

County of Durham, North Carolina



Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005

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Prepared by the Durham County Finance Department

INTRODUCTORY SECTION

<i>Letter of Transmittal</i>	vii
<i>Principal Officials</i>	xix
<i>Organization Chart</i>	xxi
<i>GFOA Certificate of Achievement</i>	xxiii

FINANCIAL SECTION

<i>Independent Auditors' Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements:</i>	
<i>Government-wide Financial Statements:</i>	
<i>Statement of Net Assets</i>	23
<i>Statement of Activities</i>	24
<i>Fund Financial Statements:</i>	
<i>Balance Sheet – Governmental Funds</i>	25
<i>Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets</i>	26
<i>Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds</i>	27
<i>Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities</i>	28
<i>Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund</i>	29
<i>Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Community Health Trust Fund</i>	32
<i>Schedule of Expenditures Compared with Project Authorizations – Capital Projects Fund</i>	33
<i>Statement of Net Assets – Proprietary Funds</i>	34
<i>Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds</i>	35
<i>Statement of Cash Flows – Proprietary Funds</i>	36
<i>Statement of Fiduciary Net Assets – Fiduciary Funds</i>	37
<i>Statement of Changes in Fiduciary Net Assets – Fiduciary Funds</i>	38
<i>Notes to the Financial Statements</i>	39

REQUIRED SUPPLEMENTARY INFORMATION

<i>Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress</i>	89
<i>Law Enforcement Officers' Special Separation Allowance Schedule of Employer Contributions</i>	90
<i>Law Enforcement Officers' Special Separation Allowance Notes to Required Schedules</i>	91
<i>Combining and Individual Fund Statements and Schedules:</i>	
<i>Combining Balance Sheet – Nonmajor Governmental Funds</i>	95
<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds</i>	96
<i>Combining Balance Sheet – Nonmajor Special Revenue Funds</i>	98
<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds</i>	100
<i>Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:</i>	
<i>Nonmajor Special Revenue Funds</i>	102
<i>Nonmajor Debt Service Fund</i>	104
<i>Schedules of Revenues and Expenditures – Budget and Actual (Non-GAAP Basis) - Enterprise Fund – Sewer Utility Fund</i>	107
<i>Reconciliation of Modified Accrual Basis to Full Accrual Basis – Enterprise Fund - Sewer Utility Fund</i>	108
<i>Combining Statement of Fiduciary Assets and Liabilities – Agency Funds</i>	110
<i>Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds</i>	112
<i>Capital Assets Used in the Operation of Governmental Funds:</i>	
<i>Schedule by Function and Activity</i>	116
<i>Schedule of Changes by Function and Activity</i>	120
<i>Other Supplemental Information:</i>	
<i>Gross Bonded Debt and Other Long-Term Debt</i>	124
<i>Analysis of Current Tax Levy</i>	128
<i>Schedule of Changes in Property Tax Receivable</i>	129
<i>Statistical Section:</i>	
<i>Government-wide information:</i>	
<i>Government-wide Expenses by Function – Last Three Fiscal Years</i>	132
<i>Government-wide Revenues – Last Three Fiscal Years</i>	134
<i>Fund Information:</i>	
<i>General Government Expenditures by Function – Last Ten Fiscal Years</i>	136
<i>General Government Revenues by Source – Last Ten Fiscal Years</i>	138
<i>Principal Taxpayers</i>	140
<i>Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years</i>	142
<i>Property Tax Levies and Collections – Last Ten Fiscal Years</i>	144

	PAGE
REQUIRED SUPPLEMENTARY INFORMATION (Continued)	
<i>Property Tax Levies – Direct and Overlapping local Government Jurisdictions – Last Ten Fiscal Years</i>	146
<i>Property Tax Rates – Direct and Overlapping Local Government Jurisdictions – Last Ten Fiscal Years</i>	148
<i>Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt per Capita – Last Ten Fiscal Years</i>	150
<i>Computation of Legal Debt Margin</i>	152
<i>Computation of Direct and Overlapping Debt</i>	153
<i>Ratio of Annual Debt Service for Bonded Debt to Total General Governmental Expenditures – Last Ten Fiscal Years</i>	154
<i>Demographic Statistics – Last Ten Fiscal Years</i>	155
<i>Special Assessments and Collections – Last Ten Fiscal Years</i>	156
<i>Property Value and Construction – Last Ten Fiscal Years</i>	157
<i>Miscellaneous Statistics</i>	158



Letter of Transmittal

December 12, 2005

Honorable Chairman and Members of the Board of County Commissioners
Durham County
Durham, North Carolina

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of Durham County for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of Durham County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of Durham County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of Durham County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, Durham County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County of Durham's financial statements have been audited by Cherry, Bekaert & Holland, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County of Durham for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor

concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion and that the County of Durham's financial statements for the fiscal year ended June 30, 2005 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act, the US Office of Management and Budget Circular A-133, "*Audits of State and Local Governments*," and North Carolina state law for state funds. Information related to this single audit, including the schedule of financial assistance, findings and questioned costs, and the independent auditor's report on the internal control structure and compliance with applicable laws and regulations, are presented in a separate document.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County of Durham's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Durham County, incorporated in 1881, is located in the piedmont part of the state, which is considered to be the top growth area in the State, and one of the top growth areas in the country. Durham County currently occupies a land area of 299 square miles and serves a population of 246,924. Durham County is empowered to levy a property tax on both real and personal properties located within its boundaries.

Durham County has operated under the commissioner-manager form of government since 1930. Policy-making and legislative authority are vested in a governing board consisting of the chairman, vice-chairman and three other members. The governing board is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the government's manager (county manager), attorney and tax administrator. The county manager is responsible for carrying out the policies and ordinances of the governing board, for overseeing the day-to-day operations of the government, and for hiring the heads of the various departments. Effective with the 2004 election, the board members currently serve four-year terms. The chairman and the vice-chairman of the board are voted upon by the board in their first meeting which is in December after being sworn into office.

Durham County provides a full range of services, including sheriff and fire protection, emergency medical, human services (public health, mental health and social services), elections, register of deeds, animal control, youth home, criminal justice and cultural and recreational. Funding is provided for educational services of the Durham Public Schools and Durham Technical Community College. Also, the County funds services provided in conjunction with the City of Durham through interlocal agreements including economic and physical development, emergency communications, environmental engineering and inspections. Solid waste services are provided through contracting with a private company.

In accordance with standards of the Governmental Accounting Standards Board (GASB) defining the governmental reporting entity, this report includes all funds and component units (except as noted below) that are controlled by or are dependent on the County's governing body. Component units are legally separate entities for which Durham County is financially accountable. The Durham County Board of Alcoholic Beverage Control (ABC Board) is a component unit of Durham County. The ABC Board is presented as a proprietary fund. Additional information on the ABC Board can be found in Note A.1 in the notes to the financial statements. The Durham County Industrial Facility and Pollution Control Financing Authority (the "Authority") exists to issue and service revenue bond debt for private businesses for economic development purposes. The Authority is governed by a seven-member board, all of whom are appointed by the County Commissioners. The County can remove any board member of the Authority with or without cause. The Authority has no financial transactions or account balances; therefore, it is not presented in the financial statements. The Authority does not issue separate financial statements. Other governmental type entities within the County which have substantial autonomy and separate governmental characteristics are the Durham Public School Administrative Unit, Durham Technical Community College, Raleigh-Durham Airport Authority, the Special Airport District of Durham and Wake Counties, Triangle J Council of Governments, Triangle Transit Authority, Durham and Wake Counties Research and Production Service District and Advisory Committee, Durham Convention and Visitors Bureau and the Durham Civic Center Authority. These entities have not met the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

The annual budget serves as the foundation for Durham County's financial planning and control. All agencies of Durham County are required to submit requests for appropriation to the county manager on or before March 15th of each year. The county manager uses these requests as the starting point for developing a proposed budget. The county manager then presents this proposed budget to the commissioners for review prior to May 31st of each year. The board is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of Durham County's fiscal year. The adopted budget is prepared by fund, function (e.g., public safety), and department (e.g., sheriff). However, the appropriations are formally budgeted and approved on a functional basis. The county manager is authorized to transfer budget amounts within a function up to 15% cumulatively without reporting to the Board of County Commissioners (BOCC). The county manager is authorized to transfer budget amounts between functions of the same fund up to \$20,000 with an official report of such transfer being made at the next regular meeting of the BOCC. Budget-to-actual comparisons are provided for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 29 as part of the basic financial statements for the governmental funds. For nonmajor governmental funds, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 102.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County of Durham operates.

Local Economy

Economic Development

Durham County has an expanding, diversified economy with a strong foundation in electronics, metallurgy, telecommunications, health care, and medical related industries. The City of Durham, the County's only municipality, is known as the City of Medicine because of the significant impact that biotechnology, health care and other medical related industries have on the economic base.

The County possesses a variety of technical resources and intellectual assets such as three nationally renowned doctoral based research universities with a strong entrepreneurial focus located in the region, state funded research centers in biotechnology and microelectronics, and a strong business support system. Close collaboration between the academic and business communities fosters a free flowing exchange of information and ideas beneficial to both groups.

Research and Development

Durham is located at the pinnacle of North Carolina's famous Research Triangle Park, formed in 1959 by business leaders, government officials and leaders from Duke University of Durham, North Carolina State University in Raleigh and the University of North Carolina at Chapel Hill. The Research Triangle Park (RTP) consists of 7,000 acres of land, 75% of which is located in Durham County. RTP is the nation's largest and most successful research and development-oriented business park. The companies and organizations located in the Park represent some of the world's largest and most prestigious corporate and government organizations in scientific and technological research. There are an estimated 38,000 full-time employees working in the park, earning an average annual salary of \$57,000.

The employee population and average annual salary remained constant this past year. The number of research and development companies in the Park continues to grow. Recent locates to RTP include Credit Suisse First Boston, Network Appliance and Cree. Between these three companies, 600 initial new jobs with salaries averaging over \$100,000 were created this year alone. Approved expansion this year included BD Technologies with an investment of \$12,700,000.

The recuperation of the Park is happening gradually. In the meantime, research being conducted in Durham County continues to cover a broad range of high tech fields such as biotechnology, medical instrumentation, metallurgy, electronic hardware and software development, health care products, digital switching and transmission systems, telecommunication and microelectronics. There also continues to be an abundance of highly skilled graduates from the region's powerhouse research universities and prestigious law, business and medical schools. Perhaps the most striking indication of talent in the area is the large number of patents for inventions developed or discovered by the residents and/or companies of the County.

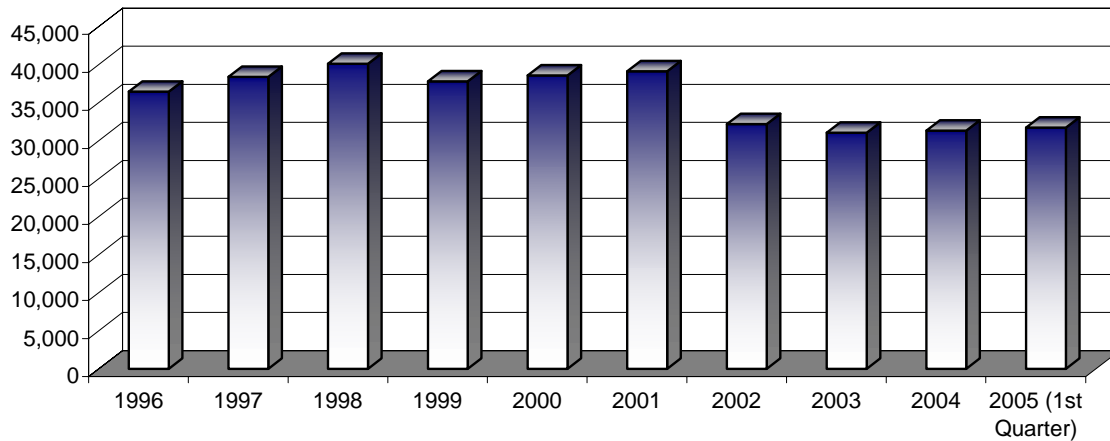
Durham's economy is certainly not limited to development of the Research Triangle Park. New construction is ubiquitous, a testimony to the fact that Durham is a nurturing environment for start-up companies. In addition, many companies from various regions of the US as well as other countries have moved their headquarters here to capture great cost savings. The American Institute of Certified Public Accountants (AICPA), the national Certified Public Accountants (CPA) Association that has announced their intentions of locating to Durham, represents the largest new company investment in 2005 with an investment of approximately \$16 million along with the creation of 400 jobs. Other new companies that announced their location and investment in the County this past year were Smith Breeden, Isagro, Advance Electronic Systems, Miller Products, and Model Home Interiors. Existing companies that are either expanding or have announced expansions to begin in the County are AW North Carolina, Fedelity, Motricity, GE, Blue Cross Blue Shield, PBM, Cirrus Pharmaceuticals, Teleflex, Microsoft, Kowa, Parata Systems, Teleflex and Burt's Bees. AW North Carolina, a manufacturing company, has announced an expansion with an investment of approximately \$130 million along with the creation of 170 jobs. *Expansion Management* ranked the Durham MSA one of the top 20 nationwide for business opportunities.

Health care

Durham Health Partners, Inc. (DHP) was formed in fiscal year 1999 – 2000 in a merger of three community-based health nonprofits – the City of Medicine Program, the Durham Healthy Carolinians Partner and the Foundation for Better Health of Durham. The consolidated organization's mission was to "promote effective solutions that remove barriers to improved community health." It strived to accomplish this mission through collaboration with many local health-related agencies, organizations, and resident groups. With these partners, DHP assessed community needs, facilitated the development of innovative solutions to Durham's public health issues, and identified resources necessary to implement and evaluate these solutions. Durham Health Partners served as an important resource for community health planning, coordination and facilitation at the local level. DHP also collaborated with regional, state, and national resources on these issues.

Durham Health Partners ceased operations as of June 30, 2004, in order to redefine DHP's mission and purpose for the Durham community. Durham Health Partners continues to focus on the community health needs of Durham County through a smaller, six person interim board. This interim board is exploring the design and implementation of a rational system of providing specialty medical care to Durham County's at risk/uninsured population. Currently, the Durham Health Partners board has received some planning grant monies to design and implement a pilot program of specialty access program initially focusing on Lincoln Community Health Center's patients. An advisory board of community members, providers and City/County government representatives was created, and it has begun collecting data and developing a health benefits plan for the specialty access program in order to seek three to five years funding from various public sources and private foundations. The Durham Health Partners board will seek ongoing financial support for the specialty access program.

Manufacturing



Source: Employment Security Commission (ESC)

Note: The ESC changed from using the SIC codes to the newer NAICS codes for counting employment. Therefore, the annual numbers have changed slightly from the fiscal year 2001-2002 report to reflect the new numbers for each year.

Durham County is not only a center for technology development; the County is also a strong manufacturing center. In 2003, the manufacturing sector employment decreased from 32,167 in 2002 to 31,049 in 2003, a decrease of 1,118 (3.6%). However, in calendar year 2004, the manufacturing sector employment increased from 31,049 in 2003 to 31,302 in 2004, an increase of 253 (0.81%). In the 1st quarter of calendar year 2005 the manufacturing sector employment increased again to 31,483, an increase of 181 (0.58%). Also, AW North Carolina, a manufacturing company, has announced an expansion with an investment of approximately \$130 million along with the creation of 170 jobs.

Telecommunications

The telecommunications industry is making its presence known. The North Carolina information highway is the most advanced statewide telecommunications infrastructure in the nation, providing high-speed multimedia transmission. *Expansion Management* ranked the Raleigh – Durham area the Top Fiber Optic US City. Verizon is the incumbent provider of phone service to Durham County. Verizon has in place one of the largest operational fiber optic networks in the world providing digital switching and high bandwidth options to virtually all Durham business centers. Intel's 3rd annual "Most Unwired Cities" survey ranked the Raleigh – Durham – Chapel Hill area the #8 Most Unwired City.

Quality of Life

Durham is in many ways comparable to a much larger city, but with a down-home charm. In November of 2004, *Expansion Management* ranked the Raleigh – Durham – Chapel Hill area #17 for America's Hottest Cities. *Milken Institute* ranked the Greater Raleigh – Durham area #1 City for Biotechnology, #2 City for Life Sciences Human Capital and #4 City for Life Sciences Workforce in June 2005. In addition, Durham boasts nationally acclaimed restaurants and Broadway shows (which rehearse here prior to their Broadway premiers) as well as distinctive history and culture. Durham's advantageous location, climate and lifestyle draw companies from around the world to a place that has a dynamic business environment and a beautiful setting in the Piedmont region of North Carolina. In May of 2005, *Forbes* ranked the Raleigh-Durham-Chapel Hill area #2 for Best Place for Business and Careers. Also, in September/October of 2004, *Outlook* ranked Raleigh-Durham-Chapel Hill #2 Healthiest Area in America, #21 Best Place for Education, #26 Best Quality of Life and #30 Best Place for Arts and Culture.

Major Employers

Listed below are the largest business and institutional employers in Durham County.

Company or Institution

Duke University & Medical Center
IBM (International Business Machines)
Glaxo SmithKline
Durham Public Schools
Nortel Networks
Lenovo Group, Ltd.
Durham City Government
Veterans Administration Medical Center
Research Triangle Institute
Durham County Government
Measurement Incorporated
Blue Cross Blue Shield of North Carolina
US Environmental Protection Agency
North Carolina Central University
Verizon
SunTrust Bank
Quintiles Transnational
Cree, Inc.
AW North Carolina, Inc.

Source: Durham Chamber of Commerce

Capital Investment

Many companies are either locating to Durham County or expanding their already existing operations in the County. Economic development announcements for 2004 were \$624,345,800. Economic development announcements occurring through the third quarter of 2005 amounted to over \$209 million.

Economic Development Statistics

Per Capita Income

Per capita income data for Durham County, Durham MSA, Raleigh/Cary MSA, North Carolina, and the United States are presented in the following table.

	1999	2000	2001	2002	2003	2004	2005
Durham County	\$ 31,300	\$ 30,579	\$ 29,688	\$ 30,277	\$ 31,261	\$ 33,161	\$ 34,212
Triangle MSA	29,320	32,382	32,360	33,490	34,605	-	-
Durham MSA	-	-	-	-	-	32,482	33,505
Raleigh/Cary MSA	-	-	-	-	-	36,309	37,270
North Carolina	26,256	27,129	26,910	28,215	29,219	29,541	30,429
United States	28,938	29,676	29,561	31,065	32,209	33,127	34,165

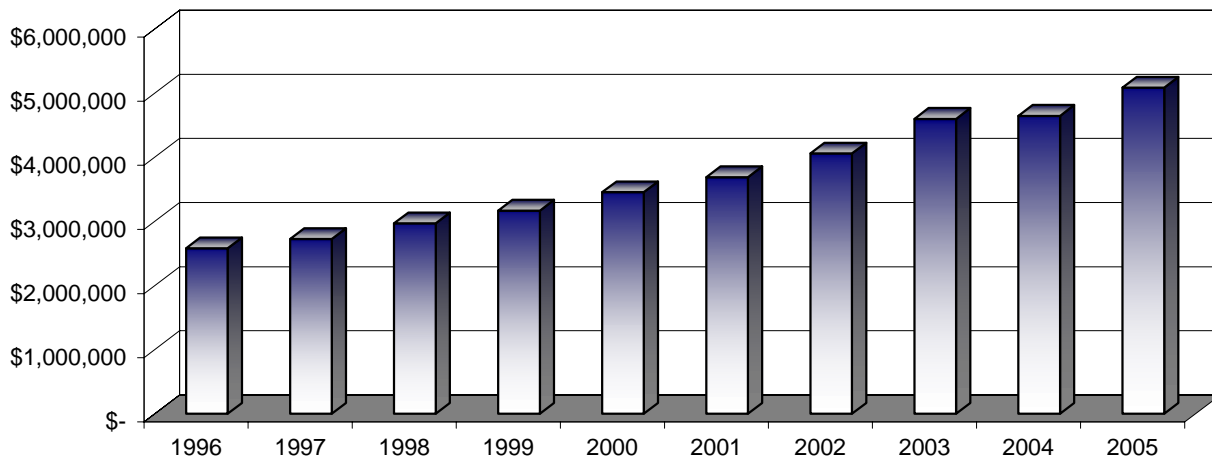
Source: 1998-2002 is actual per capita income provided by Problem Solving Research, Inc. & U.S. Dept of Commerce, Bureau of Economic Analysis. 2003, 2004 and 2005 is projected per capita income for the calendar year and is provided by Woods & Poole Economics, Inc.

As of 2004, Durham is no longer considered part of the Triangle Metropolitan Statistical Area.

Retail Sales

Total retail sales in the County for the past ten fiscal years are shown in the following table.

Year Ended June 30,	Total Retail Sales (000's)	Percent Growth Over Previous Year
1996	\$ 2,580,145	8.7%
1997	2,725,364	5.6%
1998	2,969,822	9.0%
1999	3,167,577	6.7%
2000	3,455,668	9.1%
2001	3,688,799	6.7%
2002	4,057,352	10.0%
2003	4,597,853	13.3%
2004	4,646,891	1.1%
2005	5,085,956	9.50%

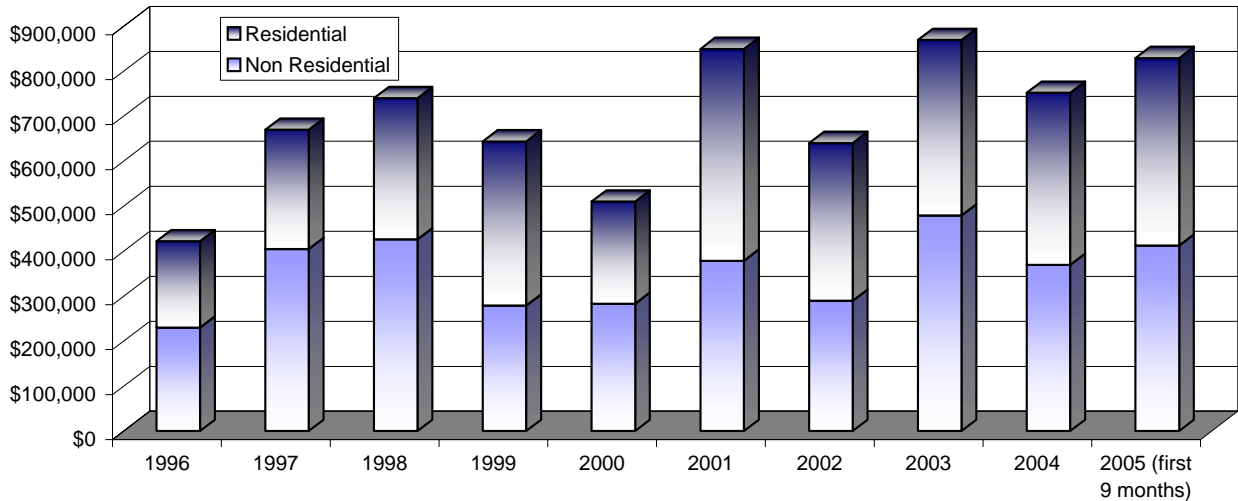


For fiscal years 2001, 2002, and 2003, Durham exceeded \$3.6 billion in gross retail sales activity. In fiscal year 2004, the County surpassed \$4.6 billion. Durham’s retail sales continue to grow as new shopping centers are built and older ones are renovated. Northgate Mall (an older mall) is turning shopping inside out through renovating the mall to include outside shopping, restaurants and an open plaza for year round entertainment as well as indoor shopping. Construction continues as Northgate makes this bold move in the marketplace providing the best of both worlds with shopping inside as well as shopping outside, food and entertainment. In fiscal year 2005, the County saw additional growth in gross retail sales of over \$439 million above fiscal year 2004, an increase of approximately 9.5%. The continued growth is primarily because of the continued success of The Streets of Southpoint Mall, the success of Northgate Mall and the success of North Pointe Shopping Center. In November of 2004, *USA Today* ranked Durham’s Streets of Southpoint Mall one of the ten best places to spend it all in one place.

Construction Activity

The following table illustrates construction activity in Durham County for the past ten calendar years by reference to the value of all building permits issued in the County.

	Non Residential (000's)	Residential (000's)	Total (000's)
1996	\$230,086	\$191,863	\$421,949
1997	404,749	265,188	669,937
1998	426,382	313,702	740,084
1999	279,085	364,835	643,920
2000	283,104	227,067	510,171
2001	378,866	470,722	849,588
2002	289,707	350,767	640,474
2003	479,414	389,954	869,368
2004	369,602	382,513	752,115
2005 (first 9 months)	412,605	416,717	829,322

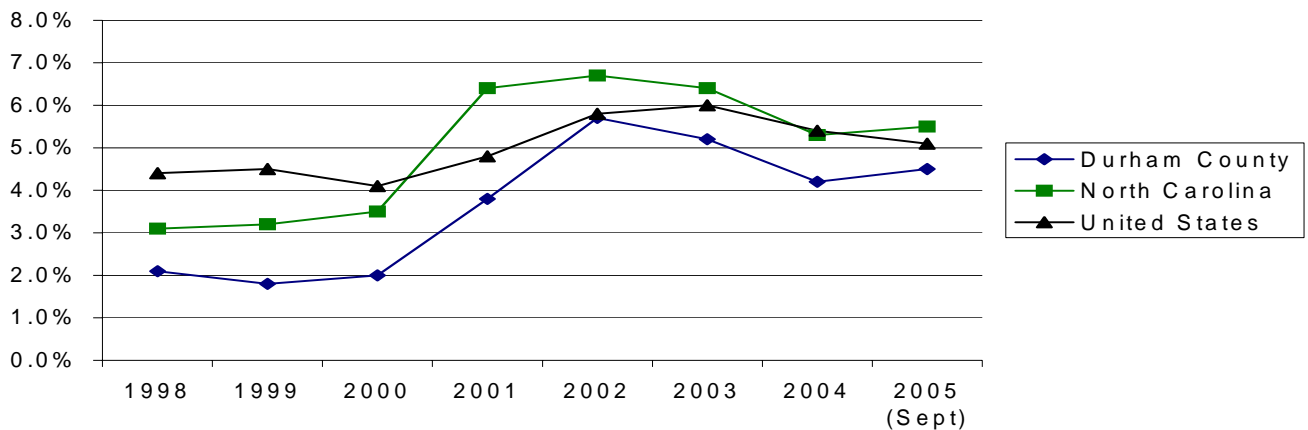


As of October 2005, the total number of occupied dwelling units in Durham County was 98,971. Also, for the first nine months of 2005, 2,920 residential permits have been issued for new residences and for improvements, repairs and expansions of existing residences. There was an increase in the value of construction activity in 2005 from 2004 for residential and non-residential. During the fiscal year 2005, the majority of growth was once again in the southern area of the County.

Unemployment

The percentage of unemployment in the County, State and the United States for the past eight calendar years follows.

	Durham County	North Carolina	United States
1998	2.1%	3.1%	4.4%
1999	1.8%	3.2%	4.5%
2000	2.0%	3.5%	4.1%
2001	3.8%	6.4%	4.8%
2002	5.7%	6.7%	5.8%
2003	5.2%	6.4%	6.0%
2004	4.2%	5.3%	5.4%
2005 (Sept)	4.5%	5.5%	5.1%



As of September 2005, the County's unemployment rate has increased slightly to 4.5%. However, the County's rate is 1.0% less than the State's while the nation's percentage is at 5.1%. This is primarily because of the County's drive to create more jobs within the County and maintain a strong economy.

Long-term Financial Planning

The Board of County Commissioners continues to reaffirm the County's financial stability as one of its highest priorities. The Board recognizes that it is difficult to execute short- and long-term plans if the focus is on day-to-day viability. Consequently, the County's annual budget and financial decisions made throughout the fiscal year support an underlying philosophy to maintain a strong fund balance and the planned expansion of programs and services. Listed below are several of the County's major accomplishments for the year.

Facility Master Plan

The Facility Master Plan that was approved in fiscal year 1999 – 2000 laid the groundwork for the future building needs of the County and was centered on sound planning and solid financial research. The Master Plan was amended in fiscal year 2002 – 2003 to reflect the changes in facility needs for the Human Services Agencies, particularly Mental Health, and to analyze several potential options for meeting the facility needs of Social Services, Public Health and Mental Health. The Facility Master Plan as currently amended serves as the basis for the facility projects included in the Capital Improvement Plan. The two major projects currently in progress are the new court facilities (Justice Building) and the Human Services Complex to accommodate Public Health, Mental Health and Social Services. The status of these projects along with the minor projects of the Master Plan is included within the Capital Improvement Plan.

Capital Improvement Plan

The County maintains a 10-year Capital Improvement plan (CIP), which is fully updated every two years. The major update of the plan has been completed for the period fiscal year 2006-2015. The next update is scheduled to be completed for the period fiscal year 2008-2017. The plan itself provides a blueprint which the County uses to meet the growing facility needs of the schools, libraries, museum, court system, public safety, human service agencies, and open space. The CIP also provides a financial overview of the financing options for the existing capital projects as well as those capital projects not yet implemented projected in the 10-year plan. Annually, the financing options are reviewed, as well as the projects and their estimated costs. Accomplishments during the past fiscal year include the following: completed construction of Little River Regional Park in conjunction with Orange County, completed a comprehensive site assessment for the proposed Judicial Building and negotiations are continuing on the property acquisition, completed construction of the South Garage for the American Tobacco Project, completed programming and master planning and awarded design contract for the Human Services Complex, completed renovations of the Agriculture Building, Operation Breakthrough Child Development Center (formerly YMCA Daycare Center) and Criminal Justice Resource Center (CJRC) (formerly Jail Annex), completed construction of Phase II of the Triangle Wastewater Treatment Plant upgrade and expansion project, evaluation of the wastewater collection system and completion of a

reclaimed wastewater study. The 2001 Bond Project accomplishments during the fiscal year are as follows: awarded construction contracts for the North and East Regional Branch Libraries, completed construction for the Hamlin Road School Bus Parking Lot, and integral part of property acquisition for the North Regional Branch Library, awarded contracts for the renovation and expansion of Stanford L. Warren Library and construction of the Durham Center for Senior Life and solicited bids for construction of the EMS Station #2. The 2003 Bond Project accomplishments included the award of a design contract for the South Regional Branch Library.

