

# CITY OF SALISBURY

## NORTH CAROLINA

### COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2003

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

Robert G. Martin

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

Melissa H. Drye - Finance Specialist

C. Michael Crowell - Technology Services Manager

Dewey D. Peck - Purchasing Agent

Clara A. Bost - Customer Service Supervisor



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# Introductory Section

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# CONTENTS

	<b>Page</b>
<b>INTRODUCTORY SECTION</b>	
Table of contents	1 - 3
Letter of transmittal	4 - 11
GFOA Certificate of Achievement	12
Organizational chart	13
List of principal officials	14
Facts and information about the City of Salisbury, North Carolina	15 - 17
<b>FINANCIAL SECTION</b>	
INDEPENDENT AUDITOR'S REPORT	21 - 32
MANAGEMENT'S DISCUSSION AND ANALYSIS	23 - 33
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS:</b>	
A-1 Statement of Net Assets	34
A-2 Statement of Activities	35
<b>FUND FINANCIAL STATEMENTS</b>	
A-3 Balance Sheet – Governmental Funds	36
A-4 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	37
A-5 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	38
A-6 Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual - General Fund	39
A-7 Statement of Fund Net Assets – Proprietary Funds	40
A-8 Statement of Revenues, Expenses, and Changes in Funds Net Assets – Proprietary Funds	41
A-9 Statement of Cash Flows – Proprietary Funds	42
A-10 Statement of Fiduciary Net Assets	43
A-11 Statement of Changes in Fiduciary Net Assets	44
Notes to financial statements	45 - 64
<b>REQUIRED SUPPLEMENTAL FINANCIAL DATA</b>	
A-12 Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress	67
A-13 Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions	68
<b>SUPPLEMENTARY FINANCIAL DATA</b>	
Combining and individual Fund and account group financial statements and schedules	
General Fund:	
B-1 Schedule of Revenues and Expenditures, and Changes in Fund Balance – Budget and Actual	73 - 75

## CONTENTS

**Page**

**Non-Major Governmental Funds:**

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

**Proprietary Fund Types:**

D-1	Water and Sewer Fund – Schedule of Revenues and Expenses – Budget and Actual	85
D-2	Water and Sewer Capital Project Fund – Schedule of Revenues and Expenses – Budget and Actual	86
D-3	Transit Fund – Schedule of Revenues and Expenses – Budget and Actual	87

**Internal Service Funds:**

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

**Capital Assets:**

F-1	Schedule of Capital Assets by Function and Activity	95
F-2	Schedule of Changes in Capital Assets by Function and Activity	96

**Other schedules:**

G-1	Property Taxes Receivable	99
G-2	Analysis of Current Tax Levy	100
G-3	Schedule of Cash and Investment Balances	101
G-4	Schedule of Interfund Transfers	102

### STATISTICAL SECTION

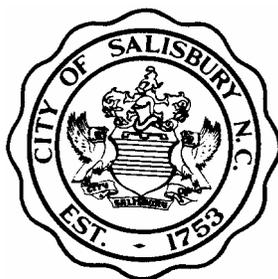
Table 1	General Governmental Expenditures by Function - Last Ten Fiscal Years	105
Table 2	General Governmental Revenues by Source - Last Ten Fiscal Years	106
Table 3	Tax Revenue by Source - Last Ten Fiscal Years	107
Table 4	Property Tax Levies, Tax Collections and Credits - Last Ten Fiscal Years	108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

# CONTENTS

Page

## COMPLIANCE SECTION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	121
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	122 - 123
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	124 - 125
Schedule of Expenditures of Federal and State Awards	126 - 127
Notes to Schedule of Expenditures of Federal and State Awards	128
Schedule of Compliance Findings and Questioned Costs	129
Schedule of Prior Audit Findings	130



November 18, 2003

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

We are pleased to present the Comprehensive Annual Financial Report (Report) of the City of Salisbury (City) for the fiscal year ended June 30, 2003 (FY03). 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 contains this letter of transmittal and information about the City's organization and principal officials. The financial section is composed of the independent auditor's report, the management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, the State Single Audit Implementation Act, and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Information related to the compliance audit and the schedule of expenditures of federal and state awards are included in the compliance section of this Report.

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

The City's Comprehensive Annual Financial Report for the year ended June 30, 2002, 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 few years, the effect on the City has been minimal. Gross retail sales in Salisbury for the twelve months ended June 30, 2003, decreased by less than one percent from the prior fiscal year to \$676,524,394. Gross retail sales in Salisbury were higher in FY02 than any fiscal year in history. Total Rowan County sales increased slightly from the prior year, by 3.2%, to \$1,116,348,833. The City has had some recent additions to its largest retail center, which have helped to stabilize the City's retail sales.

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 three years, which is discussed in the Management's Discussion and Analysis.

