

# CITY OF SALISBURY

## NORTH CAROLINA

### COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2005

MAYOR, CITY COUNCIL, AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

Susan W. Kluttz - Mayor

Paul B. Woodson, Jr. - Mayor Pro-tem

William R. Burgin

William R. Kennedy

Mark N. Lewis

OFFICIALS

David W. Treme  
City Manager

John A. Sofley, Jr.  
Management Services Director

Report Prepared By

City Management Services Department

John A. Sofley, Jr. – Management Services Director  
S. Wade Furches - Finance Manager  
Teresa P. Harris – Budget and Performance Management Manager  
Mark D. Drye - Management Analyst  
Renee A. Pierson - Accountant  
Melissa H. Drye - Finance Specialist  
C. Michael Crowell - Technology Services Manager  
Dewey D. Peck - Purchasing Agent  
Clara A. Bost - Customer Service Supervisor



---

# Introductory Section

---



# CONTENTS

	<b>Page</b>
<b>INTRODUCTORY SECTION</b>	
Table of contents	1 - 3
Letter of transmittal	4 - 11
GFOA Certificate of Achievement	12
Organizational chart	13
List of principal officials	14
Facts and information about the City of Salisbury, North Carolina	15 - 17
<b>FINANCIAL SECTION</b>	
INDEPENDENT AUDITOR'S REPORT	21 - 22
MANAGEMENT'S DISCUSSION AND ANALYSIS	23 - 32
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS:</b>	
A-1 Statement of Net Assets	33
A-2 Statement of Activities	34
<b>FUND FINANCIAL STATEMENTS</b>	
A-3 Balance Sheet – Governmental Funds	35
A-4 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	36
A-5 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	37
A-6 Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund	38
A-7 Statement of Fund Net Assets – Proprietary Funds	39
A-8 Statement of Revenues, Expenses, and Changes in Funds Net Assets – Proprietary Funds	40
A-9 Statement of Cash Flows – Proprietary Funds	41
A-10 Combining Statement of Fiduciary Net Assets	42
A-11 Statement of Changes in Net Assets – Pension Trust Fund	43
Notes to financial statements	44 - 64
<b>REQUIRED SUPPLEMENTAL INFORMATION</b>	
A-12 Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress	67
A-13 Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions	68
<b>SUPPLEMENTARY FINANCIAL DATA</b>	
Combining and individual Fund and account group financial statements and schedules	
General Fund:	
B-1 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	73 - 75

## CONTENTS

**Page**

### Non-Major Governmental Funds:

C-1	Combining Balance Sheet – All Non-Major Governmental Funds	79
C-2	Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – All Non-Major Governmental Funds	80
C-3	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Special Revenue Fund	81
C-4	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Capital Projects Fund	82

### Proprietary Fund Types:

D-1	Water and Sewer Fund – Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)	85
D-2	Water and Sewer Capital Project Fund – Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)	86
D-3	Transit Fund – Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)	87

### Internal Service Funds:

E-1	Combining Balance Sheet	91
E-2	Combining Statement of Revenues, Expenses, and Changes in Fund Balances	92
E-3	Combining Statement of Cash Flows	93

### Agency Funds:

F-1	Combining Balance Sheet	97
F-2	Statement of Changes in Assets and Liabilities	98

### Other schedules:

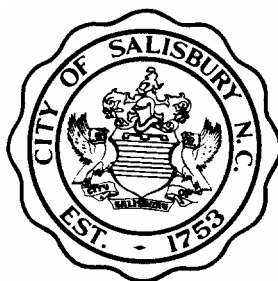
G-1	Property Taxes Receivable	101
G-2	Analysis of Current Tax Levy	102

## STATISTICAL SECTION

Table 1	General Governmental Expenditures by Function - Last Ten Fiscal Years	105
Table 2	General Governmental Revenues by Source - Last Ten Fiscal Years	106
Table 3	Tax Revenue by Source - Last Ten Fiscal Years	107
Table 4	Property Tax Levies, Tax Collections and Credits - Last Ten Fiscal Years	108
Table 5	Assessed Value of Taxable Property - Last Ten Fiscal Years	109
Table 6	Property Tax Levies and Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years	110
Table 7	Computation of Direct and Overlapping Debt	111
Table 8	Computation of Legal Debt Margin	112
Table 9	Schedule of Principal Taxpayers	113
Table 10	Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures - Last Ten Fiscal Years	114
Table 11	Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years	115
Table 12	Property Value, Construction, and Bank Deposits - Last Ten Fiscal Years	116
Table 13	Miscellaneous Statistics	117
Table 14	Demographic Statistics	118

# CONTENTS

	<b>Page</b>
<b>COMPLIANCE SECTION</b>	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	121 - 122
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT	123 - 124
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT	125 - 126
Schedule of Expenditures of Federal and State Awards	127 - 128
Notes to Schedule of Expenditures of Federal and State Awards	129
Schedule of Compliance Findings and Questioned Costs	130
Schedule of Prior Audit Findings	131



October 26, 2005

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, 2005 (FY05). We are particularly proud of the fact 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.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

### 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.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical, and compliance. The Introductory section contains this letter of transmittal and information about the City's organization and principal officials. The Financial section is composed of the independent auditor's report, the Management's Discussion and Analysis, the basic financial statements, required supplementary information, and other supplemental information. The Statistical section includes selected financial and demographic information, generally presented on a multi-year basis.



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*. Information related to the compliance audit and the schedule of expenditures of federal and state awards are included 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. 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, 2004, 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 Comprehensive Annual Financial Report meets the Certificate of Achievement Program's requirements and intend to submit 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. The nation's economy slowed in the past few years and the economy in Salisbury and Rowan County was adversely affected. However, the local economy has recovered quite well. Gross retail sales in Salisbury for the twelve months ended June 30, 2005, increased by \$134,218,441, or 19 percent from the prior fiscal year to \$840,946,943. Gross retail sales in Salisbury were higher in FY05 than any fiscal year in history. Salisbury's retail sales helped to drive total sales for Rowan County to \$1,291,606,740, \$167,143,756 (14.9%) higher than FY04. Continuing additions to the areas newest retail centers and renovations to the Salisbury Mall have led to this surge in the area's retail sales and should help Salisbury to continue to thrive in the future.

Another sign of a positive economic outlook for the future of Salisbury and Rowan is the improvement in local unemployment rates, which is discussed in the Management's Discussion and Analysis.

The downtown business district continues to be a thriving retail center for area merchants. The City supports and encourages the revitalization of the downtown business district that began in the early 1980's. Since that time a total of over \$87 million has been invested in the redevelopment of Salisbury's downtown. In the downtown area, 95% of the first floor business and retail space is currently occupied. During FY05 the State Department of Transportation replaced the East Innes Street bridge that serves as a gateway to the downtown with a beautiful, new, landscaped bridge that further enhances the downtown business district. FY05 also saw the renovation of the Washington Building which houses a graphics/web design firm that has added 35 jobs to

the downtown area. 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**

In October, 2004, the City of Salisbury's Council and Management Team received the results of a recently completed citizens' survey. Responses from the surveys indicated that our citizens have a high level of satisfaction with the City's police services, fire services, and trash, recycling, and yard waste collection. The area of most concern to the citizens was the condition of the City's streets. City Council and the Management Team used our citizens' comments to formulate goals and objectives for the City at the annual Future Directions and Goal Setting Conference in February, 2005. City management and staff have been working hard toward meeting those goals with the financial resources that are available. Areas of progress that are worth noting are the continued revitalization effort of the City's downtown area, neighborhood improvements, the completion of a new water treatment facility, and the creation of a new local government cable television channel. Also, the various departments that make up City government continue to thrive, as evidenced by the receipt of several national, state, and local awards.

The revitalization of Salisbury's downtown area continues to surge ahead. Over five million dollars was invested into the downtown during FY05 by various public and private organizations. These investments included eleven new facades and five general building additions/renovations. Salisbury's downtown added eleven new businesses and netted eleven new jobs (cumulative effect of job gains and losses) in the past fiscal year. The City has worked with Downtown Salisbury, Inc. to bring even more people to the downtown through the creation of a new downtown Farmers Market and increasing the number of festivals held in the downtown area. The City completed a downtown streetscape enhancement project in the Council Street area. This project included sidewalk improvements, decorative street lights, and other enhancements and was funded primarily by a grant from the State of North Carolina Department of Transportation. The City's downtown revitalization effort is admired statewide, as evidenced by the receipt of two top awards in the latest North Carolina Main Street Awards competition.

The improvement of City neighborhoods and communities is one of City Council's foremost goals. The City is utilizing its Consolidated Plan for Housing and Community Development Needs (updated in May 2005) to plan how to best use federal and local community development funds. Two of the City's key projects of the Community Development department have been in the Jersey City and the West End neighborhoods. The City built new homes and renovated several distressed properties in low to moderate income areas in FY05. These homes are then sold to first-time home buyers. The City also has worked to improve the appearance of the communities by planting trees and installing sidewalks. The revitalization in the Jersey City neighborhood has received a Housing North Carolina Award that recognizes affordable housing developments that serve as models for other communities. These neighborhood projects are meeting the goals of the City's Vision 2020 plan and Council goals of putting City residents in new housing and increasing the City's tax base.

The City completed construction of a new water treatment facility in fiscal year 2005. The new facility utilizes new, state-of-the-art Actiflo technology to provide cleaner water to our customers. The new facility also increased the City's maximum treatment capacity, which will aid our continuing transformation from a small municipal Water and Sewer Department to a diversified, broad-based, county-wide service provider.

In April, 2005, the City, Rowan County, and other municipalities in the county launched Access 16, a new local government and education cable television channel. While the day-to-day operations of Access 16 are being handled by City of Salisbury staff, the station is managed by a Board of Directors comprised of representatives from all of the participating local governments. Currently, the City is using the channel to televise Council meetings on a tape-delayed basis, post employment opportunities, and show educational programs for city residents and customers of the Water and Sewer system. Council strongly supports Access 16 as a cost effective means to provide a wide array of information to our citizens and utility customers.

City Council also desires to maintain quality management of the City and each of its departments. One way of validating the quality of a City department is to seek national, state, and local recognition. The Police Department was recognized as a “Flagship” agency while earning its fifth accreditation in FY 2005. The Commission on Accreditation for Law Enforcement Agencies designates an agency as “Flagship” if no problems are found during the accreditation process. The Salisbury Police Department was one of the first agencies in the country to receive this designation. The Parks and Recreation Department also completed its re-accreditation process in FY05. Salisbury Parks and Recreation is one of only three departments in North Carolina and one of 60 in the United States that are nationally accredited. The City was awarded Rowan County Employer of the Year Award by the Employment Security Commission for its efforts to hire, train, and retain deserving employees. 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**

The City’s downtown revitalization is far from complete. The Downtown Master Plan Committee recently completed a market-driven plan that will guide development for the next twenty years. Projects scheduled to be completed during FY06 include the construction of the Firehouse Urban Lofts, a new mixed-used development that will include condominiums and shops. Other future developments include the potential revitalization of the former Empire Hotel, which is near the center of the downtown area. That renovation would be a major project in the comprehensive Downtown Salisbury Master Plan.

Even though our citizens are pleased with their police and fire services, the City will take major steps to further enhance the quality of both departments in FY06. The City is currently in the process of renovating and expanding its police station. The project will add 14,000 square feet to the station and is scheduled to be completed in the fall of 2006. The City will also build its fourth fire station. The new station is needed to maintain adequate response times and to maintain the City’s excellent insurance rating. The police station will cost approximately \$3 million and will be financed through an installment purchase agreement. The \$1.2 million fire station will be paid for with General Fund surpluses generated in the last three fiscal years.

The City will continue to participate in the Local Government Performance Measurement Project being administered by the School of Government of the University of North Carolina at Chapel Hill. The purpose of the project is to provide an external context in which to analyze local government performance and provide a catalyst for service and process improvements. The following services are included in the benchmarking project: police services, emergency communications, asphalt maintenance and repair, residential refuse collection, household recycling, yard waste collection, fleet maintenance, human resources and fire services. The City hopes to lift its overall performance by comparing specific costs and processes against identical costs and processes of the other participating jurisdictions. City goal-setting and evaluation, service level determination and the residents’ collective experience with Salisbury City services will all be enhanced by participating in the recurring comparison of uniform measures of performance between local governments in North Carolina.

## **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 unit is a legally separate entity 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 unit, Downtown Salisbury Inc., is reported in a separate column in the government-wide financial statements to emphasize that it is 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. 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 FY05 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

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. They are shown as a reservation of fund balance at June 30, 2005.

### **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 AND ACCOUNT GROUP 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.

### **CASH MANAGEMENT**

The City's temporary idle cash is invested in interest-bearing demand deposits, certificates of deposit, obligations of the U.S. Treasury and federal agencies, banker's acceptances, commercial paper, and the North Carolina Capital Management Trust. All revenues received are deposited the same day in a consolidated interest-bearing bank account. This bank account is drawn upon to meet all payroll and payable obligations, and the City maintains in this account only as much money as is required to meet current obligations. All other idle cash is invested in instruments authorized by the General Statutes of North Carolina. The average yield on investments was 1.97% for the year ended June 30, 2005.

The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. The majority of the City's investment portfolio at June 30, 2005, is classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board. The remainder of the City's investment portfolio is exempt from risk categorization because it was invested in the NC Capital Management Trust, an SEC registered mutual fund where the City is only a shareholder of a percentage of the fund and does not own any identifiable securities.

### **RISK MANAGEMENT**

In the efforts to maintain services at a reasonable cost to the citizens of Salisbury, the City has developed and maintained a risk management program that encompasses nearly every aspect of the City's operations. Insurance liability coverage is obtained through a combination of commercial insurers, the insurance pool administered by the NC League of Municipalities, and self-insurance. This approach has allowed the City to obtain maximal amounts of property and liability coverage at the most economical cost.

### **CONCLUSION**

The City is well on the way to overcoming the effects of the slowing economy and the withholding of revenues by the Governor of North Carolina. The local economy is already strong and getting stronger, as

evidenced by the robust increase in gross retail sales during FY05. Also, the City has been fortunate to continue to experience growth in its revenue base through development and annexation during FY05. This growth has helped to reduce the effects of the loss of other revenues and assure our citizens that the City will be able to continue to provide the quality of services that they have come to expect.

