

County of Durham, North Carolina

A Comprehensive

Annual



Financial Report

For year ended June 30, 2006

County of Durham, North Carolina



Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006

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Prepared by the Durham County Finance Department

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INTRODUCTORY SECTION



Letter of Transmittal

November 30, 2006

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

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of Durham County for the fiscal year ended June 30, 2006.

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

The County of Durham's financial statements have been audited by Cherry, Bekaert & Holland, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County of Durham for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor

concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion and that the County of Durham's financial statements for the fiscal year ended June 30, 2006 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

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

Profile of the Government

Durham County, incorporated in 1881, is located in the piedmont part of the state, which is considered to be the top growth area in the State, and one of the top growth areas in the country. Durham County currently occupies a land area of 299 square miles and serves a population of 249,654. Durham County is empowered to levy a property tax on both real and personal properties located within its boundaries.

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

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

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

The annual budget serves as the foundation for Durham County's financial planning and control. All agencies of Durham County are required to submit requests for appropriation to the county manager on or before March 15th of each year. The county manager uses these requests as the starting point for developing a proposed budget. The county manager then presents this proposed budget to the commissioners for review prior to May 31st of each year. The board is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of Durham County's fiscal year. The adopted budget is prepared by fund, function (e.g., public safety), and department (e.g., sheriff). However, the appropriations are formally budgeted and approved on a functional basis. The county manager is authorized to transfer budget amounts within a function up to 15% cumulatively without reporting to the Board of County Commissioners (BOCC). The county manager is authorized to transfer budget amounts between functions of the same fund up to \$20,000 with an official report of such transfer being made at the next regular meeting of the BOCC. Budget-to-actual comparisons are provided for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 33 as part of the basic financial statements for the governmental funds. For nonmajor governmental funds, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 99.

Factors Affecting Financial Condition

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

Local Economy

Economic Development

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

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

Research and Development

Durham is located at the pinnacle of North Carolina's famous Research Triangle Park, formed in 1959 by business leaders, government officials and leaders from Duke University of Durham, North Carolina State University in Raleigh and the University of North Carolina at Chapel Hill. The Research Triangle Park (RTP) consists of 7,000 acres of land, 95% of its corporate enterprises are located in Durham County. RTP is the nation's largest and most successful research and development-oriented business park. The companies and organizations located in the Park represent some of the world's largest and most prestigious corporate and government organizations in scientific and technological research. There are an estimated 39,000 full-time employees working in the park, earning an average annual salary of \$56,000.

The employee population and average annual salary remained constant this past year. The number of research and development companies in the Park continues to grow. Recent locates to RTP include Fidelity Investments, Credit Suisse First Boston, Stiefel Laboratories, Network Appliance and Cree. Between these five companies, 3,091 initial new jobs with salaries averaging over \$80,000 were created this year alone. Initial capital investment stemming from these projects exceeds \$240,000,000.

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

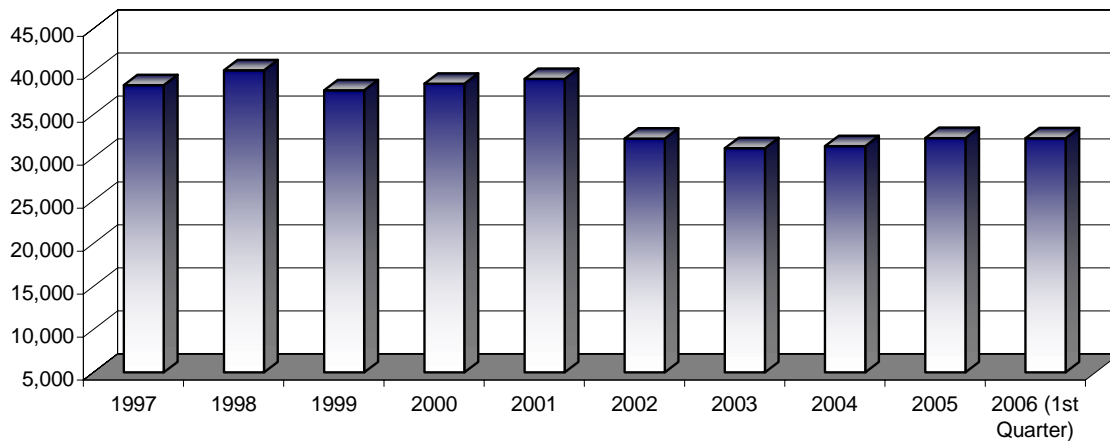
Durham's economy is certainly not limited to development of the Research Triangle Park. New construction is ubiquitous, a testimony to the fact that Durham is a nurturing environment for start-up companies. In addition, many companies from various regions of the US as well as other countries have moved their headquarters here to capture great cost savings. Quintiles Transitional Corporation, a Durham pharmaceutical-testing company, announced its expansion with an investment of approximately \$60 million along with the creation of 1,000 new jobs. Other new companies that announced their location and investment in the County this past year were Stiefel Labs, Kennedy Covington, Empire Distributors, United Therapeutics, Alba Bioscience USA, Abraxis Bioscience, Godfrey Group, RTI, Wavcome and Darchem TIP Corporation. Existing companies that are either expanding or have announced expansions to begin in the County are AW North Carolina, Fedelity, Blue Cross Blue Shield, DRI, Parata Systems, Eisai, Cormetech, Time Warner, EMC, Square One Bank, Duke Corporation Education, Quill Medial Raindrop Geomagic, LED Lighting Systems, Synthon, Ajilon, Tecan, Biogen and West Brothers. Eisai, a pharmaceutical company, has announced an expansion with an investment of approximately \$105 million along with the creation of 85 jobs. *National Policy Research Council*, ranked Durham-Raleigh the #3 best large metro for new business and entrepreneurs.

Health care

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

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

Manufacturing



Source: Employment Security Commission (ESC)

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

Durham County is not only a center for technology development; the County is also a strong manufacturing center. In 2005, the manufacturing sector employment increased from 31,302 in 2004 to 32,251 in 2005, an increase of 949 (3.03%). In the 1st quarter of calendar year 2006 the manufacturing sector employment slightly decreased to 32,218, a decrease of 33 (0.10%). Also, Eisai, a pharmaceutical company, has announced an expansion with an investment of approximately \$105 million along with the creation of 84 jobs.

Telecommunications

The telecommunications industry is making its presence known. The North Carolina information highway is the most advanced statewide telecommunications infrastructure in the nation, providing high-speed multimedia transmission. Verizon is the incumbent provider of phone service to Durham County. Verizon has in place one of the largest operational fiber optic networks in the world providing digital switching and high bandwidth options to virtually all Durham business centers. Intel Wireless Internet Accessibility survey ranked the Raleigh – Durham – Chapel Hill area as #8 in Wireless Internet Accessibility in the United States.

Quality of Life

Durham is in many ways comparable to a much larger city, but with a down-home charm. In July 2005, *CNN Money* ranked Durham one of the nation's 100 Best Places to live in 2005. In September 2006 *Silicon Valley Leadership Groups 2007 Projections Report* ranked Durham-Raleigh #1 in High Tech Region and in July 2006 *Forbes* ranked Durham-Raleigh #6 Best Cities for Singles. In November 2005 *Homebuilder.com* ranked Raleigh-Durham-Chapel Hill Top 20 Places to Live, Work and Play. In addition, Durham boasts nationally acclaimed restaurants and Broadway shows (which rehearse here prior to their Broadway premiers) as well as distinctive history and culture. Durham's advantageous location, climate and lifestyle draw companies from around the world to a place that has a dynamic business environment and a beautiful setting in the Piedmont region of North Carolina. In May of 2006, *Forbes* ranked Durham in Top Ten Metros for Business and Careers. Also, in June of 2005, *Milken Institute* ranked Raleigh-Durham-Chapel Hill #1 for Biotechnology, #2 for Life Sciences Human Capital, #4 for Life Sciences Workforce and #5 US Life Sciences Clusters.

Major Employers

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

Company or Institution

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

Source: Durham Chamber of Commerce

Capital Investment

Many companies are either locating to Durham County or expanding their already existing operations in the County. Economic development announcements for 2005 were \$224,732,585. Economic development announcements occurring through the third quarter of 2006 amounted to over \$338 million.

Economic Development Statistics

Per Capita Income

Per capita income data for the last seven calendar years for Triangle MSA, Durham MSA, Raleigh/Cary MSA, North Carolina, and the United States are presented in the following table.

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

Source: Bureau of Economic Analysis

As of 2004, Durham was no longer considered part of the Triangle Metropolitan Statistical Area.
Prior to 2004, Durham was considered a part of the Triangle Metropolitan Statistical Area.

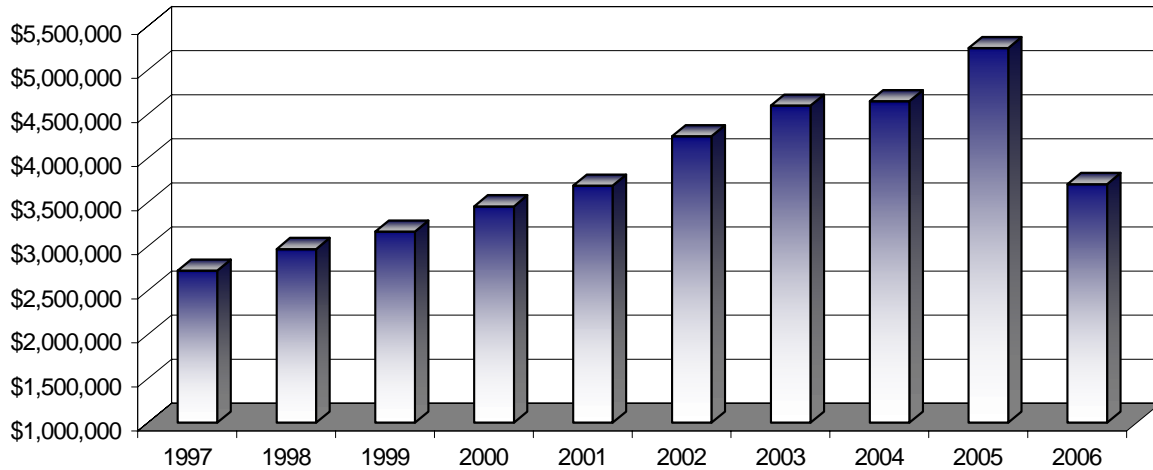
Retail Sales

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

Year Ended June 30,	Total Retail Sales (000's)	Total Taxable Sales (000's)	Percent Growth Over Previous Year
1997	\$ 2,725,364		5.6%
1998	2,969,822		9.0%
1999	3,167,577		6.7%
2000	3,455,668		9.1%
2001	3,688,799		6.7%
2002	4,057,352		10.0%
2003	4,597,853		13.3%
2004	4,646,891		1.1%
2005	5,085,956		9.50%
2006 (Through 1st Quarter)	n/a	3,707,314	*

Note: The NC Department of Revenue made an administrative rule change to report Retail sales, beginning in Fiscal Year 2006, based on total taxable sales reported on sales and use tax returns by July of the Fiscal Year in question, rather than gross retail sales. Therefore, 2006 Retail sales total is based on total taxable sales reported on sales and use tax returns submitted during July 2005. Data for total gross retail sales is no longer available due to the change made by the NC Department of Revenue. The calculation of

the “Percent Growth Over Previous Year” will be calculated beginning next year and every year thereafter.

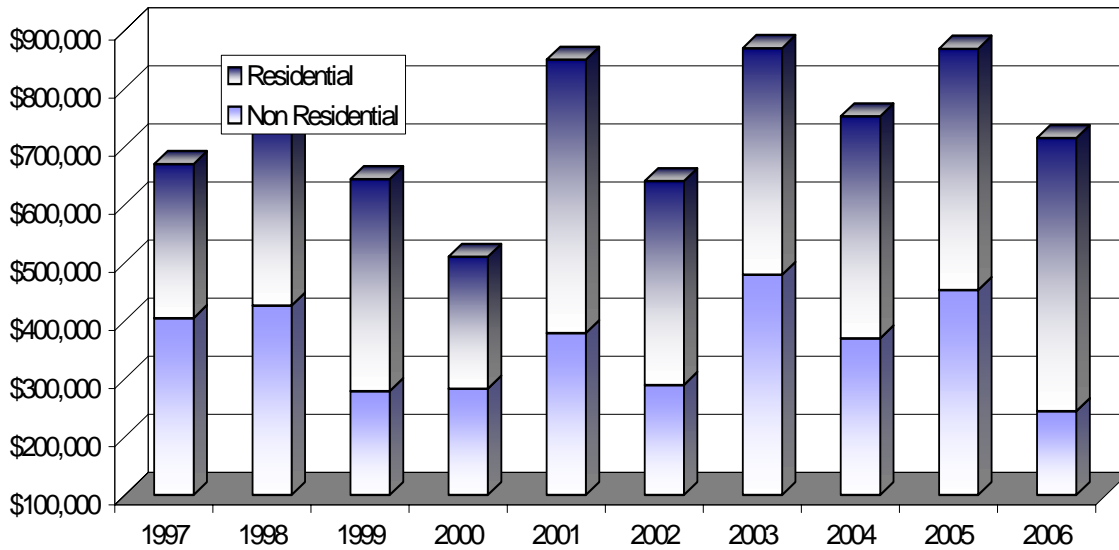


For fiscal years 2002, 2003, and 2004, Durham exceeded \$4.0 billion in gross retail sales activity. In fiscal year 2005, the County surpassed \$5.0 billion. Durham’s retail sales continue to grow as new shopping centers are built and older ones are renovated. Northgate Mall (an older mall) is turning shopping inside out through renovating the mall to include outside shopping, restaurants and an open plaza for year round entertainment as well as indoor shopping. Construction continues as Northgate makes this bold move in the marketplace providing the best of both worlds with shopping inside as well as shopping outside, food and entertainment. The continued growth is primarily because of the continued success of The Streets of Southpoint Mall, the success of Northgate Mall and the success of North Pointe Shopping Center.

Construction Activity

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

	Non Residential (000's)		Residential (000's)		Total (000's)
1997	\$	404,749	\$	265,188	\$ 669,937
1998		426,382		313,702	740,084
1999		279,085		364,835	643,920
2000		283,104		227,067	510,171
2001		378,866		470,722	849,588
2002		289,707		350,767	640,474
2003		479,414		389,954	869,368
2004		369,602		382,513	752,115
2005		453,194		415,152	868,346
2006 (first 10 months)		244,653		469,848	714,501

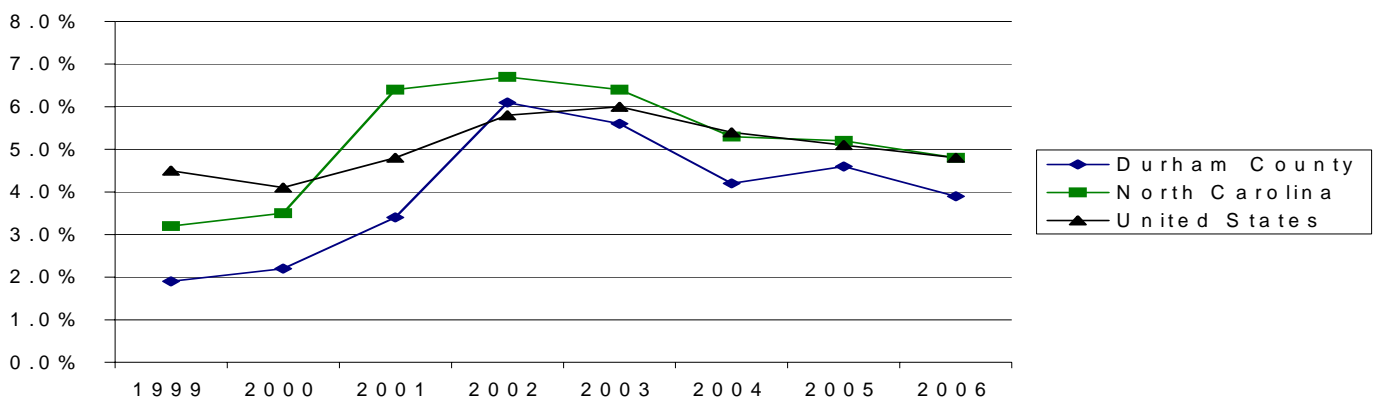


As of July 2006, the total number of occupied dwelling units in Durham County was 107,267. Also, for the first ten months of 2006, 3,303 residential permits have been issued for new residences and for improvements, repairs and expansions of existing residences. There was an increase in the value of construction activity in 2006 from 2005 for residential and non-residential. During the fiscal year 2006, the majority of growth was once again in the southern area of the County.

Unemployment

The percentage of unemployment in the County, State and the United States for the past eight fiscal years (as of June 30) as follows.

	Durham County	North Carolina	United States
1999	1.9%	3.2%	4.5%
2000	2.2%	3.5%	4.1%
2001	3.4%	6.4%	4.8%
2002	6.1%	6.7%	5.8%
2003	5.6%	6.4%	6.0%
2004	4.2%	5.3%	5.4%
2005	4.6%	5.2%	5.1%
2006	3.9%	4.8%	4.8%



As of October 2006, the County's unemployment rate has decreased to 3.6%. The County's rate is .90% less than the State's while the nation's percentage is at 4.7%. This is primarily because of the County's drive to create more jobs within the County and maintain a strong economy.

Long-term Financial Planning

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

Facility Master Plan

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

Capital Improvement Plan

The County maintains a 10-year Capital Improvement plan (CIP), which is fully updated every two years. The major update of the plan has been completed for the period fiscal year 2006-2015. The next update is scheduled to be completed for the period fiscal year 2008-2017. The plan itself provides a blueprint which the County uses to meet the growing facility needs of the schools, libraries, museum, court system, public safety, human service agencies, and open space. The CIP also provides a financial overview of the financing options for the existing capital projects as well as those capital projects not yet implemented projected in the 10-year plan. Annually, the financing options are reviewed, as well as the projects and their estimated costs. Accomplishments during the past fiscal year include the following: completed construction of the East Regional Library, completed construction of the Durham Center for Senior Life; completed renovations and additions to the Stanford L. Warren Library; completed Durham County Detention Center Breathalyzer addition and fingerprinting facility renovations; awarded construction contract for Emergency Medical Services Station No. 2; awarded design contracts for the Animal Control Offices, Judicial Building Elevator Modernization, Human Services Complex, and Justice Building; and acquired property for the Human Services Complex and Justice Building. The 2001 Bond Project accomplishments during the fiscal year are as follows: completed construction of the East Regional Branch Library, Durham Center for Senior Life, Stanford L. Warren Library and began

construction of EMS Station No. 2 and North Regional Library. The 2003 Bond Project accomplishments included demolition of existing buildings on the site of the South Regional Branch Library.

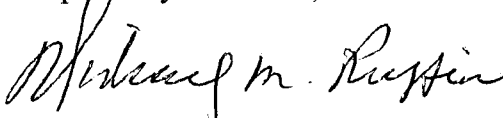
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to Durham County for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the eighth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

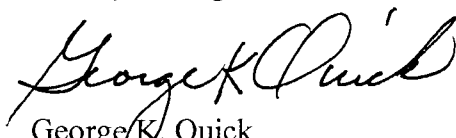
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,



Michael M. Ruffin
County Manager



George K. Quick
Finance Director

Durham County Board of County Commissioners



Ellen W. Reckhow
Chairman



Becky M. Heron
Vice Chairman



Philip R. Cousin, Jr.



Lewis A. Cheek



Michael D. Page

Durham County Administration

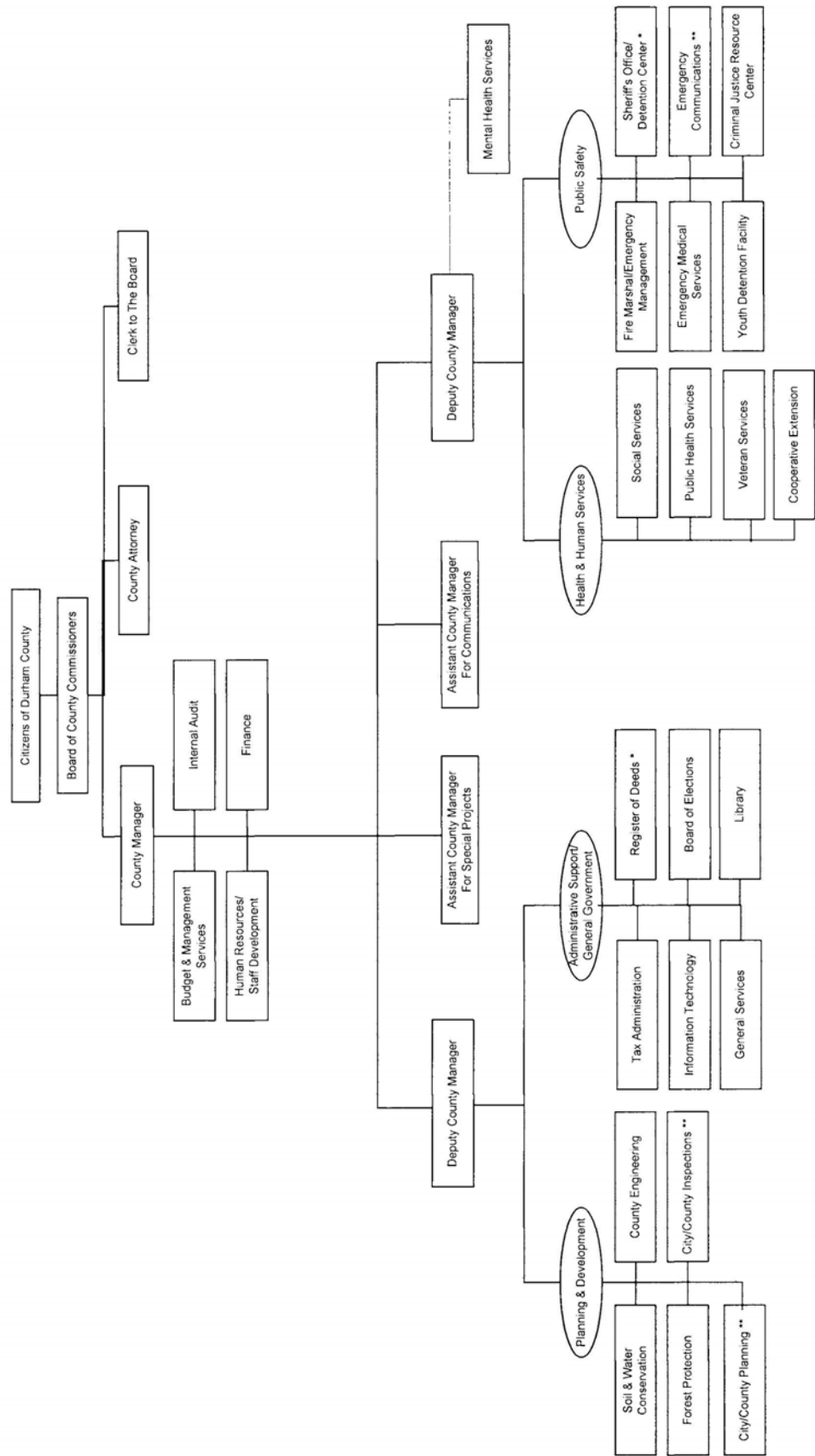


Mike Ruffin
County Manager



George K. Quick
Finance Director

Durham County, North Carolina General Administration Organizational Chart



* Elected Officials
 ** Joint City/County Departments

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Durham
North Carolina

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



President

Executive Director

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Durham County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Durham County, North Carolina (the County), as of and for the year then ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Durham County ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Durham County ABC Board is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2006, and the respective changes in financial position and the cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund and community health trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

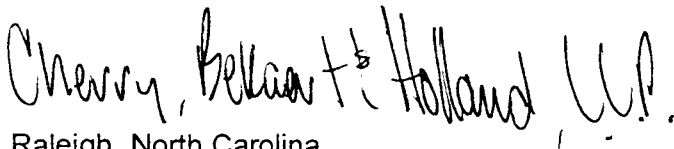
In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2006 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the schedule of funding progress, employer contributions and notes to the required schedules for the Law Enforcement Officers' Special Separation Allowance are not a required part of the 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 this information and express no opinion thereon.

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

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

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

A handwritten signature in black ink that reads "Cherry, Bekaert & Holland, L.L.P." The signature is written in a cursive, flowing style.

Raleigh, North Carolina
October 10, 2006

Management's Discussion and Analysis

As management of Durham County, North Carolina (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages vii-xviii.

Financial Highlights

- The assets of Durham County exceeded its liabilities at the close of the most recent fiscal year by \$131,237,932 (*net assets*). However, of this amount, unrestricted net assets has a deficit balance of (\$63,249,375) (*unrestricted net assets*) which is primarily because of the general obligation debt the County has issued on behalf of the school system, Durham Technical Community College and the Museum of Life and Science to fund capital outlay as required by State law. The assets funded by the County are owned by the School System, Durham Technical Community College and the Museum. Therefore, the County, as the issuing government, has incurred a liability without a corresponding increase in assets.
- The government's total net assets increased by \$21,105,330, an increase of 19.16 percent, primarily due to increases in the governmental activities' net assets.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$207,247,375, an increase of \$46,847,578 in comparison with the prior year. Approximately 84.59 percent of this total amount, \$175,311,114, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$46,766,882 or 13.67 percent of total general fund expenditures, compared to fiscal year 2005 which was \$35,110,365 or 10.81 percent of total general fund expenditures. The primary reasons for the increase in the percentage of unreserved fund balance to total general fund expenditures are the decrease in the reserves of over \$3.9 million, increase in excess of revenues over expenditures of over \$3.5 million, the proceeds from the issuance of installment purchases of over \$2.1 million and the decrease in liabilities of over \$1.6 million.
- The reserved by State Statute for mental health decreased by over \$6.5 million compared to fiscal year 2005. This is because there was an unusual increase for fiscal year 2005 (over \$5.6 million) as a result of increased year end billings that the County was not able to receive prior to June 30, thereby, increasing the County's due from federal and state agencies. Through closer monitoring of these billings throughout fiscal year 2006, the amount of year end billings significantly reduced, thereby, decreasing the County's due from federal and state agencies.
- The reserved for other purposes increased by over \$2.2 million. This is a result of increases in restricted cash, departmental reserves for restricted purposes, inventory, prepaid expenditures and collections in advance.
- The County's total debt increased by \$47,816,482 (15.85 percent) during the current fiscal year. The key factors in this increase were the issuance of \$60,605,000 in general obligation bonds, the issuance of \$5,830,000 in installment purchases, an interlocal agreement of \$5,012,453, an industrial extension policy agreement of \$895,735 and the annual retirement of governmental and business-type activities debt.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 27-28 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike

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

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

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

The County adopts an annual appropriated budget for its general fund and community health trust fund, as required by General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. A budgetary comparison statement elsewhere in this report has been provided for the general fund and the community health trust fund to demonstrate compliance with this budget and whether or not the County succeeded in providing the services as planned when the budget was adopted.

The basic governmental fund financial statements can be found on pages 29-36 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 37-39 of this report.

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

The basic fiduciary fund financial statements can be found on pages 40-41 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43-90 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Durham County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 93-95 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 99-135 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. In the case of the County, assets exceeded liabilities by \$131,237,932 as of June 30, 2006. Net assets is reported in three categories: capital assets, net of related debt, restricted net assets and unrestricted net assets.

A major portion of the County's net assets in the amount of \$88,295,308 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt issued to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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DURHAM COUNTY'S NET ASSETS

	Governmental Activities		Business - type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 249,592,865	\$ 206,401,292	\$ 12,588,701	\$ 12,723,651	\$ 262,181,566	\$ 219,124,943
Capital assets	190,815,256	175,459,961	52,393,564	50,338,203	243,208,820	225,798,164
Total assets	440,408,121	381,861,253	64,982,265	63,061,854	505,390,386	444,923,107
Long-term liabilities outstanding	321,015,442	266,665,685	28,466,213	30,289,454	349,481,655	296,955,139
Other liabilities	24,435,213	37,096,899	235,586	738,467	24,670,799	37,835,366
Total liabilities	345,450,655	303,762,584	28,701,799	31,027,921	374,152,454	334,790,505
Net assets:						
Invested in capital assets, net of related debt	63,614,759	58,793,546	24,680,549	20,812,310	88,295,308	79,605,856
Restricted	105,228,878	66,164,257	963,121	750,592	106,191,999	66,914,849
Unrestricted	(73,886,171)	(46,859,134)	10,636,796	10,471,031	(63,249,375)	(36,388,103)
Total net assets	\$ 94,957,466	\$ 78,098,669	\$ 36,280,466	\$ 32,033,933	\$ 131,237,932	\$ 110,132,602

The second portion of the County's net assets in the amount of \$106,191,999 represents resources that are subject to external legal restrictions that limit the County's ability to access and use these funds beyond the purpose for which they were provided. Unexpended bond proceeds and statutorily restricted revenues are included in this category.

The remaining portion of net assets is unrestricted net assets. This balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. At June 30, 2006, the unrestricted net assets are a deficit in the amount of (\$63,249,375). The unrestricted deficit is attributable primarily to the general obligation bonds issued by the County for the public schools, Durham Technical Community College and the Museum for Life and Science. Even though the debt has been issued to finance the acquisition, construction and renovation for the public schools, Durham Technical Community College and the Museum of Life and Science, the Governmental Accounting Standards Board has determined that it is not capital debt for the County since it is not financing assets owned by the County. Therefore, this debt is reflected within the unrestricted portion of net assets rather than capital assets, net of related debt.

At the end of the current fiscal year, the County is not able to report positive balances in all three categories of net assets for the government as a whole. However, the same did not hold true for the separate governmental and business-type activities. The unrestricted net assets for the governmental activities had a deficit balance of (\$73,886,171) while the other two categories of net assets, capital net of debt and restricted, and all three categories of net assets of the business-type activities were positive. The unrestricted net assets for the business-type activities had a positive balance of \$10,636,796.

The government's net assets increased by \$21,105,330 during the current fiscal year. This amount is an increase of 19.16 percent. The County was able to maintain its stability financially and continued growth for a sixth consecutive year. There was a 1.9 cent tax increase for the 2005 levy for property taxes levied for general purposes with 0.65 cent of this increase dedicated to capital financing and/or the retirement of debt for capital financing. Property taxes levied for general purposes increased by over \$9.8 million for fiscal year 2006. In addition, there was an increase in local option sales tax of over \$4.2 million. In fiscal year 2006, there were increases in revenues in the areas of operating grants and contributions of over \$3.4 million primarily because of increased services provided by social services and increases in revenues in the areas of capital grants and contributions of over \$2.4 million primarily because of education. Charges for services increased over \$4.2 million primarily because of increased collections in general government, public safety, environmental protection and sewer utility combined with decreased collections in human services. In fiscal year 2006, there were also increases in property taxes levied for fire districts, property taxes levied for other district purposes, gross receipts tax, other revenues and in the area of amortization of bond premium. Likewise, in fiscal year 2006, there were decreases in revenues in the areas of occupancy tax, animal tax, and investment and rental income. The net of revenues in all areas was an increase to offset the increases in expenses. The significant increases were in public safety, human services, cultural and recreational, and nondepartmental. The County's finances continue to improve. Strong, sound financial management is the basis for this stability and growth.

