City of Kinston, North Carolina

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

Prepared by City of Kinston Finance Department

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INTRODUCTORY SECTION

City of Kinston

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O. A. RITCH, JR.
Mayor

RALPH A. CLARK
City Manager

JAMES P. CAULEY III
City Attorney

CAROL L. BARWICK
City Clerk

October 25, 2006

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, 2006, 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.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial and statistical. The introductory section includes this transmittal letter, a list of principal officials, the City's organizational chart, and the GFOA's Certificate of Achievement for Excellence in Financial Reporting for our 2005 report. The financial section includes the basic financial statements and the combining and individual fund financial statements and schedules, Management's Discussion and Analysis (MD&A), and the auditor's report on the financial section contents. For a narrative introduction and analytical overview of the City's financial activities, please see the MD&A. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

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, 2006. 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 Coast, is the largest municipality in Lenoir County and serves as the County seat. The City is centrally located to several large and growing cities such as New Bern, Jacksonville, Goldsboro, and Greenville, all less than an hour away. The City is easily accessible by US 70, US 258, NC 11 and NC 55. In April 2005, Delta Airlines commenced daily commercial air service to Atlanta from the Kinston Jetport. Beginning November 2006, Allegiant Air will operate two flights each week to and from the Kinston Jetport to Orlando, Florida. The community currently has a 5.7 percent unemployment rate compared to a statewide rate of 4.8 and a national average of 4.6 percent. The July 2005 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 was $58.3 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 light of the effect the floods and some industrial expansion have had on the physical and economic fabric of the City, the City in the past fiscal year has experienced small gains in growth. While having a positive impact, this growth also presents significant challenges for the City. If the present high level of service is to be maintained in the future, the City will need to explore new methods of obtaining financial resources.

MAJOR INITIATIVES

FOR THE YEAR

Fiscal Year 2005-2006 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

In August of 2005, the City received notice from the North Carolina Clean Water Management Trust Fund that its grant application for the purchase of 334 vacant lots in the flood plain was approved in the amount of $1.181 million dollars, with the City committing $20,000 in matching cash funds. The purchase of properties commenced June of 2006, and will take two years to complete.

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.

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

Work on this project began in April 2004. It consists of improvements and expansion of the Kinston Regional Water Reclamation Facility to meet effluent discharge permit limits and increase capacity. The work includes: 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 is funded through a FEMA grant and should be completed in December 2006.

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

The Forrest Street Lift Station has been renovated and began 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 has indicated that they will fund $7.54 million of this $8.2 million project with grant funds. The City has requested that FEMA reconsider an additional $300,000 and local funds will be needed for the $360,000 remaining balance.

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

This project will consist 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 improvement is $5.2 million. Funding for these improvements will be through State Revolving Fund loans.

Engineering - Smithfield Phase I Sewer & Water Extensions

This project consisted of installing a sewer lift station for the new Smithfield Packing Plant, an 8 inch force main to the Oliver Glass lift station, increasing the pumping capacity of the Oliver Glass lift station, and installing a 16 inch water main. The project is complete. The cost of the project was $1,099,332, and was funded by a $500,000 Rural Center grant, $300,000 EDA grant, and $299,332 in local funds.

Engineering - Upper and Lower Adkin Outfall Rehabilitation

As part of maintaining the sewer infrastructure, work continued on the Upper and Lower Adkin Branch Outfall Rehabilitation projects in 2006. These projects rehabilitated or replaced 30,000 linear feet of sewer lines. As of June 30, these project were complete with a final cost of $5,767,867. Funding for the projects came from the following: $1,550,000 Federal Public Works Bill, $3,000,000 Clean Water Management Trust Fund, $237,355 Rural Center grants, $750,000 in State Revolving Fund loans and $230,512 in local funds.

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 is in the process of choosing a consultant to provide design and permitting services. Construction is expected to follow completion of Contract IV. 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 Trust Fund grant, and $447,200 local funds.

Neuse Regional Water and Sewer Authority (NRWASA)

Membership of the NRWASA was finalized and includes Kinston, Pink Hill, North Lenoir Water Corporation, Deep Run Water Corporation, Grifton, Ayden, Bell Arthur Water Corporation, and Eastern Pines Water Corporation. Construction of a 15 mgd surface water treatment was awarded at cost of $60,176,000 and construction of 53 miles of transmission pipeline were awarded at a cost of $58,853,815. These projects will be completed before August, 2008. The City Council has increased water rates in anticipation of future water production costs.

Planning - National Flood Insurance Program (NFIP)

In April of 2006, the City received notice from the National Flood Insurance Program (NFIP) that our Community Rating System (CRS) classification improved from a Class 9 to a Class 5 - placing us among the top ten percent nationwide. As a result, our citizens will enjoy an additional 20% discount (over the previous 5%) on flood insurance policies.

Public Safety - Fire Station/City Hall Renovation

Population shifts due to flood buyouts, commercial development, apparatus enhancements, and national fire standards such as 1710 have all contributed to the need to build a new 14,000 square foot primary fire station. Davis-Kane Architects was selected to complete a design of a new fire station at East Street and Vernon Avenue along with renovations to City Hall to convert the current main fire station to office and training space for the Public Safety department. Additional improvements at City Hall include parking, public and handicap accessibility. Construction of the new fire station is expected to begin Spring 2007 and all work should be completed by 2009. Funding for this project is provided through a USDA Rural Development loan.

Public Safety - VIPER Project

Kinston Department of Public Safety was awarded a $760,000 grant to plan and implement VIPER (Voice Interoperability Plan for Emergency Responders) for Lenoir County. This capability will allow law enforcement responders across the state to communicate with each other in the event of an emergency, major disaster, or terrorist event. The initial phase will consist of all infrastructure needs, and component and programming costs for supervisor radios for all law enforcement agencies in Lenoir County, including the Lenoir County 911 Central Communications Center and will be completed in October 2006.

Recreation - Bill Fay Park, Georgia K. Battle Center, Emma Webb Park

The proceeds from the sale of property at Bill Fay Park for $245,900, allowed construction of a new maintenance building at Bill Fay Park, the installation of new playground equipment at Georgia K. Battle Center and Emma Webb Park, and a new picnic shelter will be constructed at Emma Webb Park in 2006.

Recreation - Fairfield Park

A $100,000 Parks and Recreation Trust Fund Grant (PARTF) was awarded to the City for Fairfield Park and four (4) new tennis courts were installed at a cost of $150,700 in 2006. In 2007, a spray ground will be constructed at a cost of approximately $110,000. The old tennis courts at Fairfield have been removed and will be renovated into a parking lot for an additional sixty (60) cars. Local funding will pay $160,700.

Retrofitting Green Project

In December of 2005, a conservation plan for City property purchased through the Clean Water Management Trust Fund Buyout grant and previous FEMA hazard mitigation grants was adopted to create a 900 acre eco-tourism park and related facilities called "Retrofitting Green" along the flood plain of the Neuse River and Adkin tributaries with economic development potential.

Salvage Yard Buyout

The City has completed the flood plain salvage yard buyout and clean up project which was funded through a grant provided by the North Carolina Department of Natural Resources' Waste Management Division. The City has acquired conservation easements for four salvage yards, Harper's, Stanley's, Webb's and Woody's, all located in Kinston and Lenoir County along

Highways 70 and 11/55. The total expenditure for administration, acquisition, relocation, demolition and clean up was $2,787,353.

Workers' Compensation and Safety Costs

The cost of insurance premiums and medical expenses associated with on-the-job injuries are an increasing liability. The City's departments and divisions continue to strive to reduce risk and control costs through monthly safety meetings and divisional programs. During Fiscal Year 2006, the City had only 3 lost work day cases. In addition, restricted duty days and "days away from work" decreased this fiscal year. The City successfully mediated two claims that may have been liabilities for many years. In addition, close management of claims resulted in a reduction in premium for FY 2006. Efforts are continuing to close and/or reduce liabilities associated with long-term open claims.

IN THE FUTURE

Caswell Center Improvements

Caswell Center is a major employer within the City with 1,675 employees. The State is investing heavily in this facility and renovating many of its existing buildings which is a positive indication of their intention to remain in Kinston for the foreseeable future. Part of the ongoing improvements includes upgrading the electric distribution primary and secondary systems at a cost of $2,613,000 which will be paid by Caswell Center. The installation of a generator, at a cost of $1,875,000 to provide standby power and electric peak shaving capabilities which will be paid by the City. Campus area lighting will be upgraded at a 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.

Electric Division

The large projects for the foreseeable future are the upgrade of the 504 circuit (Highway 70), replacement of three substation transformers and underground primary replacement in three subdivisions. Also, we anticipate the completion of automated meter reading installation and the construction of a substation for the Highway 70 West Industrial Park. The total estimated cost for these projects is $4.6 million.

Engineering - Smithfield Sewer Phase II

This project will consist of installing a regional lift station for the US 70 West Industrial Park, a new 14 inch force main to Briery Run Outfall, and eliminating a lift station currently serving the Smithfield K-2 Plant. The new lift station is required to direct additional future flows to a portion of the collection system with available capacity. This project is in the design phase and will be operational by January 2009. The estimated cost is $1,700,000. Funding sources have not been identified.

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 $600,000.

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 2006 were $ 212,665. Our annual required contribution for Fiscal Year 2007 is $188,854, subject to revisions. 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.

Planning - Comprehensive Pedestrian Plan

In May of 2006 Kinston was awarded a grant from the North Carolina Department of Transportation to fund the development of a Comprehensive Pedestrian Plan. The total grant was $45,000 with a $13,500 local match requirement. Travel and Tourism is funding one-half of the local match.

Pride of Kinston

Pride of Kinston will continue to build the necessary partnerships with local and state organizations to help revitalize Kinston's Central Business District. The Kinston Enterprise Center should start to graduate businesses and assist them with purchasing or leasing market rate office space in downtown. Pride of Kinston will also continue to promote this Main Street Community as a place to shop, visit, work and live.

Significant downtown projects being managed by Pride of Kinston include assisting a Civil War Museum, launching the Kinston Waterfront - Now! endeavor to develop plans for economic, educational and recreational developments along Kinston's stretch of the Neuse River, helping secure construction of a new upscale restaurant and the opening of a new antique store.

Recreation - Master Plan

The Parks and Recreation Commission has initiated a ten year Master Plan to be completed by Spring 2007. The Commission will look at schools, facilities, capital expenditures and future and existing programs.

Stormwater
Future regulations will require the City to dedicate more resources towards stormwater issues such as education, maintenance, treatment, and replacement of infrastructure.

Telephone System Upgrade
The City is in the process of switching over to a Voice Over Internet Protocol (VOIP) phone system. The system will utilize computer network equipment to establish phone services to the end user. The current phone charges are $29 for a basic line and $157 for one with multiple services. Moves and changes have taken as long as a week to take place along with a minimum charge of $200. With the VOIP, once a phone is configured the end user can unplug and move the phone to a new location on the network while keeping the same number and services. Changes to phone services will be within minutes not days, and all phones will have voice/email capabilities. The one time cost for the new system is $64,597 and a recurring cost of $2,381 a month. The first year costs saving is estimated to be $17,000 with the second year savings of $80,000 based on the $120,587 allocated for the current phone system.

Wastewater Collection and Water Distribution
The City has made significant improvements in its water and wastewater facilities. Funding will be needed on an annual basis to address the rehabilitation or replacement of water distribution and sewer collection lines that are at the end of their life cycle.

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, 2005. 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

Ralph A. Clark
City Manager

List of Principal Officers
June 30, 2006

City Council

O. A. Ritch, Jr.
Mayor

Robert A. Swinson, IV
Mayor Pro Tem

R. Van Braxton
Joseph M. Tyson

Jimmy Cousins
Alice S. Tingle

City Administration

Ralph Clark
City Manager

Brenda Ruffin
Director of Human Resources

Phillip Robey
Deputy City Manager

Greg Smith
Director of Public Safety

Scott Stevens
Director of Public Services

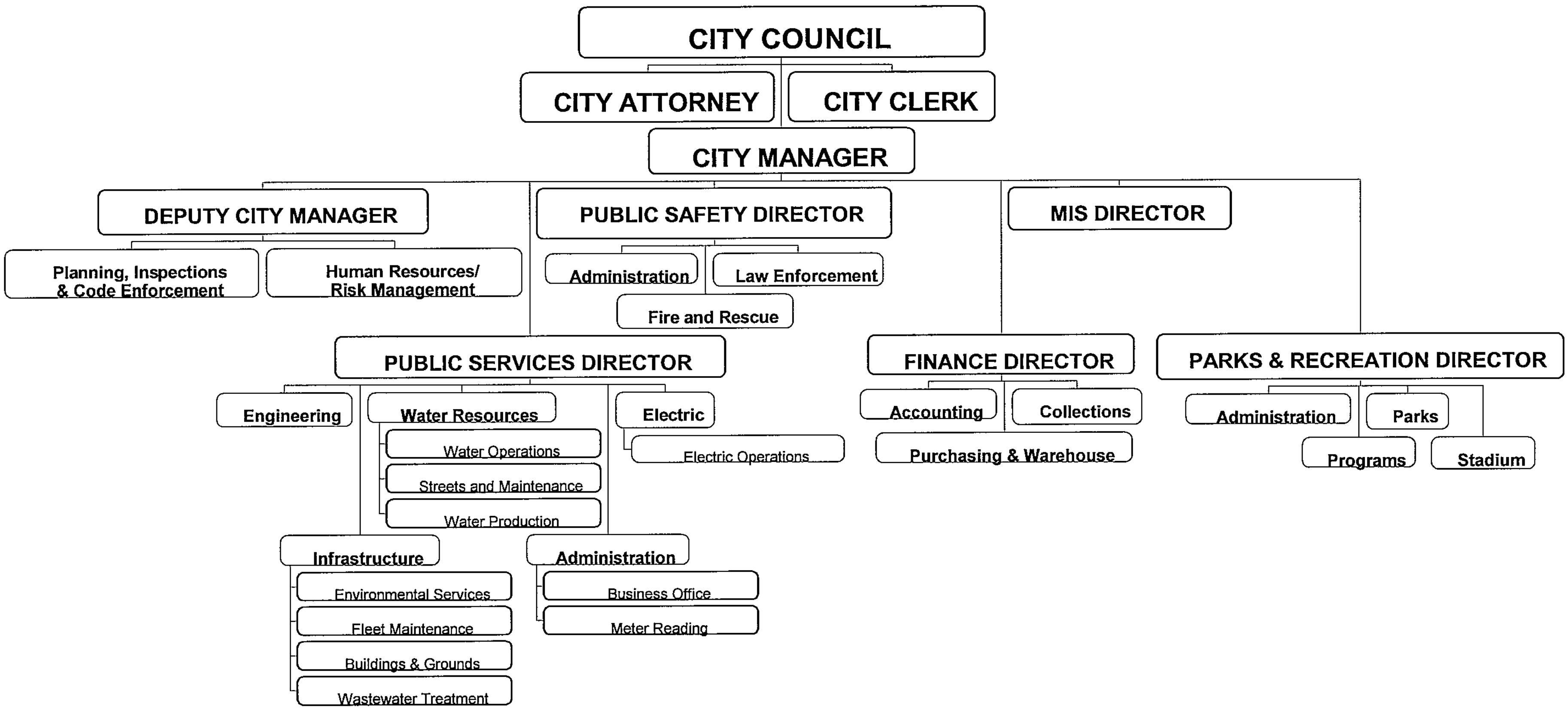
Tommy Lee
Director of Planning, Inspections and Code Enforcement

Bill Ellis
Director of Parks and Recreation

Keith Fiaschetti
Finance Director

Carol L. Barwick
City Clerk

City of Kinston
Organizational Structure
FY 2005-2006



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, 2005

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

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, 2006, 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, 2006, 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 September 15, 2006 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
September 15, 2006

City of Kinston, North Carolina

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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, 2006. 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.

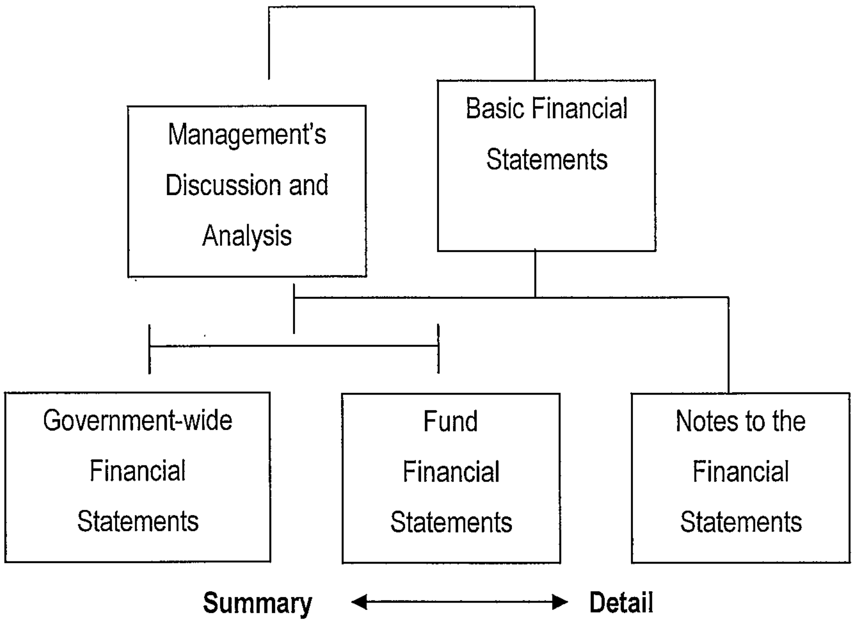
Financial Highlights

- The overall financial position of the City improved in 2006 as evidenced by an increase in total net assets of $21.0 million. This increase was from business-type activities $20.2 million, while the governmental activities increased by $.8 million.
- The assets of the City exceeded its liabilities at the close of the fiscal year by $96.4 million (net assets). Of this amount, $14.6 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 $4.6 million, a decrease of $.7 million in comparison with the prior year. Approximately 35.1 percent of this total amount, or $1.6 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 $1.8 million, or 10.6 percent of total general fund expenditures.
- The City's total debt decreased by $2.2 million during the current fiscal year. Most of this decrease came from principal payments made against exisiting debt and reductions in accrued compensated absences. In addition, the City borrowed $ .3 million in the general fund for new vehicles and equipment and $.3 million in the envirnomental services fund for two refuse trucks. These borrowings were offset by approximately $2.4 million in principal payments made against existing debt.