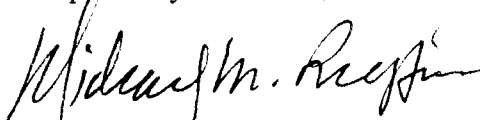
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to Durham County for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the seventh consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Manager and the Board of County Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of Durham County's finances.

Respectfully submitted,



Michael M. Ruffin
County Manager



George K. Quick
Finance Director

Durham County Board of County Commissioners



Ellen W. Reckhow
Chairman



Becky M. Heron
Vice Chairman



Philip R. Cousin, Jr.



Lewis A. Cheek



Michael D. Page

Durham County Administration

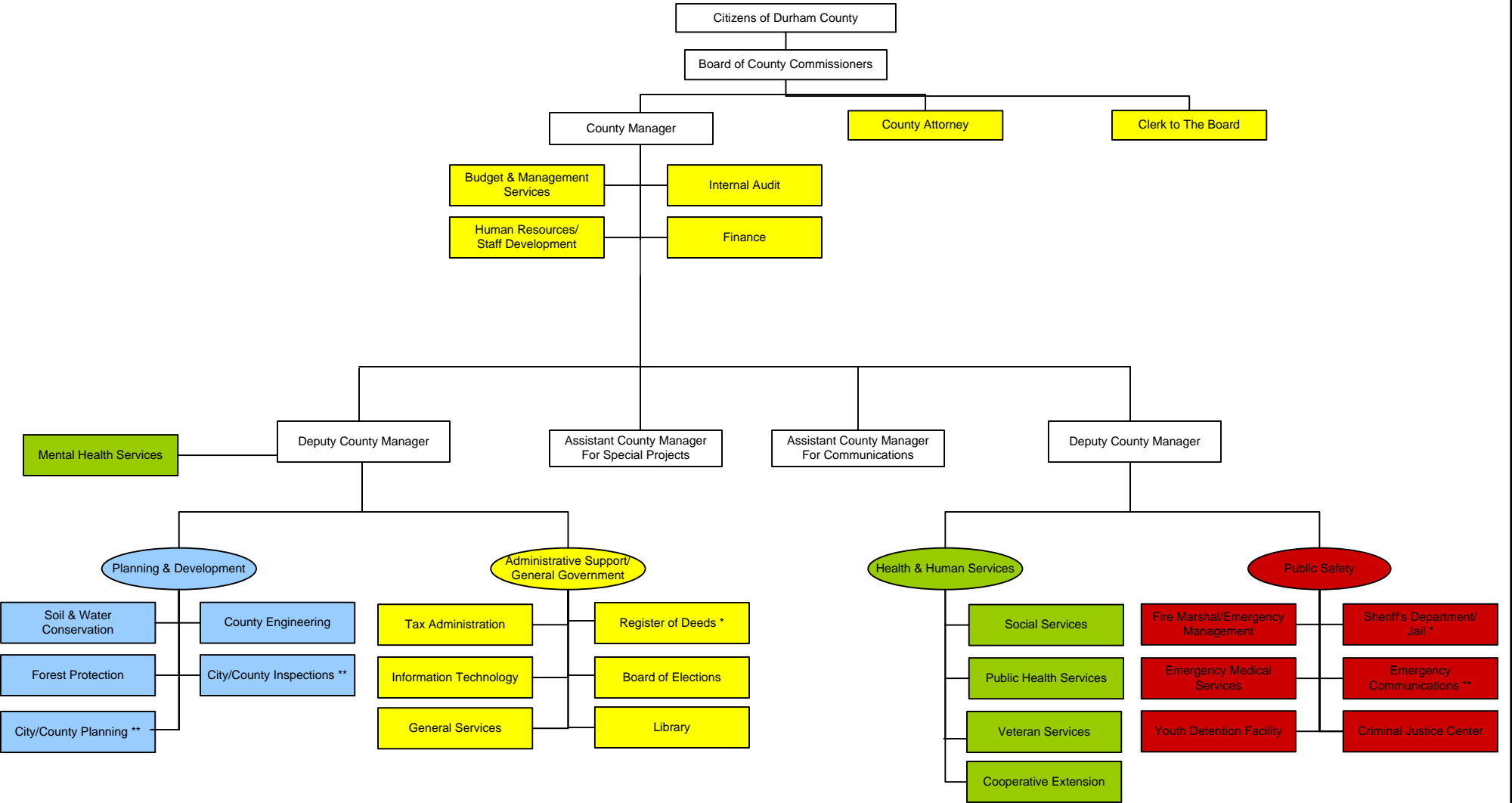


Mike Ruffin
County Manager



George K. Quick
Finance Director

Durham County, North Carolina General Administration Organizational Chart



* Elected Officials
 ** Joint City/County Departments

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Durham,
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. Zjelke

President

Jeffrey R. Emer

Executive Director



INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Durham County, 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 Durham County, North Carolina (the County), as of and for the year ended June 30, 2005, which collectively comprise the County's financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Durham County ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Durham County ABC Board is based solely on the reports 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 Durham County 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the 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 County as of June 30, 2005, and the respective changes in financial position and the cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund and community health trust 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 a report dated October 13, 2005 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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, the schedule of funding progress, employer contributions and notes to the required schedules for the Law Enforcement Officers' Special Separation Allowance are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the financial statements of the County. The combining and individual nonmajor fund statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

We did not audit the data included in the introductory section or statistical tables of this report and, accordingly, we express no opinion on such data.

CHERRY, BEKAERT & HOLLAND, L.L.P.

Cherry, Bekaert & Holland, L.L.P.

Raleigh, North Carolina
October 13, 2005

Management's Discussion and Analysis

As management of Durham County, North Carolina (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages vii-xviii.

Financial Highlights

- The assets of Durham County exceeded its liabilities at the close of the most recent fiscal year by \$110,132,602 (*net assets*). However, of this amount, unrestricted net assets has a deficit balance of (\$36,388,103) (*unrestricted net assets*) which is primarily because of the general obligation debt the County has issued on behalf of the school system and the Museum of Life and Science to fund capital outlay as required by State law. The assets funded by the County are owned by the School System and the Museum. Therefore, the County, as the issuing government, has incurred a liability without a corresponding increase in assets.
- The government's total net assets increased by \$15,369,223, an increase of 16.22 percent, primarily due to increases in the governmental activities' net assets.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$160,399,797, a decrease of \$21,466,302 in comparison with the prior year. Approximately 78.05 percent of this total amount, \$125,197,274, 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 \$35,110,365 or 10.81 percent of total general fund expenditures, compared to fiscal year 2004 which was \$38,722,720 or 13.23 percent of total general fund expenditures. The primary reason for the decline in the percentage of unreserved fund balance to total general fund expenditures is the increase in the reserved by State Statute for mental health of over \$5.6 million. There was an increased amount of year-end billings that the County was not able to receive prior to June 30, thereby, increasing the County's due from federal and state agencies.
- The reserved by state statute also increased as a result of the change in the recognition of sales tax distribution as revenue as of June 30 within 90 days of year-end rather than 60 days of year-end. This change was made based on the advice of the NC State Treasurer's Office and in accordance with GASB Statement No. 33. See Note A.3 and Note P for further information regarding this change. This change had no impact on the percentage of unreserved fund balance of total general fund expenditures.
- The County's total debt decreased by \$22,184,401 (6.85 percent) during the current fiscal year. The key factor in this decrease was the annual retirement of governmental and business-type activities debt. However, Durham County issued \$1,772,500 in installment purchases and \$66,005 in industrial utility extensions debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial

statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, using the full-accrual basis of accounting, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, transportation, economic and physical development, environmental protection, human services, education, cultural and recreational, nondepartmental and interest and fiscal charges. The business-type activities of the County include sewer utilities.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also a legally separate entity, the ABC Board, for which the County is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 23-24 of this report.

Fund financial statements. 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. *Governmental funds* are reported using the modified accrual basis of accounting which provides a current financial resources focus. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the community health trust fund and the capital projects fund, all of which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its general fund and community health trust fund, as required by 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. A budgetary comparison statement has been provided for the general fund and the community health trust fund to demonstrate compliance with this budget and whether or not the County succeeded in providing the services as planned when the budget was adopted.

The basic governmental fund financial statements can be found on pages 25-32 of this report.

Proprietary funds. The County maintains two different 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 uses enterprise funds to account for its sewer utilities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund for the financing of major capital purchases for departments or agencies on a cost reimbursement basis. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer utility which is considered to be a major fund of the County. Conversely, the internal service fund is a presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 34-36 of this report.

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 County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 37-38 of this report.

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 can be found on pages 39-85 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Durham County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 89-91 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 95-113 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. In the case of the County, assets exceeded liabilities by \$110,132,602 as of June 30, 2005. Net assets is reported in three categories: capital assets, net of related debt, restricted net assets and unrestricted net assets.

By far the largest portion of the County's net assets in the amount of \$79,605,856 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt issued to acquire those assets that are still outstanding. The County 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 related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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DURHAM COUNTY'S NET ASSETS

	Governmental Activities		Business - type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 206,401,292	\$ 231,626,989	\$ 12,723,651	\$ 20,566,301	\$ 219,124,943	\$ 252,193,290
Capital assets	175,459,961	158,630,247	50,338,203	44,367,597	225,798,164	202,997,844
Total assets	381,861,253	390,257,236	63,061,854	64,933,898	444,923,107	455,191,134
Long-term liabilities outstanding	266,665,685	287,296,992	30,289,454	32,101,321	296,955,139	319,398,313
Other liabilities	37,096,899	39,501,473	738,467	1,527,969	37,835,366	41,029,442
Total liabilities	303,762,584	326,798,465	31,027,921	33,629,290	334,790,505	360,427,755
Net assets:						
Invested in capital assets, net of related debt	58,793,546	33,692,576	20,812,310	13,063,666	79,605,856	46,756,242
Restricted	66,164,257	103,709,387	750,592	4,307,582	66,914,849	108,016,969
Unrestricted	(46,859,134)	(73,943,192)	10,471,031	13,933,360	(36,388,103)	(60,009,832)
Total net assets	\$ 78,098,669	\$ 63,458,771	\$ 32,033,933	\$ 31,304,608	\$ 110,132,602	\$ 94,763,379

The second portion of the County's net assets in the amount of \$66,914,849 represents resources that are subject to external legal restrictions that limit the County's ability to access and use these funds beyond the purpose for which they were provided. Unexpended bond proceeds and statutorily restricted revenues are included in this category.

The remaining portion of net assets is unrestricted net assets. This balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. At June 30, 2005, the unrestricted net assets are a deficit in the amount of (\$36,388,103). The unrestricted deficit is attributable primarily to the general obligation bonds issued by the County for the School System and the Museum for Life and Science. Even though the debt has been issued to finance capital outlay and construction for the School System and the Museum of Life and Science, the Governmental Accounting Standards Board has determined that it is not capital debt for the County since it is not financing assets owned by the County. Therefore, this debt is reflected within the unrestricted portion of net assets rather than capital assets, net of related debt.

At the end of the current fiscal year, the County is not able to report positive balances in all three categories of net assets for the government as a whole. However, the same did not hold true for the separate governmental and business-type activities. The unrestricted net assets for the governmental activities had a deficit balance of (\$46,859,134) while the other two categories of net assets, capital net of debt and restricted, and all three categories of net assets of the business-type activities were positive. The unrestricted net assets for the business-type activities had a positive balance of \$10,471,031.

The government's net assets increased by \$15,369,223 during the current fiscal year. This amount is an increase of 16.22 percent. The County was able to maintain its stability financially for a fifth

consecutive year during a continued weak economy for the State and the nation. Of this increase, \$4,768,565 is a prior period adjustment to beginning net assets. This adjustment was made because during the fiscal year ended June 30, 2004, the State of North Carolina changed the distribution method for local option sales taxes that it collects on behalf of local governments. These taxes are now distributed on a monthly basis rather than quarterly basis. Beginning for fiscal year 2005, on advice from the NC State Treasurer's Office and in accordance with GASB Statement No. 33, the County will consider a sales tax distribution as a revenue as of June 30 if it is received within 90 days of year-end. Therefore, the beginning net assets for the fiscal year has been restated. Please see Note A.3. In addition, there was a 2.7 cent tax increase for the 2004 levy for property taxes levied for general purposes with 1.6 cent of this increase dedicated to capital financing and/or the retirement of debt for capital financing. Property taxes levied for general purposes increased by over \$10 million for fiscal year 2005. In fiscal year 2005, there were increases in revenues in the areas of operating grants and contributions primarily because of increased services provided by social services. Charges for services increased over \$13 million primarily because of increased collections in human services and environmental protection. In fiscal year 2005, there were also increases in property taxes levied for fire districts, property taxes levied for other district purposes, local option sales tax, occupancy tax, animal tax, investment and rental income, and other revenues. Likewise, in fiscal year 2005, there were decreases in revenues in the areas of capital grants and contributions, occupancy tax, gross receipts tax, other taxes and in the area of amortization of bond premium for business-type activities. As previously stated, licenses and permits is shown for fiscal year 2005 in the program revenues (charges for services). The net of revenues in all areas was an increase to offset the increases in expenses. The significant increases were in public safety, human services, interest and fiscal charges and sewer utility. The County's finances continue to improve in conjunction with the gradual improvement in the economy. Strong, sound financial management is the basis for this stability.

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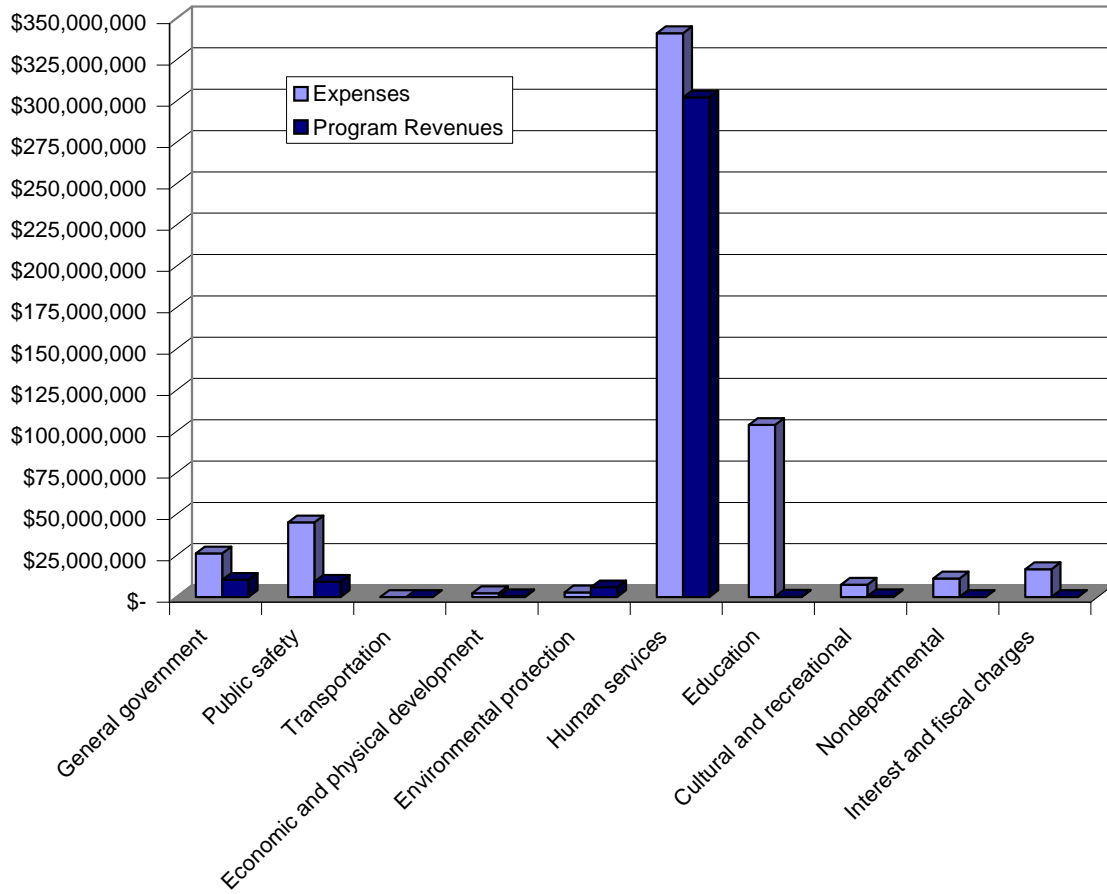
DURHAM COUNTY'S CHANGES IN NET ASSETS

	Governmental		Business - type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for services	\$ 49,520,671	\$ 36,001,137	\$ 5,376,090	\$ 4,693,790	\$ 54,896,761	\$ 40,694,927
Operating grants and contributions	278,597,429	251,306,585	-	-	278,597,429	251,306,585
Capital grants and contributions	581,241	288,560	-	1,824,929	581,241	2,113,489
General revenues:					-	-
Taxes	217,588,617	204,434,981	-	-	217,588,617	204,434,981
Investment and rental income	9,320,860	3,602,549	626,115	166,107	9,946,975	3,768,656
Licenses and permits	-	2,009,911	-	-	-	2,009,911
Amortization of bond premium	193,174	193,174	33,834	55,031	227,008	248,205
Other revenues	11,139,896	10,762,996	-	-	11,139,896	10,762,996
Total revenues	566,941,888	508,599,893	6,036,039	6,739,857	572,977,927	515,339,750
Expenses:						
General government	26,351,619	26,032,334	-	-	26,351,619	26,032,334
Public safety	45,099,164	40,967,085	-	-	45,099,164	40,967,085
Transportation	12,500	12,500	-	-	12,500	12,500
Economic and physical development	2,243,791	2,478,868	-	-	2,243,791	2,478,868
Environmental Protection	2,760,078	2,288,155	-	-	2,760,078	2,288,155
Human services	341,183,062	302,529,857	-	-	341,183,062	302,529,857
Education	104,106,885	104,597,540	-	-	104,106,885	104,597,540
Cultural and recreational	7,375,565	7,089,954	-	-	7,375,565	7,089,954
Nondepartmental	11,197,360	10,644,972	-	-	11,197,360	10,644,972
Interest and fiscal charges	16,740,531	12,845,931	-	-	16,740,531	12,845,931
Sewer utility	-	-	5,306,714	4,111,848	5,306,714	4,111,848
Total expenses	557,070,555	509,487,196	5,306,714	4,111,848	562,377,269	513,599,044
Increase (decrease) in net assets	9,871,333	(887,303)	729,325	2,628,009	10,600,658	1,740,706
Net assets – 7/1/2004	63,458,771	64,346,074	31,304,608	28,676,599	94,763,379	93,022,673
Prior period adjustment (Note P)	4,768,565	-	-	-	4,768,565	-
Adjusted net assets - 7/1/2004	68,227,336	64,346,074	31,304,608	28,676,599	99,531,944	93,022,673
Net assets – 6/30/2005	\$ 78,098,669	\$ 63,458,771	\$ 32,033,933	\$ 31,304,608	\$ 110,132,602	\$ 94,763,379

- Property taxes increased by \$10,326,262 (6.52 percent) during the year. This increase is because of a 2.7 cent tax increase for the 2004 levy for property taxes levied for general purposes with 1.6 cent of this increase dedicated to capital financing and/or the retirement of debt for capital financing coupled with the continued collection efforts including participating in the North Carolina Local Government Debt Setoff Clearinghouse Program.
- Local option sales tax increased by \$2,928,064 (6.90 percent) during the year. The increase was primarily due to increased sales for the year.
- Occupancy tax decreased by \$424,750 (14.86 percent) during the year. This is because of the restrictions imposed on the distribution of the additional one percent.
- Licenses and permits are shown in the program revenues, charges for services, as of fiscal year 2005.
- Intergovernmental revenues increased by \$25,758,596 including pass-through and direct payments. The increase is a result of increases in human services. Social services increased over \$25.6 million primarily because of increased funding in the food stamp and State Medicaid payments, or reimbursements.
- Charges for services increased by \$14,201,834 (34.90 percent). Most of this increase is because of an increase in the charges for services of human services in the amount of \$7,217,222, with over \$6 million of this for mental health. In addition, the revenue source for licenses and permits is reported in charges for services for environmental protection in fiscal year 2005 and was being reported separately in general revenues in fiscal year 2004. Environmental protection increased \$4,410,051 primarily because of the increase of collections of the school impact fees as well as the inclusion of licenses and permits. There was also an increase in the sewer utility charges for services during the year in the amount of \$682,300 (14.54 percent) due to an increase in consumption.
- Investment and rental income increased by \$6,178,319 (163.94 percent). This is primarily because of the distributions of investment earnings distributed from the investments controlled through investment managers for the Community Health Trust Fund.

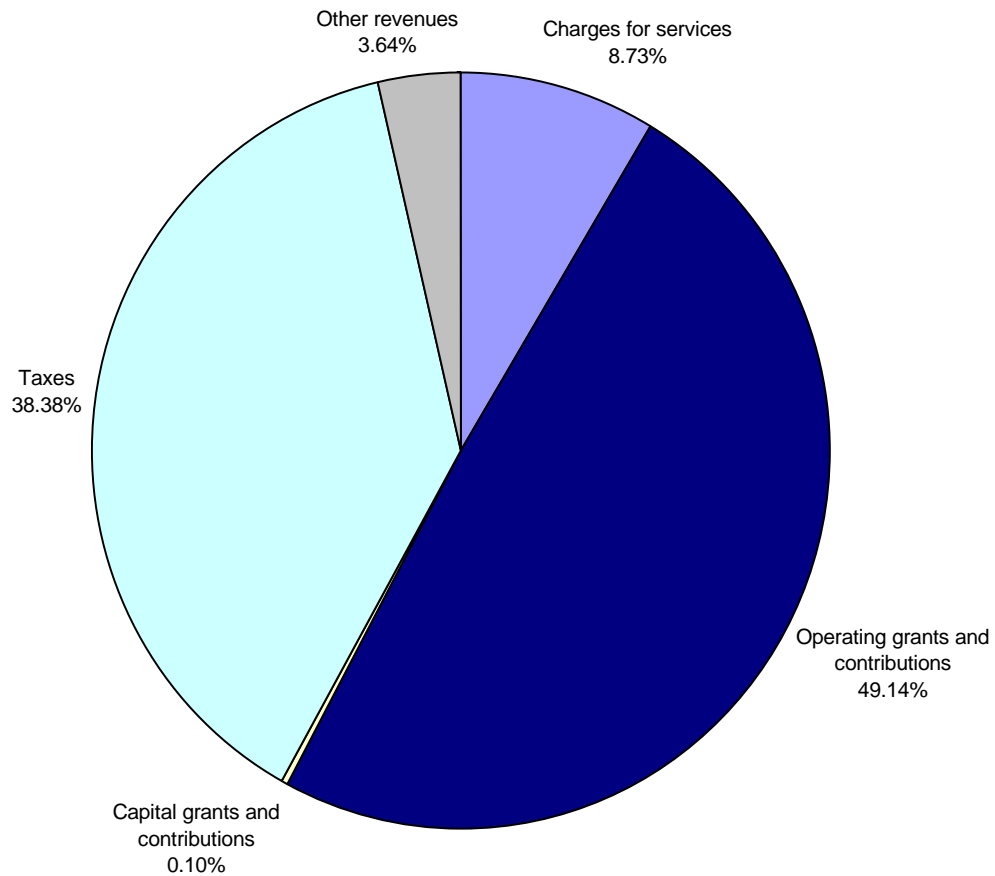
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Expenses and Program Revenues – Governmental Activities



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Revenues by Source – Governmental Activities



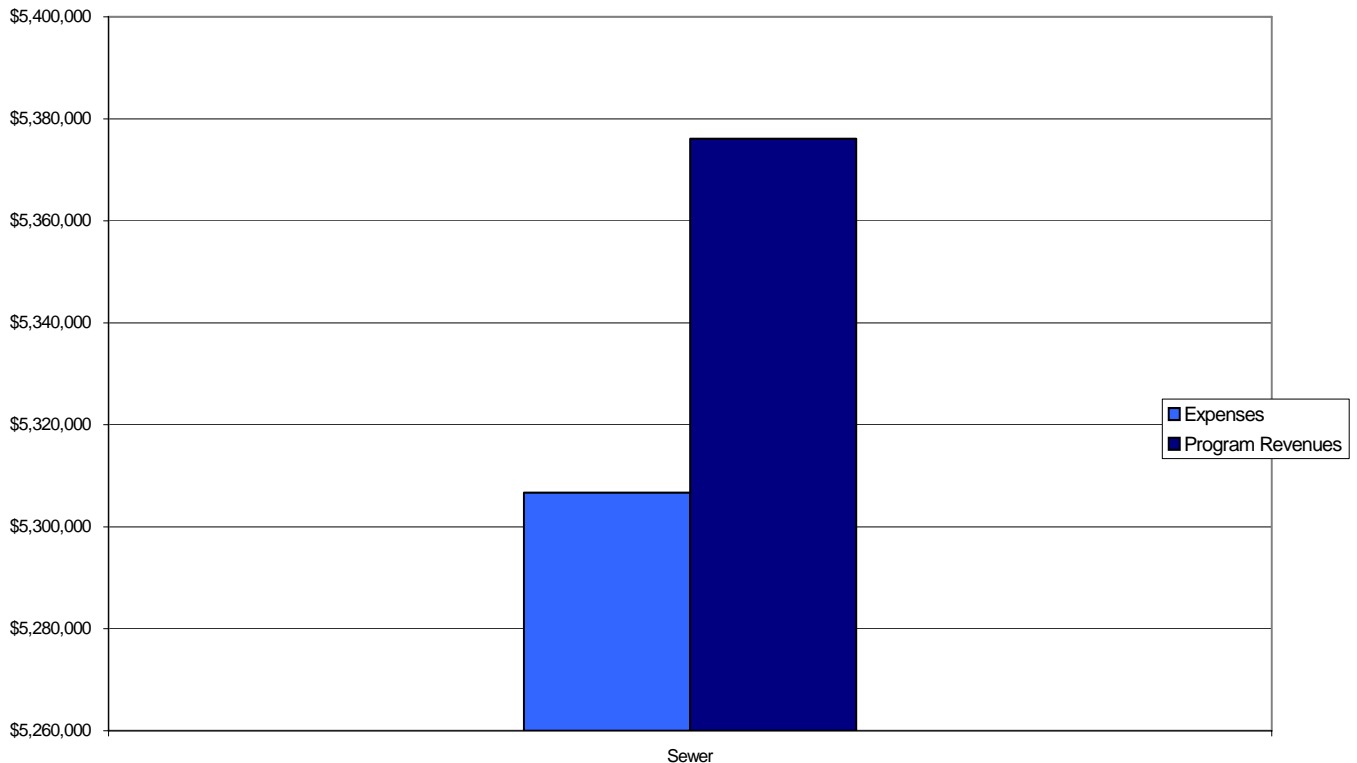
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. The overall expenses for the County increased by \$48,778,225 (9.50 percent) due primarily to increases in expenses of governmental activities. The largest increase was in human services, which increased \$38,653,205 (12.78 percent), which is primarily due to an increase in services provided by social services and mental health. Public safety expenses increased by \$4,132,079 (10.09 percent). The majority of this variance is due to increases in services provided by the sheriff's office, jail, emergency medical services, county fire protection and other non-major public safety services (fire districts and emergency services). Interest and fiscal charges increased over \$3.8 million. In addition, general government, environmental protection, cultural and recreational and non-departmental increased by \$319,285 (1.23 percent), \$471,923 (20.63 percent),

\$285,611 (4.03 percent) and \$552,388 (5.19 percent), respectively, due primarily to increased services.

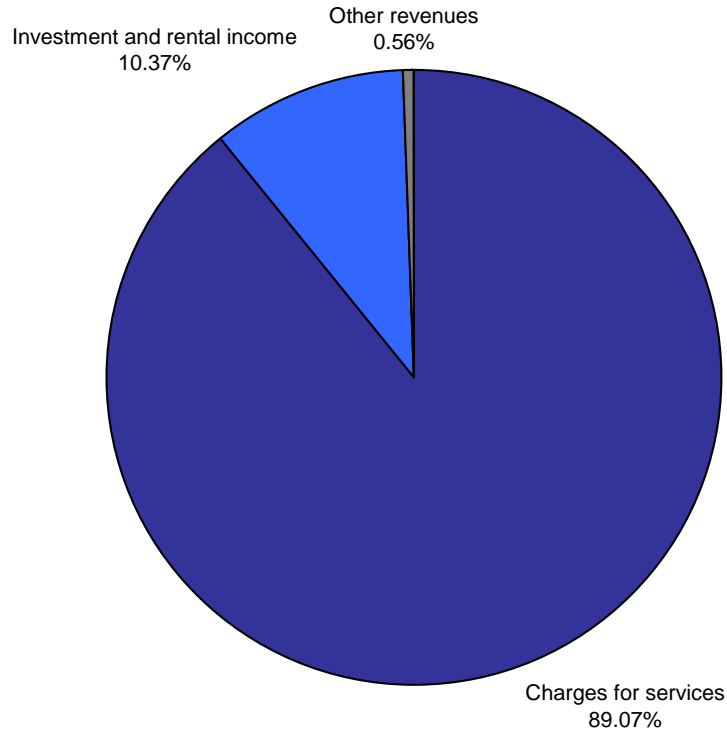
Business-type activities. Business-type activities increased the County’s net assets by \$729,325 accounting for 6.88 percent of the increase of the total growth in the government’s net assets. Key elements of this are as follows:

- There was no capital contributions (sewer lines) from private developers in fiscal year 2005 compared to \$1,824,929 in fiscal year 2004.
- Amortization of bond premium in the amount of \$33,834, a decrease from \$55,031 in the previous fiscal year.
- Investment earnings increased \$460,008 (276.93 percent) for business-type activities compared to a decrease of \$185,751 (52.79 percent) in fiscal year 2004. This is a result of better returns coupled with a correction from fiscal year 2004 that was immaterial and did not require a restatement of fiscal year 2004.
- Expenses increased \$1,194,866 mainly because of increases in contracted services, interest and fiscal charges and utilities.
- Charges for services increased \$803,080 primarily because of a rate increase and an increase in consumption.