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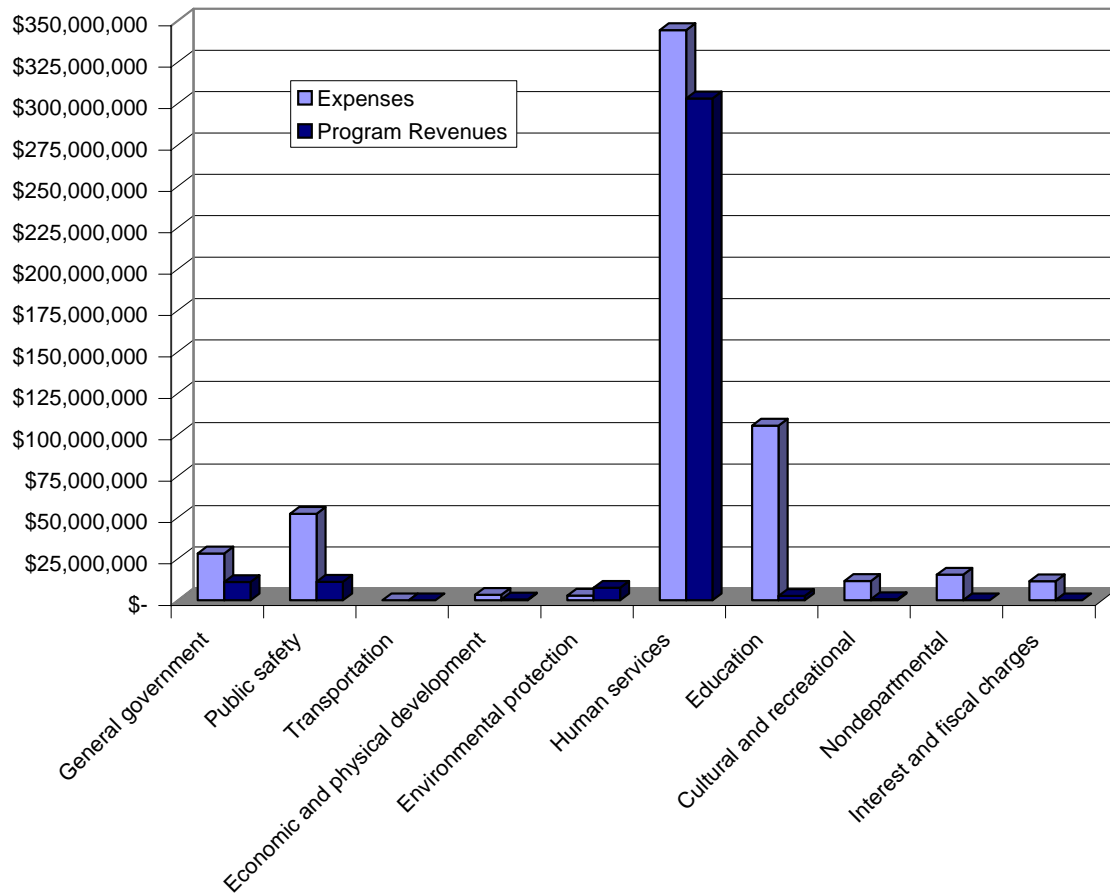
DURHAM COUNTY'S CHANGES IN NET ASSETS

	Governmental Activities		Business - type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	\$ 51,490,194	\$ 49,520,671	\$ 7,650,033	\$ 5,376,090	\$ 59,140,227	\$ 54,896,761
Operating grants and contributions	282,054,223	278,597,429	-	-	282,054,223	278,597,429
Capital grants and contributions	2,900,712	581,241	159,600	-	3,060,312	581,241
General revenues:						
Taxes	231,696,186	217,588,617	-	-	231,696,186	217,588,617
Investment and rental income	10,141,571	9,320,860	611,070	626,115	10,752,641	9,946,975
Amortization of bond premium	202,273	193,174	33,834	33,834	236,107	227,008
Other revenues	12,923,685	11,139,896	2,940	-	12,926,625	11,139,896
Total revenues	<u>591,408,844</u>	<u>566,941,888</u>	<u>8,457,477</u>	<u>6,036,039</u>	<u>599,866,321</u>	<u>572,977,927</u>
Expenses:						
General government	28,142,742	26,351,619	-	-	28,142,742	26,351,619
Public safety	52,182,047	45,099,164	-	-	52,182,047	45,099,164
Transportation	12,500	12,500	-	-	12,500	12,500
Economic and physical development	3,246,027	2,243,791	-	-	3,246,027	2,243,791
Environmental Protection	2,817,714	2,760,078	-	-	2,817,714	2,760,078
Human services	344,328,289	341,183,062	-	-	344,328,289	341,183,062
Education	105,485,526	104,106,885	-	-	105,485,526	104,106,885
Cultural and recreational	11,569,884	7,375,565	-	-	11,569,884	7,375,565
Nondepartmental	15,342,913	11,197,360	-	-	15,342,913	11,197,360
Interest and fiscal charges	11,422,405	16,740,531	-	-	11,422,405	16,740,531
Sewer utility	-	-	4,210,944	5,306,714	4,210,944	5,306,714
Total expenses	<u>574,550,047</u>	<u>557,070,555</u>	<u>4,210,944</u>	<u>5,306,714</u>	<u>578,760,991</u>	<u>562,377,269</u>
Increase (decrease) in net assets	16,858,797	9,871,333	4,246,533	729,325	21,105,330	10,600,658
Net assets – 7/1/2005	<u>78,098,669</u>	<u>68,227,336</u>	<u>32,033,933</u>	<u>31,304,608</u>	<u>110,132,602</u>	<u>99,531,944</u>
Net assets – 6/30/2006	<u>\$ 94,957,466</u>	<u>\$ 78,098,669</u>	<u>\$ 36,280,466</u>	<u>\$ 32,033,933</u>	<u>\$ 131,237,932</u>	<u>\$ 110,132,602</u>

- Property taxes levied for general purposes increased by \$9,865,795 (5.98 percent) during the year. This increase is because of a 1.9 cent tax increase for the 2005 levy for property taxes levied for general purposes with 0.65 cent of this increase dedicated to capital financing and/or the retirement of debt for capital financing coupled with the continued collection efforts including participating in the North Carolina Local Government Debt Setoff Clearinghouse Program.
- Local option sales tax increased by \$4,240,151 (9.34 percent) during the year. The increase was primarily due to increased sales for the year.
- Intergovernmental revenues increased by \$5,935,865 including pass-through and direct payments. The primary reasons for this increase are in human services, public safety and education. Operating grants and contributions increased primarily as a result of increased services provided by social services and public safety and increased revenues in the areas of capital grants and contributions for education.
- Charges for services increased by \$4,243,466 (7.73 percent). Most of this increase is because of an increase in the charges for services of sewer utility in the amount of \$2,273,943 (42.30 percent). The sewer rate was increased effective July 1, 2005 by 6% in fiscal year 2006. In addition, as of fiscal year 2005, the County entered into an agreement with Town of Cary to provide sewer service. In fiscal year 2005, the County provided service for 2 ½ months whereas in fiscal year 2006, the service was provided for the entire year. In addition, general government increased over \$1 million, public safety increased over \$850 thousand and environmental protection increased over \$1.3 million. These increases were primarily because of the increased services for general government and public safety with an increase of collections of the school impact fees for environmental protection. Charges for services for human services decreased by over \$1.2 million primarily because of an increase in outsourcing for mental health services.
- Other revenues increased by \$1,783,789 (16.01 percent). This is primarily because of the increased collections for the cafeteria plan.

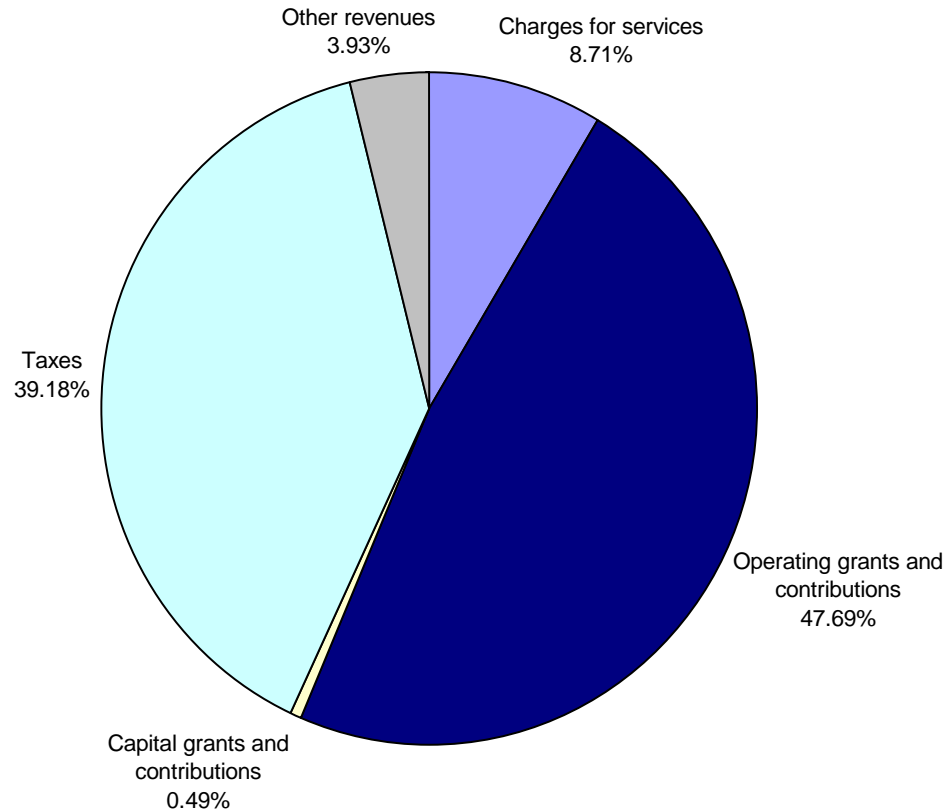
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Expenses and Program Revenues – Governmental Activities



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Revenues by Source – Governmental Activities



For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. The overall expenses for the County increased by \$16,383,722 (2.91 percent) due to increases in expenses of governmental activities netted with decreases in expenses of business-type activities. The largest increase was in public safety, which increased \$7,082,883 (15.71 percent), which is primarily due to an increase in debt as a result of an interlocal agreement entered into by the County with the City of Durham for emergency services in the amount of \$5,012,453. The remaining increase is due to increases in services provided by the sheriff's office, county fire protection, emergency medical services and other non-major public safety services (fire districts and emergency services). Cultural and recreational expenses increased by \$4,194,319 (56.87 percent). The majority of this variance is due to increases in capital project expenditures of over \$3.5 million for the Museum of Life and Science which the County does not capitalize with the balance of the increase being a result of increased services. In addition, nondepartmental expenses increased by \$4,145,553 (37.02 percent) primarily because of increases in cafeteria plan expenses. Economic and physical development increased by \$1,002,236 (44.67 percent) because of increases in services and the County entered into a new industrial extensions policy agreement. See Note E for a detailed

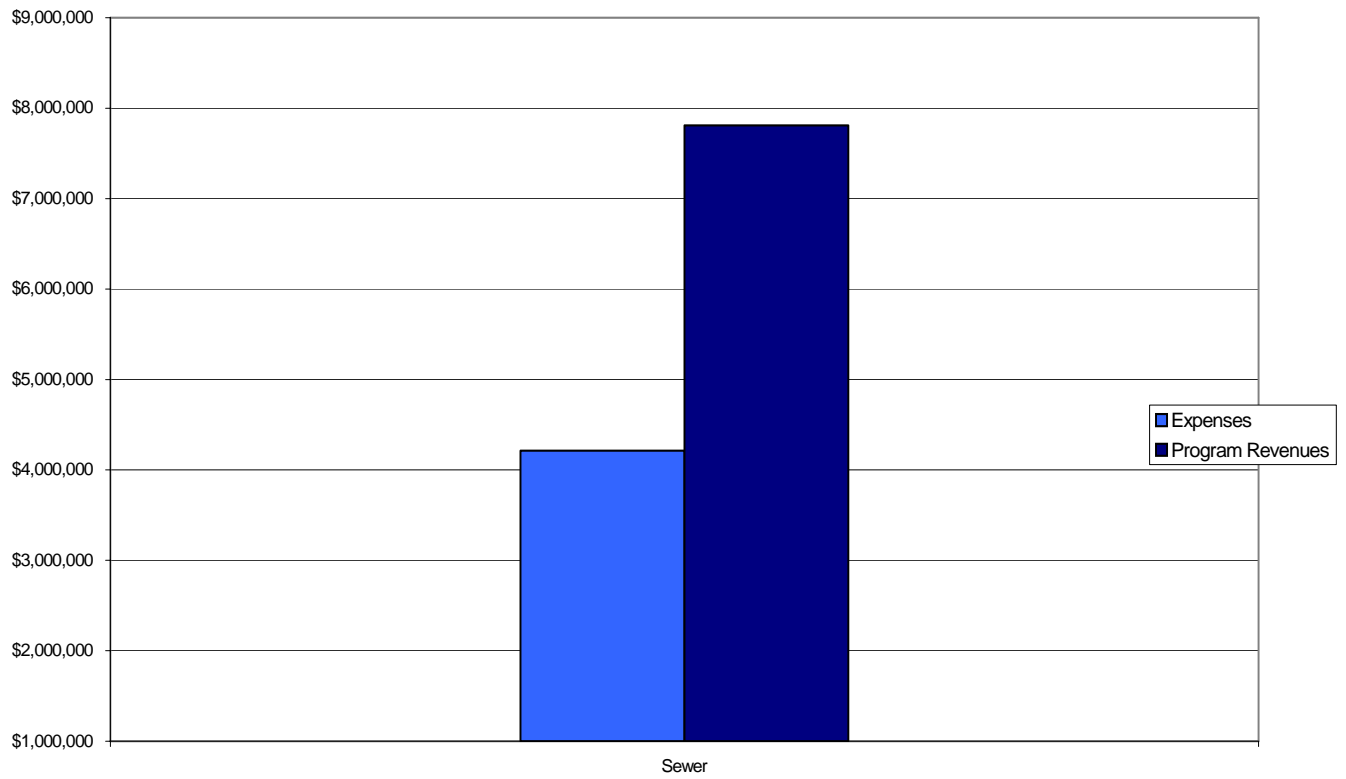
explanation of the County's industrial extensions policy. Interest and fiscal charges decreased \$5,318,126 (31.77 percent) primarily because of the change in the accrued interest payable. In fiscal year 2005, the change was an addition to expenses of over \$2.1 million whereas in fiscal year 2006 the change was a decrease to expenses of over \$2.5 million. Sewer utility expenses decreased \$1,095,770 (20.65 percent) primarily because of decreases in maintenance and other operating expenses. However, there was also a slight decrease in interest and fiscal charges. Contracted services for the wastewater treatment plant decreased because the County began paying the utility bills for the plant rather than these charges being included in the contract. The utility expenses increased accordingly as a result. In addition, human services, general government and education increased by \$3,145,227 (0.92 percent), \$1,791,123 (6.80 percent), and \$1,378,641 (1.32 percent), respectively, due primarily to increased services being provided for these purposes.

Business-type activities. Business-type activities increased the County's net assets by \$4,246,533 accounting for 20.12 percent of the increase of the total growth in the government's net assets. Key elements of this are as follows:

- Expenses decreased \$1,095,770 mainly because of a decrease in maintenance and other expenses and a slight decrease in interest and fiscal charges. There was a decrease in the expenses for contracted services for the wastewater treatment plant because the County began paying the utility bills for the plant rather than these charges being included in the contract. The utility expenses increased accordingly as a result.
- Charges for services increased \$2,273,943 primarily because an agreement with the Town of Cary to provide sewer service. The County began providing services in April of fiscal year 2005. Therefore, fiscal year 2006 was the first year that services were provided for the entire year. In addition, there was a rate increase of 6 percent effective July 1, 2005 in fiscal year 2006.
- There were capital contributions (sewer lines) from private developers in fiscal year 2006 in the amount of \$159,600 compared to no capital contributions during fiscal year 2005.

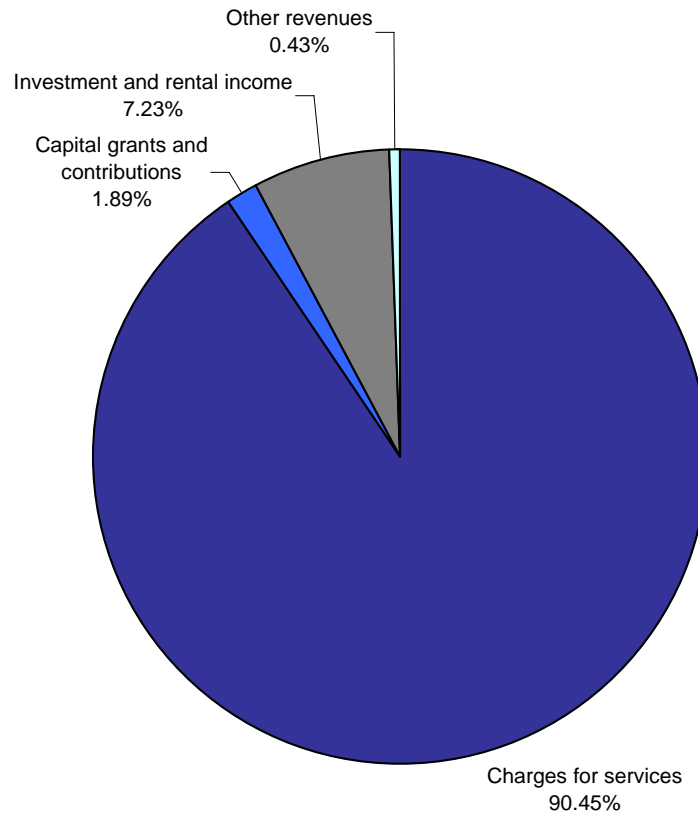
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Expenses and Program Revenues – Business-type Activities



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Revenues by Source –Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of \$207,247,375, an increase of \$46,847,578 in comparison with the prior year. Approximately 84.59 percent of this total amount (\$175,311,114) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to honor contracts and purchase orders of the prior period (\$2,140,218), 2) for a variety of other restricted purposes (\$4,656,600) or 3) because it is reserved by state statute (\$25,139,443).

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$46,766,882, while total fund balance grew and reached \$75,260,940. 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 13.67 percent of total general fund expenditures, while total fund balance represents 22.00 percent of that same amount. The percentage of unreserved fund balance to total general fund expenditures increased from 10.81 percent for fiscal year 2005 to 13.67 percent for fiscal year 2006, an increase of 2.86 percent. The primary reasons for the increase in the percentage of unreserved fund balance to total general fund expenditures are the net decrease in the reserves of over \$3.9 million and growth in fund balance of over \$7.7 million (11.44 percent) while total expenditures increased by only 5.31 percent.

The fund balance of the County's general fund increased by \$7,724,349 during the current fiscal year. Key factors in this growth are as follows:

- Intergovernmental revenues of the general fund increased by 2.61 percent or \$2,407,713 excluding pass-through and direct. For the most part, this increase occurred in other intergovernmental revenues, which includes public safety, general administration, etc., and human services primarily in the agencies of social services and mental health.
- The general fund taxes grew by 6.48 percent or \$13,857,263. This increase is the product of increases in current year levy collections and local options sales tax netted with decreases in prior year's levy collections and occupancy tax. There was a 1.9 cent tax increase for the 2005 levy with 0.65 cent of this increase dedicated to capital financing and/or the retirement of debt for capital financing coupled with continued collection efforts including participating in the North Carolina Local Government Debt Setoff Clearinghouse Program. Current year levy collections and local option sales tax increased by \$10,696,959 (6.64 percent) and \$4,240,151 (9.34 percent), respectively, whereas prior year levy collections and occupancy tax decreased by \$870,893 (25.06 percent) and \$223,197 (9.18 percent), respectively. Because of the Tax Departments efforts to continue to improve the County's current year levy collections, which they have done so successfully, prior year collections will decrease as in fiscal year 2006 because the available amount to collect has been reduced by collecting more in the current year.
- Investment and rental income increased \$2,626,826 (81.25 percent) primarily because of higher interest rates as a result of a stronger economy.
- Other revenues increased \$1,777,789 or 15.96 percent. The increase was largely due to the increase in revenues funding the cafeteria plan of \$1,512,181 (14.69 percent) with an increase in miscellaneous revenue of \$209,004 (27.66 percent).

- General government increased \$1,820,728 (7.58 percent). Of the increase, risk management and insurance increased \$768,402 (100.06 percent) because of increased costs in worker's compensation coverage. Other slight increases were in general services and court facilities.
- Public safety increased \$1,225,427 (3.18 percent). This is due mainly because of increased services of the sheriff, emergency medical services and fire protection.
- Human services' expenditures increased by \$2,695,564. This increase was primarily because of increased services in the area of social services. However, even though it was not nearly as significant, increased services in mental health were also part of the reason for this increase.
- Education increased by \$6,515,399 from the prior fiscal year. Of this increase, Durham Public Schools and Durham Technical Community College received increased funding of \$6,227,773 and \$293,351, respectively.
- Cultural and recreational increased \$696,144 because of increased services provided by the Library.
- Nondepartmental increased \$4,145,553. The primary reasons for the increase was because of increased costs of the cafeteria plan in the amount of \$2,119,763 and the purchase of capital outlay of vehicles and equipment in the amount of \$1,570,794. Miscellaneous expenditures also increased \$454,996.

The Community Health Trust Fund has a total fund balance of \$19,603,126, all of which is financing resources to be used for health related operating and capital expenditures as directed and approved by the Board of County Commissioners. The net increase in fund balance during the current year in the community health trust fund was \$34,433. In the prior year, the fund had significant growth in fund balance of \$6,210,292 due primarily to the increase in the investment earnings because of distributions of earnings from the investments controlled by investment managers for the community health trust fund on behalf of the County. The growth in fiscal year 2006 was insignificant because the operating transfers increased over \$2.2 million to assist in funding health related costs in the General Fund and investment earnings decreased over \$3.8 million because of lower returns. As a result of lower returns, the County replaced one of the investment managing firms in fiscal year 2006. However, given the current conditions of the market and the amount being invested by the current investment managers on behalf of the County, the County is positive and encouraged regarding earnings for fiscal year 2007.

The primary revenue activity was the recognition of the annual amount from the prepaid lease (\$3,500,000). In addition, there was the recognition of the investment and rental income (\$1,218,887). In the expenditures, the amortization of the lease discount was recognized (\$1,150,000). An operating financing use, operating transfer out (\$3,534,454) occurred to assist in the funding of health related expenditures in the general fund. The policy on managing the funds of the community health trust is that the Board of County Commissioners allocates a percentage of the earnings from the previous calendar year to health related expenditures and reinvests the balance which allows the fund to grow. However, in fiscal year 2006, because of the needed assistance in funding health related costs and the positive growth shown in the fund since inception, the BOCC voted to waive allocating only a percentage of the earnings from the previous calendar for fiscal year 2006. Management of these funds is performed by investment managers approved through special legislation, S.L. 1999-101, Senate Bill 653.

The Capital Projects Fund has a total fund balance of \$101,303,773, all of which is financing resources to be used for the acquisition, construction or improvement of major capital facilities other than those financed by proprietary funds. The net increase in fund balance during the current year in the capital projects' fund was \$35,938,302 due primarily to the proceeds from the issuance of bonds and installment purchases, the premium received on the issuance of the general obligation bonds, over a \$2.3 million increase in intergovernmental revenues, over a \$1.9 million increase in investment and rental income and a reduction of project expenditure activity for the year of over \$3.6 million. The County's activity was recorded to construction in progress in capital assets of the County while the Schools System's, Durham Technical Community College's and the Museum of Life and Science's activity was recorded in their capital assets.

The primary revenue activity was the recognition of other financing sources, the issuance of bonds (\$60,605,000), the issuance of installment purchases (\$3,725,000), transfers (\$3,329,530) and the premium on the issuance of debt (\$982,737). The fund also recognized intergovernmental revenues (\$2,900,712), investments and rental income (\$2,464,287) and other revenues (\$6,000). In the expenditures, there was construction activity in the amount of \$37,337,665, and there was other financing uses in the transfer of \$736,299 and cost of issuance of debt of \$1,000. The construction activity was primarily for education and cultural and recreational in the amounts of \$15,895,846 and \$9,564,899, respectively. The other construction activity occurred in general government (\$7,419,698), environmental protection (\$4,055,823) and public safety (\$401,399).

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

Unrestricted net assets of the sewer utility fund at the end of the year amounted to \$10,636,796. There was an increase in total net assets of \$4,246,533. Other factors concerning the finances of this fund have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

The County's annual balanced budget is prepared on the modified accrual basis of accounting in accordance with the Budget & Fiscal Control Act of North Carolina General Statutes, and includes all appropriations required for debt service. The General Fund is the most significant fund budgeted.

During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust 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 or initiate new programs where timing is critical. Amendments to the General Fund budget totaled \$23,601,967 and can be summarized briefly as follows:

- \$1,450,127 in increases allocated to general administration was largely because of increased budgetary expenditures for general services and tax. The increases for general services were primarily for maintenance and repairs for equipment, buildings and grounds, salary adjustments and payments to the Equipment Leasing Fund for leasing agreements. The increases for tax were

for increases in miscellaneous contracted services, postage, salary adjustments and technology improvements.

- \$2,970,061 in increases allocated to public safety was primarily for the sheriff's office and county fire protection. Increases for the sheriff's office were for security, law enforcement and public safety contracted services, salary adjustments, and capital purchases of machinery and equipment and vehicles. Increases for county fire protection were for services for homeland security and salary adjustments.
- \$254,088 in increases allocated to economic and physical development was primarily for the areas of soil and water, cooperative extension and open space. Soil and water conservation increases were for payments to the Equipment Leasing Fund for leasing agreements and salary adjustments. Cooperative extension increases were for contracted services and office supplies. Increases for the preservation and improvement of open space as a result of increased contracted services.
- \$249,816 in increases allocated to environmental protection were primarily for increases for miscellaneous contracted services and capital outlay of machinery and equipment for environmental engineering and increases for solid waste contracted services and capital outlay of office furniture and equipment for solid waste.
- \$15,059,620 in increases allocated to human services which were primarily to provide increased services in the areas of mental health, social services and public health with these services being funded for the most part through the recognition of new grants and additional federal and state awards as well as increases in reimbursements for charges for services .
- \$182,847 in increases allocated to cultural and recreational were primarily for general administrative and technical services and salary adjustments for the library.
- \$900,000 in increases allocated to education for additional funding for Durham Public Schools
- \$1,379,552 in increases allocated to operating transfers out were for increased funding for capital projects in the capital projects fund in the amounts of \$665,605, \$2,005,960 and \$98,280, respectively, netted with a decrease in the transfer for debt service funding in the amount of \$1,390,293.
- \$1,155,856 in increases allocated to nondepartmental which is a net decrease of \$730,244 in the allocation to miscellaneous expenditures and an increase of \$1,886,100 for capital purchases of vehicles and equipment.

Of this increase, \$8,483,349 was to be funded out of miscellaneous increases in various charges for services, \$2,105,000 was to be funded through the issuance of proceeds of installment purchases, \$1,361,280 was to be funded from additional taxes, \$7,595,216 was to be funded from additional intergovernmental revenues, \$510,558 to be funded from other revenues and \$344,123 was to be funded through operating transfers in netted with a decrease in funding of investments and rental income in the amount of \$44,583. The remaining \$3,247,024 was to be budgeted from available fund balance. However, during the year, while revenues did not exceed budgetary estimates, expenditures were also far less than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$243,208,820 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, office furniture and equipment, machinery and equipment, computer hardware, computer software, vehicles and construction in progress. The total increase in the County's investment in capital assets for the current fiscal year was 7.71 percent (an 8.75 percent increase for governmental activities and a 4.08 percent increase for business-type activities).

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

- Construction continued on the additional wastewater treatment facilities and the collection systems rehabilitation for the sewer utility fund which had construction costs for the year of \$2,301,875 and \$94,688, respectively.
- Construction for the Durham Public School Projects continued in fiscal year 2006 in the amount of \$13,078,262.
- Construction for the Durham Technical Community College Projects in fiscal year 2006 in the amount of \$2,817,586.
- Construction for NCML & Bioquest Project for the Museum of Life and Science in fiscal year 2006 in the amount of \$3,544,367.
- Other construction activity other than for the Museum occurred in the amount of \$6,020,532 for the North Durham Library, Stanford Warren Library, South Regional Library and the East Regional Library.
- Seven new projects were implemented during the fiscal year: Telecommunications upgrade (\$1,322,769), New Hope/Duke Land Acquisition (\$500,000), Detention Center (\$73,278), Fingerprinting Area (\$43,097), Animal Shelter Building Renovation (\$6,946), BOCC Chamber Upgrade (\$103) and the Durham Technical Community College Campus Improvements whose activity is included in the construction costs for Durham Technical Community College above.
- Contributed capital in the amount of \$159,600 was received for business-type activities.

DURHAM COUNTY'S CAPITAL ASSETS
(Net of Depreciation)

	Governmental		Business - type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Land	\$ 6,189,453	\$ 6,189,453	\$ 185,226	\$ 185,226	\$ 6,374,679	\$ 6,374,679
Improvements- water and sewer lines	-	-	15,851,257	16,167,910	15,851,257	16,167,910
Buildings	104,698,919	108,354,413	1,965,397	2,029,923	106,664,316	110,384,336
Office furniture and equipment	4,960	11,561	-	-	4,960	11,561
Machinery and equipment	1,300,124	1,490,221	122,457	94,301	1,422,581	1,584,522
Computer hardware	300,362	553,362	-	-	300,362	553,362
Computer software	276,110	206,078	-	-	276,110	206,078
Vehicles	1,997,932	504,929	11,822	-	2,009,754	504,929
Construction in progress	76,047,396	58,149,944	34,257,405	31,860,843	110,304,801	90,010,787
Total	\$ 190,815,256	\$ 175,459,961	\$ 52,393,564	\$ 50,338,203	\$ 243,208,820	\$ 225,798,164

Additional information on the County's capital assets can be found in Note D on pages 66-68 of this report.

Long-term debt. At the end of the current fiscal year, Durham County had total debt outstanding of \$341,994,141. Of this amount, \$265,660,004 comprises bonded debt backed by the full faith and credit of the government. Also included is \$21,935,000 of bonded debt secured by a pledge of and lien upon, and payable solely from, the net receipts of the enterprise system, and in certain circumstances, by proceeds of the revenue bonds, investment earnings and certain net insurance and other proceeds. The revenue bonds are additionally secured by and payable from money and securities of certain funds, accounts and sub-accounts held by the trustee under the trust agreement and the first supplemental trust agreement. The balance consists of certificates of participation in the amount of \$22,325,000, installment notes in the amount of \$30,123,803, industrial extensions policy in the amount of \$1,950,334 and other financing agreements in the amount of \$196,750.