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 $96.4 million at the close of the most recent fiscal year. A summary of the City's net assets at June 30, 2006 and 2005 is presented below:

City of Kinston's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 7,479,035	$ 7,935,654	$ 16,670,909	$ 17,121,463	$ 24,149,944	$ 25,057,117
Capital assets	11,689,381	11,053,778	94,640,642	76,485,009	106,330,023	87,538,787
Total assets	19,168,416	18,989,432	111,311,551	93,606,472	130,479,967	112,595,904
Long-term liabilities outstanding	5,273,764	6,154,583	21,798,429	22,592,414	27,072,193	28,746,997
Other liabilities	1,289,814	979,666	5,733,646	7,441,391	7,023,460	8,421,057
Total liabilities	6,563,578	7,134,249	27,532,075	30,033,805	34,095,653	37,168,054
Net assets:						
Invested in capital assets, net of related debt	8,022,946	6,747,204	73,141,568	53,715,106	81,164,514	60,462,310
Restricted	619,832	590,711	-	-	619,832	590,711
Unrestricted	3,962,060	4,517,268	10,637,908	9,857,561	14,599,968	14,374,829
Total net assets	$ 12,604,838	$ 11,855,183	$ 83,779,476	$ 63,572,667	$ 96,384,314	$ 75,427,850

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 $21.0 million for the fiscal year ended June 30, 2006. However, the largest portion (84.2%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City 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 (.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $14.6 million is unrestricted.

Net assets of the governmental activities increased $.75 million, or 6.3 percent, to $12.60 million. However, $8.64 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 $3.96 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 $20.2 million, or 31.8 percent, to $83.8 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, 2006 and 2005:

City of Kinston's Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	$ 1,733,724	$ 1,274,966	$ 56,557,451	$ 51,121,987	$ 58,291,175	$ 52,396,953
Operating grants and contributions	2,133,276	2,100,728	-	-	2,133,276	2,100,728
Capital grants and contributions	-	-	19,423,503	13,479,179	19,423,503	13,479,179
General revenues:						
Property taxes	7,428,644	7,574,054	-	-	7,428,644	7,574,054
Other taxes	4,728,977	4,993,274	-	-	4,728,977	4,993,274
Grants and contributions not restricted to specific programs	360,586	426,652	-	-	360,586	426,652
Other	120,649	126,718	280,566	77,742	401,215	204,460
Transfers	990,552	992,290	(990,552)	(992,290)	-	-
Total revenues	17,496,408	17,488,682	75,270,968	63,686,618	92,767,376	81,175,300
Expenses:						
General government	1,402,565	2,351,252	-	-	1,402,565	2,351,252
Public safety	8,607,793	8,675,761	-	-	8,607,793	8,675,761
Highways and streets	1,880,438	1,847,141	-	-	1,880,438	1,847,141
Economic and physical development	2,012,994	2,256,483	-	-	2,012,994	2,256,483
Culture and recreation	2,665,090	2,551,858	-	-	2,665,090	2,551,858
Interest on long-term debt	177,873	168,857	-	-	177,873	168,857
Electric	-	-	44,074,061	40,016,886	44,074,061	40,016,886
Water	-	-	3,671,141	3,771,820	3,671,141	3,771,820
Wastewater	-	-	4,654,361	4,536,399	4,654,361	4,536,399
Non-Major Fund	-	-	2,664,596	2,673,660	2,664,596	2,673,660
Total expenses	16,746,753	17,851,352	55,064,159	50,998,765	71,810,912	68,850,117
Increase in net assets	749,655	(362,670)	20,206,809	12,687,853	20,956,464	12,325,183
Net assets, July 1	11,855,183	12,217,853	63,572,667	50,884,814	75,427,850	63,102,667
Net assets, June 30	$ 12,604,838	$ 11,855,183	$ 83,779,476	$ 63,572,667	$ 96,384,314	$ 75,427,850

Total government-wide revenues of $92.8 million were primarily derived from charges for services (62.8%), capital grants and contributions (20.9%) and property taxes (8.0%). The total expenses of all programs were $71.8 million. The expenses cover a range of services with the two largest being electric services (61.4%) and public safety (fire/EMS and police) (12.0%).

Governmental Activities

The City's net assets for Governmental activities increased by $.75 million. Key elements of this increase are as follows:

- Accrued compensated absences decreased by $.5 million.
- Decrease in Government's expenses of $1.1 million with $.9 million of the decrease generated by general government.
- Decrease of 1.9% in property tax revenues and 5.3% in other taxes.

Business-type Activities

Business-type activities increased the City of Kinston's net assets by $20.2 million, accounting for over 96.4% of the total growth in the government's net assets. Key elements of this increase are as follows:

- The City received $19.4 million in capital grants primarily for the construction of the new water reclamation facility.
- Charges for services increased by approximately $5.4 million, or 10.6% over the prior year. The increase was the result of increased water and electric rate increases. The revenue increase in electric was offset by $4.1 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 $2.2 million of which $.4 million is designated for subsequent year's expenditures, while total fund balance was $4.4 million. 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 13.0% of total General Fund expenditures of $16.9 million, while total fund balance represents 26.3% of that same amount.

At June 30, 2006, the governmental funds of City of Kinston reported a combined fund balance of $4.6 million, a 13.9% decrease over last year. Included in this change in fund balance is a 7.8% decrease in the fund balance of the general fund. Contributing factors in this decrease include decreases in other taxes, and increase in operating costs and capital outlay for public safety was partially offset by increased sales and services revenue.

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 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. Expenditures were managed as well, and the City was able to comply with its budgetary requirements.

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

Unrestricted net assets at the end of the year amount to $1.89 million in the Electric fund, $3.40 million in the Water fund, $4.68 million in the Wastewater fund and $.36 million in the Environmental Services fund. The Electric and Environmental Services funds experienced reductions in net assets for the funds of approximately $368,000 and $84,000, respectively. These were more than offset by the growth in net assets of the Wastewater and Water funds by approximately $18.9 million and $1.6 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, 2006, the City had $106.3 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 $18.79 million, or 21.5%, over last year. The summary of capital assets at June 30, 2006 and 2005 is presented below:

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

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	$ 2,874,515	$ 2,918,681	$ 878,503	$ 878,503	$ 3,753,018	$ 3,797,184
Infrastructure	669,623	609,262	-	-	669,623	609,262
Buildings and other improvements	6,039,315	6,197,953	2,796,915	3,000,351	8,836,230	9,198,304
Equipment and vehicles	1,489,992	1,293,827	1,238,875	1,368,327	2,728,867	2,662,154
Operating plant	-	-	51,529,338	42,323,147	51,529,338	42,323,147
Construction in progress	615,936	34,055	38,197,011	28,914,681	38,812,947	28,948,736
Total	$ 11,689,381	$ 11,053,778	$ 94,640,642	$ 76,485,009	$ 106,330,023	$ 87,538,787

This year's major capital asset additions included:

- Construction in process – Water Reclamation Facility - $17.6 million
- Constructon in process – Utility distribution expansion to the Industrial Park- $1.9 million
- Equipment and vehicles - $ 1.52 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, 2006, the City had $25.3 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	
	2006	2005	2006	2005	2006	2005
Installment contracts	$ 3,846,072	$ 4,306,574	$ 1,519,767	$ 1,644,610	$ 5,365,839	$ 5,951,184
Revenue bonds	-	-	15,777,811	16,367,067	15,777,811	16,367,067
Less deferred amounts	-	-	-	(564,855)	-	(564,855)
Notes payable	-	-	4,201,496	4,801,267	4,201,496	4,801,267
Total	$ 3,846,072	$ 4,306,574	$ 21,499,074	$ 22,248,089	$ 25,345,146	$ 26,554,663

The City of Kinston's total long-term debt decreased by $1.2 million (4.6%) during the fiscal year, primarily due to repayments of principal of $2.4 million offset by $.6 million in new debt issued in the governmental and business-type activities. 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 $91,155,047.

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 2006, 2 residential and 26 nonresidential units were constructed with a value of $45.78 million
- Retail sales during 2006 were $419.84 million.
- The June 2006 unemployment rate was 5.7 percent compared to 4.8 percent for the state and 4.6 percent for the nation.

The following are highlights for the 2007 budgets for the governmental activities:

Property tax receipts are expected to increase modestly. Estimated sales tax revenue have increased due to an improvement in the local, State and national economies. The most significant factors negatively impacting the 2007 budget is the lack of growth within the City and surrounding area.

The general fund initial budget for 2006-2007 decreased 4.2% from $18.2 million (2006 adjusted adopted budget) to $17.4 million. The decrease in the new budget is attributable to the decrease in capital spending from the prior fiscal year. Significant new expenditures include $200,000 to fund the purchase of a street sweeper and $360,000 to fund the acquisition of twelve new police vehicles.

The following are highlights for the 2007 budgets for the business-type activities:

- The average residential water rate will increase 11%, all of which will be transferred to the capital reserve fund for repair and replacement of the system and to offset NRWASA water costs in 2008.
- Sewer rates were not increased in the 2007 budget.
- Electric rates were not increased in the 2007 budget.
- Garbage and landfill fees (not recycling) were increased 6% in the 2007 budget.

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, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 4,108,756	$ 862,224	$ 4,970,980
Receivables:			
Due from governmental agencies	1,344,426	5,831,478	7,175,904
Accounts receivable	438,385	2,008,012	2,446,397
Taxes receivable	1,171,183	-	1,171,183
Customer receivables, net	-	6,856,277	6,856,277
Inventories	236,648	1,112,918	1,349,566
Restricted cash and investments	179,637	-	179,637
Capital assets:			
Land and construction in process	3,490,451	39,075,514	42,565,965
Other capital assets, net of depreciation	8,198,930	55,565,128	63,764,058
Total assets	19,168,416	111,311,551	130,479,967
Liabilities			
Accounts payable and accrued expenses	1,219,741	4,556,232	5,775,973
Accrued interest payable	41,271	-	41,271
Unearned revenue	28,802	12,908	41,710
Customer deposits	-	1,164,506	1,164,506
Long-term liabilities:			
Due within one year	1,324,967	1,810,727	3,135,694
Due in more than one year	3,948,797	19,987,702	23,936,499
Total liabilities	6,563,578	27,532,075	34,095,653
Net Assets			
Invested in capital assets, net of related debt	8,022,946	73,141,568	81,164,514
Restricted for:			
Public works	541,378	-	541,378
Perpetual care:			
Expendable	3,220	-	3,220
Nonexpendable	75,234	-	75,234
Unrestricted	3,962,060	10,637,908	14,599,968
Total net assets	$ 12,604,838	$ 83,779,476	$ 96,384,314

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

Statement of Activities
For the Fiscal Year Ended June 30, 2006

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	$ 1,402,565	$ 442,506	$ 4,320	$ -
Public safety	8,607,793	20,186	167,583	-
Public services	1,880,438	15,277	735,128	-
Community development	2,012,994	258,442	1,167,482	-
Cultural and recreation	2,665,090	997,313	58,763	-
Interest on long-term debt	177,873	-	-	-
Total governmental activities	16,746,753	1,733,724	2,133,276	-
Business-type activities:				
Electric	44,074,061	44,686,861	-	-
Water	3,671,141	4,659,004	-	300,000
Wastewater	4,654,361	4,622,074	-	19,123,503
Nonmajor funds	2,664,596	2,589,512	-	-
	55,064,159	56,557,451	-	19,423,503
Total primary government	$ 71,810,912	$ 58,291,175	$ 2,133,276	$ 19,423,503

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
Net assets-ending

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (955,739)	$ -	$ (955,739)
(8,420,024)	-	(8,420,024)
(1,130,033)	-	(1,130,033)
(587,070)	-	(587,070)
(1,609,014)	-	(1,609,014)
(177,873)	-	(177,873)
(12,879,753)	-	(12,879,753)
-	612,800	612,800
-	1,287,863	1,287,863
-	19,091,216	19,091,216
-	(75,084)	(75,084)
-	20,916,795	20,916,795
$ (12,879,753)	$ 20,916,795	$ 8,037,042
7,428,644	-	7,428,644
2,991,928	-	2,991,928
1,737,049	-	1,737,049
360,586	-	360,586
94,385	280,566	374,951
26,264	-	26,264
990,552	(990,552)	-
13,629,408	(709,986)	12,919,422
749,655	20,206,809	20,956,464
11,855,183	63,572,667	75,427,850
$ 12,604,838	$ 83,779,476	$ 96,384,314

City of Kinston, North Carolina

Balance Sheet - Governmental Funds
June 30, 2006

	Major General	Total Nonmajor Funds	Total
Assets:			
Cash and investments	$ 3,764,353	$ 159,994	$ 3,924,347
Receivables:			
Due from government agencies	1,344,426	-	1,344,426
Accounts receivable	573,930	209,425	783,355
Taxes receivable	939,423	-	939,423
Inventories	89,031	-	89,031
Total assets	$ 6,711,163	$ 369,419	$ 7,080,582
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	$ 808,576	$ 51,275	$ 859,851
Due to other funds	-	186,675	186,675
Deferred revenue	1,435,523	-	1,435,523
Unearned revenue	28,802	-	28,802
Total liabilities	2,272,901	237,950	2,510,851
Fund balances:			
Reserved for Powell Bill	541,378	-	541,378
Reserved for inventories	89,031	-	89,031
Reserved by State statute	1,422,256	313,363	1,735,619
Reserved for encumbrances	197,765	-	197,765
Unreserved:			
Designated for subsequent year's expenditures	400,000	-	400,000
Undesignated, reported in			
General Fund	1,787,832	-	1,787,832
Permanent Fund	-	78,454	78,454
Special Revenue Funds	-	(83,522)	(83,522)
Capital Project Funds	-	(176,826)	(176,826)
Total fund balances	4,438,262	131,469	4,569,731
Total liabilities and fund balances	$ 6,711,163	$ 369,419	$ 7,080,582

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, 2006

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund balances for governmental funds	$ 4,569,731
Capital assets used in govermental activites are financial resources and, therefore are not reported in the funds	11,689,381
Less adjustment for assets attributable to internal service fund	(22,205)
Other long-term assets are not available to liquidate current-period expenditures and therefore are:	
Deferred revenue	1,064,797
Accrued interest on property taxes, Statement of Net Assets	231,760
Internal service fund is used to charge the cost of general insurance and workman's compensation to individual funds. The assets and liabilties of the internal service fund is included in governmental activities in the Statement of Net Assets	350,233
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(5,273,764)
Less adjustment for accrued compensated absences attributable to internal service fund	36,176
Accrued interest payable on long-term liabilities not recorded in the fund statements	(41,271)
Net assets of governmental activities	$ 12,604,838

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, 2006

	Major General Fund	Total Non-Major Funds	Totals
Revenue:			
Ad valorem taxes	$ 7,453,311	$ -	$ 7,453,311
Sales and services	1,458,756	-	1,458,756
Other taxes	4,728,976	-	4,728,976
Intergovernmental revenue:			
Unrestricted	360,586	-	360,586
Restricted	944,491	1,185,833	2,130,324
Other	144,681	290,256	434,937
Total revenue	15,090,801	1,476,089	16,566,890
Expenditures:			
Current:			
General government	1,888,204	-	1,888,204
Public safety	8,698,059	222,921	8,920,980
Public services	1,834,359	-	1,834,359
Parks and recreation	2,443,771	367,991	2,811,762
Community development	1,051,551	917,246	1,968,797
Debt service:			
Principal	775,232	-	775,232
Interest	177,916	-	177,916
Total expenditures	16,869,092	1,508,158	18,377,250
Revenue under expenditures	(1,778,291)	(32,069)	(1,810,360)
Other financing sources (uses):			
Transfers in	1,284,760	-	1,284,760
Transfers out	(194,898)	(329,760)	(524,658)
Proceeds from borrowing	314,730	-	314,730
Total other financing sources (uses)	1,404,592	(329,760)	1,074,832
Net change in fund balances	(373,699)	(361,829)	(735,528)
Fund balances, beginning	4,811,961	493,298	5,305,259
Fund balances, ending	$ 4,438,262	$ 131,469	$ 4,569,731

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, 2006

Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances, total governmental funds	$	(735,528)
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		1,660,897
Depreciation expense		(981,138)
Adjustment for internal service fund depreciation		7,954
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		(44,166)
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		(5,498)
Decrease in deferred property tax revenue		(24,667)
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 liabilties		(866,326)
Retirement of long-term liabilites		1,747,145
Adjustment for internal service fund change in accrued compensated absences payable		332
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		(9,402)
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		52
Total changes in net assets of governmental activities	$	749,655