Expenses and Program Revenues – Business-type Activities



Revenues by Source –Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of \$160,399,797, a decrease of \$21,466,302 in comparison with the prior year.

Approximately 78.05 percent of this total amount (\$125,197,274) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to honor contracts and purchase orders of the prior period (\$2,358,930), 2) for a variety of other restricted purposes (\$2,331,661) or 3) because it is reserved by state statute (\$30,478,237).

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$35,110,365, while total fund balance grew and reached \$67,536,591. 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 10.81 percent of total general fund expenditures, while total fund balance represents 20.79 percent of that same amount. The percentage of unreserved fund balance to total general fund expenditures decreased from 13.23 percent for fiscal year 2004 to 10.81 percent for fiscal year 2005, a decrease of 2.42 percent. The primary reason for the decline in the percentage of unreserved fund balance to total general fund expenditures is the increase in the reserved by State Statute for mental health of over \$5.6 million. There was an increased amount of year-end billings that the County was not able to receive prior to June 30, thereby, increasing the due from federal and state agencies.

The fund balance of the County's general fund increased by \$6,078,537 during the current fiscal year. Key factors in this growth are as follows:

- A prior period adjustment was made to the beginning fund balance for fiscal year 2005 in the amount of \$4,768,565. This adjustment was made because during the fiscal year ended June 30, 2004, the State of North Carolina changed the distribution method for local option sales taxes that it collects on behalf of local governments (e.g., monthly basis rather than quarterly basis). Beginning for fiscal year 2005, on advice from the NC State Treasurer' Office and in accordance with GASB Statement No. 33, the County will consider a sales tax distribution as a revenue as of June 30 if it is received within 90 days of year-end. Therefore, the beginning fund balance for the fiscal year has been restated. Please see Note A.3.
- Intergovernmental revenues of the general fund increased by 15.07 percent or \$12,098,555 excluding pass-through and direct. For the most part, this increase occurred in human services in the agency of social services because of increased funding for current services.
- The general fund taxes grew by 6.15 percent or \$12,376,096. Most of this increase is the product of current year levy collections and local options sales tax. This is because of a 2.7 cent tax increase for the 2004 levy with 1.6 cent of this increase dedicated to capital financing and/or the retirement of debt for capital financing coupled with continued collection efforts including participating in the North Carolina Local Government Debt Setoff Clearinghouse Program. Current year levy collections and local option sales tax increased by \$9,599,778 (6.34 percent) and \$2,928,064 (6.90 percent), respectively.
- Charges for services increased \$7,405,107 or 23.55 percent. The increase was largely due to the increase in services provided by mental health which increased by \$6,149,589 as a result of increased administration charges for the filing of Medicaid funding, or reimbursements due to outsourcing of these services. Also, general government, public protection, and emergency medical services charges increased by \$596,929, \$370,540, and \$214,429, respectively. These increases constitute the majority of the overall increase.

- Public safety increased \$3,247,137. This is due mainly because of increased services of the sheriff, jail, emergency medical services and fire protection in the amount of \$1,366,204, \$659,419, \$470,269 and \$555,897, respectively.
- Human services' expenditures increased by \$23,472,534. This increase was primarily because of increased services in the area of social services. However, even though it was not nearly as significant, increased services in mental health were also part of the reason for this increase.
- Education increased by \$4,382,000 from the prior fiscal year. Over \$4.2 million was because of increased funding to the Durham Public Schools.

The Community Health Trust Fund has a total fund balance of \$19,568,693, all of which is financing resources to be used for health related operating and capital expenditures as directed and approved by the Board of County Commissioners. The net increase in fund balance during the current year in the community health trust fund was \$6,210,292. In the prior year, the fund had growth in fund balance of \$1,855,681. The growth in fiscal year 2005 was due primarily to the increase in the investment earnings because of distributions of earnings from the investments controlled by investment managers for the community health trust fund on behalf of the County. Given the conditions of the market and the amount being invested by the investment managers on behalf of the County, this is viewed by the County as both positive and encouraging.

The primary revenue activity was the investment and rental income (\$5,116,226). In addition, there was the recognition of the annual amount from the prepaid lease (\$3,500,000). In the expenditures, the amortization of the lease discount was recognized (\$1,150,000) as well as a transfer to assist in the funding of health related expenditures in the general fund (\$1,310,000). The Board of County Commissioners allocates a percentage of the earnings from the previous calendar year to health related expenditures and reinvests the balance which allows the fund to grow. Management of these funds is performed by investment managers approved through special legislation, S.L. 1999-101, Senate Bill 653.

The Capital Projects Fund has a total fund balance of \$65,365,471, all of which is financing resources to be used for the acquisition, construction or improvement of major capital facilities other than those financed by proprietary funds. The net decrease in fund balance during the current year in the capital projects' fund was \$35,714,438 due primarily to the acquisition, construction or improvement of major capital facilities for the County and School System using the funding sources. The County's activity was recorded to construction in progress in capital assets of the County while the Schools System's activity was recorded in their capital assets.

The primary revenue activity was the recognition of other financing sources, the issuance of installment purchases (\$1,410,000), and transfers (\$3,883,413). The fund also recognized intergovernmental revenues (\$581,241) and investments and rental income (\$498,912). In the expenditures, there was construction activity in the amount of \$41,033,820 as well as another financing use in the transfer of \$1,054,184. The construction activity was primarily for public education and cultural and recreational in the amounts of \$21,061,942 and \$10,451,161, respectively. The other construction activity occurred in general government (\$3,307,648), public safety (\$23,573), economic and physical development (\$338,663), and environmental protection (\$5,850,833).

Proprietary funds. The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewer utility fund at the end of the year amounted to \$10,471,031. There was an increase in total net assets of \$729,325. Other factors concerning the finances of this fund have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$34,710,285 increase in appropriations and can be briefly summarized as follows:

- \$1,790,823 in increases allocated to general government activity
- \$2,908,685 in increases allocated to public safety
- \$159,345 in increases allocated to economic and physical development
- \$148,524 in increases allocated to environmental protection
- \$28,660,793 in increases allocated to human services
- \$211,946 in increases allocated to cultural and recreational
- \$1,741,345 in increases allocated to operating transfers out
- \$911,176 in decreases allocated to nondepartmental which is a decrease in the allocation to miscellaneous.

Of this increase, \$3,790,837 was to be funded out of miscellaneous increases in various charges for services, \$125,895 was to be funded from additional taxes, \$26,566,031 was to be funded from additional intergovernmental revenues, \$594,190 to be funded from investment and rental income and \$23,887 was to be funded through licenses and permits netted with a decrease in funding of other revenues in the amount of \$211,728. The remaining \$3,821,173 was to be budgeted from available fund balance. However, during the year, while revenues exceeded budgetary estimates by \$4,102,119, expenditures were also far less than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$225,798,164 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, office furniture and equipment, machinery and equipment, computer hardware, computer software, vehicles and construction in progress. The total increase in the County's investment in capital assets for the current fiscal year was 11.23 percent (a 10.61 percent increase for governmental activities and a 13.46 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Construction continued on the additional wastewater treatment facilities and the collection systems rehabilitation for the sewer utility fund which had construction costs for the year of \$6,504,152 and \$7,793, respectively.
- Construction for the Durham Public School Projects continued in fiscal year 2005 in the amount of \$21,061,942.
- Construction for NCML & Bioquest, East Regional Library and American Tobacco Garage Parking facility occurred in the amount of \$5,115,303, \$2,373,024 and \$2,103,302 in governmental activities, respectively.
- One new project was implemented during the fiscal year construction costs of \$566,144 for governmental activities.
- There was a loss on the disposal of capital assets of \$51,939 for governmental activities.

DURHAM COUNTY'S CAPITAL ASSETS
(Net of Depreciation)

	Governmental		Business - type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Land	\$ 6,189,453	\$ 6,189,453	\$ 185,226	\$ 185,226	\$ 6,374,679	\$ 6,374,679
Improvements- water and sewer lines	-	-	16,167,910	16,688,040	16,167,910	16,688,040
Buildings	108,354,413	111,904,561	2,029,923	2,056,633	110,384,336	113,961,194
Office furniture and equipment	11,561	20,376	-	-	11,561	20,376
Machinery and equipment	1,490,221	1,000,674	94,301	88,800	1,584,522	1,089,474
Computer hardware	553,362	628,763	-	-	553,362	628,763
Computer software	206,078	179,275	-	-	206,078	179,275
Vehicles	504,929	529,079	-	-	504,929	529,079
Construction in progress	58,149,944	38,178,066	31,860,843	25,348,898	90,010,787	63,526,964
Total	\$ 175,459,961	\$ 158,630,247	\$ 50,338,203	\$ 44,367,597	\$ 225,798,164	\$ 202,997,844

Additional information on the County's capital assets can be found in Note D on pages 61-63 of this report.

Long-term debt. At the end of the current fiscal year, Durham County had total debt outstanding of \$295,016,162. Of this amount, \$221,945,003 comprises bonded debt backed by the full faith and credit of the government. Also included is \$23,245,000 of bonded debt secured by a pledge of and lien upon, and payable solely from, the net receipts of the enterprise system, and in certain circumstances, by proceeds of the revenue bonds, investment earnings and certain net insurance and other proceeds. The revenue bonds are additionally secured by and payable from money and securities of certain funds, accounts and sub-accounts held by the trustee under the trust agreement and the first supplemental trust agreement. The balance consists of certificates of participation in the amount of \$24,560,000, installment notes in the amount of \$23,807,269 and industrial extensions policy in the amount of \$1,458,890.

DURHAM COUNTY’S OUTSTANDING DEBT
Long-Term Debt

	Governmental Activities		Business - type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 215,664,108	\$ 232,231,073	\$ 6,280,895	\$ 6,788,928	\$ 221,945,003	\$ 239,020,001
Revenue bonds	-	-	23,245,000	24,515,000	23,245,000	24,515,000
Certificates of participation	24,560,000	26,690,000	-	-	24,560,000	26,690,000
Installment notes payable	23,807,269	24,813,943	-	-	23,807,269	24,813,943
Industrial extensions policy	1,458,890	2,216,073	-	-	1,458,890	2,216,073
Total	\$ 265,490,267	\$ 285,951,089	\$ 29,525,895	\$ 31,303,928	\$ 295,016,162	\$ 317,255,017

The County’s total debt excluding accrued compensated absences, separation allowance and unamortized bond premiums decreased by \$22,238,855 (7.01 percent) during the current fiscal year. The key factor in this decrease was the reduction of debt as a result of the annual debt payments combined with the issuance of \$1,772,500 in installment purchases for various capital projects for governmental activities for the County and the issuance of \$66,005 in industrial utility extension debt.

The County maintains “Aaa” and “AAA” ratings, respectively, from Moody’s Investor Service and Standard & Poors Corporation.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation. The current debt limitation for the County is \$1,648,120,743, leaving a legal debt margin of \$1,353,906,753. The net bonded debt per capital is \$873.

Additional information on the County’s long-term debt can be found in Note E on pages 64-69 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the County is 4.5 percent as of September 2005, which is an increase from a rate of 4.2 percent for calendar year 2004. This compares favorably to the State's and nation's average unemployment rate as of September 2005 of 5.5 percent and 5.1 percent, respectively.
- The construction activity in the County is on the rise. As of September 2005, the construction activity for non-residential and residential construction was over \$829 million compared to over \$752 million for the entire calendar year 2004.
- The manufacturing sector employment increased 0.81 percent (253 positions) for calendar year 2004 (31,302) compared to calendar year 2003 (31,049). This is due primarily to the recuperation of the manufacturing industry in the County. In addition, as of the 1st quarter of calendar year 2005, the number has increased to 31,483 positions (181 increase, 0.58 percent).
- Retail sales increased to \$5,085,956, a 9.5 percent growth over the previous year.
- Economic development announcements for 2004 were over \$624 million, and economic announcements occurring through the third quarter of 2005 amounted to over \$209 million.
- The projected per capita income for the County for 2005 is \$34,212, an estimated increase of 3.17 percent over the projected of 2003. The Durham MSA and the Raleigh/Cary MSA has a projected per capita income of \$33,505 and \$37,270, respectively. The projected per capita for the State and the nation is an estimated increase from the projected for 2004 to \$30,429 and \$34,165, an increase of 3.01 percent and 3.13 percent, respectively.
- Inflationary trends in the region compare favorably to the national indices.

All of these factors were considered in preparing the County's budget for the 2006 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$35,110,365. The County has appropriated \$14,990,000 of this amount for spending in the 2006 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2006 fiscal year. Transfers from the special revenue funds are budgeted for the 2006 fiscal year as funding sources. Also, a transfer from the community health trust fund is budgeted for the 2006 fiscal year as a funding source for health related spending.

The sewer rates were increased for the 2006 budget year in the sewer utility fund. The sewer rates were increased by 10 percent for all customers, both residential and industrial. These rate increases were necessary to maintain operations. However, there was no increase in the capital recovery charges. The capital recovery charge is a part of connection fees for new customers and is used as a source of funding for capital acquisitions, construction and improvements.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 200 East Main Street, Floor 4M, Durham, NC 27701.

BASIC FINANCIAL STATEMENTS

DURHAM COUNTY, NORTH CAROLINA

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total Primary Government	Durham County ABC Board
Assets				
Cash and cash equivalents / investments	\$ 88,538,697	\$ 10,900,314	\$ 99,439,011	\$ 2,006,802
Cash and cash equivalents / investments - restricted	64,889,354	750,592	65,639,946	-
Capital lease discount	3,450,000	-	3,450,000	-
Receivables:				
Accounts receivable	1,036,836	502,188	1,539,024	2,467
Accrued interest receivable	281,591	37,342	318,933	-
Assessment receivable	6,529	72,002	78,531	-
Net taxes receivable	5,139,002	-	5,139,002	-
Solid waste receivable	3,546	-	3,546	-
Net impact fees receivable	68,000	-	68,000	-
Net emergency medical services receivable	4,788,944	-	4,788,944	-
Inventory	385,517	-	385,517	1,282,834
Due from other governments - federal and state agencies	26,138,855	-	26,138,855	-
Due from other governments - local	2,698,772	-	2,698,772	-
Due from City of Durham tax fund	146,625	-	146,625	-
Prepays	83,528	-	83,528	53,953
Bond issuance costs	792,314	512,094	1,304,408	-
Accumulated amortization bond issue costs	(198,946)	(50,881)	(249,827)	-
Investment in joint venture	8,152,128	-	8,152,128	-
Capital assets:				
Nondepreciable:				
Land	6,189,453	185,226	6,374,679	1,249,559
Construction in progress	58,149,944	31,860,843	90,010,787	-
Depreciable:				
Land improvements - sewer and water lines	-	24,066,304	24,066,304	613,865
Buildings	147,014,478	4,103,344	151,117,822	1,879,456
Office furniture and equipment	433,137	-	433,137	-
Machinery and equipment	6,928,230	243,758	7,171,988	700,128
Computer hardware	2,369,963	-	2,369,963	-
Computer software	739,498	-	739,498	-
Vehicles	5,677,764	-	5,677,764	61,048
Law enforcement	-	-	-	123,695
Accumulated depreciation	(52,042,506)	(10,121,272)	(62,163,778)	(1,641,625)
Total assets	<u>381,861,253</u>	<u>63,061,854</u>	<u>444,923,107</u>	<u>6,332,182</u>
Liabilities				
Accounts payable	10,828,491	471,510	11,300,001	647,184
Arbitrage rebate payable	27,000	13,000	40,000	-
Trust/Cap interest payable	-	59,965	59,965	-
Accrued interest payable	4,987,406	152,400	5,139,806	-
Escheats payable	56,689	-	56,689	-
Accrued payroll and related amounts withheld	4,087,158	15,515	4,102,673	102,780
Accrued compensated absences due within one year	3,742,197	13,356	3,755,553	-
Bonds and other notes payable due within one year	22,476,286	1,812,881	24,289,167	36,918
Unamortized bond premium due within one year	193,174	33,834	227,008	-
Collections in advance	1,896,311	-	1,896,311	-
Prepaid capital lease	10,500,000	-	10,500,000	-
Due to other governments - federal and state agencies	-	-	-	319,299
Due to other governments - local	29,887	-	29,887	236,996
Other liabilities	-	-	-	28,394
Long-term liabilities:				
Accrued compensated absences	941,760	12,721	954,481	103,853
Bonds and other notes payable	243,158,887	27,713,014	270,871,901	612,242
Unamortized bond premium	837,338	729,725	1,567,063	-
Total liabilities	<u>303,762,584</u>	<u>31,027,921</u>	<u>334,790,505</u>	<u>2,087,666</u>
Net assets				
Capital assets, net of related debt	58,793,546	20,812,310	79,605,856	2,336,966
Restricted for:				
Capital projects	63,832,596	750,592	64,583,188	-
Other purposes	2,331,661	-	2,331,661	-
Unrestricted net assets	(46,859,134)	10,471,031	(36,388,103)	1,907,550
Total net assets	<u>\$ 78,098,669</u>	<u>\$ 32,033,933</u>	<u>\$ 110,132,602</u>	<u>\$ 4,244,516</u>

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

**Statement of Activities
Year Ended June 30, 2005**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Durham County ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
General government	\$ 26,351,619	\$ 7,419,425	\$ 2,463,328	\$ 416,024	\$ (16,052,842)	\$ -	\$ (16,052,842)	\$ -
Public safety	45,099,164	7,100,689	2,148,442	24,580	(35,825,453)	-	(35,825,453)	-
Transportation	12,500	15,323	-	-	2,823	-	2,823	-
Economic and physical development	2,243,791	10,588	380,608	-	(1,852,595)	-	(1,852,595)	-
Environmental protection	2,760,078	5,824,811	-	-	3,064,733	-	3,064,733	-
Human services	341,183,062	28,870,290	273,354,673	-	(38,958,099)	-	(38,958,099)	-
Education	104,106,885	-	-	140,637	(103,966,248)	-	(103,966,248)	-
Cultural and recreational	7,375,565	279,545	250,378	-	(6,845,642)	-	(6,845,642)	-
Nondepartmental	11,197,360	-	-	-	(11,197,360)	-	(11,197,360)	-
Interest and fiscal charges	16,740,531	-	-	-	(16,740,531)	-	(16,740,531)	-
Total governmental activities	<u>557,070,555</u>	<u>49,520,671</u>	<u>278,597,429</u>	<u>581,241</u>	<u>(228,371,214)</u>	<u>-</u>	<u>(228,371,214)</u>	<u>-</u>
Business-type activities:								
Sewer utility	5,306,714	5,376,090	-	-	-	69,376	69,376	-
Total business-type activities	<u>5,306,714</u>	<u>5,376,090</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,376</u>	<u>69,376</u>	<u>-</u>
Total primary government	<u>\$ 562,377,269</u>	<u>\$ 54,896,761</u>	<u>\$ 278,597,429</u>	<u>\$ 581,241</u>	<u>(228,371,214)</u>	<u>69,376</u>	<u>(228,301,838)</u>	<u>-</u>
Component units:								
Durham County ABC Board	\$ 17,240,198	\$ 17,510,212	\$ -	\$ -	-	-	-	270,014
Total component units	<u>\$ 17,240,198</u>	<u>\$ 17,510,212</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,014</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					165,038,984	-	165,038,984	-
Property taxes, levied for fire districts					3,739,469	-	3,739,469	-
Property taxes, levied for other districts purposes					324,597	-	324,597	-
Local option sales tax					45,384,056	-	45,384,056	-
Occupancy tax					2,433,608	-	2,433,608	-
Animal tax					482,165	-	482,165	-
Gross receipts tax					185,738	-	185,738	-
Investment and rental income					9,320,860	626,115	9,946,975	31,799
Other revenues					11,139,896	-	11,139,896	-
Amortization of bond premium					193,174	33,834	227,008	-
Total general revenues					<u>238,242,547</u>	<u>659,949</u>	<u>238,902,496</u>	<u>31,799</u>
Change in net assets					9,871,333	729,325	10,600,658	301,813
Net assets - beginning					63,458,771	31,304,608	94,763,379	3,942,703
Prior period adjustment (Note P)					4,768,565	-	4,768,565	-
Adjusted net assets - beginning					<u>68,227,336</u>	<u>31,304,608</u>	<u>99,531,944</u>	<u>3,942,703</u>
Net assets - ending					<u>\$ 78,098,669</u>	<u>\$ 32,033,933</u>	<u>\$ 110,132,602</u>	<u>\$ 4,244,516</u>

DURHAM COUNTY, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2005**

	General	Community Health Trust Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents / investments	\$ 52,479,538	\$ 26,618,693	\$ 4,163,240	\$ 5,277,226	\$ 88,538,697
Cash and cash equivalents / investments - restricted	1,056,758	-	63,832,596	-	64,889,354
Capital lease discount	-	3,450,000	-	-	3,450,000
Receivables:					
Accounts receivable	813,791	-	-	223,045	1,036,836
Assessment receivable	6,529	-	-	-	6,529
Net taxes receivable	5,064,100	-	-	74,902	5,139,002
Solid waste receivable	3,546	-	-	-	3,546
Net impact fees receivable	-	-	-	68,000	68,000
Net emergency medical services receivable	4,788,944	-	-	-	4,788,944
Inventory	385,517	-	-	-	385,517
Due from other governments - federal and state agencies	26,082,863	-	29,935	26,057	26,138,855
Due from other governments - local	235,207	-	-	2,463,565	2,698,772
Due from City of Durham tax fund	146,625	-	-	-	146,625
Due from internal service fund	457,149	-	-	-	457,149
Prepaid expenditures	83,528	-	-	-	83,528
Total assets	<u>\$ 91,604,095</u>	<u>\$ 30,068,693</u>	<u>\$ 68,025,771</u>	<u>\$ 8,132,795</u>	<u>\$ 197,831,354</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 8,168,035	\$ -	\$ 2,660,300	\$ 156	\$ 10,828,491
Arbitrage rebate payable	-	-	-	27,000	27,000
Escheats payable	56,689	-	-	-	56,689
Accrued payroll and related amounts withheld	4,087,158	-	-	-	4,087,158
Due to other governments - local	29,887	-	-	-	29,887
Deferred revenues:					
Collections in advance	1,862,616	-	-	33,695	1,896,311
Prepaid capital lease	-	10,500,000	-	-	10,500,000
Taxes and assessments	5,070,629	-	-	74,902	5,145,531
Solid waste	3,546	-	-	-	3,546
Impact fees	-	-	-	68,000	68,000
Emergency medical services	4,788,944	-	-	-	4,788,944
Total liabilities	<u>24,067,504</u>	<u>10,500,000</u>	<u>2,660,300</u>	<u>203,753</u>	<u>37,431,557</u>
Fund balances:					
Reserved:					
State statute	19,312,351	-	29,935	2,712,667	22,054,953
State statute - mental health	8,423,284	-	-	-	8,423,284
Encumbrances	2,352,516	-	-	-	2,352,516
Encumbrances - mental health	6,414	-	-	-	6,414
Other purposes	2,331,661	-	-	33,695	2,365,356
Unreserved:					
Designated:					
Subsequent years	14,990,000	-	-	3,036,423	18,026,423
Risk management	3,321,163	-	-	-	3,321,163
Debt service	1,226,515	-	-	-	1,226,515
Undesignated	15,572,687	19,568,693	65,335,536	-	100,476,916
Unreserved, reported in nonmajor:					
Special revenue	-	-	-	2,113,826	2,113,826
Debt service	-	-	-	32,431	32,431
Total fund balances	<u>67,536,591</u>	<u>19,568,693</u>	<u>65,365,471</u>	<u>7,929,042</u>	<u>160,399,797</u>
Total liabilities and fund balances	<u>\$ 91,604,095</u>	<u>\$ 30,068,693</u>	<u>\$ 68,025,771</u>	<u>\$ 8,132,795</u>	<u>\$ 197,831,354</u>

DURHAM COUNTY, NORTH CAROLINA

**Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2005**

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

Ending fund balance - governmental funds	\$ 160,399,797
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	182,255,475
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	10,006,021
An internal service fund is used by management for the financing of capital goods or services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	899,465
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(275,462,089)
Net assets of governmental activities	<u>\$ 78,098,669</u>

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005**

	General	Community Health Trust Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 213,718,822	\$ -	\$ -	\$ 4,059,243	\$ 217,778,065
Licenses and permits	971,283	-	-	3,093,750	4,065,033
Intergovernmental revenues	92,394,143	-	581,241	-	92,975,384
Investments and rental income	3,233,111	5,116,226	498,912	449,343	9,297,592
Charges for services	38,856,346	3,554,066	-	1,274,211	43,684,623
Other revenues	11,139,896	-	-	-	11,139,896
Total revenues	<u>360,313,601</u>	<u>8,670,292</u>	<u>1,080,153</u>	<u>8,876,547</u>	<u>378,940,593</u>
Expenditures					
Current:					
General government	24,009,035	-	-	21,513	24,030,548
Public safety	38,528,939	-	-	4,283,177	42,812,116
Transportation	12,500	-	-	-	12,500
Economic and physical development	2,672,842	-	-	313,489	2,986,331
Environmental protection	2,403,268	-	-	-	2,403,268
Human services	155,505,806	-	-	-	155,505,806
Education	83,044,943	-	-	-	83,044,943
Cultural and recreational	7,492,517	-	-	-	7,492,517
Nondepartmental	11,197,360	-	-	-	11,197,360
Capital projects	-	-	41,033,820	-	41,033,820
Debt service:					
Principal retirement	-	-	-	21,476,140	21,476,140
Interest and fiscal charges	-	-	-	13,440,112	13,440,112
Amortization of lease discount	-	1,150,000	-	-	1,150,000
Total expenditures	<u>324,867,210</u>	<u>1,150,000</u>	<u>41,033,820</u>	<u>39,534,431</u>	<u>406,585,461</u>
Excess (deficiency) of revenues over (under) expenditures	<u>35,446,391</u>	<u>7,520,292</u>	<u>(39,953,667)</u>	<u>(30,657,884)</u>	<u>(27,644,868)</u>
Other financing sources (uses)					
Transfers in	2,166,455	-	3,883,413	33,473,645	39,523,513
Transfers out	(36,302,874)	(1,310,000)	(1,054,184)	(856,455)	(39,523,513)
Proceeds from issuance of installment purchases	-	-	1,410,000	-	1,410,000
Total other financing sources (uses)	<u>(34,136,419)</u>	<u>(1,310,000)</u>	<u>4,239,229</u>	<u>32,617,190</u>	<u>1,410,000</u>
Net change in fund balances	1,309,972	6,210,292	(35,714,438)	1,959,306	(26,234,868)
Fund balance - beginning, previously reported	61,458,054	13,358,401	101,079,909	5,969,736	181,866,100
Prior period adjustment (Note P)	4,768,565	-	-	-	4,768,565
Fund balance - beginning, as restated	<u>66,226,619</u>	<u>13,358,401</u>	<u>101,079,909</u>	<u>5,969,736</u>	<u>186,634,665</u>
Fund balance - ending	<u>\$ 67,536,591</u>	<u>\$ 19,568,693</u>	<u>\$ 65,365,471</u>	<u>\$ 7,929,042</u>	<u>\$ 160,399,797</u>

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2005**

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

Net change in fund balances - total governmental funds \$ (26,234,868)

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 outlay exceeded depreciation in the current year. 16,591,321

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 593,243

The issuance of long-term debt (e.g. bonds, leases) 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, however, 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 accounts. 18,271,181

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities. 650,456

Change in net assets of governmental activities \$ 9,871,333

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2005**

	Budgeted Amounts			Positive (Negative) Variance
	Original	Final	Actual	
Revenues				
Taxes				
Current levy	\$ 159,277,908	\$ 159,373,916	\$ 161,019,558	\$ 1,645,642
Prior year's levy	2,600,000	2,600,000	3,475,626	875,626
Tax penalties and interest	-	-	665,591	665,591
Advertising and selling	-	-	44,787	44,787
Payments in lieu of taxes	14,000	14,000	27,693	13,693
Local option sales tax	43,124,111	43,124,111	45,384,056	2,259,945
Animal tax	505,000	505,000	482,165	(22,835)
Occupancy tax	2,016,132	2,046,019	2,433,608	387,589
Gross receipts tax	-	-	185,738	185,738
Total taxes	207,537,151	207,663,046	213,718,822	6,055,776
Intergovernmental revenues				
Beer and wine tax	145,000	145,000	142,026	(2,974)
Social services	233,462,197	256,437,741	256,880,732	442,991
Mental health	14,133,019	15,153,874	13,789,351	(1,364,523)
Public health	2,532,719	2,999,276	2,197,768	(801,508)
Library	279,718	279,718	250,378	(29,340)
ABC Board	380,000	380,000	571,676	191,676
Other	5,008,748	7,111,823	4,765,498	(2,346,325)
Total intergovernmental revenues	255,941,401	282,507,432	278,597,429	(3,910,003)
Charges for services				
Elections registration lists	1,000	1,271	2,754	1,483
Register of deeds	2,608,765	2,608,765	3,573,810	965,045
General government charges	2,021,720	2,121,720	2,260,735	139,015
Collection fees	822,600	822,600	957,335	134,735
Public protection	870,700	1,103,700	1,304,962	201,262
Environmental protection	405,000	405,000	699,284	294,284
Solid waste fees	981,485	981,485	1,046,785	65,300
Facilities fees	520,000	520,000	534,325	14,325
Transportation	650	650	15,323	14,673
Library fees and charges	320,671	337,921	279,545	(58,376)
Mental health	19,647,800	23,014,866	22,483,247	(531,619)
Public health	2,724,000	2,724,000	2,625,813	(98,187)
Social services	371,121	444,371	207,163	(237,208)
Emergency medical services charges	2,630,000	2,630,000	2,864,840	234,840
Other charges	-	-	425	425
Total charges for services	33,925,512	37,716,349	38,856,346	1,139,997
Investment and rental income				
Investment earnings	892,750	1,056,284	1,292,056	235,772
Rent	1,526,000	1,956,656	1,941,055	(15,601)
Total investment and rental income	2,418,750	3,012,940	3,233,111	220,171
Licenses and permits				
Construction permits	504,000	504,000	531,649	27,649
Cablevision and franchise fees	315,000	315,000	390,638	75,638
Wine and beer licenses	15,000	15,000	21,079	6,079
Other licenses and permits	6,000	29,887	27,917	(1,970)
Total licenses and permits	840,000	863,887	971,283	107,396

