

Management's Discussion and Analysis

As management of the County of Cumberland, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County of Cumberland 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 County's financial statements, which follow this narrative.

Financial Highlights

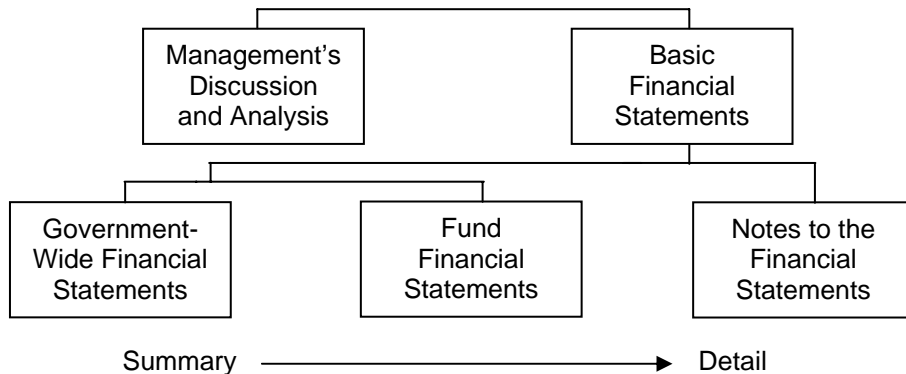
- The assets of the County of Cumberland exceeded its liabilities at the close of the fiscal year by \$122,977,535 (*net assets*). In accordance with North Carolina law, liabilities of the county include approximately \$106,990,000 in long-term debt associated with assets belonging to the Cumberland County Board of Education and Fayetteville Technical Community College. As these assets are not reflected in the County's financial statements and the full amount of the long-term debt is reflected in the County's financial statements, the County reports a corresponding lower net asset amount.
- The government's total net assets increased by \$19,918,611 (19.33%), primarily due to increased ad valorem tax collections and sales tax receipts and capitalization of water & sewer projects.
- As of the close of the current fiscal year, the County of Cumberland's governmental funds reported combined ending fund balances of \$126,888,959 an increase of \$7,752,151 from the prior year. Approximately 75.51 percent of this total amount, or \$95,812,742, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, undesignated and designated fund balance for the General Fund was \$63,858,869 or 23.58 percent of total general fund expenditures including transfers for the fiscal year. Of this amount, \$27,301,498 has been designated for subsequent year's expenditures and other purposes leaving \$36,557,371 or 13.50 percent of total general fund expenditures as undesignated.
- The County of Cumberland's total debt decreased by \$2,263,106 (.92%) during the current fiscal year. This decrease was due to a combination of paying down existing debt and the issuance and refunding of other debt.
- Recently, both Standard and Poor's Rating Group and Moody's Investor Service reaffirmed the County's bond rating of AA- and Aa3, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Cumberland's basic financial statements. The County'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 County 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 County of Cumberland.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages D-1 and D-2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements (pages E-1 through E-10) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County'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 County's non-major governmental funds and internal service funds, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Following the notes is the required supplemental information. This section contains funding information about the County's pension plans.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County'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 County's financial status as a whole.

The two government-wide statements report the County's net assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to evaluate the County'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 County's basic services such as general government, public safety, economic and physical development, human services, cultural and recreational, and education. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include Solid Waste Management, Cumberland County Crown Complex, Kelly Hills and NORCRESS Water and Sewer Districts and other proprietary funds. The final category is component units. The Cumberland County Hospital System, Inc. is a public hospital operated by a not-for-profit corporation. The County appoints the board of trustees for the Health System and has issued debt on its behalf. Although legally separate from the County, the Cumberland County ABC Board is important to the County because the County is financially accountable for the Board by appointing its members and because the Board is required to distribute its profits to the County. The Eastover Sanitary District, although legally separate, is included because exclusion would be misleading to the reporting unit. The Fayetteville Area Convention and Visitors Bureau is a non-profit organization that provides services to promote the development and expansion of travel and tourism. A voting majority of the bureau's 11-member board of directors is appointed by the County.

Fund Financial Statements

The fund financial statements provide a more detailed look at the County'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 County of Cumberland, 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 County's budget ordinance. All of the funds of the County of Cumberland 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 County's basic services are accounted for in

governmental funds. These funds focus on how assets can readily be converted into cash and the amount of funds 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*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County'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 County of Cumberland 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 County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County 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 Statement of Revenues, Expenditures, and Changes in Fund Balance. 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statements.

Proprietary Funds – The County of Cumberland has two types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The County of Cumberland uses enterprise funds to account for its Crown Center Complex activity, Solid Waste operations, and two water and sewer districts. *Internal Service Funds* account for the financing of services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The County has four Internal Service Funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The County of Cumberland has six fiduciary funds, one of which is a pension trust fund and five of which are agency 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 start on page F-1 of this report.

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

Government-Wide Financial Analysis

The County of Cumberland is in its fourth year of financial reporting based on the requirements of GASB 34. Prior to fiscal year 2002, the County of Cumberland maintained governmental, proprietary, and fiduciary fund groups as separate and very distinct types of accounting without any type of consolidated statement that reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the County. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Government Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the County of Cumberland's financial reports as well as those of other units of government.