In contrast to the otherwise negative economic news, the City's downtown area continues to flourish. 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 over \$70 million has been invested in the redevelopment of Salisbury's downtown. In the downtown area, 95% of the first floor business and retail space is currently occupied. 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

The fiscal year ended June 30, 2003, was a challenging one in many ways. As in the previous year, in an attempt to ease the financial woes of the State of North Carolina, the Governor withheld reimbursements and taxes due to counties and municipalities across the state. Those state-shared revenues have now been permanently eliminated. This revenue loss was only partially offset by revenues from an additional one-half cent sales tax, which was adopted by the Rowan County commissioners and went into effect in December 2002. The City was forced to re-assess the priorities of planned projects and the levels of services provided to our citizens. Despite this tremendous restraint on available resources, the City of Salisbury was able to continue several projects that focused on the concerns, wants, and needs of our citizens in FY03. Areas worth noting were the continued progress in the City's improvement of neighborhoods, downtown revitalization, annexation, and the extension of the water and sewer system service area. Also, the various departments that make up City government continue to thrive, as evidenced by the receipt of several national awards.

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 of the Community Development department over the past two years has been the revitalization of the Park Avenue neighborhood. The City's Park Avenue Neighborhood Plan won a prestigious 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. During FY03 the City continued renovations of existing historic buildings to form the Park Avenue Community Center. The grand opening of the new Community Center is scheduled for November 2003. Since the Park Avenue project has been such a huge success, the City has begun to focus on the preservation of the Jersey City neighborhood. In conjunction with the Salisbury Community Development Corporation, a non-profit organization, and the Rowan-Iredell-Cabarrus Home Consortium, the City has started to replace abandoned houses in Jersey City with new, single-family dwellings. These new homes are being sold to first-time home buyers. Current plans for the Jersey City neighborhood include the construction of more than ten new homes and possibly a Community Center. The Jersey City project will meet the goals of the City's Vision 2020 plan and Council goals of putting City residents in new housing and increasing the City's tax base.

As mentioned above, the revitalization of Salisbury's downtown area continues to surge ahead. One of the more notable projects completed during the past fiscal year was the renovation of a former retail store into new office space at the F & M Financial Center and the re-opening of the adjoining "Easy Street", a pedestrian walkway connecting the Salisbury Station and Main Street. Other projects that have been recently completed include renovated facilities for the Waterworks Visual Arts Center and the F & M Trolley Barn. The City is currently involved in a downtown streetscape enhancement project in the Council Street area of downtown. This project includes sidewalk improvements, decorative street lights, and other enhancements and is being funded primarily by a grant from the State of North Carolina Department of Transportation.

As of June 30, 2003, the City completed the annexation of over 500 acres along Statesville Boulevard in the western part of the City. The completion of this annexation helps the City meet one of City Council's foremost goals – expanding the tax base and revenue sources. Estimated additional revenues from the annexed area total over \$570,000 as compared to estimated annual expenditures of \$186,000.

The entire state of North Carolina emerged from a four-year drought during the past fiscal year. The drought left many communities, including those in the southern part of Rowan County, with a severe water shortage. Because Salisbury has an ample supply of water, the City is in a position of being able to provide help for other municipalities. A new water line has been completed and the City is now providing water to two additional towns, adding to the four Rowan County towns the City was already supplying. Also, the City

completed a new water line along the Highway 70 corridor in Rowan County to increase capacity to a power generating plant owned by Rowan Power, LLC. The completion of these projects and the addition of new customers will help the City to maintain reasonable water and sewer rates in the future.

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. The City has begun implementing the Salisbury Vision 2020 Comprehensive Plan, a blueprint for the City's future that contains policies to guide future land development decisions. This plan has received the Small Community Outstanding Planning Award for Comprehensive Planning from the North Carolina Chapter of the American Planning. The City's Finance Department continues to excel as well, winning awards for both the Annual Budget and the Comprehensive Annual Financial Report from the Government Finance Officers Association of the United States and Canada.

### **FUTURE DEVELOPMENTS**

The City's downtown revitalization is far from complete. The Downtown Master Plan Committee recently completed a market-driven plan that will guide development for the next twenty years. Within the next year, A & H Investments will open a new office building that consists of a renovated building with an attached, new addition. Also, the previously discussed downtown streetscape project should soon be complete. Other future developments include the potential revitalization of the Lee Street Warehouse District. Various architects and planners have come together to develop ideas for the revitalization of this area. City Council and Downtown Salisbury have recently begun discussions about the possible renovation of the former Empire Hotel, which is near the center of the downtown area. That renovation, along with the possible construction of a downtown Convention Center, would be major projects in the comprehensive Downtown Salisbury Master Plan.

As part of the previously discussed construction necessary to accommodate the substantial increase in water sales, the City is currently upgrading its water plant. The expanded water plant will be complete and fully operational by the spring of 2004. Other future water and sewer system expansion projects include extensions necessary to serve the new annexation area. The City is required by State law to be able to provide water and sewer services to the annexed area by June 30, 2005 and construction should be complete well before that deadline.

The City will continue to participate in the Local Government Performance Measurement 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 and provide a catalyst to service or process improvements. At this point, police services, emergency communications, asphalt maintenance and repair, residential solid waste and yard waste/leaf collection, recycling, fleet maintenance 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 a municipality's performance to be assessed.