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 General Fund
 Year Ended June 30, 2005

	Budgeted Amounts			Positive (Negative) Variance
	Original	Final	Actual	
Revenues (continued)				
Other revenues				
Cafeteria plan	\$ 10,177,255	\$ 10,177,255	\$ 10,294,997	\$ 117,742
Miscellaneous	685,587	318,597	755,575	436,978
Confiscated property				
federal investigation	-	152,262	23,835	(128,427)
Sale of property and materials	-	3,000	40,362	37,362
Other	-	-	25,127	25,127
Total other revenues	10,862,842	10,651,114	11,139,896	488,782
Total revenues	511,525,656	542,414,768	546,516,887	4,102,119
Expenditures				
General administration				
Board of county commissioners	559,865	613,567	511,462	102,105
County manager	1,288,428	1,337,610	1,137,092	200,518
Finance	2,645,933	2,639,933	2,597,406	42,527
Tax	3,827,057	4,429,879	3,898,006	531,873
Legal	1,233,568	1,240,091	1,180,844	59,247
Court facilities	289,300	306,826	288,972	17,854
Human resources	1,287,234	1,310,584	1,276,469	34,115
Elections	928,257	1,010,998	984,532	26,466
Risk management and insurance	1,872,053	1,972,053	767,925	1,204,128
General services	6,235,102	6,915,876	6,411,520	504,356
Geographic information systems	318,239	318,239	291,749	26,490
Information systems	3,279,590	3,428,353	3,288,559	139,794
Register of deeds	1,444,488	1,475,808	1,370,193	105,615
Other	70,063	70,183	62,824	7,359
Total general administration	25,279,177	27,070,000	24,067,553	3,002,447
Economic and physical development				
Planning	730,566	730,566	579,076	151,490
Cooperative extension	886,561	954,039	821,102	132,937
Soil and water conservation	191,659	193,257	194,670	(1,413)
Other	1,248,621	1,338,890	1,077,994	260,896
Total economic and physical development	3,057,407	3,216,752	2,672,842	543,910
Human services				
Public health	15,745,806	16,654,666	15,428,444	1,226,222
Mental health	40,937,237	45,393,475	43,289,389	2,104,086
Social services	257,922,929	281,217,714	280,685,300	532,414
Other	1,877,676	1,878,586	1,502,168	376,418
Total human services	316,483,648	345,144,441	340,905,301	4,239,140
Education				
Durham public schools	79,399,932	79,399,932	79,399,932	-
Durham technical community college	3,467,511	3,467,511	3,467,511	-
Other education	177,500	177,500	177,500	-
Total education	83,044,943	83,044,943	83,044,943	-

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 General Fund
 Year Ended June 30, 2005

	Budgeted Amounts			Positive (Negative) Variance
	Original	Final	Actual	
Expenditures (continued)				
Public safety				
Criminal justice partnership	\$ 1,632,213	\$ 1,665,874	\$ 1,536,222	\$ 129,652
County sheriff	12,958,244	13,730,493	13,378,262	352,231
County jail	11,829,342	12,193,592	12,107,225	86,367
Youth home	847,812	913,537	902,937	10,600
Animal control	1,167,536	1,140,679	1,074,985	65,694
Emergency communications center	763,342	763,342	746,056	17,286
Emergency medical services	6,280,140	6,506,534	6,374,919	131,615
County fire protection	1,638,412	3,219,675	2,081,634	1,138,041
Medical examiner	104,500	104,500	109,675	(5,175)
Other public safety	1,083,672	975,672	952,337	23,335
Total public safety	38,305,213	41,213,898	39,264,252	1,949,646
Transportation				
Airport authority	12,500	12,500	12,500	-
Total transportation	12,500	12,500	12,500	-
Environmental protection				
Solid waste	1,678,048	1,745,080	1,525,440	219,640
Environmental engineering	1,122,967	1,200,036	824,763	375,273
Other	55,520	59,943	53,065	6,878
Total environmental protection	2,856,535	3,005,059	2,403,268	601,791
Cultural and recreational				
Library	6,103,802	6,218,407	5,595,512	622,895
Other	1,830,087	1,927,428	1,906,965	20,463
Total cultural and recreational	7,933,889	8,145,835	7,502,477	643,358
Nondepartmental				
Miscellaneous	1,818,844	907,668	51,705	855,963
Cafeteria plan	11,280,355	11,280,355	11,145,655	134,700
Total nondepartmental	13,099,199	12,188,023	11,197,360	990,663
Total expenditures	490,072,511	523,041,451	511,070,496	11,970,955
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	21,453,145	19,373,317	35,446,391	16,073,074
Other financing sources (uses)				
Transfers in	2,398,384	2,398,384	2,166,455	(231,929)
Appropriated fund balance	10,800,000	14,621,173	-	(14,621,173)
Transfers out	(34,651,529)	(36,392,874)	(36,302,874)	90,000
Total other financing uses	(21,453,145)	(19,373,317)	(34,136,419)	(14,763,102)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ -	\$ -	1,309,972	\$ 1,309,972
FUND BALANCE -BEGINNING OF YEAR, PREVIOUSLY REPORTED			61,458,054	
PRIOR PERIOD ADJUSTMENT (NOTE P)			4,768,565	
FUND BALANCE -BEGINNING OF YEAR, AS RESTATED			66,226,619	
FUND BALANCE - END OF YEAR			\$ 67,536,591	

DURHAM COUNTY, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Community Health Trust Fund
Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 1,310,000	\$ 1,310,000	\$ 5,116,226	\$ 3,806,226
Charges for services	-	-	3,554,066	3,554,066
Total revenues	<u>1,310,000</u>	<u>1,310,000</u>	<u>8,670,292</u>	<u>7,360,292</u>
Expenditures				
Amortization of lease discount	-	-	1,150,000	(1,150,000)
Total expenditures	<u>-</u>	<u>-</u>	<u>1,150,000</u>	<u>(1,150,000)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,310,000</u>	<u>1,310,000</u>	<u>7,520,292</u>	<u>6,210,292</u>
Other financing sources (uses)				
Transfers out	(1,310,000)	(1,310,000)	(1,310,000)	-
Total other financing uses	<u>(1,310,000)</u>	<u>(1,310,000)</u>	<u>(1,310,000)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>\$ -</u>	<u>6,210,292</u>	<u>\$ 6,210,292</u>
FUND BALANCE -BEGINNING OF YEAR			<u>13,358,401</u>	
FUND BALANCE - END OF YEAR			<u>\$ 19,568,693</u>	

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

Schedule of Expenditures Compared with Project Authorizations
 Capital Projects Fund
 From Project Inception and for the Fiscal Years Ended June 30, 2005

PROJECT	EXPENDITURES		SPENT TO DATE	REMAINING COMMITMENT
	CURRENT YEAR	PRIOR YEARS		
Parks and Recreation Facilities	\$ -	\$ 1,112,899	\$ 1,112,899	\$ 19,649
Durham Public School Projects	21,061,942	237,135,848	258,197,790	26,692,258
Community Development Projects	-	1,975,155	1,975,155	68,109
Public Transportation Project	-	648,553	648,553	-
Clean Air Act	-	744,255	744,255	24,745
DSS - HVAC Controls	-	360,373	360,373	17,419
GIS	-	2,971,546	2,971,546	28,454
DTCC Network Wiring	-	358,999	358,999	1
Acq/Renovation of Carmichael Building	-	1,076,159	1,076,159	66,564
Whitted Renovation	1,177	242,121	243,298	36,702
Register of Deeds Automation	-	1,202,672	1,202,672	7,772
CVB Lease	-	454,276	454,276	190,724
AS400 System Upgrade	-	682,687	682,687	97
IS Warrant Control	-	246,921	246,921	1
Countywide Area Network	-	63,933	63,933	267
IT Year 2000 Compliance	-	501,728	501,728	13
Emergency Generator	-	133,904	133,904	-
Library Government Information System	-	373,776	373,776	1,224
Memorial Stadium	-	155,223	155,223	7,352
General Capital Maintenance	-	37,225	37,225	22,775
Judicial Building Roof Replacement	-	222,259	222,259	3,325
Space & Facilities Master Plan	-	148,751	148,751	(1)
Data General Upgrade	-	331,225	331,225	-
EMS Computer Technology	-	180,650	180,650	-
COPS MORE Technology	-	1,251,358	1,251,358	33,241
Museum Of Life & Science	-	300,000	300,000	-
Little River Land Acquisition	338,663	309,088	647,751	174,675
Homeless Shelter Renovation	-	1,904,644	1,904,644	78,251
Library Roof Replacement	-	265,702	265,702	29,848
DTCC Roof Replacement	-	356,979	356,979	379
Social Services Roof Replacement	-	60,941	60,941	5,059
Lebanon Building	-	901,743	901,743	105
Eligibility Building	-	16,580	16,580	3,420
Justice Center	18,746	299,497	318,243	9,703,212
MIS ES9000/AS400 Improvements	-	35,761	35,761	15
AMS System Upgrade	-	183,179	183,179	(1)
Judicial Building Renovation	8,386	33,443	41,829	590,043
DTCC Skill Development Center	-	126,000	126,000	-
Judicial Building Annex	2,612	2,608,544	2,611,156	549
Animal Shelter Renovation	99,214	972,926	1,072,140	501,131
Cooperative Extension Renovation	134,406	618,181	752,587	70,964
NCML & Bioquest	5,115,303	1,556,119	6,671,422	4,298,578
Human Services Automation	36,459	80,048	116,507	133,493
EMS Relocation Linc	23,573	192,840	216,413	1,276,837
Human Services Complex	247,748	333,640	581,388	4,814,124
Senior Center	1,931,212	1,137,139	3,068,351	2,498,710
North Durham Library	1,665,562	445,382	2,110,944	3,794,863
Stanford Warren Library	543,233	51,459	594,692	1,159,053
Southwest Branch Library	3,073	590,015	593,088	6,912
South Regional Library	6,395	1,021,556	1,027,951	4,659,311
East Regional Library	2,373,024	898,851	3,271,875	3,437,034
American Tobacco Garage Parking	2,103,302	12,164,797	14,268,099	233,901
Scattered Site Housing Program	353,329	46,671	400,000	-
County Computer Repl Project	821,836	1,457,393	2,279,229	820,771
Head Start YMCA Building	528,360	214,742	743,102	6,648
County ERP Software Project	1,842,481	1,275,331	3,117,812	347,188
DTCC Student Services Building	744,571	133,340	877,911	2,122,089
Crim Justice Resource Center	474,069	840	474,909	27,037
Open Space/Farmland Preservation	555,144	-	555,144	565,856
	<u>\$ 41,033,820</u>	<u>\$ 283,205,867</u>	<u>\$ 324,239,687</u>	<u>\$ 68,580,746</u>

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

Statement of Net Assets

Proprietary Funds

June 30, 2005

	Enterprise Fund	Internal Service Fund
	Sewer Utility Fund	Equipment Leasing Fund
Assets		
Current assets		
Cash and cash equivalents / investments	\$ 10,900,314	\$ -
Cash and cash equivalents / investments - restricted	750,592	-
Receivables:		
Accounts receivable	502,188	-
Accrued interest receivable	37,342	-
Assessment receivable	72,002	-
Total receivables	<u>611,532</u>	<u>-</u>
Total current assets	<u>12,262,438</u>	<u>-</u>
Noncurrent assets		
Bond issuance costs	512,094	-
Accumulated amortization - bond issuance costs	(50,881)	-
Capital assets:		
Land	185,226	-
Land improvements - sewer and water lines	24,066,304	-
Building treatment plant	4,103,344	-
Office furniture and equipment	-	351,433
Machinery and equipment	243,758	4,770,393
Computer hardware	-	110,666
Construction in progress	31,860,843	-
Total capital assets	<u>60,459,475</u>	<u>5,232,492</u>
Less accumulated depreciation and amortization	<u>(10,121,272)</u>	<u>(3,875,878)</u>
Net capital assets	<u>50,338,203</u>	<u>1,356,614</u>
Total noncurrent assets	<u>50,799,416</u>	<u>1,356,614</u>
Total assets	<u>63,061,854</u>	<u>1,356,614</u>
Liabilities		
Current liabilities		
Current portion of long-term debt	1,812,881	-
Current portion of unamortized bond premium	33,834	-
Accounts payable	471,510	-
Arbitrage rebate payable	13,000	-
Trust/Cap interest payable	59,965	-
Accrued interest payable	152,400	-
Accrued payroll and related amounts withheld	15,515	-
Accrued vacation	26,077	-
Due to general fund	-	457,149
Total current liabilities	<u>2,585,182</u>	<u>457,149</u>
Noncurrent liabilities		
Long-term debt	27,713,014	-
Noncurrent unamortized bond premium	729,725	-
Total noncurrent liabilities	<u>28,442,739</u>	<u>-</u>
Total liabilities	<u>31,027,921</u>	<u>457,149</u>
Net assets		
Net assets - capital net of debt	20,812,310	-
Net assets - restricted	750,592	-
Net assets - unrestricted	10,471,031	899,465
Total net assets	<u>\$ 32,033,933</u>	<u>\$ 899,465</u>

DURHAM COUNTY, NORTH CAROLINA

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Fiscal Year Ended June 30, 2005

	Enterprise Fund	Internal Service Fund
	Sewer Utility Fund	Equipment Leasing Fund
Operating revenues		
Charges for services	\$ 4,726,478	\$ 988,324
Total operating revenues	<u>4,726,478</u>	<u>988,324</u>
Operating expenses		
Personnel services	312,639	-
Contracted services - wastewater treatment plant	1,955,585	-
Utilities	96,966	-
Maintenance and other	1,473,309	-
Depreciation and amortization	638,453	315,618
Total operating expenses	<u>4,476,952</u>	<u>315,618</u>
Operating income (loss)	<u>249,526</u>	<u>672,706</u>
Nonoperating revenue (expense)		
Investment and interest income	626,115	(22,250)
Sewer connection fees	649,612	-
Interest and fiscal charges	(798,577)	-
Amortization of bond issue costs	(31,185)	-
Amortization of bond premium	33,834	-
Total nonoperating revenue (expense)	<u>479,799</u>	<u>(22,250)</u>
Change in net assets	729,325	650,456
Total net assets - beginning	<u>31,304,608</u>	<u>249,009</u>
Total net assets - ending	<u>\$ 32,033,933</u>	<u>\$ 899,465</u>

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Sewer Utility Fund</u>	<u>Equipment Leasing Fund</u>
Operating activities		
Cash received from sales	\$ 4,402,671	\$ 988,324
Cash received from assessments	1,798	-
Cash paid to employees	(315,418)	-
Cash paid for contracted services	(4,306,319)	-
Decrease in due to general fund	-	(175,617)
Net cash provided (used) by operating activities	<u>(217,268)</u>	<u>812,707</u>
Noncapital financing activities		
Sewer connection fees received	649,612	-
Net cash provided (used) by noncapital financing activities	<u>649,612</u>	<u>-</u>
Capital and related financing activities		
Principal payments on long-term debt	(1,778,035)	-
Interest paid	(1,511,799)	-
Acquisition and construction costs of capital assets	(5,902,099)	(790,457)
Net cash provided (used) by capital and related financing activities	<u>(9,191,933)</u>	<u>(790,457)</u>
Investing activities		
Investment income and dividends	626,115	(22,250)
Net cash provided (used) by investing activities	<u>626,115</u>	<u>(22,250)</u>
Net increase (decrease) in cash and cash equivalents/investments	<u>(8,133,474)</u>	<u>-</u>
Cash and cash equivalents/investments		
Beginning of year	<u>19,784,380</u>	<u>-</u>
End of year	<u>\$ 11,650,906</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 249,526	\$ 672,706
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	638,453	315,618
Change in assets and liabilities		
Accounts receivable	(323,807)	-
Assessments receivable	1,798	-
Accounts payable and accrued expenses	(780,459)	-
Decrease in due to general fund	-	(175,617)
Other liabilities	(2,779)	-
Total adjustments	<u>(466,794)</u>	<u>140,001</u>
Net cash provided (used) by operating activities	<u>\$ (217,268)</u>	<u>\$ 812,707</u>

DURHAM COUNTY, NORTH CAROLINA

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

	Law Enforcement Officer's Special Separation Allowance Pension Trust Fund	George R. Linder Memorial Private-purpose Trust Fund	Vic Pearson EMS Memorial Private-purpose Trust Fund	Agency Funds
Assets				
Cash and cash equivalents	\$ -	\$ 4,945	\$ 9,671	\$ (14,542)
Accounts receivable	-	-	-	55,094
U.S. government securities	855,489	-	-	-
Net taxes receivable	-	-	-	3,351,809
Due from governmental agencies	-	-	-	547,309
Total assets	<u>855,489</u>	<u>4,945</u>	<u>9,671</u>	<u>\$ 3,939,670</u>
Liabilities				
Vouchers payable	\$ -	\$ -	\$ 200	\$ -
Accrued payroll and amounts withheld	1,794	-	-	-
Funds held for others	-	-	-	457,975
Due to governmental agencies	-	-	-	3,481,695
Total liabilities	<u>1,794</u>	<u>-</u>	<u>200</u>	<u>\$ 3,939,670</u>
Net assets				
Held in trust for:				
Employee pension benefits	853,695	-	-	
Individuals, organizations, and other governments	-	4,945	9,471	
Total net assets	<u>\$ 853,695</u>	<u>\$ 4,945</u>	<u>\$ 9,471</u>	

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2005**

	Law Enforcement Officer's Special Separation Allowance Pension Trust Fund	George R. Linder Memorial Private-purpose Trust Fund	Vic Pearson EMS Memorial Private-purpose Trust Fund
Additions			
Employer contributions	\$ 159,569	\$ -	\$ -
Employee contributions	-	-	2,120
Donations	-	-	1,516
Capital contributions	-	-	8,771
Investment income	14,092	89	14
Total additions	<u>173,661</u>	<u>89</u>	<u>12,421</u>
Deductions			
Benefits	57,276	-	2,950
Total deductions	<u>57,276</u>	<u>-</u>	<u>2,950</u>
Change in net assets	116,385	89	9,471
Total net assets - beginning	<u>737,310</u>	<u>4,856</u>	<u>-</u>
Total net assets - ending	<u>\$ 853,695</u>	<u>\$ 4,945</u>	<u>\$ 9,471</u>

The notes to the financial statements are an integral part of this statement.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

Durham County, North Carolina (the “County”) is one of the 100 counties established in North Carolina under North Carolina General Statute 154-10. The County was incorporated in 1881 and covers an area of 299 square miles and has operated under the Commissioner-Manager form of government since 1930. As required by accounting principles generally accepted in the United States of America, these financial statements present the County and its component unit, a legally separate entity for which the County is financially accountable. The discretely presented component unit noted below is reported in a separate column in the County’s financial statements to emphasize that it is legally separate from the County.

Discretely Presented Component Unit

Durham County ABC Board

The Durham County Board of Alcoholic Beverage Control (the “ABC Board”) operates retail liquor stores within the County and investigates violations of laws pertaining to retail liquor sales. The five members of the ABC Board’s governing board are appointed by the County. The ABC Board is required by State statute to distribute its surpluses to the General Fund of the County. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund.

Complete financial statements for the ABC Board may be obtained at its administrative office.

Durham County ABC Board
3620 Chapel Hill Boulevard
Durham, North Carolina 27707

Durham County Industrial Facility and Pollution Control Financing Authority

Durham County Industrial Facility and Pollution Control Financing Authority (the “Authority”) exists to issue and service revenue bond debt of private businesses for economic development purposes. The Authority is governed by a seven-member board, all of whom are appointed by the County Commissioners. The County can remove any board member of the Authority with or without cause. The Authority has no financial transactions or account balances; therefore, it is not presented in the financial statements. The Authority does not issue separate financial statements.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the County) and its component unit (the ABC Board). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. 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 County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the County'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 nonmajor funds.

Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues, primarily charges for services, result from exchange transactions associated with the principal activities of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses include professional and other services costs; personnel, utilities and maintenance; and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County reports the following major governmental funds:

General Fund. This is the County's general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Community Health Trust Fund. This fund accounts for the financial resources acquired through the leasing of Durham Regional Hospital to Duke University and accounts for the earnings of these financial resources and ensures the financial resources are used for health related operating and capital expenditures.

Capital Projects Fund. This fund accounts for financial resources to be used for the acquisition, construction or improvement of major capital facilities other than those financed by proprietary funds. The capital projects fund is also used to accumulate funds to finance a capital improvement plan. Amounts totaling 11% of dedicated property tax revenue and other dedicated revenue are to fund various capital projects and capital acquisitions over an extended period of time. The capital projects fund budget is adopted on a project basis which is multi-year.

The County reports the following major enterprise fund:

Sewer Utility Fund. This fund accounts for the revenues and expenses related to the provision of sewer service.

The County also reports *Other Governmental Funds*, which are individually nonmajor, in total. The Bethesda Fire District, Lebanon Fire District, Parkwood Fire District, Redwood Fire District, New Hope Fire District, Eno Fire District, Bahama Fire District, Butner Safety District, Special Park District, Emergency Services, Reappraisal Reserve, and School Impact Fees Funds are all special revenue fund types. They are used to account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted for specific purposes. The Debt Service Fund is also included in *Other Governmental Funds* and is used to account for the payment of principal, interest and related costs for all general long-term debt other than debt issued for and serviced by proprietary funds.

The County reports the following fiduciary fund types:

Law Enforcement Officer's Special Separation Allowance Pension Trust Fund. The pension trust fund accounts for the activities of the Public Safety Employees Retirement System, which accumulates resources for pension benefit payments to qualified public safety employees.

George R. Linder Memorial Private-purpose Trust Fund. The private-purpose trust fund is used to account for resources legally held in trust for use of acquiring public speakers/lecturers for the Library and functions sponsored by the Library. The fund also receives gift donations to purchase books in the honor of individuals.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Vic Pearson Memorial Emergency Medical Services (EMS) Private-purpose Trust Fund. The private-purpose trust fund is used to account for resources legally held in trust for use of assisting EMS employees and/or their families after serious injuries, sickness and/or deaths to them or immediate family members.

Agency Funds. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds:

Mental Health Trust Fund. The Mental Health Trust Fund accounted for certain escrow monies held in trust by the Department of Mental Health for the accounts of designated parties. The Mental Health Trust Fund was closed in fiscal year 2005 with the funds being paid out. Therefore, the fund does not appear on the Combining Statement of Fiduciary Assets and Liabilities for Agency Funds, however, the activity is shown on the Combining Statement of Changes in Fiduciary Assets and Liabilities for Agency Funds.

Child Support Trust Fund. The Child Support Trust Fund accounts for certain escrow monies held in trust by the Department of Social Services for the accounts of designated parties.

Sheriff's Evidence Trust Fund. The Sheriff's Evidence Trust Fund accounts for funds held by the Sheriff's Office as a result of gathering evidence.

Jail Inmate Trust Fund. The Jail Inmate Trust Fund accounts for funds held in trust for jail inmates.

Sheriff's Trust Fund. The Sheriff's Trust Fund accounts for funds held by the Sheriff's Office.

Town of Chapel Hill Tax Fund. The Town of Chapel Hill Tax Fund accounts for taxes collected by the County on behalf of the Town of Chapel Hill.

City of Durham Tax Fund. The City of Durham Tax Fund accounts for taxes collected by the County on behalf of the City of Durham.

City of Raleigh Tax Fund. The City of Raleigh Tax Fund accounts for taxes collected by the County on behalf of the City of Raleigh.

Additionally, the County reports the following fund type:

Internal Service Fund. The internal service fund provides for financing of capital equipment purchases for departments or agencies of the government on a cost reimbursement basis.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the County 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, except for agency funds, are reported using the economic resources measurement focus and the accrual basis of accounting. 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 County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, 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, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and 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 County considers all revenues available if they are collected within 60 days after year-end, except for property taxes and sales tax distributions. Property taxes, franchise taxes and interest are not accrued as revenue because the amount is not susceptible to accrual at June 30, since taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Sales tax distributions collected and held by the State at year-end on behalf of the County are recognized as revenue within 90 days of year-end. 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 reserved fund balance.

All governmental and business-type activities and proprietary funds of the County follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with Governmental Accounting Standards Board (GASB) pronouncements.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Budgetary Control

As required by the North Carolina Budget and Fiscal Control Act, the County adopts an annual budget ordinance for all funds except those authorized by project ordinance. County governmental funds budgeted under project ordinances include the community development and grant projects and the capital projects funds.

The appropriations in the various funds are formally budgeted on a functional basis. The County Manager is authorized to transfer budget amounts within a function up to 15% cumulatively without reporting to the Board of County Commissioners (BOCC). The County Manager is authorized to transfer budget amounts within the functional categories in any fund up to \$20,000 with an official report of such transfer being made at the next regular meeting of the BOCC. However, any revisions that alter the total expenditures of any functional category which exceed \$20,000 whether by transfer or additional appropriated fund balance within a fund, all transfers between funds and all transfers from the contingency account must be approved by the BOCC. The annual budget, which is prepared on the modified accrual basis of accounting as required by North Carolina law, is amended from time to time by the Commissioners. The original budget and the amended final budget are displayed in the basic financial statements for the major funds with the exception of the capital projects fund. The original budget and the amended final budget are reported in the supplementary information for nonmajor funds. The amended final budget, Non-GAAP Basis, for the major proprietary fund is reported in the supplementary information for the Enterprise Fund. During the year, several supplementary appropriations were necessary.

The following summarizes the supplementary appropriations made for the major governmental funds other than the capital projects fund during 2005:

	Original Budget	Total Amendments	Revised Budget
General	\$ 524,724,040	\$ 34,710,285	\$ 559,434,325
Less Federal Awards (See Note O.)			<u>(186,203,286)</u>
Reconciliation from budget basis to GAAP			<u>\$ 373,231,039</u>
 Community Health Trust	 \$ 1,310,000	 \$ -	 <u>\$ 1,310,000</u>

All annual appropriations lapse at each fiscal year-end and must be reappropriated in the following fiscal year's budget.

The intergovernmental revenues received from federal and the related functional expenditures are not included in the General Fund GAAP statement but are included in the General Fund budgetary statement. The intergovernmental revenues from federal funding sources are disclosed in Note O.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Equity in Pooled Cash and Cash Equivalent/Investments

Pooled cash and investments are maintained and used by all funds except the Pension Trust Fund, Child Support, Sheriff, Jail Inmate, and funds of the Durham County Facility and Pollution Control Financing Authority. The Child Support, Sheriff, and Jail Inmate trust accounts are maintained in demand deposit accounts. Funds of the Durham County Facility and Pollution Control Financing Authority are maintained by a trustee in accordance with legal agreements.

Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Durham County ABC Board considers demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

Deposits and Investments

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

All of the County's and the ABC Board's deposits are either covered by federal depository insurance or are collateralized by using one of two options. Under the Dedicated Method, all deposits over the federal depository insurance coverage are collateralized with securities held by the County's or the ABC Board's agent in the entity's name. Under the Pooling Method, all uninsured deposits are collateralized with a pool of 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 County and the ABC Board, these deposits are considered to be held by their agent in the entities' 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 County or the ABC Board or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County or the ABC Board under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depositor using the Pooling Method.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

At June 30, 2005, the County's deposits had a carrying amount of \$3,250,478 and a bank balance of \$5,019,654. Of the bank balance, \$527,850 was covered by federal depository insurance, \$1,426,242 was covered by collateral held under the Dedicated Method and \$3,065,562 was covered by collateral held under the Pooling Method.

At June 30, 2005, the ABC Board's deposits had a carrying amount of \$1,999,752 and a bank balance of \$1,927,085. Of the bank balance, \$400,481 was covered by federal depository insurance and \$1,526,604 was covered by collateral held under the Pooling Method.

North Carolina General Statute 159-30 authorizes the County and the ABC Board to invest in obligations of the U.S. Treasury; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed by the United States of America; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, a SEC-registered mutual fund. It is the County's policy to hold investments to maturity in order to realize full book value and interest earnings.

The County's and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. Investments with a maturity of one year or less at acquisition are reported at amortized cost.

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As of June 30, 2005 the County had the following investments and maturities:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1 - 3 Years
Repurchase Agreements	\$ -	\$ -	\$ -	\$ -
US Government Treasuries	-	-	-	-
US Government Agencies	61,493,476	35,143,684	10,438,833	15,910,960
Commercial Paper	5,917,042	5,917,042	-	-
NC Capital Management Trust - Cash Portfolio	56,704,905	N/A	N/A	N/A
NC Capital Management Trust - Term Portfolio*	2,506,696	-	2,506,696	-
Community Health Trust	28,708,103	N/A	N/A	N/A
Fidelity Treasury Portfolio II C1 III (Installment Purc)	2,154,549	N/A	N/A	N/A
First Citizens Trust (Revenue Bonds)	4,343,708	N/A	N/A	N/A
Total:	\$ 161,828,479	\$ 41,060,726	\$ 12,945,529	\$ 15,910,960

* Because the NC Capital Management Trust Term Portfolio had a weighted average maturity of 0.9 years, it was presented as an investment with maturity of 6-12 months.

Interest Rate Risk:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits at least half of the County's investment portfolio to maturities of 12 months or less. Also the County's investment policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to final maturity of not more than three years.

Credit Risk:

State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). The County's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poors as of June 30, 2005. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, obligations of the State of North Carolina, bonds and notes of North Carolina local governments/public authorities and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investments in US agencies (Federal Home Loan Bank) are rated AAA by Standard & Poors and Aaa by Moody's Investors Service.

Custodial Credit Risk:

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk:

The County places no limit on the amount that the County may invest in any one issuer. More than 11 percent of the County's investments are in Lockhard Funding commercial paper and the Federal Home Loan Bank. These investments are 11.39% and 29.46% respectively of the County's total investments.

The ABC Board did not have any investments as of June 30, 2005.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Receivables

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written-off in prior years.

