

CITY OF SALISBURY

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2001

MAYOR, CITY COUNCIL, AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

Susan W. Klutz - Mayor

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

William R. Burgin

William R. Kennedy

R. Scott Maddox

OFFICIALS

David W. Treme
City Manager

John A. Sofley, Jr.
Finance Director

Report Prepared By

City Finance Department

John A. Sofley, Jr. - Finance Director

S. Wade Furches - Accounting Manager

Teresa P. Harris – Budget and Performance Management Manager

Mark D. Drye - Productivity Analyst

Renee A. Pierson – Accountant

Myra B. Heard - Finance Specialist

C. Michael Crowell – Technology Services Manager

Dewey D. Peck - Purchasing Agent

Clara A. Bost - Customer Service Supervisor



Introductory Section

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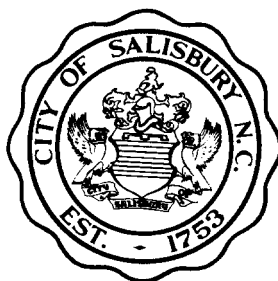
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October 25, 2001

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

We are pleased to submit the Comprehensive Annual Financial Report (Report) of the City of Salisbury (City) for the fiscal year ended June 30, 2001 (FY01). We are particularly proud of the fact this Report has been entirely prepared by the City's Finance 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 McGladrey & Pullen, LLP, an independent firm of certified public accountants, and their opinion is included in the Report.

GENERAL

The financial statements have been prepared in compliance with applicable requirements of the General Statutes of North Carolina and are consistent with the standards and guidelines recognized for governmental accounting and reporting contained in both *Audits of State and Local Governmental Units*, an audit guide prepared by the Committee of Governmental Accounting of the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards*, issued by the Comptroller General of the United States. Among the other resources used in the preparation of the financial statements, the Finance 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 includes this transmittal letter, organizational chart, a list of principal officials, and facts and information about the City. The financial section includes the general purpose financial statements, the combining and individual fund and account group financial statements, and other schedules, as well as the auditor's opinion on the financial statements and schedules. 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 Amendment 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, 2000, 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. Although the nation's economy has slowed during the past fiscal year, the effect on the City has been minimal. Gross retail sales in Salisbury for the twelve months ended June 30, 2001, decreased slightly by 1.3%, or nine million dollars, to \$666,385,246 from the prior fiscal year. Total Rowan County sales decreased by ten million dollars, slightly less than one percent, to \$1,081,783,994. The City has had some recent additions to its largest retail center, which should help to stabilize the City's retail sales until a projected upswing in the economy in 2002.

The prevailing economic conditions have taken a toll on the region's unemployment rates. While Salisbury has typically fared well economically in comparison to many other locales, the area has not been exempt from the rise in unemployment over the past twelve months. The average unemployment rate for Rowan County over the twelve months ended June 30, 2001, was 6.5%, up significantly from 3.8% in 2000. The average unemployment rate for the State of North Carolina was 4.3% during the same period, up from the previous year's rate of 3.2%. The county's high average unemployment rates may be somewhat skewed due to large fluctuations in the monthly totals which were attributable to temporary layoffs. Rowan County's unemployment rate for June 2001 was 4.7%, compared with 5.1% for the state. Other than the layoffs, the unemployment rates have been adversely affected by the closing of several local businesses, particularly in the textile industry.

In contrast to the negative economic news mentioned above, the City's downtown area continues to go against the trend of retail exodus to area malls. The downtown business district is a thriving retail center for area merchants. The City continues to support and encourage the revitalization of the downtown business district that began in the early 1980's. Since that time a total of almost \$60 million has been invested in the redevelopment of Salisbury's downtown. The number of businesses operating in the downtown area increased by three during FY01 and the quality of those businesses has enhanced the downtown retail environment. 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. In these slowing economic conditions, 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

During FY01, the City of Salisbury began and continued several efforts focused on the concerns, wants and needs of its citizens which have been identified in recent Municipal Service Surveys. These efforts were made and accomplished in spite of the difficulties in trying to balance the citizens' needs and attain goals with the limited financial resources available. The City continued to make major strides toward meeting those wants and needs during FY01. Five areas worth noting were the continued progress in the City's improvement of neighborhoods, the construction of a comprehensive sports complex, the accreditation of the Salisbury Parks and Recreation Department, a new working agreement with Rowan County, and continued revitalization of downtown Salisbury.

The improvement of City neighborhoods and communities is one of the foremost goals that came from the City Council's Annual Future Directions and Goal Setting Conference. One of the City's key projects is the revitalization of the Park Avenue neighborhood. In December 2000, the City's Park Avenue Neighborhood Plan won a prestigious first place award from the National League of Cities. The Park Avenue Plan has addressed several of City Council's primary goals: neighborhood improvement, safer communities, affordable housing, improved parks, and better race relations. This project also is a prime example of the City's holistic approach to problem solving in which multiple City departments come together to develop well-rounded and balanced solutions. Projects in the Park Avenue revitalization efforts have included the renovations of homes and an apartment complex, construction of the new Cannon Park, and the clean-up of the Tar Branch creek, which had been used extensively as a dumping site for any type of trash imaginable.

Another of City Council's goals is to provide quality recreation services through attractive, well-maintained parks. The City's Parks and Recreation Department took a major step forward in meeting this goal during FY01. The City officially opened its new 314-acre Salisbury Community Park and Athletic Complex in April 2001. The completed Phase I of the park includes four soccer fields and three baseball/softball fields. Phase II and Phase III, which are almost complete, include a 5-mile trail around an 8.5-acre lake, concessions and restroom facilities, shelters, and additional baseball/softball fields. The park promises to be a big draw for local residents and from visitors for regional sports tournaments.

City Council also desires to maintain the quality management of the City and each of its departments. One way of validating the quality of a City department is to seek national accreditation. Gaining national accreditation was a goal that the Parks and Recreation Department set for itself five years ago. In the fall of 2000, the Salisbury Parks and Recreation Department became only the second such department in North Carolina to earn national accreditation. The department demonstrated the quality of the services it provides by meeting all 153 criteria of the Commission for Accreditation of Park and Recreation Agencies. The evaluation team listed as the department's strengths its strong leadership and staff professionalism, exemplary community support, and outstanding strategic planning.

A major accomplishment of the past fiscal year was an agreement between the City and Rowan County to work together to solve water needs throughout the County. This landmark agreement will go a long way to meet the Council's goal of developing and maintaining a climate of City-County cooperation on projects of mutual interest and concern. The agreement paves the way for the City to provide water to at least one, and maybe two, new electric generating plants and to other municipalities in Rowan County. Therefore, the City will be able to add needed water customers at no cost to ratepayers.

One major step in the redevelopment of the downtown area was the City's purchase of the former Flowers Bakery property in July 1997. During FY01, the City sold the remaining parcels of that property to various developers. These developers have renovated the old, dilapidated warehouses into upscale offices. On a corner lot that was previously vacant, construction is underway on an office building that is designed to look like buildings that were lost during Urban Renewal. This new office building will be a model for future infill construction. Because of these renovations and new development, the City re-couped its entire initial investment in the Flowers Bakery property. Other significant additions to the downtown district in FY01 were renovation of the National Sportscasters and Sportswriters Museum and the construction of the Gateway Building, which houses the Rowan County Chamber of Commerce, the Rowan County Economic Development Commission, and the Rowan County Convention and Visitors Bureau.

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. Approximately \$10 million of investments will be made in the downtown during FY02, including a \$6.5 million renovation of new corporate offices of F & M Bank and an adjacent building that will be renovated for office space. Other future developments include the \$1.2 million renovation of the old McCanless Motor building that will house the Waterworks Visual Arts Center. The City will be busy as well with the development of the Council Street Streetscape, downtown parking, and the Easy Street pedestrian walkway.

As discussed above, the City will be providing water to a new energy plant and to other municipalities in the future. Construction of lines to southern Rowan County will take place during FY02, with hopes of bringing the first town on line by the summer of 2002. Two other municipalities will tie in to the system soon thereafter. The lines to Carolina Power and Light are projected to be in service by March 2003. As part of the construction necessary to accommodate this substantial increase in water sales, the City will also be upgrading its water plant. These and other capital projects will be partially financed by significant contributions from Carolina Power and Light and Rowan County. Other funding will come from the reserves of the Water and Sewer Capital Projects Fund and from the issuance of debt.

The City will continue to implement the Salisbury Vision 2020 Comprehensive Plan in FY02 and for years to come. The Vision 2020 Plan is a policy-based, strategic plan that is nothing less than our community's blueprint for the future. This plan, which builds on the successful completion of the Salisbury 2000 Plan, provides the framework for addressing many issues that will face the City, both now and in the future. The plan seeks to establish standards by which citizens can measure the effectiveness of "Smart Growth" strategies as they are implemented. This plan embodies the direction and desires of citizens from all neighborhoods.

The City will continue to participate in the Benchmarking Project being conducted by the Institute of Government of the University of North Carolina at Chapel Hill. The purpose of this project is to provide an external context in which to examine local government performance. At this point, some police services, street maintenance, residential solid waste collection, and fire services have been and will continue to be evaluated. The City hopes to improve existing service by establishing local government performance measures that can be compared to other municipalities in order to assess our performance. City goal setting, team building, goals evaluation, and determining levels of service will all be enhanced by participating in the implementation of uniform performance measure standards that will allow for a municipality's performance to be assessed.

REPORTING ENTITY

This Report includes all funds, account groups, agencies, commissions, and boards which are dependent on the City or over which the City may exercise control. 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 combined 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, zoning and code enforcement, recreation centers and parks, cemeteries, street maintenance, sanitation, and water and sewer systems.

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 themselves. 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 FY01 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, 2001.

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 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.

In addition to these three fund types, there is a fourth category of accounting entity, the account groups. Account groups are used to establish accounting control and accountability for the government's general fixed assets and the unmatured principal of the general long-term debt. These two account groups do not, however, account for any fixed assets or unmatured principal of any long-term debt for any proprietary fund.

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 at a reasonable cost to the citizens of Salisbury. Additionally, the City's bond rating of "A1" by Moody's Investors Service, Inc. and "A+" by Standard and Poor's Corporation was reaffirmed in March 2001. This is a reflection of the City's continued sound financial condition.

EXHIBIT 1

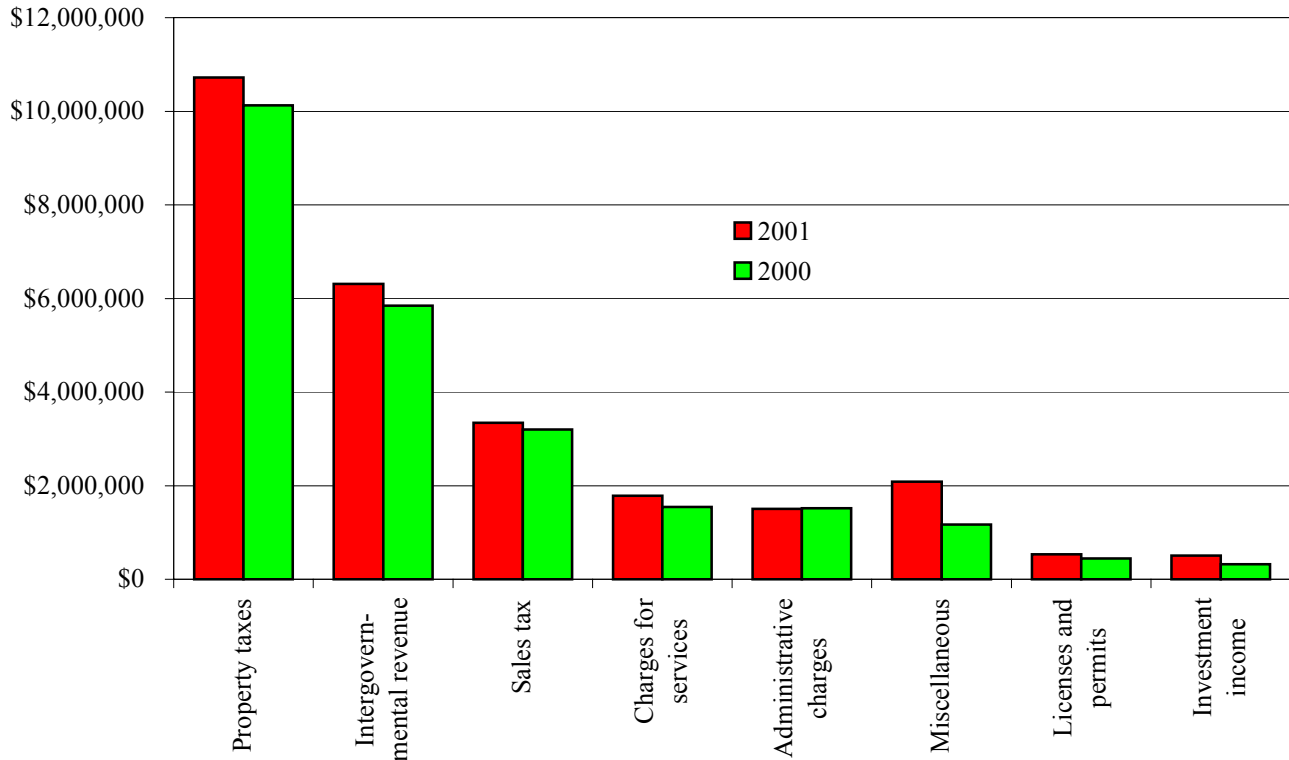
COMPARATIVE SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES GOVERNMENTAL FUNDS

Source	2001		Fiscal Year Ended June 30,		Percent	
	Percent of Total	2001	2000	Increase (Decrease)	Increase (Decrease)	
Property taxes, penalties, interest, and other taxes	38.56%	\$ 10,720,050	\$ 10,128,466	\$ 591,584	5.84%	
Intergovernmental revenue	22.71%	6,313,050	5,845,542	467,508	8.00%	
Sales tax	12.04%	3,346,897	3,203,181	143,716	4.49%	
Charges for services	6.41%	1,783,086	1,545,522	237,564	15.37%	
Administrative charges	5.42%	1,505,714	1,519,860	(14,146)	(0.93%)	
Miscellaneous	7.51%	2,086,805	1,168,321	918,484	78.62%	
Licenses and permits	1.92%	533,554	441,422	92,132	20.87%	
Investment income	1.83%	508,696	319,773	188,923	59.08%	
Total	<u>100.00%</u>	<u>\$ 27,797,852</u>	<u>\$ 24,172,087</u>	<u>\$ 3,625,765</u>	<u>15.00%</u>	

(Derived from Statements B-3, C-2 and D-2)

EXHIBIT 2

**REVENUES AND OTHER FINANCING SOURCES
GOVERNMENTAL FUNDS**



REVENUES - GOVERNMENTAL FUNDS

As illustrated in Exhibits 1 and 2, the \$3,625,765 (15.00%) increase in revenues in the City's governmental funds from FY00 was primarily attributable to the additional property tax revenue, intergovernmental revenue, and miscellaneous revenue.

Property Tax Revenues

In FY00 the combination of a tax rate decrease and revaluation of real property created a “tax rate neutral” year. After the “tax rate neutral” year, the City had a three cent tax rate increase in FY01 to sixty (60) cents per \$100 assessed valuation. This increase was necessary due to needs identified in the Police Department’s Crime Control Plan, personnel needs in the Fire Development, and recommendations from the Neighborhood Improvement Task Force. The increase in the tax rate created additional current tax levy of approximately \$527,000. Another \$250,000 increase in the tax levy over FY00 was the result of the continued, substantial growth of the City’s tax base created by new development. The tax rate for the downtown tax district remained at sixteen (16) cents per \$100 assessed valuation. The tax receipts from the downtown district are utilized by Downtown Salisbury, Inc. for advertising and promotional activities in the district. These tax receipts are accounted for in the Municipal Service District Agency Fund and are not included in Exhibit 1. Total property tax revenue of the City, including prior year collections increased \$591,584 (5.84%).

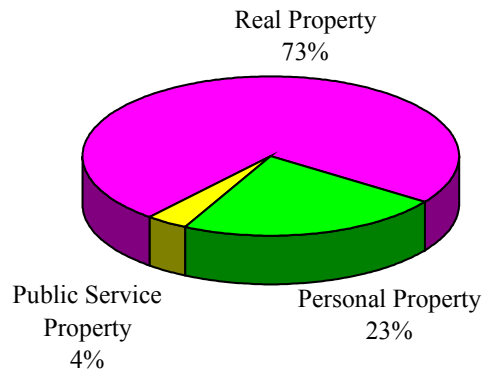
Total assessed valuation increased \$55,840,271 (3.16%) in FY01. Exhibit 3 depicts this increase by types of assessed property, while Exhibit 4 graphically illustrates the City's property tax base.

**EXHIBIT 3
ASSESSED VALUATION**

Source	2001	Fiscal Year Ended June 30,		Increase	Percent
	Percent of Total	2001	2000	(Decrease)	Increase (Decrease)
Real Property	73.49%	\$ 1,337,944,798	\$ 1,287,042,497	\$ 50,902,301	3.95%
Personal Property	22.95%	417,818,187	409,874,134	7,944,053	1.94%
Public Service Property	3.56%	64,805,231	67,811,314	(3,006,083)	(4.43%)
Total	100.00%	\$ 1,820,568,216	\$ 1,764,727,945	\$ 55,840,271	3.16%

(Derived from Table 5)

**EXHIBIT 4
2001 ASSESSED VALUATION**



The percentage of current taxes collected in FY01 decreased slightly from FY00. Exhibit 5 compares collections in FY01 and FY00. When all property tax collections are considered, the rate of collection decreased from 100.84% during FY00 to 98.30% in FY01.

**EXHIBIT 5
TAX COLLECTIONS**

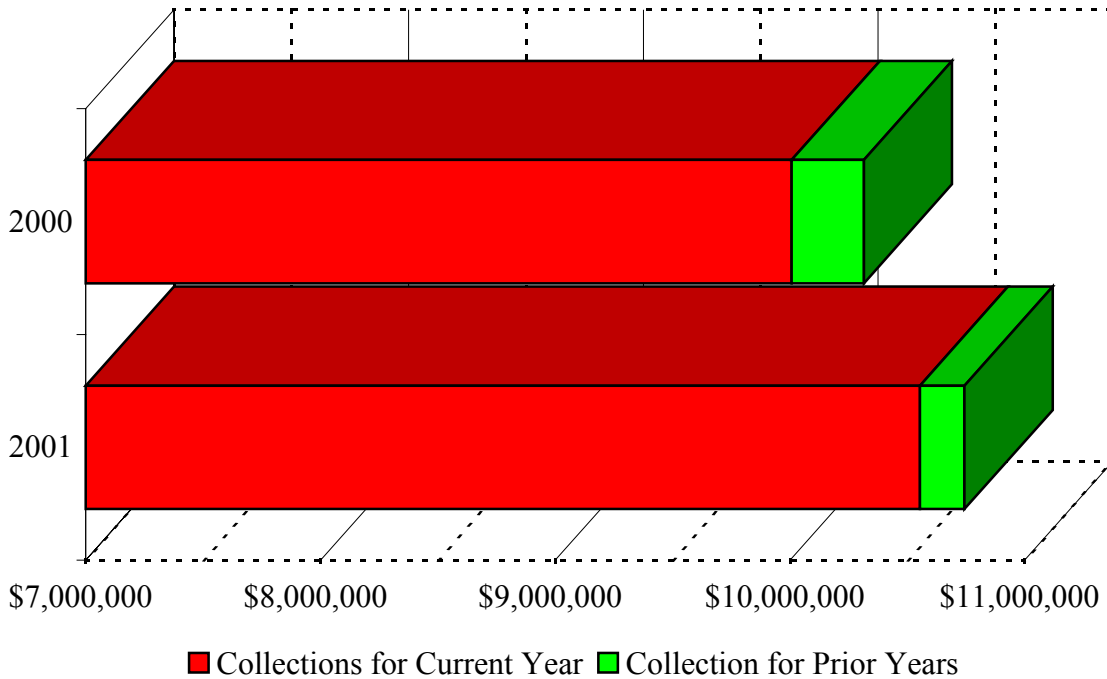
Fiscal Year Ended June 30,	Tax Levy	Percent Collected in Year of Levy	Percent of Total Collected to Tax Levy
2001	\$ 10,928,747	96.56%	98.30%
2000	\$ 10,228,809	97.84%	100.84%

(Derived from Table 4)

Exhibit 6 graphically illustrates tax collections for the two years. The collection effort continues for a ten year period, after which any uncollected amount is written off. In FY01, a total of \$19,833 was written off.

EXHIBIT 6

TOTAL TAX COLLECTIONS BY YEAR



Intergovernmental Revenue

Intergovernmental revenues, which are primarily composed of State-shared revenues, increased \$467,508 (8.00%) over FY00. The most significant reason for this increase is a \$904,563 increase in utilities franchise tax revenue in FY01, which was due to the correction of prior period reporting errors from one of the local utilities. That increase was partially offset by a \$466,668 decrease in community development revenues from the U. S. Department of Housing and Urban Development.

Sales Tax

Sales tax revenue comprises 12.04% of the City's total governmental revenues. This year, sales tax revenue increased \$143,716 (4.49%) from FY00. As discussed earlier, the City's local economy has slowed during the past fiscal year. The resulting decrease in sales tax revenue is expected to materialize during FY02.

