	<u>\$ 366,730</u>	<u>\$ 160,142</u>	<u>\$ 526,872</u>

CITY OF SANFORD, NORTH CAROLINA
COMMUNITY DEVELOPMENT FUND - SCHEDULE OF PROJECT REVENUES AND EXPENDITURES AND CHANGES II
FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED June 30, 2006

	Program budget	Current year	Prior years	Total to June 30, 2006
REVENUES -				
Intergovernmental revenues				
Transportation Enhancement				
2005 Grant - NC Dept of Transportation, Federal Highway Administration	\$ 150,102	\$ -	\$ -	\$ -
Local funds	37,525	37,525	-	37,525
Total - Transportation Enhancement Grant	187,627	37,525	-	37,525
Single Family Housing Rehabilitation Program				
1999 Grant - North Carolina Housing Finance Agency	300,000	2,681	284,678	287,359
Local funds	25,000	-	25,000	25,000
Total - Single Family Housing Rehabilitation Grant	325,000	2,681	309,678	312,359
2002 Community Development Block Grant				
Grant - Division of Community Assistance, Dept. of Commerce	1,400,000	435,785	832,123	1,267,908
Local funds	200,000	-	200,000	200,000
Total - 2002 Community Development Block Grant	1,600,000	435,785	1,032,123	1,467,908
2003 Community Development Block Grant				
Grant - Division of Community Assistance, Dept. of Commerce	900,000	226,705	97,177	323,882
Total - 2003 Community Development Block Grant	900,000	226,705	97,177	323,882
NC Urgent Repair Program URP06				
Grant - Division of Community Assistance, Dept. of Commerce	75,000	37,500	-	37,500
Local funds	2,000	2,000	-	2,000
Total - NC Urgent Repair Program URP06	77,000	39,500	-	39,500
Miscellaneous				
2004 Historic Preservation Program Income - Land Disposition	8,350	5,000	3,350	8,350
	51,693	18,910	316,673	335,583
TOTAL REVENUES	\$ 3,149,670	\$ 766,106	\$ 1,759,001	\$ 2,525,107
EXPENDITURES -				
Intergovernmental revenues				
Transportation Enhancement				
2005 Grant - NC Dept of Transportation, Federal Highway Administration	\$ 187,627	-	\$ -	\$ -
Total - Transportation Enhancement Grant	187,627	-	-	-
Single Family Housing Rehabilitation Program				
1999 Grant Administration	33,900	-	32,848	32,848
1999 Grant Rehabilitation	291,100	-	276,110	276,110
Transfer to General Fund	-	2,681	-	2,681
Total - Single Family Housing Rehabilitation Grant	325,000	2,681	308,958	311,639
2002 Community Development Block Grant				
Administration	149,025	39,936	102,243	142,179
Salary and wages	6,275	-	5,429	5,429
Travel	300	-	580	580
Departmental supplies	150	-	733	733
Construction	1,244,250	395,820	723,138	1,118,958
Local funds - construction	200,000	39,669	160,331	200,000
Total - 2002 Community Development Block Grant	1,600,000	475,425	992,454	1,467,879

CITY OF SANFORD, NORTH CAROLINA
COMMUNITY DEVELOPMENT FUND - SCHEDULE OF PROJECT REVENUES AND EXPENDITURES AND CHANGES II
FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED June 30, 2006

	Program budget	Current year	Prior years	Total to June 30, 2006
2003 Community Development Block Grant				
Clearance	33,000	-	-	-
Code enforcement	137,966	126,923	11,043	137,966
Historic preservation	317,558	116,884	47,636	164,520
Administration	9,476	113	973	1,086
Pedestrian improvements	402,000	20,310	-	20,310
Total - 2003 Community Development Block Grant	<u>900,000</u>	<u>264,230</u>	<u>59,652</u>	<u>323,882</u>
NC Urgent Repair Program URP06				
Administration	11,400	500	-	500
Rehabilitation	63,600	-	-	-
Local match	2,000	-	-	-
Total - NC Urgent Repair Program URP06	<u>77,000</u>	<u>500</u>	<u>-</u>	<u>500</u>
Other prior program expenditure:				
Historic Preservation	8,350	8,350	-	8,350
Rehabilitation	7,500	-	2,650	2,650
Land Disposition	14,193	351	13,126	13,477
Transfer to Community Development	30,000	-	30,000	30,000
Total - Other prior program expenditure	<u>60,043</u>	<u>8,701</u>	<u>45,776</u>	<u>54,477</u>
TOTAL EXPENDITURES	<u>\$ 3,149,670</u>	<u>751,537</u>	<u>\$ 1,406,840</u>	<u>\$ 2,158,377</u>
INCREASE IN FUND BALANCE		14,569		
FUND BALANCE, BEGINNING OF YEAR		<u>352,161</u>		
FUND BALANCE, END OF YEAR		<u>\$ 366,730</u>		

CITY OF SANFORD, NORTH CAROLINA
CENTRAL BUSINESS TAX DISTRICT FUND - SCHEDULE OF REVENUES AND EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>	<u>Actual prior year</u>
REVENUES -				
Ad valorem taxes -				
Current year	\$ 53,928	\$ 56,599	\$ 2,671	\$ 47,321
Prior year	750	474	(276)	803
Investment income	500	4,758	4,258	2,248
Other	1,800	150	(1,650)	1,875
Penalties and interest	150	228	78	230
Total revenues	<u>57,128</u>	<u>62,209</u>	<u>5,081</u>	<u>52,477</u>
EXPENDITURES -				
Operating expenditures	97,100	77,034	20,066	87,447
Downtown facade reimbursement program	18,400	11,517	6,883	13,356
Capital Outlay	143,500	-	143,500	60,411
Total expenditures	<u>259,000</u>	<u>88,551</u>	<u>170,449</u>	<u>161,214</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>(201,872)</u>	<u>(26,342)</u>	<u>175,530</u>	<u>(108,737)</u>
OTHER FINANCING SOURCES -				
Transfers in - General Fund	110,000	110,000	-	50,000
Total other financing sources	<u>110,000</u>	<u>110,000</u>	<u>-</u>	<u>50,000</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	<u>(91,872)</u>	<u>83,658</u>	<u>175,530</u>	<u>(58,737)</u>
APPROPRIATED FUND BALANCE	<u>91,872</u>	<u>-</u>	<u>(91,872)</u>	<u>-</u>
REVENUES, OTHER FINANCING SOURCES AND AND APPROPRIATED FUND BALANCE IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>83,658</u>	<u>\$ 83,658</u>	<u>(58,737)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>76,484</u>		<u>135,221</u>
FUND BALANCE, END OF YEAR		<u>\$ 160,142</u>		<u>\$ 76,484</u>

CITY OF SANFORD, NORTH CAROLINA
 UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 For the Year Ended June 30, 2006

