

# CITY OF SALISBURY

## NORTH CAROLINA

### COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2011

MAYOR, CITY COUNCIL, AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

Susan W. Kluttz - Mayor

Margaret A. Blackwell - Mayor Pro-tem

Paul B. Woodson, Jr.

William R. Kennedy

William B. Miller

OFFICIALS

David W. Treme  
City Manager

John A. Sofley, Jr.  
Assistant City Manager

Report Prepared By

City Management Services Department

John A. Sofley, Jr. – Assistant City Manager

S. Wade Furches - Finance Manager

Teresa P. Harris – Budget and Performance Management Manager

Mark D. Drye – Senior Management Analyst

Renee A. Pierson – Management Analyst

Evans C. Ballard – Budget and Benchmarking Analyst

Kizzy N. Lea - Accountant

Melissa H. Drye - Finance Specialist

Clara A. Bost – Business Office Supervisor



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# Introductory Section

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November 29, 2011

The Honorable Mayor Susan W. Kluttz,  
City Council, City Manager,  
and the Citizens of the  
City of Salisbury, North Carolina

We are pleased to present the Comprehensive Annual Financial Report (Report) of the City of Salisbury (City) for the fiscal year ended June 30, 2011 (FY11). We are particularly proud of the fact that this Report has been entirely prepared by the City's Management Services Department. Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the City. We believe the data is accurate in all material respects, and it is presented in a manner designed to set forth fairly the financial position and the results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The accompanying financial statements have been audited by Martin Starnes & Associates, CPAs, P.A., an independent firm of certified public accountants, and their opinion is included in the Report.

### GENERAL

The financial statements have been prepared in compliance with applicable requirements of the General Statutes of North Carolina and are consistent with the standards and guidelines recognized for governmental accounting and reporting contained in both *Audits of State and Local Governmental Units*, an audit guide prepared by the Committee of Governmental Accounting of the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards*, issued by the Comptroller General of the United States. Among the other resources used in the preparation of the financial statements, the Management Services Department Staff has given particular attention to the *Governmental Accounting, Auditing and Financial Reporting* (GAAFR) issued by the Government Finance Officers Association of the United States and Canada (GFOA), and Governmental Accounting Standards Board (GASB) pronouncements.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal, and should be read in conjunction with it.

The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, the State Single Audit Implementation Act, and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. The auditor's reports and the Schedule of Expenditures of Federal and State awards, required as part of a single audit, are found in the Compliance Section of this report.

The City participates in the Certificate of Achievement for Excellence in Financial Reporting awards program sponsored by the Government Finance Officers Association of the United States and Canada. The GFOA recognizes governmental units that issue their comprehensive annual financial reports substantially in conformity with the standards of the Governmental Accounting Standards Board. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

The City's Comprehensive Annual Financial Report for the year ended June 30, 2010, was awarded a Certificate of Achievement for Excellence in Financial Reporting. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **ECONOMIC CONDITION AND OUTLOOK**

The City of Salisbury is located in the heart of North Carolina. Situated along the I-85 corridor which links the community to the state's economic centers, the City is located midway between two major metropolitan regions: Charlotte to the south, and the Piedmont Triad (Greensboro, High Point and Winston-Salem) to the north. In addition to the interstate highway, the City is also served by two major rail lines which intersect in town and an airport on the outskirts of the community. This location offers widely diversified employment opportunities for residents in areas ranging from financial, educational, medical, and governmental to industrial and research activities. In summary, the diverse local economic base and long-term planning coupled with the region's advantages have made the City an attractive place to do business and to live.

The location also allows the City to serve as a trading and distribution center for the County and portions of surrounding counties. Salisbury, like the entire United States, is in the middle of an economic downturn. The local economy, however, is stabilizing. Taxable retail sales in Rowan County for the twelve months that ended June 30, 2011 increased over \$100 million (12.1%) from the prior fiscal year to \$920 million as compared to the statewide average increase of 2.3%. Continuing additions to the area's retail centers and new restaurants have helped to stabilize the local economy. Salisbury is now ranked third in the State of North Carolina in retail sales per capita. The local economy is still relatively strong, and new developments will help Salisbury continue to thrive in the future.

The downtown business district experienced another good year. The City supports and encourages the revitalization of the downtown business district that began in the early 1980's. Since that time over \$117 million has been invested in the redevelopment of Salisbury's downtown. Renovations to very visible, key buildings during the past fiscal year have kept the revitalization momentum going. In the downtown area, over 90% of the first floor business and retail space is currently occupied. The past fiscal year has seen the opening of twelve new downtown businesses, three building renovations, and five façade renovations. The story of downtown Salisbury is one of public-private partnerships committed to maintaining our place as one of the best downtown districts in North Carolina.

The City's proximity to the State's metropolitan regions provides many advantages and challenges. The Piedmont is one of the country's largest growth corridors. The City's management, the City Council, and the citizens continue to explore and develop goals and plans to keep the City of Salisbury financially sound while providing the services domestic and corporate citizens require.

### **MAJOR INITIATIVES**

The fiscal year ended June 30, 2011, was a challenging one in many ways as the City Management Team has strived to maintain high levels of service in a tough economy with declining revenues. Each year, in

February, City Council holds its annual Future Directions and Goal Setting Conference. The theme for the February 2011 conference was “Realizing our Community’s Potential in this New Economy.” These conferences give our Council time to reflect on the past year’s challenges and successes and then establish desired Outcomes and set goals for achievement in the upcoming fiscal year. City management and staff have been working diligently to meet those goals and take Salisbury from good to great.

Since 2009, at the Future Directions and Goal Setting Conferences, City Council established a desired Outcome of wanting to *enhance and support a creative enterprise economy with the best educated workforce, the most competitive infrastructure, an environment for creativity and innovation, a positive business climate, and supportive government in Salisbury and Rowan County.* One step toward reaching this Outcome is to implement a Fiber-to-the-Home system. The City embarked on the largest project in our history and created a new Broadband Services Fund that has now put the City in the business of offering cable television, telephone, and internet services. In FY10, the City developed the brand name Fibrant. In FY11 the City completed the system’s infrastructure throughout the City and Fibrant began serving paying customers in December, 2010. This fiber-optic cable system gives greater bandwidth, translating into much faster speeds and greater capacity for data. Fibrant brings leading-edge communications and entertainment services to the City. In terms of economic development, it will be a big plus for businesses looking to either move here or maintain their presence here. Our customers are reporting great satisfaction with Fibrant’s speed, with uploads of up to 100 megabits per second, which is faster than the primary local internet provider. The fiber-optic system is good for public safety too. It will help to eliminate dead spots – places where the communications signals to Police car computers are weak – and improve safety for our officers and our citizens, which helps to meet another desired Council Outcome of *improving neighborhoods and safety for all areas of the City.* Currently, the City has 1,449 customers (960 as of June 30, 2011) and is adding approximately 120 new customers each month.

With the creation of the new fiber-to-the-home enterprise, the City needed a facility to house those operations. In December 2010, the City opened the new Salisbury Customer Service Center. The Center is a 26,000 square foot building with many “green” features that could qualify for LEED green building certification. In addition to the housing the City’s Fibrant operations, the Center is the new home for our Business Office, Technology Services Department, Telecommunications Department and our Access-16 government education channel’s studio.

During FY11 the City completed constructions on a sewer line extension along Interstate 85 from Salisbury to the southern part of Rowan County. This project was joint effort between Salisbury and Rowan County. The project should help to stimulate economic development opportunities along I-85, the County’s primary growth corridor.

Another of City Council’s goals is to improve and enhance Downtown Salisbury. The revitalization of Salisbury’s downtown area continues to surge ahead. Over \$6.1 million dollars were invested into the downtown during FY11 by various public and private organizations. The City has worked with Downtown Salisbury, Inc. to bring more people to the downtown area. In addition to serving as a retail center, the downtown has become a great place for events and festivals such as the Lord Salisbury Festivals, Pops at the Post, Arts on Easy Street, and the annual Blues and Jazz Festival. These events and festivals bring thousands of people into our downtown area. New for FY11 was the Brick Street Live concert series. In the spring of 2011 the Salisbury Public Art Committee opened its third annual Salisbury Sculpture Show. Fourteen sculptures were placed throughout the downtown and citizens are enjoying finding them, as in a scavenger hunt. The Sculpture Show has garnered attention from a number of media outlets. Since 1980, \$117 million has been invested in downtown Salisbury. That has led to a net gain of 315 new businesses, over one thousand new jobs, and many new residential units. The City’s downtown revitalization effort is admired statewide, as evidenced by the receipt of several awards in the North Carolina Main Street Awards competition.

City Council also desires to maintain quality management of the City and in each of its departments. One way of validating the quality of a City department is to seek national, state, and local recognition. The City has been named one of four finalists for National Gold Medal Award for Excellence in Park and Recreation management, the most prestigious parks and recreation award in the nation. According to the National Recreation and Park Association's web site, each agency is judged on its ability to address the needs of those it serves through the collective energies of citizens, staff, and elected officials. The City is a finalist for the award because the Parks and Recreation Department has demonstrated excellence in long-range planning, resource management, volunteerism, environmental stewardship, program development, professional development and agency recognition. The City's Water and Sewer Fund recently received the Platinum Peak Performance Award from the National Association of Clean Water Agencies. The award recognizes public wastewater treatment facilities for their compliance records. The City was one of only 120 wastewater treatment plant operators in the country, and one of only four in North Carolina, to receive the Platinum Award this year. The award signifies five or more years of 100% National Pollutant Discharge Elimination System permit compliance. The City's Management Services Department continues to excel as well, winning awards for both the Annual Budget and the Comprehensive Annual Financial Report from the Government Finance Officers Association of the United States and Canada.

### **FUTURE DEVELOPMENTS**

As previously discussed, the City has launched the Fibrant enterprise and the opening of the new Customer Service Center. These are exciting, but still challenging times. While interest in Fibrant is high, the challenge of producing a product that will be clearly superior to the competition will be ongoing for years to come. City officials and management are confident that the infrastructure for the best communication and entertainment system is in place and will help assure that Salisbury will continue to be a vibrant community for our citizens and businesses.

Another goal of City Council is maintain and improve our neighborhoods. The City and the Salisbury Housing Authority were recently named as co-recipients of a Choice Neighborhood Planning Grant from the U. S Department of Housing and Urban Development. The goal of the Choice Neighborhoods program is to transform lower income neighborhoods by revitalizing distressed public housing and the surrounding neighborhood. The grant is being used to develop a plan to transform the West End neighborhood. Once finalized, the City's plan will compete for a federal Choice Neighborhood Implementation Grant of up to \$31 million.

The City's Water and Sewer Fund remains committed to providing high quality water and wastewater services to our customers throughout Rowan County. Salisbury-Rowan Utilities is continuing to expand our service area through partnerships and we have sufficient capacity to serve the citizens of Salisbury and other local communities. As of July 1, 2011, the City incorporated the water and sewer systems of the Town of China Grove into our system. This project will expand our service area as well as offer some rate relief for the current customers in China Grove.

The City was awarded over \$2 million in stimulus grants from the American Recovery and Reinvestment Act of 2009. Included in these awards was a \$490,000 grant to expand the City's existing Greenway System. In the fall of 2011 the City will open the Grants Creek Greenway, which is nearing completion. The new section of the greenway will be the seventh and the most scenic part of the greenway system. The City greenway system will now stretch 6 full miles, including 3.1 miles of paved, ten-foot wide walking paths and trails.

### **REPORTING ENTITY**

In conformity with the standards of the Governmental Accounting Standards Board, this Report includes all funds of the City, as well as its component unit. The City of Salisbury (as legally defined) is considered to be a primary government. Current governmental standards for accounting and financial reporting require

inclusion of the primary government as well as its component unit in a published comprehensive annual financial report. The component units are legally separate entities for which the primary government is primarily financially accountable or for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The primary government is considered financially accountable if it appoints a voting majority of the organization's governing body; and 1) it is able to impose its will on that organization; or, 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burden on, the primary government.

The discretely presented component units, Downtown Salisbury Inc. and the Salisbury Tourism and Cultural Development Commission, are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate its financial position, results of operations, and cash flows from those of the primary government.

### **SERVICES PROVIDED**

The City of Salisbury provides a full range of municipal services allowable under State law including law enforcement, fire protection, planning and development services, zoning and code enforcement, recreation centers and parks, cemeteries, street maintenance, and sanitation. In addition to these general government activities, the City provides and maintains water and sewer utilities and operates a mass transit system. In the December 2010, the City began offering cable, telephone, and internet services. This report includes all the City's fiscal activities in maintaining these services.

### **GOVERNMENT STRUCTURE**

The City employs a Council-Manager form of government as provided in the City's Charter. The governing body consists of five council members, elected on a nonpartisan basis at large for a two-year term. The Council elects the Mayor from among them. The Mayor is usually the council member receiving the highest number of votes in the general election. Elections are held in November of odd numbered years. The City Manager (the chief executive officer) is appointed by and serves at the pleasure of the Mayor and Council. The Mayor and Council adopt a balanced budget and establish a tax rate for the support of City services prior to the beginning of each July 1 to June 30 fiscal year. The City Manager administers City programs in accordance with local policy and the annual budget.

### **ACCOUNTING SYSTEMS AND BUDGETARY CONTROL**

In developing and evaluating the City's accounting systems, consideration is given to the adequacies of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As a recipient of federal and state awards, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management. As a part of the City's single audit described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state awards, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for FY11 provided no instances of material weaknesses in the internal control structure.

Budgetary control is maintained at the departmental level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of departmental balances are not released until additional appropriations are made available. Open encumbrances lapse at year end and are reinstated against the subsequent year's appropriation.

### **BASIS OF ACCOUNTING**

The City's accounting records for governmental funds are maintained on a modified accrual basis whereby revenues are recognized when measurable and available, and expenditures are recognized in the accounting period in which the liability is incurred except for unpaid interest on general long-term debt. Proprietary fund and pension trust fund revenues and expenses are recognized on the accrual basis whereby revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period in which they are incurred. Fiduciary funds are accounted for on the modified accrual basis, the same as for governmental funds.

### **FUND ACCOUNTING**

Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or obtaining certain objectives in accordance with special regulations, restrictions, or limitations. Thus a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functions.

### **FUND CATEGORIES**

Governmental funds are those through which governmental functions typically are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities, except those accounted for in the proprietary fund, are accounted for through governmental funds. The governmental fund measurement focus is based upon determination of financial position and changes in financial position (sources, usage, and balances of financial resources), rather than upon net income determination. The statement of revenues, expenditures, and changes in fund balance is the primary governmental fund operating statement. It may be supported or supplemented by more detailed schedules of revenues, expenditures, transfers, and other changes in fund balance.

Proprietary funds are used to account for a government's ongoing organizations and activities which are similar to those found in the private sector. All assets, liabilities, equity, revenues, expenses, and transfers relating to the government's business and quasi-business activities (where net income and capital maintenance are measured) are accounted for through proprietary funds. The generally accepted accounting principles used here are those applicable to similar businesses in the private sector and the measurement focus is upon determination of net income, financial position, and cash flows.

Fiduciary funds are used to account for assets held by governmental units in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are purely

custodial in nature and do not measure the results of operations. Pension trust funds are accounted for in essentially the same manner as proprietary funds.

## **FINANCIAL MANAGEMENT**

The City's financial management program continues to provide the citizens of the City with an approach which has served to enhance the City's excellent financial position by:

1. Investing all available funds not needed on a daily basis in order to maximize interest earnings, and
2. Allocating City resources only to program areas that meet community needs, and
3. Monitoring these program areas to ensure they are carried out within authorized levels.

This financial management program allows the City to achieve its goal of expanded and improved services to the citizens of Salisbury. As discussed in the Management's Discussion and Analysis, the City continues to receive excellent bond ratings from various rating agencies. This is a reflection of the City's continued sound financial condition.

## **LONG-TERM FINANCIAL PLANNING**

The City of Salisbury maintains a comprehensive five-year Capital Improvement Program (CIP). The CIP is both a planning and a financial tool used to prepare for future capital needs. Currently, the City's CIP focuses on General Fund needs and Water and Sewer Fund needs. With the launch of the new Broadband Services Fund, the needs for that fund will be incorporated into the CIP in future years. The City's CIP defines a capital improvement as a major construction, repair, or additions to buildings, parks, streets, bridges, and other City facilities costing \$10,000 or more and having a useful life of more than three years.

Despite the weak economy, the City's investment in its infrastructure continues – as is evident in the City's launching of its new fiber-to-the-home utility. Salisbury is leading the way with this state-of-the-art communication and entertainment broadband system. This is the infrastructure of the future, as is evidenced by the \$7.2 billion ARRA funding to expand broadband access and adoption in communities across the United States. Also, in FY11 the City expanded our sidewalk system in three separate areas of the City using federal grants. As mentioned earlier, our greenway will soon be expanded with the addition of the Grants Creek Greenway.

The City continues to plan for future needs related to the City's water and sewer system. In FY11 the City completed the I-85 sewer line extension. The I-85 project was joint project with Rowan County that consisted of 6 miles of gravity sewer lines that will create economic development opportunities along the I-85 corridor from Salisbury towards the southern end of Rowan County. Also, the City has completed a \$9 million renovation to our wastewater treatment plant and will soon complete the extensions to our latest annexation area.

## **CONCLUSION**

As previously discussed in this transmittal letter, the national, state, and local economies remain unstable, but are showing signs of stabilization. While we are confident that new retail stores and the ongoing redevelopment in the downtown will help to further strengthen the local economy, our City management continues to prepare for challenging times ahead. The City's management team recently completed an organizational realignment that included a reduced workforce through early retirements and the elimination of some positions. Management and staff are always looking for ways to control operating and capital expenditures while continuing to assure our citizens that the City will be able to provide the quality of services

that they have come to enjoy and expect. We strive to continue to provide the most value and the very best customer service to the citizens of Salisbury and the customers of Salisbury-Rowan Utilities and Fibrant.

The future continues to hold many other uncertainties. Federal and State mandates impact local governments in all areas of operations. Also, the City will soon have a new City Manager for the first time in 25 years. Our long-time leader and visionary, David W. Treme, retired August 1, 2011. Although Mr. Treme, has retired, he left behind a very capable management team and a solid foundation on which we will move forward. The citizens of Salisbury have come to expect and appreciate high levels of service they enjoy. The City will continue to focus on its core values, mission, and vision to provide quality services to all of our citizens. Although, the City faces rising operational costs, our Council and management are constantly guarding against unnecessary tax and utility rate increases. All City operations are being asked to maintain their readiness to respond to our citizens in these challenging times. Overall, new retail in the City and sound management by our City Council will continue to provide the City a stable financial position from which we may serve the citizens of Salisbury for years to come.

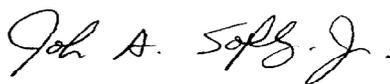
### ACKNOWLEDGMENTS

We wish to thank the Mayor, City Council and the City Manager for the support and trust they have given the Management Services Department. On behalf of the team of the Management Services Department, we promise our continued dedication to proving ourselves worthy of their support and trust. We are confident that together we can provide the citizens of Salisbury with responsible and progressive financial management.

For the preparation of this Report, the City is especially indebted to Teresa P. Harris, Budget and Performance Management Manager, Mark D. Drye, Management Analyst, Kizzy N. Lea, Accountant, and Evans C. Ballard, Budget and Benchmarking Analyst. Without their assistance, this Report could not have been prepared on a timely basis.

Each year, we strive to prepare a financial report which provides a meaningful analysis and disclosure of the City's financial activities and financial position. We believe this Report conforms substantially to the standards of financial reporting of the appropriate professional organizations.

Respectfully submitted,



John A. Sofley, Jr.  
Management Services Director



S. Wade Furches  
Finance Manager

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Salisbury  
North Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

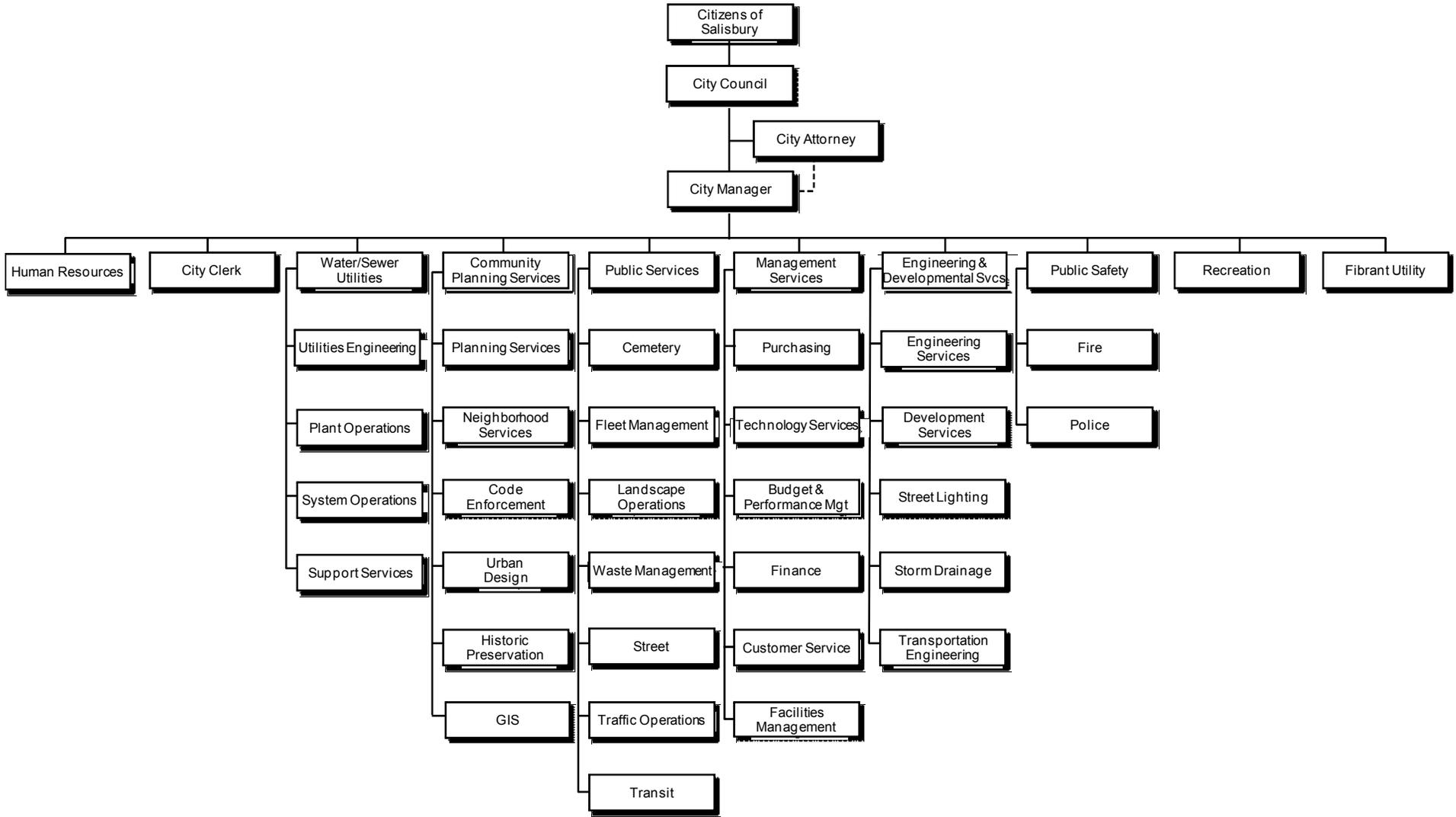
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# City of Salisbury Organizational Chart



**CITY OF SALISBURY**  
**LIST OF PRINCIPAL OFFICIALS**

June 30, 2011

Mayor	Susan W. Kluttz
Mayor Pro Tem	Margaret A. Blackwell
Council Member	Paul B. Woodson, Jr.
Council Member	William R. Kennedy
Council Member	William B. Miller
City Manager	David W. Treme
Assistant City Manager	Douglas T. Paris, Jr.
Assistant City Manager	John A. Sofley, Jr.
City Clerk	Myra B. Heard
Fire Chief	Robert A. Parnell
Engineering and Development Services Director	Daniel J. Mikkelson
Community Planning Services Director	Joseph C. Morris
Human Resources Director	Zack Kyle
Police Chief	Rory B. Collins
Public Services Director	Tony L. Cinquemani
Parks and Recreation Director	Gail Elder-White
Utilities Director	James D. Behmer
Broadband Services Director	C. Michael Crowell
Purchasing Agent	Anna R. Bumgarner
Technology Services Manager	Randall A. Moran

## **FACTS AND INFORMATION ABOUT CITY OF SALISBURY, NORTH CAROLINA**

### **LOCATION**

Salisbury, the county seat of Rowan County, is located in the heart of the beautiful Piedmont area, the industrial heart of the State. Salisbury is located midway between Charlotte and Winston-Salem, 296 miles from Atlanta, Georgia and 368 miles from Washington, D.C.

### **CLIMATE**

The climate of the Salisbury area is moderate, a definite advantage to those who live and work here. The massive mountains of Western North Carolina form a natural barrier against the cold east-west winds. While definitely southern in climate, Salisbury is far enough north and has sufficient altitude to escape the humid summers of many other southern regions. Extremes in climate are very rare and short-lived. In winter the high temperature is about 50 degrees, with a low around 32 degrees. The total snowfall is normally about 6 inches each year. In the summer, the high averages about 87 degrees, with a low of 66 degrees.

### **POPULATION**

The population of the City of Salisbury has increased steadily during the past decade. This is due to both annexations and internal growth stimulated by the local economy. Population currently is estimated to be 33,722 based upon estimates from the North Carolina Office of State Planning.

### **HISTORY**

Scotch-Irish, who originally settled in Lancaster County, Pennsylvania, moved down the "Great Wagon Road" 435 miles to Trading Ford on the Yadkin River to become the first settlers in Rowan County.

The County of Rowan was established in 1753. At this time, Rowan included all territory north to Virginia and east to what we know now as Guilford County and west to the mountains. Eventually, 26 counties were formed from Rowan. Rowan County was named for Matthew Rowan, acting governor for the colony in 1753.

The deed for Salisbury is dated February 11, 1755. The court center, called prior to this time Rowan Court House, was a bustling little village of seven or eight log cabins, a court house, jail and pillory, according to Governor Arthur Dobbs who visited here in late 1755.

The Court House dates to 1753 and consists of deeds, marriages, and miscellaneous records of value. Papers formerly in the Clerk's Office such as the early court minutes are stored at the State Department of Archives in Raleigh. Familiar names in American history adorn these records.

Andrew Jackson, Richard Henderson, William R. Davis, Daniel Boone, Lord Cornwallis, Richard Caswell and many other prominent local families as the Barkleys, Hoovers, and Polks, all ancestors of presidents or vice-presidents, appear time and again in the deeds and court minutes of the county.

Two years before the national Declaration of Independence and one year before the Mecklenburg Declaration of Independence, a group of patriotic citizens of Rowan County, serving as a Committee of Safety, on August 8, 1774 adopted the Rowan Resolves containing the pioneer element toward liberty and independence from Britain. These resolves reached the highest note of any passed in the colony in calling for the abolishment of the African Slave trade and urging the colonies to "unite in an indissoluble union and association". These resolves are located in the State Archives and are the only ones of the many passed in this period that are preserved.

So many legends and lifestyles have been passed down over the passage of time. Daniel Boone began his exploration of the Blue Ridge Mountains from here in Salisbury. Near the present-day library is the small office where Andrew Jackson studied law and was admitted to the bar before he moved westward.

