

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

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PO Box 3729
Sanford, NC 27331-3729

City of Sanford

(919) 775-8202

September 30, 2005

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

The Comprehensive Annual Financial Report of the City of Sanford, North Carolina, for the year ended June 30, 2005 submitted herewith in compliance with North Carolina General Statutes Section 159-34 which requires an annual independent audit and report on the financial activity of the City. This report is composed of four major sections. The introductory section includes the letter of transmittal. The financial section includes the auditors' opinion, management's discussion and analysis, financial statements, footnotes, combining and individual fund statements. The statistical section includes various tables reflecting the social and economic information, financial trends and fiscal capacity of the City.

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

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

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

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

Profile of the Government

The City of Sanford is the county seat of Lee County and is located in the central piedmont area of North Carolina. The City was incorporated in 1874 and presently has a land area of 25.29 square miles and a population of 23,832. The City is empowered to levy a property tax on both real and personal property located within its boundaries. Lee County is the only overlapping governmental unit which has the authority to levy a tax. The City has the power by statute to extend its corporate limits by annexation which is done periodically when deemed appropriate by the Council.

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

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

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

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

Factors Affecting Financial Condition

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

Cash temporarily idle during the year was invested in interest bearing demand deposits, certificates of deposit, treasuries and agencies, commercial paper and the North Carolina Capital Management Trust. Total interest amounted to \$442,074 and was the equivalent of 2.6 cents on the City tax rate. When compared to the prior fiscal year, this represents an increase in investment earnings of \$277,223.

Risk Management - The City has had an awareness of risk management concepts and considerations for a number of years. The infrastructure and facilities have been constructed with a keen regard for safety and limitation of municipal liability. The City's internal systems and procedures have been developed in accordance with the highest risk management standards and principles. A Risk Management Office was established in fiscal year 94/95. The Risk Management Officer is responsible for the administration of the following programs on a daily basis; Liability Insurance, Health & Safety, and Workers Compensation. Deductibles are routinely analyzed and raised when doing so appears favorable for the City.

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

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

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

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

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

Independent Audit

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

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sanford, North Carolina, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The City has received the award every year since 1981.

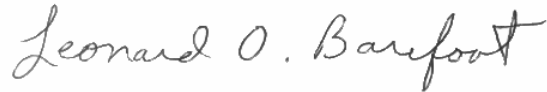
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal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

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

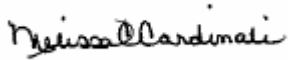
Acknowledgments

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Leonard O. Barefoot".

Leonard O. Barefoot
City Manager

A handwritten signature in cursive script that reads "Melissa C. Cardinali".

Melissa C. Cardinali
Financial Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sanford,
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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