Investment Income

Interest earned on investments is an important contributing factor in maintaining a stable tax rate. During FY01, \$508,696 earned on investments was the equivalent of more than 2.7 cents on the local tax rate. The increase of \$188,923 from FY00 was made possible by purchasing several investments, and thereby locking in interest rates, prior to the reduction of interest rates by the federal government.

Other Revenues

Miscellaneous revenues, including sale of property, rental of property, donations, and other unclassified revenues, increased \$918,484 (78.62%) in FY01. The majority of this increase is attributable to a \$796,445 increase in recognized donations for the new Salisbury Community Park. Also, miscellaneous revenues increased in the Special Revenue Fund by \$176,824 due to the increased collections on the City’s deferred loan program.

EXPENDITURES AND OTHER FINANCING USES - GOVERNMENTAL FUNDS

Total expenditures and other financing uses increased \$1,576,091 (6.24%) during FY01. Total expenditures and other financing uses were \$26,834,928, which is approximately \$3.04 million or 10.16% under budget. Although salaries and fringe benefit costs increased throughout the City, these increases were offset by holding the line on operational expenditures.

EXHIBIT 7

**COMPARATIVE SCHEDULE OF EXPENDITURES
AND OTHER FINANCING USES
GOVERNMENTAL FUNDS**

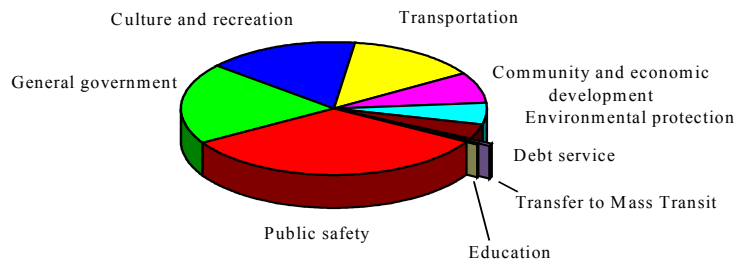
Function	2001		Fiscal Year Ended June 30, 2000	Increase (Decrease)	Percent Increase (Decrease)
	Percent of Total	Total			
Public safety	33.02%	\$ 8,860,001	\$ 8,938,838	\$ (78,837)	(0.88%)
General government	19.89%	5,336,349	5,418,892	(82,543)	(1.52%)
Culture and recreation	15.92%	4,272,125	2,850,649	1,421,476	49.86%
Transportation	13.87%	3,721,416	3,094,241	627,175	20.27%
Community & economic development	7.53%	2,021,636	2,521,984	(500,348)	(19.84%)
Environmental protection	5.27%	1,413,534	1,394,724	18,810	1.35%
Debt service	3.75%	1,007,243	836,885	170,358	20.36%
Transfer to Mass Transit	0.60%	160,282	160,282	-	-
Education	0.15%	42,342	42,342	-	-
Total	100.00%	\$ 26,834,928	\$ 25,258,837	\$ 1,576,091	6.24%

(Derived from Statements B-2, C-2, and D-2)

Exhibit 7 presents a comparison of expenditures by function, while Exhibit 8 graphically illustrates where the expenditures occurred. A brief analysis of major changes follows.

EXHIBIT 8

**EXPENDITURES AND OTHER FINANCING USES
GOVERNMENTAL FUNDS – 2001**



Public Safety

The City's Public Safety programs include police and fire protection for which expenditures decreased \$78,837 (0.88%) in FY01. Total Police Department expenditures increased \$216,134 or 3.9%. This increase is primarily due to an increase in the number of officers over the past two years. The City did receive \$211,392 from two federal grants to offset the costs of hiring these additional officers. Fire Department expenditures decreased by \$294,971, an 8.6% decrease from the previous year. During FY00 the City purchased a new fire truck for \$595,790. The Fire Department did have an increase in expenditures for salaries and related benefits in the amount of \$341,569 (14.5%). As part of the FY01 budget, City Council approved the hiring of three additional Fire Control Specialists as well as a comprehensive salary adjustment in an effort to get Fire Department's salaries up to market standards.

General Government

General government includes the expenditures of the City Council, City Manager, Finance, Purchasing, Information Technologies, Human Resources, City Office Buildings, Telecommunications, Public Services Administration, and Fleet Management. General government expenditures for FY01 decreased \$82,543 (1.52%). Expenditures for FY00 were unusually high due to renovations to City Hall and the City Office Building totaling \$463,732.

Culture and Recreation

Culture and recreation includes the Recreation and Landscaping departments. All the City's recreation programs, parks, recreation centers, and cultural activities and appropriations are accounted for in the Recreation Department. Culture and recreation experienced an increase in expenditures of \$1,421,476 or 49.86% during FY01. The Recreation Department started two new construction projects during FY01 that were financed by bank loans. As reported in Statement D-2, a total of \$727,486 was spent on these projects. Also, the Recreation Department spent an additional \$1,068,213 on the continuing construction of the new Salisbury Community Park. These additional expenses were funded by various private donations and grants.

Transportation

Transportation expenditures, which include street maintenance and construction, street lighting, and traffic engineering, increased \$627,175 (20.27%) in FY01. Due to the growth of the City's residential and business sectors, more streets have been added for City maintenance. Also, the City, in conjunction with the North Carolina Department of Transportation, has installed a new traffic control system. This growth has led to increased operational expenses, including additional work force, necessary to maintain the high level of service that citizens have become accustomed to.

Community and Economic Development

Expenditures during FY01 decreased \$500,348 or 19.84% in the City's community and economic development programs. These programs are comprised of the City's Community Development Department, Housing and Urban Development (HUD) grant programs, Developmental Services Department, and the Plaza. This decrease in expenditures is mainly due to purchases of real estate totaling \$266,124 and renovations to the Plaza for \$102,124 during FY00.

Environmental Protection

The City's environmental protection programs are comprised of the Solid Waste Management and Cemetery departments. Expenditures increased \$18,810 or 1.35% during FY01. Expenditures for Solid Waste Management were virtually unchanged from the prior year, with only a \$2,526 increase, while Cemetery expenditures increased \$35,946 or 1.9%.

Debt Service

Debt service expenditures increased \$170,358, a 20.36% increase. As discussed in the Notes to the Financial Statements, the City has borrowed funds for large projects or purchases three times since December 1999. Additional FY01 debt payments attributable to this financing totaled \$289,228. At June 30, 2001, the City owed \$2,999,206 on installment purchase contracts. The installment purchase agreements and the City's \$3,025,000 of general obligation bonds issued for various public improvement projects show as debt outstanding in the general long-term debt account group at June 30, 2001. The bonds are backed by the full faith and taxing power of the City. The general obligation bonds and the installment purchases are being retired through the resources of the General Fund.

In addition to these bonds, the City accounts for debt issued for Water and Sewer purposes in the Water and Sewer Fund. Water and Sewer debt at June 30, 2001 includes \$17,360,000 general obligation bonds, \$1,835,000 revenue bonds, and \$15,950,096 State Clean Water bonds. Also, the City has \$4,135,606 in outstanding capital leases incurred for Water and Sewer purposes.

Other Expenditures

The City's supplements to the Salisbury Mass Transit System and the Rowan-Salisbury School System remained unchanged from the FY00 amounts of \$160,282 and \$42,342, respectively.

FUND BALANCE - GENERAL FUND

The \$6,207,192 fund balance in the General Fund at June 30, 2001, is \$748,548 more than the June 30, 2000 balance (see Exhibits 9 & 10). This increase can be primarily attributed to the 12.47% increase in revenues over FY00. Expenditures for the General Funds increased a modest 6.93% over the prior fiscal year.

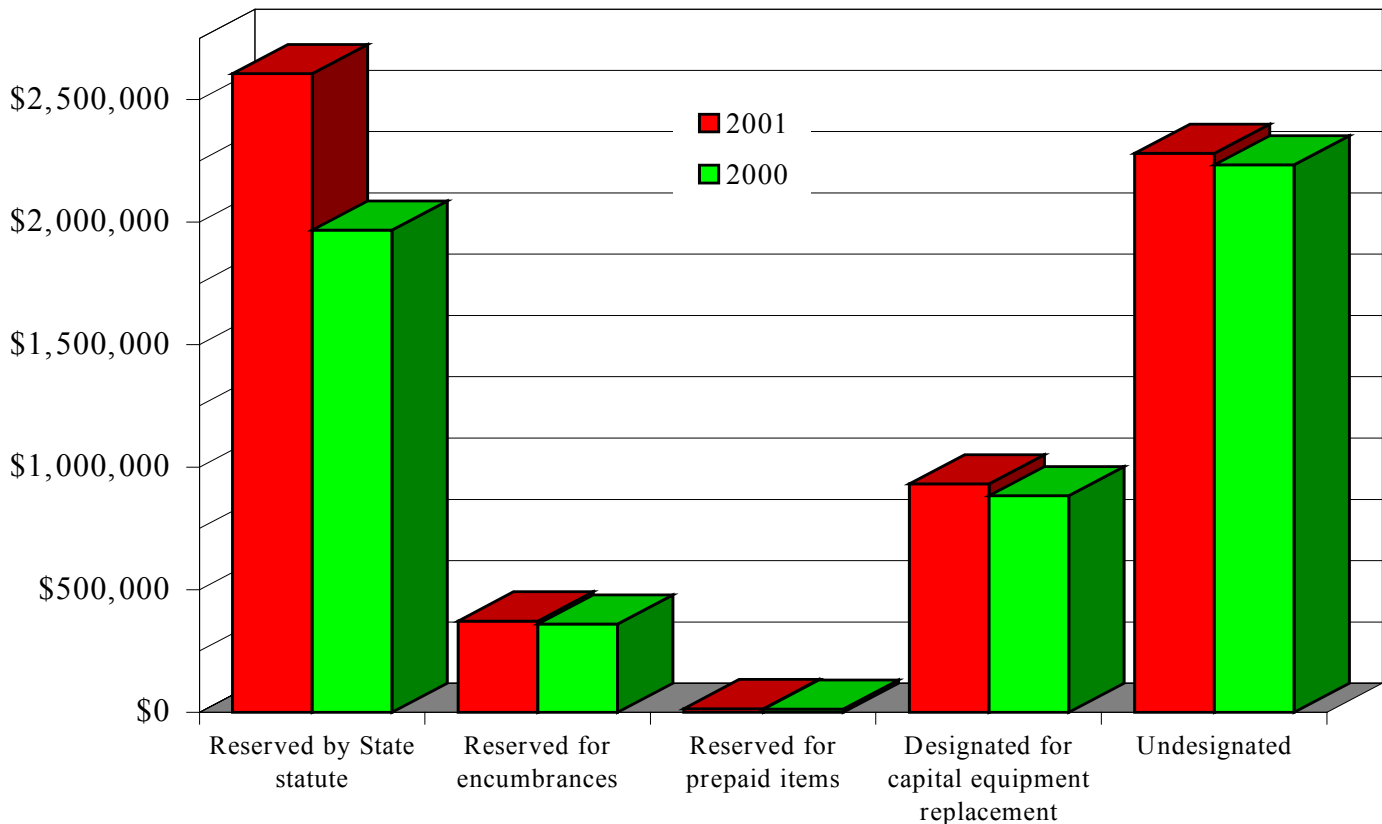
Funds available for the replacement of vehicles and other capital equipment increased slightly to \$932,573, a 5.54% increase. The portion of fund balance reserved by State statute increased \$638,862 primarily due to an increase in amounts due from other governments. Because of the financial woes of the State of North Carolina, the City did not receive \$512,355 in inventory tax reimbursement for FY01 until after June 30, 2001. The amount reserved for encumbrances is composed of \$373,121 for other obligations not satisfied as of the end of the fiscal year. Unrestricted and undesignated fund balance increased by \$46,424 to \$2,280,405. If the inventory tax reimbursement mentioned above had been received on time, undesignated fund balance would have increased by \$558,779. Such an increase in the City's undesignated fund balance is testimony to the budgetary process through which the efforts of City Council and management to curtail expenditures and to increase or create additional revenue sources are matched to exhibit a fiscally responsible organization.

EXHIBIT 9
FUND BALANCE
GENERAL FUND

	<u>Fiscal Year Ended June 30,</u>		Increase
	<u>2001</u>	<u>2000</u>	(Decrease)
Reserved by State statute	\$ 2,605,848	\$ 1,966,986	\$ 638,862
Reserved for encumbrances	373,121	360,403	12,718
Reserved for prepaid items	15,245	13,679	1,566
Unreserved:			
Designated for capital equipment replacement	932,573	883,595	48,978
Undesignated	<u>2,280,405</u>	<u>2,233,981</u>	46,424
Total fund balance	<u>\$ 6,207,192</u>	<u>\$ 5,458,644</u>	<u>\$ 748,548</u>

(Derived from Statement B-1)

EXHIBIT 10
COMPARATIVE ANALYSIS OF FUND BALANCE



The City follows a policy of maintaining an adequate fund balance as a safeguard against unforeseen circumstances and to provide a solid foundation for the City's fiscal health. At June 30, 2001, fund balance equaled 25.65% of the General Fund's operating budget for the new fiscal year.

BONDED INDEBTEDNESS

Total outstanding general obligation debt, revenue bond debt, and State Clean Water Bonds at June 30, 2001, totaled \$38,170,096. North Carolina statutes provide that cities may maintain outstanding debt in an amount equal to eight percent (8%) of assessed valuation. The current statutory debt margin for the City is \$118,126,686.

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, bankers 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 5.98% for the year ended June 30, 2001.

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 City's entire investment portfolio at June 30, 2001, is exempt from risk categorization as defined by the Governmental Accounting Standards Board. All of the City's investment portfolio 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.

REVENUE - ENTERPRISE FUNDS

Enterprise funds revenue increased by \$3,822,866 (30.05%) from the previous fiscal year (see Exhibit 11). The majority of this increase is due to capital contributions in the amount of \$2,987,959. Capital contributions are comprised principally of the Town of Spencer's contribution of its water and sewer utilities to the City. Excluding capital contributions, enterprise funds revenue increased by \$834,907 or 6.6% over FY00. The revenue other than capital contributions increased in the Water and Sewer Fund by \$736,291 (5.9%), due mainly to increased water and sewer rates. Increased rates over the past two fiscal years have help to minimize the effect of several plant closings. Revenues in the Mass Transit Fund increased \$98,616 (31.38%). Transit fare revenues decreased slightly by \$1,480 (1.86%) from the prior year. Other revenues increased \$100,096 (42.63%) due to increased funding from the State of North Carolina.

EXHIBIT 11

**COMPARATIVE SCHEDULE OF REVENUES
ENTERPRISE FUNDS**

Source	2001 Percent of Total	Fiscal Year Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
		2001	2000		
Water and Sewer:					
Charges for services	72.76%	\$ 12,037,258	\$ 11,405,780	\$ 631,478	5.54%
Capital contributions	18.06%	2,987,959	-	2,987,959	100.00%
Other revenues	6.68%	1,105,906	1,001,093	104,813	10.47%
	<u>97.50%</u>	<u>\$ 16,131,123</u>	<u>\$ 12,406,873</u>	<u>\$ 3,724,250</u>	<u>30.02%</u>
Mass Transit:					
Charges for services	0.47%	\$ 78,014	\$ 79,494	\$ (1,480)	(1.86%)
Other revenues	2.02%	334,874	234,778	100,096	42.63%
	<u>2.50%</u>	<u>\$ 412,888</u>	<u>\$ 314,272</u>	<u>\$ 98,616</u>	<u>31.38%</u>
Total	<u>100.00%</u>	<u>\$ 16,544,011</u>	<u>\$ 12,721,145</u>	<u>\$ 3,822,866</u>	<u>30.05%</u>

(Derived from Statement E-2, E-5, and E-6)

EXPENSES - ENTERPRISE FUNDS

Enterprise expenses increased \$459,978 (3.44%) over the prior fiscal year as shown in Exhibit 12. Water and Sewer Fund expenses, including depreciation, increased \$358,302 (2.79%). Administration and operations costs decreased by \$251,802 and \$81,332, respectively from FY00. These decreases are the results of several cost-cutting measures implemented during the year to offset unrealized budgeted revenues. Interest expense increased by \$310,834 from FY00 due to the City's takeover of the Town of Spencer's water and sewer system and new debt payments on State Clean Water Bond Loans issued in June 2000. Mass Transit Fund expenses, including depreciation, increased \$101,676 or 19.32%. This increase is due largely to the increase of fuel and maintenance costs. This increase was partially offset by \$75,688 in additional maintenance assistance funds from the State of North Carolina.

EXHIBIT 12

**COMPARATIVE SCHEDULE OF EXPENSES
ENTERPRISE FUNDS**

Function	2001 Percent of Total	Fiscal Year Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
		2001	2000		
Water and Sewer:					
Administration	17.16%	\$ 2,375,764	\$ 2,627,566	\$ (251,802)	(9.58%)
Operations	45.21%	6,259,841	6,341,173	(81,332)	(1.28%)
Interest	12.79%	1,771,224	1,460,390	310,834	21.28%
Depreciation	20.30%	2,810,729	2,430,127	380,602	15.66%
	<u>95.46%</u>	<u>\$ 13,217,558</u>	<u>\$ 12,859,256</u>	<u>\$ 358,302</u>	<u>2.79%</u>
Mass Transit:					
Administration	0.98%	\$ 135,322	\$ 124,023	\$ 11,299	9.11%
Services	3.33%	461,354	368,945	92,409	25.05%
Depreciation	0.23%	31,272	33,304	(2,032)	(6.10%)
	<u>4.54%</u>	<u>\$ 627,948</u>	<u>\$ 526,272</u>	<u>\$ 101,676</u>	<u>19.32%</u>
Total	<u>100.00%</u>	<u>\$ 13,845,506</u>	<u>\$ 13,385,528</u>	<u>\$ 459,978</u>	<u>3.44%</u>

(Derived from Statement E-2, E-4, and E-6)

FUND EQUITY - ENTERPRISE FUNDS

Water and Sewer Fund equity, as shown in Exhibit 13, increased by \$2,913,565 while the Mass Transit Fund equity decreased by \$54,778 during FY01. The Water and Sewer Fund equity increase was primarily due to the City’s takeover of the Town of Spencer’s water and sewer system. The decrease in Mass Transit fund equity was due to the increase in operational costs in excess of increased funding from the North Carolina Department of Transportation.

EXHIBIT 13

**FUND EQUITY
ENTERPRISE FUNDS**

	<u>2001</u>	<u>2000</u>	Increase (Decrease)
Water and Sewer:			
Contributed capital	\$ 32,023,460	\$ 32,023,460	\$ -
Retained earnings	<u>27,789,677</u>	<u>24,876,112</u>	<u>2,913,565</u>
	<u>\$ 59,813,137</u>	<u>\$ 56,899,572</u>	<u>\$ 2,913,565</u>
Mass Transit:			
Contributed capital	\$ 1,490,621	\$ 1,490,621	\$ -
Retained earnings	<u>(1,279,728)</u>	<u>(1,224,950)</u>	<u>(54,778)</u>
	<u>\$ 210,893</u>	<u>\$ 265,671</u>	<u>\$ (54,778)</u>
 Total fund equity	 <u>\$ 60,024,030</u>	 <u>\$ 57,165,243</u>	 <u>\$ 2,858,787</u>

(Derived from Statement E-4 and E-8)

INTERNAL SERVICE FUNDS

The City maintains two internal service funds for the purpose of providing services to the City’s other operational funds. These funds are the Workers’ Compensation Fund and the Employee Health Care Fund.

The City is self-insured for workers' compensation claims with an excess policy. The Workers' Compensation Fund is used to account for monies provided by the City and interest earnings on those monies to provide funds for major workers' compensation claims. The City incurred \$118,882 in claims during the year, which required the use of City funds but not our excess policy. FY01 claims increased \$81,846 from the prior year. FY00 expenses in the Workers’ Compensation Fund were unusually low compared with other recent years. The City maintains a constant vigilant effort to hold costs to a minimum through the City's active development of risk reduction activities. These include reviewing employee accident reports, employee accident prevention training, employee health awareness activities, and newsletters to employees.

The City also is self-insured for its employee health care policy. Premiums are established for the various classes (individual, parent-child, and family) of health care annually. The City deposits its contribution together with the amounts withheld from employees' compensation into the Employee Health Care Fund monthly. All claims for benefits under the City's health care policy are paid from this Fund. The City also maintains specific stop loss coverage of \$60,000 per employee annually and an aggregate stop loss of 120% in excess of anticipated claims. During the year, the City incurred no excess benefit claims where the specific stop loss was applied. Claims for the year were \$314,863 (16.55%) higher than last year. The Fund strives to

maintain a balance in excess of the incurred but not reported claims estimate. However, as of June 30, 2001, cash and investment balances were less than the incurred but not reported claims estimate.

FIDUCIARY FUNDS

The City maintains three fiduciary funds: Boards and Commissions and Municipal Service District funds, which are agency funds, and the Law Officers' Special Separation Allowance Fund, a pension trust fund.

A municipal service district was established in Salisbury in 1986 together with a non-profit company named Downtown Salisbury, Inc. to administer the disbursement of funds received by the district. The City levies a tax rate of sixteen cents per \$100 assessed valuation on this special tax district. The Municipal Service District Fund is used to account for the collection of this tax and the remittance of it to Downtown Salisbury, Inc. During the year, the City remitted \$97,605 to Downtown Salisbury, Inc. from the Municipal Service District Fund.