The County of Cumberland's Net Assets

Figure 2

	Government Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other	\$ 160,065,301	\$ 151,818,976	\$ 34,084,365	\$ 28,247,309	\$ 194,149,666	\$ 180,066,285
Capital	<u>127,856,227</u>	<u>126,534,553</u>	<u>77,691,114</u>	<u>69,662,512</u>	<u>205,547,341</u>	<u>196,197,065</u>
Total assets	<u>287,921,528</u>	<u>278,353,529</u>	<u>111,775,479</u>	<u>97,909,821</u>	<u>\$ 399,697,007</u>	<u>\$ 376,263,350</u>
Liabilities						
Long-term outstanding	196,242,069	198,326,022	54,187,628	49,120,590	250,429,697	247,446,612
Other	<u>23,368,650</u>	<u>18,467,586</u>	<u>2,921,125</u>	<u>7,290,228</u>	<u>26,289,775</u>	<u>25,757,814</u>
Total liabilities	<u>219,610,719</u>	<u>216,793,608</u>	<u>57,108,753</u>	<u>56,410,818</u>	<u>276,719,472</u>	<u>273,204,426</u>
Net assets:						
Invested in capital, net of related debt	13,374,791	30,253,418	29,393,382	20,708,795	42,768,173	50,962,213
Restricted	35,261,376	26,985,138	1,432,349	1,489,089	36,693,725	28,474,227
Unrestricted	<u>19,674,642</u>	<u>4,321,365</u>	<u>23,840,995</u>	<u>19,301,119</u>	<u>43,515,637</u>	<u>23,622,484</u>
Total net assets	<u>\$ 68,310,809</u>	<u>\$ 61,559,921</u>	<u>\$ 54,666,726</u>	<u>\$ 41,499,003</u>	<u>\$ 122,977,535</u>	<u>\$ 103,058,924</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the County of Cumberland exceeded liabilities by \$122,977,535 as of June 30, 2005. The County's net assets increased by \$19,918,611 for the fiscal year ended June 30, 2005. Of total net assets, one of the largest portions \$42,768,173 (34.78%), reflects the County'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 County of Cumberland uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County'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 County of Cumberland's net assets, \$36,693,725 (29.84%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$43,515,637 (35.39%) may be used to meet the County's ongoing obligations to citizens and creditors.