Nancy L. Zelle

President

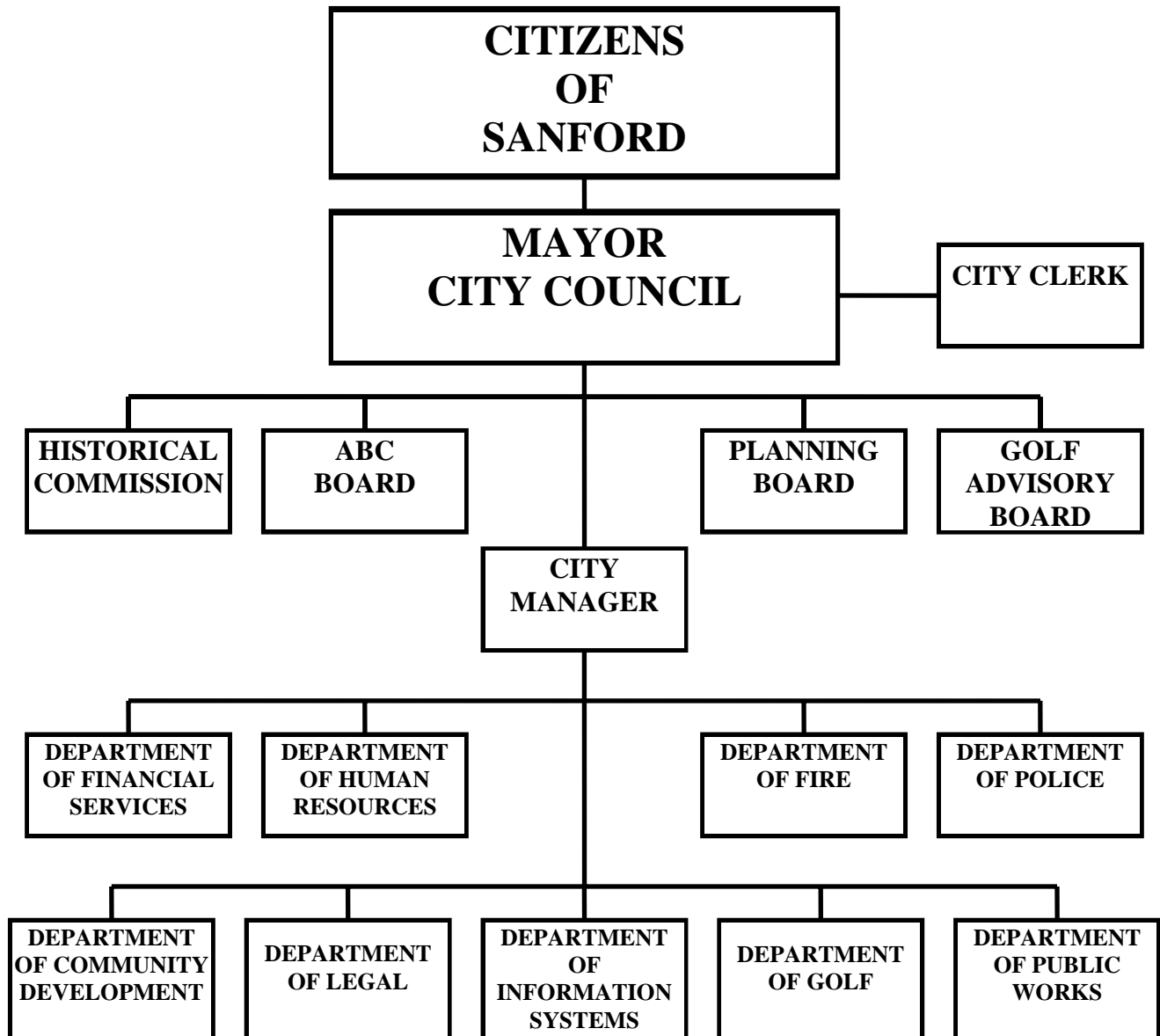
Jeffrey R. Enos

Executive Director

CITY OF SANFORD



ORGANIZATIONAL CHART





DIXON HUGHES PLLC
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the respective budgetary comparison for the general fund of the City of Sanford, North Carolina, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sanford's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Sanford ABC Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sanford, North Carolina, as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Sanford, North Carolina, taken as a whole. The introductory information, combining and individual fund financial statements and schedules and the statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 30, 2005
Sanford, North Carolina

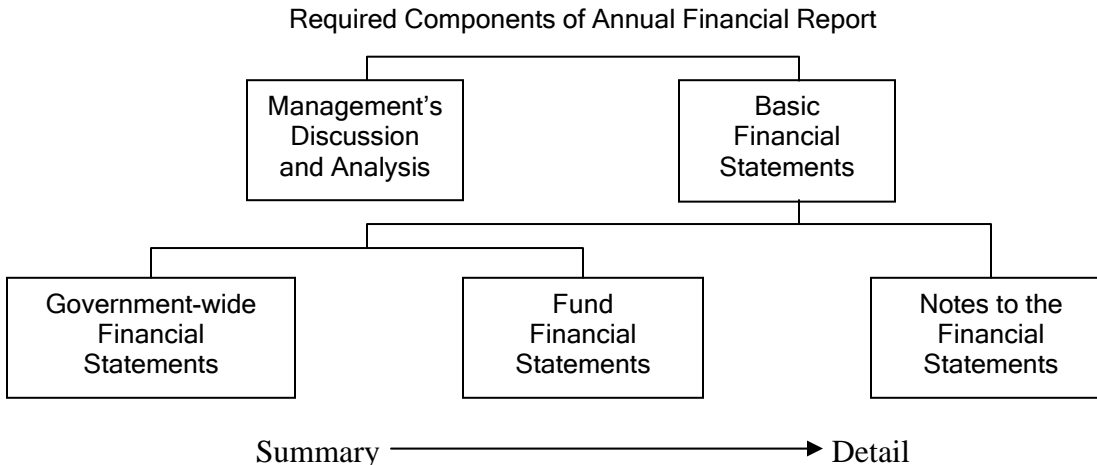
As management of the City of Sanford, we offer readers of the City of Sanford's financial statements this narrative overview and analysis of the financial activities of the City of Sanford for the fiscal year ended June 30, 2005. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Sanford exceeded its liabilities at the close of the fiscal year by \$76,239,384 (net assets).
- The government's total net assets increased by \$8,827,677, primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the City of Sanford's governmental funds reported combined ending fund balances of \$10,560,268 an increase of \$955,671 in comparison with the prior year. Of this total amount, 72.9% or \$7,693,007, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,311,936, or 39.6% of total general fund expenditures for the fiscal year.
- The City of Sanford's total debt increased by \$4,496,232 (17.2%) during the current fiscal year. The City entered a \$6,830,000 installment purchase agreement to purchase the Lee County Water District water system. This purchase consolidates the City and County systems into one utility system. In addition, the City retired approximately \$3,230,018 in debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Sanford's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Sanford.