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DURHAM COUNTY'S OUTSTANDING DEBT
Long-Term Debt

	Governmental		Business - type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 259,881,989	\$ 215,664,108	\$ 5,778,015	\$ 6,280,895	\$ 265,660,004	\$ 221,945,003
Revenue bonds	-	-	21,935,000	23,245,000	21,935,000	23,245,000
Certificates of participation	22,325,000	24,560,000	-	-	22,325,000	24,560,000
Installment notes payable	29,961,908	23,807,269	-	-	29,961,908	23,807,269
Industrial extensions policy	1,950,334	1,458,890	-	-	1,950,334	1,458,890
Other financing agreements	161,895	-	-	-	161,895	-
Total	\$ 314,281,126	\$ 265,490,267	\$ 27,713,015	\$ 29,525,895	\$ 341,994,141	\$ 295,016,162

The County's total debt excluding accrued compensated absences and unamortized bond premiums increased by \$46,977,979 (15.92 percent) during the current fiscal year. The key factors in this increase was \$49,225,000 of general obligation bond issuance, \$11,380,000 of 2/3s bond issuance, \$5,830,000 installment purchases for capital outlay and capital projects, \$5,012,453 issuance of debt as a result of an interlocal agreement entered into with the City of Durham and \$895,735 issuance of debt entered into as a result of a new industrial extensions policy agreement for governmental activities for Durham County coupled with the reduction of debt as a result of the annual debt payments. No proceeds were received with the interlocal agreement and industrial extensions policy debt agreements entered into in fiscal year 2006.

The County maintains bond ratings from Moody's Investors Service, Inc., Standard & Poor's Rating Services and the Carolina Municipal Advisory Council of Aaa, AAA and 90 (in the range equivalent to AAA), respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation. The current debt limitation for the County is \$1,702,457,275, leaving a legal debt margin of \$1,436,797,272. The net bonded debt per capital is \$1,064.

Additional information on the County's long-term debt can be found in Note E on pages 69-74 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the County is 3.9 percent as of June 2006, which is a decrease from a rate of 4.6 percent as of June 2005. This compares favorably to the State's and nation's average unemployment rate as of June 2006 both of whom were 4.8 percent.
- The construction activity for non-residential and residential construction was over \$868 million for calendar year 2005 compared to over \$752 million for the calendar year 2004.

- The manufacturing sector employment increased 3.03 percent (949 positions) for calendar year 2005 (32,251) compared to calendar year 2004 (31,302). This is due primarily to the recuperation of the manufacturing industry in the County. As of the 1st quarter of calendar year 2006, the number has slightly decreased to 32,218 positions (33 decrease, 0.10 percent). However, Eisai, a pharmaceutical company, has announced an expansion with an investment of approximately \$105 million along with the creation of 84 jobs.
- The North Carolina Department of Revenue made an administrative rule change in reporting retail sales. Beginning in fiscal year 2006, reported retail sales are now reported on total taxable sales based on sales and use tax returns rather than gross retail sales as has been reported in the past years. The total taxable sales for Durham County for 2006 reported were \$3,707,314. Because previous years were reported as gross retail sales and the taxable sales cannot be provided for previous years, a comparison will be provided beginning in fiscal year 2007 and every year thereafter.
- Economic development announcements for 2005 were over \$224 million, and economic announcements occurring through the third quarter of 2006 amounted to over \$338 million.
- The per capita income for Durham MSA for 2005 is \$33,505, an increase of 3.15 percent over 2004. The Raleigh/Cary MSA has a per capita income of \$37,270. The per capita for the State and the nation increased from 2004 to 2005 to \$30,429 and \$34,212, an increase of 3.01 percent and 3.28 percent, respectively.
- Inflationary trends in the region compare favorably to the national indices.

All of these factors were considered in preparing the County's budget for the 2007 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$46,766,882. The County has appropriated \$14,232,400 of this amount for spending in the 2007 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2007 fiscal year. Transfers from the special revenue funds are budgeted for the 2007 fiscal year as funding sources. Also, a transfer from the community health trust fund is budgeted for the 2007 fiscal year as a funding source for health related spending.

The sewer rates were increased for the 2007 budget year in the sewer utility fund. The sewer rates were increased by 6.15 percent for all customers, both residential and industrial. These rate increases were necessary to maintain operations. There was also an increase in the capital recovery charges of 5 percent. The capital recovery charge is a part of connection fees for new customers and is used as a source of funding for capital acquisitions, construction and improvements.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

DURHAM COUNTY, NORTH CAROLINA

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total Primary Government	Durham County ABC Board
Assets				
Cash and cash equivalents / investments	\$ 101,205,053	\$ 10,509,281	\$ 111,714,334	\$ 1,620,550
Cash and cash equivalents / investments - restricted	102,259,091	963,121	103,222,212	-
Capital lease discount	2,300,000	-	2,300,000	-
Receivables:				
Accounts receivable	844,305	416,200	1,260,505	-
Accrued interest receivable	377,190	37,342	414,532	-
Assessment receivable	6,529	69,894	76,423	-
Net taxes receivable	4,947,101	-	4,947,101	-
Solid waste receivable	812	-	812	-
Net impact fees receivable	31,325	-	31,325	-
Net emergency medical services receivable	5,804,528	-	5,804,528	-
Inventory	582,737	-	582,737	1,355,862
Due from other governments - federal and state agencies	20,708,313	162,835	20,871,148	-
Due from other governments - local	775,509	-	775,509	-
Due from City of Durham tax fund	511,316	-	511,316	-
Prepays	94,796	-	94,796	112,851
Bond issuance costs	793,314	512,094	1,305,408	-
Accumulated amortization bond issue costs	(245,644)	(82,066)	(327,710)	-
Investment in joint venture	8,439,528	-	8,439,528	-
Pension assets	157,062	-	157,062	-
Capital assets:				
Nondepreciable:				
Land	6,189,453	185,226	6,374,679	1,621,257
Construction in progress	76,047,396	34,257,405	110,304,801	-
Depreciable:				
Land improvements - sewer and water lines	-	24,225,904	24,225,904	623,721
Buildings	147,014,478	4,103,344	151,117,822	2,091,927
Office furniture and equipment	433,137	-	433,137	-
Machinery and equipment	7,258,662	293,758	7,552,420	734,314
Computer hardware	2,377,883	-	2,377,883	-
Computer software	963,906	-	963,906	-
Vehicles	7,405,879	12,230	7,418,109	61,048
Law enforcement	-	-	-	103,033
Accumulated depreciation	(56,875,538)	(10,684,303)	(67,559,841)	(1,726,005)
Total assets	440,408,121	64,982,265	505,390,386	6,598,558
Liabilities				
Accounts payable	9,174,677	69,993	9,244,670	530,992
Arbitrage rebate payable	27,000	13,000	40,000	-
Accrued interest payable	2,441,681	143,826	2,585,507	-
Accrued payroll and related amounts withheld	2,990,721	8,767	2,999,488	36,469
Collections in advance	2,292,254	-	2,292,254	-
Prepaid capital lease	7,000,000	-	7,000,000	-
Due to other governments - federal and state agencies	-	-	-	360,762
Due to other governments - local	508,880	-	508,880	244,638
Other liabilities	-	-	-	20,326
Long-term liabilities:				
Accrued compensated absences due within one year	3,570,362	16,683	3,587,045	-
Bonds and other notes payable due within one year	25,643,380	1,853,280	27,496,660	37,522
Unamortized bond premium due within one year	247,770	33,834	281,604	-
Accrued compensated absences	1,352,978	6,790	1,359,768	104,853
Bonds and other notes payable	288,637,746	25,859,735	314,497,481	574,607
Unamortized bond premium	1,563,206	695,891	2,259,097	-
Total liabilities	345,450,655	28,701,799	374,152,454	1,910,169
Net assets				
Capital assets, net of related debt	63,614,759	24,680,549	88,295,308	2,897,166
Restricted for:				
Capital projects	100,572,278	963,121	101,535,399	-
Other purposes	4,656,600	-	4,656,600	565,570
Unrestricted net assets	(73,886,171)	10,636,796	(63,249,375)	1,225,653
Total net assets	\$ 94,957,466	\$ 36,280,466	\$ 131,237,932	\$ 4,688,389

DURHAM COUNTY, NORTH CAROLINA

**Statement of Activities
Year Ended June 30, 2006**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Durham County ABC Board
	Expenses	Charges for Services	Operating	Capital	Primary Government			
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 28,142,742	\$ 8,427,778	\$ 2,590,512	\$ -	\$ (17,124,452)	\$ -	\$ (17,124,452)	\$ -
Public safety	52,182,047	7,958,685	3,231,746	-	(40,991,616)	-	(40,991,616)	-
Transportation	12,500	-	-	-	(12,500)	-	(12,500)	-
Economic and physical development	3,246,027	10,588	440,969	-	(2,794,470)	-	(2,794,470)	-
Environmental protection	2,817,714	7,183,222	-	335,000	4,700,508	-	4,700,508	-
Human services	344,328,289	27,649,080	275,404,044	-	(41,275,165)	-	(41,275,165)	-
Education	105,485,526	-	-	2,565,712	(102,919,814)	-	(102,919,814)	-
Cultural and recreational	11,569,884	260,841	386,952	-	(10,922,091)	-	(10,922,091)	-
Nondepartmental	15,342,913	-	-	-	(15,342,913)	-	(15,342,913)	-
Interest and fiscal charges	11,422,405	-	-	-	(11,422,405)	-	(11,422,405)	-
Total governmental activities	<u>574,550,047</u>	<u>51,490,194</u>	<u>282,054,223</u>	<u>2,900,712</u>	<u>(238,104,918)</u>	<u>-</u>	<u>(238,104,918)</u>	<u>-</u>
Business-type activities:								
Sewer utility	4,210,944	7,650,033	-	159,600	-	3,598,689	3,598,689	-
Total business-type activities	<u>4,210,944</u>	<u>7,650,033</u>	<u>-</u>	<u>159,600</u>	<u>-</u>	<u>3,598,689</u>	<u>3,598,689</u>	<u>-</u>
Total primary government	<u>\$ 578,760,991</u>	<u>\$ 59,140,227</u>	<u>\$ 282,054,223</u>	<u>\$ 3,060,312</u>	<u>(238,104,918)</u>	<u>3,598,689</u>	<u>(234,506,229)</u>	<u>-</u>
Component units:								
Durham County ABC Board	\$ 18,250,177	\$ 18,659,166	\$ -	\$ -	-	-	-	408,989
Total component units	<u>\$ 18,250,177</u>	<u>\$ 18,659,166</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>408,989</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					174,904,779	-	174,904,779	-
Property taxes, levied for fire districts					3,985,570	-	3,985,570	-
Property taxes, levied for other districts purposes					327,758	-	327,758	-
Local option sales tax					49,624,207	-	49,624,207	-
Occupancy tax					2,210,411	-	2,210,411	-
Animal tax					443,996	-	443,996	-
Gross receipts tax					199,465	-	199,465	-
Investment and rental income					10,141,571	611,070	10,752,641	29,364
Other revenues					12,923,685	2,940	12,926,625	5,520
Amortization of bond premium					202,273	33,834	236,107	-
Total general revenues					<u>254,963,715</u>	<u>647,844</u>	<u>255,611,559</u>	<u>34,884</u>
Change in net assets					16,858,797	4,246,533	21,105,330	443,873
Net assets - beginning					78,098,669	32,033,933	110,132,602	4,244,516
Net assets - ending					<u>\$ 94,957,466</u>	<u>\$ 36,280,466</u>	<u>\$ 131,237,932</u>	<u>\$ 4,688,389</u>

DURHAM COUNTY, NORTH CAROLINA

**Balance Sheet
Governmental Funds
June 30, 2006**

	General	Community Health Trust Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents / investments	\$ 62,935,571	\$ 24,303,126	\$ 3,002,314	\$ 10,923,829	\$ 101,164,840
Cash and cash equivalents / investments - restricted	1,686,813	-	100,572,278	-	102,259,091
Capital lease discount	-	2,300,000	-	-	2,300,000
Receivables:					
Accounts receivable	701,423	-	37,104	105,778	844,305
Assessment receivable	6,529	-	-	-	6,529
Net taxes receivable	4,870,873	-	-	76,228	4,947,101
Solid waste receivable	812	-	-	-	812
Net impact fees receivable	-	-	-	31,325	31,325
Net emergency medical services receivable	5,804,528	-	-	-	5,804,528
Inventory	582,737	-	-	-	582,737
Due from other governments - federal and state agencies	20,440,252	-	223,700	44,361	20,708,313
Due from other governments - local	77,688	-	-	697,821	775,509
Due from City of Durham tax fund	511,316	-	-	-	511,316
Prepaid expenditures	94,796	-	-	-	94,796
Total assets	<u>\$ 97,713,338</u>	<u>\$ 26,603,126</u>	<u>\$ 103,835,396</u>	<u>\$ 11,879,342</u>	<u>\$ 240,031,202</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 6,468,692	\$ -	\$ 2,531,623	\$ 174,362	\$ 9,174,677
Arbitrage rebate payable	-	-	-	27,000	27,000
Accrued payroll and related amounts withheld	2,990,721	-	-	-	2,990,721
Due to other governments - local	51,428	-	-	457,452	508,880
Deferred revenues:					
Collections in advance	2,258,815	-	-	33,439	2,292,254
Prepaid capital lease	-	7,000,000	-	-	7,000,000
Taxes and assessments	4,877,402	-	-	76,228	4,953,630
Solid waste	812	-	-	-	812
Impact fees	-	-	-	31,325	31,325
Emergency medical services	5,804,528	-	-	-	5,804,528
Total liabilities	<u>22,452,398</u>	<u>7,000,000</u>	<u>2,531,623</u>	<u>799,806</u>	<u>32,783,827</u>
Fund balances:					
Reserved:					
State statute	19,833,279	2,300,000	260,804	847,960	23,242,043
State statute - mental health	1,897,400	-	-	-	1,897,400
Encumbrances	2,101,668	-	-	-	2,101,668
Encumbrances - mental health	38,550	-	-	-	38,550
Other purposes	4,623,161	-	-	33,439	4,656,600
Unreserved, reported in:					
General fund	46,766,882	-	-	-	46,766,882
Community health trust fund	-	17,303,126	-	-	17,303,126
Capital projects fund	-	-	101,042,969	-	101,042,969
Unreserved, reported in nonmajor:					
Special revenue	-	-	-	10,142,296	10,142,296
Debt service	-	-	-	55,841	55,841
Total fund balances	<u>75,260,940</u>	<u>19,603,126</u>	<u>101,303,773</u>	<u>11,079,536</u>	<u>207,247,375</u>
Total liabilities and fund balances	<u>\$ 97,713,338</u>	<u>\$ 26,603,126</u>	<u>\$ 103,835,396</u>	<u>\$ 11,879,342</u>	<u>\$ 240,031,202</u>

DURHAM COUNTY, NORTH CAROLINA

**Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2006**

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

Ending fund balance - governmental funds	\$ 207,247,375
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	198,462,796
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	10,790,295
An internal service fund is used by management for the financing of capital goods or services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	989,263
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(322,532,263)
Net assets of governmental activities	<u>\$ 94,957,466</u>

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

DURHAM COUNTY, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2006

	General	Community Health Trust Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 227,576,085	\$ -	\$ -	\$ 4,312,002	\$ 231,888,087
Licenses and permits	736,764	-	-	4,576,010	5,312,774
Intergovernmental revenues	94,801,856	-	2,900,712	-	97,702,568
Investments and rental income	5,859,937	1,218,887	2,464,287	529,982	10,073,093
Charges for services	39,268,675	3,500,000	-	1,908,086	44,676,761
Other revenues	12,917,685	-	6,000	-	12,923,685
Total revenues	<u>381,161,002</u>	<u>4,718,887</u>	<u>5,370,999</u>	<u>11,326,080</u>	<u>402,576,968</u>
Expenditures					
Current:					
General government	25,829,763	-	-	43,925	25,873,688
Public safety	39,754,366	-	-	6,243,232	45,997,598
Transportation	12,500	-	-	-	12,500
Economic and physical development	2,411,854	-	-	313,264	2,725,118
Environmental protection	2,821,303	-	-	-	2,821,303
Human services	158,201,370	-	-	-	158,201,370
Education	89,560,342	-	-	-	89,560,342
Cultural and recreational	8,188,661	-	-	-	8,188,661
Nondepartmental	15,342,913	-	-	-	15,342,913
Capital projects	-	-	37,337,665	-	37,337,665
Debt service:					
Principal retirement	-	-	-	23,163,537	23,163,537
Interest and fiscal charges	-	-	-	12,771,432	12,771,432
Amortization of lease discount	-	1,150,000	-	-	1,150,000
Total expenditures	<u>342,123,072</u>	<u>1,150,000</u>	<u>37,337,665</u>	<u>42,535,390</u>	<u>423,146,127</u>
Excess (deficiency) of revenues over (under) expenditures	<u>39,037,930</u>	<u>3,568,887</u>	<u>(31,966,666)</u>	<u>(31,209,310)</u>	<u>(20,569,159)</u>
Other financing sources (uses)					
Transfers in	4,654,024	-	3,329,530	35,479,374	43,462,928
Transfers out	(38,072,605)	(3,534,454)	(736,299)	(1,119,570)	(43,462,928)
Costs of issuance of debt	-	-	(1,000)	-	(1,000)
Premium on issuance of debt	-	-	982,737	-	982,737
Proceeds from issuance of bonds	-	-	60,605,000	-	60,605,000
Proceeds from issuance of installment purchases	2,105,000	-	3,725,000	-	5,830,000
Total other financing sources (uses)	<u>(31,313,581)</u>	<u>(3,534,454)</u>	<u>67,904,968</u>	<u>34,359,804</u>	<u>67,416,737</u>
Net change in fund balances	7,724,349	34,433	35,938,302	3,150,494	46,847,578
Fund balance - beginning	<u>67,536,591</u>	<u>19,568,693</u>	<u>65,365,471</u>	<u>7,929,042</u>	<u>160,399,797</u>
Fund balance - ending	<u>\$ 75,260,940</u>	<u>\$ 19,603,126</u>	<u>\$ 101,303,773</u>	<u>\$ 11,079,536</u>	<u>\$ 207,247,375</u>

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

DURHAM COUNTY, NORTH CAROLINA

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2006**

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

Net change in fund balances - total governmental funds \$ 46,847,578

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year. 16,207,321

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 784,274

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts. (47,070,174)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities. 89,798

Change in net assets of governmental activities \$ 16,858,797

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

DURHAM COUNTY, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 General Fund
 Year Ended June 30, 2006

	Budgeted Amounts			Positive (Negative) Variance
	Original	Final	Actual	
Revenues				
Taxes				
Current levy	\$ 168,028,694	\$ 168,028,694	\$ 171,716,517	\$ 3,687,823
Prior year's levy	3,000,000	3,310,000	2,604,733	(705,267)
Tax penalties and interest	-	-	704,682	704,682
Advertising and selling	-	-	43,911	43,911
Payments in lieu of taxes	20,000	20,000	28,163	8,163
Local option sales tax	45,886,161	46,786,161	49,624,207	2,838,046
Animal tax	555,000	555,000	443,996	(111,004)
Occupancy tax	2,420,933	2,572,213	2,210,411	(361,802)
Gross receipts tax	-	-	199,465	199,465
Total taxes	219,910,788	221,272,068	227,576,085	6,304,017
Intergovernmental revenues				
Beer and wine tax	140,000	140,000	139,655	(345)
Social services	271,324,291	274,605,588	258,206,377	(16,399,211)
Mental health	14,177,180	16,056,123	14,363,476	(1,692,647)
Public health	2,452,271	2,847,692	2,183,344	(664,348)
Library	382,044	480,324	372,566	(107,758)
ABC Board	430,100	430,100	594,433	164,333
Other	4,331,925	6,273,200	6,194,372	(78,828)
Total intergovernmental revenues	293,237,811	300,833,027	282,054,223	(18,778,804)
Charges for services				
Elections registration lists	207,440	207,440	205,012	(2,428)
Register of deeds	3,268,765	3,268,765	4,312,779	1,044,014
General government charges	2,161,476	2,236,575	2,295,156	58,581
Collection fees	823,300	823,300	990,909	167,609
Public protection	1,098,000	1,098,000	1,391,719	293,719
Environmental protection	501,300	501,300	721,999	220,699
Solid waste fees	1,131,009	1,131,009	1,135,573	4,564
Facilities fees	520,000	520,000	557,651	37,651
Transportation	600	600	-	(600)
Library fees and charges	293,322	293,322	260,841	(32,481)
Mental health	17,076,000	25,476,000	21,029,147	(4,446,853)
Public health	2,663,694	2,663,944	2,736,357	72,413
Social services	204,484	204,484	129,051	(75,433)
Emergency medical services charges	3,073,664	3,073,664	3,497,035	423,371
Other charges	-	8,000	5,446	(2,554)
Total charges for services	33,023,054	41,506,403	39,268,675	(2,237,728)
Investment and rental income				
Investment earnings	1,263,839	1,219,256	3,910,385	2,691,129
Rent	1,590,716	1,590,716	1,949,552	358,836
Total investment and rental income	2,854,555	2,809,972	5,859,937	3,049,965
Licenses and permits				
Construction permits	622,000	622,000	421,890	(200,110)
Cablevision and franchise fees	340,000	340,000	292,018	(47,982)
Wine and beer licenses	15,000	15,000	18,691	3,691
Other licenses and permits	5,300	5,300	4,165	(1,135)
Total licenses and permits	982,300	982,300	736,764	(245,536)

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

DURHAM COUNTY, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 General Fund
 Year Ended June 30, 2006

	Budgeted Amounts			Positive (Negative) Variance
	Original	Final	Actual	
Revenues (continued)				
Other revenues				
Cafeteria plan	\$ 11,282,003	\$ 11,282,003	\$ 11,807,178	\$ 525,175
Miscellaneous	759,364	1,085,577	964,579	(120,998)
Confiscated property				
federal investigation	-	184,345	21,058	(163,287)
Sale of property and materials	-	-	93,302	93,302
Other	-	-	31,568	31,568
Total other revenues	12,041,367	12,551,925	12,917,685	365,760
Total revenues	562,049,875	579,955,695	568,413,369	(11,542,326)
Expenditures				
General administration				
Board of county commissioners	502,279	505,375	479,578	25,797
County manager	1,397,493	1,426,226	1,045,388	380,838
Finance	2,323,290	2,353,950	2,306,504	47,446
Tax	4,108,649	4,906,498	4,274,357	632,141
Legal	1,350,742	1,363,953	1,312,632	51,321
Court facilities	703,688	712,042	494,117	217,925
Human resources	1,363,877	1,387,455	1,286,333	101,122
Elections	1,032,656	1,034,626	902,493	132,133
Risk management and insurance	2,082,576	2,167,760	1,536,327	631,433
General services	7,286,276	7,602,894	6,802,297	800,597
Geographic information systems	367,249	367,249	479,698	(112,449)
Information systems	3,544,332	3,672,725	3,468,169	204,556
Register of deeds	1,472,921	1,485,402	1,379,030	106,372
Other	66,923	66,923	62,840	4,083
Total general administration	27,602,951	29,053,078	25,829,763	3,223,315
Economic and physical development				
Planning	740,875	740,875	597,838	143,037
Cooperative extension	950,490	1,044,654	871,300	173,354
Soil and water conservation	188,494	226,132	219,669	6,463
Open space management	85,000	207,286	83,047	124,239
Other	724,840	724,840	640,000	84,840
Total economic and physical development	2,689,699	2,943,787	2,411,854	531,933
Human services				
Public health	16,678,566	17,450,924	15,597,093	1,853,831
Mental health	38,532,099	49,021,456	42,384,160	6,637,296
Social services	298,730,240	302,459,183	284,315,387	18,143,796
Other	1,748,878	1,817,840	1,538,260	279,580
Total human services	355,689,783	370,749,403	343,834,900	26,914,503
Education				
Durham public schools	84,727,705	85,627,705	85,627,705	-
Durham technical community college	3,760,862	3,760,862	3,760,862	-
Other education	196,775	196,775	171,775	25,000
Total education	88,685,342	89,585,342	89,560,342	25,000

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

DURHAM COUNTY, NORTH CAROLINA

Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 General Fund
 Year Ended June 30, 2006

	Budgeted Amounts			Positive (Negative) Variance
	Original	Final	Actual	
Expenditures (continued)				
Public safety				
Criminal justice partnership	\$ 1,818,482	\$ 1,873,505	\$ 1,643,492	\$ 230,013
County sheriff	13,310,900	14,565,196	14,178,834	386,362
County jail	12,703,058	12,635,347	12,051,081	584,266
Youth home	894,296	946,245	908,305	37,940
Animal control	1,376,548	1,338,461	1,218,103	120,358
Emergency communications center	622,860	622,860	597,433	25,427
Emergency medical services	6,631,500	6,950,817	6,811,318	139,499
County fire protection	1,783,769	3,155,708	2,664,345	491,363
Medical examiner	104,500	104,500	112,700	(8,200)
Other public safety	1,218,679	1,242,014	1,162,592	79,422
Total public safety	40,464,592	43,434,653	41,348,203	2,086,450
Transportation				
Airport authority	12,500	12,500	12,500	-
Total transportation	12,500	12,500	12,500	-
Environmental protection				
Solid waste	1,769,060	1,909,206	1,712,807	196,399
Environmental engineering	1,259,490	1,369,160	1,054,924	314,236
Other	53,600	53,600	53,572	28
Total environmental protection	3,082,150	3,331,966	2,821,303	510,663
Cultural and recreational				
Library	7,106,579	7,266,103	6,147,063	1,119,040
Other	2,409,783	2,433,106	2,066,598	366,508
Total cultural and recreational	9,516,362	9,699,209	8,213,661	1,485,548
Nondepartmental				
Miscellaneous	1,968,085	1,237,841	506,701	731,140
Cafeteria plan	12,460,003	12,460,003	13,265,418	(805,415)
Capital outlay	-	1,886,100	1,570,794	315,306
Total nondepartmental	14,428,088	15,583,944	15,342,913	241,031
Total expenditures	542,171,467	564,393,882	529,375,439	35,018,443
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	19,878,408	15,561,813	39,037,930	23,476,117
Other financing sources (uses)				
Transfers in	4,496,210	4,840,333	4,654,024	(186,309)
Appropriated fund balance	14,990,000	18,237,024	-	(18,237,024)
Transfers out	(39,364,618)	(40,744,170)	(38,072,605)	2,671,565
Proceeds from issuance of installment purchases	-	2,105,000	2,105,000	-
Total other financing uses	(19,878,408)	(15,561,813)	(31,313,581)	(15,751,768)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ -	\$ -	7,724,349	\$ 7,724,349
FUND BALANCE -BEGINNING OF YEAR			67,536,591	
FUND BALANCE - END OF YEAR			\$ 75,260,940	

DURHAM COUNTY, NORTH CAROLINA

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Community Health Trust Fund
Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 3,534,455	\$ 3,534,455	\$ 1,218,887	\$ (2,315,568)
Charges for services	-	3,500,000	3,500,000	-
Total revenues	<u>3,534,455</u>	<u>7,034,455</u>	<u>4,718,887</u>	<u>(2,315,568)</u>
Expenditures				
Amortization of lease discount	-	1,150,000	1,150,000	-
Total expenditures	<u>-</u>	<u>1,150,000</u>	<u>1,150,000</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,534,455</u>	<u>5,884,455</u>	<u>3,568,887</u>	<u>(2,315,568)</u>
Other financing sources (uses)				
Appropriated fund balance	-	(2,350,000)	-	2,350,000
Transfers out	(3,534,455)	(3,534,455)	(3,534,454)	1
Total other financing uses	<u>(3,534,455)</u>	<u>(5,884,455)</u>	<u>(3,534,454)</u>	<u>2,350,001</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>\$ -</u>	<u>34,433</u>	<u>\$ 34,433</u>
FUND BALANCE - BEGINNING OF YEAR			<u>19,568,693</u>	
FUND BALANCE - END OF YEAR			<u>\$ 19,603,126</u>	

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

DURHAM COUNTY, NORTH CAROLINA

Statement of Net Assets

Proprietary Funds

June 30, 2006

	Enterprise Fund	Internal Service Fund
	Sewer Utility Fund	Equipment Leasing Fund
Assets		
Current assets		
Cash and cash equivalents / investments	\$ 10,509,281	\$ 40,213
Cash and cash equivalents / investments - restricted	963,121	-
Receivables:		
Accounts receivable	416,200	-
Accrued interest receivable	37,342	-
Assessment receivable	69,894	-
Total receivables	<u>523,436</u>	<u>-</u>
Due from other governments	<u>162,835</u>	<u>-</u>
Total current assets	<u>12,158,673</u>	<u>40,213</u>
Noncurrent assets		
Bond issuance costs	512,094	-
Accumulated amortization - bond issuance costs	(82,066)	-
Capital assets:		
Land	185,226	-
Land improvements - sewer and water lines	24,225,904	-
Building treatment plant	4,103,344	-
Office furniture and equipment	-	351,433
Machinery and equipment	293,758	4,770,393
Vehicles	12,230	-
Computer hardware	-	110,666
Construction in progress	<u>34,257,405</u>	<u>-</u>
Total capital assets	<u>63,077,867</u>	<u>5,232,492</u>
Less accumulated depreciation and amortization	<u>(10,684,303)</u>	<u>(4,283,442)</u>
Net capital assets	<u>52,393,564</u>	<u>949,050</u>
Total noncurrent assets	<u>52,823,592</u>	<u>949,050</u>
Total assets	<u>64,982,265</u>	<u>989,263</u>
Liabilities		
Current liabilities		
Current portion of accrued compensated absences	16,683	-
Current portion of long-term debt	1,853,280	-
Current portion of unamortized bond premium	33,834	-
Accounts payable	69,993	-
Arbitrage rebate payable	13,000	-
Accrued interest payable	143,826	-
Accrued payroll and related amounts withheld	8,767	-
Total current liabilities	<u>2,139,383</u>	<u>-</u>
Noncurrent liabilities		
Accrued compensated absences	6,790	-
Long-term debt	25,859,735	-
Noncurrent unamortized bond premium	695,891	-
Total noncurrent liabilities	<u>26,562,416</u>	<u>-</u>
Total liabilities	<u>28,701,799</u>	<u>-</u>
Net assets		
Net assets - capital net of debt	24,680,549	949,050
Net assets - restricted	963,121	-
Net assets - unrestricted	<u>10,636,796</u>	<u>40,213</u>
Total net assets	<u>\$ 36,280,466</u>	<u>\$ 989,263</u>