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The receivables as of June 30, 2005 for the County's individual major funds and non-major, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Accounts	Accrued Interest	Taxes	Impact Fee	Special Assess- ments	Emergency Medical Services	Community Development Mortgage Loans	Due from Other Governments	Total
Governmental activities:									
General	\$ 813,791	\$ 211,820	\$ 5,160,048	\$ -	\$ 6,529	\$ 11,883,235	\$ 635,824	\$ 26,318,070	\$ 45,029,317
Capital projects	-	69,771	-	-	-	-	-	29,935	99,706
Other governmental	223,045	-	75,903	68,000	-	-	-	2,489,622	2,856,570
Total receivables	1,036,836	281,591	5,235,951	68,000	6,529	11,883,235	635,824	28,837,627	47,985,593
Allowance for doubtful accounts	-	-	(96,949)	-	-	(7,094,291)	(635,824)	-	(7,827,064)
Total governmental activities	<u>\$ 1,036,836</u>	<u>\$ 281,591</u>	<u>\$ 5,139,002</u>	<u>\$ 68,000</u>	<u>\$ 6,529</u>	<u>\$ 4,788,944</u>	<u>\$ -</u>	<u>\$ 28,837,627</u>	<u>\$ 40,158,529</u>
Business-type activities:									
Sewer utility	\$ 502,188	\$ 37,342	\$ -	\$ -	\$ 72,002	\$ -	\$ -	\$ -	\$ 611,532
Total receivables	502,188	37,342	-	-	72,002	-	-	-	611,532
Allowance for doubtful accounts	-	-	-	-	-	-	-	-	-
Total business-type activities	<u>\$ 502,188</u>	<u>\$ 37,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 611,532</u>

The Community Development Mortgage Loans Receivable consists of certain proceeds from bonds that have been used to make non-interest-bearing loans to qualifying individuals in accordance with the County's Community Development Program. These loans contain various provisions, including deferral periods and forgiveness of indebtedness if certain conditions are met. Due to the uncertainty of collectibility, the full amount of the outstanding loans receivable balance as of June 30, 2005 of \$635,824 has been included in the allowance for doubtful accounts.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Deferred	Unearned
Net property taxes receivable (general fund)	\$5,064,100	\$
Net property taxes receivable (special revenue)	74,902	
Collections in advance (general fund)		1,862,616
Collections in advance (special revenue)		33,695
Prepaid capital lease (community health trust)		10,500,000
Emergency medical services receivable (general fund)	4,788,944	
Solid waste (general fund)	3,546	
Impact fees (special revenue)	68,000	
Special assessments receivable (general fund)	6,529	
Total deferred/unearned revenue for governmental funds	\$ 10,006,021	\$ 12,396,311

7. Inventories

Inventories of the County are valued at cost using the first-in, first-out (FIFO) method. Inventories of the ABC Board are valued at the lower of cost (FIFO) or market. The County's General Fund inventory consists of expendable supplies held for consumption that are recorded as expenditures when consumed rather than when purchased. The General Fund inventories reported on the Balance Sheet are offset by a fund balance reserve, which indicates that it does not constitute a resource available for appropriation even though it is a component of net current assets. The inventory of the ABC Board consists of liquor and wine held for sale. The cost of the ABC Board inventory is recorded as an expense as it is sold.

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an individual cost of \$5,000 or more and an estimated life in excess of one year. Purchased or constructed capital assets are recorded at original cost at the time of acquisition or completion. Donated capital assets are recorded at their estimated fair value at the date of donation.

The County maintains school construction activity funded through sources provided by the County in the Capital Projects Fund until completion of the projects. However, the County does not hold title to these Durham County Board of Education properties, and the construction has not been included in capital assets. The properties are reflected as capital assets in the financial statements of the Durham County Board of Education.

The County maintains museum construction activity funded through sources provided by the County in the Capital Projects Fund until completion of the project. However, the County does not hold title to this Museum of Life and Science property, and the construction has not been included in the capital assets. The property is reflected as a capital asset in the financial statements of the Museum of Life and Science.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Any interest incurred during the construction phase of business type activities is included as part of the capitalized value of the assets constructed. Capital assets of the County are depreciated on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings	40 years
Office furniture and equipment	7 years
Machinery and equipment	5 years
Vehicles	5 years
Computer hardware	3 years
Computer software	3 years
Leasehold improvement	Life of the lease
Sewer system	50 years
Construction in progress (CIP)	N/A
Capital leases	Life of the lease

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The ABC Board's capital assets are stated at cost and are being depreciated over their estimated useful lives on a straight-line basis as follows:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings	25 – 40 years
Vehicles	3 – 5 years
Furniture and equipment	5 – 12 years
Leasehold improvements	5 – 20 years

The ABC Board defines capital assets as assets with an individual cost in excess of \$500 and an estimated life in excess of one year.

Leasehold improvements are depreciated over the terms of the lease agreement.

Upon disposition of an asset of the County and the ABC Board, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in the earnings for the period.

9. Long-term Obligations

In the government-wide financial statements and in the 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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the 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.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Compensated Absences

Permanent employees of the County can earn vacation leave at the rate of 11 days per year for the first two years up to a maximum of 25 days per year after twenty-five years. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is 30 days. At the end of each calendar year, the accumulated vacation leave in excess of 225 hours for employees who work a 37.5 hour workweek, 240 hours for employees who work a 40 hour workweek and 252 hours for employees who work a 42 hour workweek as of the first full pay period in January is converted to sick leave. The maximum amount of vacation leave that can be carried forward to January 1 is 225, 240 and 252 hours, respectively. At termination, employees are paid for any accumulated vacation leave up to the maximum amount. Accumulated vacation leave and salary related payments at June 30, 2005 amounted to \$4,710,034. Of this amount, \$4,683,957 is recorded as a liability in the government-wide financial statements for governmental activities, and \$26,077 is recorded as a liability in the proprietary fund financial statements and the government-wide financial statements for business-type activities. ABC Board employees may accumulate up to 30 days earned vacation and such leave is fully vested when earned. The ABC Board's accumulated earned vacation and related expenses at June 30, 2005 amounted to \$103,853. The current portion of the ABC Board's accumulated vacation pay is not considered to be material.

Permanent employees of the County earn sick leave at the rate of 12 days per year. There is no limit on the accumulation of sick leave for either the County or the ABC Board. Accumulated sick leave for the County at June 30, 2005 amounted to \$12,283,787 in total. Upon separation from the County or the ABC Board, there is no compensation for earned sick leave. Therefore, 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. Accumulated sick leave with the County used as retirement credit is limited to one month for each two years of service. Since the County and the ABC Board have no obligation for accumulated sick leave until it is actually taken, no accruals for sick leave have been made.

11. Encumbrances

As required by North Carolina General Statutes, encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Net Assets/Fund Balances

Net Assets

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.

Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance 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 fund balances are segregated into the following classifications:

- Reserved for other purposes – represents the total amount of inventories and the total amount of funds reserved for prepaid items and restricted cash and cash equivalents/investments in the General Fund.
- Reserved for encumbrances – represents commitments for the expenditure of funds under purchase orders and contracts other than for mental health human services.
- Reserved for encumbrances – mental health – represents commitments for the expenditure of funds under purchase orders and contracts for mental health human services.
- Reserved by State Statute – represents the amount of revenue that has been recognized on an accrual basis for financial statement purposes, but which is not available for appropriation in accordance with State Statute other than for mental health human services.
- Reserved by State Statute – mental health - represents the amount of revenue that has been recognized on an accrual basis for financial statement purposes, but which is not available for appropriation in accordance with State Statute for mental health human services.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Designated for subsequent year's expenditures – represents the amount of fund balance appropriated to the budget for the year ending June 30, 2006.
- Designated for risk management – represents the amount of fund balance set aside for catastrophic occurrences. This amount is not available for appropriation to the budget for the year ended June 30, 2006.
- Designated for debt service – represents the amount of fund balance designated for debt service. This amount is not available for appropriation to the budget for the year ended June 30, 2006.
- Undesignated – represents the amount of fund balance which is available for future appropriations.

13. Comparative Total Data/Reclassifications

Certain reclassifications have been made in the prior year's financial data in order to be consistent and conform to the presentation of the financial statements for the year ended June 30, 2005.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

15. Interest rate swap

The County enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between the total *fund balances – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. The details of selected elements of that reconciliation are further explained as follows:

1. “Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.”

Capital assets (net of depreciation)	\$175,459,961
Investment in joint venture	8,152,128
Less capital assets (net of depreciation), Internal Service Fund	<u>(1,356,614)</u>

Net adjustment to increase total fund balances – total governmental funds to arrive at net assets of governmental activities	<u>\$182,255,475</u>
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2. “Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.”

Property taxes and assessments receivable (net)	\$ 5,145,531
Solid waste receivable	3,546
Emergency medical services receivable (net)	4,788,944
Impact fees receivable (net)	<u>68,000</u>

Net adjustment to increase total fund balances – total governmental funds to arrive at net assets of governmental activities	<u>\$ 10,006,021</u>
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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

**B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(continued)**

3. "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds."

Bonds and other notes payable due within one year	\$ 22,476,286
Bonds and other notes payable	243,158,887
Unamortized bond premium due within one year	193,174
Unamortized bond premium	837,338
Accrued compensated absences	4,683,957
Accrued interest payable	<u>4,987,406</u>
 Subtotal	 276,337,048
 Less: accrued interest receivable	 (281,591)
Less: bond issuance costs net of accumulated amortization	 <u>(593,368)</u>
Net adjustment to increase total fund balances – total governmental funds to arrive at net assets of governmental activities	 <u>\$275,462,089</u>

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(continued)

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. The details of selected elements of that reconciliation are further explained as follows:

1. “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 outlay exceeded depreciation in the current period.”

Capital outlay (net of Internal Service Fund amount of \$790,457)	\$ 20,699,482
Less: depreciation expense (net of Internal Service Fund amount of \$315,618)	(4,292,668)
Less: loss on disposal of fixed assets (net of Internal Service Fund amount of \$0)	(51,939)
Plus: increase in investment in joint venture	<u>236,446</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 16,591,321</u>

2. “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.”

Decrease in deferred revenue of taxes and assessments receivable (net)	\$ (189,448)
Increase in deferred revenue of emergency medical services receivable (net)	739,145
Decrease in deferred revenue of other revenues	3,546
Increase in deferred revenue of impact fees receivable	<u>40,000</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 593,243</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

**B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(continued)**

3. “The issuance of long-term debt (e.g., bonds, leases) 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, however, 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 accounts.”

Principal repayments	\$ (22,299,328)
Amortization of issuance costs	39,616
Increase in debt (net)	1,838,505
Increase in law enforcement officers’ separation allowance	22,689
Increase in accrued interest payable	2,110,803
Increase in accrued compensated absences	255,226
Increase in accrued interest receivable	(45,518)
Amortization of bond premium	<u>(193,174)</u>
 Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities	 <u>\$ (18,271,181)</u>

4. “Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities.”

Change in net assets as of June 30, 2005 – Internal Service Fund	\$ <u>650,456</u>
 Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities	 <u>\$ 650,456</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

C. PROPERTY TAXES RECEIVABLE

The County's property tax (excluding registered motor vehicles) is levied each July 1 on the assessed value listed as of the prior January 1 for all real and tangible personal property located in the County. The taxes are due September 1; however, penalties do not accrue until the following January 6. The lien date is January 6 of each year. Assessed values are established at estimated market value. A revaluation of all real property is required to be performed no less than every eight years. The last revaluation affecting these financial statements was completed for the list of January 1, 2001.

Property taxes, other than taxes for special districts and agency funds, are levied under the "single tax levy" concept whereby all tax revenues are recorded as revenues of the General Fund.

As of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the 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. For motor vehicles registered under the staggered 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 County's vehicle taxes for vehicles registered in Durham County from March 2004 through February 2005 apply to the fiscal year ended June 30, 2005. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the 2005 - 2006 fiscal year and are not shown as receivables at June 30, 2005.

For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for renewal vehicles registered annually that have been collected as of year-end are also reflected as deferred revenues at June 30, 2005 because they are intended to finance the County's operations during the 2006 fiscal year.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 6,189,453	\$ -	\$ -	\$ 6,189,453
Construction in progress	<u>38,178,066</u>	<u>19,971,878</u>	<u>-</u>	<u>58,149,944</u>
Total nondepreciable capital assets	<u>44,367,519</u>	<u>19,971,878</u>	<u>-</u>	<u>64,339,397</u>
Depreciable capital assets				
Buildings	146,921,389	93,089		147,014,478
Office furniture and equipment	433,137	-	-	433,137
Machinery and equipment	5,990,196	949,669	(11,635)	6,928,230
Computer hardware	2,227,255	142,708	-	2,369,963
Computer software	592,232	147,266	-	739,498
Vehicles	<u>6,893,741</u>	<u>185,329</u>	<u>(1,401,306)</u>	<u>5,677,764</u>
Total depreciable assets	<u>163,057,950</u>	<u>1,518,061</u>	<u>(1,412,941)</u>	<u>163,163,070</u>
Less accumulated depreciation for:				
Buildings	35,016,828	3,643,237		38,660,065
Office furniture and equipment	412,761	8,815	-	421,576
Machinery and equipment	4,989,522	460,122	(11,635)	5,438,009
Computer hardware	1,598,492	218,109	-	1,816,601
Computer software	412,957	120,463	-	533,420
Vehicles	<u>6,364,662</u>	<u>157,540</u>	<u>(1,349,367)</u>	<u>5,172,835</u>
Total accumulated depreciation	<u>48,795,222</u>	<u>4,608,286</u>	<u>(1,361,002)</u>	<u>52,042,506</u>
Total depreciable assets, net	<u>114,262,728</u>	<u>(3,090,225)</u>	<u>(51,939)</u>	<u>111,120,564</u>
Governmental activities capital assets, net	<u>\$ 158,630,247</u>	<u>\$ 16,881,653</u>	<u>\$ (51,939)</u>	<u>\$175,459,961</u>

During 2005, the County incurred \$21,061,942 of expenditures for construction on behalf of Durham Public Schools. The County does not include school construction in its construction in progress in the capital assets of governmental activities.

Durham County does not own infrastructure and, therefore, does not report infrastructure.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

D. CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 2,474,738
Public safety	1,549,149
Environmental protection	10,593
Economic and physical development	15,875
Human services	453,695
Cultural and recreational	104,236
Total depreciation expense	<u><u>\$ 4,608,286</u></u>

Business-type Activities/Sewer Utility Fund:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 185,226	\$ -	\$ -	\$ 185,226
Construction in progress	25,348,898	6,511,945	-	31,860,843
Total nondepreciable capital assets	<u>25,534,124</u>	<u>6,511,945</u>	<u>-</u>	<u>32,046,069</u>
Depreciable capital assets:				
Land improvements - water and sewer lines	24,066,304		-	24,066,304
Buildings	4,048,635	54,709		4,103,344
Machinery and equipment	225,935	42,406	(24,583)	243,758
Total depreciable capital assets	<u>28,340,874</u>	<u>97,115</u>	<u>(24,583)</u>	<u>28,413,406</u>
Less accumulated depreciation for:				
Land improvements - water and sewer lines	7,378,264	520,130	-	7,898,394
Buildings	1,992,002	81,419	-	2,073,421
Machinery and equipment	137,135	36,905	(24,583)	149,457
Total accumulated depreciation	<u>9,507,401</u>	<u>638,454</u>	<u>(24,583)</u>	<u>10,121,272</u>
Total depreciable assets, net	<u>18,833,473</u>	<u>(541,339)</u>	<u>-</u>	<u>18,292,134</u>
Business-type activities capital assets, net	<u><u>\$ 44,367,597</u></u>	<u><u>\$ 5,970,606</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 50,338,203</u></u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

D. CAPITAL ASSETS (continued)

Capital assets activity for the ABC Board for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 899,972	\$ 349,587	\$ -	\$ 1,249,559
Total nondepreciable capital assets	<u>899,972</u>	<u>349,587</u>	<u>-</u>	<u>1,249,559</u>
Depreciable capital assets:				
Buildings and improvements	1,871,885	7,570	-	1,879,455
Leasehold improvements	536,184	77,681	-	613,865
Vehicles	61,048	-	-	61,048
Machinery and equipment	683,994	16,134	-	700,128
Law enforcement	100,008	23,688	-	123,696
Total depreciable capital assets	<u>3,253,119</u>	<u>125,073</u>	<u>-</u>	<u>3,378,192</u>
Less accumulated depreciation for:				
Buildings and improvements	652,403	43,704	-	696,107
Leasehold improvements	179,156	31,747	-	210,903
Vehicles	54,919	6,129	-	61,048
Machinery and equipment	537,736	38,987	-	576,723
Law enforcement	92,740	4,104	-	96,844
Total accumulated depreciation	<u>1,516,954</u>	<u>124,671</u>	<u>-</u>	<u>1,641,625</u>
Total depreciable capital assets, net	<u>1,736,165</u>	<u>402</u>	<u>-</u>	<u>1,736,567</u>
 ABC Board capital assets, net	 <u>\$ 2,636,137</u>	 <u>\$ 349,989</u>	 <u>\$ -</u>	 <u>\$ 2,986,126</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

E. LONG-TERM OBLIGATIONS

The following is a summary of transactions affecting the County's long-term obligations for the year ended June 30, 2005:

	Balance <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2005</u>	Amounts Due Within <u>One Year</u>
Governmental activities:					
General obligation bonds	\$232,231,073	\$ -	\$ 16,566,965	\$215,664,108	\$ 16,387,119
Certificates of participation	26,690,000	-	2,130,000	24,560,000	2,235,000
Industrial utilities extension policy	2,216,073	66,005	823,188	1,458,890	470,297
Unamortized bond premium	1,223,686	-	193,174	1,030,512	193,174
Installment notes payable	24,813,943	1,772,501	2,779,175	23,807,269	3,383,870
Accrued compensated absences	4,428,731	3,931,475	3,676,249	4,683,957	3,742,197
Separation allowance	<u>122,217</u>	<u>22,689</u>	<u>-</u>	<u>144,906</u>	<u>-</u>
Total governmental activities	<u>\$291,725,723</u>	<u>\$ 5,792,670</u>	<u>\$ 26,168,751</u>	<u>\$271,349,642</u>	<u>\$ 26,411,657</u>

	Balance <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2005</u>	Amounts Due Within <u>One Year</u>
Business-type activities:					
General obligation bonds	\$ 6,788,928	\$ -	\$ 508,033	\$ 6,280,895	\$ 502,881
Revenue bonds	24,515,000	-	1,270,000	23,245,000	1,310,000
Unamortized bond premium	797,393	-	33,834	763,559	33,834
Accrued compensated absences	<u>22,530</u>	<u>15,423</u>	<u>11,876</u>	<u>26,077</u>	<u>13,356</u>
Total business-type activities	<u>\$ 32,123,851</u>	<u>\$ 15,423</u>	<u>\$ 1,823,743</u>	<u>\$ 30,315,531</u>	<u>\$ 1,860,071</u>

General obligation bonds

Durham County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds have been issued for both governmental and business-type activities, however, none were issued in fiscal year 2005.

Interest requirements for the general obligation bonds are payable semi-annually at annual rates varying from 3.00% to 5.60%. These debt obligations are backed by the full faith, credit and taxing power of the County. General Fund revenues are used to repay general long-term debt obligations.

Two-thirds (2/3s) bonds

Durham County issues 2/3s bonds to provide funds for the acquisition and construction of major capital facilities. 2/3s bonds are similar to general obligation bonds in that they also are direct obligations and pledge the full faith and credit of the government. 2/3s bonds have been issued for governmental and business-type activities, however, none were issued in fiscal year 2005.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

E. LONG-TERM OBLIGATIONS (continued)

General obligation bonds and revenue bonds outstanding at June 30, 2005 are as follows:

<u>Purpose:</u>	<u>Rates</u>	<u>Issued</u>	<u>Matures</u>	<u>Issue</u>	<u>2005</u>
<u>Governmental activities:</u>					
Public improvement, Series 2000 (2/3 Bonds)	5.40% to 5.60%	6/1/2000	5/11/2017	\$ 1,700,000	\$ 1,317,119
Refunding, Series 2001	4.25% to 5.50%	2/15/2001	4/1/2013	87,490,000	66,375,000
Public improvement, Series 2002A	3.25% to 4.75%	1/1/2002	3/1/2022	11,050,000	9,400,000
Refunding, Series 2002B	4.25% to 5.50%	1/1/2002	3/1/2022	33,567,112	18,786,989
Public improvement, Series 2002B	4.00% to 5.00%	5/1/2002	4/1/2022	68,410,000	64,285,000
Public improvement, Series 2004A (2/3 Bonds)	4.00% to 5.00%	5/1/2004	5/1/2023	10,600,000	10,400,000
Public improvement, Series 2004B	4.00% to 5.00%	5/1/2004	5/1/2023	46,600,000	<u>45,100,000</u>
Total governmental activities					<u>\$ 215,664,108</u>
<u>Business-type activities:</u>					
Public improvement, Series 2000 (2/3 Bonds)	5.40% to 5.60%	6/1/2000	5/11/2017	\$ 7,180,000	\$ 5,562,882
Refunding, Series 2002B	3.00% to 5.00%	1/1/2002	3/1/2010	1,282,887	718,013
Revenue bonds, Series 2003 - sewer plant expansion/improvements	3.00% to 4.75%	12/1/2002	6/11/2028	24,515,000	<u>23,245,000</u>
Total business-type activities					<u>\$ 29,525,895</u>
Total bonded indebtedness					<u><u>\$ 245,190,003</u></u>

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

E. LONG-TERM OBLIGATIONS (continued)

The annual requirements as of June 30, 2005 to amortize outstanding debt and funds available for draw under installment purchase contracts including interest payments exclusive of accrued compensated absences, the separation allowance and obligations under the industrial extensions policy are as follows:

Governmental activities:

Year ending June 30,	General Obligation Bonds		Certificates of Participation		Installment Note Payable		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 16,387,119	\$ 10,360,055	\$ 2,235,000	\$ 1,214,640	\$ 3,383,870	\$ 930,060	\$ -	\$ -	\$ 22,005,989	\$ 12,504,755
2007	16,216,721	9,609,044	2,340,000	1,102,890	2,682,972	827,605	-	-	21,239,693	11,539,539
2008	16,070,586	8,821,076	2,460,000	985,890	2,321,958	739,436	-	-	20,852,544	10,546,402
2009	16,794,635	8,023,563	2,585,000	862,890	2,227,214	649,287	-	-	21,606,849	9,535,740
2010	16,510,808	7,175,068	2,705,000	740,103	1,372,005	574,003	-	-	20,587,813	8,489,174
2011-2015	62,065,765	24,811,679	12,235,000	1,563,660	7,547,124	1,876,047	-	-	81,847,889	28,251,386
2016-2020	50,268,474	12,098,819	-	-	4,272,126	385,905	-	-	54,540,600	12,484,724
2021-2025	21,350,000	1,616,088	-	-	-	-	-	-	21,350,000	1,616,088
2026-2030	-	-	-	-	-	-	-	-	-	-
	<u>\$ 215,664,108</u>	<u>\$ 82,515,392</u>	<u>\$ 24,560,000</u>	<u>\$ 6,470,073</u>	<u>\$ 23,807,269</u>	<u>\$ 5,982,343</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 264,031,377</u>	<u>\$ 94,967,808</u>

Business-type activities:

Year ending June 30,	General Obligation Bonds		Certificates of Participation		Installment Note Payable		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 502,881	\$ 344,584	\$ -	\$ -	\$ -	\$ -	\$ 1,310,000	\$ 1,103,008	\$ 1,812,881	\$ 1,447,592
2007	498,279	318,721	-	-	-	-	1,355,000	1,057,158	1,853,279	1,375,879
2008	494,413	292,189	-	-	-	-	1,425,000	989,408	1,919,413	1,281,597
2009	490,365	265,852	-	-	-	-	1,495,000	918,158	1,985,365	1,184,010
2010	349,193	239,716	-	-	-	-	1,570,000	843,408	1,919,193	1,083,124
2011-2015	3,234,236	787,536	-	-	-	-	4,110,000	3,357,098	7,344,236	4,144,634
2016-2020	711,528	44,374	-	-	-	-	3,745,000	2,570,000	4,456,528	2,614,374
2021-2025	-	-	-	-	-	-	4,785,000	1,536,500	4,785,000	1,536,500
2026-2030	-	-	-	-	-	-	3,450,000	332,975	3,450,000	332,975
	<u>\$ 6,280,895</u>	<u>\$ 2,292,972</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,245,000</u>	<u>\$ 12,707,713</u>	<u>\$ 29,525,895</u>	<u>\$ 15,000,685</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

E. LONG-TERM OBLIGATIONS (continued)

Industrial Extensions Policy

The Industrial Extensions Policy provides for the expenditure of public funds for the promotion of local economic development when the BOCC considers such development serves a public purpose. The BOCC considers the promotion of local economic development when it assists in the creation of a more stable economy by providing displaced workers with continuing employment opportunities, attracting better paying and more highly skilled jobs, diversifying the local economy and creating a broader tax base from which Durham County can draw funding for other programs that benefit the general health, safety and welfare of the citizens. Any industrial enterprise seeking to qualify for economic development investment funds must provide the County with a written statement which includes specific information as outlined in the policy. They then must receive approval from the BOCC prior to the undertaking of construction. The Board evaluates each enterprise on a case by case basis prior to making a decision whether to provide economic development investment funds. Any enterprise desiring to use economic development investment funds must enter into a performance agreement with Durham County. The determination of whether satisfactory progress has been made shall be the sole discretion of Durham County based upon the performance guidelines set out in the performance agreement. The BOCC views the promotion of the local economic development as an investment in the future of Durham County.

The annual requirements to amortize reimbursements payable under this policy at June 30, 2005 are as follows:

YEAR ENDING JUNE 30,	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 470,296	\$ 89,543	\$ -	\$ -	\$ 470,296	\$ 89,543
2007	504,970	76,019	-	-	504,970	76,019
2008	483,624	29,495	-	-	483,624	29,495
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
TOTAL	<u>\$ 1,458,890</u>	<u>\$ 195,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,458,890</u>	<u>\$ 195,057</u>

Interest requirements related to the Industrial Extensions Policy are nominal.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

E. LONG-TERM OBLIGATIONS (continued)

Revenue bonds

The County also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service.

Interest requirements for the revenue bonds are also payable semi-annually at annual rates varying from 3.00% to 4.75%. These debt obligations are secured by a pledge of and lien upon, and payable solely from, the net receipts of the enterprise system and, in certain circumstances, by proceeds of the revenue bonds, investment earnings and certain net insurance and other proceeds. The revenue bonds are additionally secured by and payable from money and securities of certain funds, accounts and sub-accounts held by the trustee under the trust agreement and the first supplemental trust agreement. Sewer Utility Fund revenues are used to repay sewer utility long-term obligations. There were no revenue bonds issued in fiscal year 2005.

The County is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the County may have outstanding to eight percent (8%) of the appraised value of property subject to taxation less property valued for abatement. At June 30, 2005, such statutory limit for the County was \$1,648,120,743 providing a legal debt margin of \$1,353,906,753.

Interest rate swap

Effective July 30, 2004, the County entered into a floating-to-floating or basis swap on \$125,810,000 of its outstanding fixed-rate Series 2000, 2001, 2002 A&B and 2004 A&B General Obligation Bonds. The notational amount of the Swap Agreement is equal to the par value of selected associated bonds. The objective of the swap was to create economics (generate present value savings) similar to a 65% of LIBOR synthetic fixed-rate financing without the County having to issue actual refunding bonds. The Swap Agreement provides for the County to make payments to the counterparty based on the taxable-equivalent Bond Market Association (BMA) index and for the counterparty to make reciprocal payments based on a floating rate priced at six-month LIBOR plus a net amount of 0.952%. The agreement matures March 1, 2023. The derivatives contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy.

Fair value

As of June 30, 2005, the swap had a negative fair value totaling (\$4.44) million, estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

E. LONG-TERM OBLIGATIONS (continued)

<u>Associated Bond Issues</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Termination Date</u>	(In Thousands)		<u>Fair Value</u>	<u>Counterparty Credit Rating</u>
				<u>Variable Rate Paid</u>	<u>Variable Rate Received</u>		
Series 2000, 2001, 2002 A&B and 2004 A&B General Obligation Bonds	\$125,810	7/30/04	3/1/23	3.733%+BMA/ Divisor ¹	4.688%+6-month LIBOR	(\$4,440)	Aaa/AAA

¹Divisor equals 0.604 from Effective Date - 3/1/09 and 0.604 thereafter

Risks

The County is exposed to the following risks in connection with the swap:

Credit risk. As of June 30, 2005, the County was not exposed to credit risk, or the risk of economic loss due to a counterparty default on its outstanding swap because the swap had a negative fair value. However, should the relationship between the tax-exempt and taxable interest rates change and the fair values of the swap become positive, the County would be exposed to credit risk in the amount of the derivative's fair value. Both County and the counterparty's payment obligations under the swap are guaranteed by Aaa/AAA rated Ambac Assurance Corporation.

Basis and tax risk. The County will be exposed to additional interest expense payments if there is a shortfall between the variable payment received by the County on the swap and the variable payment owed by the County. Basis risk refers to a temporary shortfall usually caused by a disruption in the supply/demand for tax-exempt securities. Tax risk refers to a persistent or more permanent shortfall caused by a structural change in the U.S. tax code.

Termination risk. The County or the counterparty may terminate the swap if the other party and its Credit Support Provider, Ambac Assurance Corporation, fail to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the County would be liable to the counterparty for a payment equal to the swap's fair value.