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
REVENUES -				
User charges -				
Water	\$ 6,832,000	\$ 8,416,152	\$ 1,584,152	\$ 7,531,167
Sewer	5,200,000	5,781,446	581,446	5,714,760
Total user charges	12,032,000	14,197,598	2,165,598	13,245,927
Monitoring fees	87,500	89,496	1,996	88,704
Connection and tap fees	205,500	234,661	29,161	238,369
Sales tax refunds	-	2,873	2,873	9,104
Investment income	175,000	514,909	339,909	237,547
Special assessments	400,000	-	(400,000)	37,170
Other	130,000	542,747	412,747	260,794
Charges to other funds	33,000	34,994	1,994	39,581
Contributions from other agencies	-	5,313	5,313	87,620
TOTAL REVENUES	13,063,000	15,622,591	2,559,591	14,244,816
EXPENDITURES -				
Engineering -				
Salaries and benefits	520,724	428,803	91,921	486,785
Other operating expenditures	39,433	35,434	3,999	42,710
Capital outlay	4,800	4,448	352	10,512
Total - engineering	564,957	468,685	96,272	540,007
Administration -				
Salaries and benefits	367,462	356,268	11,194	333,216
Operating expenditures	217,452	172,915	44,537	220,844
Capital outlay	23,388	20,046	3,342	-
Interfund reimbursement	566,115	566,114	1	269,500
Total - administration	1,174,417	1,115,343	59,074	823,560
Water and sewer lines - maintenance				
Water -				
Salaries and benefits	1,242,153	1,185,363	56,790	1,192,606
Operating expenditures	850,356	807,374	42,982	851,826
Lease payments	44,032	11,052	32,980	-
Capital outlay	217,710	217,184	526	101,121
Total - water	2,354,251	2,220,973	133,278	2,145,553
Sewer -				
Salaries and benefits	490,175	482,269	7,906	436,787
Operating expenditures	506,946	451,898	55,048	378,668
Lease payments	-	-	-	44,622
Capital outlay	150,422	150,216	206	71,414
Total - sewer	1,147,543	1,084,383	63,160	931,491
Water plant operations -				
Salaries and benefits	559,219	528,250	30,969	501,544
Operating expenditures	1,250,062	1,076,833	173,229	969,613
Capital outlay	41,500	39,972	1,528	22,401
Total - water plant operations	1,850,781	1,645,055	205,726	1,493,558
Sewer plant operations -				
Salaries and benefits	660,570	646,947	13,623	621,158
Operating expenditures	805,185	737,517	67,668	741,384
Capital outlay	62,500	55,891	6,609	73,682
Total - sewer plant operations	1,528,255	1,440,355	87,900	1,436,224

(Continued)

CITY OF SANFORD, NORTH CAROLINA
 UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 (CONTINUED)
 For the Year Ended June 30, 2006

	Budget	Actual	Variance favorable (unfavorable)	Actual prior year
EXPENDITURES - (continued)				
Store -				
Salaries and benefits	\$ 39,171	\$ 38,175	\$ 996	\$ 35,883
Purchases and supplies	300,000	297,641	2,359	285,331
Other operating expenditures	7,156	4,102	3,054	17,041
Total - store	346,327	339,918	6,409	338,255
Less charges to other departments	(286,112)	(331,114)	45,002	(309,322)
Net store	60,215	8,804	51,411	28,933
Capital improvements -				
Fees	26,895	9,500	17,395	6,750
Capital outlay	1,610,000	741,789	868,211	8,929,217
Total capital improvements	1,636,895	751,289	885,606	8,935,967
Debt service -				
Interest	1,139,399	1,106,670	32,729	991,084
Installment purchase principa	1,814,020	1,713,721	100,299	1,392,633
Bonds principal	1,210,000	1,210,000	-	1,225,000
State loan principa	97,500	97,500	-	97,500
Total debt service	4,260,919	4,127,891	133,028	3,706,217
TOTAL EXPENDITURES	14,578,233	12,862,778	1,715,455	20,041,510
REVENUES IN EXCESS OF (LESS THAN) EXPENDITURES	(1,515,233)	2,759,813	844,136	(5,796,694)
OTHER FINANCING SOURCES (USES) -				
Transfer out -				
Capital Reserve Fund	(50,000)	-	(50,000)	(50,000)
Contingency	(250,000)	-	(250,000)	-
Installment purchase proceeds	182,000	62,374	(119,626)	7,630,000
Water system purchase and consolidation proceeds	-	-	-	634,104
TOTAL OTHER FINANCING SOURCES (USES)	(118,000)	62,374	(419,626)	8,214,104
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	(1,633,233)	2,822,187	(4,455,420)	2,417,410
APPROPRIATED RETAINED EARNINGS	1,633,233	-	1,633,233	-
REVENUES, OTHER FINANCING SOURCES AND APPROPRIATED RETAINED EARNINGS IN EXCESS OF (LESS THAN) EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 2,822,187	\$ (2,822,187)	\$ 2,417,410

Note: Prepared for comparison with the legally adopted budget

(Continued)

CITY OF SANFORD, NORTH CAROLINA
 UTILITY FUND - SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 (CONTINUED)
 For the Year Ended June 30, 2006

Reconciliation from budgetary basis (modified accrual) to full accrua

Revenues and appropriated fund balance over expenditures	\$ 2,822,187
Reconciling items -	
Capital outlay	1,208,205
Bond principal	1,210,000
State loan principa	97,500
Installment purchase principa	1,713,721
Lease principal	9,914
Bond refunding issuance costs (net)	(71,334)
Depreciation	(2,727,496)
Bad debt allowance	(76,148)
Proceeds from sale of fixed assets	(44,975)
Gain on disposal of fixed assets	8,216
Installment purchase proceeds	(62,374)
Capital contributions	2,141,852
Capitalized interest	336,378
Change in net assets	<u>\$ 6,565,646</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, 2006

	Project budget	Current year	Prior years	Total
REVENUES -				
Grants - State Clean Water Fund	\$ 6,778,000	\$ 115,182	\$ 6,434,438	\$ 6,549,620
Interest income	23,667	71,850	138,745	210,595
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>187,032</u>	<u>6,825,216</u>	<u>7,012,248</u>
EXPENDITURES -				
Water capital project - capital outlay	15,274,467	3,077,711	11,611,326	14,689,037
Sewer capital project - capital outlay	2,971,660	425,439	2,541,586	2,967,025
Total expenditures	<u>18,246,127</u>	<u>3,503,150</u>	<u>14,152,912</u>	<u>17,656,062</u>
REVENUES LESS THAN EXPENDITURES	(11,178,733)	(3,316,118)	(7,327,696)	(10,643,814)
OTHER FINANCING SOURCES (USES) -				
Transfer to utility func	(68,249)	-	-	-
Transfer from utility func	26,000	-	26,000	26,000
Repayment of loan proceeds	(749,018)	(749,018)	-	(749,018)
Installment purchase proceeds	11,970,000	-	11,970,000	11,970,000
Total other financing sources (uses)	<u>11,178,733</u>	<u>(749,018)</u>	<u>11,996,000</u>	<u>11,246,982</u>
REVENUES AND OTHER FINANCING SOURCES IN EXCESS OF (LESS THAN) EXPENDITURES	<u>\$ -</u>	<u>\$ (4,065,136)</u>	<u>\$ 4,668,304</u>	<u>\$ 603,168</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
 For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>	<u>Actual prior year</u>
OPERATING REVENUES -				
Green fees -				
Annual	\$ 125,000	\$ 68,046	\$ (56,954)	\$ 94,919
Daily	159,000	137,725	(21,275)	113,377
Other -				
Cart fees	239,000	166,876	(72,124)	157,906
Tournament fees	14,500	11,555	(2,945)	10,835
Driving range fees	18,000	14,880	(3,120)	13,535
Interest income	1,000	-	(1,000)	-
Other	2,650	15,590	12,940	1,450
TOTAL REVENUES	<u>559,150</u>	<u>414,672</u>	<u>(144,478)</u>	<u>392,022</u>
OPERATING EXPENDITURES -				
Salaries and benefits	373,683	371,533	2,150	353,997
Current operating expenditures	154,054	147,111	6,943	123,617
Debt service-				
Principal	89,500	89,496	4	113,856
Interest	20,120	19,918	202	23,835
TOTAL EXPENDITURES	<u>637,357</u>	<u>628,058</u>	<u>9,299</u>	<u>615,305</u>
OTHER FINANCING SOURCES-				
Loan proceeds - general fund	78,207	-	78,207	46,029
TOTAL OTHER FINANCING SOURCES	<u>78,207</u>	<u>-</u>	<u>78,207</u>	<u>46,029</u>
REVENUES AND OTHER FINANCING SOURCES (USES) LESS THAN EXPENDITURES	<u>\$ -</u>	<u>\$ (213,386)</u>	<u>\$ (213,386)</u>	<u>\$ (177,254)</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	\$ (213,386)
Reconciling items -	
Principal payments on debt	89,496
Proceeds received from sale of assets	(11,950)
Gain on disposal of assets	11,325
Depreciation	(134,172)
Release of interfund debt	1,384,762
Change in net assets	<u>\$1,126,075</u>