DURHAM COUNTY, NORTH CAROLINA

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

Proprietary Funds

Year Ended June 30, 2006

	Enterprise Fund	Internal Service Fund
	Sewer Utility Fund	Equipment Leasing Fund
Operating revenues		
Charges for services	\$ 7,123,510	\$ 524,485
Total operating revenues	<u>7,123,510</u>	<u>524,485</u>
Operating expenses		
Personnel services	289,442	-
Contracted services - wastewater treatment plant	1,785,302	-
Utilities	335,146	-
Maintenance and other	638,488	-
Depreciation and amortization	563,031	407,564
Total operating expenses	<u>3,611,409</u>	<u>407,564</u>
Operating income (loss)	<u>3,512,101</u>	<u>116,921</u>
Nonoperating revenue (expense)		
Investment and interest income	611,070	(27,123)
Sewer connection fees	526,523	-
Interest and fiscal charges	(568,350)	-
Miscellaneous	2,940	-
Amortization of bond issue costs	(31,185)	-
Amortization of bond premium	33,834	-
Total nonoperating revenue (expense)	<u>574,832</u>	<u>(27,123)</u>
Income (loss) before transfers and contributions	4,086,933	89,798
Capital contributions	159,600	-
Change in net assets	4,246,533	89,798
Total net assets - beginning	<u>32,033,933</u>	<u>899,465</u>
Total net assets - ending	<u>\$ 36,280,466</u>	<u>\$ 989,263</u>

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

DURHAM COUNTY, NORTH CAROLINA

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2006

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Sewer Utility Fund</u>	<u>Equipment Leasing Fund</u>
Operating activities		
Cash received from sales	\$ 7,046,663	\$ 524,485
Cash received from assessments	2,108	-
Cash paid to employees	(298,794)	-
Cash paid for contracted services	(3,160,453)	-
Decrease in due to general fund	-	(457,149)
Net cash provided (used) by operating activities	<u>3,589,524</u>	<u>67,336</u>
Noncapital financing activities		
Sewer connection fees received	526,523	-
Miscellaneous	2,940	-
Net cash provided (used) by noncapital financing activities	<u>529,463</u>	<u>-</u>
Capital and related financing activities		
Principal payments on long-term debt	(1,812,880)	-
Interest paid	(1,361,341)	-
Acquisition and construction costs of capital assets	(1,734,340)	-
Net cash provided (used) by capital and related financing activities	<u>(4,908,561)</u>	<u>-</u>
Investing activities		
Investment income and dividends	611,070	(27,123)
Net cash provided (used) by investing activities	<u>611,070</u>	<u>(27,123)</u>
Net increase (decrease) in cash and cash equivalents/investments	<u>(178,504)</u>	<u>40,213</u>
Cash and cash equivalents/investments		
Beginning of year	<u>11,650,906</u>	<u>-</u>
End of year	<u>\$ 11,472,402</u>	<u>\$ 40,213</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 3,512,101	\$ 116,921
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	563,031	407,564
Change in assets and liabilities		
Accounts receivable	84,228	-
Assessments receivable	2,108	-
Due from other governments - federal and state agencies	(161,075)	-
Accounts payable and accrued expenses	(401,517)	-
Decrease in due to general fund	-	(457,149)
Other liabilities	(9,352)	-
Total adjustments	<u>77,423</u>	<u>(49,585)</u>
Net cash provided (used) by operating activities	<u>\$ 3,589,524</u>	<u>\$ 67,336</u>

DURHAM COUNTY, NORTH CAROLINA

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

	Law Enforcement Officers' Special Separation Allowance Pension Trust Fund	Private-purpose Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	\$ -	\$ 13,965	\$ 1,277,096
U.S. government securities	1,006,119	-	-
Net taxes receivable	-	-	3,332,153
Due from governmental agencies	-	-	72
Total assets	<u>1,006,119</u>	<u>13,965</u>	<u>\$ 4,609,321</u>
Liabilities			
Accrued payroll and amounts withheld	\$ 1,994	\$ -	\$ -
Funds held for others	-	-	522,162
Due to governmental agencies	-	-	4,087,159
Total liabilities	<u>1,994</u>	<u>-</u>	<u>\$ 4,609,321</u>
Net assets			
Held in trust for:			
Employee pension benefits	1,004,125	-	
Individuals, organizations, and other governments	-	13,965	
Total net assets	<u>\$ 1,004,125</u>	<u>\$ 13,965</u>	

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

DURHAM COUNTY, NORTH CAROLINA

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2006**

	Law Enforcement Officers' Special Separation Allowance Pension Trust Fund	Private-purpose Trust Funds
Additions		
Employer contributions	\$ 172,442	\$ -
Employee contributions	-	2,013
Investment income	41,071	236
Total additions	<u>213,513</u>	<u>2,249</u>
Deductions		
Benefits	63,083	2,700
Total deductions	<u>63,083</u>	<u>2,700</u>
Change in net assets	150,430	(451)
Total net assets - beginning	<u>853,695</u>	<u>14,416</u>
Total net assets - ending	<u>\$ 1,004,125</u>	<u>\$ 13,965</u>

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

Discretely Presented Component Unit

Durham County ABC Board

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

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

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

Durham County Industrial Facility and Pollution Control Financing Authority

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the County) and its component unit (the ABC Board). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation.

Fund Financial Statements: The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The County reports the following major governmental funds:

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

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

Capital Projects Fund. This fund accounts for financial resources to be used for the acquisition, construction or improvement of major capital facilities other than those financed by proprietary funds. The capital projects fund is also used to accumulate funds to finance a capital improvement plan. Amounts totaling 9% of dedicated property tax revenue and other dedicated revenue are to fund various capital projects and capital acquisitions over an extended period of time. The capital projects fund budget is adopted on a project basis which is multi-year.

The County reports the following major enterprise fund:

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

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

The County reports the following fiduciary fund types:

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

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

State Treasurer Department of Motor Vehicles Fund. The State Treasurer Department of Motor Vehicles Fund is used to account for the interest collected on delinquent motor vehicle taxes and the disposition of the interest pursuant to the implementation of House Bill 1779 for the purpose of developing and implementing an integrated computer system within the Division of Motor Vehicles that will allow for the combined assessment, billing and collection of property taxes on motor vehicles and the issuance of registration plates.

Durham Public School Fund. The Durham Public School Fund is used to account for the late list penalty assessed on the late listing of property taxes on behalf of Durham Public Schools.

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

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

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, the County reports the following fund type:

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

3. Measurement Focus and Basis of Accounting

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements, except for agency funds, are reported using the economic resources measurement focus and the accrual basis of accounting. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The County considers all revenues available if they are collected within 60 days after year-end, except for property taxes and sales tax distributions. Property taxes, franchise taxes and interest are not accrued as revenue because the amount is not susceptible to accrual at June 30, since taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Sales tax distributions collected and held by the State at year-end on behalf of the County are recognized as revenue within 90 days of year-end. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as reserved fund balance.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. Budgetary Control

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

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

The following summarizes the supplementary appropriations made for the major governmental funds other than the capital projects fund during 2006:

	<u>Original Budget</u>	<u>Total Amendments</u>	<u>Revised Budget</u>
General	\$ 581,536,085	\$ 23,601,967	\$ 605,138,052
Less Federal Awards (See Note O.)			<u>(187,252,367)</u>
Reconciliation from budget basis to GAAP			<u>\$ 417,885,685</u>
Community Health Trust	\$ 3,534,455	\$ -	<u>\$ 3,534,454</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

5. Equity in Pooled Cash and Cash Equivalent/Investments

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

Cash and Cash Equivalents

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

Deposits and Investments

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

All of the County's and the ABC Board's deposits are either covered by federal depository insurance or are collateralized by using one of two options. Under the Dedicated Method, all deposits over the federal depository insurance coverage are collateralized with securities held by the County's or the ABC Board's agent in the entity's name. Under the Pooling Method, all uninsured deposits are collateralized with a pool of securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County and the ABC Board, these deposits are considered to be held by their agent in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The State Treasurer does not confirm this information with the County or the ABC Board or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County or the ABC Board under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depositor using the Pooling Method.

At June 30, 2006, the County's deposits had a carrying amount of \$918,039 and a bank balance of \$5,039,894. Of the bank balance, \$518,873 was covered by federal depository insurance, \$1,423,195 was covered by collateral held under the Dedicated Method and \$3,097,826 was covered by collateral held under the Pooling Method.

At June 30, 2006, the ABC Board's deposits had a carrying amount of \$1,613,590 and a bank balance of \$1,741,241. Of the bank balance, \$352,748 was covered by federal depository insurance and \$1,388,493 was covered by collateral held under the Pooling Method.

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

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

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As of June 30, 2006 the County had the following investments and maturities:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months
US Government Agencies	\$ 59,243,845	\$ 53,271,490	\$ 5,972,355
Commercial Paper	2,925,760	2,925,760	-
NC Capital Management Trust - Cash Portfolio	111,033,268	111,033,268	-
NC Capital Management Trust - Term Portfolio*	2,583,976	-	2,583,976
Community Health Trust	25,907,051	25,907,051	-
Fidelity Treasury Portfolio II C1 III (Installment Purc)	8,993,238	8,993,238	-
First Citizens Trust (Revenue Bonds)	3,331,369	3,331,369	-
Total:	\$ 214,018,507	\$ 205,462,176	\$ 8,556,331

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

Interest Rate Risk:

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

Credit Risk:

State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). The County's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poors as of June 30, 2006. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, obligations of the State of North Carolina, bonds and notes of North Carolina local governments/public authorities and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investments in US agencies (Federal Home Loan Bank) are rated AAA by Standard & Poors and Aaa by Moody's Investors Service.

Custodial Credit Risk:

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. To minimize this risk, the County's investment policy requires that all negotiable instruments shall be held in safekeeping in the trust department of a bank. The County's investments are held in the County's name by a safekeeping agent that is independent of all counterparties.

Concentration of Credit Risk:

The County places no limit on the amount that the County may invest in any one issuer. More than 40 percent of the County's investments are in Wachovia bankers acceptance and the Federal Home Loan Bank. These investments are 4.71% and 43.43% respectively of the County's total investments.

The ABC Board did not have any investments as of June 30, 2006.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Receivables

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

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The receivables as of June 30, 2006 for the County's individual major funds and non-major, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Accounts	Accrued Interest	Taxes	Impact Fee	Special Assess- ments	Emergency Medical Services	Community Development Mortgage Loans	Due from Other Governments	Total
Governmental activities:									
General	\$ 701,423	\$ 349,236	\$ 5,008,706	\$ -	\$ 6,529	\$ 14,020,599	\$ 602,847	\$ 20,517,940	\$ 41,207,280
Capital projects	37,104	27,954	-	-	-	-	-	223,700	288,758
Other governmental	105,778	-	78,167	31,325	-	-	-	742,182	957,452
Total receivables	844,305	377,190	5,086,873	31,325	6,529	14,020,599	602,847	21,483,822	42,453,490
Allowance for doubtful accounts	-	-	(139,772)	-	-	(8,216,071)	(602,847)	-	(8,958,690)
Total governmental activities	<u>\$ 844,305</u>	<u>\$ 377,190</u>	<u>\$ 4,947,101</u>	<u>\$ 31,325</u>	<u>\$ 6,529</u>	<u>\$ 5,804,528</u>	<u>\$ -</u>	<u>\$ 21,483,822</u>	<u>\$ 33,494,800</u>
Business-type activities:									
Sewer utility	\$ 416,200	\$ 37,342	\$ -	\$ -	\$ 69,894	\$ -	\$ -	\$ 162,835	\$ 686,271
Total receivables	416,200	37,342	-	-	69,894	-	-	162,835	686,271
Allowance for doubtful accounts	-	-	-	-	-	-	-	-	-
Total business-type activities	<u>\$ 416,200</u>	<u>\$ 37,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,894</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162,835</u>	<u>\$ 686,271</u>

The Community Development Mortgage Loans Receivable consists of certain proceeds from bonds that have been used to make non-interest-bearing loans to qualifying individuals in accordance with the County's Community Development Program. These loans contain various provisions, including deferral periods and forgiveness of indebtedness if certain conditions are met. Due to the uncertainty of collectibility, the full amount of the outstanding loans receivable balance as of June 30, 2006 of \$602,847 has been included in the allowance for doubtful accounts.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	Deferred	Unearned
Net property taxes receivable (general fund)	\$4,870,873	\$
Net property taxes receivable (special revenue)	76,228	
Collections in advance (general fund)		2,258,815
Collections in advance (special revenue)		33,439
Prepaid capital lease (community health trust)		7,000,000
Emergency medical services receivable (general fund)	5,804,528	
Solid waste (general fund)	812	
Impact fees (special revenue)	31,325	
Special assessments receivable (general fund)	6,529	
Total deferred/unearned revenue for governmental funds	\$ 10,790,295	\$ 9,292,254

7. Inventories

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

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Capital Assets

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

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

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

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

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

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

9. Long-term Obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Compensated Absences

Permanent employees of the County can earn vacation leave at the rate of 11 days per year for the first two years up to a maximum of 25 days per year after twenty-five years. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is 30 days. At the end of each calendar year, the accumulated vacation leave in excess of 225 hours for employees who work a 37.5 hour workweek, 240 hours for employees who work a 40 hour work week and 252 hours for employees who work a 42 hour workweek as of the first full pay period in January is converted to sick leave. The maximum amount of vacation leave that can be carried forward to January 1 is 225, 240 and 252 hours, respectively. At termination, employees are paid for any accumulated vacation leave up to the maximum amount. Accumulated vacation leave and salary related payments at June 30, 2006 amounted to \$4,946,813. Of this amount, \$4,923,340 is recorded as a liability in the government-wide financial statements for governmental activities, and \$23,473 is recorded as a liability in the proprietary fund financial statements and the government-wide financial statements for business-type activities. ABC Board employees may accumulate up to 30 days earned vacation and such leave is fully vested when earned. The ABC Board's accumulated earned vacation and related expenses at June 30, 2006 amounted to \$104,853. The current portion of the ABC Board's accumulated vacation pay is not considered to be material.

Permanent employees of the County earn sick leave at the rate of 12 days per year. There is no limit on the accumulation of sick leave for either the County or the ABC Board. Accumulated sick leave for the County at June 30, 2006 amounted to \$13,669,919 in total. Upon separation from the County or the ABC Board, there is no compensation for earned sick leave. Therefore, sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Accumulated sick leave with the County used as retirement credit is limited to one month for each two years of service. Since the County and the ABC Board have no obligation for accumulated sick leave until it is actually taken, no accruals for sick leave have been made.

11. Encumbrances

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Net Assets/Fund Balances

Net Assets

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State Statute.

Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. State law [G.S. 159-13(b) (16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unreserved:

- Designated for subsequent year's expenditures – represents the amount of fund balance appropriated to the budget for the year ending June 30, 2007.
- Designated for risk management – represents the amount of fund balance set aside for catastrophic occurrences. This amount is not available for appropriation to the budget for the year ended June 30, 2007.
- Designated for debt service – represents the amount of fund balance designated for debt service. This amount is not available for appropriation to the budget for the year ended June 30, 2007.
- Undesignated – represents the amount of fund balance which is available for future appropriations.

The following schedule presents the reservations and designations of fund balances at June 30, 2006:

	General Fund	Community			Nonmajor Funds	
		Health Trust Fund	Capital Projects Fund	Special Revenue Funds	Debt Service Fund	
Fund Balance:						
Reserved for encumbrances	\$ 2,101,668	\$ -	\$ -	\$ -	\$ -	
Reserved for encumbrances - mental health	38,550	-	-	-	-	
Reserved by State Statute	19,833,279	7,000,000	260,804	847,960	-	
Reserved by State Statute - mental health	1,897,400	-	-	-	-	
Reserved for other purposes	4,623,161	-	-	33,439	-	
Designations:						
Subsequent year's expenditures	14,232,400	-	-	666,817	50,000	
Risk management	4,863,576	-	-	-	-	
Debt service	48,713	-	-	-	-	
Undesignated	27,622,193	12,603,126	101,042,969	9,475,479	5,841	
	<u>\$ 75,260,940</u>	<u>\$ 19,603,126</u>	<u>\$ 101,303,773</u>	<u>\$ 11,023,695</u>	<u>\$ 55,841</u>	

13. Comparative Total Data/Reclassifications

Certain reclassifications have been made in the prior year's financial data in order to be consistent and conform to the presentation of the financial statements for the year ended June 30, 2006.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Use of Estimates

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

15. Interest rate swap

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

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

1. “Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.”
- | | |
|--|----------------------|
| Capital assets (net of depreciation) | \$190,815,256 |
| Investment in joint venture | 8,439,528 |
| Pension assets | 157,062 |
| Less capital assets (net of depreciation),
Internal Service Fund | <u>(949,050)</u> |
| Net adjustment to increase total fund balances – total
governmental funds to arrive at net assets of
governmental activities | <u>\$198,462,796</u> |
2. “Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.”
- | | |
|--|----------------------|
| Property taxes and assessments receivable (net) | \$ 4,953,630 |
| Solid waste receivable | 812 |
| Emergency medical services receivable (net) | 5,804,528 |
| Impact fees receivable (net) | <u>31,325</u> |
| Net adjustment to increase total fund balances – total
governmental funds to arrive at net assets of
governmental activities | <u>\$ 10,790,295</u> |

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

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

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

Bonds and other notes payable due within one year	\$ 25,643,380
Bonds and other notes payable	288,637,746
Unamortized bond premium due within one year	247,770
Unamortized bond premium	1,563,206
Accrued compensated absences	4,923,340
Accrued interest payable	<u>2,441,681</u>
 Subtotal	 323,457,123
 Less: accrued interest receivable	 (377,190)
Less: bond issuance costs net of accumulated amortization	 <u>(547,670)</u>
Net adjustment to increase total fund balances – total governmental funds to arrive at net assets of governmental activities	 <u>\$322,532,263</u>

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

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

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

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

1. “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.”

Capital outlay (net of Internal Service Fund amount of \$0)	\$	20,188,327
Less: depreciation expense (net of Internal Service Fund amount of \$407,564)		(4,425,468)
Plus: increase in investment in joint venture		287,400
Plus: increase in pension asset		<u>157,062</u>
 Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities		 <u>\$ 16,207,321</u>

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

Decrease in deferred revenue of taxes and assessments receivable (net)	\$	(191,901)
Increase in deferred revenue of emergency medical services receivable (net)		1,015,584
Decrease in deferred revenue of other revenues		(2,734)
Increase in deferred revenue of impact fees receivable		<u>(36,675)</u>
 Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities		 <u>\$ 784,274</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

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

3. “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.”

Principal repayments	\$ (23,749,079)
Amortization of issuance costs	46,698
Increase in issuance cost	(1,000)
Increase in debt (net)	72,395,032
Decrease in accrued interest payable	(2,545,725)
Increase in accrued compensated absences	239,383
Increase in accrued interest receivable	(95,599)
Increase in bond premium	982,737
Amortization of bond premium	<u>(202,273)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 47,070,174</u>

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

Change in net assets as of June 30, 2006 – Internal Service Fund	<u>\$ 89,798</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities	<u>\$ 89,798</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

C. PROPERTY TAXES

Property Taxes Receivable

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

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

As of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the County's vehicle taxes for vehicles registered in Durham County from March 2005 through February 2006 apply to the fiscal year ended June 30, 2006. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the 2006 - 2007 fiscal year and are not shown as receivables at June 30, 2006.

Interest On Unpaid Motor Vehicle Property Taxes

During fiscal year 2006, the North Carolina General Assembly enacted House Bill 1779 which provides for the creation of a combined motor vehicle registration renewal and property tax collection system. The Bill called for an increase in the first month's interest on uncollected property taxes on registered motor vehicles. This applied to all property tax levied on registered motor vehicles. The additional interest collected on behalf of the County was required to be remitted to the Department of State Treasurer and be used by the Division of Motor Vehicles to create a combined registration and collection system. Amounts collected by the County and disbursed to the Department of State Treasurer during the year ended June 30, 2006 were \$57,637 and \$43,500. In addition to the delinquent interest collections, there was interest earning in fiscal year 2006 in the amount of \$304.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

D. CAPITAL ASSETS

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 6,189,453	\$ -	\$ -	\$ 6,189,453
Construction in progress	58,149,944	17,897,452	-	76,047,396
Total nondepreciable capital assets	<u>64,339,397</u>	<u>17,897,452</u>	<u>-</u>	<u>82,236,849</u>
Depreciable capital assets:				
Buildings	147,014,478	-	-	147,014,478
Office furniture and equipment	433,137	-	-	433,137
Machinery and equipment	6,928,230	330,432	-	7,258,662
Computer hardware	2,369,963	7,920	-	2,377,883
Computer software	739,498	224,408	-	963,906
Vehicles	5,677,764	1,728,115	-	7,405,879
Total depreciable assets	<u>163,163,070</u>	<u>2,290,875</u>	<u>-</u>	<u>165,453,945</u>
Less accumulated depreciation for:				
Buildings	38,660,065	3,655,494	-	42,315,559
Office furniture and equipment	421,576	6,601	-	428,177
Machinery and equipment	5,438,009	520,529	-	5,958,538
Computer hardware	1,816,601	260,920	-	2,077,521
Computer software	533,420	154,376	-	687,796
Vehicles	5,172,835	235,112	-	5,407,947
Total accumulated depreciation	<u>52,042,506</u>	<u>4,833,032</u>	<u>-</u>	<u>56,875,538</u>
Total depreciable assets, net	<u>111,120,564</u>	<u>(2,542,157)</u>	<u>-</u>	<u>108,578,407</u>
Governmental activities capital assets, net	<u>\$ 175,459,961</u>	<u>\$ 15,355,295</u>	<u>\$ -</u>	<u>\$ 190,815,256</u>

During 2006, the County incurred \$13,078,262 of expenditures for construction on behalf of Durham Public Schools. The County does not include school construction in its construction in progress in the capital assets of governmental activities.

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

D. CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 2,534,077
Public safety	1,711,301
Environmental protection	13,212
Economic and physical development	15,878
Human services	459,308
Cultural and recreational	99,256
Total depreciation expense	<u><u>\$ 4,833,032</u></u>

Business-type Activities/Sewer Utility Fund:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 185,226	\$ -	\$ -	\$ 185,226
Construction in progress	31,860,843	2,396,562	-	34,257,405
Total nondepreciable capital assets	<u>32,046,069</u>	<u>2,396,562</u>	<u>-</u>	<u>34,442,631</u>
Depreciable capital assets:				
Land improvements - water and sewer lines	24,066,304	159,600	-	24,225,904
Buildings	4,103,344	-	-	4,103,344
Machinery and equipment	243,758	50,000	-	293,758
Vehicles	-	12,230	-	12,230
Total depreciable capital assets	<u>28,413,406</u>	<u>221,830</u>	<u>-</u>	<u>28,635,236</u>
Less accumulated depreciation for:				
Land improvements - water and sewer lines	7,898,394	476,253	-	8,374,647
Buildings	2,073,421	64,526	-	2,137,947
Machinery and equipment	149,457	21,844	-	171,301
Vehicles	-	408	-	408
Total accumulated depreciation	<u>10,121,272</u>	<u>563,031</u>	<u>-</u>	<u>10,684,303</u>
Total depreciable assets, net	<u>18,292,134</u>	<u>(341,201)</u>	<u>-</u>	<u>17,950,933</u>
Business-type activities capital assets, net	<u><u>\$ 50,338,203</u></u>	<u><u>\$ 2,055,361</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 52,393,564</u></u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

D. CAPITAL ASSETS (continued)

Capital assets activity for the ABC Board for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 1,249,559	\$ 371,698	\$ -	\$ 1,621,257
Total nondepreciable capital assets	<u>1,249,559</u>	<u>371,698</u>	<u>-</u>	<u>1,621,257</u>
Depreciable capital assets:				
Buildings and improvements	1,879,455	212,472	-	2,091,927
Leasehold improvements	613,865	9,856	-	623,721
Vehicles	61,048	-	-	61,048
Machinery and equipment	700,128	34,186	-	734,314
Law enforcement	123,696	20,261	(40,924)	103,033
Total depreciable capital assets	<u>3,378,192</u>	<u>276,775</u>	<u>(40,924)</u>	<u>3,614,043</u>
Less accumulated depreciation for:				
Buildings and improvements	696,107	55,991	-	752,098
Leasehold improvements	210,903	19,265	-	230,168
Vehicles	61,048	-	-	61,048
Machinery and equipment	576,723	45,153	-	621,876
Law enforcement	96,844	4,895	(40,924)	60,815
Total accumulated depreciation	<u>1,641,625</u>	<u>125,304</u>	<u>(40,924)</u>	<u>1,726,005</u>
Total depreciable capital assets, net	<u>1,736,567</u>	<u>151,471</u>	<u>-</u>	<u>1,888,038</u>
ABC Board capital assets, net	<u>\$ 2,986,126</u>	<u>\$ 523,169</u>	<u>\$ -</u>	<u>\$ 3,509,295</u>

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

E. LONG-TERM OBLIGATIONS

The following is a summary of transactions affecting the County's long-term obligations for the year ended June 30, 2006:

	Balance <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2006</u>	Amounts Due Within <u>One Year</u>
Governmental activities:					
General obligation bonds	\$215,664,108	\$ 60,605,000	\$16,387,119	\$259,881,989	\$ 17,716,721
Certificates of participation	24,560,000	-	2,235,000	22,325,000	2,340,000
Industrial utilities extension policy	1,458,890	895,735	404,291	1,950,334	701,868
Unamortized bond premium	1,030,512	982,737	202,273	1,810,976	247,770
Installment notes payable	23,807,269	10,842,453	4,687,814	29,961,908	4,879,813
Accrued compensated absences	4,683,957	3,981,580	3,742,197	4,923,340	3,570,362
Separation allowance	144,906	-	144,906	-	-
Other financing agreements	-	196,750	34,855	161,895	4,977
	<u>\$271,349,642</u>	<u>\$ 77,504,255</u>	<u>\$ 27,838,455</u>	<u>\$321,015,442</u>	<u>\$ 29,461,512</u>

	Balance <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2006</u>	Amounts Due Within <u>One Year</u>
Business-type activities:					
General obligation bonds	\$ 6,280,895	\$ -	\$ 502,880	\$ 5,778,015	\$ 498,280
Revenue bonds	23,245,000	-	1,310,000	21,935,000	1,355,000
Unamortized bond premium	763,559	-	33,834	729,725	33,834
Accrued compensated absences	26,077	10,752	13,356	23,473	16,683
	<u>\$ 30,315,531</u>	<u>\$ 10,752</u>	<u>\$ 1,860,070</u>	<u>\$ 28,466,213</u>	<u>\$ 1,903,797</u>

General obligation bonds

Durham County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds have been issued for both governmental and business-type activities, \$49,225,000 in governmental bonds were issued in fiscal year 2006.

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

Two-thirds (2/3s) bonds

Durham County issues 2/3s bonds to provide funds for the acquisition and construction of major capital facilities. 2/3s bonds are similar to general obligation bonds in that they also are direct obligations and pledge the full faith and credit of the government. 2/3s bonds have been issued for governmental and business-type activities, \$11,380,000 in governmental bonds were issued in fiscal year 2006.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

E. LONG-TERM OBLIGATIONS (continued)

General obligation bonds and revenue bonds outstanding at June 30, 2006 are as follows:

<u>Purpose:</u>	<u>Rates</u>	<u>Issued</u>	<u>Matures</u>	<u>Issue</u>	<u>2006</u>
<u>Governmental activities:</u>					
Public improvement, Series 2000 (2/3 Bonds)	5.40% to 5.60%	6/1/2000	5/11/2017	\$ 1,700,000	\$ 1,240,543
Refunding, Series 2001	4.25% to 5.50%	2/15/2001	4/1/2013	87,490,000	58,385,000
Public improvement, Series 2002A	3.25% to 4.75%	1/1/2002	3/1/2022	11,050,000	8,850,000
Refunding, Series 2002B	4.25% to 5.50%	1/1/2002	3/1/2022	33,567,112	14,091,446
Public improvement, Series 2002B	4.00% to 5.00%	5/1/2002	4/1/2022	68,410,000	62,910,000
Public improvement, Series 2004A (2/3 Bonds)	4.00% to 5.00%	5/1/2004	5/1/2023	10,600,000	10,200,000
Public improvement, Series 2004B	4.00% to 5.00%	5/1/2004	5/1/2023	46,600,000	43,600,000
Public improvement, Series 2006A (2/3 Bonds)	4.00% to 5.00%	5/1/2006	6/1/2023	11,380,000	11,380,000
Public improvement, Series 2006B	4.00% to 5.00%	5/1/2006	6/1/2023	49,225,000	49,225,000
Total governmental activities					\$ 259,881,989
<u>Business-type activities:</u>					
Public improvement, Series 2000 (2/3 Bonds)	5.40% to 5.60%	6/1/2000	5/11/2017	\$ 7,180,000	\$ 5,239,459
Refunding, Series 2002B	3.00% to 5.00%	1/1/2002	3/1/2010	1,282,887	538,556
Revenue bonds, Series 2003 - sewer plant expansion/improvements	3.00% to 4.75%	12/1/2002	6/11/2028	24,515,000	21,935,000
Total business-type activities					\$ 27,713,015
Total bonded indebtedness					\$ 287,595,004

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

E. LONG-TERM OBLIGATIONS (continued)

The annual requirements as of June 30, 2006 to amortize outstanding debt and funds available for draw under installment purchase contracts including interest payments exclusive of accrued compensated absences, the separation allowance and obligations under the industrial extensions policy are as follows:

Governmental activities:

Year ending June 30,	General Obligation Bonds		Certificates of Participation		Installment Note Payable		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 17,716,721	\$ 12,236,195	\$ 2,340,000	\$ 1,102,890	\$ 4,884,790	\$ 961,223	\$ -	\$ -	\$ 24,941,511	\$ 14,300,308
2008	17,570,585	11,388,226	2,460,000	985,890	4,694,207	819,076	-	-	24,724,792	13,193,192
2009	18,294,635	10,530,713	2,585,000	862,890	3,799,980	674,409	-	-	24,679,615	12,068,012
2010	18,010,811	9,622,218	2,705,000	740,103	2,379,089	578,581	-	-	23,094,900	10,940,902
2011	17,191,576	8,714,875	2,840,000	608,910	1,969,195	511,650	-	-	22,000,771	9,835,435
2012-2016	78,893,512	31,826,425	9,395,000	954,750	9,208,174	1,540,607	-	-	97,496,686	34,321,782
2017-2021	74,524,149	14,510,072	-	-	3,170,765	209,695	-	-	77,694,914	14,719,767
2022-2026	17,680,000	974,413	-	-	17,603	-	-	-	17,697,603	974,413
2027-2031	-	-	-	-	-	-	-	-	-	-
	<u>\$ 259,881,989</u>	<u>\$ 99,803,137</u>	<u>\$ 22,325,000</u>	<u>\$ 5,255,433</u>	<u>\$ 30,123,803</u>	<u>\$ 5,295,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,330,792</u>	<u>\$ 110,353,811</u>

Business-type activities:

Year ending June 30,	General Obligation Bonds		Certificates of Participation		Installment Note Payable		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 498,280	\$ 318,721	\$ -	\$ -	\$ -	\$ -	\$ 1,355,000	\$ 1,057,158	\$ 1,853,280	\$ 1,375,879
2008	494,414	292,189	-	-	-	-	1,425,000	989,408	1,919,414	1,281,597
2009	490,365	265,852	-	-	-	-	1,495,000	918,158	1,985,365	1,184,010
2010	349,192	239,716	-	-	-	-	1,570,000	843,408	1,919,192	1,083,124
2011	323,424	220,640	-	-	-	-	1,650,000	764,908	1,973,424	985,548
2012-2016	3,541,488	606,743	-	-	-	-	3,140,000	3,177,440	6,681,488	3,784,183
2017-2021	80,852	4,528	-	-	-	-	3,935,000	2,382,750	4,015,852	2,387,278
2022-2026	-	-	-	-	-	-	5,010,000	1,302,375	5,010,000	1,302,375
2027-2031	-	-	-	-	-	-	2,355,000	169,100	2,355,000	169,100
	<u>\$ 5,778,015</u>	<u>\$ 1,948,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,935,000</u>	<u>\$ 11,604,705</u>	<u>\$ 27,713,015</u>	<u>\$ 13,553,094</u>

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

E. LONG-TERM OBLIGATIONS (continued)

Industrial Extensions Policy

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

The annual requirements to amortize reimbursements payable under this policy at June 30, 2006 are as follows:

YEAR ENDING JUNE 30,	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 701,868	\$ 102,081	\$ -	\$ -	\$ 701,868	\$ 102,081
2008	397,305	27,695	-	-	397,305	27,695
2009	224,242	100,758	-	-	224,242	100,758
2010	168,654	31,346	-	-	168,654	31,346
2011	177,087	22,913	-	-	177,087	22,913
2012-2016	<u>281,178</u>	<u>18,821</u>	<u>-</u>	<u>-</u>	<u>281,178</u>	<u>18,821</u>
TOTAL	<u>\$ 1,950,334</u>	<u>\$ 303,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,950,334</u>	<u>\$ 303,614</u>

Interest requirements related to the Industrial Extensions Policy are nominal.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

E. LONG-TERM OBLIGATIONS (continued)

Revenue bonds

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

Interest requirements for the revenue bonds are also payable semi-annually at annual rates varying from 3.00% to 4.75%. These debt obligations are secured by a pledge of and lien upon, and payable solely from, the net receipts of the enterprise system and, in certain circumstances, by proceeds of the revenue bonds, investment earnings and certain net insurance and other proceeds. The revenue bonds are additionally secured by and payable from money and securities of certain funds, accounts and sub-accounts held by the trustee under the trust agreement and the first supplemental trust agreement. Sewer Utility Fund revenues are used to repay sewer utility long-term obligations. There were no revenue bonds issued in fiscal year 2006.