The Boards and Commissions Fund is used to accumulate and disburse funds earned by the Community Appearance Commission and the Tree Board. At June 30, 2001, they had a balance of \$2,093 available for their use.

The Law Officers' Special Separation Allowance Fund was established to account for the pension activities mandated by State statute under the Law Enforcement Officers' Special Separation Allowance. The Fund accounts for contributions made by the City to provide for pension benefits, interest earnings on these monies, and the disbursement of pension amounts. During FY01, the City paid \$24,036 in pension benefits. The City conducts an actuarial review of the Plan on an annual basis and adjusts the required contributions to the Fund at the beginning of each fiscal year.

CONCLUSION

The City of Salisbury has been fortunate to continue to experience rates of growth in its revenue base from taxable valuation during FY01. This growth was sufficient to accommodate expenditures during the year and maintain favorable fund equity.

As we look ahead to the future in the Water and Sewer Fund, significant construction will begin to expand the water plant capacity and extend the water distribution system. A historic Joint Agreement between Rowan County and Salisbury establishes the Salisbury water and sewer system as the primary utility provider for Rowan County. As a result of this Agreement, a new water distribution line will be built to serve the southern end of the County including the municipalities of China Grove, Landis, and Kannapolis. Rowan County, with whom the City has water sales agreements, will fund this new line. The water treatment plant will have its capacity expanded from twelve million gallons per day to 28 million gallons per day. New water distribution lines will be built along the Highway 70 corridor to serve new industry. More than half of the cost of these two projects will be funded through a public/private agreement with a new industrial customer who is locating along the Highway 70 corridor. The City believes that the water sales along these new distribution lines will provide sufficient revenues to stabilize the water and sewer rates and place the Water and Sewer Fund on solid ground.

The future holds many uncertainties. Federal and State mandates continue to severely press 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. 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. It will not be easy, but few challenges are. All City operations are being asked to contribute to the focused effort to maintain our ability and readiness to respond to our citizens. We have made it happen before, and we will make it happen again. 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 Finance Department. On behalf of the team of the Finance 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 Myra B. Heard, Finance Specialist, Mark D. Drye, Productivity 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
Accounting 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, 2000

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.

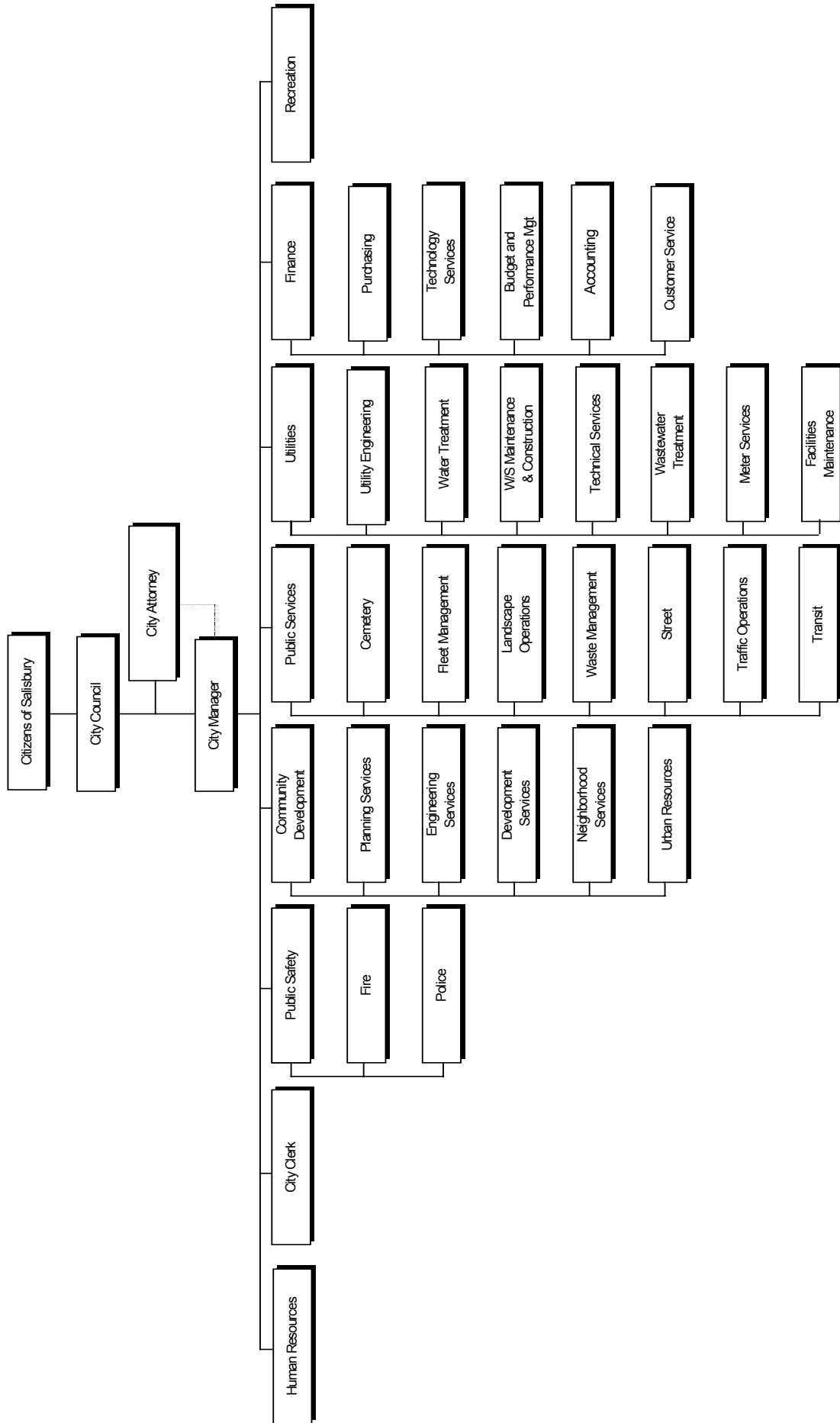


Smith Drew
President

Jeffrey L. Essler
Executive Director

CITY OF SALISBURY

ORGANIZATIONAL CHART



CITY OF SALISBURY
LIST OF PRINCIPAL OFFICIALS

June 30, 2001

Mayor	Susan W. Kluttz
Mayor Pro Tem	Paul B. Woodson, Jr.
Council Member	William R. Burgin
Council Member	William R. Kennedy
Council Member	R. Scott Maddox
City Manager	David W. Treme
Assistant City Manager	J. Foster Owen
City Clerk	Swanetta B. Fink
Finance Director	John A. Sofley, Jr.
Fire Chief	Samuel I. Brady
Land Management and Development Director	Larry W. Chilton
Technology Services Manager	C. Michael Crowell
Human Resources Director	Melissa H. Taylor
Police Chief	M. Chris Herring
Public Services Director	Vernon E. Sherrill
Purchasing Agent	Dewey D. Peck
Recreation Director	Gail Elder-White
Utilities Director	John C. Vest
Assistant Utilities Director	H. Matthias Bernhardt

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 26,462 based upon the latest United States census.

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: Finance, 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 300 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 2001 was 6.23 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 three smaller towns in the County, Spencer, East Spencer, and Granite Quarry, and has been extended to a number of industrial sites well beyond the city limits. Additionally, Salisbury operates and maintains the well system for the Town of Rockwell. The water supply meets all federal and State quality requirements. Salisbury's water is fluoridated on a continuing basis. Salisbury's two wastewater treatment facilities serve as the area's regional wastewater utility with service expansion to the towns of Landis, China Grove, East Spencer, Granite Quarry, and Rockwell. Total daily treatment capacity in 2001 was 12.5 million gallons. Average daily treatment in 2000 was 7 million gallons per day.

The City of Salisbury owns and operates the water and sewer utility systems in Granite Quarry, Rockwell, and Spencer and their surrounding area.

Other utilities are provided by Duke Energy Corporation, 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, 53 miles from Greensboro and 38 miles from Winston-Salem. It is the crossroads of I-85, U.S. 29, 52, 70, 601 and N.C. 150. Over 3 million people live within 90 miles of Salisbury, 1.5 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.

The major commercial airports at Charlotte and Greensboro-High Point are less than an hour's easy drive from Salisbury. These airports provide excellent service to all parts of the United States via United, USAirways, Delta, TWA, Continental, and American Airlines. There are also direct flights available to London and Frankfurt.

Bus service is provided by Carolina Trailways and Greyhound with daily arrivals and departures. Their service also includes parcel shipments. 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 small conventions, Salisbury has eleven (11) motels, with over 1,028 rooms, and two (2) bed and breakfast establishments in our historic district.

EDUCATION

Salisbury is home to two (2) colleges and a technical college. Catawba College 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 1,300 Liberal Arts Co-ed students and is affiliated with the United Church of Christ. Catawba College was founded in Newton, North Carolina in 1851, and opened in Salisbury in 1925.

Livingstone College was founded in 1879, and has 900 Liberal Arts Co-ed students. It is supported by the African Methodist Episcopal Zion Church; Hood Theological Seminary is located at Livingstone.

Rowan-Cabarrus Community College offers two-year educational programs leading to the associated degree in applied science. In addition, one-year diploma programs are offered in five fields. There is a total enrollment of approximately 3,500 full-time students.

In addition to the Salisbury-Rowan public school system, there are several private and church related elementary 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. This theater provides a home for the Players and other performing artists.

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. Although there are no local television stations, WBTV operates 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 new Salisbury Community Park celebrated its Grand Opening in the spring of 2001. Completed projects at the 314 acre Community Park include baseball/softball fields and soccer fields. Current construction in process includes a concession and restroom area, an 8.5 acre lake, walking trails and more baseball/softball fields.

City Park has a completely equipped playground, tennis courts and a five (5) acre lake for fishing. Salisbury has a Civic Center with weight room, racquetball courts, auditorium, tennis courts and a handicap exercise trail.

Kesley-Scott Park is a fifteen (15) acre park located on Old Wilkesboro Road. Jaycee Sports Complex is a multi-use area with four (4) ball fields.

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 in the past, and has become even more popular due to the completion of a new Hall of Fame in the fall of 2000. The National Sportscasters and Sportswriters Awards Program has attracted great national attention to the City. Each year nationally renowned sportscasters and sportswriters visit Salisbury to attend the annual awards program.

Financial Section



McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the City of Salisbury, North Carolina (the "City"), as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Downtown Salisbury, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Salisbury, North Carolina as of June 30, 2001, and the results of its operations and its cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2001, 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules, 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 Nonprofit Organizations*, and the *State Single Audit Implementation Act*, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Salisbury, North Carolina. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

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

Greensboro, North Carolina
September 6, 2001

CITY OF SALISBURY, NORTH CAROLINA
COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS,
AND DISCRETELY PRESENTED COMPONENT UNIT

June 30, 2001

<u>ASSETS AND OTHER DEBIT</u>	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency
Cash and investments	\$ 5,849,399	\$ 163,363	\$ 295,471	\$ 1,500,916	\$ 285,725	\$ 348,673
Taxes receivable (net of allowance for uncollectibles)	496,666	-	-	-	-	2,474
Accounts receivable (net of allowance for uncollectibles)	616,934	84	-	2,023,976	-	-
Interest receivable	4,079	-	-	27,813	118	254
Due from other governments	1,984,835	6,361	-	42,624	-	-
Inventories	-	-	-	173,744	-	-
Prepaid items	15,245	-	-	-	-	-
Restricted assets:						
Cash and investments	-	-	-	8,489,754	-	-
Accounts receivable	-	-	-	38,449	-	-
Interest receivable	-	-	-	5,719	-	-
Due from other governments	-	-	-	2,882,460	-	-
Fixed assets	-	-	-	119,402,540	-	-
Accumulated depreciation	-	-	-	(33,983,654)	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-
Total assets and other debit	<u>\$ 8,967,158</u>	<u>\$ 169,808</u>	<u>\$ 295,471</u>	<u>\$ 100,604,341</u>	<u>\$ 285,843</u>	<u>\$ 351,401</u>

<u>Account Groups</u>		Totals Primary Government	Component Unit	Totals Reporting Entity	
<u>General Fixed Assets</u>	<u>General Long- term Debt</u>	<u>(Memorandum Only)</u>	<u>Downtown Salisbury, Inc.</u>	<u>(Memorandum Only) 2001</u>	<u>(Memorandum Only) 2000</u>
\$ -	\$ -	\$ 8,443,547	\$ 74,823	\$ 8,518,370	\$ 8,829,727
-	-	499,140	-	499,140	359,060
-	-	2,640,994	7,765	2,648,759	2,755,316
-	-	32,264	-	32,264	18,943
-	-	2,033,820	-	2,033,820	1,418,140
-	-	173,744	-	173,744	265,348
-	-	15,245	-	15,245	13,679
-	-	8,489,754	39,164	8,528,918	7,980,055
-	-	38,449	-	38,449	210,101
-	-	5,719	-	5,719	13,026
-	-	2,882,460	-	2,882,460	3,000,000
30,818,261	-	150,220,801	322,162	150,542,963	140,159,506
-	-	(33,983,654)	(48,806)	(34,032,460)	(31,310,528)
-	<u>6,953,551</u>	<u>6,953,551</u>	-	<u>6,953,551</u>	<u>6,484,350</u>
<u>\$ 30,818,261</u>	<u>\$ 6,953,551</u>	<u>\$ 148,445,834</u>	<u>\$ 395,108</u>	<u>\$ 148,840,942</u>	<u>\$ 140,196,723</u>

(continued)

CITY OF SALISBURY, NORTH CAROLINA

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS,
AND DISCRETELY PRESENTED COMPONENT UNIT

June 30, 2001

LIABILITIES, EQUITY AND OTHER CREDIT	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency
LIABILITIES						
Accounts payable and accrued liabilities	\$ 2,031,523	\$ 26,686	\$ -	\$ 555,885	\$ 332,887	\$ 5,713
Interest payable	-	-	-	220,860	-	-
Liabilities payable from restricted assets				246,425		
Current maturities of long-term debt	-	-	-	2,493,518	-	-
Deferred revenue	728,443	-	-	-	-	-
Customer deposits	-	-	-	276,439	-	-
Long-term debt	-	-	-	36,787,184	-	-
Total liabilities	\$ 2,759,966	\$ 26,686	\$ -	\$ 40,580,311	\$ 332,887	\$ 5,713
EQUITY AND OTHER CREDIT						
Investment in general fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributed capital	-	-	-	33,514,081	-	-
Retained earnings (deficit)	-	-	-	26,509,949	(47,044)	-
Net assets:						
Unrestricted						
Temporarily restricted						
Fund balances:						
Reserved by State statute	2,605,848	6,445	-	-	-	253
Reserved for encumbrances	373,121	-	-	-	-	-
Reserved for prepaid items	15,245	-	-	-	-	-
Reserved for employees' pension benefits	-	-	-	-	-	345,435
Unreserved:						
Designated for capital equipment replacement	932,573	-	-	-	-	-
Designated for subsequent year's expenditures	-	136,677	295,471	-	-	-
Undesignated	2,280,405	-	-	-	-	-
Total equity and other credit	\$ 6,207,192	\$ 143,122	\$ 295,471	\$ 60,024,030	\$ (47,044)	\$ 345,688
Total liabilities, equity and other credit	\$ 8,967,158	\$ 169,808	\$ 295,471	\$ 100,604,341	\$ 285,843	\$ 351,401

See Notes to Financial Statements.

<u>Account Groups</u>		<u>Totals Primary Government</u>	<u>Component Unit</u>	<u>Totals Reporting Entity</u>	
<u>General Fixed Assets</u>	<u>General Long-term Debt</u>	<u>(Memorandum Only)</u>	<u>Downtown Salisbury, Inc.</u>	<u>(Memorandum Only) 2001</u>	<u>(Memorandum Only) 2000</u>
\$ -	\$ -	\$ 2,952,694	\$ 6,129	\$ 2,958,823	\$ 2,458,189
-	-	220,860	-	220,860	205,357
-	-	246,425	-	246,425	1,068,671
-	-	2,493,518	-	2,493,518	1,976,305
-	-	728,443	-	728,443	1,299,069
-	-	276,439	-	276,439	182,989
-	6,953,551	43,740,735	-	43,740,735	41,050,345
<u>\$ -</u>	<u>\$ 6,953,551</u>	<u>\$ 50,659,114</u>	<u>\$ 6,129</u>	<u>\$ 50,665,243</u>	<u>\$ 48,240,925</u>
\$ 30,818,261	\$ -	\$ 30,818,261	\$ -	\$ 30,818,261	\$ 28,473,644
-	-	33,514,081	-	33,514,081	33,514,081
-	-	26,462,905	-	26,462,905	23,592,666
-	-	-	349,815	349,815	352,661
-	-	-	39,164	39,164	45,215
-	-	2,612,546	-	2,612,546	1,976,081
-	-	373,121	-	373,121	360,403
-	-	15,245	-	15,245	13,679
-	-	345,435	-	345,435	294,061
-	-	932,573	-	932,573	883,595
-	-	432,148	-	432,148	215,731
-	-	2,280,405	-	2,280,405	2,233,981
<u>\$ 30,818,261</u>	<u>\$ -</u>	<u>\$ 97,786,720</u>	<u>\$ 388,979</u>	<u>\$ 98,175,699</u>	<u>\$ 91,955,798</u>
<u>\$ 30,818,261</u>	<u>\$ 6,953,551</u>	<u>\$ 148,445,834</u>	<u>\$ 395,108</u>	<u>\$ 148,840,942</u>	<u>\$ 140,196,723</u>

CITY OF SALISBURY, NORTH CAROLINA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
AND DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
REVENUES:			
Taxes	\$ 14,066,947	\$ -	\$ -
License and permits	533,554	-	-
Intergovernmental	6,040,285	272,765	-
Charges for services	1,783,086	-	-
Miscellaneous	2,220,080	346,201	29,220
Administrative charges	1,505,714	-	-
Total revenues	<u>\$ 26,149,666</u>	<u>\$ 618,966</u>	<u>\$ 29,220</u>
OTHER FINANCING SOURCES:			
Proceeds from installment purchases	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>
Total revenues and other financing sources	<u>\$ 26,149,666</u>	<u>\$ 618,966</u>	<u>\$ 1,029,220</u>
EXPENDITURES:			
Current:			
General government	\$ 5,301,158	\$ 35,191	\$ -
Public safety	8,860,001	-	-
Transportation	3,582,241	-	139,175
Environmental protection	1,413,534	-	-
Culture and recreation	3,544,639	-	727,486
Community and economic development	1,489,678	531,958	-
Education	42,342	-	-
Debt service:			
Principal	707,050	-	-
Interest	300,193	-	-
Total expenditures	<u>\$ 25,240,836</u>	<u>\$ 567,149</u>	<u>\$ 866,661</u>
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass Transit	<u>160,282</u>	<u>-</u>	<u>-</u>
Total expenditures and other financing uses	<u>\$ 25,401,118</u>	<u>\$ 567,149</u>	<u>\$ 866,661</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ 748,548	\$ 51,817	\$ 162,559
FUND BALANCE/NET ASSETS, BEGINNING	<u>5,458,644</u>	<u>91,305</u>	<u>132,912</u>
FUND BALANCE/NET ASSETS, ENDING	<u>\$ 6,207,192</u>	<u>\$ 143,122</u>	<u>\$ 295,471</u>

See Notes to Financial Statements.

Totals Primary Government (Memorandum Only)	Downtown Salisbury, Inc.	Totals Reporting Entity (Memorandum Only)
\$ 14,066,947	\$ 90,853	\$ 14,157,800
533,554	-	533,554
6,313,050	69,097	6,382,147
1,783,086	-	1,783,086
2,595,501	75,492	2,670,993
1,505,714	-	1,505,714
<u>\$ 26,797,852</u>	<u>\$ 235,442</u>	<u>\$ 27,033,294</u>
\$ 1,000,000	-	1,000,000
<u>\$ 27,797,852</u>	<u>\$ 235,442</u>	<u>\$ 28,033,294</u>
\$ 5,336,349	\$ -	\$ 5,336,349
8,860,001	-	8,860,001
3,721,416	-	3,721,416
1,413,534	-	1,413,534
4,272,125	-	4,272,125
2,021,636	244,339	2,265,975
42,342	-	42,342
707,050	-	707,050
300,193	-	300,193
<u>\$ 26,674,646</u>	<u>\$ 244,339</u>	<u>\$ 26,918,985</u>
160,282	-	160,282
<u>\$ 26,834,928</u>	<u>\$ 244,339</u>	<u>\$ 27,079,267</u>
\$ 962,924	\$ (8,897)	\$ 954,027
<u>5,682,861</u>	<u>397,876</u>	<u>6,080,737</u>
<u>\$ 6,645,785</u>	<u>\$ 388,979</u>	<u>\$ 7,034,764</u>

CITY OF SALISBURY, NORTH CAROLINA

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

GENERAL FUND AND SPECIAL REVENUE FUND

For the Year Ended June 30, 2001

	General Fund		
	Actual	Budget	Actual Over (Under) Budget
REVENUES:			
Taxes	\$ 14,066,947	\$ 14,526,270	\$ (459,323)
License and permits	533,554	509,280	24,274
Intergovernmental	6,040,285	6,219,456	(179,171)
Charges for services	1,783,086	1,692,876	90,210
Miscellaneous	2,220,080	2,306,438	(86,358)
Administrative charges	1,505,714	1,505,714	-
Total revenues	\$ 26,149,666	\$ 26,760,034	\$ (610,368)
OTHER FINANCING SOURCES:			
Fund balance appropriated	-	855,083	(855,083)
Total revenues and other financing sources	\$ 26,149,666	\$ 27,615,117	\$ (1,465,451)
EXPENDITURES:			
Current:			
General government	\$ 5,301,158	\$ 5,758,083	\$ (456,925)
Public safety	8,860,001	9,148,428	(288,427)
Transportation	3,582,241	4,731,975	(1,149,734)
Environmental protection	1,413,534	1,417,242	(3,708)
Culture and recreation	3,544,639	3,697,887	(153,248)
Community and economic development	1,489,678	1,649,846	(160,168)
Education	42,342	42,342	-
Debt service:			
Principal	707,050	708,145	(1,095)
Interest	300,193	300,887	(694)
Total expenditures	\$ 25,240,836	\$ 27,454,835	\$ (2,213,999)
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass transit	160,282	160,282	-
Total expenditures and other financing uses	\$ 25,401,118	\$ 27,615,117	\$ (2,213,999)
NET INCREASE IN FUND BALANCE	\$ 748,548	\$ -	\$ 748,548
FUND BALANCE, BEGINNING	5,458,644		
FUND BALANCE, ENDING	\$ 6,207,192		

See Notes to Financial Statements.