For all the struggles and hardships our ancestors endured, they have provided Salisbury with character and a rich heritage.

### **GOVERNMENT**

The City of Salisbury's government is organized according to the Council-Manager form of government. The City Council, which formulates policy for the Administration of the City, together with the Mayor, constitutes the governing body of the City. The five (5) members are elected to serve two (2) year terms of office. The Mayor is elected from the five Council members. The Mayor presides at City Council meetings. Also, a Mayor Pro Tem is elected by City Council members to serve as Mayor during her absence or disability.

The City Council appoints the City Manager to serve as the City's Chief Executive Officer. The City Manager is responsible for implementing the policies of the City Council, directing business and administrative procedures, and appointing departmental officers. At the present time, the City Manager is assisted by the City Clerk and nine staff departments: Management Services, Human Resources, Fire, Police, Land Management and Development, Public Services, Parks and Recreation, Public Utilities, and Broadband Services. The City provides a full range of municipal services allowable under State law including law enforcement, fire protection, zoning and code enforcement, recreation centers and parks, cemeteries, street maintenance, sanitation, and water and sewer systems.

### **UTILITIES**

Salisbury operates its own water and sewer system. The Yadkin River, which forms the northeast boundary of Rowan County, provides Salisbury with an abundant supply of good water. The average daily flow is nearly 2 billion gallons per day, and the minimum recorded one-day flow is 150 million gallons. The Salisbury water system, conventional in design and closely controlled, has a treatment capacity of 12 million gallons per day. Average daily production during fiscal year 2011 was 8.4 million gallons per day. The filter plant is designed for expansion as needed to 18 million gallons per day by adding pumping and settling capacity. An arterial system of distribution mains has been constructed to assure maximum fire protection to all parts of the city.

The Salisbury water system supplies the following towns in Rowan County: Spencer, East Spencer, Granite Quarry, Rockwell, China Grove, Landis, and Kannapolis and service has been extended to a number of industrial sites well beyond the city limits. The water supply meets all federal and State quality requirements.

Salisbury's three wastewater treatment facilities serve as the area's regional wastewater utility with service expansion to the towns of Landis, China Grove, Spencer, East Spencer, Granite Quarry, and Rockwell. Total daily treatment capacity in 2006 was 12.5 million gallons.

The City now offers cable television, high-speed internet, and digital telephone services through its Broadband Services Fund. Fibrant went live in December 2010 and had 960 customer by June 30, 2011.

Other utilities are provided by Duke Energy, Piedmont Natural Gas Company, Bellsouth Telephone, Windstream, and Time Warner Cable.

### **TRANSPORTATION**

Salisbury, nearly the geographic and population center of North Carolina, is located on Interstate Highway 85, 42 miles from Charlotte, 52 miles from Greensboro and 39 miles from Winston-Salem. It is the crossroads of I-85, U.S. 29, 52, 70, 601 and N.C. 150. Over 3.5 million people live within 90 miles of Salisbury, 1.75 million within 55 miles and 60% of the population of the United States within an overnight truck haul. The seaports of Wilmington, Morehead City, Charleston, and Norfolk are less than a one-day truck haul away.

Rowan County Airport, three (3) miles from downtown Salisbury, has a 5,800 ft. x 100 ft. paved and lighted runway. Hangar space and private plane servicing are available.

Two major commercial airports are within a one-hour drive of Salisbury – Charlotte-Douglas International in Charlotte and Piedmont Triad International (PTI) in Greensboro. Additionally, these airports provide regular air passenger services to all parts of the United States via AirTran, American, Continental, Delta, United, and US Airways. There are also non-stop, international flight options available to Frankfurt, London, and San Juan, among other global destinations.

Greyhound provides bus service to Salisbury with daily arrivals and departures. Local bus service is provided by the City's Transit System.

Amtrak provides rail transportation with service on the Piedmont and the Carolinian from New York City to Charlotte, North Carolina. Arrivals and departures are from The Depot, a renovated station of the Salisbury Railroad Station Depot, originally built in 1907.

### **MOTELS**

An ideal area for meetings and conventions, Salisbury has fourteen (14) motels, with over 1,100 rooms, and two (2) bed and breakfast establishments in our historic district.

### **EDUCATION**

Salisbury is home to two (2) colleges and a technical school. Catawba College was founded in Newton, North Carolina in 1851, and moved to Salisbury in 1925. Catawba has thirty (30) buildings comprising a physical plant unsurpassed in the East for a college of this size and style. It has a total enrollment of 1,500 Liberal Arts students and is affiliated with the United Church of Christ. Livingstone College was founded in 1879, and has 1,000 Liberal Arts students. It is supported by the African Methodist Episcopal Zion Church.

Rowan-Cabarrus Community College offers two-year educational programs leading to the associate's degree in applied science. In addition, one-year diploma programs are offered in five fields. There is a total enrollment of approximately 4,700 full-time students.

In addition to the Salisbury-Rowan public school system, there are several private and church related schools.

## **ARTS AND ENTERTAINMENT**

The cultural atmosphere of the Salisbury area is significantly enriched by the outstanding programs of Catawba and Livingstone Colleges and the other colleges in the area. Each year the Catawba College Shuford School of Performing Art brings a minimum of four musical events to Salisbury. Catawba's fine Drama department offers several professional type drama productions each year. Livingstone College also has a cultural series that brings artists to the community as well as an excellent drama group, The Julia B. Duncan Players.

The Piedmont Players, a community little theater organization, provides excellent entertainment as well as a chance to participate in both its acting and technical activities. They have completely restored the historic Meroney Theater, built in 1905, for their home. The Piedmont Players present five shows each season. Also, in 2009 the Norvell Children's Theater opened. The Norvell features plays cast entirely with children and youth. Many school groups attend plays at the Norvell every year. Piedmont Players has received an award at the annual North Carolina Theatre Conference for having the best community theater in the state.

The Salisbury-Rowan Symphony, consisting of musicians from the area, presents four concerts each season. In addition to participation in the regular concert series, the string quartet of the Salisbury Symphony visits the elementary schools to present programs. The object of this mini-concert series is to give the students some knowledge of music and famous composers.

Rowan-Cabarrus Community College participates in the North Carolina Visiting Artist Program. Each year a professional artist is employed and in residence at the college. Concerts and musical programs are provided regularly by many artists throughout the state as well as the Visiting Artist. In addition, Rowan-Cabarrus Community College sponsors a Folk Heritage Center. This center serves as a network for professional and local folk artists and presents classes, concerts, and other folk artist activities for the general public.

## **COMMUNITY FACILITIES**

Salisbury is served daily by The Salisbury Post. Four (4) radio stations provide for local programming. WBTV has a satellite newsroom located in Salisbury. Local reception provides coverage of all major networks in addition to cable television facilities.

A full-time year-round recreation staff offers activities for both young and old. In addition to organized activities, the City provides several parks and facilities for general use.

The Salisbury Community Park and Athletic Complex opened in April 2001. Amenities at the 314 acre park include baseball/softball fields, soccer fields, picnic shelters, play structures and a nine-acre lake suitable for fishing and equipped with a handicap accessible pier.

City Park has two large playgrounds, tennis courts, a five (5) acre lake for fishing, picnic shelters, and a Recreation Center that offers programs/classes throughout the year. Salisbury has a Civic Center with a weight room, racquetball courts, auditorium, tennis courts and a handicap exercise trail.

Kelsey-Scott Park is a twenty-two (22) acre park located on Old Wilkesboro Road. It includes a nine-hole disc golf course, a baseball/softball field, an outdoor basketball court, and a picnic shelter. The Jaycee Sports Complex is a multi-use area that includes two (2) ball fields, basketball courts, and a walking trail that includes fitness equipment along the way. The Miller Recreation Center located on West Bank Street has a play structure and an indoor basketball court. The Center offers programs throughout the year.

Hurley Park is a municipal garden which has a unique collection of plants to the area. The Park provides an educational experience as well as a pleasurable place to stroll.

## **SPECIAL EVENTS**

Each year, the Salisbury-Rowan Chamber of Commerce presents the National Sportscasters and Sportswriters Awards Program. The program has been a big success. The National Sportscasters and Sportswriters Awards Program has attracted national attention to the City. Each year nationally renowned sportscasters and sportswriters visit Salisbury to attend the annual awards program. The City's downtown area host many special events, including several "night outs," throughout the year featuring bands and entertainment.



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# Financial Section

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# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of Downtown Salisbury, Inc. which represents 87 percent, 43 percent and 63 percent respectively, of the assets, net assets and revenues of the discretely presented component units. 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 Downtown Salisbury, Inc., 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 Downtown Salisbury, Inc. and Salisbury Tourism and Cultural Development Commission 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 the other auditors, the financial statements referred to above present fairly, in all material respects, the respective 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 City of Salisbury, North Carolina, as of June 30, 2011, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2011, on our consideration of City of Salisbury's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Law Enforcement Officer's Special Separation Allowance and the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of City of Salisbury, North Carolina as a whole. The introductory section, combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act and is also not a required part of the basic financial statements. The combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
November 29, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Salisbury, North Carolina, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Salisbury for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with the transmittal letter which begins on page 4 and the City's financial statements, which begin on page 33.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Salisbury's governmental and business-type activities exceeded its liabilities at the close of the fiscal year by \$133,087,231 (*net assets*).
- The government's total net assets decreased by \$679,462. The City's total assets decreased by \$6,059,508, due primarily to depreciation expense. Capital assets before depreciation increased by \$11.8 million, offsetting an \$11.2 million decrease in current assets. The City recognized \$7.2 million in depreciation expense in FY11.
- As of the close of the current fiscal year, the City of Salisbury's governmental funds reported combined ending fund balances of \$8,493,389, a decrease of \$797,080 from the prior year, which is partially due to spending \$387,837 of debt proceeds (borrowed in the previous fiscal year) on City facilities. Also, the General Fund incurred a loss of \$418,147. Approximately 61 percent of the General Fund ending fund balance, or \$5,159,830, is non-spendable or restricted.
- At the end of the current fiscal year, the amount of the General Fund balance that is Available for Appropriation in the subsequent fiscal year is \$3,832,800, or 11.02 percent of total general fund expenditures and transfers for the fiscal year.
- The City of Salisbury's total long-term debt decreased by \$3,949,484 or 4.3%, during the current fiscal year. The City did issue \$914,000 of new debt for the equipment purchases and refinanced some existing water and sewer debt. The City paid off \$5.3 million of previously existing debt.
- The City's general obligation bond ratings of "A+" was reaffirmed by Standard and Poor's in April 2010 and Moody's Investors Service reaffirmed "A1" in October 2008. In November 2010, Fitch Ratings assigned an "AA-" rating to the City's \$16 million revenue refunding bonds. Moody's assigned an "Aa3" rating to the refunding bonds. Also, in October 2008 the City's 2008 Certificates of Participation received ratings of "Aa3" from Moody's Investors Service and "A" from Standard and Poor's.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Salisbury's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Salisbury.

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include two kinds of statements that present different views of the City.

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

The next statements (Exhibits A-3 through A-11) are *Fund Financial Statements*. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains available for future spending. The proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, the water and sewer system and the transit system. The fiduciary fund statements provide information about the financial relationships – like the pension trust for the City's law enforcement officers – in which the City acts solely as a trustee for the benefit of others, to whom the resources in question belong.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, environmental protection, community and economic development, and general administration. Property taxes, sales taxes, and state and federal grant funds finance most of these activities. The business-type activities are those services that the City charges fees to customers to help cover all or most of the cost of the services provided. These include the water and sewer and mass transit services offered by the City of Salisbury, as well as the City's new broadband services. The final category is the component unit. The City's component units, Downtown Salisbury, Inc. and the Salisbury Tourism and Cultural Development Commission, are important to the City because they serve to promote the City and its downtown. Although legally separate from the City,

Downtown Salisbury Inc.'s and the Salisbury Tourism and Cultural Development Commission's revenues consist largely of hotel occupancy taxes, municipal service district taxes, and supplemental appropriations from the City, all of which must be approved by City Council.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Salisbury, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Salisbury can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Salisbury adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the various departments of the City, the management of the City, and the decisions of City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Proprietary Funds** – The City of Salisbury has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Salisbury uses enterprise funds to account for its water and sewer activity, its new broadband services activity, and for its mass transit operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the City of Salisbury. The City uses internal service funds to account

for two activities – its self-insured health insurance and worker compensation insurance. Because most of the costs of these operations are attributable to governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds – The City is the trustee, or fiduciary for its Law Enforcement Officers’ Special Separation Allowance, its Boards and Commissions, the Municipal Service District, and the Town of East Spencer’s water and sewer operations. All of the City’s fiduciary activities are reported in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 43 and 44. We excluded these activities from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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 are on pages 45-69 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Salisbury’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 73-76 of this report.

**THE CITY OF SALISBURY’S NET ASSETS**  
Figure 1

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Current and other assets	\$ 12,998,120	\$ 14,587,554	\$ 21,035,119	\$ 30,633,843	\$ 34,033,239	\$ 45,221,397
Capital assets	47,363,964	46,616,820	150,686,715	146,305,209	198,050,679	192,922,029
Total assets	<u>\$ 60,362,084</u>	<u>\$ 61,204,374</u>	<u>\$ 171,721,834</u>	<u>\$ 176,939,052</u>	<u>\$ 232,083,918</u>	<u>\$ 238,143,426</u>
Long-term liabilities outstanding	\$ 12,264,711	\$ 11,904,092	\$ 80,349,807	\$ 83,779,239	\$ 92,614,518	\$ 95,683,331
Other liabilities	2,903,770	3,876,177	3,478,399	4,817,225	6,382,169	8,693,402
Total liabilities	<u>\$ 15,168,481</u>	<u>\$ 15,780,269</u>	<u>\$ 83,828,206</u>	<u>\$ 88,596,464</u>	<u>\$ 98,996,687</u>	<u>\$ 104,376,733</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 39,495,804	\$ 38,831,003	\$ 74,697,761	\$ 76,682,748	\$ 114,193,565	\$ 115,513,751
Restricted	4,846,985	4,189,007	3,150,905	3,150,905	7,997,890	7,339,912
Unrestricted	850,814	2,404,095	10,044,962	8,508,935	10,895,776	10,913,030
Total net assets	<u>\$ 45,193,603</u>	<u>\$ 45,424,105</u>	<u>\$ 87,893,628</u>	<u>\$ 88,342,588</u>	<u>\$ 133,087,231</u>	<u>\$ 133,766,693</u>
Total liabilities and net assets	<u>\$ 60,362,084</u>	<u>\$ 61,204,374</u>	<u>\$ 171,721,834</u>	<u>\$ 176,939,052</u>	<u>\$ 232,083,918</u>	<u>\$ 238,143,426</u>

As noted earlier, net assets may serve over time as one useful indicator of a government’s financial condition. The assets of the City of Salisbury exceeded liabilities by \$133,087,231 as of June 30, 2011, a decrease of \$679,462 from the fiscal year ended June 30, 2010. The largest portion of the City’s net assets (85.8%) reflects the City’s investment in capital assets (e.g. land, buildings, machinery, equipment,

water and sewer treatment facilities, water and sewer lines, and broadband lines), less any related debt still outstanding that was issued to acquire or build those items. The City of Salisbury uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Salisbury's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. Of the remaining net assets, \$10,895,776 (8.2%) is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 95.41%, which has decreased slightly, but not significantly, since last year.
- Increased property tax revenues of \$31,557 due to economic growth.
- Continued low cost of debt due to the City's excellent bond ratings.

#### CITY OF SALISBURY CHANGES IN NET ASSETS

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 5,512,198	\$ 5,616,137	\$ 22,883,897	\$ 21,462,812	\$ 28,396,095	\$ 27,078,949
Operating grants and contributions	2,334,124	2,507,060	549,621	509,046	2,883,745	3,016,106
Capital grants and contributions	912,385	759,641	1,725,935	-	2,638,320	759,641
General revenues:						
Property taxes	17,410,646	17,379,089	-	-	17,410,646	17,379,089
Other taxes	4,752,432	4,526,014	-	-	4,752,432	4,526,014
Intergovernmental revenue	3,540,146	3,494,579	-	-	3,540,146	3,494,579
Other	298,147	460,312	238,664	264,384	536,811	724,696
Total revenues	\$ 34,760,078	\$ 34,742,832	\$ 25,398,117	\$ 22,236,242	\$ 60,158,195	\$ 56,979,074
<b>Expenses:</b>						
General government	\$ 8,638,802	\$ 9,000,546	\$ -	\$ -	\$ 8,638,802	\$ 9,000,546
Public safety	13,065,399	12,781,599	-	-	13,065,399	12,781,599
Transportation	5,410,397	5,720,250	-	-	5,410,397	5,720,250
Environmental protection	2,372,108	1,903,354	-	-	2,372,108	1,903,354
Culture and recreation	2,852,895	2,977,724	-	-	2,852,895	2,977,724
Community and economic development	1,868,213	1,861,576	-	-	1,868,213	1,861,576
Education	42,342	42,342	-	-	42,342	42,342
Interest and feeson long-term debt	323,639	365,136	-	-	323,639	365,136
Water and sewer	-	-	21,352,837	20,703,446	21,352,837	20,703,446
Broadband Services	-	-	3,735,371	828,584	3,735,371	828,584
Mass transit	-	-	1,175,654	1,217,603	1,175,654	1,217,603
Total expenses	\$ 34,573,795	\$ 34,652,527	\$ 26,263,862	\$ 22,749,633	\$ 60,837,657	\$ 57,402,160
Change in net assets before transfers	\$ 186,283	\$ 90,305	\$ (865,745)	\$ (513,391)	\$ (679,462)	\$ (423,086)
Transfers	(416,785)	(390,319)	416,785	390,319	-	-
Change in net assets	\$ (230,502)	\$ (300,014)	\$ (448,960)	\$ (123,072)	\$ (679,462)	\$ (423,086)
Net assets, July 1	45,424,105	45,724,119	88,342,588	88,465,660	133,766,693	134,189,779
Net assets, June 30	\$ 45,193,603	\$ 45,424,105	\$ 87,893,628	\$ 88,342,588	\$ 133,087,231	\$ 133,766,693

Governmental activities - Governmental activities decreased the City's net assets by \$230,502. As mentioned previously, this decrease is partially attributable to spending \$387,837 from its Capital Project Fund on the City's facilities.

Business-type activities - Business-type activities decreased the City's net assets by \$448,960. The Water and Sewer Fund's net income of \$2,626,559 was offset by the \$3,000,402 loss in the Broadband Services Fund. The Broadband Services completed its implementation and start up phase and began selling broadband services in December 2010. The Mass Transit Fund had a loss of \$75,117, primarily due to the recognition of depreciation.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

### **Governmental Funds**

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

The focus of the City of Salisbury's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Salisbury's financing requirements.

The General Fund is the chief operating fund of the City of Salisbury. As of June 30, 2011, the City's fund balance available in the General Fund was \$3,832,800, while total fund balance was \$8,486,390. City Council has determined that the City should maintain an available fund balance of 10% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting cash flow needs of the City. The City currently has an available fund balance of 11.02% of General Fund expenditures, while total fund balance represents 24.4% of the same amount.

At June 30, 2011, the governmental funds of the City of Salisbury reported a combined fund balance of \$8,493,389, an 8.6 percent decrease from last year. As discussed earlier, the City had a \$418,147 loss in the General Fund and spent \$387,837 in the Capital Projects fund.

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

Total amendments to the General Fund increased revenues and other sources of funds and expenditures by \$262,461. The difference between the original budget and the final amended budget can be briefly summarized as follows:

- The City has been awarded over \$78,625 grant to develop the new Foil-Tatum Park on donated land in one of the City's neighborhoods.
- The City received \$100,645 from donations and small grants for Parks and Recreation, public art, police equipment, and the Neighborhood Blockwork program.

- The appropriated \$31,985 of available fund balance sidewalks and vehicle repairs. The City also received \$51,206 from insurance proceeds that were used to repair damaged City vehicles and facilities.

Revenues were less than the budgeted amounts primarily because some appropriated grant funds and donations had not been earned and therefore, not received by June 30, 2011. The City had not earned these funds because the related expenditures had not been made. Therefore, these unearned grants had no effect on the General Fund's change in fund balance, which decreased by \$418,147 during the fiscal year ended June 30, 2011.

### **Proprietary Funds**

The City of Salisbury's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Proprietary Funds at the end of the fiscal year were to \$10,044,962. The total net assets of the Water and Sewer Fund increased by \$2,626,559. The total net assets of the Mass Transit Fund decreased by \$75,117. The Broadband Services Fund has a net deficit of \$3,717,569. The Broadband Services Fund finished its startup construction and began selling services in December 2010.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets - The City of Salisbury's investment in capital assets for its governmental and business-type activities as of June 30, 2011 totals \$198,050,679 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles, water and sewer treatment facilities, and water and sewer lines. The City's capital assets in the governmental-type assets increased 1.6 percent, whereas capital assets in the business-type activities increased by 3 percent, primarily because of construction in the Broadband Services Fund.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Expenditures on the construction of water and sewer infrastructure totaling \$4.8 million. The City capitalized \$15.3 million in construction projects, including \$13.1 million that was in progress at June 30, 2010.
- Expenditures on the construction of the City's new broadband system were \$5,888,566. The City capitalized \$25.7 million from construction of the new broadband system and facilities, including \$19.8 million that was in progress at June 30, 2010.
- The City completed its new Customer Service Center which houses the City's new Broadband Services operations, the Business Office, and the Technology Services department. The City spend \$2 million on the facility in the fiscal year ended June 30, 2011, bring the total cost of the new building to \$7.2 million.
- The City used grant funds to complete three major sidewalk projects the construction of the newest phase of our greenway. The sidewalk projects were completed and totaled \$766,123. The City has spent \$382,008 on the greenway, which was not finished as of June 30, 2011.
- Purchase of a new vehicles totaling \$1,474,050 in the General Fund, \$382,352 in the Water and Sewer Fund, and \$90,414 in the Broadband Services Fund. The General Fund vehicles included ten police cars and a new ladder fire truck.

**CITY OF SALISBURY'S CAPITAL ASSETS**  
(net of depreciation)

Figure 3

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Land	\$ 7,736,361	\$ 7,736,361	\$ 2,072,067	\$ 2,072,067	\$ 9,808,428	\$ 9,808,428
Construction in progress	440,831	1,423,656	3,990,741	37,020,685	4,431,572	38,444,341
Buildings	8,603,423	7,123,562	16,788,741	11,889,987	25,392,164	19,013,549
Improvements other than buildings	8,047,550	7,453,445	-	-	8,047,550	7,453,445
Equipment	1,475,506	1,122,591	592,970	638,452	2,068,476	1,761,043
Vehicles and motorized equipment	3,575,188	2,970,849	1,733,268	1,617,235	5,308,456	4,588,084
Infrastructure	17,485,105	18,786,356	125,508,928	93,066,783	142,994,033	111,853,139
<b>Total</b>	<b>\$ 47,363,964</b>	<b>\$ 46,616,820</b>	<b>\$ 150,686,715</b>	<b>\$ 146,305,209</b>	<b>\$ 198,050,679</b>	<b>\$ 192,922,029</b>

Additional information on the City's capital assets can be found in note 2.A.4. of the Basic Financial Statements.

Long-term Debt - As of June 30, 2011, the City of Salisbury had total long-term debt outstanding of \$87,224,433 (not including compensated absences and other postemployment benefits). Of this, \$5,690,650 is general obligation debt backed by the full faith and credit of the City and \$33,810,689 represents bonds secured solely by specified revenue sources (i.e. revenue bonds). The City owes \$38,769,527 on various installment purchases, including \$32 million borrowed to finance the City's new Broadband Services utility.

**CITY OF SALISBURY'S OUTSTANDING DEBT**

(not including compensated absences or postemployment benefits)

Figure 4

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
General obligation bonds	\$ 1,075,000	\$ 1,275,000	\$ 4,615,650	\$ 5,742,062	\$ 5,690,650	\$ 7,017,062
Revenue bonds	-	-	33,810,689	35,261,442	33,810,689	35,261,442
State bond loans	-	-	7,125,036	8,007,542	7,125,036	8,007,542
Capital leases	-	-	1,456,531	1,732,856	1,456,531	1,732,856
Installment purchases	6,637,574	6,698,398	32,131,953	32,052,617	38,769,527	38,751,015
HUD Section 108 loan	372,000	404,000	-	-	372,000	404,000
<b>Total</b>	<b>\$ 8,084,574</b>	<b>\$ 8,377,398</b>	<b>\$ 79,139,859</b>	<b>\$ 82,796,519</b>	<b>\$ 87,224,433</b>	<b>\$ 91,173,917</b>

The City of Salisbury's total outstanding debt decreased by \$3,949,484 (4.3 percent) during the past fiscal year. The City borrowed \$914,000 on installment financing loans that were used to purchase equipment and refinanced some existing water and sewer debt. The City paid down its outstanding debt by \$5.3 million in principal payments during the fiscal year.

As mentioned in the financial highlights section of this document, the City of Salisbury received an AA-rating from Fitch Ratings and an Aa3 rating from Moody's Investor Service on its \$16 million Water and Sewer revenue refunding bonds. Also, the City has maintained its overall A+ rating from Standard and Poor's. These bond ratings are a clear indication of the sound financial condition of the City of Salisbury. This achievement is a primary factor in keeping interest costs low on the City's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Salisbury is \$189,056,197.

Additional information regarding the City of Salisbury's long-term debt can be found in Note 2.B.6 of this report.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following key indicators show that while Salisbury, like the rest of the nation, continues to be in period of severe economic slowdown, some improvement is evident.

- Average unemployment in Salisbury for the fiscal year ended June 30, 2011, was 11.6%, which is down from the 12.7% unemployment of the fiscal year ended June 30, 2010. The average unemployment rate for the State of North Carolina for the past fiscal year was 9.9%, which is down from 10.8% for the previous fiscal year.
- Despite the fact that unemployment remains high, retail sales in Rowan County were strong in fiscal year ended June 30, 2011. The County's sales subject to North Carolina sales taxes increased over \$100 million (12.1%) from the previous year to \$920,565,043. Although sales tax information is no longer published for Cities by the NC Department of Revenue, sales in the City have historically accounted for about two-thirds of sales in the County. The City's sales tax revenues increased \$226,418 from the previous year.
- Home sales in Rowan County continued to fall during the past fiscal year. The number of homes sold dropped 17.3% during the past fiscal year and have fallen 61% over the past four fiscal years. The average sales price for homes has decreased 2% in the past two years.
- On the bright side, The occupancy rates for first floor office and retail space in the City's downtown area continues to be over 90% and redevelopment activity in the downtown is strong.

### **BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2011**

#### **Governmental Activities**

General Fund – The City expects that revenues for the fiscal year ending June 30, 2012 will increase about 2 percent, or \$700,000, over the prior fiscal year to \$33.7 million. The City expects revenue from property tax collections to decrease \$738,000. After revaluation, City Council approved a new tax rate that was less than the revenue tax rate. Collections of local sales tax revenues are not expected to increase

due to the continued economic slowdown. City Council did approve a new waste collection fee that should generate \$118,000.