The County is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the County may have outstanding to eight percent (8%) of the appraised value of property subject to taxation less property valued for abatement. At June 30, 2006, such statutory limit for the County was \$1,702,457,275 providing a legal debt margin of \$1,436,797,272.

Interest rate swap

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

Fair value

As of June 30, 2006, the swap had a negative fair value totaling (\$2.20) million, estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

E. LONG-TERM OBLIGATIONS (continued)

<u>Associated Bond Issues</u>	(In Thousands)						
	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Variable Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Value</u>	<u>Counterparty Credit Rating</u>
Series 200, 2001, 2002 A&B and 2004 A&B				3.733% + BMA/ *	4.685% + 6-month	(\$2,199)	Aaa/AAA
General Obligation Bonds	\$125,810	7/30/04	3/1/23	Divisor	LIBOR		

* Divisor equals .065 from Effective Date - 3/1/09 and 0.604 thereafter

Risks

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

Credit risk. As of June 30, 2006, the County was not exposed to credit risk, or the risk of economic loss due to a counterparty default on its outstanding swap because the swap had a negative fair value. However, should the relationship between the tax-exempt and taxable interest rates change and the fair values of the swap become positive, the County would be exposed to credit risk in the amount of the derivative's fair value. Both County and the counterparty's payment obligations under the swap are guaranteed by Aaa/AAA rated Ambac Assurance Corporation.

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

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

The ABC Board's long-term debt was \$612,129 as of June 30, 2006.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

F. COMMITMENTS

1. Leases

The County leases office space and equipment rentals under operating leases. Total costs for such leases were \$656,801 for the year ended June 30, 2006. The future minimum rental payments due under the leases at June 30, 2006 are as follows:

YEAR ENDING JUNE 30,	COUNTY	ABC BOARD
2007	\$ 638,248	\$ 16,845
2008	306,103	-
2009	85,819	-
TOTAL	\$ 1,030,170	\$ 16,845

Leased Facilities

Pursuant to agreements executed between the County, the Hospital and Duke, effective July 1, 1998, the County began leasing its Hospital facilities to Duke under the terms of an operating lease expiring on June 30, 2018. The cost of leased facilities to the County was \$63,605,860, and the accumulated depreciation and carrying value as of June 30, 2006 were \$12,712,537 and \$50,893,323, respectively. Annual minimum lease payments to be remitted to the County for use of the facility are \$3,500,000. The County received an advance payment in the amount of \$23,500,000 representing the first ten annual lease payments discounted at 8%. These funds are accounted for in the Community Health Trust Fund. In addition, under the terms of the agreements, the County is to receive \$1,500,000 annually for the support of Emergency Medical Services previously provided by the Hospital and assumed by the County under the agreements. These funds are accounted for in the General Fund. In addition, Duke has agreed to remit \$2,100,000 to the Lincoln Community Health Center, formerly a component unit of the Hospital, for the provision of health services to the citizens of the County. The County has treated this agreement as an operating lease.

2. School Facilities

In May 2006, the Board of County Commissioners (BOCC) revised the approved Capital Improvement Plan (CIP) for fiscal years 2006 – 2015 that included school projects totaling \$291,974,185 funded through voter approved general obligation bond referendums in November 2001 and November 2003 in the amount of \$157,091,084 and miscellaneous revenue in the amount of \$3,353,131 and a request for a general obligation bond referendum in fiscal year 2010 in the amount of \$131,529,970. Four (4) school projects with a total combined budget of \$31,640,715 began construction and renovations. Total construction in progress for fiscal year 2006 for these projects was \$60,074,801 while total combined construction in progress since inception was \$71,694,566.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

F. COMMITMENTS (continued)

3. Construction

The total ten-year estimated and funded project costs of the CIP until June of 2015 is \$718,372,775. The plan continues to serve as a blueprint to meet the growing facility needs of the County. The funding sources for the CIP include: general obligation bonds, 2/3's general obligation bonds, certificates of participation (COPS)/special obligation bonds (SOBs), revenue bonds, county contributions, sewer utility contributions and other miscellaneous revenues.

The CIP allocated funding for fiscal year 2006 in the amount of \$80,159,401. Funds provided approximately \$11,225,450 for capital projects of general governmental activities, \$4,883,073 for public safety activities, \$8,360,400 for business-type activities, \$45,860,940 for education facilities, \$1,926,780 for cultural and recreation activities, \$3,550,000 for environmental protection, and \$4,352,758 for human service activities.

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

As part of the ten-year CIP for fiscal years 2006 – 2015, a general obligation bond referendum totaling \$123,665,000 was approved by Durham County citizens as a funding source. The referendum funded \$105,315,000 for school facilities, \$8,345,000 for community colleges, \$4,725,000 for library facilities, and \$5,280,000 for museum facilities. In April 2004, the County issued \$40,600,000 of the 2003 voter approved general obligation bonds and the remaining \$6,000,000 of the 2001 voter approved general obligation bonds. In May 2006, the County issued \$49,225,000 of the 2003 voter approved general obligation bonds.

In addition as part of the ten-year CIP for fiscal years 2006-2015, 2/3s bonds were issued in the amount of \$11,380,000 in May 2006 as a funding source.

4. Capital commitments

The County had commitments at June 30, 2006 of approximately \$2,949,971 for the expansion of the wastewater treatment plant and construction of sewer distribution systems.

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

F. COMMITMENTS (continued)

5. Other commitments

The County had commitments at June 30, 2006 of approximately \$383,380 for an equity investment in the Civic Center (see Note N).

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

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

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

G. INTERFUND BALANCES AND ACTIVITIES

The following is a schedule of interfund receivable and payable balances as of June 30, 2006:

Due to:		
General Fund from Agency Fund, City of Durham Tax Fund		
Amount due per interlocal agreement, city tax incentive	\$ 511,316	<u><u>511,316</u></u>
Due from:		
Agency Fund, City of Durham Tax Fund, to General Fund		
Amount due per interlocal agreement, city tax incentive	\$ 511,316	<u><u>511,316</u></u>

This due to/due from is because of an interlocal agreement, city tax incentive, between the County and the City of Durham, whereby the City will pay the County one sixth of all collections over 98%. As per the agreement, the amount owed is recorded as a due to/due from as of the fiscal year end and paid in the following fiscal year by the Agency Fund, City of Durham Tax Fund.

Transfers:

The following is a summary of transfers for the year ended June 30, 2006:

	Transfers In:			
Transfers out:	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
General fund	\$ -	\$ 3,329,530	\$ 34,743,075	\$ 38,072,605
Capital projects fund	-	-	736,299	736,299
Community health trust fund	3,534,454	-	-	3,534,454
Nonmajor governmental fund	1,119,570	-	-	1,119,570
Total transfers	\$ 4,654,024	\$ 3,329,530	\$ 35,479,374	\$ 43,462,928

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

G. INTERFUND BALANCES AND ACTIVITIES (continued)

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

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

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

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

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

1. North Carolina Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent (6%) of their annual covered salary. The County and the ABC Board are required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.88% and 4.78%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees is 4.93% and 4.78% of annual covered payroll. The contribution requirements of members and of Durham County and the ABC Board are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2006, 2005 and 2004 were \$3,192,245, \$3,186,701, and \$3,032,758, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2006, 2005, and 2004 were \$92,065, \$86,390, and \$86,490, respectively. The contributions made by the County and the ABC Board equaled the required contributions for each year.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)

2. Law Enforcement Officers' Special Separation Allowance

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

The Separation Allowance covers all full-time law enforcement officers of the County. At December 31, 2005, the Separation Allowance's membership consisted of:

Retirees receiving benefits	4
Active plan members	<u>162</u>
Total	<u><u>166</u></u>

Summary of Significant Accounting Policies:

Basis of Accounting. The County presents the Separation Allowance in the financial statements using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the County has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method used to Value Investments. Investments are reported at fair value. Short-term debt, deposits, repurchase agreements and the North Carolina Capital Management Trust investments are reported at cost or amortized cost, which approximates fair value.

Contributions. The County is required by Article 12D of NCGS Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the County contributed \$172,442 or 2.40% of annual covered payroll. There were no contributions made by employees.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)

The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings.

The annual required contribution for the fiscal year ended June 30, 2006 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 increase ranging from 5.9% to 9.8% per year. Item (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of December 31, 2004 was twenty-six years.

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

Annual required contribution	\$ 162,469
Interest on net pension asset	(10,506)
Adjustment to annual required contribution	<u>8,323</u>
Annual pension cost	160,286
Contributions made	<u>(172,442)</u>
Increase in net pension asset	(12,156)
Net pension asset, beginning of year	<u>(144,906)</u>
Net pension asset, end of year	<u><u>\$ (157,062)</u></u>

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost ("APC")</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
June 30, 2006	\$ 160,286	107.58%	\$ (157,062)
June 30, 2005	136,880	116.58%	(144,906)
June 30, 2004	126,846	111.16%	(122,217)

3. Supplemental Retirement Income Plan for Law Enforcement Officers

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)

Funding Policy. Article 12 E of NCGS Chapter 143 requires the County to contribute each month an amount equal to five percent (5%) of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2006 were \$514,928, which consisted of \$356,465 from the County and \$158,463 from the law enforcement officers. The ABC Board also contributes to the Supplemental Retirement Income Plan. The ABC Board's contributions to the Plan for the year ended June 30, 2006 totaled \$13,243, which consisted of \$6,428 from the ABC Board and \$6,815 from the law enforcement officers employed by the ABC Board. The County and the ABC Board's required contributions and the officers' voluntary contributions represented 5% and 2.21%, and 5% and 5%, respectively, of the covered payroll.

4. Registers of Deeds' Supplemental Pension Fund

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

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to 4.5% of the monthly receipts collected pursuant to Article 1 of NCGS 161. Immediately following January 1 of each year, the Department of State Treasurer divides 93% of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining 7% of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2006, the County's required and actual contributions were \$78,305.

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

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

Funding Policy. The County's contributions were calculated using a covered payroll amount of \$58,381,141. The County's total payroll was \$66,806,079. Total contributions for the year ended June 30, 2006 were \$4,537,870, which consisted of \$2,899,020 from the County and \$1,638,850 from the non-law enforcement personnel. The County's required contribution and the non-law enforcement personnel's voluntary contribution represented 7.77% of the covered payroll amount.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

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

In addition to providing pension benefits, the County has elected to provide health benefits to retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (the "System") and have at least twenty years of creditable service with the County. The County pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the County's group rates. Currently, 309 retirees are eligible for health benefits. For the fiscal year ended June 30, 2006, the County made payments of \$845,117 for health benefits. The County obtains health care coverage through private insurers.

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

All death benefit payments are made from the Death Trust Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Trust Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2006, the County made contributions to the State for death benefits of \$56,764. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.08% and 0.14% of covered payroll, respectively. The contributions to the Death Trust Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The net assets of the Death Trust Plan are not available for future benefit payments but will be used to reduce future contribution requirements.

J. RISK MANAGEMENT

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

Health and Dental Benefits – The County has a fully-insured health benefit plan. However, the County is self-insured for dental benefits. The County reports claims expenditures and liabilities in the General Fund. During fiscal year 2006, a total of \$874,651 was incurred for dental benefits and administrative costs.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

J. RISK MANAGEMENT (continued)

Workers' Compensation – The County maintains a limited risk, self-insurance program to provide workers' compensation benefits to County employees. Premiums for Workers' Compensation are paid by other funds of the County and are available to pay claims of the program. A total of \$941,603 was incurred for benefits during the fiscal year 2006.

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

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

K. LITIGATION

The County follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or estimable in amount. Management estimates that potential liabilities resulting from litigation would not have a material adverse effect on the financial position of the County at June 30, 2006.

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DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

L. JOINTLY GOVERNED ORGANIZATIONS

Special Airport District of Durham and Wake Counties

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

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

Triangle J Council of Governments

Durham County, in conjunction with five other counties and thirty municipalities, established the Triangle J Council of Governments (“Council”). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council’s governing board. The County paid membership fees of \$59,391 to the Council during the fiscal year ended June 30, 2006. There is no on-going financial interest or responsibility by the County.

Triangle Transit Authority

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

M. JOINT VENTURES WITHOUT EQUITY INTEREST

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

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

M. JOINT VENTURES WITHOUT EQUITY INTEREST (continued)

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

The following is a summary of certain unaudited financial information of the District for the year ended June 30, 2006:

Total assets	\$ 1,263,363
Total liabilities	<u>(23,812)</u>
Total equity	<u><u>\$ 1,239,551</u></u>
Total revenues	\$ 777,939
Total expenditures	<u>(426,763)</u>
Increase in fund balance	<u><u>\$ 351,176</u></u>

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

Raleigh-Durham Airport Authority

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

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

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

M. JOINT VENTURES WITHOUT EQUITY INTEREST (continued)

Durham Technical Community College

Durham County provides funds to Durham Technical Community College, primarily for capital improvement and maintenance of facilities. In accordance with State law, the County appoints four of the thirteen Board of Trustee members. The County does not designate management or significantly influence operations, and the College is not accountable to the County for its fiscal matters beyond the County's appropriation to the College. The County's fiscal year 2006 appropriation of approximately \$3.761 million to the College represents approximately 17.00% of its total non-operating revenues and approximately 40.54% of its capital outlay revenues, with the majority of funding being provided by the State of North Carolina Department of Community Colleges, of which the College is a part. The County does not have an equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements at June 30, 2006. Complete financial statements for the College may be obtained at their administrative offices at 1637 Lawson Street, Durham, North Carolina 27703.

N. JOINT VENTURES WITH EQUITY INTEREST

Durham Convention and Visitors Bureau

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

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

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

At June 30, 2006, the County recorded an equity interest in the Bureau of \$788,100 which is included in the investment in joint venture in the statement of net assets. Complete financial statements may be obtained at the administrative offices at 101 East Morgan Street, Durham, North Carolina 27701.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

N. JOINT VENTURES WITH EQUITY INTEREST (continued)

Durham Civic Center Authority

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

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

On October 9, 1987, the County and City of Durham entered into agreements with a private developer to purchase an eighty-two thousand (82,000) square foot Civic Center. The County and City initially deposited \$17,300,000 (\$3,000,000 by the County and \$14,300,000 by the City) in escrow which together with interest earned was used to purchase the facility. At June 30, 2006, the County owned 50.00% equity in the Civic Center by the initial deposit of \$3,000,000, additional equity purchases of \$7,705,797 during prior fiscal years, and \$383,380 during the current fiscal year. As of June 30, 2006, the County has attained 50% equity interest in the Civic Center per the agreement, and therefore, no additional amounts are due. The County has fulfilled its agreement.

In January 2004, the City of Durham refunded debt that included the Civic Center Authority’s long-term debt. Therefore, the Civic Center Authority’s long-term debt consists of \$1,110,123 in general obligation bonds issued by the City of Durham, maturing in varying installments from 1997 to 2008 with interest at 2.00% to 4.00%. The debt is being serviced from property tax revenues of the City and amounts for additional equity purchases made by the County. The County’s net investment in the Authority is reported in the investment in joint venture in the statement of net assets. At June 30, 2006, the County’s equity interest in the Authority was \$7,651,428.

The County also shares with the City in funding all costs arising out of the management, operation, maintenance and repair of the Civic Center. In 2006, the amount funded by the County was approximately \$512,189. Complete financial statements for the Authority may be obtained from the City of Durham’s administrative offices at 101 City Hall Plaza, Durham, North Carolina 27701.

The total investment in joint venture for Durham County recorded in the statement of net assets for governmental activities for the above two ventures at June 30, 2006 is \$8,439,528.

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

O. BENEFIT PAYMENTS ISSUED BY FEDERAL AND STATE

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

	Federal	State
Medicaid Title XIX	\$ 130,876,231	\$ 63,318,787
Food Stamps	25,230,791	-
Temporary Assistance for Needy Families	2,406,968	-
Special Assistance to Adults	-	2,092,565
Title IV-E Adoption Assistance	400,493	-
Total Direct Federal and State Awards	\$ 158,914,483	\$ 65,411,352

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

	Federal	State
U.S. Department of Agriculture	\$ 1,619,326	\$ -
U.S. Department of Justice	673,821	-
Institute for Museum and Library Services	25,000	-
U.S. Department of Education	25,888	-
U.S. Department of Homeland Security	882,514	-
N.C. Department of Health and Human Services	25,111,335	22,517,972
Other State Programs	-	4,247,184
Total Indirect Federal and State Awards	\$ 28,337,884	\$ 26,765,156
Total Federal and State Awards	\$ 187,252,367	\$ 92,176,508

DURHAM COUNTY, NORTH CAROLINA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

P. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2006, the expenditures made in the County's Special Park District Special Revenue Fund exceeded the authorized appropriations made by the governing board by \$551. These expenditures are for economic and physical development for the Special Park District and are distributed based on collections of special district taxes during the year including collections in advance (prepaid taxes). Collections were more than anticipated and budgeted, therefore, more was remitted than appropriated. Beginning fiscal year 2007, an assessment of appropriations and expenditures will be performed near year end for the Special Park District Special Revenue Fund as well as all other special tax district special revenue funds, and, if necessary, appropriations will be amended accordingly with BOCC approval or remittances will be limited to the appropriation amount.

Q. SUBSEQUENT EVENTS

The BOCC approved the charging of impact fees on September 8, 2003. At that time, a special revenue fund was created, School Impact Fees Fund, to account for funds set aside to be expended for future school construction and renovations as a result of community growth. However, a suit was filed by Durham Land Owners Association on November 7, 2003. Until a final ruling, a decision was made by the County not to expend the impact fees received. A judgment was entered on January 25, 2005 in favor of the Durham Land Owners Association. On July 13, 2006, Durham County was ordered to pay fees collected to date and on July 13, 2006 remitted the amount of \$8,326,410 from the special revenue fund. The School Impact Fees Fund will be closed accordingly in fiscal year 2007.

REQUIRED SUPPLEMENTARY INFORMATION

DURHAM COUNTY, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability ("AAL") Project Unit Credit (B)	Unfunded AAL ("UAAL") (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a percentage of Covered payroll [(B-A)/C]
December 31, 2000	\$ 520,958	\$ 1,042,099	\$ 521,141	49.99%	\$ 4,896,539	10.64%
December 31, 2001	547,161	1,171,475	624,314	46.71%	5,359,280	11.65%
December 31, 2002	613,960	1,290,640	676,680	47.57%	5,518,875	12.26%
December 31, 2003	678,858	1,388,785	709,927	48.88%	5,901,669	12.03%
December 31, 2004	771,369	1,619,670	848,301	47.63%	6,644,935	12.77%
December 31, 2005	917,145	1,584,272	667,127	57.89%	7,001,821	9.53%

DURHAM COUNTY, NORTH CAROLINA

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

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2001	\$ 55,332	123.97%
2002	102,261	108.22%
2003	119,569	104.78%
2004	128,752	109.52%
2005	138,885	114.89%
2006	162,469	106.14%

DURHAM COUNTY, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance Notes to Required Schedules

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

Valuation date	December 31, 2005
Actuarial cost method	Project unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	25 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases	4.5% to 12.3%
*Includes inflation at:	3.75%
Cost of living adjustments	None

MAJOR GOVERNMENTAL FUND

Capital Projects Fund – accounts for financial resources to be used for the acquisition, construction or improvement of major capital facilities other than those financed by proprietary funds.

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Expenditures Compared with Project Authorizations
Capital Projects Fund
From Project Inception and for the Fiscal Years Ended June 30, 2006**

PROJECT	EXPENDITURES		SPENT TO DATE	REMAINING COMMITMENT
	CURRENT YEAR	PRIOR YEARS		
Parks and Recreation Facilities	\$ -	\$ 1,112,899	\$ 1,112,899	\$ 19,649
Durham Public School Projects	13,078,262	258,197,790	271,276,052	15,381,438
Community Development Projects	-	1,975,155	1,975,155	24,845
Public Transportation Project	-	648,553	648,553	-
Clean Air Act	-	744,255	744,255	24,745
DSS - HVAC Controls	-	360,373	360,373	17,419
GIS	-	2,971,546	2,971,546	28,454
DTCC Network Wiring	-	358,999	358,999	1
Acq/Renovation of Carmichael Building	-	1,076,159	1,076,159	66,564
Whitted Renovation	-	243,298	243,298	36,702
Register of Deeds Automation	1,518	1,202,672	1,204,190	6,254
CVB Lease	-	454,276	454,276	190,724
AS400 System Upgrade	-	682,687	682,687	97
IS Warrant Control	-	246,921	246,921	1
Countywide Area Network	-	63,933	63,933	267
IT Year 2000 Compliance	-	501,728	501,728	13
Emergency Generator	-	133,904	133,904	-
Library Government Information System	-	373,776	373,776	1,224
Memorial Stadium	-	155,223	155,223	7,352
General Capital Maintenance	-	37,225	37,225	22,775
Judicial Building Roof Replacement	-	222,259	222,259	3,325
Space & Facilities Master Plan	-	148,751	148,751	(1)
Data General Upgrade	-	331,225	331,225	-
EMS Computer Technology	-	180,650	180,650	-
COPS MORE Technology	-	1,251,358	1,251,358	33,241
Museum Of Life & Science	-	300,000	300,000	-
Little River Land Acquisition	-	647,751	647,751	174,675
Homeless Shelter Renovation	-	1,904,644	1,904,644	78,251
Library Roof Replacement	-	265,702	265,702	29,848
DTCC Roof Replacement	-	356,979	356,979	379
Social Services Roof Replacement	-	60,941	60,941	5,059
Lebanon Building	-	901,743	901,743	105
Eligibility Building	-	16,580	16,580	3,420
Justice Center	5,146,902	318,243	5,465,145	7,356,310
MIS ES9000/AS400 Improvements	-	35,761	35,761	15
AMS System Upgrade	-	183,179	183,179	(1)
Judicial Building Renovation	-	41,829	41,829	590,043
DTCC Skill Development Center	-	126,000	126,000	-
Judicial Building Annex	-	2,611,156	2,611,156	549
Animal Shelter Renovation	114,039	1,072,140	1,186,179	15,592
Cooperative Extension Renovation	58,123	752,587	810,710	12,841
NCML & Bioquest	3,544,367	6,671,422	10,215,789	754,211
Human Services Automation	-	116,507	116,507	133,493
EMS Relocation Linc	285,023	216,413	501,436	991,814
Human Services Complex	1,003,082	581,388	1,584,470	3,811,042
Senior Center	2,352,345	3,068,351	5,420,696	239,865
North Durham Library	2,440,750	2,110,944	4,551,694	1,379,393
Stanford Warren Library	987,953	594,692	1,582,645	396,205
Southwest Branch Library	-	593,088	593,088	6,912
South Regional Library	260,304	1,027,951	1,288,255	4,399,007
East Regional Library	2,331,525	3,271,875	5,603,400	1,105,509
American Tobacco Garage Parking	-	14,268,099	14,268,099	233,901
Scattered Site Housing Program	-	400,000	400,000	-
County Computer Repl Project	764,663	2,279,229	3,043,892	4,067,608
Head Start YMCA Building	181,250	743,102	924,352	187,898
County ERP Software Project	11,580	3,117,812	3,129,392	335,608
DTCC Student Services Building	1,857,872	877,911	2,735,783	264,217
Crim Justice Resource Center	4,450	474,909	479,359	22,587
Open Space/Farmland Preservation	7,750	555,144	562,894	558,106
DTCC Campus Improvements	959,714	-	959,714	240,286
Telecommunications System Upgrade	1,322,769	-	1,322,769	87,231
New Hope/Duke Land Acquisition	500,000	-	500,000	-
Detention Center Project	73,278	-	73,278	126,722
Fingerprinting Area Project	43,097	-	43,097	6,903
Animal Shelter Building Office Project	6,946	-	6,946	78,054
BOCC Chamber Upgrade	103	-	103	119,897
	<u>\$ 37,337,665</u>	<u>\$ 324,239,687</u>	<u>\$ 361,577,352</u>	<u>\$ 43,678,644</u>

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

FIDUCIARY FUNDS

Private-purpose Trust Funds

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

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

DURHAM COUNTY, NORTH CAROLINA

**Combining Statement of Net Assets
Private-purpose Trust Funds
June 30, 2006**

	George R. Linder Memorial Private-purpose Trust Fund	Vic Pearson EMS Memorial Private-purpose Trust Fund	Total Private-purpose Trust Funds
Assets			
Cash and cash equivalents	\$ 5,176	\$ 8,789	\$ 13,965
Total assets	<u>5,176</u>	<u>8,789</u>	<u>13,965</u>
Net assets			
Held in trust for:			
Individuals, organizations, and other governments	5,176	8,789	13,965
Total net assets	<u>\$ 5,176</u>	<u>\$ 8,789</u>	<u>\$ 13,965</u>

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

DURHAM COUNTY, NORTH CAROLINA

**Combining Statement of Changes in Net Assets
Private-purpose Trust Funds
Year Ended June 30, 2006**

	George R. Linder Memorial Private-purpose Trust Fund	Vic Pearson EMS Memorial Private-purpose Trust Fund	Total Private-purpose Trust Funds
Additions			
Employee contributions	\$ -	\$ 2,013	\$ 2,013
Investment income	231	5	236
Total additions	<u>231</u>	<u>2,018</u>	<u>2,249</u>
Deductions			
Benefits	-	2,700	2,700
Total deductions	<u>-</u>	<u>2,700</u>	<u>2,700</u>
Change in net assets	231	(682)	(451)
Total net assets - beginning	<u>4,945</u>	<u>9,471</u>	<u>14,416</u>
Total net assets - ending	<u>\$ 5,176</u>	<u>\$ 8,789</u>	<u>\$ 13,965</u>

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

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

Special Park District Fund – to account for the proceeds of special district taxes for maintenance and beautification of the Research Triangle Park. Payments of the amounts appropriated are made on a monthly basis during the fiscal year.