Special Revenue Fund			Totals Memorandum Only		
Actual	Budget	Actual Over (Under) Budget	Actual	Budget	Actual Over (Under) Budget
\$ -	\$ -	\$ -	\$ 14,066,947	\$ 14,526,270	\$ (459,323)
-	-	-	533,554	509,280	24,274
272,765	600,222	(327,457)	6,313,050	6,819,678	(506,628)
-	-	-	1,783,086	1,692,876	90,210
346,201	465,928	(119,727)	2,566,281	2,772,366	(206,085)
-	-	-	1,505,714	1,505,714	-
\$ 618,966	\$ 1,066,150	\$ (447,184)	\$ 26,768,632	\$ 27,826,184	\$ (1,057,552)
-	-	-	-	855,083	(855,083)
\$ 618,966	\$ 1,066,150	\$ (447,184)	\$ 26,768,632	\$ 28,681,267	\$ (1,912,635)
\$ 35,191	\$ 93,500	\$ (58,309)	\$ 5,336,349	\$ 5,851,583	\$ (515,234)
-	-	-	8,860,001	9,148,428	(288,427)
-	-	-	3,582,241	4,731,975	(1,149,734)
-	-	-	1,413,534	1,417,242	(3,708)
-	-	-	3,544,639	3,697,887	(153,248)
531,958	972,650	(440,692)	2,021,636	2,622,496	(600,860)
-	-	-	42,342	42,342	-
-	-	-	707,050	708,145	(1,095)
-	-	-	300,193	300,887	(694)
\$ 567,149	\$ 1,066,150	\$ (499,001)	\$ 25,807,985	\$ 28,520,985	\$ (2,713,000)
-	-	-	160,282	160,282	-
\$ 567,149	\$ 1,066,150	\$ (499,001)	\$ 25,968,267	\$ 28,681,267	\$ (2,713,000)
\$ 51,817	\$ -	\$ 51,817	800,365	-	800,365
91,305			5,549,949		
\$ 143,122			\$ 6,350,314		

CITY OF SALISBURY, NORTH CAROLINA
COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

ALL PROPRIETARY FUNDS

For the Year Ended June 30, 2001

	Proprietary Fund Type		Totals	
	Enterprise	Internal	(Memorandum Only)	
		Service	2001	2000
OPERATING REVENUES:				
Charges for services	\$ 12,115,272	\$ 2,337,107	\$ 14,452,379	\$ 13,398,022
Total operating revenues	<u>\$ 12,115,272</u>	<u>\$ 2,337,107</u>	<u>\$ 14,452,379</u>	<u>\$ 13,398,022</u>
OPERATING EXPENSES:				
Management and administration	\$ 2,511,086	\$ -	\$ 2,511,086	\$ 2,751,589
Water resources	3,970,313	-	3,970,313	4,210,023
Maintenance and distribution	2,289,528	-	2,289,528	2,131,150
Depreciation	2,842,001	-	2,842,001	2,463,431
Mass transit operations	461,354	-	461,354	368,945
Employee benefits	-	2,336,239	2,336,239	1,939,530
Total operating expenses	<u>\$ 12,074,282</u>	<u>\$ 2,336,239</u>	<u>\$ 14,410,521</u>	<u>\$ 13,864,668</u>
OPERATING INCOME (LOSS)	<u>\$ 40,990</u>	<u>\$ 868</u>	<u>\$ 41,858</u>	<u>\$ (466,646)</u>
NONOPERATING REVENUES (EXPENSES):				
Interest earned on investments	\$ 692,706	\$ 10,584	\$ 703,290	\$ 662,003
Intergovernmental	307,260	-	307,260	216,129
Miscellaneous revenues	440,814	-	440,814	364,720
Interest expense	(1,771,224)	-	(1,771,224)	(1,460,390)
Net nonoperating revenues (expenses)	<u>\$ (330,444)</u>	<u>\$ 10,584</u>	<u>\$ (319,860)</u>	<u>\$ (217,538)</u>
INCOME (LOSS) BEFORE CAPITAL				
CONTRIBUTIONS AND OPERATING TRANSFERS	<u>\$ (289,454)</u>	<u>\$ 11,452</u>	<u>\$ (278,002)</u>	<u>\$ (684,184)</u>
CAPITAL CONTRIBUTIONS	<u>\$ 2,987,959</u>	<u>\$ -</u>	<u>\$ 2,987,959</u>	<u>\$ -</u>
OPERATING TRANSFERS IN:				
General Fund	<u>160,282</u>	<u>-</u>	<u>160,282</u>	<u>160,282</u>
NET INCOME (LOSS)	<u>\$ 2,858,787</u>	<u>\$ 11,452</u>	<u>\$ 2,870,239</u>	<u>\$ (523,902)</u>
RETAINED EARNINGS (DEFICIT), BEGINNING	<u>23,651,162</u>	<u>(58,496)</u>	<u>23,592,666</u>	<u>24,116,568</u>
RETAINED EARNINGS (DEFICIT), ENDING	<u><u>\$ 26,509,949</u></u>	<u><u>\$ (47,044)</u></u>	<u><u>\$ 26,462,905</u></u>	<u><u>\$ 23,592,666</u></u>

See Notes to Financial Statements.

CITY OF SALISBURY, NORTH CAROLINA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Year Ended June 30, 2001

	Proprietary Fund Type		Totals	
	Internal		(Memorandum Only)	
	Enterprise	Service	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 40,990	\$ 868	\$ 41,858	\$ (466,646)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	2,842,001	-	2,842,001	2,463,431
Loss on disposal of fixed assets	7,933	-	7,933	2,117
Other receipts	440,814	-	440,814	370,064
Change in assets and liabilities:				
(Increase) decrease in accounts and interest receivable	178,065	193	178,258	(2,966,054)
(Increase) decrease in inventory	91,604	-	91,604	(8,718)
(Increase) decrease due from other governments	232,018	-	232,018	(111,476)
Increase (decrease) in accounts and interest payable and accrued liabilities	(1,125,267)	56,357	(1,068,910)	140,574
Increase (decrease) in customer deposits	93,450	-	93,450	(487)
Net cash provided by (used for) operating activities	<u>\$ 2,801,608</u>	<u>\$ 57,418</u>	<u>\$ 2,859,026</u>	<u>\$ (577,195)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	\$ 307,260	\$ -	\$ 307,260	\$ 216,129
Operating transfer from general fund	160,282	-	160,282	160,282
Net cash provided by noncapital financing activities	<u>\$ 467,542</u>	<u>\$ -</u>	<u>\$ 467,542</u>	<u>\$ 376,411</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuing general obligation bonds	\$ 3,849,091	\$ -	\$ 3,849,091	\$ 8,350,909
Capital grants received	-	-	-	630
Interest paid on general obligation bonds	(1,771,224)	-	(1,771,224)	(1,460,390)
Disposition of assets	4,607	-	4,607	-
Acquisition of capital assets	(4,071,841)	-	(4,071,841)	(10,309,981)
Principal paid on general obligation bonds	(2,484,943)	-	(2,484,943)	(1,826,305)
Capital contributed by developers	266,195	-	266,195	579,513
Net cash used for capital and related financing activities	<u>\$ (4,208,115)</u>	<u>\$ -</u>	<u>\$ (4,208,115)</u>	<u>\$ (4,665,624)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investment securities	<u>\$ 692,706</u>	<u>\$ 10,584</u>	<u>\$ 703,290</u>	<u>\$ 656,659</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	\$ (246,259)	\$ 68,002	\$ (178,257)	\$ (4,209,749)
CASH AND CASH EQUIVALENTS, BEGINNING				
	<u>10,236,929</u>	<u>217,723</u>	<u>10,454,652</u>	<u>14,664,401</u>
CASH AND CASH EQUIVALENTS, ENDING				
	<u>\$ 9,990,670</u>	<u>\$ 285,725</u>	<u>\$ 10,276,395</u>	<u>\$ 10,454,652</u>

See Notes to Financial Statements.

NON-CASH CAPITAL AND FINANCING ACTIVITIES

As discussed in the notes to the financial statements, on October 1, 2000, the City took over the water and sewer operations of a local municipality. The takeover resulted in a non-cash acquisition of fixed assets in the amount of \$4,096,018, capital leases totaling \$1,374,254, and capital contributions from the municipality of \$2,863,121.

CITY OF SALISBURY, NORTH CAROLINA
STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
For the Years Ended June 30, 2001
With Comparative Totals for the Year Ended June 30, 2000

	<u>2001</u>	<u>2000</u>
ADDITIONS:		
Employer contributions	\$ 56,101	\$ 55,565
Investment income:		
Interest	<u>18,953</u>	<u>13,563</u>
Total additions	<u>\$ 75,054</u>	<u>\$ 69,128</u>
DEDUCTIONS:		
Employee benefits	<u>\$ 24,036</u>	<u>\$ 19,644</u>
Total deductions	<u>\$ 24,036</u>	<u>\$ 19,644</u>
NET INCREASE	\$ 51,018	\$ 49,484
PLAN NET ASSETS		
Beginning of year	<u>294,670</u>	<u>245,186</u>
End of year	<u>\$ 345,688</u>	<u>\$ 294,670</u>

See Notes to Financial Statements.

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, which 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. The Corporation is governed by eight board members, one of whom is appointed by the City Council. 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 at the unit's administrative offices.

Downtown Salisbury, Inc.
Suite 300
100 W. Innes Street
Salisbury, NC 28144

Related Organization

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

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The account groups are not funds, but are a reporting device used to account for certain assets and liabilities of the governmental Funds that are not recorded directly in those funds.

The City uses the following fund categories (further divided by fund type) and account groups:

Governmental Funds are used to account for the City's governmental functions. Governmental funds include the following fund types:

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

NOTES TO FINANCIAL STATEMENTS

expenditures are for public safety, transportation, environmental protection, culture and recreation, community and economic development, and general government services.

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.

Proprietary Funds include the following fund types:

Enterprise Funds - Enterprise funds are used to account for those operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) 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. The City has two Enterprise Funds: the Water and Sewer Fund and the Mass Transit Fund. For financial reporting purposes, a Water and Sewer Capital Project Fund has been consolidated with enterprise operating funds.

Internal Service Funds - Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. The City maintains two internal service funds, the Workers' Compensation Fund and the Employee Health Care Fund. These funds are used to account for the resources and liabilities of the self insured funds.

Fiduciary Funds account for the assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Fiduciary Funds include the following funds:

Agency Funds - Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are accounted for in essentially the same manner as governmental funds. Agency funds are used to account for assets the City holds on behalf of others. The City maintains two agency funds: Boards and Commissions and Municipal Service District.

Pension trust fund - Pension trust funds are used to account for assets of employee retirement systems administered by the City. Pension trust funds are accounted for in essentially the same manner as proprietary funds. The City maintains one pension trust fund, the Law Enforcement Officers' Separation Allowance Fund, to account for the Law Enforcement Officers' Special Separation Allowance, a single-employer public employee retirement system.

Account Groups – The General Fixed Assets Account Group is used to account for fixed assets that are not accounted for in the proprietary funds. The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of the proprietary funds.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

The Proprietary Funds and the Pension Trust Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity of the Proprietary Funds (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements for these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. As required for periods beginning after June 15, 2000, by Statement 33 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Nonexchange Transactions*, the City has begun recognizing capital contributions as revenues in the current year, rather than as contributed capital. Pension trust funds are accounted for similarly; however, fund equity (net total assets) is recognized as being a fully reserved fund balance.

The basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting. The governmental fund types are presented in the financial statements on the same basis. Under the modified accrual basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are "measurable" and "available") to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgements, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The City recognizes assets of nonexchange transactions in the period when the underlying transactions occur, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. The City considers all revenues available if they are collected within 60 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 2000 through February 2001 apply to the fiscal year ended June 30, 2001. 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, 2001 because they are intended to finance the City's operations during the 2002 fiscal year.

Sales taxes 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.

The City reports deferred revenue on its Combined Balance Sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods,

NOTES TO FINANCIAL STATEMENTS

when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. Exceptions to this general rule include: (1) certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources; and (2) principal and interest on general long-term debt which is recognized when due.

The Proprietary Fund and Pension Trust Fund are presented in the financial statements on the accrual basis. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period when incurred. In converting the enterprise funds from the modified accrual basis to the accrual basis, the changes required are adjustments for unpaid vacation pay, depreciation, capital expenditures, payments of principal on outstanding debt, and unpaid interest. 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 before November 30, 1989 in its accounting and reporting practices for its proprietary operations and Pension Trust Fund.

The Water and Sewer Fund reimburses the General Fund for expenditures made on its behalf in the finance department and certain other central services. The General Fund pays the Water and Sewer Fund for its normal billable charges. Both of these types of transactions are considered to be quasi-external transactions and are recorded as revenues and expenses in the appropriate funds.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the General, Enterprise, and Special Revenue funds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Project Fund and Enterprise Fund capital projects. These appropriations continue until the project is completed. All budgets are prepared using the modified accrual basis of accounting.

Appropriations are made at the departmental level in the General Fund and the Water and Sewer Fund. Appropriations for the Special Revenue Fund and the Mass Transit Fund are made at the fund level. All appropriations are amended as necessary by the governing board. Expenditures may not legally exceed the appropriation level as determined by the Annual Budget Ordinance. A portion of fund balance may be appropriated to balance a fund's budget. The budget amounts shown represent the budget ordinance as amended at June 30 of the budget year. All annual appropriations lapse at year-end. In the accompanying statements, appropriated fund balance is presented as an "other financing source".

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer appropriations between functional areas; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. During the fiscal year there were thirty-two (32) supplemental appropriations.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds, and enterprise funds.

NOTES TO FINANCIAL STATEMENTS

Budgets for the General Fund and special revenue funds are adopted on a basis consistent with GAAP. Budgets for the enterprise funds are adopted on a basis consistent with GAAP except that bond proceeds and contributed capital are treated as other financing sources, bond principal payments and additions to fixed assets are treated as expenditures, depreciation expense is not budgeted, and no accruals are made for interest expense and vacation pay.

As required by State law [G.S. 159-26(d)], the City maintains encumbrance accounts which are considered to be "budgetary accounts". Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the balance sheet and will be charged against the subsequent year's budget. At June 30, 2001, \$373,121 of open purchase orders and contracts were outstanding in the General Fund.

E. 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 nonguaranteed 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 and non-participating interest earnings and investment contracts are reported at amortized cost.

At June 30, 2001, neither the City nor Downtown Salisbury, Inc. had investments that are required to be reported at fair value. Therefore, all investments are reported at amortized cost.

F. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment 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.

G. Restricted Assets

The unexpended bond proceeds of Water and Sewer Fund serial bonds issued by the City are classified as restricted assets for the Enterprise Fund because their use is completely restricted for the purpose for which the bonds were originally issued. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

H. 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

NOTES TO FINANCIAL STATEMENTS

values of January 1, 2000. As allowed by State law, the City has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

I. 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.

J. Inventories and Prepaid Items

Inventories are maintained in the enterprise funds for maintenance supplies. The inventories are valued at cost, on a first-in, first-out basis, which approximates market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

K. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets, consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized because such assets are immovable and are of value only to the City. Also, the City has elected not to capitalize those interest costs which are incurred during the construction period of general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation on all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary funds balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	40 Years
Equipment	3-10 Years
Vehicles	4-10 Years

L. Long-Term Debt

The City's long-term debt for water and sewer purposes is carried in the Water and Sewer Fund rather than in the General Long-Term Debt Account Group. The debt service requirements for the water and sewer debt are being met by water and sewer revenues, but the taxing power of the City is pledged to make these payments if water and sewer revenues should ever be insufficient. Long-term debt for other purposes is included in the General Long-Term Debt Account Group. The debt service requirements for all debt carried in the General Long-Term Debt Account Group are appropriated annually in the General Fund.

M. Compensated Absences

The Personnel Policy of the City provides that each employee in a regular full time position shall earn annual vacation leave at the rate of 12 to 21 days per calendar year, based on years of service, with such leave being fully vested when earned. Employees may accrue up to 30 days with less than seven years service, and 45 days with seven or more years of employment. Accumulated unpaid vacation is accrued in proprietary funds (using the accrual basis of accounting). Only the current portion is accrued in governmental funds (using the modified accrual basis of accounting). At June 30, 2001, accumulated earned vacation and salary related payments amounted to \$1,239,127 for the governmental funds and \$245,832 for the proprietary funds. Of the governmental funds' liability, \$309,782 is recognized as an accrued liability in the General Fund. The

NOTES TO FINANCIAL STATEMENTS

balance of \$929,345 is recognized in the general long-term debt account group while the liabilities of the enterprise funds are recognized as accrued liabilities in the funds themselves.

The City's Personnel Policy also provides for an unlimited accumulation of sick leave at the rate of one day per month. 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 liability has been reported for unpaid accumulated sick leave.

N. Fund Equity

Reservations or restrictions of equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance or fund equity 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 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 receivables and due from other governments which 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 which remain unperformed at year-end.

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

Reserved for employees' pension benefits - portion of total fund balance available for appropriation to pay retirement benefits when due.

Designated for capital equipment replacement - fund balance that has been set aside to fund the replacement of vehicles and computer equipment.

Designated for subsequent year's expenditures – portion of the total fund balance available for appropriation that has been designated for the adopted subsequent year's budget ordinance.

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

O. Totals (Memorandum Only) Columns

The total columns on the accompanying financial statements are captioned as "Totals Primary Government (Memorandum Only)" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Interfund eliminations have not been made in the aggregation of this data.

P. Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide enhanced understanding of the City's financial position and operations or would cause the statements to be unduly complex or difficult to understand.

NOTES TO FINANCIAL STATEMENTS

R. 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 amounts of assets and liabilities and 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. Material Violations of Finance-Related Legal and Contractual Provisions

There were no material violations of finance-related legal and contractual provisions for the fiscal year ended June 30, 2001.

B. Excess of Expenditures Over Appropriations

There were no expenditures in excess of appropriated amounts for the fiscal year ended June 30, 2001.

C. Deficit Fund Balance or Retained Earnings of Individual Funds

The City's Mass Transit Fund had a retained earnings deficit of \$1,279,728 at June 30, 2001. The deficit is offset with \$1,490,621 of contributed capital which results in a fund equity in the Mass Transit Fund of \$210,893 at June 30, 2001.

Note 3. Detail Notes On All Funds And Account Groups

A. Cash and Investments

Total cash and investments were composed as follows:

Cash on hand	\$	2,040
Cash in demand deposits		851,145
Money market accounts		1,022,957
Certificates of Deposit		656,695
Investments		14,400,464
	\$	<u>16,933,301</u>

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 undercollateralization, and this risk may increase in periods of high cash flow. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has deposits in banks utilizing both the Dedicated Method and the Pooling Method.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2001, the City's deposits had a carrying amount of \$2,530,797 and a bank balance of \$2,944,641, of which \$400,051 was covered by federal depository insurance and \$2,544,590 was collateralized by securities. The carrying amount of deposits and the bank balance for Downtown Salisbury, Inc. was \$76,338, all of which was covered by federal depository insurance. Downtown Salisbury, Inc. also held \$37,649 in a short-term money market fund which was neither insured by federal depository insurance nor collateralized by securities.

B. Investments

The investments of the City are categorized to give an indication of the level of custodial risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. At year end, the City had no investments which would be classified as Category 1, 2 or 3. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the City does not own any identifiable securities, but is a shareholder of a percentage of the fund. At June 30, 2001, Downtown Salisbury, Inc. did not own any investments. At June 30, 2001, the City's investments were as follows:

	<u>Reported Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust, Cash Portfolio	<u>\$ 14,400,464</u>	<u>\$ 14,400,464</u>

State statutes authorize the City 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 (NC), local government or public authority in NC; savings certificates, investment certificates or shares or deposits in savings and loan associations organized in NC or federal savings and loan associations who have their principal office in NC; obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, and the United States Postal Service; the North Carolina Capital Management Trust, an SEC registered mutual fund established and administered by the State Treasurer; Certificates of Deposit issued by banks either organized under NC laws or having their principal office in NC; prime quality commercial paper and bankers acceptance bearing the highest grade of at least one nationally known rating service and not one below that by another nationally known rating service; and repurchase agreements.