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, 2006

	General Fund Budget, Original	General Fund Budget, Final	General Fund, Actual	Variance with Final Budget
Revenue:				
Ad valorem taxes	$ 7,311,660	$ 7,311,660	$ 7,453,311	$ 141,651
Sales and services	1,370,728	1,414,803	1,458,756	43,953
Other taxes	4,723,249	4,723,249	4,728,976	5,727
Intergovernmental revenue:				
Unrestricted	364,384	409,384	360,586	(48,798)
Restricted	1,280,128	1,565,313	944,491	(620,822)
Other	255,108	233,640	144,681	(88,959)
Total revenue	15,305,257	15,658,049	15,090,801	(567,248)
Expenditures:				
Current:				
General government	2,079,409	2,149,367	1,888,204	261,163
Public safety	8,899,890	9,614,544	9,213,872	400,672
Public services	1,909,794	2,386,193	1,900,774	485,419
Parks and recreation	2,884,144	2,835,445	2,814,691	20,754
Community development	1,271,852	1,182,651	1,051,551	131,100
Total expenditures	17,045,089	18,168,200	16,869,092	1,299,108
Revenue over (under) expenditures	(1,739,832)	(2,510,151)	(1,778,291)	731,860
Other financing source (uses):				
Appropriated fund balance	300,000	1,113,019	-	(1,113,019)
Transfers in	1,330,000	1,281,000	1,284,760	3,760
Transfers out	(204,898)	(198,598)	(194,898)	3,700
Proceeds from borrowing	314,730	314,730	314,730	-
Total other financing sources	1,739,832	2,510,151	1,404,592	(1,105,559)
Revenue and other financing sources over (under) expenditures and other financing uses	$ -	$ -	(373,699)	$ (373,699)
Fund balances, beginning			4,811,961	
Fund balances, ending			$ 4,438,262	

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

Proprietary Funds
Statement of Net Assets
June 30, 2006

	Enterprise Funds					
Assets	**Electric Fund**	**Water Fund**	**Wastewater Fund**	**Nonmajor Fund**	**Totals**	**Internal Service Funds**
Current Assets						
Cash and investments	$ 17,856	$ 231,329	$ -	$ 201,787	$ 450,972	$ 775,298
Due from other funds	-	2,484,189	-	-	2,484,189	186,675
Due from government agencies	-	-	5,831,478	-	5,831,478	-
Accounts receivable	484,545	321,752	1,195,231	1,756	2,003,284	30,485
Customer receivables, net	5,473,227	563,851	510,920	308,279	6,856,277	-
Inventories	850,120	262,798	-	-	1,112,918	147,617
Total current assets	6,825,748	3,863,919	7,537,629	511,822	18,739,118	1,140,075
Capital assets:						
Land	202,380	66,605	609,518	-	878,503	-
Buildings	3,671,890	577,040	3,759,351	-	8,008,281	19,468
Distribution system	31,030,011	14,412,266	36,201,979	-	81,644,256	-
Equipment	1,534,447	1,877,536	1,629,773	3,094,774	8,136,530	298,319
Accumulated depreciation	(17,242,815)	(9,080,604)	(13,259,103)	(2,641,417)	(42,223,939)	(295,582)
Construction in progress	1,175,366	281,810	36,739,835	-	38,197,011	-
Total noncurrent assets	20,371,279	8,134,653	65,681,353	453,357	94,640,642	22,205
Total assets	27,197,027	11,998,572	73,218,982	965,179	113,379,760	1,162,280
Liabilities						
Current Liabilities						
Accounts payable and accrued liabilities	3,694,286	383,046	329,656	105,577	4,512,565	403,558
Current portion of long-term debt	303,377	152,919	963,640	265,791	1,685,727	-
Due to other funds	-	-	2,484,189	-	2,484,189	-
Unearned revenue	-	12,908	-	-	12,908	-
Total current liabilities	3,997,663	548,873	3,777,485	371,368	8,695,389	403,558
Noncurrent liabilities						
Customer deposits	1,164,506	-	-	-	1,164,506	-
Accrued compensated absences	75,213	65,090	45,897	48,379	234,579	100,952
Long-term debt	5,746,485	2,311,960	11,323,227	431,675	19,813,347	-
Total noncurrent liabilities	6,986,204	2,377,050	11,369,124	480,054	21,212,432	100,952
Total liabilities	10,983,867	2,925,923	15,146,609	851,422	29,907,821	504,510
Net Assets						
Invested in capital assets, net of related debt	14,321,417	5,669,774	53,394,486	(244,109)	73,141,568	22,205
Unrestricted	1,891,743	3,402,875	4,677,887	357,866	10,330,371	635,565
Total net assets	$ 16,213,160	$ 9,072,649	$ 58,072,373	$ 113,757	83,471,939	$ 657,770
	Adjustment to reflect the consolidation of the Public Services Admin Internal Service Fund activities related to Enterprise Funds.				307,537	
					$ 83,779,476	

See Notes to Basic Financial Statements.

City of Kinston, North Carolina

Proprietary Funds
Statements of Revenue, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2006

	Enterprise Funds					
	Electric Fund	Water Fund	Wastewater Fund	Nonmajor Fund	Total	Internal Service Fund
Operating revenue:						
Charges for services	$ 44,104,568	$ 4,547,733	$ 4,603,154	$ 2,589,045	$ 55,844,500	$ 2,666,204
Other	582,293	111,271	18,920	467	712,951	-
Total operating revenue	44,686,861	4,659,004	4,622,074	2,589,512	56,557,451	2,666,204
Operating expenses:						
Administration	-	-	-	-	-	1,273,524
Public service operations	-	-	-	-	-	926,208
Warehouse operations	-	-	-	-	-	358,795
Electrical operations	42,895,545	-	-	-	42,895,545	-
Environmental services	-	-	-	2,438,149	2,438,149	-
Water production	-	1,220,861	-	-	1,220,861	-
Depreciation	760,360	398,827	1,266,383	248,195	2,673,765	16,976
Amortization	252,426	231,394	72,125	-	555,945	-
Wastewater collection	-	-	1,017,677	-	1,017,677	-
Water operations	-	1,750,727	-	-	1,750,727	-
Wastewater plant operations	-	-	1,973,981	-	1,973,981	-
Claims reimbursement	-	-	-	-	-	189,282
Total operating expenses	43,908,331	3,601,809	4,330,166	2,686,344	54,526,650	2,764,785
Operating income	778,530	1,057,195	291,908	(96,832)	2,030,801	(98,581)
Nonoperating revenue (expenses):						
Interest earned on investments	38,723	35,271	200,824	5,748	280,566	13,287
Interest on long-term debt	(204,370)	(107,971)	(362,835)	(16,891)	(692,067)	-
Total nonoperating expense	(165,647)	(72,700)	(162,011)	(11,143)	(411,501)	13,287
Capital contributions	-	300,000	19,123,503	-	19,423,503	-
Income before transfers	612,883	1,284,495	19,253,400	(107,975)	21,042,803	(85,294)
Transfers:						
Transfers in	-	349,459	-	80,585	430,044	228,124
Transfers out	(981,077)	(23,429)	(357,236)	(56,528)	(1,418,270)	-
Total transfers	(981,077)	326,030	(357,236)	24,057	(988,226)	228,124
Net income (loss)	(368,194)	1,610,525	18,896,164	(83,918)	20,054,577	142,830
Net assets, beginning	16,581,354	7,462,124	39,176,209	197,675		514,940
Net assets, ending	$ 16,213,160	$ 9,072,649	$ 58,072,373	$ 113,757		$ 657,770
	Adjustment to reflect the consolidation of the Public Services Admin Internal Service Fund activities related to Enterprise Funds.				152,232	
					$ 20,206,809	

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, 2006

	Enterprise Funds					
	Electric Fund	Water Fund	Wastewater Fund	Nonmajor Enterprise Fund	Total	Internal Service Funds
Cash Flows From Operating Activities						
Cash received from customers	$ 44,085,453	$ 4,366,964	$ 4,605,641	$ 2,570,736	$ 55,628,794	$ 2,666,850
Cash paid to suppliers for goods and services	(41,512,832)	(1,502,956)	(8,321,849)	(1,449,696)	(52,787,333)	(1,171,725)
Cash paid to employees	(1,154,122)	(1,077,677)	(636,118)	(985,583)	(3,853,500)	(1,581,436)
Customer deposits	102,406	-	-	-	102,406	-
Net cash provided by (used in) for operating activities	1,520,905	1,786,331	(4,352,326)	135,457	(909,633)	(86,311)
Cash Flows From Noncapital Financing Activities						
Transfers from other funds	-	349,459	-	80,585	430,044	230,450
Transfers to other funds	(981,077)	(23,429)	(357,236)	(56,528)	(1,418,270)	(2,326)
Advances from other funds	-	-	2,484,189	-	2,484,189	76,915
Advances to other funds	-	(2,484,189)	-	-	(2,484,189)	(263,590)
Net cash provided by (used in) noncapital financing activities	(981,077)	(2,158,159)	2,126,953	24,057	(988,226)	41,449
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(1,244,550)	(720,672)	(18,536,807)	(336,391)	(20,838,420)	-
Proceeds from long-term debt	-	-	-	283,202	283,202	-
Deferred amounts from advance refunding	-	-	8,910	-	8,910	-
Principal paid on general obligation bond maturities and equipment contracts	(294,286)	(148,410)	(949,897)	(204,183)	(1,596,776)	-
Interest paid on bonded indebtedness and equipment contracts	(204,370)	(107,971)	(362,835)	(16,891)	(692,067)	-
Contributed capital	-	300,000	19,123,503	-	19,423,503	-
Net cash used in capital and related financing activities	(1,743,206)	(677,053)	(717,126)	(274,263)	(3,411,648)	-
Cash Flows Provided By Investing Activities						
Interest on investments	38,723	35,271	200,824	5,748	280,566	13,287
Net decrease in cash and cash equivalents	(1,164,655)	(1,013,610)	(2,741,675)	(109,001)	(5,028,941)	(31,575)
Cash and cash equivalents, beginning	1,182,511	1,244,939	2,741,675	310,788	5,479,913	806,873
Cash and cash equivalents, ending	$ 17,856	$ 231,329	$ -	$ 201,787	$ 450,972	$ 775,298

(Continued)

City of Kinston, North Carolina

Proprietary Funds
Combined Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2006

	Enterprise Funds					
	Electric Fund	Water Fund	Wastewater Fund	Nonmajor Enterprise Fund	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities						
Operating income (loss)	$ 778,530	$ 1,057,195	$ 291,908	$ (96,832)	$ 2,030,801	$ (98,581)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	760,360	398,827	1,266,383	248,195	2,673,765	16,976
Amortization	252,426	231,394	72,125	-	555,945	-
Change in assets and liabilities:						
Customer receivables	(512,915)	3,605	2,487	(18,309)	(525,132)	-
Accounts receivable	(88,493)	(184,374)	(3,637,895)	(20)	(3,910,782)	3,001
Customer deposits	102,406	-	-	-	102,406	-
Inventories	5,642	9,585	-	-	15,227	(35,444)
Accounts payable	224,460	300,698	(2,335,273)	9,087	(1,801,028)	21,836
Accrued compensated absences	(1,511)	(30,599)	(12,061)	(6,664)	(50,835)	5,901
Net cash provided by (used in) operating activities	$ 1,520,905	$ 1,786,331	$ (4,352,326)	$ 135,457	$ (909,633)	$ (86,311)

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.

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. 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.

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 15 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.

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.

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 2005 through February 2006 apply to the fiscal year ended June 30, 2006. 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 will vary 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, 2006 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.

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.

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.

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. 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

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.

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 - 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.

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 2006 - 2007 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.

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, 2006 as follows:

Non-Major Governmental Funds		
Single Family Rehabilitation	$	**21**
2004 LLEBG		**29**
Fire Station Public Safety Complex		**186,675**
CWMTF Flood Buy-out		**20,032**
Internal Service Fund:		
Warehhouse		**179,001**

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

Note 2. Stewardship, Compliance and Accountability (Continued)

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2006, the expenditures made in the City's Electric Fund exceeded authorized appropriations made by the governing board by $1,443,941. The over-expenditure occurred because of unanticipated increases in consumption at year end that resulted in a higher purchased power cost. This over–expenditure was offset by increased revenue from the customers for the increased consumption.

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	$ 4,197
Cash on deposit	4,267,809
Investments	878,611
Cash and investments	$ 5,150,617
Statement of net assets reconciliation:	
Cash and investments	$ 4,970,980
Restricted cash and investments	179,637
	$ 5,150,617

Deposits

At year end, the carrying amount of the City's deposits was $4,267,809 and the bank balance was $4,765,333. 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 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.

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, $342,103 was covered by federal depository insurance and $4,423,230 was covered by collateral held by the State Treasurer under the pooling method on behalf of the City.

Investments

At June 30, 2006, the City had $878,611 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, 2006:

	Transfers Out						
Transfers In	Major General Fund	Major Electric Fund	Major Water Fund	Major Wastewater Fund	Non-Major Enterprise Fund	Non-Major Governmental Funds	Totals
Major General Fund	$ -	$ 955,000	$ -	$ -	$ -	$ 329,760	$ 1,284,760
Major Water Fund	-	-	-	349,459	-	-	349,459
Non-major Enterprise Funds	80,585	-	-	-	-	-	80,585
Internal Service Funds	114,313	26,077	23,429	7,777	56,528	-	228,124
Total	$ 194,898	$ 981,077	$ 23,429	$ 357,236	$ 56,528	$ 329,760	$ 1,942,928

Transfers out from the General Fund to the non-major governmental funds were to satisfy matching requirements for grants. Transfers out from the General Fund to the non-major enterprise fund was for transfer of assets to the Environmental Services Fund. 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 all other funds were for reimbursement of expenses associated with hurricane clean up.

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	$ 432,595
Water Fund	52,515
Wastewater Fund	48,235
Nonmajor Enterprise Fund	31,496
	$ 564,841

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,918,681	$ -	$ (44,166)	$ 2,874,515
Construction in progress	34,055	581,881	-	615,936
Total capital assets not being depreciated	2,952,736	581,881	(44,166)	3,490,451
Capital assets being depreciated:				
Buildings and improvements	9,572,561	51,855	-	9,624,416
Equipment	2,761,551	69,307	-	2,830,858
Vehicles	6,024,396	908,144	(57,807)	6,874,733
Infrastructure	716,779	101,263	-	818,042
Total capital assets being depreciated	19,075,287	1,130,569	(57,807)	20,148,049
Less accumulated depreciation for:				
Buildings and improvements	(3,374,608)	(210,493)	-	(3,585,101)
Equipment	(2,320,727)	(155,836)	-	(2,476,563)
Vehicles	(5,171,393)	(625,450)	57,807	(5,739,036)
Infrastructure	(107,517)	(40,902)	-	(148,419)
Total accumulated depreciation	(10,974,245)	(1,032,681)	57,807	(11,949,119)
Total capital assets being depreciated, net	8,101,042			8,198,930
Governmental activity capital assets, net	$ 11,053,778			$ 11,689,381

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	94,776	1,080,590	-	1,175,366
Total capital assets not being depreciated	297,156	1,080,590	-	1,377,746
Capital assets being depreciated:				
Buildings and improvements	3,671,890	-	-	3,671,890
Equipment	406,947	14,382	-	421,329
Vehicles	1,179,337	11,473	(77,692)	1,113,118
Distribution system	30,891,906	138,105	-	31,030,011
Total capital assets being depreciated	36,150,080	163,960	(77,692)	36,236,348
Less accumulated depreciation for:				
Buildings and improvements	(2,032,521)	(91,798)	-	(2,124,319)
Equipment	(361,433)	(20,284)	-	(381,717)
Vehicles	(1,081,360)	(27,455)	77,692	(1,031,123)
Distribution system	(13,084,833)	(620,823)	-	(13,705,656)
Total accumulated depreciation	(16,560,147)	(760,360)	77,692	(17,242,815)
Total capital assets being depreciated, net	19,589,933			18,993,533
Electric fund capital assets, net	19,887,089			20,371,279
Water Fund:				
Capital assets not being depreciated:				
Land	66,605	-	-	66,605
Construction in progress	677,416	631,269	(1,026,875)	281,810
Total capital assets not being depreciated	744,021	631,269	(1,026,875)	348,415
Capital assets being depreciated:				
Buildings and improvements	577,040	-	-	577,040
Equipment	633,907	11,129	-	645,036
Vehicles	1,205,531	67,641	(40,672)	1,232,500
Distribution system	13,354,302	1,057,964	-	14,412,266
Total capital assets being depreciated	15,770,780	1,136,734	(40,672)	16,866,842

(Continued)