CITY OF SANFORD, NORTH CAROLINA AGENCY FUND
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 June 30, 2006

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
FIREMEN'S SUPPLEMENTAL PENSION FUND -				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 340,645	\$ 33,874	\$ -	\$ 374,519
Accounts receivable	22,701	36,483	31,129	28,055
TOTAL	<u>\$ 363,346</u>	<u>\$ 70,357</u>	<u>\$ 31,129</u>	<u>\$ 402,574</u>
<u>LIABILITIES</u>				
Amounts available for benefits	<u>\$ 363,346</u>	<u>\$ 70,357</u>	<u>\$ 31,129</u>	<u>\$ 402,574</u>

CITY OF SANFORD, NORTH CAROLINA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 COMPARATIVE SCHEDULES BY SOURCE
 June 30, 2006 and 2005

	2006	2005
Governmental funds capital assets:		
Land	\$ 3,198,572	\$ 1,425,248
Construction in progress	2,987	42,414
Municipal center and other buildings	9,317,599	9,314,352
Streets	24,658,810	7,458,932
Equipment	8,774,093	3,454,326
Total governmental funds capital assets	<u>\$ 45,952,061</u>	<u>\$ 21,695,272</u>
Investments in governmental funds capital assets by source:		
General fund	\$ 36,873,567	\$ 12,660,328
Special revenue funds	885,205	844,423
Capital project funds	8,142,205	8,142,206
Utility fund	51,084	48,315
Total governmental funds capital assets	<u>\$ 45,952,061</u>	<u>\$ 21,695,272</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, 2006

Function and Activity	Land	Construction in Progress	Municipal Center and Other Buildings	Streets	Equipment	Total
General government:						
Administration	\$ -	\$ -	\$ -	\$ -	\$ 2,540	2,540
Human resources	-	-	-	-	-	-
Finance	-	-	-	-	2,926	2,926
Information systems	-	-	-	-	100,024	100,024
Legal	-	-	-	-	4,024	4,024
Planning	-	-	-	-	-	-
Public buildings	3,198,572	2,987	9,317,599	-	441,082	12,960,240
Public works administration	-	-	-	-	73,794	73,794
Central mimeo	-	-	-	-	20,011	20,011
Beautification	-	-	-	-	102,144	102,144
Shop	-	-	-	-	790,470	790,470
Total general government	<u>3,198,572</u>	<u>2,987</u>	<u>9,317,599</u>	<u>-</u>	<u>1,537,015</u>	<u>14,056,173</u>
Public safety:						
Police	-	-	-	-	2,393,006	2,393,006
Fire	-	-	-	-	1,726,514	1,726,514
Inspections	-	-	-	-	65,098	65,098
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,184,618</u>	<u>4,184,618</u>
Streets	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,658,810</u>	<u>1,787,165</u>	<u>26,445,975</u>
Sanitation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,171,619</u>	<u>1,171,619</u>
Community development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,676</u>	<u>93,676</u>
Total governmental funds capital assets	<u>\$ 3,198,572</u>	<u>\$ 2,987</u>	<u>\$ 9,317,599</u>	<u>\$ 24,658,810</u>	<u>\$ 8,774,093</u>	<u>\$ 45,952,061</u>

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, 2006

Function and Activity	Beginning of Year	Additions / Transfers In	Deductions / Transfers Out	End of Year
General government:				
Administration	\$ 2,540	\$ -	\$ -	\$ 2,540
Human resources	18,184	-	18,184	-
Finance	2,926	-	-	2,926
Information systems	72,191	27,833	-	100,024
Legal	4,024	-	-	4,024
Planning	-	-	-	-
Public buildings	11,149,535	1,861,660	50,955	12,960,240
Public works administration	53,866	19,928	-	73,794
Central mimeo	20,011	-	-	20,011
Beautification	69,302	32,842	-	102,144
Shop	761,855	32,164	3,549	790,470
Total general government	<u>12,154,434</u>	<u>1,974,427</u>	<u>72,688</u>	<u>14,056,173</u>
Public safety:				
Police	2,377,244	37,374	21,612	2,393,006
Fire	1,721,004	18,064	12,554	1,726,514
Inspections	50,745	14,353	-	65,098
	<u>4,148,993</u>	<u>69,791</u>	<u>34,166</u>	<u>4,184,618</u>
Streets	<u>4,161,968</u>	<u>22,284,007</u>	<u>-</u>	<u>26,445,975</u>
Sanitation	<u>1,121,874</u>	<u>148,728</u>	<u>98,983</u>	<u>1,171,619</u>
Community development	<u>108,003</u>	<u>-</u>	<u>14,327</u>	<u>93,676</u>
Total governmental funds capital assets	<u>\$ 21,695,272</u>	<u>\$ 24,476,953</u>	<u>\$ 220,164</u>	<u>\$ 45,952,061</u>

Note: Amounts presented above exclude accumulated depreciation.

CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2006

Fiscal Year	Uncollected Balance June 30, 2005	Additions	Collections And Credits	Uncollected Balance June 30, 2006
2005-2006	\$ -	\$ 10,126,869	\$ 9,797,708	\$ 329,161
2004-2005	357,109	-	201,366	155,743
2003-2004	138,249	-	40,185	98,064
2002-2003	98,498	-	12,846	85,652
2001-2002	47,661	-	3,094	44,567
2000-2001	46,578	-	1,584	44,994
1999-2000	18,700	-	1,023	17,677
1998-1999	22,434	-	540	21,894
1997-1998	19,764	-	1,053	18,711
1996-1997	17,045	-	491	16,554
1995-1996	12,606	-	12,606	-
	<u>\$ 778,644</u>	<u>\$ 10,126,869</u>	<u>\$ 10,072,496</u>	<u>833,017</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>338,505</u>
Ad valorem taxes receivable - net				<u>\$ 494,512</u>
 <u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 10,060,049
Reconciling items:				
Payments in lieu of taxes				(16,181)
Taxes released and written off				<u>28,628</u>
Total collections and credits				<u>\$ 10,072,496</u>

CITY OF SANFORD, NORTH CAROLINA
 SUPPLEMENTAL SCHEDULE OF 2005 TAX LEVY
 June 30, 2006

	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	\$ 1,659,257,313	\$ 9,789,613	\$ 8,790,592	\$ 999,021
Utilities	46,020,518	271,521	271,521	-
Penalties	-	13,421	13,421	-
Subtotal	<u>1,705,277,831</u>	<u>10,074,555</u>	<u>9,075,534</u>	<u>999,021</u>
Add: discoveries and late lists	12,656,437	101,241	101,241	-
Less: abatements	<u>(8,172,088)</u>	<u>(48,927)</u>	<u>(14,402)</u>	<u>(34,525)</u>
TOTAL PROPERTY VALUATION	<u>\$ 1,709,762,180</u>			
Net tax levy		10,126,869	9,162,373	964,496
Uncollected taxes @ 6/30/06		<u>(329,161)</u>	<u>(171,433)</u>	<u>(157,728)</u>
Current year's taxes collected		<u>\$ 9,797,708</u>	<u>\$ 8,990,940</u>	<u>\$ 806,768</u>
COLLECTION PERCENTAGE		<u>96.75%</u>	<u>98.13%</u>	<u>83.65%</u>