### **REPORTING ENTITY**

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

primarily financially accountable or for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

The discretely presented component unit, Downtown Salisbury Inc., is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government and to differentiate its financial position, results of operations, and cash flows from those of the primary government.

### **SERVICES PROVIDED**

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

### **GOVERNMENT STRUCTURE**

The City employs a Council-Manager form of government as provided in the City's Charter. The governing body consists of five council members, elected on a nonpartisan basis at large for a two-year term. The Council elects the Mayor from among 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 FY03 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, 2003.

### **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.

### **FINANCIAL MANAGEMENT**

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

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

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

### **CASH MANAGEMENT**

The City's temporary idle cash is invested in interest-bearing demand deposits, certificates of deposit, obligations of the U.S. Treasury and federal agencies, 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 1.55% for the year ended June 30, 2003.

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, 2003, is classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board. The remainder of the City's investment portfolio is exempt from risk categorization because it was invested in the NC Capital Management Trust, an SEC registered mutual fund where the City is only a shareholder of a percentage of the fund and does not own any identifiable securities.

### **RISK MANAGEMENT**

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

### **CONCLUSION**

Because of the slowing economy and the withholding of revenues by the Governor of North Carolina, FY03 was indeed a very challenging year financially for the City of Salisbury. The City has been fortunate to continue to experience growth in its revenue base from increased tax valuations during FY03. This growth has helped to reduce the effects of the loss of other revenues and assure our citizens that the City will be able to continue to provide the quality of services that they have come to expect.

As we look ahead to the future in the Water and Sewer Fund, significant construction has begun to expand the water plant capacity and extend the water distribution system. A historic Joint Agreement approved in December 2000 between Rowan County and Salisbury established 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 that will serve the southern end of the County is nearing completion. Rowan County, with whom the City has water sales agreements, is funding this new line. The water treatment plant will have its capacity expanded from twelve million gallons per day to 18 million gallons per day. New water distribution lines have been built along the Highway 70 corridor to serve new industry. More than half of the cost of these two projects is being funded through a public/private agreement with a new industrial customer on 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 continues to hold 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. 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 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, 2002