Note 6. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation for:				
Buildings and improvements	(509,449)	(16,045)	-	(525,494)
Equipment	(621,880)	(9,068)	-	(630,948)
Vehicles	(1,162,675)	(45,551)	40,672	(1,167,554)
Distribution system	(6,407,988)	(348,620)	-	(6,756,608)
Total accumulated depreciation	(8,701,992)	(419,284)	40,672	(9,080,604)
Total capital assets being depreciated, net	7,068,788			7,786,238
Water fund capital assets, net	7,812,809			8,134,653
Wastewater Fund:				
Capital assets not being depreciated:				
Land	609,518	-	-	609,518
Construction in progress	28,142,489	18,466,717	(9,869,371)	36,739,835
Total capital assets not being depreciated	28,752,007	18,466,717	(9,869,371)	37,349,353
Capital assets being depreciated:				
Buildings and improvements	3,759,351	-	-	3,759,351
Equipment	1,369,658	70,411	-	1,440,069
Vehicles	189,704	-	-	189,704
Distribution system	26,332,928	9,869,051	-	36,201,979
Total capital assets being depreciated	31,651,641	9,939,462	-	41,591,103
Less accumulated depreciation for:				
Buildings and improvements	(2,465,959)	(95,594)	-	(2,561,553)
Equipment	(573,888)	(281,303)	-	(855,191)
Vehicles	(189,704)	-	-	(189,704)
Distribution system	(8,763,169)	(889,486)	-	(9,652,655)
Total accumulated depreciation	(11,992,720)	(1,266,383)	-	(13,259,103)
Total capital assets being depreciated, net	19,658,921			28,332,000
Wastewater fund capital assets, net	48,410,928			65,681,353

(Continued)

Note 6. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Environmental Services Fund:				
Capital assets being depreciated:				
Equipment	446,542	-	-	446,542
Vehicles	2,311,841	336,391	-	2,648,232
Total capital assets being depreciated	2,758,383	336,391	-	3,094,774
Less accumulated depreciation for:				
Equipment	(428,014)	(6,176)	-	(434,190)
Vehicles	(1,965,208)	(242,019)	-	(2,207,227)
Total accumulated depreciation	(2,393,222)	(248,195)	-	(2,641,417)
Total capital assets being depreciated, net	365,161			453,357
Environmental services fund capital assets, net	365,161			453,357
Public Services Internal Service Fund:				
Capital assets being depreciated:				
Vehicles	45,116	16,108	-	61,224
Total capital assets being depreciated	45,116	16,108	-	61,224
Less accumulated depreciation for:				
Vehicles	(36,094)	(25,130)	-	(61,224)
Total accumulated depreciation	(36,094)	(25,130)	-	(61,224)
Total capital assets being depreciated, net	9,022			-
Public services fund capital assets, net	9,022			-
Business-type activities capital assets, net	$ 76,485,009			$ 94,640,642

Note 6. Capital Assets (Continued)

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

Governmental activities:		
General government	$	81,326
Public safety		588,614
Public works		96,714
Parks and recreation		170,691
Community development		35,839
Internal service funds		7,954
	$	981,138
Business-type activities:		
Electric Fund	$	760,360
Water Fund		398,827
Wastewater Fund		1,266,383
Non-major Enterprise Fund		248,195
Public Services Internal Service Fund		9,022
	$	2,682,787

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, 2006, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Accrued compensated absences	$ 1,207,026	$ 442,791	$ 948,654	$ 701,163	$ 480,000
Police separation allowance	446,836	108,805	-	555,641	-
Separation allowance plan	194,147	-	23,259	170,888	-
Installment contracts	4,306,574	314,730	775,232	3,846,072	844,967
Total	$ 6,154,583	$ 866,326	$ 1,747,145	$ 5,273,764	$ 1,324,967

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, 2006, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Accrued compensated absences	$ 344,621	$ 73,792	$ 119,058	$ 299,355	$ 125,000
Notes payable	4,801,267	-	599,771	4,201,496	601,665
Installment contracts	1,644,610	283,202	408,045	1,519,767	474,255
Revenue bonds	16,367,067	-	589,256	15,777,811	609,807
Total	$ 23,157,565	$ 356,994	$ 1,716,130	$ 21,798,429	$ 1,810,727

Revenue Bonds

Revenue bonds outstanding at June 30, 2006 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% .	$ 1,362,027
$1,211,360 – Combined Enterprise Revenue Refunding Bonds, Series 2005, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	1,025,739
	2,387,766
Wastewater Fund:	
$882,612 – Combined Enterprise System Revenue Bonds, Series 2004, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	863,508
$767,987 – Combined Enterprise Revenue Refunding Bonds, Series 2005, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	650,305
$2,536,000 – Combined Enterprise System Revenue Bonds, 2004 Series, due in Semi-annual installments through June 15, 2021; interest at 4.5%	2,282,811
$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
	7,386,624
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% .	3,424,465
$3,045,653 – Combined Enterprise Revenue Refunding Bonds, Series 2005, due in Semi-annual installments through April 1, 2014; interest at 3.39% .	2,578,956
	6,003,421
Total Revenue Bonds	$ 15,777,811

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
2007	$	609,807	$	582,652	$	1,192,459
2008		834,800		674,023		1,508,823
2009		856,071		638,155		1,494,226
2010		887,368		602,408		1,489,776
2011		908,937		565,499		1,474,436
2012 - 2016		5,023,230		2,240,306		7,263,536
2017 - 2021		5,859,820		1,010,741		6,870,561
2022 - 2025		797,778		109,055		906,833
Total	$	15,777,811	$	6,422,839	$	22,200,650

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. The City has complied with these bond covenants for the year ended June 30, 2006.

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
2007	$	601,665	$	122,308	$	723,973
2008		582,603		103,018		685,621
2009		414,116		84,667		498,783
2010		414,116		72,549		486,665
2011		414,116		60,431		474,547
2012 - 2016		895,032		173,910		1,068,942
2017 - 2021		601,144		85,040		686,184
2022 - 2024		278,704		12,647		291,351
Total	$	4,201,496	$	714,570	$	4,916,066

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:

	Governmental Activities Installment Contracts		Busines-type Activities Installment Contracts		Total	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 844,967	$ 160,751	$ 474,255	$ 52,094	$ 1,319,222	$ 212,845
2008	694,900	129,435	374,557	36,513	1,069,457	165,948
2009	694,900	102,714	381,762	23,724	1,076,662	126,438
2010	513,877	77,008	232,551	11,491	746,428	88,499
2011	200,877	58,228	56,642	1,559	257,519	59,787
2012 - 2016	689,655	165,604	-	-	689,655	165,604
2017 - 2018	206,896	11,689	-	-	206,896	11,689
Total	$ 3,846,072	$ 705,429	$ 1,519,767	$ 125,381	$ 5,365,839	$ 830,810

Installment contracts of the government activities will be repaid from the General Fund. Of the Enterprise Fund installment contracts, $717,809 will be repaid from the Wastewater Fund, $46,441 from the Electric Fund, $58,051 from the Water Fund and $697,466 from the Environmental Services Fund.

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, 2006, the legal debt limit for the City was $95,001,119 providing a legal debt margin of $91,155,047.

At June 30, 2006, 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	$ -	$ 19,102
Privilege licenses receivable	370,727	-
Property taxes receivable	798,785	-
Property taxes receivable, automobiles	140,637	-
Paving assessments receivable	125,374	-
Other prepaids	-	9,700
	$ 1,435,523	$ 28,802
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.

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, 2006, 2005 and 2004 were $635,890, $633,525, and $638,245, 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, 2006 were $208,001, which consisted of $159,096 from the City and $48,905 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, 2005, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	72
Total	76

A separate financial report was not issued for the plan.

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, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9 to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

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	$ 124,414
Interest on net pension obligation	32,396
Adjustment to annual required contribution	(25,664)
Annual pension cost	131,146
Contributions made	22,341
Increase (decrease) in net pension obligation	108,805
Net pension obligation beginning of year	446,836
Net pension obligation end of year	$ 555,641

	Three Year Trend Information		
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	$ 96,485	9.38%	$ 381,570
2005	105,718	19.35%	446,836
2006	131,146	17.04%	555,641

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, 2005, the Separation Allowance - Employees' membership consisted of:

Retirees receiving benefits	13
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	38
Total	51

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.

Note 9. Employee Retirement Systems (Continued)

The annual required contribution for the current year was determined as part of the June 30, 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 increase ranging from 4.4% to 11.9% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement 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	$	**73,196**
Interest on net pension obligation		**14,075**
Adjustment to annual required contribution		**(39,659)**
Annual pension cost		**47,612**
Contributions made		**(70,871)**
Increase (decrease) in net pension obligation		**(23,259)**
Net pension obligation beginning of year		**194,147**
Net pension obligation end of year	$	**170,888**

	Three Year Trend Information				
Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed			Net Pension Obligation
2004	$ 69,897	114.20	%	$	210,310
2005	58,884	127.40			194,147
2006	47,612	148.90			170,888

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, 2006 were $315,990, which consisted of $143,063 from the City and $172,927 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.

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 2006 those costs totaled $212,665. The City obtains healthcare coverage through private insurers.

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 his/her 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, 2006, the City made contributions to the State for death benefits of $16,118. 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 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

Note 10. Risk Management (Continued)

excess of $250,000 and in aggregate in excess of $2,000,000. A total of $189,282 in claims were incurred for benefits during fiscal year 2006.

Claims Liability

	2006	2005
Unpaid claims, beginning of fiscal year	$ 289,000	$ 284,004
Incurred claims (including claims incurred but not reported as of fiscal year end)	189,282	185,471
Payments and reduction in claims estimates	(180,482)	(180,475)
Unpaid claims, end of fiscal year	$ 297,800	$ 289,000

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 that 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 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 Carolina Power & Light Company's (CP&L) generating capacity and by contracting with CP&L 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 CP&L 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.

Note 11. Commitments and Contingencies (Continued)

Claims and Judgments

At June 30, 2006, 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 results 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.

Electric Deregulation

In 1997, the General Assembly appointed the Study Commission on the Future of Electric Service in North Carolina ("Study Commission") to examine the cost, adequacy, availability and pricing of electric rates in North Carolina, in order to determine whether legislation was necessary to assure an adequate and reliable source of electricity and economical, fair and equitable rates for all consumers in North Carolina.

The Study Commission submitted its report to the 2000 General Assembly on May 16, 2000, which included a recommendation that fully competitive electric retail service be available to all North Carolina electric consumers by January 1, 2006, but no definitive legislation was proposed. In the time since the Study Commission made its recommendations, there have been several developments outside of North Carolina, particularly the electric power outages occurring in late 2000 and 2001 in California. While the Study Commission has not withdrawn its 2000 recommendations, these outside events make it likely that any action toward electric deregulation in North Carolina will proceed slowly. Also, the Study Commission has not met since 2002.

The City and the Electric Agency are unable to predict the ultimate results of the recommendations made by the Study Commission or other interested parties, or whether any recommendations to the General Assembly will eventually be enacted into law.

Although the impact of any retail electric competition cannot be measured at this time, if such competition becomes applicable to the City, it may cause significant changes in (i) the number of customers, (ii) the costs to the customers, (iii) revenues, (iv) financing costs, and (v) debt ratings.

Note 11. Commitments and Contingencies (Continued)

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 have 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.

Note 12. Jointly Governed Organizations

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 $6,363 to the Council during the fiscal year ended June 30, 2006.

North Carolina Eastern Municipal Power Agency

The City, in conjunction with thirty-two 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 from the Agency for the fiscal year ended June 30, 2006 were $38,855,075.

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, 2006.

Note 12. Jointly Governed Organizations (Continued)

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 $151,322 of funding for the Authority for the year ended June 30, 2006.

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, 2006. During the year ended June 30, 2006, 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. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2006 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 46, "Net Assets Restricted by Enabling Legislation"
- GASB Statement Number 47 "Accounting for Termination Benefits"

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%

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

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
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

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	12/31/2005
Acturarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	25 Years
Asset valuation method	Market Value
Acturarial 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%

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%

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, 2006
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, 2006 and 2005

Assets		**2006**		2005
Cash and investments	$	**3,764,353**	$	4,006,360
Receivables:				
Due from governmental agencies		**1,344,426**		1,128,269
Accounts receivable		**573,930**		308,980
Taxes receivable		**939,423**		967,894
Inventories		**89,031**		68,965
Total assets	$	**6,711,163**	$	6,480,468
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and accrued liabilities	$	**808,576**	$	501,847
Unearned revenue		**28,802**		67,894
Deferred revenue		**1,435,523**		1,098,766
Total liabilities		**2,272,901**		1,668,507
Fund Balance:				
Reserved for Powell Bill		**541,378**		513,887
Reserved for inventories		**89,031**		68,965
Reserved by State statute		**1,422,256**		1,306,377
Reserved for encumbrances		**197,765**		1,126,903
Unreserved:				
Designated for subsequent year's expenditures		**400,000**		300,000
Undesignated		**1,787,832**		1,495,829
Total fund balance		**4,438,262**		4,811,961
Total liabilities and fund balance	$	**6,711,163**	$	6,480,468

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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

	2006 Budget	2006 Actual	2006 Variance, with Final Budget	2005 Actual
Revenue:				
Ad valorem taxes:				
Taxes	$ 7,241,160	$ 7,364,902	$ 123,742	$ 7,212,272
Penalties and interest	70,500	88,409	17,909	83,279
Total ad valorem taxes	7,311,660	7,453,311	141,651	7,295,551
Sales and services:				
Rents, concessions and fees	368,004	355,139	(12,865)	283,739
Inspection fees	160,000	258,162	98,162	104,942
Cemetery fees	198,750	201,350	2,600	208,075
Cable franchise	173,000	218,457	45,457	130,743
Lenoir County participation:				
Recreation	515,049	425,648	(89,401)	547,467
Total sales and services	1,414,803	1,458,756	43,953	1,274,966
Other taxes and licenses:				
Local government sales tax	3,077,470	2,991,928	(85,542)	3,042,893
Franchise tax	1,413,279	1,479,702	66,423	1,692,762
Occupancy tax	140,000	163,765	23,765	137,392
Gross receipts tax	16,000	16,439	439	15,297
Licenses and permits	76,500	77,142	642	104,930
Total other taxes and licenses	4,723,249	4,728,976	5,727	4,993,274
Unrestricted intergovernmental revenue:				
Payments in lieu of taxes	282,799	257,599	(25,200)	323,985
Beer and wine	126,185	102,544	(23,641)	102,420
ABC revenue	400	443	43	247
Total unrestricted intergovernmental revenue	409,384	360,586	(48,798)	426,652
Restricted intergovernmental revenue:				
Powell Bill allocations	780,421	734,756	(45,665)	746,506
Vector control	15,381	5,870	(9,511)	-
School Resource Officer	71,300	74,827	3,527	69,917
NC Dept of Transportation	378,426	-	(378,426)	-
Victims advocate grant	-	-	-	7,500
Federal grants, miscellaneous	62,885	54,385	(8,500)	5,780
State grants, miscellaneous	250,800	74,653	(176,147)	-
Court allocation	1,600	-	(1,600)	49,634
Forfeited drug proceeds	4,500	-	(4,500)	5,304
Total restricted intergovernmental revenue	1,565,313	944,491	(620,822)	884,641

(continued)

General Fund

Schedules of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 2 of 4)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Other revenue:				
Investment income	$ 47,000	$ 74,260	$ 27,260	$ 47,209
Sales of surplus materials and assets	139,675	23,766	(115,909)	59,623
Miscellaneous	46,965	46,655	(310)	50,392
Total other revenue	233,640	144,681	(88,959)	157,224
Total revenue	15,658,049	15,090,801	(567,248)	15,032,308
Expenditures:				
General Government:				
Governing body:				
Salaries and benefits		110,170		201,085
Operating		198,168		80,052
Total governing body	323,673	308,338	15,335	281,137
Executive:				
Salaries and benefits		504,135		521,284
Operating		193,832		175,295
Capital outlay		9,949		461
Total executive	732,565	707,916	24,649	697,040
Finance:				
Salaries and benefits		446,968		443,095
Operating		296,000		289,622
Capital outlay		-		2,387
Total finance	775,194	742,968	32,226	735,104
Human Resources:				
Salaries and benefits		254,683		257,840
Operating		231,600		190,136
Total human resources	479,576	486,283	(6,707)	447,976
Engineering and public facilities:				
Salaries and benefits		579,512		559,970
Operating		373,410		395,044
Capital outlay		72,114		609
Less: interdepartmental charges		(399,300)		(369,400)
Total engineering and public facilities	821,396	625,736	195,660	586,223
Indirect costs reimbursement	(983,037)	(983,037)	-	(927,037)
Total general government	2,149,367	1,888,204	261,163	1,820,443

(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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 3 of 4)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Public safety:				
Police and fire administration:				
Salaries and benefits	$	$ 829,207	$	$ 920,102
Operating		211,572		194,370
Operating		-		6,550
Total police and fire admin	1,068,695	1,040,779	27,916	1,121,022
Police:				
Salaries and benefits		3,632,200		3,320,376
Operating		907,651		742,604
Capital outlay		256,422		531,976
Total police	5,008,591	4,796,273	212,318	4,594,956
Fire:				
Salaries and benefits		2,282,976		2,511,354
Operating		454,317		285,534
Capital outlay		639,527		62,408
Total fire	3,537,258	3,376,820	160,438	2,859,296
Total public safety	9,614,544	9,213,872	400,672	8,575,274
Public services:				
Salaries and benefits		881,974		903,102
Operating		917,537		949,897
Capital outlay		101,263		31,144
Total public services	2,386,193	1,900,774	485,419	1,884,143
Parks and recreation:				
Salaries and benefits		1,690,592		1,675,225
Operating		1,101,373		1,084,980
Capital outlay		22,726		49,717
Total parks and recreation	2,835,445	2,814,691	20,754	2,809,922
Community development:				
Inspections and code enforcement:				
Salaries and benefits		298,740		308,958
Operating		100,790		91,513
Total inspections and code enforcement	409,149	399,530	9,619	400,471

(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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 4 of 4)