As with many counties in the State of North Carolina, the County's *unrestricted net assets*, is low due primarily to the portion of the County's outstanding debt incurred for the County Board of Education (the "school system") and Fayetteville Technical Community College (FTCC). Under North Carolina law, the County is responsible for providing capital funding for the school systems. The County has chosen to meet its legal obligation to provide the school systems capital funding by using a mixture of County funds and general obligation debt. The assets funded by the County; however, are owned and utilized by the school systems. Since the County, as the issuing government, acquires no capital assets, the County has incurred a liability without a corresponding increase in assets. At the end of the fiscal year, approximately \$106,990,000 of the outstanding debt on the County's financial statements was related to assets included in the school systems' financial statements. However, since the majority of the school systems related debt is general obligation debt; it is collateralized by the full faith, credit, and taxing power of the County. Accordingly, the County is authorized and required by State law to levy ad valorem taxes, without limit as to rate or amount, as may be necessary to pay the debt service on its general obligation bonds. Principal and interest requirements will be provided by an appropriation in the year in which they become due.

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

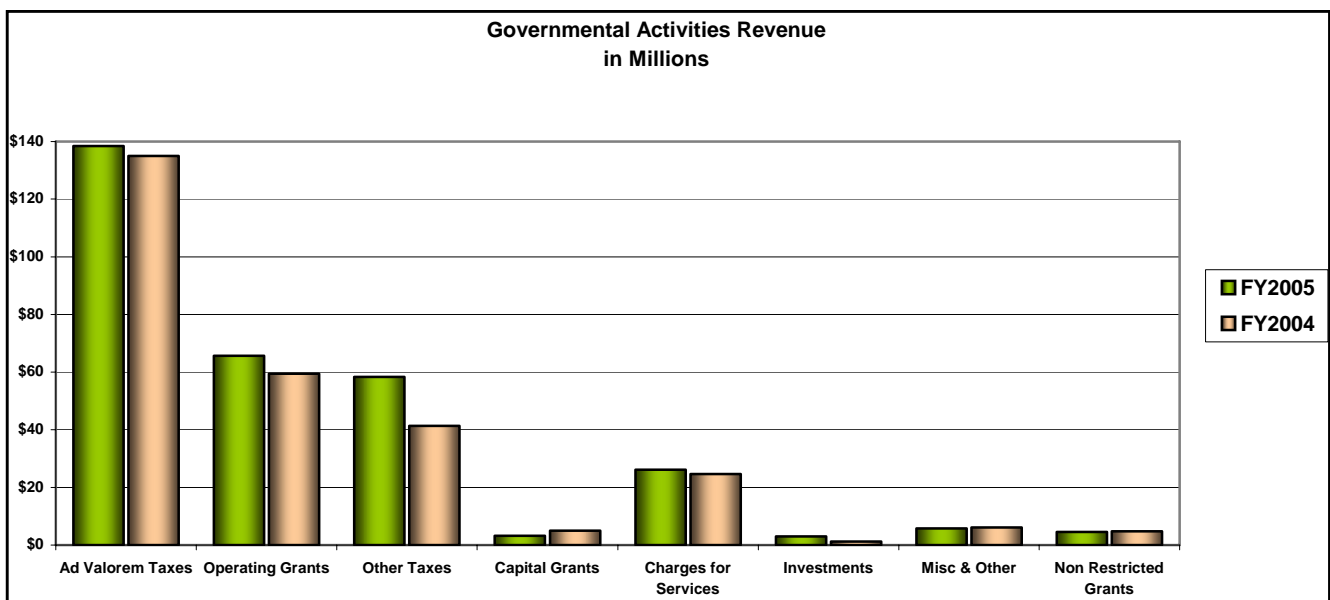
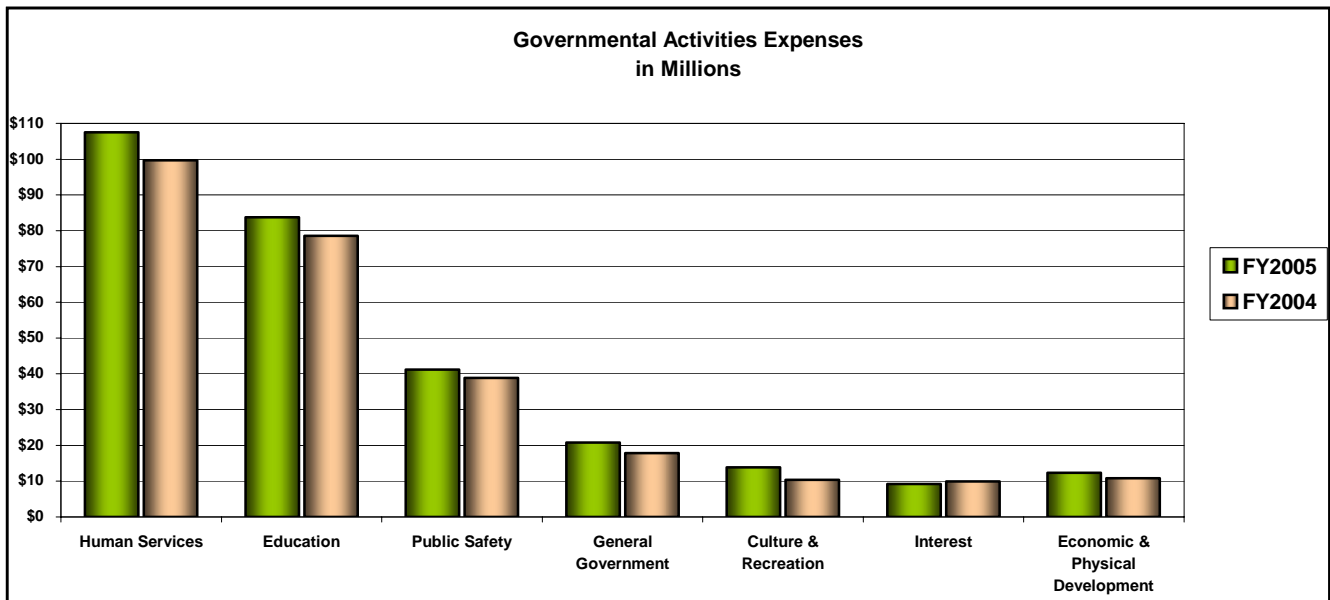
- Continued diligence in the collection of current year property taxes by achieving a collection percentage of 97.86% for real and personal property and 81.95% for motor vehicles.
- Achieving an average overall tax collection rate including collection of prior year taxes of 98.30%.
- Continued low cost of debt due to the County's high bond rating.