The ABC Board's long-term debt was \$649,160 as of June 30, 2005.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

F. COMMITMENTS

1. Leases

The County leases office space and equipment rentals under operating leases. Total costs for such leases were \$638,454 for the year ended June 30, 2005. The future minimum rental payments due under the leases at June 30, 2005 are as follows:

YEAR ENDING JUNE 30,	<u>COUNTY</u>	<u>ABC BOARD</u>
2006	488,112	142,776
2007	119,769	16,844
2008	19,444	-
TOTAL	<u>\$ 627,325</u>	<u>\$ 159,620</u>

Leased Facilities

Pursuant to agreements executed between the County, the Hospital and Duke, effective July 1, 1998, the County began leasing its Hospital facilities to Duke under the terms of an operating lease expiring on June 30, 2018. Annual minimum lease payments to be remitted to the County for use of the facility are \$3,500,000. The County received an advance payment in the amount of \$23,500,000 representing the first ten annual lease payments discounted at 8%. These funds are accounted for in the Community Health Trust Fund. In addition, under the terms of the agreements, the County is to receive \$1,500,000 annually for the support of Emergency Medical Services previously provided by the Hospital and assumed by the County under the agreements. These funds are accounted for in the General Fund. In addition, Duke has agreed to remit \$2,100,000 to the Lincoln Community Health Center, formerly a component unit of the Hospital, for the provision of health services to the citizens of the County. The County has treated this agreement as an operating lease.

2. School Facilities

In June 2003, the Board of County Commissioners (BOCC) revised the approved a Capital Improvement Plan (CIP) for fiscal years 2004 – 2013 that included school projects totaling \$159,994,215 funded through voter approved general obligation bond referendums in November 2001 and November 2003 in the amount of \$157,091,084 and miscellaneous revenue in the amount of \$2,903,131. Nine (9) school projects with a total combined budget of \$72,875,144 began construction and renovations. Total construction in progress for fiscal year 2005 for these projects was \$46,996,539 while total combined construction in progress since inception was \$58,616,304.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

F. COMMITMENTS (continued)

3. Construction

The total ten-year estimated and funded project costs of the CIP until June of 2013 is \$580,973,195. The plan continues to serve as a blueprint to meet the growing facility needs of the County. The funding sources for the CIP include: general obligation bonds, 2/3's general obligation bonds, certificates of participation (COPS)/special obligation bonds (SOBs), revenue bonds, county contributions, sewer utility contributions and other miscellaneous revenues.

The CIP allocated funding for fiscal year 2005 in the amount of \$6,472,689. The allocated funds provided approximately \$6,072,689 for capital projects of general governmental activities and \$400,000 for business-type activities. The fund sources allocated for fiscal year 2005 were general contributions, bank financing, sewer utility contributions and other miscellaneous revenues.

In December 2002, revenue bonds were issued in the amount of \$24,515,000 as a funding source for the continuation of the wastewater treatment plant improvements (Phase II) which have not been completed.

As part of the ten-year CIP for fiscal years 2004 – 2013, a general obligation bond referendum totaling \$123,665,000 was approved by Durham County citizens as a funding source. The referendum funded \$105,315,000 for school facilities, \$8,345,000 for community colleges, \$4,725,000 for library facilities, and \$5,280,000 for museum facilities. In April 2004 the County issued \$40,600,000 of the 2003 voter approved general obligation bonds and \$6,000,000 of the 2001 voter approved general obligation bonds.

4. Capital commitments

The County had commitments at June 30, 2005 of approximately \$3,411,717 for the expansion of the waste water treatment plant and construction of sewer distribution systems.

Funding for the active projects for governmental activities and business-type activities include general obligation bonds, 2/3's bonds, certificates of participation COPs, revenue bonds, general contributions, sewer utility contributions and other miscellaneous revenues.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

F. COMMITMENTS (continued)

5. Other commitments

The County had commitments at June 30, 2005 of approximately \$383,380 for equity investment in the Civic Center (see Note N).

Reimbursement for expenditures incurred from improvements to property of the Durham Public School System, Durham Technical Community College and various not-for-profit organizations are made upon request by the school systems, Community College and organizations. Because Durham County is not a party to the contracts, the unexecuted balances of such contracts are considered obligations of the Durham Public School System, Durham Technical Community College and various not-for-profit organizations. Additional payments, if any, to be made by Durham County, will be from future appropriations.

The County participates in a number of Federal and State of North Carolina grant awards program. The disbursements of funds under these programs are subject to audit in accordance with the Office of Management and Budget Circular A-133, "*Audits of State and Local Governments, and Non-Profit Organizations*". The amounts, if any, of expenditures which may be disallowed by the granting agencies resulting from such audit cannot be determined at this time, although the County expects they would be immaterial.

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

G. INTERFUND BALANCES AND ACTIVITIES

The following is a schedule of interfund receivable and payable balances as of June 30, 2005:

Due to:		
General Fund from Internal Service Fund		
Payment for bank overdraft	\$ 457,149	
	<u>\$ 457,149</u>	
Due from:		
Internal Service Fund to General Fund		
Payment for bank overdraft	\$ 457,149	
	<u>\$ 457,149</u>	

The positive fund balance/net assets consists of capital assets in the Equipment Leasing Fund. There will be no more funding provided by the Equipment Leasing Fund until the liquid assets are generated to resolve the bank overdraft. The bank overdraft should be resolved after annual payments based on the current leasing agreements are received in the Equipment Leasing Fund in fiscal year 2006.

Transfers:

The following is a summary of transfers for the year ended June 30, 2005:

Transfers out:	Transfers In:			Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
General fund	\$ -	\$ 3,883,413	\$ 32,419,461	\$ 36,302,874
Capital projects fund	-	-	1,054,184	1,054,184
Community health trust fund	1,310,000	-	-	1,310,000
Nonmajor governmental fund	856,455	-	-	856,455
Total transfers	<u>\$ 2,166,455</u>	<u>\$ 3,883,413</u>	<u>\$ 33,473,645</u>	<u>\$ 39,523,513</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

G. INTERFUND BALANCES AND ACTIVITIES (continued)

Transfers from the General Fund to the Capital Projects Fund, Special Revenue Funds and the Debt Service Fund are for funding general government construction projects per Durham County's Capital Improvement Plan, fire tax and reappraisal services and general government debt payments, respectively.

Transfers from the Capital Projects Fund to the Debt Service Fund are for funding general government debt payments.

Transfers from the Community Health Trust Fund to the General Fund are for funding health-related expenditures.

Transfers from the Special Revenue Funds to the General Fund are for funding general government public safety expenditures.

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

1. North Carolina Local Governmental Employees' Retirement System

Plan Description. The County 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 North Carolina General Statute (NCGS) 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 (6%) of their annual covered salary. The County and the ABC Board are required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.88% and 4.78%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees is 4.93% and 4.78% of annual covered payroll. The contribution requirements of members and of Durham County and the ABC Board are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2005, 2004 and 2003 were \$3,186,701, \$3,032,758, and

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)

\$2,966,841, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2005, 2004, and 2003 were \$86,390, \$86,490, and \$85,194, respectively. The contributions made by the County and the ABC Board equaled the required contributions for each year.

2. Law Enforcement Officers' Special Separation Allowance

Plan Description. The County administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of NCGS Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Separation Allowance is reported in the County's financial statements as a Pension Trust Fund. There is not a stand alone report available for this defined benefit pension plan.

The Separation Allowance covers all full-time law enforcement officers of the County. At December 31, 2004, the Separation Allowance's membership consisted of:

Retirees receiving benefits	6
Active plan members	<u>165</u>
Total	<u><u>171</u></u>

Summary of Significant Accounting Policies:

Basis of Accounting. The County presents the Separation Allowance in the financial statements using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the County 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.

Contributions. The County is required by Article 12D of NCGS 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 County contributed \$159,569 or 2.29% of annual covered payroll. There were no contributions made by employees.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)

The County'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 fiscal year ended June 30, 2005 was determined as part of the December 31, 2003 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increase ranging from 5.9% to 9.8% per year. Item (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 as of December 31, 2003 was twenty-seven years.

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

Annual required contribution	\$ 138,885
Interest on net pension obligation	(8,861)
Adjustment to annual required contribution	<u>6,856</u>
Annual pension cost	136,880
Contributions made	<u>(159,569)</u>
Decrease in net pension obligation	(22,689)
Net pension obligation, beginning of year	<u>(122,217)</u>
Net pension obligation, end of year	<u>\$ (144,906)</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>
June 30, 2005	\$ 136,880	116.58%	\$ (144,906)
June 30, 2004	126,846	111.16%	(122,217)
June 30, 2003	117,682	106.46%	(108,058)

3. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The County and the ABC Board contribute to the Supplemental Retirement Income Plan (the "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 County. Article 5 of NCGS Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)

Funding Policy. Article 12 E of NCGS Chapter 143 requires the County to contribute each month an amount equal to five percent (5%) of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2005 were \$478,732, which consisted of \$345,946 from the County and \$132,786 from the law enforcement officers. The ABC Board also contributes to the Supplemental Retirement Income Plan. The ABC Board's contributions to the Plan for the year ended June 30, 2005 totaled \$13,710, which consisted of \$6,306 from the ABC Board and \$7,403 from the law enforcement officers employed by the ABC Board. The County and the ABC Board's required contributions and the officers' voluntary contributions represented 5% and 1.91%, and 5% and 5%, respectively, of the covered payroll.

4. Registers of Deeds' Supplemental Pension Fund

Plan Description. Durham County also contributes to the Registers of Deeds' Supplemental Pension Fund (the "Fund"), a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any county register of deeds who is retired under the Local Government Employees' Retirement System ("LGERS") or an equivalent locally sponsored plan. Article 3 of NCGS Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to 4.5% of the monthly receipts collected pursuant to Article 1 of NCGS 161. Immediately following January 1 of each year, the Department of State Treasurer divides 93% of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining 7% of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2005, the County's required and actual contributions were \$74,236.

5. Supplemental Retirement Income Plan for Non-Law Enforcement Personnel

Plan Description. The County provides pension benefits for all its non-law enforcement employees, working more than twenty hours per week, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The Board of County Commissioners has established the plan which requires the County to contribute each month an amount equal to 5% of each employee's salary, and all amounts contributed are vested immediately. Employees are not required to contribute to the plan.

Funding Policy. The County's contributions were calculated using a covered payroll amount of \$58,476,022. The County's total payroll was \$67,282,306. Total contributions for the year ended June 30, 2005 were \$4,519,727, which consisted of \$2,906,030 from the County and \$1,613,697 from the non-law enforcement personnel. The County's required contribution and the non-law enforcement personnel's voluntary contribution represented 7.35% of the covered payroll amount.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

I. POST-EMPLOYMENT BENEFITS FOR COUNTY EMPLOYEES THAT PARTICIPATED IN THE NORTH CAROLINA LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

In addition to providing pension benefits, the County has elected to provide health benefits to retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (the "System") and have at least twenty years of creditable service with the County. The County pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the County's group rates. Currently, 220 retirees are eligible for health benefits. For the fiscal year ended June 30, 2005, the County made payments of \$723,481 for health benefits. The County obtains health care coverage through private insurers.

The County has elected to provide death benefits to employees through the Death Trust Plan for Members of the Local Governmental Employees' Retirement System (the "Death Trust Plan"), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. Employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefit may not exceed \$20,000.

All death benefit payments are made from the Death Trust Plan. The County 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. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Trust Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2005, the County made contributions to the State for death benefits of \$56,536. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.08% and 0.14% of covered payroll, respectively. The contributions to the Death Trust Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The net assets of the Death Trust Plan are not available for future benefit payments but will be used to reduce future contribution requirements.

J. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damaged to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County accounts for and finances the risks of loss in the General Fund.

Health and Dental Benefits – The County has a fully-insured health benefit plan. However, the County is self-insured for dental benefits. The County reports claims expenditures and liabilities in the General Fund. During fiscal year 2005, a total of \$865,314 was incurred for dental benefits and administrative costs.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

J. RISK MANAGEMENT (continued)

Workers' Compensation – The County maintains a limited risk, self-insurance program to provide workers' compensation benefits to County employees. Premiums for Workers' Compensation are paid by other funds of the County and are available to pay claims of the program. A total of \$1,131,264 was incurred for benefits during the fiscal year 2005.

The County is self-insured for workers' compensation. The County also has a program to limit or otherwise handle liability exposures which includes auto liability, general liability, employment practices and professional liability. Payments for claims have not exceeded appropriated funds in any of the past three fiscal years. The County maintains a property insurance policy to cover its buildings. Durham County maintains a designated fund balance for risk management.

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

K. LITIGATION

The County follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or estimable in amount. Management estimates that potential liabilities resulting from litigation would not have a material adverse effect on the financial position of the County at June 30, 2005. However, there is currently pending in the North Carolina Court of Appeals an action, entitled *Durham Land Owners' Association, et. al. v. County of Durham*, challenging the County's authority to enact its Impact Fees Ordinance for schools. During the pendency of the suit, an amount equal to the monies collected by the virtue of the ordinance plus investment earnings is being maintained in a separate special revenue fund by the Finance Department.

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

L. JOINTLY GOVERNED ORGANIZATIONS

Special Airport District of Durham and Wake Counties

Durham County, in conjunction with the other local governments, is a member of the Special Airport District of Durham and Wake Counties. The Special Airport District of Durham and Wake Counties is a special taxing district governed by a four-member board comprised of two members each from the Durham and Wake Boards of County Commissioners. The District is a public body limited to aiding the Raleigh-Durham Airport Authority in financing the construction of aeronautical facilities.

The District may issue bonds or other obligations pursuant to the provisions of the Local Government Bond Act of the North Carolina General Statutes and is empowered to cause taxes to be levied upon all taxable property within its district in Durham and Wake Counties sufficient to meet the financial obligations. The County does not approve the budget of the District, nor does the County control the collection or disbursement of District funds. There is no on-going financial interest or responsibility by the County.

Triangle J Council of Governments

Durham County, in conjunction with five other counties and thirty 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 County paid membership fees of \$55,543 to the Council during the fiscal year ended June 30, 2005. There is no on-going financial interest or responsibility by the County.

Triangle Transit Authority

Durham County, in conjunction with other area local governments, is a member of the Research Triangle Regional Public Transportation Authority. Durham County appoints one member to the governing board and jointly appoints a second member with the City of Durham (the “City”). The Authority possesses final decision making ability and is solely responsible for the management, budget and fiscal operations of the Authority.

M. JOINT VENTURES WITHOUT EQUITY INTEREST

Durham and Wake Counties Research and Production Service District and Advisory Committee

The Durham and Wake Counties Research and Production Service District Advisory Committee is a special taxing district governed by a ten-member board of which the individuals must be recommended by the Research Triangle Park and Tenants Association. The function of the Board is to make recommendations to the County Commissioners concerning the budget and tax rate to be set for the Special District/Research Triangle Park area.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

M. JOINT VENTURES WITHOUT EQUITY INTEREST (continued)

The District is a joint venture of the two Boards of County Commissioners; however, the County does not have an equity interest in the District. The District may issue bonds or other obligations pursuant to the provisions of the Local Government Bond Act of the North Carolina General Statutes and is empowered to cause taxes to be levied upon all taxable property within its district in Durham and Wake Counties sufficient to meet financial obligations. The County does not approve the budget of the District, nor does the County control the collection or disbursement of District funds.

The following is a summary of certain unaudited financial information of the District for the year ended June 30, 2005:

Total assets	\$ 897,731
Total liabilities	<u>(9,584)</u>
Total equity	<u><u>\$ 888,147</u></u>
Total revenues	\$ 514,468
Total expenditures	<u>(519,383)</u>
Decrease in fund balance	<u><u>\$ (4,915)</u></u>

Complete financial statements may be obtained at the Durham and Wake Counties Research and Production Service District Advisory Committee, Post Office Box 12255, Research Triangle Park, North Carolina 27709.

Raleigh-Durham Airport Authority

The Raleigh-Durham Airport Authority is governed by a board appointed to plan and conduct the operations of the Raleigh-Durham International Airport (the "Airport Authority"). The eight-member governing body is jointly appointed by the City of Durham, City of Raleigh, County of Durham and County of Wake, with each member government appointing two members to the Airport Authority Board. The Airport Authority Board selects the management and determines the budget and financing requirements for airport operations. The County and other participating governments each appropriate \$12,500 annually to cover administration expenses incurred by the Airport Authority.

The participating governments have no equity interest in the joint venture, so no equity interest is reflected in the County's financial statements. Complete financial statements for the Airport Authority may be obtained from the airport's administrative offices at 1051 Cargo Drive, Raleigh, North Carolina 27623.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

M. JOINT VENTURES WITHOUT EQUITY INTEREST (continued)

Durham Technical Community College

Durham County provides funds to Durham Technical Community College, primarily for capital improvement and maintenance of facilities. In accordance with State law, the County appoints four of the thirteen Board of Trustee members. The County does not designate management or significantly influence operations, and the College is not accountable to the County for its fiscal matters beyond the County's appropriation to the College. The County's fiscal year 2005 appropriation of approximately \$3.467 million to the College represents approximately 16.44% of its total non-operating revenues and approximately 14.36% of its capital outlay revenues, with the majority of funding being provided by the State of North Carolina Department of Community Colleges, of which the College is a part. The County does not have an equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements at June 30, 2005. Complete financial statements for the College may be obtained at their administrative offices at 1637 Lawson Street, Durham, North Carolina 27703.

N. JOINT VENTURES WITH EQUITY INTEREST

Durham Convention and Visitors Bureau

The Durham Convention and Visitors Bureau (the "Bureau") was established in fiscal year 1989 in conjunction with a County occupancy tax levy to promote and solicit business, conventions, meetings and tourism in Durham County. The governing body of the Bureau is a seven-member Board of Directors with three members appointed by the City of Durham, three members appointed by the County of Durham and one member jointly appointed.

Funding is derived from the occupancy tax levied upon the rental of rooms, lodging or similar accommodations. Monthly, the County is required to distribute to the Bureau a percentage of the tax collected. The Bureau is a joint venture between the County of Durham and the City of Durham with the County having a 57.5% equity interest and the City having a 42.5% equity interest.

The Durham County Board of Commissioners and the Durham City Council must approve the budget and all amendments.

At June 30, 2005, the County recorded an equity interest in the Bureau of \$742,000 which is included in the investment in joint venture in the statement of net assets. Complete financial statements may be obtained at the administrative offices at 101 East Morgan Street, Durham, North Carolina 27701.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

N. JOINT VENTURES WITH EQUITY INTEREST (continued)

Durham Civic Center Authority

The Durham Civic Center Authority (the “Authority”) is a joint venture established by the County and the City and is assigned such powers as necessary, reasonable and practicable for the operation and maintenance of the Civic Center Facility. The Authority consists of seven members who are appointed to three-year terms. Three members are appointed by the County and three members by the City with the seventh member being selected by the six members appointed by the County and City. The members elect from its membership a Chairman and Vice Chairman of the Authority.

Policies, procedures and fees related to the Civic Center operation are recommended by the Authority and approved by the County and City. Employees of the Authority are jointly appointed by the County and City Managers, and any employees so appointed are employees of the City. All budgeting and accounting of the Authority, including collection and disbursement of Authority funds, are a part of the budgeting and accounting system of the City.

On October 9, 1987, the County and City of Durham entered into agreements with a private developer to purchase an eighty-two thousand (82,000) square foot Civic Center. The County and City initially deposited \$17,300,000 (\$3,000,000 by the County and \$14,300,000 by the City) in escrow which together with interest earned was used to purchase the facility. At June 30, 2005, the County owned 48.60% equity in the Civic Center by the initial deposit of \$3,000,000, additional equity purchases of \$7,322,417 during prior fiscal years, and \$383,380 during the current fiscal year. The County has agreed to purchase additional equity in the Center on an annual basis through the year 2006, until the County attains a 50% equity interest. Amounts due in subsequent years to purchase equity in the Center are \$383,380 annually.

In January 2004, the City of Durham refunded debt that included the Civic Center Authority’s long-term debt. Therefore, the Civic Center Authority’s long-term debt consists of \$1,110,123 in general obligation bonds issued by the City of Durham, maturing in varying installments from 1997 to 2008 with interest at 2.00% to 4.00%. The debt is being serviced from property tax revenues of the City and amounts for additional equity purchases made by the County. The County’s net investment in the Authority is reported in the investment in joint venture in the statement of net assets. At June 30, 2005, the County’s equity interest in the Authority was \$7,410,128.

The County also shares with the City in funding all costs arising out of the management, operation, maintenance and repair of the Civic Center. In 2005, the amount funded by the County was approximately \$480,785. Complete financial statements for the Authority may be obtained from the City of Durham’s administrative offices at 101 City Hall Plaza, Durham, North Carolina 27701.

The total investment in joint venture for Durham County recorded in the statement of net assets for governmental activities for the above two ventures at June 30, 2005 is \$8,152,128.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

O. BENEFIT PAYMENTS ISSUED BY FEDERAL AND STATE

The amounts listed below were paid directly to individual recipients by the state from federal and state monies. County personnel are involved with certain functions, primarily eligibility determinations, that cause benefit payments to be issued by the state. These amounts disclose this additional aid to County recipients which do not appear in the basic financial statements because they are not revenues and expenditures of the County.

	Federal	State
Medicaid Title XIX	\$ 132,146,747	\$ 64,293,906
Food Stamps	23,055,461	-
Temporary Assistance for Needy Families	3,209,080	-
Special Assistance to Adults	-	1,614,021
Title IV-E Adoption Assistance	828,146	239,145
Total Direct Federal and State Awards	\$ 159,239,434	\$ 66,147,072

The amounts listed below were paid to the County and transmitted to their intended final individual recipients by the County from federal and state monies. County personnel are involved with certain functions, primarily providing pass-through resources, and should recognize revenue when all eligibility requirements have been met and the resources become available. This condition exists when the resources are, in fact, transmitted to their intended final recipient. These amounts disclose this additional aid to County recipients which also do not appear in the basic financial statements because they are not revenues and expenditures of the County.

	Federal	State
U.S. Department of Agriculture	\$ 1,700,055	\$ -
U.S. Department of Justice	528,987	-
Institute for Museum and Library Services	9,960	-
U.S. Department of Education	36,369	-
U.S. Department of Homeland Security	234,586	-
N.C. Department of Health and Human Services	24,453,895	20,907,903
Other State Programs	-	1,513,719
Total Indirect Federal and State Awards	\$ 26,963,852	\$ 22,421,622
Total Federal and State Awards	\$ 186,203,286	\$ 88,568,694

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

P. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2004, the State of North Carolina changed the distribution method for local option sales taxes that it collects on behalf of local governments. These taxes are now distributed on a monthly basis rather than quarterly basis. Beginning for fiscal year 2005, on advice from the NC State Treasurer's Office and in accordance with GASB Statement No. 33, Durham County will consider a sales tax distribution as a revenue as of June 30 if it is received within 90 days of year-end. Taxes on sales for the month of June 2005 will be distributed by the State on or around September 15, 2005. The County had previously considered sales tax receivables to be revenue only if received within 60 days of year-end. See Note A.3.

The September 15, 2005 distributions of these taxes are recognized as revenues for the 2005 fiscal year. If this policy had been in effect for the 2004 fiscal year, ending fund balance of the General Fund would have been \$66,226,619 which is \$4,768,565 higher than was previously reported. The beginning fund balance of the General Fund for the 2005 fiscal year had been restated to that amount.

Q. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2005, the expenditures made in the County's Community Health Trust Fund exceeded the authorized appropriations made by the governing board by \$1,150,000. This expenditure is the amortization of the capital lease discount for the prepaid capital leasing of the Durham Regional Hospital by Duke. The County has never budgeted for this amortization of prepaid discount in the expenditures nor the realization of the current year's amount of the prepaid capital lease (\$3,500,000) in the revenues. However, the appropriations for the amortization of the discount and the realization of the revenue will be budgeted in fiscal year 2006.

REQUIRED SUPPLEMENTARY INFORMATION

DURHAM COUNTY, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability ("AAL") Project Unit Credit (B)	Unfunded AAL ("UAAL") (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a percentage of Covered payroll [(B-A)/C]
December 31, 1997	\$ 455,765	\$ 580,222	\$ 124,457	78.55%	\$3,489,840	3.57%
December 31, 1998	488,000	649,697	161,697	75.11%	3,854,980	4.19%
December 31, 1999	501,086	683,903	182,817	73.27%	4,210,352	4.34%
December 31, 2000	520,958	1,042,099	521,141	49.99%	4,896,539	10.64%
December 31, 2001	547,161	1,171,475	624,314	46.99%	5,359,280	11.65%
December 31, 2002	613,960	1,290,640	676,680	47.57%	5,518,875	12.26%
December 31, 2003	678,858	1,388,785	709,927	48.88%	5,901,669	12.03%
December 31, 2004	771,369	1,619,670	848,301	47.63%	6,644,935	12.77%

DURHAM COUNTY, NORTH CAROLINA

**Law Enforcement Officers' Special Separation Allowance
Schedule of Employer Contributions**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2002	\$ 102,261	108.22%
2003	119,569	104.78%
2004	128,752	109.52%
2005	138,885	114.89%

DURHAM COUNTY, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance Notes to 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	December 31, 2004
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	26 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases	5.9% to 9.8%
*Includes inflation at:	3.75%
Cost of living adjustments	None

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fire Tax District Funds – to account for the proceeds of special district taxes for the Bethesda, Lebanon, Parkwood, Redwood, New Hope, Eno, and Bahama Volunteer Fire Departments. Payments of the amounts appropriated for the seven fire districts are made as requested during the fiscal year.

Butner Safety District Fund – to account for the proceeds of the special district established through State Legislation for the police and fire protection for Camp Butner State Preservation. Payments of the amounts appropriated are made to the State of North Carolina.

Special Park District Fund – to account for the proceeds of special district taxes for maintenance and beautification of the Research Triangle Park. Payments of the amounts appropriated are made in February of each year.

Emergency Services – to account for the proceeds of the 911 surcharge and the related investment income. Payments of the amounts appropriated are restricted to the purchase of equipment and for operational expenses of the Central Emergency Communications Center.

Reappraisal Reserve Fund – to account for funds set-aside for the revaluation of taxable real property as required by the General Statutes of the State of North Carolina.

School Impact Fees Fund – to account for funds set aside to be expended for future school construction and renovations as needed as a result of community growth.

Debt Service Fund

The debt service fund is used to account for the payment of principal, interest, and related costs for all general long-term debt other than debt issued for and serviced by proprietary funds.