CITY OF SANFORD, NORTH CAROLINA
CENTRAL BUSINESS TAX DISTRICT
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2006

Fiscal Year	Uncollected Balance June 30, 2005	Additions	Collections And Credits	Uncollected Balance June 30, 2006
2005-2006	\$ -	\$ 57,708	\$ 56,599	\$ 1,109
2004-2005	722	-	491	231
2003-2004	434	-	109	325
2002-2003	332	-	70	262
2001-2002	77	-	2	75
2000-2001	150	-	19	131
1999-2000	(33)	-	-	(33)
1998-1999	61	-	-	61
1997-1998	101	-	-	101
1996-1997	31	-	-	31
1995-1996	66	-	66	-
	<u>\$ 1,941</u>	<u>\$ 57,708</u>	<u>\$ 57,356</u>	2,293
Less: allowance for uncollectible accounts: Central Business Tax District				1,755
Ad valorem taxes receivable - net				\$ 538
 <u>Reconciliation with revenues:</u>				
Ad valorem taxes - Central Business Tax District				\$ 57,073
Reconciling items:				
Taxes released and written off				283
Total collections and credits				\$ 57,356

CITY OF SANFORD, NORTH CAROLINA
 SUPPLEMENTAL SCHEDULE OF 2005 TAX LEVY
 June 30, 2006

	Central business district		Total levy	
	Property valuations	Total levy	Property excluding motor vehicles	Registered motor vehicles
Tax rate per \$100 value		<u>\$ 0.15</u>		
Regularly listed -				
Real and personal	\$ 38,097,855	\$ 57,065	\$ 54,392	\$ 2,673
Utilities	238,107	357	357	-
Penalties	-	302	302	-
Subtotal	<u>38,335,962</u>	<u>57,724</u>	<u>55,051</u>	<u>2,673</u>
Add: discoveries and late lists	62,892	106	106	-
Less: abatements	<u>(80,390)</u>	<u>(122)</u>	<u>(67)</u>	<u>(55)</u>
TOTAL PROPERTY VALUATION	<u>\$ 38,318,464</u>			
Net tax levy		57,708	55,090	2,618
Uncollected taxes @ 6/30/06		<u>(1,109)</u>	<u>(837)</u>	<u>(272)</u>
Current year's taxes collected		<u>\$ 56,599</u>	<u>\$ 54,253</u>	<u>\$ 2,346</u>
COLLECTION PERCENTAGE		<u>98.08%</u>	<u>98.48%</u>	<u>89.61%</u>

CITY OF SANFORD, NORTH CAROLINA
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS

	Fiscal Year Ended June 30,				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 7,389,070	\$ 7,389,070	\$ 8,375,002	\$ 9,938,162	\$ 23,153,417
Restricted	239,704	239,704	591,238	428,645	526,872
Unrestricted	7,980,276	7,980,276	8,477,234	9,655,990	9,154,808
Total governmental activities net assets	<u>\$ 15,609,050</u>	<u>\$ 15,609,050</u>	<u>\$ 17,443,474</u>	<u>\$ 20,022,797</u>	<u>\$ 32,835,097</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 37,051,638	\$ 37,051,638	\$ 32,823,282	\$ 39,031,667	\$ 47,921,942
Restricted	639,177	639,177	6,940,623	2,509,316	\$ 4,065,136
Unrestricted	9,233,126	9,233,126	10,204,326	14,675,604	\$ 11,921,230
Total business-type activities net assets	<u>\$ 46,923,941</u>	<u>\$ 46,923,941</u>	<u>\$ 49,968,231</u>	<u>\$ 56,216,587</u>	<u>\$ 63,908,308</u>
Primary government					
Invested in capital assets, net of related debt	\$ 44,440,708	\$ 44,440,708	\$ 41,198,284	\$ 48,969,829	\$ 71,075,359
Restricted	878,881	878,881	7,531,861	2,937,961	4,592,008
Unrestricted	17,213,402	17,213,402	18,681,560	24,331,594	21,076,038
Total primary government net assets	<u>\$ 62,532,991</u>	<u>\$ 62,532,991</u>	<u>\$ 67,411,705</u>	<u>\$ 76,239,384</u>	<u>\$ 96,743,405</u>

Note: Information is only available for current year and the four previous fiscal years. Table will be expanded to include 10 years of data as information becomes available.

CITY OF SANFORD, NORTH CAROLINA
 CHANGES IN NET ASSETS, LAST FOUR FISCAL YEARS

	Fiscal Year Ended June 30,			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses				
Governmental activities:				
General government	\$ 3,735,534	\$ 3,490,001	\$ 3,119,589	\$ 3,168,790
Public safety	8,701,819	9,213,129	9,459,227	10,184,773
Streets	1,403,196	1,454,461	1,571,521	1,728,330
Sanitation	1,983,873	2,016,535	2,090,286	2,286,229
Community development	1,347,451	1,307,926	2,277,388	1,779,276
Interest on long-term debt	117,180	112,497	95,916	80,310
Total governmental activities expenses	<u>17,289,053</u>	<u>17,594,549</u>	<u>18,613,927</u>	<u>19,227,708</u>
Business-type activities:				
Utility	9,366,099	10,592,499	10,723,386	11,162,038
Golf	428,026	554,438	637,900	672,734
Total business-type activities expenses	<u>9,794,125</u>	<u>11,146,937</u>	<u>11,361,286</u>	<u>11,834,772</u>
Total primary government expenses	<u>27,083,178</u>	<u>28,741,486</u>	<u>29,975,213</u>	<u>31,062,480</u>
Program Revenues				
Governmental activities:				
Charges for services	2,042,867	2,059,926	1,571,750	2,053,466
Operating grants & contributions	2,104,623	1,040,643	2,696,774	2,907,472
Capital grants & contributions	-	-	-	-
Total governmental activities program revenue	<u>4,147,490</u>	<u>3,100,569</u>	<u>4,268,524</u>	<u>4,960,938</u>
Business-type activities:				
Charges for services	11,267,956	12,921,578	15,033,395	15,465,429
Operating grants & contributions	-	-	-	-
Capital grants & contributions	765,845	1,185,411	2,338,700	2,141,852
Total business-type activities program revenues	<u>12,033,801</u>	<u>14,106,989</u>	<u>17,372,095</u>	<u>17,607,281</u>
Total primary government program revenues	<u>16,181,291</u>	<u>17,207,558</u>	<u>21,640,619</u>	<u>22,568,219</u>
Net (Expense)/Revenue				
Governmental activities	(13,141,563)	(14,493,980)	(14,345,403)	(14,266,770)
Business-type activities	2,239,676	2,960,052	6,010,809	5,772,509
Total primary government net expense	<u>(10,901,887)</u>	<u>(11,533,928)</u>	<u>(8,334,594)</u>	<u>(8,494,261)</u>

CITY OF SANFORD, NORTH CAROLINA
 CHANGES IN NET ASSETS, LAST FOUR FISCAL YEARS - (Continued)

	Fiscal Year Ended June 30,			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Property taxes	\$ 8,903,023	\$ 9,738,025	\$ 9,991,908	\$ 10,260,692
Other taxes	3,585,691	4,183,806	4,418,700	4,742,098
Intergovernmental not restricted	1,110,374	1,414,000	1,986,022	1,234,297
Other	<u>535,146</u>	<u>746,845</u>	<u>528,094</u>	<u>714,619</u>
Total governmental activities	<u>14,134,234</u>	<u>16,082,676</u>	<u>16,924,724</u>	<u>16,951,706</u>
Business-type activities:				
Other	<u>132,554</u>	<u>84,238</u>	<u>237,547</u>	<u>534,450</u>
Total business-type activities	<u>132,554</u>	<u>84,238</u>	<u>237,547</u>	<u>534,450</u>
Total primary government	<u>14,266,788</u>	<u>16,166,914</u>	<u>17,162,271</u>	<u>17,486,156</u>
Special Items:				
Governmental activities - release of interfund debt	-	-	-	(1,384,762)
Business-type activities - release of interfund debt	-	-	-	1,384,762
Change in Net Assets				
Governmental activities	992,671	1,588,696	2,579,321	1,300,174
Business-type activities	<u>2,372,230</u>	<u>3,044,290</u>	<u>6,248,356</u>	<u>7,691,721</u>
Total primary government	<u>\$ 3,364,901</u>	<u>\$ 4,632,986</u>	<u>\$ 8,827,677</u>	<u>\$ 8,991,895</u>

Note: Information is only available for current year and the three previous fiscal years. Table will be expanded to include 10 years of data as information becomes available.