C. Ad Valorem Taxes Receivable

Property tax revenue is recognized as it becomes both measurable and available. Available, as defined, means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. No provision for an accrual of property tax was made in the accompanying financial statements because the amount was not considered to be material. The amount of the receivable is reduced by an allowance for doubtful accounts which is based upon past experience. An amount equal to the net receivable is shown as deferred revenue on the Combined Balance Sheet.

According to the North Carolina Tax Code, all real property and personal property is assessed for property tax purposes on January 1st of each year. The tax rate is set each year by the City Council at the time the final budget ordinance is adopted. Ad valorem taxes are levied on July 1, the beginning of the fiscal year except for ad valorem taxes on certain vehicles. Tax bills are initially prepared and mailed in July, and property taxes are due the first day of September each year, but can be received in the Tax Collector's Office until January 5th of the next year without interest at which time the property is subject to lien attachment. If payment is made after January 5th, the interest charge is 2 percent for the month of January and 3/4 percent every month thereafter until the bill is paid. On March 1st or as soon thereafter as practical, a certified notice of delinquent property taxes, penalties, assessments, and costs are mailed.

NOTES TO FINANCIAL STATEMENTS

D. Receivable - Allowances for Doubtful Accounts

The amounts shown in the combined balance sheet for receivables are net of the following allowances for doubtful accounts.

General Fund:	
Allowance for uncollectible property taxes receivable	\$ 235,000
Enterprise Fund:	
Water and Sewer Fund	
Allowance for uncollectible utility receivables	48,000
Agency Fund:	
Municipal Service District Fund	
Allowance for uncollectible property taxes receivable	2,000

E. Fixed Assets

A summary of changes in general fixed assets follows:

<u>General Fixed Assets</u>	Balances				Balances June 30, 2001
	June 30, 2000	Additions	Retirements	Transfers	
Land	\$ 3,443,540	\$ 21,500	\$ 505,321		\$ 2,959,719
Buildings and improvements	9,215,884	84,660	25,558		9,274,986
Equipment	15,708,914	1,465,245	450,391		16,723,768
Construction in progress	105,306	1,754,482	-	-	1,859,788
Total general fixed assets	<u>\$ 28,473,644</u>	<u>\$ 3,325,887</u>	<u>\$ 981,270</u>	<u>\$ -</u>	<u>\$ 30,818,261</u>
<u>Function</u>					
General government	\$ 5,308,232	\$ 397,388	\$ 181,445	\$ 225,526	\$ 5,749,701
Public safety	7,455,437	546,206	129,153	(386,916)	7,485,574
Transportation	3,806,147	361,714	128,597	601,106	4,640,370
Environmental protection	1,336,657	547	1,134	(436,085)	899,985
Culture and recreation	5,773,260	1,988,194	35,620	47,625	7,773,459
Land management and development	4,793,911	31,838	505,321	(51,256)	4,269,172
Total general fixed assets	<u>\$ 28,473,644</u>	<u>\$ 3,325,887</u>	<u>\$ 981,270</u>	<u>\$ -</u>	<u>\$ 30,818,261</u>
<u>Funding Source</u>					
Assets purchased prior to FY86					
from undetermined sources	\$ 3,015,316	\$ -	\$ 126,725	\$ -	\$ 2,888,591
General Fund	24,833,309	3,325,887	854,545	-	27,304,651
Special Revenue	625,019	-	-	-	625,019
Total general fixed assets	<u>\$ 28,473,644</u>	<u>\$ 3,325,887</u>	<u>\$ 981,270</u>	<u>\$ -</u>	<u>\$ 30,818,261</u>

Reconciliation of additions

Capital outlay expenditures	\$2,598,401
Capital Project Fund expenditures	<u>727,486</u>
	<u>\$3,325,887</u>

In the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, expenditures include current and debt service classifications, but does not include a classification for capital outlays. Capital outlay expenditures were recorded in the functions as they were budgeted.

NOTES TO FINANCIAL STATEMENTS

A summary of enterprise fund fixed assets at June 30, 2001, follows:

	Fixed Assets	Accumulated Depreciation	Net
Water and Sewer Fund:			
Land	\$ 2,074,567	\$ -	\$ 2,074,567
Buildings and improvements	95,551,963	27,682,672	67,869,291
Equipment	6,367,667	4,924,935	1,442,732
Construction in progress	14,020,184	-	14,020,184
Total Water and Sewer Fund	<u>\$ 118,014,381</u>	<u>\$ 32,607,607</u>	<u>\$ 85,406,774</u>
Mass Transit Fund:			
Buildings and improvements	\$ 481,794	\$ 481,794	\$ -
Equipment	906,365	894,253	12,112
Total Mass Transit Fund	<u>\$ 1,388,159</u>	<u>\$ 1,376,047</u>	<u>\$ 12,112</u>
	<u>\$ 119,402,540</u>	<u>\$ 33,983,654</u>	<u>\$ 85,418,886</u>

As of June 30, 2001, Downtown Salisbury, Inc. held property and equipment with a net book value of \$273,356.

F. Deferred Revenue

As discussed in Note 3C, 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 the construction of the new Salisbury Community Park and other projects that have not yet been spent for those purposes as of June 30, 2001. The balance in deferred revenue at year end, including these items, is composed of the following elements:

	General Fund
Taxes receivable, net	\$ 496,666
Prepaid property taxes	76,270
Other deferred revenue	155,507
Total deferred revenue	<u>\$ 728,443</u>

G. Long-Term Debt

A summary of changes in long-term debt follows:

	June 30,2000	Additions	Retirements	June 30,2001
General long-term debt:				
General obligation bonds	\$ 3,225,000	\$ -	\$ 200,000	\$ 3,025,000
Installment purchases	2,506,256	1,000,000	507,050	2,999,206
Compensated absences	753,094	176,251	-	929,345
	<u>\$ 6,484,350</u>	<u>\$ 1,176,251</u>	<u>\$ 707,050</u>	<u>\$ 6,953,551</u>
Enterprise fund:				
General obligation bonds	\$ 18,645,000	\$ -	\$ 1,285,000	\$ 17,360,000
Revenue bonds	1,905,000	-	70,000	1,835,000
State loans	12,983,511	3,849,091	882,506	15,950,096
Capital leases	3,008,789	1,374,254	247,437	4,135,606
	<u>\$ 36,542,300</u>	<u>\$ 5,223,345</u>	<u>\$ 2,484,943</u>	<u>\$ 39,280,702</u>
Total	<u>\$ 43,026,650</u>	<u>\$ 6,399,596</u>	<u>\$ 3,191,993</u>	<u>\$ 46,234,253</u>

NOTES TO FINANCIAL STATEMENTS

The City has general obligation bonds in the General Fund Long-Term Debt Account Group for public improvements dated January 1, 1992. The bonds were issued for improvements to the City's parks and recreation areas and for sidewalk and parking facilities. These bonds have an average interest rate of 6.10% and mature serially to 2002.

In November 1993, the City issued \$373,000 general obligation bonds. The bonds were designated for improvements to the City's downtown parking facilities and for construction of recreation facilities. These bonds were issued at an average interest rate of 4.846% and mature serially to 2004.

The City issued \$355,000 general obligation bonds in November 1995 for public parks and recreation facilities improvements. The bonds were issued at an average interest rate of 5.2756% and mature serially to 2006.

In January 1998, the City issued \$3,000,000 general obligation bonds. The bonds were designated for parks and recreation facilities. The bonds were issued at an average interest rate of 4.7718% and mature serially to 2017.

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 acquisition of facilities from Wachovia Bank and Trust, dated December 20, 1996, payable in 14 semi-annual installments of \$149,223 at an effective interest rate of 4.91%.

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 of fire truck from First Union National Bank, dated June 29, 2000, payable in eight semi-annual installments of \$83,447.92 at an effective interest rate of 5.20%

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

Equipment and facilities acquired with the proceeds from these installment purchases contracts have been recorded in the General Fixed Assets Account Group.

Future maturities of general long-term debt, excluding accrued vacation pay, are as follows:

Year Ending June 30,	General Obligation Bonds		Installment Purchases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 200,000	\$ 146,092	\$ 565,227	\$ 144,015	\$ 765,227	\$ 290,107
2003	180,000	136,020	590,279	115,415	770,279	251,435
2004	180,000	127,210	469,889	85,610	649,889	212,820
2005	200,000	118,400	165,771	67,484	365,771	185,884
2006	190,000	108,650	170,514	59,192	360,514	167,842
Thereafter	2,075,000	568,951	1,037,526	207,831	3,112,526	776,782
	<u>\$ 3,025,000</u>	<u>\$ 1,205,323</u>	<u>\$ 2,999,206</u>	<u>\$ 679,547</u>	<u>\$ 6,024,206</u>	<u>\$ 1,884,870</u>

The general obligation bonds and installment purchase contracts are being retired by the resources of the General Fund. The general obligation bonds bear interest, payable semiannually, and are collateralized by the full faith, credit, and taxing power of the City. The installment purchases are collateralized by the equipment and facilities on which the lease is given.

NOTES TO FINANCIAL STATEMENTS

The long-term debt of the City's Enterprise Funds includes bonds issued where the City pledges income derived from the Enterprise Fund acquiring or constructing assets with the proceeds to pay debt service. In January 1998, the City issued \$2,040,000 revenue bonds to finance improvements to the City's sewer system. Revenue bonds outstanding as of June 30, 2001 totaled \$1,835,000 and consisted only of the January 1998 issue. 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 can not be less than one hundred twenty percent (120%) of the long-term debt service requirement for parity indebtedness. The calculations of the City's revenue bond coverage for the last three years are as follows:

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1999	\$ 12,182,228	\$ 8,536,338	\$ 3,645,890	\$ 342,506	\$ 372,041	\$ 714,547	510.24%
2000	12,050,171	8,968,739	3,081,432	337,506	354,327	691,833	445.40%
2001	12,715,931	8,635,605	4,080,326	952,506	577,160	1,529,666	266.75%

- (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.

Enterprise fund long-term debt (excluding capital leases) also includes the following general obligation bond issues of the Water and Sewer Fund:

	Balance June 30, 2001
Sanitary Sewer Series 1989, average rate of 6.5245% issued July 1989, maturing serially to 2008	\$ 675,000
Sanitary Sewer Series 1992, average rate of 6.10%, issued January 1992, maturing serially to 2011	650,000
Refunding Bonds, Series 1993, average rate of 4.186%, issued November 1993, maturing serially to 2008	1,935,000
Water and Sewer Bonds, Series 1995, average rate of 5.2756%, issued November 1995, maturing serially to 2015	10,900,000
Water Bonds, Series 1997, average rate of 4.74%, issued December 1997, maturing serially to 2008	475,000
Water Bonds, Series 1998, average rate of 4.4%, issued June 1998, maturing serially to 2017	<u>2,725,000</u>
	<u>\$ 17,360,000</u>

The general obligation bonds were issued to finance the construction of facilities utilized in the operations of the water and sewer systems. The general obligation bonds are being retired by the resources of the Water and Sewer Fund. The general obligation bonds bear interest, payable semiannually, and are collateralized by the full faith, credit, and taxing power of the City.

NOTES TO FINANCIAL STATEMENTS

Enterprise fund long-term debt (excluding capital leases) includes the following State Clean Water Bond Loans in the Water and Sewer Fund:

	<u>Balance June 30, 2001</u>
State Bond Loan, average rate of 5.3%, issued November 1997, maturing serially to 2017	\$ 4,000,000
State Bond Loan, average rate of 5.3%, issued November 1997, maturing serially to 2017	360,096
State Bond Loan, average rate of 2.6%, issued November 1999, maturing serially to 2019	2,850,000
State Bond Loan, average rate of 2.6%, issued June 2000, maturing serially to 2020	<u>8,740,000</u>
	<u>\$ 15,950,096</u>

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 market value of \$7,898,494. The future minimum lease payments at June 30, 2001 total \$5,579,489, including \$1,443,883 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

Future maturities of enterprise fund long-term debt are as follows:

Year Ending June 30,	Bonds		Capital Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 2,232,506	\$ 1,503,143	\$ 261,012	\$ 168,343	\$ 2,493,518	\$ 1,671,486
2003	2,232,506	1,405,762	263,312	158,108	2,495,818	1,563,870
2004	2,232,506	1,308,347	269,676	147,763	2,502,182	1,456,110
2005	2,242,506	1,210,899	271,109	137,071	2,513,615	1,347,970
2006	2,247,506	1,112,892	270,612	126,307	2,518,118	1,239,199
Thereafter	23,957,566	5,954,861	2,799,885	706,291	26,757,451	6,661,152
	<u>\$ 35,145,096</u>	<u>\$ 12,495,904</u>	<u>\$ 4,135,606</u>	<u>\$ 1,443,883</u>	<u>\$ 39,280,702</u>	<u>\$ 13,939,787</u>

The City had a legal debt margin of \$118,126,686 at June 30, 2001.

H. Pension Cost

1. Local Government 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 Government 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, 3512 Bush Street, Raleigh, North Carolina 27609, 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 4.80% and 4.49%, respectively, of annual covered payroll. The contribution requirements of members and of the City of

NOTES TO FINANCIAL STATEMENTS

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, 2001, 2000, and 1999 were \$672,596, \$646,814, and \$584,458, respectively. The contributions made by the City equaled the required contributions for each year.

2. Law Enforcement Officers' Special Separation Allowance

A. 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% 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 is reported as a pension trust fund in the City's Comprehensive Annual Financial Report, which includes all required supplementary information related to the plan.

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2000, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>84</u>
Total	<u><u>86</u></u>

B. Summary of Significant Accounting Policies

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

Method Used to Value Investments. As noted in Note 1F. 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.

C. 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 \$56,101, or 1.96% 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, 2000 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

NOTES TO FINANCIAL STATEMENTS

determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2000 was 30 years.

D. 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	\$ 47,368
Interest on net pension obligation	(1,872)
Adjustment to annual required contribution	<u>2,402</u>
Annual pension cost	\$ 47,898
Contributions made	<u>56,101</u>
Increase in net pension asset	\$ 8,203
Net pension asset beginning of year	<u>25,823</u>
Net pension asset end of year	<u><u>\$ 34,026</u></u>

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2001	\$47,898	117.13%	\$34,026
6/30/2000	50,109	110.89%	25,823
6/30/1999	51,789	94.38%	20,267

3. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy: Article 12E of G.S. Chapter 143 requires that the City contribute each month an amount equal to 5 percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2001 were \$184,999, which consisted of \$142,986 from the City and \$42,013 from the law enforcement officers.

4. 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, 3512 Bush Street, Raleigh, North Carolina 27609, 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.

NOTES TO FINANCIAL STATEMENTS

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, 2001, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$16,224 for the 66 employed firemen who perform firefighting duties for the City's fire department.

I. Other Postemployment Benefits

In addition to providing pension 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, but the benefits may not exceed \$20,000. 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 payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2001, the City made contributions to the State for death benefits of \$18,742. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.13% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

J. Contributed Capital

Grants, entitlement, and shared revenues restricted for the acquisition of or construction of capital assets were recorded as contributed capital prior to the implementation of GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As required by GASB Statement 33, the City has begun recognizing capital contributions from external sources as revenue in the current year rather than as contributed capital. The following is a summary of changes in contributed capital for the year ended June 30, 2001:

	Water and Sewer Fund	Mass Transit Fund		Total Enterprise Fund
Beginning balance: July 1, 2001 and				
Ending balance: June 30, 2000	\$ 32,023,460	\$ 1,490,621	\$	33,514,081

On October 1, 2000, the Town of Spencer contributed the operations and assets of its water and sewer utilities to the City. The excess of the fair value of the assets contributed over the value of liabilities assumed was \$2,863,121 and was recognized as capital contributions in accordance with GASB Statement 33.

K. Water and Sewer Fund - Restricted Assets

The City has combined amounts restricted for capital projects and amounts for which the nature of the transaction generated a related liability with amounts available for general operating use in the statements for the Water and Sewer Fund. These amounts are not available to meet obligations arising from the operating activities of the fund. The amounts listed in the table below are restricted by capital project ordinance, by covenant related to the general obligation bond issue, and/or by the external source of the originating transaction.

NOTES TO FINANCIAL STATEMENTS

A summary of these assets and related liabilities restricted for specific purposes at June 30, 2001, follows:

Cash and investments	\$	8,489,754
Accounts receivable		38,449
Interest receivable		5,719
Due from other governments		2,882,460
Accounts payable		246,425
Customer deposits		276,439

Note 4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides general liability coverage to \$1,000,000 as well as \$1,000,000 for automobile liability. In addition, the City maintains replacement cost insurance on personal property, including boiler and machinery, in an amount of \$72,596,843. Other replacement cost property insurance includes coverage for electronic equipment in the amount of \$1,550,362, automobile physical damage insurance for \$7,197,502, and impounded vehicles for \$100,000. 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.

The City also maintains commercial liability insurance of \$1,000,000 for its public officials and \$1,000,000 for law enforcement professional liability. 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</u> <u>June 30, 1999</u>	<u>Year ended</u> <u>June 30, 2000</u>	<u>Year ended</u> <u>June 30, 2001</u>
Unpaid claims, beginning of fiscal year	\$ 261,614	\$ 285,726	\$ 275,337
Incurred claims (including IBNRs)	1,942,916	1,902,494	2,212,357
Claim payments	<u>(1,918,804)</u>	<u>(1,912,883)</u>	<u>(2,162,318)</u>
Unpaid claims, end of fiscal year	<u>\$ 285,726</u>	<u>\$ 275,337</u>	<u>\$ 325,376</u>

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.

Downtown Salisbury, Inc., is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The unit has commercial insurance covering property, general liability, and employee health coverage. Claims have not exceeded coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS

Note 5. Enterprise Funds - Segment Information

The City maintains two enterprise funds that provide water, sewer, and mass transit services. Segment information for the year ended June 30, 2001 is as follows:

	Water and Sewer Fund	Mass Transit Fund	Totals
Operating revenues	\$ 12,037,258	\$ 78,014	\$ 12,115,272
Depreciation expense	2,810,729	31,272	2,842,001
Operating income (loss)	590,924	(549,934)	40,990
Operating grants	-	307,260	307,260
Operating transfers in	-	160,282	160,282
Net income (loss)	2,913,565	(54,778)	2,858,787
Current capital contributions	2,987,959	-	2,987,959
Total assets	100,349,915	254,426	100,604,341
Fixed assets, net	85,406,774	12,112	85,418,886
Fixed asset additions	8,166,359	1,500	8,167,859
Net working capital	23,590	198,781	222,371
Long-term debt	39,280,702	-	39,280,702
Retained earnings (deficit)	27,789,677	(1,279,728)	26,509,949
Contributed capital	32,023,460	1,490,621	33,514,081
Total equity	59,813,137	210,893	60,024,030

Note 6. 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 which 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 fire fighters 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, 2001, the City reported revenues and expenditures for the payments of \$57,968 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, 2001. 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 7. Contingencies, Commitments and Subsequent Events

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

At June 30, 2001, the City has \$261,092 in uncompleted construction contracts in the General Fund that are included in the reservation of fund balance for encumbrances. In addition, the City has \$1,819,392 in uncompleted construction contracts in the Water and Sewer Fund.

Note 8. Pending GASB Statement

At June 30, 2001, the Governmental Accounting Standards Board (GASB) had issued a statement not yet implemented by the City. The statement that will impact the City is GASB Statement No. 34. GASB Statement No. 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 2000, will be effective for the City for the year ending June 30, 2003. This Statement imposes new standards of financial reporting. Financial managers will be required to provide a management's

NOTES TO FINANCIAL STATEMENTS

discussion and analysis (MD&A) that gives readers an analysis of the City's overall financial position and results of the previous year's operations. The titles and formats of the financial statements will change significantly. Governmental units will continue to provide budgetary information in their reports; however, under this Statement, they will be required to provide the government's original budget as well as the final budget and actual results. Management has not yet completed its assessment of this Statement; however, it will have a significant effect on the overall financial statement presentation.

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

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2)	(3)	Funded Ratio (1) / (2)	(4) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (4)
		Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAL) (2) - (1)			
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%
1998	222,945	448,747	225,802	49.68%	2,404,793	9.39%
1997	179,257	436,656	257,399	41.05%	2,391,215	10.76%
1996	141,175	380,118	238,943	37.14%	2,169,850	11.01%
1995	110,262	352,314	242,052	31.30%	1,998,555	12.11%

CITY OF SALISBURY, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Six Fiscal Years

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2001	\$ 47,368	118%
2000	49,733	112
1999	51,401	104
1998	46,376	115
1997	43,984	100
1996	39,685	100

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	12/31/2000
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	30 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.