	2006 Budget	2006 Actual	2006 Variance, with Final Budget	2005 Actual
Economic development:				
Operating	$	$ 581,570	$	$ 553,218
Capital outlay		70,451		-
Total economic development	773,502	652,021	121,481	553,218
Total community development	1,182,651	1,051,551	131,100	953,689
Total expenditures	18,168,200	16,869,092	1,299,108	16,043,471
Revenue under expenditures	(2,510,151)	(1,778,291)	731,860	(1,011,163)
Other financing sources (uses):				
Appropriated fund balance	813,019	-	(813,019)	-
Appropriated fund balance - Powell Bill	300,000	-	(300,000)	-
Operating transfers in	1,281,000	1,284,760	3,760	1,174,247
Operating transfers out	(198,598)	(194,898)	3,700	(309,089)
Proceeds from borrowing	314,730	314,730	-	1,015,000
Total other financing sources	2,510,151	1,404,592	(1,105,559)	1,880,158
Revenue and other financing sources under expenditures	$ -	(373,699)	$ (373,699)	868,995
Fund balance, beginning		4,811,961		3,942,966
Fund balance, ending		$ 4,438,262		$ 4,811,961

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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, 2006 With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 1 of 2)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Operating revenue:				
Charges for services, electricity sales	$ 42,187,779	$ 43,910,096	$ 1,722,317	$ 39,324,779
Other	312,400	582,293	269,893	458,396
Total operating revenue	42,500,179	44,492,389	1,992,210	39,783,175
Non operating revenue:				
Interest earned on investments	7,000	38,723	31,723	22,442
Total revenue	42,507,179	44,531,112	2,023,933	39,805,617
Expenditures:				
Electrical operations:				
Salaries and benefits		1,157,144		1,164,924
Operating		1,826,954		1,904,064
Purchased Power		38,855,075		34,767,117
Indirect costs		1,200,903		1,146,892
Capital outlay		163,960		139,306
Total expenditures	41,760,095	43,204,036	(1,443,941)	39,122,303
Revenue over expenditures	747,084	1,327,076	579,992	683,314
Other financing sources (uses):				
Appropriated fund balance	233,993	-	(233,993)	-
Debt issued	-	-	-	6,545,880
Payments to escrow agents - refunding	-	-	-	(7,144,851)
Transfers in	-	-	-	14,778
Transfers out	(981,077)	(981,077)	-	(998,500)
Total other financing uses	(747,084)	(981,077)	(233,993)	(1,582,693)
Revenue and other sources under expenditures and other uses	$ -	$ 345,999	$ 345,999	$ (899,379)

(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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005**

(Page 2 of 2)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Reconciliation of modified accrual basis to full accrual basis:				
Revenue and other sources under expenditures and other uses		$ 345,999		$ (899,379)
Transfers in		-		(14,778)
Transfers out		981,077		998,500
Debt issued		-		(6,545,880)
Capital outlay		163,960		129,481
Payment of debt principal		294,286		279,134
Payments to escrow agents - refunding		-		7,144,851
Depreciation		(760,360)		(854,541)
Amortization of deferred debit		(252,426)		(252,426)
Decrease in accrued unbilled electricity sales		194,472		(55,368)
Bad debt expense		(395,611)		(213,267)
Decrease in accrued compensated absences		1,512		-
Decrease in interest accrual		39,974		16
Income before operating transfers, accrual basis		$ 612,883		$ (283,657)

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, 2006

		Actual		
	Project Authorization	Prior Years	Current Year	Total To Date
Expenditures:				
Smithfield expansion	$ 1,755,000	$ 94,776	$ 1,080,590	$ 1,175,366
Copper wire replacement	64,900	-	-	-
Total expenditures	1,819,900	94,776	1,080,590	1,175,366
Other financing sources:				
Debt issued	1,819,900	-	-	-
Total other financing sources under expenditures	$ -	$ (94,776)	$ (1,080,590)	$ (1,175,366)

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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, 2006 With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 1 of 2)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Operating revenue:				
Charges for services:				
Water sales	$ 4,535,181	$ 4,578,176	$ 42,995	$ 3,968,907
Other	113,000	111,271	(1,729)	93,963
Total operating revenue	4,648,181	4,689,447	41,266	4,062,870
Nonoperating revenue:				
Interest earned on investments	4,300	35,271	30,971	8,092
Total nonoperating revenue	4,300	35,271	30,971	8,092
Total revenue	4,652,481	4,724,718	72,237	4,070,962
Expenditures:				
Water production:				
Salaries and benefits		297,240		316,084
Operating		1,087,695		1,146,675
Capital outlay		59,760		63,253
Indirect costs		221,214		474,033
	1,864,260	1,665,909	198,351	2,000,045
Water operations:				
Salaries and benefits		848,860		633,449
Operating		555,143		390,433
Capital outlay		29,643		63,252
Indirect costs		221,214		474,033
	2,040,386	1,654,860	385,526	1,561,167
Total expenditures	3,904,646	3,320,769	583,877	3,561,212
Revenue over expenditures	747,835	1,403,949	656,114	509,750

(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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Other financing sources (uses):				
Appropriated fund balance	57,594	-	(57,594)	-
Debt issued	-	-	-	2,596,950
Payments to escrow agents - refunding	-	-	-	(2,834,616)
Transfers in - capital reserve	226,000	226,000	-	4,212
Transfers out - capital reserve	(1,008,000)	-	1,008,000	(339,000)
Transfers out - other funds	(23,429)	(23,429)	-	(346,923)
Total other financing sources (uses)	(747,835)	202,571	950,406	(919,377)
Revenue and other sources under expenditures	$ -	$ 1,606,520	$ 1,606,520	$ (409,627)

	2006	2005
Reconciliation of modified accrual basis to full accrual basis:		
Revenue and other sources over expenditures	$ 1,606,520	$ (409,627)
Transfers out	23,429	685,923
Transfers in	(226,000)	(4,212)
Capital outlay	89,403	126,505
Capital contributions	300,000	-
Payment of debt principal	148,410	141,530
Payments to escrow agents - refunding	-	2,834,616
Debt issued	-	(2,596,950)
Depreciation	(398,827)	(413,583)
Amortization of deferred debit	(231,394)	(104,568)
Increase in accrued unbilled water sales	(30,443)	84,573
Bad debt expense	(21,517)	-
Loss on sale/transfer of assets	-	(34,574)
Decrease in accrued compensated	30,600	-
(Increase) decrease in interest accrual	(5,686)	22,488
Income before operating transfers accrual basis	$ 1,284,495	$ 332,121

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, 2006

	Project Authorization	Actual Prior Years	Actual Current Year	Actual Total 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	325,000	-	281,810	281,810
Total expenditures	2,971,655	677,416	281,810	959,226
Other Financing Sources:				
Federal and State grants	300,000	-	300,000	300,000
Debt issued	2,217,000	-	-	-
Transfers in	454,655	284,587	-	284,587
Total other financing sources	2,971,655	284,587	300,000	584,587
Total other financing sources under expenditures	$ -	$ (392,829)	$ 18,190	$ (374,639)

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, 2006

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Other financing sources (uses):				
Transfers out	$ (1,173,628)	$ (663,757)	$ (226,000)	$ (889,757)
Transfers in	1,173,628	1,286,628	-	1,286,628
Total other financing sources	-	622,871	(226,000)	396,871
Total revenue and other financing sources over other financing uses	$ -	$ 622,871	$ (226,000)	$ 396,871

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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 1 of 2)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Operating revenue:				
Charges for services:				
Sewer charges	$ 4,686,619	$ 4,631,882	$ (54,737)	$ 4,656,989
Other	7,300	18,920	11,620	6,071
Total operating revenue	4,693,919	4,650,802	(43,117)	4,663,060
Nonoperating revenue:				
Interest earned on investments	25,200	71,496	46,296	41,805
Total nonoperating revenue	25,200	71,496	46,296	41,805
Total revenue	4,719,119	4,722,298	3,179	4,704,865
Expenditures:				
Wastewater collections:				
Salaries and benefits		-		278,602
Operating		5,480		1,020,516
Capital outlay		70,091		7,448
Indirect costs		966,615		479,923
	1,042,249	1,042,186	63	1,786,489
Wastewater plant operations:				
Salaries and benefits		660,240		691,841
Operating		2,149,798		1,481,217
Capital outlay		-		7,449
Indirect costs		465,933		479,923
	3,536,600	3,275,971	260,629	2,660,430
Total expenditures	4,578,849	4,318,157	260,692	4,446,919
Revenue over expenditures	140,270	404,141	263,871	257,946
Other financing sources (uses):				
Appropriated fund balance	89,597	-	(89,597)	-
Debt issued	-	-	-	1,657,170
Payments to escrow agents -refunding bonds	-	-	-	(1,808,771)
Transfers out - capital projects	(222,090)	-	222,090	-
Transfers in - other funds	-	-	-	77,190
Transfers out	(7,777)	(7,777)	-	(1,136,278)
Total other financing sources (uses)	(140,270)	(7,777)	132,493	(1,210,689)
Revenue and other sources over (under) expenditures	$ -	$ 396,364	$ 396,364	$ (952,743)

(Continued)

City of Kinston, North Carolina
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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 2 of 2)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Reconciliation of modified accrual basis to full accrual basis:				
Revenue and other sources over (under) expenditures		$ 396,364		$ (952,743)
Transfers in - other funds		-		(77,190)
Transfers out		7,777		1,136,278
Capital outlay		70,091		14,897
Payment of debt principal		949,898		933,731
Payments to escrow agents - refunding bonds		-		1,808,771
Debt issued		-		(1,657,170)
Depreciation		(1,266,383)		(1,010,406)
Amortization of deferred charges		(72,125)		(72,125)
Capital contributions		19,123,503		13,446,075
Interest from capital project funds		129,328		1,983
Repairs and maintenance expense from capital project fund		(30,768)		-
Decrease in accrued compensated absences		12,061		-
Increase (decrease) in accrued unbilled sewer sales		(28,728)		42,453
Bad debt expense		(14,814)		-
(Increase) decrease in interest accrual		(22,804)		27,403
Income before operating transfers, accrual basis		$ 19,253,400		$ 13,641,957

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, 2006

	Project Authorization	Actual Prior Years	Actual Current Year	Actual Total To Date
Expenditures:				
Northside WWTP Expansion	$ 56,831,554	$ 18,310,208	$ 17,559,236	$ 35,869,444
FY 99/00 Capital Projects	11,379,019	9,742,692	860,604	10,603,296
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	26,520	533,576	560,096
Water Reuse Capital roject	1,737,200	-	310,294	310,294
Total expenditures	71,321,966	28,723,596	19,263,710	47,987,306
Other financing sources (uses):				
Federal and/or State grants	47,593,952	21,508,923	18,812,124	40,321,047
Proceeds from borrowings	20,559,154	8,620,575	-	8,620,575
County participation	38,200	32,462	-	32,462
Interest income	-	1,983	129,325	131,308
Transfers in	3,130,660	1,766,903	206,417	1,973,320
Total other financing sources	71,321,966	31,930,846	19,147,866	51,078,712
Total other financing sources over (under) expenditures	$ -	$ 3,207,250	$ (115,844)	$ 3,091,406

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, 2006

		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, 2006

	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	$ 68,561	$ 12,979	$ 78,454	$ 159,994
Receivables	167,055	42,370	-	209,425
Due from other funds	104,871	61,436	-	166,307
Total assets	$ 340,487	$ 116,785	$ 78,454	$ 535,726
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and accrued liabilities	$ 48,145	$ 3,130	$ -	$ 51,275
Due to other funds	104,871	248,111	-	352,982
Total liabilities	153,016	251,241	-	404,257
Fund balance:				
Reserved by State statute	270,993	42,370	-	313,363
Unreserved, undesignated	(83,522)	(176,826)	78,454	(181,894)
Total fund balance	187,471	(134,456)	78,454	131,469
Total liabilities and fund balance	$ 340,487	$ 116,785	$ 78,454	$ 535,726

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

Due from other funds from above	$ 166,307	Due to other funds from above	$ 352,982
Less amounts between non-major funds	(166,307)	Less amounts between non-major funds	(166,307)
Net due from other funds	$ -	Net due to other funds	$ 186,675

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, 2006

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Permanent Fund Temple Israel Perpetual Care Fund	Total Nonmajor Governmental Funds
Revenue				
Intergovernmental revenue	$ 1,089,800	$ 96,033	$ -	$ 1,185,833
Miscellaneous income	280	283,138	-	283,418
Interest	4,790	418	1,630	6,838
Total revenue	1,094,870	379,589	1,630	1,476,089
Expenditures				
Current:				
Public safety	51,301	171,620	-	222,921
Community development	851,495	65,751	-	917,246
Recreation	-	367,991	-	367,991
Total expenditures	902,796	605,362	-	1,508,158
Revenue under expenditures	192,074	(225,773)	1,630	(32,069)
Other Financing Sources (Uses)				
Transfers in	144,718	100,000	-	244,718
Transfers out	(474,478)	(100,000)	-	(574,478)
Total other financing sources (uses)	(329,760)	-	-	(329,760)
Net change in fund balance	(137,686)	(225,773)	1,630	(361,829)
Fund Balances, beginning	325,157	91,317	76,824	493,298
Fund Balances, ending	$ 187,471	$ (134,456)	$ 78,454	$ 131,469

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

Transfer in from above	$ 244,718	Transfers out from above	$ 574,478
Less transfers between nonmajor funds	(244,718)	Less transfers between nonmajor funds	(244,718)
Net transfers in	$ -	Net transfers out	$ 329,760

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.

State Tenant Relocation Assistance Grant Fund – This fund accounts for assistance with the Floyd Recovery Program through the relocation of rental units and tenants households and is funded by the N.C. Division of Crime and Public Safety, Redevelopment Center.

CDBG Micro Enterprise Grant – This fund accounts for the Community Development Block Grant funds for the micro enterprise project.

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.

NON-MAJOR SPECIAL REVENUE FUNDS

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.

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.

City of Kinston, North Carolina
Nonmajor Special Revenue Funds

Combining Balance Sheets
June 30, 2006
With Comparative Totals for June 30, 2005

(Page 1 of 2)

	Community Development Administration	SARF DCA	Oaks Apartments	FEMA Assistance to Firefighters	Single Family Rehabilitation
Assets					
Cash and investments	$ 57,884	$ 9,694	$ -	$ 958	$ -
Due from other funds	104,871	-	-	-	-
Due from government agencies	-	-	24,803	-	86,085
Accounts and loans receivable	52,996	16	-	-	-
Total assets	$ 215,751	$ 9,710	$ 24,803	$ 958	$ 86,085
Liabilities and Fund Balances (Deficits)					
Liabilities					
Due to other funds	$ -	$ -	$ 24,803	$ -	$ 77,643
Accounts payable and accrued liabilities	39,682	-	-	-	8,463
Total liabilities	39,682	-	24,803	-	86,106
Fund Balances (Deficits)					
Reserved by State statute	157,867	16	24,803	-	86,085
Unreserved - undesignated	18,202	9,694	(24,803)	958	(86,106)
	176,069	9,710	-	958	(21)
Total liabilities and fund balances	$ 215,751	$ 9,710	$ 24,803	$ 958	$ 86,085

City of Kinston, North Carolina
Nonmajor Special Revenue Funds

Combining Balance Sheets
June 30, 2006
With Comparative Totals for June 30, 2005

(Page 2 of 2)

	2003 LLEBG	2004 LLEBG	2005 GHSP	Operation Video Impact	Totals 2006	Totals 2005
Assets						
Cash and investments	$ 25	$ -	$ -	$ -	$ 68,561	$ 310,162
Due from other funds	-	-	-	-	104,871	128,139
Due from government agencies	-	-	-	-	110,888	-
Accounts receivable	-	790	1,132	1,233	56,167	54,676
Total assets	$ 25	$ 790	$ 1,132	$ 1,233	$ 340,487	$ 492,977
Liabilites and Fund Balances (Deficits)						
Liabilities						
Due to other funds	$ -	$ 819	$ 933	$ 673	$ 104,871	$ 128,139
Accounts payable and accrued liabilities	-	-	-	-	48,145	39,681
Total liabilities	-	819	933	673	153,016	167,820
Fund Balances (Deficits)						
Reserved by State statute	-	790	199	1,233	270,993	182,905
Unreserved - undesignated	25	(819)	-	(673)	(83,522)	142,252
	25	(29)	199	560	187,471	325,157
Total liabilities and fund balances	$ 25	$ 790	$ 1,132	$ 1,233	$ 340,487	$ 492,977

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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 1 of 3)

	Community Development Administration	SARF - DCA	Salvage Yard Buyout	State Tenant Relocation Assistance	CDBG Micro Enterprise	Oaks Apartments
Revenue:						
Restricted:						
Intergovernmental revenue	$ 9,304	$ 84,608	$ 844,816	$ -	$ 6,722	$ 19,894
Other:						
Miscellaneous revenue	280	-	-	-	-	-
Investment earnings	3,275	1,281	-	-	-	-
Total revenue	12,859	85,889	844,816	-	6,722	19,894
Expenditures:						
Planning and community development						
Administration	-	225	84,476	-	-	-
Rehabilitation of private properties	-	325	728,107	-	11	27,037
Public safety						
Other services	-	-	-	-	-	-
Total expenditures	-	550	812,583	-	11	27,037
Total revenue over (under) expenditures	12,859	85,339	32,233	-	6,711	(7,143)
Other financing sources (uses):						
Transfers in	-	-	-	59,892	-	-
Transfers out	-	(84,826)	-	(51,000)	-	-
Total financing sources (uses)	-	(84,826)	-	8,892	-	-
Total revenue and other sources over (under) expenditures	12,859	513	32,233	8,892	6,711	(7,143)
Fund balances (deficits), beginning	163,210	9,197	(32,233)	(8,892)	(6,711)	7,143
Fund balances (deficits), ending	$ 176,069	$ 9,710	$ -	$ -	$ -	$ -