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

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

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

Debt Service Fund

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

DURHAM COUNTY, NORTH CAROLINA

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents / investments	\$ 10,383,536	\$ 540,293	\$ 10,923,829
Accounts receivable	105,778	-	105,778
Net taxes receivable	76,228	-	76,228
Net impact fees receivable	31,325	-	31,325
Due from other governments - federal and state agencies	44,361	-	44,361
Due from other governments - local	697,821	-	697,821
Total assets	\$ 11,339,049	\$ 540,293	\$ 11,879,342
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 174,362	\$ -	\$ 174,362
Arbitrage rebate payable	-	27,000	27,000
Due to other governments - local	-	457,452	457,452
Collections in advance	33,439	-	33,439
Deferred revenues:			
Taxes	76,228	-	76,228
Impact fees	31,325	-	31,325
Total liabilities	315,354	484,452	799,806
Fund balances:			
Reserved:			
State statute	847,960	-	847,960
Other purposes	33,439	-	33,439
Unreserved	10,142,296	55,841	10,198,137
Total fund balances	11,023,695	55,841	11,079,536
Total liabilities and fund balances	\$ 11,339,049	\$ 540,293	\$ 11,879,342

DURHAM COUNTY, NORTH CAROLINA

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006**

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ 4,312,002	\$ -	\$ 4,312,002
Licenses and permits	4,576,010	-	4,576,010
Investments and rental income	410,616	119,366	529,982
Charges for services	1,653,560	254,526	1,908,086
Total revenues	<u>10,952,188</u>	<u>373,892</u>	<u>11,326,080</u>
Expenditures			
Current:			
General government	43,925	-	43,925
Public safety	6,243,232	-	6,243,232
Economic and physical development	313,264	-	313,264
Debt service:			
Principal retirement	-	23,163,537	23,163,537
Interest and fiscal charges	-	12,771,432	12,771,432
Total expenditures	<u>6,600,421</u>	<u>35,934,969</u>	<u>42,535,390</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,351,767</u>	<u>(35,561,077)</u>	<u>(31,209,310)</u>
Other financing sources (uses)			
Transfers in	-	35,479,374	35,479,374
Transfers out	(1,119,570)	-	(1,119,570)
Total other financing sources (uses)	<u>(1,119,570)</u>	<u>35,479,374</u>	<u>34,359,804</u>
Net change in fund balances	3,232,197	(81,703)	3,150,494
Fund balance - beginning	<u>7,791,498</u>	<u>137,544</u>	<u>7,929,042</u>
Fund balance - ending	<u>\$ 11,023,695</u>	<u>\$ 55,841</u>	<u>\$ 11,079,536</u>

DURHAM COUNTY, NORTH CAROLINA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2006

	FIRE TAX DISTRICTS				
	Bethesda	Lebanon	Parkwood	Redwood	New Hope
Assets					
Cash and cash equivalents / investments	\$ 88,727	\$ 202,483	\$ 51,014	\$ 39,613	\$ 9,118
Accounts receivable	-	-	-	-	-
Net taxes receivable	15,086	16,257	8,615	26,620	779
Net impact fees receivable	-	-	-	-	-
Due from other governments - federal and state agencies	-	-	-	-	-
Due from other governments - local	-	-	-	-	-
Total assets	\$ 103,813	\$ 218,740	\$ 59,629	\$ 66,233	\$ 9,897
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Collections in advance	4,020	4,884	13,158	5,647	58
Taxes and assessments	15,086	16,257	8,615	26,620	779
Impact fees	-	-	-	-	-
Total liabilities	19,106	21,141	21,773	32,267	837
Fund balances:					
Reserved:					
State statute	-	-	-	-	-
Other purposes	4,020	4,884	13,158	5,647	58
Unreserved	80,687	192,715	24,698	28,319	9,002
Total fund balances	84,707	197,599	37,856	33,966	9,060
Total liabilities and fund balances	\$ 103,813	\$ 218,740	\$ 59,629	\$ 66,233	\$ 9,897

<u>Eno</u>	<u>Bahama</u>	<u>Butner Safety District Fund</u>	<u>Special Park District Fund</u>	<u>Emergency Services Fund</u>	<u>Reappraisal Reserve Fund</u>	<u>School Impact Fees Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 20,533	\$ 264,412	\$ 3,867	\$ 3,374	\$ 765,778	\$ 277,243	\$ 8,657,374	\$ 10,383,536
-	-	-	-	105,778	-	-	105,778
71	8,075	311	414	-	-	-	76,228
-	-	-	-	-	-	31,325	31,325
-	-	-	-	43,368	993	-	44,361
-	-	-	-	697,821	-	-	697,821
<u>\$ 20,604</u>	<u>\$ 272,487</u>	<u>\$ 4,178</u>	<u>\$ 3,788</u>	<u>\$ 1,612,745</u>	<u>\$ 278,236</u>	<u>\$ 8,688,699</u>	<u>\$ 11,339,049</u>
\$ -	\$ 160,000	\$ -	\$ 556	\$ -	\$ 13,806	\$ -	\$ 174,362
172	4,406	20	1,074	-	-	-	33,439
71	8,075	311	414	-	-	-	76,228
-	-	-	-	-	-	31,325	31,325
<u>243</u>	<u>172,481</u>	<u>331</u>	<u>2,044</u>	<u>-</u>	<u>13,806</u>	<u>31,325</u>	<u>315,354</u>
-	-	-	-	846,967	993	-	847,960
172	4,406	20	1,074	-	-	-	33,439
<u>20,189</u>	<u>95,600</u>	<u>3,827</u>	<u>670</u>	<u>765,778</u>	<u>263,437</u>	<u>8,657,374</u>	<u>10,142,296</u>
<u>20,361</u>	<u>100,006</u>	<u>3,847</u>	<u>1,744</u>	<u>1,612,745</u>	<u>264,430</u>	<u>8,657,374</u>	<u>11,023,695</u>
<u>\$ 20,604</u>	<u>\$ 272,487</u>	<u>\$ 4,178</u>	<u>\$ 3,788</u>	<u>\$ 1,612,745</u>	<u>\$ 278,236</u>	<u>\$ 8,688,699</u>	<u>\$ 11,339,049</u>

DURHAM COUNTY, NORTH CAROLINA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2006

	FIRE TAX DISTRICTS				
	Bethesda	Lebanon	Parkwood	Redwood	New Hope
Revenues					
Taxes	\$ 1,006,345	\$ 715,133	\$ 1,127,878	\$ 579,636	\$ 39,057
Licenses and permits	-	-	-	-	-
Investments and rental income	10,416	19,557	(2,350)	4,895	1,087
Charges for services	-	-	-	-	-
Total revenues	<u>1,016,761</u>	<u>734,690</u>	<u>1,125,528</u>	<u>584,531</u>	<u>40,144</u>
Expenditures					
Current:					
General government	-	-	-	-	-
Public safety	449,705	400,000	1,125,434	499,574	36,443
Economic and physical development	-	-	-	-	-
Total expenditures	<u>449,705</u>	<u>400,000</u>	<u>1,125,434</u>	<u>499,574</u>	<u>36,443</u>
Excess (deficiency) of revenues over (under) expenditures	<u>567,056</u>	<u>334,690</u>	<u>94</u>	<u>84,957</u>	<u>3,701</u>
Other financing sources (uses)					
Transfers out	(688,003)	(327,245)	-	(104,322)	-
Total other financing sources (uses)	<u>(688,003)</u>	<u>(327,245)</u>	<u>-</u>	<u>(104,322)</u>	<u>-</u>
Net change in fund balances	(120,947)	7,445	94	(19,365)	3,701
Fund balance - beginning	<u>205,654</u>	<u>190,154</u>	<u>37,762</u>	<u>53,331</u>	<u>5,359</u>
Fund balance - ending	<u>\$ 84,707</u>	<u>\$ 197,599</u>	<u>\$ 37,856</u>	<u>\$ 33,966</u>	<u>\$ 9,060</u>

<u>Eno</u>	<u>Bahama</u>	<u>Butner Safety District Fund</u>	<u>Special Park District Fund</u>	<u>Emergency Services Fund</u>	<u>Reappraisal Reserve Fund</u>	<u>School Impact Fees Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 16,178	\$ 499,925	\$ 15,022	\$ 312,828	\$ -	\$ -	\$ -	\$ 4,312,002
-	-	-	-	-	-	4,576,010	4,576,010
630	15,742	179	1,145	45,294	13,414	300,607	410,616
-	-	-	-	1,653,560	-	-	1,653,560
<u>16,808</u>	<u>515,667</u>	<u>15,201</u>	<u>313,973</u>	<u>1,698,854</u>	<u>13,414</u>	<u>4,876,617</u>	<u>10,952,188</u>
-	-	-	-	-	43,925	-	43,925
-	613,461	11,450	-	3,107,165	-	-	6,243,232
-	-	-	313,264	-	-	-	313,264
-	<u>613,461</u>	<u>11,450</u>	<u>313,264</u>	<u>3,107,165</u>	<u>43,925</u>	-	<u>6,600,421</u>
<u>16,808</u>	<u>(97,794)</u>	<u>3,751</u>	<u>709</u>	<u>(1,408,311)</u>	<u>(30,511)</u>	<u>4,876,617</u>	<u>4,351,767</u>
-	-	-	-	-	-	-	(1,119,570)
-	-	-	-	-	-	-	(1,119,570)
16,808	(97,794)	3,751	709	(1,408,311)	(30,511)	4,876,617	3,232,197
3,553	197,800	96	1,035	3,021,056	294,941	3,780,757	7,791,498
<u>\$ 20,361</u>	<u>\$ 100,006</u>	<u>\$ 3,847</u>	<u>\$ 1,744</u>	<u>\$ 1,612,745</u>	<u>\$ 264,430</u>	<u>\$ 8,657,374</u>	<u>\$ 11,023,695</u>

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Bethesda Fire Tax District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 976,254	\$ 976,254	\$ 1,006,345	\$ 30,091
Investments and rental income	-	-	10,416	10,416
Total revenues	<u>976,254</u>	<u>976,254</u>	<u>1,016,761</u>	<u>40,507</u>
Expenditures				
Public safety	683,705	449,705	449,705	-
Total expenditures	<u>683,705</u>	<u>449,705</u>	<u>449,705</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>292,549</u>	<u>526,549</u>	<u>567,056</u>	<u>40,507</u>
Other financing sources (uses)				
Transfers out	(552,549)	(786,549)	(688,003)	98,546
Appropriated fund balance	260,000	260,000	-	(260,000)
Total other financing sources (uses)	<u>(292,549)</u>	<u>(526,549)</u>	<u>(688,003)</u>	<u>(161,454)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(120,947)	<u>\$ (120,947)</u>
Fund balance - beginning			<u>205,654</u>	
Fund balance - ending			<u>\$ 84,707</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Lebanon Fire Tax District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 689,218	\$ 689,218	\$ 715,133	\$ 25,915
Investments and rental income	-	-	19,557	19,557
Total revenues	<u>689,218</u>	<u>689,218</u>	<u>734,690</u>	<u>45,472</u>
Expenditures				
Public safety	539,426	429,303	400,000	29,303
Total expenditures	<u>539,426</u>	<u>429,303</u>	<u>400,000</u>	<u>29,303</u>
Excess (deficiency) of revenues over (under) expenditures	<u>149,792</u>	<u>259,915</u>	<u>334,690</u>	<u>74,775</u>
Other financing sources (uses)				
Transfers out	(296,780)	(406,903)	(327,245)	79,658
Appropriated fund balance	146,988	146,988	-	(146,988)
Total other financing sources (uses)	<u>(149,792)</u>	<u>(259,915)</u>	<u>(327,245)</u>	<u>(67,330)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	7,445	<u>\$ 7,445</u>
Fund balance - beginning			<u>190,154</u>	
Fund balance - ending			<u>\$ 197,599</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Parkwood Fire Tax District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 1,090,224	\$ 1,090,224	\$ 1,127,878	\$ 37,654
Investments and rental income	-	-	(2,350)	(2,350)
Total revenues	<u>1,090,224</u>	<u>1,090,224</u>	<u>1,125,528</u>	<u>35,304</u>
Expenditures				
Public safety	1,132,004	1,132,004	1,125,434	6,570
Total expenditures	<u>1,132,004</u>	<u>1,132,004</u>	<u>1,125,434</u>	<u>6,570</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(41,780)</u>	<u>(41,780)</u>	<u>94</u>	<u>41,874</u>
Other financing sources (uses)				
Appropriated fund balance	41,780	41,780	-	(41,780)
Total other financing sources (uses)	<u>41,780</u>	<u>41,780</u>	<u>-</u>	<u>(41,780)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>94</u>	<u>\$ 94</u>
Fund balance - beginning			<u>37,762</u>	
Fund balance - ending			<u>\$ 37,856</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Redwood Fire Tax District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 557,729	\$ 557,729	\$ 579,636	\$ 21,907
Investments and rental income	-	-	4,895	4,895
Total revenues	<u>557,729</u>	<u>557,729</u>	<u>584,531</u>	<u>26,802</u>
Expenditures				
Public safety	492,574	499,574	499,574	-
Total expenditures	<u>492,574</u>	<u>499,574</u>	<u>499,574</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>65,155</u>	<u>58,155</u>	<u>84,957</u>	<u>26,802</u>
Other financing sources (uses)				
Transfers out	(112,426)	(112,426)	(104,322)	8,104
Appropriated fund balance	47,271	54,271	-	(54,271)
Total other financing sources (uses)	<u>(65,155)</u>	<u>(58,155)</u>	<u>(104,322)</u>	<u>(46,167)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(19,365)	<u>\$ (19,365)</u>
Fund balance - beginning			<u>53,331</u>	
Fund balance - ending			<u>\$ 33,966</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- New Hope Fire Tax District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 36,443	\$ 36,443	\$ 39,057	\$ 2,614
Investments and rental income	-	-	1,087	1,087
Total revenues	<u>36,443</u>	<u>36,443</u>	<u>40,144</u>	<u>3,701</u>
Expenditures				
Public safety	36,443	36,443	36,443	-
Total expenditures	<u>36,443</u>	<u>36,443</u>	<u>36,443</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>3,701</u>	<u>3,701</u>
 Net change in fund balances	 <u>\$ -</u>	 <u>\$ -</u>	 3,701	 <u>\$ 3,701</u>
 Fund balance - beginning			 <u>5,359</u>	
 Fund balance - ending			 <u>\$ 9,060</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Eno Fire Tax District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 15,716	\$ 15,716	\$ 16,178	\$ 462
Investments and rental income	-	-	630	630
Total revenues	<u>15,716</u>	<u>15,716</u>	<u>16,808</u>	<u>1,092</u>
Expenditures				
Public safety	15,716	15,716	-	15,716
Total expenditures	<u>15,716</u>	<u>15,716</u>	<u>-</u>	<u>15,716</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>16,808</u>	<u>16,808</u>
 Net change in fund balances	 <u>\$ -</u>	 <u>\$ -</u>	 16,808	 <u>\$ 16,808</u>
 Fund balance - beginning			 <u>3,553</u>	
 Fund balance - ending			 <u>\$ 20,361</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Bahama Fire Tax District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 453,461	\$ 613,461	\$ 499,925	\$ (113,536)
Investments and rental income	-	-	15,742	15,742
Total revenues	<u>453,461</u>	<u>613,461</u>	<u>515,667</u>	<u>(97,794)</u>
Expenditures				
Public safety	453,461	613,461	613,461	-
Total expenditures	<u>453,461</u>	<u>613,461</u>	<u>613,461</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(97,794)</u>	<u>(97,794)</u>
 Net change in fund balances	 <u>\$ -</u>	 <u>\$ -</u>	 (97,794)	 <u>\$ (97,794)</u>
 Fund balance - beginning			 <u>197,800</u>	
 Fund balance - ending			 <u>\$ 100,006</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Butner Safety District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 11,450	\$ 11,450	\$ 15,022	\$ 3,572
Investments and rental income	-	-	179	179
Total revenues	<u>11,450</u>	<u>11,450</u>	<u>15,201</u>	<u>3,751</u>
Expenditures				
Public safety	11,450	11,450	11,450	-
Total expenditures	<u>11,450</u>	<u>11,450</u>	<u>11,450</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>3,751</u>	<u>3,751</u>
 Net change in fund balances	 <u>\$ -</u>	 <u>\$ -</u>	 3,751	 <u>\$ 3,751</u>
 Fund balance - beginning			 <u>96</u>	
Fund balance - ending			 <u>\$ 3,847</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Special Park District Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Taxes	\$ 307,422	\$ 312,713	\$ 312,828	\$ 115
Investments and rental income	-	-	1,145	1,145
Total revenues	<u>307,422</u>	<u>312,713</u>	<u>313,973</u>	<u>1,260</u>
Expenditures				
Economic and physical development	307,422	312,713	313,264	(551)
Total expenditures	<u>307,422</u>	<u>312,713</u>	<u>313,264</u>	<u>(551)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>709</u>	<u>709</u>
 Net change in fund balances	 <u>\$ -</u>	 <u>\$ -</u>	 709	 <u>\$ 709</u>
 Fund balance - beginning			 <u>1,035</u>	
Fund balance - ending			 <u>\$ 1,744</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Emergency Services Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Investments and rental income	\$ -	\$ -	\$ 45,294	\$ 45,294
Charges for services	<u>1,168,222</u>	<u>1,168,222</u>	<u>1,653,560</u>	<u>485,338</u>
Total revenues	<u>1,168,222</u>	<u>1,168,222</u>	<u>1,698,854</u>	<u>530,632</u>
Expenditures				
Public safety	<u>3,536,241</u>	<u>3,804,986</u>	<u>3,107,165</u>	<u>697,821</u>
Total expenditures	<u>3,536,241</u>	<u>3,804,986</u>	<u>3,107,165</u>	<u>697,821</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,368,019)</u>	<u>(2,636,764)</u>	<u>(1,408,311)</u>	<u>1,228,453</u>
Other financing sources (uses)				
Appropriated fund balance	<u>2,368,019</u>	<u>2,636,764</u>	<u>-</u>	<u>(2,636,764)</u>
Total other financing sources (uses)	<u>2,368,019</u>	<u>2,636,764</u>	<u>-</u>	<u>(2,636,764)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(1,408,311)</u>	<u>\$ (1,408,311)</u>
Fund balance - beginning			<u>3,021,056</u>	
Fund balance - ending			<u>\$ 1,612,745</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- Reappraisal Reserve Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Investments and rental income	\$ -	\$ -	\$ 13,414	\$ 13,414
Total revenues	<u>-</u>	<u>-</u>	<u>13,414</u>	<u>13,414</u>
Expenditures				
General government	63,705	162,044	43,925	118,119
Public safety	8,000	-	-	-
Total expenditures	<u>71,705</u>	<u>162,044</u>	<u>43,925</u>	<u>118,119</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(71,705)</u>	<u>(162,044)</u>	<u>(30,511)</u>	<u>131,533</u>
Other financing sources (uses)				
Appropriated fund balance	71,705	162,044	-	(162,044)
Total other financing sources (uses)	<u>71,705</u>	<u>162,044</u>	<u>-</u>	<u>(162,044)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(30,511)	<u>\$ (30,511)</u>
Fund balance - beginning			<u>294,941</u>	
Fund balance - ending			<u>\$ 264,430</u>	

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual- School Impact Fees Special Revenue Fund
Year Ended June 30, 2006**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues				
Licenses and permits	\$ -	\$ -	\$ 4,576,010	\$ 4,576,010
Investments and rental income	-	-	300,607	300,607
Total revenues	<u>-</u>	<u>-</u>	<u>4,876,617</u>	<u>4,876,617</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	4,876,617	<u>\$ 4,876,617</u>
Fund balance - beginning			<u>3,780,757</u>	
Fund balance - ending			<u>\$ 8,657,374</u>	

DURHAM COUNTY, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual - Debt Service Fund
 Year Ended June 30, 2006

	Budget		Actual	Positive (Negative) Variance
	Original	Final		
Revenues				
Investments and rental income	\$ -	\$ 42,400	\$ 119,366	\$ 76,966
Charges for services	254,526	254,526	254,526	-
Total revenues	254,526	296,926	373,892	76,966
Expenditures				
Debt service:				
Principal retirement	24,832,208	23,138,669	23,163,537	(24,868)
Interest and fiscal charges	12,630,346	12,758,291	12,771,432	(13,141)
Total expenditures	37,462,554	35,896,960	35,934,969	(38,009)
Excess (deficiency) of revenues over (under) expenditures	(37,208,028)	(35,600,034)	(35,561,077)	38,957
Other financing sources (uses)				
Transfers in	37,107,368	35,479,374	35,479,374	-
Appropriated fund balance	100,660	120,660	-	(120,660)
Total other financing sources (uses)	37,208,028	35,600,034	35,479,374	(120,660)
Net change in fund balances	\$ -	\$ -	(81,703)	\$ (81,703)
Fund balance - beginning			137,544	
Fund balance - ending			\$ 55,841	

ENTERPRISE FUND

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

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Revenues and Expenditures - Budget and Actual -
(Non-GAAP Basis) Enterprise Fund - Sewer Utility Fund
Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 7,620,000	\$ 7,209,498	\$ (410,502)
Expenditures:			
Operating	4,189,443	3,057,730	1,131,713
Excess (deficiency) of revenues over (under) expenditures	3,430,557	4,151,768	721,211
Other Financing Sources (Uses):			
Capital expenses	(1,575,000)	(1,734,338)	(159,338)
Debt service	(4,172,227)	(3,174,223)	998,004
Investment income	483,000	610,415	127,415
Assessments	6,240	2,108	(4,132)
Interest on assessments	2,000	655	(1,345)
Sewer connection fees	501,513	526,523	25,010
Miscellaneous	-	2,940	2,940
Total other financing sources (uses)	(4,754,474)	(3,765,920)	988,553
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,323,917)	385,848	1,709,765
Fund Balance Appropriated	1,323,917	-	1,323,917
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ 385,848</u>	<u>\$ 385,848</u>

**Reconciliation of Modified Accrual Basis to Full Accrual Basis -
Enterprise Fund - Sewer Utility Fund
Year Ended June 30, 2006**

EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES (BUDGETARY BASIS)	\$ 385,848
RECONCILING ITEMS:	
Capital outlay	1,734,338
Capital contributions	159,600
Debt principal payments	1,812,880
Amortization of bond issuance costs	(31,185)
Capitalization of interest	724,454
Decrease in capitalized interest payable	59,965
Decrease in accrued interest payable	8,574
Increase in accrued payroll	6,748
Increase in accrued vacation	2,604
Decrease in accrued interest receivable	(2,108)
Decrease in accounts receivable	(85,988)
Depreciation	(563,031)
Amortization of bond premium	33,834
	<hr/>
CHANGE IN NET ASSETS (GAAP BASIS)	\$ 4,246,533
	<hr/> <hr/>

FIDUCIARY FUNDS

Agency Funds – To account for certain escrow monies held in trust by the Department of Social Services for the accounts of designated parties; to account for funds held in trust for jail inmates; to account for funds held in trust for evidence; to account for funds held by the Sheriff’s office; to account for interest on delinquent vehicle taxes collected by the County on behalf of the State Treasurer Department of Motor Vehicles; to account for late list penalties collected on taxes by the County on behalf of the Durham Public Schools; and to account for taxes collected by the County on behalf of the City of Durham, the Town of Chapel Hill and the City of Raleigh.

DURHAM COUNTY, NORTH CAROLINA

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2006

	Child Support Trust Fund	Sheriff's Evidence Trust Fund	Jail Inmate Trust Fund	Sheriff's Trust Fund	State Treasurer Department of Motor Vehicles
Assets					
Cash and cash equivalents	\$ 192,705	\$ 209,719	\$ 93,540	\$ 26,198	\$ 14,441
Net taxes receivable	-	-	-	-	-
Due from governmental agencies	-	-	-	-	-
Total assets	<u>\$ 192,705</u>	<u>\$ 209,719</u>	<u>\$ 93,540</u>	<u>\$ 26,198</u>	<u>\$ 14,441</u>
Liabilities					
Funds held for others	\$ 192,705	\$ 209,719	\$ 93,540	\$ 26,198	\$ -
Due to governmental agencies	-	-	-	-	14,441
Total liabilities	<u>\$ 192,705</u>	<u>\$ 209,719</u>	<u>\$ 93,540</u>	<u>\$ 26,198</u>	<u>\$ 14,441</u>

Durham Public School	Town of Chapel Hill Tax Fund	City of Durham Tax Fund	City of Raleigh Tax Fund	Totals
\$ 155,726	\$ 30,026	\$ 548,949	\$ 5,792	\$ 1,277,096
-	15,115	3,314,099	2,939	3,332,153
-	-	18	54	72
<u>\$ 155,726</u>	<u>\$ 45,141</u>	<u>\$ 3,863,066</u>	<u>\$ 8,785</u>	<u>\$ 4,609,321</u>
\$ -	\$ -	\$ -	\$ -	\$ 522,162
155,726	45,141	3,863,066	8,785	4,087,159
<u>\$ 155,726</u>	<u>\$ 45,141</u>	<u>\$ 3,863,066</u>	<u>\$ 8,785</u>	<u>\$ 4,609,321</u>

DURHAM COUNTY, NORTH CAROLINA

**Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
Year Ended June 30, 2006**

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
<u>Child Support Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 158,422	\$ 1,236,480	\$ 1,202,197	\$ 192,705
Liabilities				
Funds held for others	\$ 158,422	\$ 1,236,480	\$ 1,202,197	\$ 192,705
<u>Sheriff's Evidence Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 175,128	\$ 93,854	\$ 59,263	\$ 209,719
Liabilities				
Funds held for others	\$ 175,128	\$ 93,854	\$ 59,263	\$ 209,719
<u>Jail Inmate Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 86,680	\$ 637,831	\$ 630,971	\$ 93,540
Liabilities				
Funds held for others	\$ 86,680	\$ 637,831	\$ 630,971	\$ 93,540
<u>Sheriff's Trust Fund</u>				
Assets				
Cash and cash equivalents	\$ 37,745	\$ 379,494	\$ 391,041	\$ 26,198
Liabilities				
Funds held for others	\$ 37,745	\$ 379,494	\$ 391,041	\$ 26,198
<u>State Treasurer DMV</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 57,941	\$ 43,500	\$ 14,441
Liabilities				
Due to governmental agencies	\$ -	\$ 57,941	\$ 43,500	\$ 14,441
<u>Durham Public School</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 155,726	\$ -	\$ 155,726
Net taxes receivable	-	335,990	335,990	-
Total assets	\$ -	\$ 491,716	\$ 335,990	\$ 155,726
Liabilities				
Due to governmental agencies	\$ -	\$ 491,716	\$ 335,990	\$ 155,726

DURHAM COUNTY, NORTH CAROLINA

**Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
Year Ended June 30, 2006**

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
<u>Town of Chapel Hill Tax Fund</u>				
Assets				
Cash and cash equivalents	\$ 21,486	\$ 1,381,277	\$ 1,372,737	\$ 30,026
Net taxes receivable	15,478	1,491,703	1,492,066	15,115
Total assets	<u>\$ 36,964</u>	<u>\$ 2,872,980</u>	<u>\$ 2,864,803</u>	<u>\$ 45,141</u>
Liabilities				
Due to governmental agencies	<u>\$ 36,964</u>	<u>\$ 2,872,980</u>	<u>\$ 2,864,803</u>	<u>\$ 45,141</u>
<u>City of Durham Tax Fund</u>				
Assets				
Cash and cash equivalents	\$ (498,556)	\$ 85,133,214	\$ 84,085,709	\$ 548,949
Accounts receivable	54,844	-	54,844	-
Net taxes receivable	3,334,876	99,321,370	99,342,147	3,314,099
Due from governmental agencies	547,309	18	547,309	18
Total assets	<u>\$ 3,438,473</u>	<u>\$ 184,454,602</u>	<u>\$ 184,030,009</u>	<u>\$ 3,863,066</u>
Liabilities				
Due to governmental agencies	<u>\$ 3,438,473</u>	<u>\$ 184,454,602</u>	<u>\$ 184,030,009</u>	<u>\$ 3,863,066</u>
<u>City of Raleigh Tax Fund</u>				
Assets				
Cash and cash equivalents	\$ 4,553	\$ 247,550	\$ 246,311	\$ 5,792
Accounts receivable	250	-	250	-
Net taxes receivable	1,455	262,929	261,445	2,939
Due from governmental agencies	-	54	-	54
Total assets	<u>\$ 6,258</u>	<u>\$ 510,533</u>	<u>\$ 508,006</u>	<u>\$ 8,785</u>
Liabilities				
Due to governmental agencies	<u>\$ 6,258</u>	<u>\$ 510,533</u>	<u>\$ 508,006</u>	<u>\$ 8,785</u>
<u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ (14,542)	\$ 89,323,367	\$ 88,031,729	\$ 1,277,096
Accounts receivable	55,094	-	55,094	-
Net taxes receivable	3,351,809	101,411,992	101,431,648	3,332,153
Due from governmental agencies	547,309	72	547,309	72
Total assets	<u>\$ 3,939,670</u>	<u>\$ 190,735,431</u>	<u>\$ 190,065,780</u>	<u>\$ 4,609,321</u>
Liabilities				
Funds held for others	\$ 457,975	\$ 2,347,659	\$ 2,283,472	\$ 522,162
Due to governmental agencies	3,481,695	188,387,772	187,782,308	4,087,159
Total liabilities	<u>\$ 3,939,670</u>	<u>\$ 190,735,431</u>	<u>\$ 190,065,780</u>	<u>\$ 4,609,321</u>

OTHER SUPPLEMENTARY INFORMATION

DURHAM COUNTY, NORTH CAROLINA

**Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity¹ as of June 30, 2006 (continued)**

	Total Assets	Land	Buildings	Office Furniture and Equipment
General Government:				
County commissioners	\$ 6,400	\$ -	\$ -	\$ -
County manager	5,708	-	-	-
Tax administrator	422,893	-	-	-
Court facilities	11,195,858	-	11,184,658	-
Board of elections	419,207	-	-	-
Register of deeds	480,400	-	-	20,000
General services	80,323,596	4,790,491	74,891,860	-
Information technology	1,826,421	-	-	29,298
Human resources	5,707	-	-	-
Total general government	94,686,190	4,790,491	86,076,518	49,298
Public Safety:				
Sheriff	45,803,849	1,398,962	39,412,741	-
County fire protector	646,562	-	384,060	6,744
Community based corrections	811,181	-	749,021	-
Animal contro	1,018,846	-	658,000	-
VFD paramedic services	155,936	-	-	-
Youth home	391,983	-	367,000	-
Emergency medical services	2,564,094	-	1,045,606	-
Total public safety	51,392,451	1,398,962	42,616,428	6,744
Environmental Protection				
Environmental engineering	210,876	-	77,873	7,315
Economic and Physical Development				
Cooperative extensioi	669,495	-	635,000	-

Machinery and Equipment	Computer Hardware	Vehicles	Computer Software	Construction in Progress
\$ 6,400	\$ -	\$ -	\$ -	\$ -
5,708	-	-	-	-
-	26,339	142,267	254,287	-
11,200	-	-	-	-
410,650	8,557	-	-	-
-	269,966	-	190,434	-
100,494	18,443	513,558	8,750	-
42,400	1,489,221	-	265,502	-
5,707	-	-	-	-
<u>582,559</u>	<u>1,812,526</u>	<u>655,825</u>	<u>718,973</u>	<u>-</u>
955,015	131,957	3,762,374	142,800	-
25,333	7,200	223,225	-	-
-	-	62,160	-	-
124,917	7,100	217,179	11,650	-
-	-	155,936	-	-
8,500	-	16,483	-	-
446,208	28,789	1,022,911	20,580	-
<u>1,559,973</u>	<u>175,046</u>	<u>5,460,268</u>	<u>175,030</u>	<u>-</u>
21,195	-	104,493	-	-
-	-	34,495	-	-

DURHAM COUNTY, NORTH CAROLINA

**Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity¹ as of June 30, 2006 (continued)**

	Total Assets	Land	Buildings	Office Furniture and Equipment
Human Services:				
Public health	\$ 4,307,409	\$ -	\$ 3,765,510	\$ -
Mental health	634,186	-	192,000	-
Social services	9,972,360	-	9,760,000	-
Other human services	270,809	-	-	-
Total human services	<u>15,184,764</u>	<u>-</u>	<u>13,717,510</u>	<u>-</u>
Cultural and Recreational				
Library	<u>4,267,130</u>	<u>-</u>	<u>3,891,149</u>	<u>18,347</u>
Capital Projects:				
Construction in progress	<u>75,547,396</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets	<u><u>\$ 241,958,302</u></u>	<u><u>\$ 6,189,453</u></u>	<u><u>\$ 147,014,478</u></u>	<u><u>\$ 81,704</u></u>

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

Machinery and Equipment	Computer Hardware	Vehicles	Computer Software	Construction in Progress
\$ 214,081	\$ -	\$ 301,313	\$ 26,505	\$ -
43,481	69,992	328,713	-	-
17,055	69,973	110,333	14,999	-
-	-	270,809	-	-
<u>274,617</u>	<u>139,965</u>	<u>1,011,168</u>	<u>41,504</u>	<u>-</u>
49,925	139,680	139,630	28,399	-
-	-	-	-	75,547,396
<u>\$ 2,488,269</u>	<u>\$ 2,267,217</u>	<u>\$ 7,405,879</u>	<u>\$ 963,906</u>	<u>\$ 75,547,396</u>

DURHAM COUNTY, NORTH CAROLINA

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes by Function and Activity¹