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

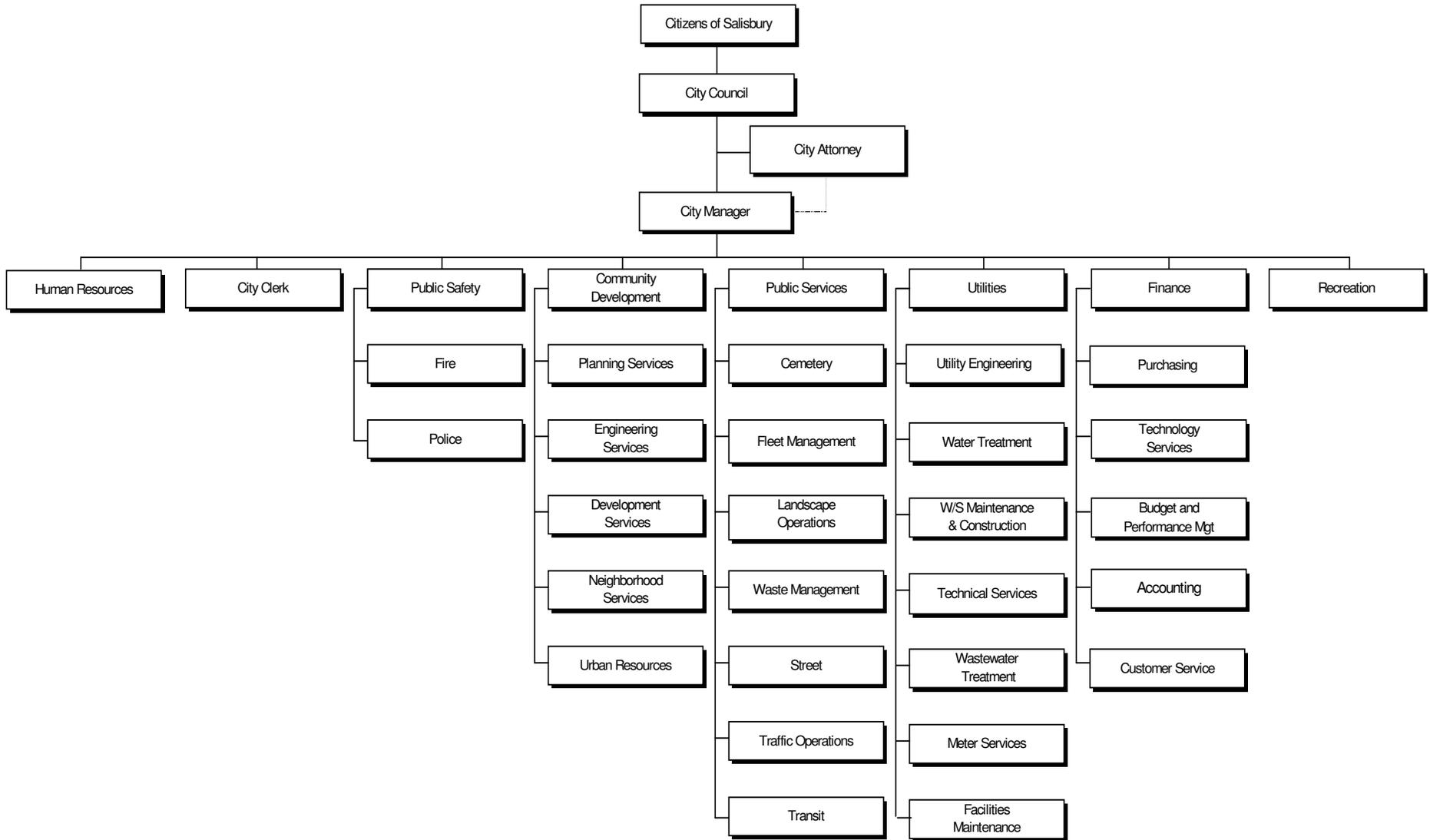


President

Executive Director

# CITY OF SALISBURY

## ORGANIZATIONAL CHART



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

June 30, 2003

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

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

## **LOCATION**

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

## **CLIMATE**

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

## **POPULATION**

The population of the City of Salisbury has increased steadily during the past decade. This is due to both annexations and internal growth stimulated by the local economy. Population currently is estimated to be 28,199 based upon estimates from the North Carolina Office of State Planning.

## **HISTORY**

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

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

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

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

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

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

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

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

## **GOVERNMENT**

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

The City Council appoints the City Manager to serve as the City's Chief Executive Officer. The City Manager is responsible for implementing the policies of the City Council, directing business and administrative procedures, and appointing departmental officers. At the present time, the City Manager is assisted by the City Clerk and eight staff departments: 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 150 million gallons. The Salisbury water system, conventional in design and closely controlled, has a treatment capacity of 12 million gallons per day. Average daily usage during fiscal year 2003 was 6.2 million gallons per day. The filter plant is designed for expansion as needed to 18 million gallons per day by adding pumping and settling capacity. An arterial system of distribution mains has been constructed to assure maximum fire protection to all parts of the city.

The Salisbury water system supplies the following towns in Rowan County: Spencer, East Spencer, Granite Quarry, China Grove and Landis and service 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 and has completed a transmission line that will extend treated water to Rockwell. The water supply meets all federal and State quality requirements. Salisbury's water is fluoridated on a continuing basis.

Salisbury's four 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 2003 was 12.5 million gallons. Average daily treatment in FY 2003 was 6.85 million gallons per day.

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

## **TRANSPORTATION**

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

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

The major commercial airports are within a one-hour drive of Salisbury – Charlotte-Douglas International in Charlotte and Piedmont Triad International (PTI) in Greensboro. With the planned new FedEx package-sorting facility at PTI, Salisbury is well positioned for providing local businesses a critical link in the their logistics chain. Additionally, these airports provide regular air passenger services all parts of the United States via AirTran, American, Continental, Delta, United, and US Airways. There are also non-stop, international flight options available to Frankfurt, London, and San Juan, among other global destinations.

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

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

## **MOTELS**

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

## **EDUCATION**

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

Livingstone College was founded in 1879, and has 1,000 Liberal Arts students. It is supported by the African Methodist Episcopal Zion Church. Hood Theological Seminary is located at Livingstone.

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

In addition to the Salisbury-Rowan public school system, there are several private and church related 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, for their home. The Piedmont Players present five shows each season. In addition to these five shows, all fourth and fifth graders in the Rowan-Salisbury School System attend the theater for an annual production that is cast entirely with children. Piedmont Players recently received an award at the annual North Carolina Theatre Conference for having the best community theater in the state.

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

Rowan-Cabarrus Community College participates in the North Carolina Visiting Artist Program. Each year a professional artist is employed and in residence at the college. Concerts and musical programs are provided regularly by many artists throughout the state as well as the Visiting Artist. In addition, Rowan-Cabarrus Community College sponsors a Folk Heritage Center.

This center serves as a network for professional and local folk artists and presents classes, concerts, and other folk artist activities for the general public.

## **COMMUNITY FACILITIES**

Salisbury is served daily by The Salisbury Post. Four (4) radio stations provide for local programming. Although there are no local television stations, WBTV and News 14 Carolina operate satellite newsrooms located in Salisbury. Local reception provides coverage of all major networks in addition to cable television facilities.

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

The Salisbury Community Park and Athletic Complex opened in April 2001. Amenities at the 314 acre park include baseball/softball fields, soccer fields, picnic shelters, playstructures and a nine-acre lake that is open for fishing.

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

Kelsey-Scott Park is a twenty-two (22) acre park located on Old Wilkesboro Road. It includes a nine-hole disc golf course, a baseball/softball field, an outdoor basketball court, and a picnic shelter. The Jaycee Sports Complex is a multi-use area with three (3) ball fields and an outdoor basketball court. The Miller Recreation Center located on West Bank Street has a play structure and an indoor basketball court. The Center offers programs throughout the year.

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

## **SPECIAL EVENTS**

Each year, the Salisbury-Rowan Chamber of Commerce presents the National Sportscasters and Sportswriters Awards Program. The program has been a big success. The National Sportscasters and Sportswriters Awards Program has attracted national attention to the City. Each year nationally renowned sportscasters and sportswriters visit Salisbury to attend the annual awards program.