DURHAM COUNTY, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents / investments	\$ 5,117,135	\$ 160,091	\$ 5,277,226
Accounts receivable	218,592	4,453	223,045
Net taxes receivable	74,902	-	74,902
Net impact fees receivable	68,000	-	68,000
Due from other governments - federal and state agencies	26,057	-	26,057
Due from other governments - local	2,463,565	-	2,463,565
Total assets	\$ 7,968,251	\$ 164,544	\$ 8,132,795
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 156	\$ -	\$ 156
Arbitrage rebate payable	-	27,000	27,000
Collections in advance	33,695	-	33,695
Deferred revenues:			
Taxes	74,902	-	74,902
Impact fees	68,000	-	68,000
Total liabilities	176,753	27,000	203,753
Fund balances:			
Reserved:			
State statute	2,708,214	4,453	2,712,667
Other purposes	33,695	-	33,695
Unreserved:			
Designated:			
Subsequent years	2,935,763	100,660	3,036,423
Undesignated	2,113,826	32,431	2,146,257
Total fund balances	7,791,498	137,544	7,929,042
Total liabilities and fund balances	\$ 7,968,251	\$ 164,544	\$ 8,132,795

DURHAM COUNTY, NORTH CAROLINA

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005**

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ 4,059,243	\$ -	\$ 4,059,243
Licenses and permits	3,093,750	-	3,093,750
Investments and rental income	80,958	368,385	449,343
Charges for services	1,274,211	-	1,274,211
Total revenues	<u>8,508,162</u>	<u>368,385</u>	<u>8,876,547</u>
Expenditures			
Current:			
General government	21,513	-	21,513
Public safety	4,283,177	-	4,283,177
Economic and physical development	313,489	-	313,489
Debt service:			
Principal retirement	-	21,476,140	21,476,140
Interest and fiscal charges	-	13,440,112	13,440,112
Total expenditures	<u>4,618,179</u>	<u>34,916,252</u>	<u>39,534,431</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,889,983</u>	<u>(34,547,867)</u>	<u>(30,657,884)</u>
Other financing sources (uses)			
Transfers in	150,000	33,323,645	33,473,645
Transfers out	(856,455)	-	(856,455)
Total other financing sources (uses)	<u>(706,455)</u>	<u>33,323,645</u>	<u>32,617,190</u>
Net change in fund balances	3,183,528	(1,224,222)	1,959,306
Fund balance - beginning	<u>4,607,970</u>	<u>1,361,766</u>	<u>5,969,736</u>
Fund balance - ending	<u>\$ 7,791,498</u>	<u>\$ 137,544</u>	<u>\$ 7,929,042</u>

DURHAM COUNTY, NORTH CAROLINA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2005

	FIRE TAX DISTRICTS				
	Bethesda	Lebanon	Parkwood	Redwood	New Hope
Assets					
Cash and cash equivalents / investments	\$ 211,420	\$ 197,728	\$ 46,857	\$ 59,040	\$ 5,436
Accounts receivable	-	-	-	-	-
Net taxes receivable	14,895	17,388	11,180	21,669	805
Net impact fees receivable	-	-	-	-	-
Due from other governments - federal and state agencies	-	-	-	-	-
Due from other governments - local	-	-	-	-	-
Total assets	\$ 226,315	\$ 215,116	\$ 58,037	\$ 80,709	\$ 6,241
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Collections in advance	5,766	7,574	9,095	5,709	77
Taxes and assessments	14,895	17,388	11,180	21,669	805
Impact fees	-	-	-	-	-
Total liabilities	20,661	24,962	20,275	27,378	882
Fund balances:					
Reserved:					
State statute	-	-	-	-	-
Other purposes	5,766	7,574	9,095	5,709	77
Unreserved:					
Designated:					
Subsequent years	260,000	146,988	41,780	47,271	-
Undesignated	(60,112)	35,592	(13,113)	351	5,282
Total fund balances	205,654	190,154	37,762	53,331	5,359
Total liabilities and fund balances	\$ 226,315	\$ 215,116	\$ 58,037	\$ 80,709	\$ 6,241

<u>Eno</u>	<u>Bahama</u>	<u>Butner Safety District Fund</u>	<u>Special Park District Fund</u>	<u>Emergency Services Fund</u>	<u>Reappraisal Reserve Fund</u>	<u>School Impact Fees Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 3,734	\$ 202,420	\$ 96	\$ 1,862	\$ 312,842	\$ 294,943	\$ 3,780,757	\$ 5,117,135
-	-	-	-	218,592	-	-	218,592
106	8,042	156	661	-	-	-	74,902
-	-	-	-	-	-	68,000	68,000
-	-	-	-	26,057	-	-	26,057
-	-	-	-	2,463,565	-	-	2,463,565
<u>\$ 3,840</u>	<u>\$ 210,462</u>	<u>\$ 252</u>	<u>\$ 2,523</u>	<u>\$ 3,021,056</u>	<u>\$ 294,943</u>	<u>\$ 3,848,757</u>	<u>\$ 7,968,251</u>
\$ -	\$ -	\$ -	\$ 154	\$ -	\$ 2	\$ -	\$ 156
181	4,620	-	673	-	-	-	33,695
106	8,042	156	661	-	-	-	74,902
-	-	-	-	-	-	68,000	68,000
<u>287</u>	<u>12,662</u>	<u>156</u>	<u>1,488</u>	<u>-</u>	<u>2</u>	<u>68,000</u>	<u>176,753</u>
-	-	-	-	2,708,214	-	-	2,708,214
181	4,620	-	673	-	-	-	33,695
-	-	-	-	2,368,019	71,705	-	2,935,763
3,372	193,180	96	362	(2,055,177)	223,236	3,780,757	2,113,826
<u>3,553</u>	<u>197,800</u>	<u>96</u>	<u>1,035</u>	<u>3,021,056</u>	<u>294,941</u>	<u>3,780,757</u>	<u>7,791,498</u>
<u>\$ 3,840</u>	<u>\$ 210,462</u>	<u>\$ 252</u>	<u>\$ 2,523</u>	<u>\$ 3,021,056</u>	<u>\$ 294,943</u>	<u>\$ 3,848,757</u>	<u>\$ 7,968,251</u>

DURHAM COUNTY, NORTH CAROLINA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2005

	FIRE TAX DISTRICTS				
	Bethesda	Lebanon	Parkwood	Redwood	New Hope
Revenues					
Taxes	\$ 999,693	\$ 633,120	\$ 1,106,694	\$ 471,166	\$ 40,036
Licenses and permits	-	-	-	-	-
Investments and rental income	4,900	4,023	(1,401)	1,598	281
Charges for services	-	-	-	-	-
Total revenues	<u>1,004,593</u>	<u>637,143</u>	<u>1,105,293</u>	<u>472,764</u>	<u>40,317</u>
Expenditures					
Current:					
General government	-	-	-	-	-
Public safety	500,000	327,964	1,109,311	479,898	38,582
Economic and physical development	-	-	-	-	-
Total expenditures	<u>500,000</u>	<u>327,964</u>	<u>1,109,311</u>	<u>479,898</u>	<u>38,582</u>
Excess (deficiency) of revenues over (under) expenditures	<u>504,593</u>	<u>309,179</u>	<u>(4,018)</u>	<u>(7,134)</u>	<u>1,735</u>
Other financing sources (uses)					
Transfers in	-	-	-	50,000	-
Transfers out	(501,029)	(295,221)	-	(60,205)	-
Total other financing sources (uses)	<u>(501,029)</u>	<u>(295,221)</u>	<u>-</u>	<u>(10,205)</u>	<u>-</u>
Net change in fund balances	3,564	13,958	(4,018)	(17,339)	1,735
Fund balance - beginning	<u>202,090</u>	<u>176,196</u>	<u>41,780</u>	<u>70,670</u>	<u>3,624</u>
Fund balance - ending	<u>\$ 205,654</u>	<u>\$ 190,154</u>	<u>\$ 37,762</u>	<u>\$ 53,331</u>	<u>\$ 5,359</u>

<u>Eno</u>	<u>Bahama</u>	<u>Butner Safety District Fund</u>	<u>Special Park District Fund</u>	<u>Emergency Services Fund</u>	<u>Reappraisal Reserve Fund</u>	<u>School Impact Fees Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 18,220	\$ 465,813	\$ 11,709	\$ 312,792	\$ -	\$ -	\$ -	\$ 4,059,243
-	-	-	-	-	-	3,093,750	3,093,750
170	3,689	48	74	34,247	4,765	28,564	80,958
-	-	-	-	1,274,211	-	-	1,274,211
<u>18,390</u>	<u>469,502</u>	<u>11,757</u>	<u>312,866</u>	<u>1,308,458</u>	<u>4,765</u>	<u>3,122,314</u>	<u>8,508,162</u>
-	-	-	-	-	21,513	-	21,513
17,742	331,930	11,661	-	1,466,089	-	-	4,283,177
-	-	-	313,489	-	-	-	313,489
<u>17,742</u>	<u>331,930</u>	<u>11,661</u>	<u>313,489</u>	<u>1,466,089</u>	<u>21,513</u>	<u>-</u>	<u>4,618,179</u>
<u>648</u>	<u>137,572</u>	<u>96</u>	<u>(623)</u>	<u>(157,631)</u>	<u>(16,748)</u>	<u>3,122,314</u>	<u>3,889,983</u>
-	-	-	-	-	100,000	-	150,000
-	-	-	-	-	-	-	(856,455)
-	-	-	-	-	100,000	-	(706,455)
648	137,572	96	(623)	(157,631)	83,252	3,122,314	3,183,528
<u>2,905</u>	<u>60,228</u>	<u>-</u>	<u>1,658</u>	<u>3,178,687</u>	<u>211,689</u>	<u>658,443</u>	<u>4,607,970</u>
<u>\$ 3,553</u>	<u>\$ 197,800</u>	<u>\$ 96</u>	<u>\$ 1,035</u>	<u>\$ 3,021,056</u>	<u>\$ 294,941</u>	<u>\$ 3,780,757</u>	<u>\$ 7,791,498</u>

DURHAM COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual- Nonmajor Special Revenue Funds
 Year Ended June 30, 2005

	Fire Tax Districts				Butner Safety District Fund				Special Park District			
	Original	Final	Actual	Positive (Negative) Variance	Original	Final	Actual	Positive (Negative) Variance	Original	Final	Actual	Positive (Negative) Variance
Revenues												
Taxes	\$ 3,696,880	\$ 3,696,880	\$ 3,734,742	\$ 37,862	\$ 11,702	\$ 11,702	\$ 11,709	\$ 7	\$ 333,184	\$ 333,184	\$ 312,792	\$ (20,392)
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-	-
Investments and rental income	-	-	13,260	13,260	-	-	48	48	-	-	74	74
Charges for services	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	<u>3,696,880</u>	<u>3,696,880</u>	<u>3,748,002</u>	<u>51,122</u>	<u>11,702</u>	<u>11,702</u>	<u>11,757</u>	<u>55</u>	<u>333,184</u>	<u>333,184</u>	<u>312,866</u>	<u>(20,318)</u>
Expenditures												
General government	-	-	-	-	-	-	-	-	-	-	-	-
Public safety	2,793,827	2,843,827	2,805,427	38,400	11,702	11,702	11,661	41	-	-	-	-
Economic and physical development	-	-	-	-	-	-	-	-	333,184	333,184	313,489	19,695
Total expenditures	<u>2,793,827</u>	<u>2,843,827</u>	<u>2,805,427</u>	<u>38,400</u>	<u>11,702</u>	<u>11,702</u>	<u>11,661</u>	<u>41</u>	<u>333,184</u>	<u>333,184</u>	<u>313,489</u>	<u>19,695</u>
Excess (deficiency) of revenues over (under) expenditures	<u>903,053</u>	<u>853,053</u>	<u>942,575</u>	<u>89,522</u>	<u>-</u>	<u>-</u>	<u>96</u>	<u>96</u>	<u>-</u>	<u>-</u>	<u>(623)</u>	<u>(623)</u>
Other financing sources (uses)												
Transfers in	-	50,000	50,000	-	-	-	-	-	-	-	-	-
Transfers out	(958,053)	(958,053)	(856,455)	101,598	-	-	-	-	-	-	-	-
Appropriated fund balance	55,000	55,000	-	(55,000)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(903,053)</u>	<u>(853,053)</u>	<u>(806,455)</u>	<u>46,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>136,120</u>	<u>\$ 136,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>96</u>	<u>\$ 96</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(623)</u>	<u>\$ (623)</u>
Fund balance - beginning			<u>557,493</u>				<u>-</u>				<u>1,658</u>	
Fund balance - ending			<u>\$ 693,613</u>				<u>\$ 96</u>				<u>\$ 1,035</u>	

Emergency Services				Reappraisal Reserve				School Impact Fees			
Original	Final	Actual	Positive (Negative) Variance	Original	Final	Actual	Positive (Negative) Variance	Original	Final	Actual	Positive (Negative) Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	34,247	34,247	-	-	4,765	4,765	-	-	3,093,750	3,093,750
2,771,134	1,296,000	1,274,211	(21,789)	-	-	-	-	-	-	28,564	28,564
<u>2,771,134</u>	<u>1,296,000</u>	<u>1,308,458</u>	<u>12,458</u>	-	-	<u>4,765</u>	<u>4,765</u>	-	-	<u>3,122,314</u>	<u>3,122,314</u>
-	-	-	-	134,267	134,267	21,513	112,754	-	-	-	-
2,771,134	3,929,654	1,466,089	2,463,565	-	-	-	-	-	-	-	-
<u>2,771,134</u>	<u>3,929,654</u>	<u>1,466,089</u>	<u>2,463,565</u>	<u>134,267</u>	<u>134,267</u>	<u>21,513</u>	<u>112,754</u>	-	-	-	-
-	(2,633,654)	(157,631)	2,476,023	(134,267)	(134,267)	(16,748)	117,519	-	-	3,122,314	3,122,314
-	-	-	-	100,000	100,000	100,000	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	2,633,654	-	(2,633,654)	34,267	34,267	-	(34,267)	-	-	-	-
<u>-</u>	<u>2,633,654</u>	<u>-</u>	<u>(2,633,654)</u>	<u>134,267</u>	<u>134,267</u>	<u>100,000</u>	<u>(34,267)</u>	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>(157,631)</u>	<u>\$ (157,631)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>83,252</u>	<u>\$ 83,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,122,314</u>	<u>\$ 3,122,314</u>
		3,178,687				211,689				658,443	
		<u>\$ 3,021,056</u>				<u>\$ 294,941</u>				<u>\$ 3,780,757</u>	

DURHAM COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Debt Service Fund
 Year Ended June 30, 2005

	Budget		Actual	Positive (Negative) Variance
	Original	Final		
Revenues				
Investments and rental income	\$ 1,039,074	\$ 1,039,074	\$ 368,385	\$ (670,689)
Total revenues	1,039,074	1,039,074	368,385	(670,689)
Expenditures				
Debt service:				
Principal retirement	21,471,360	21,471,360	21,476,140	(4,780)
Interest and fiscal charges	13,115,455	13,568,455	13,440,112	128,343
Total expenditures	34,586,815	35,039,815	34,916,252	123,563
Excess (deficiency) of revenues over (under) expenditures	(33,547,741)	(34,000,741)	(34,547,867)	(547,126)
Other financing sources (uses)				
Transfers in	32,979,094	33,432,094	33,323,645	108,449
Appropriated fund balance	568,647	568,647	-	568,647
Total other financing sources (uses)	33,547,741	34,000,741	33,323,645	677,096
Net change in fund balances	\$ -	\$ -	(1,224,222)	\$ (1,224,222)
Fund balance - beginning			1,361,766	
Fund balance - ending			\$ 137,544	

ENTERPRISE FUND

Sewer Utility Fund – to account for the provision of sewer utility services in the County which are financed in a manner similar to private business enterprises where the intent is that costs of providing services be recovered primarily through user charges.

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues and Expenditures - Budget and Actual -
(Non-GAAP Basis) Enterprise Fund - Sewer Utility Fund
For the Fiscal Year Ended June 30, 2005**

	2005		
	Budget	Actual	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 5,972,960	\$ 4,402,671	\$ (1,570,289)
Expenditures:			
Operating	3,490,936	3,841,278	(350,342)
Excess (deficiency) of revenues over (under) expenditures	2,482,024	561,393	(1,920,631)
Other Financing Sources (Uses):			
Capital expenses	(277,115)	(7,316,017)	(7,038,902)
Debt service	(3,293,961)	(2,582,873)	711,088
Investment income	378,550	625,714	247,164
Assessments	6,240	1,798	(4,442)
Interest on assessments	2,000	401	(1,599)
Sewer connection fees	361,113	649,612	288,499
Total other financing sources (uses)	(2,823,173)	(8,621,365)	(5,798,192)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(341,149)	(8,059,972)	(7,718,823)
Fund Balance Appropriated	341,149	-	341,149
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses:	<u>\$ -</u>	<u>\$ (8,059,972)</u>	<u>\$ (8,059,972)</u>

**Reconciliation of Modified Accrual Basis to Full Accrual Basis -
Enterprise Fund - Sewer Utility Fund
For the Fiscal Year Ended June 30, 2005**

EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES (BUDGETARY BASIS)	\$ (8,059,972)
RECONCILING ITEMS:	
Capital outlay	6,609,058
Debt principal payments	1,778,033
Amortization of bond issuance costs	(31,185)
Capitalization of interest	706,959
Increase in capitalized interest payable	935
Decrease in accrued interest payable	5,328
Increase in accrued payroll	6,326
Increase in accrued vacation	(3,547)
Decrease in accrued interest receivable	(1,798)
Decrease in accounts receivable	323,807
Depreciation	(638,453)
Amortization of bond premium	33,834
	<hr/>
CHANGE IN NET ASSETS (GAAP BASIS)	\$ 729,325
	<hr/> <hr/>

FIDUCIARY FUNDS

Agency Funds – To account for certain escrow monies held in trust by the Department of Social Services for the accounts of designated parties; to account for funds held in trust for jail inmates; to account for funds held in trust for evidence; to account for funds held by the Sheriff's office; and to account for taxes collected by the County on behalf of the City of Durham, the Town of Chapel Hill and the City of Raleigh.

DURHAM COUNTY, NORTH CAROLINA

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2005

	Child Support Trust Fund	Sheriff's Evidence Trust Fund	Jail Inmate Trust Fund	Sheriff's Trust Fund
Assets				
Cash and cash equivalents	\$ 158,422	\$ 175,128	\$ 86,680	\$ 37,745
Accounts receivable	-	-	-	-
Net taxes receivable	-	-	-	-
Due from governmental agencies	-	-	-	-
Total assets	<u>\$ 158,422</u>	<u>\$ 175,128</u>	<u>\$ 86,680</u>	<u>\$ 37,745</u>
Liabilities				
Funds held for others	\$ 158,422	\$ 175,128	\$ 86,680	\$ 37,745
Due to governmental agencies	-	-	-	-
Total liabilities	<u>\$ 158,422</u>	<u>\$ 175,128</u>	<u>\$ 86,680</u>	<u>\$ 37,745</u>

Town of Chapel Hill Tax Fund	City of Durham Tax Fund	City of Raleigh Tax Fund	Totals
\$ 21,486	\$ (498,556)	\$ 4,553	\$ (14,542)
-	54,844	250	55,094
15,478	3,334,876	1,455	3,351,809
-	547,309	-	547,309
<u>\$ 36,964</u>	<u>\$ 3,438,473</u>	<u>\$ 6,258</u>	<u>\$ 3,939,670</u>
\$ -	\$ -	\$ -	\$ 457,975
36,964	3,438,473	6,258	3,481,695
<u>\$ 36,964</u>	<u>\$ 3,438,473</u>	<u>\$ 6,258</u>	<u>\$ 3,939,670</u>

DURHAM COUNTY, NORTH CAROLINA

Combining Statement of Changes in Fiduciary Assets and Liabilities
 Agency Funds
 June 30, 2005

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>
<u>Mental Health Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 42,951	\$ -	\$ 42,951	\$ -
Liabilities				
Funds held for others	\$ 42,951	\$ -	\$ 42,951	\$ -
<u>Child Support Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 165,146	\$ 1,170,302	\$ 1,177,026	\$ 158,422
Liabilities				
Funds held for others	\$ 165,146	\$ 1,170,302	\$ 1,177,026	\$ 158,422
<u>Sheriff's Evidence Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 153,224	\$ 32,840	\$ 10,936	\$ 175,128
Liabilities				
Funds held for others	\$ 153,224	\$ 32,840	\$ 10,936	\$ 175,128
<u>Jail Inmate Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 87,871	\$ 563,084	\$ 564,275	\$ 86,680
Liabilities				
Funds held for others	\$ 87,871	\$ 563,084	\$ 564,275	\$ 86,680
<u>Sheriff's Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 49,474	\$ 359,287	\$ 371,016	\$ 37,745
Liabilities				
Funds held for others	\$ 49,474	\$ 359,287	\$ 371,016	\$ 37,745
<u>Town of Chapel Hill Tax Fund</u>				
Assets				
Cash and cash equivalents	\$ 23,748	\$ 1,743,761	\$ 1,746,023	\$ 21,486
Net taxes receivable	13,889	1,760,061	1,758,472	15,478
Total assets	\$ 37,637	\$ 3,503,822	\$ 3,504,495	\$ 36,964
Liabilities				
Due to governmental agencies	\$ 37,637	\$ 3,503,822	\$ 3,504,495	\$ 36,964

DURHAM COUNTY, NORTH CAROLINA

**Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005**

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>
<u>City of Durham Tax Fund</u>				
Assets				
Cash and cash equivalents	\$ 117,347	\$ 90,464,174	\$ 91,080,077	\$ (498,556)
Accounts receivable	-	54,844	-	54,844
Net taxes receivable	3,377,428	88,104,281	88,146,833	3,334,876
Due from governmental agencies	-	547,309	-	547,309
Total assets	<u>\$ 3,494,775</u>	<u>\$ 179,170,608</u>	<u>\$ 179,226,910</u>	<u>\$ 3,438,473</u>
Liabilities				
Due to governmental agencies	\$ 3,280,859	\$ 179,170,608	\$ 179,012,994	\$ 3,438,473
Due to general fund	213,916	-	213,916	-
Total liabilities	<u>\$ 3,494,775</u>	<u>\$ 179,170,608</u>	<u>\$ 179,226,910</u>	<u>\$ 3,438,473</u>
<u>City of Raleigh Tax Fund</u>				
Assets				
Cash and cash equivalents	\$ 2,696	\$ 197,903	\$ 196,046	\$ 4,553
Accounts receivable	-	250	-	250
Net taxes receivable	3,235	194,304	196,084	1,455
Total assets	<u>\$ 5,931</u>	<u>\$ 392,457</u>	<u>\$ 392,130</u>	<u>\$ 6,258</u>
Liabilities				
Due to governmental agencies	<u>\$ 5,931</u>	<u>\$ 392,457</u>	<u>\$ 392,130</u>	<u>\$ 6,258</u>
<u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 642,457	\$ 94,531,351	\$ 95,188,350	\$ (14,542)
Accounts receivable	-	55,094	-	55,094
Net taxes receivable	3,394,552	90,058,646	90,101,389	3,351,809
Due from governmental agencies	-	547,309	-	547,309
Total assets	<u>\$ 4,037,009</u>	<u>\$ 185,192,400</u>	<u>\$ 185,289,739</u>	<u>\$ 3,939,670</u>
Liabilities				
Funds held for others	\$ 498,666	\$ 2,125,513	\$ 2,166,204	\$ 457,975
Due to governmental agencies	3,324,427	183,066,887	182,909,619	3,481,695
Due to general fund	213,916	-	213,916	-
Total liabilities	<u>\$ 4,037,009</u>	<u>\$ 185,192,400</u>	<u>\$ 185,289,739</u>	<u>\$ 3,939,670</u>

**CAPITAL ASSETS
USED IN THE OPERATION OF GOVERNMENTAL
FUNDS**

DURHAM COUNTY, NORTH CAROLINA

**Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity¹ as of June 30, 2005 (continued)**

	Total Assets	Land	Buildings	Office Furniture and Equipment
General Government:				
County commissioners	\$ 6,400	\$ -	\$ -	\$ -
County manager	5,708	-	-	-
Tax administration	398,425	-	-	-
Court facilities	11,195,858	-	11,184,658	-
Board of elections	419,207	-	-	-
Register of deeds	328,992	-	-	20,000
General services	80,207,051	4,790,491	74,891,860	-
Information technology	1,823,792	-	-	29,298
Human resources	5,707	-	-	-
Total general government	<u>94,391,140</u>	<u>4,790,491</u>	<u>86,076,518</u>	<u>49,298</u>
Public Safety:				
Sheriff	44,632,387	1,398,962	39,412,741	-
County fire protection	542,724	-	384,060	6,744
Community based corrections	811,181	-	749,021	-
Animal control	929,352	-	658,000	-
Youth home	391,983	-	367,000	-
Emergency medical services	2,186,628	-	1,045,606	-
Total public safety	<u>49,494,255</u>	<u>1,398,962</u>	<u>42,616,428</u>	<u>6,744</u>
Environmental Protection:				
Environmental engineering	184,678	-	77,873	7,315
Economic and Physical Development:				
Cooperative extension	669,495	-	635,000	-

Machinery and Equipment	Computer Hardware	Vehicles	Computer Software	Construction in Progress
\$ 6,400	\$ -	\$ -	\$ -	\$ -
5,708	-	-	-	-
-	26,339	117,799	254,287	-
11,200	-	-	-	-
410,650	8,557	-	-	-
-	269,966	-	39,026	-
59,295	18,442	438,213	8,750	-
42,400	1,486,592	-	265,502	-
5,707	-	-	-	-
<u>541,360</u>	<u>1,809,896</u>	<u>556,012</u>	<u>567,565</u>	<u>-</u>
841,012	131,958	2,777,914	69,800	-
25,333	7,200	119,387	-	-
-	-	62,160	-	-
88,807	7,100	163,795	11,650	-
8,500	-	16,483	-	-
307,088	28,789	784,565	20,580	-
<u>1,270,740</u>	<u>175,047</u>	<u>3,924,304</u>	<u>102,030</u>	<u>-</u>
21,195	-	78,295	-	-
-	-	34,495	-	-

DURHAM COUNTY, NORTH CAROLINA

**Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity¹ as of June 30, 2005 (continued)**

	Total Assets	Land	Buildings	Office Furniture and Equipment
Human Services:				
Public health	\$ 4,307,409	\$ -	\$ 3,765,510	\$ -
Mental health	634,186	-	192,000	-
Social services	9,967,069	-	9,760,000	-
Other human services	204,669	-	-	-
Total human services	<u>15,113,333</u>	<u>-</u>	<u>13,717,510</u>	<u>-</u>
Cultural and Recreational:				
Library	4,267,130	-	3,891,149	18,347
Capital Projects:				
Construction in progress	58,149,944	-	-	-
Total Capital Assets	<u>\$ 222,269,975</u>	<u>\$ 6,189,453</u>	<u>\$ 147,014,478</u>	<u>\$ 81,704</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included in governmental activities in the statement of net assets.

Machinery and Equipment	Computer Hardware	Vehicles	Computer Software	Construction in Progress
\$ 214,081	\$ -	\$ 301,313	\$ 26,505	\$ -
43,481	69,992	328,713	-	-
17,055	64,682	110,333	14,999	-
-	-	204,669	-	-
<u>274,617</u>	<u>134,674</u>	<u>945,028</u>	<u>41,504</u>	<u>-</u>
49,925	139,680	139,630	28,399	-
-	-	-	-	58,149,944
<u>\$ 2,157,837</u>	<u>\$ 2,259,297</u>	<u>\$ 5,677,764</u>	<u>\$ 739,498</u>	<u>\$ 58,149,944</u>

DURHAM COUNTY, NORTH CAROLINA

**Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity¹ as of June 30, 2005**

	Capital Assets July 1, 2004	Additions	Transfers and Deletions	Capital Assets June 30, 2005
General Government:				
Board of county commissioners	\$ 6,400	\$ -	\$ -	\$ 6,400
County manager	5,708	-	-	5,708
Tax administration	398,425	-	-	398,425
Court facilities	11,195,858	-	-	11,195,858
Board of elections	419,207	-	-	419,207
Register of deeds	289,966	39,026	-	328,992
General services	80,262,455	-	(55,404)	80,207,051
Management information systems	1,578,834	244,958	-	1,823,792
Human resources	5,707	-	-	5,707
Total general government	<u>94,162,560</u>	<u>283,984</u>	<u>(55,404)</u>	<u>94,391,140</u>
Public Safety:				
County sheriff	45,807,280	119,088	(1,293,981)	44,632,387
Fire marshal	454,714	88,010	-	542,724
Criminal justice partnership	802,230	8,951	-	811,181
Animal control	929,352	-	-	929,352
Youth home	391,983	-	-	391,983
Emergency medical services	2,127,568	59,060	-	2,186,628
Total public safety	<u>50,513,127</u>	<u>275,109</u>	<u>(1,293,981)</u>	<u>49,494,255</u>

DURHAM COUNTY, NORTH CAROLINA

**Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity¹ as of June 30, 2005**

	<u>Capital Assets July 1, 2004</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Capital Assets June 30, 2005</u>
Environmental Protection:				
Environmental engineering	\$ 166,915	\$ 17,763	\$ -	\$ 184,678
Economic and Physical Development:				
Cooperative extensior	669,495	-	-	669,495
Human Services:				
Public health	4,194,954	112,455	-	4,307,409
Mental health	686,107	-	(51,921)	634,186
Social services	9,928,775	38,294	-	9,967,069
Other human services	204,669	-	-	204,669
Total human services	<u>15,014,505</u>	<u>150,749</u>	<u>(51,921)</u>	<u>15,113,333</u>
Cultural and Recreational:				
Library	4,267,130	-	-	4,267,130
Capital Projects:				
Construction in progress	38,178,066	19,971,878	-	58,149,944
Total Capital Assets	<u>\$ 202,971,798</u>	<u>\$ 20,699,483</u>	<u>\$ (1,401,306)</u>	<u>\$ 222,269,975</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included in governmental activities in the statement of net assets.

OTHER SUPPLEMENTAL INFORMATION

DURHAM COUNTY, NORTH CAROLINA

**Gross Bonded Debt and Other Long-Term Debt
For the Fiscal Year Ended June 30, 2005 (continued)**

Description	Interest Rate	Issue Date	Amount Outstanding 6-30-04	Issued During Year	Adjusted During Year
General Long-Term Debt					
Bonded Debt:					
Public Improvement-Series 2000 (2/3 Bonds)	5.40%-5.60%	6/1/00	\$ 1,393,695	\$ -	\$ -
Refunding, Series 2001	4.25%-5.50%	2/15/01	74,410,000	-	-
Public Improvement, Series 2002A	3.25%-4.75%	1/1/02	9,950,000	-	-
Refunding, Series 2002B	4.25%-5.50%	1/1/02	20,006,366	-	-
Public Improvement, Series 2002B	4.00%-5.00%	5/1/02	65,660,000	-	-
Public Improvement, Series 2004A (2/3 Bonds)	4.00%-5.00%	5/1/04	10,600,000	-	-
Public Improvement, Series 2004B	4.00%-5.00%	5/1/04	46,600,000	-	-
Water And Sewer Lines Donated To City:					
Refunding, Series 2002B	4.25%-5.50%	1/1/02	3,611,012	-	-
Unamortized Bond Premium			1,223,686	-	-
Total Bonded Debt			<u>233,454,759</u>	<u>-</u>	<u>-</u>
Other Long-Term Debt					
Installment Purchase Agreements:					
Certificates of Participation					
Refunding Cops, Series 1997	4.00%-5.00%	12/1/97	26,690,000	-	-
Total Certificates Of Participation			<u>26,690,000</u>	<u>-</u>	<u>-</u>
Other Financing Agreements					
Total Installment Purchase Agreements			<u>24,813,943</u>	<u>1,772,500</u>	<u>1</u>
Earned Vacation Pay			4,428,731	-	3,931,475
Seperation Allowance			122,217	22,689	-
Industrial Extension Policy			2,216,073	66,005	-
Total Other Long-Term Debt			<u>58,270,964</u>	<u>1,861,194</u>	<u>3,931,476</u>
Total General Long-Term Debt			<u>\$ 291,725,723</u>	<u>\$ 1,861,194</u>	<u>\$ 3,931,476</u>

Due Fiscal Year 2004-2005		Amount Outstanding 6-30-05	Due Fiscal Year 2005 - 2006		Long-Term Principal Due Thereafter
Principal	Interest		Principal	Interest	
\$ 76,576	\$ 77,511	\$ 1,317,119	\$ 76,576	\$ 73,299	\$ 1,240,543
8,035,000	3,972,725	66,375,000	7,990,000	3,570,975	58,385,000
550,000	452,000	9,400,000	550,000	408,000	8,850,000
4,091,840	939,512	15,914,526	3,977,611	775,838	11,936,915
1,375,000	3,102,660	64,285,000	1,375,000	3,047,660	62,910,000
200,000	440,500	10,400,000	200,000	434,500	10,200,000
1,500,000	1,984,750	45,100,000	1,500,000	1,909,750	43,600,000
738,549	169,575	2,872,463	717,932	140,033	2,154,531
193,174	-	1,030,512	193,174	-	837,338
16,760,139	11,139,233	216,694,620	16,580,293	10,360,055	200,114,327
2,130,000	1,321,140	24,560,000	2,235,000	1,214,640	22,325,000
2,130,000	1,321,140	24,560,000	2,235,000	1,214,640	22,325,000
2,779,175	981,160	23,807,269	3,383,870	930,066	20,423,399
4,909,175	2,302,300	48,367,269	5,618,870	2,144,706	42,748,399
3,676,249	-	4,683,957	3,742,197	-	941,760
-	-	144,906	-	-	144,906
823,188	136,652	1,458,890	470,297	89,543	988,593
9,408,612	2,438,952	54,655,022	9,831,364	2,234,249	44,823,658
\$ 26,168,751	\$ 13,578,185	\$ 271,349,642	\$ 26,411,657	\$ 12,594,304	\$ 244,937,985

DURHAM COUNTY, NORTH CAROLINA

**Gross Bonded Debt and Other Long-Term Debt
For the Fiscal Year Ended June 30, 2005 (continued)**

Description	Interest Rate	Issue Date	Amount Outstanding 6-30-04	Issued During Year	Adjusted During Year
Proprietary Debt					
Enterprise Fund:					
Public Improvement-Series 2000 (2/3 Bonds)	5.40%-5.60%	6/1/00	\$ 5,886,305	\$ -	\$ -
Refunding, Series 2002B	3.00%-5.00%	1/1/02	902,623	-	-
Revenue Bonds, Series 2003	3.00%-4.75%	12/1/02	24,515,000	-	-
Unamortized Bond Premium			797,393	-	-
Total Enterprise Fund Bonded Debt			<u>32,101,321</u>	<u>-</u>	<u>-</u>
Earned Vacation Pay			22,530	-	15,423
Total Proprietary Debt			<u>32,123,851</u>	<u>-</u>	<u>15,423</u>
Total General Long-Term and Proprietary Debt			<u>\$ 323,849,574</u>	<u>\$ 1,861,194</u>	<u>\$ 3,946,900</u>

Due Fiscal Year 2004-2005		Amount Outstanding 6-30-05	Due Fiscal Year 2005 - 2006		Long-Term Principal Due Thereafter
Principal	Interest		Principal	Interest	
\$ 323,423	\$ 327,369	\$ 5,562,882	\$ 323,424	\$ 309,581	\$ 5,239,458
184,610	42,388	718,013	179,457	35,003	538,556
1,270,000	1,141,108	23,245,000	1,310,000	1,103,008	21,935,000
33,834	-	763,559	33,834	-	729,725
<u>1,811,867</u>	<u>1,510,865</u>	<u>30,289,454</u>	<u>1,846,715</u>	<u>1,447,592</u>	<u>28,442,739</u>
11,876	-	26,077	13,356	-	12,721
<u>1,823,743</u>	<u>1,510,865</u>	<u>30,315,531</u>	<u>1,860,071</u>	<u>1,447,592</u>	<u>28,455,460</u>
<u>\$ 27,992,494</u>	<u>\$ 15,089,050</u>	<u>\$ 301,665,173</u>	<u>\$ 28,271,728</u>	<u>\$ 14,041,896</u>	<u>\$ 273,393,445</u>

DURHAM COUNTY, NORTH CAROLINA

Analysis of Current Tax Levy For the Fiscal Year Ended June 30, 2005

Property Valuations

Real property	\$ 16,281,035,800
Personal property	2,323,311,138
Corporate excess	523,810,967
DMV-registered vehicles	<u>1,473,351,385</u>

Total subject to tax \$ 20,601,509,290

Real property/personal property/corporate excess levy	\$ 234,133,172
DMV -registered vehicles levy	<u>19,954,059</u>

Gross Levy \$ 254,087,231

Abatements/discoveries 6,722,318

Net Levy 260,809,549

Uncollected at June 30, 2005 (4,927,291)

Current year taxes collected \$ 255,882,258

Percent of current taxes collected 98.11%

This schedule includes current year levy and collections for the Agency Funds.