**The County of Cumberland Changes in Net Assets
Figure 3**

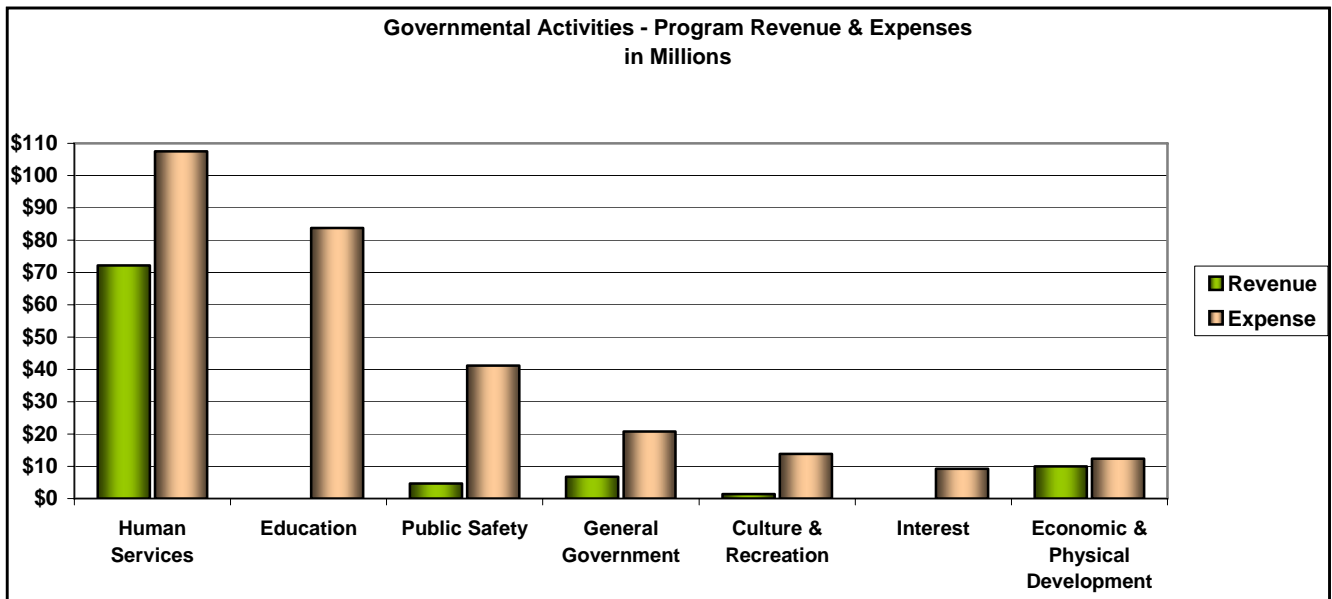
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 26,189,232	\$ 24,671,407	\$ 5,765,587	\$ 4,538,368	\$ 31,954,819	\$ 29,209,775
Operating grants and contributions	65,693,949	59,489,106			65,693,949	59,489,106
Capital grants and contributions	3,210,835	5,003,149	7,052,366	347,793	10,263,201	5,350,942
General revenues:						
Property taxes	138,418,541	135,015,932			138,418,541	135,015,932
Other taxes	58,376,570	41,353,221	5,321,308	5,239,545	63,697,878	46,592,766
Grants and contributions not restricted to specific programs	4,592,341	4,739,443			4,592,341	4,739,443
Unrestricted investment earnings	3,048,858	1,267,506	566,852	285,346	3,615,710	1,552,852
Loss on sale of assets	(649,704)				(649,704)	
Payments from components units						
Miscellaneous	6,445,978	6,082,715	835,559	(16,777)	7,281,537	6,065,938
Total revenues	<u>305,326,600</u>	<u>277,622,479</u>	<u>19,541,672</u>	<u>10,394,275</u>	<u>324,868,272</u>	<u>288,016,754</u>
Expenses:						
General government	20,761,217	17,855,161			20,761,217	17,855,161
Public safety	41,207,126	38,908,990			41,207,126	38,908,990
Economic and physical development	12,357,831	10,852,650			12,357,831	10,852,650
Human services	107,506,798	99,736,931			107,506,798	99,736,931
Culture and recreation	13,865,651	10,426,819			13,865,651	10,426,819
Education	83,763,840	78,521,977			83,763,840	78,521,977
Interest on long-term debt	9,190,661	9,933,650			9,190,661	9,933,650
Crown Center			11,172,781	9,346,520	11,172,781	9,346,520
Solid Waste			5,123,756	4,389,462	5,123,756	4,389,462
Kelly Hills Water and Sewer District						
Norcross Water and Sewer District						
Total expenses	<u>288,653,124</u>	<u>266,236,178</u>	<u>16,296,537</u>	<u>13,735,982</u>	<u>304,949,661</u>	<u>279,972,160</u>
Increase in net assets before transfers	16,673,476	11,386,301	3,245,135	(3,341,707)	19,918,611	8,044,594
Transfers	(9,922,588)	(6,343,569)	9,922,588	6,343,569		
Increase in net assets	<u>6,750,888</u>	<u>5,042,732</u>	<u>13,167,723</u>	<u>3,001,862</u>	<u>19,918,611</u>	<u>8,044,594</u>
Net assets, July 1	61,559,921	56,113,647	41,499,003	38,497,141	103,058,924	94,610,788
Addition - Tourism Development Authority		403,542				403,542
Net assets, June 30	<u>\$ 68,310,809</u>	<u>\$ 61,559,921</u>	<u>\$ 54,666,726</u>	<u>\$ 41,499,003</u>	<u>\$ 122,977,535</u>	<u>\$ 103,058,924</u>