CITY OF SANFORD, NORTH CAROLINA
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS

	Fiscal Year Ended June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 877,879	\$ 1,244,131	\$ 1,200,064	\$ 1,446,584	\$ 1,575,973	\$ 2,133,125	\$ 2,713,211	\$ 2,782,725	\$ 2,819,687	\$ 2,182,683
Unreserved	-	-	4,795,918	5,928,145	6,560,622	5,680,509	5,091,984	6,230,634	7,311,936	7,408,341
Total general fund	<u>\$ 877,879</u>	<u>\$ 1,244,131</u>	<u>\$ 5,995,982</u>	<u>\$ 7,374,729</u>	<u>\$ 8,136,595</u>	<u>\$ 7,813,634</u>	<u>\$ 7,805,195</u>	<u>\$ 9,013,359</u>	<u>\$ 10,131,623</u>	<u>\$ 9,591,024</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 302,595	\$ 134,515	\$ 47,574	\$ -
Unreserved, reported in:										
Designated	375,000	663,686	-	-	-	-	6,800	59,035	33,372	143,500
Undesignated	3,208,518	3,741,893	-	-	-	-	-	-	-	-
Special revenue funds	122,699	144,614	343,937	387,356	309,833	289,814	100,866	397,688	347,699	383,372
Capital project funds	-	-	-	814,329	171,472	(464)	489,964	-	-	-
Total all other governmental funds	<u>\$ 3,706,217</u>	<u>\$ 4,550,193</u>	<u>\$ 343,937</u>	<u>\$ 1,201,685</u>	<u>\$ 481,305</u>	<u>\$ 289,350</u>	<u>\$ 900,225</u>	<u>\$ 591,238</u>	<u>\$ 428,645</u>	<u>\$ 526,872</u>

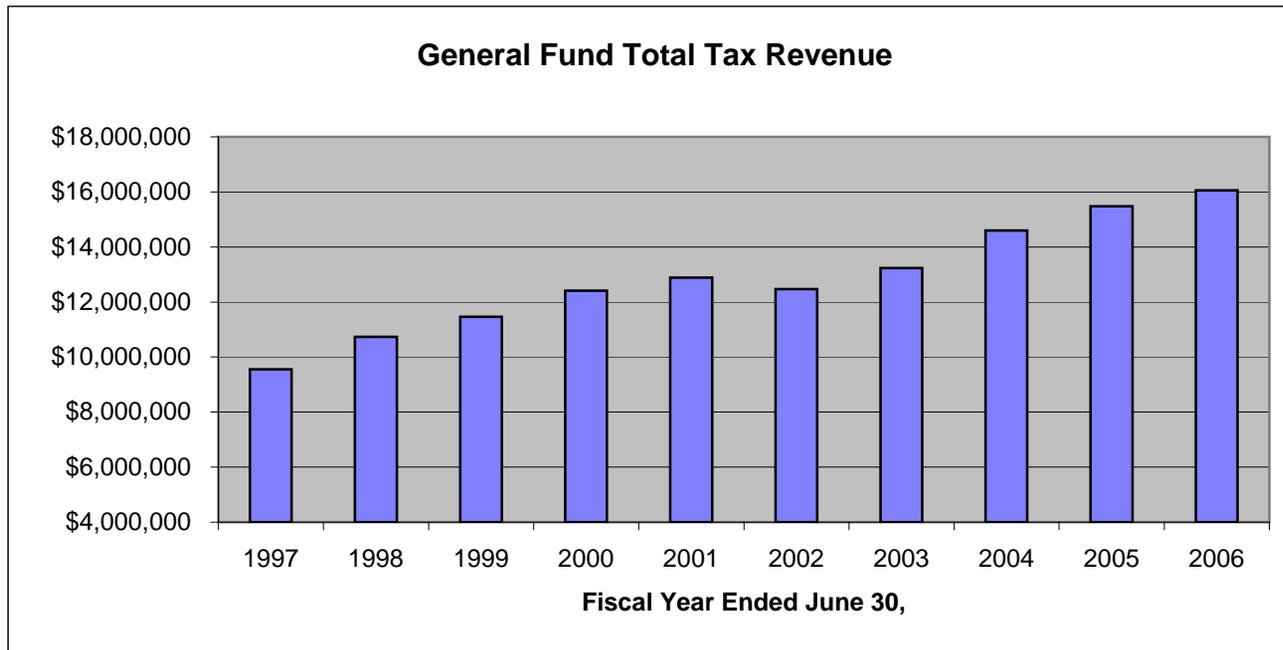
CITY OF SANFORD, NORTH CAROLINA
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST FOUR FISCAL YEARS

	Fiscal Year Ended June 30,			
	2003	2004	2005	2006
Revenues				
Ad valorem taxes	\$ 8,575,100	\$ 9,367,740	\$ 9,930,497	\$ 10,117,122
Other taxes	3,585,691	4,183,806	4,418,700	4,741,988
Penalties and interest	60,790	65,376	61,666	57,315
Licenses and permits	354,198	377,070	369,131	375,724
Intergovernmental revenues	3,557,390	3,085,050	3,646,812	3,667,767
Investment income	120,365	80,613	204,527	363,636
Sales and service	1,020,985	1,133,629	979,711	985,189
Miscellaneous revenues	540,324	725,511	590,866	538,700
Total revenues	17,814,843	19,018,795	20,201,910	20,847,441
Expenditures				
General government	3,202,601	3,206,427	2,936,399	2,803,071
Public safety	8,491,523	8,972,478	9,250,411	9,672,365
Street	1,325,054	1,667,041	1,734,376	2,302,944
Sanitation	1,913,821	1,924,787	1,993,291	2,076,981
Community Development	1,324,782	1,324,715	1,846,606	1,770,345
Capital outlay	1,542,667	822,987	1,059,150	849,977
Debt service				
Interest	117,180	112,497	95,916	80,310
Principal	563,748	538,203	426,340	411,432
Total expenditures	18,481,376	18,569,135	19,342,489	19,967,425
Excess of revenues over (under) expenditures	(666,533)	449,660	859,421	880,016
Other Financing Sources (Uses)				
Transfers in (out)	268,969	-	-	-
Installment purchase contract	1,000,000	92,157	96,250	62,374
Total other financing sources (uses)	1,268,969	92,157	96,250	62,374
Special Item				
Release of interfund debt	-	-	-	(1,384,762)
Net change in fund balances	\$ 602,436	\$ 541,817	\$ 955,671	\$ (442,372)
Debt service as a percentage of noncapital expenditures	4.19%	4.62%	2.94%	2.64%

Note: Information is only available for current year and the three previous fiscal years. Table will be expanded to include 10 years of data as it becomes available.