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# Financial Section

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# McGladrey & Pullen

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina (the "City"), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and for the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6 to the financial statements, on July 1, 2002, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The management's discussion and analysis (pages 23-33) and the required supplementary information (pages 68-69) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 2003 on our consideration of the City'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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Salisbury, North Carolina's basic financial statements. The accompanying supplementary information, such as the introductory section, combining and individual nonmajor fund financial statements, statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information and the accompanying schedule of expenditures of federal and State awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
August 30, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Salisbury, North Carolina, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Salisbury for the fiscal year ended June 30, 2003. We encourage readers to read the information presented here in conjunction with the transmittal letter which begins on page 4 and the City's financial statements, which begin on page 33.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Salisbury's governmental and business-type activities exceeded its liabilities at the close of the fiscal year by \$109,747,044 (*net assets*).
- The government's total net assets increased by \$13,485,942. This increase is primarily attributable to contributions of cash and infrastructure from developers and other municipalities.
- As of the close of the current fiscal year, the City of Salisbury's governmental funds reported combined ending fund balances of \$5,218,446, an increase of \$219,498 in comparison with the prior year. Approximately 55 percent of this total amount, or \$2,857,986, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,848,831, or 11.3 percent of total general fund expenditures for the fiscal year.
- The City of Salisbury's total debt decreased by \$2,178,006 (3.51%) during the current fiscal year. The City did issue \$1 million of new installment purchase debt for the purpose of purchasing real estate.
- The City's bond ratings of "A1" by Moody's Investors Service and "A+" by Standard and Poor's were reaffirmed in July 2003. Also, the most recent bond rating from Fitch Ratings was an "A+".

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

## **BASIC FINANCIAL STATEMENTS**

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

The first two statements (Exhibits A-1 and A-2) in the basic financial statements are the *Government-wide Financial Statements*. They provide both short and long-term information about the City's overall financial status, in a manner similar to a private-sector business.

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

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

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

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) a component unit. The governmental activities include most of the City's basic services such as public safety, parks and recreation, environmental protection, community and economic development, and general administration. Property taxes, sales taxes, and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges fees to customers to help cover all or most of the cost of the services provided. These include the water and sewer and mass transit services offered by the City of Salisbury. The final category is the component unit. The City's component unit, Downtown Salisbury, Inc., is important to the City because it serves the interests of merchants and property owners in the

downtown area. Although legally separate from the City, Downtown Salisbury Inc.'s revenue consists largely of a municipal service district tax levy and a supplemental appropriation from the City, both of which must be approved by City Council.

The government-wide financial statements are in Exhibits A-1 and A-2 of this report.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements (see Figure 2) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Salisbury, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Salisbury can be divided into two categories: governmental funds and proprietary funds.

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

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

**Proprietary Funds** – The City of Salisbury has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Salisbury uses enterprise funds to account for its water and sewer activity and for its mass transit operations. These funds are the same as those functions shown

in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the City of Salisbury. The City uses internal service funds to account for two activities – its self-insured health insurance and worker compensation insurance. Because most of the costs of these operations are attributable to governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds – The City is the trustee, or fiduciary for its Law Enforcement Officers’ Special Separation Allowance, its Boards and Commissions, the Municipal Service District, and the Town of East Spencer’s water and sewer operations. All of the City’s fiduciary activities are reported in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 42 and 43. We excluded these activities from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 45-64 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Salisbury’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 67-68 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The government-wide financial statements for the fiscal year ended June 30, 2003 are the beginning of a new era in financial reporting for the City of Salisbury and many other units of government across the United States. Prior to this year, the City of Salisbury maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Salisbury. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model were mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Salisbury’s financial reports as well as those of many other units of government. While the City was required to implement these changes for the fiscal year ended June 30, 2003, other units were required to implement Statement 34 in 2002, and any remaining governments will be implementing in 2004.

Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are available, they have been included. Future years’ reports will have more comparative data that will allow more opportunities for detailed and comparative analysis.