Year Ended June 30, 2006

	Capital Assets July 1, 2005	Additions	Transfers and Deletions	Capital Assets June 30, 2006
General Government:				
Board of county commissioners	\$ 6,400	\$ -	\$ -	\$ 6,400
County manager	5,708	-	-	5,708
Tax administration	398,425	24,468	-	422,893
Court facilities	11,195,858	-	-	11,195,858
Board of elections	419,207	-	-	419,207
Register of deeds	328,992	151,408	-	480,400
General services	80,207,051	116,545	-	80,323,596
Management information systems	1,823,792	2,629	-	1,826,421
Human resources	5,707	-	-	5,707
Total general government	<u>94,391,140</u>	<u>295,050</u>	<u>-</u>	<u>94,686,190</u>
Public Safety:				
County sheriff	44,632,387	1,171,462	-	45,803,849
Fire marshal	542,724	103,838	-	646,562
Criminal justice partnership	811,181	-	-	811,181
Animal control	929,352	89,494	-	1,018,846
VFD Paramedic Services (Bahama/Redwood)	-	155,936	-	155,936
Youth home	391,983	-	-	391,983
Emergency medical services	2,186,628	377,466	-	2,564,094
Total public safety	<u>49,494,255</u>	<u>1,898,196</u>	<u>-</u>	<u>51,392,451</u>

DURHAM COUNTY, NORTH CAROLINA

**Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity¹
Year Ended June 30, 2006**

	Capital Assets July 1, 2005	Additions	Transfers and Deletions	Capital Assets June 30, 2006
Environmental Protection:				
Environmental engineering	\$ 184,678	\$ 26,198	\$ -	\$ 210,876
Economic and Physical Development:				
Cooperative extensior	669,495	-	-	669,495
Human Services:				
Public health	4,307,409	-	-	4,307,409
Mental health	634,186	-	-	634,186
Social services	9,967,069	5,291	-	9,972,360
Other human services	204,669	66,140	-	270,809
Total human services	<u>15,113,333</u>	<u>71,431</u>	<u>-</u>	<u>15,184,764</u>
Cultural and Recreational:				
Library	4,267,130	-	-	4,267,130
Capital Projects:				
Construction in progress	58,149,944	17,897,452	-	76,047,396
Total Capital Assets	<u>\$ 222,269,975</u>	<u>\$ 20,188,327</u>	<u>\$ -</u>	<u>\$ 242,458,302</u>

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

DURHAM COUNTY, NORTH CAROLINA

**Gross Bonded Debt and Other Long-Term Debt
Year Ended June 30, 2006 (continued)**

Description	Interest Rate	Issue Date	Amount Outstanding 6-30-05	Issued During Year	Adjusted During Year
General Long-Term Debt					
Bonded Debt:					
Public Improvement-Series 2000 (2/3 Bonds)	5.40%-5.60%	6/1/00	\$ 1,317,119	\$ -	\$ -
Refunding, Series 2001	4.25%-5.50%	2/15/01	66,375,000	-	-
Public Improvement, Series 2002A	3.25%-4.75%	1/1/02	9,400,000	-	-
Refunding, Series 2002B	4.25%-5.50%	1/1/02	15,914,526	-	-
Public Improvement, Series 2002B	4.00%-5.00%	5/1/02	64,285,000	-	-
Public Improvement, Series 2004A (2/3 Bonds)	4.00%-5.00%	5/1/04	10,400,000	-	-
Public Improvement, Series 2004B	4.00%-5.00%	5/1/04	45,100,000	-	-
Public Improvement, Series 2006A	4.00%-5.00%	5/1/06	-	11,380,000	-
Public Improvement, Series 2006B	4.00%-5.00%	5/1/06	-	49,225,000	-
Water And Sewer Lines Donated To City:					
Refunding, Series 2002B	4.25%-5.50%	1/1/02	2,872,463	-	-
Unamortized Bond Premium			1,030,512	982,737	(9,099)
Total Bonded Debt			<u>216,694,620</u>	<u>61,587,737</u>	<u>(9,099)</u>
Other Long-Term Debt					
Installment Purchase Agreements:					
Certificates of Participation					
Refunding Cops, Series 1997	4.00%-5.00%	12/1/97	24,560,000	-	-
Total Certificates Of Participation			<u>24,560,000</u>	<u>-</u>	<u>-</u>
Other Financing Agreements					
Total Installment Purchase Agreements			<u>23,807,269</u>	<u>10,842,453</u>	<u>196,750</u>
Earned Vacation Pay			4,683,957	-	3,981,580
Seperation Allowance			144,906	-	(144,906)
Industrial Extension Policy			1,458,890	895,735	-
Total Other Long-Term Debt			<u>54,655,022</u>	<u>11,738,188</u>	<u>4,033,424</u>
Total General Long-Term Debt			<u>\$ 271,349,642</u>	<u>\$ 73,325,925</u>	<u>\$ 4,024,325</u>

Due Fiscal Year 2005-2006		Amount Outstanding 6-30-06	Due Fiscal Year 2006 - 2007		Long-Term Principal Due Thereafter
Principal	Interest		Principal	Interest	
\$ 76,576	\$ 73,299	\$ 1,240,543	\$ 76,576	\$ 69,087	\$ 1,163,967
7,990,000	3,570,975	58,385,000	7,940,000	3,171,475	50,445,000
550,000	430,000	8,850,000	550,000	408,000	8,300,000
3,977,611	775,838	11,936,915	3,875,621	596,846	8,061,294
1,375,000	3,047,660	62,910,000	1,375,000	2,992,660	61,535,000
200,000	434,500	10,200,000	200,000	428,500	10,000,000
1,500,000	1,909,750	43,600,000	1,500,000	1,834,750	42,100,000
-	-	11,380,000	300,000	480,900	11,080,000
-	-	49,225,000	1,200,000	2,146,250	48,025,000
717,932	140,033	2,154,531	699,523	107,727	1,455,008
193,174	-	1,810,976	247,770	-	1,563,206
16,580,293	10,382,055	261,692,965	17,964,490	12,236,195	243,728,475
2,235,000	1,214,640	22,325,000	2,340,000	1,102,890	19,985,000
2,235,000	1,214,640	22,325,000	2,340,000	1,102,890	19,985,000
4,722,669	1,016,594	30,123,803	4,884,792	961,223	25,239,011
6,957,669	2,231,234	52,448,803	7,224,792	2,064,113	45,224,011
3,742,197	-	4,923,340	3,570,362	-	1,352,978
-	-	-	-	-	-
404,291	89,543	1,950,334	701,868	102,081	1,248,466
11,104,157	2,320,777	59,322,477	11,497,022	2,166,194	47,825,455
\$ 27,684,450	\$ 12,702,832	\$ 321,015,442	\$ 29,461,512	\$ 14,402,389	\$ 291,553,930

DURHAM COUNTY, NORTH CAROLINA

**Gross Bonded Debt and Other Long-Term Debt
Year Ended June 30, 2006 (continued)**

Description	Interest Rate	Issue Date	Amount Outstanding 6-30-05	Issued During Year	Adjusted During Year
Proprietary Debt					
Enterprise Fund:					
Public Improvement-Series 2000 (2/3 Bonds)	5.40%-5.60%	6/1/00	\$ 5,562,882	\$ -	\$ -
Refunding, Series 2002B	3.00%-5.00%	1/1/02	718,013	-	-
Revenue Bonds, Series 2003	3.00%-4.75%	12/1/02	23,245,000	-	-
Unamortized Bond Premium			763,559	-	-
Total Enterprise Fund Bonded Debt			<u>30,289,454</u>	<u>-</u>	<u>-</u>
Earned Vacation Pay			26,077	-	10,752
Total Proprietary Debt			<u>30,315,531</u>	<u>-</u>	<u>10,752</u>
Total General Long-Term and Proprietary Debt			<u>\$ 301,665,173</u>	<u>\$ 73,325,925</u>	<u>\$ 4,035,077</u>

Due Fiscal Year 2005-2006		Amount Outstanding 6-30-06	Due Fiscal Year 2006 - 2007		Long-Term Principal Due Thereafter
Principal	Interest		Principal	Interest	
\$ 323,424	\$ 309,581	\$ 5,239,458	\$ 323,424	\$ 291,793	\$ 4,916,034
179,456	35,003	538,557	174,856	26,928	363,701
1,310,000	1,103,008	21,935,000	1,355,000	1,057,158	20,580,000
33,834	-	729,725	33,834	-	695,891
<u>1,846,714</u>	<u>1,447,592</u>	<u>28,442,740</u>	<u>1,887,114</u>	<u>1,375,879</u>	<u>26,555,626</u>
13,356	-	23,473	16,683	-	6,790
<u>1,860,070</u>	<u>1,447,592</u>	<u>28,466,213</u>	<u>1,903,797</u>	<u>1,375,879</u>	<u>26,562,416</u>
<u>\$ 29,544,520</u>	<u>\$ 14,150,424</u>	<u>\$ 349,481,655</u>	<u>\$ 31,365,309</u>	<u>\$ 15,778,268</u>	<u>\$ 318,116,346</u>

DURHAM COUNTY, NORTH CAROLINA

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

Property Valuations

Real property	\$ 16,769,216,308
Personal property	2,465,434,636
Public service	515,456,602
DMV-registered vehicles	<u>1,530,608,393</u>
Total subject to tax	<u><u>\$ 21,280,715,939</u></u>
Real property/personal property/corporate excess levy	\$ 245,005,068
DMV -registered vehicles levy	<u>23,255,985</u>
Gross Levy	\$ 268,261,053
Abatements/discoveries	<u>7,993,871</u>
Net Levy	276,254,924
Uncollected at June 30, 2006	<u>(4,510,667)</u>
Current year taxes collected	<u>\$ 271,744,257</u>
Percent of current taxes collected	<u><u>98.37%</u></u>

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

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Ad Valorem Taxes Receivable By Fund
Year Ended June 30, 2006**

Year of Levy	Uncollected Balance July 1, 2005	Current Year Gross Levy	Collections	Abatements/ Discoveries	Uncollected Balance June 30, 2006
2005	\$ -	\$ 268,261,053	\$ 271,744,257	\$ 7,993,871	4,510,667
2004	4,927,291	-	3,539,514	(136,746)	1,251,031
2003	1,343,509	-	424,016	(32,588)	886,905
2002	1,060,792	-	239,122	(51,649)	770,021
2001	310,797	-	66,439	(6,534)	237,824
2000	338,152	-	24,120	(4,858)	309,174
1999 and prior	664,259	-	53,713	(78,049)	532,497
	<u>\$ 8,644,800</u>	<u>\$ 268,261,053</u>	<u>\$ 276,091,181</u>	<u>\$ 7,683,447</u>	8,498,119
Less allowance for uncollectible ad valorem taxes receivable					<u>(218,867)</u>
Ad valorem taxes receivable (net)					<u>\$ 8,279,252</u>
Receivable by fund, net:					
General Fund				\$ 4,354,774	
Capital financing				<u>516,098</u>	
General Fund					4,870,872
Bethesda fire				15,086	
Lebanon fire				16,257	
Parkwood fire				8,615	
Redwood fire				26,620	
New Hope fire				779	
Eno fire				71	
Bahama fire				8,075	
Special Park fire				414	
Special Butner				<u>311</u>	
Special revenue funds					76,228
City of Durham				3,314,099	
City of Chapel Hill				15,115	
City of Raleigh				<u>2,938</u>	
Fiduciary funds					<u>3,332,152</u>
					<u>\$ 8,279,252</u>

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Ad Valorem Taxes Receivable by Levy Year
June 30, 2006**

Fiscal Year	Uncollected Balance June 30, 2005	Additions	Collections	Abatements/ Discoveries	Uncollected Balance June 30, 2006
2005-2006	\$ -	\$ 268,261,053	\$ 271,744,257	\$ 7,993,871	\$ 4,510,667
2004-2005	4,927,291	-	3,539,514	(136,746)	1,251,031
2003-2004	1,343,509	-	424,016	(32,588)	886,905
2002-2003	1,060,792	-	239,122	(51,649)	770,021
2001-2002	310,797	-	66,439	(6,534)	237,824
2000-2001	338,152	-	24,120	(4,858)	309,174
1999 and prior	664,259	-	53,713	(78,049)	532,497
	<u>\$ 8,644,800</u>	<u>\$ 268,261,053</u>	<u>\$ 276,091,181</u>	<u>\$ 7,683,447</u>	<u>8,498,119</u>
Less allowance for uncollectible ad valorem taxes receivable					<u>(218,867)</u>
Ad valorem taxes receivable (net)					<u>\$ 8,279,252</u>
Reconciliation with revenues:					
Taxes - ad valorem - governmental funds					178,617,067
Taxes - ad valorem - agency funds					97,483,740
Reconciling items:					
Other adjustments					<u>(9,626)</u>
Total collections and credits					<u>\$ 276,091,181</u>

Note: This schedule includes the General fund, Special Tax District funds and Agency funds.

STATISTICAL SECTION

DURHAM COUNTY, NORTH CAROLINA

Net Assets by Component

Last Five Fiscal Years

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets, net of related debt	\$ 62,465,729	\$ 81,285,449	\$ 33,692,576	\$ 58,793,546	\$ 63,614,759
Restricted	1,258,149	68,075,839	103,709,387	66,164,257	105,228,878
Unrestricted	(11,605,654)	(85,015,214)	(73,943,192)	(46,859,134)	(73,886,171)
Total governmental activities net assets	<u>\$ 52,118,224</u>	<u>\$ 64,346,074</u>	<u>\$ 63,458,771</u>	<u>\$ 78,098,669</u>	<u>\$ 94,957,466</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 12,209,852	\$ 19,525,232	\$ 13,063,666	\$ 20,812,310	\$ 24,680,549
Restricted	26,235	20,662,536	4,307,582	750,592	963,121
Unrestricted	14,717,551	(11,511,169)	13,933,360	10,471,031	10,636,796
Total business-type activities net assets	<u>\$ 26,953,638</u>	<u>\$ 28,676,599</u>	<u>\$ 31,304,608</u>	<u>\$ 32,033,933</u>	<u>\$ 36,280,466</u>
Primary government					
Invested in capital assets, net of related debt	\$ 74,675,581	\$ 100,810,681	\$ 46,756,242	\$ 79,605,856	\$ 88,295,308
Restricted	1,284,384	88,738,375	108,016,969	66,914,849	106,191,999
Unrestricted	3,111,897	(96,526,383)	(60,009,832)	(36,388,103)	(63,249,375)
Total primary government net assets	<u>\$ 79,071,862</u>	<u>\$ 93,022,673</u>	<u>\$ 94,763,379</u>	<u>\$ 110,132,602</u>	<u>\$ 131,237,932</u>

Note: Accrual-basis financial information for the county government as a whole is only available to 2002, the year GASB Statement 34 was implemented.

DURHAM COUNTY, NORTH CAROLINA

**Changes in Net Assets
Last Five Fiscal Years**

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government	\$ 39,936,181	\$ 22,243,167	\$ 26,032,334	\$ 26,351,619	\$ 28,142,742
Public safety	37,503,756	40,084,513	40,967,085	45,099,164	52,182,047
Transportation	44,423	12,500	12,500	12,500	12,500
Economic and physical development	3,750,474	3,564,266	2,478,868	2,243,791	3,246,027
Environmental protection	1,984,277	2,114,239	2,288,155	2,760,078	2,817,714
Human services	271,087,299	293,265,929	302,529,857	341,183,062	344,328,289
Education	78,128,417	84,594,783	104,597,540	104,106,885	105,485,526
Cultural and recreational	8,167,116	7,366,833	7,089,954	7,375,565	11,569,884
Nondepartmental	8,394,980	9,674,739	10,644,972	11,197,360	15,342,913
Interest and fiscal charges	9,285,800	13,819,722	12,845,931	16,740,531	11,422,405
Total governmental activities	<u>458,282,723</u>	<u>476,740,691</u>	<u>509,487,196</u>	<u>557,070,555</u>	<u>574,550,047</u>
Business-type activities:					
Sewer utility	4,454,553	3,989,544	4,111,848	5,306,714	4,210,944
Total primary government expenses	<u>462,737,276</u>	<u>480,730,235</u>	<u>513,599,044</u>	<u>562,377,269</u>	<u>578,760,991</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	6,095,983	6,450,886	6,556,766	7,419,425	8,427,778
Public safety	4,197,381	6,327,314	6,317,160	7,100,689	7,958,685
Transportation	-	547	2,619	15,323	-
Economic and physical development	-	-	-	10,588	10,588
Environmental protection	1,499,938	1,516,759	1,414,760	5,824,811	7,183,222
Human services	21,825,888	26,754,479	21,653,068	28,870,290	27,649,080
Cultural and recreational	263,499	232,807	56,264	279,545	260,841
Nondepartmental	-	-	500	-	-
Operating grants and contributions:					
General government	120,203	688,942	2,963,721	2,463,328	2,590,512
Public safety	2,015,856	1,573,012	2,356,010	2,148,442	3,231,746
Economic and physical development	107,308	149,967	405,071	380,608	440,969
Environmental protection	-	135,144	67,061	-	-
Human services	221,453,755	235,311,976	245,224,200	273,354,673	275,404,044
Cultural and recreational	497,495	483,422	290,522	250,378	386,952
Nondepartmental	7,565	148,530	-	-	-
Capital grants and contributions:					
General government	310,578	1,135,008	88,764	416,024	-
Public safety	155,954	5,481	-	24,580	-
Economic and physical development	394,866	-	-	-	-
Environmental protection	-	-	-	-	335,000
Education	908,702	236,944	-	140,637	2,565,712
Nondepartmental	-	-	199,796	-	-
Total governmental activities program revenues	<u>259,854,971</u>	<u>281,151,218</u>	<u>287,596,282</u>	<u>328,699,341</u>	<u>336,445,129</u>
Business-type activities:					
Charges for services: sewer utility	5,693,095	5,255,807	4,693,790	5,376,090	7,650,033
Capital grants and contributions: sewer utility	356,796	-	1,824,929	-	159,600
Total business-type activities program revenues	<u>6,049,891</u>	<u>5,255,807</u>	<u>6,518,719</u>	<u>5,376,090</u>	<u>7,809,633</u>
Total primary government program revenues	<u>265,904,862</u>	<u>286,407,025</u>	<u>294,115,001</u>	<u>334,075,431</u>	<u>344,254,762</u>

DURHAM COUNTY, NORTH CAROLINA

**Changes in Net Assets (continued)
Last Five Fiscal Years**

	Fiscal Year				
	2002	2003	2004	2005	2006
Net (Expense)/Revenue					
Governmental activities	\$ (198,427,752)	\$ (195,589,473)	\$ (221,890,914)	\$ (228,371,214)	\$ (238,104,918)
Business-type activities	1,595,338	1,266,263	2,406,871	69,376	3,598,689
Total primary government net expense	<u>(196,832,414)</u>	<u>(194,323,210)</u>	<u>(219,484,043)</u>	<u>(228,301,838)</u>	<u>(234,506,229)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes:					
Property taxes, levied for general purposes	144,443,413	148,605,604	154,787,435	165,038,984	174,904,779
Property taxes, levied for fire districts	3,390,576	3,764,099	3,664,756	3,739,469	3,985,570
Property taxes, levied for other districts purposes	-	-	-	324,597	327,758
Intangibles tax	2,972,310	-	-	-	-
Local option sales tax	31,464,746	36,706,957	42,455,992	45,384,056	49,624,207
Occupancy tax	3,501,737	1,877,939	2,858,358	2,433,608	2,210,411
Animal tax	246,962	245,689	466,748	482,165	443,996
Gross receipts tax	203,575	182,933	200,066	185,738	199,465
Other taxes	1,098	45	1,626	-	-
Investment and rental income	4,015,529	6,039,156	3,602,549	9,320,860	10,141,571
Licenses and permits	-	-	2,009,911	-	-
Other revenues	9,830,761	10,950,845	10,762,996	11,139,896	12,923,685
Amortization of bond premium	191,044	191,044	193,174	193,174	202,273
Miscellaneous revenue	596,072	-	-	-	-
Total governmental activities	<u>200,857,823</u>	<u>208,564,311</u>	<u>221,003,611</u>	<u>238,242,547</u>	<u>254,963,715</u>
Business-type activities:					
Investment and rental income	429,209	351,858	166,107	626,115	611,070
Other revenues	-	82,886	-	-	2,940
Amortization of bond premium	-	43,030	55,031	33,834	33,834
Total business-type activities	<u>429,209</u>	<u>477,774</u>	<u>221,138</u>	<u>659,949</u>	<u>647,844</u>
Total primary government	<u>201,287,032</u>	<u>209,042,085</u>	<u>221,224,749</u>	<u>238,902,496</u>	<u>255,611,559</u>
Special Items					
Business-type activities:					
Transfer of capital assets to local government unit	(2,572,062)	-	-	-	-
Total business-type activities	<u>(2,572,062)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>(2,572,062)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets					
Government activities	2,430,071	12,974,838	(887,303)	9,871,333	16,858,797
Business-type activities	(547,515)	1,744,037	2,628,009	729,325	4,246,533
Total primary government	<u>\$ 1,882,556</u>	<u>\$ 14,718,875</u>	<u>\$ 1,740,706</u>	<u>\$ 10,600,658</u>	<u>\$ 21,105,330</u>

Note: Accrual-basis financial information for the county government as a whole is only available to 2002, the year GASB Statement 34 was implemented.

DURHAM COUNTY, NORTH CAROLINA

**Fund Balances, Governmental Funds
Last Five Fiscal Years**

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ 17,993,896	\$ 20,473,063	\$ 22,735,334	\$ 32,426,226	\$ 28,494,058
Unreserved	30,844,713	35,720,732	38,722,720	35,110,365	46,766,882
Total general fund	<u>\$ 48,838,609</u>	<u>\$ 56,193,795</u>	<u>\$ 61,458,054</u>	<u>\$ 67,536,591</u>	<u>\$ 75,260,940</u>
All Other Governmental Funds					
Reserved, reported in:					
Community health trust fund	\$ -	\$ -	\$ -	\$ -	\$ 7,000,000
Capital projects fund	23,657	23,657	23,657	29,935	260,804
Other nonmajor funds	234,990	376,542	893,945	2,746,362	881,399
Unreserved, reported in:					
Community health trust fund	9,669,655	11,502,720	13,358,401	19,568,693	12,603,126
Capital projects fund	82,532,368	69,499,221	101,056,252	65,335,536	101,042,969
Other nonmajor funds	3,116,161	3,287,901	5,075,790	5,182,680	10,198,137
Total all other governmental funds	<u>\$ 95,576,831</u>	<u>\$ 84,690,041</u>	<u>\$ 120,408,045</u>	<u>\$ 92,863,206</u>	<u>\$131,986,435</u>

Note: Due to changes in the county's fund structure connected with the implementation of GASB Statement 34, fund balance information is available back to 2002 only.

DURHAM COUNTY, NORTH CAROLINA

Changes in Fund Balances of Governmental Funds Last Five Fiscal Years

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues					
Taxes	\$ 186,224,417	\$ 192,658,421	\$ 205,017,041	\$ 217,778,065	\$ 231,888,087
Licenses and permits	996,274	1,119,485	2,009,911	4,065,033	5,312,774
Intergovernmental	77,103,487	79,702,427	80,584,148	92,975,384	97,702,568
Investment and rental income	3,998,249	5,553,022	3,901,835	9,297,592	10,073,093
Charges for services	33,882,689	39,587,391	36,366,056	43,684,623	44,676,761
Other revenues	8,834,487	9,831,360	10,762,996	11,139,896	12,923,685
Total revenues	<u>311,039,603</u>	<u>328,452,106</u>	<u>338,641,987</u>	<u>378,940,593</u>	<u>402,576,968</u>
Expenditures					
General government	20,559,502	20,016,132	23,770,689	24,030,548	25,873,688
Public safety	36,166,560	37,431,865	38,777,865	42,812,116	45,997,598
Transportation	12,500	12,500	12,500	12,500	12,500
Economic and physical development	4,314,841	2,519,859	3,073,701	2,986,331	2,725,118
Environmental protection	1,973,798	2,091,867	2,193,159	2,403,268	2,821,303
Human services	122,999,807	134,196,935	132,033,272	155,505,806	158,201,370
Education	75,548,399	75,984,462	78,662,943	83,044,943	89,560,342
Cultural and recreational	7,232,710	7,175,210	7,194,385	7,492,517	8,188,661
Nondepartmental	8,540,335	9,925,637	10,644,972	11,197,360	15,342,913
Capital projects	5,665,221	12,412,245	47,982,843	41,033,820	37,337,665
Debt service:					
Principal retirement	15,977,509	17,771,809	19,061,212	21,476,140	23,163,537
Interest and fiscal charges	9,292,764	11,652,366	11,428,032	13,440,112	12,771,432
Amortization of lease discount	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000
Total expenditures	<u>309,433,946</u>	<u>332,340,887</u>	<u>375,985,573</u>	<u>406,585,461</u>	<u>423,146,127</u>
Excess of revenues over (under) expenditures	<u>1,605,657</u>	<u>(3,888,781)</u>	<u>(37,343,586)</u>	<u>(27,644,868)</u>	<u>(20,569,159)</u>
Other Financing Sources (Uses)					
Operating transfers in	30,631,976	33,158,516	34,705,447	39,523,513	43,462,928
Operating transfers out	(29,294,534)	(32,801,332)	(34,455,445)	(39,523,513)	(43,462,928)
Costs on issuance of debt	(241,856)	-	(193,744)	-	(1,000)
Premium on issuance of debt	-	-	42,591	-	982,737
Proceeds from issuance of bonds	79,840,006	-	57,200,000	-	60,605,000
Refunding bond proceeds	34,943,463	-	-	-	-
Payment to refunded debt escrow agent	(34,713,933)	-	-	-	-
Proceeds from issuance of installment purchases	-	-	21,027,000	1,410,000	5,830,000
Total other financing sources (uses)	<u>81,165,122</u>	<u>357,184</u>	<u>78,325,849</u>	<u>1,410,000</u>	<u>67,416,737</u>
Net change in fund balances	<u>\$ 82,770,779</u>	<u>\$ (3,531,597)</u>	<u>\$ 40,982,263</u>	<u>\$ (26,234,868)</u>	<u>\$ 46,847,578</u>
Debt service as a percentage of noncapital expenditures	8.27%	8.97%	8.64%	9.05%	8.92%

Note: Due to changes in the county's fund structure connected with the implementation of GASB Statement 34, fund balance information is available back to 2002 only.

