

City of Kinston, North Carolina

**Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2007**

Prepared by City of Kinston Finance Department

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INTRODUCTORY SECTION

Letter of Transmittal

List of Principal Officials

Organizational Chart

**GFOA Certificate of Achievement for
Excellence in Financial Reporting**



City of Kinston

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O. A. RITCH, JR.
Mayor

SCOTT A. STEVENS
City Manager

JAMES P. CAULEY III
City Attorney

CAROL L. BARWICK
City Clerk

To the Honorable Mayor, Members of City Council, and Citizens of the **CITY OF KINSTON**:

The Comprehensive Annual Financial Report of the **CITY OF KINSTON**, North Carolina (the City) for the fiscal year ended June 30, 2007, is hereby submitted. The basic financial statements contained herein have been audited by the independent certified public accounting firm of McGladrey & Pullen, LLP, and their unqualified opinion is included in the financial section. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the data enclosed is accurate in all material respects and is reported in a manner designed to present fairly the financial position and changes in financial position and, where applicable, the cash flows of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This report includes all the funds of the City. The City provides a full range of services including police and fire protection; sanitation services; construction and maintenance of streets and other infrastructure; planning and zoning services; and parks and recreational services. In addition to general governmental activities, the City owns and operates electric, water and wastewater utilities; therefore, these activities are included in the reporting entity. Kinston Leasing Corporation is considered a blended component unit of the City; however, there was no activity during the fiscal year ended June 30, 2007. The Kinston-Lenoir County Library, the Lenoir County Development Commission, the Lenoir County Tourism Development Authority and the Kinston Housing Authority do not meet the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

The City is required to undergo an annual "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the schedule of expenditures of federal and state awards, findings and recommendations, and the auditor's reports on the internal control over financial reporting and compliance with applicable laws, regulations, contracts and grant agreements, is included in a separate reporting package.

ECONOMIC CONDITION AND OUTLOOK

Kinston, located 75 miles east of Raleigh, the State Capitol, and 60 miles west of the Atlantic Ocean, is the largest municipality in Lenoir County and serves as the County seat. The City is centrally located to several growing communities including New Bern, Jacksonville, Goldsboro, and Greenville, all less than an hour away. The City is easily accessible by US 70, US 258, NC 11, NC 55 and NC 58.

Allegiant Air operates two flights each week to and from the Kinston Jetport to Orlando, Florida. The community currently has a 4.9 percent unemployment rate compared to a statewide rate of 5.1 and a national average of 4.7 percent. The July 2007 population estimates for the City report population as 22,851.

The City is governed by the Council-Manager form of government and has been since the early 1950s. The City Council consists of a mayor and five council members. The mayor and council members are elected-at-large for four year staggered terms. The Mayor and Council make appointments to various boards and commissions. The Council appoints the City Manager, City Attorney and City Clerk. The City Manager serves as Chief Executive Officer and is responsible for enforcement of laws and ordinances, delivery of services, planning and budgetary management.

The City has experienced a conservative expansion. Overall, the value of new construction and renovation was \$35.0 million. The construction of residential developments, stores, medical and institutional, is consistent with construction in previous years.

All indications are that economic growth will continue at a moderate pace. In July 2006, Spatial Integrated Systems announced that it would move to Lenoir County bringing 35 jobs and \$2.8 million in new investment. In March, A.G. Machining of NC, Inc. announced it was beginning operations and would employ 29 people and invest \$2.9 million in new equipment. In September, Electrolux celebrated the completion of an expansion creating 217 jobs and a \$21.0 million investment; Field Controls announced that Effikal would relocate its operations bringing 35 jobs and a \$1.1 million investment; Dopaco announced that it would create an additional 10 jobs and a \$2.4 million investment; the North Carolina Division of Veterans Affairs held a ground breaking ceremony for a 100 bed skilled nursing facility that will employ 120 people; and West Pharmaceutical Services announced that it would expand its current workforce by 154 jobs and \$18.7 million in new investment. Additional announcements of new or expanding businesses are expected.

As required by Governmental Accounting Standards Board Statement No. 34 (GASB 34) the City implemented retroactive capitalization of infrastructure assets resulting in a one-time increase in governmental net assets of \$2 million.

MAJOR INITIATIVES

FOR THE YEAR

Fiscal Year 2006-2007 included the planning and implementation phases of several initiatives as well as the continuation or completion of projects begun during previous fiscal years.

Clean Water Management Trust Fund Buy Out Project

Implementation of a \$1.181 million dollar grant from the Clean Water Management Trust Fund commenced this year that will result in the acquisition of approximately 300 properties located in the flood plain. When combined with the 850 properties previously acquired, the city will own approximately 900 acres of contiguous green space to be used for clean water, conservation, flood protection, and low-impact recreational purposes - greatly enhancing the quality of life for our citizens.

Engineering - Briery Run Sewer Rehabilitation Phase II

This project consisted of rehabilitating 2,600 linear feet of 15 inch pipe using a cured-in-place technique and replaced 28 manholes. The project is complete pending final payment, and was funded through a \$400,000 Rural Center grant and \$50,000 in local funds. The remaining grants funds are being used towards replacing 30 inch concrete pipe encased under Airport Road.

Engineering - Contract I: Wastewater Treatment Facilities at Kinston Regional Water Reclamation Facility (KRWRF)

Work on this project began in April 2004. It consisted of improvements and expansion of the Kinston Regional Water Reclamation Facility to meet effluent discharge permit limits and increase capacity to 11.85 million gallons daily. The work included: headworks structures; BNR and aeration basins; secondary clarifiers with return and waste sludge facilities; denitrification filters; UV disinfection and post- aeration facilities; aeration and filter blower buildings; methanol storage and feed facility; non- potable plant water supply system; plant drain system; mechanical systems; engine-generator, power distribution system; plant control system; yard piping; site work; modifications to existing aeration basins, clarifiers, sludge pumping station, and chemical storage and feed facilities; demolition of facilities; and all other work included to decommission and demolish the Peachtree Plant. This \$26.9 million project was funded through a FEMA grant and began treating wastewater in August 2006. The plant was considered substantially complete by January 2007. In February 2007, the contractor walked-off the job leaving contract work and warranty work incomplete due to a dispute over the amount of sludge that was hauled during demolition of the Peachtree waste water treatment plant. The City is currently involved in a lawsuit with this contractor concerning the amount of sludge to be paid, a notice of violation and cleanup around the Peachtree Plant and contract warranty items not completed by contractor.

Engineering - Contract II: 30-inch Force Main for Kinston Regional Water Reclamation Facility (KRWRF)

The Forrest Street Lift Station has been renovated and is pumping sewage that previously was treated by the Peachtree Wastewater Treatment Plant to the KRWRF .The existing pumps were replaced and a 26,000 linear feet of 30-inch force main was installed. A new emergency natural gas generator was installed at the Forrest Street Lift Station. The Briery Run Lift Station, which currently pumps all sewage that flows to the Kinston Regional Facility, was flood proofed. Also, 2,700 linear feet of 36-inch outfall was installed to replace the existing effluent ditch that flows from the KRWRF to the Neuse River. FEMA had originally indicated that they would fund only \$7.54 million of this \$8.2 million project with grant funds. The City requested that FEMA reconsider an additional \$587,361 to fund the new pumps at the Briery Run Lift Station and provide additional coverage on the new Administration Building. FEMA approved this request in March 2007. The project is complete pending the final payment to the contractor upon receipt of the operations and maintenance manuals.

Engineering - Contract IV: Biosolids Facilities for Kinston Regional Water Reclamation Facility (KRWRF)

This project consisted of construction of improvements at the KRWRF including, but not limited to modifications to existing aerobic digesters; installation of new blowers; new septage receiving station; new dewatered biosolids storage building; relocation of an existing pre-engineered metal building; forest land application demonstration facilities using reclaimed water; associated site work, yard piping, controls and electrical work. The contract was awarded in Spring 2006. The cost for these improvements is \$5.2 million. Funding for these improvements will be through State Revolving Fund loan. This project will be completed by October 2007.

Engineering - Water Reuse Project at the Kinston Regional Water Reclamation Facility (KRWRF)

This Project consists of expanding the water reuse site developed in KRWRF Contract IV. The City has acquired additional property adjacent to the KRWRF plant for the expansion. The City chose The Wooten Company as the consultant to provide design and permitting services. Construction is expected to begin in March 2008. The estimated cost of the project is \$1,737,200, and funding for the project will be provided by a \$1,290,000 Clean Water Management Trust Fund (CWMTF) grant, and \$447,200 local funds. The City has submitted a request for an extension on this grant to the CWMTF.

Engineering -College Street Sewer Rehabilitation

This project will evaluate and rehabilitate or replace approximately 4,428 linear feet of sewer lines and 16 manholes on College Street. The estimated cost of the project is \$1,127,600. The City has submitted a grant application to the Clean Water Management Trust Fund (CWMTF) requesting \$902,080 in grant funding. If approved the City will provide a local match of \$225,520 which includes \$56,400 of in-kind service.

Adkin Branch Stream Restoration Project

With the assistance of the Ecosystem Enhancement Program, the City of Kinston is in the process of planning the Adkin Branch Stream Restoration and Stormwater Retrofit Project. This project will parallel the Adkin Branch from Hwy 11 to Lincoln Street. It will consist of cleaning debris from the degraded stream and surrounding riparian area and widening the stream to restore it to its natural stable condition. The majority of the land purchases and easement acquisitions for this project has been completed. The design and permitting process has commenced and construction is expected to begin in Spring 2008.

Neuse Regional Water and Sewer Authority (NRWASA)

Kinston is a member of NRWASA and will begin purchasing potable water from the new surface water plant in August, 2008. As a member, Kinston is currently paying a member assessment of \$2 per active water service per month to NRWASA. In FY06/07 Kinston paid a total of \$261,934. Upon completion of the plant, Kinston will be obligated to purchase 3.07 MGD from NRWASA at an estimated cost of \$3.34 per 1,000 gallons, or \$3,742,800 annually.

Engineering - Highway 70 Industrial Park Phase II Sewer Construction

This project consists of building a new regional lift station and forcemain for the Highway 70 Industrial Park, and eliminating a small station serving the Smithfield Packing Company. The project design is ongoing and expected to cost \$300,000. Construction cost is estimated at \$1.7 million and would begin next fiscal year. Initial funding of \$50,000 was provided in FY06/07 for preliminary engineering and easement acquisition. Additional funding will be pursued with the Rural Center for this work.

Water Resources (Streets) - Street Resurfacing

This project involves the placement of a new asphalt surface on streets determined to be in poor condition. In this fiscal year, 1.85 miles of streets were resurfaced at a total cost of \$161,700. Work included improvements to handicap ramps, repairs to concrete curb and gutter, placement of asphalt, and installing pavement markings.

Water Resources (Streets) - Street Improvement Project

This project involved paving of existing dirt streets in the city. The street paved this year was King Street from Orion Street to McDaniel Street. Paving the streets improves our transportation system, reduces maintenance and improves property values. Cost of this years project was \$34,000 and was included in our operating budget.

Water Resources (Water Production) - Well Study

This project involved performing a technical study of specific water supply wells to determine their condition and viability with the Central Coastal Plain Capacity Use Rule reduction requirements in 2008. The work included conducting gamma logs, television inspections, and water level measurements and determined what wells would be affected by the regulations and any work required to remain in compliance. Total cost of the study was \$65,000 and was funded in the operating budget.

Water Resources (Water Operations) - Water Line Replacements

City crews completed projects to replace old water lines on several city streets, including Barton Avenue, Rhem Street, and Sweetbriar Circle. The replacements were done to reduce maintenance needs on old pipes, improve fire protection and improve water quality to our customers. Labor and equipment were provided by city crews and material costs were \$22,000.

Water Resources (Water Operations) - Sewer Line Improvements

During June, 2006, the city experienced a collapsed sewer pipe in a remote area near Hodges Road. Instead of repairing the pipe, a permanent change was made to connect this line to a parallel line and abandon the collapsed section. Work has been completed at a cost of \$92,250.

Inspections - Building Code Effectiveness Grading Schedule (BCEGS)

In the fall of 2006 the city's building inspection department was evaluated by Insurance Services Office (ISO) for code enforcement effectiveness. The city was able to maintain it's excellent rating of a Class 3 (Class 1 is the highest possible) in both 1 & 2 Family and all other construction. Our department significantly exceeded the state and national averages in all areas. As a result, our citizens will realize the benefits of safer buildings & lower insurance rates particularly in area of commercial & industrial construction-important to economic development.

Inspections - Old Shirt Factory Property

In April 2006, the City assumed ownership of the old shirt factory property, located on the corner of Martin Luther King Boulevard and King Street, with the intent of cleaning up the site to improve safety and aesthetics. A contract in the amount of \$52,786 was awarded to P&F Environmental of Rocky Mount, NC in March 2007 for the demolition of approximately one-half of the site. Demolition began soon after the contract was awarded and was completed in June 2007.

Public Safety - Fire Station/City Hall Renovation

In March 2007, Daniels & Daniels Construction of Goldsboro, NC was awarded a contract to construct a new 16,000 sq ft main fire station and renovate a portion of City Hall. Population shifts due to flood buyouts, commercial development, apparatus enhancements, and national fire standards such as 1710 have all contributed to the need for a new main fire station. City Hall renovations include converting the current main fire station to office and training space for the Public Safety department, construction of a new customer parking lot, and improving public and handicap accessibility. Completion of the new fire station is slated for December 2007 with completion of the renovations to follow in June 2008. Davis Kane Architects of Raleigh, NC designed the project and funding is provided through two USDA Rural Development loans totaling \$4,986,000.

Public Safety - GATE Project

The Department of Public Safety, in a collaborative effort with Lenoir Community College, Lenoir County Schools, faith-based community and various volunteer organizations are presently renovating a structure for use as a Community Development Center. This Center will house a GED Lab, classrooms and office space. The Center will focus on high-risk juveniles including gang members. Faith-based programs will also be offered as an alternative to the destructive life style of gang activity. This program is partially funded with grant money provided by the Governor's Crime Commission.

Recreation - Fairfield Park, Neuseway Park, Grainger Stadium, Visitor's Center

In 2006, a PARTF (Parks & Recreation Trust Fund) grant, a USTA grant, along with local funding was used for the construction of four (4) new tennis courts at Fairfield Park. These funds were also used to demolish the old tennis courts and renovate them into a parking lot, which now accommodates an additional sixty (60) cars at the park. PARTF and local funds were also used to construct a spray ground at Fairfield Park, which cost approximately \$110,000.

Neuseway Park was cleared of debris and vegetation in order to have a clear view of the Neuse River and a new video/scoreboard was installed at Grainger Stadium at a cost of \$325,000.

The old DOT station was demolished and the construction of the Kinston/Lenoir County Visitor and Information Center was completed.

Power Plant

The old Kinston power plant, which was built in the late 1800s and expanded in 1992, supplied power to Kinston residents until it was taken out of service in 1972. The removal of asbestos from the plant was completed in April 2007. Kinston's Waterfront Now ! Task force is seeking ideas for development of the plant property which is located on Atlantic Avenue. The organization - assembled by the Pride of Kinston - was granted permission by the Kinston City Council to issue requests for proposals and has included all kinds of developers along the Eastern Seaboard.

Workers' Compensation and Safety Costs

Although insurance premiums and medical expenses related to on-the-job injuries are an ever-present and increasing liability, the City has been successful at maintaining its costs for the year. During Fiscal Year 2007, the City recorded for a second year 3 lost work day cases. Efforts to place injured employees on modified duty continue to be successful. There were only 21 total lost work days during the fiscal year. The City anticipates closing one of its remaining long-term cases in the upcoming fiscal year. Close supervision of the cases continue to reduce the liabilities to the City of Kinston.

IN THE FUTURE

City Annexation

In October 2004, City Council adopted a Resolution of Consideration acknowledging their wish to study the possible annexation of Crestview/Briarwood Terrace, Hickory Hills, and a portion of Highway 258 North. After reviewing the financial impact, it was determined the cost of installing conventional gravity sewer would make annexation infeasible. Recently, the use of small on-site force main sewer pumps has become more prominent and the cost to install this type of system generally averages one-half that of conventional gravity sewer. Based on the use of this type of system, annexation is now financially a viable option for the City of Kinston. In September 2007, City Council adopted a Resolution of Consideration for the possible annexation of the same areas with a proposed time line having annexation effective mid-2009.

Inspections - Old Shirt Factory Property

In August 2007, bids were received for further demolition of the old shirt factory located on the corner of Martin Luther King Boulevard and King Street. A/K Grading & Demolition submitted the lowest bid of \$24,800 to remove all remaining debris and structures leaving only concrete floors and chain link fence. Once A/K completes their work, City staff and equipment will be used to remove chain link fence and level any remaining concrete floors and dirt. The end result will be a cleared, level 4.24 acre lot with only concrete floors remaining.

Planning - Funding for Comprehensive Planning

Start-up funds were included in the FY2007-08 budget for preliminary work geared towards the development of a Comprehensive Plan to establish a unified community vision for the next several decades. The plan will include "smart growth" and "livability" strategies that, when implemented, will result in desirable population increases and enhancement of the existing tax base utilizing public infrastructure already in place.

Planning - Comprehensive Bicycle Plan

We hope to complement a grant awarded in FY2006 to fund the development of a Comprehensive Pedestrian Plan with a similar grant for bicycles. The total grant will be \$45,000 with a \$13,500 local match requirement. Travel and Tourism will be asked for funding of one-half of the local match.

Planning - Long Term Growth

The recently approved highway component of the city's Comprehensive Transportation Plan proposes new roads to be built and existing roads to be improved that will have major positive implications from a regional perspective for future residential, industrial, and commercial growth. Integrating the new transportation plan with the proposed long range comprehensive plan will result in short and long term strategic planning to accomplish the goals.

Recreation - Fairfield Park, Neuseway Park and Emma Webb

The completion of a walking track around the perimeter of Fairfield Park will be completed in 2007 with the remaining PARTF funds. Also, in conjunction with Lenoir County and the Kinston Exchange Club, a miniature train and tracks will be installed at the Neuseway Nature Park and a train caboose will be renovated into a ticket/souvenir stand at the park.

The pool deck at Emma Webb pool will be upgraded.

Water Resources - Stormwater Utility

Beginning July 1, 2007 the City of Kinston began charging a Stormwater Utility Fee to properties inside the city to provide dedicated funding for stormwater management. Funding will be used for capital improvements, stormwater system maintenance, public education, inspections and other work related to stormwater. All properties are being charged a flat fee of \$4 per month which is expected to generate \$436,000 in revenue this year. A Stormwater Utility Stakeholder Advisory Committee has been formed to determine a long term fee structure, review stormwater policies and establish a stormwater capital improvement program.

Water Resources (Streets) - Street Resurfacing

This annual project involves the placement of a new asphalt surface on streets determined to be in poor condition. Funds of \$200,000 have been budgeted for this work, which will allow resurfacing of approximately 2.3 miles of streets.

Water Resources (Streets) - Street Improvement Project

This project involved paving of existing dirt streets in the city. Funds have been included to pave Loftin's Alley and reconstruct Heritage Street at Vernon Avenue. Total funds budgeted are \$41,000.

Water Resources (Water Operations) - Water Line Replacements

Replacing old and leaky water mains is done to reduce maintenance needs on old pipes, improve fire protection and improve water quality to our customers. Projects scheduled for this year include replacing water lines on Stockton Road, College Street and Rhem Street. This work is estimated to cost \$28,700.

Water Resources (Water Operations) - Sewer Line Improvements

Replacing sewer lines that are in poor condition helps reduce system maintenance, reduces infiltration problems and reduces possible sewer overflows. Projects this year include replacing sewer lines in Vernon Avenue and replacing manholes along the Neuse Interceptor line. Work on these projects is expected to cost \$80,000.

Water Resources (Water Operations) - Hillcrest Sewer Project

This will involve the extension of a low pressure force main of approximately 2,700 linear feet and the installation of individual pumps at new town homes being constructed along Hillcrest Road. Initial Cost is expected to be \$60,000 for the force main and approximately \$5,000 per lot as the lots are developed. Two lots may be developed in the first year.

Electric Project - Caswell Center Improvements

Caswell Center is a major employer within the City with over 1,600 employees. The State of NC is renovating many of its existing buildings. Part of the ongoing improvements includes upgrading the electric distribution primary and secondary systems at an estimated cost of \$2,620,000 that will be paid by Caswell Center. In addition, The City will install a generating system at an estimated cost of \$2,000,000 and upgrade the Campus lighting upgrade at an estimated cost of \$830,000. The City will borrow funds for the Generator and Lighting upgrade projects. Debt service payments will be made utilizing the electric peak shaving credits and the creation of a lighting rental schedule that Caswell Center will pay on a monthly basis. This project began in FY 2006 and will be continued in FY 2008.

Electric Division

In FY2008, the Electric Division (ED) will begin the construction of a new Substation in the Highway 70 West Industrial Park. The estimated cost to construct a new substation is \$3,000,000 with an estimated completion date of November 2008. Also, we will continue the implementation automated meter reading (AMR), primary underground replacement at Tarheel Courts subdivision, and the replacement of the Electric System SCADA controls. The estimated cost for all these projects is \$3.4 million

MIS Upgrades

MIS will be upgrading the Banner software from version 6 to version 7. This upgrade will affect Finance and Human Resource users only. The new version will be a web-based program, meaning access to forms will be through the intranet. In version 7, forms have been redesigned and now include tabs to simplify information access. Payroll and AP checks will no longer have to be manually torn apart. Users will have the ability to print the checks on laser printers. Also, without this upgrade, printing of W2's will not be available. It is available in version 7.

Other Post - Employment Retirement Benefits (OPEBs) - Non-Pension Benefit Plan

The City of Kinston maintains a retiree medical plan in which the City pays \$12.37 per month for each year of creditable service up to a maximum of 30 years upon retirement. Retirement can occur at either the attainment of 30 years of service or the attainment of 50 years of age and 20 years of service. This benefit commences at retirement and is payable until death of the member or age 65. Cash outlays for Fiscal Year 2007 were \$ 210,539. Our annual required contribution for Fiscal Year 2007 is \$188,854, subject to revisions, this study has not been updated. This benefit is no longer offered to employees hired after August 31, 2005.

Effective no later than with the Fiscal Year ending June 30, 2008, the City will adopt procedures under Governmental Accounting Standards Board ("GASB") Statements No. 43 and 45. The value of the obligation made to provide retiree benefits must be actuarially calculated and accrued upon implementation. Although there is no requirement that the City actually fund the OPEB cost, not doing so could have a significant impact on the City's overall credit rating, consequently, affecting the cost of issuing debt financing. An actuary has been engaged to complete the study and the City is evaluating our alternatives. The ultimate expense will be affected by funding methods and/or funding vehicles chosen to provide benefits in the future.

Pride of Kinston

In taking stock of the 2006-2007 fiscal and program year, Pride of Kinston will continue to build the necessary partnerships with local and state organizations to help revitalize Kinston's Central Business District. We are laying the groundwork for even greater advances in the coming year as we work in partnership with governments and investors to achieve the overall goal: restoration of our downtown as a thriving vibrant center for social and business interaction.

Significant downtown projects being managed by Pride of Kinston include assisting the Last Firebase Veterans Archive Project at the site of the CSS Neuse replica, continued implementing the Kinston Waterfront – Now! endeavor to develop plans for economic, educational and recreational developments along Kinston's stretch of the Neuse River, helped with executing the completed public art mural on the side of Christopher's Restaurant, aided in formulating a new parking lot between Queen and Herritage and Blount Streets. This coming year should see this project come to fruition. The Pride launched and expanded the *Sand in the Streets* concert series for the summer of 2007, hosted, in partnership with the City of Kinston and the Kinston-Lenoir County Parks and Recreation department, the 2nd annual *Run for the River* March 24, 2007 and set the date for the next race at March 29, 2008. We enjoyed the support of 175 runners who signed up and 165 volunteers who supported and encouraged them. Pride will continue to sponsor downtown clean-up and beautification efforts.

OTHER INFORMATION

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kinston for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a Government Unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. This CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and the City will be submitting it to the GFOA to determine its eligibility for another certificate.

Independent Audit. The City is required by the North Carolina General Statutes to have an annual independent audit of its financial statements. In addition, the Federal Single Audit Act Amendments of 1996 and the State Single Audit Implementation Act require annual independent audits of the City's compliance with the applicable laws and regulations related to certain financial assistance received by the City. The independent auditor's report on management's discussion and analysis, the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The independent auditor's reports on the compliance matters are included in a separate reporting package.

The preparation of this comprehensive annual financial report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report and in their continued professional excellence in accounting for the fiscal actions of the City.

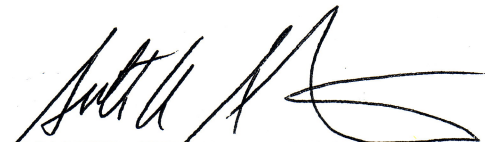
We also acknowledge the valuable professional service provided by the accounting firm of McGladrey & Pullen, LLP and appreciate their assistance in preparing this report.

In closing, we would like to express our appreciation to the Mayor, City Council, Department Heads and all City staff, for their leadership, interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Keith M. Fiaschetti, MBA
Finance Director



Scott A. Stevens,
City Manager

CITY OF KINSTON, NORTH CAROLINA

**LIST OF PRINCIPAL OFFICERS
JUNE 30, 2007**

CITY COUNCIL

O. A. RITCH, JR.
Mayor

ROBERT A SWINSON, IV
Mayor Pro Tem

JOSEPH M. TYSON

ALICE S. TINGLE

JIMMY COUSINS

WILLIAM W. BARKER

CITY ADMINISTRATION

SCOTT A. STEVENS
City Manager

KEITH M. FIASCHETTI
Finance Director

CAROL L. BARWICK
City Clerk

BRENDA RUFFIN
Director of Human Resources

RHONDA F. BARWICK
Director of Public Services

GREG SMITH
Director of Public Safety

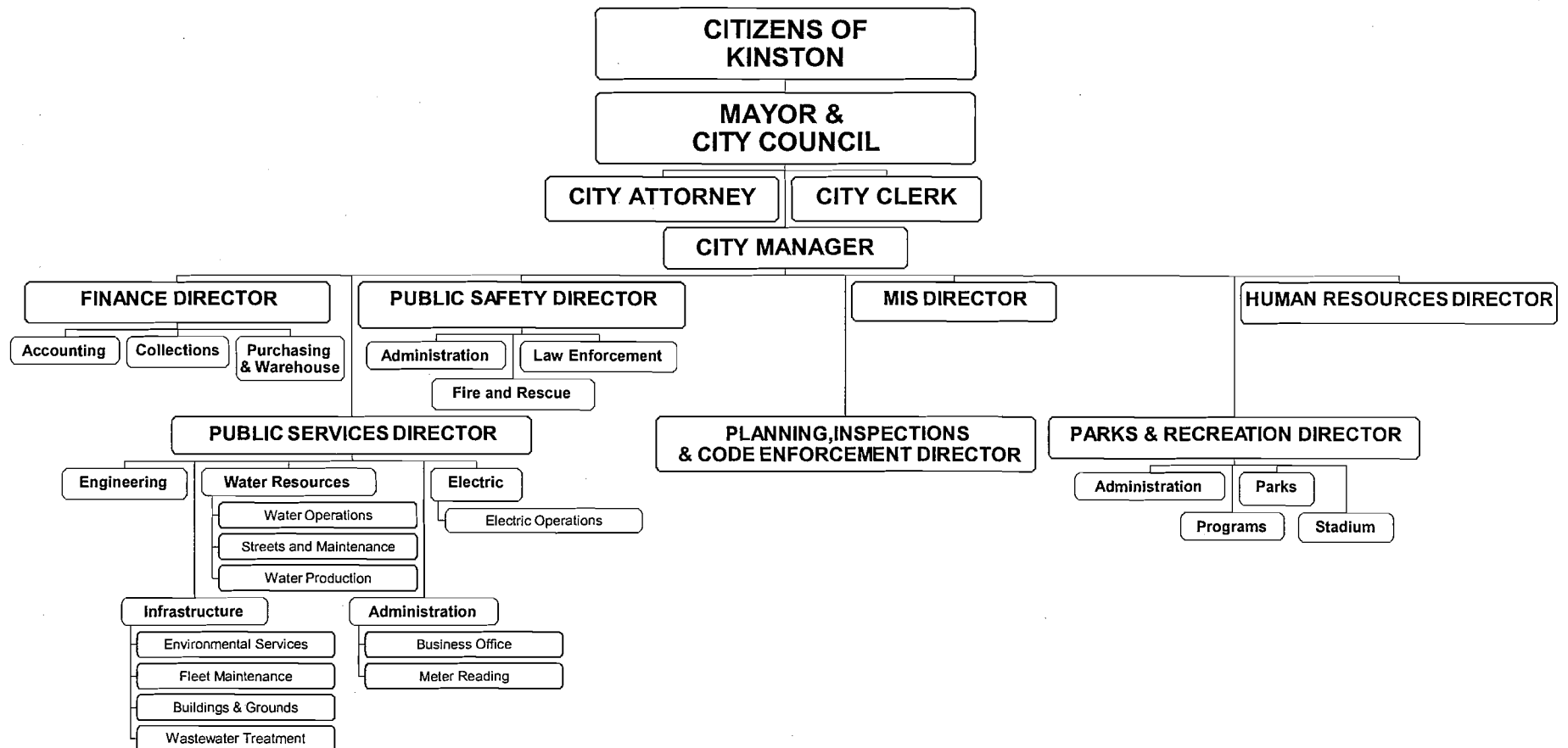
TOMMY LEE
Director of Planning,
Inspections & Code Enf.