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

COMPARATIVE BALANCE SHEETS

June 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Cash and investments	\$ 5,849,399	\$ 5,702,156
Taxes receivable (net of allowance for uncollectible)	496,666	357,345
Accounts receivable	616,934	699,686
Interest receivable	4,079	10,880
Due from other governments	1,984,835	1,256,420
Prepaid items	<u>15,245</u>	<u>13,679</u>
Total assets	<u>\$ 8,967,158</u>	<u>\$ 8,040,166</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,031,523	\$ 1,282,453
Deferred revenue	<u>728,443</u>	<u>1,299,069</u>
Total liabilities	<u>\$ 2,759,966</u>	<u>\$ 2,581,522</u>
FUND EQUITY		
Fund balances:		
Reserved by State statute	\$ 2,605,848	\$ 1,966,986
Reserved for encumbrances	373,121	360,403
Reserved for prepaid items	15,245	13,679
Unreserved:		
Designated for capital equipment replacement	932,573	883,595
Undesignated	<u>2,280,405</u>	<u>2,233,981</u>
Total fund equity	<u>\$ 6,207,192</u>	<u>\$ 5,458,644</u>
Total liabilities and fund equity	<u>\$ 8,967,158</u>	<u>\$ 8,040,166</u>

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

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

For the Year Ended June 30, 2001

With Comparative Actual Amounts for the Year Ended June 30, 2000

	2001		2000	
	Actual	Budget	Actual Over (Under) Budget	Actual
REVENUES:				
Taxes	\$ 14,066,947	\$ 14,526,270	\$ (459,323)	\$ 13,331,647
License and permits	533,554	509,280	24,274	441,422
Intergovernmental	6,040,285	6,219,456	(179,171)	5,106,109
Charges for services	1,783,086	1,692,876	90,210	1,545,522
Miscellaneous	2,220,080	2,306,438	(86,358)	1,305,330
Administrative charges	1,505,714	1,505,714	-	1,519,860
Total revenues	<u>\$ 26,149,666</u>	<u>\$ 26,760,034</u>	<u>\$ (610,368)</u>	<u>\$ 23,249,890</u>
OTHER FINANCING SOURCES:				
Proceeds from capital leases	\$ -	\$ -	\$ -	\$ 1,595,790
Fund balance appropriated	-	855,083	(855,083)	-
Total other financing sources	<u>\$ -</u>	<u>\$ 855,083</u>	<u>\$ (855,083)</u>	<u>\$ 1,595,790</u>
Total revenues and other financing sources	<u>\$ 26,149,666</u>	<u>\$ 27,615,117</u>	<u>\$ (1,465,451)</u>	<u>\$ 24,845,680</u>
EXPENDITURES:				
Current:				
General government	\$ 5,301,158	\$ 5,758,083	\$ (456,925)	\$ 5,326,773
Public safety	8,860,001	9,148,428	(288,427)	8,938,838
Transportation	3,582,241	4,731,975	(1,149,734)	3,094,241
Environmental protection	1,413,534	1,417,242	(3,708)	1,394,724
Culture and recreation	3,544,639	3,697,887	(153,248)	2,329,806
Community and economic development	1,489,678	1,649,846	(160,168)	1,631,390
Education	42,342	42,342	-	42,342
Debt service:				
Principal	707,050	708,145	(1,095)	586,081
Interest	300,193	300,887	(694)	250,804
Total expenditures	<u>\$ 25,240,836</u>	<u>\$ 27,454,835</u>	<u>\$ (2,213,999)</u>	<u>\$ 23,594,999</u>
OTHER FINANCING USES:				
Operating transfers to other funds:				
Mass transit	160,282	160,282	-	160,282
Total expenditures and other financing uses	<u>\$ 25,401,118</u>	<u>\$ 27,615,117</u>	<u>\$ (2,213,999)</u>	<u>\$ 23,755,281</u>
NET INCREASE IN FUND BALANCE	\$ 748,548	<u>\$ -</u>	<u>\$ 748,548</u>	\$ 1,090,399
FUND BALANCE, BEGINNING	5,458,644			4,368,245
FUND BALANCE, ENDING	<u>\$ 6,207,192</u>			<u>\$ 5,458,644</u>

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

For the Year Ended June 30, 2001

REVENUES:	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>
Taxes:			
General property-current	\$ 10,482,151	\$ 10,780,208	\$ (298,057)
General property-prior	190,263	322,417	(132,154)
Interest on delinquent tax	47,024	50,000	(2,976)
Local option sales tax	3,346,897	3,372,845	(25,948)
Other tax	612	800	(188)
	<u>\$ 14,066,947</u>	<u>\$ 14,526,270</u>	<u>\$ (459,323)</u>
Licenses and permits:			
Privilege license	\$ 346,592	\$ 305,700	\$ 40,892
Franchises	186,962	203,580	(16,618)
	<u>\$ 533,554</u>	<u>\$ 509,280</u>	<u>\$ 24,274</u>
Intergovernmental:			
Federal	\$ 364,420	\$ 462,268	\$ (97,848)
State	5,557,463	5,650,317	(92,854)
Local	118,402	106,871	11,531
	<u>\$ 6,040,285</u>	<u>\$ 6,219,456</u>	<u>\$ (179,171)</u>
Charges for services:			
Supportive court services	\$ 32,835	\$ 28,230	\$ 4,605
Community services	148,675	154,104	(5,429)
Culture and recreation	186,665	218,368	(31,703)
Environmental protection	827,395	821,020	6,375
Public safety	587,516	471,154	116,362
	<u>\$ 1,783,086</u>	<u>\$ 1,692,876</u>	<u>\$ 90,210</u>
Miscellaneous:			
Interest earned on investments	\$ 479,119	\$ 224,570	\$ 254,549
Insurance proceeds	31,145	25,000	6,145
Rentals and sale of property	524,889	500,118	24,771
Other	1,184,927	1,556,750	(371,823)
	<u>\$ 2,220,080</u>	<u>\$ 2,306,438</u>	<u>\$ (86,358)</u>
Administrative charges:			
Interfund revenues	\$ 1,505,714	\$ 1,505,714	\$ -
Total revenues	<u>\$ 26,149,666</u>	<u>\$ 26,760,034</u>	<u>\$ (610,368)</u>
OTHER FINANCING SOURCES:			
Fund balance appropriated	\$ -	\$ 855,083	\$ (855,083)
Total revenues and other financing sources	<u>\$ 26,149,666</u>	<u>\$ 27,615,117</u>	<u>\$ (1,465,451)</u>

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CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL
For the Year Ended June 30, 2001

EXPENDITURES:	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>
Current:			
General government:			
City council	\$ 98,894	\$ 100,850	\$ (1,956)
City manager's office	753,070	763,248	(10,178)
Purchasing	151,526	156,280	(4,754)
Human resources	527,059	543,422	(16,363)
Finance	844,124	873,635	(29,511)
Fleet management	761,775	784,582	(22,807)
Public services administration	172,879	207,300	(34,421)
City office buildings	559,157	882,168	(323,011)
Telecommunication	295,432	305,945	(10,513)
Information technologies	<u>1,137,242</u>	<u>1,140,653</u>	<u>(3,411)</u>
	<u>\$ 5,301,158</u>	<u>\$ 5,758,083</u>	<u>\$ (456,925)</u>
Public safety:			
Police:			
Administration	\$ 490,347	\$ 600,477	\$ (110,130)
Services	1,474,475	1,576,627	(102,152)
Operations	3,779,571	3,837,347	(57,776)
Fire	<u>3,115,608</u>	<u>3,133,977</u>	<u>(18,369)</u>
	<u>\$ 8,860,001</u>	<u>\$ 9,148,428</u>	<u>\$ (288,427)</u>
Transportation:			
Traffic engineering	\$ 425,318	\$ 451,043	\$ (25,725)
Engineering	695,659	1,796,649	(1,100,990)
Streets	2,163,766	2,176,432	(12,666)
Street lighting	<u>297,498</u>	<u>307,851</u>	<u>(10,353)</u>
	<u>\$ 3,582,241</u>	<u>\$ 4,731,975</u>	<u>\$ (1,149,734)</u>
Environmental protection:			
Solid waste management	\$ 1,210,439	\$ 1,212,928	\$ (2,489)
Cemetery	<u>203,095</u>	<u>204,314</u>	<u>(1,219)</u>
	<u>\$ 1,413,534</u>	<u>\$ 1,417,242</u>	<u>\$ (3,708)</u>
Culture and recreation:			
Landscaping	\$ 723,964	\$ 735,897	\$ (11,933)
Recreation	<u>2,820,675</u>	<u>2,961,990</u>	<u>(141,315)</u>
	<u>\$ 3,544,639</u>	<u>\$ 3,697,887</u>	<u>\$ (153,248)</u>
Community and economic development:			
Community development	\$ 922,124	\$ 1,027,997	\$ (105,873)
The Plaza	217,171	265,019	(47,848)
Developmental services	<u>350,383</u>	<u>356,830</u>	<u>(6,447)</u>
	<u>\$ 1,489,678</u>	<u>\$ 1,649,846</u>	<u>\$ (160,168)</u>
Education	<u>\$ 42,342</u>	<u>\$ 42,342</u>	<u>\$ -</u>
Debt service:			
Principal	\$ 707,050	\$ 708,145	\$ (1,095)
Interest	<u>300,193</u>	<u>300,887</u>	<u>(694)</u>
	<u>\$ 1,007,243</u>	<u>\$ 1,009,032</u>	<u>\$ (1,789)</u>
Total expenditures	<u>\$ 25,240,836</u>	<u>\$ 27,454,835</u>	<u>\$ (2,213,999)</u>
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass transit	<u>160,282</u>	<u>160,282</u>	<u>-</u>
Total expenditures and other financing uses	<u>\$ 25,401,118</u>	<u>\$ 27,615,117</u>	<u>\$ (2,213,999)</u>

Special Revenue 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.

Community Development Fund - to account for the operations of the City's community development programs. Financing is provided by the U.S. Department of Housing and Urban Development.

CITY OF SALISBURY, NORTH CAROLINA
SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT
COMPARATIVE BALANCE SHEETS

June 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Cash and investments	\$ 163,363	\$ 89,848
Accounts receivable	84	3,868
Due from other governments	<u>6,361</u>	<u>4,618</u>
Total assets	<u>\$ 169,808</u>	<u>\$ 98,334</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 26,686</u>	<u>\$ 7,029</u>
Total liabilities	<u>\$ 26,686</u>	<u>\$ 7,029</u>
 FUND EQUITY		
Fund balances:		
Reserved by State statute	\$ 6,445	\$ 8,486
Unreserved:		
Designated for subsequent year's expenditures	<u>136,677</u>	<u>82,819</u>
Total fund equity	<u>\$ 143,122</u>	<u>\$ 91,305</u>
 Total liabilities and fund equity	 <u>\$ 169,808</u>	 <u>\$ 98,334</u>

CITY OF SALISBURY, NORTH CAROLINA

SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT

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

For the Year Ended June 30, 2001
With Comparative Actual Amounts for the Year Ended June 30, 2000

	<u>2001</u>		<u>2000</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>	<u>Actual</u>
REVENUES:				
Intergovernmental:				
Federal	\$ 272,765	\$ 600,222	\$ (327,457)	\$ 739,433
Miscellaneous:				
Interest earned on investments	357	-	357	4,028
Other	<u>345,844</u>	<u>465,928</u>	<u>(120,084)</u>	<u>169,020</u>
Total revenues	<u>\$ 618,966</u>	<u>\$ 1,066,150</u>	<u>\$ (447,184)</u>	<u>\$ 912,481</u>
EXPENDITURES:				
Current:				
General government	\$ 35,191	\$ 93,500	\$ (58,309)	\$ 92,119
Community and economic development	<u>531,958</u>	<u>972,650</u>	<u>(440,692)</u>	<u>890,594</u>
Total expenditures	<u>\$ 567,149</u>	<u>\$ 1,066,150</u>	<u>\$ (499,001)</u>	<u>\$ 982,713</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ 51,817	<u>\$ -</u>	<u>\$ 51,817</u>	\$ (70,232)
FUND BALANCE, BEGINNING	<u>91,305</u>			<u>161,537</u>
FUND BALANCE, ENDING	<u>\$ 143,122</u>			<u>\$ 91,305</u>

Capital Projects Fund

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

CAPITAL PROJECTS FUND

COMPARATIVE BALANCE SHEETS

June 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Cash and investments	\$ 295,471	\$ 132,912
Total assets	<u>\$ 295,471</u>	<u>\$ 132,912</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
FUND EQUITY		
Fund Balances:		
Unreserved:		
Designated for subsequent year's expenditures	\$ 295,471	\$ 132,912
Total fund equity	<u>\$ 295,471</u>	<u>\$ 132,912</u>
Total liabilities and fund equity	<u>\$ 295,471</u>	<u>\$ 132,912</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, 2001

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES:				
Miscellaneous				
Interest earned on investments	\$ 132,124	\$ 75,861	\$ 29,220	\$ 105,081
EXPENDITURES:				
Culture and recreation	\$ 1,050,000	\$ -	\$ 727,486	\$ 727,486
Transportation	530,124	390,949	139,175	530,124
Total expenditures	\$ 1,580,124	\$ 390,949	\$ 866,661	\$ 1,257,610
Total revenues under expenditures	\$ (1,448,000)	\$ (315,088)	\$ (837,441)	\$ (1,152,529)
OTHER FUNDING SOURCES				
Proceeds from issuance of debt	1,448,000	448,000	1,000,000	1,448,000
NET INCREASE IN FUND BALANCE	\$ -	\$ 132,912	\$ 162,559	\$ 295,471
FUND BALANCE, BEGINNING			132,912	
FUND BALANCE, ENDING			\$ 295,471	

Enterprise Funds

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.

CITY OF SALISBURY, NORTH CAROLINA
ENTERPRISE FUNDS
COMBINING BALANCE SHEET

June 30, 2001

With Comparative Totals at June 30, 2000

<u>ASSETS</u>	<u>Water</u>		<u>Totals</u>	
	<u>and Sewer</u>	<u>Mass Transit</u>	<u>2001</u>	<u>2000</u>
CURRENT ASSETS				
Cash and investments	\$ 1,305,427	\$ 195,489	\$ 1,500,916	\$ 2,302,089
Accounts receivable (net of allowance for uncollectible)	2,019,942	4,034	2,023,976	2,043,758
Interest receivable	27,646	167	27,813	7,137
Due from other governments	-	42,624	42,624	157,102
Inventories	173,744	-	173,744	265,348
Total current assets	<u>\$ 3,526,759</u>	<u>\$ 242,314</u>	<u>\$ 3,769,073</u>	<u>\$ 4,775,434</u>
RESTRICTED ASSETS				
Cash	8,489,754	-	8,489,754	7,934,840
Accounts receivable	38,449	-	38,449	210,101
Interest receivable	5,719	-	5,719	13,026
Due from other governments	2,882,460	-	2,882,460	3,000,000
Total restricted assets	<u>\$ 11,416,382</u>	<u>\$ -</u>	<u>\$ 11,416,382</u>	<u>\$ 11,157,967</u>
FIXED ASSETS				
Land	\$ 2,074,567	\$ -	\$ 2,074,567	\$ 2,074,567
Buildings and improvements	95,551,963	481,794	96,033,757	91,942,739
Equipment	6,367,667	906,365	7,274,032	6,897,408
Construction in progress	14,020,184	-	14,020,184	10,452,733
Less accumulated depreciation	<u>(32,607,607)</u>	<u>(1,376,047)</u>	<u>(33,983,654)</u>	<u>(31,261,879)</u>
Total fixed assets	<u>\$ 85,406,774</u>	<u>\$ 12,112</u>	<u>\$ 85,418,886</u>	<u>\$ 80,105,568</u>
Total assets	<u>\$ 100,349,915</u>	<u>\$ 254,426</u>	<u>\$ 100,604,341</u>	<u>\$ 96,038,969</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 512,352	\$ 43,533	\$ 555,885	\$ 874,409
Interest payable	220,860	-	220,860	205,357
Current maturities of long-term debt	2,493,518	-	2,493,518	1,976,305
Customer deposits	276,439	-	276,439	182,989
Liabilities payable from restricted assets	246,425	-	246,425	1,068,671
Total current liabilities	<u>\$ 3,749,594</u>	<u>\$ 43,533</u>	<u>\$ 3,793,127</u>	<u>\$ 4,307,731</u>
LONG-TERM DEBT				
Bonds payable	\$ 32,912,590	\$ -	\$ 32,912,590	\$ 31,756,005
Capital leases payable	3,874,594	-	3,874,594	2,809,990
Total long term-debt	<u>\$ 36,787,184</u>	<u>\$ -</u>	<u>\$ 36,787,184</u>	<u>\$ 34,565,995</u>
FUND EQUITY				
Contributed capital	\$ 32,023,460	\$ 1,490,621	\$ 33,514,081	\$ 33,514,081
Retained earnings (deficit)	27,789,677	(1,279,728)	26,509,949	23,651,162
Total fund equity	<u>\$ 59,813,137</u>	<u>\$ 210,893</u>	<u>\$ 60,024,030</u>	<u>\$ 57,165,243</u>
Total liabilities and fund equity	<u>\$ 100,349,915</u>	<u>\$ 254,426</u>	<u>\$ 100,604,341</u>	<u>\$ 96,038,969</u>

CITY OF SALISBURY, NORTH CAROLINA

ENTERPRISE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGSFor the Year Ended June 30, 2001
With Comparative Totals For The Year Ended June 30, 2000

	Water and Sewer		Totals	
			2001	2000
OPERATING REVENUES:				
Charges for services	\$ 12,037,258	\$ 78,014	\$ 12,115,272	\$ 11,485,274
OPERATING EXPENSES:				
Management and administration	\$ 2,375,764	\$ 135,322	\$ 2,511,086	\$ 2,751,589
Water resources	3,970,313	-	3,970,313	4,210,023
Maintenance and distribution	2,289,528	-	2,289,528	2,131,150
Depreciation	2,810,729	31,272	2,842,001	2,463,431
Mass transit operations	-	461,354	461,354	368,945
Total operating expenses	\$ 11,446,334	\$ 627,948	\$ 12,074,282	\$ 11,925,138
OPERATING INCOME (LOSS)	\$ 590,924	\$ (549,934)	\$ 40,990	\$ (439,864)
NONOPERATING REVENUES (EXPENSES):				
Interest earned on investments	\$ 681,089	\$ 11,617	\$ 692,706	\$ 655,022
Intergovernmental	-	307,260	307,260	216,129
Miscellaneous revenues	424,817	15,997	440,814	364,720
Interest expense	(1,771,224)	-	(1,771,224)	(1,460,390)
Net nonoperating revenues (expenses)	\$ (665,318)	\$ 334,874	\$ (330,444)	\$ (224,519)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	\$ (74,394)	\$ (215,060)	\$ (289,454)	\$ (664,383)
CAPITAL CONTRIBUTIONS	\$ 2,987,959	\$ -	2,987,959	\$ -
OPERATING TRANSFERS IN:				
General Fund	-	\$ 160,282	\$ 160,282	\$ 160,282
NET INCOME (LOSS)	\$ 2,913,565	\$ (54,778)	\$ 2,858,787	\$ (504,101)
RETAINED EARNINGS (DEFICIT), BEGINNING	24,876,112	(1,224,950)	23,651,162	24,155,263
RETAINED EARNINGS (DEFICIT), ENDING	\$ 27,789,677	\$ (1,279,728)	\$ 26,509,949	\$ 23,651,162

CITY OF SALISBURY, NORTH CAROLINA

ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2001

With Comparative Totals for the Year Ended June 30, 2000

	Water		Totals	
	and Sewer	Mass Transit	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 590,924	\$ (549,934)	\$ 40,990	\$ (439,864)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	2,810,729	31,272	2,842,001	2,463,431
(Gain) loss on disposal of fixed assets	10,561	(2,628)	7,933	2,117
Other receipts	424,817	15,997	440,814	370,064
Change in assets and liabilities:				
(Increase) decrease in accounts and interest receivable	178,937	(872)	178,065	(2,966,770)
(Increase) decrease in inventory	23,724	67,880	91,604	(8,718)
(Increase) decrease due from other governments	117,540	114,478	232,018	(111,476)
Increase (decrease) in accounts and interest payable and accrued liabilities	(1,113,666)	(11,601)	(1,125,267)	152,287
Increase (decrease) in customer deposits	93,450	-	93,450	(487)
Net cash provided by (used for) operating activities	<u>\$ 3,137,016</u>	<u>\$ (335,408)</u>	<u>\$ 2,801,608</u>	<u>\$ (539,416)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	\$ -	\$ 307,260	\$ 307,260	\$ 216,129
Operating transfer from general fund	-	160,282	160,282	160,282
Net cash provided by noncapital financing activities	<u>\$ -</u>	<u>\$ 467,542</u>	<u>\$ 467,542</u>	<u>\$ 376,411</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuing general obligation bonds	\$ 3,849,091	\$ -	\$ 3,849,091	\$ 8,350,909
Capital grants received	-	-	-	630
Interest paid on general obligation bonds	(1,771,224)	-	(1,771,224)	(1,460,390)
Disposition of capital assets	4,607	-	4,607	-
Acquisition of capital assets	(4,070,341)	(1,500)	(4,071,841)	(10,309,981)
Principal paid on general obligation bonds	(2,484,943)	-	(2,484,943)	(1,826,305)
Capital contributions	266,195	-	266,195	579,513
Net cash used for capital and related financing activities	<u>\$ (4,206,615)</u>	<u>\$ (1,500)</u>	<u>\$ (4,208,115)</u>	<u>\$ (4,665,624)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investment securities	<u>\$ 681,089</u>	<u>\$ 11,617</u>	<u>\$ 692,706</u>	<u>\$ 649,678</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	\$ (388,510)	\$ 142,251	\$ (246,259)	\$ (4,178,951)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>10,183,691</u>	<u>53,238</u>	<u>10,236,929</u>	<u>14,415,880</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 9,795,181</u>	<u>\$ 195,489</u>	<u>\$ 9,990,670</u>	<u>\$ 10,236,929</u>

NON-CASH CAPITAL AND FINANCING ACTIVITIES

As discussed in the notes to the financial statements, on October 1, 2000, the City took over the water and sewer operations of a local municipality. The takeover resulted in a non-cash acquisition of fixed assets in the amount of \$4,096,018, capital leases totaling \$1,374,254, and capital contributions from the municipality of \$2,863,121.