Governmental activities. Governmental activities increased the County's net assets by \$6,750,888 thereby accounting for 33.90% of the total growth in net assets of the County of Cumberland. Key elements of this increase are as follows:

- Spending on salaries and related benefits increased by \$3,178,600 from FY2004 due to a 3.0% COLA for all full-time and a pro-rata share for most part-time employees, the addition of 70 new positions and the reclassification of 40 other employees.
- Operating expenses increased by \$7,389,059. The largest increase, \$6,144,760, was for contracted and other services.
- Other charges and services increased \$7,303,674. Major changes for FY2005 included: \$2,841,855 increase for current expense for county schools and FTCC, and a \$3,614,074 increase in Social Service spending on child care, Medicaid and aid to the aged and disabled.
- Spending on Capital Projects decreased \$3,727,401 due to completion of various county school related projects
- Ad valorem and other taxes increased net assets by \$9,572,166. This large increase was due to the under estimation of taxes to be collected and the underestimation of sales taxes.
- Intergovernmental revenues increased \$5,066,047 as a result of various increases in state and federal revenue.

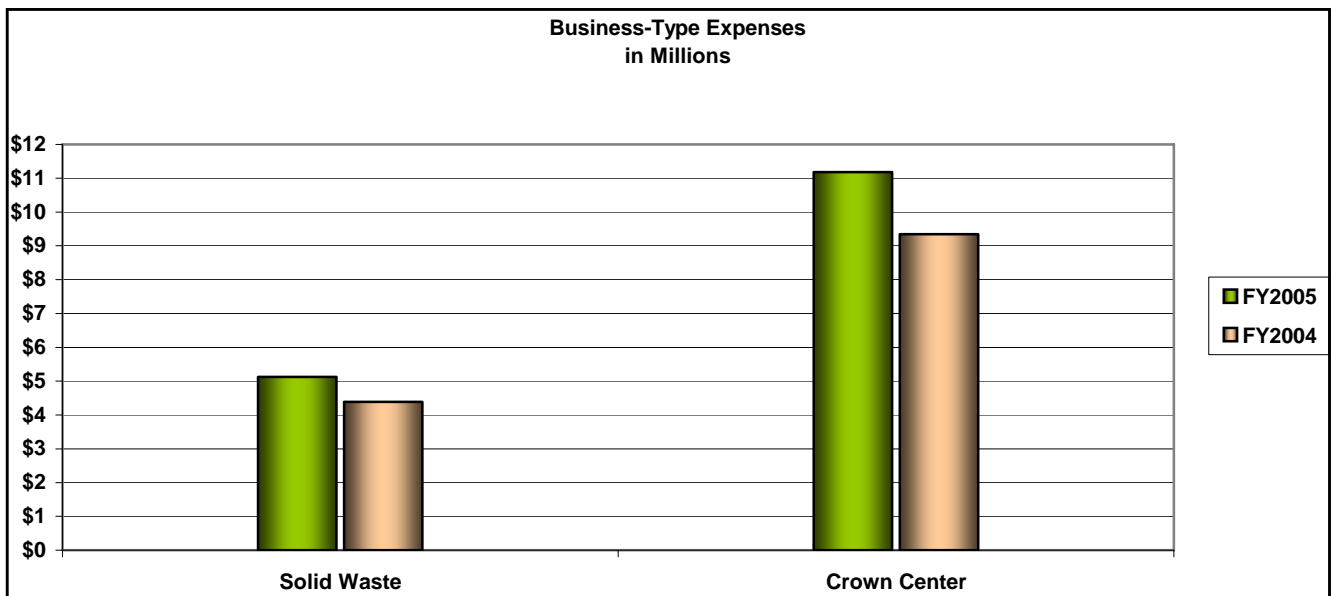


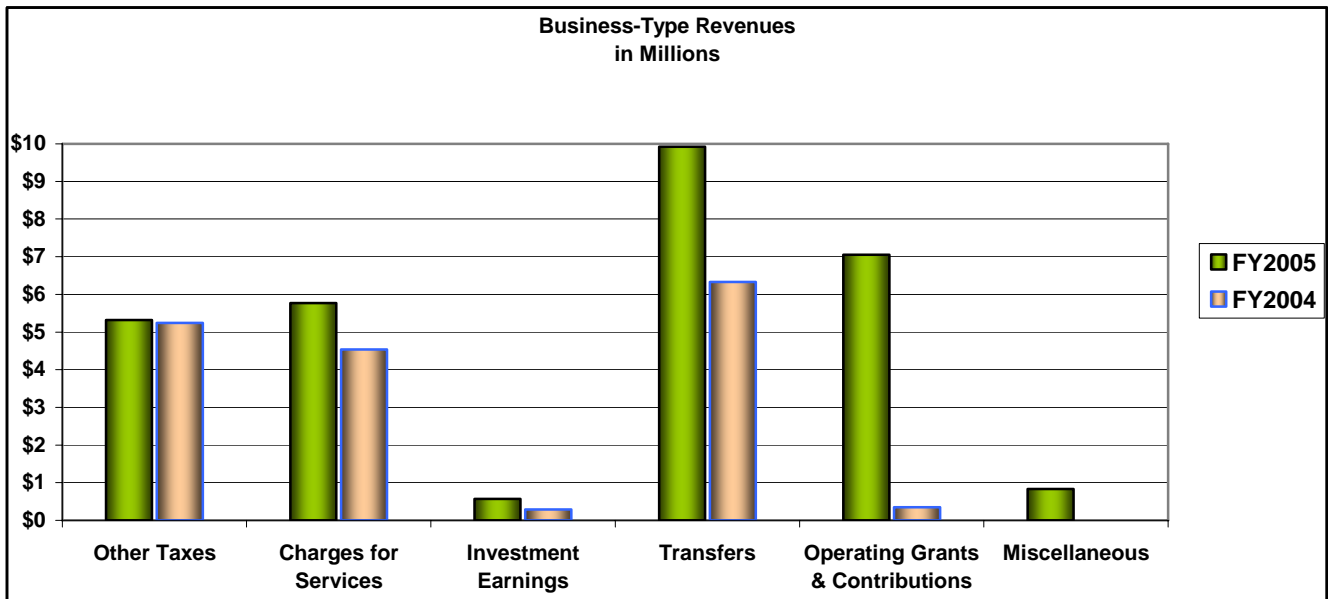
The graph below represents a comparison of program revenues to program expenses for governmental activities. For each activity, general revenues were required to support expenses. Program revenues covered 32.94% of County expenses at June 30, 2005 and 33.49% at June 30, 2004. The largest general revenue source for governmental activities was ad valorem taxes on property and motor vehicles. Total Ad Valorem Tax revenue of \$138,418,541 amounted to 65.84% of the total general revenue excluding transfers. The second largest general revenue source was Other Taxes at \$58,376,570 or 27.77% of the governmental activities revenues. All other general revenue amounted to \$13,437,473 or 6.39%.



Business-type activities: Business-type activities increased the County of Cumberland's net assets by \$13,167,723 accounting for 66.11% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Kelly Hills and NORCRESS Water and Sewer Funds reported a combined increase in net assets of \$8,072,732 which represented 61.31% of the total business-type activities increase in net assets. This large increase over the prior year was due to capitalizing infrastructure construction.





Financial Analysis of the County's Funds

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

Governmental Funds. The focus of the County of Cumberland's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County'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 County of Cumberland. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was \$36,557,371 while total fund balance reached \$90,598,845. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 23.58 percent of total General Fund expenditures including transfers, while total fund balance represents 33.46 percent of that same amount.

At June 30, 2005, the governmental funds of the County of Cumberland reported a combined fund balance of \$126,888,959, a 6.51 percent increase over last year. The primary reason for the increase is directly related to the strong performance of the General Fund, an 11.42% increase. This large increase in the General Fund's fund balance was due to a \$3,480,345 increase in current ad valorem tax collections and a \$4,380,093 increase in sales taxes.

General Fund Budgetary Highlights: During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of four categories: 1) amendments to appropriate fund balance for encumbrances from the prior year 2) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 3) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 4) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenue by \$24,977,249 or 9.25 percent of total budget. Of this amount, \$6,151,468 represents additional/and or adjustments to federal and state funding estimates. \$1,120,742 is attributable to the net effect of the delay in the implementation of Fayetteville's annexation. Local fees and other miscellaneous revenue increased \$2,835,402. The remaining \$14,869,637 or 59.5% of the increase is from other financing sources. \$5,597,561 of the other financing sources represents increases in operating transfers and proceeds from an energy savings loan. The remaining \$9,272,076 is from fund balance. \$3,520,168 of this amount was appropriated to fund prior

year obligations (encumbrances), \$1,769,228 was from designated one-time funds and \$3,982,680 was for new initiatives.