BILL ELLIS
Director of Parks and
Recreation

City of Kinston

Organizational Structure

FY 2006-2007



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kinston
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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.



President

Executive Director

FINANCIAL SECTION

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Notes to Basic Financial Statements

Required Supplemental Financial Data

Combining, Individual Fund Statements and Schedules

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Kinston, North Carolina, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of City of Kinston's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the City of Kinston, North Carolina, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions and the Separation Allowance Plan Schedules of Funding Progress and Employer Contributions on pages 3 – 11 and 55 – 58 are not a required part of the basic 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kinston's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of City of Kinston, North Carolina. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections, as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Morehead City, North Carolina
October 31, 2007

City of Kinston, North Carolina

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007

This section of the City of Kinston's (City) annual financial report presents a narrative overview and analysis of the City's financial performance for the fiscal year ended June 30, 2007. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

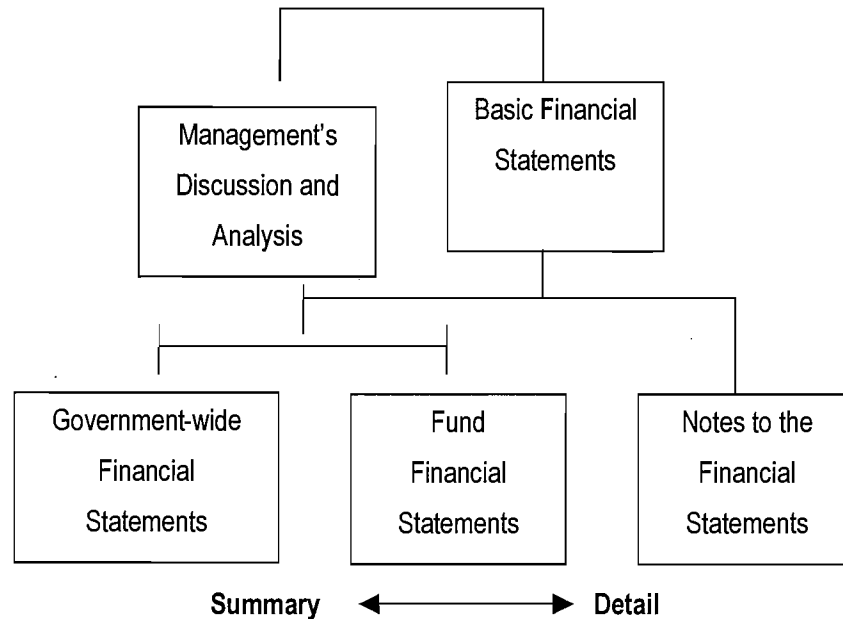
Financial Highlights

- The overall financial position of the City improved in 2007 as evidenced by an increase in total net assets of \$6.5 million. This increase was from business-type activities \$4.6 million, while the governmental activities increased \$1.9 million, which includes an increase of \$2.0 million for capitalizing retrospective infrastructure assets in accordance with Governmental Accounting Standards Board Statement Number 34.
- The assets of the City exceeded its liabilities at the close of the fiscal year by \$102.9 million (net assets). Of this amount, \$15.4 million (unrestricted net assets) can be used to meet the City's ongoing obligations to its citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7.9 million, an increase of \$ 3.3 million in comparison with the prior year. Approximately 10.1 percent of this total amount, or \$0.8 million, is available for spending at the government's discretion (unreserved and undesignated fund balance).
- At the end of the current fiscal year, unreserved/undesignated fund balance for the General Fund was \$1.3 million, or 7.0 percent of total General Fund expenditures.
- The City's total debt increased by \$11.0 million during the current fiscal year. Most of this increase came from borrowing \$ 4.9 million in the Public Safety Capital Project Fund to fund construction of a new main fire station and city hall renovation projects and \$ 6.1 million in the Wastewater Fund to finance construction of the wastewater treatment plant.

Overview of the Financial Statements

This annual report consists primarily of three parts: management's discussion and analysis (this section), the basic financial statements, and a section that presents combining and individual fund statements as well as detailed budgetary comparison schedules. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Kinston. The following diagram shows how the required components of this annual report are arranged and relate to one another.

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

- The *governmental funds statements* tell how general government services, like public safety, were financed in the short term as well as what remains for future spending. A budgetary comparison statement has been provided for the General Fund to demonstrate budgetary compliance.
- *Proprietary funds statements* offer short- and long-term financial information about the activities the City operates like businesses, such as the electric, water and wastewater systems.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data, and are followed by the required supplemental financial data on the Law Enforcement Officers' Special Separation Allowance and the Separation Allowance Plan. In addition to these required elements, a section is included with combining statements that provide details about nonmajor governmental funds, which are totaled and presented in a single column in the basic financial statements. This section also includes detailed budgetary information required by North Carolina General Statutes.

The remainder of this overview section explains the structure and contents of the government-wide and fund financial statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

The *statement of net assets* includes all of the government's assets and liabilities except fiduciary funds. The *statement of activities* accounts for all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the City's net assets (the difference between assets and liabilities) and how they have changed. Over time, increases or decreases in the City's net assets are one indicator of whether the City's financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the City's property tax base and the condition of the City's roads, must be considered to assess the overall health of the City.

The government-wide financial statements are divided into two categories:

- Governmental activities - Most of the City's basic services are included here, such as public safety, community planning and development, streets, and culture and recreation. Property taxes, other taxes, and grants and contributions finance most of these activities.
- Business-type activities - The City charges fees to customers to cover the costs of certain services provided. The City's electric, water, wastewater and sanitation systems are included here.

The government-wide financial statements are on pages 13 – 15 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting groups that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State Statutes. Other funds are established to control and manage resources designated for specific purposes.

The City has two kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) the flow in and out of cash and other financial assets that can be readily converted to cash and (2) the balances left at year-end that are available for spending in the next year. These funds are reported using the modified accrual accounting basis and a current financial resources measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the City's programs. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The City adopts an annual budget for the General Fund, as required by State Statutes. A budgetary comparison statement is presented for the General Fund using the City's budgetary basis of accounting. This statement reflects the following: (a) the original budget, (b) the final budget as amended, (c) actual resources, changes to appropriations, and ending balances, and (d) the variance between the final budget and actual resources. Because the City's budgetary basis of accounting does not differ from the modified accrual basis used in the funds statements, reconciliation is not necessary at the end of the statement.

- Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The City has two types of proprietary funds. Enterprise funds are the same as the business-type activities (shown in the Government-wide Statements), but provide more detail and additional information, such as cash flows. Internal service funds are used to report activities that supply and service for the City's other programs and activities. Three of the internal service funds predominantly benefit governmental rather than business-type activities; therefore, they have been included with governmental activities in the government-wide financial statements. The fleet maintenance fund, employee health and insurance fund and warehouse inventory fund are included in governmental activities. The public services fund, which functions as a management group for the enterprise funds is included in the business-type activities.

The fund financial statements are on pages 16 – 24 of this report.

Notes to the Basic 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 basic financial statements begin on page 25 of this report.

Financial Analysis of the City as a Whole

Net Assets: For the City, assets exceeded liabilities by \$102.9 million at the close of the most recent fiscal year. A summary of the City's net assets at June 30, 2007 and 2006 is presented below:

	City of Kinston's Net Assets					
	Governmental		Business-Type		Totals	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 11,637,490	\$ 7,479,035	\$ 19,091,329	\$ 16,670,909	\$ 30,728,819	\$ 24,149,944
Capital assets	14,996,384	11,689,381	103,035,200	94,640,642	118,031,584	106,330,023
Total assets	26,633,874	19,168,416	122,126,529	111,311,551	148,760,403	130,479,967
Long-term liabilities outstanding	10,147,187	5,273,764	27,964,797	21,798,429	38,111,984	27,072,193
Other liabilities	2,011,485	1,289,814	5,730,278	5,733,646	7,741,763	7,023,460
Total liabilities	12,158,672	6,563,578	33,695,075	27,532,075	45,853,747	34,095,653
Net assets:						
Invested in capital assets, net of related debt	10,469,056	8,022,946	76,322,354	73,141,568	86,791,410	81,164,514
Restricted	696,026	619,832	-	-	696,026	619,832
Unrestricted	3,310,120	3,962,060	12,109,100	10,637,908	15,419,220	14,599,968
Total net assets	\$ 14,475,202	\$ 12,604,838	\$ 88,431,454	\$ 83,779,476	\$ 102,906,656	\$ 96,384,314

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The City's net assets increased by \$6.5 million for the fiscal year ended June 30, 2007. However, the largest portion (84.3%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City's net assets (.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$15.4 million is unrestricted.

Net assets of the governmental activities increased \$ 1.9 million, or 14.8 percent, to \$14.5 million. However, \$11.2 million of these net assets either are restricted as to the purposes they can be used for or are invested in capital assets (e.g. land, buildings, machinery, and equipment buildings, roads, etc.). The remaining balance of \$3.3 million is unrestricted. The unrestricted net assets are available primarily to support operations and to provide for payment of long-term debt. The primary aspect of the City's financial operations that negatively influenced the total unrestricted net assets was debt service on long-term liabilities which increased the invested in capital assets and net of related debt categories, and also decreases in property tax and state shared revenues.

The net assets of the business-type activities increased by \$4.7 million, or 5.6 percent, to \$88.4 million. These net assets will be used to finance the operations and expansion of the electric, water, wastewater, and environmental operations. The increase in net assets came primarily from grants related to the construction of the new water reclamation plant.

Changes in Net Assets: The following table presents the City's changes in net assets for the fiscal years ended June 30, 2007 and 2006:

City of Kinston's Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 1,444,584	\$ 1,733,724	\$ 59,106,038	\$ 56,557,451	\$ 60,550,622	\$ 58,291,175
Operating grants/contributions	1,072,792	2,133,276	-	-	1,072,792	2,133,276
Capital grants/contributions	450,960	-	4,267,212	19,423,503	4,718,172	19,423,503
General revenues:						
Property taxes	7,455,353	7,428,644	-	-	7,455,353	7,428,644
Other taxes	5,085,866	4,728,977	-	-	5,085,866	4,728,977
Grants/contributions not restricted to specific programs	341,662	360,586	-	-	341,662	360,586
Other	346,255	120,649	496,310	280,566	842,565	401,215
Total revenues	16,197,472	16,505,856	63,869,560	76,261,520	80,067,032	92,767,376
Expenses:						
General government	1,983,777	1,402,565	-	-	1,983,777	1,402,565
Public Safety	8,887,330	8,607,793	-	-	8,887,330	8,607,793
Highways and streets	2,365,762	1,880,438	-	-	2,365,762	1,880,438
Economic & physical development	1,342,519	2,012,994	-	-	1,342,519	2,012,994
Culture and recreation	2,851,379	2,665,090	-	-	2,851,379	2,665,090
Interest on long-term debt	226,828	177,873	-	-	226,828	177,873
Electric	-	-	47,429,959	44,074,061	47,429,959	44,074,061
Water	-	-	3,350,291	3,671,141	3,350,291	3,671,141
Wastewater	-	-	4,271,411	4,654,361	4,271,411	4,654,361
Non-Major Fund	-	-	2,836,185	2,664,596	2,836,185	2,664,596
Total expenses	17,657,595	16,746,753	57,887,846	55,064,159	75,545,441	71,810,912
Increase in net assets before transfers	(1,460,123)	(240,897)	5,981,714	21,197,361	4,521,591	20,956,464
Transfers	1,329,736	990,552	(1,329,736)	(990,552)	-	-
Increase (decrease) in net assets	(130,387)	749,655	4,651,978	20,206,809	4,521,591	20,956,464
Net assets, July 1	12,604,838	11,855,183	83,779,476	63,572,667	96,384,314	75,427,850
Prior Period Adjustment	2,000,751				2,000,751	-
Net assets, June 30	\$ 14,475,202	\$ 12,604,838	\$ 88,431,454	\$ 83,779,476	\$ 102,906,656	\$ 96,384,314

Total government-wide revenues of \$80.1 million were primarily derived from charges for services (75.6%), capital grants and contributions (5.9%) and property taxes (9.3%). The total expenses of all programs were \$75.5 million. The expenses cover a range of services with the two largest being electric services (62.8%) and public safety (fire/EMS and police) (11.8%).

Governmental Activities

Governmental activities increased the City's net assets by \$1.9 million. Key elements of this increase are as follows:

- Increase of \$2.0 million for capitalizing retrospective infrastructure assets in accordance with Governmental Accounting Standards Board Statement Number 34 (GASB 34).
- Increase in governments expenses of \$0.9 million with \$ 0.6 million of the increase generated by general government and \$ 0.5 million by highways and streets.

Business-type Activities

Business-type activities increased the City of Kinston's net assets by \$ 4.7 million, accounting for over 71.3% of the total growth in the government's net assets. Key elements of this increase are as follows:

- The City received \$4.3 million in capital grants primarily for the construction of the new water reclamation facility.
- Charges for services increased by approximately \$2.5 million, or 4.5% over the prior year. The increase was the combined result of increased electric consumption and increases in water rates and refuse collection fees. The revenue increase in electric was offset by \$3.2 million in additional purchased power costs over the prior year.

Financial Analysis of the City's Funds

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The General Fund is the chief operating fund of the City of Kinston. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,576,019 of which \$322,446 is designated for subsequent year's expenditures, while total fund balance was \$4,171,072. 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 8.8% of total General Fund expenditures of \$17,799,523, while total fund balance represents 23.4% of that same amount.

At June 30, 2007, the governmental funds of City of Kinston reported a combined fund balance of \$7,857,731, a 72.0% increase over last year. Included in this change in fund balance is a \$ 3.6 million increase in the fund balance of the nonmajor general fund. Contributing factor in this increase is \$3.9 million in restricted assets representing the unexpended proceeds of the interim financing loan for the new main fire station and city hall renovation project.

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

Revenues were less than the budgeted amounts in several categories. The most significant variances were in restricted intergovernmental. The variance in restricted governmental was the result of several street projects that were scheduled to be started and were to be paid for on a reimbursement basis but were not started during the year. This variance was offset by a positive variance in the public services function for the lack of expenditures related to these projects. Franchise Utilities tax revenues were up significantly over budget, which helped to offset the revenue shortfalls in many other categories.

Expenditures were managed as well, and the Town was able to comply with its budgetary requirements. Significant favorable variances (actual expenditures below the final amended budget) in several organizations are attributable to the following: Engineering and Public Services - postponing HVAC work at City Hall due to weather conditions and engineering project delays pending receipt of anticipated grant funding, Public safety - Fire and Rescue expenditures were below budget and are attributable to the timing of bank financing agreement payments, and Public Services expenditures were below budget primarily due to the timing of receipt of several capital outlay purchases.

Proprietary Funds. Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets (deficit) at the end of the year amount to \$2.28 million in the Electric fund, \$4.66 million in the Water fund, \$5.23 million in the Wastewater fund and (\$ 0.37) million in the Environmental Services fund. The Electric and Environmental Services funds experienced reductions in net assets for the funds of approximately \$ 1.0 million and \$0.22 million, respectively. These were more than offset by the growth in net assets of the Wastewater and Water Funds by approximately \$4.7 million and \$1.2 million respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the business-type activities.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2007, the City had \$118.0 million (net of accumulated depreciation) in capital assets consisting primarily of buildings, improvements other than buildings, electric, water and wastewater operating plant and infrastructure and construction in process. This amount represents a net increase of \$11.7 million, or 11.0%, over last year. The summary of capital assets at June 30, 2007 and 2006 is presented below:

City of Kinston's Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,874,515	\$ 2,874,515	\$ 878,503	\$ 878,503	\$ 3,753,018	\$ 3,753,018
Infrastructure	2,467,521	669,623	130,510	-	2,598,031	669,623
Buildings & improvements	5,645,169	6,039,315	2,542,350	2,796,915	8,187,519	8,836,230
Equipment & vehicles	1,655,728	1,489,992	1,144,181	1,238,875	2,799,909	2,728,867
Operating plant	-	-	51,094,290	51,529,338	51,094,290	51,529,338
Construction in progress	2,353,451	615,936	47,245,366	38,197,011	49,598,817	38,812,947
Total	\$ 14,996,384	\$ 11,689,381	\$ 103,035,200	\$ 94,640,642	\$ 118,031,584	\$ 106,330,023

This year's major capital asset additions included:

- Construction in process – Water Reclamation Facility - \$10.1 million
- Retroactive Infrastructure Capitalization – \$2.0 million
- Equipment and vehicles - \$ 1.32 million

More detailed information about the City's capital assets is presented in Note 6 of the basic financial statements.

Long-term Debt. At June 30, 2007, the City had \$36.3 million of debt outstanding in revenue bonds, installment purchases and revolving loans to the State of North Carolina. Details by type of debt are presented in the following table:

City of Kinston's Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Installment contracts	\$ 8,643,047	\$ 3,846,072	\$ 2,786,698	\$ 1,519,767	\$ 11,429,745	\$ 5,365,839
Revenue bonds	-	-	15,168,004	15,777,811	15,168,004	15,777,811
Notes payable	-	-	9,716,567	4,201,496	9,716,567	4,201,496
Total	<u>\$ 8,643,047</u>	<u>\$ 3,846,072</u>	<u>\$ 27,671,269</u>	<u>\$ 21,499,074</u>	<u>\$ 36,314,316</u>	<u>\$ 25,345,146</u>

The City of Kinston's total long-term debt increased by \$11.0 million (43.3%) during the fiscal year, primarily due to \$ 4.9 million interim financing loan to fund the construction portion of the new main fire station and city hall renovation project and \$ 6.1 million state revolving loan to finance the construction of the wastewater treatment plant. All scheduled debt service payments were made timely.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Kinston is \$ 87,484,367.

More detailed information about the City's long-term obligations is presented in Note 7 of the basic financial statements.

Economic Factors and Next Year's Budget and Rates

The following economic indicators impact the City's budget outlook:

- During fiscal year 2007, 11 residential and 41 nonresidential units were constructed with a value of \$12.15 million
- Retail sales during 2007 were \$374.41 million.
- The June 2007 unemployment rate was 4.9 percent compared to 5.1 percent for the state and 4.7 percent for the nation.

The following are highlights for the 2008 budgets for the governmental activities:

Property tax receipts are expected to increase \$ 258,000. Estimated sales tax revenue have increased due to an improvement in the local, State and national economies. The most significant factors negatively impacting the 2008 budget is the lack of growth within the City and surrounding area.

The General Fund initial budget for 2007-2008 decreased 3.2% from \$18.6 million (2007 adjusted adopted budget) to \$18.0 million. The decrease in the new budget is attributable to the decrease in capital spending from the prior fiscal year.

The following are highlights for the 2008 budgets for the business-type activities:

- Water rates were not increased in the 2008 budget; however the rate structure was changed to a flat consumption schedule to encourage water conservation.
- Sewer rates were not increased in the 2008 budget.
- Electric rates were not increased in the 2008 budget.
- Residential Garbage Fees were increased 16% (\$1.59) and all environmental service type fees were consolidated into one Environmental Services Fee in the 2008 budget.
- A Stormwater Fee of \$ 4.00 per month became effective July 1, 2007 (Fiscal Year 2008).

Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability. Questions concerning this report or requests for additional financial information should be directed to the Director of Finance, City of Kinston, P.O. Box 339, Kinston NC 28502.

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BASIC FINANCIAL STATEMENTS

The **Basic Financial Statements** present a condensed overview of the financial position and results of operations of the City as a whole. They also serve as an introduction to the more detailed statements and schedules that follow.

City of Kinston, North Carolina

Statement of Net Assets

June 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,875,595	\$ 6,558,723	\$ 10,434,318
Receivables:			
Due from governmental agencies	1,858,889	3,646,887	5,505,776
Accounts receivable	326,741	816,129	1,142,870
Taxes receivable	1,146,851	-	1,146,851
Customer receivables, net	-	6,411,332	6,411,332
Inventories	253,685	1,170,393	1,424,078
Restricted cash and investments	4,175,729	487,865	4,663,594
Capital assets:			
Land and construction in process	5,227,966	48,123,869	53,351,835
Other capital assets, net of depreciation	9,768,418	54,911,331	64,679,749
Total assets	26,633,874	122,126,529	148,760,403
Liabilities			
Accounts payable and accrued expenses	1,868,543	4,269,451	6,137,994
Accrued interest payable	109,193	203,807	313,000
Unearned revenue	33,749	12,908	46,657
Customer deposits	-	1,244,112	1,244,112
Long-term liabilities:			
Due within one year	1,311,277	5,873,772	7,185,049
Due in more than one year	8,835,910	22,091,025	30,926,935
Total liabilities	12,158,672	33,695,075	45,853,747
Net Assets			
Invested in capital assets, net of related debt	10,469,056	76,322,354	86,791,410
Restricted for:			
Public works	615,442	-	615,442
Perpetual care:			
Expendable	5,350	-	5,350
Nonexpendable	75,234	-	75,234
Unrestricted	3,310,120	12,109,100	15,419,220
Total net assets	\$ 14,475,202	\$ 88,431,454	\$ 102,906,656

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

Statement of Activities

For the Fiscal Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,983,777	\$ 409,650	\$ -	\$ -
Public safety	8,887,330	42,046	358,551	-
Public services	2,365,762	15,277	703,967	-
Community development	1,342,519	111,400	10,274	-
Cultural and recreation	2,851,379	866,211	-	450,960
Interest on long-term debt	226,828	-	-	-
Total governmental activities	17,657,595	1,444,584	1,072,792	450,960
Business-type activities:				
Electric	47,429,959	46,817,025	-	-
Water	3,350,291	4,977,377	-	29,738
Wastewater	4,271,411	4,618,345	-	4,237,474
Nonmajor funds	2,836,185	2,693,291	-	-
	57,887,846	59,106,038	-	4,267,212
Total primary government	\$ 75,545,441	\$ 60,550,622	\$ 1,072,792	\$ 4,718,172

General revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Unrestricted intergovernmental

Investment earnings, unrestricted

Miscellaneous, unrestricted

Transfers

Total general revenues, special items, and transfers

Change in net assets

Net assets-beginning

Prior period adjustment - see Note 15

Net assets-ending

**Net (Expense) Revenue and
Changes in Net Assets**

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (1,574,127)	\$ -	\$ (1,574,127)
(8,486,733)	-	(8,486,733)
(1,646,518)	-	(1,646,518)
(1,220,845)	-	(1,220,845)
(1,534,208)	-	(1,534,208)
(226,828)	-	(226,828)
(14,689,259)	-	(14,689,259)
-	(612,934)	(612,934)
-	1,656,824	1,656,824
-	4,584,408	4,584,408
-	(142,894)	(142,894)
-	5,485,404	5,485,404
\$ (14,689,259)	\$ 5,485,404	\$ (9,203,855)
7,455,353	-	7,455,353
3,169,463	-	3,169,463
1,916,403	-	1,916,403
341,662	-	341,662
200,033	496,310	696,343
146,222	-	146,222
1,329,736	(1,329,736)	-
14,558,872	(833,426)	13,725,446
(130,387)	4,651,978	4,521,591
12,604,838	83,779,476	96,384,314
2,000,751	-	2,000,751
\$ 14,475,202	\$ 88,431,454	\$ 102,906,656

City of Kinston, North Carolina

Balance Sheet - Governmental Funds
June 30, 2007

	Major General	Total Nonmajor Funds	Total
Assets:			
Cash and investments	\$ 3,527,026	\$ 230,530	\$ 3,757,556
Restricted cash and investments	317,614	3,858,115	4,175,729
Receivables:			
Due from government agencies	1,382,900	475,989	1,858,889
Accounts receivable	707,154	58,646	765,800
Taxes receivable	906,845	-	906,845
Inventories	85,930	-	85,930
Total assets	\$ 6,927,469	\$ 4,623,280	\$ 11,550,749
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,223,119	\$ 262,673	\$ 1,485,792
Due to other funds	-	450,020	450,020
Deferred revenue	1,499,529	223,928	1,723,457
Unearned revenue	33,749	-	33,749
Total liabilities	2,756,397	936,621	3,693,018
Fund balances:			
Reserved for Powell Bill	615,442	-	615,442
Reserved for restricted assets	317,614	3,858,115	4,175,729
Reserved for inventories	85,930	-	85,930
Reserved by State statute	1,497,370	310,707	1,808,077
Reserved for encumbrances	78,697	-	78,697
Unreserved:			
Designated for subsequent year's expenditures	322,446	-	322,446
Undesignated, reported in			
General Fund	1,253,573	-	1,253,573
Permanent Fund	-	80,584	80,584
Special Revenue Funds	-	102,534	102,534
Capital Project Funds	-	(665,281)	(665,281)
Total fund balances	4,171,072	3,686,659	7,857,731
Total liabilities and fund balances	\$ 6,927,469	\$ 4,623,280	\$ 11,550,749

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

Reconciliation of the Governmental Funds Balance Sheet to Net Assets of
Governmental Activities in the Statement of Net Assets

June 30, 2007

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

Total fund balances for governmental funds	\$ 7,857,731
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds	14,996,384
Less adjustment for assets attributable to internal service fund	(29,760)
Other long-term assets are not available to liquidate current-period expenditures and therefore are:	
Deferred revenue	1,244,556
Accrued interest on property taxes, Statement of Net Assets	240,006
Internal service fund is used to charge the cost of general insurance and worker's compensation to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Assets	383,172
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(10,147,187)
Less adjustment for accrued compensated absences attributable to internal service fund	39,493
Accrued interest payable on long-term liabilities not recorded in the fund statements	(109,193)
Net assets of governmental activities	<u>\$ 14,475,202</u>

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

Statement of Revenue, Expenditures and Changes in Fund Balance

Governmental Funds

For the Fiscal Year Ended June 30, 2007

	Major General Fund	Total Non-Major Funds	Totals
Revenue:			
Ad valorem taxes	\$ 7,479,685	\$ -	\$ 7,479,685
Sales and services	1,444,584	-	1,444,584
Other taxes	5,085,866	-	5,085,866
Intergovernmental revenue:			
Unrestricted	341,662	-	341,662
Restricted	942,334	369,081	1,311,415
Other	468,302	78,280	546,582
Total revenue	15,762,433	447,361	16,209,794
Expenditures:			
Current:			
General government	1,960,260	-	1,960,260
Public safety	8,504,369	1,382,459	9,886,828
Public services	2,134,327	-	2,134,327
Parks and recreation	2,915,945	509,625	3,425,570
Community development	1,254,806	8,374	1,263,180
Debt service:			
Principal	870,910	-	870,910
Interest	158,906	-	158,906
Total expenditures	17,799,523	1,900,458	19,699,981
Revenue under expenditures	(2,037,090)	(1,453,097)	(3,490,187)
Other financing sources (uses):			
Transfers in	1,265,879	42,000	1,307,879
Transfers out	(177,864)	(19,713)	(197,577)
Debt issued	681,885	4,986,000	5,667,885
Total other financing sources (uses)	1,769,900	5,008,287	6,778,187
Net change in fund balances	(267,190)	3,555,190	3,288,000
Fund balances, beginning	4,438,262	131,469	4,569,731
Fund balances, ending	\$ 4,171,072	\$ 3,686,659	\$ 7,857,731

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Statement of Activities of Governmental Activities
For the Fiscal Year Ended June 30, 2007**

Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balances, total governmental funds	\$ 3,288,000
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:	
Increase in purchased capital assets	2,664,302
Depreciation expense	(1,141,362)
Adjustment for internal service fund depreciation	7,085
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to decrease net assets:	
Loss on sale of capital assets	(231,328)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Decrease in deferred special assessment revenue	(11,591)
Decrease in deferred property tax revenue	(24,332)
Increase in deferred grant revenue	223,928
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:	
Additions to long-term liabilities	(6,229,089)
Retirement of long-term liabilities	1,355,666
Adjustment for internal service fund change in accrued compensated absences payable	3,317
Internal service funds are used to charge the costs of general and workman's compensation insurance to individual funds. The net income of certain activities of the internal service funds are reported with governmental activities	
	32,939
Some expense reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	
	(67,922)
Total changes in net assets of governmental activities	<u>\$ (130,387)</u>

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

General Fund Annually Budgeted Major Fund

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2007

	General Fund Budget, Original	General Fund Budget, Final	General Fund, Actual	Variance with Final Budget
Revenue:				
Ad valorem taxes	\$ 7,523,500	\$ 7,523,500	\$ 7,479,685	\$ (43,815)
Sales and services	1,463,589	1,495,722	1,444,584	(51,138)
Other taxes	4,879,000	4,927,600	5,085,866	158,266
Intergovernmental revenue:				
Unrestricted	402,683	373,683	341,662	(32,021)
Restricted	886,000	1,031,694	942,334	(89,360)
Other	261,500	468,961	468,302	(659)
Total revenue	15,416,272	15,821,160	15,762,433	(58,727)
Expenditures:				
Current:				
General government	2,020,282	2,255,760	1,960,260	295,500
Public safety	9,174,506	9,310,967	9,112,344	198,623
Public services	2,266,142	2,429,568	2,198,992	230,576
Parks and recreation	2,964,882	3,273,175	3,273,121	54
Community development	972,467	1,353,738	1,254,806	98,932
Total expenditures	17,398,279	18,623,208	17,799,523	823,685
Revenue over (under) expenditures	(1,982,007)	(2,802,048)	(2,037,090)	764,958
Other financing source (uses):				
Appropriated fund balance	400,000	898,875	-	(898,875)
Transfers in	992,871	1,356,037	1,265,879	(90,158)
Transfers out	(135,864)	(177,864)	(177,864)	-
Proceeds from borrowing	725,000	725,000	681,885	(43,115)
Total other financing sources	1,982,007	2,802,048	1,769,900	(1,032,148)
Revenue and other financing sources under expenditures and other financing uses	\$ -	\$ -	(267,190)	\$ (267,190)
Fund balances, beginning			4,438,262	
Fund balances, ending			<u>\$ 4,171,072</u>	

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

Proprietary Funds
Statement of Net Assets
June 30, 2007

Assets	Enterprise Funds					Internal Service Funds
	Electric Fund	Water Fund	Wastewater Fund	Nonmajor Fund	Totals	
Current Assets						
Cash and investments	\$ 1,156,562	\$ 3,857,912	\$ 1,105,227	\$ -	\$ 6,119,701	\$ 557,061
Due from other funds	-	88,662	-	-	88,662	450,020
Due from government agencies	-	-	3,646,887	-	3,646,887	-
Accounts receivable	444,074	135,974	215,332	17,230	812,610	43,361
Customer receivables, net	5,051,811	582,899	462,285	314,337	6,411,332	-
Inventories	916,938	253,455	-	-	1,170,393	167,755
Total current assets	7,569,385	4,918,902	5,429,731	331,567	18,249,585	1,218,197
Noncurrent Assets						
Restricted assets	-	221,731	16,776	249,358	487,865	-
Capital assets:						
Land	202,380	66,605	609,518	-	878,503	-
Buildings	3,671,890	577,040	2,999,973	-	7,248,903	19,468
Distribution system	32,206,030	14,716,664	36,316,039	-	83,238,733	-
Equipment	1,622,632	1,872,766	1,702,179	2,880,058	8,077,635	321,984
Accumulated depreciation	(18,009,633)	(9,299,257)	(13,891,310)	(2,460,961)	(43,661,161)	(304,471)
Construction in progress	69,242	-	47,176,124	-	47,245,366	-
Total noncurrent assets	19,762,541	8,155,549	74,929,299	668,455	103,515,844	36,981
Total assets	27,331,926	13,074,451	80,359,030	1,000,022	121,765,429	1,255,178
Liabilities						
Current Liabilities						
Accounts payable and accrued liabilities	3,968,313	180,998	151,307	99,064	4,399,682	456,327
Current portion of long-term debt	463,640	182,470	4,874,977	252,685	5,773,772	-
Due to other funds	-	-	-	88,662	88,662	-
Unearned revenue	-	12,908	-	-	12,908	-
Total current liabilities	4,431,953	376,376	5,026,284	440,411	10,275,024	456,327
Noncurrent Liabilities						
Customer deposits	1,244,112	-	-	-	1,244,112	-
Accrued compensated absences	74,361	62,382	46,214	44,812	227,769	105,252
Long-term debt	6,360,972	2,348,450	12,564,986	623,089	21,897,497	-
Total noncurrent liabilities	7,679,445	2,410,832	12,611,200	667,901	23,369,378	105,252
Total liabilities	12,111,398	2,787,208	17,637,484	1,108,312	33,644,402	561,579
Net Assets (Deficit)						
Invested in capital assets, net of related debt	12,937,929	5,624,629	57,489,336	263,239	76,315,133	36,981
Unrestricted	2,282,599	4,662,614	5,232,210	(371,529)	11,805,894	656,618
Total net assets (deficit)	\$ 15,220,528	\$ 10,287,243	\$ 62,721,546	\$ (108,290)	88,121,027	\$ 693,599
Adjustment to reflect the consolidation of the Public Services Admin Internal Service Fund activities related to Enterprise Funds.					310,427	
See Notes to Basic Financial Statements.					<u>\$ 88,431,454</u>	

City of Kinston, North Carolina

Proprietary Funds

Statements of Revenue, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2007

	Enterprise Funds					Internal Service
	Electric Fund	Water Fund	Wastewater Fund	Nonmajor Fund	Total	Fund
Operating revenue:						
Charges for services	\$ 46,326,337	\$ 4,850,263	\$ 4,591,636	\$ 2,680,787	\$ 58,449,023	\$ 2,706,374
Other	490,688	127,114	26,709	12,504	657,015	31,000
Total operating revenue	46,817,025	4,977,377	4,618,345	2,693,291	59,106,038	2,737,374
Operating expenses:						
Administration	-	-	-	-	-	1,349,463
Public service operations	-	-	-	-	-	897,575
Warehouse operations	-	-	-	-	-	431,555
Electrical operations	46,366,152	-	-	-	46,366,152	-
Environmental services	-	-	-	2,669,040	2,669,040	-
Water production	-	1,215,691	-	-	1,215,691	-
Depreciation	804,191	439,230	1,249,066	161,794	2,654,281	8,890
Amortization	-	-	-	-	-	-
Wastewater collection	-	-	1,078,369	-	1,078,369	-
Water operations	-	1,613,303	-	-	1,613,303	-
Wastewater plant operations	-	-	1,584,151	-	1,584,151	-
Claims reimbursement	-	-	-	-	-	198,457
Total operating expenses	47,170,343	3,268,224	3,911,586	2,830,834	57,180,987	2,885,940
Operating income	(353,318)	1,709,153	706,759	(137,543)	1,925,051	(148,566)
Nonoperating revenue (expenses):						
Interest earned on investments	108,528	65,568	322,212	-	496,308	20,781
Loss on disposal of assets	-	-	(69,852)	-	(69,852)	-
Interest on long-term debt	(274,293)	(96,744)	(304,650)	(20,028)	(695,715)	-
Total nonoperating expense	(165,765)	(31,176)	(52,290)	(20,028)	(269,259)	20,781
Capital contributions	29,738	-	4,237,474	-	4,267,212	-
Income before transfers	(489,345)	1,677,977	4,891,943	(157,571)	5,923,004	(127,785)
Transfers:						
Transfers in	360,900	14,458	806	2,056	378,220	273,214
Transfers out	(864,187)	(477,841)	(243,576)	(66,532)	(1,652,136)	(109,600)
Total transfers	(503,287)	(463,383)	(242,770)	(64,476)	(1,273,916)	163,614
Net income (loss)	(992,632)	1,214,594	4,649,173	(222,047)	4,649,088	35,829
Net assets, beginning	16,213,160	9,072,649	58,072,373	113,757		657,770
Net assets (deficit), ending	\$ 15,220,528	\$ 10,287,243	\$ 62,721,546	\$ (108,290)		\$ 693,599
Adjustment to reflect the consolidation of the Public Services Admin					2,890	
Internal Service Fund activities related to Enterprise Funds.					\$ 4,651,978	

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

Proprietary Funds
Combined Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

	Enterprise Funds					Internal Service Funds
	Electric Fund	Water Fund	Wastewater Fund	Nonmajor Enterprise Fund	Total	
Cash Flows From Operating Activities						
Cash received from customers	\$ 47,238,441	\$ 4,958,329	\$ 4,666,980	\$ 2,687,233	\$ 59,550,983	\$ 2,724,498
Cash paid to suppliers for goods and services	(44,995,471)	(1,705,471)	(1,223,152)	(1,744,363)	(49,668,457)	(1,270,982)
Cash paid to employees	(1,139,426)	(1,133,432)	(634,939)	(950,420)	(3,858,217)	(1,569,138)
Customer deposits	79,606	-	-	-	79,606	-
Net cash provided by (used in) for operating activities	1,183,150	2,119,426	2,808,889	(7,550)	6,103,915	(115,622)
Cash Flows From Noncapital Financing Activities						
Transfers from other funds	360,900	14,458	806	2,056	378,220	275,971
Transfers to other funds	(864,187)	(477,841)	(243,576)	(66,532)	(1,652,136)	(112,357)
Advances from other funds	-	-	(2,484,189)	88,662	(2,395,527)	96,313
Advances to other funds	-	2,395,527	-	-	2,395,527	(359,658)
Net cash provided by (used in) noncapital financing activities	(503,287)	1,932,144	(2,726,959)	24,186	(1,273,916)	(99,731)
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(195,454)	(238,394)	(10,550,089)	(127,534)	(11,111,471)	(23,665)
Proceeds from long-term debt	1,150,000	218,960	11,716,733	467,440	13,553,133	-
Principal paid on general obligation bond maturities and equipment contracts	(375,250)	(152,919)	(6,563,637)	(289,132)	(7,380,938)	-
Interest paid on bonded indebtedness and equipment contracts	(258,719)	(96,471)	(307,211)	(19,839)	(682,240)	-
Contributed capital	29,738	-	6,422,065	-	6,451,803	-
Net cash provided by (used in) capital and related financing activities	350,315	(268,824)	717,861	30,935	830,287	(23,665)
Cash Flows Provided By Investing Activities						
Interest on investments	108,528	65,568	322,212	-	496,308	20,781
Net increase (decrease) in cash and cash equivalents	1,138,706	3,848,314	1,122,003	47,571	6,156,594	(218,237)
Cash and cash equivalents, beginning	17,856	231,329	-	201,787	450,972	775,298
Cash and cash equivalents, ending	\$ 1,156,562	\$ 4,079,643	\$ 1,122,003	\$ 249,358	\$ 6,607,566	\$ 557,061

(Continued)

City of Kinston, North Carolina

Proprietary Funds
Combined Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2007

	Enterprise Funds					Internal Service Funds
	Electric Fund	Water Fund	Wastewater Fund	Nonmajor Enterprise Fund	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In)						
Operating Activities						
Operating income (loss)	\$ (353,318)	\$ 1,709,153	\$ 706,759	\$ (137,543)	\$ 1,925,051	\$ (148,566)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	804,191	439,230	1,249,066	161,794	2,654,281	8,890
Change in assets and liabilities:						
Customer receivables	421,416	(19,048)	48,635	(6,058)	444,945	-
Accounts receivable	40,471	185,778	979,899	(15,474)	1,190,674	(12,877)
Customer deposits	79,606	-	-	-	79,606	-
Inventories	(66,818)	9,343	-	-	(57,475)	(20,138)
Accounts payable	258,454	(202,322)	(175,787)	(6,702)	(126,357)	52,769
Accrued compensated absences	(852)	(2,708)	317	(3,567)	(6,810)	4,300
Net cash provided by (used in) operating activities	\$ 1,183,150	\$ 2,119,426	\$ 2,808,889	\$ (7,550)	\$ 6,103,915	\$ (115,622)

See Notes to Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Kinston (the "City") was incorporated in 1762 and operates under a Council-Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, water and sewer, electric, planning and zoning, recreation, and general administrative services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City of Kinston is a municipal corporation which is governed by an elected mayor and a five-member council.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Statement No. 14, *The Financial Reporting Entity*, have been considered and the City has one blended component unit, which is described below. Blended component units, although legally separate entities are, in substance, part of the government's operations, thus data from these units are combined with the data of the primary government.

Blended Component Unit. Kinston Leasing Corporation ("KLC") is a nonprofit public benefit corporation organized and operated under the laws of the State of North Carolina. KLC was specifically organized for the purpose of assisting the City in carrying out its municipal and governmental functions through the acquisition, construction and operation, sale or lease of real estate and improvements, facilities and equipment. Because of its specific purpose and its fiscal dependency on the City, all KLC transactions are included in the appropriate funds of the City. KLC is governed by a board of three directors. One third of the directors are appointed by the City Council. The remaining directors are elected by the Board of Directors at their annual meeting.

Basis of Presentation

Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the proprietary functions and various other functions of the government. Governmental activities, which normally are supported by taxes, intergovernmental revenue and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Statement of Activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable to a specific segment or function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly classified as program revenue are reported as general revenue.

Separate Fund Financial Statements are provided for the governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the Fund Financial Statements. All remaining governmental and enterprise funds are aggregated by fund category and reported as non-major funds.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures (expenses). Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Proprietary fund operating revenue, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenue, such as subsidies and investment earnings, results from non-exchange transactions or ancillary activities.

Governmental Funds are used to account for the City's general governmental activities. The City reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, sales taxes and state-shared revenue. The primary expenditures are for public safety, public services, parks and recreation, planning and community economic development and general government services.

The City reports the following non-major governmental funds:

Special Revenue Funds – The Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The City has 14 special revenue funds, the individual descriptions of which are disclosed in the supplemental non-major fund-types section.

Capital Project Funds – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The City has 7 capital project funds, the individual descriptions of which are disclosed in the supplemental non-major fund-types section.

Permanent Fund accounts for the assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City has one permanent fund, the Temple Israel Perpetual Care Fund, that is used to account for unexpendable principal funds, the revenue from which is used to maintain the Temple Israel's cemetery grounds.

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary Funds include the following major funds:

Electric Enterprise Fund - The Electric Enterprise Fund accounts for the electric activities of the City. The primary revenue consists of user charges for services. The primary expenses are for purchase, transmission and distribution of electrical power to the City's customers. The Electric Capital Project Fund is consolidated with the Electric Enterprise Fund (the operating fund) for financial reporting purposes.

Water Enterprise Fund - The Water Enterprise Fund accounts for the water activities of the City. The primary revenue consists of user charges for services. The primary expenses are for pumping and distribution of water to the City's customers. The Water Capital Project Fund and Water Capital Reserve Fund are consolidated with the Water Enterprise Fund (the operating fund) for financial reporting purposes.

Wastewater Enterprise Fund - The Wastewater Enterprise Fund accounts for the sewer activities of the City. The primary revenue consists of user charges for services. The primary expenses are for treatment and collection of sewer for the City's customers. The Wastewater Capital Project Fund is consolidated with the Wastewater Enterprise Fund (the operating fund) for financial reporting purposes.

The City reports the following non-major enterprise fund:

Environmental Services Fund - The Environmental Services Enterprise Fund accounts for the sanitation collection and disposal activities of the City. The primary revenue consists of user charges for services. The primary expenses are for collection and disposal of solid waste for the City's customers.

Additionally, the government reports the following fund types:

Internal Service Funds - The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, on a cost-reimbursement basis. City of Kinston has four internal service funds, the Workers' Compensation Insurance Fund, the Fleet Maintenance Fund, the Warehouse Inventory Fund and the Public Services Fund. The Workers' Compensation Fund is used to account for the City's decision to finance workers' compensation insurance coverage internally rather than through a private insurance carrier because of anticipated cost savings. The Fleet Maintenance Fund is used to account for the accumulation and allocation of costs associated with the City's central garage. The Warehouse Inventory Fund is used to account for the purchases of fuel and fleet maintenance inventory. The Public Services Fund is used to account for the accumulation and allocation of costs associated with the management of utility and engineering services and also utility billing and customer service. The Workers' Compensation, Fleet Maintenance and Warehouse Inventory Internal Service Funds are accounted for in the governmental activities in the government-wide financial statements and the individual fund data is provided in the Internal Service Fund Section of the report. The Public Services Fund is accounted for in the business-type activities in the government-wide financial statements and the individual fund data is provided in the Internal Service Fund Section of the report.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund Financial Statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes are recognized as revenue in the year in which they are levied. Revenue from grants and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenue is recognized as soon as they are both measurable and available. Revenue is considered available when it is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenue to be available if it is collected within 90 days of the end of the current fiscal period, except for property taxes. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest from 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 the governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The City considers all revenue available if it is collected within 90 days after year end, except property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Therefore, the net receivable amount is offset by a deferred revenue. Lenoir County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Kinston. 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 City's vehicle taxes for vehicles registered in Lenoir County from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes that were billed during this period are shown as a receivable in these statements and are offset by deferred revenues. In addition, as of January 1, 2006 State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the annual to the staggered registration, the initial 2006 registrations renewals varied from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2007 because they are intended to finance the City's operations during the 2006-2007 fiscal year.

Sales taxes and certain intergovernmental revenue, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Certain other intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenue. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants and then by general revenue.

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Receivables for un-billed Electric and Water and Sewer Fund utility services are recorded at year-end. As permitted by GAAP, the City has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations to the extent those standards do not conflict with or contradict guidance of the GASB.

The City reports deferred revenue on its balance sheet for governmental funds. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet for governmental funds and revenue is recognized.

Budgetary Data

Budgets are adopted on the legally mandated modified accrual basis of accounting, which is consistent with generally accepted accounting principles for governmental fund types and which is required by the North Carolina General Statutes. Annual appropriated budgets are adopted for the general fund, the community development administration special revenue fund and all proprietary operating funds. All annual appropriations lapse at fiscal year-end. Project length budgets are adopted for all other special revenue funds and all capital projects funds and appropriations therein lapse at the completion of the project.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized. Encumbrances outstanding at year-end are reported as reservations of fund balances in governmental fund types since they do not constitute expenditures or liabilities as the commitments will be honored during the subsequent year.

Also as required by State law, the City's Workers' Compensation Fund, Fleet Maintenance Fund, Warehouse Inventory Fund and Public Services Fund (internal service funds) operate under financial plans that were adopted by the governing board at the time the City's budget ordinance was approved. The financial plans also were entered into the minutes of the governing board. During the year, several changes to the original financial plans were necessary, the effects of which were not material.

Cash and Investments

Cash and investment resources of the individual funds are combined to form a pool of cash and investments in order to maximize investment opportunities. As part of the City's investment policy, all available cash is invested each night to generate investments earnings. Although this results in a negative cash on deposit per books, the City, per agreement with a financial institution, is alerted to and pays all checks presented for payment the following day.

Cash pools have the general characteristic of demand deposit accounts in that the individual funds may deposit additional cash at any time and also effectively withdraw cash at any time without prior notice or penalty. Interest income earned on pooled resources is distributed to the individual funds utilizing a formula based on each fund's proportionate equity in pooled cash and investments. Restricted cash amounts are not pooled.

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Deposits permitted under North Carolina General Statutes include amounts in demand deposits as well as time deposits in the form of NOW, SuperNOW, money market accounts and certificates of deposit. By Statute, deposits may be made in any bank or savings association whose principal office is located in North Carolina and whom the City designates as an official depository.

North Carolina General Statutes [G.S. 159-30(c)] authorize the City to invest in obligations of the US 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; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC registered (2a-7) money market mutual fund.

Any City 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. The NCCMT Cash Portfolio's securities are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

Ad Valorem Taxes Receivable

Property (other than registered motor vehicles) is assessed for tax purposes as of January 1. The value at that date determines the basis for the tax levy for the fiscal year beginning July 1. In accordance with State laws [G.S. 105-347 and G.S. 159-13(a)] property taxes are not formally levied until the budget adoption (July 1) and are not due until September 1 (lien date). Taxes are past due on the following January 6. By the following June 30, taxes receivable are delinquent and are not considered a resource to finance current year operations and are recorded as deferred revenue until collected.

Registered motor vehicles taxes are described elsewhere in Note 1.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible amounts 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.

Inventories

Inventories in governmental funds are reported at cost, using the first-in/first-out (FIFO) method, which approximates market. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. The amount is recorded as an asset, offset by a reservation of fund balance in an equal amount. Inventories of Enterprise Funds are reported at the lower of cost using the FIFO method, or market. The inventories consist of various items used in the maintenance of existing utility systems and expansion of new systems. Depending on the eventual use of these inventories, these items may be expensed in the future as maintenance of existing systems or capitalized as a part of the development of new systems.

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Restricted Cash and Investments

Certain debt proceeds, as well as certain resources set aside for the repayment of debt, are classified as restricted assets on the combined balance sheet because their use is limited by the applicable legal agreements.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (short-term interfund loans) or "advances to/from other funds" (long-term interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-wide Financial Statements as "internal balances".

Advances between funds, as reported in the Fund Financial Statements, are offset by a fund balance reserve account in the applicable governmental fund to indicate that they are not available for the appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g. roads, bridges, traffic signals and other similar items), are reported in the applicable governmental or business-type activities columns in the Government-wide Financial Statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 for equipment, vehicles, buildings and other improvements and \$100,000 for infrastructure and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. General infrastructure assets acquired prior to July 1, 2003, consist of road networks that were acquired or received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. 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.

Costs associated with construction in progress are recorded in their respective capital asset category upon approval by the City Council, which approximates the completion date.

It is the City's policy not to provide for depreciation in the first year of service, but to take a full year's depreciation in the year of disposal. Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. The following estimated useful lives are used to compute depreciation:

	Estimated Useful Lives
Building and improvements	40 years
Collection and distribution systems	25 - 40 years
Equipment	3 - 15 years
Infrastructure	20 years

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Upon termination of employment, accumulated sick leave is forfeited. Upon retirement, a certain portion of accumulated sick leave may be used in the determination of length of service for retirement benefit purposes. No obligation of the employer results from such application and, therefore, no accrual has been made.

The vacation policy of the City provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences, and the salary related payments, are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of the accumulated vacation pay that is estimated to be used within the next fiscal year has been designated as a current liability in the Government-wide Financial Statements.

Long-Term Obligations

In the Government-wide Financial Statements and proprietary fund types in the Fund Financial Statements, long-term debt and other long-term liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs and deferred refunding costs are reported as deferred charges and amortized over the term of the related debt. The unamortized portion of the difference between the reacquisition price and the net carrying value of the old bonds is deferred and amortized over the shorter of the life of the new bonds or the remaining life of the old bonds. The unamortized charge is reported as a deduction from long-term debt.

In the Fund Financial Statements, governmental fund types recognize bond premiums, discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balances

In the 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.

North Carolina General Statutes [G.S. 159-13(b)(16)] restrict appropriation of fund balances to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenue arising from cash receipts as these amounts stand at the close of the fiscal year preceding the budget year.

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 statutes.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for Powell Bill – represents the portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserve for restricted assets – represents the portion of fund balance which is restricted for use by third party agreements or installment purchase agreements.

Reserved for inventories - represents the total amount of inventories in the General Fund.

Reserved by State statute - in certain governmental funds, a portion of fund balance is thus designated as these amounts represent the portion of fund balances applicable to various assets not yet realized in cash, which are not available for appropriation as defined by North Carolina General Statute.

Reserved for encumbrances - represents the portion of fund balance of the General Fund available for appropriation to pay for commitments related to unperformed contracts.

Unreserved:

Designated for subsequent year's expenditures - represents the amount of fund balance that is available for appropriation that has been adopted for the 2007 - 2008 budget ordinance.

Undesignated - represents the amount of fund balance which is available for future appropriations.

Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Statement of Cash Flows

For purposes of reporting cash flows, the City considers all of its deposits in the pool (including restricted cash) to be cash equivalents. Proprietary fund highly liquid debt investments outside the pool are considered cash equivalents if purchased with an original maturity of three months or less.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 2. Stewardship, Compliance and Accountability

Budget

On or before March 15 of each year, all departments of the City submit requests for appropriation to the City's Budget Officer so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

After City Manager review, the City Manager's proposed budget is presented during May to the City Council for review. The City Council holds public hearings and may add to, subtract from, or change appropriations.

Expenditures may not legally exceed appropriations at the functional level in the General Fund and/or department level for all other annually budgeted funds and at the object total level for all project funds. Any revisions that alter total expenditures of any department must be approved by City Council. The City Council has the authority to amend the budget as they deem appropriate during the year to reflect the economic circumstances of the City. During the year several amendments to the original general fund budget were necessary, the effects of which were not material.

A budget calendar is included in State law that prescribes the last day on which certain steps of the budget procedures are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30 Each department head will transmit to the budget officer the departmental budget requests and revenue estimates for the budget year.

June 1 The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time.

July 1 The budget ordinance shall be adopted by the governing board.

Deficit in Fund Balance or Net Assets of Individual Funds

The City has fund balance deficits in individual funds at June 30, 2007 as follows:

Nor-Major Governmental Funds		
2004 LLEBG	\$	34
Fairfield Renovation		41,029
CWMTF Flood Buy-out		182,898
Internal Service Fund:		
Warehouse		283,217
Non-Major Enterprise Fund		
Environmental Services Fund		108,290

These deficits are expected to be funded by grant revenue and other financing sources.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 2. Stewardship, Compliance and Accountability (Continued)

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2007, the expenditures made in the City's Fleet Maintenance Fund exceeded authorized appropriations made by the governing board by \$21,115. The over-expenditure occurred because of lower than expected salary allocations to cost of sales related to repair of motor vehicles. The City will closely monitor these activities in the future to ensure that expenditures will be properly authorized.

Note 3. Cash and Investments

Total cash and investments per the total column of the Government-wide Statement of Net Assets reconciles to the total cash and investments as follows:

Petty cash	\$ 4,500
Cash on deposit	6,314,736
Investments	8,778,676
Cash and investments	<u>\$ 15,097,912</u>
Statement of net assets reconciliation:	
Cash and investments	\$ 10,434,318
Restricted cash and investments	4,663,594
	<u>\$ 15,097,912</u>

Deposits

At year end, the carrying amount of the City's deposits was \$6,314,736 and the bank balance was \$7,606,361. Under North Carolina General Statutes, depositories must collateralize public deposits in excess of federal depository insurance coverage by using one of two methods. Under the Dedicated Method, a separate escrow account is established by each depository in the name of each local unit, and the responsibility of monitoring collateralization rests with the local unit. Under the Pooling Method, which is a collateral pool, each depository establishes an escrow account in the name of the State Treasurer to secure all its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agent in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City 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 depository that collateralizes public deposits under the Pooling Method. The City has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 3. Cash and Investments (Continued)

At year end, the City has deposits in banks using the pooling method. Of the City's bank balances, \$423,460 was covered by federal depository insurance and \$7,182,901 was covered by collateral held by the State Treasurer under the pooling method on behalf of the City.

Investments

At June 30, 2007, the City had \$8,778,676 in investments invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAm by Standard and Poor's. The City has no formal policy regarding credit risk, interest rate risk, concentration of credit risk or custodial credit risk of its investments.