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Changes in Property Tax Receivable
Year Ended June 30, 2005**

Year of Levy	Uncollected Balance July 1, 2004	Current Year Gross Levy	Collections	Abatements/ Discoveries	Uncollected Balance June 30, 2005
2004	\$ -	\$ 254,087,231	\$ 255,882,258	\$ 6,722,318	\$ 4,927,291
2003	4,955,273	-	3,395,240	(216,524)	1,343,509
2002	1,506,880	-	394,923	(51,165)	1,060,792
2001	993,187	-	140,831	(541,559)	310,797
2000	453,771	-	89,831	(25,788)	338,152
1999	228,299	-	56,052	(5,273)	166,974
1998 and prior	658,091	-	123,970	(36,836)	497,285
	<u>\$ 8,795,501</u>	<u>\$ 254,087,231</u>	<u>\$ 260,083,105</u>	<u>\$ 5,845,173</u>	8,644,800
Allowance for uncollectible accounts					<u>(153,989)</u>
					<u>\$ 8,490,811</u>
Receivable by fund, net:					
General Fund				\$ 4,554,311	
Capital financing				<u>509,789</u>	
General Fund					5,064,100
Bethesda fire				14,895	
Lebanon fire				17,388	
Parkwood fire				11,180	
Redwood fire				21,669	
New Hope fire				805	
Eno fire				106	
Bahama fire				8,042	
Special Park fire				661	
Special Butner				<u>156</u>	
Special revenue funds					74,902
City of Durham				3,334,876	
City of Chapel Hill				15,478	
City of Raleigh				<u>1,455</u>	
Fiduciary funds					<u>3,351,809</u>
					<u>\$ 8,490,811</u>

STATISTICAL SECTION

DURHAM COUNTY, NORTH CAROLINA

**Government-wide Expenses by Function
Last Three Fiscal Years**

Fiscal Year Ended	General Government	Public Safety	Transportation	Economic and Physical Development	Environmental Protection	Human Services
2003	\$ 22,243,167	\$ 40,084,513	\$ 12,500	\$ 3,564,266	\$ 2,114,239	\$ 293,265,929
2004	26,032,334	40,967,085	12,500	2,478,868	2,288,155	302,529,857
2005	26,351,619	45,099,164	12,500	2,243,791	2,760,078	341,183,062

Note: Fiscal Year 2002 is the initial implementation date for GASB 34. Therefore, no data is available for years prior to 2002.

Education	Cultural and Recreational	Non-departmental Charges	Interest and Fiscal Charges	Sewer Utility	Total
\$ 84,594,783	\$ 7,366,833	\$ 9,674,739	\$ 13,819,722	\$ 3,989,544	\$ 480,730,235
104,597,540	7,089,954	10,644,972	12,845,931	4,111,848	513,599,044
104,106,885	7,375,565	11,197,360	16,740,531	5,306,714	562,377,269

DURHAM COUNTY, NORTH CAROLINA

Government-wide Revenues Last Three Fiscal Years

Fiscal Year Ended	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Investment and Rental Income
2003	\$ 46,538,599	\$ 238,490,993	\$ 1,377,433	\$ 191,383,266	\$ 6,391,014
2004	40,694,927	251,306,585	288,560	204,434,981	3,768,656
2005	54,896,761	278,597,429	581,241	217,588,617	9,946,975

Notes:

- (1) Fiscal Year 2002 is the initial implementation date for GASB 34. Therefore, no data is available for years prior to 2002.
- (2) As of Fiscal Year 2004, licenses and permits are reported separately.

Licenses and Permits	Other Revenues	Amortization of Bond Premium	Miscellaneous Revenue	Total
\$ -	\$ 11,033,731	\$ 234,074	\$ -	\$ 495,449,110
2,009,911	10,762,996	248,205	-	513,514,821
-	11,139,896	227,008	-	572,977,927

DURHAM COUNTY, NORTH CAROLINA

**General Government Expenditures by Function (1)
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	General Government	Public Safety	Transportation	Environmental Protection	Education	Human Services
1996	\$ 14,374,628	\$ 19,442,433	\$ -	\$ 1,319,438	\$ 55,321,264	\$ 62,055,121
1997	14,559,483	22,033,050	25,000	1,431,507	57,125,387	62,999,010
1998	16,574,475	20,677,443	12,500	1,501,801	58,952,764	77,759,233
1999	17,792,867	30,220,347	12,500	1,477,998	62,672,025	82,152,634
2000	19,538,046	32,613,113	12,500	1,674,217	67,438,010	98,240,943
2001	20,281,929	35,957,309	12,500	1,865,741	72,522,661	105,424,345
2002	20,559,502	36,166,560	12,500	1,973,798	75,548,399	122,999,807
2003	20,016,132	37,431,865	12,500	2,091,867	75,984,462	134,196,935
2004	23,770,689	38,777,865	12,500	2,193,159	78,662,943	132,033,272
2005	24,030,548	42,812,116	12,500	2,403,268	83,044,943	155,505,806

Notes:

- (1) General government expenditures include all governmental fund types consisting of General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Community Health Trust Fund.

Economic and Physical Development	Non- Departmental Charges	Cultural and Recreational	General Debt Service	Capital Projects	Total
\$ 3,518,301	\$ 134,382	\$ 5,354,507	\$ 28,563,396	\$ 15,219,402	\$ 205,302,872
3,636,355	7,265,165	5,334,966	28,115,564	3,957,567	206,483,054
3,277,449	6,331,391	5,905,865	37,600,267	2,682,914	231,276,102
4,353,108	6,096,999	6,386,252	252,131,954	5,534,352	468,831,036
4,698,638	7,894,141	6,772,836	24,909,811	5,600,367	269,392,622
5,554,174	7,831,693	6,872,515	26,848,697	6,023,372	289,194,936
4,314,841	8,540,335	7,232,710	25,512,129	5,665,221	308,525,802
2,519,859	9,925,637	7,175,210	30,574,175	12,412,245	332,340,887
3,073,701	10,644,972	7,194,385	31,639,244	48,176,587	376,179,317
2,986,331	11,197,360	7,492,517	36,066,252	41,033,820	406,585,461

DURHAM COUNTY, NORTH CAROLINA

General Government Revenues by Source (1) Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Property Taxes	Other Local Taxes	Licenses and Permits	Intergovernmental Revenues
1996	\$ 114,641,945	\$ 30,778,298	\$ 390,682	\$ 34,813,587
1997	121,484,724	32,750,217	968,391	34,749,285
1998	124,158,718	33,963,844	1,648,069	47,601,635
1999	131,830,906	36,570,185	987,831	50,295,531
2000	136,628,490	37,718,850	1,138,813	63,733,338
2001	139,648,514	37,096,391	1,271,414	68,931,547
2002	147,755,973	38,468,444	996,274	76,554,415
2003	149,783,663	42,874,758	1,119,485	79,702,427
2004	155,278,002	49,739,039	2,009,911	80,584,148
2005	165,160,775	52,617,290	4,065,033	92,975,384

Notes:

- (1) General government revenues include all governmental fund types consisting of General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Community Health Trust Fund.

Investment and Rental Income	Charges for Services	Other Revenues	Total
\$ 3,853,472	\$ 10,367,173	\$ 278,743	\$ 195,123,900
3,955,990	10,143,543	6,376,566	210,428,716
3,117,493	10,703,879	6,438,469	227,632,107
6,220,618	14,341,762	10,574,272	250,821,105
6,774,379	13,716,071	11,259,298	270,969,239
7,319,442	15,874,460	12,280,583	282,422,351
3,998,249	33,882,689	8,834,487	310,490,531
5,553,022	39,587,391	9,831,360	328,452,106
3,901,835	36,366,056	10,762,996	338,641,987
9,297,592	43,684,623	11,139,896	378,940,593

DURHAM COUNTY, NORTH CAROLINA

**Principal Taxpayers
For the Fiscal Year Ended June 30, 2005**

<u>Name</u>	<u>Type of Enterprise</u>	<u>Assessed Value</u>	<u>Tax Levy (1)</u>	<u>Percent of Total Assessed Valuation</u>
GlaxoSmithKline	Manufacturer	\$ 568,256,555	\$ 5,489,188	2.76%
IBM	Manufacturer	541,112,647	5,558,438	2.63%
Verizon South Inc.	Communications	229,779,772	2,731,561	1.12%
AW North Carolina Inc.	Manufacturer	225,450,525	1,918,220	1.09%
Duke Energy Corp	Utility	166,542,350	1,996,998	0.81%
Cree Rsearch Inc.	Manufacturer	119,489,018	1,640,584	0.58%
Highwoods/Forsyth Ltd.	Real Estate	100,250,001	1,169,954	0.49%
State Street Bank & Trust	Finance	83,584,221	767,889	0.41%
Southpoint Mall LLC	Retail	82,926,225	1,138,284	0.40%
Vac Ltd. Partnership	Real Estate	66,579,433	914,136	0.32%
		<u>\$ 2,183,970,747</u>	<u>\$ 23,325,252</u>	<u>10.61%</u>

(1) Tax levy in relationship to assessed values per taxpayer varies due to varying tax rates for different taxing districts.

SOURCE: Durham County Tax Assessor

DURHAM COUNTY, NORTH CAROLINA

Assessed and Estimated Actual Value of Taxable Property (1) Last Ten Fiscal Years

Fiscal Year Ended June 30,	Tax Year Ended December 31,	Real Property	Personal Property	Public Service Companies
1996	1995	\$ 7,888,623,319	\$ 2,299,807,119	\$ 489,737,817
1997	1996	8,403,453,568	1,809,720,184	493,043,394
1998	1997	8,679,036,560	1,954,330,979	431,651,479
1999	1998	8,888,974,990	1,974,820,493	481,500,851
2000	1999	9,557,053,142	1,961,623,899	514,804,670
2001	2000	10,009,832,306	2,039,578,482	460,389,522
2002	2001	14,691,794,947	2,335,651,127	605,245,298
2003	2002	15,036,324,470	2,375,265,500	555,633,648
2004	2003	15,689,112,679	2,361,973,098	536,047,683
2005	2004	16,281,035,800	2,323,311,138	523,810,967

NOTES:

- (1) All taxable property is assessed at one hundred percent (100%) of its estimated actual value. Revaluation of taxable property occurred on January 1, 2001.
- (2) This does not include valuations on property owned by the State of North Carolina, United States Government, eleemosynary institutions, etc., not subject to taxation. Assessed valuation equals estimated actual value.
- (3) Effective July 1, 1993, registered vehicles were separated from personal property. The taxes on registered vehicles now coincide with the Department of Motor Vehicles renewals.

Registered Vehicles	Total Assessed Values (2)	Assessment Ratio
\$ 795,019,831	\$ 11,473,188,086	100%
933,385,010	11,639,602,156	100%
1,189,613,743	12,254,632,761	100%
1,203,734,077	12,549,030,411	100%
1,231,665,105	13,265,146,816	100%
1,416,085,275	13,925,885,585	100%
1,456,774,687	19,089,466,059	100%
1,485,260,765	19,452,484,383	100%
1,484,745,571	20,071,879,031	100%
1,473,351,385	20,601,509,290	100%

DURHAM COUNTY, NORTH CAROLINA

Property Tax Levies and Collections Last Ten Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Adjusted Tax Levy</u>	<u>Current Year Levy Collections</u>	<u>Percent Collected</u>	<u>Prior Years' Levy Collections</u>
1996	\$ 155,464,486	\$ 150,814,205	97.01%	\$ 5,124,934
1997	165,625,498	160,268,437	96.77%	4,185,383
1998	176,821,985	171,058,402	96.74%	4,994,138
1999	185,118,166	178,936,118	96.66%	5,949,488
2000	194,671,278	188,032,446	96.59%	4,610,424
2001	204,081,518	196,861,891	96.46%	4,705,589
2002	220,767,586	214,138,224	97.00%	5,707,642
2003	233,261,530	227,535,763	97.55%	5,599,566
2004	241,771,354	236,816,081	97.95%	5,169,198
2005	260,809,549	255,882,258	98.11%	4,200,847

NOTES:

- (1) Collections do not include interest on taxes.
- (2) Collections received are as of June 30 of the applicable year.
- (3) Schedule includes levies and collections of agency funds.

Total Collections During Year	Percent Total Collections to Adjusted Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Adjusted Tax Levy
\$ 155,939,139	100.31%	\$ 11,066,681	7.12%
164,453,820	99.29%	11,478,147	6.93%
176,052,540	99.56%	11,581,097	6.55%
184,885,606	99.87%	11,894,858	6.43%
192,642,870	98.96%	12,810,073	6.58%
201,567,480	98.77%	14,139,760	6.93%
219,845,866	99.58%	12,510,735	5.67%
233,135,329	99.95%	9,664,306	4.14%
241,985,279	100.09%	8,795,501	3.64%
260,083,105	99.72%	8,644,800	3.31%

DURHAM COUNTY, NORTH CAROLINA

**Property Tax Levies Direct and Overlapping Local Government Jurisdictions
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Durham County	Fire Tax Districts					
		Bethesda	Lebanon	Parkwood	Redwood	Eno	New Hope
1996	\$ 105,698,320	\$ 456,978	\$ 487,693	\$ 655,930	\$ 361,640	\$ 7,373	\$ 13,567
1997	112,677,740	473,744	532,444	695,013	379,766	6,714	6,866
1998	117,832,280	432,681	442,205	586,467	405,884	13,196	6,981
1999	121,177,271	818,494	508,133	666,990	411,625	12,583	6,073
2000	124,282,886	823,324	483,359	788,824	342,016	13,425	6,020
2001	130,267,871	834,647	526,391	771,985	354,970	14,586	5,831
2002	140,660,336	977,276	552,533	964,000	433,921	17,769	7,304
2003	148,951,465	956,434	560,885	1,019,401	471,617	11,337	32,294
2004	155,082,240	925,009	555,182	972,907	454,755	17,762	41,030
2005	163,927,481	999,637	630,488	1,113,464	470,247	18,237	39,978

NOTES:

Effective July 1, 1988, the County collects all the County, City of Durham, and Fire Districts taxes levied within Durham County. Effective July 1, 1995, the County collects Town of Chapel Hill taxes levied within Durham County. Effective July 1, 2002, the County collects City of Raleigh taxes levied within Durham County.

The following property tax provisions apply to the County of Durham, Town of Chapel Hill and City of Raleigh:

- a. Taxes are due September 1 of each year.
- b. Taxes are considered delinquent on January 6 (lien date) of the subsequent year.
- c. Discount on all County tax levies are at the discretion of the Board of Commissioners.
- d. Penalties are applied to delinquent taxes at the rate of two percent (2%) in January, and 3/4 of 1% per month thereafter until collected or foreclosure proceedings are consummated.
- e. Procedures allowed for collection of delinquent taxes include the use of garnishment and sale of taxable property.

Bahama	Special Park District	Butner Safety District	City of Durham	City of Raleigh	Town of Chapel Hill	Total Tax Levies
\$ 178,656	\$ 303,483	\$ 2,730	\$ 48,119,713	\$ -	\$ 725,358	\$ 157,011,441
183,951	326,013	2,821	50,236,530	-	769,375	166,290,977
197,937	321,763	2,937	56,586,256	-	719,982	177,548,569
201,613	331,637	6,503	60,220,926	-	759,949	185,121,797
210,132	315,412	6,896	63,750,149	-	819,834	191,842,277
226,444	318,926	4,812	68,930,265	-	893,964	203,150,692
356,444	363,588	7,071	75,230,524	-	1,196,820	220,767,586
318,700	362,450	12,619	79,161,595	60,126	1,342,607	233,261,530
336,807	351,846	11,989	81,543,504	137,842	1,340,481	241,771,354
466,101	313,982	11,710	90,893,322	196,329	1,748,777	260,829,753

DURHAM COUNTY, NORTH CAROLINA

Property Tax Rates Direct and Overlapping Local Government Jurisdictions Last Ten Fiscal Years

Fiscal Year Ended June 30,	Durham County		Fire Tax Districts						
	General Fund	Debt Service	Bethesda	Lebanon	Parkwood	Redwood	Eno	New Hope	Bahama
1996	\$ 0.842	\$ 0.101	\$ 0.030	\$ 0.066	\$ 0.070	\$ 0.076	\$0.060	\$ 0.060	\$ 0.060
1997	0.842	0.118	0.030	0.070	0.007	0.076	0.060	0.060	0.060
1998	0.842	0.118	0.030	0.070	0.070	0.076	0.060	0.060	0.060
1999	0.839	0.101	0.050	0.080	0.080	0.076	0.052	0.052	0.060
2000	0.846	0.084	0.055	0.080	0.090	0.085	0.050	0.050	0.060
2001	0.846	0.084	0.055	0.088	0.090	0.088	0.052	0.052	0.060
2002	0.677	0.052	0.055	0.059	0.090	0.075	0.044	0.050	0.060
2003	0.691	0.062	0.055	0.059	0.090	0.075	0.044	0.050	0.060
2004	0.691	0.072	0.055	0.059	0.090	0.075	0.064	0.065	0.060
2005	0.702	0.088	0.065	0.067	0.110	0.083	0.064	0.065	0.060

NOTES:

All tax rates are expressed in dollars of tax per \$100 of assessed valuation. The tax rates were adjusted during the fiscal year ended June 30, 2003 to reflect the revaluation of taxable property.

Special Park District	Butner Safety District	Combined Tax Rate	City of Durham	Town of Chapel Hill	City of Raleigh	Maximum Combined Tax Rate
\$ 0.021	\$ 0.200	\$ 1.034	\$ 0.680	\$ 0.591	\$ -	\$ 1.623
0.021	0.200	1.051	0.680	0.596	-	1.640
0.020	0.200	1.051	0.680	0.538	-	1.640
0.020	0.200	1.040	0.680	0.538	-	1.620
0.020	0.200	1.040	0.680	0.563	-	1.610
0.019	0.200	1.039	0.690	0.578	-	1.620
0.019	0.200	0.838	0.534	0.504	-	1.263
0.019	0.200	0.862	0.545	0.553	0.385	1.298
0.019	0.200	0.872	0.545	0.553	0.385	1.308
0.019	0.200	0.919	0.583	0.575	0.395	1.373

DURHAM COUNTY, NORTH CAROLINA

Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt Per Capita Last Ten Fiscal Years

Fiscal Year Ended June 30,	Population Estimate (1)	Taxable Property Assessed Value	Debt Limit	Gross Bonded Debt
1996	\$ 196,709 (2)	\$ 11,473,188,086	\$ 917,855,047	\$ 183,504,481
1997	205,050 (1)	11,639,602,156	931,168,172	171,614,380
1998	211,708 (1)	12,254,632,761	980,370,621	159,846,904
1999	218,455 (2)	12,549,030,411	1,003,922,433	148,309,082
2000	222,000 (3)	13,265,146,816	1,061,211,745	157,334,829
2001	229,929 (1)	13,925,885,584	1,114,070,847	140,848,864
2002	230,000 (1)	19,089,466,059	1,527,157,285	205,913,960
2003	237,000 (1)	19,452,484,383	1,556,198,751	190,428,068
2004	242,000 (1)	20,071,879,031	1,605,750,322	232,231,074
2005	246,924 (1)	20,601,509,290	1,648,120,743	215,664,108

NOTES:

- (1) Estimate from Durham City/County Planning Department
- (2) All other population estimates are based upon estimates reported by the North Carolina Department of Administration, Division of Management and Budget, Research and Planning Department.
- (3) Estimate from Durham Chamber of Commerce

Net Bonded Debt	Ratio of Net Bonded Debt to Taxable Property Assessed Value	Net Bonded Debt Per Capita
\$ 183,504,481	1.6	\$ 933
171,614,380	1.5	837
159,846,904	1.3	755
148,309,082	1.2	679
157,334,829	1.2	709
140,848,864	1.0	613
205,913,960	1.1	895
190,428,068	1.0	803
232,231,074	1.2	960
215,664,108	1.0	873

DURHAM COUNTY, NORTH CAROLINA

**Computation of Legal Debt Margin
June 30, 2005**

Taxable Property Assessed Value	<u>\$ 20,601,509,290</u>	
Debt Limit - eight percent (8%) of assessed value		\$ 1,648,120,743
Amount of Debt Applicable to Debt Limit:		
Gross Debt:		
Issued and outstanding general bonded debt - general	\$ 215,664,108	
Issued and outstanding general bonded debt - enterprise	29,525,895	
COPS	24,560,000	
Installment Financing	23,807,269	
Industrial Utility Extension Policy - general	<u>1,458,890</u>	
	295,016,162	
Less - Statutory deductions:		
Bonds issued and outstanding for water purposes	<u>802,172</u>	
Total amount of debt applicable to limit	<u>294,213,990</u>	
Legal Debt Margin		<u>\$ 1,353,906,753</u>

DURHAM COUNTY, NORTH CAROLINA

Computation of Direct and Overlapping Debt June 30, 2005

	<u>Net Bonded Debt</u>	<u>Percentage Applicable to Durham County</u>	<u>Durham County Share of Debt</u>
Durham County			
General Purposes	<u>\$ 215,664,108</u>	100%	<u>\$ 215,664,108</u>
City of Durham			
General Purposes	197,802,730 (1)	100%	197,802,730
Proprietary	<u>93,114,200 (1)</u>		<u>-</u>
	<u>290,916,930</u>		<u>197,802,730</u>
 Total direct and overlapping debt	 <u><u>\$ 506,581,038</u></u>		 <u><u>\$ 413,466,838</u></u>

NOTE:

(1) Provided by City of Durham Finance Department

DURHAM COUNTY, NORTH CAROLINA

**Ratio of Annual Debt Service for Bonded Debt to Total
General Governmental Expenditures
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Debt Service Expenditures			Total Debt Service	General Governmental Expenditures	Ratio of Total Debt Service to General Governmental Expenditures
	Principal	Interest on Bonds	Other Expenses			
1996	\$ 11,970,873	\$ 10,132,498	\$ 66,592	\$ 22,169,963	\$ 205,302,872	10.80
1997	11,890,101	9,465,401	60,549	21,416,051	206,483,054	10.37
1998	11,767,477	8,885,878	66,672	20,720,027	231,276,102	9.00
1999	11,537,822	8,276,917	55,781	19,870,520	240,674,704	8.26
2000	11,814,419	7,677,992	64,965	19,557,376	269,392,622	7.26
2001	13,486,256	7,731,107	46,437	21,263,799	289,194,936	7.35
2002	13,783,268	7,865,623	3,400	21,652,291	308,525,802	7.02
2003	17,771,809	11,646,516	5,850	29,424,175	332,340,887	8.85
2004	19,061,212	11,428,032	3,600	30,492,844	376,179,317	8.11
2005	21,476,140	13,440,112	-	34,916,252	406,585,461	8.59

DURHAM COUNTY, NORTH CAROLINA

Demographic Statistics (1) Last Ten Fiscal Years

Fiscal Year Ended June 30,	Population (1)	Unemployment Rate (2)	Retail Sales (3)	School Enrollment ADM (4)
1996	196,709	2.9%	\$ 2,580,145,403	27,911
1997	205,050	2.7%	2,725,363,856	28,467
1998	211,708	2.1%	2,969,821,930	28,235
1999	218,455	1.9%	3,167,576,949	29,400
2000	222,000	2.2%	3,455,667,557	29,000
2001	229,929	3.4%	3,688,798,890	29,816
2002	230,000	6.1%	4,057,351,888	30,821
2003	237,000	5.6%	4,597,852,967	30,889
2004	242,000	4.2%	4,646,891,369	30,947
2005	246,924	4.6%	5,085,955,806	31,719

NOTES:

(1) The 2001-2004 and 1997 estimate is from the Durham City/County Planning Department. All other population estimates are reported by the North Carolina Department of Administration, Division of Management and Budget, Research and Planning Service.

(2) Source: North Carolina Employment Securities Commission

(3) Source: North Carolina Department of Revenue, Sales and Use Tax Division

(4) ADM - Average Daily membership

Source: North Carolina Department of Public Instruction

DURHAM COUNTY, NORTH CAROLINA

Special Assessments and Collections Last Ten Fiscal Years

Fiscal Year Ended June 30,	Total Assessments Uncollected Beginning of Period	Additional Assessments	Collections	Total Assessments Uncollected End of Period
1996	\$ 22,659	\$ -	\$ 641	\$ 22,018
1997	22,018	-	-	22,018
1998	22,018	-	15,641	6,377
1999	6,377	599	-	6,976
2000	6,976	-	9	6,967
2001	6,967	-	193	6,774
2002	6,774	-	-	6,774
2003	6,774	-	-	6,774
2004	6,774	-	245	6,529
2005	6,529	-	-	6,529

DURHAM COUNTY, NORTH CAROLINA

**Property Value and Construction
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Building Value of Permits Issued (1)	Assessed Valuation (2)
1996	\$ 352,875,431	\$ 11,473,188,086
1997	545,524,404	11,639,602,156
1998	777,375,661	12,254,632,761
1999	676,873,415	12,549,030,411
2000	665,008,911	13,265,146,816
2001	878,788,891	13,925,885,585
2002	654,970,735	19,089,466,059
2003	846,497,743	19,452,484,383
2004	700,759,078	20,180,457,105
2005	897,110,133	20,601,509,290

NOTES:

(1) Source: City of Durham Inspections Department and Durham County Inspections Department

(2) Last revaluation of taxable property occurred on January 1, 2001

DURHAM COUNTY, NORTH CAROLINA

Miscellaneous Statistics

June 30, 2005

Date of incorporation	1881
Form of government	Commission - Manager
Area	299 Square Miles
Elevation	406 feet

Climate:

Mean temperature	59.0 F
Mean annual rainfall	41.3 Inches
Average annual snowfall	7.9 Inches

Medical facilities:

Number of hospitals	6
Number of beds	1885

Education:

Higher education:	
Number of institutions	5 (2 satellites)
Public education:	
Number of schools	46
Elementary	28
Middle	8
Senior High	7
Specialty schools	3

Police protection (City):

Number of stations	5
Number of officers	477 Sworn

County Sheriff:

Number of stations	5
Number of officers	159 Sworn 206 Detention

Fire protection (City):

Number of stations	14
Number of personnel	281 Active

DURHAM COUNTY, NORTH CAROLINA

Miscellaneous Statistics June 30, 2005

County volunteer fire protection:

Number of stations	11
Number of personnel	250

Communications (area):

Radio stations	16
Television stations	7
Newspapers (daily)	2

Recreation and culture:

Number of parks	60
Number of 18-hole golf courses	10
Number of parks with tennis courts	11
Number of parks with basketball courts	22
Swimming pools	5
Number of libraries	8



Acknowledgments

The preparation of the annual financial report was made possible by the dedicated service of the entire staff of the Finance Department. The audit process was effectively managed by Jessica Brown-Linton, Investment / Debt Manager, and Will Sutton, Sr. Financial Analyst / System Administrator provided substantial support in the report preparation and related accounting activities under the guidance and direction of Susan Fox, CPA, Deputy Finance Director.

Additional support in the audit process and related accounting activities was provided by:

Annie Fulton, Senior Accountant

Larry DeWalt, Accountant

Sarah Hill, Accountant

Dennis Roberts, Accountant

Kim Cook, Accountant

Bill Alston, Accountant

Catherine Davis, Compliance Manager

Alice Hawes, Accounting Clerk III

Gail Hurst, Accounting Clerk III

Shawantha Perry, Accounting Clerk III

Erika Morgan, Accounting Clerk III

Dave Jerrido, Accounting Clerk III