Total actual revenues, excluding other financing sources, for the General Fund exceeded the budgeted amount by \$9,995,059 (103.85%). Ad Valorem taxes collected exceeded the budget by \$4,820,036. This large increase was due, in part, to under estimation of taxes to be collected. Total sales tax collections exceeded budget estimates by \$6,130,505. For the first eight months of the year, sales taxes were up 17% while the last four months they declined resulting in a final year-end increase of 12.2%. Restricted Intergovernmental revenues were less than the budgeted amount by \$5,601,174 or 90.87%. Of this amount, \$4,384,279 is attributable to under spending in reimbursable Mental Health programs.

Total actual expenditures, excluding other financing uses, were less than the budgeted amount by \$19,022,231 resulting in an expenditure rate of 93.15%. Due to turnover and vacancies, personnel expenditures were \$7,096,501 less than budgeted. Basic operating expenditures were \$7,036,146 under budget. Of this amount, \$2,719,256 was for contracted services and \$573,811 for maintenance & repair. In total, 89 of 116 line items, 76.7%, were under spent. Other charges & services was \$2,290,805 under budget. Under spending in Mental Health and Social Services programs of \$1,221,581 accounted for 53.3% of the total. While capital outlay was under spent by \$1,288,950, the majority of those funds will be re-budgeted in fiscal year 2006.

Proprietary Funds. The County of Cumberland's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Solid Waste Fund at the end of the fiscal year amounted to \$23,163,881, an 18.11% increase over the previous year, and those for the Cumberland County Crown Complex equaled \$1,293,201, a 107.39% increase. The other two proprietary funds had combined unrestricted net assets of \$(616,087). The total growth in net assets for Solid Waste was \$3,453,094 an 11.14% increase and the Crown Center was \$1,641,897, a 17.13% increase.

Capital Asset and Debt Administration

Capital assets. The County of Cumberland's capital assets for its governmental and business-type activities as of June 30, 2005, totals \$205,547,341 (net of accumulated depreciation). Capital assets include land, land improvements, buildings and improvements, vehicles and heavy equipment, furniture, machinery, and other equipment, and construction in progress. Capital assets are reported in the government-wide financial statements and in the enterprise fund financial statements. Governmental funds treat capital acquisitions as expenditures in the period in which they are purchased. Significant changes included a \$9,940,845 increase in construction in progress for the Kelly Hills and NORCRESS Water and Sewer projects and \$3,856,518 for the Johnson Controls energy savings project.

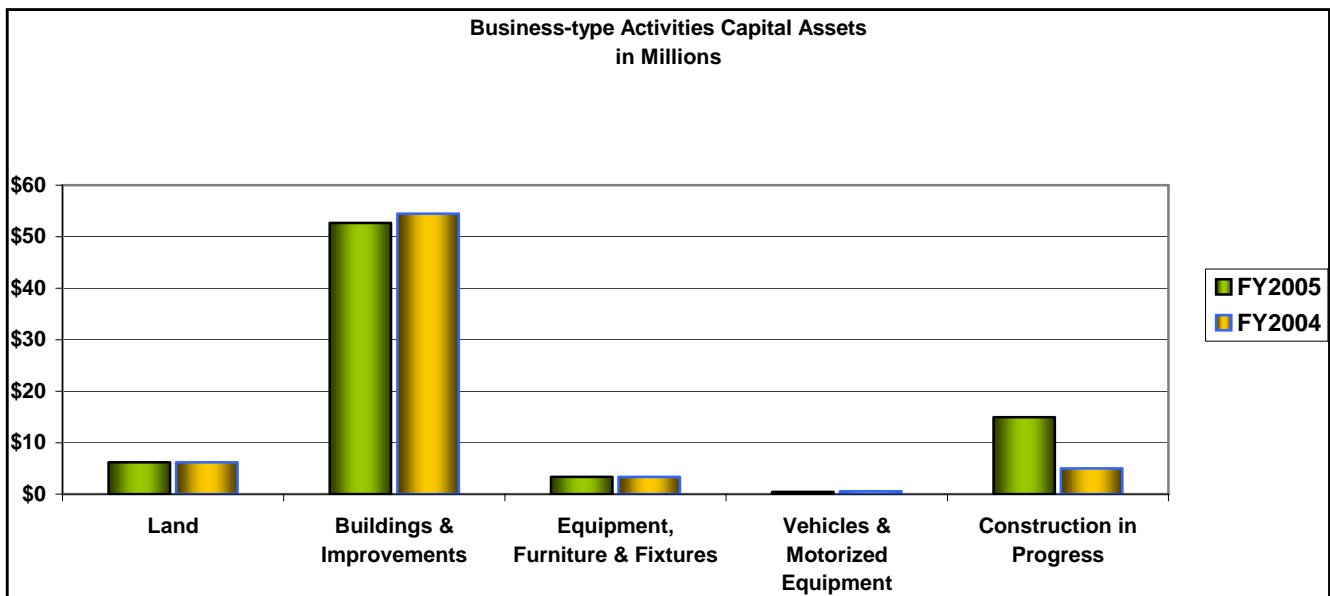
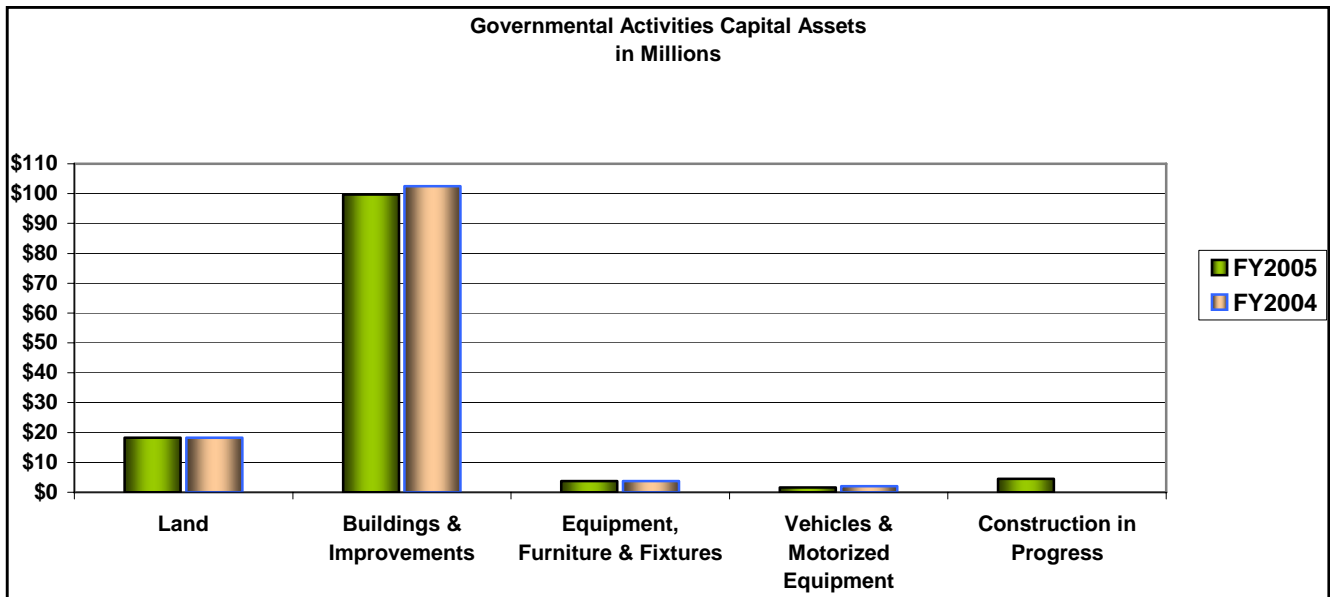
The County of Cumberland's Capital Assets