Expenditures in the General Fund are also expected to decrease \$1 million, or 2.9 per cent. Personnel costs will decrease due to the elimination of 36 full-time and 11 part-time positions. Savings from the elimination of these positions will be partially offset by \$610,000 in mandated increases in health insurance cost, workers compensation, and contributions to the Local Government Retirement System. Also, no merit raises for City employees were budgeted for the third consecutive year and City Council has temporarily frozen some vacant positions. The City has opened the new Salisbury Customer Service Center, which will increase operational costs such as utilities, maintenance, and insurance.

### **Business – Type Activities**

**Water and Sewer Fund** - The water and sewer rates in the City will increase by 2.1%. Amidst continued economic concerns and higher operating costs, the City has strived to maximize resources to meet the difficult task of stabilizing water and sewer rates. As with the General Fund, there will be no merit raises given to employees in FY12, but personnel cost will increase due to the added fringe benefit costs. Operating expenses, including increasing fuel, gas, and electric costs and the costly repairs of our aging infrastructure, will account for the majority of the rate increase. The Water and Sewer Fund will incorporate the Town of China Grove's water and sewer system in our system, expanding our service area and providing some rate relief for the citizens of China Grove.

**Broadband Services Fund** – As previously mentioned, the City has launched a brand new enterprise –a Fiber to the Home system that provides leading-edge communications and entertainment services to our residents and businesses. This is one of the largest projects in the City's history. Current estimates show that it will take four years for the Broadband Services Fund to be cash positive.

**Mass Transit Fund** – Ridership of the City's buses is increasing due to the cost of individual transportation. The City continues to explore new ways and new routes to enhance the level of service provided. The Mass Transit Fund's budget will remain approximately the same as the FY11 budget, with no major increases, except for increase personnel costs. The City's annual General Fund contribution to the Mass Transit Fund will remain at \$416,785.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money received. Questions concerning any of the information found in this report or requests for additional information should be directed to the Management Services Director, City of Salisbury, 132 North Main Street, Salisbury, NC 28144.

A-1  
**CITY OF SALISBURY, NORTH CAROLINA**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Downtown Salisbury, Inc.</u>	<u>Salisbury Tourism and Cultural Development Commission</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 6,216,086	\$ 11,261,295	\$ 17,477,381	\$ 69,630	\$ 217,181
Taxes receivables (net)	1,183,941	-	1,183,941	-	-
Accrued interest receivable on taxes	120,210	-	120,210	-	-
Accounts receivable (net)	944,584	3,953,195	4,897,779	2,250	-
Interest receivable	28,891	43,490	72,381	-	-
Due from other governments	3,643,821	260,200	3,904,021	-	-
Due from other fund	8,500	-	8,500	-	-
Inventories	296,538	1,698,580	1,995,118	-	-
Prepaid items	23,306	83,849	107,155	-	-
Advance funding of pension obligation	25,747	-	25,747	-	-
Real estate held for investment	-	-	-	1,221,254	-
Restricted assets:					
Cash and cash equivalents	506,496	3,734,510	4,241,006	109,457	-
Capital assets					
Land, improvements, and construction in progress	8,177,192	6,062,808	14,240,000	-	-
Other capital assets, net of depreciation	39,186,772	144,623,907	183,810,679	15,948	-
Total assets	<u>\$ 60,362,084</u>	<u>\$ 171,721,834</u>	<u>\$ 232,083,918</u>	<u>\$ 1,418,539</u>	<u>\$ 217,181</u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 2,560,000	\$ 1,801,858	\$ 4,361,858	\$ 1,390	\$ 144
Unearned revenue	290,083	-	290,083	-	-
Accrued interest payable	53,687	1,084,436	1,138,123	16,068	-
Customer deposits	-	583,605	583,605	-	-
Due to other fund	-	8,500	8,500	-	-
Long-term liabilities:					
Due within one year	1,463,563	4,080,135	5,543,698	5,285	-
Due in more than one year	10,801,148	76,269,672	87,070,820	1,234,088	-
Total liabilities	<u>\$ 15,168,481</u>	<u>\$ 83,828,206</u>	<u>\$ 98,996,687</u>	<u>\$ 1,256,831</u>	<u>\$ 144</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 39,495,804	\$ 74,697,761	\$ 114,193,565	\$ 10,613	-
Restricted for:					
Debt service	216,413	3,150,905	3,367,318	-	-
Stabilization by State Statute	4,333,746	-	4,333,746	-	-
Community Development	179,313	-	179,313	151,095	-
Public Safety	89,275	-	89,275	-	-
Cultural and Recreation	20,728	-	20,728	-	-
Environment Protection	7,510	-	7,510	-	-
Tourism Promotion	-	-	-	-	217,037
Unrestricted	850,814	10,044,962	10,895,776	-	-
Total net assets	<u>\$ 45,193,603</u>	<u>\$ 87,893,628</u>	<u>\$ 133,087,231</u>	<u>\$ 161,708</u>	<u>\$ 217,037</u>

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

## CITY OF SALISBURY, NORTH CAROLINA

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental Activities:				
General government	\$ 8,638,802	\$ 3,528,014	\$ -	\$ -
Public safety	13,065,399	446,473	423,904	6,359
Transportation	5,410,397	141,241	900,783	906,026
Environmental protection	2,372,108	1,102,823	-	-
Culture and recreation	2,852,895	156,726	63,370	-
Community and economic development	1,868,213	136,921	946,067	-
Education	42,342	-	-	-
Interest and fees on long-term debt	323,639	-	-	-
Total governmental activities	<u>\$ 34,573,795</u>	<u>\$ 5,512,198</u>	<u>\$ 2,334,124</u>	<u>\$ 912,385</u>
Business-type activities:				
Water and Sewer	\$ 21,352,837	\$ 22,139,692	\$ -	\$ 1,725,935
Broadband Services	3,735,371	610,074	-	-
Mass Transit	1,175,654	134,131	549,621	-
Total business-type activities	<u>\$ 26,263,862</u>	<u>\$ 22,883,897</u>	<u>\$ 549,621</u>	<u>\$ 1,725,935</u>
Total primary government	<u>\$ 60,837,657</u>	<u>\$ 28,396,095</u>	<u>\$ 2,883,745</u>	<u>\$ 2,638,320</u>
Component units:				
Downtown Salisbury, Inc.	\$ 445,875	\$ 70,810	\$ 98,500	\$ 230,211
Salisbury Tourism and Cultural Development Commission	183,447	-	-	-
Total Component Units	<u>\$ 629,322</u>	<u>\$ 70,810</u>	<u>\$ 98,500</u>	<u>\$ 230,211</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Sales and other taxes				
Unrestricted intergovernmental revenues				
Unrestricted investment earnings				
Valuation impairment-Empire Hotel				
Miscellaneous				
Total general revenues				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets-beginning				
Net assets-ending				

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

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

Primary Government			Component Units		
Governmental Activities	Business-type Activities	Total Primary Government	Downtown Salisbury, Inc.	Salisbury Tourism and Cultural Development Commission	
\$ (5,110,788)	\$ -	\$ (5,110,788)	\$ -	\$ -	
(12,188,663)	-	(12,188,663)	-	-	
(3,462,347)	-	(3,462,347)	-	-	
(1,269,285)	-	(1,269,285)	-	-	
(2,632,799)	-	(2,632,799)	-	-	
(785,225)	-	(785,225)	-	-	
(42,342)	-	(42,342)	-	-	
(323,639)	-	(323,639)	-	-	
<u>\$ (25,815,088)</u>	<u>\$ -</u>	<u>\$ (25,815,088)</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ -	\$ 2,512,790	\$ 2,512,790	\$ -	\$ -	
-	(3,125,297)	(3,125,297)	-	-	
-	(491,902)	(491,902)	-	-	
<u>\$ -</u>	<u>\$ (1,104,409)</u>	<u>\$ (1,104,409)</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>\$ (25,815,088)</u>	<u>\$ (1,104,409)</u>	<u>\$ (26,919,497)</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ -	\$ -	\$ -	\$ (46,354)	\$ -	
-	-	-	-	(183,447)	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (46,354)</u>	<u>\$ (183,447)</u>	
\$ 17,410,646	\$ -	\$ 17,410,646	\$ 134,054	\$ -	
4,752,432	-	4,752,432	-	312,492	
3,540,146	-	3,540,146	-	-	
99,759	238,664	338,423	-	-	
-	-	-	(1,207,020)	-	
198,388	-	198,388	11,412	1,190	
<u>\$ 26,001,371</u>	<u>\$ 238,664</u>	<u>\$ 26,240,035</u>	<u>\$ (1,061,554)</u>	<u>\$ 313,682</u>	
(416,785)	416,785	-	-	-	
<u>\$ 25,584,586</u>	<u>\$ 655,449</u>	<u>\$ 26,240,035</u>	<u>\$ (1,061,554)</u>	<u>\$ 313,682</u>	
\$ (230,502)	\$ (448,960)	\$ (679,462)	\$ (1,107,908)	\$ 130,235	
45,424,105	88,342,588	133,766,693	1,269,616	86,802	
<u>\$ 45,193,603</u>	<u>\$ 87,893,628</u>	<u>\$ 133,087,231</u>	<u>\$ 161,708</u>	<u>\$ 217,037</u>	

A-3  
**CITY OF SALISBURY, NORTH CAROLINA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2011**

<u>ASSETS</u>	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Government Funds</u>
Cash and cash equivalents	\$ 5,762,905	\$ 11,989	\$ 5,774,894
Taxes receivable, net	1,183,941	-	1,183,941
Accounts receivable	944,584	-	944,584
Interest receivable	26,913	-	26,913
Due from other governments	3,625,078	18,743	3,643,821
Due from other fund	8,500	-	8,500
Inventories	296,538	-	296,538
Prepaid items	23,306	-	23,306
Restricted cash and investments	506,496	-	506,496
Total assets	<u>\$ 12,378,261</u>	<u>\$ 30,732</u>	<u>\$ 12,408,993</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,915,508	\$ 23,733	\$ 1,939,241
Due to other fund	-	-	-
Deferred revenue	1,976,363	-	1,976,363
Total liabilities	<u>\$ 3,891,871</u>	<u>\$ 23,733</u>	<u>\$ 3,915,604</u>
Fund balances:			
Nonspendable:			
Inventories	\$ 296,538	\$ -	\$ 296,538
Prepaid items	23,306	-	23,306
Restricted:			
Stabilization by State Statute	4,333,746	-	4,333,746
Debt Service	216,413	-	216,413
Community Development	172,314	6,999	179,313
Public Safety	89,275	-	89,275
Cultural and Recreation	20,728	-	20,728
Environment Protection	7,510	-	7,510
Committed:			
Capital replacement	2,811,084	-	2,811,084
Unassigned	515,476	-	515,476
Total fund balances	<u>\$ 8,486,390</u>	<u>\$ 6,999</u>	<u>\$ 8,493,389</u>
Total liabilities and fund balances	<u>\$ 12,378,261</u>	<u>\$ 30,732</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	47,363,964
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Accrued interest receivable from taxes	120,210
Intangible asset - advance funding of pension obligation	25,747
Internal service funds are used by management to charge the costs of certain activities, such as self insurance for health care and workers compensation, to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the statement of net assets.	(177,589)
Liabilities for earned but deferred revenues in fund statements.	1,686,279
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds:	
Long-term debt	(8,084,573)
Accrued interest on long-term debt	(53,687)
Other postemployment benefits	(2,227,976)
Accrued compensated absences	(1,952,161)
Net assets of governmental activities	<u>\$ 45,193,603</u>

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

**CITY OF SALISBURY, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 17,295,252	\$ -	\$ 17,295,252
Unrestricted intergovernmental	8,292,578	-	8,292,578
Restricted intergovernmental	1,977,364	629,147	2,606,511
Charges for services	5,502,823	-	5,502,823
Miscellaneous	<u>387,934</u>	<u>38,879</u>	<u>426,813</u>
Total revenues	<u>\$ 33,455,951</u>	<u>\$ 668,026</u>	<u>\$ 34,123,977</u>
<b>EXPENDITURES</b>			
Current:			
General government	\$ 8,488,211	\$ 380,844	\$ 8,869,055
Public safety	13,019,001	84,689	13,103,690
Transportation	5,072,925	-	5,072,925
Environmental protection	1,814,708	-	1,814,708
Culture and recreation	2,709,176	-	2,709,176
Community and economic development	1,737,131	529,602	2,266,733
Education	42,342	-	42,342
Debt service:			
Principal	1,174,824	32,000	1,206,824
Interest	<u>312,995</u>	<u>19,824</u>	<u>332,819</u>
Total expenditures	<u>\$ 34,371,313</u>	<u>\$ 1,046,959</u>	<u>\$ 35,418,272</u>
Surplus (deficiency) of revenues over expenditures	<u>\$ (915,362)</u>	<u>\$ (378,933)</u>	<u>\$ (1,294,295)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from (to) other funds	\$ (416,785)	\$ -	\$ (416,785)
Long-term debt issued	<u>914,000</u>	<u>-</u>	<u>914,000</u>
Total other financing sources	<u>\$ 497,215</u>	<u>\$ -</u>	<u>\$ 497,215</u>
Net change in fund balance	\$ (418,147)	\$ (378,933)	\$ (797,080)
Fund balances-beginning	<u>8,904,537</u>	<u>385,932</u>	<u>9,290,469</u>
Fund balances-ending	<u>\$ 8,486,390</u>	<u>\$ 6,999</u>	<u>\$ 8,493,389</u>

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

**CITY OF SALISBURY, NORTH CAROLINA**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2011**

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

Net changes in fund balances - total governmental funds		\$ (797,080)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Changes in deferred revenue for property tax revenues	\$ 105,484	
Changes in deferred revenue for unavailable grant reimbursements	502,399	
Changes in accrued interest receivable on taxes	9,910	
Changes in advance funding of pension obligation	<u>(15,403)</u>	602,390
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 outlays exceeded depreciation in the current period:		
Capital outlay expenditures which were capitalized	\$ 3,789,267	
Depreciation expense for governmental assets	<u>(3,042,183)</u>	747,084
Net revenue (loss) of Internal Service Funds determined to be Governmental Fund Type		(431,457)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.		
Issuance of long-term debt		(914,000)
Principal payments on long-term debt		1,206,824
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in compensated absences	\$ 37,962	
Change in OPEB liability	(691,405)	
Change in accrued interest payable	<u>9,180</u>	<u>(644,263)</u>
Total changes in net assets of governmental activities		<u>\$ (230,502)</u>

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

**CITY OF SALISBURY, NORTH CAROLINA  
GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

**For the Year Ended June 30, 2011**

	<b>General Fund</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	
Revenues:				
Taxes	\$ 17,472,951	\$ 17,472,951	\$ 17,295,252	\$ (177,699)
Unrestricted intergovernmental	8,454,472	8,454,472	8,292,578	(161,894)
Restricted intergovernmental	2,283,013	2,315,293	1,977,364	(337,929)
Charges for services	6,144,411	6,144,411	5,502,823	(641,588)
Miscellaneous	<u>616,477</u>	<u>846,658</u>	<u>387,934</u>	<u>(458,724)</u>
Total revenues	<u>\$ 34,971,324</u>	<u>\$ 35,233,785</u>	<u>\$ 33,455,951</u>	<u>\$ (1,777,834)</u>
Expenditures:				
Current:				
General government	\$ 8,817,438	\$ 9,023,258	\$ 8,488,211	\$ 535,047
Public safety	13,423,245	13,688,683	13,019,001	669,682
Transportation	5,588,778	5,461,436	5,072,925	388,511
Environmental protection	1,828,955	1,848,955	1,814,708	34,247
Cultural and recreation	3,008,483	2,985,679	2,709,176	276,503
Community and economic development	1,879,577	1,832,200	1,737,131	95,069
Education	42,342	42,342	42,342	-
Debt service:				
Principal retirement	1,174,824	1,174,824	1,174,824	-
Interest and other charges	<u>313,105</u>	<u>313,105</u>	<u>312,995</u>	<u>110</u>
Total expenditures	<u>\$ 36,076,747</u>	<u>\$ 36,370,482</u>	<u>\$ 34,371,313</u>	<u>\$ 1,999,169</u>
Surplus (deficiency) of revenues over expenditures	<u>\$ (1,105,423)</u>	<u>\$ (1,136,697)</u>	<u>\$ (915,362)</u>	<u>\$ 221,335</u>
Other financing sources (uses):				
Transfers to other funds	\$ (416,785)	\$ (416,785)	\$ (416,785)	\$ -
Long-term debt issued	953,000	953,000	914,000	(39,000)
Fund balance appropriated	<u>569,208</u>	<u>600,482</u>	<u>-</u>	<u>(600,482)</u>
Total other financing sources (uses)	<u>\$ 1,105,423</u>	<u>\$ 1,136,697</u>	<u>\$ 497,215</u>	<u>\$ (639,482)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (418,147)</u>	<u>\$ (418,147)</u>
Fund balances, beginning of year			<u>8,904,537</u>	
Fund balances, end of year			<u>\$ 8,486,390</u>	

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

## CITY OF SALISBURY, NORTH CAROLINA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

June 30, 2011

	Enterprise Funds				Governmental
	Water and Sewer Fund	Broadband Services Fund	Transit Fund	Total	Internal
					Service Funds
<u>ASSETS</u>					
Current assets:					
Cash and cash equivalents	\$ 11,258,990	\$ 1,907	\$ 398	\$ 11,261,295	\$ 441,192
Accounts receivable (net)	3,776,572	176,168	455	3,953,195	-
Interest receivable	43,490	-	-	43,490	1,978
Due from other governments	119,977	20,616	119,607	260,200	-
Due from other fund	1,194,694	-	-	1,194,694	-
Prepaid items	-	83,849	-	83,849	-
Inventories	356,280	1,333,887	8,413	1,698,580	-
Restricted assets:					
Cash and cash equivalents	583,605	3,150,905	-	3,734,510	-
Total current assets	<u>\$ 17,333,608</u>	<u>\$ 4,767,332</u>	<u>\$ 128,873</u>	<u>\$ 22,229,813</u>	<u>\$ 443,170</u>
Noncurrent assets:					
Capital assets:					
Land	\$ 2,072,067	\$ -	\$ -	\$ 2,072,067	\$ -
Buildings and improvements	179,749,008	25,781,995	467,924	205,998,927	-
Equipment	6,890,819	371,178	2,002,436	9,264,433	-
Construction in progress	3,990,741	-	-	3,990,741	-
Accumulated depreciation	(68,512,572)	(181,475)	(1,945,406)	(70,639,453)	-
Total noncurrent assets	<u>\$ 124,190,063</u>	<u>\$ 25,971,698</u>	<u>\$ 524,954</u>	<u>\$ 150,686,715</u>	<u>\$ -</u>
Total assets	<u>\$ 141,523,671</u>	<u>\$ 30,739,030</u>	<u>\$ 653,827</u>	<u>\$ 172,916,528</u>	<u>\$ 443,170</u>
<u>LIABILITIES</u>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 1,321,079	\$ 437,494	\$ 43,285	\$ 1,801,858	\$ 620,759
Interest payable	482,753	601,683	-	1,084,436	-
Due to other fund	-	-	8,500	8,500	-
Bonds, notes, and loans payable	4,035,776	-	-	4,035,776	-
Compensated absences	37,308	3,228	3,823	44,359	-
Customer deposits	583,605	-	-	583,605	-
Total current liabilities	<u>\$ 6,460,521</u>	<u>\$ 1,042,405</u>	<u>\$ 55,608</u>	<u>\$ 7,558,534</u>	<u>\$ 620,759</u>
Noncurrent liabilities:					
Bonds, notes, and loans payable	\$ 42,972,130	\$ 32,131,953	\$ -	\$ 75,104,083	\$ -
Due to other fund	-	1,194,694	-	1,194,694	-
Other postemployment benefits	642,705	58,493	65,165	766,363	-
Compensated absences	335,767	29,054	34,405	399,226	-
Total noncurrent liabilities	<u>\$ 43,950,602</u>	<u>\$ 33,414,194</u>	<u>\$ 99,570</u>	<u>\$ 77,464,366</u>	<u>\$ -</u>
Total liabilities	<u>\$ 50,411,123</u>	<u>\$ 34,456,599</u>	<u>\$ 155,178</u>	<u>\$ 85,022,900</u>	<u>\$ 620,759</u>
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	\$ 77,182,157	\$ (3,009,350)	\$ 524,954	\$ 74,697,761	\$ -
Restricted for debt service	-	3,150,905	-	3,150,905	-
Unrestricted	13,930,391	(3,859,124)	(26,305)	10,044,962	(177,589)
Total net assets	<u>\$ 91,112,548</u>	<u>\$ (3,717,569)</u>	<u>\$ 498,649</u>	<u>\$ 87,893,628</u>	<u>\$ (177,589)</u>

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

## CITY OF SALISBURY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Enterprise Funds				Governmental Activities
	Water and Sewer Fund	Broadband Services Fund	Transit Fund	Total	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 21,027,091	\$ 610,074	\$ 104,113	\$ 21,741,278	\$ 4,850,947
Water and sewer taps	264,338	-	-	264,338	-
Other operating revenues	848,263	-	30,018	878,281	-
Total operating revenues	<u>\$ 22,139,692</u>	<u>\$ 610,074</u>	<u>\$ 134,131</u>	<u>\$ 22,883,897</u>	<u>\$ 4,850,947</u>
OPERATING EXPENSES					
Management and administration	\$ 4,220,963	\$ 492,291	\$ 330,061	\$ 5,043,315	\$ 5,289,534
Water resources	2,041,779	-	-	2,041,779	-
Maintenance and construction	5,266,807	-	-	5,266,807	-
Wastewater collection and treatment	2,662,368	-	-	2,662,368	-
Environmental services	693,450	-	-	693,450	-
Broadband sales and marketing	-	209,016	-	209,016	-
Broadband programming	-	315,656	-	315,656	-
Broadband services	-	650,862	-	650,862	-
Broadband service delivery	-	354,257	-	354,257	-
Mass transit operations	-	-	752,901	752,901	-
Depreciation	4,267,357	163,973	92,692	4,524,022	-
Total operating expenses	<u>\$ 19,152,724</u>	<u>\$ 2,186,055</u>	<u>\$ 1,175,654</u>	<u>\$ 22,514,433</u>	<u>\$ 5,289,534</u>
Operating income (loss)	<u>\$ 2,986,968</u>	<u>\$ (1,575,981)</u>	<u>\$ (1,041,523)</u>	<u>\$ 369,464</u>	<u>\$ (438,587)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	\$ 113,769	\$ 124,895	\$ -	\$ 238,664	\$ 7,130
Developers' contributions	1,725,935	-	-	1,725,935	-
Interest expense	(1,769,528)	(1,469,980)	-	(3,239,508)	-
Bond issuance costs	(430,585)	(79,336)	-	(509,921)	-
Intergovernmental revenues	-	-	549,621	549,621	-
Total nonoperating revenue (expenses)	<u>\$ (360,409)</u>	<u>\$ (1,424,421)</u>	<u>\$ 549,621</u>	<u>\$ (1,235,209)</u>	<u>\$ 7,130</u>
Income (loss) before transfers	\$ 2,626,559	\$ (3,000,402)	\$ (491,902)	\$ (865,745)	\$ (431,457)
Transfers from other funds	-	-	416,785	416,785	-
Change in net assets	\$ 2,626,559	\$ (3,000,402)	\$ (75,117)	\$ (448,960)	\$ (431,457)
Total net assets - beginning	88,485,989	(717,167)	573,766	88,342,588	253,868
Total net assets - ending	<u>\$ 91,112,548</u>	<u>\$ (3,717,569)</u>	<u>\$ 498,649</u>	<u>\$ 87,893,628</u>	<u>\$ (177,589)</u>

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

A-9  
CITY OF SALISBURY, NORTH CAROLINA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2011

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer Fund	Broadband Services Fund	Transit Fund	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 21,132,957	\$ 433,906	\$ 104,421	\$ 21,671,284	\$ -
Cash received from interfund services provided	-	-	-	-	4,850,947
Cash paid for goods and services	(9,656,864)	(2,195,269)	(465,946)	(12,318,079)	(5,241,852)
Cash paid to or on behalf of employees for services	(4,961,326)	(857,648)	(624,247)	(6,443,221)	-
Customer deposits received	239,902	-	-	239,902	-
Customer deposits returned	(210,596)	-	-	(210,596)	-
Other receipts	848,263	-	30,018	878,281	-
Net cash provided (used) by operating activities	<u>\$ 7,392,336</u>	<u>\$ (2,619,011)</u>	<u>\$ (955,754)</u>	<u>\$ 3,817,571</u>	<u>\$ (390,905)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	\$ -	\$ -	\$ 416,785	\$ 416,785	\$ -
Loans (to) from other funds	(1,194,694)	1,194,694	8,500	8,500	-
Intergovernmental revenues	-	-	476,632	476,632	-
Total cash flows provided (used) by noncapital financing activities	<u>\$ (1,194,694)</u>	<u>\$ 1,194,694</u>	<u>\$ 901,917</u>	<u>\$ 901,917</u>	<u>\$ -</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets	\$ (3,397,136)	\$ (7,718,676)	\$ -	\$ (11,115,812)	\$ -
Proceeds from debt issuance	16,065,000	-	-	16,065,000	-
Premium on debt issuance	1,624,392	-	-	1,624,392	-
Payments to refunded bond escrow agent	(17,364,146)	-	-	(17,364,146)	-
Debt issuance costs paid	(325,246)	-	-	(325,246)	-
Principal paid on bond maturities and equipment contracts	(4,166,579)	-	-	(4,166,579)	-
Interest paid on bond maturities and equipment contracts	(1,837,211)	(868,297)	-	(2,705,508)	-
Developers' contributions	1,725,935	-	-	1,725,935	-
Net cash provided (used) by capital and related financing activities	<u>\$ (7,674,991)</u>	<u>\$ (8,586,973)</u>	<u>\$ -</u>	<u>\$ (16,261,964)</u>	<u>\$ -</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>					
Investment earnings	\$ 106,993	\$ 124,895	\$ -	\$ 231,888	\$ 7,860
Net increase (decrease) in cash and cash equivalents	\$ (1,370,356)	\$ (9,886,395)	\$ (53,837)	\$ (11,310,588)	\$ (383,045)
Balances-beginning of the year	13,212,951	13,039,207	54,235	26,306,393	824,237
Balances-end of the year	<u>\$ 11,842,595</u>	<u>\$ 3,152,812</u>	<u>\$ 398</u>	<u>\$ 14,995,805</u>	<u>\$ 441,192</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	<u>\$ 2,986,968</u>	<u>\$ (1,575,981)</u>	<u>\$ (1,041,523)</u>	<u>\$ 369,464</u>	<u>\$ (438,587)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	\$ 4,267,357	\$ 163,973	\$ 92,692	\$ 4,524,022	\$ -
Changes in current assets and liabilities:					
(Increase) decrease in accounts receivable	(158,472)	(176,168)	308	(334,332)	-
(Increase) decrease in inventory	5,873	(1,333,887)	(1,055)	(1,329,069)	-
(Increase) decrease in due from other governments	(6,056)	(23,242)	(505)	(29,803)	8
(Increase) decrease in prepaid items	-	(83,849)	-	(83,849)	-
Increase (decrease) in accounts payable and accrued liabilities	75,264	380,376	(11,138)	444,502	47,674
Increase (decrease) in compensated absences payable	(14,834)	1,280	(15,068)	(28,622)	-
Increase (decrease) in accrued OPEB liability	206,930	28,487	20,535	255,952	-
Increase (decrease) in customer deposits	29,306	-	-	29,306	-
Total adjustments	<u>\$ 4,405,368</u>	<u>\$ (1,043,030)</u>	<u>\$ 85,769</u>	<u>\$ 3,448,107</u>	<u>\$ 47,682</u>
Net cash provided (used) by operating activities	<u>\$ 7,392,336</u>	<u>\$ (2,619,011)</u>	<u>\$ (955,754)</u>	<u>\$ 3,817,571</u>	<u>\$ (390,905)</u>

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

**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINING STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2011**

	<b>Fiduciary Funds</b>	
	<b>Pension Trust</b>	
	<b>Fund</b>	<b>Agency Funds</b>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 924,089	\$ 177,239
Accounts receivable	-	196,564
Interest receivable	3,304	-
Total assets	\$ 927,393	\$ 373,803
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 4,404	\$ 373,803
Total liabilities	\$ 4,404	\$ 373,803
<u>NET ASSETS</u>		
Held in trust for participants	\$ 922,989	\$ -

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

**CITY OF SALISBURY, NORTH CAROLINA**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**PENSION TRUST FUND**  
**For the Year Ended June 30, 2011**

Additions:	
Employer contributions	\$ 138,394
Investment earnings	<u>9,097</u>
Total additions	<u>\$ 147,491</u>
Deductions:	
Retirement payments	<u>\$ 205,565</u>
Total deductions	<u>\$ 205,565</u>
Net increase	\$ (58,074)
Net assets, beginning of year	<u>981,063</u>
Net assets, end of year	<u><u>\$ 922,989</u></u>

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

# CITY OF SALISBURY, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

The accounting policies of the City of Salisbury (City) and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

#### A. Reporting Entity

The City of Salisbury is a municipal corporation that is governed by an elected board of five city council members. As required by generally accepted accounting principles, these financial statements present the City and its component unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

#### Discretely Presented Component Units

Downtown Salisbury, Inc. was created to serve the interests of merchants and property owners in the downtown Salisbury area. Eight board members, one of whom is appointed by the City Council, govern the Corporation. The Corporation's revenue sources are almost entirely dependent on the City Council's approval of a municipal service district tax levy and a supplemental appropriation as part of the annual budget process. Complete financial statements for the component unit may be obtained from the unit's administrative offices at Downtown Salisbury, Inc., 100 West Innes Street Suite 300, Salisbury, NC 28144.