Note 4. Interfund Transactions and Balances

The following is a detailed schedule of interfund transfers for the year ended June 30, 2007:

Transfers In	Transfers Out							Totals
	Major General Fund	Major Electric Fund	Major Water Fund	Major Wastewater Fund	Non-Major Enterprise Fund	Non-Major Governmental Funds	Internal Service Funds	
Major General Fund	\$ -	\$ 833,190	\$ 348,563	\$ 13,413	\$ -	\$ 19,713	\$ 51,000	\$ 1,265,879
Major Electric Fund	-	-	100,000	200,000	2,300	-	58,600	360,900
Major Water Fund	-	-	-	14,458	-	-	-	14,458
Major Wastewater Fund	-	-	806	-	-	-	-	806
Non-major Governmental Funds	42,000	-	-	-	-	-	-	42,000
Non-major Enterprise Funds	-	-	-	2,056	-	-	-	2,056
Internal Service Funds	135,864	30,997	28,472	13,649	64,232	-	-	273,214
Total	\$ 177,864	\$ 864,187	\$ 477,841	\$ 243,576	\$ 66,532	\$ 19,713	\$ 109,600	\$ 1,959,313

Transfers out from the General Fund to the non-major governmental funds were to satisfy matching requirements for grants. Transfers from all funds to the Internal Service Funds were for shortfalls in Internal Service Fund charges for services. Transfers out from the Electric Fund to the General Fund were made to pay non-allocable administrative expenditures in the receiving fund related to the management of the transferring fund. The transfer from the Water Fund to the Wastewater Fund was funding of capital projects. Transfers from the Non-Major Governmental Funds to General Fund was for fund close outs of special revenue funds. All other transfers were for the payment of a salary study undertaken by the City and whose cost had been allocated to various departments and funds.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 5. Allowance For Uncollectible Accounts

The amounts presented in the statement of net assets for customer receivables are net of the following allowances for estimated uncollectible accounts:

Enterprise Funds:	
Electric Fund	\$ 604,345
Water Fund	80,651
Wastewater Fund	69,758
Nonmajor Enterprise Fund	49,131
	<u>\$ 803,885</u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,874,515	\$ -	\$ -	\$ 2,874,515
Construction in progress	615,936	1,760,835	(23,320)	2,353,451
Total capital assets not being depreciated	<u>3,490,451</u>	<u>1,760,835</u>	<u>(23,320)</u>	<u>5,227,966</u>
Capital assets being depreciated:				
Buildings and improvements	9,624,416	40,716	(319,072)	9,346,060
Equipment	2,830,858	565,032	(134,360)	3,261,530
Vehicles	6,874,733	302,844	(546,467)	6,631,110
Infrastructure	818,042	4,507,022	-	5,325,064
Total capital assets being depreciated	<u>20,148,049</u>	<u>5,415,614</u>	<u>(999,899)</u>	<u>24,563,764</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,585,101)	(203,534)	87,744	(3,700,891)
Equipment	(2,476,563)	(265,242)	134,360	(2,607,445)
Vehicles	(5,739,036)	(436,898)	546,467	(5,629,467)
Infrastructure	(148,419)	(2,709,124)	-	(2,857,543)
Total accumulated depreciation	<u>(11,949,119)</u>	<u>(3,614,798)</u>	<u>768,571</u>	<u>(14,795,346)</u>
Total capital assets being depreciated, net	<u>8,198,930</u>			<u>9,768,418</u>
Governmental activity capital assets, net	<u>\$ 11,689,381</u>			<u>\$ 14,996,384</u>

The City had \$3,333,163 in construction commitments for the purpose of construction of a new fire station and renovations to the old station to create offices for public safety.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Electric Fund:				
Capital assets not being depreciated:				
Land	\$ 202,380	\$ -	\$ -	\$ 202,380
Construction in progress	1,175,366	69,242	(1,175,366)	69,242
Total capital assets not being depreciated	1,377,746	69,242	(1,175,366)	271,622
Capital assets being depreciated:				
Buildings and improvements	3,671,890	-	-	3,671,890
Equipment	421,329	55,298	(9,229)	467,398
Vehicles	1,113,118	70,260	(28,144)	1,155,234
Distribution system	31,030,011	1,176,019	-	32,206,030
Total capital assets being depreciated	36,236,348	1,301,577	(37,373)	37,500,552
Less accumulated depreciation for:				
Buildings and improvements	(2,124,319)	(91,797)	-	(2,216,116)
Equipment	(381,717)	(27,988)	9,229	(400,476)
Vehicles	(1,031,123)	(35,652)	28,144	(1,038,631)
Distribution system	(13,705,656)	(648,754)	-	(14,354,410)
Total accumulated depreciation	(17,242,815)	(804,191)	37,373	(18,009,633)
Total capital assets being depreciated, net	18,993,533			19,490,919
Electric fund capital assets, net	20,371,279			19,762,541
Water Fund:				
Capital assets not being depreciated:				
Land	66,605	-	-	66,605
Construction in progress	281,810	-	(281,810)	-
Total capital assets not being depreciated	348,415	-	(281,810)	66,605
Capital assets being depreciated:				
Buildings and improvements	577,040	-	-	577,040
Equipment	645,036	113,700	(102,221)	656,515
Vehicles	1,232,500	117,701	(133,950)	1,216,251
Distribution system	14,412,266	304,398	-	14,716,664
Total capital assets being depreciated	16,866,842	535,799	(236,171)	17,166,470

(Continued)

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation for:				
Buildings and improvements	(525,494)	(16,045)	-	(541,539)
Equipment	(630,948)	(27,558)	102,221	(556,285)
Vehicles	(1,167,554)	(55,628)	133,950	(1,089,232)
Distribution system	(6,756,608)	(355,593)	-	(7,112,201)
Total accumulated depreciation	(9,080,604)	(454,824)	236,171	(9,299,257)
Total capital assets being depreciated, net	7,786,238			7,867,213
Water fund capital assets, net	8,134,653			7,933,818
Wastewater Fund:				
Capital assets not being depreciated:				
Land	609,518	-	-	609,518
Construction in progress	36,739,835	10,436,289	-	47,176,124
Total capital assets not being depreciated	37,349,353	10,436,289	-	47,785,642
Capital assets being depreciated:				
Buildings and improvements	3,759,351	-	(759,378)	2,999,973
Equipment	1,440,069	-	-	1,440,069
Vehicles	189,704	86,000	(13,594)	262,110
Distribution system	36,201,979	114,060	-	36,316,039
Total capital assets being depreciated	41,591,103	200,060	(772,972)	41,018,191
Less accumulated depreciation for:				
Buildings and improvements	(2,561,553)	(76,610)	689,265	(1,948,898)
Equipment	(855,191)	(277,789)	-	(1,132,980)
Vehicles	(189,704)	(86,000)	13,594	(262,110)
Distribution system	(9,652,655)	(894,667)	-	(10,547,322)
Total accumulated depreciation	(13,259,103)	(1,335,066)	702,859	(13,891,310)
Total capital assets being depreciated, net	28,332,000			27,126,881
Wastewater fund capital assets, net	65,681,353			74,912,523

(Continued)

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Environmental Services Fund:				
Capital assets being depreciated:				
Equipment	446,542	-	-	446,542
Vehicles	2,648,232	127,534	(342,250)	2,433,516
Total capital assets being depreciated	3,094,774	127,534	(342,250)	2,880,058
Less accumulated depreciation for:				
Equipment	(434,190)	(6,177)	-	(440,367)
Vehicles	(2,207,227)	(155,617)	342,250	(2,020,594)
Total accumulated depreciation	(2,641,417)	(161,794)	342,250	(2,460,961)
Total capital assets being depreciated, net	453,357			419,097
Environmental services fund capital assets, net	453,357			419,097
Public Services Internal Service Fund:				
Capital assets being depreciated:				
Equipment	-	9,025	-	9,025
Vehicles	61,224	8,715	-	69,939
Total capital assets being depreciated	61,224	17,740	-	78,964
Less accumulated depreciation for:				
Equipment	-	(1,805)	-	(1,805)
Vehicles	(61,224)	(8,714)	-	(69,938)
Total accumulated depreciation	(61,224)	(10,519)	-	(71,743)
Total capital assets being depreciated, net	-			7,221
Public services fund capital assets, net	-			7,221
Business-type activities capital assets, net	\$ 94,640,642			\$ 103,035,200

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

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

Governmental activities:

General government	\$	101,600
Public safety		517,680
Public works		263,259
Parks and recreation		215,899
Community development		35,839
Internal service funds		7,085
	\$	<u>1,141,362</u>

Business-type activities:

Electric Fund	\$	804,191
Water Fund		439,230
Wastewater Fund		1,249,066
Non-major Enterprise Fund		161,794
Public Services Internal Service Fund		1,805
	\$	<u>2,656,086</u>

Note 7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets.

Changes in Long-Term Liabilities – Governmental Activities

Long-term liability activity for governmental activities for the year ended June 30, 2007, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Accrued compensated absences	\$ 701,163	\$ 474,321	\$ 452,624	\$ 722,860	\$ 480,000
Police separation allowance	555,641	86,883	-	642,524	-
Separation allowance plan	170,888	-	32,132	138,756	-
Installment contracts	3,846,072	5,667,885	870,910	8,643,047	831,277
Total	<u>\$ 5,273,764</u>	<u>\$ 6,229,089</u>	<u>\$ 1,355,666</u>	<u>\$ 10,147,187</u>	<u>\$ 1,311,277</u>

For governmental activities, compensated absences are generally liquidated by the General Fund.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 7. Long-Term Obligations (Continued)

Changes in Long-Term Liabilities – Business-Type Activities

Long-term liability activity for business-type activities for the year ended June 30, 2007, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Accrued compensated absences	\$ 299,355	\$ 75,792	\$ 81,619	\$ 293,528	\$ 100,000
Notes payable	4,201,496	6,116,736	601,665	9,716,567	888,440
Installment contracts	1,519,767	1,836,400	569,469	2,786,698	659,977
Revenue bonds	15,777,811	5,600,000	6,209,807	15,168,004	4,225,355
Total	<u>\$ 21,798,429</u>	<u>\$ 13,628,928</u>	<u>\$ 7,462,560</u>	<u>\$ 27,964,797</u>	<u>\$ 5,873,772</u>

Revenue Bonds

Revenue bonds outstanding at June 30, 2007 are as follows:

Water Fund:

\$1,392,161 – Combined Enterprise System Revenue Bonds, Series 2004, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	\$ 1,360,822
\$1,211,360 – Combined Enterprise Revenue Refunding Bonds, Series 2005, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	912,437
	<u>2,273,259</u>

Wastewater Fund:

\$882,612 – Combined Enterprise System Revenue Bonds, Series 2004, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	862,743
\$767,987 – Combined Enterprise Revenue Refunding Bonds, Series 2005, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	578,474
\$2,536,000 – Combined Enterprise System Revenue Bonds, 2004 Series, due in Semi-annual installments through June 15, 2021; interest at 4.5%	2,148,004
\$3,590,000 – Combined Enterprise System Revenue Bonds, 2005 Series, due in Semi-annual installments through June 15, 2019; interest at 4.25%	3,590,000
	<u>7,179,221</u>

Electric Fund:

\$3,500,227 – Combined Enterprise System Revenue Bonds, Series 2004, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	3,421,435
\$3,045,653 – Combined Enterprise Revenue Refunding Bonds, Series 2005, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	2,294,089
	<u>5,715,524</u>
Total Revenue Bonds	<u>\$ 15,168,004</u>

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 7. Long-Term Obligations (Continued)

Annual debt service requirements to maturity for revenue bonds are as follows:

Fiscal Year Ending			
June 30,	Principal	Interest	Total
2008	\$ 4,225,356	\$ 596,439	\$ 4,821,795
2009	656,626	435,191	1,091,817
2010	687,924	411,561	1,099,485
2011	709,492	386,770	1,096,262
2012	731,172	362,013	1,093,185
2013 - 2017	4,275,093	1,370,913	5,646,006
2018 - 2021	3,882,341	397,275	4,279,616
Total	<u>\$ 15,168,004</u>	<u>\$ 3,960,162</u>	<u>\$ 19,128,166</u>

The Series 2004 and 2005 revenue bonds are special obligations of the City, secured solely by the pledge of net revenue of the City's Enterprise Funds. Pursuant to the bond and related agreements, the City has made certain covenants that provide for rates to be set at levels to provide annually to maintain a debt service coverage ratio of 1.25 for parity indebtedness and 1.00 for parity and subordinated indebtedness. In addition, rates must be set at levels to provide for the payment of current expenses and to provide deposits to meet certain trust fund requirements associated with the Bond agreements.

Notes Payable

Notes payable include obligations of the City for various water and sewer fund improvements. These unsecured obligations are for varying annual installments with interest rates ranging from 2.66 percent to 6.0 percent.

Annual debt service requirements to maturity for notes payable are as follows:

Fiscal Year Ending			
June 30,	Principal	Interest	Total
2008	\$ 888,440	\$ 238,146	\$ 1,126,586
2009	719,952	216,283	936,235
2010	719,953	197,239	917,192
2011	719,952	178,194	898,146
2012	719,953	159,149	879,102
2013 - 2017	2,130,327	599,269	2,729,596
2018 - 2022	2,130,327	343,137	2,473,464
2023 - 2027	1,687,663	109,141	1,796,804
Total	<u>\$ 9,716,567</u>	<u>\$ 2,040,558</u>	<u>\$ 11,757,125</u>

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 7. Long-Term Obligations (Continued)

Installment Contracts

The City has entered into loan agreements for financing various land, building, building improvements and equipment purchases, which principally serve as collateral for these obligations. These obligations are for varying annual installments with interest rates ranging from 2.24 to 5.65 percent.

Annual debt service requirements to maturity for installment contracts are as follows:

Fiscal Year Ending June 30,	Governmental Activities Installment Contracts		Business-type Activities Installment Contracts		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 831,277	\$ 324,881	\$ 659,977	\$ 100,856	\$ 1,491,254	\$ 425,737
2009	831,277	293,829	673,243	77,161	1,504,520	370,990
2010	790,329	319,191	530,340	53,774	1,320,669	372,965
2011	451,385	289,175	337,654	32,425	789,039	321,600
2012	414,383	269,180	311,190	19,855	725,573	289,035
2013 - 2017	1,390,030	1,115,552	274,294	11,183	1,664,324	1,126,735
2018 - 2022	769,340	817,463	-	-	769,340	817,463
2023 - 2027	700,375	667,805	-	-	700,375	667,805
2028 - 2032	700,375	507,250	-	-	700,375	507,250
2033 - 2037	700,375	346,695	-	-	700,375	346,695
2038 - 2042	502,935	199,098	-	-	502,935	199,098
2043 - 2047	404,215	93,610	-	-	404,215	93,610
2048 - 2049	156,751	18,614	-	-	156,751	18,614
Total	\$ 8,643,047	\$ 5,262,343	\$ 2,786,698	\$ 295,254	\$ 11,429,745	\$ 5,557,597

Installment contracts of the government activities will be repaid from the General Fund. Of the Enterprise Fund installment contracts, \$544,176 will be repaid from the Wastewater Fund, \$1,109,088 from the Electric Fund, \$257,660 from the Water Fund and \$875,774 from the Environmental Services Fund.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 7. Long-Term Obligations (Continued)

Other Long-Term Debt Disclosures

North Carolina General Statutes limit certain indebtedness of the City to an amount not greater than eight percent (8%) of the appraised value of property subject to taxation by the City. At June 30, 2007, the legal debt limit for the City was \$96,127,414 providing a legal debt margin of \$87,484,367.

At June 30, 2007, the City has no authorized bonds remaining to be issued.

Note 8. Deferred/Unearned Revenue

The balance in deferred revenue on the fund financial statements and unearned revenue on the fund and government-wide financial statements at year-end is composed of the following:

	Deferred Revenue	Unearned Revenue
General Fund		
Prepaid property taxes not yet earned	\$ -	\$ 19,276
Privilege licenses receivable	478,901	-
Property taxes receivable	760,644	-
Property taxes receivable, automobiles	146,201	-
Paving assessments receivable	113,783	-
Other prepaids	-	14,473
	<u>\$ 1,499,529</u>	<u>\$ 33,749</u>
Non-Major Governmental Funds		
Grant receivables	\$ 223,928	\$ -
Proprietary Fund - Water Fund		
Repayment agreements	\$ -	\$ 12,908

Note 9. Employee Retirement Systems

Local Governmental Employees' Retirement System

Plan Description. The City of Kinston contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 9. Employee Retirement Systems (Continued)

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.92% and 4.78% respectively, of annual covered payroll. The contribution requirements of members and of the City of Kinston are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2007, 2006 and 2005 were \$649,260, \$635,890, and \$633,525, respectively. The contributions made by the City equaled the required contributions for each year.

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The City contributes to the Supplemental Retirement Income Plan ("Plan"), a defined contribution pension plan administered by the Department of State Treasurer and a Board of trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2007 were \$220,010, which consisted of \$173,325 from the City and \$46,685 from the law enforcement officers.

Law Enforcement Officers' Special Separation Allowance

Plan Description. The City of Kinston administers a public employees retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2006, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	86
Total	<u>89</u>

A separate financial report was not issued for the plan.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 9. Employee Retirement Systems (Continued)

Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2005 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5 to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

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

Annual required contribution	\$	112,501
Interest on net pension obligation		40,284
Adjustment to annual required contribution		(32,719)
Annual pension cost		120,066
Contributions made		33,183
Increase in net pension obligation		86,883
Net pension obligation beginning of year		555,641
Net pension obligation end of year	\$	642,524

Fiscal Year Ended June 30,	Three Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 105,718	19.35%	\$ 446,836
2006	131,146	17.04%	555,641
2007	120,066	27.64%	642,524

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 9. Employee Retirement Systems (Continued)

Separation Allowance Plan

Plan Description. The City of Kinston administers a public employees retirement system (the "Separation Allowance - Employees"), a single-employer closed defined benefit pension plan that provides retirement benefits to the City employees hired before May 21, 1984. The monthly plan benefits are a percentage (from the table below) of pay at retirement less the sum of monthly benefits received from Social Security, the North Carolina Local Governmental Employees' Retirement System, and the North Carolina Law Enforcement Officers Separation Allowance Plan.

Years of Employment	Percentage of Pay
Less than 10	0 %
10 but less than 15	30
15 but less than 20	40
20 or more	50

To receive the above separation allowance, a person must retire under the North Carolina Local Governmental Employees Retirement System and not have rejected their benefits under this plan. This generally means that the employee has either completed 30 or more years of creditable service, or attained age 60 and completed 5 years of creditable service (age 55 in the case of firemen and law enforcement officers).

The benefits are payable for life under the plan. However, as a practical matter, the allowances are paid to age 62 when Social Security is available. The offset Social Security benefits generally causes the plan benefits to be non-existent after age 62. As benefits are increased under Social Security or under the basic retirement plan, the benefits payable under this plan are reduced.

At December 31, 2006, the Separation Allowance - Employees' membership consisted of:

Retirees receiving benefits	13
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	29
Total	<u>42</u>

A separate financial report was not issued for the plan.

Basis of Accounting. The City has chosen to fund the Separation Allowance - Employees on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Contributions. The City is required to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 9. Employee Retirement Systems (Continued)

The annual required contribution for the current year was determined as part of the June 30, 2006 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 4.5% to 14.7% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

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

Annual required contribution	\$	49,519
Interest on net pension obligation		12,389
Adjustment to annual required contribution		(34,908)
Annual pension cost		<u>27,000</u>
Contributions made		<u>59,132</u>
Increase (decrease) in net pension obligation		(32,132)
Net pension obligation beginning of year		170,888
Net pension obligation end of year	\$	<u><u>138,756</u></u>

Fiscal Year Ended June 30,	Three Year Trend Information		
	Percentage of		Net Pension Obligation
	Annual Pension Cost (APC)	APC Contributed	
2005	\$ 58,884	127.40 %	\$ 194,147
2006	47,612	148.90	170,888
2007	27,000	219.00	138,756

Supplemental Retirement Income Plan

The City offers its employees optional participation in the Supplemental Retirement Income Plan of North Carolina, a tax deferred investment program created in accordance with Internal Revenue Code Section 401(k). The plan, available to all permanent employees not engaged in law enforcement, permits them to defer a portion of their salary until future years. The City also contributes an amount equal to 1.5 percent of the employees' compensation and all contributions and investment earnings are 100 percent vested immediately and are not tied to years of service. However, the funds are not available to employees until termination, retirement, death or unforeseeable emergency. The Plan has a loan provision that allows participants to borrow from their account. Contributions for the year ended June 30, 2007 were \$309,004, which consisted of \$142,971 from the City and \$166,033 from the employees.

The Department of the State Treasurer and the Board of Trustees contracts with a third party to administer the plan and to manage the investments of the participants. The choice of the investment options is made by the participants.

Notes to Basic Financial Statements

Note 9. Employee Retirement Systems (Continued)

Other Post-Retirement Benefits

Health Care Benefits

In addition to providing pension benefits, the City of Kinston has elected to provide post-retirement health care benefits to retirees of the City who participate in the North Carolina Local Governmental Employees' Retirement System (NCLGERS) and have at least twenty (20) years of creditable service under the NCLGERS, provided that the last ten years of continuous service were with the City. Each retired participant receives an annual retirement medical allowance, until he reaches age sixty-five (65), of \$12.37 per year of creditable service, not to exceed thirty (30) years, for each month of the medical plan year.

Currently, forty-one (41) retirees are eligible for post-retirement health benefits. The cost of post-retirement health benefits is recognized as an expenditure when paid. For 2007 those costs totaled \$210,539. The City obtains healthcare coverage through private insurers.

Other Employment Benefits

The City has elected to provide death benefits to employees through the Death Trust Plan for members of the Local Governmental Employee's Retirement System (Death Trust Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of 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 the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Trust Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State.

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 City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2007, the City made contributions to the State for death benefits of \$16,664. The City's required contributions to the Death Trust Plan for employees not engaged in law enforcement and for law enforcement officers represented .12 percent and .14 percent 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.

Note 10. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City's Employee Health Internal Service Fund was established to account for a limited risk, self-insurance program to provide workers' compensation benefits to City employees. Premiums are paid in to the Internal Service Fund by all other funds and are available to pay claims and administrative costs of the program. The interfund premiums are based upon the claims experience of the insured funds. A liability for a claim is established if

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 10. Risk Management (Continued)

information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. An excess coverage insurance policy provides for individual claims in excess of \$350,000 and in aggregate in excess of \$2,000,000. A total of \$198,457 in claims were incurred for benefits during fiscal year 2007.

Claims Liability

	2007	2006
Unpaid claims, beginning of fiscal year	\$ 297,800	\$ 289,000
Inurred claims (including claims incurred but not reported as of fiscal year end)	198,457	189,282
Payments and reduction in claims estimates	(243,957)	(180,482)
Unpaid claims, end of fiscal year	<u>\$ 252,300</u>	<u>\$ 297,800</u>

The City carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The City carries flood insurance through the National Flood Insurance Plan (NFIP). Because a portion of the City's Wastewater Reclamation Facility is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the City is eligible to purchase coverage of \$500,000 through NFIP. The City is also eligible for and has purchased commercial flood insurance for another \$300,000 of coverage for the contents of the facility.

In accordance with G.S. 159-29, the City's employees who have access to \$100 or more at an given time of the City's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are individually bonded for \$100,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

Note 11. Commitments and Contingencies

Purchase Commitments

The City, with seven other entities, participates in the Neuse Regional Water and Sewer Authority (Authority), a jointly governed entity created under Article 5 of North Carolina General Statutes Section 162A. The Authority was created to supply potable water to its members. As part of the binding interlocal agreement which originally created the Authority, the City is obligated to pay for this water at rates set by the Agency and to set rates to its customers at a level such that sufficient water revenue is generated to meet the City's obligations to the Authority. Additionally under this agreement, the City is obligated to pay a proportional share of the Authority's costs whether or not the Authority produces any treated water.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 11. Commitments and Contingencies (Continued)

The City participates in the North Carolina Eastern Municipal Power Agency (Agency). Under the contracts executed by the City with the Agency, the Agency became the "all requirements" power supplier to the City. The City is obligated to pay for this power at rates set by the Agency and to set rates to its customers at a level such that sufficient electrical revenue is generated to meet the City's obligations to the Agency. The Agency furnishes power to the City by purchasing an undivided interest in some of Progress Energy's (formerly, Carolina Power & Light Company) generating capacity and by contracting with Progress Energy to furnish all of the Agency's requirements. Under the terms of the agreement with the Agency, the City is obligated to pay a proportionate share of the Agency's obligation to Progress Energy for the purchase of generating capacity whether or not the generator produces power. This is commonly referred to as a "take or pay" contract in the electric industry.

Claims and Judgments

At June 30, 2007, the City was a defendant in various lawsuits and other claims; however, no provision was made in the financial statements for any contingent liabilities. In the opinion of management and the City attorney, the ultimate outcome of these legal matters will not have a material adverse affect on the City's financial position.

Federal and State Assisted Programs

The City has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the possible refund of grant monies.

Long-Term Loan Receivables

The City has entered into several financing arrangements with unrelated third parties for the renovation and rehab of certain structures within the City limits, which have resulted in long-term loan receivables for the City. These receivables are collateralized by deeds of trust on the underlying property, however the City has considered the possibility of receiving these funds as remote and accordingly has not recorded them as part of the City's financial statements. These notes include a promissory note collateralized by a deed of trust on Grainger Place Apartments in the amount of \$612,000 due in 12/31/2033 at 0% interest, and a promissory note from Floyd II, LLC collateralized by a deed of trust for Kinston Oaks Apartments in the amount of \$99,355 with payments due to start on the 31st anniversary of the completion date in the amount of 1/10 of the outstanding principal.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 12. Jointly Governed Organizations

North Carolina Eastern Municipal Power Agency

The City, in conjunction with thirty-one other local governments, is a member of the North Carolina Eastern Municipal Power Agency (Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The thirty-two members, which receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement or residual interest. The City's purchases of power for fiscal year ended June 30, 2007 were \$42,088,962.

Eastern Carolina Council of Governments

The City, in conjunction with seven counties and twenty-eight other municipalities, established the Eastern Carolina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The City paid membership fees of \$8,152 to the Council during the fiscal year ended June 30, 2007.

Lenoir County Development Commission

The City, in conjunction with Lenoir County, established the Lenoir County Development Commission. The participating governments established the Commission to coordinate economic development activities within the County. The City appoints five members of the fourteen-member board of directors. The City provided no funding to the Commission during the year ended June 30, 2007.

Neuse Regional Water and Sewer Authority

The City, with seven other entities, participates in the Neuse Regional Water and Sewer Authority (Authority), a development stage enterprise. The Authority was formed to enable its members to finance construction, own, operate and maintain regional water treatment and transmission facilities. The City appoints three of the fourteen-member governing board of the Authority. The Authority, which currently is constructing its facility, has not yet started operations but is on schedule to begin operations in August of 2008. When the Authority becomes operational, the eight members are committed to monthly purchases of treated water in an amount equivalent to 75% of their calendar year 2002 monthly water requirements by volume. Except for the water sales purchase requirements, no participant has any obligation, entitlement or residual interest. As the Authority is still in the development phase, there have been no purchases of treated water by the City for the year ended June 30, 2007.

Lenoir County Tourism Development Authority

The City, in conjunction with Lenoir County, established the Lenoir County Tourism Development Authority. The participating governments established the Authority to promote tourism in the County area. The City appoints three members of the seven-member board of directors. The City provided \$196,731 of funding for the Authority for the year ended June 30, 2007.

City of Kinston, North Carolina

Notes to Basic Financial Statements

Note 13. Joint Ventures

Kinston-Lenoir County Library

The City participates in a joint venture with Lenoir County to operate the Kinston/Lenoir County Library. The City appoints three board members of the six-member board. The City has an ongoing financial responsibility for the joint venture because the Library's continued existence depends on the participating governments' continued funding. None of the participating governments have any equity interest in the Library, so no equity interest has been reflected in the financial statements at June 30, 2007. During the year ended June 30, 2007, the City provided \$193,890 to the Library. Separate financial statements of the library are available at the library address of 510 North Queen Street, Kinston, North Carolina 28501.

Note 14. Related Organization

City of Kinston Housing Authority

The Board of the City of Kinston Housing Authority is appointed by the City of Kinston. The City is accountable for the Housing Authority because it appoints the governing board; however, the City is not financially accountable for the Housing Authority. The City of Kinston is also disclosed as a related organization in the notes of the financial statements for the City of Kinston Housing Authority.

Note 15. Prior Period Adjustment

During the fiscal year ended June 30, 2007, the City implemented the final provisions of Governmental Accounting Standards Board (GASB) Statement Number 34 related to the recording of governmental infrastructure (primarily streets and roads) placed into service prior to June 30, 2003. Therefore, an adjustment has been made to beginning net assets for governmental activities to account for those assets, the net effect of which increased fund balance by \$2,000,751.

Note 16. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2007 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City of Kinston.

- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"
- GASB Statement Number 47, "Accounting for Termination Benefits"
- GASB Statement Number 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues"
- GASB Statement Number 49, "Accounting and Financial Reporting for Pollution Remediation Obligations"
- GASB Statement Number 50, "Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27"
- GASB Statement Number 51, "Accounting and Financial Reporting for Intangible Assets"

REQUIRED SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles.