Figure 4

(net of depreciation)

	Government Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 18,258,631	\$ 18,210,621	\$ 6,224,324	\$ 6,224,324	\$ 24,482,955	\$ 24,434,945
Buildings and improvements	99,742,670	102,505,675	52,655,299	54,443,160	152,397,969	156,948,835
Equipment, furniture and fixtures	3,720,611	3,781,750	3,363,453	3,359,057	7,084,064	7,140,807
Vehicles and motorized equipment	1,582,282	2,031,981	457,639	586,417	2,039,921	2,618,398
Construction in progress	4,552,033	4,526	14,990,399	5,049,554	19,542,432	5,054,080
Total net assets	<u>\$ 127,856,227</u>	<u>\$ 126,534,553</u>	<u>\$ 77,691,114</u>	<u>\$ 69,662,512</u>	<u>\$ 205,547,341</u>	<u>\$ 196,197,065</u>

Additional information on the County's capital assets can be found in note 4 of the Basic Financial Statements.

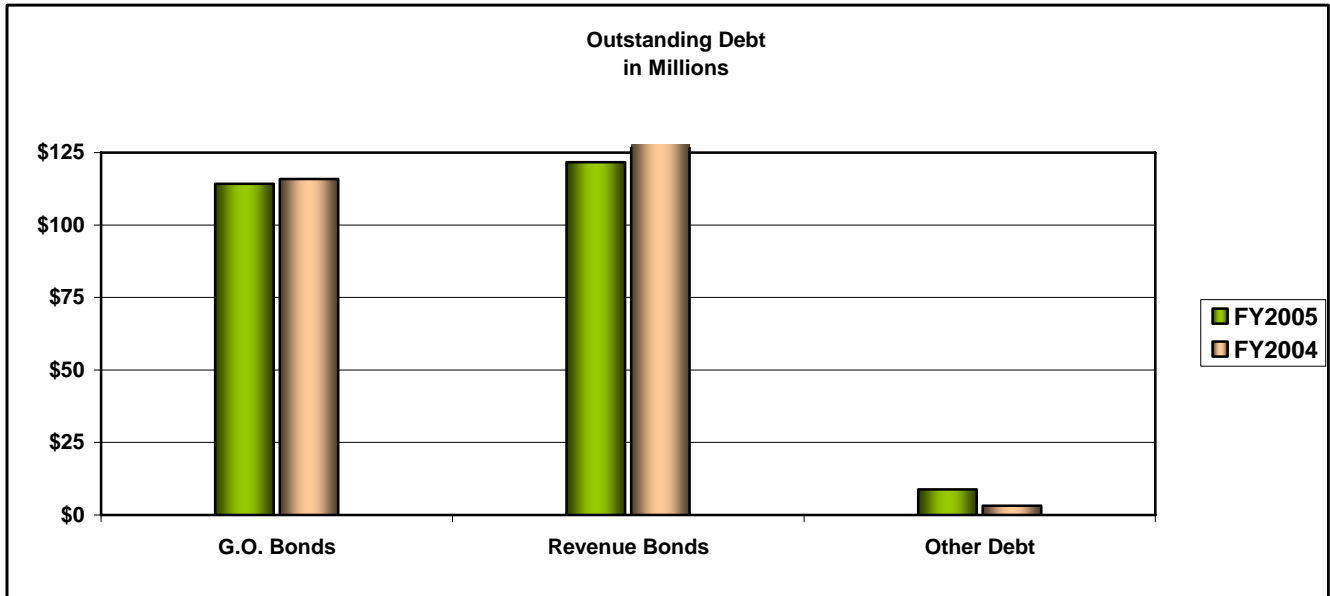


Long-term Debt. As of June 30, 2005, the County of Cumberland had total bonded debt outstanding of \$114,140,000 all of which is backed by the full faith and credit of the County.