Basic Financial Statements

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

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

Proprietary Funds - The City of Sanford has one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. City of Sanford uses enterprise funds to account for its water and sewer activity and for its golf course operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

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

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 30-53 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Sanford's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 54 of this report.

Government-Wide Financial Analysis

The City of Sanford's Net Assets

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

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. In the case of the City of Sanford, assets exceeded liabilities by \$76,239,384 as of June 30, 2005. The City's net assets increased by \$8,827,679 for the fiscal year ended June 30, 2005. However, the largest portion of net assets (64.2%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Sanford uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Sanford's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Sanford's net assets (3.9 %) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24,331,594 is unrestricted.

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

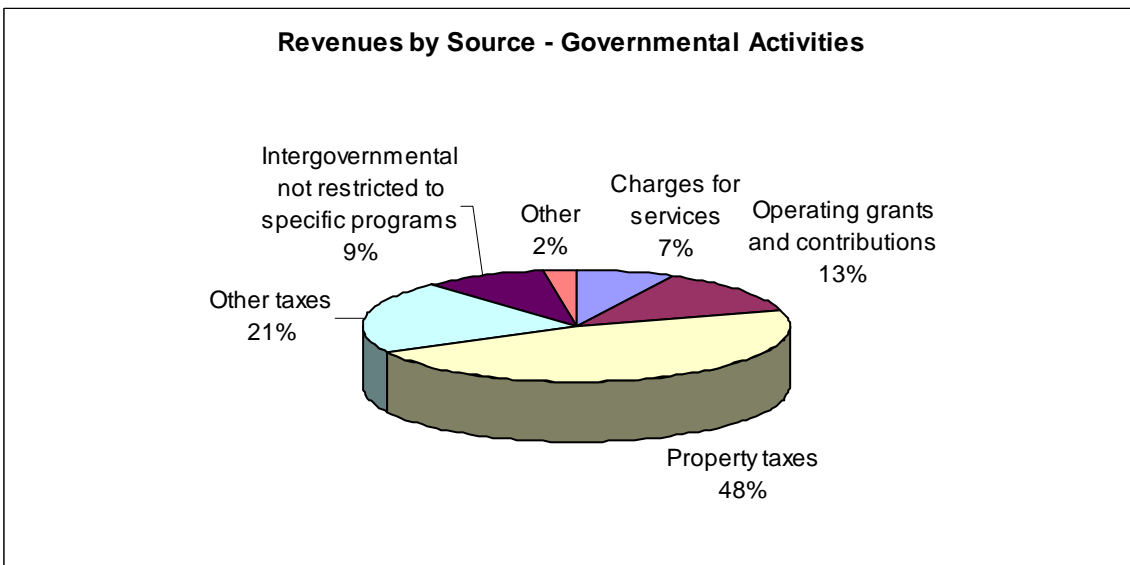
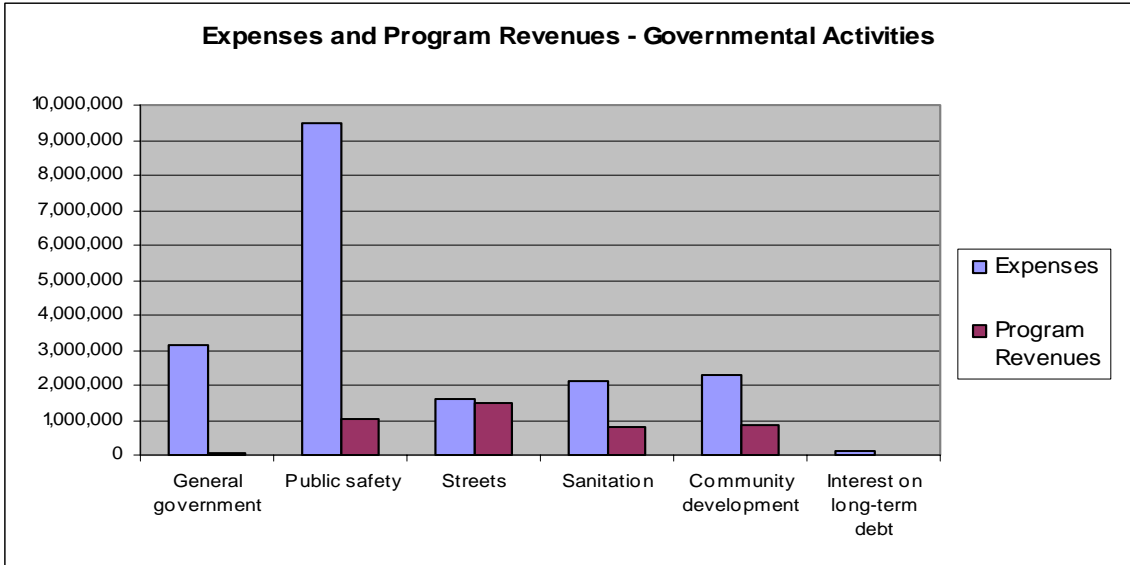
- Consistent collection of property taxes resulting in a tax collection percentage of 96.41%.
- Increased sales tax revenue of \$229,625 due to a continued strong local economy.