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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 2 of 3)

	FEMA Assistance to Firefighters	Single Family Rehabilitation	Flood Close Out	2003 LLEBG	2004 LLEBG	2005 GHSP
Revenue:						
Restricted:						
Intergovernmental revenue	$ -	$ 86,085	$ -	$ -	$ -	$ 18,540
Other:						
Miscellaneous revenue	-	-	-	-	-	-
Investment earnings	-	-	-	-	234	-
Total revenue	-	86,085	-	-	234	18,540
Expenditures:						
Planning and community development						
Administration	-	2,000	-	-	-	-
Rehabilitation of private properties	-	6,483	2,831	-	-	-
Public safety						
Other services	-	-	-	-	12,946	16,881
Total expenditures	-	8,483	2,831	-	12,946	16,881
Total revenue over (under) expenditures	-	77,602	(2,831)	-	(12,712)	1,659
Other financing sources (uses):						
Transfers in	-	-	84,826	-	-	-
Transfers out	-	-	(338,652)	-	-	-
Total financing sources (uses)	-	-	(253,826)	-	-	-
Total revenue and other sources over (under) expenditures	-	77,602	(256,657)	-	(12,712)	1,659
Fund balances (deficits), beginning	958	(77,623)	256,657	25	12,683	(1,460)
Fund balances (deficits), ending	$ 958	$ (21)	$ -	$ 25	$ (29)	$ 199

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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 3 of 3)

	Operation Video Impact	Totals 2006	Totals 2005
Revenue:			
Restricted:			
Intergovernmental revenue	$ 19,831	$ 1,089,800	$ 1,190,306
Other:			
Miscellaneous revenue	-	280	15,405
Investment earnings	-	4,790	2,275
Total revenue	19,831	1,094,870	1,207,986
Expenditures:			
Planning and community development			
Administration	-	86,701	14,962
Rehabilitation of private properties	-	764,794	1,210,362
Public safety			
Other services	21,474	51,301	27,546
Total expenditures	21,474	902,796	1,252,870
Total revenue over (under) expenditures	(1,643)	192,074	(44,884)
Other financing sources (uses):			
Transfers in	-	144,718	22,004
Transfers out	-	(474,478)	(33,616)
Total financing sources (uses)	-	(329,760)	(11,612)
Total revenue and other sources over (under) expenditures	(1,643)	(137,686)	(56,496)
Fund balances (deficits), beginning	2,203	325,157	381,653
Fund balances (deficits), ending	$ 560	$ 187,471	$ 325,157

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, 2006

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Rent and program income	$ 20,000	$ 9,304	$ (10,696)
Other revenue	-	280	280
Investment earnings	1,600	3,275	1,675
Total revenue	21,600	12,859	(8,741)
Expenditures:			
Contract services	21,600	-	21,600
Total expenditures	21,600	-	21,600
Total revenue over expenditures	$ -	$ 12,859	$ 12,859

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, 2006

	Actual Current Year	Actual Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue, State grant project	$ 84,608	$ 1,748,883	$ 1,748,883
Interest revenue	1,281	8,563	8,563
Total revenue	85,889	1,757,446	1,757,446
Expenditures:			
Administration	225	11,263	164,414
Acquisition, relocation, demolition of private properties	325	1,651,647	1,508,206
Total expenditures	550	1,662,910	1,672,620
Total revenue over expenditures	85,339	94,536	84,826
Other financing uses:			
Transfers out	(84,826)	(84,826)	(84,826)
Total other financing uses	(84,826)	(84,826)	(84,826)
Total revenue over expenditures and other financing uses	$ 513	$ 9,710	$ -

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, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue, State grant project	$ 844,816	$ 2,793,226	$ 3,700,000
Expenditures:			
Administration	84,476	226,832	188,174
Acquisition, relocation, demolition of private properties	728,107	2,566,394	3,511,826
Total expenditures	812,583	2,793,226	3,700,000
Total revenue over expenditures	$ 32,233	$ -	$ -

City of Kinston, North Carolina
Grant Project Fund - State Tenant Relocation Assistance

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue, State grant project	$ -	$ 972,457	$ 972,457
Expenditures:			
Administration	-	103,662	103,662
Acquisition, relocation, demolition of private properties	-	877,687	877,687
Total expenditures	-	981,349	981,349
Total revenue under expenditures	-	(8,892)	(8,892)
Other financing sources (uses):			
Transfers in	59,892	59,892	59,892
Transfers out	(51,000)	(51,000)	(51,000)
Total other financing sources	8,892	8,892	8,892
Total revenue and other financing sources over other financing uses	$ 8,892	$ -	$ -

City of Kinston, North Carolina
Grant Project Fund - CDBG Micro Enterprise Grant

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
State grants	$ 6,722	$ 100,000	$ 100,000
Expenditures:			
Administration	-	5,000	5,000
Acquisition, relocation, demolition of private properties	11	95,000	95,000
Total expenditures	11	100,000	100,000
Total revenue over expenditures	$ 6,711	$ -	$ -

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, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
Federal and State grants	$ 19,894	$ 112,352	$ 144,000
Expenditures:			
Administration	-	11,915	14,400
Acquisition, relocation, demolition of private properties	27,037	100,437	129,600
Total expenditures	27,037	112,352	144,000
Total revenue over (under) expenditures	$ (7,143)	$ -	$ -

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, 2006

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

City of Kinston, North Carolina
Grant Project Fund - CD Capacity

Schedule of Revenue and Expenditures -
Budget and Actual
From Grant Inception and For the Fiscal Year Ended June 30, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
State grant project	$ -	$ -	$ 50,000
Expenditures:			
Administration	-	-	50,000
Total expenditures	-	-	50,000
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, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
Federal grants	$ 86,085	$ 234,632	$ 300,000
Expenditures:			
Administration	2,000	13,095	19,149
Acquisition, relocation, demolition of private properties	6,483	221,558	280,851
Total expenditures	8,483	234,653	300,000
Total revenue under expenditures	$ 77,602	$ (21)	$ -

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, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
Federal grants	$ -	$ 277,084	$ -
Miscellaneous revenue	-	7,425	-
Total revenue	-	284,509	-
Expenditures:			
Acquisition, relocation, demolition of private properties	2,831	2,831	2,831
Total revenue under expenditures	(2,831)	281,678	(2,831)
Other financing sources (uses):			
Transfers in	84,826	701,377	700,481
Transfers out	(338,652)	(983,055)	(700,481)
Total other financing sources	(253,826)	(281,678)	-
Total revenue and other financing sources over other financing uses	$ (256,657)	$ -	$ -

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, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
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, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
Federal grant	$ -	$ 11,348	$ 11,348
Investment earnings	234	308	-
Total revenue	234	11,656	11,348
Expenditures:			
Capital outlay	12,946	12,946.00	12,609
Total expenditures	12,946	12,946.00	12,609
Total expenditures over revenue	(12,712)	(1,290)	(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	$ (12,712)	$ (29)	$ -

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, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
Federal grant	$ 18,540	$ 18,540	$ 18,540
Total revenue	18,540	18,540	18,540
Expenditures:			
Personnel costs	-	2,831	4,860
Capital outlay	16,881	34,050	32,220
Total expenditures	16,881	36,881	37,080
Total revenue over (under) expenditures	1,659	(18,341)	(18,540)
Other financing sources:			
Transfers in	-	18,540	18,540
Total other financing sources	-	18,540	18,540
Total revenue and other financing sources over expenditures	$ 1,659	$ 199	$ -

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, 2006

	Actual		
	Current Year	Total to Date	Project Authorization
Revenue:			
Restricted intergovernmental revenue,			
Federal grant	$ -	$ -	$ 101,200
Investment earnings	-	-	-
Total revenue	-	-	101,200
Expenditures:			
Capital outlay	-	-	101,200
Total expenditures	-	-	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, 2006

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

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 tis 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, 2006
With Comparative Totals for June 30, 2005

	Fire Station Public Safety Complex	Recreation Improvements	Fairfield Renovation	Retro-Green	CWMTF Flood Buy-out	Capital Reserve	Totals 2006	Totals 2005
Assets								
Cash and investments	$ -	$ -	$ -	$ 6,189	$ -	$ 6,790	$ 12,979	$ 190,656
Due from other funds	-	28,274	30,901	2,261	-	-	61,436	117,255
Accounts receivable	-	966	-	-	41,404	-	42,370	-
Total assets	$ -	$ 29,240	$ 30,901	$ 8,450	$ 41,404	$ 6,790	$ 116,785	$ 307,911
Liabilities and Fund Balances								
Liabilities								
Due to other funds	$ 186,675	$ -	$ -	$ -	$ 61,436	$ -	$ 248,111	$ -
Accounts payable	-	3,130	-	-	-	-	3,130	-
Total liabilities	186,675	3,130	-	-	61,436	-	251,241	-
Fund Balances (Deficits)								
Reserved by State statute	-	966	-	-	41,404	-	42,370	190,656
Unreserved - undesignated	(186,675)	25,144	30,901	8,450	(61,436)	6,790	(176,826)	117,255
	(186,675)	26,110	30,901	8,450	(20,032)	6,790	(134,456)	307,911
Total liabilities and fund balances	$ -	$ 29,240	$ 30,901	$ 8,450	$ 41,404	$ 6,790	$ 116,785	$ 307,911

City of Kinston, North Carolina
Capital Project Funds

Combining Statements of Revenue, Expenditures and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 1 of 2)

	Fire Station Public Safety Complex	General Small Projects	Recreation Improvements	Fairfield Renovation	Retro-Green
Revenues:					
Interest income	$ -	$ -	$ -	$ -	$ -
State grants	-	4,320	-	50,313	-
Other income	-	-	245,938	28,750	8,450
Total revenue	-	4,320	245,938	79,063	8,450
Expenditures:					
Capital outlay	171,620	4,320	219,828	148,162	-
Total expenditures	171,620	4,320	219,828	148,162	-
Total revenue over (under) expenditures	(171,620)	-	26,110	(69,099)	8,450
Other financing sources (uses):					
Transfers in	-	-	-	100,000	-
Transfers out	-	-	-	-	-
Total other financing sources	-	-	-	100,000	-
Total revenue and other financing sources under expenditures	(171,620)	-	26,110	30,901	8,450
Fund balances (deficits), beginning	(15,055)	-	-	-	-
Fund balances (deficits), ending	$ (186,675)	$ -	$ 26,110	$ 30,901	$ 8,450

City of Kinston, North Carolina
Capital Project Funds

Combining Statements of Revenue, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 2 of 2)

	CWMTF Flood Buy-out	Capital Reserve	Totals 2006	Totals 2005
Revenue:				
Interest income	$ -	$ 418	$ 418	$ 3,461
State grants	41,400	-	96,033	19,000
Other income	-	-	283,138	-
Total revenue	41,400	418	379,589	22,461
Expenditures:				
Capital outlay	61,432	-	605,362	34,055
Total expenditures	61,432	-	605,362	34,055
Total revenue over (under) expenditures	(20,032)	418	(225,773)	(11,594)
Other financing sources:				
Transfers in	-	-	100,000	-
Transfers out	-	(100,000)	(100,000)	(205,000)
Total other financing sources	-	(100,000)	-	(205,000)
Total revenue and other financing sources under expenditures	(20,032)	(99,582)	(225,773)	(216,594)
Fund balances (deficits), beginning	-	106,372	91,317	307,911
Fund balances (deficits), ending	$ (20,032)	6,790	$ (134,456)	$ 91,317

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, 2006

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Expenditures:				
Capital outlay:				
Construction costs	$ 8,700,000	$ 15,055	$ 171,620	$ 186,675
Total expenditures	8,700,000	15,055	171,620	186,675
Other financing sources:				
Debt issued - short term financing	4,350,000	-	-	-
Debt issued - community facilities loan	4,350,000	-	-	-
Total other financing sources	8,700,000	-	-	-
Total other financing sources (under) expenditures	$ -	$ (15,055)	$ (171,620)	$ (186,675)

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, 2006

		Actual		
	Project Authorization	Prior Years	Current Year	Total to Date
Revenue:				
State grants	$ 25,000	$ 19,000	$ 4,320	$ 23,320
Total revenue	25,000	19,000	4,320	23,320
Expenditures:				
Capital outlay:				
Upper catfish branch - design	25,000	19,000	4,320	23,320
Total expenditures	25,000	19,000	4,320	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, 2006

	Project Authorization	Actual Prior Years	Actual Current Year	Actual Total to Date
Revenue:				
Sale of property	$ 245,938	$ -	$ 245,938	$ 245,938
Total revenue	245,938	-	245,938	245,938
Expenditures:				
Capital outlay	245,938	-	219,828	219,828
Total expenditures	245,938	-	219,828	219,828
Revenue under expenditures	$ -	$ -	$ 26,110	$ 26,110

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, 2006

	Project Authorization	Actual Prior Years	Actual Current Year	Actual Total to Date
Revenue:				
State grants	$ 110,000	$ -	$ 50,313	$ 50,313
County appropriation	15,000	-	-	-
Other miscellaneous revenue	28,750	-	28,750	28,750
Total revenue	153,750	-	79,063	79,063
Expenditures:				
Capital outlay	253,750	-	148,162	148,162
Total expenditures	253,750	-	148,162	148,162
Revenue under expenditures	(100,000)	-	(69,099)	(69,099)
Other financing sources:				
Transfers in	100,000	-	100,000	100,000
Total other financing sources	100,000	-	100,000	100,000
Total revenue and other financing sources over expenditures	$ -	$ -	$ 30,901	$ 30,901

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, 2006

		Actual		
	Project Authorization	Prior Years	Current Year	Total 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	-	-	-
Total expenditures	45,000	-	-	-
Revenue over expenditures	$ -	$ -	$ 8,450	$ 8,450

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, 2006

	Project Authorization	Actual Prior Years	Actual Current Year	Actual Total to Date
Revenue:				
State grants	$ 1,186,320	$ -	$ 41,400	$ 41,400
Miscellaneous revenue	20,000	-	-	-
Total revenue	1,206,320	-	41,400	41,400
Expenditures:				
Capital outlay	1,206,320	-	61,432	61,432
Total expenditures	1,206,320	-	61,432	61,432
Revenue under expenditures	$ -	$ -	$ (20,032)	$ (20,032)

City of Kinston, North Carolina
Capital Project Fund - Capital Reserve

Schedule of Revenue and Expenditures -
Budget and Actual
For the Fiscal Year Ended June 30, 2006

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Investment earnings	$ -	$ 418	$ 418
Total revenue	-	418	418
Other financing sources (uses):			
Appropriated fund balance	100,000	-	(100,000)
Transfers out	(100,000)	(100,000)	-
Total other financing sources (uses)	-	(100,000)	(100,000)
Total revenue and other financing sources under expenditures	$ -	$ (99,582)	$ (99,582)

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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 1 of 2)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Operating revenue:				
Charges for services:	$ 2,612,467	$ 2,584,944	$ (27,523)	$ 2,585,000
Other	5,000	467	(4,533)	795
Total operating revenue	2,617,467	2,585,411	(32,056)	2,585,795
Interest earned on investments	400	5,748	5,348	3,420
Total nonoperating revenue	400	5,748	5,348	3,420
Total revenue	2,617,867	2,591,159	(26,708)	2,589,215
Expenditures:				
Bulk leaf collection:				
Operating	37,650	44,451	(6,801)	28,133
Commercial solid waste:				
Salaries and benefits		238,702		242,089
Operating		578,354		708,205
Capital outlay		336,391		122,838
Indirect costs		175,210		185,433
	1,325,810	1,328,657	(2,847)	1,258,565
Residential solid waste				
Salaries and benefits		664,016		646,679
Operating		649,971		516,412
Capital outlay		-		108,301
Indirect costs		175,210		185,433
	1,619,836	1,489,197	130,639	1,456,825
Recycling				
Salaries and benefits		86,559		87,706
Operating		43,302		51,134
	154,984	129,861	25,123	138,840
Total expenditures	3,138,280	2,992,166	146,114	2,882,363
Revenue over (under) expenditures	(520,413)	(401,007)	119,406	(293,148)
Other financing sources (uses):				
Debt issued	303,713	283,202	(20,511)	-
Fund balance appropriated	192,643	-	(192,643)	-
Transfers in	80,585	80,585	-	62,101
Transfers out	(56,528)	(56,528)	-	(42,750)
Total other financing sources	520,413	307,259	(213,154)	19,351
Revenue and other sources over (under) expenditures	$ -	$ (93,748)	$ (93,748)	$ (273,797)

(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, 2006
With Comparative Totals for the Fiscal Year Ended June 30, 2005

(Page 2 of 2)

	2006			2005
	Budget	Actual	Variance, with Final Budget	Actual
Reconciliation of modified accrual basis to full accrual basis:				
Revenue and other sources over expenditures		$ (93,748)		$ (273,797)
Transfers in		(80,585)		(62,101)
Transfers out		56,528		42,750
Capital contributions		-		24,704
Capital outlay		336,391		231,139
Debt issued		(283,202)		-
Payment of debt principal		204,182		236,975
Depreciation		(248,195)		(274,501)
Decrease in accrued compensated absences		6,664		-
Increase in accrued interest payable		(237)		(1,929)
Increase (decrease) in accrued unbilled sales		4,102		(1,596)
Bad debt expense		(9,875)		-
Income before operating transfers, accrual basis		$ (107,975)		$ (78,356)