The future continues to hold many uncertainties. Federal and State mandates continue to impact local governments in all areas of operations. The citizens of Salisbury have come to expect and appreciate the high level of service they enjoy. The management of the City is necessarily charged with managing its resources in the best possible manner to deliver those services at a cost citizens will agree to bear. The City will continue to focus on its core values and provide quality services to our citizens. The City continues to face rising operational costs while guarding against unnecessary tax and utility rate increases. All City operations are being asked to contribute to the focused effort to maintain our ability and readiness to respond to our citizens. As long as revenue growth rates do not decline unexpectedly, the costs of providing services do not escalate more rapidly than in previous years, and the City continues to evaluate all existing and potential revenue options, including annexations, we can accomplish this task. Overall, continued growth and policy adjustments that have been initiated by 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 Mark D. Drye, Management Analyst, and Renee A. Pierson, Accountant. 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.  
Finance 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, 2004

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



*Nancy L. Zielke*

President

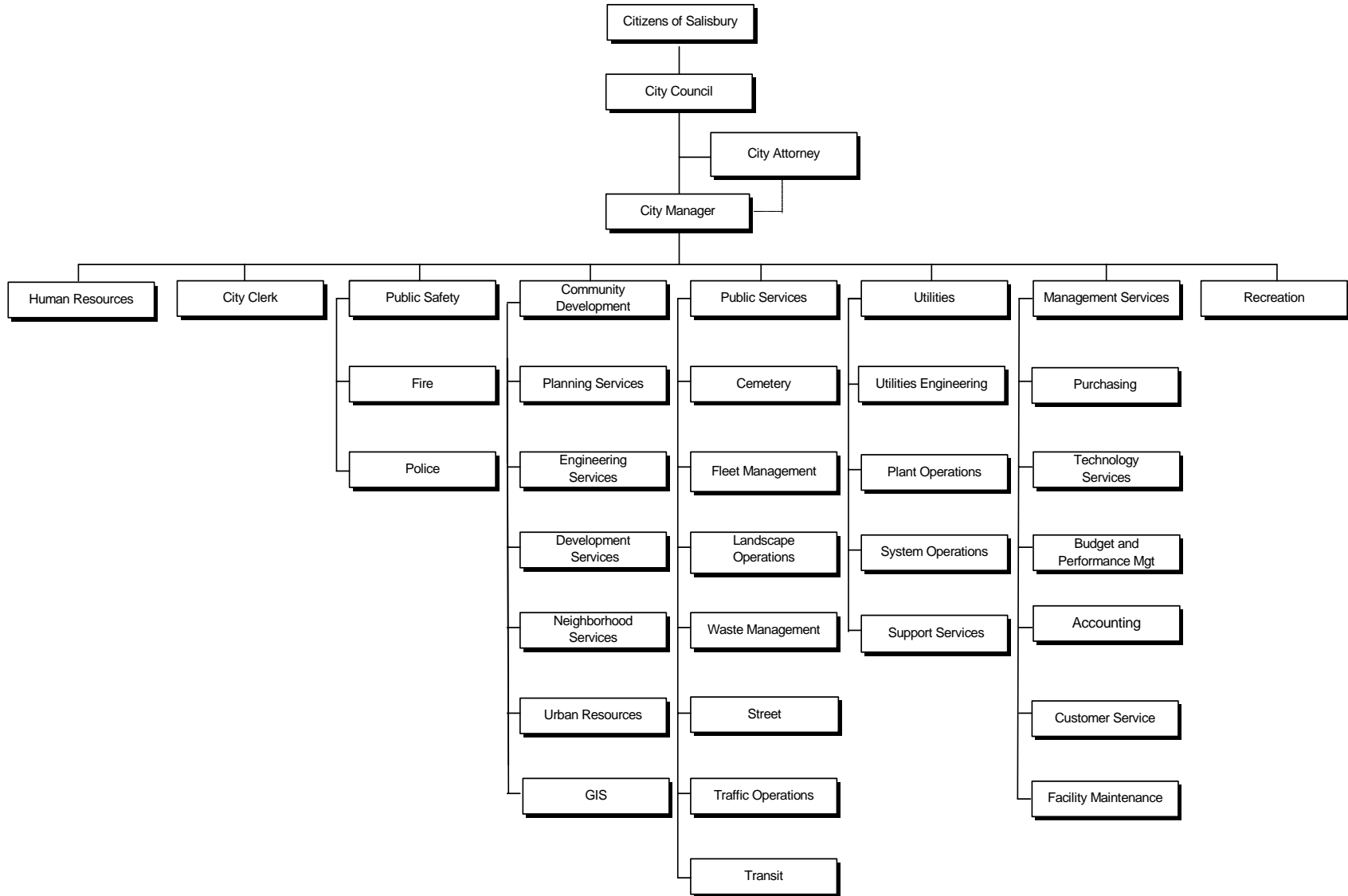
*Jeffrey R. Emen*

Executive Director



# CITY OF SALISBURY

## ORGANIZATIONAL CHART



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

June 30, 2005

Mayor	Susan W. Kluttz
Mayor Pro Tem	Paul B. Woodson, Jr.
Council Member	William R. Burgin
Council Member	William R. Kennedy
Council Member	Mark N. Lewis
City Manager	David W. Treme
Assistant City Manager – Utilities	H. Matthias Bernhardt
City Clerk	Myra B. Heard
Management Services Director	John A. Sofley, Jr.
Fire Chief	Robert A. Parnell
Land Management and Development Director	Daniel J. Mikkelson
Technology Services Manager	C. Michael Crowell
Human Resources Director	Melissa H. Taylor
Police Chief	L. Mark Wilhelm
Public Services Director	Vernon E. Sherrill
Purchasing Agent	Dewey D. Peck
Recreation Director	Gail Elder-White
Utilities Director	John C. Vest

## **FACTS AND INFORMATION ABOUT THE 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 28,249 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 (5) Council members. The Mayor presides at City Council meetings. Also, a Mayor Pro Tem is elected by City Council members from the five (5) 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 eight staff departments: Management Services, Human Resources, Fire, Police, Land Management and Development, Public Services, Parks and Recreation, and Public Utilities. 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 usage during fiscal year 2005 was 6.97 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 2005 was 12.5 million gallons. Average daily treatment in FY 2005 was 8.44 million gallons per day.

Other utilities are provided by Duke Energy, Piedmont Natural Gas Company, Bellsouth Telephone, CT Communications, 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. With the planned new FedEx package-sorting facility at PTI, Salisbury is well positioned for providing local businesses a critical link in their logistics chain. 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. In addition to these five shows, all fourth and fifth graders in the Rowan-Salisbury School System attend the theater for an annual production that is cast entirely with children. 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 with three (3) ball fields and an outdoor basketball court. 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.



---

---

# Financial Section







---

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

---

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

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2005, 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 100% of the assets, net assets and revenues of the discretely presented component unit. 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. 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 opinion.

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, 2005, 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 August 12, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the City of Salisbury, North Carolina. The introductory information, combining and individual nonmajor fund financial statements and schedules and the statistical tables, as well as the accompanying schedule of expenditures of federal and State awards 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, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected 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.  
August 12, 2005

## 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, 2005. 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 \$118,839,272 (*net assets*).
- The government's total net assets increased by \$6,641,397. This increase is attributable to several factors. The City's total assets increased by \$3,251,573 primarily due to the addition of new streets valued at \$1,757,000 through annexations and new development. Also, the City's total liabilities decreased by \$3,389,824, primarily due to a decrease in long-term debt outstanding.
- As of the close of the current fiscal year, the City of Salisbury's governmental funds reported combined ending fund balances of \$6,127,619, an increase of \$496,580 in comparison with the prior year. Approximately 52 percent of this total amount, or \$3,195,428, is available in the General Fund for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund of \$3,195,428 was 12 percent of total general fund expenditures for the fiscal year.
- The City of Salisbury's total long-term debt decreased by \$3,533,930 (6.1%) during the current fiscal year. The City did issue \$191,000 of new installment purchase debt for the purpose of purchasing telecommunications equipment.
- The City's bond rating from Fitch Ratings of "A+" was reaffirmed in July 2005. Also, the City's bond ratings of "A1" by Moody's Investors Service and "A+" by Standard and Poor's were reaffirmed in July 2003.

### 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 overall financial status, in a manner similar to a private-sector business.

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 three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary fund statements; and 3) 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, such as 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) a component unit. 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. The final category is the component unit. The City's component unit, Downtown Salisbury, Inc., is important to the City because it serves the interests of merchants and property owners in the downtown area. Although legally separate from the City, Downtown

Salisbury Inc.'s revenue consists largely of a municipal service district tax levy and a supplemental appropriation from the City, both 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 two categories: governmental funds and proprietary 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 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 42 and 43. 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 44-64 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 67-68 of this report.

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

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 10,152,104	\$ 9,137,721	\$ 12,488,903	\$ 15,575,434	\$ 22,641,007	\$ 24,713,155
Capital assets	38,079,383	37,209,414	119,685,918	115,232,166	157,765,301	152,441,580
<b>Total assets</b>	<b>\$ 48,231,487</b>	<b>\$ 46,347,135</b>	<b>\$ 132,174,821</b>	<b>\$ 130,807,600</b>	<b>\$ 180,406,308</b>	<b>\$ 177,154,735</b>
Long-term liabilities outstanding	\$ 8,162,430	\$ 8,511,837	\$ 47,807,940	\$ 50,901,980	\$ 55,970,370	\$ 59,413,817
Other liabilities	2,999,174	2,760,306	2,597,492	2,782,737	5,596,666	5,543,043
<b>Total liabilities</b>	<b>\$ 11,161,604</b>	<b>\$ 11,272,143</b>	<b>\$ 50,405,432</b>	<b>\$ 53,684,717</b>	<b>\$ 61,567,036</b>	<b>\$ 64,956,860</b>
Net assets:						
Invested in capital assets, net of related debt	\$ 31,657,961	\$ 30,380,102	\$ 71,848,222	\$ 62,840,912	\$ 103,506,183	\$ 93,221,014
Unrestricted	5,411,922	4,694,890	9,921,167	14,281,971	15,333,089	18,976,861
<b>Total net assets</b>	<b>\$ 37,069,883</b>	<b>\$ 35,074,992</b>	<b>\$ 81,769,389</b>	<b>\$ 77,122,883</b>	<b>\$ 118,839,272</b>	<b>\$ 112,197,875</b>
<b>Total liabilities and net assets</b>	<b>\$ 48,231,487</b>	<b>\$ 46,347,135</b>	<b>\$ 132,174,821</b>	<b>\$ 130,807,600</b>	<b>\$ 180,406,308</b>	<b>\$ 177,154,735</b>

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 \$118,839,272 as of June 30, 2005, an increase of \$6,641,397 from the fiscal year ended June 30, 2004.

The largest portion of the City’s net assets (86.1%) reflects the City’s investment in capital assets (e.g. land, buildings, machinery, equipment, water and sewer treatment facilities, and water and sewer 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.

An additional portion of the City of Salisbury's net assets (5.7%) represents resources that are subject to restrictions on how they may be used, primarily for water and sewer capital projects. The remaining balance of \$9,729,831 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 97.54%, which is comparable to the statewide average of 97.10%.
- Increased property tax revenues of \$1,165,352 due primarily to economic growth and annexation.
- Continued low cost of debt due to the City's high bond rating.

### CITY OF SALISBURY CHANGES IN NET ASSETS

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 5,182,213	\$ 5,044,562	\$ 15,406,303	\$ 14,548,732	\$ 20,588,516	\$ 19,593,294
Operating grants and contributions	2,007,717	1,632,833	405,706	372,506	2,413,423	2,005,339
Capital grants and contributions	2,150,557	605,851	5,040,339	2,821,330	7,190,896	3,427,181
General revenues:					-	-
Property taxes	13,589,368	12,608,225	-	-	13,589,368	12,608,225
Other taxes	4,410,547	4,232,748	-	-	4,410,547	4,232,748
Intergovernmental revenue	2,848,989	2,822,659	-	-	2,848,989	2,822,659
Other	327,317	359,275	1,501,505	1,823,513	1,828,822	2,182,788
Total revenues	<u>\$ 30,516,708</u>	<u>\$ 27,306,153</u>	<u>\$ 22,353,853</u>	<u>\$ 19,566,081</u>	<u>\$ 52,870,561</u>	<u>\$ 46,872,234</u>
Expenses:						
General government	\$ 6,575,855	\$ 5,887,422	\$ -	\$ -	\$ 6,575,855	\$ 5,887,422
Public safety	10,444,970	10,111,491	-	-	10,444,970	10,111,491
Transportation	4,659,387	4,869,631	-	-	4,659,387	4,869,631
Environmental protection	1,653,027	1,619,517	-	-	1,653,027	1,619,517
Culture and recreation	2,566,970	2,579,491	-	-	2,566,970	2,579,491
Community and economic development	2,099,674	2,386,640	-	-	2,099,674	2,386,640
Education	42,342	42,342	-	-	42,342	42,342
Interest on long-term debt	306,022	258,177	-	-	306,022	258,177
Water and sewer	-	-	17,063,018	16,179,987	17,063,018	16,179,987
Mass transit	-	-	817,899	661,552	817,899	661,552
Total expenses	<u>\$ 28,348,247</u>	<u>\$ 27,754,711</u>	<u>\$ 17,880,917</u>	<u>\$ 16,841,539</u>	<u>\$ 46,229,164</u>	<u>\$ 44,596,250</u>
Change in net assets before transfers	\$ 2,168,461	\$ (448,558)	\$ 4,472,936	\$ 2,724,542	\$ 6,641,397	\$ 2,275,984
Transfers	(173,570)	(160,282)	173,570	160,282	-	-
Change in net assets	\$ 1,994,891	\$ (608,840)	\$ 4,646,506	\$ 2,884,824	\$ 6,641,397	\$ 2,275,984
Net assets, July 1	<u>35,074,992</u>	<u>35,683,832</u>	<u>77,122,883</u>	<u>74,238,059</u>	<u>112,197,875</u>	<u>109,921,891</u>
Net assets, June 30	<u>\$ 37,069,883</u>	<u>\$ 35,074,992</u>	<u>\$ 81,769,389</u>	<u>\$ 77,122,883</u>	<u>\$ 118,839,272</u>	<u>\$ 112,197,875</u>

Governmental activities - Governmental activities increased the City's net assets by \$1,994,891. This increase is primarily attributable to the increase in infrastructure assets due to annexation and new development contributed by developers.

Business-type activities - Business-type activities increased the City of Salisbury's net assets by \$4,646,506. This increase is primarily due to \$4,019,000 capital contributions received in the Water and Sewer Fund from the City's partners in its various capital projects. The City's Mass Transit Fund also received a \$1,021,339 capital grant from the State of North Carolina for the purchase of four new buses.

## **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**

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. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City of Salisbury. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,195,428, while total fund balance for the General Fund reached \$6,784,420. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12 percent of total General Fund expenditures, while total fund balance represents 25.5 percent of that same amount.

At June 30, 2005, the governmental funds of the City of Salisbury reported a combined fund balance of \$6,127,619, a \$496,580 or 8.8 percent increase over last year.

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 \$749,196. The difference between the original budget and the final amended budget can be briefly summarized as follows:

- Funds were appropriated for the receipt of a \$313,896 grant from the Federal Emergency Management Agency to purchase fire equipment.



- Funds were appropriated for various donations totaling \$104,099.
- Funds from a new installment purchase financing agreement in the amount of \$191,000 were appropriated for the purchase of emergency telecommunications equipment for the Police Department.
- Funds were appropriated for the receipt of \$75,910 from various grants that are restricted for use for the Police Department.

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, 2005. 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 increased by \$974,487 during the fiscal year ended June 30, 2005.

### **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 and the Water and Sewer Fund at the end of the fiscal year amounted to \$4,563,390. The total growth in net assets for the Water and Sewer Fund was \$3,797,339. The net assets of the Mass Transit Fund increased by \$849,167. Other factors concerning the finances of these two funds have been addressed in the discussion of the City of Salisbury's business-type activities.

### **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, 2005 totals \$157,765,302 (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 and business-type activities increased 2.3 percent and 3.9 percent, respectively.

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

- Construction of water and sewer capital assets of \$3,578,841. The City completed the construction of a new water treatment plant and made significant progress on the extension of water and sewer lines to the Highway 70 annexation area.
- General infrastructure taken over via annexation and contributions from developers included streets valued at \$1,757,000 and water and sewer lines valued at \$3,249,000.
- Purchase of four new buses for the Mass Transit system for \$1,138,845.
- Purchase of various other vehicles and motorized equipment, totaling \$1,677,104, including thirteen police cars, two new garbage trucks, and two new packer trucks for the Street Department.

**CITY OF SALISBURY'S CAPITAL ASSETS**

(net of depreciation)

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 3,157,445	\$ 3,157,445	\$ 2,072,067	\$ 2,072,067	\$ 5,229,512	\$ 5,229,512
Construction in progress	415,161	109,408	4,535,599	10,638,635	4,950,760	10,748,043
Buildings	1,300,888	1,366,360	1,858,084	2,061,602	3,158,972	3,427,962
Improvements other than buildings	7,549,310	7,525,086			7,549,310	7,525,086
Equipment	2,185,117	2,501,638	453,860	746,771	2,638,977	3,248,409
Vehicles and motorized equipment	1,752,543	1,470,488	2,044,414	752,234	3,796,957	2,222,722
Infrastructure	21,718,919	21,078,989	108,721,894	98,960,857	130,440,813	120,039,846
<b>Total</b>	<b>\$ 38,079,383</b>	<b>\$ 37,209,414</b>	<b>\$ 119,685,918</b>	<b>\$ 115,232,166</b>	<b>\$ 157,765,301</b>	<b>\$ 152,441,580</b>

Additional information on the City's capital assets can be found in note 3.A.4. of the Basic Financial Statements.

Long-term Debt - As of June 30, 2005, the City of Salisbury had total long-term debt outstanding of \$54,793,362 (not including compensated absences). Of this, \$14,199,124 is debt backed by the full faith and credit of the City and \$20,383,247 represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

**CITY OF SALISBURY'S OUTSTANDING DEBT**

(not including compensated absences)

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 2,265,000	\$ 2,465,000	\$11,934,124	\$13,285,537	\$14,199,124	\$15,750,537
Revenue bonds	-	-	20,383,247	20,972,259	20,383,247	20,972,259
State bond loans	-	-	12,420,072	13,302,578	12,420,072	13,302,578
Capital leases	-	-	3,070,497	3,341,606	3,070,497	3,341,606
Installment purchases	4,156,422	4,364,312	-	-	4,156,422	4,364,312
HUD Section 108 loan	564,000	596,000	-	-	564,000	596,000
<b>Total</b>	<b>\$ 6,985,422</b>	<b>\$ 7,425,312</b>	<b>\$47,807,940</b>	<b>\$50,901,980</b>	<b>\$54,793,362</b>	<b>\$58,327,292</b>

The City of Salisbury's total debt decreased by \$3,533,930 (6.1%) during the past fiscal year.