- **Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance**
 - **Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance**
 - **Schedule of Funding Progress for the Separation Allowance Plan**
 - **Schedule of Employer Contributions for Separation Allowance Plan**
-

City of Kinston, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
12/31/1996	-	402,620	402,620	0.00%	2,306,243	17.44%
12/31/1997	-	422,196	422,196	0.00%	2,333,064	18.10%
12/31/1998	-	321,925	321,925	0.00%	2,150,376	14.97%
12/31/1999	-	367,921	367,921	0.00%	2,550,453	14.43%
12/31/2000	-	548,684	548,684	0.00%	2,393,727	22.92%
12/31/2001	-	653,364	653,364	0.00%	2,758,523	23.69%
12/31/2002	-	697,832	697,832	0.00%	2,742,798	25.44%
12/31/2003	-	788,802	788,802	0.00%	2,728,417	28.91%
12/31/2004	-	1,020,283	1,020,283	0.00%	2,971,406	34.34%
12/31/2005	-	978,609	978,609	0.00%	2,899,443	33.75%
12/31/2006	-	1,146,009	1,146,009	0.00%	3,537,713	32.39%

**Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information**

Schedule of Employer Contributions

<u>Fiscal Year Ended June 30,</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
1997	\$ 59,186	80.5 %
1998	59,331	63.8
1999	63,699	55.7
2000	53,672	39.9
2001	62,878	33.7
2002	73,890	25.7
2003	87,961	9.7
2004	91,650	9.9
2005	99,787	20.5
2006	124,414	18.0
2007	112,501	29.5

Notes to the Required Schedule

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

Valuation date	12/31/2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	24 Years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5 - 12.3%
Includes inflation at	3.75%
Cost of living adjustments	N/A

City of Kinston, North Carolina
Separation Allowance Plan
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
7/1/1998	\$ -	\$ 749,238	\$ 749,238	0.00%	\$ 2,373,338	31.6%
7/1/1999	-	533,936	533,936	0.00%	2,418,620	22.1%
7/1/2000	-	566,768	566,768	0.00%	2,585,194	21.9%
7/1/2001	-	519,603	519,603	0.00%	2,281,938	22.8%
7/1/2002	-	448,700	448,700	0.00%	2,328,759	19.3%
7/1/2003	-	457,699	457,699	0.00%	1,991,664	23.0%
7/1/2004	-	403,950	403,950	0.00%	1,743,007	23.2%
7/1/2005	-	341,549	341,549	0.00%	1,573,188	21.7%
7/1/2006	-	232,610	232,610	0.00%	1,638,447	14.2%
7/1/2007	-	197,938	197,938	0.00%	1,186,179	16.7%

City of Kinston, North Carolina
Separation Allowance Plan
Required Supplementary Information

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
1999	\$ 165,026	56.2%
2000	121,488	50.7%
2001	128,662	50.5%
2002	116,322	55.1%
2003	99,470	68.6%
2004	98,878	80.7%
2005	86,557	86.7%
2006	73,196	96.8%
2007	49,519	119.4%

Notes to the Required Schedule

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

Valuation date	July 1, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	6 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5 - 14.7%
Includes inflation at	3.75%
Cost of living adjustments	N/A

MAJOR FUNDS

-
- General Fund
 - Electric Fund
 - Water Fund
 - Wastewater Fund
-

GENERAL FUND

The General Fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

City of Kinston, North Carolina
General Fund

Comparative Balance Sheet
June 30, 2007 and 2006

Assets	2007	2006
Cash and investments	\$ 3,527,026	\$ 3,764,353
Restricted cash and investments	317,614	-
Receivables:		
Due from governmental agencies	1,382,900	1,344,426
Accounts receivable	707,154	573,930
Taxes receivable	906,845	939,423
Inventories	85,930	89,031
Total assets	\$ 6,927,469	\$ 6,711,163
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,223,119	\$ 808,576
Unearned revenue	33,749	28,802
Deferred revenue	1,499,529	1,435,523
Total liabilities	2,756,397	2,272,901
Fund Balance:		
Reserved for Powell Bill	615,442	541,378
Reserved for restricted assets	317,614	-
Reserved for inventories	85,930	89,031
Reserved by State statute	1,497,370	1,422,256
Reserved for encumbrances	78,697	197,765
Unreserved:		
Designated for subsequent year's expenditures	322,446	400,000
Undesignated	1,253,573	1,787,832
Total fund balance	4,171,072	4,438,262
Total liabilities and fund balance	\$ 6,927,469	\$ 6,711,163

City of Kinston, North Carolina
General Fund

Schedules of Revenue, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 1 of 4)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Revenue:				
Ad valorem taxes:				
Taxes	\$ 7,438,000	\$ 7,399,383	\$ (38,617)	\$ 7,364,902
Penalties and interest	85,500	80,302	(5,198)	88,409
Total ad valorem taxes	7,523,500	7,479,685	(43,815)	7,453,311
Sales and services:				
Rents, concessions and fees	426,460	373,097	(53,363)	355,139
Inspection fees	112,000	111,400	(600)	258,162
Cemetery fees	205,000	199,815	(5,185)	201,350
Cable franchise	175,000	173,268	(1,732)	218,457
Lenoir County participation:				
Recreation	577,262	587,004	9,742	425,648
Total sales and services	1,495,722	1,444,584	(51,138)	1,458,756
Other taxes and licenses:				
Local government sales tax	3,190,000	3,169,463	(20,537)	2,991,928
Franchise tax	1,455,000	1,638,566	183,566	1,479,702
Occupancy tax	188,600	189,095	495	163,765
Gross receipts tax	16,000	17,795	1,795	16,439
Licenses and permits	78,000	70,947	(7,053)	77,142
Total other taxes and licenses	4,927,600	5,085,866	158,266	4,728,976
Unrestricted intergovernmental revenue:				
Payments in lieu of taxes	238,683	236,826	(1,857)	257,599
Beer and wine	135,000	104,236	(30,764)	102,544
ABC revenue	-	600	600	443
Total unrestricted intergovernmental revenue	373,683	341,662	(32,021)	360,586
Restricted intergovernmental revenue:				
Powell Bill allocations	755,000	715,558	(39,442)	734,756
Vector control	6,000	-	(6,000)	5,870
School Resource Officer	75,000	73,290	(1,710)	74,827
NC Dept of Transportation	50,000	-	(50,000)	-
Federal grants, miscellaneous	34,194	32,913	(1,281)	54,385
Federal Drug Forfeiture	-	43,168	43,168	-
State grants, miscellaneous	111,500	53,003	(58,497)	74,653
Court allocation	-	10,522	10,522	-
Forfeited drug proceeds	-	13,880	13,880	-
Total restricted intergovernmental revenue	1,031,694	942,334	(89,360)	944,491

(continued)

City of Kinston, North Carolina
General Fund

Schedules of Revenue, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 2 of 4)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Other revenue:				
Investment income	\$ 67,000	\$ 96,590	\$ 29,590	\$ 74,260
Sales of surplus materials and assets	150,000	56,343	(93,657)	23,766
Miscellaneous	251,961	315,369	63,408	46,655
Total other revenue	468,961	468,302	(659)	144,681
Total revenue	15,821,160	15,762,433	(58,727)	15,090,801
Expenditures:				
General Government:				
Governing body:				
Salaries and benefits		109,183		110,170
Operating		203,555		198,168
Capital outlay		1,290		-
Total governing body	331,868	314,028	17,840	308,338
Executive:				
Salaries and benefits		443,151		504,135
Operating		253,256		193,832
Capital outlay		28,839		9,949
Total executive	739,693	725,246	14,447	707,916
Finance:				
Salaries and benefits		508,154		446,968
Operating		328,593		296,000
Capital outlay		2,570		-
Total finance	850,941	839,317	11,624	742,968
Human Resources:				
Salaries and benefits		250,160		254,683
Operating		227,681		231,600
Capital outlay		2,570		-
Total human resources	501,367	480,411	20,956	486,283
Engineering and public facilities:				
Salaries and benefits		533,824		579,512
Operating		303,985		373,410
Capital outlay		114,224		72,114
Less: interdepartmental charges		(500,279)		(399,300)
Total engineering and public facilities	682,387	451,754	230,633	625,736
Indirect costs reimbursement	(850,496)	(850,496)	-	(983,037)
Total general government	2,255,760	1,960,260	295,500	1,888,204

(continued)

City of Kinston, North Carolina
General Fund

Schedules of Revenue, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 3 of 4)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Public safety:				
Police and fire administration:				
Salaries and benefits	\$	\$ 787,905	\$	\$ 829,207
Operating		221,040		211,572
Capital outlay		16,145		-
Total police and fire administration	1,053,794	1,025,090	28,704	1,040,779
Police:				
Salaries and benefits		3,985,758		3,632,200
Operating		993,656		907,651
Capital outlay		335,636		256,422
Total police	5,363,759	5,315,050	48,709	4,796,273
Fire:				
Salaries and benefits		2,326,321		2,282,976
Operating		432,167		454,317
Capital outlay		13,716		639,527
Total fire	2,893,414	2,772,204	121,210	3,376,820
Total public safety	9,310,967	9,112,344	198,623	9,213,872
Public services:				
Salaries and benefits		883,890		881,974
Operating		1,076,110		917,537
Capital outlay		238,992		101,263
Total public services	2,429,568	2,198,992	230,576	1,900,774
Parks and recreation:				
Salaries and benefits		1,788,085		1,690,592
Operating		1,163,922		1,101,373
Capital outlay		321,114		22,726
Total parks and recreation	3,273,175	3,273,121	54	2,814,691
Community development:				
Inspections and code enforcement:				
Salaries and benefits		312,496		298,740
Operating		267,366		100,790
Total inspections and code enforcement	601,037	579,862	21,175	399,530

(continued)

City of Kinston, North Carolina
General Fund

Schedules of Revenue, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 4 of 4)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Economic development:				
Operating	\$	\$ 632,299	\$	\$ 581,570
Capital outlay		42,645		70,451
Total economic development	752,701	674,944	77,757	652,021
Total community development	1,353,738	1,254,806	98,932	1,051,551
Total expenditures	18,623,208	17,799,523	823,685	16,869,092
Revenue under expenditures	(2,802,048)	(2,037,090)	764,958	(1,778,291)
Other financing sources (uses):				
Appropriated fund balance	798,875	-	(798,875)	-
Appropriated fund balance - Powell Bill	100,000	-	(100,000)	-
Operating transfers in	1,356,037	1,265,879	(90,158)	1,284,760
Operating transfers out	(177,864)	(177,864)	-	(194,898)
Proceeds from borrowing	725,000	681,885	(43,115)	314,730
Total other financing sources	2,802,048	1,769,900	(1,032,148)	1,404,592
Revenue and other financing sources under expenditures	\$ -	(267,190)	\$ (267,190)	(373,699)
Fund balance, beginning		4,438,262		4,811,961
Fund balance, ending		\$ 4,171,072		\$ 4,438,262

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ELECTRIC FUND

This fund is used to account for the activities associated with the distribution and transmission of electricity by the City to its users.

City of Kinston, North Carolina
Electric Fund

Schedules of Revenue, Expenditures and Other Financing Sources (Uses) -
Budget and Actual -
Non-GAAP - Modified Accrual Basis
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 1 of 2)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Operating revenue:				
Charges for services, electricity sales	\$ 47,194,972	\$ 46,326,337	\$ (868,635)	\$ 43,910,096
Other	443,400	490,688	47,288	582,293
Total operating revenue	47,638,372	46,817,025	(821,347)	44,492,389
Non operating revenue:				
Interest earned on investments	38,200	108,528	70,328	38,723
Total revenue	47,676,572	46,925,553	(751,019)	44,531,112
Expenditures:				
Electrical operations:				
Salaries and benefits		1,139,426		1,157,144
Operating		1,407,567		1,288,324
Purchased Power		42,088,962		38,855,075
Indirect costs		1,203,107		1,200,903
Capital outlay		465,431		163,960
	46,647,608	46,304,493	343,115	42,665,406
Debt service				
Principal retirement		375,250		294,286
Interest and other charges		258,719		244,344
	721,355	633,969	87,386	538,630
Total expenditures	47,368,963	46,938,462	430,501	43,204,036
Revenue over (under) expenditures	307,609	(12,909)	(320,518)	1,327,076
Other financing sources (uses):				
Appropriated fund balance	496,498	-	(496,498)	-
Transfers in	360,900	360,900	-	-
Transfers out - Capital Reserve	(274,303)	(274,303)	-	-
Transfers out	(890,704)	(890,206)	(498)	(981,077)
Total other financing uses	(307,609)	(803,609)	(496,000)	(981,077)
Revenue and other sources over (under) expenditures and other uses	\$ -	\$ (816,518)	\$ (816,518)	\$ 345,999

(Continued)

City of Kinston, North Carolina
Electric Fund

Schedules of Revenue, Expenditures and Other Financing Sources (Uses) -
Budget and Actual -
Non-GAAP - Modified Accrual Basis (Continued)
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 2 of 2)

	2007		2006
	Budget	Actual	Variance, with Final Budget
			Actual
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources over (under)			
expenditures and other uses		\$ (816,518)	\$ 345,999
Transfers in		(360,900)	-
Transfers out		890,206	981,077
Transfers out - capital reserve		274,303	
Capital outlay		126,211	163,960
Payment of debt principal		375,250	294,286
Depreciation		(804,191)	(760,360)
Amortization of deferred debit		-	(252,426)
Decrease in accrued unbilled electricity sales		-	194,472
Non capitalized expenditures from capital project funds		(654)	-
Bad debt expense		(188,067)	(395,611)
Capital contributions		29,738	-
Decrease in accrued compensated absences		851	1,512
(Increase) decrease in interest accrual		(15,574)	39,974
Income before operating transfers, accrual basis		\$ (489,345)	\$ 612,883

City of Kinston, North Carolina
Electric Capital Projects Fund

Schedule of Revenue and Expenditures -
Budget and Actual - (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2007

	Project Authorization	Prior Years	Actual Current Year	Total To Date
Expenditures:				
Smithfield expansion	\$ 1,755,000	\$ 1,175,366	\$ 654	\$ 1,176,020
Copper wire replacement	64,900	-	-	-
Caswell Center upgrades	3,910,000	-	69,242	69,242
Total expenditures	5,729,900	1,175,366	69,896	1,245,262
Other financing sources:				
Federal and State grants	1,200,000	-	29,738	29,738
Debt issued	4,503,881	-	1,150,000	1,150,000
Transfers in	26,019	-	26,019	26,019
Total other financing sources	5,729,900	-	1,205,757	1,205,757
Total other financing sources under expenditures	\$ -	\$ (1,175,366)	\$ 1,135,861	\$ (39,505)

City of Kinston, North Carolina
Electric Capital Reserve Fund

Schedule of Revenue and Expenditures -
Budget and Actual - (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2007

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Other financing sources (uses):				
Transfers out	\$ (274,303)	\$ -	\$ -	\$ -
Transfers in	274,303	-	274,303	274,303
Total other financing sources	-	-	274,303	274,303
Total revenue and other financing sources over other financing uses	\$ -	\$ -	\$ 274,303	\$ 274,303

WATER FUND

This fund is used to account for the activities associated with the production, distribution and transmission of potable water by the City to its users.

City of Kinston, North Carolina
Water Fund

Schedules of Revenue, Expenditures and Other Financing Sources (Uses) -
Budget and Actual -
Non-GAAP - Modified Accrual Basis
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 1 of 2)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Operating revenue:				
Charges for services:				
Water sales	\$ 5,159,875	\$ 4,850,263	\$ (309,612)	\$ 4,578,176
Other	133,135	127,114	(6,021)	111,271
Total operating revenue	5,293,010	4,977,377	(315,633)	4,689,447
Nonoperating revenue:				
Interest earned on investments	26,700	65,568	38,868	35,271
Total nonoperating revenue	26,700	65,568	38,868	35,271
Total revenue	5,319,710	5,042,945	(276,765)	4,724,718
Expenditures:				
Water production:				
Salaries and benefits		299,924		297,240
Operating		751,788		962,348
Capital outlay		14,472		59,760
Indirect costs		124,079		221,214
	1,402,718	1,190,263	212,455	1,540,562
Water operations:				
Salaries and benefits		833,508		848,860
Operating		579,051		429,795
Capital outlay		315,793		29,643
Indirect costs		124,079		221,214
	2,486,496	1,852,431	634,065	1,529,512
Debt service				
Principal retirements		152,919		148,410
Interest and other charges		96,471		102,285
	249,391	249,390	1	250,695
Total expenditures	4,138,605	3,292,084	846,521	3,320,769
Revenue over expenditures	1,181,105	1,750,861	569,756	1,403,949

(Continued)

City of Kinston, North Carolina
Water Fund

Schedules of Revenue, Expenditures and Other Financing Sources (Uses) -
Budget and Actual -
Non-GAAP - Modified Accrual Basis (Continued)
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 2 of 2)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Other financing sources (uses):				
Appropriated fund balance	961,245	-	(961,245)	-
Debt issued	230,000	218,960	(11,040)	-
Transfers in - Wastewater Fund	14,458	14,458	-	-
Transfers in - capital reserve	-	-	-	226,000
Transfers out - capital reserve	(2,143,015)	(2,143,015)	-	-
Transfers out - other funds	(243,793)	(187,741)	56,052	(23,429)
Total other financing sources (uses)	(1,181,105)	(2,097,338)	(916,233)	202,571
Revenue and other sources over (under) expenditures	\$ -	\$ (346,477)	\$ (346,477)	\$ 1,606,520

Reconciliation of modified accrual basis
to full accrual basis:

Revenue and other sources over expenditures	\$ (346,477)	\$ 1,606,520
Transfers out	187,741	23,429
Transfers out - capital reserve	2,143,015	-
Transfers in	(14,458)	(226,000)
Capital outlay	238,395	89,403
Capital contributions	-	300,000
Payment of debt principal	152,919	148,410
Debt issued	(218,960)	-
Depreciation	(439,230)	(398,827)
Repairs and maintenance expense from capital project fund	734	-
Amortization of deferred debit	-	(231,394)
Increase in accrued unbilled water sales	-	(30,443)
Bad debt expense	(28,136)	(21,517)
Decrease in accrued compensated	2,708	30,600
Increase in interest accrual	(274)	(5,686)
Income before operating transfers accrual basis	\$ 1,677,977	\$ 1,284,495

City of Kinston, North Carolina
Water Capital Projects Fund

Schedule of Revenue and Expenditures -
Budget and Actual - (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2007

	Project		Actual	
	Authorization	Prior	Current	Total
		Years	Year	To Date
Expenditures:				
FY 99/00 Capital Projects	\$ 2,411,500	\$ 447,807	\$ -	\$ 447,807
FY 02/05 Capital Projects	235,155	229,609	-	229,609
Smithfield	281,810	281,810	(732)	281,078
Total expenditures	2,928,465	959,226	(732)	958,494
Other financing sources:				
Federal and State grants	300,000	300,000	-	300,000
Debt issued	2,217,000	-	-	-
Transfers in	411,465	284,587	-	284,587
Total other financing sources	2,928,465	584,587	-	584,587
Total other financing sources over (under) expenditures	\$ -	\$ (374,639)	\$ 732	\$ (373,907)

City of Kinston, North Carolina
Water Capital Reserve Fund

Schedule of Revenue and Expenditures -
Budget and Actual - (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2007

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Other financing sources (uses):				
Transfers out	\$ (3,429,643)	\$ (889,757)	\$ (290,100)	\$ (1,179,857)
Transfers in	<u>3,429,643</u>	<u>1,286,628</u>	<u>2,143,015</u>	<u>3,429,643</u>
Total other financing sources	<u>-</u>	<u>396,871</u>	<u>1,852,915</u>	<u>2,249,786</u>
Total revenue and other financing sources over other financing uses	<u>\$ -</u>	<u>\$ 396,871</u>	<u>\$ 1,852,915</u>	<u>\$ 2,249,786</u>

WASTEWATER FUND

This fund is used to account for the activities associated with the collection, operation and treatment of the City's sewer and surface drainage systems.

City of Kinston, North Carolina
Wastewater Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses) -
Budget and Actual -
Non-GAAP - Modified Accrual Basis
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 1 of 2)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Operating revenue:				
Charges for services:				
Sewer charges	\$ 4,859,648	\$ 4,591,636	\$ (268,012)	\$ 4,631,882
Other	10,600	26,970	16,370	18,920
Total operating revenue	4,870,248	4,618,606	(251,642)	4,650,802
Nonoperating revenue:				
Interest earned on investments	70,600	86,960	16,360	71,496
Total nonoperating revenue	70,600	86,960	16,360	71,496
Total revenue	4,940,848	4,705,566	(235,282)	4,722,298
Expenditures:				
Wastewater collections:				
Operating		-		5,480
Capital outlay		-		70,091
Indirect costs		1,078,367		966,615
	1,078,367	1,078,367	-	1,042,186
Wastewater plant operations:				
Salaries and benefits		634,939		660,240
Operating		522,459		859,870
Indirect costs		481,526		465,933
	1,954,063	1,638,924	315,139	1,986,043
Debt service				
Principal retirements		963,640		949,898
Interest and other charges		307,211		340,030
	1,373,528	1,270,851	102,677	1,289,928
Total expenditures	4,405,958	3,988,142	417,816	4,318,157
Revenue over expenditures	534,890	717,424	182,534	404,141
Other financing sources (uses):				
Transfers out - capital projects	(292,120)	(308,166)	(16,046)	-
Transfers in - other funds	806	806	-	-
Transfers out	(243,576)	(243,576)	-	(7,777)
Total other financing sources (uses)	(534,890)	(550,936)	(16,046)	(7,777)
Revenue and other sources over (under) expenditures	\$ -	\$ 166,488	\$ 166,488	\$ 396,364

(Continued)

Wastewater Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses) - Budget and Actual -

Non-GAAP - Modified Accrual Basis (Continued)

For the Fiscal Year Ended June 30, 2007

With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 2 of 2)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Reconciliation of modified accrual basis to full accrual basis:				
Revenue and other sources				
over expenditures		\$ 166,488		\$ 396,364
Transfers in - other funds		(806)		-
Transfers out		243,576		7,777
Transfers out - capital projects		308,166		-
Capital outlay		114,060		70,091
Payment of debt principal		963,640		949,898
Depreciation		(1,249,066)		(1,266,383)
Amortization of deferred charges		-		(72,125)
Capital contributions		4,237,474		19,123,503
Interest from capital project funds		235,252		129,328
Repairs and maintenance expense from capital project fund		(37,448)		(30,768)
(Increase) decrease in accrued compensated absences		(318)		12,061
Decrease in accrued unbilled sewer sales		-		(28,728)
Loss on disposal of assets		(70,113)		-
Bad debt expense		(21,523)		(14,814)
(Increase) decrease in interest accrual		2,561		(22,804)
Income before operating transfers, accrual basis		\$ 4,891,943		\$ 19,253,400

City of Kinston, North Carolina
Wastewater Capital Projects Fund

Schedule of Revenue and Expenditures -
Budget and Actual - (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2007

	Project		Actual	
	Authorization	Prior	Current	Total
		Years	Year	To Date
Expenditures:				
Northside WWTP Expansion	\$ 56,831,554	\$ 35,869,444	\$ 15,657,764	\$ 51,527,208
FY 99/00 Capital Projects	11,379,019	10,603,296	356,552	10,959,848
FY 02/05 Capital Projects	653,574	581,155	-	581,155
FY 05/08 Capital Projects	76,400	63,021	-	63,021
Smithfield Sewer Capital Projects	644,219	560,096	19,467	579,563
Water Reuse Capital Project	1,737,200	310,294	39,955	350,249
Total expenditures	71,321,966	47,987,306	16,073,738	64,061,044
Other financing sources (uses):				
Federal and/or State grants	47,593,952	40,321,047	4,237,474	44,558,521
Debt issued	20,559,154	8,620,575	11,716,733	20,337,308
County participation	38,200	32,462	-	32,462
Interest income	-	131,308	235,252	366,560
Transfers in	3,130,660	1,973,320	248,166	2,221,486
Total other financing sources	71,321,966	51,078,712	16,437,625	67,516,337
Total other financing sources over (under) expenditures	\$ -	\$ 3,091,406	\$ 363,887	\$ 3,455,293

City of Kinston, North Carolina
Wastewater Capital Reserve Fund

Schedule of Revenue and Expenditures -
Budget and Actual - (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2007

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Other financing sources (uses):				
Transfers out	\$ (87,825)	\$ -	\$ -	\$ -
Transfers in	87,825	87,825	-	87,825
Total other financing sources	-	87,825	-	87,825
Total revenue and other financing sources over other financing uses	\$ -	\$ 87,825	\$ -	\$ 87,825

NON-MAJOR FUND TYPES

Non-Major Special Revenue Funds – Descriptions for individual non-major special revenue funds are provided on the title pages located at the front of the section for non-major special revenue funds.

Non-Major Capital Project Funds – Descriptions for individual non-major capital project funds are provided on the title pages located at the front of the section for non-major capital project funds.

Permanent Fund – The City has one fund, Temple Israel Perpetual Care Fund which is used to account for the unexpended principal funds, the revenue from which is used to maintain the Temple Israel's cemetery grounds.

City of Kinston, North Carolina

Combined Balance Sheet - Nonmajor Fund Types
June 30, 2007

	Government Fund Types			
	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Permanent Fund Temple Israel Perpetual Care Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and investments	\$ 107,441	\$ 42,505	\$ 80,584	\$ 230,530
Restricted cash and investments	-	3,858,115	-	3,858,115
Due from other funds	10,313	-	-	10,313
Receivables	49,378	9,268	-	58,646
Due from governmental agencies	4,401	471,588	-	475,989
Total assets	\$ 171,533	\$ 4,381,476	\$ 80,584	\$ 4,633,593
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and accrued liabilities	\$ 4,907	\$ 257,766	\$ -	\$ 262,673
Due to other funds	10,313	450,020	-	460,333
Deferred revenue	-	223,928	-	223,928
Total liabilities	15,220	931,714	-	946,934
Fund balance:				
Reserved by State statute	53,779	256,928	-	310,707
Reserved for restricted assets	-	3,858,115	-	3,858,115
Unreserved, undesignated	102,534	(665,281)	80,584	(482,163)
Total fund balance	156,313	3,449,762	80,584	3,686,659
Total liabilities and fund balance	\$ 171,533	\$ 4,381,476	\$ 80,584	\$ 4,633,593

Reconciliation of non-major fund due to / due from other funds to the Balance Sheet - Governmental Funds

Due from other funds from above	\$ 10,313	Due to other funds from above	\$ 460,333
Less amounts between non-major funds	(10,313)	Less amounts between non-major funds	(10,313)
Net due from other funds	\$ -	Net due to other funds	\$ 450,020

City of Kinston, North Carolina

Statement of Revenue, Expenditures and Changes in Fund Balances -
Nonmajor Governmental Fund Types
For the Fiscal Year Ended June 30, 2007

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Permanent Fund Temple Israel Perpetual Care Fund	Total Nonmajor Governmental Funds
Revenue				
Intergovernmental revenue	\$ 142,049	\$ 227,032	\$ -	\$ 369,081
Miscellaneous income	705	-	-	705
Interest	3,707	71,738	2,130	77,575
Total revenue	146,461	298,770	2,130	447,361
Expenditures				
Current:				
Public safety	149,532	1,232,927	-	1,382,459
Community development	8,374	-	-	8,374
Parks and recreation	-	509,625	-	509,625
Total expenditures	157,906	1,742,552	-	1,900,458
Revenue under expenditures	(11,445)	(1,443,782)	2,130	(1,453,097)
Other financing sources (uses)				
Debt issued	-	4,986,000	-	4,986,000
Transfers in	33,000	50,500	-	83,500
Transfers out	(52,713)	(8,500)	-	(61,213)
Total other financing sources (uses)	(19,713)	5,028,000	-	5,008,287
Net change in fund balance	(31,158)	3,584,218	2,130	3,555,190
Fund Balances, beginning	187,471	(134,456)	78,454	131,469
Fund Balances, ending	\$ 156,313	\$ 3,449,762	\$ 80,584	\$ 3,686,659

Reconciliation of nonmajor fund transfers to Statement of Revenue Expenditures and Changes in Fund Balance

Transfer in from above	\$ 83,500	Transfers out from above	\$ 61,213
Less transfers between nonmajor funds	(41,500)	Less transfers between nonmajor funds	(41,500)
Net transfers in	<u>\$ 42,000</u>	Net transfers out	<u>\$ 19,713</u>

NON-MAJOR SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenue that is legally restricted to expenditure for particular purposes.

Community Development Administration Fund - This fund is used to account for miscellaneous federal and State Grant monies received from various funding agencies.

SARF – DCA Project - This fund accounts for proceeds from the State Acquisition and Relocation Fund Project funded by NC Department of Commerce, Division of Community Assistance and awarded to assist the flood recovery program by providing relocation assistance to flood clients.