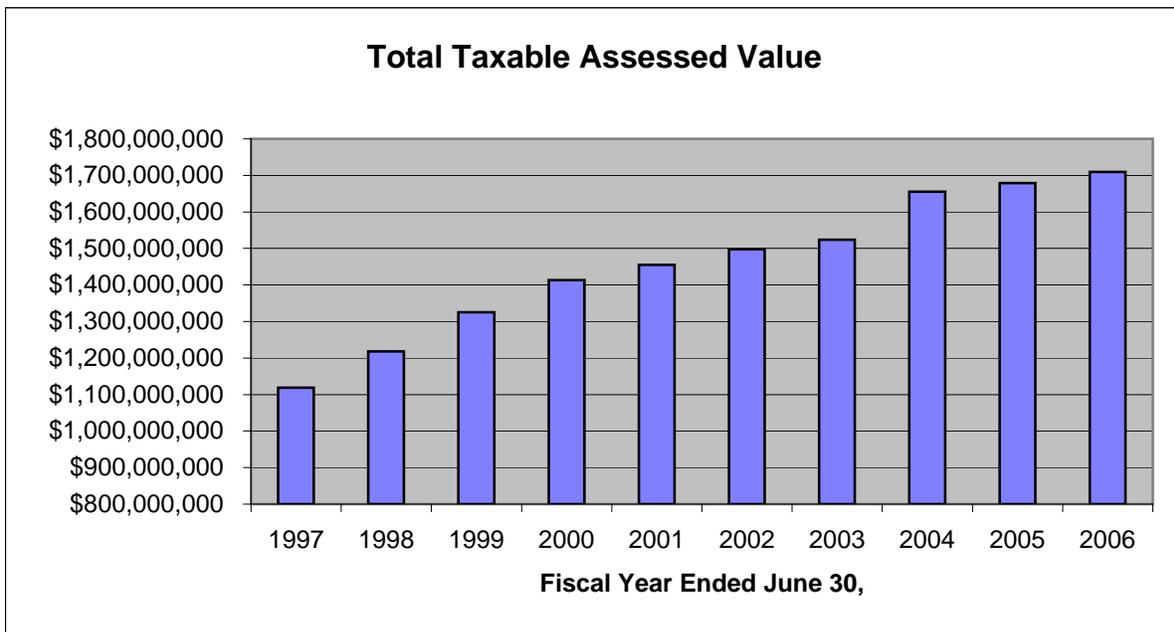
CITY OF SANFORD, NORTH CAROLINA
GENERAL FUND TAX REVENUE BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	Ad valorem taxes	Sales tax	Utility franchise tax	Intangibles personal property tax	Privilege licenses	Wine and beer tax	Assessments	Total
1997	\$ 6,157,364	\$ 2,156,714	\$ 909,146	\$ 246,765	\$ 42,221	\$ 43,656	\$ 578	\$ 9,556,444
1998	7,147,619	2,286,922	892,530	252,983	93,231	43,950	13,719	10,730,954
1999	7,621,761	2,444,907	1,012,524	252,177	82,015	45,451	-	11,458,835
2000	7,869,076	2,959,931	1,168,650	254,421	109,475	47,547	-	12,409,100
2001	8,201,958	3,090,501	1,169,022	246,222	128,055	48,595	-	12,884,353
2002	8,501,515	3,025,002	540,987	247,757	157,405	-	-	12,472,666
2003	8,532,606	3,438,628	1,060,825	-	147,063	49,549	-	13,228,671
2004	9,316,385	4,032,708	1,052,984	-	151,098	50,528	-	14,603,703
2005	9,882,373	4,262,333	1,118,869	-	156,367	52,285	-	15,472,227
2006	10,060,049	4,574,090	1,179,328	-	167,898	52,632	26,641	16,060,638



CITY OF SANFORD, NORTH CAROLINA
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	Real Property	Personal Property	Utilities	Total Taxable Assessed Value	Total Direct Tax Rate	Assessed Value as a Percentage of Actual Value
1997	\$ 748,032,081	\$ 334,910,602	\$ 35,976,355	\$ 1,118,919,038	\$ 0.55	N/A
1998	805,168,617	379,727,329	33,536,308	1,218,432,254	0.55	N/A
1999	863,240,884	421,391,979	41,028,251	1,325,661,114	0.55	N/A
2000	894,016,733	484,591,937	34,834,946	1,413,443,616	0.55	N/A
2001	905,557,937	513,946,981	35,743,656	1,455,248,574	0.57	N/A
2002	939,174,794	518,906,756	39,988,251	1,498,069,801	0.57	N/A
2003	959,056,544	526,922,020	37,788,739	1,523,767,303	0.57	75.25%
2004	1,148,068,689	461,678,958	45,914,539	1,655,662,186	0.56	100.00%
2005	1,175,515,025	456,056,792	47,308,731	1,678,880,548	0.59	95.58%
2006	1,219,464,773	444,276,889	46,020,518	1,709,762,180	0.59	88.75%



CITY OF SANFORD, NORTH CAROLINA
 DIRECT AND OVERLAPPING PROPERTY TAX RATES
 LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	City Direct Rates	Overlapping Rates		Total Direct & Overlappings Rates
	Basic Rate	Central Business Tax District	Lee County	
1997	0.55	0.10	0.68	1.33
1998	0.55	0.10	0.71	1.36
1999	0.55	0.10	0.71	1.36
2000	0.55	0.10	0.75	1.40
2001	0.57	0.10	0.75	1.42
2002	0.57	0.13	0.78	1.48
2003	0.57	0.13	0.78	1.48
2004	0.56	0.13	0.67	1.36
2005	0.59	0.13	0.67	1.39
2006	0.59	0.15	0.79	1.53

Source: Lee County Tax Office

Notes: Overlapping rates are those of local and county governments that apply to property owners within the City of Sanford. Not all overlapping rates apply to all City of Sanford property owners (e.g., the rates for Central Business Tax District apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the Central Business Tax District).

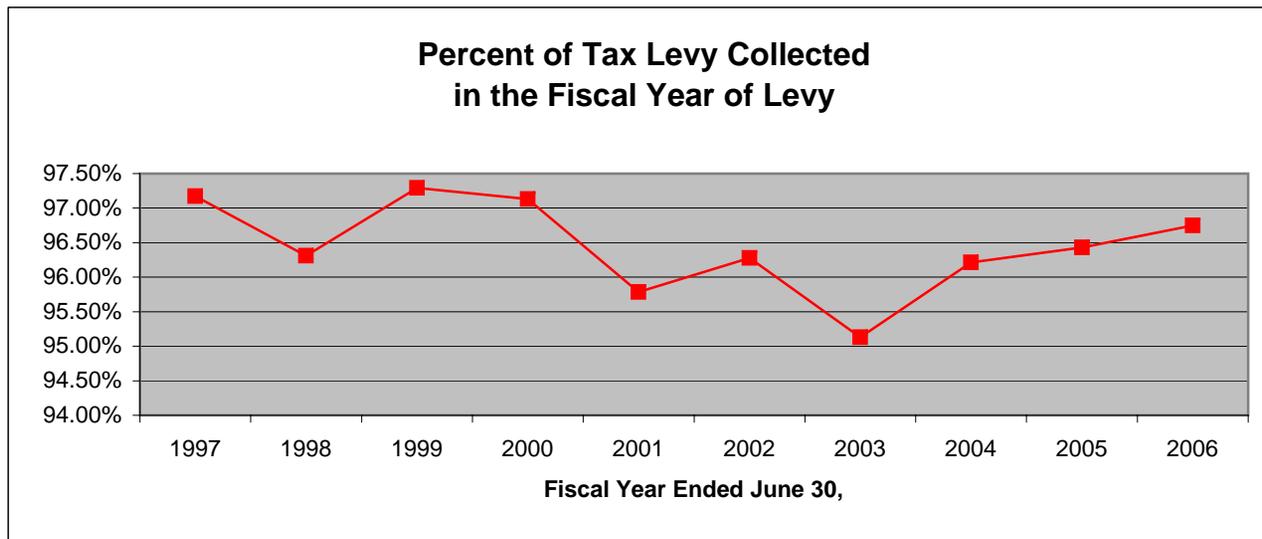
CITY OF SANFORD, NORTH CAROLINA
 PRINCIPAL PROPERTY TAX PAYERS
 JUNE 30, 2006 COMPARED TO JUNE 30, 1997