As mentioned in the financial highlights section of this document, the City of Salisbury maintained its A1 bond rating from Moody's Investor Service and A+ rating from Standard and Poor's Corporation and Fitch Ratings. 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 \$157,186,589.

Additional information regarding the City of Salisbury's long-term debt can be found in Note 3.B.5 of this report.

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

The following key economic indicators reflect the growth and prosperity of the City.

- Unemployment in Rowan County for the fiscal year ended June 30, 2005, was 6.0%, which is a decrease from 9.0% a year ago. The average unemployment for the State of North Carolina for the past fiscal year was 5.3%. The County's unemployment rates have returned to normal levels after being as high as 10.2% due to the closing of a major local textile plant in the fall of 2003. Unemployment rates may be on the rise again soon, though. Since June 30, 2005, two local businesses have announced plans to close plants in the coming months.
- The occupancy rates for first floor office and retail space in the City's downtown area continues to be approximately 95%.
- Inflationary trends in the region compare favorably to national indices.

## **BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2006**

### **Governmental Activities**

General Fund - Property taxes, benefiting from economic growth, will lead the way to an overall 6.7% projected increase in General Fund revenues. Current year property taxes are projected to increase by over \$450,000, or 3.5%. Continued increases in local sales tax revenues are expected to add an additional \$235,000 in revenue. The City plans to finance one project through installment purchase contracts— the \$3.5 million renovation and expansion of the Police Station.

Expenditures in the General Fund are expected to rise approximately 10 percent to \$29,838,180. Personnel cost in the General Fund will increase by about \$840,000 due to City Council's approval of an average four percent merit raise. Health insurance premiums for the City and for its employees will not increase in the new fiscal year. Additions to the City's existing greenway system will cost approximately \$783,000, but those expenditures will be offset by \$700,000 in grant funds from the State of North Carolina. The City will use approximately \$1.25 million of surplus accumulated over the past three fiscal years to build a new Fire Station. A new fire truck will be added at a cost of \$400,000.

## **Business – Type Activities**

Water and Sewer Fund - The water and sewer rates in the City will increase by 6.9%, primarily to compensate for decrease in water usage by its customers. This decrease in usage is attributable to changes in customers' usage habits that have carried over from the drought in 2002. General operating expenses will increase by 4.5% to cover increased personnel costs, and 5% to cover increased costs of material, supplies, and other operating expenses. In the new fiscal year the City anticipates partnering with Rowan County to extend sewer service to the County's primary growth corridor along Interstate 85. Also, the transfer of the Town of Faith's sewer system to the City of Salisbury is already in process.

Mass Transit Fund – Personnel costs will increase due to the approved four percent merit raise and the transfer of one-half of a position from the General Fund. Also, the cost to provide transportation in compliance with the Americans with Disabilities Act will increase by approximately \$20,000. These increases in costs will be offset by additional revenues from the State of North Carolina and additional contributions from the City's General Fund totaling \$80,000. The State will also pay for ninety percent of the replacement cost of a new service truck.

## **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 Director of Finance, City of Salisbury, 132 North Main Street, Salisbury, NC 28144.

**A-1**  
**City of Salisbury, North Carolina**  
**Statement of Net Assets**  
**June 30, 2005**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 7,137,052	\$ 9,599,439	\$ 16,736,491	\$ 125,572
Taxes receivables (net)	501,553	-	501,553	-
Accrued interest receivable on taxes	63,000	-	63,000	-
Accounts receivable (net)	405,953	2,338,363	2,744,316	-
Interest receivable	39,677	93,606	133,283	-
Due from other governments	1,800,338	199,817	2,000,155	-
Inventories	156,329	249,833	406,162	-
Prepaid items	15,422	7,845	23,267	-
Intangible asset - advance funding of pension obligation	32,780	-	32,780	-
Restricted assets:				
Cash and cash equivalents	-	-	-	38,100
Capital assets				
Land, improvements, and construction in progress	3,572,606	6,607,666	10,180,272	-
Other capital assets, net of depreciation	<u>34,506,777</u>	<u>113,078,252</u>	<u>147,585,029</u>	<u>17,036</u>
Total assets	<u>\$ 48,231,487</u>	<u>\$ 132,174,821</u>	<u>\$ 180,406,308</u>	<u>\$ 180,708</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 1,967,284	\$ 1,348,413	\$ 3,315,697	\$ 17,205
Unearned revenue	618,455	-	618,455	-
Accrued interest payable	21,099	435,665	456,764	-
Customer deposits	-	449,575	449,575	30,956
Long-term liabilities:				
Due within one year	1,069,374	3,314,078	4,383,452	-
Due in more than one year	<u>7,485,392</u>	<u>44,857,701</u>	<u>52,343,093</u>	<u>-</u>
Total liabilities	<u>\$ 11,161,604</u>	<u>\$ 50,405,432</u>	<u>\$ 61,567,036</u>	<u>\$ 48,161</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 31,657,961	\$ 71,848,222	\$ 103,506,183	\$ -
Restricted for:				
Capital projects	-	-	-	38,100
Unrestricted	<u>5,411,922</u>	<u>9,921,167</u>	<u>15,333,089</u>	<u>94,447</u>
Total net assets	<u>\$ 37,069,883</u>	<u>\$ 81,769,389</u>	<u>\$ 118,839,272</u>	<u>\$ 132,547</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, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 6,575,855	\$ 3,185,185	\$ 46,000	\$ -	\$ (3,344,670)	\$ -	\$ (3,344,670)	\$ -
Public safety	10,444,970	416,920	48,434	338,390	(9,641,226)	-	(9,641,226)	-
Transportation	4,659,387	52,545	1,133,541	1,812,167	(1,661,134)	-	(1,661,134)	-
Environmental protection	1,653,027	966,049	-	-	(686,978)	-	(686,978)	-
Culture and recreation	2,566,970	251,084	86,386	-	(2,229,500)	-	(2,229,500)	-
Community and economic development	2,099,674	310,430	693,356	-	(1,095,888)	-	(1,095,888)	-
Education	42,342	-	-	-	(42,342)	-	(42,342)	-
Interest on long-term debt	306,022	-	-	-	(306,022)	-	(306,022)	-
Total governmental activities	\$ 28,348,247	\$ 5,182,213	\$ 2,007,717	\$ 2,150,557	\$ (19,007,760)	\$ -	\$ (19,007,760)	\$ -
Business-type activities:								
Water and sewer	\$ 17,063,018	\$ 15,342,078	\$ -	\$ 4,019,000	\$ -	\$ 2,298,060	\$ 2,298,060	\$ -
Transit	817,899	64,225	405,706	1,021,339	-	673,371	673,371	-
Total business-type activities	\$ 17,880,917	\$ 15,406,303	\$ 405,706	\$ 5,040,339	\$ -	\$ 2,971,431	\$ 2,971,431	\$ -
Total primary government	\$ 46,229,164	\$ 20,588,516	\$ 2,413,423	\$ 7,190,896	\$ (19,007,760)	\$ 2,971,431	\$ (16,036,329)	\$ -
Component units:								
Downtown Salisbury, Inc.	\$ 293,461	\$ 45,563	\$ 75,580	\$ 58,566	\$ -	\$ -	\$ -	\$ (113,752)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					\$ 13,589,368	\$ -	\$ 13,589,368	\$ 106,907
Sales and other taxes					4,410,547	-	4,410,547	-
Unrestricted intergovernmental revenues					2,848,989	-	2,848,989	-
Unrestricted investment earnings					176,287	231,288	407,575	1,922
Miscellaneous					151,030	1,270,217	1,421,247	3,698
Transfers					(173,570)	173,570	-	-
Total general revenues, special items, and transfers					\$ 21,002,651	\$ 1,675,075	\$ 22,677,726	\$ 112,527
Change in net assets					\$ 1,994,891	\$ 4,646,506	\$ 6,641,397	\$ (1,225)
Net assets-beginning					35,074,992	77,122,883	112,197,875	133,772
Net assets-ending					\$ 37,069,883	\$ 81,769,389	\$ 118,839,272	\$ 132,547

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

A-3  
**City of Salisbury, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	<b>General</b>	<b>Non-Major Funds</b>	<b>Total Governmental Funds</b>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 6,055,190	\$ 118,966	\$ 6,174,156
Taxes receivable, net	501,553	-	501,553
Accounts receivable	382,232	23,721	405,953
Interest receivable	32,416	-	32,416
Due from other governments	1,786,208	14,130	1,800,338
Due from other fund	754,777	-	754,777
Inventories	156,329	-	156,329
Prepaid items	15,422	-	15,422
	<u>\$ 9,684,127</u>	<u>\$ 156,817</u>	<u>\$ 9,840,944</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,779,699	\$ 58,841	\$ 1,838,540
Due to other funds	-	754,777	754,777
Deferred revenue	1,120,008	-	1,120,008
	<u>\$ 2,899,707</u>	<u>\$ 813,618</u>	<u>\$ 3,713,325</u>
Fund balances:			
Reserved for:			
Encumbrances	\$ 461,608	\$ -	\$ 461,608
Inventories	156,329	-	156,329
Prepaid items	15,422	-	15,422
State statute	2,955,633	36,819	2,992,452
Unreserved, General Fund	3,195,428	-	3,195,428
Unreserved, reported in:			
Capital Projects Fund	-	(693,620)	(693,620)
	<u>\$ 6,784,420</u>	<u>\$ (656,801)</u>	<u>\$ 6,127,619</u>
Total liabilities and fund balances	<u>\$ 9,684,127</u>	<u>\$ 156,817</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.			38,079,383
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			63,000
Intangible asset - advance funding of pension obligation			32,780
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 certain internal service funds are included in governmental activities in the statement of net assets.			449,077
Liabilities for earned but deferred revenues in fund statements.			501,553
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.			(8,183,529)
Net assets of governmental activities			<u>\$ 37,069,883</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, 2005**

	<b>General Fund</b>	<b>Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$ 18,093,101	\$ -	\$ 18,093,101
Intergovernmental	4,342,124	618,046	4,960,170
Charges for services	4,517,147	-	4,517,147
Miscellaneous	<u>608,062</u>	<u>310,430</u>	<u>918,492</u>
Total revenues	<u>\$ 27,560,434</u>	<u>\$ 928,476</u>	<u>\$ 28,488,910</u>
<b>EXPENDITURES</b>			
Current:			
General government	\$ 6,043,248	\$ 158,688	\$ 6,201,936
Public safety	10,391,086	326,196	10,717,282
Transportation	3,636,014	-	3,636,014
Environmental protection	1,902,570	-	1,902,570
Culture and recreation	2,495,888	-	2,495,888
Community and economic development	1,210,239	864,194	2,074,433
Education	42,342	-	42,342
Debt service:			
Principal	598,890	32,000	630,890
Interest	<u>283,100</u>	<u>25,305</u>	<u>308,405</u>
Total expenditures	<u>\$ 26,603,377</u>	<u>\$ 1,406,383</u>	<u>\$ 28,009,760</u>
Surplus (deficiency) of revenues over expenditures	<u>\$ 957,057</u>	<u>\$ (477,907)</u>	<u>\$ 479,150</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to other funds	\$ (173,570)	\$ -	\$ (173,570)
Long-term debt issued	<u>191,000</u>	<u>-</u>	<u>191,000</u>
Total other financing sources	<u>\$ 17,430</u>	<u>\$ -</u>	<u>\$ 17,430</u>
Net change in fund balance	\$ 974,487	\$ (477,907)	\$ 496,580
Fund balances (deficit)-beginning	<u>5,809,933</u>	<u>(178,894)</u>	<u>5,631,039</u>
Fund balances (deficit)-ending	<u><u>\$ 6,784,420</u></u>	<u><u>\$ (656,801)</u></u>	<u><u>\$ 6,127,619</u></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, 2005**

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

Net changes in fund balances - total governmental funds	\$ 496,580
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	(77,186)
Changes in deferred revenue for franchise tax revenues	
Changes in accrued interest receivable on taxes	(16,000)
Changes in advance funding of pension obligation	202
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.	
	2,061,285
Infrastructure contributed by developers is considered a capital contribution for the statements of activities.	
	1,757,000
Depreciation is recognized as an expense in the statement of activities.	
	(2,936,066)
Internal service funds are used by management to charge costs of certain activities, such as self-insurance for health care and workers compensation, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.	
	369,536
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	(191,000)
Repayment of principal on long-term debt	630,890
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.	
Compensated absences	(90,483)
Change in accrued interest payable	2,383
Loss on disposal of assets	(12,250)
Total changes in net assets of governmental activities	\$ 1,994,891

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, 2005**

	<b>General Fund</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>			
	<b>Budget</b>	<b>Final Budget</b>	<b>Actual</b>	
Revenues:				
Taxes	\$ 17,950,814	\$ 17,950,814	\$ 18,093,101	\$ 142,287
Intergovernmental	5,158,499	5,586,755	4,342,124	(1,244,631)
Charges for services	4,566,061	4,566,061	4,517,147	(48,914)
Miscellaneous	<u>799,315</u>	<u>929,514</u>	<u>608,062</u>	<u>(321,452)</u>
Total revenues	<u>\$ 28,474,689</u>	<u>\$ 29,033,144</u>	<u>\$ 27,560,434</u>	<u>\$ (1,472,710)</u>
Expenditures:				
Current:				
General government	\$ 6,327,128	\$ 6,361,079	\$ 6,043,248	\$ 317,831
Public safety	10,738,488	11,381,871	10,391,086	990,785
Transportation	5,129,898	5,200,696	3,636,014	1,564,682
Environmental protection	1,842,947	1,934,287	1,902,570	31,717
Cultural and recreation	2,495,258	2,558,005	2,495,888	62,117
Community and economic development	1,409,816	1,459,493	1,210,239	249,254
Education	42,342	42,342	42,342	-
Debt service:				
Principal retirement	711,848	619,848	598,890	20,958
Interest and other charges	<u>440,633</u>	<u>329,933</u>	<u>283,100</u>	<u>46,833</u>
Total expenditures	<u>\$ 29,138,358</u>	<u>\$ 29,887,554</u>	<u>\$ 26,603,377</u>	<u>\$ 3,284,177</u>
Surplus (deficiency) of revenues over expenditures	<u>\$ (663,669)</u>	<u>\$ (854,410)</u>	<u>\$ 957,057</u>	<u>\$ 1,811,467</u>
Other financing sources (uses):				
Transfers to other funds	\$ (160,282)	\$ (173,570)	\$ (173,570)	\$ -
Long-term debt issued	451,000	642,324	191,000	(451,324)
Fund balance appropriated	<u>372,951</u>	<u>385,656</u>	<u>-</u>	<u>(385,656)</u>
Total other financing sources (uses)	<u>\$ 663,669</u>	<u>\$ 854,410</u>	<u>\$ 17,430</u>	<u>\$ (836,980)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 974,487</u>	<u>\$ 974,487</u>
Fund balances, beginning of year			<u>5,809,933</u>	
Fund balances, end of year			<u>\$ 6,784,420</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, 2005

	Enterprise Funds			Governmental
	Water and Sewer Fund	Transit Fund	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 9,599,042	\$ 397	\$ 9,599,439	\$ 962,896
Accounts receivable (net)	2,338,334	29	2,338,363	-
Interest receivable	93,606	-	93,606	7,261
Due from other governments	177,129	22,688	199,817	-
Prepaid items	7,845	-	7,845	-
Inventories	249,833	-	249,833	-
Total current assets	<u>\$ 12,465,789</u>	<u>\$ 23,114</u>	<u>\$ 12,488,903</u>	<u>\$ 970,157</u>
Noncurrent assets:				
Capital assets:				
Land	\$ 2,072,067	\$ -	\$ 2,072,067	\$ -
Buildings and improvements	149,982,029	-	149,982,029	-
Equipment	6,443,489	2,272,497	8,715,986	-
Construction in progress	4,535,599	-	4,535,599	-
Accumulated depreciation	(44,355,781)	(1,263,982)	(45,619,763)	-
Total noncurrent assets	<u>\$ 118,677,403</u>	<u>\$ 1,008,515</u>	<u>\$ 119,685,918</u>	<u>\$ -</u>
Total assets	<u>\$ 131,143,192</u>	<u>\$ 1,031,629</u>	<u>\$ 132,174,821</u>	<u>\$ 970,157</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,332,074	\$ 16,339	\$ 1,348,413	\$ 521,080
Interest payable	435,665	-	435,665	-
Bonds, notes, and loans payable	3,223,118	-	3,223,118	-
Compensated absences	81,827	9,133	90,960	-
Customer deposits	449,575	-	449,575	-
Total current liabilities	<u>\$ 5,522,259</u>	<u>\$ 25,472</u>	<u>\$ 5,547,731</u>	<u>\$ 521,080</u>
Noncurrent liabilities:				
Bonds, notes, and loans payable	\$ 44,584,822	\$ -	\$ 44,584,822	\$ -
Compensated absences	245,481	27,398	272,879	-
Total noncurrent liabilities	<u>\$ 44,830,303</u>	<u>\$ 27,398</u>	<u>\$ 44,857,701</u>	<u>\$ -</u>
Total liabilities	<u>\$ 50,352,562</u>	<u>\$ 52,870</u>	<u>\$ 50,405,432</u>	<u>\$ 521,080</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 70,869,463	\$ 978,759	\$ 71,848,222	\$ -
Unrestricted	9,921,167	-	9,921,167	449,077
Total net assets	<u>\$ 80,790,630</u>	<u>\$ 978,759</u>	<u>\$ 81,769,389</u>	<u>\$ 449,077</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, 2005**