The Salisbury Tourism and Cultural Development Commission was created to market Salisbury and promote tourism and cultural development. Nine board members, all of whom are appointed by the City Council, govern the Commission. The Commission's revenue sources are entirely dependent on the City Council's approval of a hotel occupancy tax. Complete financial statements for the component unit may be obtained from the unit's administrative offices at the City of Salisbury, 132 North Main Street, Salisbury, NC 28144.

#### Related Organization

The Housing Authority of Salisbury's governing board is appointed entirely by the City's Mayor. However, the City has no further accountability for the Housing Authority's operations.

#### B. Basis of Presentation

Government-wide Statements – The statement of net assets and the statement of activities display information about the primary government and its component unit. 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. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. 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 City and for each function of the City'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. Program revenues include (a) fees and charges paid to 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.

## NOTES TO THE FINANCIAL STATEMENTS

Fund Financial Statements – The fund financial statements provide information about the City’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 non-major funds.

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

The City reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, sanitation services, parks and recreation, and economic development.

The City reports the following non-major governmental funds:

Special Revenue Fund - Special revenue funds account for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City maintains one Special Revenue Fund, a Community Development Fund.

Capital Projects Fund - Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds). North Carolina General Statutes require the establishment of a capital project fund to account for the proceeds of each bond order or order authorizing any debt instrument and for all other resources used for the capital projects financed by the bond or debt instrument proceeds.

The City reports the following major enterprise funds: Water and Sewer Fund – used to account for the City’s water and sewer operations, Broadband Services Fund – used to account for the City’s broadband operations, and the Mass Transit Fund – used to account for the City’s mass transit system operations.

The City reports the following other fund types:

Internal Service Funds – Internal service funds are used to account for the financing of goods or services provided by an activity to other departments or funds on a cost-reimbursement basis. The City has two Internal Service Funds: the Workers’ Compensation Fund and the Employee Health Care Fund. The City’s internal service funds are presented in the proprietary fund financial statements. Because the principal user of the internal service fund is the General Fund, the financial statements of the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public safety, transportation, etc.).

Fiduciary and Agency Funds – Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets which are reported using accounting principles similar to proprietary funds. The City’s fiduciary funds are presented in the fiduciary fund financial statements by type (pension trust fund and agency). Since by definition these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The City’s Fiduciary Funds consist of one Pension Trust Fund and four Agency Funds. The Pension Trust Fund is used to account for the Law Enforcement Officers’ Separation Allowance, a single-employer public employee retirement system for the City’s law enforcement officers. The Agency Funds are the Boards and Commissions Fund, the Municipal Service District Fund, the Town of East Spencer Utilities Fund, and the Tourism and Cultural Development Commission Fund.

## NOTES TO THE FINANCIAL STATEMENTS

### C. Measurement Focus, Basis of Accounting, and Basis of Presentation

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements – The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the Agency Funds which have no measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value, include property taxes, grants, 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 and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, 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, Rowan County is responsible for billing and collecting the property taxes on registered vehicles on behalf of all municipalities and special tax districts in the county, including the City of Salisbury. For motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. 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 deferred revenues. Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the

## NOTES TO THE FINANCIAL STATEMENTS

City's policy to first apply general revenues, followed by categorical block grants, and then by cost-reimbursement grants.

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

As permitted by accounting principles generally accepted in the United States of America, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its general government and enterprise funds.

### D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the General, Special Revenue, and Enterprise funds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Project Fund and Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. These appropriations continue until the project is completed. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the City Council. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the City Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

### E. Assets, Liabilities and Fund Equity

#### 1. Deposits and Investments

All deposits of the City and its component units are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and its component units may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and its component units may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the City and its component units to invest in obligations of the United States or obligations fully guaranteed, both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The City's and its component units' investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

The City's and its component units' investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

#### 2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. Downtown Salisbury, Inc. and the Salisbury Tourism and

## NOTES TO THE FINANCIAL STATEMENTS

Cultural Development Commission consider all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

### 3. Restricted Assets

Unexpended debt proceeds are classified as restricted assets in the Statement of Net Assets because their use is completely restricted for the purpose for which the debt was originally issued. Restricted assets include debt proceeds that have been set aside as Debt Service Reserves as required by bond covenants and unspent grant monies classified as Deferred Revenues. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

### 4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values of January 1, 2010. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

### 5. Allowances for Doubtful Accounts

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.

### 6. Inventories and Prepaid Items

The inventories of the City are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of parts used to maintain the City's vehicles.

The inventories of the City's Water and Sewer Fund consist of materials and supplies held for subsequent use. The inventories are valued at cost, on a first-in, first-out basis, which approximates market. The costs of these inventories are recorded as expenditures when used rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

### 7. Capital Assets

Capital assets are defined by the City as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: buildings, \$10,000; furniture and equipment, \$5,000; infrastructure, \$100,000; and improvements other than buildings or infrastructure, \$5,000. All land is recorded as a capital asset without regard to any significant value. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2002 consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

NOTES TO THE FINANCIAL STATEMENTS

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Lives</u>
Infrastructure	25
Buildings and enterprise systems	40
Improvements	40
Vehicles	5
Furniture and equipment	10
Computer equipment	3

Property, plant, and equipment of Downtown Salisbury, Inc. are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Useful Lives</u>
Furniture and equipment	10

8. Long-Term Obligations

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

In 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.

9. Compensated Absences

The vacation policy of the City provides for the accumulation of earned vacation leave as follows: police officers, 470 hours; firefighters, 582 hours; and all other employees, 360 hours. Vacation leave for the City is fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The portion of that time that is estimated to be used in the next fiscal year has been included as a current liability in the government-wide and fund financial statements.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. 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. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

The City's liabilities for compensated absences in the governmental funds are liquidated from the General Fund and the liabilities of the enterprise funds are liquidated from the Water and Sewer Fund, Broadband Services Fund, and the Mass Transit Fund.

10. 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. Invested in capital assets, net of related debt, represents the portion of net assets associated with non-liquid assets less the outstanding capital asset related debt. Restricted net assets represent constraints on resources that are either

## NOTES TO THE FINANCIAL STATEMENTS

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, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Reserved:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid expenses – portion of fund balance that is not an available resource because it represents expenses of the subsequent fiscal year that have already been paid in the current fiscal year.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors by law.

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Debt Service – portion of fund balance that is restricted for debt service payments by certain debt covenants.

Restricted for Community Development – portion of fund balance that is restricted by revenue source for certain community development expenditures.

Restricted for Police – portion of fund balance that is restricted by revenue source for expenditure in the Police Department.

Restricted for Cultural and Recreation – portion of fund balance that is restricted by revenue source for expenditures in the Parks and Recreation Department.

Restricted for Environmental Protection - portion of fund balance that is restricted by revenue source for expenditure in the Cemetery Department.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City Council (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by City Council.

Committed to Capital Replacement – portion of fund balance that is committed to replacing equipment such as computers, vehicles, and other motorized equipment.

Assigned Fund Balance – portion of fund balance that the City intends to use for specific purposes.

Unassigned Fund Balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The City of Salisbury has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the City.

## NOTES TO THE FINANCIAL STATEMENTS

The City also has a minimum fund balance policy that states that the desired minimum fund balance in the General Fund is 10% of budgeted expenditures. Any portion of the General Fund Balance in excess of 10% of budgeted expenditures may be appropriated for expenditures.

### F. Revenues, Expenditures, and Expenses

#### 1. Grant Revenue

The City recognizes grant revenue when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements have been met are recorded and reported as deferred revenues.

#### 2. Investment Income

The City recognizes investment income from pooled cash and investments as revenues in the individual funds based on the percentage of a fund's average monthly investment in pooled cash and investments to the total average monthly investment in pooled cash and investments. All investment earnings are allocated and recorded monthly in each individual fund.

#### 3. Inter-fund Transactions

Inter-fund transactions are either for services provided or transfers. Services that are deemed to be reasonably equivalent in value are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs the cost, and then charges the appropriate benefited fund and reduces its related cost as a reimbursement, if material. Transfers within governmental activities and business-type activities are eliminated upon consolidation.

### G. 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 the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

## Note 2. Stewardship, Compliance, and Accountability

### A. Deficit in Fund Balance or Net Assets of Individual Funds

The City's Broadband Services Fund has deficit net assets of \$3,717,569. The City began implementation of its new Broadband Services system during the fiscal year ending June 30, 2009 and began offering broadband services in the fall of 2010. The fund's start-up operations were funded by proceeds from the issuance of Certificates of Participation and interest income on those proceeds. The deficit fund balance will be eliminated after the system generates sufficient sales.

The City's Employee Health Care Fund has deficit net assets of \$177,589. This deficit balance is primarily the result of recognizing an estimated \$540,000 for incurred, but not reported, expenditures. City Council increased insurance premiums for the June 30, 2012 fiscal year to increase the fund balance in the Employee Health Care Fund.

## Note 3. Detail Notes On All Funds

### A. Assets

#### 1. Deposits

All deposits of the City and its component units are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's and component units' agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are

NOTES TO THE FINANCIAL STATEMENTS

collateralized with 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 City and the component unit, these deposits are considered to be held by the City's and the components' agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has deposits in banks utilizing both the Dedicated Method and the Pooling Method. The City has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the City's deposits had a carrying amount of \$15,059,045 and a bank balance of \$15,463,295. Of the bank balance, \$2,535,402 was covered by federal depository insurance and the remainder was covered by collateral held under either the Dedicated Method or the Pooling Method. At June 30, 2011, the City's petty cash fund totaled \$4,515.

2. Investments

At June 30, 2011, the City had \$7,756,035 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The City has no policy regarding credit risk.

Interest Rate Risk – The City does not have a formal policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City limits its investment portfolio to maturities of less than 12 months.

Concentration of Credit Risk – The City places no limit on the amount that the City may invest in any one issuer, but has no investments that exceed 5% of the City's total investments.

3. Receivables - Allowances for Doubtful Accounts

The amounts shown in the statement of net assets for receivables are net of the following allowances for doubtful accounts.

<u>Fund</u>	<u>June 30, 2011</u>
General Fund:	
Taxes receivable	\$ 310,000
	<u>                    </u>
Enterprise Funds:	
Utility receivables	\$ 123,000
	<u>                    </u>

4. Real estate held for investment – component unit

Downtown Salisbury, Inc. hold real estate for investment and future development. The organization had purchased the Empire Hotel for \$1,000,000 and a gift was recorded in the amount of \$1,262,000 for a total initial carrying amount of \$2,262,000, which represented its appraised value at the time. In June 2011, the hotel property was appraised for \$1,108,000. As of June 30, 2011, the carrying value of the Empire Hotel was reduced to the most recent appraised value. This adjustment is reported on the Statement of Activities as "Valuation impairment – Empire Hotel."

NOTES TO THE FINANCIAL STATEMENTS

5. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 7,736,361	\$ -	\$ -	\$ 7,736,361
Construction in progress	1,423,656	836,929	1,819,754	440,831
Total capital assets not being depreciated	<u>\$ 9,160,017</u>	<u>\$ 836,929</u>	<u>\$ 1,819,754</u>	<u>\$ 8,177,192</u>
<b>Capital assets being depreciated:</b>				
Buildings	\$ 10,150,058	\$ 1,747,098	\$ -	\$ 11,897,156
Other improvements	10,229,115	808,641	-	11,037,756
Equipment	7,037,928	736,019	-	7,773,947
Vehicles and motorized equipment	12,766,015	1,480,394	496,243	13,750,166
Infrastructure	35,634,140	-	-	35,634,140
Total capital assets being depreciated	<u>\$ 75,817,256</u>	<u>\$ 4,772,152</u>	<u>\$ 496,243</u>	<u>\$ 80,093,165</u>
<b>Less accumulated depreciation for:</b>				
Buildings	\$ 3,026,496	\$ 267,237	\$ -	\$ 3,293,733
Other improvements	2,775,670	214,536	-	2,990,206
Equipment	5,915,337	383,104	-	6,298,441
Vehicles and motorized equipment	9,795,166	876,055	496,243	10,174,978
Infrastructure	16,847,784	1,301,251	-	18,149,035
Total accumulated depreciation	<u>\$ 38,360,453</u>	<u>\$ 3,042,183</u>	<u>\$ 496,243</u>	<u>\$ 40,906,393</u>
Total capital assets being depreciated, net	<u>\$ 37,456,803</u>	<u>\$ 1,729,969</u>	<u>\$ -</u>	<u>\$ 39,186,772</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 46,616,820</u></u>	<u><u>\$ 2,566,898</u></u>	<u><u>\$ 1,819,754</u></u>	<u><u>\$ 47,363,964</u></u>

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

General government	\$ 429,789
Public safety	730,746
Transportation	1,547,712
Environmental protection	35,993
Cultural and recreational	216,708
Land management and development	<u>81,235</u>
Total depreciation expense	<u><u>\$ 3,042,183</u></u>

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities</b>				
<b>Water and Sewer Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,072,067	\$ -	\$ -	\$ 2,072,067
Construction in progress	17,127,257	2,222,056	15,358,572	3,990,741
Total capital assets not being depreciated	<u>\$ 19,199,324</u>	<u>\$ 2,222,056</u>	<u>\$ 15,358,572</u>	<u>\$ 6,062,808</u>
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	\$ 164,215,742	\$ 15,533,266	\$ -	\$ 179,749,008
Furniture and maintenance equipment	2,455,346	93,311	-	2,548,657
Vehicles and motorized equipment	4,245,960	96,202	-	4,342,162
Total capital assets being depreciated	<u>\$ 170,917,048</u>	<u>\$ 15,722,779</u>	<u>\$ -</u>	<u>\$ 186,639,827</u>
<b>Less accumulated depreciation for:</b>				
Plant and distribution systems	\$ 59,258,972	\$ 3,863,798	\$ -	\$ 63,122,770
Furniture and maintenance equipment	1,929,551	108,873	-	2,038,424
Vehicles and motorized equipment	3,396,976	294,686	340,284	3,351,378
Total accumulated depreciation	<u>\$ 64,585,499</u>	<u>\$ 4,267,357</u>	<u>\$ 340,284</u>	<u>\$ 68,512,572</u>
Total capital assets being depreciated, net	<u>\$ 106,331,549</u>	<u>\$ 11,455,422</u>	<u>\$ (340,284)</u>	<u>\$ 118,127,255</u>
<b>Water and Sewer Fund capital assets, net</b>	<u>\$ 125,530,873</u>	<u>\$ 13,677,478</u>	<u>\$ 15,018,288</u>	<u>\$ 124,190,063</u>
<b>Broadband Services Fund</b>				
<b>Capital assets not being depreciated:</b>				
Construction in progress	\$ 19,893,428	\$ 5,888,566	\$ 25,781,994	\$ -
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	\$ -	\$ 25,781,994	\$ -	\$ 25,781,994
Furniture and maintenance equipment	51,546	-	-	51,546
Vehicles and motorized equipment	229,218	90,415	-	319,633
Total capital assets being depreciated	<u>\$ 280,764</u>	<u>\$ 25,872,409</u>	<u>\$ -</u>	<u>\$ 26,153,173</u>
<b>Less accumulated depreciation for:</b>				
Plant and distribution systems	\$ -	\$ 110,564	\$ -	\$ 110,564
Furniture and maintenance equipment	2,309	10,309	-	12,618
Vehicles and motorized equipment	15,193	43,100	-	58,293
Total accumulated depreciation	<u>\$ 17,502</u>	<u>\$ 163,973</u>	<u>\$ -</u>	<u>\$ 181,475</u>
Total capital assets being depreciated, net	<u>\$ 263,262</u>	<u>\$ 25,708,436</u>	<u>\$ -</u>	<u>\$ 25,971,698</u>
<b>Broadband Services Fund capital assets, net</b>	<u>\$ 20,156,690</u>	<u>\$ 31,597,002</u>	<u>\$ 25,781,994</u>	<u>\$ 25,971,698</u>
<b>Transit Fund</b>				
<b>Capital assets being depreciated:</b>				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	127,112	-	-	127,112
Vehicles and motorized equipment	1,875,324	-	-	1,875,324
Total capital assets being depreciated	<u>\$ 2,470,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,470,360</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	63,692	19,611	-	83,303
Vehicles and motorized equipment	1,321,098	73,081	-	1,394,179
	<u>\$ 1,852,714</u>	<u>\$ 92,692</u>	<u>\$ -</u>	<u>\$ 1,945,406</u>
<b>Transit Fund capital assets, net</b>	<u>\$ 617,646</u>	<u>\$ (92,692)</u>	<u>\$ -</u>	<u>\$ 524,954</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 146,305,209</u>	<u>\$ 45,181,788</u>	<u>\$ 40,800,282</u>	<u>\$ 150,686,715</u>

NOTES TO THE FINANCIAL STATEMENTS

Construction commitments

The City has active construction projects as of June 30, 2011. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water and Sewer Treatment Facilities	\$ 3,990,741	\$ 348,564
Greenway project	382,008	180,000
	\$ 4,372,749	\$ 528,564

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.45% and 4.6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Salisbury are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$ 1,243,340, \$921,923, and \$889,326, respectively. The contributions made by the City equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

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

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	11
Active plan members	84
Total	95

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

*Basis of Accounting.* Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the City 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.* As noted in Note 1E previously, cash and investments are held in a single central depository with each fund owning a pro-rata share. Therefore, cash and investments are essentially demand deposits and are considered to be cash and cash equivalents. Investments are reported at cost which approximates market.

3. Contributions

North Carolina statutes require the City to provide these retirement benefits. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$138,394 or 3.85% of annual covered payroll. There were no contributions made by employees. The City'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 paid by the General Fund.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 7.85% per year. Item (b) included an inflation adjustment of 3%. 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 payrolls on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

4. Annual Pension Cost and Net Pension Asset

The City's annual pension cost and net pension asset to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 153,652
Interest on net pension obligation	(2,058)
Adjustment to annual required contribution	2,203
Annual pension cost	<u>\$ 153,797</u>
Contributions made	<u>138,394</u>
Increase in net pension asset	\$ (15,403)
Net pension asset beginning of year	<u>41,150</u>
Net pension asset end of year	<u><u>\$ 25,747</u></u>

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2011	\$ 153,652	99.15%	\$ 25,747
6/30/2010	110,743	99.15%	41,150
6/30/2009	98,866	96.14%	42,086

5. Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 45.72 percent funded. The actuarial accrued liability for benefits was \$2,147,160, and the actuarial value of assets was \$981,661, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,165,499. The covered payroll (annual payroll of active employees covered by the plan) was \$3,590,878, and the ratio of the UAAL to the covered payroll was 32.46 percent.

## NOTES TO THE FINANCIAL STATEMENTS

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan

*Plan Description:* The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to all full-time employees of the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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:* Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5 percent of each law enforcement officer's salary. In addition to this requirement, the City has elected to contribute to the Plan an amount equal to 3 percent of the monthly salary of each employee not engaged in law enforcement. All amounts contributed are vested immediately. Also, employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2011 were \$1,051,668, which consisted of \$659,858 from the City and \$391,810 from the employees.

d. Firemen's and Rescue Squad Workers' Pension Fund

*Plan Description:* The State of North Carolina contributes, on behalf of the City of Salisbury, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the fund. 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 \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

For the fiscal year ended June 30, 2011, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$24,073 for the 72 firefighters employed firemen who perform firefighting duties for the City's fire department.

e. Other Post-employment Benefits

Healthcare Benefits

*Plan Description:* Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). The plan provides post-employment health care benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System), qualify for unreduced retirement benefits from the System, and have at least 15 years of creditable service with the City. The City Council may amend the benefit provisions. A separate report was not issued for the plan. Currently, thirty-four retirees are eligible for post-employment health benefits.

NOTES TO THE FINANCIAL STATEMENTS

Membership of the HCB Plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation:

	General Employees	Firefighters	Law Enforcement Officers
Retirees and dependents receiving benefits	24	9	6
Active plan members	329	71	89
Total	<u>353</u>	<u>80</u>	<u>95</u>

*Funding Policy* - the City pays the full cost of coverage for the healthcare benefits paid to qualified retirees under the City's plan. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. The City has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution is 5.99% of annual covered payroll. For the fiscal year ended June 30, 2011, the City made payments for post-employment health benefit premiums of \$232,930. The City is self-insured for employee and retiree health care benefit. The City's contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.92% and 0.95% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage. The City's obligation to contribute to the HCB Plan may be amended by the City Council.

*Summary of Significant Accounting Policies* - Postemployment expenditures are made from the General Fund, the Water and Sewer Fund, and the Mass Transit Fund, depending on where the employee worked prior to retirement. Those funds are maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

*Annual OPEB Cost and Net OPEB Obligation* - The City's OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 1,177,488
Interest on net pension obligation	81,879
Adjustment to annual required contribution	<u>(78,220)</u>
Annual pension cost	\$ 1,181,147
Contributions made	<u>233,790</u>
Increase in net pension obligation	\$ 947,357
Net pension obligation beginning of year	<u>2,046,982</u>
Net pension obligation end of year	<u>\$ 2,994,339</u>

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010 and 2009 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 1,181,147	19.8%	\$ 2,994,339
2010	1,190,644	13.8%	2,046,982
2009	1,190,644	14.3%	1,020,880

## NOTES TO THE FINANCIAL STATEMENTS

*Funded Status and Funding Progress* - As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for the benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$12,501,550. The covered payroll (annual payroll of active employees covered by the plan) was \$19,660,981, and the ratio of the UAAL to the covered payroll was 63.6 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements.

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investment calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.5 to 5.0 percent annually. The investment rate included a 3 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was 30 years.

### 2. Other Employment Benefits

The City of Salisbury has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those 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. Death benefits must be at least \$25,000 but cannot exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, 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 Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2011, the City made contributions to the State for death benefits of \$21,063. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.10% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

The City also provides a life and accidental death and dismemberment policy for its full-time employees in the amount of the employee's annual salary rounded up to the nearest thousand. The maximum benefit amount is \$100,000.

NOTES TO THE FINANCIAL STATEMENTS

3. Deferred/Unearned Revenue

As discussed in Note 1C, property taxes receivable that are measurable but not available are recorded as taxes receivable and as deferred revenue. Likewise, prepaid property taxes or privilege licenses have not met the recognition criteria and are recorded as deferred revenue. Unearned revenue in the General Fund represents grants and donations received for various projects. The balance in deferred revenue in the governmental fund statements at year end, including these items, is composed of the following elements:

	<u>General Fund</u>
Unearned	
Unspent grants and donations	\$ 289,827
Prepaid property taxes	256
Unavailable	
Taxes receivable, net	1,183,941
Earned, but uncollected grant funds	<u>502,339</u>
Total deferred revenue	<u>\$ 1,976,363</u>

4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides \$1,000,000 in general liability coverage, \$3,000,000 in liability coverage for law enforcement officers, and \$3,000,000 for automobile liability. In addition, the City maintains replacement cost insurance on real and personal property, including boiler and machinery, in an amount of \$152,114,930. The pool is reinsured through commercial companies for single occurrence claims against general liability, and auto liability, and property in excess of \$500,000. In accordance with G.S. 159-29, the City's employees that have access to \$100 or more of the City's funds at any given time are performance bonded. The finance officer is individually bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The City of Salisbury is not located in an area that is at a high risk of flooding. Therefore, the City has elected not to carry flood insurance.

In addition, the City currently self-insures an employee health benefits program through a third party administrator. However, the City's exposure is limited to \$60,000 per individual and to 120% of estimated annual aggregate claims. The City also carries an excess workers' compensation policy through a commercial insurer in the amount of \$1,000,000. The City retains a \$300,000 deductible for this coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. The liability for claims is reported in the current liabilities of the internal service funds. Changes in the balances of claims liabilities during the past three years are as follows:

	Year ended June 30, 2009	Year ended June 30, 2010	Year ended June 30, 2011
Unpaid claims, beginning of fiscal year	\$ 548,835	\$ 573,354	\$ 541,545
Incurred claims (including IBNRs)	3,809,166	4,304,283	4,914,876
Claim payments	<u>(3,784,647)</u>	<u>(4,336,092)</u>	<u>(4,873,284)</u>
Unpaid claims, end of fiscal year	<u>\$ 573,354</u>	<u>\$ 541,545</u>	<u>\$ 583,137</u>

NOTES TO THE FINANCIAL STATEMENTS

An independent review of the City's various risk management activities is conducted annually, and coverage is adjusted accordingly as needed. There have been no reductions in insurance coverage from the prior year.