Salvage Yard Buyout Grant Fund – This fund accounts for the North Carolina Department of Environment and Natural Resources program to purchase junkyards damaged by Hurricane Floyd.

Oaks Apartments – This fund accounts for the Community Development Block Grant funds for the Oaks Apartments project.

FEMA Assistance to Firefighters Grant Fund – This fund accounts for a hazard mitigation grant from the Federal Emergency Management Agency to purchase equipment for the fire department.

CD Capacity Grant Fund - This fund accounts for assistance in the administration of the various relocation and development projects of the City.

Single Family Rehabilitation Grant Fund - This fund accounts for the Federal Emergency Management Agency's Single Family Rehabilitation Grant for the repair and rehabilitation of single family homes in the flood plain.

Flood Close Out Fund – This fund accounts for the close out and related overages and underages of the Fran and Floyd hazard mitigation buyout funds.

Local Law Enforcement Block Grant 2003 - This fund accounts for a Local Law Enforcement Block Grant funded by the US Department of Justice, Bureau of Justice Assistance to purchase equipment for the police department.

Local Law Enforcement Block Grant 2004 - This fund accounts for a Local Law Enforcement Block Grant funded by the US Department of Justice, Bureau of Justice Assistance to purchase equipment for the police department.

Governor's Highway Safety Program 2005 - This fund accounts for staff and equipment utilized for enforcement of violations located in and around the top ten crash sites targeted by the Crashless in Kinston program.

NON-MAJOR SPECIAL REVENUE FUNDS

Viper Grant Program - This fund accounts for grant monies used to purchase equipment for the police department.

Operation Video Impact Grant - This fund accounts for grant monies used to purchase equipment for the police department.

Gang Awareness, Training and Education Fund - This fund accounts for grant monies used to administer and purchase equipment to train and educate the police department in dealing with gangs.

City of Kinston, North Carolina
Nonmajor Special Revenue Funds

Combining Balance Sheets
June 30, 2007
With Comparative Totals for June 30, 2006

(Page 1 of 3)

	Community Development Administration	SARF DCA	FEMA Assistance to Firefighters	Single Family Rehabilitation	2003 LLEBG
Assets					
Cash and investments	\$ 75,884	\$ 9,973	\$ 958	\$ -	\$ 25
Due from other funds	10,313	-	-	-	-
Due from government agencies	-	-	-	4,401	-
Accounts and loans receivable	43,192	-	-	-	-
Total assets	\$ 129,389	\$ 9,973	\$ 958	\$ 4,401	\$ 25
Liabilities and Fund Balances (Deficits)					
Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ 4,401	\$ -
Accounts payable and accrued liabilities	-	-	-	-	-
Total liabilities	-	-	-	4,401	-
Fund Balances (Deficits)					
Reserved by State statute	43,192	-	-	4,401	-
Unreserved - undesignated	86,197	9,973	958	(4,401)	25
Total fund balances (deficits)	129,389	9,973	958	-	25
Total liabilities and fund balances (deficits)	\$ 129,389	\$ 9,973	\$ 958	\$ 4,401	\$ 25

City of Kinston, North Carolina
Nonmajor Special Revenue Funds

Combining Balance Sheets
June 30, 2007
With Comparative Totals for June 30, 2006

(Page 2 of 3)

	2004 LLEBG	2005 GHSP	Operation Video Impact	Viper Grant	Gang Awareness
Assets					
Cash and investments	\$ -	\$ 199	\$ 560	\$ -	\$ 19,842
Due from other funds	-	-	-	-	-
Due from government agencies	-	-	-	-	-
Accounts and loans receivable	-	-	-	5,878	308
Total assets	<u>\$ -</u>	<u>\$ 199</u>	<u>\$ 560</u>	<u>\$ 5,878</u>	<u>\$ 20,150</u>
Liabilities and Fund Balances (Deficits)					
Liabilities					
Due to other funds	\$ 34	\$ -	\$ -	\$ 5,878	\$ -
Accounts payable and accrued liabilities	-	-	-	-	4,907
Total liabilities	<u>34</u>	<u>-</u>	<u>-</u>	<u>5,878</u>	<u>4,907</u>
Fund Balances (Deficits)					
Reserved by State statute	-	-	-	5,878	308
Unreserved - undesignated	(34)	199	560	(5,878)	14,935
Total fund balances (deficits)	<u>(34)</u>	<u>199</u>	<u>560</u>	<u>-</u>	<u>15,243</u>
Total liabilities and fund balances (deficits)	<u>\$ -</u>	<u>\$ 199</u>	<u>\$ 560</u>	<u>\$ 5,878</u>	<u>\$ 20,150</u>

City of Kinston, North Carolina
Nonmajor Special Revenue Funds

Combining Balance Sheets
June 30, 2007
With Comparative Totals for June 30, 2006

(Page 3 of 3)

	Totals	
	2007	2006
Assets		
Cash and investments	\$ 107,441	\$ 68,561
Due from other funds	10,313	104,871
Due from government agencies	4,401	110,888
Accounts receivable	49,378	56,167
Total assets	\$ 171,533	\$ 340,487
Liabilities and Fund Balances (Deficits)		
Liabilities		
Due to other funds	\$ 10,313	\$ 104,871
Accounts payable and accrued liabilities	4,907	48,145
Total liabilities	15,220	153,016
Fund Balances (Deficits)		
Reserved by State statute	53,779	270,993
Unreserved - undesignated	102,534	(83,522)
Total fund balances (deficits)	156,313	187,471
Total liabilities and fund balances (deficits)	\$ 171,533	\$ 340,487

City of Kinston, North Carolina
Nonmajor Special Revenue Funds

Combining Statements of Revenue, Expenditures and
Changes in Fund Balances (Deficit)

For the Fiscal Year Ended June 30, 2007

With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 1 of 3)

	Community Development Administration	SARF - DCA	Oaks Apartments	FEMA Assistance to Firefighters	Single Family Rehabilitation	2003 LLEBG
Revenue:						
Restricted:						
Intergovernmental revenue	\$ 8,041	\$ -	\$ 2,233	\$ -	\$ -	\$ -
Other:						
Miscellaneous revenue	705	-	-	-	-	-
Investment earnings	3,449	263	-	-	-	-
Total revenue	12,195	263	2,233	-	-	-
Expenditures:						
Planning and community development						
Administration	8,875	-	-	-	5,963	-
Rehabilitation of private properties	-	-	-	-	(6,464)	-
Public safety						
Other services	-	-	-	-	-	-
Total expenditures	8,875	-	-	-	(501)	-
Total revenue over (under)						
expenditures	3,320	263	2,233	-	501	-
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	(50,000)	-	(2,233)	-	(480)	-
Total financing sources (uses)	(50,000)	-	(2,233)	-	(480)	-
Total revenue and other sources						
over (under) expenditures	(46,680)	263	-	-	21	-
Fund balances (deficits), beginning	176,069	9,710	-	958	(21)	25
Fund balances (deficits), ending	\$ 129,389	\$ 9,973	\$ -	\$ 958	\$ -	\$ 25

City of Kingston, North Carolina
Nonmajor Special Revenue Funds

Combining Statements of Revenue, Expenditures and
Changes in Fund Balances (Deficit)
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 2 of 3)

	2004 LLEBG	2005 GHSP	Viper Grant	Operation Video Impact	Gang Awareness Training & Education
Revenue:					
Restricted:					
Intergovernmental revenue	\$ -	\$ -	\$ 101,200	\$ -	\$ 30,575
Other:					
Miscellaneous revenue	-	-	-	-	-
Investment earnings	(5)	-	-	-	-
Total revenue	(5)	-	101,200	-	30,575
Expenditures:					
Planning and community development					
Administration	-	-	-	-	-
Rehabilitation of private properties	-	-	-	-	-
Public safety					
Other services	-	-	101,200	-	48,332
Total expenditures	-	-	101,200	-	48,332
Total revenue over (under)	(5)	-	-	-	(17,757)
Other financing sources (uses):					
Transfers in	-	-	-	-	33,000
Transfers out	-	-	-	-	-
Total financing sources (uses)	-	-	-	-	33,000
Total revenue and other sources over (under) expenditures	(5)	-	-	-	15,243
Fund balances (deficits), beginning	(29)	199	-	560	-
Fund balances (deficits), ending	(34)	199	-	560	15,243

City of Kinston, North Carolina
Nonmajor Special Revenue Funds

Combining Statements of Revenue, Expenditures and
Changes in Fund Balances (Deficit)
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 3 of 3)

	Totals	
	2007	2006
Revenue:		
Restricted:		
Intergovernmental revenue	\$ 142,049	\$ 1,089,800
Other:		
Miscellaneous revenue	705	280
Investment earnings	3,707	4,790
Total revenue	146,461	1,094,870
Expenditures:		
Planning and community development		
Administration	14,838	86,701
Rehabilitation of private properties	(6,464)	764,794
Public safety		
Other services	149,532	51,301
Total expenditures	157,906	902,796
Total revenue over (under) expenditures	(11,445)	192,074
Other financing sources (uses):		
Transfers in	33,000	144,718
Transfers out	(52,713)	(474,478)
Total financing sources (uses)	(19,713)	(329,760)
Total revenue and other sources over (under) expenditures	(31,158)	(137,686)
Fund balances (deficits), beginning	187,471	325,157
Fund balances (deficits), ending	\$ 156,313	\$ 187,471

City of Kinston, North Carolina
Grant Project Fund - Community Development Administration

Schedule of Revenue and Expenditures -
Budget and Actual
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Rent and program income	\$ 11,343	\$ 8,041	\$ (3,302)
Other revenue	-	705	705
Investment earnings	3,100	3,449	349
Total revenue	14,443	12,195	(2,248)
Expenditures:			
Contract services	117,893	8,875	109,018
Total expenditures	117,893	8,875	109,018
Total revenue over (under) expenditures	(103,450)	3,320	106,770
Other financing sources (uses):			
Appropriated fund balance	153,450	-	(153,450)
Transfers out	(50,000)	(50,000)	-
Total other financing sources (uses)	103,450	(50,000)	(153,450)
Total revenue under expenditures and other financing sources (uses)	\$ -	\$ (46,680)	\$ (46,680)

City of Kinston, North Carolina
Grant Project Fund - SARF DCA Project

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
State grant project	\$ -	\$ 1,748,883	\$ 1,748,883
Interest revenue	263	8,826	8,563
Total revenue	263	1,757,709	1,757,446
Expenditures:			
Administration	-	11,263	164,414
Acquisition, relocation, demolition of private properties	-	1,651,647	1,508,206
Total expenditures	-	1,662,910	1,672,620
Total revenue over expenditures	263	94,799	84,826
Other financing uses:			
Transfers out	-	(84,826)	(84,826)
Total other financing uses	-	(84,826)	(84,826)
Total revenue over expenditures and other financing uses	\$ 263	\$ 9,973	\$ -

City of Kinston, North Carolina
Grant Project Fund - Salvage Yard Buyout

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue, State grant project	<u>\$ -</u>	<u>\$ 2,793,226</u>	<u>\$ 3,700,000</u>
Expenditures:			
Administration	-	226,832	188,174
Acquisition, relocation, demolition of private properties	<u>-</u>	<u>2,566,394</u>	<u>3,511,826</u>
Total expenditures	<u>-</u>	<u>2,793,226</u>	<u>3,700,000</u>
Total revenue over expenditures	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Kinston, North Carolina
Grant Project Fund - Oaks Apartments Project

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue, Federal and State grants	<u>\$ 2,233</u>	<u>\$ 114,585</u>	<u>\$ 144,000</u>
Expenditures:			
Administration	-	11,915	14,400
Acquisition, relocation, demolition of private properties	<u>-</u>	<u>100,437</u>	<u>129,600</u>
Total expenditures	<u>-</u>	<u>112,352</u>	<u>144,000</u>
Total revenue over expenditures	<u>2,233</u>	<u>2,233</u>	<u>-</u>
Other financing uses:			
Transfers out	<u>2,233</u>	<u>2,233</u>	<u>-</u>
Total other financing uses	<u>2,233</u>	<u>2,233</u>	<u>-</u>
Total revenue over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Kinston, North Carolina
Grant Project Fund - FEMA Assistance to Firefighters

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue, Federal grant	<u>\$ -</u>	<u>\$ 74,982</u>	<u>\$ 74,982</u>
Expenditures:			
Capital outlay	<u>-</u>	<u>82,424</u>	<u>83,382</u>
Total expenditures	<u>-</u>	<u>82,424</u>	<u>83,382</u>
Total expenditures over revenue	<u>-</u>	<u>(7,442)</u>	<u>(8,400)</u>
Other financing sources:			
Transfers in	<u>-</u>	<u>8,400</u>	<u>8,400</u>
Total other financing sources	<u>-</u>	<u>8,400</u>	<u>8,400</u>
Total revenue and other financing sources over (under) expenditures	<u><u>\$ -</u></u>	<u><u>\$ 958</u></u>	<u><u>\$ -</u></u>

City of Kinston, North Carolina
Grant Project Fund - CDBG Capacity Grant (IDA) Savings

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue, State grant project	\$ -	\$ -	\$ 75,000
Expenditures:			
Administration	-	-	75,000
Total expenditures	-	-	75,000
Total revenue over expenditures	\$ -	\$ -	\$ -

City of Kinston, North Carolina
Grant Project Fund - Single Family Rehabilitation

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue, Federal grants	<u>\$ -</u>	<u>\$ 234,632</u>	<u>\$ 300,000</u>
Expenditures:			
Administration	5,963	19,058	19,149
Acquisition, relocation, demolition of private properties	<u>(6,464)</u>	<u>215,094</u>	<u>280,851</u>
Total expenditures	<u>(501)</u>	<u>234,152</u>	<u>300,000</u>
Total revenue over expenditures	<u>501</u>	<u>480</u>	<u>-</u>
Other financing uses:			
Transfers out	<u>480</u>	<u>480</u>	<u>-</u>
Total other financing uses	<u>480</u>	<u>480</u>	<u>-</u>
Total revenue over expenditures and other financing uses	<u><u>\$ 21</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Kinston, North Carolina
Grant Project Fund - Flood Close Out

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue,			
Federal grants	\$ -	\$ 277,084	\$ -
Miscellaneous revenue	-	7,425	-
Total revenue	<u>-</u>	<u>284,509</u>	<u>-</u>
Expenditures:			
Acquisition, relocation, demolition of private properties	-	2,831	-
Total revenue over expenditures	<u>-</u>	<u>281,678</u>	<u>-</u>
Other financing sources (uses):			
Transfers in	-	701,377	700,481
Transfers out	-	(983,055)	(700,481)
Total other financing sources	<u>-</u>	<u>(281,678)</u>	<u>-</u>
Total revenue and other financing sources over other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Kinston, North Carolina
Grant Project Fund - LLEBG - 2003

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue,			
Federal grant	\$ -	\$ 31,757	\$ 31,757
Investment earnings	-	25	-
Total revenue	-	31,782	31,757
Expenditures:			
Capital outlay	-	35,286	35,286
Total expenditures	-	35,286	35,286
Total expenditures over revenue	-	(3,504)	(3,529)
Other financing sources:			
Transfers in	-	3,529	3,529
Total other financing sources	-	3,529	3,529
Total revenue and other financing sources over (under) expenditures	\$ -	\$ 25	\$ -

City of Kinston, North Carolina
Grant Project Fund - LLEBG - 2004

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue,			
Federal grant	\$ -	\$ 11,348	\$ 11,348
Investment earnings	(5)	303	-
Total revenue	(5)	11,651	11,348
Expenditures:			
Capital outlay	-	12,946	12,609
Total expenditures	-	12,946	12,609
Total expenditures over revenue	(5)	(1,295)	(1,261)
Other financing sources:			
Transfers in	-	1,261	1,261
Total other financing sources	-	1,261	1,261
Total revenue and other financing sources under expenditures	\$ (5)	\$ (34)	\$ -

City of Kinston, North Carolina

Grant Project Fund - Governor's Highway Safety Program - 2005

Schedule of Revenue and Expenditures -

Budget and Actual

From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue,			
Federal grant	\$ -	\$ 18,540	\$ 18,540
Total revenue	<u>-</u>	<u>18,540</u>	<u>18,540</u>
Expenditures:			
Personnel costs	-	2,831	2,831
Capital outlay	-	34,050	34,249
Total expenditures	<u>-</u>	<u>36,881</u>	<u>37,080</u>
Total revenue over (under) expenditures	<u>-</u>	<u>(18,341)</u>	<u>(18,540)</u>
Other financing sources:			
Transfers in	-	18,540	18,540
Total other financing sources	<u>-</u>	<u>18,540</u>	<u>18,540</u>
Total revenue and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 199</u>	<u>\$ -</u>

City of Kinston, North Carolina
Grant Project Fund - Viper Grant

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue,			
Federal grant	\$ 101,200	\$ 101,200	\$ 101,200
Investment earnings	-	-	-
Total revenue	101,200	101,200	101,200
Expenditures:			
Capital outlay	101,200	101,200	101,200
Total expenditures	101,200	101,200	101,200
Total revenue over expenditures	\$ -	\$ -	\$ -

City of Kinston, North Carolina
Grant Project Fund - Operation Video Impact

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project Authorization
	Current Year	Total to Date	
Revenue:			
Restricted intergovernmental revenue,			
Federal grant	\$ -	\$ 19,831	\$ 19,831
Total revenue	<u>-</u>	<u>19,831</u>	<u>19,831</u>
Expenditures:			
Capital outlay	-	21,474	22,034
Total expenditures	<u>-</u>	<u>21,474</u>	<u>22,034</u>
Total expenditures over revenue	<u>-</u>	<u>(1,643)</u>	<u>(2,203)</u>
Other financing sources:			
Transfers in	-	2,203	2,203
Total other financing sources	<u>-</u>	<u>2,203</u>	<u>2,203</u>
Total revenue and other financing sources over expenditures	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ -</u>

City of Kinston, North Carolina
Grant Project Fund - Gang Awareness, Training & Education

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2007

	Actual		Project
	Current Year	Total to Date	Authorization
Revenue:			
Restricted intergovernmental revenue,			
State grant	\$ 30,575	\$ 30,575	\$ 100,000
Total revenue	<u>30,575</u>	<u>30,575</u>	<u>100,000</u>
Expenditures:			
Personnel costs	1,606	1,606	85,000
Capital outlay	<u>46,726</u>	<u>46,726</u>	<u>48,000</u>
Total expenditures	<u>48,332</u>	<u>48,332</u>	<u>133,000</u>
Total revenue under expenditures	<u>(17,757)</u>	<u>(17,757)</u>	<u>(33,000)</u>
Other financing sources:			
Transfers in	<u>33,000</u>	<u>33,000</u>	<u>33,000</u>
Total other financing sources	<u>33,000</u>	<u>33,000</u>	<u>33,000</u>
Total revenue and other financing sources over expenditures	<u>\$ 15,243</u>	<u>\$ 15,243</u>	<u>\$ -</u>

NON-MAJOR CAPITAL PROJECTS FUND

Capital Projects Funds are used to account for the acquisition or construction of major capital facilities other than those financed by Proprietary Funds.

Fire Station / Public Safety Complex – This fund accounts for funds to be used to construct a new fire station and public safety complex.

General Small Projects Fund – This fund accounts for funds to be used for various governmental-type construction activities.

Recreation Improvements Capital Project Fund – This fund accounts for funds to be used for various improvements at city parks and recreation facilities.

Fairfield Renovation Capital Project Fund – This fund accounts for funds to be used for renovations to the tennis court and other projects at Fairfield Park.

Retro-Green Capital Project Fund – This fund accounts for funds to be used for utilization and management of properties acquired as a result of floods caused by hurricanes which will be restored for recreation and conservation uses.

CWMTF Flood Buy-out Project Fund – This fund accounts for funds to be used for acquisition of properties in the 100-year flood plain of the Neuse River and one of its major tributaries known as Adkin Branch.

Capital Reserve – This fund accounts for funds to be used for future capital improvements.

City of Kinston, North Carolina
Nonmajor Capital Project Funds

Combining Balance Sheets

June 30, 2007

With Comparative Totals for June 30, 2006

	Fire Station Public Safety Complex	Recreation Improvements	Fairfield Renovation	Retro- Green	CWMTF Flood Buy-out	Capital Reserve	Totals	
							2007	2006
Assets								
Cash and investments	\$ 21,741	\$ 5,725	\$ -	\$ 8,250	\$ -	\$ 6,789	\$ 42,505	\$ 12,979
Restricted cash and investments	3,858,115	-	-	-	-	-	3,858,115	-
Due from other funds	-	-	-	-	-	-	-	61,436
Due from government agencies	-	-	41,030	-	430,558	-	471,588	-
Accounts receivable	301	788	8,178	-	-	1	9,268	42,370
Total assets	\$ 3,880,157	\$ 6,513	\$ 49,208	\$ 8,250	\$ 430,558	\$ 6,790	\$ 4,381,476	\$ 116,785
Liabilities and Fund Balances								
Liabilities								
Due to other funds	\$ -	\$ -	\$ 48,812	\$ -	\$ 401,208	\$ -	\$ 450,020	\$ 248,111
Accounts payable	228,021	-	395	-	29,350	-	257,766	3,130
Deferred revenue	-	-	41,030	-	182,898	-	223,928	-
Total liabilities	228,021	-	90,237	-	613,456	-	931,714	251,241
Fund Balances (Deficits)								
Reserved by State statute	301	788	8,178	-	247,660	1	256,928	42,370
Reserved for restricted assets	3,858,115	-	-	-	-	-	3,858,115	-
Unreserved - undesignated	(206,280)	5,725	(49,207)	8,250	(430,558)	6,789	(665,281)	(176,826)
	3,652,136	6,513	(41,029)	8,250	(182,898)	6,790	3,449,762	(134,456)
Total liabilities and fund balances	\$ 3,880,157	\$ 6,513	\$ 49,208	\$ 8,250	\$ 430,558	\$ 6,790	\$ 4,381,476	\$ 116,785

City of Kinston, North Carolina
Nonmajor Capital Project Funds

Combining Statements of Revenue, Expenditures and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 1 of 2)

	Fire Station Public Safety Complex	General Small Projects	Recreation Improvements	Fairfield Renovation	Retro- Green
Revenues:					
Interest income	\$ 71,738	\$ -	\$ -	\$ -	\$ -
State grants	-	-	-	14,637	-
Other income	-	-	-	-	-
Total revenue	71,738	-	-	14,637	-
Expenditures:					
Parks and recreation	-	-	11,097	123,067	200
Public Safety	1,232,927	-	-	-	-
Total expenditures	1,232,927	-	11,097	123,067	200
Total revenue under expenditures	(1,161,189)	-	(11,097)	(108,430)	(200)
Other financing sources (uses):					
Debt issued	4,986,000	-	-	-	-
Transfers in	14,000	-	-	36,500	-
Transfers out	-	-	(8,500)	-	-
Total other financing sources	5,000,000	-	(8,500)	36,500	-
Total revenue and other financing sources over (under) expenditures	3,838,811	-	(19,597)	(71,930)	(200)
Fund balances (deficits), beginning	(186,675)	-	26,110	30,901	8,450
Fund balances (deficits), ending	\$ 3,652,136	\$ -	\$ 6,513	\$ (41,029)	\$ 8,250

City of Kinston, North Carolina
Nonmajor Capital Project Funds

Combining Statements of Revenue, Expenditures and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 2 of 2)

	CWMTF Flood Buy-out	Capital Reserve	Totals	
			2007	2006
Revenue:				
Interest income	\$ -	\$ -	\$ 71,738	\$ 418
State grants	212,395	-	227,032	96,033
Other income	-	-	-	283,138
Total revenue	212,395	-	298,770	379,589
Expenditures:				
Parks and recreation	375,261	-	509,625	429,422
Public safety	-	-	1,232,927	175,940
Total expenditures	375,261	-	1,742,552	605,362
Total revenue under expenditures	(162,866)	-	(1,443,782)	(225,773)
Other financing sources:				
Debt issued	-	-	4,986,000	-
Transfers in	-	-	50,500	100,000
Transfers out	-	-	(8,500)	(100,000)
Total other financing sources	-	-	5,028,000	-
Total revenue and other financing sources over (under) expenditures	(162,866)	-	3,584,218	(225,773)
Fund balances (deficits), beginning	(20,032)	6,790	(134,456)	91,317
Fund balances (deficits), ending	\$ (182,898)	\$ 6,790	\$ 3,449,762	\$ (134,456)

City of Kinston, North Carolina
Capital Project Funds - Fire Station/Public Safety Complex

Schedule of Revenue, Expenditures and Changes in Fund Balances
Budget and Actual
From Inception and For the Year Ended June 30, 2007

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenue:				
Investment earnings	\$ -	\$ -	\$ 71,738	\$ 71,738
Total revenue	-	-	71,738	71,738
Expenditures:				
Loan closing costs	14,000	-	13,926	13,926
Debt service	984,023	-	-	-
Capital outlay:				
Construction costs	9,336,000	186,675	1,219,001	1,405,676
Total expenditures	10,334,023	186,675	1,232,927	1,419,602
Revenue under expenditures	(10,334,023)	(186,675)	(1,161,189)	(1,347,864)
Other financing sources:				
Debt issued - short term financing	4,986,000	-	4,986,000	4,986,000
Debt issued - community facilities loan	4,986,000	-	-	-
Transfers - in	362,023	-	14,000	14,000
Total other financing sources	10,334,023	-	5,000,000	5,000,000
Total revenue and other financing sources over (under) expenditures	\$ -	\$ (186,675)	\$ 3,838,811	\$ 3,652,136

City of Kinston, North Carolina
Capital Project Funds - General Small Projects Fund

Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
From Inception and For the Year Ended June 30, 2007

	Project	Actual		
	Authorization	Prior	Current	Total
		Years	Year	to Date
Revenue:				
State grants	\$ 23,320	\$ 23,320	\$ -	\$ 23,320
Total revenue	23,320	23,320	-	23,320
Expenditures:				
Capital outlay:				
Upper catfish branch - design	23,320	23,320	-	23,320
Total expenditures	23,320	23,320	-	23,320
Revenue under expenditures	\$ -	\$ -	\$ -	\$ -

City of Kinston, North Carolina
Capital Project Funds - Recreation Improvements

Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
From Inception and For the Year Ended June 30, 2007

	Project	Actual		
	Authorization	Prior Years	Current Year	Total to Date
Revenue:				
Sale of property	\$ 245,938	\$ 245,938	\$ -	\$ 245,938
Total revenue	245,938	245,938	-	245,938
Expenditures:				
Capital outlay	237,438	219,828	11,097	230,925
Total expenditures	237,438	219,828	11,097	230,925
Revenue under expenditures	8,500	26,110	(11,097)	15,013
Other financing uses:				
Transfers out	8,500	-	8,500	8,500
Total other financing uses	8,500	-	8,500	8,500
Total revenue over (under) other financing uses and expenditures	\$ -	\$ 26,110	\$ (19,597)	\$ 6,513

City of Kinston, North Carolina
Capital Project Funds - Fairfield Renovation Capital Project

Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
From Inception and For the Year Ended June 30, 2007

	Project	Actual		
	Authorization	Prior Years	Current Year	Total to Date
Revenue:				
State grants	\$ 110,000	\$ 50,313	\$ 14,637	\$ 64,950
Other miscellaneous revenue	34,750	28,750	-	28,750
Total revenue	144,750	79,063	14,637	93,700
Expenditures:				
Capital outlay	281,250	148,162	123,067	271,229
Total expenditures	281,250	148,162	123,067	271,229
Revenue under expenditures	(136,500)	(69,099)	(108,430)	(177,529)
Other financing sources:				
Transfers in	136,500	100,000	36,500	136,500
Total other financing sources	136,500	100,000	36,500	136,500
Total revenue and other financing sources over (under) expenditures	\$ -	\$ 30,901	\$ (71,930)	\$ (41,029)

City of Kinston, North Carolina
Capital Project Funds - Retro-Green Capital Project

Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
From Inception and For the Year Ended June 30, 2007

	Project	Actual		
	Authorization	Prior	Current	Total
		Years	Year	to Date
Revenue:				
Donations	\$ 20,000	\$ -	\$ -	\$ -
Miscellaneous revenue	25,000	8,450	-	8,450
Total revenue	45,000	8,450	-	8,450
Expenditures:				
Capital outlay	45,000	-	200	200
Total expenditures	45,000	-	200	200
Revenue over (under)				
expenditures	\$ -	\$ 8,450	\$ (200)	\$ 8,250

City of Kinston, North Carolina
Capital Project Funds - CWMTF Flood Buy-out Capital Project

Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
From Inception and For the Year Ended June 30, 2007

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenue:				
State grants	\$ 1,181,000	\$ 41,400	\$ 212,395	\$ 253,795
Miscellaneous revenue	26,000	-	-	-
Total revenue	1,207,000	41,400	212,395	253,795
Expenditures:				
Capital outlay	1,207,000	61,432	375,261	436,693
Total expenditures	1,207,000	61,432	375,261	436,693
Revenue under expenditures	\$ -	\$ (20,032)	\$ (162,866)	\$ (182,898)

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NON-MAJOR ENTERPRISE FUND

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the government's Board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or the government's Board has decided that periodic determination of net income is appropriate for accountability purposes.