	Enterprise Funds			Governmental Activities
	Water and Sewer Fund	Transit Fund	Total	Internal Service Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 15,342,078	\$ 64,225	\$ 15,406,303	\$ 3,591,806
Water and sewer taps	474,771	-	474,771	-
Other operating revenues	793,586	1,860	795,446	-
Total operating revenues	<u>\$ 16,610,435</u>	<u>\$ 66,085</u>	<u>\$ 16,676,520</u>	<u>\$ 3,591,806</u>
<b>OPERATING EXPENSES</b>				
Management and administration	\$ 3,473,429	\$ 135,809	\$ 3,609,238	\$ 3,237,170
Water resources	1,616,780	-	1,616,780	-
Maintenance and construction	3,307,842	-	3,307,842	-
Wastewater collection and treatment	1,992,084	-	1,992,084	-
Environmental services	562,222	-	562,222	-
Depreciation	4,011,955	140,473	4,152,428	-
Mass transit operations	-	541,617	541,617	-
Total operating expenses	<u>\$ 14,964,312</u>	<u>\$ 817,899</u>	<u>\$ 15,782,211</u>	<u>\$ 3,237,170</u>
Operating income (loss)	<u>\$ 1,646,123</u>	<u>\$ (751,814)</u>	<u>\$ 894,309</u>	<u>\$ 354,636</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	\$ 230,922	\$ 366	\$ 231,288	\$ 14,900
Interest expense	(1,979,130)	-	(1,979,130)	-
Bond issuance costs	(119,576)	-	(119,576)	-
Intergovernmental revenues	-	1,427,045	1,427,045	-
Total nonoperating revenue (expenses)	<u>\$ (1,867,784)</u>	<u>\$ 1,427,411</u>	<u>\$ (440,373)</u>	<u>\$ 14,900</u>
Income before contributions and transfers	\$ (221,661)	\$ 675,597	\$ 453,936	\$ 369,536
Capital contributions	4,019,000	-	4,019,000	-
Transfers from other funds	-	173,570	173,570	-
Change in net assets	\$ 3,797,339	\$ 849,167	\$ 4,646,506	\$ 369,536
Total net assets - beginning	<u>76,993,291</u>	<u>129,592</u>	<u>77,122,883</u>	<u>79,541</u>
Total net assets - ending	<u>\$ 80,790,630</u>	<u>\$ 978,759</u>	<u>\$ 81,769,389</u>	<u>\$ 449,077</u>

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

**City of Salisbury, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

	<b>Business-Type Activities</b>			<b>Governmental</b>
	<b>Enterprise Funds</b>			<b>Activities</b>
	<b>Water and</b>			<b>Internal</b>
	<b>Sewer Fund</b>	<b>Transit Fund</b>	<b>Total</b>	<b>Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 15,710,290	\$ 66,506	\$ 15,776,796	\$ -
Cash received from interfund services provided	-	-	-	3,591,806
Cash paid for goods and services	(6,495,419)	(190,723)	(6,686,142)	(3,187,153)
Cash paid to or on behalf of employees for services	(4,356,799)	(498,871)	(4,855,670)	-
Customer deposits received	209,095	-	209,095	-
Customer deposits returned	(175,766)	-	(175,766)	-
Other receipts	793,586	1,860	795,446	-
Net cash provided (used) by operating activities	<u>\$ 5,684,987</u>	<u>\$ (621,228)</u>	<u>\$ 5,063,759</u>	<u>\$ 404,653</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	\$ -	\$ 173,570	\$ 173,570	\$ -
Intergovernmental revenues	-	1,469,356	1,469,356	-
Total cash flows provided by noncapital financing activities	<u>\$ -</u>	<u>\$ 1,642,926</u>	<u>\$ 1,642,926</u>	<u>\$ -</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	\$ (4,476,353)	\$ (1,138,845)	\$ (5,615,198)	\$ -
Principal paid on bond maturities and equipment contracts	(3,213,615)	-	(3,213,615)	-
Interest paid on bond maturities and equipment contracts	(2,002,463)	-	(2,002,463)	-
Developers' contributions	983,417	-	983,417	-
Net cash used by capital and related financing activities	<u>\$ (8,709,014)</u>	<u>\$ (1,138,845)</u>	<u>\$ (9,847,859)</u>	<u>\$ -</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>				
Investment earnings	<u>\$ 188,878</u>	<u>\$ 830</u>	<u>\$ 189,708</u>	<u>\$ 9,616</u>
Net increase (decrease) in cash and cash equivalents	\$ (2,835,149)	\$ (116,317)	\$ (2,951,466)	\$ 414,269
Balances-beginning of the year	<u>12,434,191</u>	<u>116,714</u>	<u>12,550,905</u>	<u>548,627</u>
Balances-end of the year	<u>\$ 9,599,042</u>	<u>\$ 397</u>	<u>\$ 9,599,439</u>	<u>\$ 962,896</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	<u>\$ 1,646,123</u>	<u>\$ (751,814)</u>	<u>\$ 894,309</u>	<u>\$ 354,636</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>				
Depreciation	\$ 4,011,955	\$ 140,473	\$ 4,152,428	\$ -
<b>Changes in current assets and liabilities:</b>				
(Increase) decrease in accounts receivable	(106,559)	2,281	(104,278)	-
(Increase) decrease in inventory	30,999	-	30,999	-
(Increase) decrease in due from other governments	(29,701)	-	(29,701)	-
(Increase) decrease in prepaid items	(7,845)	-	(7,845)	-
Increase (decrease) in accounts payable and accrued liabilities	106,686	(12,168)	94,518	50,017
Increase in customer deposits	33,329	-	33,329	-
Total adjustments	<u>\$ 4,038,864</u>	<u>\$ 130,586</u>	<u>\$ 4,169,450</u>	<u>\$ 50,017</u>
Net cash provided (used) by operating activities	<u>\$ 5,684,987</u>	<u>\$ (621,228)</u>	<u>\$ 5,063,759</u>	<u>\$ 404,653</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, 2005**

	<b>Fiduciary Funds</b>	
	<b>Pension Trust</b>	
	<b>Fund</b>	<b>Agency Funds</b>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 688,189	\$ 78,425
Accounts receivable	-	94,604
Interest receivable	4,915	-
	693,104	173,029
Total assets	\$ 693,104	\$ 173,029
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ -	\$ 173,029
Total liabilities	\$ -	\$ 173,029
<u>NET ASSETS</u>		
Held in trust for participants	\$ 693,104	\$ -

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

A-11

City of Salisbury, North Carolina  
Statement of Changes in Net Assets  
Pension Trust Fund  
For the Year Ended June 30, 2005

Additions:	
Employer contributions	\$ 103,821
Investment earnings	<u>12,567</u>
Total additions	<u>\$ 116,388</u>
Deductions:	
Retirement payments	<u>\$ 12,073</u>
Total deductions	<u>\$ 12,073</u>
Net increase	\$ 104,315
Net assets, beginning of year	<u>588,789</u>
Net assets, end of year	<u><u>\$ 693,104</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 accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies.

#### A. Reporting Entity

The City is a municipal corporation that is governed by an elected board of five city council members. As required by accounting principles generally accepted in the United States of America, 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 Unit

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.

#### 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. Eliminations have been made to minimize the double counting of internal activities. 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.

Fund Financial Statements – The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental and proprietary* – 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.



## NOTES TO THE FINANCIAL STATEMENTS

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 and investment earnings, result from non-exchange transactions or ancillary activities.

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, 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 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 three 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, and the Town of East Spencer Utilities Fund.

### 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 and Proprietary Fund Financial Statements – The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The

## NOTES TO THE FINANCIAL STATEMENTS

government-wide and proprietary funds 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. Nonexchange 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.

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 registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 2004 through February 2005 apply to the fiscal year ended June 30, 2005. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2005 because they are intended to finance the City's operations during the 2006 fiscal year.

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.

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 proprietary operations.

### 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 Fund, 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

## NOTES TO THE FINANCIAL STATEMENTS

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 of Downtown Salisbury, Inc. are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and Downtown Salisbury, Inc. may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and Downtown Salisbury, Inc. 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 Downtown Salisbury, Inc. 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 and Downtown Salisbury, Inc.'s investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. 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. Non-participating interest earnings investment contracts are reported at 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. considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

#### 3. Restricted Assets

The financial statements of the enterprise funds have been consolidated to include the Capital Project Fund. The assets of this fund are classified as restricted because they have been designated for future water and sewer construction projects. 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. These taxes are based on the assessed values of January 1, 2003. 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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	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
Trolleys	7

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

## NOTES TO THE FINANCIAL STATEMENTS

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 and the Mass Transit Fund.

### 10. Net Assets/Fund Balances

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 internally imposed by City Council for future capital projects or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

#### Reserved:

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and due from other governments that have not been offset by deferred revenues.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts that remain unperformed at year-end.

Reserved for inventories – a portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for prepaid items - portion of total fund balance that has been expended for the benefit of future periods.

#### Unreserved:

Undesignated – portion of total fund balance available for appropriation that is uncommitted at year-end.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 Fund Balance or Retained Earnings of Individual Funds

The City's Capital Projects Fund has a net deficit of \$754,777. The City has incurred expenses related to the expansion of its Police Department facilities. However, as of June 30, 2005, the planned installment purchase financing had not been completed. These planning and design expenses are being funded through short-term loans from the General Fund.

### Note 3. Detail Notes On All Funds

#### A. Assets

##### 1. Deposits

All deposits of the City and Downtown Salisbury, Inc. 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 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

NOTES TO THE FINANCIAL STATEMENTS

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.

At June 30, 2005, the City's deposits had a carrying amount of \$7,163,128 and a bank balance of \$7,704,820. Of the bank balance, \$680,297 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, 2005, the City's petty cash fund totaled \$2,790.

2. Investments

At June 30, 2005, the City's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Federal Home Loan Bank Discount Note	\$ 1,952,964	November 30, 2005	P-1, F1+
American General Finance Commercial Paper	1,961,978	October 31, 2005	A-1, P-1, F1
Goldman Sachs Commercial Paper	1,954,928	December 9, 2005	A-1, P-1, F1+
NC Capital Management Trust-Cash Portfolio	<u>4,467,318</u>	N/A	AAAm
Total	<u>\$ 10,337,188</u>		

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. The City has no formal policy regarding interest rate risk.

Credit Risk – The City has no policy regarding credit risk. The investment in the Federal Home Loan Bank is rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. The City's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2005. The City's investments in commercial paper were rated A1 by Moody's Investors Service, P1 by Standard and Poor's, and either F1 or F1+ by Fitch Ratings.

Concentration of Credit Risk – The City places no limit on the amount that the City may invest in any one issuer. More than five percent of the City's investments are in the Federal Home Loan Bank Discount Note (18.9%), the American General Finance Commercial Paper (19.0%), and the Goldman Sachs Commercial Paper (19%).

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, 2005</u>
General Fund:	
Taxes receivable	\$ 215,000
Enterprise Funds:	
Utility receivables	<u>64,695</u>
Total	<u>\$ 279,695</u>

NOTES TO THE FINANCIAL STATEMENTS

4. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 3,157,445	\$ -	\$ -	\$ 3,157,445
Construction in progress	109,408	500,484	194,731	415,161
Total capital assets not being depreciated	<u>\$ 3,266,853</u>	<u>\$ 500,484</u>	<u>\$ 194,731</u>	<u>\$ 3,572,606</u>
<b>Capital assets being depreciated:</b>				
Buildings	\$ 2,307,684	\$ -	\$ -	\$ 2,307,684
Other improvements	10,421,307	218,878	60,205	10,579,980
Equipment	6,210,361	383,215	905,187	5,688,389
Vehicles and motorized equipment	10,105,965	1,153,439	936,522	10,322,882
Infrastructure	30,690,486	1,757,000	-	32,447,486
Total capital assets being depreciated	<u>\$ 59,735,803</u>	<u>\$ 3,512,532</u>	<u>\$ 1,901,914</u>	<u>\$ 61,346,421</u>
<b>Less accumulated depreciation for:</b>				
Buildings	\$ 941,324	\$ 65,472	\$ -	\$ 1,006,796
Other improvements	2,896,221	193,148	58,699	3,030,670
Equipment	3,708,723	694,544	899,995	3,503,272
Vehicles and motorized equipment	8,635,477	865,832	930,970	8,570,339
Infrastructure	9,611,497	1,117,070	-	10,728,567
Total accumulated depreciation	<u>\$ 25,793,242</u>	<u>\$ 2,936,066</u>	<u>\$ 1,889,664</u>	<u>\$ 26,839,644</u>
Total capital assets being depreciated, net	<u>\$ 33,942,561</u>	<u>\$ 576,466</u>	<u>\$ 12,250</u>	<u>\$ 34,506,777</u>
<b>Governmental activity capital assets, net</b>	<u><u>\$ 37,209,414</u></u>	<u><u>\$ 1,076,950</u></u>	<u><u>\$ 206,981</u></u>	<u><u>\$ 38,079,383</u></u>

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

General government	\$ 783,231
Public safety	585,571
Transportation	1,275,482
Environmental protection	92,210
Cultural and recreational	170,038
Land management and development	29,534
Total depreciation expense	<u><u>\$ 2,936,066</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	10,638,635	3,578,841	9,681,877	4,535,599
Total capital assets not being depreciated	<u>\$ 12,710,702</u>	<u>\$ 3,578,841</u>	<u>\$ 9,681,877</u>	<u>\$ 6,607,666</u>
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	\$ 136,935,323	\$ 13,046,706	\$ -	\$ 149,982,029
Furniture and maintenance equipment	3,146,173	-	328,749	2,817,424
Vehicles and motorized equipment	3,291,297	523,665	188,896	3,626,066
Total capital assets being depreciated	<u>\$ 143,372,793</u>	<u>\$ 13,570,371</u>	<u>\$ 517,645</u>	<u>\$ 156,425,519</u>
<b>Less accumulated depreciation for:</b>				
Plant and distribution systems	\$ 35,912,864	\$ 3,489,187	\$ -	\$ 39,402,051
Furniture and maintenance equipment	2,409,545	269,610	313,055	2,366,100
Vehicles and motorized equipment	2,539,063	253,158	204,590	2,587,631
Total accumulated depreciation	<u>\$ 40,861,472</u>	<u>\$ 4,011,955</u>	<u>\$ 517,645</u>	<u>\$ 44,355,782</u>
Total capital assets being depreciated, net	<u>\$ 102,511,321</u>	<u>\$ 9,558,416</u>	<u>\$ -</u>	<u>\$ 112,069,737</u>
<b>Water and Sewer Fund capital assets, net</b>	<u>\$ 115,222,023</u>	<u>\$ 13,137,257</u>	<u>\$ 9,681,877</u>	<u>\$ 118,677,403</u>
<b>Transit Fund</b>				
<b>Capital assets being depreciated:</b>				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	29,057	-	-	29,057
Vehicles and motorized equipment	725,132	1,138,845	88,461	1,775,516
Total capital assets being depreciated	<u>\$ 1,222,113</u>	<u>\$ 1,138,845</u>	<u>\$ 88,461</u>	<u>\$ 2,272,497</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	18,914	7,607	-	26,521
Vehicles and motorized equipment	725,132	132,866	88,461	769,537
	<u>\$ 1,211,970</u>	<u>\$ 140,473</u>	<u>\$ 88,461</u>	<u>\$ 1,263,982</u>
<b>Transit Fund capital assets, net</b>	<u>\$ 10,143</u>	<u>\$ 998,372</u>	<u>\$ -</u>	<u>\$ 1,008,515</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 115,232,166</u>	<u>\$ 14,135,629</u>	<u>\$ 9,681,877</u>	<u>\$ 119,685,918</u>

Construction commitments

The City has active construction projects as of June 30, 2005. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water and Sewer Treatment Facilities	<u>\$ 2,778,946</u>	<u>\$ 1,008,066</u>

NOTES TO THE FINANCIAL STATEMENTS

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 4.81% and 4.64%, 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, 2005, 2004, and 2003 were 766,837, \$714,372, and \$691,652, 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 Separation Allowance does not issue separate audited financial statements, but is included in the Comprehensive Annual Financial Report (CAFR) of the City of Salisbury. The City's CAFR includes financial statements and required supplementary information for the Separation Allowance.