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, 2006

	Employee Health	Fleet Maintenance	Warehouse	Public Services	Total
Assets					
Cash and investments	$ 364,046	$ -	$ -	$ 411,252	$ 775,298
Due from other funds	389,408	-	-	-	389,408
Accounts receivable	777	1,066	23,913	4,729	30,485
Capital assets					
Buildings	19,468	-	-	-	19,468
Equipment	-	237,095	-	61,224	298,319
Accumulated depreciation	(5,843)	(228,515)	-	(61,224)	(295,582)
Inventory	590	147,027	-	-	147,617
Total assets	768,446	156,673	23,913	415,981	1,365,013
Liabilities					
Due to other funds	-	40,832	161,901	-	202,733
Accounts payable and accrued liabilities	304,740	14,137	41,013	43,668	403,558
Accrued compensated absences	8,621	27,555	-	64,776	100,952
Total liabilities	313,361	82,524	202,914	108,444	707,243
Net assets					
Invested in capital assets	13,625	8,580	-	-	22,205
Unrestricted	441,460	65,569	(179,001)	307,537	635,565
Total net assets	$ 455,085	$ 74,149	$ (179,001)	$ 307,537	$ 657,770

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

Due from other funds from above	$ 389,408	Due to other funds from above	$ 202,733
Less amounts between funds	(202,733)	Less amounts between funds	(202,733)
Net due from other funds	$ 186,675	Net due to other funds	$ -

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, 2006

	Employee Health	Fleet Maintenance	Warehouse	Public Services	Totals
Operating revenue:					
Contributions from various funds	$ 455,269	$ 145,411	$ 278,399	$ 1,787,125	$ 2,666,204
Other income	-	-	-	-	-
	455,269	145,411	278,399	1,787,125	2,666,204
Operating expenses:					
Administration	214,155	362,032	-	697,337	1,273,524
Operations	-	-	358,795	926,208	1,285,003
Depreciation	487	7,467	-	9,022	16,976
Claims reimbursement	189,282	-	-	-	189,282
Total operating expenses	403,924	369,499	358,795	1,632,567	2,764,785
Operating income (loss)	51,345	(224,088)	(80,396)	154,558	(98,581)
Nonoperating revenue:					
Interest earned on investments	13,287	-	-	-	13,287
Capital contributions	-	-	-	-	-
Total nonoperating revenue revenue	13,287	-	-	-	13,287
Other financing sources (uses):					
Transfers in	-	230,450	-	-	230,450
Transfers out	-	-	-	(2,326)	(2,326)
Total other financing sources sources (uses)	-	230,450	-	(2,326)	228,124
Net income (loss)	64,632	6,362	(80,396)	152,232	142,830
Net assets, beginning	390,453	67,787	(98,605)	155,305	514,940
Net assets, ending	$ 455,085	$ 74,149	$ (179,001)	$ 307,537	$ 657,770

City of Kinston, North Carolina

Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2006
(Page 1 of 2)

	Employee Health	Fleet Maintenance	Warehouse	Public Services	Total
Cash Flows From Operating Activities					
Cash received from customers	$ 455,269	$ 145,411	$ 278,399	$ 1,787,771	$ 2,666,850
Cash paid to suppliers for goods and services	(275,982)	(87,609)	(339,670)	(468,464)	(1,171,725)
Cash paid to or on behalf of employees for services	(118,905)	(303,896)	-	(1,158,635)	(1,581,436)
Net cash provided by (used in) for operating activities	60,382	(246,094)	(61,271)	160,672	(86,311)
Cash Flows From Noncapital Financing Activities					
Transfers from other funds	-	230,450	-	-	230,450
Transfers to other funds	-	-	-	(2,326)	(2,326)
Advances from other funds	-	15,644	61,271	-	76,915
Advances to other funds	(263,590)	-	-	-	(263,590)
Net cash provided by (used in) noncapital financing	(263,590)	246,094	61,271	(2,326)	41,449
Cash Flows Provided by Investing Activities					
Interest on investments	13,287	-	-	-	13,287
Net increase (decrease) in cash and cash equivalents	(189,921)	-	-	158,346	(31,575)
Cash and cash equivalents, beginning	$ 553,967	$ -	$ -	$ 252,906	$ 806,873
Cash and cash equivalents, ending	$ 364,046	$ -	$ -	$ 411,252	$ 775,298

(Continued)

City of Kinston, North Carolina

Statement of Cash Flows (Continued)
Internal Service Funds
For the Fiscal Year Ended June 30, 2006
(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)	$ 51,345	$ (224,088)	$ (80,396)	$ 154,558	$ (98,581)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	487	7,467	-	9,022	16,976
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	24	724	1,607	646	3,001
(Increase) decrease in inventories	-	(35,444)	-	-	(35,444)
Increase (decrease) in accounts payable	11,303	2,138	17,518	(9,123)	21,836
Increase (decrease) in accrued compensated absences	(2,777)	3,109	-	5,569	5,901
Total adjustments	9,037	(22,006)	19,125	6,114	12,270
Net cash provided by (used in) operating activities	$ 60,382	$ (246,094)	$ (61,271)	$ 160,672	$ (86,311)

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, 2006

	Budget	Actual	Variance Positive (Negative)
Operating revenue:			
Contributions from various funds	$ 455,269	$ 455,269	$ -
Restricted intergovernmental	6,000	-	(6,000)
Insurance proceeds	50,000	-	(50,000)
	511,269	455,269	(56,000)
Nonoperating revenue:			
Interest earned on investments	2,600	13,287	10,687
Total revenue	513,869	468,556	(45,313)
Expenditures:			
Administration:			
Salaries and benefits		118,905	
Operating		98,027	
Total administration		216,932	
Claim reimbursements, operating		189,282	
Total expenditures	513,869	406,214	107,655
Total revenue under expenditures	-	62,342	62,342
Other financing sources:			
Appropriated fund balance	-	-	-
Total other financing sources	-	-	-
Revenue and other sources under expenditures	$ -	$ 62,342	$ 62,342
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources over expenditures		$ 62,342	
Accrued compensated absences		2,777	
Depreciation		(487)	
Net loss, accrual basis		$ 64,632	

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, 2006

	Budget	Actual	Variance Positive (Negative)
Operating revenue:			
Contributions from various funds	$ 110,081	$ 145,411	$ 35,330
Total revenue	110,081	145,411	35,330
Expenditures:			
Administration:			
Salaries and benefits		301,896	
Operating		57,027	
Total expenditures	340,531	358,923	18,392
Total revenue under expenditures	(230,450)	(213,512)	16,938
Other financing sources:			
Transfers in	230,450	230,450	-
Total other financing sources	230,450	230,450	-
Revenue and other sources over expenditures	$ -	$ 16,938	$ 16,938
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources over expenditures		$ 16,938	
Accrued compensated absences		(3,109)	
Depreciation		(7,467)	
Net income, accrual basis		$ 6,362	

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, 2006

	Budget	Actual	Variance Positive (Negative)
Operating revenue:			
Contributions from various funds	$ 1,010,000	$ 278,399	$ (731,601)
Total revenue	1,010,000	278,399	(731,601)
Expenditures:			
Operations			
Fuel purchased		278,399	
Fleet maintenance inventory		80,396	
Total expenditures	1,010,000	358,795	651,205
Total revenue under expenditures	$ -	(80,396)	$ (80,396)
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources under expenditures		$ (80,396)	
Net loss, accrual basis		$ (80,396)	

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, 2006

	Budget	Actual	Variance Positive (Negative)
Operating revenue:			
Contributions from various funds	$ 1,787,124	$ 1,787,125	$ 1
Total operating revenue	1,787,124	1,787,125	1
Expenditures:			
Administration:			
Salaries and benefits		386,555	
Operating		106,781	
Indirect Charges		198,432	
Total administration	745,493	691,768	53,725
Operations			
Salaries and benefits		777,649	
Operating		148,559	
Total operations	1,056,890	926,208	130,682
Total expenditures	1,802,383	1,617,976	184,407
Total revenue under expenditures	(15,259)	169,149	184,408
Other financing sources (uses):			
Appropriated fund balance	17,585	-	(17,585)
Transfers in	-	-	-
Transfers out	(2,326)	(2,326)	-
Total other financing sources	15,259	(2,326)	(17,585)
Revenue and other sources over expenditures	$ -	$ 166,823	$ 166,823
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other sources over expenditures		$ 166,823	
Accrued compensated absences		(5,569)	
Depreciation		(9,022)	
Net income, accrual basis		$ 152,232	

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, 2006 and 2005

	2006	2005
Governmental funds capital assets:		
Land	$ 2,874,514	$ 2,918,681
Buildings	9,604,947	9,553,092
Equipment and vehicles	9,468,496	8,548,852
Infrastructure	818,042	716,779
Total governmental funds capital assets	$ 22,765,999	$ 21,737,404
Investment in governmental funds capital assets:		
General Fund	$ 19,862,901	$ 18,834,306
Special Revenue Funds	481,641	481,641
Capital Project Funds	2,421,457	2,421,457
Total investment in governmental funds capital assets	$ 22,765,999	$ 21,737,404

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 fo 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, 2006

	Land	Buildings	Equipment and Vehicles	Infrastructure	Total
Function and Activity:					
General Government:					
Manager	$ -	$ -	$ 131,009	$ -	$ 131,009
Clerk	-	-	12,258	-	12,258
Human resources	-	-	5,292	-	5,292
Finance and administration	-	-	57,924	-	57,924
Management information systems	-	-	548,777	-	548,777
Other, unclassified	2,319,252	2,517,595	159,584	-	4,996,431
Total general government	2,319,252	2,517,595	914,844	-	5,751,691
Public Safety:					
Police	-	87,049	3,142,052	-	3,229,101
Fire	19,365	604,604	2,944,132	-	3,568,101
Total public safety	19,365	691,653	6,086,184	-	6,797,202
Public Works:					
Highways and Streets:					
Engineering	-	-	191,084	-	191,084
Maintenance	-	-	1,613,579	101,263	1,714,842
Total public works	-	-	1,804,663	101,263	1,905,926
Community Development:	-	-	75,798	716,779	792,577
Parks and Recreation	535,897	6,395,699	587,007	-	7,518,603
Total general fixed assets	$ 2,874,514	$ 9,604,947	$ 9,468,496	$ 818,042	$ 22,765,999

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 fo 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, 2006

	Capital Assets 2005	Additions	Transfers and Deductions	Capital Assets 2006
Function and Activity:				
General Government:				
Manager	$ 131,009	$ -	$ -	$ 131,009
Clerk	12,258	-	-	12,258
Human resources	5,292	-	-	5,292
Finance and administration	57,924	-	-	57,924
Management information systems	548,777	-	-	548,777
Other, unclassified	4,865,561	147,870	17,000	4,996,431
Total general government	5,620,821	147,870	17,000	5,751,691
Public Safety:				
Police	3,020,116	208,985	-	3,229,101
Fire	2,955,026	613,075	-	3,568,101
Total public safety	5,975,142	822,060	-	6,797,202
Public Works:				
Highways and Streets:				
Engineering	191,084	-	-	191,084
Maintenance	1,662,414	101,263	48,835	1,714,842
Total highways and streets	1,853,498	101,263	48,835	1,905,926
Community Development	792,577	-	-	792,577
Parks and Recreation	7,495,366	60,765	37,528	7,518,603
Total general fixed assets	$ 21,737,404	$ 1,131,958	$ 103,363	$ 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 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, 2006

Fiscal Year	Uncollected Balance July 1, 2005	Current Year Gross Levy	Collections Credits and Adjustments	Uncollected Balance June 30, 2006
2005-2006	$ -	$ 7,180,425	$ 6,783,645	$ 396,780
2004-2005	411,405	-	289,864	121,541
2003-2004	138,654	-	75,653	63,001
2002-2003	71,637	-	31,001	40,636
2001-2002	49,199	-	13,729	35,470
2000-2001	35,748	-	5,911	29,837
1999-2000	25,775	-	2,926	22,849
1998-1999	36,164	-	1,574	34,590
1997-1998	25,666	-	1,146	24,520
1996-1997	30,876	-	1,315	29,561
1995-1996	19,407	-	19,407	-
	$ 844,531	$ 7,180,425	$ 7,226,171	$ 798,785
Motor vehicle tags receivable				140,638
Total property tax receivable				$ 939,423

Ad valorem taxes - General Fund	$ 7,453,311	
Less auto fee	(160,373)	
		$ 7,292,938
Add credits and adjustments		24,330
Less penalities and overpayments		(91,097)
		$ 7,226,171

City of Kinston, North Carolina

Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2006

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	$ 1,174,102,977	$ 0.600	$ 7,044,618	$ 6,164,494	$ 880,124
Penalties	-		3,353	3,353	-
Total	1,174,102,977		7,047,971	6,167,847	880,124
Municipal Service District			51,988	51,988	-
Discoveries:					
Current year taxes	35,178,516	0.600	211,071	200,258	10,813
Total	35,178,516		211,071	200,258	10,813
Abatements:					
Current year taxes	(21,767,505)	0.600	(130,605)	(27,357)	(103,248)
	(21,767,505)		(130,605)	(27,357)	(103,248)
Total property valuation	$ 1,187,513,988				
Net levy			7,180,425	6,392,736	787,689
Uncollected taxes at June 30, 2006			396,780	267,297	144,108
Current year's taxes collected			$ 6,783,645	$ 6,125,439	$ 643,581
Current levy collection percentage			94.47%	95.82%	81.70%

STATISTICAL SECTION
(Unaudited)

Schedules presented in the Statistical Section differ from financial statements because they usually cover more than one fiscal year and may present non-accounting data. The Statistical Section reflects social and economic data, financial trends and the fiscal capacity of the County.

City of Kinston, North Carolina

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

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

GASB Statement No. 34 Implemented in Fiscal Year 2003

City of Kinston, North Carolina

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

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

(Continued)

City of Kinston, North Carolina

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

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

City of Kinston, North Carolina

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

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

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			
	1997	1998	1999	2000
General Fund:				
Reserved	$ 1,465,966	$ 2,899,033	$ 2,371,648	$ 3,893,590
Unreserved:	2,801,268	1,868,381	2,370,800	2,517,740
Total General Fund	$ 4,267,234	$ 4,767,414	$ 4,742,448	$ 6,411,330
All Other Governmental Funds:				
Reserved	$ 1,118	$ 831,030	$ 917,061	$ 1,363,743
Unreserved, reported in:				
Special revenue funds	53,919	(741,184)	(642,576)	(2,158,481)
Major Capital projects funds	-	-	-	-
Capital projects funds	119,895	(230,390)	-	734,648
Permanent fund	-	-	-	-
Total all other government funds	$ 174,932	$ (140,544)	$ 274,485	$ (60,090)

	Fiscal Year					
	2001	2002	2003	2004	2005	**2006**
	$ 2,524,259	$ 2,257,743	$ 1,957,731	$ 1,778,943	$ 3,016,132	**$ 2,250,430**
	3,363,408	2,255,854	2,562,359	2,164,023	1,795,829	**2,187,832**
	$ 5,887,667	$ 4,513,597	$ 4,520,090	$ 3,942,966	$ 4,811,961	**$ 4,438,262**
	$ 1,104,612	$ 2,679,480	$ 3,548,911	$ 244,764	$ 182,905	**$ 313,363**
	(633,619)	(1,858,297)	(2,237,726)	520,709	142,252	**(83,522)**
	-	-	(506,332)	-	-	
	(764,546)	(1,561,255)	(34,654)	-	91,317	**(176,826)**
	-	-	-	-	76,824	**78,454**
	$ (293,553)	$ (740,072)	$ 770,199	$ 765,473	$ 493,298	**$ 131,469**

City of Kinston, North Carolina

Changes In Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	1997	1998	1999	2000
Revenue:				
Taxes	$ 5,201,366	$ 6,049,670	$ 6,331,104	$ 6,343,842
Other Taxes	3,748,121	3,689,204	3,907,272	4,105,684
Intergovernmental	3,970,239	3,455,433	8,777,499	12,257,094
Charges for services	3,118,713	3,454,623	3,638,114	3,879,629
Other	1,009,342	586,328	648,608	373,522
Total revenue	17,047,781	17,235,258	23,302,597	26,959,771
Expenditures:				
General government	820,590	80,359	45,062	1,041,340
Public safety	6,397,245	6,677,933	7,077,312	7,077,340
Public Services	3,781,419	3,483,520	4,001,927	4,215,536
Culture and recreation	2,248,223	2,296,814	2,422,189	2,081,602
Community development	5,517,284	4,519,687	9,280,169	12,756,775
Capital outlay	228,131	330,564	51,374	501,697
Debt service:				
Principal	1,049,345	1,124,770	888,422	683,052
Interest	236,326	199,802	155,479	70,342
Total expenditures	20,278,563	18,713,449	23,921,934	28,427,684
Excess of revenue (under) expenditures	(3,230,782)	(1,478,191)	(619,337)	(1,467,913)
Other financing sources (uses):				
Transfers in	2,619,600	1,905,683	1,206,208	991,145
Transfers out	(2,500)	(242,788)	(196,808)	(155,845)
Issuance of long-term debt	1,278,144	-	-	1,966,920
Total other financing sources	3,895,244	1,662,895	1,009,400	2,802,220
Net changes in fund balance	$ 664,462	$ 184,704	$ 390,063	$ 1,334,307