CITY OF SALISBURY, NORTH CAROLINA

WATER AND SEWER FUND

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
(NON-GAAP, MODIFIED ACCRUAL BASIS)

For the Year Ended June 30, 2001

With Comparative Actual Amounts for Year Ended June 30, 2000

	2001		2000	
	Actual	Budget	Actual Over (Under) Budget	Actual
OPERATING REVENUES:				
Charges for services	\$ 12,037,258	\$ 14,404,563	\$ (2,367,305)	\$ 11,405,780
OPERATING EXPENSES OTHER THAN DEPRECIATION:				
Management and administration	\$ 2,375,764	\$ 2,501,687	\$ (125,923)	\$ 2,593,840
Water resources	3,970,313	4,143,873	(173,560)	4,210,023
Maintenance and distribution	2,248,188	3,257,421	(1,009,233)	2,120,065
Total operating expenses other than depreciation	\$ 8,594,265	\$ 9,902,981	\$ (1,308,716)	\$ 8,923,928
NONOPERATING REVENUES (EXPENSES):				
Interest on investments	\$ 141,548	\$ 210,000	\$ (68,452)	\$ 649,678
Miscellaneous revenues	424,817	292,900	131,917	351,415
Capital contributions	2,912,173	2,900,000	12,173	579,513
Interest expense	(1,786,727)	(1,771,116)	(15,611)	(1,445,774)
Net nonoperating revenues	\$ 1,691,811	\$ 1,631,784	\$ 60,027	\$ 134,832
Income from operations	\$ 5,134,804	\$ 6,133,366	\$ (998,562)	\$ 2,616,684
OTHER FINANCING SOURCES (USES):				
Capital outlay	\$ (4,782,602)	\$ (4,870,970)	\$ 88,368	\$ (10,306,129)
Payment of debt principal	(2,484,943)	(2,484,943)	-	(1,826,305)
Proceeds from capital leases	1,374,254	1,400,000	(25,746)	-
Retained earnings appropriated	-	(177,453)	177,453	-
Total other financing sources (uses)	\$ (5,893,291)	\$ (6,133,366)	\$ 240,075	\$ (3,781,525)
EXCESS OF EXPENSES OVER REVENUES	\$ (758,487)	\$ -	\$ (758,487)	\$ (1,164,841)
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of expenses over revenues	\$ (758,487)			
Capital outlay	4,782,602			
Depreciation	(2,810,729)			
Payment of debt principal	2,484,943			
Proceeds from capital leases	(1,374,254)			
Interest income from Capital Projects Fund	539,541			
Capital contributions in Capital Project Fund	75,786			
Interest expense	15,503			
Inventories	(23,724)			
Vacation pay	(17,616)			
NET INCOME	\$ 2,913,565			

CITY OF SALISBURY, NORTH CAROLINA
WATER AND SEWER CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (NON-GAAP)

From Inception and for the Year Ended June 30, 2001

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES				
Miscellaneous				
Interest on investments	\$ 310,000	\$ 1,124,622	\$ 544,648	\$ 1,669,270
EXPENSES-SEWER PROJECT				
Construction	\$ 9,638,384	\$ 6,873,679	\$ 1,900,099	\$ 8,773,778
Engineering	1,814,235	1,370,543	357,081	1,727,624
Total expenses-Sewer project	\$ 11,452,619	\$ 8,244,222	\$ 2,257,180	\$ 10,501,402
EXPENSES-WATER PROJECT				
Construction	\$ 4,488,723	\$ 1,728,703	\$ 301,880	\$ 2,030,583
Engineering	3,023,665	479,808	1,236,006	1,715,814
Total expenses-Water project	\$ 7,512,388	\$ 2,208,511	\$ 1,537,886	\$ 3,746,397
Total expenses	\$ 18,965,007	\$ 10,452,733	\$ 3,795,066	\$ 14,247,799
Total revenues under expenses	\$ (18,655,007)	\$ (9,328,111)	\$ (3,250,418)	\$ (12,578,529)
OTHER FINANCING SOURCES				
Proceeds from sale of bonds	\$ 12,989,783	\$ 12,508,541	\$ -	\$ 12,508,541
Lease Purchase Revenues	368,600	-	-	-
Developer contributions	1,543,124	140,202	119,607	259,809
Operating transfers from water and sewer fund	626,683	184,399	442,284	626,683
Appropriated fund balance	3,126,817	754,493	2,682,324	3,436,817
Total other financing sources	\$ 18,655,007	\$ 13,587,635	\$ 3,244,215	\$ 16,831,850
Unexpended revenues and receipts	\$ -	\$ 4,259,524	\$ (6,203)	\$ 4,253,321

CITY OF SALISBURY, NORTH CAROLINA

MASS TRANSIT FUND

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
(NON-GAAP, MODIFIED ACCRUAL BASIS)

For the Year Ended June 30, 2001

With Comparative Actual Amounts for Year Ended June 30, 2000

	2001		Actual Over (Under) Budget	2000
	Actual	Budget		Actual
OPERATING REVENUES:				
Charges for services	\$ 78,014	\$ 82,326	\$ (4,312)	\$ 79,494
OPERATING EXPENSES OTHER THAN DEPRECIATION:				
Management and administration	\$ 135,322	\$ 137,147	\$ (1,825)	\$ 125,330
Mass transit operations	460,310	465,938	(5,628)	366,578
Total operating expenses other than depreciation	\$ 595,632	\$ 603,085	\$ (7,453)	\$ 491,908
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental	\$ 307,260	\$ 310,846	\$ (3,586)	\$ 216,759
Interest on investments	11,617	4,500	7,117	
Miscellaneous revenues	15,997	15,000	997	18,649
Total nonoperating revenues	\$ 334,874	\$ 330,346	\$ 4,528	\$ 235,408
Loss from operations	\$ (182,744)	\$ (190,413)	\$ 7,669	\$ (177,006)
OTHER FINANCING SOURCES (USES):				
Capital outlay	\$ (1,500)	\$ (4,660)	\$ 3,160	\$ (3,852)
Appropriated fund balance	-	34,791	(34,791)	-
Operating transfers in:				
General fund	160,282	160,282	-	160,282
Total other financing sources (uses)	\$ 158,782	\$ 190,413	\$ (31,631)	\$ 156,430
EXCESS OF EXPENSES OVER REVENUES	\$ (23,962)	\$ -	\$ (23,962)	\$ (20,576)
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of revenues over expenses, above	\$ (23,962)			
Depreciation	(31,272)			
Capital outlay	1,500			
Vacation pay	(1,044)			
NET LOSS	\$ (54,778)			

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, 2001

With Comparative Totals at June 30, 2000

<u>ASSETS</u>	<u>Workers'</u> <u>Compensation</u>	<u>Employee</u> <u>Health Care</u>	<u>Totals</u>	
			<u>2001</u>	<u>2000</u>
CURRENT ASSETS				
Cash and investments	\$ 113,897	\$ 171,828	\$ 285,725	\$ 217,723
Interest receivable	88	30	118	311
Total assets	<u>\$ 113,985</u>	<u>\$ 171,858</u>	<u>\$ 285,843</u>	<u>\$ 218,034</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 7,511	\$ 325,376	\$ 332,887	\$ 276,530
FUND EQUITY				
Retained earnings (deficit)	106,474	(153,518)	(47,044)	(58,496)
Total liabilities and fund equity	<u>\$ 113,985</u>	<u>\$ 171,858</u>	<u>\$ 285,843</u>	<u>\$ 218,034</u>

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGSFor the Year Ended June 30, 2001
With Comparative Totals For The Year Ended June 30, 2000

	Workers' Compensation	Employee Health Care	Totals	
			2001	2000
OPERATING REVENUES:				
Charges for services	\$ 69,790	\$ 2,267,317	\$ 2,337,107	\$ 1,912,748
OPERATING EXPENSES:				
Employee benefits	<u>118,882</u>	<u>2,217,357</u>	<u>2,336,239</u>	<u>1,939,530</u>
OPERATING INCOME (LOSS)	\$ (49,092)	\$ 49,960	\$ 868	\$ (26,782)
NONOPERATING REVENUES				
Interest earned on investments	<u>9,219</u>	<u>1,365</u>	<u>10,584</u>	<u>6,981</u>
NET INCOME (LOSS)	\$ (39,873)	\$ 51,325	\$ 11,452	\$ (19,801)
RETAINED EARNINGS (DEFICIT), BEGINNING	<u>146,347</u>	<u>(204,843)</u>	<u>(58,496)</u>	<u>(38,695)</u>
RETAINED EARNINGS (DEFICIT), ENDING	<u>\$ 106,474</u>	<u>\$ (153,518)</u>	<u>\$ (47,044)</u>	<u>\$ (58,496)</u>

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2001
 With Comparative Totals for the Year Ended June 30, 2000

	Workers'	Employee	Totals	
			Compensation	Health Care
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ (49,092)	\$ 49,960	\$ 868	\$ (26,782)
Change in assets and liabilities:				
Decrease in interest receivable	91	102	193	716
Increase (decrease) in accounts payable	<u>6,318</u>	<u>50,039</u>	<u>56,357</u>	<u>(11,713)</u>
Net cash provided by (used for) operating activities	<u>\$ (42,683)</u>	<u>\$ 100,101</u>	<u>\$ 57,418</u>	<u>\$ (37,779)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES				
Interest received on investment securities	<u>\$ 9,219</u>	<u>\$ 1,365</u>	<u>\$ 10,584</u>	<u>\$ 6,981</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (33,464)	\$ 101,466	\$ 68,002	\$ (30,798)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>147,361</u>	<u>70,362</u>	<u>217,723</u>	<u>248,521</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 113,897</u>	<u>\$ 171,828</u>	<u>\$ 285,725</u>	<u>\$ 217,723</u>

CITY OF SALISBURY, NORTH CAROLINA
WORKERS' COMPENSATION INTERNAL SERVICE FUND
COMPARATIVE BALANCE SHEETS

June 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash and investments	\$ 113,897	\$ 147,361
Interest receivable	<u>88</u>	<u>179</u>
Total assets	<u>\$ 113,985</u>	<u>\$ 147,540</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 7,511	\$ 1,193
 FUND EQUITY		
Retained earnings	<u>106,474</u>	<u>146,347</u>
Total liabilities and fund equity	<u>\$ 113,985</u>	<u>\$ 147,540</u>

CITY OF SALISBURY, NORTH CAROLINA
WORKERS' COMPENSATION INTERNAL SERVICE FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

For the Year Ended June 30, 2001
With Comparative Totals For The Year Ended June 30, 2000

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES:		
Charges for services	\$ 69,790	\$ 125,013
OPERATING EXPENSES:		
Employee benefits	<u>118,882</u>	<u>37,036</u>
OPERATING INCOME (LOSS)	\$ (49,092)	\$ 87,977
NONOPERATING REVENUES		
Interest earned on investments	<u>9,219</u>	<u>2,002</u>
NET INCOME (LOSS)	\$ (39,873)	\$ 89,979
RETAINED EARNINGS, BEGINNING	<u>146,347</u>	<u>56,368</u>
RETAINED EARNINGS, ENDING	<u>\$ 106,474</u>	<u>\$ 146,347</u>

CITY OF SALISBURY, NORTH CAROLINA
WORKERS' COMPENSATION INTERNAL SERVICE FUND
COMPARATIVE STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2001
With Comparative Totals for the Year Ended June 30, 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (49,092)	\$ 87,977
Change in assets and liabilities:		
Decrease in interest receivable	91	95
Increase (decrease) in accounts payable	<u>6,318</u>	<u>(1,324)</u>
Net cash provided by (used for) operating activities	\$ (42,683)	\$ 86,748
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest received on investment securities	<u>9,219</u>	<u>2,002</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (33,464)	\$ 88,750
CASH AND CASH EQUIVALENTS, BEGINNING	<u>147,361</u>	<u>58,611</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 113,897</u>	<u>\$ 147,361</u>

CITY OF SALISBURY, NORTH CAROLINA
EMPLOYEE HEALTH CARE INTERNAL SERVICE FUND
COMPARATIVE BALANCE SHEETS

June 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash and investments	\$ 171,828	\$ 70,362
Interest receivable	<u>30</u>	<u>132</u>
Total assets	<u>\$ 171,858</u>	<u>\$ 70,494</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 325,376	\$ 275,337
FUND DEFICIT		
Retained deficit	<u>(153,518)</u>	<u>(204,843)</u>
Total liabilities and fund equity	<u>\$ 171,858</u>	<u>\$ 70,494</u>

CITY OF SALISBURY, NORTH CAROLINA
EMPLOYEE HEALTH CARE INTERNAL SERVICE FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

For the Year Ended June 30, 2001
With Comparative Totals For The Year Ended June 30, 2000

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES:		
Charges for services	\$ 2,267,317	\$ 1,787,735
OPERATING EXPENSES:		
Employee benefits	<u>2,217,357</u>	<u>1,902,494</u>
OPERATING INCOME (LOSS)	\$ 49,960	\$ (114,759)
NONOPERATING REVENUES		
Interest earned on investments	<u>1,365</u>	<u>4,979</u>
NET INCOME (LOSS)	\$ 51,325	\$ (109,780)
RETAINED EARNINGS (DEFICIT), BEGINNING	<u>(204,843)</u>	<u>(95,063)</u>
RETAINED EARNINGS (DEFICIT), ENDING	<u><u>\$ (153,518)</u></u>	<u><u>\$ (204,843)</u></u>

CITY OF SALISBURY, NORTH CAROLINA
EMPLOYEE HEALTH CARE INTERNAL SERVICE FUND
COMPARATIVE STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2001
With Comparative Totals for the Year Ended June 30, 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 49,960	\$ (114,759)
Change in assets and liabilities:		
Decrease in interest receivable	102	621
Increase (decrease) in accounts payable	<u>50,039</u>	<u>(10,389)</u>
Net cash provided by (used for) operating activities	\$ 100,101	\$ (124,527)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest received on investment securities	<u>1,365</u>	<u>4,979</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 101,466	\$ (119,548)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>70,362</u>	<u>189,910</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 171,828</u>	<u>\$ 70,362</u>



Trust and Agency Funds

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

PENSION TRUST FUND

Law Enforcement Officers' Special Separation Allowance Fund - to account for the accumulation of resources for pension benefit payments to qualified law enforcement officers.

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 which the City receives from the County and remits to the Downtown Salisbury, Inc.



CITY OF SALISBURY, NORTH CAROLINA

TRUST AND AGENCY FUNDS

COMBINING BALANCE SHEET

June 30, 2001

With Comparative Totals at June 30, 2000

	Pension Trust	Agency	
	Law Officers' Separation Allowance	Boards and Commissions	Municipal Service District
<u>ASSETS</u>			
Cash and investments	\$ 345,435	\$ 2,093	\$ 1,145
Taxes receivable (net allowance for uncollectible)	-	-	2,474
Interest receivable	<u>253</u>	<u>-</u>	<u>1</u>
Total assets	<u>\$ 345,688</u>	<u>\$ 2,093</u>	<u>\$ 3,620</u>
<u>LIABILITIES AND FUND EQUITY</u>			
LIABILITIES			
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 2,093</u>	<u>\$ 3,620</u>
FUND EQUITY			
Fund Balances:			
Reserved by State statute	\$ 253	\$ -	\$ -
Reserved for employees' pension benefits	<u>345,435</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>\$ 345,688</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities and fund equity	<u>\$ 345,688</u>	<u>\$ 2,093</u>	<u>\$ 3,620</u>

<u>Totals</u>	
<u>2001</u>	<u>2000</u>
\$ 348,673	\$ 301,494
2,474	1,715
<u>254</u>	<u>615</u>
<u>\$ 351,401</u>	<u>\$ 303,824</u>
<u>\$ 5,713</u>	<u>\$ 9,154</u>
\$ 253	\$ 609
<u>345,435</u>	<u>294,061</u>
<u>\$ 345,688</u>	<u>\$ 294,670</u>
<u>\$ 351,401</u>	<u>\$ 303,824</u>

CITY OF SALISBURY, NORTH CAROLINA

PENSION TRUST FUND
LAW OFFICERS' SEPARATION ALLOWANCE FUND

COMPARATIVE BALANCE SHEETS

June 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Cash and investments	\$ 345,435	\$ 294,061
Interest receivable	<u>253</u>	<u>609</u>
Total assets	<u>\$ 345,688</u>	<u>\$ 294,670</u>
 <u>FUND EQUITY</u>		
FUND EQUITY		
Fund balances:		
Reserved by State statute	\$ 253	\$ 609
Reserved for employees' pension benefits	<u>345,435</u>	<u>294,061</u>
Total fund equity	<u>\$ 345,688</u>	<u>\$ 294,670</u>

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CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2001

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2001</u>
<u>BOARDS AND COMMISSIONS FUND:</u>				
ASSETS				
Cash and investments	\$ 3,126	\$ -	\$ 1,033	\$ 2,093
LIABILITIES				
Accounts payable	\$ 3,126	\$ -	\$ 1,033	\$ 2,093
<u>MUNICIPAL SERVICE DISTRICT FUND:</u>				
ASSETS				
Cash and investments	\$ 4,307	\$ -	\$ 3,162	\$ 1,145
Taxes receivable (net of allowance for uncollectible)	1,715	759	-	2,474
Interest receivable	6	-	5	1
Total assets	\$ 6,028	\$ 759	\$ 3,167	\$ 3,620
LIABILITIES				
Accounts payable	\$ 6,028	\$ -	\$ 2,408	\$ 3,620
<u>TOTAL AGENCY FUNDS:</u>				
ASSETS				
Cash and investments	\$ 7,433	\$ -	\$ 4,195	\$ 3,238
Taxes receivable (net of allowance for uncollectible)	1,715	759	-	2,474
Interest receivable	6	-	5	1
Total assets	\$ 9,154	\$ 759	\$ 4,200	\$ 5,713
LIABILITIES				
Accounts payable	\$ 9,154	\$ -	\$ 3,441	\$ 5,713



General Fixed Asset Account Group

To account for fixed assets not used in proprietary fund operations or accounted for in Trust Funds.

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CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY

For the Year Ended June 30, 2001

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Equipment</u>	<u>Total</u>
GENERAL GOVERNMENT:				
City Administration	\$ -	\$ -	\$ 51,951	\$ 51,951
Human Resources	-	-	47,546	47,546
Information Technologies	-	-	1,081,773	1,081,773
Finance	-	-	182,437	182,437
Purchasing	-	-	25,862	25,862
City Hall	256,671	2,159,097	95,435	2,511,203
Telecommunications	24,820	87,026	1,354,042	1,465,888
Public Services Administration	-	10,259	15,551	25,810
Fleet Management	889	41,480	314,862	357,231
	<u>\$ 282,380</u>	<u>\$ 2,297,862</u>	<u>\$ 3,169,459</u>	<u>\$ 5,749,701</u>
PUBLIC SAFETY:				
Police	\$ -	\$ 271,242	\$ 3,437,260	\$ 3,708,502
Fire	223,684	373,129	3,180,259	3,777,072
	<u>\$ 223,684</u>	<u>\$ 644,371</u>	<u>\$ 6,617,519</u>	<u>\$ 7,485,574</u>
TRANSPORTATION:				
Traffic Engineering	\$ -	\$ 1,736	\$ 635,252	\$ 636,988
Engineering	-	66,774	671,134	737,908
Streets	-	178,107	3,087,367	3,265,474
	<u>\$ -</u>	<u>\$ 246,617</u>	<u>\$ 4,393,753</u>	<u>\$ 4,640,370</u>
ENVIRONMENTAL PROTECTION:				
Cemetery	\$ -	\$ 12,262	\$ 162,590	\$ 174,852
Solid Waste Management	-	-	725,133	725,133
	<u>\$ -</u>	<u>\$ 12,262</u>	<u>\$ 887,723</u>	<u>\$ 899,985</u>
CULTURE AND RECREATION:				
Landscaping	\$ 164,546	\$ 89,907	\$ 775,511	\$ 1,029,964
Recreation	1,716,402	4,320,755	706,338	6,743,495
	<u>\$ 1,880,948</u>	<u>\$ 4,410,662</u>	<u>\$ 1,481,849</u>	<u>\$ 7,773,459</u>
LAND MANAGEMENT AND DEVELOPMENT:				
Development Services	\$ -	\$ -	\$ 29,095	\$ 29,095
Community Development	572,707	283,162	84,789	940,658
The Plaza	-	3,239,838	59,581	3,299,419
	<u>\$ 572,707</u>	<u>\$ 3,523,000</u>	<u>\$ 173,465</u>	<u>\$ 4,269,172</u>
TOTAL GENERAL FIXED ASSETS	<u><u>\$ 2,959,719</u></u>	<u><u>\$ 11,134,774</u></u>	<u><u>\$ 16,723,768</u></u>	<u><u>\$ 30,818,261</u></u>



Other Schedules

**CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND
PROPERTY TAXES RECEIVABLE**

For the Year Ended June 30, 2001

Tax Year	Fiscal Year Ended	Assessed Valuation *	Taxes Levied Prior to June 30, 2000	Levy Additions Year Ended June 30, 2001	Collections and Credits Prior to June 30, 2000	Taxes Receivable June 30, 2000	Collections and Credits Year Ended June 30, 2001	(Note) Other Credits	Taxes Receivable June 30, 2001
2000	2001	\$ 1,820,568,216	-	\$ 10,928,747	-	-	\$ 10,553,137	\$ -	\$ 375,610
1999	2000	1,764,727,945	10,151,282	8,938	9,930,742	220,540	149,733	-	79,745
1998	1999	1,482,452,065	9,213,038		9,134,803	78,235	17,486	-	60,749
1997	1998	1,382,140,359	8,002,560		7,952,930	49,630	7,518	-	42,112
1996	1997	1,318,874,568	7,759,356		7,713,009	46,347	4,508	-	41,839
1995	1996	1,280,584,979	7,449,694		7,408,852	40,842	3,573	-	37,269
1994	1995	1,146,945,499	7,234,332		7,191,969	42,363	1,888	-	40,475
1993	1994	1,151,692,595	6,741,761		6,723,125	18,636	914	-	17,722
1992	1993	1,106,253,503	6,389,077		6,371,643	17,434	1,780	-	15,654
1991	1992	1,084,365,929	6,009,850		5,987,772	22,078	1,587	-	20,491
1990	1991	1,038,891,140	5,486,472		5,465,320	21,152	1,319	(19,833)	
			<u>\$ 74,437,422</u>		<u>\$ 10,937,685</u>	<u>\$ 557,257</u>	<u>\$ 10,743,443</u>	<u>\$ (19,833)</u>	<u>\$ 731,666</u>
									<u>235,000</u>
									<u>\$ 496,666</u>

* All taxable property is assessed at one hundred percent (100%) of its estimated value at the time of revaluation.
Note: Ten year statute of limitations write-off.