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2005, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>80</u>
Total	<u><u>81</u></u>

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.

NOTES TO THE FINANCIAL STATEMENTS

*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 \$103,821, or 3.43% 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, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9% to 9.8% per year. Item (b) included an inflation adjustment of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2004 was 26 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	\$ 104,153
Interest on net pension obligation	(2,362)
Adjustment to annual required contribution	<u>1,828</u>
Annual pension cost	\$ 103,619
Contributions made	<u>103,821</u>
Decrease in net pension asset	\$ 202
Net pension asset beginning of year	<u>32,578</u>
Net pension asset end of year	<u><u>\$ 32,780</u></u>

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2005	\$103,619	100.20%	\$32,780
6/30/2004	87,132	100.70%	32,578
6/30/2003	92,754	95.92%	31,967

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.

*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 2 percent of the monthly salary of each employee not engaged in law enforcement. All amounts contributed are vested immediately.

## NOTES TO THE FINANCIAL STATEMENTS

Also, employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2005 were \$682,031, which consisted of \$414,944 from the City and \$267,087 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, 2005, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$27,284 for the 66 employed firemen who perform firefighting duties for the City's fire department.

### e. Other Post-employment Benefits

The City 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 pays the full cost of coverage for these benefits. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. Currently, twenty retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2005, the City made payments for post-employment health benefit premiums of \$101,360. The City is self-insured for employee and retiree health care 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. Effective July 1, 2004, 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, 2005, the City made contributions to the State for death benefits of \$18,588. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.11% 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Deferred 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. Other deferred revenue in the General Fund represents grants and donations received for various downtown enhancement projects and the purchase of equipment for the police department. 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	\$ 534,665
Prepaid property taxes	83,790
Unavailable	
Taxes receivable, net	501,553
Total deferred revenue	\$ 1,120,008

3. 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 \$102,598,817. The City also provides coverage for employee dishonesty in the amount of \$100,000 and fidelity insurance of the Finance Director's office for \$100,000. The pool is reinsured through commercial companies for single occurrence claims against property, general liability, and auto liability in excess of \$300,000.

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.

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:

	<u>Year ended June 30, 2003</u>	<u>Year ended June 30, 2004</u>	<u>Year ended June 30, 2005</u>
Unpaid claims, beginning of fiscal year	\$ 403,990	\$ 395,460	\$ 459,130
Incurred claims (including IBNRs)	2,777,841	2,887,730	3,082,898
Claim payments	(2,786,371)	(2,824,060)	(3,027,025)
Unpaid claims, end of fiscal year	\$ 395,460	\$ 459,130	\$ 515,003

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.

NOTES TO THE FINANCIAL STATEMENTS

4. Claims, Judgments, and Contingent Liabilities

At June 30, 2005 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.

5. Long-Term Obligations

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 their fair value of \$7,898,494. The future minimum lease payments at June 30, 2005 total \$3,903,096, including \$832,599 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, 2005 were as follows:

Year Ending June 30,	Capital Leases	
	Principal	Interest
2006	\$ 270,612	\$ 126,307
2007	264,190	115,559
2008	260,846	104,983
2009	267,585	94,605
2010	274,409	83,860
2011-2015	1,282,056	256,685
2016-2020	440,799	50,020
2021	10,000	580
	\$ 3,070,497	\$ 832,599

b. 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:

Installment purchase contract for capital improvements and facilities renovations from BB&T Leasing Corporation, dated December 29, 1999, payable in twenty semi-annual installments of \$63,332 at an effective interest rate of 4.73%.

Installment purchase contract from Bank of America for construction and capital improvements of facilities, dated December 22, 2000, payable in thirty semi-annual installments consisting of \$33,333 principal plus interest at an effective rate of 5.25%.

Installment purchase contract from F & M Bank for the purchase of real estate, dated February 24, 2003, payable in thirty-six monthly payments of interest only, followed by twenty-two monthly payments of \$7,372 and one final payment of all remaining principal plus accrued interest, which is due in January 2008.

Installment purchase contract from Wachovia Bank and Trust for the purchase of new telecommunications equipment, dated April 12, 2004, payable in eighteen semi-annual installments consisting of \$110,583 principal plus interest at an effective rate of 2.93%.

Installment purchase contract from BB&T for the purchase of Emergency 911 telecommunications equipment, dated February 23, 2005, payable in fifty-nine monthly installments of \$3,524 at an effective interest of 3.45%.

NOTES TO THE FINANCIAL STATEMENTS

The future minimum payments of the installment purchases as of June 30, 2005, including \$600,597 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Installment Purchases	
	Principal	Interest
2006	\$ 445,038	\$ 154,350
2007	485,161	136,663
2008	1,373,964	103,434
2009	448,001	65,298
2010	374,090	48,226
2011-2015	996,835	91,736
2016	33,333	890
	<u>\$ 4,156,422</u>	<u>\$ 600,597</u>

c. 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 and parking 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 its 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.

Bonds payable at June 30, 2005 are comprised of the following individual issues:

	<u>Balance June 30, 2005</u>
Serviced by the General Fund:	
\$355,000 Public Improvement Bonds, Series 1995, average rate of 5.28%, issued November 1995, maturing serially to 2006	\$ 15,000
\$3,000,000 Parks and Recreation Bonds, Series 1997, average rate of 4.77%, issued December 1997, maturing serially to 2017	2,250,000
Subtotal	<u>\$ 2,265,000</u>
Serviced by the Water and Sewer Fund:	
\$700,000 Water Bonds, Series 1997, average rate of 4.74%, issued December 1997, maturing serially to 2008	\$ 175,000
\$3,250,000 Water Bonds, Series 1998, average rate of 4.40%, issued June 1998, maturing serially to 2017	2,025,000
\$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 \$985,876	<u>9,734,124</u>
Subtotal	<u>\$ 11,934,124</u>
Total General Obligation Indebtedness	<u>\$ 14,199,124</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 190,000	\$ 108,650	\$ 1,440,000	\$ 436,115
2007	200,000	99,550	1,405,000	401,052
2008	200,000	90,050	1,330,000	360,915
2009	200,000	80,550	1,265,000	318,128
2010	200,000	70,950	1,245,000	277,728
2011-2015	1,000,000	210,750	5,960,000	738,850
2016-2017	275,000	17,100	275,000	16,875
	<u>\$ 2,265,000</u>	<u>\$ 677,600</u>	<u>\$ 12,920,000</u>	<u>\$ 2,549,663</u>

Advance Refunding

On August 12, 2003, the City issued \$12.1 million in general obligation Water and Sewer Refunding Bonds with an interest rate of 3.43% to advance refund \$11.9 million of outstanding Water and Sewer Funds with interest rates ranging from 5.28% to 6.52%. The net proceeds of \$11.9 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 August 12, 2003, 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 \$1,183,050. This difference represents bond issuance cost of \$157,772 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 \$98,587, as a deduction from bonds payable and is being charged to operations through the year 2015, the life of the new debt, which is shorter than 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 twelve years by \$352,806 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$309,359.

d. 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:

	Balance June 30, 2005
\$5,000,000 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	\$ 3,000,000
\$450,120 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	270,072
\$3,000,000 State Bond Loan, average rate of 2.60%, issued November 1999 maturing serially to 2019	2,250,000
\$9,200,000 State Bond Loan, average rate of 2.60%, issued June 2000 maturing serially to 2020	<u>6,900,000</u>
Total State Bond Loans	<u>\$ 12,420,072</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
2006	\$ 882,506	\$ 350,063
2007	882,506	324,857
2008	882,506	299,650
2009	882,506	274,443
2010	882,506	249,236
2011-2015	4,412,530	868,074
2016-2020	3,595,012	265,940
	<u>\$ 12,420,072</u>	<u>\$ 2,632,263</u>

e. 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, 2005
\$2,040,000 Water and Sewer Revenue Bonds, Series 1998, average rate of 4.78%, issued January 1998, maturing serially to 2018	\$ 1,525,000
\$20,505,000 Water and Sewer Revenue Bonds, Series 2002, average rate of 3.66%, issued May 2002, maturing serially to 2027	
The amount is net of unamortized issuance costs of \$461,753	<u>18,858,247</u>
Total Revenue Bonds	<u>\$ 20,383,247</u>

The future payments of the revenue bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Revenue Bonds	
	Principal	Interest
2006	\$ 630,000	\$ 980,534
2007	650,000	958,331
2008	675,000	934,226
2009	700,000	907,728
2010	730,000	879,336
2011-2015	4,170,000	3,950,861
2016-2020	4,905,000	2,810,955
2021-2025	5,690,000	1,555,000
2026-2027	2,695,000	203,750
	<u>\$ 20,845,000</u>	<u>\$ 13,180,721</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. 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:

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
2003	\$ 15,297,190	\$ 10,022,035	\$ 5,275,155	\$ 1,107,506	\$ 1,297,994	\$ 2,405,500	219.30%
2004	16,218,662	10,696,926	5,521,736	1,472,506	1,420,340	2,892,846	190.88%
2005	16,841,357	10,952,357	5,889,000	1,492,506	1,375,815	2,868,321	205.31%

(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 and N. C. State Clean Water Bonds only.

f. 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.

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
2006	\$ 32,000	\$ 24,833
2007	32,000	24,169
2008	32,000	23,308
2009	32,000	22,272
2010	32,000	21,099
2011-2015	160,000	84,653
2016-2020	162,000	44,767
2021-2023	82,000	5,765
	<u>\$ 564,000</u>	<u>\$ 250,866</u>

g. Changes in Long-Term Liabilities

	June 30, 2004	Additions	Retirements	Change in Unamortized Costs	June 30, 2005	Current Portion of Balance
<b>Governmental Activities</b>						
General obligation bonds	\$ 2,465,000	\$ -	\$ 200,000	\$ -	\$ 2,265,000	\$ 200,000
Installment purchases	4,364,312	191,000	398,890	-	4,156,422	445,038
Section 108 loan	596,000	-	32,000	-	564,000	32,000
Compensated absences	1,448,700	930,672	810,028	-	1,569,344	392,336
	<u>\$ 8,874,012</u>	<u>\$ 1,121,672</u>	<u>\$ 1,440,918</u>	<u>\$ -</u>	<u>\$ 8,554,766</u>	<u>\$ 1,069,374</u>
<b>Business-type activities</b>						
General obligation bonds	\$ 13,285,537	\$ -	\$ 1,450,000	\$ 98,587	\$ 11,934,124	\$ 1,440,000
Revenue bonds	20,972,259	-	610,000	20,988	20,383,247	630,000
State loans	13,302,578	-	882,506	-	12,420,072	882,506
Capital leases	3,341,606	-	271,109	-	3,070,497	270,612
Compensated absences	324,503	219,252	179,916	-	363,839	90,960
	<u>\$ 51,226,483</u>	<u>\$ 219,252</u>	<u>\$ 3,393,531</u>	<u>\$ 119,575</u>	<u>\$ 48,171,779</u>	<u>\$ 3,314,078</u>
<b>Total</b>	<u>\$ 60,100,495</u>	<u>\$ 1,340,924</u>	<u>\$ 4,834,449</u>	<u>\$ 119,575</u>	<u>\$ 56,726,545</u>	<u>\$ 4,383,452</u>

NOTES TO THE FINANCIAL STATEMENTS

6. Accounts Payable

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 934,331	\$ 816,013
Accrued payroll and payroll liabilities	980,521	532,400
Other accrued liabilities	<u>52,432</u>	<u>-</u>
	<u>\$ 1,967,284</u>	<u>\$ 1,348,413</u>

C. Interfund Balances and Activity

1. Balances Due to/from Other Funds

As of June 30, 2005, an amount of \$754,777 was due from the Capital Project Fund to the General Fund. This short-term loan was used for renovations to the Police Station and will be repaid when the project financing is completed.

2. Transfers to/from Other Funds

Transfers during the year ended June 30, 2005, consisted of \$173,570 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.

D. Revenues, Expenditures and Expenses

1. On-Behalf of Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2005, the City of Salisbury has recognized on-behalf of payments for pension contributions made by the state as a revenue and an expenditure of \$21,685 for the 66 employed firefighters who perform firefighting duties for the City's fire department. The employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Note 4. 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, 2005, the City reported revenues and expenditures for the payments of \$56,025 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, 2005. 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 Post Office Box 188, Farmville, NC 27828.

Note 5. Commitments and Contingencies

The City participates in a number of federal and State of North Carolina awards. For the fiscal year ended June 30, 2005, these awards were subject to audit in accordance with *Government Auditing Standards* and the provisions of OMB Circular A-133 and the State Single Audit Implementation Act. The amounts, if

## NOTES TO THE FINANCIAL STATEMENTS

any, of expenditures which may be disallowed by the granting agencies resulting from this and other audits cannot be determined at this time, although the City expects they would be immaterial.

### Note 6. Pronouncements Issued But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2005 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City.

- GASB Statement Number 42, "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries."
- GASB Statement Number 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans."
- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

Additionally, the Governmental Accounting Standards Board issued Statement Number 44, "Economic Condition Reporting: The Statistical Section" which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report (CAFR). The City will implement GASB No. 44 with the June 30, 2006 CAFR.

---

# **Required Supplemental Financial Data**

---



## 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>
2004	\$ 636,417	\$ 1,214,344	\$ 577,927	52.41%	\$ 2,940,751	19.65%
2003	543,886	1,185,007	641,121	45.90%	2,980,664	21.51%
2002	462,990	982,204	519,214	47.14%	2,715,519	19.12%
2001	382,392	944,593	562,201	40.48%	2,958,255	19.00%
2000	315,640	862,184	546,544	36.61%	2,793,421	19.57%
1999	266,673	456,933	190,260	58.36%	2,434,327	7.82%

**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 June 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2005	\$ 104,153	100
2004	87,696	100
2003	93,425	95
2002	86,797	102
2001	47,368	118
2000	49,733	112

**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	12/31/2004
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	26 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	7.25%
Projected salary increases*	5.9% - 9.8%
* Includes inflation at	3.75%
Cost of living adjustments	N/A



---

# Supplementary Financial Data

---



---

# 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, 2005**

**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005		Variance with	2004
	Budget	Actual	Budget	Actual
			Positive	
			(Negative)	
<b>REVENUES:</b>				
Taxes:				
General property-current	\$ 13,308,713	\$ 13,173,937	\$ (134,776)	\$ 12,146,132
General property-prior	314,000	423,808	109,808	302,065
Auto tax	200,000	103,434	(96,566)	
Interest on delinquent tax	62,000	84,809	22,809	69,005
Local option sales tax	4,065,601	4,306,693	241,092	4,232,240
Other tax	500	420	(80)	508
	\$ 17,950,814	\$ 18,093,101	\$ 142,287	\$ 16,749,950
Intergovernmental:				
Federal	\$ 691,387	\$ 425,181	\$ (266,206)	\$ 559,958
State	4,877,368	3,899,544	(977,824)	4,234,161
Local	18,000	17,399	(601)	17,851
	\$ 5,586,755	\$ 4,342,124	\$ (1,244,631)	\$ 4,811,970
Charges for services:				
Environmental protection	\$ 857,200	\$ 830,504	\$ (26,696)	\$ 837,306
Culture and recreation	170,000	173,484	3,484	153,836
Public safety	392,401	416,920	24,519	414,782
Cemetery	135,000	135,545	545	117,200
Radio antenna and paging rentals	133,960	222,871	88,911	196,479
Rentals and sale of property	282,708	306,845	24,137	238,266
Licenses and permits	578,660	589,274	10,614	538,560
Administrative charges	1,901,732	1,711,559	(190,173)	1,743,053
Community services	114,400	130,145	15,745	122,619
	\$ 4,566,061	\$ 4,517,147	\$ (48,914)	\$ 4,362,101
Miscellaneous:				
Interest earned on investments	\$ 134,000	\$ 161,387	\$ 27,387	\$ 76,874
Donations	661,337	290,093	(371,244)	318,323
Other	134,177	156,582	22,405	109,847
	\$ 929,514	\$ 608,062	\$ (321,452)	\$ 505,044
<b>Total revenues</b>	<b>\$ 29,033,144</b>	<b>\$ 27,560,434</b>	<b>\$ (1,472,710)</b>	<b>\$ 26,429,065</b>
<b>OTHER FINANCING SOURCES:</b>				
Long-term debt issued	\$ 642,324	\$ 191,000	\$ (451,324)	\$ 1,990,500
Fund balance appropriated	385,656	-	(385,656)	-
<b>Total other financing sources (uses)</b>	<b>\$ 1,027,980</b>	<b>\$ 191,000</b>	<b>\$ (836,980)</b>	<b>\$ 1,990,500</b>
<b>Total revenues and other financing sources</b>	<b>\$ 30,061,124</b>	<b>\$ 27,751,434</b>	<b>\$ (2,309,690)</b>	<b>\$ 28,419,565</b>