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Coty, Inc.	\$ 53,628,429	1	3.14%	\$ 28,135,091	3	2.58%
Moen, Inc.	37,566,724	2	2.20%	29,282,545	2	2.69%
Frontier Spinning Mills	35,293,556	3	2.06%	-	-	-
Simpson & Simpson	27,070,040	4	1.58%	-	-	-
Magneti Marelli USA, INC.	26,988,272	5	1.58%	14,068,182	9	1.29%
Alltel Carolina, Inc.	24,029,423	6	1.41%	17,353,818	5	1.59%
AMI/Central Carolina Hospital	20,879,670	7	1.22%	15,262,364	8	1.40%
The Oaks	20,254,000	8	1.18%	-	-	-
Static Control	20,184,330	9	1.18%	-	-	-
Tyson Foods	14,710,291	10	0.86%	-	-	-
Unifi of Sanford	-	-	-	65,070,364	1	5.97%
Sara Lee Knits	-	-	-	19,770,545	4	1.82%
Avondale Mills, Inc.	-	-	-	15,494,364	6	1.42%
American Cyanamid Co./ Lederle	-	-	-	15,320,727	7	1.41%
Carolina Power & Light Co.	-	-	-	8,305,455	10	0.76%
Total	\$ 280,604,735		16.41%	\$ 123,961,455		20.94%

Source: Lee County Tax Office

CITY OF SANFORD, NORTH CAROLINA
 PROPERTY TAX LEVIES AND COLLECTIONS
 LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections of Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 6,199,655	\$ 6,024,370	97.17%	\$ 146,540	\$ 6,170,910	99.54%
1998	7,249,743	6,982,165	96.31%	151,420	7,133,585	98.40%
1999	7,597,874	7,392,033	97.29%	219,604	7,611,637	100.19%
2000	7,995,463	7,766,070	97.13%	115,523	7,881,593	98.58%
2001	8,372,611	8,019,722	95.79%	189,009	8,208,731	98.05%
2002	8,621,779	8,300,886	96.28%	229,987	8,530,873	98.95%
2003	8,699,359	8,275,700	95.13%	299,400	8,575,100	98.57%
2004	9,326,172	8,973,131	96.21%	357,245	9,330,376	100.05%
2005	9,988,773	9,632,089	96.43%	281,872	9,913,961	99.25%
2006	10,126,869	9,797,708	96.75%	274,788	10,072,496	99.46%



CITY OF SANFORD, NORTH CAROLINA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	Governmental Activities					Business-type Activities					Total Government	Percentage of Personal Income	Per Capita Personal Income
	Lease Purchases	Installment Purchases	Compensated Absenses	Pension Obligations	Annexation Liability	General Obligation Bonds	Notes Payable	Lease Purchases	Installment Purchases				
1997	\$ 413,462	\$ 1,512,501	\$ 873,672	\$ -	\$ 132,170	\$ 16,155,039	\$ 756,422	\$ 359,765	\$ 5,024,224	\$ 25,227,255	5.00%	\$ 1,202	
1998	391,385	1,304,349	875,084	-	222,010	14,949,727	623,784	263,197	4,644,027	23,273,563	4.53%	1,082	
1999	353,035	1,085,576	1,083,775	74,366	187,784	13,744,415	1,469,033	179,538	5,793,049	23,970,571	4.33%	1,114	
2000	1,107,584	2,160,632	1,194,616	72,992	89,446	12,539,104	1,797,850	328,577	5,300,296	24,591,097	4.28%	1,102	
2001	934,975	1,828,941	1,216,393	71,494	65,975	11,330,437	2,175,868	425,879	4,784,848	22,834,810	3.67%	979	
2002	719,567	1,516,519	1,005,354	72,912	48,930	10,126,771	2,100,580	306,081	8,887,554	24,784,268	3.92%	1,059	
2003	483,525	2,238,554	-	74,281	34,741	8,938,106	1,927,790	162,760	7,949,962	21,809,719	3.35%	927	
2004	382,526	2,006,004	-	75,591	26,115	7,764,440	1,755,000	184,163	13,982,944	26,176,783	N/A	N/A	
2005	287,928	1,771,461	820,305	76,830	22,522	6,610,774	1,657,500	87,108	20,160,131	31,494,559	N/A	N/A	
2006	176,472	1,534,829	867,319	77,987	21,011	5,472,108	1,560,000	57,612	17,717,482	27,484,820	N/A	N/A	

Note: Details regarding the City's outstanding debt can be found in footnote 9 in the financial statements.
See the schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF SANFORD, NORTH CAROLINA
 RATIOS OF GENERAL BONDED DEBT OUTSTANDING
 LAST TEN FISCAL YEARS

<u>Fiscal Year Ended June 30,</u>	<u>General Obligation Bonds</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
1997	\$ 16,155,039	1.44%	766
1998	14,949,727	1.23%	695
1999	13,744,415	1.04%	639
2000	12,539,104	0.89%	562
2001	11,330,437	0.78%	486
2002	10,126,771	0.68%	433
2003	8,938,106	0.59%	380
2004	7,764,440	0.47%	330
2005	6,610,774	0.39%	277
2006	5,472,108	0.32%	N/A

Note: Details regarding the City's outstanding debt can be found in footnote 9 in the financial statements.
 See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.
 Population data can be found in the Schedule of Demographic and Economic Statistics.

CITY OF SANFORD, NORTH CAROLINA
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 AS OF JUNE 30, 2006

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>*Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
City of Sanford - debt applicable to debt limit	\$ 21,067,406	100%	\$ 21,067,406
Lee County	<u>16,210,000</u>	44%	<u>7,132,400</u>
Total direct and overlapping debt	<u>\$ 37,277,406</u>		<u>\$ 28,199,806</u>

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

CITY OF SANFORD, NORTH CAROLINA
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS

	Fiscal Year Ended June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt Limit	\$ 89,513,523	\$ 97,474,580	\$ 106,052,889	\$ 113,075,489	\$ 116,419,886	\$ 119,845,584	\$ 121,661,384	\$ 131,980,908	\$ 134,310,444	\$ 136,780,974
Total net debt applicable to limit	22,295,450	13,641,496	9,068,015	10,784,385	10,216,486	13,579,231	12,797,332	18,336,752	23,986,650	21,067,406
Legal debt margin	<u>\$ 67,218,073</u>	<u>\$ 83,833,084</u>	<u>\$ 96,984,874</u>	<u>\$ 102,291,104</u>	<u>\$ 106,203,400</u>	<u>\$ 106,266,353</u>	<u>\$ 108,864,052</u>	<u>\$ 113,644,156</u>	<u>\$ 110,323,794</u>	<u>\$ 115,713,568</u>
Total net debt applicable to limit as a percentage of debt limit	24.91%	13.99%	8.55%	9.54%	8.78%	11.33%	10.52%	13.89%	17.86%	15.40%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	\$ 1,709,762,180
Debt limit 8% of assessed value	\$ 136,780,974
Amount of debt applicable to debt limit:	5,472,108
Outstanding debt not evidenced by bonds:	
Notes	1,560,000
Installment purchase contracts	19,252,311
Capital leases	234,084
Annexation liability fire protection	21,011
	<u>26,539,514</u>
Less deduction allowed by G.S. 159.55 (a)(2) and G.S. 159.55(b) utility debt	<u>5,472,108</u>
	<u>21,067,406</u>
Legal Debt Margin	<u>\$ 115,713,568</u>

Note: Under state finance law, the City of Sanford's outstanding general obligation debt should not exceed 8 percent of total assessed property value.
 By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF SANFORD, NORTH CAROLINA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

Calendar Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
1997	21,100	\$ 507,222,900	\$ 24,039	35.44	8,579	4.0%
1998	21,500	513,656,500	23,891	35.64	8,721	3.7%
1999	21,518	553,184,744	25,708	35.79	8,502	3.5%
2000	22,310	574,259,400	25,740	35.94	8,504	3.7%
2001	23,330	622,444,400	26,680	36.01	8,604	6.0%
2002	23,409	631,645,047	26,983	36.07	8,438	7.7%
2003	23,522	650,830,218	27,669	36.13	8,472	6.7%
2004	23,530	N/A	N/A	36.18	8,924	5.8%
2005	23,832	N/A	N/A	36.22	8,958	5.2%
2006	N/A	N/A	N/A	N/A	9,021	5.4%