Environmental Services Fund - This fund is used to account for the activities associated with the collection and disposal of garbage by the City for its users.

City of Kinston, North Carolina
Environmental Services

Schedules of Revenue, Expenditures and Other Financing Sources (Uses) -
Budget and Actual - Non-GAAP - Modified Accrual Basis
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 1 of 2)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Operating revenue:				
Charges for services	\$ 2,742,505	\$ 2,680,787	\$ (61,718)	\$ 2,584,944
Other	12,000	12,504	504	467
Total operating revenue	2,754,505	2,693,291	(61,214)	2,585,411
Interest earned on investments	6,800	-	(6,800)	5,748
Total nonoperating revenue	6,800	-	(6,800)	5,748
Total revenue	2,761,305	2,693,291	(68,014)	2,591,159
Expenditures:				
Bulk leaf collection:				
Salaries and benefits		203		-
Operating		40,064		44,451
	42,560	40,267	2,293	44,451
Commercial solid waste:				
Salaries and benefits		234,067		238,702
Operating		462,070		467,935
Capital outlay		-		336,391
Indirect costs		171,148		175,210
	849,159	867,285	(18,126)	1,218,238
Residential solid waste				
Salaries and benefits		656,722		664,016
Operating		599,981		539,553
Capital outlay		143,388		-
Indirect costs		171,148		175,210
	1,776,515	1,571,239	205,276	1,378,779
Recycling				
Salaries and benefits		59,428		86,559
Operating		28,238		43,302
Capital outlay		216,093		-
	316,769	303,759	13,010	129,861
Debt service				
Principal retirement		289,132		204,182
Interest and other charges		19,839		16,655
	285,057	308,971	(23,914)	220,837
Total expenditures	3,270,060	3,091,521	178,539	2,992,166
Revenue over (under) expenditures	(508,755)	(398,230)	110,525	(401,007)

(Continued)

City of Kinston, North Carolina
Environmental Services

Schedules of Revenue, Expenditures and Other Financing Sources (Uses) -
Budget and Actual - Non-GAAP - Modified Accrual Basis (Continued)
For the Fiscal Year Ended June 30, 2007
With Comparative Totals for the Fiscal Year Ended June 30, 2006

(Page 2 of 2)

	2007			2006
	Budget	Actual	Variance, with Final Budget	Actual
Other financing sources (uses):				
Debt issued	460,000	467,440	7,440	283,202
Fund balance appropriated	113,249	-	(113,249)	-
Transfers in	2,056	2,056	-	80,585
Transfers out	(66,550)	(66,532)	18.00	(56,528)
Total other financing sources	508,755	402,964	(105,791)	307,259
Revenue and other sources over (under) expenditures	\$ -	\$ 4,734	\$ 4,734	\$ (93,748)
Reconciliation of modified accrual basis to full accrual basis:				
Revenue and other sources over (under) expenditures		\$ 4,734		\$ (93,748)
Transfers in		(2,056)		(80,585)
Transfers out		66,532		56,528
Capital outlay		127,534		336,391
Debt issued		(467,440)		(283,202)
Payment of debt principal		289,132		204,182
Depreciation		(161,794)		(248,195)
Decrease in accrued compensated absences		3,567		6,664
Increase in accrued interest payable		(189)		(237)
Increase in accrued unbilled sales		-		4,102
Bad debt expense		(17,591)		(9,875)
Income before operating transfers, accrual basis		\$ (157,571)		\$ (107,975)

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department for agencies of the City on a cost reimbursement basis.

Employee Health Internal Service Fund - This fund is used to finance and account for the City's workers' compensation insurance program.

Fleet Maintenance Internal Service Fund - This fund is used to finance and account for the City's garage operations.

Warehouse Internal Service Fund - This fund is used to finance and account for the City's purchases of inventory for fleet and fuel.

Public Services Administration Internal Service Fund - This fund is used to finance and account for the salaries and operating costs associated with the public utility and engineering functions of the City.

City of Kinston, North Carolina
Internal Service Funds

Combining Statement of Net Assets
June 30, 2007

	Employee Health	Fleet Maintenance	Warehouse	Public Services	Total
Assets					
Cash and investments	\$ 118,039	\$ -	\$ -	\$ 439,022	\$ 557,061
Due from other funds	749,066	-	-	-	749,066
Accounts receivable	1,206	1,119	37,517	3,519	43,361
Capital assets					
Buildings	19,468	-	-	-	19,468
Equipment	-	243,020	-	78,964	321,984
Accumulated depreciation	(6,330)	(226,398)	-	(71,743)	(304,471)
Inventory	590	167,165	-	-	167,755
Total assets	882,039	184,906	37,517	449,762	1,554,224
Liabilities					
Due to other funds	-	35,451	263,595	-	299,046
Accounts payable and accrued liabilities	311,805	13,807	57,139	73,576	456,327
Accrued compensated absences	10,489	29,004	-	65,759	105,252
Total liabilities	322,294	78,262	320,734	139,335	860,625
Net assets					
Invested in capital assets	13,138	16,622	-	7,221	36,981
Unrestricted (deficit)	546,607	90,022	(283,217)	303,206	656,618
Total net assets	\$ 559,745	\$ 106,644	\$ (283,217)	\$ 310,427	\$ 693,599
Reconciliation of internal service funds due to / due from other funds to the Statement of Net Assets - Proprietary Funds					
Due from other funds from above	\$ 749,066	Due to other funds from above		\$ 299,046	
Less amounts between funds	(299,046)	Less amounts between funds		(299,046)	
Net due from other funds	<u>\$ 450,020</u>	Net due to other funds		<u>\$ -</u>	

City of Kinston, North Carolina
Internal Service Funds

Combining Statements of Revenue, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

	Employee Health	Fleet Maintenance	Warehouse	Public Services	Totals
Operating revenue:					
Contributions from various funds	\$ 488,918	\$ 150,275	\$ 327,339	\$ 1,739,842	\$ 2,706,374
Other income	31,000	-	-	-	31,000
	<u>519,918</u>	<u>150,275</u>	<u>327,339</u>	<u>1,739,842</u>	<u>2,737,374</u>
Operating expenses:					
Administration	204,468	363,242	-	781,753	1,349,463
Operations	-	-	431,555	897,575	1,329,130
Depreciation	487	6,598	-	1,805	8,890
Claims reimbursement	198,457	-	-	-	198,457
Total operating expenses	<u>403,412</u>	<u>369,840</u>	<u>431,555</u>	<u>1,681,133</u>	<u>2,885,940</u>
Operating income (loss)	<u>116,506</u>	<u>(219,565)</u>	<u>(104,216)</u>	<u>58,709</u>	<u>(148,566)</u>
Nonoperating revenue:					
Interest earned on investments	20,781	-	-	-	20,781
Capital contributions	-	-	-	-	-
Total nonoperating revenue	<u>20,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,781</u>
Other financing sources (uses):					
Transfers in	2,273	270,960	-	2,738	275,971
Transfers out	(34,900)	(18,900)	-	(58,557)	(112,357)
Total other financing sources	<u>(32,627)</u>	<u>252,060</u>	<u>-</u>	<u>(55,819)</u>	<u>163,614</u>
Net income (loss)	<u>104,660</u>	<u>32,495</u>	<u>(104,216)</u>	<u>2,890</u>	<u>35,829</u>
Net assets (deficit), beginning	455,085	74,149	(179,001)	307,537	657,770
Net assets (deficit), ending	<u>\$ 559,745</u>	<u>\$ 106,644</u>	<u>\$ (283,217)</u>	<u>\$ 310,427</u>	<u>\$ 693,599</u>

City of Kinston, North Carolina

Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2007
(Page 1 of 2)

	Employee Health	Fleet Maintenance	Warehouse	Public Services	Total
Cash Flows From Operating Activities					
Cash received from customers	\$ 519,489	\$ 150,222	\$ 313,735	\$ 1,741,052	\$ 2,724,498
Cash paid to suppliers for goods and services	(312,006)	(68,832)	(415,429)	(474,715)	(1,270,982)
Cash paid to or on behalf of employees for services	(81,986)	(313,429)	-	(1,173,723)	(1,569,138)
Net cash provided by (used in) for operating activities	125,497	(232,039)	(101,694)	92,614	(115,622)
Cash Flows From Noncapital Financing Activities					
Transfers from other funds	2,273	270,960	-	2,738	275,971
Transfers to other funds	(34,900)	(18,900)	-	(58,557)	(112,357)
Advances from other funds	-	(5,381)	101,694	-	96,313
Advances to other funds	(359,658)	-	-	-	(359,658)
Net cash provided by (used in) noncapital financing	(392,285)	246,679	101,694	(55,819)	(99,731)
Cash Flows Provided By Investing Activities					
Interest on investments	20,781	-	-	-	20,781
Cash Flows From Capital and Related Financing Activities					
Acquisition of capital assets	-	(14,640)	-	(9,025)	(23,665)
Net increase (decrease) in cash and cash equivalents	(246,007)	-	-	27,770	(218,237)
Cash and cash equivalents, beginning	\$ 364,046	\$ -	\$ -	\$ 411,252	\$ 775,298
Cash and cash equivalents, ending	\$ 118,039	\$ -	\$ -	\$ 439,022	\$ 557,061

(Continued)

City of Kinston, North Carolina

Statement of Cash Flows (Continued)
Internal Service Funds
For the Fiscal Year Ended June 30, 2007
(Page 2 of 2)

	Employee Health	Fleet Maintenance	Warehouse	Public Services	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:					
Operating income (loss)	\$ 116,506	\$ (219,565)	\$ (104,216)	\$ 58,709	\$ (148,566)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	487	6,598	-	1,805	8,890
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(429)	(53)	(13,604)	1,209	(12,877)
(Increase) decrease in inventories	-	(20,138)	-	-	(20,138)
Increase (decrease) in accounts payable	7,065	(330)	16,126	29,908	52,769
Increase (decrease) in accrued compensated absences	1,868	1,449	-	983	4,300
Total adjustments	8,991	(12,474)	2,522	33,905	32,944
Net cash provided by (used in) operating activities	\$ 125,497	\$ (232,039)	\$ (101,694)	\$ 92,614	\$ (115,622)

City of Kinston, North Carolina
Internal Service Fund - Employee Health

Schedule of Revenue and Expenditures
Budget and Actual - Non-GAAP - Modified Accrual Basis
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Operating revenue:			
Contributions from various funds	\$ 488,917	\$ 488,918	\$ 1
Restricted intergovernmental	6,000	-	(6,000)
Insurance proceeds	51,500	31,000	(20,500)
	<u>546,417</u>	<u>519,918</u>	<u>(26,499)</u>
Nonoperating revenue:			
Interest earned on investments	12,500	20,781	8,281
Total revenue	<u>558,917</u>	<u>540,699</u>	<u>(18,218)</u>
Expenditures:			
Administration:			
Salaries and benefits		81,986	
Operating		119,324	
Capital outlay		1,290	
Total administration		<u>202,600</u>	
Claim reimbursements, operating		198,457	
Total expenditures	<u>526,277</u>	<u>401,057</u>	<u>125,220</u>
Total revenue over expenditures	<u>32,640</u>	<u>139,642</u>	<u>107,002</u>
Other financing sources (uses):			
Transfers in	2,273	2,273	-
Transfers out	(34,913)	(34,900)	13
Total other financing sources	<u>(32,640)</u>	<u>(32,627)</u>	<u>13</u>
Revenue and other sources over expenditures	<u>\$ -</u>	<u>\$ 107,015</u>	<u>\$ 107,015</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources over expenditures		\$ 107,015	
Accrued compensated absences		(1,868)	
Depreciation		(487)	
Net income, accrual basis		<u>\$ 104,660</u>	

City of Kinston, North Carolina
Internal Service Fund - Fleet Maintenance

Schedule of Revenue and Expenditures
Budget and Actual - Non-GAAP - Modified Accrual Basis
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Operating revenue:			
Contributions from various funds	\$ 102,325	\$ 149,698	\$ 47,373
Other	1,000	577	(423)
Total revenue	103,325	150,275	46,950
Expenditures:			
Administration:			
Salaries and benefits		313,429	
Operating		63,004	
Total expenditures	355,318	376,433	(21,115)
Total revenue under expenditures	(251,993)	(226,158)	25,835
Other financing sources (uses):			
Transfers out	(18,967)	(18,900)	67
Transfers in	270,960	270,960	-
Total other financing sources (uses)	251,993	252,060	67
Revenue and other sources over expenditures	\$ -	\$ 25,902	\$ 25,902
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources over expenditures		\$ 25,902	
Accrued compensated absences		(1,449)	
Depreciation		(6,598)	
Capital outlay		14,640	
Net income, accrual basis		\$ 32,495	

City of Kinston, North Carolina
Internal Service Fund - Warehouse

Schedule of Revenue and Expenditures
Budget and Actual - Non-GAAP - Modified Accrual Basis
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Operating revenue:			
Contributions from various funds	\$ 1,010,000	\$ 327,339	\$ (682,661)
Total revenue	<u>1,010,000</u>	<u>327,339</u>	<u>(682,661)</u>
Expenditures:			
Operations			
Fuel purchased		327,339	
Fleet maintenance inventory		104,216	
Total expenditures	<u>1,010,000</u>	<u>431,555</u>	<u>578,445</u>
Total revenue under expenditures	<u>\$ -</u>	<u>(104,216)</u>	<u>\$ (104,216)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources under expenditures		\$ (104,216)	
Net loss, accrual basis		<u>\$ (104,216)</u>	

City of Kinston, North Carolina
Internal Service Fund - Public Services

Schedule of Revenue and Expenditures -
Budget and Actual - Non-GAAP - Modified Accrual Basis
For the Fiscal Year Ended June 30, 2007

	Budget	Actual	Variance Positive (Negative)
Operating revenue:			
Contributions from various funds	\$ 1,739,825	\$ 1,739,842	\$ 17
Total operating revenue	<u>1,739,825</u>	<u>1,739,842</u>	<u>17</u>
Expenditures:			
Administration:			
Salaries and benefits		430,908	
Operating		118,046	
Capital outlay		5,756	
Indirect Charges		226,061	
Total administration	<u>825,843</u>	<u>780,771</u>	<u>45,072</u>
Operations			
Salaries and benefits		742,815	
Operating		154,760	
Capital outlay		9,025	
Total operations	<u>1,026,153</u>	<u>906,600</u>	<u>119,553</u>
Total expenditures	<u>1,851,996</u>	<u>1,687,371</u>	<u>164,625</u>
Total revenue under expenditures	<u>(112,171)</u>	<u>52,471</u>	<u>164,642</u>
Other financing sources (uses):			
Appropriated fund balance	168,000	-	(168,000)
Transfers in	2,738	2,738	-
Transfers out	(58,567)	(58,557)	10
Total other financing sources	<u>112,171</u>	<u>(55,819)</u>	<u>(167,990)</u>
Revenue and other sources under expenditures	<u>\$ -</u>	<u>\$ (3,348)</u>	<u>\$ (3,348)</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources under expenditures		\$ (3,348)	
Accrued compensated absences		(983)	
Capital outlay		9,026	
Depreciation		(1,805)	
Net income, accrual basis		<u>\$ 2,890</u>	

GOVERNMENTAL FUNDS CAPITAL ASSETS

The Governmental Funds Capital Assets account for the capital assets used in the operation of the Governmental Funds, other than those accounted for in the Proprietary Funds

City of Kinston, North Carolina

Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules by Source
June 30, 2007 and 2006

	2007	2006
Governmental funds capital assets:		
Land	\$ 2,874,515	\$ 2,874,514
Buildings	9,326,592	9,604,947
Equipment and vehicles	9,649,620	9,468,496
Infrastructure	5,325,064	818,042
Total governmental funds capital assets	\$ 27,175,791	\$ 22,765,999
Investment in governmental funds capital assets:		
General Fund	\$ 24,148,173	\$ 19,862,901
Special Revenue Funds	481,641	481,641
Capital Project Funds	2,545,977	2,421,457
Total investment in governmental funds capital assets	\$ 27,175,791	\$ 22,765,999

Note: 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 the Employee Health and Fleet maintenance Internal Service Funds are included as governmental activities in the statement of net assets, while the capital assets for the Public Services Fund are included as business-type activities in the statement of net assets.

City of Kinston, North Carolina

Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2007

	Land	Buildings	Equipment and Vehicles	Infrastructure	Total
<u>Function and Activity:</u>					
General Government:					
Manager	\$ -	\$ -	\$ 68,039	\$ -	\$ 68,039
Clerk	-	-	12,258	-	12,258
Human resources	-	-	5,292	-	5,292
Finance and administration	-	-	57,924	-	57,924
Management information systems	-	-	588,958	-	588,958
Other, unclassified	2,319,253	2,558,312	154,744	-	5,032,309
Total general government	2,319,253	2,558,312	887,215	-	5,764,780
Public Safety:					
Police	-	87,049	3,164,729	-	3,251,778
Fire	19,365	604,604	2,869,321	-	3,493,290
Total public safety	19,365	691,653	6,034,050	-	6,745,068
Public Works:					
Highways and Streets:					
Engineering	-	-	191,084	-	191,084
Maintenance	-	-	1,574,023	4,608,285	6,182,308
Total public works	-	-	1,765,107	4,608,285	6,373,392
Community Development:	-	-	62,874	716,779	779,653
Parks and Recreation	535,897	6,076,627	900,374	-	7,512,898
Total general fixed assets	\$ 2,874,515	\$ 9,326,592	\$ 9,649,620	\$ 5,325,064	\$ 27,175,791

Note: This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the Internal Service Funds are excluded from the above amounts. Generally, the capital assets of the Employee Health and Fleet Maintenance Internal Service Funds are included in as governmental activities in the statement of net assets, while the capital assets to the Public Services Fund are included as business-type activities in the statement of net assets.

City of Kinston, North Carolina

Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
For the Fiscal Year Ended June 30, 2007

	Capital Assets 2006	Additions	Transfers and Deductions	Capital Assets 2007
<u>Function and Activity:</u>				
General Government:				
Manager	\$ 131,009	\$ -	\$ 62,970	\$ 68,039
Clerk	12,258	-	-	12,258
Human resources	5,292	-	-	5,292
Finance and administration	57,924	-	-	57,924
Management information systems	548,777	40,181	-	588,958
Other, unclassified	4,996,431	67,651	31,773	5,032,309
Total general government	<u>5,751,691</u>	<u>107,832</u>	<u>94,743</u>	<u>5,764,780</u>
Public Safety:				
Police	3,229,101	445,199	422,522	3,251,778
Fire	3,568,101	-	74,811	3,493,290
Total public safety	<u>6,797,202</u>	<u>445,199</u>	<u>497,333</u>	<u>6,745,068</u>
Public Works:				
Highways and Streets:				
Engineering	191,084	-	-	191,084
Maintenance	1,714,842	4,518,945	51,479	6,182,308
Total highways and streets	<u>1,905,926</u>	<u>4,518,945</u>	<u>51,479</u>	<u>6,373,392</u>
Community Development	<u>792,577</u>	<u>-</u>	<u>12,924</u>	<u>779,653</u>
Parks and Recreation	<u>7,518,603</u>	<u>329,000</u>	<u>334,705</u>	<u>7,512,898</u>
Total general fixed assets	<u>\$ 22,765,999</u>	<u>\$ 5,400,976</u>	<u>\$ 991,184</u>	<u>\$ 27,175,791</u>

Note: 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 the Employee Health and Fleet Maintenance Internal Service Funds are included as governmental activities in the statement of net assets, while the capital assets from Public Services Fund are included in the business-type activities.

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OTHER FINANCIAL INFORMATION

Other financial information includes additional detailed analysis of particular aspects of the City's financial position or results of operations.

City of Kinston, North Carolina

Schedule of Ad Valorem Taxes Receivable
For the Fiscal Year Ended June 30, 2007

Fiscal Year	Uncollected Balance July 1, 2006	Current Year Gross Levy	Collections Credits and Adjustments	Uncollected Balance June 30, 2007
2006-2007	\$ -	\$ 7,268,251	\$ 6,889,924	\$ 378,327
2005-2006	396,780	-	287,570	109,210
2004-2005	121,541	-	62,998	58,543
2003-2004	63,001	-	19,946	43,055
2002-2003	40,636	-	6,662	33,974
2001-2002	35,470	-	4,149	31,321
2000-2001	29,837	-	1,807	28,030
1999-2000	22,849	-	1,430	21,419
1998-1999	34,590	-	1,302	33,288
1997-1998	24,520	-	1,043	23,477
1996-1997	29,561	-	29,561	-
	<u>\$ 798,785</u>	<u>\$ 7,268,251</u>	<u>\$ 7,306,392</u>	<u>\$ 760,644</u>

Motor vehicle tags receivable	146,201
Total property tax receivable	<u>\$ 906,845</u>

Ad valorem taxes - General Fund	\$ 7,479,685
Less auto fee	<u>(160,373)</u>
	\$ 7,319,312
Add credits and adjustments	67,382
Less penalties and overpayments	<u>(80,302)</u>
	<u>\$ 7,306,392</u>

City of Kinston, North Carolina

Analysis of Current Tax Levy

For the Fiscal Year Ended June 30, 2007

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 1,183,964,810	\$ 0.600	\$ 7,103,789	\$ 6,300,260	\$ 803,529
Penalties			6,009	6,009	-
Total	<u>1,183,964,810</u>		<u>7,109,798</u>	<u>6,306,269</u>	<u>803,529</u>
Municipal Service District			<u>52,686</u>	<u>52,686</u>	<u>-</u>
Discoveries:					
Current year taxes	<u>31,946,753</u>	0.600	<u>191,680</u>	<u>191,680</u>	<u>-</u>
Total	<u>31,946,753</u>		<u>191,680</u>	<u>191,680</u>	<u>-</u>
Abatements:					
Current year taxes	<u>(14,318,883)</u>	0.600	<u>(85,913)</u>	<u>(56,027)</u>	<u>(29,886)</u>
	<u>(14,318,883)</u>		<u>(85,913)</u>	<u>(56,027)</u>	<u>(29,886)</u>
Total property valuation	<u>\$ 1,201,592,680</u>				
Net levy			7,268,251	6,494,608	773,643
Uncollected taxes at June 30, 2007			<u>378,327</u>	<u>220,307</u>	<u>158,020</u>
Current year's taxes collected			<u>\$ 6,889,924</u>	<u>\$ 6,274,301</u>	<u>\$ 615,623</u>
Current levy collection percentage			<u>94.79%</u>	<u>96.61%</u>	<u>79.57%</u>

STATISTICAL SECTION

(Unaudited)

This part of the City of Kinston's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	125
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time	
Revenue Capacity	132
These schedules contain information to help the reader assess the government's most significant local revenue source, the electric charges.	
Debt Capacity	138
These schedule present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	145
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	148
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

City of Kinston, North Carolina

**Net Assets By Component
Last Five Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)**

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 8,194,255	\$ 7,642,027	\$ 6,747,204	\$ 8,022,946	\$ 10,469,056
Restricted	289,314	440,884	590,711	619,832	696,026
Unrestricted	5,618,353	4,134,942	4,517,268	3,962,060	3,310,120
Total governmental activities net assets	\$ 14,101,922	\$ 12,217,853	\$ 11,855,183	\$ 12,604,838	\$ 14,475,202
Business-type activities:					
Invested in capital assets, net of related debt	\$ 43,152,193	\$ 45,059,829	\$ 53,715,106	\$ 73,141,568	\$ 76,322,354
Unrestricted	3,595,708	5,824,985	9,857,561	10,637,908	12,109,100
Total business-type activities net assets	\$ 46,747,901	\$ 50,884,814	\$ 63,572,667	\$ 83,779,476	\$ 88,431,454
Primary government:					
Invested in capital assets, net of related debt	\$ 51,346,448	\$ 52,701,856	\$ 60,462,310	\$ 81,164,514	\$ 86,791,410
Restricted	289,314	440,884	590,711	619,832	696,026
Unrestricted	9,214,061	9,959,927	14,374,829	14,599,968	15,419,220
Total primary government net assets	\$ 60,849,823	\$ 63,102,667	\$ 75,427,850	\$ 96,384,314	\$ 102,906,656

GASB Statement No. 34 Implemented in Fiscal Year 2003

City of Kinston, North Carolina

**Changes In Net Assets
Last Five Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)**

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses:					
Governmental activities:					
General government	\$ 1,543,904	\$ 1,917,328	\$ 2,351,252	\$ 1,402,565	\$ 1,983,777
Public safety	8,070,686	8,890,704	8,675,761	8,607,793	8,887,330
Sanitation (Public Services)	4,684,903	1,858,283	1,847,141	1,880,438	2,365,762
Culture and recreation	2,362,355	2,594,715	2,551,858	2,012,994	1,342,519
Community development	9,685,039	2,890,594	2,256,483	2,665,090	2,851,379
Interest on long-term debt	183,755	185,904	168,857	177,873	226,828
Total governmental activities expenses	26,530,642	18,337,528	17,851,352	16,746,753	17,657,595
Business-type activities:					
Electric	38,356,608	38,338,927	40,016,886	44,074,061	47,429,959
Water	6,879,646	3,206,893	3,771,820	3,671,141	3,350,291
Sewer	comb w/water	4,391,983	4,536,399	4,654,361	4,271,411
Nonmajor Funds	N/A	2,576,785	2,673,660	2,664,596	2,836,185
Total business-type activities expenses	45,236,254	48,514,588	50,998,765	55,064,159	57,887,846
Total primary government expenses	71,766,896	66,852,116	68,850,117	71,810,912	75,545,441
Program revenue:					
Governmental activities:					
Charges for services:					
General government	669,842	245,335	354,781	442,506	409,650
Public safety	N/A	N/A	24,472	20,186	42,046
Public Services	2,321,232	115,606	15,272	15,277	15,277
Culture and recreation	844,992	287,007	775,499	258,442	111,400
Community Development	109,257	100,804	104,942	997,313	866,211
Operating grants and contributions:					
General government	N/A	N/A	N/A	4,320	N/A
Public safety	206,557	810,392	154,281	167,583	358,551
Public Services	732,964	659,146	756,882	735,128	703,967
Culture and recreation	N/A	498,070	N/A	1,167,482	10,274
Community development	8,503,678	1,461,269	1,189,565	58,763	N/A
Capital grants and contributions, Community Development					
Culture and recreation	N/A	N/A	N/A	N/A	450,960
Community development	693,944	N/A	N/A	N/A	N/A
Total governmental activities program revenue	14,082,466	4,177,629	3,375,694	3,867,000	2,968,336

(Continued)

City of Kinston, North Carolina

Changes In Net Assets (Continued)
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year				
	2003	2004	2005	2006	2007
Business-type activities:					
Charges for services:					
Electric	39,124,614	39,259,547	39,727,807	44,686,861	46,817,025
Water	7,053,960	3,426,666	4,104,468	4,659,004	4,977,377
Sewer	comb w/water	4,189,404	4,705,513	4,622,074	4,618,345
Nonmajor Funds	N/A	2,578,277	2,584,199	2,589,512	2,693,291
Capital grants and contributions:					
Electric	482	N/A	N/A	N/A	N/A
Water	929,775.00	N/A	8,400	300,000	29,738
Sewer	N/A	3,954,803	13,446,075	19,123,503	4,237,474
Nonmajor Funds	N/A	6,353	24,704	N/A	N/A
Total business-type activities program revenue	47,108,831	53,415,050	64,601,166	75,980,954	63,373,250
Total primary government program revenue	61,191,297	57,592,679	67,976,860	79,847,954	66,341,586
Net (expense) revenue:					
Governmental activities	(12,448,176)	(14,159,899)	(14,475,658)	(12,879,753)	(14,689,259)
Business-type activities	1,872,577	4,900,462	13,602,401	20,916,795	5,485,404
Total primary government net expense	(10,575,599)	(9,259,437)	(873,257)	8,037,042	(9,203,855)
General revenue and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	6,862,613	6,961,891	7,574,054	7,428,644	7,455,353
Sales taxes	2,309,906	3,033,439	3,042,893	2,991,928	3,169,463
Other taxes	1,561,712	1,221,479	1,950,381	1,737,049	1,916,403
Unrestricted intergovernmental	344,373	159,286	426,652	360,586	341,662
Investment earnings	41,581	26,576	63,365	94,385	200,033
Miscellaneous	349,200	93,195	63,353	26,264	146,222
Transfers	955,000	779,964	992,290	990,552	1,329,736
Capital contributions	75,234	N/A	N/A	N/A	N/A
Total governmental activities	12,499,619	12,275,830	14,112,988	13,629,408	14,558,872
Business-type activities:					
Investment earnings	28,716	16,415	77,742	280,566	496,310
Transfers	(955,000)	(779,964)	(992,290)	(990,552)	(1,329,736)
Total business-type activities	(926,284)	(763,549)	(914,548)	(709,986)	(833,426)
Total primary government	11,573,335	11,512,281	13,198,440	12,919,422	13,725,446
Changes in net assets:					
Governmental activities	51,443	(1,884,069)	(362,670)	749,655	(130,387)
Business-type activities	946,293	4,136,913	12,687,853	20,206,809	4,651,978
Total primary government	\$ 997,736	\$ 2,252,844	\$ 12,325,183	\$ 20,956,464	\$ 4,521,591

City of Kinston, North Carolina

Program Net (Expense) Revenue by Function/Program
Last Five Fiscal Years*
(Accrual Basis of Accounting)
(Unaudited)

Function / Program	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities:					
General government	\$ (874,062)	\$ (1,671,993)	\$ (1,996,471)	\$ (955,739)	\$ (1,574,127)
Public safety	(7,864,129)	(8,080,312)	(8,497,008)	(8,420,024)	(8,486,733)
Sanitation (Public Services)	(1,630,707)	(1,083,531)	(1,074,987)	(1,130,033)	(1,646,518)
Culture and recreation	(1,517,363)	(1,809,638)	(1,776,359)	(587,070)	(1,220,845)
Community development	(378,160)	(1,328,521)	(961,976)	(1,609,014)	(1,534,208)
Interest on long-term debt	(183,755)	(185,904)	(168,857)	(177,873)	(226,828)
Total governmental activities	(12,448,176)	(14,159,899)	(14,475,658)	(12,879,753)	(14,689,259)
Business-type activities:					
Electric	768,488	920,620	(289,079)	612,800	(612,934)
Water	1,104,089	219,773	341,048	1,287,863	1,656,824
Sewer	comb w/ water	3,752,224	13,615,189	19,091,216	4,584,408
Nonmajor Funds	N/A	7,845	(64,757)	(75,084)	(142,894)
Total business-type activities	1,872,577	4,900,462	13,602,401	20,916,795	5,485,404
Total primary government	\$ (10,575,599)	\$ (9,259,437)	\$ (873,257)	\$ 8,037,042	\$ (9,203,855)

GASB Statement No. 34 implemented in fiscal year 2003.