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2011 the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

6. Long-Term Obligations

a. Installment Purchases

The City has entered into various installment purchase contracts to finance the acquisition and renovation of various equipment and facilities. These installment purchase contracts are outlined as follows:

	<u>Balance June 30, 2011</u>
Serviced by the General Fund	
\$1,000,000 installment purchase contract for capital improvements, rate of 5.25%, issued December 2000, payable in 30 semi-annual payments of \$33,333 principal plus interest	\$ 300,000
\$906,934 installment purchase contract for financing or real estate, issued June 2008, payable in 59 monthly payments of \$6,397, and one final payment of principal in July 2013 of \$658,000	764,120
\$1,990,500 installment purchase contract for new telecommunications, equipment, rate of 2.93%, issued April 2004, payable in 18 semi-annual payments of \$110,583 principal plus interest	442,334
\$3,565,680 installment purchase contract for construction and facilities, improvements, rate of 3.83%, issued May 2006, payable in 30 semi-annual payments of \$118,856 principal plus interest	2,377,120
\$2,305,000 Certificates of Participation for facilities renovations, rate of 5.33% issued December 2008, payable in 10 annual payments of \$230,000 principal plus semi-annual interest payments	1,840,000
\$914,000 installment purchase contract to purchase fire truck, rate of 1.625%, issued June 2011, payable in 8 semi-annual payments of \$114,250 principal plus interest	<u>914,000</u>
	\$ 6,637,574
Serviced by the Water and Sewer Fund	
\$33,560,000 Certificates of Participation for construction of broadband services project, rates ranging from 3.25% to 5.625%, with an average rate of 5.33%, payable in 17 annual payments beginning in March 2013, plus interest. This debt includes \$3,024,567 for construction period interest and \$3,150,905 to establish a debt service reserve. Amount shown is net of \$1,428,047 of unamortized issuance costs.	<u>32,131,953</u>
Total Installment Purchase indebtedness	<u>\$ 38,769,527</u>

NOTES TO THE FINANCIAL STATEMENTS

The future minimum payments of the installment purchases as of June 30, 2011 total \$63,191,621, including \$22,994,047 of interest are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 1,036,347	\$ 232,391	\$ -	\$ 1,736,594	\$ 1,036,347	\$ 1,968,985
2013	1,038,163	199,490	1,330,000	1,736,594	2,368,163	1,936,084
2014	1,420,578	146,569	1,380,000	1,736,594	2,800,578	1,883,163
2015	762,879	120,428	1,440,000	1,683,394	2,202,879	1,803,822
2016	501,045	95,790	1,500,000	1,624,744	2,001,045	1,720,534
2017-2021	1,878,562	191,885	8,580,000	7,129,770	10,458,562	7,321,655
2022-2026	-	-	11,085,000	4,813,212	11,085,000	4,813,212
2027-2029	-	-	8,245,000	1,546,592	8,245,000	1,546,592
	<u>\$ 6,637,574</u>	<u>\$ 986,553</u>	<u>\$ 33,560,000</u>	<u>\$ 22,007,494</u>	<u>\$ 40,197,574</u>	<u>\$ 22,994,047</u>
Unamortized costs			(1,428,047)		(1,428,047)	
	<u>\$ 6,637,574</u>	<u>\$ 986,553</u>	<u>\$ 32,131,953</u>	<u>\$ 22,007,494</u>	<u>\$ 38,769,527</u>	<u>\$ 22,994,047</u>

a. Capital Leases

The City has entered into various agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates on these agreements range from 3.385% to 5.6%. The City has recorded water and sewer assets related to these leases at the City's cost of \$7,898,494. The future minimum lease payments at June 30, 2011 total \$1,691,071, including \$234,540 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

The future minimum lease obligations as of June 30, 2011 were as follows:

Year Ending June 30,	Capital Leases	
	Principal	Interest
2012	\$ 283,335	\$ 61,480
2013	240,799	50,370
2014	240,799	40,830
2015	240,799	31,260
2016	240,799	21,690
2017-2021	210,000	28,910
	<u>\$ 1,456,531</u>	<u>\$ 234,540</u>

b. General Obligation Indebtedness

The City's general obligation bonds serviced by the governmental funds were issued for the acquisition and improvement of parks and recreation facilities. Those general obligation bonds issued to finance the construction of facilities in the operations of the water and sewer system and which are being retired by it resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

NOTES TO THE FINANCIAL STATEMENTS

Bonds payable at June 30, 2011 are comprised of the following individual issues:

	<u>Balance June 30, 2011</u>
Serviced by the General Fund	
\$3,000,000 Parks and Recreation Bonds, Series 1997, average rate of 4.77%, issued December 1997, maturing serially to 2017	\$ 1,075,000
Serviced by the Water and Sewer Fund	
\$3,250,000 Water Bonds, Series 1998, average rate of 4.40%, issued June 1998, maturing serially to 2017	975,000
\$12,100,000 Refunding Bonds, Series 2003, average rate of 3.43%, issued August 2003, maturing serially to 2015 This amount is net of unamortized issuance cost and interest of \$394,350.	<u>3,640,650</u>
Total General Obligation Indebtedness	<u>\$ 5,690,650</u>

Annual debt service requirements to maturity for general obligation indebtedness are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 200,000	\$ 51,750	\$ 1,210,000	\$ 192,387	\$ 1,410,000	\$ 244,137
2013	200,000	42,150	1,190,000	148,462	1,390,000	190,612
2014	200,000	32,550	1,175,000	103,794	1,375,000	136,344
2015	200,000	22,950	1,160,000	58,419	1,360,000	81,369
2016	200,000	13,350	175,000	12,375	375,000	25,725
2017	75,000	3,750	100,000	4,500	175,000	8,250
	<u>\$ 1,075,000</u>	<u>\$ 166,500</u>	<u>\$ 5,010,000</u>	<u>\$ 519,937</u>	<u>\$ 6,085,000</u>	<u>\$ 686,437</u>
Unamortized costs	-	-	(394,350)	-	(394,350)	-
	<u>\$ 1,075,000</u>	<u>\$ 166,500</u>	<u>\$ 4,615,650</u>	<u>\$ 519,937</u>	<u>\$ 5,690,650</u>	<u>\$ 686,437</u>

c. State Bond Loans

The long-term debt of the City's Enterprise Funds includes the following State Clean Water Bond Loans in the Water and Sewer Fund:

	<u>Balance June 30, 2011</u>
\$5,000,000 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	\$ 1,500,000
\$450,120 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	135,036
\$3,000,000 State Bond Loan, average rate of 2.60%, issued November 1999 maturing serially to 2019	1,350,000
\$9,200,000 State Bond Loan, average rate of 2.60%, issued June 2000 maturing serially to 2020	<u>4,140,000</u>
Total State Bond Loans	<u>\$ 7,125,036</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the City's State Bond Loans are as follows:

Year Ending June 30,	Business-Type Activities State Bond Loans	
	Principal	Interest
2012	\$ 882,506	\$ 198,822
2013	882,506	173,615
2014	882,506	148,408
2015	882,506	123,201
2016	882,506	97,994
2017-2020	2,712,506	167,947
	<u>\$ 7,125,036</u>	<u>\$ 909,987</u>

d. Revenue Bonds

The long-term debt of the City's Enterprise Funds includes Revenue Bonds in the Water and Sewer Fund where the City pledges income derived from the Enterprise Fund acquiring on constructing assets with the proceeds to pay debt service. Revenue bonds in the Water and Sewer Fund consist of the following issues:

	Balance June 30, 2011
\$20,505,000 Water and Sewer Revenue Bonds, Series 2002, average rate of 3.66%, issued May 2002, maturing serially to 2012 The amount is net of unamortized issuance costs of \$20,989	\$ 659,011
\$6,000,000 Water and Sewer Revenue Bonds, Series 2006, rate of 3.99%, issued December 2006, maturing serially to 2026	5,031,874
\$7,400,000 Water and Sewer Revenue Bonds, Series 2007, rate of 4.06%, issued October 2007, maturing serially to 2028	6,628,628
\$6,000,000 Water and Sewer Revenue Bonds, Series 2009, rate of 4.14%, issued October 2009, maturing serially to 2025	5,705,000
\$16,065,000 Water and Sewer Revenue Refunding Bonds, Series 2010, average rate of 3.0425%, issued November 2010, maturing serially to 2027, net of unamortized issuance costs and original issue premium of \$61,176	<u>15,786,176</u>
Total Revenue Bonds	<u>\$ 33,810,689</u>

Advance Refunding

On November 9, 2010, the City issued \$16.065 million in Water and Sewer Revenue Refunding Bonds with an interest rate of 3.0425% to advance refund \$16.130 million of outstanding Water and Sewer Funds with interest rates ranging from 3.66% to 4.78%. The net proceeds of \$16.3 million were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, as of November 9, 2010, the refunded bonds were considered to be defeased and the liabilities for those bonds were removed from the Water and Sewer Fund. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,559,392. This difference represents an original issue premium of \$390,246, bond issuance cost of \$325,246 and the present value of future interest payments to be made by the escrow agent. This difference is reported in the accompanying financial statements, net of the current year's amortization of \$3,824, as an increase in bonds payable and is being charged to operations through the year 2027, the life of the new debt, which is the same as the life of the refunded debt, using the straight-line method which approximates the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over

NOTES TO THE FINANCIAL STATEMENTS

sixteen years by \$1,014,791 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$810,800.

The future payments of the revenue bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Revenue Bonds	
	Principal	Interest
2012	\$ 1,659,935	\$ 1,577,918
2013	1,733,939	1,508,642
2014	1,793,796	1,436,376
2015	1,856,538	1,364,292
2016	1,914,203	1,287,597
2017-2021	10,336,975	5,152,733
2022-2026	11,903,341	2,719,216
2027-2029	2,571,775	350,877
	<u>\$ 33,770,502</u>	<u>\$ 15,397,651</u>
Unamortized premiums and costs	40,187	-
	<u>\$ 33,810,689</u>	<u>\$ 15,397,651</u>

The Revenue Bond General Trust Indenture requires that the City must maintain certain debt covenants relating to reporting requirements, annual budgets, and minimum utility funds revenues. Net revenues available for revenue bond debt service cannot be less than one hundred twenty percent (120%) of the long-term debt service requirement for parity indebtedness and one hundred percent (100%) for all general obligation debt. The City has been in compliance with these covenants since the issuance of the Revenue Bonds. The calculations of the City's revenue bond coverage for the last three years are as follows:

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond Debt Service	Debt Service Requirements		Coverage Ratios	
				Parity Debt	All Debt	Parity Debt	All Debt
2009	\$ 20,968,062	\$ 13,521,208	\$ 7,446,854	\$ 2,592,200	\$ 5,687,303	287.28%	130.94%
2010	21,044,751	14,203,262	6,841,489	2,683,309	5,754,927	254.96%	118.88%
2011	22,253,461	14,885,367	7,368,094	3,135,833	5,936,107	234.96%	124.12%

- (1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.
- (2) Total operating expenses exclusive of depreciation.
- (3) Parity debt includes revenue bonds only.

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$41,945,000 in water and sewer system revenues bonds issued from January 1998 to November 2010. Proceeds from the bonds provided financing for various water and sewer system capital projects. The bonds are payable solely from water and sewer customer net revenues and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$49,168,153.

e. HUD Section 108 Loan

The City borrowed funds on loan from the U. S. Department of Housing and Urban Development pursuant to Section 108 of Title I of the Community Development Act of 1974. The loan was used to renovate two buildings to form a new community center. The City borrowed a total of \$596,000 under this loan. This Section 108 loan is serviced by the City's Special Revenue Fund.

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the City's HUD Section 108 Loan are as follows:

Year Ending June 30,	Governmental Activities	
	HUD Section 108 Loan	
	Principal	Interest
2012	\$ 32,000	\$ 18,449
2013	32,000	16,993
2014	32,000	15,475
2015	32,000	13,913
2016	32,000	12,313
2017-2021	164,000	36,083
2022-2023	48,000	2,135
	<u>\$ 372,000</u>	<u>\$ 115,361</u>

g. Changes in Long-Term Liabilities

	June 30, 2010	Additions	Retirements	Change in Unamortized Costs	June 30, 2011	Current Portion of Balance
<b>Governmental Activities</b>						
General obligation bonds	\$ 1,275,000	\$ -	\$ 200,000	\$ -	\$ 1,075,000	\$ 200,000
Installment purchases	6,698,398	914,000	974,824	-	6,637,574	1,036,347
Section 108 loan	404,000	-	32,000	-	372,000	32,000
Other postemployment benefits	1,536,571	691,405	-	-	2,227,976	-
Compensated absences	1,990,123	1,049,640	1,087,602	-	1,952,161	195,216
	<u>\$ 11,904,092</u>	<u>\$ 2,655,045</u>	<u>\$ 2,294,426</u>	<u>\$ -</u>	<u>\$ 12,264,711</u>	<u>\$ 1,463,563</u>
<b>Business-type activities</b>						
General obligation bonds	\$ 5,742,062	\$ -	\$ 1,225,000	\$ 98,588	\$ 4,615,650	\$ 1,210,000
Revenue bonds	35,261,442	17,689,392	19,537,141	396,996	33,810,689	1,659,935
Installment purchases	32,052,617	-	-	79,336	32,131,953	-
State loans	8,007,542	-	882,506	-	7,125,036	882,506
Capital leases	1,732,856	-	276,325	-	1,456,531	283,335
Other postemployment benefits	510,411	255,952	-	-	766,363	-
Compensated absences	472,309	241,479	270,203	-	443,585	44,359
	<u>\$ 83,779,239</u>	<u>\$ 18,186,823</u>	<u>\$ 22,191,175</u>	<u>\$ 574,920</u>	<u>\$ 80,349,807</u>	<u>\$ 4,080,135</u>
<b>Total</b>	<u>\$ 95,683,331</u>	<u>\$ 20,841,868</u>	<u>\$ 24,485,601</u>	<u>\$ 574,920</u>	<u>\$ 92,614,518</u>	<u>\$ 5,543,698</u>

7. Accounts Payable

Accounts payable for the governmental activities and the business-type activities are as follows:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 1,413,438	\$ 1,444,416
Accrued payroll and payroll liabilities	988,601	357,442
Other accrued liabilities	157,961	-
	<u>\$ 2,560,000</u>	<u>\$ 1,801,858</u>

NOTES TO THE FINANCIAL STATEMENTS

C. Interfund Balances and Activity

1. Transfers to/from Other Funds

Transfers during the year ended June 30, 2011, consisted of \$416,785 that was transferred from the General Fund to the Mass Transit Fund to cover the City's share of the operational expenses of the Mass Transit Fund.

2. Due To/Due From Other Funds

At June 30, 2011, the Broadband Services Fund owed the Water and Sewer Fund \$1,194,694 for a temporary loan to help fund services in the early stages of operations. Also, the Mass Transit Fund owed the General Fund \$8,500 for a temporary loan to cover cash needs while awaiting reimbursements of grant-funded expenditures from other governments.

D. Fund Balance/Net Assets

The following schedule provides management and citizens with information on the portion of General Fund Balance that is available for appropriation:

Total Fund Balance - General Fund	\$ 8,486,390
Less:	
Inventories	296,538
Prepaid Items	23,306
Stabilization by State Statute	<u>4,333,746</u>
Fund Balance Available for Appropriation	<u>\$ 3,832,800</u>

The outstanding encumbrances are amounts need to pay any commitments related to purchase orders and contracts that remain at year-end.

<u>Encumbrances</u>
<u>General Fund</u>
\$231,010

Capital Assets, Net of Related Debt

Capital assets, net of related debt at June 30, 2011, are computed as follows:

	<u>Governmental Funds</u>	<u>Business-Type Funds</u>	<u>Total</u>
Capital assets, net of accumulated depreciation	<u>\$ 47,363,964</u>	<u>\$ 150,686,715</u>	<u>\$ 198,050,679</u>
Less capital debt for:			
Gross debt	\$ 8,084,573	\$ 79,139,859	\$ 87,224,432
Less:			
Debt proceeds issued for Debt Service Reserve	<u>(216,413)</u>	<u>(3,150,905)</u>	<u>(3,367,318)</u>
Net capital debt	<u>\$ 7,868,160</u>	<u>\$ 75,988,954</u>	<u>\$ 83,857,114</u>
Capital assets, net of related debt	<u>\$ 39,495,804</u>	<u>\$ 74,697,761</u>	<u>\$ 114,193,565</u>

## NOTES TO THE FINANCIAL STATEMENTS

### Note 3. Joint Venture

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints an additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2011, the City reported revenues and expenditures for the payments of \$63,795 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2011. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, NC 27603.

### Note 4. Commitments and Contingencies

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

### Note 5. Significant Effects of Subsequent Events

As of July 1, 2011, the City of Salisbury incorporated the incorporated the Town of China Grove's water and sewer system into our system. This project expanded the City's service area by over 1,500 customers and reduced water and sewer rates for the customers in China Grove. As part of this system consolidation, the City of Salisbury has agreed to pay the Town of China Grove's outstanding long-term debt of \$4.1 million on their behalf. The debt service payments will be paid annually until 2027, with \$475,397 due in the fiscal year ending June 30, 2012.



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## **Required Supplemental Financial Data**

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This section contains additional information required by accounting principles generally accepted in the United States of America.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Funding Progress for Other Postemployment Benefits.
- Schedule of Employer Contributions for Other Postemployment Benefits.
- Notes to the Required Schedules for Other Postemployment Benefits.

## CITY OF SALISBURY, NORTH CAROLINA

## LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

## REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF FUNDING PROGRESS

Last Six Fiscal Years

<b>Actuarial Valuation Date December 31,</b>	<b>(1) Actuarial Value of Assets</b>	<b>(2) Actuarial Accrued Liability (AAL) Projected Unit Credit</b>	<b>(3) Unfunded AAL (UAAL) (2) - (1)</b>	<b>Funded Ratio (1) / (2)</b>	<b>(4) Annual Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll (3) / (4)</b>
2010	\$ 981,661	\$2,147,160	\$1,165,499	45.72%	\$ 3,590,878	32.46%
2009	998,396	2,157,750	1,159,354	46.27%	3,695,445	31.37%
2008	958,101	1,657,377	699,276	57.81%	3,597,762	19.44%
2007	911,032	1,503,627	592,595	60.59%	3,306,677	17.92%
2006	832,627	1,253,054	420,427	66.45%	3,147,324	13.36%
2005	746,287	1,220,368	474,081	61.15%	3,043,907	15.57%

## CITY OF SALISBURY, NORTH CAROLINA

## LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

## REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

## Last Six Fiscal Years

<b>Fiscal Year Ended <u>June 30,</u></b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2011	\$ 153,652	90
2010	111,143	99
2009	99,388	96
2008	84,075	102
2007	87,266	105
2006	100,962	108

**Notes to the 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	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, closed
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	5.00%
Projected salary increases*	4.5% - 7.85%
* Includes inflation at	3.00%
Cost of living adjustments	N/A

## CITY OF SALISBURY, NORTH CAROLINA

## OTHER POST EMPLOYMENT BENEFITS

## REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF FUNDING PROGRESS

<b>Actuarial Valuation Date December 31,</b>	<b>(1) Actuarial Value of Assets</b>	<b>(2) Actuarial Accrued Liability (AAL) Projected Unit Credit</b>	<b>(3) Unfunded AAL (UAAL) (2) - (1)</b>	<b>Funded Ratio (1) / (2)</b>	<b>(4) Annual Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll (3) / (4)</b>
2010	\$ -	\$ 12,501,550	\$ 12,501,550	0.00%	\$ 19,660,981	63.59%
2007	-	11,949,933	11,949,933	0.00%	16,950,981	70.50%

**CITY OF SALISBURY, NORTH CAROLINA**  
**OTHER POST EMPLOYMENT BENEFITS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Fiscal Year Ended <u>June 30,</u></b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2011	\$ 1,181,147	19.7
2010	1,190,644	14.3
2009	1,190,644	14.3

**Notes to the 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	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	4.00%
Medical cost trend rate*	10.5% - 5.0%
Year of ultimate trend rate	2018
* Includes inflation at	3.00%

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## **Supplementary Financial Data**

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# General Fund

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

**B-1**  
**CITY OF SALISBURY, NORTH CAROLINA**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**For the Year Ended June 30, 2011**  
**With Comparative Actual Amounts for Year Ended June 30, 2010**

	<u>2011</u>		<b>Variance with Budget Positive (Negative)</b>	<u>2010</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
<b>REVENUES:</b>				
<b>Taxes:</b>				
General property-current	\$ 16,664,279	\$ 16,291,249	\$ (373,030)	\$ 16,265,211
General property-prior	471,800	664,449	192,649	519,342
Auto tax	221,622	217,121	(4,501)	228,335
Interest on delinquent tax	115,000	122,193	7,193	108,433
Other tax	250	240	(10)	269
	<u>\$ 17,472,951</u>	<u>\$ 17,295,252</u>	<u>\$ (177,699)</u>	<u>\$ 17,121,590</u>
<b>Unrestricted intergovernmental:</b>				
Local option sales tax	\$ 4,884,230	\$ 4,752,432	\$ (131,798)	\$ 4,526,014
Utilities franchise tax	1,595,613	1,555,079	(40,534)	1,513,348
Telecommunications sales tax	700,000	704,344	4,344	734,812
Video franchise fee	300,000	301,838	1,838	293,951
Wine and beer tax	142,800	142,196	(604)	44,663
State reimbursement hold harmless	707,829	725,210	17,381	707,829
Other	124,000	111,479	(12,521)	199,976
	<u>\$ 8,454,472</u>	<u>\$ 8,292,578</u>	<u>\$ (161,894)</u>	<u>\$ 8,020,593</u>
<b>Restricted intergovernmental:</b>				
State street aid - Powell Bill	\$ 890,488	\$ 895,710	\$ 5,222	\$ 873,028
ARRA-Greenway Grant	346,782	146,597	(200,185)	-
Sidewalk Grant	433,052	257,090	(175,962)	-
Train Station Grant	-	-	-	255,641
Firefighter's assistance grant	-	-	-	241,650
Other	644,971	677,967	32,996	867,912
	<u>\$ 2,315,293</u>	<u>\$ 1,977,364</u>	<u>\$ (337,929)</u>	<u>\$ 2,238,231</u>
<b>Charges for services:</b>				
Environmental protection	\$ 1,049,172	\$ 989,373	\$ (59,799)	\$ 1,078,449
Culture and recreation	170,000	156,726	(13,274)	153,833
Code services fees	193,000	128,685	(64,315)	134,399
Public safety	406,067	446,473	40,406	433,727
Cemetery	165,000	113,450	(51,550)	142,830
Radio antenna and paging rentals	400,810	243,552	(157,258)	191,133
Rentals and sale of property	377,200	331,474	(45,726)	342,501
Licenses and permits	359,336	335,602	(23,734)	420,876
Administrative charges	2,774,134	2,608,011	(166,123)	2,554,510
Community services	238,692	141,241	(97,451)	129,223
Other	11,000	8,236	(2,764)	34,656
	<u>\$ 6,144,411</u>	<u>\$ 5,502,823</u>	<u>\$ (641,588)</u>	<u>\$ 5,616,137</u>

## B-1

## CITY OF SALISBURY, NORTH CAROLINA

## GENERAL FUND

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

For the Year Ended June 30, 2011

With Comparative Actual Amounts for Year Ended June 30, 2010

	2011		Variance with Budget Positive (Negative)	2010
	Budget	Actual		Actual
REVENUES (continued):				
Miscellaneous:				
Interest earned on investments	\$ 120,000	\$ 87,120	\$ (32,880)	\$ 94,732
Donations	423,956	142,363	(281,593)	145,875
Other	302,702	158,451	(144,251)	312,207
	<u>\$ 846,658</u>	<u>\$ 387,934</u>	<u>\$ (458,724)</u>	<u>\$ 552,814</u>
Total revenues	<u>\$ 35,233,785</u>	<u>\$ 33,455,951</u>	<u>\$ (1,777,834)</u>	<u>\$ 33,549,365</u>
OTHER FINANCING SOURCES:				
Long-term debt issued	\$ 953,000	\$ 914,000	\$ (39,000)	\$ -
Fund balance appropriated	600,482	-	(600,482)	-
Total other financing sources	<u>\$ 1,553,482</u>	<u>\$ 914,000</u>	<u>\$ (639,482)</u>	<u>\$ -</u>
Total revenues and other financing sources	<u>\$ 36,787,267</u>	<u>\$ 34,369,951</u>	<u>\$ (2,417,316)</u>	<u>\$ 33,549,365</u>
EXPENDITURES:				
Current:				
General government:				
City council	\$ 193,082	\$ 184,554	\$ 8,528	\$ 175,662
City administration	1,088,717	1,064,593	24,124	974,360
Purchasing	115,197	104,917	10,280	123,949
Human resources	878,911	867,430	11,481	745,161
Finance	1,639,468	1,615,556	23,912	1,422,667
Fleet management	882,762	851,452	31,310	788,233
Public services administration	231,683	228,403	3,280	224,400
Facilities Maintenance	1,246,049	1,199,766	46,283	1,314,627
Telecommunication	599,560	527,454	72,106	542,741
Information technologies	2,147,829	1,844,086	303,743	1,205,467
	<u>\$ 9,023,258</u>	<u>\$ 8,488,211</u>	<u>\$ 535,047</u>	<u>\$ 7,517,267</u>
Public safety:				
Police:				
Administration	\$ 495,427	\$ 444,463	\$ 50,964	\$ 451,538
Services	1,637,215	1,471,941	165,274	1,618,934
Operations	5,881,215	5,680,524	200,691	5,379,193
Fire	5,674,826	5,422,073	252,753	5,186,455
	<u>\$ 13,688,683</u>	<u>\$ 13,019,001</u>	<u>\$ 669,682</u>	<u>\$ 12,636,120</u>
Transportation:				
Traffic operations	\$ 541,136	\$ 518,462	\$ 22,674	\$ 564,558
Engineering	2,089,822	1,781,584	308,238	1,156,792
Streets	2,391,753	2,335,871	55,882	2,553,992
Street lighting	438,725	437,008	1,717	431,888
	<u>\$ 5,461,436</u>	<u>\$ 5,072,925</u>	<u>\$ 388,511</u>	<u>\$ 4,707,230</u>

**B-1**  
**CITY OF SALISBURY, NORTH CAROLINA**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**For the Year Ended June 30, 2011**  
**With Comparative Actual Amounts for Year Ended June 30, 2010**

	<u>2011</u>		<b>Variance with Budget Positive (Negative)</b>	<u>2010</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
EXPENDITURES :				
Current (continued):				
Environmental protection:				
Solid waste management	\$ 1,557,459	\$ 1,551,256	\$ 6,203	\$ 1,531,132
Cemetery	291,496	263,452	28,044	273,317
	<u>\$ 1,848,955</u>	<u>\$ 1,814,708</u>	<u>\$ 34,247</u>	<u>\$ 1,804,449</u>
Culture and recreation:				
Landscaping	\$ 583,040	\$ 556,105	\$ 26,935	\$ 637,931
Recreation	2,402,639	2,153,071	249,568	2,176,977
	<u>\$ 2,985,679</u>	<u>\$ 2,709,176</u>	<u>\$ 276,503</u>	<u>\$ 2,814,908</u>
Community and economic development:				
Community development	\$ 958,462	\$ 894,956	\$ 63,506	\$ 1,065,252
Code Enforcement	332,431	322,261	10,170	310,003
The Plaza	161,112	157,314	3,798	242,417
Developmental services	380,195	362,600	17,595	431,548
	<u>\$ 1,832,200</u>	<u>\$ 1,737,131</u>	<u>\$ 95,069</u>	<u>\$ 2,049,220</u>
Education	\$ 42,342	\$ 42,342	\$ -	\$ 42,342
Debt service:				
Principal	\$ 1,174,824	\$ 1,174,824	\$ -	\$ 1,264,442
Interest	313,105	312,995	110	359,162
	<u>\$ 1,487,929</u>	<u>\$ 1,487,819</u>	<u>\$ 110</u>	<u>\$ 1,623,604</u>
Total expenditures	<u>\$ 36,370,482</u>	<u>\$ 34,371,313</u>	<u>\$ 1,999,169</u>	<u>\$ 33,195,140</u>
OTHER FINANCING USES:				
Transfers to other funds	\$ 416,785	\$ 416,785	\$ -	\$ 390,319
Total expenditures and other financing uses	<u>\$ 36,787,267</u>	<u>\$ 34,788,098</u>	<u>\$ 1,999,169</u>	<u>\$ 33,585,459</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ (418,147)</u>	<u>\$ (418,147)</u>	<u>\$ (36,094)</u>
FUND BALANCES, BEGINNING		<u>8,904,537</u>		<u>8,940,631</u>
FUND BALANCES, ENDING		<u>\$ 8,486,390</u>		<u>\$ 8,904,537</u>



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# **Non Major Governmental Fund**

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The Capital Projects Fund is used to account for the acquisition or construction of capital projects, other than those financed by enterprise funds.