Sources of Information:

- Population information provided by Office of State Budget and Management
- Personal income provided by Bureau of Economic Analysis (State Library)
- School enrollment provided by Lee County Board of Education
- Unemployment rate provided by Employment Security Commission of North Carolina

CITY OF SANFORD, NORTH CAROLINA
 PRINCIPAL EMPLOYERS
 CURRENT YEAR

Employer	2006		Percentage of Total Lee County Employment
	Employees	Rank	
Static Control	1,400	1	5.54%
Coty	750	2	2.97%
Moen	725	3	2.87%
Magnetti Marelli	585	4	2.31%
Tyson	460	5	1.82%
Pentair Water, Pool & Spa	420	6	1.66%
Arden Companies	384	7	1.52%
Frontier Spinning	345	8	1.37%
Parkdale Mills	220	9	0.87%
National Textiles	165	10	0.65%
Total	<u>5,454</u>		<u>21.58%</u>

Source: Lee County Economic Development

Note: Information is only available for current year. Table will be expanded to include 10 years of data as information becomes available.

CITY OF SANFORD, NORTH CAROLINA
 FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS

Full-time-Equivalent Employees as of June 30,

<u>Function/Program</u>	<u>2006</u>
General Government	37
Public Safety	
Police Officers	74
Police Civilians	19
Firefighters and Officers	51
Fire Civilians	1
Inspections	8
Streets	18
Sanitation	17
Community Development	14
Golf	4
Utility	<u>78</u>
Total	321

Note: Information is only available for current year. Table will be expanded to include 10 years of data as information becomes available.

CITY OF SANFORD, NORTH CAROLINA
 OPERATING INDICATORS BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS

Function/Program	Fiscal Year Ended June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Physical arrests	N/A	N/A	N/A	N/A	N/A	1,411	1,552	1,672	1,771	1,619
Parking violations	N/A	N/A	N/A	N/A	N/A	664	442	400	819	1,176
Traffic violations	N/A	N/A	N/A	N/A	N/A	8,942	6,807	7,316	10,638	8,627
Fire										
Emergency responses	N/A	N/A	N/A	629	902	1,014	813	845	809	846
Fires extinguished	N/A	N/A	N/A	123	163	165	117	124	122	112
Inspections	N/A	N/A	N/A	126	196	474	411	671	505	1,152
Inspections										
Building permits issued	391	565	372	442	370	369	372	376	767	771
Building inspections conducted	N/A	N/A	N/A	N/A	N/A	N/A	7,750	9,446	9,293	10,561
Street										
Street resurfacing (miles)	5.32	5.27	3.25	4.80	2.37	3.93	21.45	5.86	7.51	7.55
Refuse collection										
Refuse collected (tons per day)	10.35	18.90	20.34	25.75	26.80	26.72	23.70	37.31	35.17	32.17
Utility										
New Water connections	N/A	N/A	N/A	N/A	N/A	546	58	309	4,258	401
Water main breaks	53	70	70	112	87	83	93	107	142	96
Average daily consumption	N/A	N/A	N/A	N/A	N/A	538,462	576,756	585,231	581,106	550,578
Golf										
Rounds	N/A	N/A	28,681	28,250	27,603	17,148	14,581	20,658	21,807	25,023

CITY OF SANFORD, NORTH CAROLINA
 OPERATING INDICATORS BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS

<u>Function/Program</u>	<u>Fiscal Year Ended June 30,</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	3	3	3	3	3	3	3	3	3	3
Refuse collection										
Collection trucks	7	7	8	8	9	9	9	9	10	10
Streets										
Streets (miles)	112.94	113.89	114.32	115.36	115.67	118.13	119.88	124.87	126.02	128.46
Water										
Water mains (miles)	238.50	242.00	243.00	246.00	251.00	254.00	271.00	276.00	547.00	553.00
Firehydrants	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1441
Storage capacity (thousands of gallons)	4800	4800	4800	5000	5000	5000	5000	5000	5500	5500
Sewer										
Sanitary sewers (miles)	166.00	168.00	168.00	172.00	173.00	175.40	175.40	179.00	184.00	187.00
Golf										
Courses	1	1	1	1	1	1	1	1	1	1

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Honorable Mayor and
the Members of the 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 aggregated remaining fund information of the City of Sanford, North Carolina, as of and for the year ended June 30, 2006, which collectively comprises the City's basic financial statements and have issued our report thereon dated September 1, 2006. We did not audit the financial statements of the City of Sanford ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Sanford ABC Board, is based on the report of the other auditors. 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sanford, North Carolina'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 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. We noted certain matters that we reported to management of the City of Sanford in a separate letter dated September 1, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sanford, North Carolina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

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

McGladrey & Pullen, LLP

Greensboro, North Carolina
September 1, 2006

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Compliance With Requirements Applicable
to its Major Federal Program and Internal Control
Over Compliance in Accordance With Applicable Sections
of OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and
the Members of the City Council
City of Sanford
Sanford, North Carolina

Compliance

We have audited the compliance of the City of Sanford, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major federal programs for the year ended June 30, 2006. The City of Sanford's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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; applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major 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 programs for the year ended June 30, 2006.

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 a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of 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 consider to be material weaknesses.

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

McGladrey & Pullen, LLP

Greensboro, North Carolina
September 1, 2006

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Compliance With Requirements Applicable
to its Major State Program and Internal Control
Over Compliance in Accordance With OMB Circular A-133
and the State Single Audit Implementation Act**

To the Honorable Mayor and
the Members of the 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 *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2006. The City of Sanford's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State program 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 program for the year ended June 30, 2006.

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 consider to be material weaknesses.

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

McGladrey & Pullen, LLP

Greensboro, North Carolina
September 1, 2006

CITY OF SANFORD, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Award

Internal control over major federal program:

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

Type of auditor's report issued on compliance for major federal program: Unqualified

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

Identification of major federal program:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
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 No

(Continued)

CITY OF SANFORD, NORTH CAROLINA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2006**

There were no prior audit findings.

CITY OF SANFORD, NORTH CAROLINA

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2006**

(1) General

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the City of Sanford, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Implementation Act*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF SANFORD, NORTH CAROLINA
 SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 June 30, 2006

<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>				
2005 JAG Grant	16.738	DJ-BX-00425	\$ 20,278	\$ -
Local Law Enforcement Block Grant	16.592	LB-BX-1413	3,425	-
Local Law Enforcement Block Grant	16.592	LB-BX-2147	46	-
Asset Forfeiture and Money Laundering Section Federal Equitable Sharing Program	16	NC0530100	16,670	19,680
<u>U.S. Department of Housing and Urban Development</u>				
Passed-through N.C. Department of Commerce- Community Development Block Grant	14.228	05-C-1433	217,921	-
Community Development Block Grant	14.228	04-C-1277	217,835	-
Community Development Block Grant	14.228	03-U-1163	264,230	-
<u>U.S. Department of Interior, National Park Service</u>				
Passed-through N.C. Department of Cultural Resources- Endor Furnace Grant	15.904	HPF	<u>8,350</u>	-
Total Federal Assistance			<u>\$ 748,755</u>	
State Grants:				
<u>N.C. Department of Environment and Natural Resources</u>				
Effluent Re-Use Irrigation Project	N/A	E-SRG-T-00-0102	-	142,983
<u>N.C. Housing Finance Agency</u>				
Urgent Repair Program	N/A	URP06	-	500
<u>N.C. Department of Transportation</u>				
Powell Bill Funds	N/A	N/A	-	<u>768,240</u>
Total State Assistance				<u>\$ 931,403</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.

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