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

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 7,950,263	\$ 7,285,866	\$ 22,296,891	\$ 30,906,343	\$ 30,247,154	\$ 38,192,209
Capital assets	36,223,384	32,941,681	111,597,377	93,489,188	147,820,761	126,430,869
<b>Total assets</b>	<b>\$ 44,173,647</b>	<b>\$ 40,227,547</b>	<b>\$ 133,894,268</b>	<b>\$ 124,395,531</b>	<b>\$ 178,067,915</b>	<b>\$ 164,623,078</b>
Long-term liabilities outstanding	\$ 6,741,960	\$ 6,244,607	\$ 54,142,635	\$ 56,767,465	\$ 60,884,595	\$ 63,012,072
Other liabilities	1,922,702	2,286,918	5,513,574	3,342,183	7,436,276	5,629,101
<b>Total liabilities</b>	<b>\$ 8,664,662</b>	<b>\$ 8,531,525</b>	<b>\$ 59,656,209</b>	<b>\$ 60,109,648</b>	<b>\$ 68,320,871</b>	<b>\$ 68,641,173</b>
Net assets:						
Invested in capital assets, net of related debt	\$ 30,737,822	\$ 27,681,943	\$ 54,424,878	\$ 40,566,318	\$ 85,162,700	\$ 68,248,261
Restricted	356,611	235,870	16,537,924	23,402,678	16,894,535	23,638,548
Unrestricted	4,414,552	3,778,209	3,275,257	316,887	7,689,809	4,095,096
<b>Total net assets</b>	<b>\$ 35,508,985</b>	<b>\$ 31,696,022</b>	<b>\$ 74,238,059</b>	<b>\$ 64,285,883</b>	<b>\$ 109,747,044</b>	<b>\$ 95,981,905</b>
<b>Total liabilities and net assets</b>	<b>\$ 44,173,647</b>	<b>\$ 40,227,547</b>	<b>\$ 133,894,268</b>	<b>\$ 124,395,531</b>	<b>\$ 178,067,915</b>	<b>\$ 164,623,078</b>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Salisbury exceeded liabilities by \$109,747,044 as of June 30, 2003. The City's net assets increased by \$13,765,139 for the fiscal year ended June 30, 2003.

The largest portion of the City's net assets (77.6%) reflects the City's investment in capital assets (e.g., land, buildings, machinery, equipment, water and sewer treatment facilities, and water and sewer lines), less any related debt still outstanding that was issued to acquire or build those items. The City of Salisbury uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Salisbury's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the City of Salisbury's net assets (15.4%) represents resources that are subject to restrictions on how they may be used, primarily for water and sewer capital projects. The remaining balance of \$7,689,809 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.77%, which is comparable to the statewide average of 97.03%.
- Increased sales tax revenues of \$270,076 due primarily to the adoption of an additional one-half cent tax.
- Continued low cost of debt due to the City's high bond rating.

**CITY OF SALISBURY CHANGES IN NET ASSETS**

Figure 2

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Revenues:			
Program revenues:			
Charges for services	\$ 2,288,441	\$ 14,367,853	\$ 16,656,294
Operating grants and contributions	3,187,615	372,724	3,560,339
Capital grants and contributions	4,990,317	9,927,332	14,917,649
General revenues:			
Property taxes	11,220,630	-	11,220,630
Other taxes	3,382,414	-	3,382,414
Intergovernmental revenue	2,092,831	-	2,092,831
Administrative charges	1,660,050	-	1,660,050
Other	991,571	1,315,857	2,307,428
Total revenues	\$ 29,813,869	\$ 25,983,766	\$ 55,797,635
Expenses:			
General government	\$ 5,975,738	\$ -	\$ 5,975,738
Public safety	9,739,181	-	9,739,181
Transportation	4,313,179	-	4,313,179
Environmental protection	1,469,017	-	1,469,017
Culture and recreation	2,392,991	-	2,392,991
Community and economic development	2,013,771	-	2,013,771
Education	42,342	-	42,342
Interest on long-term debt	251,693	-	251,693
Water and sewer	-	15,484,513	15,484,513
Mass transit	-	629,268	629,268
Total expenses	\$ 26,197,912	\$ 16,113,781	\$ 42,311,693
Increase in net assets before transfers	\$ 3,615,957	\$ 9,869,985	\$ 13,485,942
Transfers	(160,282)	160,282	-
Increase in net assets	\$ 3,455,675	\$ 10,030,267	\$ 13,485,942
Net assets, July 1	32,053,310	64,207,792	96,261,102
Net assets, June 30	\$ 35,508,985	\$ 74,238,059	\$ 109,747,044

Governmental activities - Governmental activities increased the City's net assets by \$3,455,675. This increase is primarily attributable to the increase from infrastructure contributed by developers and annexation.

Business-type activities - Business-type activities increased the City of Salisbury's net assets by \$10,030,267. Again, this increase is primarily due to capital contributions from the City's partners in its capital projects.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

### Governmental Funds

The focus of the City of Salisbury's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Salisbury's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Salisbury. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,372,541, while total fund balance for the General Fund reached \$5,079,489. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.4 percent of total General Fund expenditures, while total fund balance represents 20 percent of that same amount.

At June 30, 2003, the governmental funds of City of Salisbury reported a combined fund balance of \$5,218,446, a \$219,498 or 4.4 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Special Revenue Funds.

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

Total amendments to the General Fund increased revenues and expenditures by \$1,796,375. The difference between the original budget and the final amended budget can be briefly summarized as follows:

- Funds were appropriated for disaster assistance from the Federal Emergency Management Agency in the amount of \$1,100,000.
- Funds were appropriated for the purchase of real estate in the amount of \$1,000,000.
- Funds were appropriated for the receipt of a \$520,000 grant from the Federal Emergency Management Agency to purchase fire equipment.
- Funds were appropriated for additional sales taxes in the amount of \$408,000 due to the adoption of a new one-half cent tax by Rowan County.
- Funds were appropriated for various donations totaling \$230,035.
- The City decreased revenues and expenditures by \$1,560,000 for revenues originally budgeted but permanently withheld by the State of North Carolina.