Special revenue funds are used to account for the proceeds of specific revenues that are legally restricted to expenditures for particular purposes. The City has one special revenue fund, the Community Development Fund. This fund is used to account for the operations of the City's community development programs. Financing is provided by the U.S. Department of Housing and Urban Development.

## CITY OF SALISBURY, NORTH CAROLINA

ALL NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET

June 30, 2011

<u>ASSETS</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Cash and investments	\$ 11,989	\$ -	\$ 11,989
Accounts receivable	-	-	-
Due from other governments	<u>18,743</u>	<u>-</u>	<u>18,743</u>
Total assets	<u>\$ 30,732</u>	<u>\$ -</u>	<u>\$ 30,732</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
LIABILITIES			
Accounts payable and accrued liabilities	<u>\$ 23,733</u>	<u>\$ -</u>	<u>\$ 23,733</u>
Total liabilities	<u>\$ 23,733</u>	<u>\$ -</u>	<u>\$ 23,733</u>
FUND BALANCES:			
Restricted:			
Community Development	<u>\$ 6,999</u>	<u>\$ -</u>	<u>\$ 6,999</u>
Total fund equity	<u>\$ 6,999</u>	<u>\$ -</u>	<u>\$ 6,999</u>
Total liabilities and fund equity	<u>\$ 30,732</u>	<u>\$ -</u>	<u>\$ 30,732</u>

CITY OF SALISBURY, NORTH CAROLINA

ALL NON-MAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2011

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
REVENUES:			
Restricted intergovernmental	\$ 629,147	\$ -	\$ 629,147
Miscellaneous	<u>33,370</u>	<u>5,509</u>	<u>38,879</u>
Total revenues	<u>\$ 662,517</u>	<u>\$ 5,509</u>	<u>\$ 668,026</u>
EXPENDITURES:			
General government	\$ 77,696	\$ 303,148	\$ 380,844
Community and economic development	529,602	-	529,602
Public safety			
Fire	-	84,689	84,689
Transportation	-	-	-
Debt Service:			
Principal	32,000	-	32,000
Interest	19,824	-	19,824
Issuance fees	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 659,122</u>	<u>\$ 387,837</u>	<u>\$ 1,046,959</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ 3,395	\$ (382,328)	\$ (378,933)
FUND BALANCE, BEGINNING	<u>3,604</u>	<u>382,328</u>	<u>385,932</u>
FUND BALANCE, ENDING	<u><u>\$ 6,999</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,999</u></u>

## CITY OF SALISBURY, NORTH CAROLINA

## SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

For the Year Ended June 30, 2011  
With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance with Budget Positive (Negative)	2010
	Budget	Actual		Actual
REVENUES:				
Intergovernmental:				
Federal	\$ 1,131,343	\$ 629,147	\$ (502,196)	\$ 378,595
Miscellaneous:				
Other	70,000	33,370	(36,630)	38,851
Total revenues	<u>\$ 1,201,343</u>	<u>\$ 662,517</u>	<u>\$ (538,826)</u>	<u>\$ 417,446</u>
EXPENDITURES:				
Current:				
General government	\$ 77,862	\$ 77,696	\$ 166	\$ 75,555
Community and economic development	1,071,657	529,602	542,055	289,875
Debt Service:				
Principal	32,000	32,000	-	32,000
Interest	19,824	19,824	-	21,099
Total expenditures	<u>\$ 1,201,343</u>	<u>\$ 659,122</u>	<u>\$ 542,221</u>	<u>\$ 418,529</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>\$ -</u>	\$ 3,395	<u>\$ 3,395</u>	\$ (1,083)
FUND BALANCE, BEGINNING		<u>3,604</u>		<u>4,687</u>
FUND BALANCE, ENDING		<u>\$ 6,999</u>		<u>\$ 3,604</u>

## CITY OF SALISBURY, NORTH CAROLINA

## CAPITAL PROJECTS FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL

From Inception and for the Year Ended June 30, 2011

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES:				
Miscellaneous				
Interest earned on investments	\$ 70,000	\$ 16,215	\$ 5,509	\$ 21,724
EXPENDITURES:				
General government	\$ 1,967,425	\$1,616,001.00	\$ 303,148	\$ 1,919,149
Public safety				
Fire	103,384	18,695	84,689	103,384
Transportation	22,341	22,341		22,341
Debt issuance fees	65,437	65,437	-	65,437
Total expenditures	\$ 2,158,587	\$ 1,722,474	\$ 387,837	\$ 2,110,311
Total revenues under expenditures	\$ (2,088,587)	\$ (1,706,259)	\$ (382,328)	\$ (2,088,587)
OTHER FINANCING SOURCES				
Proceeds from issuance of debt	\$ 2,088,587	\$ 2,088,587	\$ -	\$ 2,088,587
NET INCREASE IN FUND BALANCE	\$ -	\$ 382,328	\$ (382,328)	\$ -
FUND BALANCE, BEGINNING			382,328	
FUND BALANCE, ENDING			\$ -	

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# Proprietary Fund Types

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Proprietary Funds Types - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Water and Sewer Fund** - to account for the provision of water and sewer services to the residents of the City and immediate area around the City.

**Broadband Services Fund** - to account for the provision of broadband services to the residents of the City.

**Mass Transit Fund** - to account for the provision of public bus services to the residents of the City.

All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

**D-1**  
**CITY OF SALISBURY, NORTH CAROLINA**  
**WATER AND SEWER FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**For the Fiscal Year Ended June 30, 2011**  
**With Comparative Actual Amounts for Year Ended June 30, 2010**

	<u>2011</u>		<b>Variance with Budget Positive (Negative)</b>	<u>2010</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 21,494,803	\$ 21,027,091	\$ (467,712)	\$ 19,450,920
Water and sewer taps	337,000	264,338	(72,662)	278,774
Other operating revenues	<u>936,820</u>	<u>859,501</u>	<u>(77,319)</u>	<u>946,218</u>
Total operating revenues	<u>22,768,623</u>	<u>22,150,930</u>	<u>(617,693)</u>	<u>20,675,912</u>
<b>OPERATING EXPENDITURES OTHER THAN DEPRECIATION:</b>				
Management and administration	\$ 4,382,677	\$ 4,014,033	\$ 368,644	\$ 3,882,941
Water resources	2,065,023	2,043,797	21,226	1,924,080
Maintenance and construction	5,768,596	5,266,807	501,789	4,916,471
Wastewater collection and treatment	2,729,148	2,675,185	53,963	2,587,909
Environmental services	<u>750,330</u>	<u>693,450</u>	<u>56,880</u>	<u>686,924</u>
Total operating expenses other than depreciation	<u>\$ 15,695,774</u>	<u>\$ 14,693,272</u>	<u>\$ 1,002,502</u>	<u>\$ 13,998,325</u>
<b>NONOPERATING REVENUES (EXPENDITURES):</b>				
Investment earnings	\$ 34,000	\$ 42,431	\$ 8,431	\$ 44,588
Capital outlay	(909,791)	(1,015,729)	(105,938)	(1,232,760)
Debt issuance costs	(325,246)	(325,246)	-	-
Interest expense	<u>(1,880,479)</u>	<u>(1,837,211)</u>	<u>43,268</u>	<u>(2,090,782)</u>
Net nonoperating revenues (expenditures)	<u>\$ (3,081,516)</u>	<u>\$ (3,135,755)</u>	<u>\$ (54,239)</u>	<u>\$ (3,278,954)</u>
Revenues over expenditures	<u>\$ 3,991,333</u>	<u>\$ 4,321,903</u>	<u>\$ 330,570</u>	<u>\$ 3,398,633</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Payment of debt principal	\$ (4,166,579)	\$ (4,166,579)	\$ -	\$ (3,610,265)
Refunding bonds issued	16,065,000	16,065,000	-	-
Premiums on refunding bonds	1,624,392	1,624,392	-	-
Payment to refunded bond escrow agent	(17,364,146)	(17,364,146)	-	-
Transfer to Capital Projects Fund	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>	<u>(250,000)</u>
Total other financing sources (uses)	<u>\$ (3,991,333)</u>	<u>\$ (3,991,333)</u>	<u>\$ -</u>	<u>\$ (3,860,265)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>				
	<u>\$ -</u>	<u>\$ 330,570</u>	<u>\$ 330,570</u>	<u>\$ (461,632)</u>
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:</b>				
Revenues under expenditures and other financing sources (uses)		\$ 330,570		
Capital outlay		1,015,729		
Depreciation		(4,267,357)		
Loss on disposals of capital assets		(11,238)		
Bond amortization		(430,585)		
Payment of debt principal		4,166,579		
Payment to refunded bond escrow agent		17,364,146		
Proceeds from sale of refunding bonds		(16,065,000)		
Premium on sale of refunding bonds		(1,624,392)		
Deferred debt issuance costs		325,246		
Interest income from Capital Projects Fund		71,338		
Developers contributions in Capital Projects Fund		1,725,935		
Transfer to Capital Projects Fund		150,000		
Increase in accrued OPEB liability		(206,929)		
Interest expense adjustment		67,683		
Vacation pay		<u>14,834</u>		
Change in net assets		<u>\$ 2,626,559</u>		

## CITY OF SALISBURY, NORTH CAROLINA

## WATER AND SEWER CAPITAL PROJECTS FUND

SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)

From Inception and for the Year Ended June 30, 2011

	Project Authorization	Actual		Total to Date
		Prior Years	Current Year	
REVENUES				
Miscellaneous				
Interest on investments	\$ 515,590	\$ 4,147,862	\$ 71,338	\$ 4,219,200
EXPENDITURES-SEWER PROJECT				
Construction	\$ 15,751,753	\$ 12,549,411	\$ 1,749,257	\$ 14,298,668
Engineering	1,880,577	2,548,824	11,225	2,560,049
Total expenditures-Sewer project	\$ 17,632,330	\$ 15,098,235	\$ 1,760,482	\$ 16,858,717
EXPENDITURES-WATER PROJECT				
Construction	\$ 2,683,506	\$ 834,008	\$ 108,899	\$ 942,907
Engineering	350,850	635,986	52,674	688,660
Total expenditures-Water project	\$ 3,034,356	\$ 1,469,994	\$ 161,573	\$ 1,631,567
Total expenditures	\$ 20,666,686	\$ 16,568,229	\$ 1,922,055	\$ 18,490,284
Total revenues under expenditures	\$ (20,151,096)	\$ (12,420,367)	\$ (1,850,717)	\$ (14,271,084)
OTHER FINANCING SOURCES:				
Proceeds from sale of bonds	\$ 17,391,750	\$ 17,794,460	\$ -	\$ 17,794,460
Developer contributions	1,759,346	1,291,280	1,725,935	3,017,215
Contribution from Water and Sewer Fund	1,000,000	250,000	150,000	400,000
Total other financing sources	\$ 20,151,096	\$ 19,335,740	\$ 1,875,935	\$ 21,211,675
Unexpended revenues and receipts	\$ -	\$ 6,915,373	\$ 25,218	\$ 6,940,591

## CITY OF SALISBURY, NORTH CAROLINA

**BROADBAND SERVICES FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**

**For the Fiscal Year Ended June 30, 2011**

**With Comparative Actual Amounts for Year Ended June 30, 2010**

	2011		Variance with Budget Positive (Negative)	2010
	Budget	Actual		Actual
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 1,609,853	\$ 610,075	\$ (999,778)	\$ -
<b>OPERATING EXPENDITURES OTHER THAN DEPRECIATION:</b>				
Management and administration	\$ 484,900	\$ 462,523	\$ 22,377	\$ 247,309
Sales and marketing	225,602	209,016	16,586	110,861
Programming	325,552	315,656	9,896	35,528
Broadband services	1,019,234	650,862	368,372	228,941
Services delivery	<u>366,262</u>	<u>354,259</u>	<u>12,003</u>	<u>72,866</u>
Total operating expenses other than depreciation	<u>\$ 2,421,550</u>	<u>\$ 1,992,316</u>	<u>\$ 429,234</u>	<u>\$ 695,505</u>
<b>NONOPERATING REVENUES (EXPENDITURES):</b>				
Investment earnings	\$ 13,000	\$ 1,065	\$ (11,935)	\$ 1,937
Interest expense	<u>(895,997)</u>	<u>(868,297)</u>	<u>27,700</u>	<u>-</u>
Net nonoperating revenues	<u>\$ (882,997)</u>	<u>\$ (867,232)</u>	<u>\$ 15,765</u>	<u>\$ 1,937</u>
Revenues over (under) expenditures	<u>\$ (1,694,694)</u>	<u>\$ (2,249,473)</u>	<u>\$ (554,779)</u>	<u>\$ (693,568)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Interfund loan	\$ 1,194,694	\$ 1,194,694	\$ -	\$ -
Fund balance appropriated	<u>500,000</u>	<u>-</u>	<u>(500,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ 1,694,694</u>	<u>\$ 1,194,694</u>	<u>\$ (500,000)</u>	<u>\$ -</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ (1,054,779)</u>	<u>\$ (1,054,779)</u>	<u>\$ (693,568)</u>
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:</b>				
Revenues under expenditures and other financing sources (uses)		\$ (1,054,779)		
Depreciation		(163,973)		
Increase in accrued OPEB liability		(28,487)		
Interest income from Capital Projects Fund		123,830		
Proceeds from interfund loan		(1,194,694)		
Interest expense adjustment		(601,683)		
Bond amortization		(79,336)		
Vacation pay		<u>(1,280)</u>		
Change in net assets		<u>\$ (3,000,402)</u>		

## CITY OF SALISBURY, NORTH CAROLINA

## BROADBAND SERVICES CAPITAL PROJECTS FUND

SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)

From Inception and for the Year Ended June 30, 2011

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES				
Miscellaneous				
Interest on investments	\$ 565,000	\$ 324,753	\$ 123,830	\$ 448,583
EXPENDITURES-BROADBAND PROJECT				
Broadband systems	\$ 20,534,209	\$ 14,057,939	\$ 6,473,288	\$ 20,531,227
Buildings	4,044,700	3,358,299	572,966	3,931,265
Bond issuance fees	1,586,719	1,586,719	-	1,586,719
Capitalized interest	3,024,567	2,156,271	868,296	3,024,567
Total expenditures	\$ 29,190,195	\$ 21,159,228	\$ 7,914,550	\$ 29,073,778
Total revenues under expenditures	\$ (28,625,195)	\$ (20,834,475)	\$ (7,790,720)	\$ (28,625,195)
OTHER FINANCING SOURCES:				
Proceeds from sale of bonds	\$ 28,625,195	\$ 28,625,195	\$ -	\$ 28,625,195
Total other financing sources	\$ 28,625,195	\$ 28,625,195	\$ -	\$ 28,625,195
Unexpended revenues and receipts	\$ -	\$ 7,790,720	\$ (7,790,720)	\$ -

## CITY OF SALISBURY, NORTH CAROLINA

## MASS TRANSIT FUND

SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)

For the Year Ended June 30, 2011  
With Comparative Actual Amounts for Year Ended June 30, 2010

	2011		Variance with Budget Positive (Negative)	2010
	Budget	Actual		Actual
OPERATING REVENUES:				
Charges for services	\$ 93,500	\$ 104,113	\$ 10,613	\$ 93,711
Other operating revenues	<u>27,700</u>	<u>30,018</u>	<u>2,318</u>	<u>15,524</u>
Total operating revenues	<u>\$ 121,200</u>	<u>\$ 134,131</u>	<u>\$ 12,931</u>	<u>\$ 109,235</u>
OPERATING EXPENDITURES OTHER THAN DEPRECIATION:				
Management and administration	\$ 326,316	\$ 324,594	\$ 1,722	\$ 294,115
Mass transit operations	<u>760,824</u>	<u>753,956</u>	<u>6,868</u>	<u>706,167</u>
Total operating expenditures other than depreciation	<u>\$ 1,087,140</u>	<u>\$ 1,078,550</u>	<u>\$ 8,590</u>	<u>\$ 1,000,282</u>
NONOPERATING REVENUES (EXPENDITURES):				
Intergovernmental	<u>\$ 549,155</u>	<u>\$ 549,621</u>	<u>\$ 466</u>	<u>\$ 509,046</u>
Total nonoperating revenues (expenditures)	<u>\$ 549,155</u>	<u>\$ 549,621</u>	<u>\$ 466</u>	<u>\$ 509,046</u>
Revenues under expenditures	<u>\$ (416,785)</u>	<u>\$ (394,798)</u>	<u>\$ 21,987</u>	<u>\$ (382,001)</u>
OTHER FINANCING SOURCES:				
Operating transfers in:				
General fund	<u>\$ 416,785</u>	<u>\$ 416,785</u>	<u>\$ -</u>	<u>\$ 390,319</u>
REVENUES OVER (UNDER) EXPENDITURES AND AND OTHER FINANCING SOURCES	<u>\$ -</u>	<u>\$ 21,987</u>	<u>\$ 21,987</u>	<u>\$ 8,318</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of expenses over revenues, above		\$ 21,987		
Depreciation		(92,692)		
Inventories		1,055		
Increase in accrued OPEB liability		(20,535)		
Vacation pay		<u>15,068</u>		
Change in net assets		<u>\$ (75,117)</u>		



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# **Internal Service Funds**

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Internal Service Funds are used for allocating the cost of providing certain central services among the different funds.

**Workers' Compensation Fund** - to account for monies provided by the City and interest earnings to provide the City's reserve for Workers' Compensation.

**Employee Health Care Fund** - to account for monies withheld from employees' wages and charges to the City to fund the City's health insurance plan.

## CITY OF SALISBURY, NORTH CAROLINA

## INTERNAL SERVICE FUNDS

## COMBINING BALANCE SHEET

June 30, 2011

With Comparative Totals at June 30, 2010

<u>ASSETS</u>	<u>Workers'</u> <u>Compensation</u>	<u>Employee</u> <u>Health Care</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
CURRENT ASSETS				
Cash and investments	\$ 328,859	\$ 112,333	\$ 441,192	\$ 824,237
Interest receivable	1,160	818	1,978	2,708
Due from other government	-	-	-	8
Total assets	<u>\$ 330,019</u>	<u>\$ 113,151</u>	<u>\$ 443,170</u>	<u>\$ 826,953</u>
<u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 37,622	\$ 583,137	\$ 620,759	\$ 573,085
NET ASSETS, UNRESTRICTED	<u>292,397</u>	<u>(469,986)</u>	<u>(177,589)</u>	<u>253,868</u>
Total liabilities and net assets	<u>\$ 330,019</u>	<u>\$ 113,151</u>	<u>\$ 443,170</u>	<u>\$ 826,953</u>

## CITY OF SALISBURY, NORTH CAROLINA

## INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2011  
With Comparative Totals For The Year Ended June 30, 2010

	Workers'	Employee	Totals			
			Compensation	Health Care	2011	2010
OPERATING REVENUES:						
Charges for services	\$ 583,745	\$ 4,267,202	\$ 4,850,947	\$ 4,011,808		
OPERATING EXPENSES:						
Employee benefits	<u>374,658</u>	<u>4,914,876</u>	<u>5,289,534</u>	<u>4,736,156</u>		
OPERATING INCOME	\$ 209,087	\$ (647,674)	\$ (438,587)	\$ (724,348)		
NONOPERATING REVENUES						
Interest earned on investments	<u>1,601</u>	<u>5,529</u>	<u>7,130</u>	<u>10,788</u>		
NET INCOME (DEFICIT)	\$ 210,688	\$ (642,145)	\$ (431,457)	\$ (713,560)		
NET ASSETS, BEGINNING	<u>81,709</u>	<u>172,159</u>	<u>253,868</u>	<u>967,428</u>		
NET ASSETS, ENDING	<u>\$ 292,397</u>	<u>\$ (469,986)</u>	<u>\$ (177,589)</u>	<u>\$ 253,868</u>		

**CITY OF SALISBURY, NORTH CAROLINA**  
**WORKERS' COMPENSATION INTERNAL SERVICE FUND**

**SCHEDULE OF REVENUES AND EXPENDITURES**  
**FINANCIAL PLAN AND ACTUAL (NON-GAAP)**

**For the Year Ended June 30, 2011**  
**With Comparative Actual Amounts for Year Ended June 30, 2010**

	<u>2011</u>		<b>Variance with Budget Positive (Negative)</b>	<u>2010</u>
	<b>Financial Plan</b>	<b>Actual</b>		<b>Actual</b>
OPERATING REVENUES:				
Charges for services	\$ 584,100	\$ 583,745	\$ (355)	\$ 327,000
OPERATING EXPENDITURES:				
Employee benefits	\$ 585,100	\$ 374,658	\$ 210,442	\$ 431,873
NONOPERATING REVENUES:				
Interest on investments	\$ 1,000	\$ 1,601	\$ 601	\$ 1,368
Revenues over (under) expenditures	\$ -	\$ 210,688	\$ 210,688	\$ (103,505)
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ 210,688</u>	<u>\$ 210,688</u>	<u>\$ (103,505)</u>

**CITY OF SALISBURY, NORTH CAROLINA**  
**EMPLOYEE HEALTH CARE INTERNAL SERVICE FUND**

**SCHEDULE OF REVENUES AND EXPENDITURES**  
**FINANCIAL PLAN AND ACTUAL (NON-GAAP)**

**For the Year Ended June 30, 2011**  
**With Comparative Actual Amounts for Year Ended June 30, 2010**

	<u>2011</u>		<b>Variance with Budget Positive (Negative)</b>	<u>2010</u>
	<b>Financial Plan</b>	<b>Actual</b>		<b>Actual</b>
OPERATING REVENUES:				
Charges for services	\$ 4,570,911	\$ 4,267,202	\$ (303,709)	\$ 3,684,808
OPERATING EXPENDITURES:				
Employee benefits	\$ 4,580,911	\$ 4,914,876	\$ (333,965)	\$ 4,304,283
NONOPERATING REVENUES:				
Interest on investments	\$ 10,000	\$ 5,529	\$ (4,471)	\$ 9,420
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ (642,145)</u>	<u>\$ (642,145)</u>	<u>\$ (610,055)</u>

## CITY OF SALISBURY, NORTH CAROLINA

## INTERNAL SERVICE FUNDS

## COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011  
With Comparative Totals For The Year Ended June 30, 2010

	Workers' Compensation	Employee Health Care	Totals	
			2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from interfund services provided	\$ 583,745	\$ 4,267,202	\$ 4,850,947	\$ 4,011,808
Cash paid for goods and services	<u>(368,568)</u>	<u>(4,873,284)</u>	<u>(5,241,852)</u>	<u>(4,792,800)</u>
Net cash provided (used) by operating activities	<u>\$ 215,177</u>	<u>\$ (606,082)</u>	<u>\$ (390,905)</u>	<u>\$ (780,992)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	<u>\$ 926</u>	<u>\$ 6,934</u>	<u>\$ 7,860</u>	<u>\$ 13,152</u>
Net increase (decrease) in cash and cash equivalents	\$ 216,103	\$ (599,148)	\$ (383,045)	\$ (767,840)
Balances-beginning of the year	<u>112,756</u>	<u>711,481</u>	<u>824,237</u>	<u>1,592,077</u>
Balances-end of the year	<u>\$ 328,859</u>	<u>\$ 112,333</u>	<u>\$ 441,192</u>	<u>\$ 824,237</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 209,087	\$ (647,674)	\$ (438,587)	\$ (724,348)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in current assets and liabilities:				
(Increase) decrease in due from other government	8	-	8	(8)
(Increase) decrease in prepaid expenses	-	-	-	47,803
Increase (decrease) in accounts payable and accrued liabilities	<u>6,082</u>	<u>41,592</u>	<u>47,674</u>	<u>(104,439)</u>
Net cash provided (used) by operating activities	<u>\$ 215,177</u>	<u>\$ (606,082)</u>	<u>\$ (390,905)</u>	<u>\$ (780,992)</u>



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# Agency Funds

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Agency funds are used to account for assets held by government as an agent for individuals, private organizations, other governments, and/or other funds.

#### AGENCY FUNDS

**Boards and Commissions** – to account for monies raised by the boards and commissions of the City from private sources to fund their projects.

**Municipal Service District Fund** – to account for tax receipts of the Municipal Service District that the City receives from the County and then remits to Downtown Salisbury, Inc.

**East Spencer Utilities Fund** – to account for billings and receipts of the Town of East Spencer's utilities operations, which the City manages on a contract basis.

**Firemen's Relief Fund** – to account for monies donated to help families of two firefighters who died in a fire on March 7, 2008.