Fiscal Year					
2001	2002	2003	2004	2005	**2006**
$ 6,428,254	$ 6,963,814	$ 6,870,946	$ 7,115,953	$ 7,295,551	**$ 7,453,311**
4,058,658	3,174,637	3,871,618	4,568,842	4,993,274	**4,728,976**
14,619,450	12,149,628	10,516,843	3,109,756	2,520,599	**2,490,910**
3,870,712	4,035,122	3,937,476	1,547,926	1,274,966	**1,458,756**
542,322	1,248,001	431,429	205,906	179,280	**434,937**
29,519,396	27,571,202	25,628,312	16,548,383	16,263,670	**16,566,890**
1,139,790	1,106,747	1,379,073	1,884,437	1,820,443	**1,888,204**
7,757,768	7,705,335	7,547,052	8,190,475	8,331,314	**8,920,980**
4,660,841	5,570,632	4,317,306	1,621,290	1,836,529	**1,834,359**
2,263,251	2,315,358	2,164,615	2,340,430	2,425,258	**2,811,762**
13,006,858	11,603,199	9,642,912	2,787,031	2,179,013	**1,968,797**
1,502,389	2,188,162	1,302,947	890,775	-	**-**
741,994	526,608	854,814	550,208	565,844	**775,232**
158,231	131,890	117,630	230,348	171,995	**177,916**
31,231,122	31,147,931	27,326,349	18,494,994	17,330,396	**18,377,250**
(1,711,726)	(3,576,729)	(1,698,037)	(1,946,611)	(1,066,726)	**(1,810,360)**
1,041,317	1,319,735	1,126,767	988,796	1,196,251	**1,284,760**
(86,717)	(364,735)	(171,767)	(529,147)	(547,705)	**(524,658)**
-	801,140	2,259,799	905,114	1,015,000	**314,730**
954,600	1,756,140	3,214,799	1,364,763	1,663,546	**1,074,832**
$ (757,126)	$ (1,820,589)	$ 1,516,762	$ (581,848)	$ 596,820	**$ (735,528)**

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)
1996								
1997								
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

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

City of Kinston, North Carolina

Electric Rates
Last Ten Fiscal Years

Electric Rates	Cents Per KWH									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Residential	12.0	11.0	10.8	10.8	10.3	9.9	9.9	NA	NA	NA
Small General Serice	10.1	9.3	9.4	9.4	8.8	8.7	8.8	NA	NA	NA
Medium General Servic	10.3	0.0	0.0	0.0	0.0	0	0	NA	NA	NA
Public Housing	10.1	9.4	9.4	9.3	8.8	8.5	8.5	NA	NA	NA
Church & School	14.2	13.2	13.1	13.1	12.4	11.9	119	NA	NA	NA
Municpal Service	6.7	6.0	6.0	6.0	5.0	3	3	NA	NA	NA
Masterbrand	5.3	5.3	5.3	5.3	5.3	5.3	5.3	NA	NA	NA
Large General Service	7.9	7.2	7.2	7.5	7.0	6.6	6.6	NA	NA	NA
CDC Rate	5.5	5.0	5.0	4.9	7.9	5	4.9	NA	NA	NA
Area Lights	22.2	20.9	20.7	20.6	19.6	18.5	18.5	NA	NA	NA

Source: City of Kinston rate schedules

Notes: NA - Information not available

City of Kinston, North Carolina

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

	2006			
Customer	Annual KWH	Annual Revenues	Rank	Percentage of Total Electric Sales
Electrolux Inc.	34,470,516	$ 1,780,331	1	4.70%
Dopaco, Inc.	22,873,153	1,609,836	2	4.25%
Lenox China	16,418,258	1,276,155	3	3.37%
Smithfield Packing	17,626,915	981,137	4	2.59%
Lenoir Memorial Hospital	14,857,965	874,490	5	2.31%
Alside Windows Co.	8,294,400	725,698	6	1.92%
West Pharmaceuticals	10,579,013	527,576	7	1.39%
Kinston Neuse Corp.	7,582,070	492,425	8	1.30%
Moen, Inc.	4,401,941	464,157	9	1.23%
Alsco, Inc.	1,754,240	173,160	10	0.46%
Total	138,858,471	$ 8,904,965		

(Continued)

City of Kinston, North Carolina

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

	1997			
Customer	Annual KWH	Annual Revenues	Rank	Percentage of Total Electric Sales
Frigidaire	18,771,183	$ 851,909	4	2.40%
Lenox China	10,458,000	672,126	6	1.90%
Smithfield Packing	18,086,400	1,179,121	1	3.30%
Lenoir Memorial Hospital	12,662,690	594,908	7	1.70%
West Pharmaceuticals	11,560,549	592,058	8	1.70%
Kinston Neuse Corp	9,547,872	493,888	10	1.40%
Bassett Walker	18,342,600	1,167,072	2	3.30%
Glen Raven Mills, Inc.	13,624,200	935,949	3	2.60%
Caswell Center	11,312,000	823,884	5	2.30%
Dimon International	7,926,519	517,437	9	1.50%
	132,292,013	$ 7,828,352		

City of Kinston, North Carolina

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

	Governmental Activities				
Fiscal Year	General Obligation Bonds	Less Amount Available in Debt Service	Net General Bonded Debt	Percentage of Actual Property Value	Debt Per Capita
1997	$0	$0	$0	$0	$0
1998	0	0	0	0	0
1999	0	0	0	0	0
2000	0	0	0	0	0
2001	0	0	0	0	0
2002	0	0	0	0	0
2003	0	0	0	0	0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0

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
$ 8,444,705	$0	$ 16,465,000	$24,909,705	$ 968
7,824,197	0	15,875,000	23,699,197	921
8,150,715	0	15,245,000	23,395,715	937
7,032,292	0	14,475,000	21,507,292	861
5,929,160	0	13,565,000	19,494,160	823
5,251,113	0	12,730,000	17,981,113	759
5,877,997	0	11,846,000	17,723,997	748
6,714,017	0	13,466,000	20,180,017	868
6,445,581	0	16,367,067	22,812,648	995
5,721,263	0	15,777,811	21,499,074	941

City of Kinston, North Carolina

Direct and Overlapping Governmental Activities Debt
For the Year Ended June 30, 2006
(Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Lenoir County Debt	$ 1,600,000	37.09%	$ 593,440
Subtotal, overlapping debt	$ 1,600,000		$ 593,440
City Direct Debt	-	100%	-
Total direct and overlapping debt			$ 593,440

Sources:

Notes:
(1) Includes general obligation bonds for Enterprose 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 multipllied by percentage applicable.

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City of Kinston, North Carolina

Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)
(Unaudited)

	1997	1998	1999	2000
Debt limit	$ 66,309,943	$ 79,326,252	$ 81,496,431	$ 82,877,930
Total net debt applicable to limit	12,223,180	10,477,902	1,765,283	3,049,151
Legal debt margin	$ 54,086,763	$ 68,848,350	$ 79,731,148	$ 79,828,779
Total net debt applicable to the limit as a percentage of debt limit	22.60%	15.22%	2.21%	3.82%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value		**$ 1,187,513,988**
Debt limit (8% of assessed value)		**95,001,119**
Debt applicable to limit:		
Total bonded debt	**$ 15,777,811**	
Obligation under notes payable	**4,201,496**	
Obligation under installment contracts	**5,365,839**	
Gross debt	**25,345,146**	
Less - statutory deductions:		
Revenue bonds issued and outstanding for	**6,003,421**	
Obligations under notes payable attributable to enterprise	**4,201,496**	
Obligation under installment contracts	**1,519,767**	
Revenue bonds issued and outstanding for	**2,387,766**	
Revenue bonds issued and outstanding for	**7,386,624**	
Total statutory deductions	**$ 21,499,074**	
Total debt applicable to limitation		**3,846,072**
Legal debt margin		**$ 91,155,047**

2001	2002	2003	2004	2005	**2006**
$ 82,325,183	$ 92,964,718	$ 92,657,120	$ 92,299,722	$ 93,609,501	**$ 95,001,119**
2,307,157	2,581,689	3,986,674	3,857,418	4,306,574	**3,846,072**
$ 80,018,026	$ 90,383,029	$ 88,670,446	$ 88,442,304	$ 89,302,927	**$ 91,155,047**
2.88%	2.86%	4.50%	4.36%	4.82%	**4.22%**

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 Principal	Debt Service Interest	Coverage
1997	$ 41,849,213	$ 37,489,507	$ 4,359,706	$ 495,000	$ 853,151	3.23
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**

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)
1997	25,729	20,350	10,200	5.4%
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%**

Sources:

(1) NC State Data Profile
(2) US Census Bureau - Information available at City level oly 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	2006 Employees	2006 Rank	2006 Percentage of Total County Employment	1997 Employees	1997 Rank	1997 Percentage of Total County Employment
Caswell Center	1,675	1	5.95%	1,738	2	5.91%
Lenoir County Public Schools	1,410	2	5.01%	1,332	3	4.53%
Lenoir Memorial Hospital	1,100	3	3.91%	1,057	4	3.59%
MasterBrand Cabinets, Inc	900	4	3.20%	-	na	0.00%
Electrolux Home Products (Frigidaire Co.)	870	5	3.09%	660	5	2.24%
Associated Materials, Inc	712	6	2.53%	350	na	1.19%
Smithfield Packing Company	574	7	2.04%	450	10	1.53%
Lenoir Community College	520	8	1.85%	449	na	1.53%
Vernon Park Mall	500	9	1.78%	525	8	1.78%
Lenox China	480	10	1.70%	320	na	1.09%
	8,741		31.04%	6,881		23.38%

City of Kinston, North Carolina

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

	Full-Time Equivalent Employees as of June 30									
Functions/Program	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Government:										
Legislative	**6**	6	6	6	6	6	6	6	6	6
City Management	**3**	3	3	3	3	5	3	3	5	5
City Clerk	**1**	1	1	1	1	1	1	1	1	1
Personnel	**4**	4	4	4	5	4	4	4	4	4
Finance	**11**	11	12	13	13	13	12	13	21	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	3	3
Planning	**3**	3	3	3	3	4	3	3	4	4
Facility Mgmt	**5**	5	5	5	5	5	5	5	5	5
Parks and Recreation:										
General & Administrative	**6**	6	6	7	8	8	8	8	9	9
Recreation	**28**	25	24	24	25	26	24	23	28	29
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	**74**	74	74	75	75	80	74	78	83	80
Civilians (a)	**10**	10	10	10	12	12	8	11	5	8
Fire:										
Firefighters and Officers	**55**	56	56	57	65	65	64	64	65	62
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	**18**	17	16	17	19	20	17	19	21	22
Street Sweeping	**1**	1	1	1	1	2	1	2	2	2
Refuse Collection	**30**	31	30	28	29	35	27	28	38	38
Weed Control	**1**	1	1	2	2	2	2	2	2	2
Central Garage	**10**	11	10	11	13	14	14	12	14	14
Street Lighting	**1**	1	1	1	1			1	2	2
Traffic Control	**2**	2	2	2	2	2	2	2	4	4
Electric:										
Ditstibution	**20**	23	23	21	23	27	22	23	23	23
Billing & Administration	**19**	21	21	19	19	21	20	21	16	17
Meter Reading	**7**	8	8	8	8	8	4	4	6	6
Water:										
Administration	**3**	3	3	3	3	3	3	3	4	4
Transmission	**20**	18	18	18	26	27	23	24	41	41
Purification	**2**	2	2	3	3	3	3	3	5	5
Sewer Maintenance	**13**	15	15	15	16	19	17	16	19	19
Other Programs/Functions:										
Engineering	**10**	9	9	10	11	13	10	11	13	13
Risk Management	**3**	3	3	3	3	3	3	3	3	3
Total	**375**	381	378	382	412	441	394	406	460	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	Calendar Year 1997	1998	1999	2000
Police:				
Calls for service	**	**	**	31,262
Adult arrest	**	**	**	4,554
Juvenile arrest	**	**	**	154
Speeding citations only	**	**	**	1,428
Traffic citations	**	**	**	5,676
Fire:				
Total fire runs	**	**	**	**
Total rescue runs	**	**	**	**
Property loss	**	**	**	**
Building safety:				
Total building permits	456	207	145	204
Total value all permits	$ 28,178,970	$ 22,348,955	$ 18,165,316	$ 48,959,642
Library, volumes in collection	108,743	116,133	119,332	121,157
Public service:				
Garbage collected (ton)	23,376	23,585	23,223	24,873
Recycle collected (ton)	1,155	1,230	1,151	1,133
Parks and Recreation:				
Recreation program attendance:				
Athletics	134,500	135,600	137,000	140,000
Centers & Parks	390,000	399,000	405,000	403,000
Other Programs	92,000	91,000	100,000	101,000
Golf Rounds Played	6,800	7,000	7,000	7,100

Note: ** Indicator not available

Calendar Year					
2001	2002	2003	2004	2005	**2006**
31,769	31,624	29,598	29,803	30,610	**31,192**
3,736	3,269	3,039	3,169	2,847	**2,945**
148	196	167	186	146	**172**
1,031	1,259	1,000	600	1,240	**656**
3,695	3,821	2,870	2,782	3,453	**2,506**
575	119	998	826	704	**664**
294	624	691	699	410	**143**
$ 291,850	$ 552,773	$ 737,261	$ 773,719	$ 433,537	**$ 380,311**
129	100	147	135	122	**121**
$ 29,960,815	$ 16,666,270	$ 12,374,362	$ 14,540,108	$ 16,423,622	**$ 58,292,255**
121,066	120,214	114,729	113,465	115,695	**116,474**
23,248	22,846	22,989	22,816	22,977	**22,685**
999	820	765	730	695	**632**
142,000	146,000	156,000	155,000	160,000	**158,500**
408,000	412,000	418,000	421,000	419,000	**419,500**
100,000	101,500	106,000	108,000	111,000	**114,000**
7,300	7,500	7,500	7,500	7,500	**7,800**

City of Kinston, North Carolina

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

	Calendar Year			
	1997	1998	1999	2000
Police:				
Stations	6	3	5	5
Fire & Rescue				
Fire Stations	3	3	3	3
Refuse Collection:				
Collection Trucks	27	27	27	27
Other Public Works				
Streets (Miles)	110.7	115.32	115.73	115.36
Streets Lights	2045	2055	2057	2060
Traffic Signals	20	20	20	N/A
Parks & Recreation:				
Acreage	278.5	278	278	278
Parks	15	13	13	13
Golf Course	1	1	1	1
Baseball/Softball Diamonds				
Soccer/Football Fields				2
Basketball Courts		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
Indoor Batting Facility				
Natural Sites	4	4	4	4
Gymnasium	3	3	3	3
Library:				
Facilities	1	1	1	1
Volumes	$ 108,743	$ 116,133	$ 119,332	121,157
Water:				
Storage Capacity (MGPD)	4.25 MGD	4.25 MGD	4.25 MGD	4.25 MGD
Average Daily Consumption (MGPD)	5.46 MGD	5.38 MGD	5.07 MGD	4.82 MGD
Peak Consumption (MGPD)	8.19 MGD	8.07 MGD	7.61 MGD	7.23 MGD
Miles of Water Mains	198	199	200	206
Wastewater:				
Sanitary Sewers (miles)	205.74	205.74	205.74	206
Storm Sewers (miles)	N/A	N/A	N/A	N/A
Average Daily Flow	6.10 MGD	5.5 MGD	5.94 MGD	5.1 MGD
Electric:				
Average Daily Usage	1221 MWH	1580 MWH	1580 MWH	1580 MWH
Mile of Distribution Lines	355	365	365	365

Calendar Year					
2001	2002	2003	2004	2005	**2006**
6	6	6	4	4	**4**
3	3	3	3	3	**3**
27	26	25	25	25	**25**
113.4	113.4	114.6	114.7	115.4	**113.9**
2060	2061	2061	2062	2064	**2064**
N/A	N/A	N/A	N/A	N/A	**15**
245	245	245	245	245	**245**
12	14	14	14	14	**14**
1	1	1	1	1	**1**
7	16	16	16	17	**17**
2	2	2	2	2	**2**
8	8	8	6	6	**6**
19	17	15	14	16	**16**
3	3	3	3	2	**2**
7	7	7	8	8	**8**
5	5	5	5	6	**8**
5	5	5	5	5	**5**
1	2	2	2	2	**2**
4200 seat	4200 seat	4200 seat	4200 seat	4200 seat	**4200 Seat**
300 seat					
1	1	1	1	1	**1**
4	4	4	4	4	**4**
3	3	3	4	4	**4**
1	1	1	1	1	**1**
121,066	120,214	114,729	113,465	115,695	**116,474**
4.25 MGD	4.25 MGD	4.25 MGD	4.25 MGD	4.25 MGD	4.25 MGD
4.57 MGD	4.46 MGD	4.09 MGD	3.49 MGD	3.71 MGD	**3.80 MGD**
6.86 MGD	6.69 MGD	6.14 MGD	5.24 MGD	5.57 MGD	**5.70 MGD**
207.5	208.2	208.2	211.7	212.3	**212.7**
204.8	206.2	206.2	208.3	209.2	**209.4**
N/A	N/A	N/A	N/A	N/A	**62.3**
5.68 MGD	4.46 MGD	4.09 MGD	3.5 MGD	5.24 MGD	**5.12 MGD**
1,215,678 KWH	1,215,678 KWH	1,215,678 KWH	1,226,817 KWH	1,258,457 KWH	**1317090 KWH**
375	375	375	425	425	**430**

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