## B-1

## CITY OF SALISBURY, NORTH CAROLINA

## GENERAL FUND

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

For the Year Ended June 30, 2005

With Comparative Actual Amounts for Year Ended June 30, 2004

	2005		Variance with Budget Positive (Negative)	2004
	Budget	Actual		Actual
EXPENDITURES:				
Current:				
General government:				
City council	\$ 124,353	\$ 111,443	\$ 12,910	\$ 97,255
City administration	729,068	682,250	46,818	672,331
Purchasing	132,259	123,011	9,248	128,894
Human resources	575,538	561,791	13,747	525,423
Finance	1,185,422	1,140,030	45,392	1,042,162
Fleet management	783,788	778,791	4,997	758,839
Public services administration	251,417	250,245	1,172	229,458
Facilities Maintenance	653,954	642,855	11,099	377,759
Telecommunication	510,076	469,803	40,273	2,664,920
Information technologies	1,415,204	1,283,029	132,175	1,286,998
	<u>\$ 6,361,079</u>	<u>\$ 6,043,248</u>	<u>\$ 317,831</u>	<u>\$ 7,784,039</u>
Public safety:				
Police:				
Administration	\$ 610,264	\$ 519,296	\$ 90,968	\$ 494,573
Services	1,265,893	1,218,369	47,524	1,409,098
Operations	4,720,788	4,536,319	184,469	4,251,326
Fire	4,784,926	4,117,102	667,824	3,601,933
	<u>\$ 11,381,871</u>	<u>\$ 10,391,086</u>	<u>\$ 990,785</u>	<u>\$ 9,756,930</u>
Transportation:				
Traffic operations	\$ 565,257	\$ 542,813	\$ 22,444	\$ 450,871
Engineering	2,074,298	683,546	1,390,752	720,033
Streets	2,251,436	2,100,369	151,067	2,123,163
Street lighting	309,705	309,286	419	306,408
	<u>\$ 5,200,696</u>	<u>\$ 3,636,014</u>	<u>\$ 1,564,682</u>	<u>\$ 3,600,475</u>
Environmental protection:				
Solid waste management	\$ 1,697,578	\$ 1,688,729	\$ 8,849	\$ 1,449,351
Cemetery	236,709	213,841	22,868	222,557
	<u>\$ 1,934,287</u>	<u>\$ 1,902,570</u>	<u>\$ 31,717</u>	<u>\$ 1,671,908</u>
Culture and recreation:				
Landscaping	\$ 595,262	\$ 587,259	\$ 8,003	\$ 571,601
Recreation	1,962,743	1,908,629	54,114	1,987,618
	<u>\$ 2,558,005</u>	<u>\$ 2,495,888</u>	<u>\$ 62,117</u>	<u>\$ 2,559,219</u>
Community and economic development:				
Community development	\$ 947,182	\$ 730,605	\$ 216,577	\$ 754,858
The Plaza	151,522	145,927	5,595	274,225
Developmental services	360,789	333,707	27,082	362,503
	<u>\$ 1,459,493</u>	<u>\$ 1,210,239</u>	<u>\$ 249,254</u>	<u>\$ 1,391,586</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, 2005**

**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005		Variance with	2004
			Budget	
	Budget	Actual	Positive	Actual
			(Negative)	
EXPENDITURES :				
Current (continued):				
Education	\$ 42,342	\$ 42,342	\$ -	\$ 42,342
Debt service:				
Principal	\$ 619,848	\$ 598,890	\$ 20,958	\$ 646,750
Interest	329,933	283,100	46,833	250,437
	\$ 949,781	\$ 881,990	\$ 67,791	\$ 897,187
Total expenditures	\$ 29,887,554	\$ 26,603,377	\$ 3,284,177	\$ 27,703,686
OTHER FINANCING USES:				
Transfers to other funds	\$ 173,570	\$ 173,570	\$ -	\$ 160,282
Total expenditures and other financing uses	\$ 30,061,124	\$ 26,776,947	\$ 3,284,177	\$ 27,863,968
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ 974,487	\$ 974,487	\$ 555,597
FUND BALANCES, BEGINNING		5,809,933		5,254,336
FUND BALANCES, ENDING		\$ 6,784,420		\$ 5,809,933





---

# **Non Major Governmental 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.

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

**CITY OF SALISBURY, NORTH CAROLINA**  
**ALL NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**

**June 30, 2005**

<u>ASSETS</u>	<u>Special Revenue</u> <u>Fund</u>	<u>Capital</u> <u>Projects Fund</u>	<u>Total</u>
Cash and investments	\$ 118,966	\$ -	\$ 118,966
Accounts receivable	22,689	1,032	23,721
Due from other governments	<u>14,130</u>	<u>-</u>	<u>14,130</u>
Total assets	<u>\$ 155,785</u>	<u>\$ 1,032</u>	<u>\$ 156,817</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 58,841	\$ -	\$ 58,841
Due to other funds	<u>-</u>	<u>754,777</u>	<u>754,777</u>
Total liabilities	<u>\$ 58,841</u>	<u>\$ 754,777</u>	<u>\$ 813,618</u>
 FUND EQUITY			
Fund balances:			
Reserved by State statute	\$ 36,819	\$ -	\$ 36,819
Unreserved:			
Undesignated	<u>60,125</u>	<u>(753,745)</u>	<u>(693,620)</u>
Total fund equity (deficit)	<u>\$ 96,944</u>	<u>\$ (753,745)</u>	<u>\$ (656,801)</u>
Total liabilities and fund equity	<u>\$ 155,785</u>	<u>\$ 1,032</u>	<u>\$ 156,817</u>

## CITY OF SALISBURY, NORTH CAROLINA

## ALL NON-MAJOR GOVERNMENTAL FUNDS

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

For the Year Ended June 30, 2005

	<u>Special</u> <u>Revenue Fund</u>	<u>Capital</u> <u>Projects Fund</u>	<u>Total</u>
REVENUES:			
Intergovernmental	\$ 618,046	\$ -	\$ 618,046
Miscellaneous:	<u>310,430</u>	<u>-</u>	<u>310,430</u>
Total revenues	<u>\$ 928,476</u>	<u>\$ -</u>	<u>\$ 928,476</u>
EXPENDITURES:			
General government	\$ 104,188	\$ 54,500	\$ 158,688
Public safety	-	326,196	326,196
Community and economic development	864,194	-	864,194
Debt Service:	32,000	-	32,000
Principal	<u>25,305</u>	<u>-</u>	<u>25,305</u>
Interest			
Total expenditures	<u>\$ 1,025,687</u>	<u>\$ 380,696</u>	<u>\$ 1,406,383</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ (97,211)	\$ (380,696)	\$ (477,907)
FUND BALANCE (DEFICIT), BEGINNING	<u>194,155</u>	<u>(373,049)</u>	<u>(178,894)</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 96,944</u>	<u>\$ (753,745)</u>	<u>\$ (656,801)</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, 2005

With Comparative Actual Amounts for the Year Ended June 30, 2004

	2005		Variance with Budget Positive (Negative)	2004
	Budget	Actual		Actual
REVENUES:				
Intergovernmental:				
Federal	\$ 862,256	\$ 618,046	\$ (244,210)	\$ 407,340
Miscellaneous:				
Other	330,000	310,430	(19,570)	389,325
Total revenues	<u>\$ 1,192,256</u>	<u>\$ 928,476</u>	<u>\$ (263,780)</u>	<u>\$ 796,665</u>
EXPENDITURES:				
Current:				
General government	\$ 119,080	\$ 104,188	\$ 14,892	\$ 124,236
Community and economic development	1,204,134	864,194	339,940	983,076
Debt Service:				
Principal	32,000	32,000	-	-
Interest	25,306	25,305	1	-
Total expenditures	<u>\$ 1,380,520</u>	<u>\$ 1,025,687</u>	<u>\$ 354,833</u>	<u>\$ 1,107,312</u>
OTHER FINANCING SOURCES				
Proceeds from Section 108 loan	\$ -	\$ -	\$ -	\$ 375,000
Fund balance appropriated	188,264	-	(188,264)	-
Total other financing sources	<u>\$ 188,264</u>	<u>\$ -</u>	<u>\$ (188,264)</u>	<u>\$ 375,000</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>\$ -</u>	<u>\$ (97,211)</u>	<u>\$ (97,211)</u>	<u>\$ 64,353</u>
FUND BALANCE, BEGINNING		<u>194,155</u>		<u>129,802</u>
FUND BALANCE, ENDING		<u>\$ 96,944</u>		<u>\$ 194,155</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, 2005

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
EXPENDITURES:				
General government	\$ 100,000	\$ 34,324	\$ 54,500	\$ 88,824
Public safety	<u>3,465,680</u>	<u>338,725</u>	<u>326,196</u>	<u>664,921</u>
Total expenditures	\$ <u>3,565,680</u>	\$ <u>373,049</u>	\$ <u>380,696</u>	\$ <u>753,745</u>
Total revenues under expenditures	\$ (3,565,680)	\$ (373,049)	\$ (380,696)	\$ (753,745)
OTHER FUNDING SOURCES				
Proceeds from issuance of debt	<u>3,565,680</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>\$ -</u>	<u>\$ (373,049)</u>	<u>\$ (380,696)</u>	<u>\$ (753,745)</u>
FUND BALANCE (DEFICIT), BEGINNING			<u>(373,049)</u>	
FUND BALANCE (DEFICIT), ENDING			<u>\$ (753,745)</u>	

---

# Proprietary Fund Types

---

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.

**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, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	<u>2005</u>		<b>Variance with Budget Positive (Negative)</b>	<u>2004</u>
	<b>Budget</b>	<b>Actual</b>		<b>Actual</b>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 16,124,217	\$ 15,342,078	\$ (782,139)	\$ 14,484,161
Water and sewer taps	510,000	474,771	(35,229)	648,609
Other operating revenues	<u>681,260</u>	<u>793,586</u>	<u>112,326</u>	<u>902,563</u>
Total operating revenues	<u>17,315,477</u>	<u>16,610,435</u>	<u>(705,042)</u>	<u>16,035,333</u>
<b>OPERATING EXPENDITURES OTHER THAN DEPRECIATION:</b>				
Management and administration	\$ 3,744,586	\$ 3,473,429	\$ 271,157	\$ 3,581,201
Water resources	1,732,231	1,577,930	154,301	1,354,247
Maintenance and construction	3,942,238	3,286,305	655,933	3,416,701
Wastewater collection and treatment	2,120,722	1,980,016	140,706	1,886,360
Environmental services	<u>563,258</u>	<u>562,222</u>	<u>1,036</u>	<u>487,988</u>
Total operating expenses other than depreciation	<u>\$ 12,103,035</u>	<u>\$ 10,879,902</u>	<u>\$ 1,223,133</u>	<u>\$ 10,726,497</u>
<b>NONOPERATING REVENUES (EXPENDITURES):</b>				
Investment earnings	\$ 40,990	\$ 62,639	\$ 21,649	\$ 30,411
Developers' contributions	570,000	570,000	-	352,208
Capital outlay	(1,130,180)	(1,120,369)	9,811	(1,015,339)
Interest expense	<u>(2,002,684)</u>	<u>(2,002,463)</u>	<u>221</u>	<u>(2,038,017)</u>
Net nonoperating revenues	<u>\$ (2,521,874)</u>	<u>\$ (2,490,193)</u>	<u>\$ 31,681</u>	<u>\$ (2,670,737)</u>
Revenues over expenditures	<u>\$ 2,690,568</u>	<u>\$ 3,240,340</u>	<u>\$ 549,772</u>	<u>\$ 2,638,099</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Payment of debt principal	\$ (3,213,615)	\$ (3,213,615)	\$ -	\$ (3,439,954)
Payment to refunded bond escrow agent	-	-	-	(12,094,519)
Refunding bonds issued	-	-	-	12,100,000
Fund balance appropriated	<u>523,047</u>	<u>-</u>	<u>(523,047)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (2,690,568)</u>	<u>\$ (3,213,615)</u>	<u>\$ (523,047)</u>	<u>\$ (3,434,473)</u>
<b>REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>				
	<u>\$ -</u>	<u>\$ 26,725</u>	<u>\$ 26,725</u>	<u>\$ (796,374)</u>
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:</b>				
Revenues over expenditures and other financing sources (uses)		\$ 26,725		
Capital outlay		1,120,369		
Depreciation		(4,011,955)		
Bond amortization		(119,576)		
Payment of debt principal		3,213,615		
Interest income from Capital Projects Fund		168,283		
Non-cash capital contributions		3,249,000		
Capital contributions in Capital Project Fund		200,000		
Interest expense adjustment		23,333		
Inventories		(30,999)		
Vacation pay		<u>(41,456)</u>		
Change in net assets		<u>\$ 3,797,339</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, 2005

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
<b>REVENUES</b>				
Miscellaneous				
Interest on investments	\$ -	\$ 2,360,623	\$ 168,283	\$ 2,528,906
<b>EXPENDITURES-SEWER PROJECT</b>				
Construction	\$ 2,318,953	\$ 186,630	\$ 1,991,078	\$ 2,177,708
Engineering	450,518	141,226	56,033	197,259
Total expenditures-Sewer project	\$ 2,769,471	\$ 327,856	\$ 2,047,111	\$ 2,374,967
<b>EXPENDITURES-WATER PROJECT</b>				
Construction	\$ 10,118,789	\$ 8,399,303	\$ 849,254	\$ 9,248,557
Engineering	2,241,400	1,911,476	201,600	2,113,076
Total expenditures-Water project	\$ 12,360,189	\$ 10,310,779	\$ 1,050,854	\$ 11,361,633
Total expenditures	\$ 15,129,660	\$ 10,638,635	\$ 3,097,965	\$ 13,736,600
Total revenues under expenditures	\$ (15,129,660)	\$ (8,278,012)	\$ (2,929,682)	\$ (11,207,694)
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of bonds	\$ 5,590,415	\$ 5,590,415	\$ -	\$ 5,590,415
Developer contributions	3,573,500	3,449,276	200,000	3,649,276
Appropriated fund balance	5,965,745	-	-	-
Total other financing sources	\$ 15,129,660	\$ 9,039,691	\$ 200,000	\$ 9,239,691
Unexpended revenues and receipts	\$ -	\$ 761,679	\$ (2,729,682)	\$ (1,968,003)

## CITY OF SALISBURY, NORTH CAROLINA

## MASS TRANSIT FUND

SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)For the Year Ended June 30, 2005  
With Comparative Actual Amounts for Year Ended June 30, 2004