Revenues were less than the budgeted amounts primarily because some appropriated grant funds and donations had not been earned and therefore, not received by June 30, 2003. The City had not earned these funds because the related expenditures had not been made. Therefore, these unearned

grants had no effect on the General Fund's change in fund balance, which increased by \$203,655 during the fiscal year ended June 30, 2003.

### Proprietary Funds

The City of Salisbury's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,104,703, and those for the Mass Transit Fund amounted to \$170,554. The total growth in net assets for the Water and Sewer Fund was \$10,050,918. Net assets of the Mass Transit Fund decreased by \$20,651. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Salisbury's business-type activities.

### CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The City of Salisbury's investment in capital assets for its governmental and business-type activities as of June 30, 2003 totals \$147,820,761 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles, water and sewer treatment facilities, and water and sewer lines. The City's capital assets in the governmental and business-type activities increased 10 percent and 19 percent, respectively.

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

- Construction in progress for water and sewer capital assets of \$18,407,245. The City is nearing completion on several large projects including new water lines to southern Rowan County and the Highway 70 corridor in the western part of the City.
- Completed water and sewer construction projects totaling \$2,665,345.
- New general infrastructure taken over via annexation and contributions from developers totaling \$4,048,516.
- Purchase of a new ladder truck for the Fire Department for \$472,541.

#### CITY OF SALISBURY'S CAPITAL ASSETS

(net of depreciation)

Figure 3

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Land	\$ 3,157,445	\$ 2,072,067	\$ 5,229,512
Construction in progress	-	30,335,894	30,335,894
Buildings	1,432,457	-	1,432,457
Improvements other than buildings	7,498,109	78,089,079	85,587,188
Equipment	294,848	349,084	643,932
Vehicles and motorized equipment	1,852,926	751,253	2,604,179
Infrastructure	21,987,599	-	21,987,599
<b>Total</b>	<b>\$ 36,223,384</b>	<b>\$ 111,597,377</b>	<b>\$ 147,820,761</b>

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

Long-term Debt - As of June 30, 2003, the City of Salisbury had total long-term debt outstanding of \$59,849,197. Of this, \$17,450,000 is debt backed by the full faith and credit of the City and \$21,541,269 represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

**CITY OF SALISBURY'S OUTSTANDING DEBT**

(not including compensated absences)

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 2,645,000	\$ 2,825,000	\$14,805,000	\$16,080,000	\$17,450,000	\$18,905,000
Revenue bonds	-	-	21,541,269	21,745,280	21,541,269	21,745,280
State bond loans	-	-	14,185,084	15,067,590	14,185,084	15,067,590
Capital leases	-	-	3,611,282	3,874,595	3,611,282	3,874,595
Installment purchases	2,840,562	2,434,738	-	-	2,840,562	2,434,738
HUD Section 108 loan	221,000	-	-	-	221,000	-
<b>Total</b>	<b>\$ 5,706,562</b>	<b>\$ 5,259,738</b>	<b>\$54,142,635</b>	<b>\$56,767,465</b>	<b>\$59,849,197</b>	<b>\$62,027,203</b>

The City of Salisbury's total debt decreased by \$2,178,006 (3.51%) during the past fiscal year despite issuing \$1,000,000 in installment purchase financing to purchase real estate.

As mentioned in the financial highlights section of this document, the City of Salisbury maintained its A1 bond rating from Moody's Investor Service and A+ rating from Standard and Poor's Corporation and Fitch Ratings. These bond ratings are a clear indication of the sound financial condition of the City of Salisbury. This achievement is a primary factor in keeping interest costs low on the City's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Salisbury is \$125,116,150.

Subsequent to the end of the fiscal year ended June 30, 2003, the City refinanced some of its existing debt to take advantage of historically low interest rates. On August 12, 2003, the City refunded \$11.9 million of Water and Sewer debt with a \$12.1 million general obligation issue. Total debt payments will be reduced by \$352,806. See note 3.B.5.c for more information.

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

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

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

- The unemployment rate for Rowan County at June 30, 2003 was 6.4%, which is an increase from a rate of 6.1% a year ago. This compares favorably to the state's average unemployment of 6.8% per year. Since June 30, 2003, a local textile manufacturer closed and the average unemployment for Rowan County from July to September was 11.6% as compared to a state-wide average of 6.5% for the same period.
- The City's population increased by over 1,500 people as a result of an annexation completed on June 30, 2003. Since 1994, the City's population has increased from 24,072 to 28,199, which represents an approximate annual growth of 1.7% per year.
- The occupancy rates for first floor office and retail space in the City's downtown area is approximately 95%.
- Inflationary trends in the region compare favorably to national indices.

## **BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2004**

### **Governmental Activities**

General Fund - Property taxes, benefiting from the economic growth and annexation, will lead the way to an overall 20% projected increase in General Fund revenues. Current year property taxes are projected to increase by over \$1.1 million, or 10.8%. Revenues from local option sales taxes are projected to increase \$800,000 due in part to having a full year of revenues from a new one-half cent tax that went into effect in December 2002. The new one-half cent sales tax and an associated "hold harmless" agreement were approved by the North Carolina state legislature as a replacement for State-shared revenues that have been eliminated by the State. The City will receive more than \$850,000 from the new hold harmless agreement in the fiscal year ending June 30, 2004. The City plans to finance two projects through installment purchase contracts – improvements to the City's emergency communication system and the renovation and addition of the Police station. These two financing projects will total approximately \$5 million.