**The County of Cumberland's Outstanding Debt
General Obligation and Revenue Bonds**

Figure 5

	Government Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 114,140,000	\$ 115,895,000			\$ 114,140,000	\$ 115,895,000
Revenue bonds	70,635,000	74,570,000	51,058,781	53,183,781	121,693,781	127,753,781
Capital leases	4,537,080				4,537,080	
Other debt	2,999,271	3,234,457	1,250,000		4,249,271	3,234,457
Total debt	\$ 192,311,351	\$ 193,699,457	\$ 52,308,781	\$ 53,183,781	\$ 244,620,132	\$ 246,883,238



The County of Cumberland's total debt of \$244,620,132 decreased \$2,263,106 (.92%) during the past fiscal year. The County entered into a lease in the amount of \$4,537,080 agreement for financing the acquisition of new energy efficient equipment and improvements to existing energy infrastructure relating to a guaranteed energy savings contract. The County also issued \$5,075,000 in General Obligation Bonds and \$35,505,000 in General Obligation Refunding Bonds. NORCRESS issued general obligation bond anticipation notes in the amount of \$1,250,000 in order to finance construction of a water and sewer project to benefit the citizens of Falcon, Godwin, and Wade.

As mentioned in the financial highlights section of this document, the County of Cumberland has maintained an AA- bond rating from Standard and Poor's Rating Group and an Aa3 rating from Moody's Investor Service. This bond rating is a clear indication of the sound financial condition of the County. These high ratings are a primary factor in keeping interest costs low on the County's outstanding debt.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the County is \$1,192,783,000.

Additional information regarding the County of Cumberland's long-term debt can be found in note 9 beginning on page F-33 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

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

- The County has an unemployment rate of 5.8% which is on par with the state average.
- For the most recent reportable year, county-wide retail sales increased 9.90% while Fort Bragg Commissaries and Exchanges increased 18.83%
- Continued strong growth in both residential and commercial construction.
- Continued presence and future expansion of Fort Bragg.

Budget Highlights for the Fiscal Year Ending June 30, 2006

The County approved a \$291,998,298 General Fund budget for fiscal year 2006, which represents a \$22,066,667 (8.17%) increase over fiscal year 2005 approved budget. *Ad Valorem Taxes* have been budgeted at an increase of \$4,415,797 (3.54%) based upon a 3.0% growth in the county-wide assessed valuation. *Other Taxes* are projected to increase \$6,912,839 (18.76%) due to increased growth in sales taxes over the past two years. *Unrestricted Intergovernmental* revenue is projected to increase \$1,078,463 (17.63%) due to increased revenue from the City of Fayetteville, Federal prisoner housing funds and increase in projected profits from the County's ABC Board. *Restricted Intergovernmental* revenue has been budgeted at a net increase of \$825,155 (1.49%) based on a budget of \$56,105,010. Mental Health restricted revenue is projected to decrease \$837,793 (5.16%) due to a restructuring of state revenue. The decreases in Mental Health revenues were offset by a \$1,395,458 (4.21%) increase in DSS funding. *Licenses and Permits* revenue will increase a total of \$825,155 (1.49%) due mainly to increases in inspection fees. *Sales and Service* fees are projected to increase \$1,848,976 (10.26%) due primarily to increases in Mental Health fees of \$1,633,391 (13.91). *Miscellaneous* revenue will decrease \$149,853 (2.71%) due to reductions in building rents and leases. *Other Financing Sources* will increase \$6,539,724 (32.53%) due to increases in fund balance appropriated for one-time expenditures.

Budgeted expenditures in the General Fund are \$291,998,298 which represents an increase of \$22,066,667 (8.17%) over fiscal year 2005. *Personal Services* increased \$7,908,010 (8.25%) due to a 5.0% cost-of-living increase, a 1% county funded 401K contribution and increases of \$3,043,468 in medical insurance and workers compensation costs. These increases were offset by a reduction of 23 full-time equivalent positions. *Operating Expenditures* will increase \$3,785,586 (12.02%). Contracted services accounts for \$3,011,446 of the operating increase. *Other Charges and Services* will increase \$4,172,777 (3.84%) to \$112,780,496. Funding for education increases \$2,499,193, Medicaid \$1,400,000 and Mental Health expenditures \$291,343. *Capital Outlay* expenditures has been increased \$2,330,552 (126.32%) for the purchase of vehicles, capital improvements, and renovations to Fayetteville Technical Community College.

The fiscal year 2006 budget was adopted based in part on the City of Fayetteville annexing 42,687 residents. The Homebuilders Association of Fayetteville, the Cumberland County Citizens United and a soldier stationed at Fort Bragg challenged the annexation in court. In June 2004, a Cumberland County Superior Court judge ruled in favor of the City. The cases were appealed to the Court of Appeals which issued a stay of annexation on June 29, 2004 in order to review the cases. Although the Court of Appeals lifted its stay on July 7, 2004, the cases were then appealed to the State Supreme Court which issued a stay of annexation on July 12, 2004. The stay effectively ended the City's opportunity for annexation in fiscal year 2005. On August 19, 2005, the state Supreme Court refused to hear the appeals thus blocking any further action in state courts. This action allowed the City of Fayetteville to annex the 28 square mile area on September 30, 2005. Had the annexation been effective on or before June 30, it would have negatively affected several shared revenues such as sales taxes, cablevisions fees, and beer & wine taxes. Because the annexation wasn't effective until September 30, the cumulative overall effect will not be felt until next fiscal year.

Requests for Information

This report is designed to provide an overview of the County'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 Finance Director, the County of Cumberland, 117 Dick Street, Fayetteville, NC 28301.