	2005			2004
	Budget	Actual	Variance with Budget Positive (Negative)	Actual
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 70,000	\$ 64,225	\$ (5,775)	\$ 64,571
Other operating revenues	<u>5,000</u>	<u>1,860</u>	<u>(3,140)</u>	<u>3,811</u>
Total operating revenues	<u>\$ 75,000</u>	<u>\$ 66,085</u>	<u>\$ (8,915)</u>	<u>\$ 68,382</u>
<b>OPERATING EXPENDITURES OTHER THAN DEPRECIATION:</b>				
Management and administration	\$ 139,656	\$ 133,688	\$ 5,968	\$ 138,362
Mass transit operations	<u>540,485</u>	<u>541,617</u>	<u>(1,132)</u>	<u>507,490</u>
Total operating expenditures other than depreciation	<u>\$ 680,141</u>	<u>\$ 675,305</u>	<u>\$ 4,836</u>	<u>\$ 645,852</u>
<b>NONOPERATING REVENUES (EXPENDITURES):</b>				
Intergovernmental	\$ 1,453,234	\$ 1,427,045	\$ (26,189)	\$ 372,506
Interest on investments	1,000	366	(634)	1,670
Capital outlay	<u>(1,148,262)</u>	<u>(1,138,845)</u>	<u>9,417</u>	<u>-</u>
Total nonoperating revenues	<u>\$ 305,972</u>	<u>\$ 288,566</u>	<u>\$ (17,406)</u>	<u>\$ 374,176</u>
Revenues over (under) expenditures	<u>\$ (299,169)</u>	<u>\$ (320,654)</u>	<u>\$ (21,485)</u>	<u>\$ (203,294)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Appropriated fund balance	\$ 125,599	\$ -	\$ (125,599)	\$ -
Operating transfers in:				
General fund	<u>173,570</u>	<u>173,570</u>	<u>-</u>	<u>160,282</u>
Total other financing sources (uses)	<u>\$ 299,169</u>	<u>\$ 173,570</u>	<u>\$ (125,599)</u>	<u>\$ 160,282</u>
<b>REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>				
	<u>\$ -</u>	<u>\$ (147,084)</u>	<u>\$ (147,084)</u>	<u>\$ (43,012)</u>
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:</b>				
Excess of expenses over revenues, above		\$ (147,084)		
Depreciation		(140,473)		
Capital outlay		1,138,845		
Vacation pay		<u>(2,121)</u>		
Change in net assets		<u>\$ 849,167</u>		



---

# **Internal Service Funds**

---

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, 2005

With Comparative Totals at June 30, 2004

<u>ASSETS</u>	<u>Workers'</u> <u>Compensation</u>	<u>Employee</u> <u>Health Care</u>	<u>Totals</u>	
			<u>2005</u>	<u>2004</u>
CURRENT ASSETS				
Cash and investments	\$ 205,617	\$ 757,279	\$ 962,896	\$ 548,627
Interest receivable	<u>1,507</u>	<u>5,754</u>	<u>7,261</u>	<u>1,977</u>
Total assets	<u>\$ 207,124</u>	<u>\$ 763,033</u>	<u>\$ 970,157</u>	<u>\$ 550,604</u>
<u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 5,858	\$ 515,222	\$ 521,080	\$ 471,063
NET ASSETS	<u>201,266</u>	<u>247,811</u>	<u>449,077</u>	<u>79,541</u>
Total liabilities and net assets	<u>\$ 207,124</u>	<u>\$ 763,033</u>	<u>\$ 970,157</u>	<u>\$ 550,604</u>

## CITY OF SALISBURY, NORTH CAROLINA

## INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND BALANCESFor the Year Ended June 30, 2005  
With Comparative Totals For The Year Ended June 30, 2004

	Workers' Compensation	Employee Health Care	Totals	
			2005	2004
OPERATING REVENUES:				
Charges for services	\$ 345,100	\$ 3,246,706	\$ 3,591,806	\$ 3,498,244
OPERATING EXPENSES:				
Employee benefits	<u>154,272</u>	<u>3,082,898</u>	<u>3,237,170</u>	<u>3,205,108</u>
OPERATING INCOME	\$ 190,828	\$ 163,808	\$ 354,636	\$ 293,136
NONOPERATING REVENUES				
Interest earned on investments	<u>2,289</u>	<u>12,611</u>	<u>14,900</u>	<u>4,554</u>
NET INCOME	\$ 193,117	\$ 176,419	\$ 369,536	\$ 297,690
NET ASSETS (DEFICIT), BEGINNING	<u>8,149</u>	<u>71,392</u>	<u>79,541</u>	<u>(218,149)</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ 201,266</u>	<u>\$ 247,811</u>	<u>\$ 449,077</u>	<u>\$ 79,541</u>



## CITY OF SALISBURY, NORTH CAROLINA

## INTERNAL SERVICE FUNDS

## COMBINING STATEMENT OF CASH FLOWS

**For the Year Ended June 30, 2005**  
**With Comparative Totals For The Year Ended June 30, 2004**

	<b>Workers'</b>	<b>Employee</b>	<b>Totals</b>	
			<b>Compensation</b>	<b>Health Care</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from interfund services provided	\$ 345,100	\$ 3,246,706	\$ 3,591,806	\$ 3,498,244
Cash paid for goods and services	<u>(160,347)</u>	<u>(3,026,806)</u>	<u>(3,187,153)</u>	<u>(3,136,822)</u>
Net cash provided by operating activities	<u>\$ 184,753</u>	<u>\$ 219,900</u>	<u>\$ 404,653</u>	<u>\$ 361,422</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment earnings	<u>\$ 922</u>	<u>\$ 8,694</u>	<u>\$ 9,616</u>	<u>\$ 3,040</u>
Net increase in cash and cash equivalents	\$ 185,675	\$ 228,594	\$ 414,269	\$ 364,462
Balances-beginning of the year	<u>19,942</u>	<u>528,685</u>	<u>548,627</u>	<u>184,165</u>
Balances-end of the year	<u>\$ 205,617</u>	<u>\$ 757,279</u>	<u>\$ 962,896</u>	<u>\$ 548,627</u>



---

---

# Agency Funds

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.

## CITY OF SALISBURY, NORTH CAROLINA

## AGENCY FUNDS

## COMBINING BALANCE SHEET

June 30, 2005

With Comparative Totals at June 30, 2004

	Agency			Totals	
	Boards and Commissions	Municipal	East Spencer Utility Fund	2005	2004
		Service District			
<u>ASSETS</u>					
Cash and investments	\$ 2,692	\$ 1,815	\$ 73,918	\$ 78,425	\$ 59,255
Accounts receivable	39	4,854	89,711	94,604	156,985
Interest receivable	-	-	-	-	13
Total assets	<u>\$ 2,731</u>	<u>\$ 6,669</u>	<u>\$ 163,629</u>	<u>\$ 173,029</u>	<u>\$ 216,253</u>
<u>LIABILITIES</u>					
LIABILITIES					
Accounts payable and accrued liabilities	<u>\$ 2,731</u>	<u>\$ 6,669</u>	<u>\$ 163,629</u>	<u>\$ 173,029</u>	<u>\$ 216,253</u>

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2005

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>BOARDS AND COMMISSIONS FUND:</u>				
ASSETS				
Cash and investments	\$ 2,219	\$ 473	\$ -	\$ 2,692
Accounts receivable	<u>-</u>	<u>39</u>	<u>-</u>	<u>39</u>
Total assets	<u>\$ 2,219</u>	<u>\$ 512</u>	<u>\$ -</u>	<u>\$ 2,731</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ 2,219</u>	<u>\$ 512</u>	<u>\$ -</u>	<u>\$ 2,731</u>
 <u>MUNICIPAL SERVICE DISTRICT FUND:</u>				
ASSETS				
Cash and investments	\$ 550	\$ 1,265	\$ -	\$ 1,815
Accounts receivable	4,589	265	-	4,854
Interest receivable	<u>13</u>	<u>-</u>	<u>13</u>	<u>-</u>
Total assets	<u>\$ 5,152</u>	<u>\$ 1,530</u>	<u>\$ 13</u>	<u>\$ 6,669</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ 5,152</u>	<u>\$ 1,517</u>	<u>\$ -</u>	<u>\$ 6,669</u>
 <u>EAST SPENCER UTILITY FUND:</u>				
ASSETS				
Cash and investments	\$ 56,486	\$ 17,432	\$ -	\$ 73,918
Accounts receivable	<u>152,396</u>	<u>-</u>	<u>62,685</u>	<u>89,711</u>
Total Assets	<u>\$ 208,882</u>	<u>\$ 17,432</u>	<u>\$ 62,685</u>	<u>\$ 163,629</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ 208,882</u>	<u>\$ -</u>	<u>\$ 45,253</u>	<u>\$ 163,629</u>
 <u>TOTAL AGENCY FUNDS:</u>				
ASSETS				
Cash and investments	\$ 59,255	\$ 19,170	\$ -	\$ 78,425
Accounts receivable	156,985	265	62,685	94,565
Interest receivable	<u>13</u>	<u>-</u>	<u>13</u>	<u>-</u>
Total assets	<u>\$ 216,253</u>	<u>\$ 19,435</u>	<u>\$ 62,698</u>	<u>\$ 172,990</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ 216,253</u>	<u>\$ 2,029</u>	<u>\$ 45,253</u>	<u>\$ 173,029</u>

---

# **Other Schedules**

---







## CITY OF SALISBURY, NORTH CAROLINA

## ANALYSIS OF CURRENT TAX LEVY

For the Year Ended June 30, 2005

	City Wide			Total Levy	
	Property	Rate	Total Levy	Property	Registered
	Valuation			Excluding	Registered
			Motor	Motor	
			Vehicles	Vehicles	
ORIGINAL LEVY					
Property taxed at current year's rates	\$ 2,155,503,723	\$ 0.615	\$ 13,256,342	\$ 12,641,461	\$ 614,881
Registered motor vehicles taxed at prior year's rates	70,903,169	0.580	411,232		411,232
Auto registration fee			131,510		131,510
Penalties			6,445	11,486	
TOTAL	\$ 2,226,406,892		\$ 13,805,529	\$ 12,647,906	\$ 1,157,623
DISCOVERY					
Current year rates	1,983,622		12,199	11,412	787
Prior years rates			77,268	77,268	
Penalties			5,741	5,741	
TOTAL			\$ 95,208	\$ 94,421	\$ 787
ABATEMENTS	(23,232,609)		\$ (142,747)	\$ (120,136)	\$ (22,611)
TOTAL PROPERTY VALUATION	<u>\$ 2,205,157,905</u>				
NET LEVY			\$ 13,757,990	\$ 12,622,191	\$ 1,135,799
Less uncollected tax at June 30, 2004			337,835	195,295	142,580
CURRENT YEAR'S TAXES COLLECTED			<u>\$ 13,420,155</u>	<u>\$ 12,426,896</u>	<u>\$ 993,219</u>
PERCENT OF CURRENT YEAR COLLECTED			<u>97.54%</u>	<u>98.45%</u>	<u>87.45%</u>

---

# Statistical Section

---



**Table 1**

**CITY OF SALISBURY, NORTH CAROLINA  
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION<sup>(1)</sup>**

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>General Government</b>	<b>Public Safety</b>	<b>Transportation</b>	<b>Environmental Protection</b>	<b>Culture and Recreation</b>	<b>Community and Economic Development</b>	<b>Education</b>	<b>Debt Service</b>	<b>Total</b>
2005	\$ 6,201,936	\$ 10,717,282	\$ 3,636,014	\$ 1,902,570	\$ 2,495,888	\$ 2,074,433	\$ 42,342	\$ 939,295	\$28,009,760
2004	7,942,599	10,095,655	3,600,475	1,671,908	2,568,374	2,374,662	42,342	897,187	29,193,202
2003	4,704,820	9,850,071	4,117,773	1,561,086	2,195,856	3,002,561	42,342	1,034,729	26,509,238
2002	5,360,451	8,941,298	2,978,265	1,406,346	2,666,102	2,168,981	42,342	1,055,069	24,618,854
2001	5,336,349	8,860,001	3,721,416	1,413,534	4,272,125	2,021,636	42,342	1,007,243	26,674,646
2000	5,418,892	8,938,838	3,094,241	1,394,724	2,850,649	2,521,984	42,342	836,885	25,098,555
1999	4,856,896	8,113,842	3,237,416	1,470,108	3,271,023	1,932,935	42,342	783,462	23,708,024
1998	4,403,617	6,900,177	3,047,455	1,331,161	3,931,369	2,219,221	42,342	617,008	22,492,350
1997	3,610,184	7,735,362	3,868,084	1,291,270	2,130,301	1,351,865	42,342	981,853	21,011,261
1996	3,925,599	6,457,849	2,733,043	1,272,247	1,728,392	1,280,196	42,341	591,422	18,031,089

<sup>(1)</sup> Includes General, Special Revenue, and Capital Projects

**Table 2**

**CITY OF SALISBURY, NORTH CAROLINA  
GENERAL GOVERNMENTAL REVENUES BY SOURCE<sup>(1)</sup>**

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Taxes</b>	<b>Licenses and Permits</b>	<b>Inter- governmental</b>	<b>Miscellaneous</b>	<b>Charges for Services</b>	<b>Administrative Charges</b>	<b>Total</b>
2005	\$ 18,093,101	\$ 589,274	\$ 4,960,170	\$ 918,492	\$ 2,216,314	\$ 1,711,559	\$ 28,488,910
2004	16,749,950	538,560	5,219,310	894,369	2,080,488	1,743,053	27,225,730
2003	14,579,428	551,498	5,998,089	621,598	2,257,355	1,660,050	25,668,018
2002	14,209,224	550,831	4,055,323	1,414,002	1,721,919	1,581,000	23,532,299
2001	14,066,947	533,554	6,313,050	2,595,501	1,783,086	1,505,714	26,797,852
2000	13,331,647	441,422	5,845,542	1,488,094	1,545,522	1,519,860	24,172,087
1999	12,060,778	466,325	5,308,227	1,647,201	1,520,687	1,299,875	22,303,093
1998	10,812,490	427,718	5,022,098	1,173,299	1,416,622	1,207,500	20,059,727
1997	10,039,452	433,327	5,597,640	1,587,559	1,211,586	1,150,000	20,019,564
1996	9,575,016	365,826	4,711,430	1,364,885	1,035,203	1,073,975	18,126,335

<sup>(1)</sup> Includes General, Special Revenue, and Capital Projects

**Table 3**

**CITY OF SALISBURY, NORTH CAROLINA**

**TAX REVENUE BY SOURCE<sup>(1)</sup>**

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Total Taxes</b>	<b>General Property Taxes</b>	<b>Sales Taxes</b>	<b>Other Taxes</b>
2005	\$ 18,093,101	\$ 13,785,988	\$ 4,306,693	\$ 420
2004	16,749,950	12,517,202	4,232,240	536
2003	14,579,428	11,197,014	3,381,878	536
2002	14,209,224	11,096,849	3,111,802	573
2001	14,066,947	10,719,438	3,346,897	612
2000	13,331,647	10,127,787	3,203,181	679
1999	12,060,778	8,968,909	3,091,079	816
1998	10,812,490	7,964,079	2,847,595	816
1997	10,039,452	7,445,338	2,593,133	981
1996	9,575,016	7,276,360	2,298,427	229

<sup>(1)</sup> Includes General, Special Revenue, and Capital Projects

**Table 4**

**CITY OF SALISBURY, NORTH CAROLINA  
PROPERTY TAX LEVIES, TAX COLLECTIONS AND CREDITS**

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Tax Year</b>	<b>Total Current Year Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Taxes Collected</b>	<b>Total Tax Collections</b>	<b>Ratio of Total Tax Collections to Tax Levy</b>	<b>Outstanding Delinquent Taxes</b>	<b>Ratio of Delinquent Taxes to Tax Levy</b>
2005	2004	\$ 13,757,990	\$ 13,420,155	97.54%	\$ 13,843,968	100.62%	\$ 716,553	5.21%
2004	2003	12,642,260	12,235,549	96.78%	12,537,615	99.17%	828,739	6.56%
2003	2002	11,255,029	10,892,049	96.77%	11,206,513	99.57%	740,016	6.57%
2002	2001	11,190,087	10,823,799	96.73%	11,203,868	100.12%	706,800	6.32%
2001	2000	10,928,747	10,553,137	96.56%	10,743,443	98.30%	731,666	6.69%
2000	1999	10,228,809	10,007,793	97.84%	10,314,522	100.84%	561,060	7.09%
1999	1998	9,271,351	8,926,885	96.28%	9,164,917	98.85%	657,781	6.91%
1998	1997	8,059,604	7,815,549	96.97%	8,110,009	100.63%	557,299	7.71%
1997	1996	7,797,861	7,519,419	96.43%	7,741,174	99.27%	601,439	7.62%
1996	1995	7,529,260	7,265,209	96.49%	7,446,494	98.90%	573,838	7.00%



**Table 5**

**CITY OF SALISBURY, NORTH CAROLINA  
 ASSESSED 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 Property</b>	<b>Total</b>
2005	\$ 1,728,892,388	\$ 414,804,226	\$ 61,461,291	\$ 2,205,157,905
2004	1,686,507,911	419,625,418	65,288,150	2,171,421,479
2003	1,399,477,044	398,430,259	64,817,634	1,862,724,937
2002	1,381,515,869	405,754,659	67,540,438	1,854,810,966
2001	1,337,944,798	417,818,187	64,805,231	1,820,568,216
2000	1,287,042,497	409,874,134	67,811,314	1,764,727,945
1999	1,042,366,457	382,196,263	57,889,345	1,482,452,065
1998	967,242,955	357,072,088	57,825,316	1,382,140,359
1997	933,861,596	328,554,542	56,458,430	1,318,874,568
1996	922,430,180	299,703,247	58,451,552	1,280,584,979

Note: The levy of property taxes each year is based on the assessed value of taxable property as of January 1 preceding the beginning of the fiscal year on July 1. All taxable property is assessed at one hundred percent (100%) of its estimated actual value at time of revaluation. Revaluation of real property is required every eight years by North Carolina General Statutes. However, tax authorities may establish more frequent revaluation schedules. Rowan County completes revaluation every four years. Revaluation was completed for the levy of taxes in the year ended June 30, 2000. The assessment of taxable property being assessed after revaluation is accomplished in accordance with North Carolina G.S. 105.287.