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

COMBINING BALANCE SHEET

June 30, 2011

With Comparative Totals at June 30, 2010

	Agency				Totals	
	Boards and Commissions	Municipal Service District	East Spencer Utility Fund	Tourism and Cultural Development Fund	2011	2010
<u>ASSETS</u>						
Cash and investments	\$ 2,796	\$ 3,828	\$ 170,615	\$ -	\$ 177,239	\$ 127,196
Accounts receivable	<u>-</u>	<u>12,094</u>	<u>184,470</u>	<u>-</u>	<u>196,564</u>	<u>138,780</u>
Total assets	<u>\$ 2,796</u>	<u>\$ 15,922</u>	<u>\$ 355,085</u>	<u>\$ -</u>	<u>\$ 373,803</u>	<u>\$ 265,976</u>
<u>LIABILITIES</u>						
Accounts payable and accrued liabilities	<u>\$ 2,796</u>	<u>\$ 15,922</u>	<u>\$ 355,085</u>	<u>\$ -</u>	<u>\$ 373,803</u>	<u>\$ 265,976</u>

## CITY OF SALISBURY, NORTH CAROLINA

## AGENCY FUNDS

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>BOARDS AND COMMISSIONS FUND:</u>				
ASSETS				
Cash and investments	\$ 2,796	\$ -	\$ -	\$ 2,796
LIABILITIES				
Accounts payable and accrued liabilities	\$ 2,796	\$ -	\$ -	\$ 2,796
<u>MUNICIPAL SERVICE DISTRICT FUND:</u>				
ASSETS				
Cash and investments	\$ 1,683	\$ 131,600	\$ 129,455	\$ 3,828
Accounts receivable	8,995	136,276	133,177	12,094
Total assets	\$ 10,678	\$ 267,876	\$ 262,632	\$ 15,922
LIABILITIES				
Accounts payable and accrued liabilities	\$ 10,678	\$ 5,244	\$ -	\$ 15,922
<u>EAST SPENCER UTILITY FUND:</u>				
ASSETS				
Cash and investments	\$ 122,717	\$ 1,284,911	\$ 1,237,013	\$ 170,615
Accounts receivable	129,785	1,311,693	1,257,008	184,470
Total Assets	\$ 252,502	\$ 2,596,604	\$ 2,494,021	\$ 355,085
LIABILITIES				
Accounts payable and accrued liabilities	\$ 252,502	\$ 102,583	\$ -	\$ 355,085
<u>TOURISM AND CULTURAL DEVELOPMENT FUND:</u>				
ASSETS				
Cash and investments	\$ -	\$ 312,492	\$ 312,492	\$ -
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 312,492	\$ 312,492	\$ -
<u>TOTAL AGENCY FUNDS:</u>				
ASSETS				
Cash and investments	\$ 127,196	\$ 1,729,003	\$ 1,678,960	\$ 177,239
Accounts receivable	138,780	1,447,969	1,390,185	196,564
Total assets	\$ 265,976	\$ 3,176,972	\$ 3,069,145	\$ 373,803
LIABILITIES				
Accounts payable and accrued liabilities	\$ 265,976	\$ 420,319	\$ 312,492	\$ 373,803

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# Other Schedules

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## CITY OF SALISBURY, NORTH CAROLINA

## ANALYSIS OF CURRENT TAX LEVY

For the Year Ended June 30, 2011

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	ORIGINAL LEVY				
Property taxed at current year's rates	\$2,847,266,581	\$0.590	\$ 16,798,809	\$ 16,139,048	\$ 659,761
Registered motor vehicles taxed at prior year's rates	68,316,890	0.590	403,074	-	403,074
Auto registration fee			223,104	1,444	221,660
Penalties			13,248	13,248	-
TOTAL	\$2,915,583,471		\$ 17,438,235	\$ 16,153,740	\$ 1,284,495
DISCOVERY					
Current year rates	10,523,960		62,437	60,253	2,184
Prior years rates			16,175	16,175	-
Penalties			12,990	12,990	-
TOTAL			\$ 91,602	\$ 89,418	\$ 2,184
ABATEMENTS	(9,799,802)		\$ (59,538)	\$ (42,995)	\$ (16,543)
TOTAL PROPERTY VALUATION	<u>\$2,916,307,629</u>				
NET LEVY			\$ 17,470,299	\$ 16,200,163	\$ 1,270,136
Less uncollected tax at June 30, 2011			801,664	636,146	165,518
CURRENT YEAR'S TAXES COLLECTED			<u>\$ 16,668,635</u>	<u>\$15,564,017</u>	<u>\$1,104,618</u>
PERCENT OF CURRENT YEAR COLLECTED			<u>95.41%</u>	<u>96.07%</u>	<u>86.97%</u>

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## Statistical Section

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This part of the City of Salisbury’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

<b><u>Contents</u></b>	<b>Pages</b>
<b>Financial Trends</b>	<b>118-124</b>
These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	<b>126-131</b>
These schedules contain information to help the reader assess the factors affecting the City’s ability to generate its property and sales taxes.	
<b>Debt Capacity</b>	<b>132-138</b>
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future.	
<b>Demographic and Economic Information</b>	<b>139-140</b>
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place and to help make comparisons over time and with other governments.	
<b>Operating Information</b>	<b>141-145</b>
These schedules contain information about the City’s operations and resources to help the reader understand how the City’s financial information relates to the services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2003; schedules presenting government-wide information include information beginning in that year.



**Schedule 1**

**CITY OF SALISBURY  
NET ASSETS BY COMPONENT  
Last Nine Fiscal Years  
(accrual basis of accounting)**

	<b>Fiscal Year</b>			
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Governmental activities				
Invested in capital assets, net of related debt	\$ 30,737,822	\$ 30,380,102	\$ 31,657,961	\$ 32,777,082
Restricted	-	-	-	-
Unrestricted	<u>4,771,163</u>	<u>4,694,890</u>	<u>5,411,922</u>	<u>6,600,846</u>
Total Governmental net assets	<u>\$ 35,508,985</u>	<u>\$ 35,074,992</u>	<u>\$ 37,069,883</u>	<u>\$ 39,377,928</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 54,424,878	\$ 62,840,912	\$ 71,848,222	\$ 72,574,520
Restricted	-	-	-	-
Unrestricted	<u>19,813,181</u>	<u>14,281,971</u>	<u>9,921,167</u>	<u>9,010,320</u>
Total business-type net assets	<u>\$ 74,238,059</u>	<u>\$ 77,122,883</u>	<u>\$ 81,769,389</u>	<u>\$ 81,584,840</u>
Primary government				
Invested in capital assets, net of related debt	\$ 85,162,700	\$ 93,221,014	\$ 103,506,183	\$ 105,351,602
Restricted	-	-	-	-
Unrestricted	<u>24,584,344</u>	<u>18,976,861</u>	<u>15,333,089</u>	<u>15,611,166</u>
Total primary government net assets	<u>\$ 109,747,044</u>	<u>\$ 112,197,875</u>	<u>\$ 118,839,272</u>	<u>\$ 120,962,768</u>

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 36,272,178	\$ 36,525,374	\$ 37,816,470	\$ 38,831,003	\$ 39,495,804
-	-	216,413	591,581	4,846,985
<u>7,180,425</u>	<u>8,148,501</u>	<u>7,691,236</u>	<u>6,001,521</u>	<u>850,814</u>
<u>\$ 43,452,603</u>	<u>\$ 44,673,875</u>	<u>\$ 45,724,119</u>	<u>\$ 45,424,105</u>	<u>\$ 45,193,603</u>
\$ 73,759,751	\$ 77,307,128	\$ 75,728,506	\$ 76,682,748	\$ 74,697,761
-	-	3,150,905	3,150,905	3,150,905
<u>10,909,457</u>	<u>9,671,332</u>	<u>9,586,249</u>	<u>8,508,935</u>	<u>10,044,962</u>
<u>\$ 84,669,208</u>	<u>\$ 86,978,460</u>	<u>\$ 88,465,660</u>	<u>\$ 88,342,588</u>	<u>\$ 87,893,628</u>
\$110,031,929	\$113,832,502	\$113,544,976	\$115,513,751	\$114,193,565
-	-	3,367,318	3,742,486	7,997,890
<u>18,089,882</u>	<u>17,819,833</u>	<u>17,277,485</u>	<u>14,510,456</u>	<u>10,895,776</u>
<u>\$128,121,811</u>	<u>\$131,652,335</u>	<u>\$134,189,779</u>	<u>\$133,766,693</u>	<u>\$133,087,231</u>

**Schedule 2**

**CITY OF SALISBURY  
CHANGES IN NET ASSETS  
Last Nine Fiscal Years  
(accrual basis of accounting)**

<b>Expenses</b>	<b>Fiscal Year</b>				
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Governmental activities:</b>					
General government	\$ 5,975,738	\$ 5,887,422	\$ 6,575,855	\$ 6,620,291	\$ 7,545,934
Public safety	9,739,181	10,111,491	10,444,970	10,559,567	11,018,172
Transportation	4,313,179	4,869,631	4,659,387	5,718,272	5,079,652
Environmental protection	1,469,017	1,619,517	1,653,027	1,785,667	2,139,937
Culture and recreation	2,392,991	2,579,491	2,566,970	2,637,583	2,593,105
Community and economic development	2,013,771	2,386,640	2,099,674	2,260,752	2,094,261
Education	42,342	42,342	42,342	42,342	42,342
Interest on long-term debt	251,693	258,177	306,022	297,212	414,815
Total governmental activities expenses	<u>\$ 26,197,912</u>	<u>\$ 27,754,711</u>	<u>\$ 28,348,247</u>	<u>\$ 29,921,686</u>	<u>\$ 30,928,218</u>
<b>Business-type activities:</b>					
Water and Sewer	\$ 15,484,513	\$ 16,179,987	\$ 17,063,018	\$ 18,131,596	\$ 18,636,493
Broadband Services					
Mass Transit	629,268	661,552	817,899	977,470	1,194,223
Total business-type activities	<u>\$ 16,113,781</u>	<u>\$ 16,841,539</u>	<u>\$ 17,880,917</u>	<u>\$ 19,109,066</u>	<u>\$ 19,830,716</u>
Total primary governmental expenses	<u>\$ 42,311,693</u>	<u>\$ 44,596,250</u>	<u>\$ 46,229,164</u>	<u>\$ 49,030,752</u>	<u>\$ 50,758,934</u>
<b>Program Revenues</b>					
<b>Governmental activities:</b>					
Charges for services:					
General government	\$ 2,854,620	\$ 3,009,494	\$ 3,185,185	\$ 3,207,322	\$ 3,796,433
Public safety	410,211	414,782	416,920	473,190	459,350
Transportation	125,244	40,219	52,545	139,704	127,207
Environmental protection	946,998	954,506	966,049	981,344	1,156,391
Culture and recreation	162,916	236,236	251,084	164,896	167,781
Community and economic development	160,377	389,325	310,430	504,285	444,382
Operating grants and contributions	3,187,615	1,632,833	2,007,717	1,943,637	1,547,688
Capital grants and contributions	4,990,317	605,851	2,150,557	2,406,145	3,684,048
Total governmental activities program revenues	<u>\$ 12,838,298</u>	<u>\$ 7,283,246</u>	<u>\$ 9,340,487</u>	<u>\$ 9,820,523</u>	<u>\$ 11,383,280</u>
<b>Business-type activities:</b>					
Charges for services:					
Water and Sewer	\$ 14,301,184	\$ 14,484,161	\$ 15,342,078	\$ 17,789,555	\$ 19,384,892
Broadband Services	-	-	-	-	-
Mass Transit	66,669	64,571	64,225	80,372	85,835
Operating grants and contributions	372,724	372,506	405,706	452,326	482,692
Capital grants and contributions	9,927,332	2,821,330	5,040,339	43,765	1,960,331
Total business-type activities program revenues	<u>\$ 24,667,909</u>	<u>\$ 17,742,568</u>	<u>\$ 20,852,348</u>	<u>\$ 18,366,018</u>	<u>\$ 21,913,750</u>
Total primary governmental program revenues	<u>\$ 37,506,207</u>	<u>\$ 25,025,814</u>	<u>\$ 30,192,835</u>	<u>\$ 28,186,541</u>	<u>\$ 33,297,030</u>
<b>Net (expense)/revenue</b>					
Governmental activities	\$ (13,359,614)	\$ (20,471,465)	\$ (19,007,760)	\$ (20,101,163)	\$ (19,544,938)
Business-type activities	8,554,128	901,029	2,971,431	(743,048)	2,083,034
Total primary governmental net expense	<u>\$ (4,805,486)</u>	<u>\$ (19,570,436)</u>	<u>\$ (16,036,329)</u>	<u>\$ (20,844,211)</u>	<u>\$ (17,461,904)</u>
<b>General Revenues and Other Changes in Net Assets</b>					
<b>Governmental activities:</b>					
Taxes					
Property taxes	\$ 11,220,630	\$ 12,608,225	\$ 13,589,368	\$ 14,580,037	\$ 15,237,001
Sales and other taxes	3,382,414	4,232,748	4,410,547	4,755,926	4,928,404
Intergovernmental revenues	1,932,454	2,822,659	2,848,989	2,731,869	2,818,573
Unrestricted investment earnings	88,655	81,428	176,287	379,137	544,213
Miscellaneous	351,418	277,847	151,030	175,357	449,991
Transfers	(160,282)	(160,282)	(173,570)	(213,118)	(358,569)
Total governmental activities	<u>\$ 16,815,289</u>	<u>\$ 19,862,625</u>	<u>\$ 21,002,651</u>	<u>\$ 22,409,208</u>	<u>\$ 23,619,613</u>
<b>Business-type activities:</b>					
Investment earnings	\$ 363,091	\$ 184,999	\$ 231,288	\$ 342,961	\$ 642,765
Miscellaneous	952,766	1,638,514	1,270,217	2,420	-
Transfers	160,282	160,282	173,570	213,118	358,569
Total business-type activities	<u>\$ 1,476,139</u>	<u>\$ 1,983,795</u>	<u>\$ 1,675,075</u>	<u>\$ 558,499</u>	<u>\$ 1,001,334</u>
Total primary government	<u>\$ 18,291,428</u>	<u>\$ 21,846,420</u>	<u>\$ 22,677,726</u>	<u>\$ 22,967,707</u>	<u>\$ 24,620,947</u>
<b>Change in Net Assets</b>					
Governmental activities	\$ 3,455,675	\$ (608,840)	\$ 1,994,891	\$ 2,308,045	\$ 4,074,675
Business-type activities	10,030,267	2,884,824	4,646,506	(184,549)	3,084,368
Total primary government	<u>\$ 13,485,942</u>	<u>\$ 2,275,984</u>	<u>\$ 6,641,397</u>	<u>\$ 2,123,496</u>	<u>\$ 7,159,043</u>

Note: The City began to report accrual information for governmental activities when it implemented GASB 34 in fiscal year 2003.

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 8,584,267	\$ 7,607,018	\$ 9,000,546	\$ 8,638,802
11,855,275	12,600,709	12,781,599	13,065,399
5,875,717	4,870,333	5,720,250	5,410,397
2,203,772	2,459,565	1,903,354	2,372,108
2,830,610	2,934,389	2,977,724	2,852,895
2,025,313	1,938,878	1,861,576	1,868,213
42,342	42,342	42,342	42,342
358,688	449,945	365,136	323,639
<u>\$ 33,775,984</u>	<u>\$ 32,903,179</u>	<u>\$ 34,652,527</u>	<u>\$ 34,573,795</u>
\$ 19,488,977	\$ 19,961,739	\$ 20,703,446	\$ 21,352,837
	230,474	828,584	3,735,371
1,258,857	1,347,215	1,217,603	1,175,654
<u>\$ 20,747,834</u>	<u>\$ 21,539,428</u>	<u>\$ 22,749,633</u>	<u>\$ 26,263,862</u>
<u>\$ 54,523,818</u>	<u>\$ 54,442,607</u>	<u>\$ 57,402,160</u>	<u>\$ 60,837,657</u>
\$ 3,889,331	\$ 3,343,256	\$ 3,543,676	\$ 3,528,014
464,189	456,266	433,727	446,473
157,217	148,212	129,223	141,241
1,208,241	1,549,055	1,221,279	1,102,823
175,416	165,332	153,833	156,726
201,558	209,970	134,399	136,921
1,821,205	1,710,521	2,507,060	2,334,124
1,376,213	986,905	759,641	912,385
<u>\$ 9,293,370</u>	<u>\$ 8,569,517</u>	<u>\$ 8,882,838</u>	<u>\$ 8,758,707</u>
\$ 20,463,596	\$ 20,738,138	\$ 21,353,577	\$ 22,139,692
-	-	-	610,074
88,633	105,874	109,235	134,131
479,227	507,040	509,046	549,621
771,686	722,209	-	1,725,935
<u>\$ 21,803,142</u>	<u>\$ 22,073,261</u>	<u>\$ 21,971,858</u>	<u>\$ 25,159,453</u>
<u>\$ 31,096,512</u>	<u>\$ 30,642,778</u>	<u>\$ 30,854,696</u>	<u>\$ 33,918,160</u>
\$ (24,482,614)	\$ (24,333,662)	\$ (25,769,689)	\$ (25,815,088)
1,055,308	533,833	(777,775)	(1,104,409)
<u>\$ (23,427,306)</u>	<u>\$ (23,799,829)</u>	<u>\$ (26,547,464)</u>	<u>\$ (26,919,497)</u>
\$ 16,755,835	\$ 17,162,719	\$ 17,379,089	\$ 17,410,646
5,220,704	4,732,043	4,526,014	4,752,432
3,446,122	3,251,711	3,494,579	3,540,146
461,939	244,222	109,254	99,759
257,067	446,592	351,058	198,388
(437,781)	(453,381)	(390,319)	(416,785)
<u>\$ 25,703,886</u>	<u>\$ 25,383,906</u>	<u>\$ 25,469,675</u>	<u>\$ 25,584,586</u>
\$ 816,163	\$ 499,986	\$ 264,384	\$ 238,664
-	-	-	-
437,781	453,381	390,319	416,785
<u>\$ 1,253,944</u>	<u>\$ 953,367</u>	<u>\$ 654,703</u>	<u>\$ 655,449</u>
<u>\$ 26,957,830</u>	<u>\$ 26,337,273</u>	<u>\$ 26,124,378</u>	<u>\$ 26,240,035</u>
\$ 1,221,272	\$ 1,050,244	\$ (300,014)	\$ (230,502)
2,309,252	1,487,200	(123,072)	(448,960)
<u>\$ 3,530,524</u>	<u>\$ 2,537,444</u>	<u>\$ (423,086)</u>	<u>\$ (679,462)</u>

**Schedule 3**

**CITY OF SALISBURY  
FUND BALANCES OF GOVERNMENTAL FUNDS  
Last Ten Fiscal Years  
(modified accrual basis of accounting)**

	<b>Fiscal Year</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
General Fund					
Reserved	\$ 1,765,414	\$ 2,230,658	\$ 2,853,273	\$ 3,588,992	\$ 3,873,682
Unreserved	<u>3,110,420</u>	<u>3,023,678</u>	<u>2,956,660</u>	<u>3,195,428</u>	<u>3,310,681</u>
Nonspendable					
Restricted					
Committed					
Unassigned					
 Total General Fund	 <u>\$ 4,875,834</u>	 <u>\$ 5,254,336</u>	 <u>\$ 5,809,933</u>	 <u>\$ 6,784,420</u>	 <u>\$ 7,184,363</u>
 All other governmental funds					
Reserved	\$ 4,448	\$ 129,802	\$ 20,261	\$ 36,819	\$ 523,350
Unreserved, reported in:					
Special revenue funds	64,354	-	173,894	60,125	182,446
Capital projects funds	<u>54,312</u>	<u>9,155</u>	<u>(373,049)</u>	<u>(753,745)</u>	<u>-</u>
Restricted					
 Total all other governmental funds	 <u>\$ 123,114</u>	 <u>\$ 138,957</u>	 <u>\$ (178,894)</u>	 <u>\$ (656,801)</u>	 <u>\$ 705,796</u>

Presentation changed in 2011 with the implementation of GASB Statement No. 54.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$3,334,316	\$3,618,321	\$4,426,599	\$4,405,420	\$ -
<u>3,538,413</u>	<u>4,446,572</u>	<u>4,514,032</u>	<u>4,499,117</u>	-
				319,844
				4,839,986
				2,811,084
				<u>515,476</u>
<u>\$6,872,729</u>	<u>\$8,064,893</u>	<u>\$8,940,631</u>	<u>\$8,904,537</u>	<u>\$8,486,390</u>
\$ 7,724	\$ 36,736	\$ 81,400	\$ 31,427	\$ -
92,834	(30,759)	(76,713)	(27,823)	-
<u>-</u>	<u>-</u>	<u>2,035,631</u>	<u>382,328</u>	-
				<u>6,999</u>
<u>\$ 100,558</u>	<u>\$ 5,977</u>	<u>\$2,040,318</u>	<u>\$ 385,932</u>	<u>\$ 6,999</u>

**Schedule 4**

**CITY OF SALISBURY  
CHANGES OF FUND BALANCES OF GOVERNMENTAL FUNDS  
Last Ten Fiscal Years  
(modified accrual basis of accounting)**

	Fiscal Year				
	2002	2003	2004	2005	2006
<b>Revenues</b>					
Taxes	\$ 11,097,422	\$ 11,197,550	\$ 12,517,710	\$ 13,786,408	\$ 14,523,959
Licenses and permits	550,831	551,498	538,560	589,274	574,669
Intergovernmental	7,167,125	9,379,967	9,451,550	9,266,863	9,851,051
Charges for services	2,227,465	2,257,355	2,080,488	2,216,314	2,248,157
Investment earnings	170,968	86,796	76,874	161,387	331,121
Miscellaneous	737,488	534,802	817,495	757,105	942,243
Administrative charges	1,581,000	1,660,050	1,743,053	1,711,559	2,070,628
Total revenues	<u>\$ 23,532,299</u>	<u>\$ 25,668,018</u>	<u>\$ 27,225,730</u>	<u>\$ 28,488,910</u>	<u>\$ 30,541,828</u>
<b>Expenditures</b>					
General government	\$ 5,360,451	\$ 4,704,820	\$ 7,942,599	\$ 6,201,936	\$ 6,198,248
Public safety	8,941,298	9,850,071	10,095,655	10,717,282	13,692,442
Transportation	2,978,265	4,117,773	3,600,475	3,636,014	4,613,922
Environmental protection	1,406,346	1,561,086	1,671,908	1,902,570	1,801,115
Culture and recreation	2,666,102	2,195,856	2,568,374	2,495,888	2,601,386
Economic and physical development	2,168,981	3,002,561	2,374,662	2,074,433	2,227,480
Education	42,342	42,342	42,342	42,342	42,342
Debt service					
Principal	764,467	774,176	646,750	630,890	666,950
Interest	290,602	260,553	250,437	308,405	287,965
Issuance fees					
Total expenditures	<u>\$ 24,618,854</u>	<u>\$ 26,509,238</u>	<u>\$ 29,193,202</u>	<u>\$ 28,009,760</u>	<u>\$ 32,131,850</u>
Excess of revenues over (under) expenditures	<u>\$ (1,086,555)</u>	<u>\$ (841,220)</u>	<u>\$ (1,967,472)</u>	<u>\$ 479,150</u>	<u>\$ (1,590,022)</u>
<b>Other financing sources (uses)</b>					
Transfers out	\$ (160,282)	\$ (160,282)	\$ (160,282)	\$ (173,570)	\$ (213,118)
Section 108 loans	-	221,000	375,000	-	-
Installment purchase financing	-	1,000,000	1,990,500	191,000	3,565,680
Total other financing sources (uses)	<u>\$ (160,282)</u>	<u>\$ 1,060,718</u>	<u>\$ 2,205,218</u>	<u>\$ 17,430</u>	<u>\$ 3,352,562</u>
Net change in fund balances	<u>\$ (1,246,837)</u>	<u>\$ 219,498</u>	<u>\$ 237,746</u>	<u>\$ 496,580</u>	<u>\$ 1,762,540</u>
Total capital expenditures included above	\$ 1,255,215	\$ 2,326,603	\$ 3,486,270	\$ 1,755,532	\$ 1,629,005
Debt services as a percentage of noncapital expenditures	4.5%	4.3%	3.5%	3.6%	3.1%

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 15,152,988	\$ 16,731,217	\$ 16,960,723	\$ 17,121,590	\$ 17,295,252
473,488	413,940	393,755	420,876	335,602
9,592,656	10,708,309	10,489,900	10,637,419	10,899,089
2,490,586	2,503,642	2,941,277	2,640,751	2,559,210
410,322	394,806	197,380	98,466	92,629
602,044	701,002	642,012	496,933	334,184
2,275,159	2,417,857	2,536,683	2,554,510	2,608,011
<u>\$ 30,997,243</u>	<u>\$ 33,870,773</u>	<u>\$ 34,161,730</u>	<u>\$ 33,970,545</u>	<u>\$ 34,123,977</u>
\$ 6,604,904	\$ 7,087,851	\$ 7,392,264	\$ 9,208,823	\$ 8,869,055
13,235,698	11,591,654	11,800,925	12,654,815	13,103,690
4,143,049	4,844,531	4,969,657	4,729,571	5,072,925
1,994,245	2,198,012	2,269,806	1,804,449	1,814,708
2,590,253	3,031,619	3,148,062	2,814,908	2,709,176
2,269,786	2,069,328	1,934,441	2,339,095	2,266,733
42,342	42,342	42,342	42,342	42,342
954,857	2,012,386	1,129,427	1,296,442	1,206,824
394,837	364,620	350,909	380,261	332,819
		65,437	-	-
<u>\$ 32,229,971</u>	<u>\$ 33,242,343</u>	<u>\$ 33,103,270</u>	<u>\$ 35,270,706</u>	<u>\$ 35,418,272</u>
<u>\$ (1,232,728)</u>	<u>\$ 628,430</u>	<u>\$ 1,058,460</u>	<u>\$ (1,300,161)</u>	<u>\$ (1,294,295)</u>
\$ (358,569)	\$ (437,781)	\$ (453,381)	\$ (390,319)	\$ (416,785)
-	-	-	-	914,000
<u>674,425</u>	<u>906,934</u>	<u>2,305,000</u>	<u>-</u>	<u>-</u>
<u>\$ 315,856</u>	<u>\$ 469,153</u>	<u>\$ 1,851,619</u>	<u>\$ (390,319)</u>	<u>\$ 497,215</u>
<u>\$ (916,872)</u>	<u>\$ 1,097,583</u>	<u>\$ 2,910,079</u>	<u>\$ (1,690,480)</u>	<u>\$ (797,080)</u>
\$ 3,982,859	\$ 1,735,087	\$ 3,218,811	\$ 3,772,963	\$ 3,789,327
4.8%	7.5%	5.2%	5.3%	4.9%

Schedule 5

CITY OF SALISBURY  
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE  
Last Nine Fiscal Years  
(accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Utilities Franchise Tax *</u>	<u>Total</u>
2003	\$ 11,220,630	\$ 3,382,414	\$ 1,879,808	\$ 16,482,852
2004	12,608,225	4,232,748	2,306,834	19,147,807
2005	13,589,368	4,306,693	1,886,178	19,782,239
2006	14,580,037	4,755,926	1,863,690	21,199,653
2007	15,237,001	4,928,404	2,029,281	22,194,686
2008	16,755,835	5,220,704	2,533,067	24,509,606
2009	17,162,719	4,732,043	2,493,549	24,388,311
2010	17,379,089	4,526,014	2,542,211	24,447,314
2011	17,410,646	4,752,432	2,561,261	24,724,339

\* Includes Telecommunications taxes and Video Franchise Fees.

**Schedule 6**

**CITY OF SALISBURY  
PROPERTY TAX RATES  
Direct and Overlapping Governments  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>City Direct Rate</b>	<b>Overlapping Rates</b>		<b>Total Direct &amp; Overlapping Rates</b>
		<b>Municipal Service District</b>	<b>Rowan County</b>	
2002	0.6000	0.1600	0.6350	1.3950
2003	0.6000	0.1600	0.6350	1.3950
2004	0.5800	0.1600	0.6300	1.3700
2005	0.6150	0.1600	0.6300	1.4050
2006	0.6150	0.1600	0.6300	1.4050
2007	0.6250	0.1600	0.6300	1.4150
2008	0.5900	0.1600	0.5950	1.3450
2009	0.5900	0.1600	0.5950	1.3450
2010	0.5900	0.1600	0.5950	1.3450
2011	0.5900	0.1600	0.5950	1.3450

Source: Rowan County Tax Assessor.

Notes: Tax rate is per \$100 assessed valuation.

Tax rates for the City and the Municipal Service District may be adjusted by City Council.

Overlapping rates are those of local and county governments that apply to property owners within the City of Salisbury. Not all overlapping rates apply to all Salisbury property owners; for example, although the County property tax rates apply to all city property owners, the Municipal Service District rates apply only to property owners in the downtown area of Salisbury, which accounts for approximately 3 percent of the total assessed property valuation.