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City of Kinston, North Carolina

Fund Balances, Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Unaudited)

	Fiscal Year			
	1998	1999	2000	2001
General Fund:				
Reserved	\$ 2,899,033	\$ 2,371,648	\$ 3,893,590	\$ 2,524,259
Unreserved:	1,868,381	2,370,800	2,517,740	3,363,408
Total General Fund	\$ 4,767,414	\$ 4,742,448	\$ 6,411,330	\$ 5,887,667
All Other Governmental Funds:				
Reserved	\$ 831,030	\$ 917,061	\$ 1,363,743	\$ 1,104,612
Unreserved, reported in:				
Special revenue funds	(741,184)	(642,576)	(2,158,481)	(633,619)
Major Capital projects funds	-	-	-	-
Capital projects funds	(230,390)	-	734,648	(764,546)
Permanent fund	-	-	-	-
Total all other government funds	\$ (140,544)	\$ 274,485	\$ (60,090)	\$ (293,553)

Fiscal Year					
2002	2003	2004	2005	2006	2007
\$ 2,257,743	\$ 1,957,731	\$ 1,778,943	\$ 3,016,132	\$ 2,250,430	\$ 2,595,053
2,255,854	2,562,359	2,164,023	1,795,829	2,187,832	1,576,019
\$ 4,513,597	\$ 4,520,090	\$ 3,942,966	\$ 4,811,961	\$ 4,438,262	\$ 4,171,072
\$ 2,679,480	\$ 3,548,911	\$ 244,764	\$ 182,905	\$ 313,363	\$ 4,168,822
(1,858,297)	(2,237,726)	520,709	142,252	(83,522)	102,534
-	(506,332)	-	-	-	-
(1,561,255)	(34,654)	-	91,317	(176,826)	(665,281)
-	-	-	76,824	78,454	80,584
\$ (740,072)	\$ 770,199	\$ 765,473	\$ 493,298	\$ 131,469	\$ 3,686,659

City of Kinston, North Carolina

Changes In Fund Balances, Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Unaudited)

	Fiscal Year			
	1998	1999	2000	2001
Revenue:				
Taxes	\$ 6,049,670	\$ 6,331,104	\$ 6,343,842	\$ 6,428,254
Other taxes	3,689,204	3,907,272	4,105,684	4,058,658
Intergovernmental	3,455,433	8,777,499	12,257,094	14,619,450
Charges for services	3,454,623	3,638,114	3,879,629	3,870,712
Other	586,328	648,608	373,522	542,322
Total revenue	17,235,258	23,302,597	26,959,771	29,519,396
Expenditures:				
General government	80,359	45,062	1,041,340	1,139,790
Public safety	6,677,933	7,077,312	7,077,340	7,757,768
Public Services	3,483,520	4,001,927	4,215,536	4,660,841
Culture and recreation	2,296,814	2,422,189	2,081,602	2,263,251
Community development	4,519,687	9,280,169	12,756,775	13,006,858
Capital outlay	330,564	51,374	501,697	1,502,389
Debt service:				
Principal	1,124,770	888,422	683,052	741,994
Interest	199,802	155,479	70,342	158,231
Total expenditures	18,713,449	23,921,934	28,427,684	31,231,122
Excess of revenue (under) expenditures	(1,478,191)	(619,337)	(1,467,913)	(1,711,726)
Other financing sources (uses):				
Transfers in	1,905,683	1,206,208	991,145	1,041,317
Transfers out	(242,788)	(196,808)	(155,845)	(86,717)
Issuance of long-term debt	-	-	1,966,920	-
Total other financing sources	1,662,895	1,009,400	2,802,220	954,600
Net changes in fund balance	\$ 184,704	\$ 390,063	\$ 1,334,307	\$ (757,126)

Fiscal Year					
2002	2003	2004	2005	2006	2007
\$ 6,963,814	\$ 6,870,946	\$ 7,115,953	\$ 7,295,551	\$ 7,453,311	\$ 7,479,685
3,174,637	3,871,618	4,568,842	4,993,274	4,728,976	5,085,866
12,149,628	10,516,843	3,109,756	2,520,599	2,490,910	1,653,077
4,035,122	3,937,476	1,547,926	1,274,966	1,458,756	1,444,584
1,248,001	431,429	205,906	179,280	434,937	546,582
27,571,202	25,628,312	16,548,383	16,263,670	16,566,890	16,209,794
1,106,747	1,379,073	1,884,437	1,820,443	1,888,204	1,960,260
7,705,335	7,547,052	8,190,475	8,331,314	8,920,980	9,886,828
5,570,632	4,317,306	1,621,290	1,836,529	1,834,359	2,134,327
2,315,358	2,164,615	2,340,430	2,425,258	2,811,762	3,425,570
11,603,199	9,642,912	2,787,031	2,179,013	1,968,797	1,263,181
2,188,162	1,302,947	890,775	-	-	-
526,608	854,814	550,208	565,844	775,232	870,910
131,890	117,630	230,348	171,995	177,916	158,906
31,147,931	27,326,349	18,494,994	17,330,396	18,377,250	19,699,982
(3,576,729)	(1,698,037)	(1,946,611)	(1,066,726)	(1,810,360)	(3,490,188)
1,319,735	1,126,767	988,796	1,196,251	1,284,760	1,307,879
(364,735)	(171,767)	(529,147)	(547,705)	(524,658)	(197,576)
801,140	2,259,799	905,114	1,015,000	314,730	5,667,885
1,756,140	3,214,799	1,364,763	1,663,546	1,074,832	6,778,188
\$ (1,820,589)	\$ 1,516,762	\$ (581,848)	\$ 596,820	\$ (735,528)	\$ 3,288,000

City of Kinston, North Carolina

The Electric System
Electricity Purchased, Consumed and Unbilled
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	KWH Purchased	KWH Residential Usage	KWH Commercial/ Industrial Usage	KWH Other Usage	KWH Total Usage	KWH Unbilled	KWH Unbilled %	Purchased Electric Rate (.00/KWH)
1998								
1999								
2000	475,203,112	134,569,928	278,442,925	19,662,916	432,675,769	42,527,343	10%	0.0618
2001	474,564,987	138,898,879	292,509,374	17,063,645	448,471,898	26,093,089	6%	0.0611
2002	460,901,038	128,835,008	295,874,709	18,039,778	442,749,495	18,151,543	4%	0.0630
2003	467,918,731	139,697,073	291,218,874	16,872,338	447,788,285	20,130,446	4%	0.0690
2004	464,469,048	136,959,635	288,458,227	16,388,724	441,806,586	22,662,463	5%	0.0710
2005	475,439,130	136,413,157	288,003,273	30,195,605	454,612,035	20,827,095	5%	0.0731
2006	484,523,623	139,408,959	295,020,542	28,633,767	463,063,268	21,460,355	5%	0.0781
2007	492,063,385	126,593,785	301,904,545	28,149,694	456,648,024	32,415,361	7%	0.0810

Source: City of Kinston Annual Financial Forecast provided by Booth & Associates, Inc.

City of Kinston, North Carolina

**Electric Rates
Last Ten Fiscal Years**

Electric Rates	Cents Per KWH									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Residential	12.7	12.0	11.0	10.8	10.8	10.3	9.9	9.9	NA	NA
Small General Service	12.5	10.1	9.3	9.4	9.4	8.8	8.7	8.8	NA	NA
Medium General Service	10.4	10.3	0.0	0.0	0.0	0.0	0	0	NA	NA
Public Housing	11.7	10.1	9.4	9.4	9.3	8.8	8.5	8.5	NA	NA
Church & School	14.9	14.2	13.2	13.1	13.1	12.4	11.9	11.9	NA	NA
Municipal Service	4.0	6.7	6.0	6.0	6.0	5.0	3	3	NA	NA
Masterbrand	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	NA	NA
Large General Service	8.6	7.9	7.2	7.2	7.5	7.0	6.6	6.6	NA	NA
CDC Rate	5.9	5.5	5.0	5.0	4.9	7.9	5	4.9	NA	NA
Area Lights	21.5	22.2	20.9	20.7	20.6	19.6	18.5	18.5	NA	NA

Source: City of Kinston Annual Financial Forecast provided by Booth & Associates, Inc.

Notes: NA - Information not available

City of Kinston, North Carolina

**Electric System - Major Users
Current Year and Nine Years Ago
(Unaudited)**

2007				
Customer	Annual KWH	Annual Revenues	Rank	Percentage of Total Electric Sales
Electrolux Inc.	33,775,272	\$ 2,149,233	1	4.77%
Dopaco, Inc.	32,286,588	1,699,106	2	3.77%
Lenox China	15,760,420	1,336,274	3	2.96%
Smithfield Packing	18,884,402	1,130,247	4	2.51%
Master Brand Cabinets	19,276,800	1,021,666	5	2.27%
Kinston Housing Authority	7,006,085	870,127	6	1.93%
Lenoir Memorial Hospital	14,169,905	849,738	7	1.89%
Smithfield Packing K-2	8,151,155	722,580	8	1.60%
Caswell Center	11,283,200	511,098	9	1.36%
Kinston Neuse Corp.	8,322,952	574,527	10	1.27%

Total	<u>168,916,779</u>	<u>\$ 10,864,596</u>
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(Continued)

Source: City of Kinston Utility Department

City of Kinston, North Carolina

Electric System - Major Users
Current Year and Nine Years Ago (Continued)
(Unaudited)

1998				
Customer	Annual KWH	Annual Revenues	Rank	Percentage of Total Electric Sales
Frigidaire	25,059,971	\$ 1,146,009	3	3.10%
Dopoco	12,662,938	950,032	4	2.60%
Lenox China	10,187,460	641,620	8	1.70%
Smithfield Packing	18,381,600	1,226,424	1	3.30%
Lenoir Memorial Hospital	12,836,254	589,942	10	1.60%
Caswell Center	11,769,600	874,238	6	2.40%
Bassett Walker	18,399,600	1,201,276	2	3.20%
Glen Raven Mills, Inc.	13,287,600	932,488	5	2.50%
West Pharmaceuticals	11,039,906	601,094	9	1.60%
Dimon International	10,113,219	643,582	7	1.70%
	<u>143,738,148</u>	<u>\$ 8,806,705</u>		

Source: City of Kinston Utility Department

City of Kinston, North Carolina

Ratios of Net General Bonded Debt Outstanding by Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Governmental Activities		Net General Bonded Debt	Percentage of Actual Property Value	Debt Per Capita
	General Obligation Bonds	Less Amount Available in Debt Service			
1998	\$ -	\$ -	\$ -	\$ -	\$ -
1999	-	-	-	-	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	-	-	-	-	-
2006	-	-	-	-	-
2007	-	-	-	-	-

Note: Details regarding the City's outstanding debt may be found in the notes to the basic financial statements.

		Business-Type Activities			
Notes and Installments		General Obligation Bonds	Revenue Bonds	Total Primary Government	Total debt Per Capita
\$	7,824,197	\$ -	\$ 15,875,000	\$ 23,699,197	\$ 921
	8,150,715	-	15,245,000	23,395,715	937
	7,032,292	-	14,475,000	21,507,292	861
	5,929,160	-	13,565,000	19,494,160	823
	5,251,113	-	12,730,000	17,981,113	759
	5,877,997	-	11,846,000	17,723,997	748
	6,714,017	-	13,466,000	20,180,017	868
	6,445,581	-	16,367,067	22,812,648	995
	5,721,263	-	15,777,811	21,499,074	941
	12,503,265	-	15,168,004	27,671,269	1,211

City of Kinston, North Carolina

Direct and Overlapping Governmental Activities Debt
For the Year Ended June 30, 2007
(Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Lenoir County Debt	\$ 33,800,000	36.53%	\$ 12,347,140
Subtotal, overlapping debt	<u>\$ 33,800,000</u>		<u>\$ 12,347,140</u>
City Direct Debt	-	100%	<u>-</u>
Total direct and overlapping debt			<u><u>\$ 12,347,140</u></u>

Sources:

Notes:

- (1) Includes general obligation bonds for Enterprise Fund and General Long-Term Debt Account Group.
- (2) Determined by ration of assessed valuation of property subject to taxation in Lenoir County (\$3,215,235,951).
- (3) Amount in debt outstanding column multiplied by percentage applicable.

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City of Kinston, North Carolina

**Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)**

	1998	1999	2000	2001
Debt limit	\$ 79,326,252	\$ 81,496,431	\$ 82,877,930	\$ 82,325,183
Total net debt applicable to limit	10,477,902	1,765,283	3,049,151	2,307,157
Legal debt margin	\$ 68,848,350	\$ 79,731,148	\$ 79,828,779	\$ 80,018,026
Total net debt applicable to the limit as a percentage of debt limit	15.22%	2.21%	3.82%	2.88%

Legal Debt Margin Calculation for Fiscal Year 2007

Assessed value		\$ 1,201,592,680
Debt limit (8% of assessed value)		96,127,414
Debt applicable to limit:		
Total bonded debt	\$ 15,168,004	
Obligation under notes payable	9,716,567	
Obligation under installment contracts	11,429,745	
Gross debt	36,314,316	
Less - statutory deductions:		
Revenue bonds issued and outstanding for electric purposes	5,715,524	
Obligations under notes payable attributable to enterprise funds	9,716,567	
Obligation under installment contracts attributable to enterprise funds	2,786,698	
Revenue bonds issued and outstanding for water purposes	2,273,259	
Revenue bonds issued and outstanding for wastewater purposes	7,179,221	
Total statutory deductions	27,671,269	
Total debt applicable to limitation		8,643,047
Legal debt margin		\$ 87,484,367

2002	2003	2004	2005	2006	2007
\$ 92,964,718	\$ 92,657,120	\$ 92,299,722	\$ 93,609,501	\$ 95,001,119	\$ 96,127,414
2,581,689	3,986,674	3,857,418	4,306,574	3,846,072	8,643,047
\$ 90,383,029	\$ 88,670,446	\$ 88,442,304	\$ 89,302,927	\$ 91,155,047	\$ 87,484,367
2.86%	4.50%	4.36%	4.82%	4.22%	9.88%

City of Kinston, North Carolina

Pledged Revenue Coverage

Last Ten Fiscal Years

(dollars in thousands)

(Unaudited)

Combined Enterprise Revenue Bonds						
Fiscal Year	Gross Revenues	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
1998	\$ 43,234,423	\$ 39,231,141	\$ 4,003,282	\$ 590,000	\$ 870,462	2.74
1999	43,830,191	38,993,599	4,836,592	630,000	844,292	3.28
2000	41,024,124	38,102,716	2,921,408	770,000	816,571	1.84
2001	43,477,825	40,341,061	3,136,764	910,000	781,921	1.85
2002	42,461,360	39,216,493	3,244,867	835,000	740,061	2.06
2003	46,207,290	42,135,152	4,072,138	885,000	700,816	2.57
2004	49,470,309	45,850,694	3,619,615	353,933	1,217,633	2.30
2005	51,199,729	47,457,736	3,741,993	589,256	585,435	3.19
2006	56,838,017	54,526,650	2,311,367	589,256	501,167	2.12
2007	59,602,346	57,180,987	2,421,359	609,807	479,978	2.22

City of Kinston, North Carolina

Demographic and Economic Statistics

Last Ten Fiscal Years

(Unaudited)

Fiscal Year Ended June 30	Population (1)	Per Capita Income (2)	School Enrollment (3)	Unemployment Rate (4)
1998	25,729	21,707	10,326	5.3%
1999	24,974	21,212	10,062	6.3%
2000	24,974	16,744	10,275	4.8%
2001	23,688	16,744	9,950	7.2%
2002	23,688	23,936	10,260	9.1%
2003	23,688	17,779	11,347	7.1%
2004	23,238	(5)	10,099	6.1%
2005	22,917	(5)	9,876	6.7%
2006	22,851	(5)	9,797	5.7%
2007	(5)	(5)	9,549	4.9%

Sources:

- (1) NC State Data Profile
- (2) US Census Bureau - Information available at City level only for years cer
- (3) Lenoir County School Board
- (4) NC Employment Security Commission
- (5) Information is not presently available

City of Kinston, North Carolina

**Principal Employers
Current Year and Nine Years Ago
(Unaudited)**

Employer	2007			1998		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Caswell Center	1,634	1	5.80%	1,825	2	6.24%
Lenoir County Public Schools	1,410	2	5.01%	1,332	3	4.56%
Lenoir Memorial Hospital	1,125	3	4.00%	1,160	4	3.97%
MasterBrand Cabinets, Inc	900	4	3.20%	-	na	0.00%
Electrolux Home Products (Frigidaire Co.)	870	5	3.09%	850	5	2.91%
Smithfield Packing Company	708	6	2.51%	450	10	1.54%
Associated Materials, Inc	635	7	2.26%	450	10	1.54%
Lenoir Community College	520	8	1.85%	449	na	1.54%
Vernon Park Mall	500	9	1.78%	525	8	1.80%
Lenox China	449	10	1.59%	320	na	1.09%
	<u>8,751</u>		31.08%	<u>7,361</u>		25.19%

Sources:

Lenoir County Economic Development
Employment Security Commission
Various HR Managers

City of Kinston, North Carolina

Full-Time Equivalent City Government Employees By Functions/Programs Last Ten Fiscal Years (Unaudited)

Functions/Program	Full-Time Equivalent Employees as of June 30									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Government:										
Legislative	6	6	6	6	6	6	6	6	6	6
City Management	2	3	3	3	3	3	5	3	3	5
City Clerk	1	1	1	1	1	1	1	1	1	1
Personnel	3.5	4	4	4	4	5	4	4	4	4
Finance	11	11	11	12	13	13	13	12	13	21
Computer Services	3	3	3	3	3	3	3	3	3	3
Legal			2	2	3	3	3	4	3	
Building Safety	2	2	2	2	2	2	2	2	2	3
Planning	3	3	3	3	3	3	4	3	3	4
Facility Mgmt	5	5	5	5	5	5	5	5	5	5
Parks and Recreation:										
General & Administrative	6	6	6	6	7	8	8	8	8	9
Recreation	28	28	25	24	24	25	26	24	23	28
Pool(s)	1	1	1	1	1	1	1	1	1	1
Golf Course(s)	1	1	1	1	1	1	1	1	1	1
Police:										
Officers	75	74	74	74	75	75	80	74	78	83
Civilians (a)	10	10	10	10	10	12	12	8	11	5
Fire:										
Firefighters and Officers	55	55	56	56	57	65	65	64	64	65
Civilians	2	2	2	2	2	2	2	2	2	2
Public Works:										
Administration	1	1	1	1	1	1	1	1	1	1
Street Maintenance	15	18	17	16	17	19	20	17	19	21
Street Sweeping	1	1	1	1	1	1	2	1	2	2
Refuse Collection	26	30	31	30	28	29	35	27	28	38
Weed Control	1	1	1	1	2	2	2	2	2	2
Central Garage	10	10	11	10	11	13	14	14	12	14
Street Lighting	1	1	1	1	1	1			1	2
Traffic Control	2	2	2	2	2	2	2	2	2	4
Electric:										
Distribution	21	20	23	23	21	23	27	22	23	23
Billing & Administration	20	19	21	21	19	19	21	20	21	16
Meter Reading	6	7	8	8	8	8	8	4	4	6
Water:										
Administration	3	3	3	3	3	3	3	3	3	4
Transmission	24	20	18	18	18	26	27	23	24	41
Purification	3	2	2	2	3	3	3	3	3	5
Sewer Maintenance	14	13	15	15	15	16	19	17	16	19
Other Programs/Functions:										
Engineering	10	10	9	9	10	11	13	10	11	13
Risk Management	2.5	3	3	3	3	3	3	3	3	3
Total	375	375	381	378	382	412	441	394	406	460

Source: Prior year CAFR's
Various HR & budget records

City of Kinston, North Carolina

Operating Indicators By Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	1998	1999	2000	2001
Police:				
Calls for service	**	**	31,262	31,769
Adult arrest	**	**	4,554	3,736
Juvenile arrest	**	**	154	148
Speeding citations only	**	**	1,428	1,031
Traffic citations	**	**	5,676	3,695
Fire:				
Total fire runs	**	**	**	575
Total rescue runs	**	**	**	294
Property loss	**	**	**	\$ 291,850
Building safety:				
Total building permits	207	145	204	129
Total value all permits	\$ 22,348,955	\$ 18,165,316	\$ 48,959,642	\$ 29,960,815
Library, volumes in collection	116,133	119,332	121,157	121,066
Public service:				
Garbage collected (ton)	23,585	23,223	24,873	23,248
Recycle collected (ton)	1,230	1,151	1,133	999
Parks and Recreation:				
Recreation program attendance:				
Athletics	135,600	137,000	140,000	142,000
Centers & Parks	399,000	405,000	403,000	408,000
Other Programs	91,000	100,000	101,000	100,000
Golf Rounds Played	7,000	7,000	7,100	7,300

Note: ** Indicator not available

Source: Prior year CAFRs and various City records

Calendar Year					
2002	2003	2004	2005	2006	2007
31,624	29,598	29,803	30,610	31,192	35,156
3,269	3,039	3,169	2,847	2,945	4,910
196	167	186	146	172	171
1,259	1,000	600	1,240	656	863
3,821	2,870	2,782	3,453	2,506	5,823
119	998	826	704	664	216
624	691	699	410	143	145
\$ 552,773	\$ 737,261	\$ 773,719	\$ 433,537	\$ 380,311	\$ 761,793
100	147	135	122	121	124
\$ 16,666,270	\$ 12,374,362	\$ 14,540,108	\$ 16,423,622	\$ 58,292,255	\$ 35,183,618
120,214	114,729	113,465	115,695	116,474	114,026
22,846	22,989	22,816	22,977	22,685	20,521
820	765	730	695	632	574
146,000	156,000	155,000	160,000	158,500	163,000
412,000	418,000	421,000	419,000	419,500	421,500
101,500	106,000	108,000	111,000	114,000	113,000
7,500	7,500	7,500	7,500	7,800	7,950

City of Kinston, North Carolina

Capital Asset Statistics By Function/Program
Last Ten Fiscal Years
(Unaudited)

	1998	1999	2000	2001
Police:				
Stations	3	5	5	6
Fire & Rescue				
Fire Stations	3	3	3	3
Refuse Collection:				
Collection Trucks	27	27	27	27
Other Public Works				
Streets (Miles)	115.32	115.73	115.36	113.4
Streets Lights	2055	2057	2060	2060
Traffic Signals	20	20	N/A	N/A
Parks & Recreation:				
Acreage	278	278	278	245
Parks	13	13	13	12
Golf Course	1	1	1	1
Baseball/Softball Diamonds				7
Soccer/Football Fields			2	2
Basketball Courts	8	8	8	8
Tennis Courts	19	19	19	19
Swimming pools	3	3	3	3
Parks with Playground Equipment	7	7	7	7
Picnic Shelters	5	5	5	5
Community Centers	5	5	5	5
Museums	1	1	1	1
Stadium	4200 seat	4200 seat	4200 seat	4200 seat
Airport Theater	300 seat	300 seat	300 seat	300 seat
Indoor Batting Facility				1
Natural Sites	4	4	4	4
Gymnasium	3	3	3	3
Library:				
Facilities	1	1	1	1
Volumes	116,133	119,332	121,157	121,066
Water:				
Storage Capacity (MGPD)	4.25 MGD	4.25 MGD	4.25 MGD	4.25 MGD
Average Daily Consumption (MGPD)	5.38 MGD	5.07 MGD	4.82 MGD	4.57 MGD
Peak Consumption (MGPD)	8.07 MGD	7.61 MGD	7.23 MGD	6.86 MGD
Miles of Water Mains	199	200	206	207.5
Wastewater:				
Sanitary Sewers (miles)	205.74	205.74	206	204.8
Storm Sewers (miles)	N/A	N/A	N/A	N/A
Average Daily Flow	5.5 MGD	5.94 MGD	5.1 MGD	5.68 MGD
Electric:				
Average Daily Usage	1580 MWH	1580 MWH	1580 MWH	1,215,678 KWH
Mile of Distribution Lines	365	365	365	375

Source: Prior Year CAFRs and various records.

Calendar Year					
2002	2003	2004	2005	2006	2007
6	6	4	4	4	4
3	3	3	3	3	3
26	25	25	25	25	25
113.4	114.6	114.7	115.4	113.9	114.91
2061	2061	2062	2064	2064	2123
N/A	N/A	N/A	N/A	15	15
245	245	245	245	245	300
14	14	14	14	14	15
1	1	1	1	1	1
16	16	16	17	17	17
2	2	2	2	2	2
8	8	6	6	6	6
17	15	14	16	16	16
3	3	3	2	2	2
7	7	8	8	8	8
5	5	5	6	8	8
5	5	5	5	5	5
2	2	2	2	2	2
4200 seat	4200 seat	4200 seat	4200 seat	4200 seat	4200 Seat
1	1	1	1	1	1
4	4	4	4	4	4
3	3	4	4	4	4
1	1	1	1	1	1
120,214	114,729	113,465	115,695	116,474	114,026
4.25 MGD	4.25 MGD	4.25 MGD	4.25 MGD	4.25 MGD	4.25 MGD
4.46 MGD	4.09 MGD	3.49 MGD	3.71 MGD	3.80 MGD	3.63 MGD
6.69 MGD	6.14 MGD	5.24 MGD	5.57 MGD	5.70 MGD	5.45 MGD
208.2	208.2	211.7	212.3	212.7	214
206.2	206.2	208.3	209.2	209.4	211.2
N/A	N/A	N/A	N/A	62.3	62.3
4.46 MGD	4.09 MGD	3.5 MGD	5.24 MGD	5.12 MGD	5.29 MGD
1,215,678 KWH	1,215,678 KWH	1,226,817 KWH	1,258,457 KWH	1317090 KWH	1373710 KWH
375	375	425	425	430	430

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