CITY OF SALISBURY, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY

For the Year Ended June 30, 2001

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
ORIGINAL LEVY					
Property taxed at current year's rates	\$ 1,759,089,831	\$ 0.600	\$ 10,554,539	\$ 9,979,892	\$ 574,647
Registered motor vehicles taxed at prior year's rates	73,023,399	0.570	416,233		416,233
Penalties			9,229	9,229	
TOTAL	\$ 1,832,113,230		\$ 10,980,001	\$ 9,989,121	\$ 990,880
DISCOVERY					
Prior years taxes			16,726	16,726	
Penalties			1,392	1,392	
TOTAL			\$ 18,118	\$ 18,118	\$ -
ABATEMENTS	(11,545,014)		\$ (69,372)	\$ (34,744)	\$ (34,628)
TOTAL PROPERTY VALUATION	\$ 1,820,568,216				
NET LEVY			\$ 10,928,747	\$ 9,972,495	\$ 956,252
Less uncollected tax at June 30, 2001			375,610	251,676	123,934
CURRENT YEAR'S TAXES COLLECTED			\$ 10,553,137	\$ 9,720,819	\$ 832,318
PERCENT OF CURRENT YEAR COLLECTED			96.56%	97.48%	87.04%

CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF CASH AND INVESTMENT BALANCES

June 30, 2001

CASH AND INVESTMENTS IN THE FORM OF:

Cash:

Cash on hand	\$ 2,040	
In demand deposits	851,145	
Money market	1,022,957	
Certificate of deposit	<u>656,695</u>	
		\$ 2,532,837

Investments:

North Carolina Capital Management Trust		<u>14,400,464</u>
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TOTAL CASH AND INVESTMENTS		<u><u>\$ 16,933,301</u></u>
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DISTRIBUTION BY FUNDS:

General		\$ 5,849,399
Special revenue		163,363
Capital projects		295,471
Enterprise		9,990,670
Internal service		285,725
Trust and agency		<u>348,673</u>

TOTAL DISTRIBUTION BY FUNDS		<u><u>\$ 16,933,301</u></u>
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CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF INTERFUND TRANSFERS

For the Year Ended June 30, 2001

<u>Fund</u>	<u>Transfers</u>	
	<u>From</u>	<u>To</u>
General:		
Enterprise	\$ -	\$ 160,282
Enterprise:		
General	<u>160,282</u>	<u>-</u>
	<u>\$ 160,282</u>	<u>\$ 160,282</u>

Statistical Section

Table 1

CITY OF SALISBURY, NORTH CAROLINA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION⁽¹⁾

Fiscal Year	Last Ten Fiscal Years										Total
	General Government	Public Safety	Transportation	Environmental Protection	Culture and Recreation	Community and Economic Development	Education	Debt Service			
Ended June 30,											
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		
1995	3,233,167	6,190,774	2,288,917	1,896,681	1,358,848	1,826,750	42,342	401,797	17,239,276		
1994	2,580,372	5,600,225	2,992,610	1,416,739	1,285,814	1,362,305	38,573	1,010,646	16,287,284		
1993	2,860,671	5,110,480	2,401,666	1,740,467	1,238,830	1,483,384	38,573	524,880	15,398,951		
1992	2,643,480	5,024,844	2,430,305	1,440,023	1,345,012	1,799,482	50,156	445,132	15,178,434		

⁽¹⁾ Includes General, Special Revenue, and Capital Projects

Table 2

**CITY OF SALISBURY, NORTH CAROLINA
GENERAL GOVERNMENTAL REVENUES BY SOURCE⁽¹⁾**

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes	Licenses and Permits	Inter- governmental	Miscellaneous	Charges for Services	Administrative Charges	Total
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
1995	9,272,844	368,109	4,269,171	1,127,032	947,717	1,018,735	17,003,608
1994	8,764,206	260,226	4,588,710	994,730	915,299	790,000	16,313,171
1993	8,223,294	258,612	4,589,949	774,537	1,071,117	750,500	15,668,009
1992	7,845,134 ⁽²⁾	273,070	4,362,870 ⁽²⁾	736,322	748,284	690,000	14,655,680

⁽¹⁾ Includes General, Special Revenue, and Capital Projects

⁽²⁾ Intangibles taxes are recorded as intergovernmental revenues due to change in State Statute.

Table 3**CITY OF SALISBURY, NORTH CAROLINA****TAX REVENUE BY SOURCE⁽¹⁾****Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Total Taxes	General Property Taxes	Sales Taxes	Other Taxes
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
1995	9,272,844	7,155,829	2,114,118	2,897
1994	8,764,206	6,597,031	2,167,122	53
1993	8,223,294	6,255,598	1,966,150	1,546
1992	7,845,134	5,965,785	1,877,785	1,564

⁽¹⁾ 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

Fiscal Year Ended	Tax Year	Total Current Year Tax Levy	Current Tax Collections	Percent of		Total Tax Collections	Ratio of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
				Taxes Collected	Total Tax Collections				
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	5.49%	
1999	1998	9,271,351	8,926,885	96.28%	9,164,917	98.85%	657,781	7.09%	
1998	1997	8,059,604	7,815,549	96.97%	8,110,009	100.63%	557,299	6.91%	
1997	1996	7,797,861	7,519,419	96.43%	7,741,174	99.27%	601,439	7.71%	
1996	1995	7,529,260	7,265,209	96.49%	7,446,494	98.90%	573,838	7.62%	
1995	1994	7,298,360	7,074,231	96.93%	7,308,248	100.14%	510,636	7.00%	
1994	1993	6,785,288	6,555,776	96.62%	6,755,716	99.56%	535,378	7.89%	
1993	1992	6,436,262	6,202,113	96.36%	6,319,620	98.18%	523,339	8.13%	
1992	1991	6,054,055	5,870,622	96.97%	5,980,144	98.78%	418,459	6.91%	

Table 5

**CITY OF SALISBURY, NORTH CAROLINA
 ASSESSED VALUE OF TAXABLE PROPERTY**

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Property	Personal Property	Public Service Property	Total
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
1995	809,239,122	288,959,801	48,746,576	1,146,945,499
1994	805,310,028	294,329,533	52,053,034	1,151,692,595
1993	780,869,808	277,134,662	48,249,033	1,106,253,503
1992	770,155,060	266,853,282	47,357,587	1,084,365,929

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

Tax Levies				
City of Salisbury				
Fiscal Year	Municipal Service			Rowan County
	General Fund	District Fund	Total	
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
1995	7,234,332	64,028	7,298,360	28,820,177
1994	6,741,761	43,527	6,785,288	25,236,094
1993	6,389,077	47,155	6,436,232	23,859,704
1992	6,009,850	44,205	6,054,055	20,792,920
Tax Rates				
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
1995	.625	.17	.795	.6500
1994	.585	.11	.695	.6000
1993	.575	.11	.685	.5600
1992	.550	.11	.660	.5050

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⁽¹⁾**

For the Year Ended June 30, 2001

	Net General Obligation Debt <u>Outstanding</u>	Percentage Applicable to City of <u>Salisbury</u>	City of Salisbury's <u>Share of Debt</u>
City of Salisbury	\$ 3,025,000	100.00%	\$ 3,025,000
Rowan County ⁽²⁾	32,400,000	24.15%	<u>7,824,600</u>
Total direct and overlapping debt			<u>\$ 10,849,600</u>

⁽¹⁾ Based on assessed valuation.

⁽²⁾ 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, 2001**

ASSESSED VALUE		\$ 1,820,568,216
		X <u> .08</u>
Debt limit 8 percent of assessed value		\$ 145,645,457
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 20,385,000	
Total capitalized lease obligation	<u>7,133,771</u>	
Total amount of debt applicable to debt limit		<u>27,518,771</u>
LEGAL DEBT MARGIN		<u>\$ 118,126,686</u>

Table 9**CITY OF SALISBURY, NORTH CAROLINA****SCHEDULE OF PRINCIPAL TAXPAYERS****For the Year Ended June 30, 2001**

<u>Business</u>	<u>Type of Enterprise</u>	<u>2000 Assessed Valuation</u>	<u>Percentage Value of Total</u>
Food Lion, Inc.	Commercial	\$ 66,704,201	3.66%
Belle Realty Co.	Real Estate	30,985,510	1.70%
Norandal USA	Industrial	27,920,968	1.53%
ICI Americas	Industrial	25,962,701	1.43%
Heritage Realty Limited Partnership	Real Estate	23,473,338	1.29%
Duke Energy Corp.	Utility	22,841,972	1.25%
Bellsouth Telephone	Communication	18,912,449	1.04%
Salisbury Mall Ltd.	Commercial	15,399,142	0.85%
Ball Metal Beverage Container	Manufacturing	14,259,412	0.78%
Cone Mills Corporation	Industrial	<u>12,670,814</u>	<u>0.70%</u>
Totals		<u>\$ 259,130,507</u>	<u>14.23%</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

Fiscal Year Ended June 30,	Principal	Interest	Total Debt Service	Total General Expenditures⁽¹⁾	Ratio of Debt Service to Total General Expenditures
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
1995	345,717	56,080	401,797	17,239,276	2.33
1994	905,918	104,728	1,010,646	16,287,284	6.21
1993	25,000	16,467	41,467	15,398,951	0.27
1992	-	-	-	15,178,434	-

⁽¹⁾ 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

Fiscal Year Ended June 30,	Population ⁽¹⁾	Assessed Value	Last Ten Fiscal Years			Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
			Gross Bonded Debt ⁽²⁾	Debt Payable From Enterprise Revenues	Net Bonded Debt		
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
1995	25,444	1,146,945,499	6,755,000	6,220,000	535,000	0.05%	21.03
1994	24,072	1,151,692,595	7,288,000	6,715,000	573,000	0.05%	23.80
1993	23,916	1,106,253,503	7,100,000	6,875,000	225,000	0.02%	9.41
1992	23,852	1,084,365,929	7,675,000	7,425,000	250,000	0.02%	10.48

⁽¹⁾ Source: North Carolina Office of State Planning

⁽²⁾ Includes all long-term general obligation debt

Table 12**CITY OF SALISBURY, NORTH CAROLINA****PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS****Last Ten Fiscal Years**

Fiscal Year Ended June 30	Total Assessed Valuation	Commercial Construction^(a)		Residential Construction^(a)		Bank Deposits
		Number of Units	Value	Number of Units	Value	
2001	\$ 1,820,568,216	35	\$ 17,230,344	242	\$ 21,918,930	\$ N/A ^(b)
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
1995	1,146,945,499	43	6,752,768	173	10,436,842	987,406,000
1994	1,151,692,595	30	10,345,800	172	9,276,091	974,890,000
1993	1,106,253,503	30	24,184,900	91	6,849,700	1,007,363,000
1992	1,084,365,929	33	29,170,785	200	6,897,189	995,714,000

^(a) City of Salisbury, Developmental Services Department

^(b) Information not available at time of printing

Table 13

CITY OF SALISBURY, NORTH CAROLINA

MISCELLANEOUS STATISTICS

June 30, 2001

Date Established	1753
Form of Government	Council/Manager
Area	17.79 Sq. Miles
Miles of Streets	147.11
Fire Protection:	
Number of Stations	3
Number of Fire Fighters	66
Number of Office Personnel	2
Police Protection:	
Number of Stations	1
Number of Police Officers	80
Number of Auxiliary Police Officers	6
Number of Civilians	20
Water and Sewer Utility:	
Number of Utility Customers	15,000
Average Daily Consumption	6.23 Million Gallons
Miles of Water lines	450
Miles of Sewer lines	477
Number of Cemeteries	7
Business Licenses Issued	2,350
Recreation Facilities:	
Number of Parks	15
Number of Recreation Centers	4
Number of Tennis Facilities	2
Number of Acres	444
Employees:	
Full-Time	426
Permanent Part-Time	5
Temporary Full-Time	15
Temporary Part-Time	30

Table 14

CITY OF SALISBURY, NORTH CAROLINA

DEMOGRAPHIC STATISTICS

For the Year Ended June 30, 2001

Fiscal Year	Population Estimate⁽¹⁾	Per Capita Income⁽²⁾	Median Age⁽³⁾	Unemployment Rate⁽⁴⁾
2001	26,462	\$22,820	38.1	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
1995	25,444	19,165	37.9	3.8
1994	24,072	17,600	37.7	3.3
1993	23,916	16,841	37.5	3.9
1992	23,852	16,138	37.4	5.5

Sources:

- ⁽¹⁾ 2001; U. S, Census
1992-2000; North Carolina Office of State Planning
- ⁽²⁾ 1996-2000; City of Salisbury Planning Division (estimate)
1992-95; State Library-Office of State Planning Statistical Database
Note: Figures are for Rowan County
- ⁽³⁾ City of Salisbury Planning Division (estimate)
- ⁽⁴⁾ N.C. Employment Security Commission
Note: Figures are for Rowan County

Compliance Section



McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the general purpose financial statements of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2001, and have issued our report thereon dated September 6, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 to the amounts included for Downtown Salisbury, Inc. is based solely on the report of the other auditors.

Compliance

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 grants, 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 that are required to be reported under *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 assurance 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 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 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.

This report is intended for the information and use of the audit committee, management, others within the organization, members of the City Council, 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.

Greensboro, North Carolina
September 6, 2001



McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

**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**

To the Honorable Mayor and
Members of the City Council
and the City Manager
City of Salisbury
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, 2001. The City of Salisbury'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 generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 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, 2001.

Internal Control Over Compliance

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 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 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 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 for the information and use of the audit committee, management, others within the organization, members of the City Council, 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.

Greensboro, North Carolina
September 6, 2001



McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

**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**

To the Honorable Mayor and
Members of the City Council
and the City Manager
City of Salisbury
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 State programs for the year ended June 30, 2001. 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's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 State 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 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, 2001.

Internal Control Over Compliance

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on

a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 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 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 for the information and use of the audit committee, management, others within the organization, members of the City Council, 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.

Greensboro, North Carolina
September 6, 2001

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2001

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantors' Number</u>	<u>Federal Direct & Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
FEDERAL GRANTS:					
CASH PROGRAMS					
U.S. ENVIRONMENTAL PROTECTION AGENCY					
Pass-through N.C. Department of Environment, Health and Natural Resources N.C. Clean Water Loans Bond Program	66.458	E-SRF-T-96/97-0079	\$ 6,109,738	\$ 1,251,392	\$ -
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-99-MC-37-0015	\$ 1,840	\$ -	\$ -
Entitlement Program	14.218	B-00-MC-37-0015	307,596	-	-
			<u>\$ 309,436</u>	<u>\$ -</u>	<u>\$ -</u>
Pass-through N.C. Department of Housing Finance Agency HOME Program	14.239	R-90-SG-37-0117	\$ 190,864	\$ -	\$ 66,849
Total U.S. Department of Housing And Urban Development			<u>\$ 500,300</u>	<u>\$ -</u>	<u>\$ 66,849</u>
U.S. DEPARTMENT OF JUSTICE					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
COPS Fast	16.710	95-CF-WX-3853	\$ 181,385	\$ -	\$ 26,465
COPS in Schools	16.710	2000-SH-WX-0245	30,007	-	-
			<u>\$ 211,392</u>	<u>\$ -</u>	<u>\$ 26,465</u>
Bureau of Justice Assistance					
Direct Program:					
Local Law Enforcement Block Grant	16.592	98-LB-VX-4779	\$ 4,288	\$ -	\$ 477
Local Law Enforcement Block Grant	16.592	99-LB-VX-4779	65,871	-	7,208
Local Law Enforcement Block Grant	16.592	2000-LB-VX-4779	32,561	-	3,618
Bulletproof Vest Partnership Grant			5,692	-	-
			<u>\$ 108,412</u>	<u>\$ -</u>	<u>\$ 11,303</u>
Passed through N. C. Department of Crime Control and Public Safety	16.579		\$ 121,652	\$ -	\$ -
Total U.S. Department of Justice			<u>\$ 441,456</u>	<u>\$ -</u>	<u>\$ 37,768</u>

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

**Year Ended June 30, 2001
(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					
Urban Mass Transportation Grants					
Capital	20.507	9.905176	\$ 1,050	\$ 300	\$ 150
Urban Mass Transportation Grants					
Administration	20.507	9.9041906	\$ 68,271	\$ 14,630	\$ 14,630
Operating	20.507	9.9042824	87,664	-	293,483
			<u>\$ 155,935</u>	<u>\$ 14,630</u>	<u>\$ 308,113</u>
Total U.S. Department of Transportation			<u>\$ 156,985</u>	<u>\$ 14,930</u>	<u>\$ 308,263</u>
TOTAL ASSISTANCE - FEDERAL PROGRAMS			<u>\$ 7,208,479</u>	<u>\$ 1,266,322</u>	<u>\$ 412,880</u>
STATE GRANTS:					
CASH PROGRAMS					
N.C. DEPARTMENT OF TRANSPORTATION					
Powell Bill	N/A		\$ -	\$ 964,553	\$ -
State Maintenance Assistance for					
Transit Systems	N/A	9.9051123	\$ -	\$ 135,345	\$ -
Sidewalk Construction	N/A	8.1990109	\$ -	\$ 100,000	\$ -
Total N. C. Department of Transportation			<u>\$ -</u>	<u>\$ 1,199,898</u>	<u>\$ -</u>
N.C. DEPARTMENT OF CULTURAL RESOURCES					
Program for Nonprofit Organizations and Local Governments for Cultural, Historical, or Artistic Projects and For Museums	N/A		\$ -	\$ 17,275	\$ -
N.C. DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES					
Division of Parks and Recreation					
Parks and Recreation Trust Fund	N/A	1999-110	\$ -	\$ 36,572	\$ 36,572
N.C. DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY					
Division of Governor's Crime Commission					
Go-4-It	N/A	080-1-00-P01-J-043	\$ -	\$ 14,322	\$ -
TOTAL ASSISTANCE - STATE PROGRAMS			<u>\$ -</u>	<u>\$ 1,268,067</u>	<u>\$ 53,847</u>
TOTAL ASSISTANCE			<u>\$ 7,208,479</u>	<u>\$ 2,534,389</u>	<u>\$ 466,727</u>

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2001

1. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.
2. Loans Outstanding – The City of Salisbury, North Carolina has the following loan balance outstanding at June 30, 2001. This loan balance outstanding also includes the federal and state expenditures reported on the attached schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Amount Outstanding</u>
N. C. Clean Water Loan Bond Program	66.458	E-SRF-T-96/97-0079	\$ 8,740,000

CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF COMPLIANCE FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2001

Section I. Summary of auditor's results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Reportable condition identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted Yes No

Federal Award

Internal control over major program:

- Material weakness identified? Yes No
- Reportable condition identified that are not considered to be material weaknesses? 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 program:

CFDA Number
66.458

Name of Federal Program.
N. C. Clean Water Loans Bond Program

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 identified? Yes No
- Reportable condition identified that are not considered to be material weaknesses? 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 State Single Audit Implementation Program Yes No

Identification of major programs: Department of Transportation, Powell Bill and Department of Environment, Health and Natural Resources, N. C. Clean Water Loans Bond Program

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

None reported.

CITY OF SALISBURY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2001

There were no prior year audit findings.