**Table 6**

**CITY OF SALISBURY, NORTH CAROLINA  
PROPERTY TAX LEVIES AND TAX RATES -  
DIRECT AND OVERLAPPING GOVERNMENTS**

**Last Ten Fiscal Years**

<b>Tax Levies</b>				
<b>City of Salisbury</b>				
<b>Fiscal Year</b>	<b>Municipal Service</b>		<b>Total</b>	<b>Rowan County</b>
	<b>General Fund</b>	<b>District Fund</b>		
2005	\$ 13,757,990	\$ 110,204	\$ 13,868,194	\$ 59,283,565
2004	12,642,260	109,671	12,751,931	56,623,124
2003	11,255,029	90,170	11,345,199	51,720,546
2002	11,190,087	89,403	11,279,490	49,584,717
2001	10,928,747	89,403	11,018,150	47,994,399
2000	10,151,282	77,527	10,228,809	46,804,751
1999	9,205,214	66,137	9,271,351	38,247,341
1998	7,993,286	66,318	8,059,604	36,540,706
1997	7,731,552	66,309	7,797,861	33,990,225
1996	7,449,694	79,566	7,529,260	34,729,278
<b>Tax Rates</b>				
2005	.615	.16	.775	.6300
2004	.580	.16	.740	.6300
2003	.600	.16	.760	.6350
2002	.600	.16	.760	.6350
2001	.600	.16	.760	.6350
2000	.570	.16	.730	.6350
1999	.620	.16	.780	.6375
1998	.575	.16	.735	.6375
1997	.575	.16	.735	.6375
1996	.575	.16	.735	.6375

Note: Tax rate is per \$100 assessed valuation.  
Source: Rowan County Tax Collector.

**Table 7**

**CITY OF SALISBURY, NORTH CAROLINA**

**COMPUTATION OF DIRECT AND OVERLAPPING DEBT<sup>(1)</sup>**

**For the Year Ended June 30, 2005**

	<u>Net General Obligation Debt Outstanding</u>	<u>Percentage Applicable to City of Salisbury</u>	<u>City of Salisbury's Share of Debt</u>
City of Salisbury	\$ 2,265,000	100.00%	\$ 2,265,000
Rowan County <sup>(2)</sup>	100,975,000	23.45%	<u>23,678,638</u>
Total direct and overlapping debt			<u>\$ 25,943,638</u>

<sup>(1)</sup> Based on assessed valuation.

<sup>(2)</sup> Net debt and assessed valuation figures provided by Rowan County.

Table 8

CITY OF SALISBURY, NORTH CAROLINA  
COMPUTATION OF LEGAL DEBT MARGIN  
For the Year Ended June 30, 2005

ASSESSED VALUE		\$ 2,205,157,905
		<u>X</u> .08
Debt limit 8 percent of assessed value		\$ 176,412,632
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 14,199,124	
Less water general obligation debt	(2,200,000)	
Total capitalized lease and installment purchase obligations	<u>7,226,919</u>	
		<u>19,226,043</u>
Total amount of debt applicable to debt limit		<u>19,226,043</u>
LEGAL DEBT MARGIN		<u>\$ 157,186,589</u>

Table 9

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF PRINCIPAL TAXPAYERS

For the Year Ended June 30, 2005

<u>Business</u>	<u>Type of Enterprise</u>	<u>2004 Assessed Valuation</u>	<u>Percentage Value of Total</u>
Food Lion, Inc.	Commercial	\$ 93,144,719	4.22%
Heritage Realty Limited Partnership	Real Estate	27,314,405	1.24%
Duke Energy Corp.	Utility	22,783,715	1.03%
ICI Americas	Industrial	20,879,909	0.95%
Norandal USA	Industrial	18,022,680	0.82%
Bellsouth Telephone	Communication	17,246,016	0.78%
Rowan Regional Medical Center	Hospital	16,813,822	0.76%
Salisbury Mall Ltd.	Commercial	13,600,000	0.62%
Wal-Mart Stores	Retail	13,422,932	0.61%
Piedmont Natural Gas	Utility	<u>10,653,761</u>	<u>0.48%</u>
Totals		<u>\$ 253,881,959</u>	<u>11.51%</u>

**Table 10**

**CITY OF SALISBURY, NORTH CAROLINA**

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES**

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>	<b>Total General Expenditures<sup>(1)</sup></b>	<b>Ratio of Debt Service to Total General Expenditures</b>
2005	\$ 630,890	\$ 308,405	\$ 939,295	\$ 28,009,760	3.35 %
2004	646,750	250,437	897,187	29,193,202	3.07
2003	774,176	260,553	1,034,729	26,509,238	3.90
2002	764,467	290,602	1,055,069	24,618,854	4.29
2001	707,050	300,193	1,007,243	26,674,646	3.78
2000	586,081	250,804	836,885	25,098,555	3.33
1999	532,214	251,248	783,462	23,708,024	3.30
1998	417,200	199,808	617,008	22,492,350	2.74
1997	867,964	113,889	981,853	21,011,261	4.67
1996	504,210	87,212	591,422	18,031,089	3.28

<sup>(1)</sup> Includes General, Special Revenue, and Capital Project Funds.

**Table 11**  
**CITY OF SALISBURY, NORTH CAROLINA**  
**RATIO OF NET GENERAL BONDED DEBT**  
**TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA**

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Population<sup>(1)</sup></b>	<b>Assessed Value</b>	<b>Debt Payable</b>			<b>Ratio of Net Bonded Debt to Assessed Value</b>	<b>Net Bonded Debt per Capita</b>
			<b>Gross Bonded Debt<sup>(2)</sup></b>	<b>From Enterprise Revenues</b>	<b>Net Bonded Debt</b>		
2005	28,249	\$ 2,205,157,905	\$ 14,199,124	\$ 11,934,124	\$ 2,265,000	0.10%	\$ 80.18
2004	28,199	2,171,421,479	15,750,537	13,285,537	2,465,000	0.11%	87.41
2003	28,199	1,862,724,937	17,450,000	14,805,000	2,645,000	0.14%	93.80
2002	26,559	1,854,810,966	18,905,000	16,080,000	2,825,000	0.15%	106.37
2001	26,462	1,820,568,216	20,385,000	17,360,000	3,025,000	0.17%	114.31
2000	27,500	1,763,159,954	21,870,000	18,645,000	3,225,000	0.18%	117.27
1999	26,792	1,482,452,065	23,360,000	19,935,000	3,425,000	0.23%	127.84
1998	26,884	1,382,140,359	24,860,000	21,235,000	3,625,000	0.26%	134.84
1997	26,177	1,314,039,114	19,055,000	18,330,000	725,000	0.06%	27.70
1996	24,543	1,280,584,979	20,200,000	19,375,000	825,000	0.06%	33.61

<sup>(1)</sup> Source: North Carolina Office of State Planning

<sup>(2)</sup> Includes all long-term general obligation debt

**Table 12**

**CITY OF SALISBURY, NORTH CAROLINA**

**PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS**

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30</b>	<b>Total Assessed Valuation</b>	<b>Commercial Construction<sup>(a)</sup></b>		<b>Residential Construction<sup>(a)</sup></b>		<b>Bank Deposits</b>
		<b>Number of Units</b>	<b>Value</b>	<b>Number of Units</b>	<b>Value</b>	
2005	\$ 2,205,157,905	22	\$ 218,096,000	120	\$ 21,394,000	\$ 1,258,071,000
2004	2,171,421,479	41	11,734,534	175	18,038,307	1,221,348,000
2003	1,862,724,937	19	11,363,500	195	21,796,726	1,190,201,000
2002	1,854,810,966	26	21,142,500	240	30,618,254	1,222,828,000
2001	1,820,568,216	35	17,230,344	242	21,918,930	1,161,275,000
2000	1,763,159,954	46	28,855,510	264	26,182,209	1,087,668,000
1999	1,482,452,065	66	13,265,850	261	30,996,550	1,067,149,000
1998	1,382,140,359	35	37,851,200	198	29,092,935	1,031,749,000
1997	1,314,039,114	28	25,472,369	149	18,103,685	1,031,185,000
1996	1,280,584,979	33	24,172,109	202	16,241,270	973,835,000

<sup>(a)</sup> City of Salisbury, Developmental Services Department



**Table 13**

**CITY OF SALISBURY, NORTH CAROLINA**

**MISCELLANEOUS STATISTICS**

**June 30, 2005**

Date Established	1753
Form of Government	Council/Manager
Area	19.95 Sq. Miles
Miles of Streets	158.85
Fire Protection:	
Number of Stations	3
Number of Firefighters	66
Number of Office Personnel	1
Police Protection:	
Number of Stations	1
Number of Police Officers	78
Number of Auxiliary Police Officers	6
Number of Civilians	20
Water and Sewer Utility:	
Number of Utility Customers	15,360
Average Daily Consumption	6.1 Million Gallons
Miles of Water lines	476
Miles of Sewer lines	483
Number of Cemeteries	7
Business Licenses Issued	3,827
Recreation Facilities:	
Number of Parks	15
Number of Recreation Centers	4
Number of Tennis Facilities	2
Number of Acres	505
Employees:	
Full-Time	422
Temporary Full-Time	26
Temporary Part-Time	25

Table 14

CITY OF SALISBURY, NORTH CAROLINA

DEMOGRAPHIC STATISTICS

For the Year Ended June 30, 2005

<u>Fiscal Year</u>	<u>Population Estimate (1)</u>	<u>Per Capita Income (2)</u>	<u>Median Age (2)</u>	<u>Unemployment Rate (3)</u>
2005	28,249	\$19,825	37.7	6.0%
2004	28,199	19,626	37.5	9.0%
2003	28,199	19,433	37.3	5.7%
2002	26,559	19,241	37.3	5.7%
2001	26,462	18,864	37.1	6.5%
2000	27,500	23,634	38.8	3.8%
1999	26,792	22,509	38.7	3.4%
1998	26,884	21,631	38.5	3.0%
1997	26,177	20,787	38.3	2.9%
1996	24,543	19,976	38.1	3.6%

Sources:

- (1) 2002-2005; North Carolina Office of State Budget and Management  
2001; U. S. Census  
1996-2000; North Carolina Office of State Planning
- (2) 2002-2005; City of Salisbury Planning Division (estimate)  
2001; U. S. Census  
1996-2000; City of Salisbury Planning Division (estimate)
- (3) N.C. Employment Security Commission  
Note: Figures are for Rowan County

---

# **Compliance Section**

---





---

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

---

*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 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, 2005, which collectively comprises the City of Salisbury's basic financial statements, and have issued our report thereon dated August 12, 2005. We did not audit the financial statements of Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates 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. The financial statements of Downtown Salisbury, Inc. were not audited in accordance with *Government Auditing Standards*.

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

In planning and performing our audit, we considered the City of Salisbury's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### **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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, members of City Council, 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.

August 12, 2005



---

Martin Starnes & Associates, CPAs, P.A.

---

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO 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 are applicable to each of its major federal programs for the year ended June 30, 2005. 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, 2005.

## Internal Control Over Compliance

The management of the City of Salisbury, North Carolina 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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.  
August 12, 2005





---

Martin Starnes & Associates, CPAs, P.A.

---

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO 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 *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2005. 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, 2005.

## Internal Control Over Compliance

The management of the City of Salisbury, North Carolina 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, North Carolina'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 an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of 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.  
August 12, 2005

**CITY OF SALISBURY, NORTH CAROLINA**

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

**Year Ended June 30, 2005**

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>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>					
Department of Homeland Security					
Direct Program:					
Assistance to Firefighters Grant	97.044	EMW-2003-FG-06278	\$ 1,518	\$ -	\$ 169
Assistance to Firefighters Grant	97.044	EMW-2004-FG-01242	<u>207,014</u>	<u>-</u>	<u>23,002</u>
			<u>\$ 208,532</u>	<u>\$ -</u>	<u>\$ 23,171</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-01-MC-37-0015	\$ 47,363	\$ -	\$ -
Entitlement Program	14.218	B-02-MC-37-0015	14,497		
Entitlement Program	14.218	B-03-MC-37-0015	101,746		
Entitlement Program	14.218	B-04-MC-37-0015	<u>345,217</u>	<u>-</u>	<u>-</u>
			<u>\$ 508,823</u>	<u>\$ -</u>	<u>\$ -</u>
Pass-through N.C. Department of Housing					
Finance Agency HOME Program	14.239	R-90-SG-37-0117	\$ 189,096	\$ -	\$ 327,768
Total U.S. Department of Housing And Urban Development			<u>\$ 697,919</u>	<u>\$ -</u>	<u>\$ 327,768</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>					
Bureau of Justice Assistance					
Direct Program:					
Local Law Enforcement Block Grant	16.592	2002-LB-BX-2090	\$ 40,538	\$ -	\$ 4,504
Local Law Enforcement Block Grant	16.592	2003-LB-BX-1189	<u>5,631</u>	<u>-</u>	<u>626</u>
			<u>\$ 46,169</u>	<u>\$ -</u>	<u>\$ 5,130</u>
Total U.S. Department of Justice			<u>\$ 46,169</u>	<u>\$ -</u>	<u>\$ 5,130</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>					
Pass-through N.C. Department of Transportation:					
Urban Mass Transportation Grants					
Capital	20.507	36233.25.5.3	\$ 907,857	\$ 113,482	\$ 113,482
Urban Mass Transportation Grants					
Administration	20.507	36233.25.6.1	\$ 104,653	\$ 6,540	\$ 19,623
Operating	20.507	36233.25.6.2	<u>120,943</u>	<u>-</u>	<u>404,896</u>
			<u>\$ 225,596</u>	<u>\$ 6,540</u>	<u>\$ 424,519</u>

**CITY OF SALISBURY, NORTH CAROLINA**

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

**Year Ended June 30, 2005  
(Continued)**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
U.S. DEPARTMENT OF TRANSPORTATION - (continued)					
Highway Planning and Construction					
Passed-through N. C. Department of Transportation Transportation Enhancement Program	20.205	E-4551	\$ 55,167	\$ -	\$ 32,400
Total U.S. Department of Transportation			\$ 1,188,620	\$ 120,022	\$ 570,401
TOTAL ASSISTANCE - FEDERAL PROGRAMS			\$ 2,141,240	\$ 120,022	\$ 926,470
STATE GRANTS:					
CASH PROGRAMS					
N.C. DEPARTMENT OF TRANSPORTATION					
Powell Bill	N/A		\$ -	\$ 932,332	\$ -
State Maintenance Assistance for Transit Systems	N/A	04-CTP-003	\$ -	\$ 173,570	\$ -
Total N. C. Department of Transportation			\$ -	\$ 1,105,902	\$ -
N.C. DEPARTMENT OF CRIME CONTROL & PUBLIC SAFETY					
Division of Governor's Crime Commission Project SAFE Neighborhoods Resource Coordinator		080-1-03-001-2-137	\$ -	\$ 23,421	\$ -
TOTAL ASSISTANCE - STATE PROGRAMS			\$ -	\$ 1,129,323	\$ -
TOTAL ASSISTANCE			\$ 2,141,240	\$ 1,249,345	\$ 926,470

**CITY OF SALISBURY, NORTH CAROLINA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Year Ended June 30, 2005**

---

**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 COMPLIANCE FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2005**

**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
- Reportable condition(s) identified that are not considered to be material weakness(es)?  Yes  None Reported

Noncompliance material to financial statements noted  Yes  No

Federal Awards

Internal control over major program:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses(es)?  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>
14.218	CDBG Entitlement Program
20.507	Urban Mass Transportation Grants

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
- Reportable condition(s) identified that are not considered to be material weaknesses(es)?  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

**Section II. Findings Related to the Audit of the Basic Financial Statements of City of Salisbury**  
None reported.

**Section III. Federal Award Findings and Questioned Costs**  
None.

**Section IV. State Award Findings and Questioned Costs**  
None.

**CITY OF SALISBURY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2005**

---

There were no prior year audit findings.