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

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

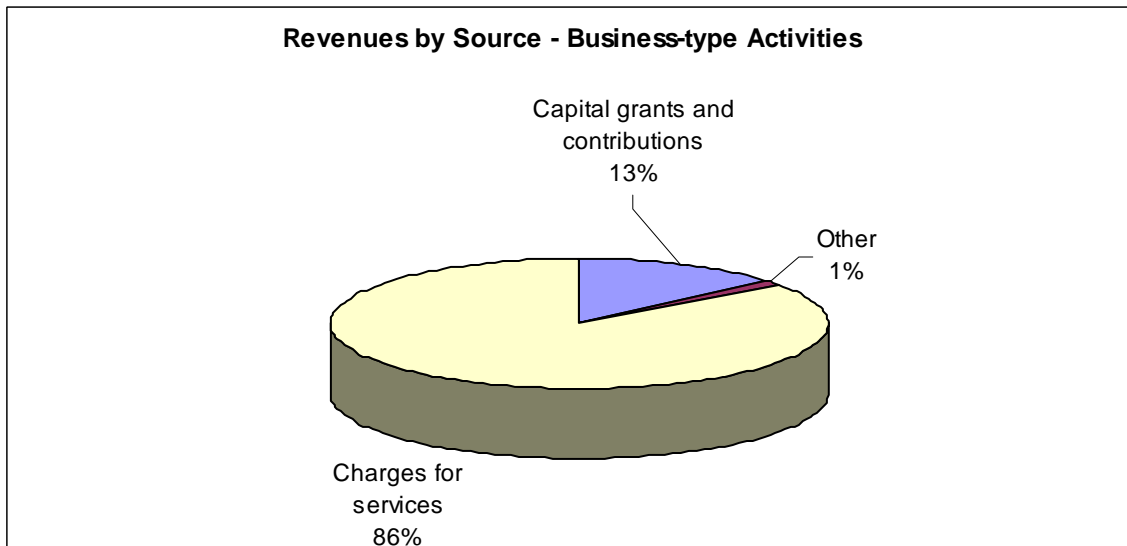
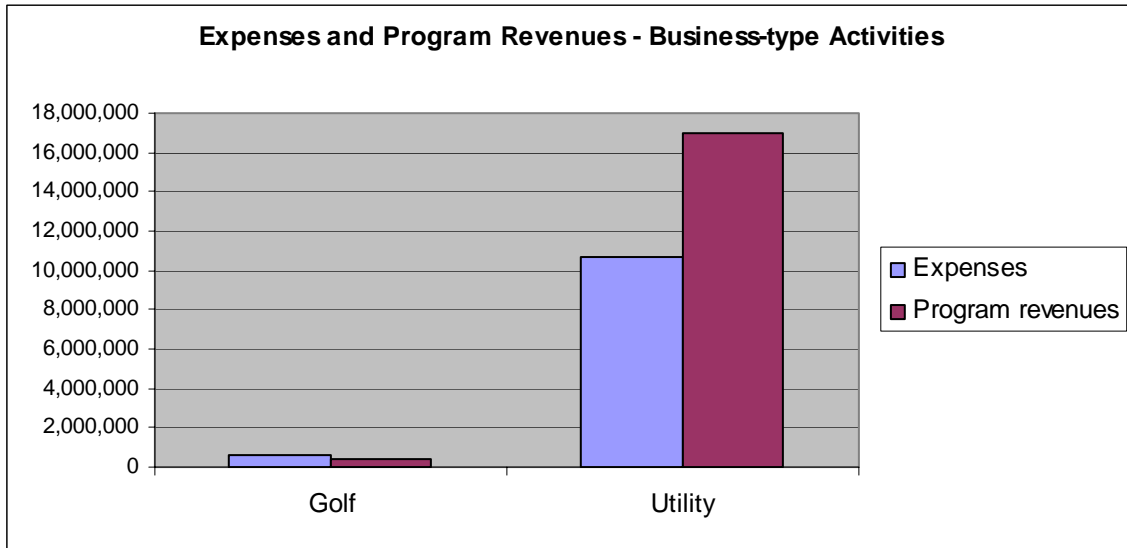
Governmental activities. Governmental activities increased the City's net assets by \$2,579,321, thereby accounting for 29.2% of the total growth in the net assets of the City of Sanford. Key elements of this increase are as follows:

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



Business-type activities: Business-type activities increased the City of Sanford's net assets by \$6,248,356, accounting for 70.8% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Charges for services increased as a result of the purchase of the Lee County water district system and the addition of more than 4,000 customers.
- Capital contributions by developers increased.



Financial Analysis of the City's Funds

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

Governmental Funds. The focus of the City of Sanford's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Sanford's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Sanford. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,311,936, while total fund balance reached \$10,131,623. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 39.6 percent of total General Fund expenditures, while total fund balance represents 54.8 percent of that same amount.

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

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

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

Revenues exceeded budgeted amounts primarily because of increased property tax and sales tax collections. Expenditures were less than budgeted amounts in all areas, allowing the City to comply with its budgetary requirements.

Proprietary Funds. The City of Sanford's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$14,901,892, and a deficit for the Golf Fund of (\$226,288). The total growth in net assets for the Utility Fund was \$6,494,234 with a decrease in Golf Fund net assets of \$245,878. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Sanford's business-type activities.

Capital Asset and Debt Administration

Capital assets. The City of Sanford's investment in capital assets for its governmental and business-type activities as of June 30, 2005, totals \$81,681,982, (net of accumulated depreciation). These assets include buildings, roads and bridges, land, treatment plants, utility lines, machinery and equipment, golf facilities, and vehicles.

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

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

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

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

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

Long-term Debt. As of June 30, 2005, the City of Sanford had total bonded debt outstanding of \$6,610,774. This debt is backed by the full faith and credit of the City. The remainder of the City's debt represents notes payable, lease purchase agreements and installment purchase agreements.

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

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

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

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

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Sanford is \$110,323,794. Additional information regarding the City of Sanford's long-term debt can be found in note 9, beginning on page 42, of the Basic Financial Statements.

Economic Factors and Next Year's Budget and Rates

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

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

Budget Highlights for the Fiscal Year Ending June 30, 2006

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

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

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Financial Services Director, City of Sanford, P.O. Box 3729, Sanford, NC 27331-3729.

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

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

See notes to financial statements

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

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

See notes to financial statements.

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

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

See notes to financial statements.