DURHAM COUNTY, NORTH CAROLINA

Government-wide Expenses by Function Last Five Fiscal Years

Fiscal Year Ended	General Government	Public Safety	Transportation	Economic and Physical Development	Environmental Protection	Human Services
2002	\$ 39,936,181	\$ 37,503,756	\$ 44,423	\$ 3,750,474	\$ 1,984,277	\$ 271,087,299
2003	22,243,167	40,084,513	12,500	3,564,266	2,114,239	293,265,929
2004	26,032,334	40,967,085	12,500	2,478,868	2,288,155	302,529,857
2005	26,351,619	45,099,164	12,500	2,243,791	2,760,078	341,183,062
2006	28,142,742	52,182,047	12,500	3,246,027	2,817,714	344,328,289

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

Education	Cultural and Recreational	Nondepartmental Charges	Interest and Fiscal Charges	Sewer Utility	Total
\$ 78,128,417	\$ 8,167,116	\$ 8,394,980	\$ 9,285,800	\$ 4,454,553	\$ 462,737,276
84,594,783	7,366,833	9,674,739	13,819,722	3,989,544	480,730,235
104,597,540	7,089,954	10,644,972	12,845,931	4,111,848	513,599,044
104,106,885	7,375,565	11,197,360	16,740,531	5,306,714	562,377,269
105,485,526	11,569,884	15,342,913	11,422,405	4,210,944	578,760,991

DURHAM COUNTY, NORTH CAROLINA

Government-wide Revenues Last Five Fiscal Years

Fiscal Year Ended	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Investment and Rental Income
2002	\$ 39,575,784	\$ 223,053,855	\$ 2,126,896	\$ 186,224,417	\$ 4,444,738
2003	46,538,599	238,490,993	1,377,433	191,383,266	6,391,014
2004	40,694,927	251,306,585	288,560	204,434,981	3,768,656
2005	54,896,761	278,597,429	581,241	217,588,617	9,946,975
2006	59,140,227	282,054,223	3,060,312	231,696,186	10,752,641

Notes:

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

Licenses and Permits	Other Revenues	Amortization of Bond Premium	Miscellaneous Revenue	Total
\$ -	\$ 9,830,761	\$ 191,044	\$ 596,072	\$ 466,043,567
-	11,033,731	234,074	-	495,449,110
2,009,911	10,762,996	248,205	-	513,514,821
-	11,139,896	227,008	-	572,977,927
-	12,926,625	236,107	-	599,866,321

DURHAM COUNTY, NORTH CAROLINA

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

<u>Fiscal Year Ended June 30,</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Transportation</u>	<u>Environmental Protection</u>	<u>Education</u>	<u>Human Services</u>
1997	\$ 14,559,483	\$ 22,033,050	\$ 25,000	\$ 1,431,507	\$ 57,125,387	\$ 62,999,010
1998	16,574,475	20,677,443	12,500	1,501,801	58,952,764	77,759,233
1999	17,792,867	30,220,347	12,500	1,477,998	62,672,025	82,152,634
2000	19,538,046	32,613,113	12,500	1,674,217	67,438,010	98,240,943
2001	20,281,929	35,957,309	12,500	1,865,741	72,522,661	105,424,345
2002	20,559,502	36,166,560	12,500	1,973,798	75,548,399	122,999,807
2003	20,016,132	37,431,865	12,500	2,091,867	75,984,462	134,196,935
2004	23,770,689	38,777,865	12,500	2,193,159	78,662,943	132,033,272
2005	24,030,548	42,812,116	12,500	2,403,268	83,044,943	155,505,806
2006	25,873,688	45,997,598	12,500	2,821,303	89,560,342	158,201,370

Notes:

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

Economic and Physical Development	Non- Departmental Charges	Cultural and Recreational	General Debt Service	Capital Projects	Total
\$ 3,636,355	\$ 7,265,165	\$ 5,334,966	\$ 28,115,564	\$ 3,957,567	\$ 206,483,054
3,277,449	6,331,391	5,905,865	37,600,267	2,682,914	231,276,102
4,353,108	6,096,999	6,386,252	252,131,954	5,534,352	468,831,036
4,698,638	7,894,141	6,772,836	24,909,811	5,600,367	269,392,622
5,554,174	7,831,693	6,872,515	26,848,697	6,023,372	289,194,936
4,314,841	8,540,335	7,232,710	25,512,129	5,665,221	308,525,802
2,519,859	9,925,637	7,175,210	30,574,175	12,412,245	332,340,887
3,073,701	10,644,972	7,194,385	31,639,244	48,176,587	376,179,317
2,986,331	11,197,360	7,492,517	36,066,252	41,033,820	406,585,461
2,725,118	15,342,913	8,188,661	37,084,969	37,337,665	423,146,127

DURHAM COUNTY, NORTH CAROLINA

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

Fiscal Year Ended June 30,	General Property Taxes	Other Local Taxes	Licenses and Permits	Intergovernmental Revenues
1997	\$ 121,484,724	\$ 32,750,217	\$ 968,391	\$ 34,749,285
1998	124,158,718	33,963,844	1,648,069	47,601,635
1999	131,830,906	36,570,185	987,831	50,295,531
2000	136,628,490	37,718,850	1,138,813	63,733,338
2001	139,648,514	37,096,391	1,271,414	68,931,547
2002	147,755,973	38,468,444	996,274	76,554,415
2003	149,783,663	42,874,758	1,119,485	79,702,427
2004	155,278,002	49,739,039	2,009,911	80,584,148
2005	165,160,775	52,617,290	4,065,033	92,975,384
2006	175,025,932	56,862,155	5,312,774	97,702,568

Notes:

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

Investment and Rental Income	Charges for Services	Other Revenues	Total
\$ 3,955,990	\$ 10,143,543	\$ 6,376,566	\$ 210,428,716
3,117,493	10,703,879	6,438,469	227,632,107
6,220,618	14,341,762	10,574,272	250,821,105
6,774,379	13,716,071	11,259,298	270,969,239
7,319,442	15,874,460	12,280,583	282,422,351
3,998,249	33,882,689	8,834,487	310,490,531
5,553,022	39,587,391	9,831,360	328,452,106
3,901,835	36,366,056	10,762,996	338,641,987
9,297,592	43,684,623	11,139,896	378,940,593
10,073,095	44,676,760	12,923,685	402,576,969

DURHAM COUNTY, NORTH CAROLINA

Principal Property Taxpayers

June 30, 2006

Current Year and Nine Years Ago

<u>Taxpayer</u>	<u>Fiscal Year 2006</u>			<u>Fiscal Year 1997</u>		
	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Valuation</u>
GlaxoSmithKline	\$ 582,333,643	1	2.74%	\$ -	-	-
IBM	540,306,892	2	2.54%	405,403,305	2	3.48%
AW North Carolina, Inc.	216,864,869	3	1.02%	-	-	-
Cree Research, Inc.	210,957,826	4	0.99%	-	-	-
Verizon South, Inc.	199,482,382	5	0.94%	-	-	-
Duke Energy Corp.	170,016,249	6	0.80%	145,239,779	5	1.25%
Highwoods/Forsyth Ltd.	100,592,617	7	0.47%	91,193,623	7	0.78%
State Street Bank & Trust	83,584,221	8	0.39%	-	-	-
Southpoint Mall LLC	82,926,624	9	0.39%	-	-	-
Vac Ltd. Partnership	66,579,533	10	0.31%	-	-	-
Glaxo Wellcome Inc.	-	-	-	530,596,339	1	4.56%
General Telephone Co. of the Southeast	-	-	-	254,775,144	3	2.19%
Northern Telecom, Inc.	-	-	-	185,335,362	4	1.59%
Mitsubishi Semiconductor America, Inc.	-	-	-	131,976,899	6	1.13%
IBM Credit Corporation	-	-	-	89,633,191	8	0.77%
Triangle Service Center	-	-	-	61,807,277	9	0.53%
BNR, Inc.	-	-	-	53,701,989	10	0.46%
	<u>\$ 2,253,644,856</u>		<u>10.59%</u>	<u>\$ 1,949,662,908</u>		<u>16.74%</u>

DURHAM COUNTY, NORTH CAROLINA

Assessed Value and Actual Value of Taxable Property¹ Last Ten Fiscal Years

Fiscal Year	Real Property	Personal Property	Public Service Companies	Registered Vehicles	Total	County-wide Tax Rate ³	Special Tax Districts Tax Rate ³	Average County Tax Rate ³
1997	\$ 8,403,453,568	\$ 1,809,720,184	\$ 493,043,394	\$ 933,385,010	\$ 11,639,602,156	\$ 0.9597	\$ 0.0209-0.2000	\$ 1.0197
1998	8,679,036,560	1,954,330,979	431,651,479	1,189,613,743	12,254,632,761	0.9597	0.0200-0.2000	0.7720
1999	8,888,974,990	1,974,820,493	481,500,851	1,203,734,077	12,549,030,411	0.9397	0.0200-0.2000	0.7790
2000	9,557,053,142	1,961,623,899	514,804,670	1,231,665,105	13,265,146,816	0.9297	0.0191-0.2000	0.8750
2001	10,009,832,306	2,039,578,482	460,389,522	1,416,085,274	13,925,885,584	0.9297	0.0191-0.2000	0.6940
2002	14,691,794,947	2,335,651,127	605,245,298	1,456,774,687	19,089,466,059	0.7290	0.0191-0.2000	0.7130
2003	15,036,324,470	2,375,265,500	555,633,648	1,485,260,765	19,452,484,383	0.7530	0.0187-0.2000	0.7630
2004	15,689,112,679	2,361,973,098	536,047,683	1,484,745,571	20,071,879,031	0.7630	0.0187-0.2000	0.7680
2005	16,281,035,800	2,323,311,138	523,810,967	1,473,351,385	20,601,509,290	0.7900	0.0187-0.2000	0.7690
2006	16,769,216,308	2,465,434,636	515,456,602	1,530,608,393	21,280,715,939	0.8090	0.0187-0.2500	0.7990

Notes:

- (1) All taxable property is subject to the county-wide tax. Most property in unincorporated areas is subject to special district taxes. The County's property tax is levied each July 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the County except for certain registered motor vehicles which are assessed and collected throughout the year. Assessed valuations are established by the Board of County Commissioners at 100% of estimated market value for real property and 100% of estimated actual value for personal property. Public service company property is certified by the State of North Carolina at 100% of actual value, with no distinction between real and personal property values.
- (2) A revaluation of real property is required by N.C. General Statutes at least every eight years. The last revaluation was occurred on January 1, 2001.
- (3) Per \$100 of assessed value.

DURHAM COUNTY, NORTH CAROLINA

**Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year	Taxes Levied for the Fiscal Year (Original Levy)		Total Adjusted Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
	Adjustments			Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
1997	\$ 165,305,851	\$ 319,647	\$ 165,625,498	\$ 160,268,437	96.77%	\$ 5,260,658	\$ 165,529,095	99.94%
1998	170,127,881	6,694,104	176,821,985	171,058,402	96.74%	5,710,949	176,769,351	99.97%
1999	176,702,912	8,415,254	185,118,166	178,936,118	96.66%	6,094,720	185,030,838	99.95%
2000	193,766,553	745,377	194,511,930	188,032,446	96.67%	6,375,164	194,407,610	99.95%
2001	203,060,841	1,020,677	204,081,518	196,861,891	96.46%	5,518,959	202,380,850	99.17%
2002	222,892,295	(2,124,709)	220,767,586	214,138,224	97.00%	5,350,675	219,488,899	99.42%
2003	232,148,202	1,113,328	233,261,530	227,535,763	97.55%	4,513,495	232,049,258	99.48%
2004	233,435,165	8,336,189	241,771,354	236,816,081	97.95%	3,819,256	240,635,337	99.53%
2005	254,087,231	6,722,318	260,809,549	255,882,258	98.11%	3,539,514	259,421,772	99.47%
2006	268,261,053	7,993,871	276,254,924	271,744,257	98.37%	-	271,744,257	98.37%

Notes:

Amounts included above represent taxes in the General Fund, the Special Tax District Funds and the Agency Funds.

DURHAM COUNTY, NORTH CAROLINA

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

Fiscal Year Ended June 30,	Durham County	Fire Tax Districts					
		Bethesda	Lebanon	Parkwood	Redwood	Eno	New Hope
1997	\$ 112,677,740	\$ 473,744	\$ 532,444	\$ 695,013	\$ 379,766	\$ 6,714	\$ 6,866
1998	117,832,280	432,681	442,205	586,467	405,884	13,196	6,981
1999	121,177,271	818,494	508,133	666,990	411,625	12,583	6,073
2000	124,282,886	823,324	483,359	788,824	342,016	13,425	6,020
2001	130,267,871	834,647	526,391	771,985	354,970	14,586	5,831
2002	140,660,336	977,276	552,533	964,000	433,921	17,769	7,304
2003	148,951,465	956,434	560,885	1,019,401	471,617	11,337	32,294
2004	155,082,240	925,009	555,182	972,907	454,755	17,762	41,030
2005	163,927,481	999,637	630,488	1,113,464	470,247	18,237	39,978
2006	174,366,392	1,005,133	711,260	1,123,278	581,169	16,126	38,913

NOTES:

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

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

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

Bahama	Special Park District	Butner Safety District	City of Durham	City of Raleigh	Town of Chapel Hill	Total Tax Levies
\$ 183,951	\$ 326,013	\$ 2,821	\$ 50,236,530	\$ -	\$ 769,375	\$ 166,290,977
197,937	321,763	2,937	56,586,256	-	719,982	177,548,569
201,613	331,637	6,503	60,220,926	-	759,949	185,121,797
210,132	315,412	6,896	63,750,149	-	819,834	191,842,277
226,444	318,926	4,812	68,930,265	-	893,964	203,150,692
356,444	363,588	7,071	75,230,524	-	1,196,820	220,767,586
318,700	362,450	12,619	79,161,595	60,126	1,342,607	233,261,530
336,807	351,846	11,989	81,543,504	137,842	1,340,481	241,771,354
466,101	313,982	11,710	90,893,322	196,329	1,748,777	260,829,753
495,685	312,622	15,152	95,880,460	249,910	1,458,824	276,254,924

DURHAM COUNTY, NORTH CAROLINA

**Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years**

(rate per \$100 of assessed value)

	Year Taxes Are Payable									
	1997	1998	1999	2000	2001 ²	2002	2003	2004	2005	2006
County Direct Rates										
County-wide Rate	\$ 0.9597	\$ 0.9597	\$ 0.9397	\$ 0.9297	\$ 0.9297	\$ 0.7290	\$ 0.7530	\$ 0.7630	\$ 0.7900	\$ 0.8090
Various Special Tax Districts	0.0209-0.2000	0.0200-0.2000	0.0200-0.2000	0.0191-0.2000	0.0191-0.2000	0.0191-0.2000	0.0187-0.2000	0.0187-0.2000	0.0187-0.2000	0.0187-0.2500
Total average direct rate	1.0197	0.7720	0.7790	0.8750	0.6940	0.7130	0.7630	0.7680	0.7690	0.7990
Municipality Rates										
City of Durham	0.6800	0.6800	0.6800	0.6800	0.6900	0.5340	0.5450	0.5450	0.5830	0.5830
Town of Chapel Hill	0.5960	0.5380	0.5380	0.5680	0.5780	0.5040	0.5530	0.5530	0.5750	0.5220
City of Raleigh	-	-	-	-	-	-	0.3850	0.3850	0.3950	0.3950

Notes:

- (1) All taxable property is subject to the county-wide tax. Most property in unincorporated areas is also subject to special district taxes.
- (2) A revaluation of real property is required by N. C. General Statutes at least every eight years. Revaluation of taxable property occurred on January 1, 2001.

DURHAM COUNTY, NORTH CAROLINA

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

Fiscal Year Ended June 30,	Population Estimate (1)	Taxable Property Assessed Value	Debt Limit	Gross Bonded Debt
1997	\$ 205,050 (1)	\$ 11,639,602,156	\$ 931,168,172	\$ 171,614,380
1998	211,708 (1)	12,254,632,761	980,370,621	159,846,904
1999	218,455 (2)	12,549,030,411	1,003,922,433	148,309,082
2000	222,000 (3)	13,265,146,816	1,061,211,745	157,334,829
2001	229,929 (1)	13,925,885,584	1,114,070,847	140,848,864
2002	230,000 (1)	19,089,466,059	1,527,157,285	205,913,960
2003	237,000 (1)	19,452,484,383	1,556,198,751	190,428,068
2004	242,000 (1)	20,071,879,031	1,605,750,322	232,231,074
2005	246,924 (1)	20,601,509,290	1,648,120,743	215,664,108
2006	249,654 (1)	21,280,715,939	1,436,797,272	259,881,989

NOTES:

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

Net Bonded Debt	Ratio of Net Bonded Debt to Taxable Property Assessed Value	Net Bonded Debt Per Capita
\$ 171,614,380	1.5	\$ 837
159,846,904	1.3	755
148,309,082	1.2	679
157,334,829	1.2	709
140,848,864	1.0	613
205,913,960	1.1	895
190,428,068	1.0	803
232,231,074	1.2	960
215,664,108	1.0	873
259,881,989	1.2	1,041

DURHAM COUNTY, NORTH CAROLINA

Legal Debt Margin Information Last Ten Years

	Fiscal Year				
	1997	1998	1999	2000	2001
Assessed Value of Property	\$ 11,639,602,156	\$ 12,254,632,761	\$ 12,549,030,411	\$ 13,265,146,816	\$ 13,925,885,584
Debt Limit, 8% of Assessed Value (Statutory Limitation)	931,168,172	980,370,621	1,003,922,433	1,061,211,745	1,114,070,847
Amount of Debt Applicable to Limit General Obligation Bonds	197,825,000	184,315,000	340,596,315	166,210,000	149,205,001
Less: Resources Restricted to Paying Principal	-	-	-	-	-
Total net debt applicable to limit	<u>197,825,000</u>	<u>184,315,000</u>	<u>340,596,315</u>	<u>166,210,000</u>	<u>149,205,001</u>
Legal Debt Margin	<u>\$ 733,343,172</u>	<u>\$ 796,055,621</u>	<u>\$ 663,326,118</u>	<u>\$ 895,001,745</u>	<u>\$ 964,865,846</u>
Total net debt applicable to limit as a percentage of debt limit	<u>21.24%</u>	<u>18.80%</u>	<u>33.93%</u>	<u>15.66%</u>	<u>13.39%</u>

Note: The County is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the County may have outstanding to 8 percent of the appraised value of property subject to taxation. The legal debt margin is the difference between the debt limit and the County's net debt outstanding applicable to the limit, and represents the County's legal borrowing authority.

2002	2003	Fiscal Year 2004	2005	2006
\$19,089,466,059	\$19,452,484,383	\$20,071,879,031	\$20,601,509,290	\$21,280,715,939
1,527,157,285	1,556,198,751	1,605,750,322	1,648,120,743	1,702,457,275
213,730,004	197,730,004	239,020,001	221,945,003	265,660,003
-	-	-	-	-
<u>213,730,004</u>	<u>197,730,004</u>	<u>239,020,001</u>	<u>221,945,003</u>	<u>265,660,003</u>
<u>\$ 1,313,427,281</u>	<u>\$ 1,358,468,747</u>	<u>\$ 1,366,730,321</u>	<u>\$ 1,426,175,740</u>	<u>\$ 1,436,797,272</u>
<u>14.00%</u>	<u>12.71%</u>	<u>14.89%</u>	<u>13.47%</u>	<u>15.60%</u>

DURHAM COUNTY, NORTH CAROLINA

**Direct and Overlapping Governmental Activities Debt
As of June 30, 2006**

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Municipality:			
City of Durham	\$ 134,343,510	100%	\$ 134,343,510
Town of Chapel Hill	18,545,000	0%	-
City of Raleigh	212,325,000	0%	-
Overlapping debt	<u>365,213,510</u>		<u>134,343,510</u>
Direct debt	259,881,989		259,881,989
Total direct and overlapping debt	<u>\$ 625,095,499</u>		<u>\$ 394,225,499</u>

Source: Overlapping debt provided by each municipality.

Note: Percentage of overlap based on assessed property values.

DURHAM COUNTY, NORTH CAROLINA

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

Fiscal Year Ended June 30,	Debt Service Expenditures				General Governmental Expenditures	Ratio of Total Debt Service to General Governmental Expenditures
	Principal	Interest on Bonds	Other Expenses	Total Debt Service		
1997	\$ 11,890,101	\$ 9,465,401	\$ 60,549	\$ 21,416,051	\$ 206,483,054	10.37
1998	11,767,477	8,885,878	66,672	20,720,027	231,276,102	9.00
1999	11,537,822	8,276,917	55,781	19,870,520	240,674,704	8.26
2000	11,814,419	7,677,992	64,965	19,557,376	269,392,622	7.26
2001	13,486,256	7,731,107	46,437	21,263,799	289,194,936	7.35
2002	13,783,268	7,865,623	3,400	21,652,291	308,525,802	7.02
2003	17,771,809	11,646,516	5,850	29,424,175	332,340,887	8.85
2004	19,061,212	11,428,032	3,600	30,492,844	376,179,317	8.11
2005	21,476,140	13,440,112	-	34,916,252	406,585,461	8.59
2006	23,335,688	12,613,289	3,500	35,952,477	342,123,072	10.51

DURHAM COUNTY, NORTH CAROLINA

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

General Bonded Debt Outstanding					
Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total General Bonded Debt	Percentage of Actual Taxable Value of Property¹	Per Capita
1997	\$ 197,825,000	\$ -	\$197,825,000	1.70%	964.76
1998	184,315,000	-	184,315,000	1.50%	870.61
1999	340,596,315	-	340,596,315	2.71%	1,559.11
2000	166,210,000	-	166,210,000	1.25%	748.69
2001	149,205,001	-	149,205,001	1.07%	648.92
2002	213,730,004	-	213,730,004	1.12%	929.26
2003	197,730,004	-	197,730,004	1.02%	834.30
2004	239,020,001	-	239,020,001	1.19%	987.69
2005	221,945,003	-	221,945,003	1.08%	898.84
2006	265,660,003	-	265,660,003	1.25%	1,064.11

Notes: Details regarding the County's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule of Assessed Value and Actual Value of Taxable Property for property assessed/actual value data.

(2) Population data can be found in the Schedule of Demographic and Economic Statistics.

DURHAM COUNTY, NORTH CAROLINA

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year	Governmental Activities					
	General Obligation Bonds	Certificates of Participation	Installment Purchases	Industrial Extensions Policy	Capital Leases	Total Governmental Activities
1997	\$ 171,614,380	\$ 73,440,000	\$ 7,300,000	\$ 1,609,410	\$ 335,931	\$ 254,299,721
1998	159,846,904	65,200,000	7,021,788	1,414,072	217,018	233,699,782
1999	148,309,082	36,015,000	6,730,517	1,142,873	89,761	192,287,233
2000	157,334,829	34,300,000	6,425,574	835,878	-	198,896,281
2001	140,848,864	32,515,000	6,106,318	2,592,289	-	182,062,471
2002	205,913,962	30,655,000	5,772,077	1,809,115	-	244,150,154
2003	190,428,070	28,715,000	5,426,159	2,824,913	-	227,394,142
2004	232,231,073	26,690,000	24,813,943	2,216,073	-	285,951,089
2005	215,664,108	24,560,000	23,807,269	1,458,890	-	265,490,267
2006	259,881,989	22,325,000	30,123,804	1,950,334	-	314,281,127

Notes: Details regarding the county's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule for demographic and economic statistics for personal income and population data.

Business-Type Activities

General Obligation Bonds	Revenue Bonds	Industrial Extensions Policy	Total Business-Type Activities	Total Primary Government	Percentage of Personal Income¹	Per Capita¹
\$ 26,210,620	\$ -	\$ 297,097	\$ 26,507,717	\$ 280,807,438	5.15%	1,369.46
24,468,096	-	278,898	24,746,994	258,446,776	4.36%	1,220.77
22,685,918	-	181,117	22,867,035	215,154,268	3.37%	984.89
8,875,171	-	233,620	9,108,791	208,005,072	3.02%	936.96
8,356,137	-	163,447	8,519,584	190,582,055	2.71%	828.87
7,816,042	-	71,960	7,888,002	252,038,156	3.49%	1,095.82
7,301,934	24,515,000	28,423	31,845,357	259,239,499	3.51%	1,093.84
6,788,928	24,515,000	-	31,303,928	317,255,017	4.06%	1,310.97
6,280,895	23,245,000	-	29,525,895	295,016,162	3.77%	1,194.77
5,778,014	21,935,000	-	27,713,014	341,994,141	4.37%	1,369.87

DURHAM COUNTY, NORTH CAROLINA

Full-time Equivalent County Government Employees by Function Last Nine Fiscal Years

<u>Function/Program</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General government	193	210	212	210
Public safety	454	472	471	518
Economic and physical development	7	6	6	6
Environmental protection	12	12	18	22
Human services	739	782	796	771
Cultural and recreational	80	84	84	79
Utilities	3	3	4	4
Total	<u>1,488</u>	<u>1,569</u>	<u>1,591</u>	<u>1,610</u>

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
213	206	220	213	216
543	546	559	585	585
5	5	6	8	8
23	21	24	29	28
775	734	686	659	644
80	73	75	74	73
4	5	5	5	5
<u>1,643</u>	<u>1,590</u>	<u>1,575</u>	<u>1,573</u>	<u>1,559</u>

DURHAM COUNTY, NORTH CAROLINA

Operating Indicators By Function Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Administration										
Registered voters	161,350	154,645	161,708	152,176	156,865	152,346	164,129	146,115	145,373	138,179
Taxable real estate parcels	92,600	89,785	87,608	86,177	83,847	82,873	81,253	79,149	77,194	*
Tax bills**	327,282	310,855	301,008	294,927	282,681	257,468	267,247	256,280	252,413	*
Human Services										
Adult care home residents served through on-site inspections	886	884	855	852	*	*	*	*	*	*
Persons testing for HIV/STD	62,013	64,698	62,177	65,429	74,741	71,192	66,993	55,452	*	*
Food assistance individuals	21,706	20,291	19,012	16,854	14,120	12,783	13,053	13,882	*	*
Education										
Students attending public school (1)	31,981	31,719	30,947	30,889	30,821	29,816	29,000	29,400	28,235	28,467
Public school teachers (2)	2,368	2,293	2,184	2,164	2,119	2,126	2,075	2,073	1,979	1,965
Community college students-average semester (3)	*	*	*	*	*	*	*	*	*	*
Community college faculty (3)	*	*	*	*	*	*	*	*	*	*
Community Development and Cultural										
Residential permits issued - new (5)	2,284	2,058	1,983	1,714	1,864	1,626	1,860	1,827	1,550	*
Commercial permits issued - new (5)	229	301	243	269	228	255	295	319	328	*
Building permits - additional, alterations (5)	1,739	1,581	1,724	1,708	1,764	1,656	1,510	1,550	1,607	*
Inspections performed	*	*	*	*	*	*	*	*	*	*
Environmental Services										
Animal control service calls	12,526	11,405	10,423	11,744	10,679	9,513	10,965	11,706	11,642	*
Animals impounded	6,613	6,906	6,358	6,318	5,754	5,432	5,348	5,411	7,851	*
Sanitation inspections	8,419	8,433	8,209	8,463	9,788	9,413	8,128	7,500	6,339	*
Public Safety										
Detention intake	12,743	12,672	12,447	12,438	13,069	12,258	8,019	*	*	*
Civil processes served	33,174	34,281	30,819	34,631	31,124	26,950	23,822	25,611	26,660	*
Pistol permits processed	1,261	1,373	1,287	1,125	1,787	1,429	*	*	3,451	*
Average daily jail population	549	509	470	449	418	414	432	460	460	397
Fire/medical incidents responded to by contracting fire departments	6,239	7,599	7,549	7,423	6,842	6,393	6,071	6,835	3,766	3,782
Durham EMS trips	21,766	19,839	19,001	20,728	21,447	21,016	19,995	23,996	23,605	- (4)

* Information not available.

**Includes only those bills that were billed and to be collected, excludes corrected bills.

(1) North Carolina Department of Public Instruction. 1997-2005 Final Average Daily Membership. 2006 Durham County Public Schools.

(2) Durham County Public Schools.

(3) Durham Technical Community College.

(4) EMS did not become a County function until fiscal year 1998.

(5) Permits are for the complete previous calendar year for each fiscal year.

DURHAM COUNTY, NORTH CAROLINA

Capital Asset Statistics by Function Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Government										
Rentable square footage	721,454	*	*	*	*	*	*	*	*	*
Human Services										
Number of centers	6	6	7	8	9	10	10	9	9	9
Education										
Number of schools	46	46	44	44	44	44	44	46	43	42
Number of higher education institutions	5	5	5	5	5	5	5	5	5	3
Community Development and Cultural										
Libraries - branches	9	8	8	8	8	8	8	8	8	8
Volume of library books	514,958	496,926	475,730	480,641	466,984	466,798	477,486	472,407	454,107	435,369
Number of County parks		60	59	59	59	59	58	60	60	60
Public Safety										
Sheriff - Stations	5	5	5	5	5	5	5	5	5	4
Detention capacity	736	736	736	736	736	736	736	736	736	736
Fire protection - City Stations	14	14	14	13	13	12	12	13	12	12
Fire protection - Volunteer Stations	11	11	12	12	11	12	12	13	12	12
EMS - Stations	6	6	6	6	6	6	6	6	6	- (1)

*Information not available.

(1) EMS did not become a County function until fiscal year 1998.

DURHAM COUNTY, NORTH CAROLINA

Special Assessments and Collections Last Ten Fiscal Years

Fiscal Year Ended June 30,	Total Assessments Uncollected Beginning of Period	Additional Assessments	Collections	Total Assessments Uncollected End of Period
1997	\$ 22,018	\$ -	\$ -	\$ 22,018
1998	22,018	-	15,641	6,377
1999	6,377	599	-	6,976
2000	6,976	-	9	6,967
2001	6,967	-	193	6,774
2002	6,774	-	-	6,774
2003	6,774	-	-	6,774
2004	6,774	-	245	6,529
2005	6,529	-	-	6,529
2006	6,529	-	-	6,529

DURHAM COUNTY, NORTH CAROLINA

Property Value and Construction Last Ten Fiscal Years

Fiscal Year Ended June 30,	Building Value of Permits Issued (1)	Assessed Valuation (2)
1997	\$ 545,524,404	\$ 11,639,602,156
1998	777,375,661	12,254,632,761
1999	676,873,415	12,549,030,411
2000	665,008,911	13,265,146,816
2001	878,788,891	13,925,885,585
2002	654,970,735	19,089,466,059
2003	846,497,743	19,452,484,383
2004	700,759,078	20,180,457,105
2005	897,110,133	20,601,509,290
2006	833,845,052	21,280,715,939

NOTES:

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

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

DURHAM COUNTY, NORTH CAROLINA

Demographic and Economic Statistics Last Ten Years

<u>Year</u>	<u>Population Estimates¹</u>	<u>Personal Income² (thousands of dollars)</u>	<u>Per Capita Personal Income³</u>	<u>School Enrollment⁴</u>	<u>Unemployment Rate⁵</u>
1997	205,050	\$ 5,451,356	\$ 25,540	28,467	2.7%
1998	211,708	5,934,136	29,903	28,235	2.1%
1999	218,455	6,376,044	29,320	29,400	1.9%
2000	222,000	6,887,777	32,382	29,000	2.2%
2001	229,929	7,029,410	32,360	29,816	3.4%
2002	230,000	7,230,974	33,490	30,821	6.1%
2003	237,000	7,385,221	34,605	30,889	5.6%
2004	242,000	7,818,289	32,482	30,947	4.2%
2005	246,924	*	33,505	31,719	4.6%
2006	249,654	*	*	31,981	3.9%

* Information not yet available

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

(2) Bureau of Economic Analysis

(3) 1997-2002 is actual per capital income provided by Problem Solving Research, Inc. & U.S. Dept of Commerce, Bureau of Economic Analysis. 2003, 2004, 2005 and 2006 is projected per capital income for the calendar year and is provided by Woods & Poole Economics, Inc.

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

(4) North Carolina Department of Public Instruction. 1997-2005 Final Average Daily Membership 2006 Durham County Public Schools.

(5) North Carolina Employment Security Commission.

DURHAM COUNTY, NORTH CAROLINA

Principal Employers Current Year and Nine Years Ago

Employer	2006			1997		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Duke University & Medical Center	29,911	1	23.29%	19,500	1	17.22%
International Business Machines (IBM)	11,527	2	8.97%	13,000	2	11.48%
GlaxoSmithKline	5,179	3	4.03%			
Durham Public Schools	5,060	4	3.94%	4,000	4	3.53%
Nortel Networks	2,600	5	2.02%	8,300	3	7.33%
Lenovo Group, LTD	2,300	6	1.79%			
Durham City Government	2,289	7	1.78%			
Veterans Affairs Medical Center	2,086	8	1.62%	1,600	10	1.41%
Research Triangle Institute	2,003	9	1.56%			
Durham County Government	1,737	10	1.35%	1,600	9	1.41%
Glaxo Wellcome Inc.				3,979	5	3.51%
Blue Cross & Blue Shield of NC				2,500	6	2.21%
Durham County Hospital Corp.				2,050	7	1.81%
Durham City Government				1,816	8	1.60%
	<u>64,692</u>		<u>50.36%</u>	<u>58,345</u>		<u>51.53%</u>

Source: Durham Chamber of Commerce.

COMPLIANCE SECTION



INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Durham County, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States, the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Durham County, North Carolina (the County), as of and for the year ended June 30, 2006, and have issued our report thereon dated October 10, 2006. We have also audited the accompanying schedule of debt covenant compliance (the Schedule) as defined in the official statement for the Trust Agreement, dated December 1, 2002, with First-Citizens Bank & Trust Company. These computations are the responsibility of the County's management. Our responsibility is to express an opinion on these computations based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of this information. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule is presented fairly, in all material respects for the year ended June 30, 2006, as described in the Trust Agreement referred to in the first paragraph.

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

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

Raleigh, North Carolina
October 10, 2006

DURHAM COUNTY, NORTH CAROLINA

**Schedule of Debt Covenant Compliance
Year Ended June 30, 2006**

	Enterprise Fund Sewer Utility Fund
	<u> </u>
Operating revenues	
Charges for services	\$ 7,123,510
Total operating revenues	<u>7,123,510</u>
 Operating expenses	
Personnel services	289,442
Contracted services - wastewater treatment plant	1,785,302
Utilities	335,146
Maintenance and other	638,488
Depreciation	563,031
Total operating expenses	<u>3,611,409</u>
 Operating income (loss)	<u>3,512,101</u>
 Add:	
Depreciation expense	<u>563,031</u>
 Income available for debt service	<u><u>\$ 4,075,132</u></u>
 Fiscal year revenue bond debt payments	\$ 2,413,008
Fiscal year total debt payments	\$ 3,294,307
 Senior lien debt service coverage	1.69
Total debt service coverage	1.24
 Series 2003 Revenue Bond Covenant Requirement	
Senior lien debt service coverage	1.20
Total debt service coverage	1.00



Acknowledgments

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

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

Dennis Roberts, Senior Accountant

Larry DeWalt, Accountant

Sarah Hill, Accountant

Dave Jerrido, Accountant

Delphine Powell, Accountant

Bill Alston, Accountant

Catherine Davis, Compliance Manager

Alice Hawes, Accounting Clerk III

Gail Hurst, Accounting Clerk III

Shawantha Perry, Accounting Clerk III