**Schedule 7**

**CITY OF SALISBURY  
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30</b>	<b>Real Property</b>		<b>Personal Property</b>		<b>Public Service Companies</b>
	<b>Residential</b>	<b>Commercial</b>	<b>Motor</b>	<b>Other</b>	
	<b>Property</b>	<b>Property</b>	<b>Vehicles</b>		
2002	\$ 789,423,038	\$ 597,292,462	\$165,098,479	\$ 242,724,452	\$ 67,482,463
2003	804,305,286	606,716,922	161,818,125	235,755,742	64,817,634
2004	974,241,834	726,060,709	163,148,412	253,884,469	65,288,150
2005	993,670,143	748,068,340	165,961,939	247,661,995	61,461,308
2006	1,033,163,052	766,165,600	180,632,571	304,196,940	61,623,601
2007	1,062,656,530	807,518,731	180,085,538	321,667,603	57,991,527
2008	1,278,010,578	979,777,296	203,330,301	321,212,171	60,025,014
2009	1,313,367,427	997,804,691	201,392,686	331,012,807	63,736,172
2010	1,302,210,389	1,030,493,844	173,246,565	354,549,352	60,768,581
2011	1,305,076,616	1,040,773,194	177,902,351	352,153,335	61,255,822

Source: Rowan County Tax Assessor.

Note: Property in the county is reassessed once every four years. The county assesses property at 100 percent of actual value for all types and personal property. Tax rates are per \$100 of assessed value.

	<b>Less:</b>	<b>Total Actual and Taxable</b>	<b>Total Direct</b>	<b>Assessed Value as a</b>
	<b>Tax Exempt</b>	<b>Assessed</b>	<b>Tax</b>	<b>Percentage of</b>
	<b>Real Property</b>	<b>Value</b>	<b>Rate</b>	<b>Actual Value</b>
\$	7,209,928	\$ 1,854,810,966	\$ 0.600	100.00%
	10,688,772	1,862,724,937	0.600	100.00%
	11,202,095	2,171,421,479	0.580	100.00%
	11,665,820	2,205,157,905	0.615	100.00%
	12,910,161	2,332,871,603	0.615	100.00%
	13,143,378	2,416,776,551	0.625	100.00%
	16,258,111	2,826,097,249	0.590	100.00%
	17,330,586	2,889,983,197	0.590	100.00%
	19,118,719	2,902,150,012	0.590	100.00%
	20,853,689	2,916,307,629	0.590	100.00%

**Schedule 8**

**CITY OF SALISBURY  
PRINCIPAL PROPERTY TAXPAYERS  
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>2011</u>			<u>2002</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
Food Lion, Inc.	\$ 165,147,672	1	5.66%	\$ 72,643,728	1	3.92%
AKZO Nobel	30,563,923	2	1.05%			
Norandal USA	25,983,947	3	0.89%	25,686,913	4	1.38%
Duke Energy Corporation	24,782,223	4	0.85%	23,602,453	5	1.27%
Centro Heritage Innes Street, LLC	24,387,623	5	0.84%	23,618,090	6	1.27%
Salisbury Mall, Ltd.	16,530,782	6	0.57%	15,478,117	8	0.83%
Henkel Corporation	14,775,775	7	0.51%			
Wal-Mart Stores	14,143,271	8	0.48%			
Bellsouth Telephone	13,338,193	9	0.46%	18,845,089	7	1.02%
Piedmont Natural Gas	13,686,037	10	0.47%			
BRC Salisbury LLC				30,169,342	3	1.63%
Livingstone College				11,908,700	9	0.64%
General Electric				11,231,575	10	0.61%
ICI Americas				34,280,762	2	1.85%
<b>Totals</b>	<u>\$ 343,339,446</u>		<u>11.77%</u>	<u>\$ 267,464,769</u>		<u>14.42%</u>

Source: Rowan County Tax Assessor

**Schedule 9**

**CITY OF SALISBURY  
PROPERTY TAX LEVIES AND COLLECTIONS  
Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30</b>	<b>Total Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
2002	\$ 11,190,158	\$ 10,823,799	96.73%	\$ 342,910	\$ 11,166,709	99.79%
2003	11,255,233	10,892,049	96.77%	329,590	11,221,639	99.70%
2004	12,642,260	12,235,549	96.78%	384,608	12,620,157	99.83%
2005	13,758,035	13,420,155	97.54%	308,126	13,728,281	99.78%
2006	14,642,168	14,239,283	97.25%	365,635	14,604,918	99.75%
2007	15,353,108	14,885,545	96.95%	431,848	15,317,393	99.77%
2008	16,966,584	16,463,376	97.03%	438,378	16,901,754	99.62%
2009	17,334,870	16,646,171	96.03%	543,407	17,189,578	99.16%
2010	17,459,442	16,675,302	95.51%	483,850	17,159,152	98.28%
2011	17,470,299	16,668,635	95.41%	-	16,668,635	95.41%

**Schedule 10**

**CITY OF SALISBURY  
RATIO OF OUTSTANDING DEBT BY TYPE  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Governmental Activities</b>			<b>Business-type Activities</b>			
	<b>General Obligation Bonds</b>	<b>Installment Purchases</b>	<b>Section 108 Loan</b>	<b>General Obligation Bonds</b>	<b>Installment Purchases</b>	<b>Revenue Bonds</b>	<b>State Loans</b>
2002	\$ 2,825,000	\$ 2,434,738	-	\$ 16,080,000		\$ 21,745,280	\$ 15,067,590
2003	2,645,000	2,840,562	\$ 221,000	14,805,000		21,541,269	14,185,084
2004	2,465,000	4,364,312	596,000	13,285,537		20,972,259	13,302,578
2005	2,265,000	4,156,422	564,000	11,934,124		20,383,247	12,420,072
2006	2,075,000	7,277,152	532,000	10,592,712		19,774,236	11,537,566
2007	1,875,000	7,228,720	500,000	9,286,300		25,045,997	10,655,060
2008	1,675,000	6,355,267	468,000	8,054,887		31,587,521	9,772,554
2009	1,475,000	7,762,840	436,000	6,888,474	31,973,281	30,448,803	8,890,048
2010	1,275,000	6,698,398	404,000	5,742,062	32,052,617	35,261,442	8,007,542
2011	1,075,000	6,637,574	372,000	4,615,650	32,131,953	33,810,689	7,125,036

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.  
See Schedule 15 for personal income and population data.

<u>Capital Leases</u>	<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
\$ 3,874,595	\$ 62,027,203	12.14%	\$ 2,335
3,611,283	59,849,198	10.92%	2,122
3,341,606	58,327,292	10.54%	2,068
3,070,497	54,793,362	9.78%	1,940
2,799,885	54,588,551	9.19%	1,867
2,535,695	57,126,772	8.95%	1,864
2,274,849	60,188,078	8.56%	1,940
2,007,264	89,881,710	12.34%	2,866
1,732,856	91,173,917	12.81%	2,826
1,456,531	87,224,433	11.43%	2,586

**Schedule 11**

**CITY OF SALISBURY  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Governmental General Obligation Bonds</b>	<b>Business-type General Obligation Bonds</b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value of Property</b>	<b>Per Capita</b>
2002	\$ 2,825,000	\$ 16,080,000	\$ 18,905,000	1.02%	712
2003	2,645,000	14,805,000	17,450,000	0.94%	619
2004	2,465,000	13,285,537	15,750,537	0.73%	559
2005	2,265,000	11,934,124	14,199,124	0.64%	503
2006	2,075,000	10,592,712	12,667,712	0.54%	433
2007	1,875,000	9,286,300	11,161,300	0.46%	364
2008	1,675,000	8,054,887	9,729,887	0.34%	314
2009	1,475,000	6,888,474	8,363,474	0.29%	267
2010	1,275,000	5,742,062	7,017,062	0.24%	217
2011	1,075,000	4,615,650	5,690,650	0.20%	169

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.  
See Schedule 15 for population data.

**Schedule 12**

**CITY OF SALISBURY  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
As of June 30, 2011**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes: Rowan County	\$ 87,782,999	24.58%	\$ 21,574,898
City of Salisbury direct debt			<u>8,084,574</u>
Total direct and overlapping debt			<u>\$ 29,659,472</u>

Sources: Assessed value data used to estimate applicable percentages and outstanding debt data provided by Rowan County Finance Department.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Salisbury. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

**Schedule 13**

**CITY OF SALISBURY  
LEGAL DEBT MARGIN INFORMATION  
Last Ten Fiscal Years**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Debt limit	\$ 148,384,877	\$ 149,017,995	\$ 173,713,718	\$ 176,412,632
Total net debt applicable to limit	<u>25,214,433</u>	<u>23,901,845</u>	<u>21,006,455</u>	<u>19,226,043</u>
Legal debt margin	<u>\$ 123,170,444</u>	<u>\$ 125,116,150</u>	<u>\$ 152,707,263</u>	<u>\$ 157,186,589</u>
Total net debt applicable to the limit as a percentage of debt limit	16.99%	16.04%	12.09%	10.90%

Note: Under state finance law, the City of Salisbury's outstanding general obligation debt should not exceed 8 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 187,662,541	\$ 194,393,594	\$ 227,388,429	\$ 232,585,103	\$ 233,701,498	\$ 234,972,905
<u>22,744,749</u>	<u>20,925,715</u>	<u>18,360,003</u>	<u>50,981,225</u>	<u>47,500,933</u>	<u>45,916,708</u>
<u>\$ 164,917,792</u>	<u>\$ 173,467,879</u>	<u>\$ 209,028,426</u>	<u>\$ 181,603,878</u>	<u>\$ 186,200,565</u>	<u>\$ 189,056,197</u>
12.12%	10.76%	8.07%	21.92%	20.33%	19.54%

**Legal Debt Margin Calculation for Fiscal Year 2011**

Assessed value	\$ 2,916,307,629
Add back: exempt real property	<u>20,853,689</u>
Total assessed value	\$ 2,937,161,318
Debt Limit (8% of total assessed value)	234,972,905
Debt applicable to limit:	
General obligation bonds	5,690,650
Capitalized lease and installment purchase obligations	<u>40,226,058</u>
Legal debt margin	<u>\$ 189,056,197</u>

**Schedule 14**

**CITY OF SALISBURY  
 PLEDGED REVENUE COVERAGE - WATER AND SEWER REVENUE BONDS  
 Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Gross Revenues</b>	<b>Operating Expenditures</b>	<b>Net Revenues Available</b>	<b>Debt Service Requirements</b>		<b>Coverage Ratios</b>	
				<b>Parity Debt</b>	<b>All Debt</b>	<b>Parity Debt</b>	<b>All Debt</b>
2002	\$ 14,401,251	\$ 8,934,754	\$ 5,466,497	\$ 1,572,591	\$ 4,322,337	347.61%	126.47%
2003	15,297,190	10,022,035	5,275,155	2,405,500	5,088,957	219.30%	103.66%
2004	16,218,662	10,696,926	5,521,736	2,892,846	5,413,301	190.88%	102.00%
2005	16,841,357	10,952,357	5,889,000	2,868,321	5,192,745	205.31%	113.41%
2006	18,132,373	11,843,353	6,289,020	1,610,535	5,094,339	390.49%	123.45%
2007	19,888,170	12,384,082	7,504,088	1,828,958	5,208,347	410.29%	144.08%
2008	20,965,998	13,150,616	7,815,382	2,132,890	5,478,090	366.42%	142.67%
2009	20,968,062	13,521,208	7,446,854	2,592,000	5,687,303	287.30%	130.94%
2010	21,044,751	14,203,262	6,841,489	2,683,309	5,754,927	254.96%	118.88%
2011	22,253,461	14,885,367	7,368,094	3,135,833	5,936,107	234.96%	124.12%

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.  
 Gross revenues include total operating revenues plus investment earnings exclusive of revenue bond investment earnings.  
 Operating expenses above is equal to total operating expenses exclusive of depreciation.  
 For fiscal years prior to 2006 parity debt service requirements included revenue bonds and N. C. Clean Water Bonds. Beginning in 2006 parity debt includes only revenue bonds.

**Schedule 15**

**CITY OF SALISBURY  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Unemployment Rate</b>
2002	26,559	\$ 511,021,719	\$ 19,241	37.1	5.7%
2003	28,199	547,991,167	19,433	37.3	5.7%
2004	28,199	553,433,574	19,626	37.3	9.0%
2005	28,249	560,036,425	19,825	37.5	6.0%
2006	29,239	594,136,480	20,320	37.7	5.8%
2007	30,642	638,211,576	20,828	37.9	6.6%
2008	31,024	703,003,840	22,660	38.1	6.6%
2009	31,358	728,336,587	23,227	38.3	10.3%
2010	32,263	711,888,741	22,065	38.5	12.7%
2011	33,732	762,910,045	22,617	38.7	11.6%

Sources: Population data provided by Office of State Management and Budget. Personal income, per capital income, and median age data are based on the latest census with estimated fluctuations for non-census years. Unemployment rates are provided by the NC Employment Security Commission.

**Schedule 16**

**CITY OF SALISBURY  
PRINCIPAL EMPLOYERS  
Current Year and Nine Years Ago**

<b>Employer</b>	<b>2011</b>			<b>2002</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
Rowan/Salisbury School System	3,074	1	15.76%	2,500	1	13.89%
W. G. (Bill) Hefner VA Medical Center	1,795	2	9.21%	1,140	4	6.33%
Food Lion	1,498	3	7.68%	2,310	2	12.83%
Rowan Regional Medical Center	1,044	4	5.35%	1,250	3	6.94%
Rowan County	761	5	3.90%	650	5	3.61%
Piedmont Correctional Institute	475	6	2.44%	450	7	2.50%
City of Salisbury	453	7	2.32%	410	8	2.28%
Rowan-Cabarrus Community College	337	8	1.73%			
Catawba College	250	9	1.28%			
Lutheran Services for the Aging	214	10	1.10%	280	10	1.56%
Wal-Mart			0.00%	335	9	1.86%
Fieldcrest Cannon				635	6	3.53%
Telespectrum Worldwide, Inc.						
<b>Total</b>	<b>9,901</b>		<b>50.77%</b>	<b>9,960</b>		<b>55.33%</b>

Note: Information was taken from annual reports published by the Rowan County Chamber of Commerce of the largest employers in Rowan County.

**Schedule 17**

**CITY OF SALISBURY  
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION  
Last Ten Fiscal Years**

<b>Function</b>	<b>Full-time Equivalent Employees as of June 30</b>									
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>General government:</b>										
City administration	6	6	7	7	7	8	9	9	9	9
Human resources	6	6	6	6	6	5	4	5	6	6
Finance	18	15	17	18	17	17	19	19	19	26
Fleet management	12	11	11	10	11	11	11	12	11	10
Public services administration	3	3	4	4	3	4	4	3	3	3
Facilities Maintenance	3	5	5	5	6	6	7	7	8	9
Information technologies	8	7	8	8	8	8	10	11	9	8
<b>Public safety:</b>										
<b>Police:</b>										
Officers	81	78	78	78	81	76	83	84	83	79
Civilians	21	20	21	20	22	20	20	18	17	21
<b>Fire:</b>										
Firefighters	66	66	65	67	68	74	76	73	76	76
Civilians	3	1	2	1	1	1	1	1	1	1
<b>Transportation:</b>										
Traffic operations	8	8	8	8	8	7	7	7	7	7
Engineering	5	4	5	7	6	6	7	7	7	5
Streets	26	25	26	24	27	27	29	30	30	24
<b>Environmental protection:</b>										
Solid waste management	15	14	15	18	16	15	15	12	11	10
Cemetery	4	4	4	3	4	5	5	5	4	6
<b>Culture and recreation:</b>										
Landscaping	14	13	12	12	12	14	11	12	11	10
Recreation	29	27	31	30	31	30	25	24	25	19
<b>Community and economic development:</b>										
Community planning services	7	6	6	6	6	7	7	11	7	11
Developmental services	5	5	4	5	5	5	4	3	3	2
Water and Sewer	89	89	91	89	89	83	83	86	92	90
Broadband Services								2	8	13
Mass Transit	12	12	12	12	13	13	13	12	10	8
	<u>441</u>	<u>425</u>	<u>438</u>	<u>438</u>	<u>447</u>	<u>442</u>	<u>450</u>	<u>453</u>	<u>457</u>	<u>453</u>

Source: City Human Resources Department.

**Schedule 18**

**CITY OF SALISBURY  
OPERATING INDICATORS BY FUNCTION  
Last Ten Fiscal Years**

<b>Function</b>	<b>Fiscal Year</b>			
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Police				
Calls resulting in a dispatch	40,582	37,316	36,213	34,904
Part I crimes reported (most serious)	1,538	1,948	1,860	2,785
Fire				
Total Fire Department responses	2,922	3,030	3,141	3,242
Value of fire loss	\$ 1,635,340	\$ 539,300	\$ 222,095	\$ 709,917
Streets				
Street miles maintained (lane miles)	294	308	311	317
Miles resurfaced (lanes miles)	9.6	5.0	11.5	10.4
Sanitation				
Refuse collected (tons per 1,000 population)	323	310	304	302
Recyclables collected (tons per 1,000 population)	86	72	73	66
Culture and recreation				
Program participations (per 1,000 population)	N/A	6,741	6,107	5,205
Water				
Utility accounts	15,000	15,641	15,797	15,954
New water connections	566	340	240	305
Average daily water consumption (millions of gallons per day)	6.2	6.2	6.1	6.1
Wastewater				
Average daily sewage treatment (thousands of gallons)	-	-	-	-

Sources: Various government departments.

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
34,556	36,091	40,442	41,261	35,447	34,673
2,527	2,371	2,862	2,636	1,189	2,359
3,715	3,979	4,237	4,263	4,097	4,074
\$1,934,950	\$ 596,235	\$4,789,550	\$1,027,072	\$ 521,600	\$ 901,650
321	321	340	340	347	344
14.8	9.8	10.5	4.0	4.8	6.3
316	301	297	303	300	291
58	51	54	44	40	29
5,567	4,218	5,392	4,230	4,531	4,219
15,996	16,691	16,750	17,100	17,500	18,000
497	464	522	399	110	84
5.7	7.4	7.9	7.7	7.9	8.4
7.5	7.8	8.49	7.67	7.91	7.67

**Schedule 19**

**CITY OF SALISBURY  
CAPITAL ASSET STATISTICS BY FUNCTION  
Last Ten Fiscal Years**

<b>Function</b>	<b>Fiscal Year</b>					
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Public safety						
Police:						
Stations	1	1	1	1	1	1
Patrol units	81	78	78	78	81	84
Fire:						
Fire stations	3	3	3	3	3	4
Fire apparatus	9	10	10	10	10	11
Highways and streets						
Streets (miles)	147.86	154.16	154.34	158.85	160.83	169.18
Culture and recreation						
Parks acreage	455	455	505	505	505	505
Parks	15	15	15	15	15	15
Recreation centers	4	4	4	4	4	4
Tennis courts	2	2	2	2	2	2
Water and Sewer Utility						
Utility customers	15,000	15,641	15,797	15,954	15,996	16,691
Miles of water lines	380	380	402	402	405	405
Miles of sewer lines	390	390	391	391	393	393
Water treatment capacity (millions of gallons per day)	12.0	12.0	12.0	12.0	24.0	24.0
Sewage treatment capacity (millions of gallons per day)	12.5	12.5	12.5	12.5	12.5	12.5

Sources: Various city departments.

2008	2009	2010	2011
1	1	1	1
88	88	88	88
4	4	4	4
14	14	14	14
170.00	170.00	170.50	170.50
506	520	520	520
16	16	16	16
4	4	4	4
2	2	2	2
16,120	16,750	17,200	17,500
405	405	405	405
393	393	393	393
24.0	24.0	24.0	24.0
12.5	12.5	12.5	12.5



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# Compliance Section

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# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With Government Auditing Standards**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregated remaining fund information of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2011, which collectively comprises the City of Salisbury's basic financial statements and have issued our report thereon dated November 29, 2011. Our report includes a reference to 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. Other auditors audited the financial statements of Downtown Salisbury, Inc, as described in our report on the City of Salisbury's financial statements. The financial statements of Downtown Salisbury, Inc. and Salisbury Tourism and Cultural Development Commission were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

Management of the City of Salisbury is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Salisbury's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Salisbury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Salisbury's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

The City of Salisbury's responses to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Salisbury's response and; accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, others within the organization, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
November 29, 2011

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Compliance With Requirements That Could Have a Direct and Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act**

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

### **Compliance**

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City of Salisbury, North Carolina's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Salisbury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Salisbury's compliance with those requirements.

In our opinion, the City of Salisbury, North Carolina complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of City Council, and federal and State awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
November 29, 2011

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Compliance With Requirements That Could Have a Direct and Material Effect On Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections Of OMB Circular A-133 And The State Single Audit Implementation Act**

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

### **Compliance**

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the applicable sections of OMB Circular A-133 and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011. The City of Salisbury's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury, North Carolina's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Salisbury, North Carolina's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Salisbury, North Carolina's compliance with those requirements.

In our opinion, the City of Salisbury, North Carolina complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2011.

## Internal Control Over Compliance

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of City Council, and federal and State awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
November 29, 2011

**CITY OF SALISBURY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Year Ended June 30, 2011**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
<b>FEDERAL GRANTS:</b>					
<b>CASH PROGRAMS</b>					
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-06-MC-37-0015	\$ 5,359	\$ -	\$ -
Entitlement Program	14.218	B-07-MC-37-0015	27,381	-	-
Entitlement Program	14.218	B-08-MC-37-0015	120,709	-	-
Entitlement Program	14.218	B-09-MC-37-0015	91,154	-	-
Entitlement Program	14.218	B-10-MC-37-0015	184,345	-	62,976
			<u>\$ 428,948</u>	<u>\$ -</u>	<u>\$ 62,976</u>
Pass-through N.C. Department of Housing					
Finance Agency HOME Program	14.239	R-90-SG-37-0117	\$ 167,198	\$ -	\$ -
Total U.S. Department of Housing And Urban Development			<u>\$ 596,146</u>	<u>\$ -</u>	<u>\$ 62,976</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
ARRA - COPS Hiring Recovery Program	16.710	2009-RK-WX-0581	\$ 194,555	\$ -	\$ -
National Institute of Justice					
Bureau of Justice Assistance					
Direct Program:					
ARRA - Justice Assistance Grant	16.592	2009-SB-B9-2977	\$ 83,163	\$ -	\$ -
Justice Assistance Grant	16.592	2009-DJ-BX-1074	12,327	-	-
Justice Assistance Grant	16.592	2008-DJ-BX-0573	1,323	-	-
Justice Assistance Grant	16.592	2010-DJ-BX-1451	10,599	-	-
			<u>\$ 107,412</u>	<u>\$ -</u>	<u>\$ -</u>
Pass-through N.C. Department of Crime					
Control and Public Safety:					
Project SAFE Neighborhoods Grant	16.609	080-1-09-001-BH-184	\$ 36,586	\$ -	\$ 12,195
Total U.S. Department of Justice			<u>\$ 338,553</u>	<u>\$ -</u>	<u>\$ 12,195</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

**Year Ended June 30, 2011**

**(Continued)**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>					
Pass-through N.C. Department of Transportation:					
Highway Planning and Construction					
ARRA - Grants Creek Greenway-Phase 2	20.205-4	38633.3.1	\$ 375,363	\$ -	\$ 6,645
Landscape Plantings on East Innes Street	20.205-1	3709.3.08	\$ 14,384	\$ 3,596	\$ -
Ozone Days-Free Transit Service	20.205-1	440063.1	\$ 11,379	\$ -	\$ -
Sidewalk Construction Grants					
Sports Complex Area Project	20.205-1	44008.3.2	\$ 134,171	\$ 33,543	\$ 73,873
Salisbury High School Area Project	20.205-1	44008.3.3	67,984	16,996	41,072
Statesville Boulevard Project	20.205-1	44009.3.1	99,803	24,951	-
			<u>\$ 301,958</u>	<u>\$ 75,490</u>	<u>\$ 114,945</u>
Formula Grants for Other than Urbanized Areas					
Urban Mass Transportation Grants					
Administration	20.509	36233.25.12.1	\$ 161,636	\$ 10,102	\$ 24,900
Operating	20.509	36233.25.12.2	129,450	-	458,957
Capital	20.509	36233.25.12.3	9,830	1,229	1,229
			<u>\$ 300,916</u>	<u>\$ 11,331</u>	<u>\$ 485,086</u>
Total U.S. Department of Transportation			<u>\$ 1,004,000</u>	<u>\$ 90,417</u>	<u>\$ 606,676</u>
TOTAL ASSISTANCE - FEDERAL PROGRAMS			<u>\$ 1,938,699</u>	<u>\$ 90,417</u>	<u>\$ 681,847</u>
<b>STATE GRANTS:</b>					
<b>CASH PROGRAMS</b>					
<b>N.C. DEPARTMENT OF TRANSPORTATION</b>					
Powell Bill	N/A		\$ -	\$ 895,974	\$ -
State Maintenance Assistance for					
Transit Systems	N/A	04-CTP-003	\$ -	\$ 224,228	\$ -
Total N. C. Department of Transportation			<u>\$ -</u>	<u>\$ 1,120,202</u>	<u>\$ -</u>
TOTAL ASSISTANCE - STATE PROGRAMS			<u>\$ -</u>	<u>\$ 1,120,202</u>	<u>\$ -</u>
TOTAL ASSISTANCE			<u>\$ 1,938,699</u>	<u>\$ 1,210,619</u>	<u>\$ 681,847</u>

**CITY OF SALISBURY, NORTH CAROLINA**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

**Year Ended June 30, 2011**

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**1. General**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the City of Salisbury, North Carolina, and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Implementation Act*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**CITY OF SALISBURY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

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**Section I. Summary of auditor's results:**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes     No
- Significant deficiency(ies) \_\_\_\_\_ Yes     None Reported

Noncompliance material to financial statements noted  Yes    \_\_\_\_\_ No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? \_\_\_\_\_ Yes     No
- Significant deficiency(ies) \_\_\_\_\_ Yes     None Reported

Type of auditor's report issued on compliance for major federal program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? \_\_\_\_\_ Yes     No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205-4	ARRA – Grants Creek Greenway
20.205-1	Sidewalk Construction, Other Grants
14.218	CDBG Entitlement Grant
20.509	Urban Mass Transit

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes     No

State Awards

Internal control over major State programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes     No
- Significant deficiency(ies) \_\_\_\_\_ Yes     None Reported

Type of auditor's report issued on compliance for major State program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Program? \_\_\_\_\_ Yes     No

Identification of major State program:  
Powell Bill

**CITY OF SALISBURY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

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**Section II. Findings Related to the Audit of the Basic Financial Statements of City of Salisbury**

**Finding 2011-01**

**Criteria:** Management should have a system of controls in place to reduce the likelihood that violations of General Statutes occur and go undetected.

**Condition:** At the end of the current year, the Broadband Services Fund and the Employee Health Care Fund were operating in a deficit (deficit net assets).

**Context:** While reviewing the client's draft of the financial statements, we noted the condition described above.

**Effect:** The City was in violation of North Carolina General Statutes.

**Cause:** Revenues and transfers in were not sufficient to cover total expenditures incurred in these funds.

**Recommendation:** Implement stringent budgetary preparation controls, as well as monitoring controls, to prevent a deficit in fund balance from reoccurring

**Name of Contact Person:** S. Wade Furches

**Managements Response:** Management concurs with the condition noted above. Management also adds that procedures have been put in place to monitor the condition noted above. Management also wishes to note that the Broadband Services Fund is a relatively new fund and additional customers are being added on a continual basis. Management fully expects that future revenues will eliminate the deficit fund balance. We have also addressed the deficit in the Employee Health Care Fund by increasing insurance premiums for the June 30, 2012 fiscal year.

**Section III. Federal Award Findings and Questioned Costs**

None Reported.

**Section IV. State Award Findings and Questioned Costs**

None Reported.

**CITY OF SALISBURY, NORTH CAROLINA**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
**Year Ended June 30, 2011**

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No prior year findings.