Budgeted expenditures in the General Fund are expected to rise 22% to \$31,111,681. As discussed above, the City will be involved in two major projects in the fiscal year ending June 30, 2004 – the new emergency communication system and the upgrade to the Police Station. Personnel cost in the General Fund will increase by about \$1 million. Salisbury's City Council approved an average three percent merit raise and health insurance premiums will increase by 17.4%. Also, City Council approved an additional 5.5 positions in the personnel employed in the General Fund.

### **Business – type Activities**

Water and Sewer Fund - The water and sewer rates in the City will increase by 1.87%, primarily to cover increased costs of operations. The City was able to minimize the rate increase because of the recent additions of new customers that include a new electricity generating facility and two

municipalities in southern Rowan County. General operating expenses will increase by 11% to cover increased personnel costs, and 13% to cover increased costs of material, supplies, and other operating expenses.

Mass Transit Fund – Revenues and expenditures for the Mass Transit Fund are not expected to change significantly. The slight increases in personnel and maintenance costs will be offset by increased funding from federal and state grants.

#### **REQUESTS FOR INFORMATION**

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

**A-1**  
**City of Salisbury, North Carolina**  
**Statement of Net Assets**  
**June 30, 2003**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 4,397,859	\$ 3,221,136	\$ 7,618,995	\$ 125,188
Taxes receivables (net)	515,016	-	515,016	-
Accrued interest receivable on taxes	51,700	-	51,700	-
Accounts receivable (net)	569,486	2,125,145	2,694,631	-
Interest receivable	19,410	12,173	31,583	-
Due from other governments	2,391,892	177,389	2,569,281	-
Inventories	-	223,124	223,124	-
Prepaid items	4,900	-	4,900	-
<b>Total current assets</b>	<b>\$ 7,950,263</b>	<b>\$ 5,758,967</b>	<b>\$ 13,709,230</b>	<b>\$ 125,188</b>
Restricted assets:				
Cash and cash equivalents	\$ -	\$ 15,986,381	\$ 15,986,381	\$ -
Interest receivable	-	60,649	60,649	-
Due from other governments	-	490,894	490,894	-
<b>Total restricted assets</b>	<b>\$ -</b>	<b>\$ 16,537,924</b>	<b>\$ 16,537,924</b>	<b>\$ -</b>
Capital assets (Note 1):				
Land, improvements, and construction in progress	\$ 3,157,445	\$ 32,407,961	\$ 35,565,406	\$ -
Other capital assets, net of depreciation	33,065,939	79,189,416	112,255,355	149,906
<b>Total capital assets</b>	<b>\$ 36,223,384</b>	<b>\$ 111,597,377</b>	<b>\$ 147,820,761</b>	<b>\$ 149,906</b>
<b>Total assets</b>	<b>\$ 44,173,647</b>	<b>\$ 133,894,268</b>	<b>\$ 178,067,915</b>	<b>\$ 275,094</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,620,712	\$ 1,954,466	\$ 3,575,178	\$ 5,639
Unearned revenue	286,248	160,354	446,602	-
Accrued interest payable	15,742	523,669	539,411	-
Customer deposits	-	368,890	368,890	-
Payable from restricted assets	-	2,506,195	2,506,195	-
Long-term liabilities:	-	-	-	-
Due within one year	646,750	3,012,182	3,658,932	-
Due in more than one year	6,095,210	51,130,453	57,225,663	-
<b>Total liabilities</b>	<b>\$ 8,664,662</b>	<b>\$ 59,656,209</b>	<b>\$ 68,320,871</b>	<b>\$ 5,639</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 30,737,822	\$ 54,424,878	\$ 85,162,700	\$ 149,906
Restricted for:				
Capital projects	9,155	16,537,924	16,547,079	-
Culture and recreation	54,606	-	54,606	-
Community and economic development	220,192	-	220,192	-
Public safety	72,658	-	72,658	-
Unrestricted	4,414,552	3,275,257	7,689,809	119,549
<b>Total net assets</b>	<b>\$ 35,508,985</b>	<b>\$ 74,238,059</b>	<b>\$ 109,747,044</b>	<b>\$ 269,455</b>

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

## City of Salisbury, North Carolina

## Statement of Activities

For the Year Ended June 30, 2003

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 5,975,738	\$ 643,072	\$ 42,770	\$ -	\$ (5,289,896)	\$ -	\$ (5,289,896)	\$ -
Public safety	9,739,181	410,211	298,472	520,035	(8,510,463)	-	(8,510,463)	-
Transportation	4,313,179	125,244	1,977,043	4,470,282	2,259,390	-	2,259,390	-
Environmental protection	1,469,017	946,998	-	-	(522,019)	-	(522,019)	-
Culture and recreation	2,392,991	162,916	90,609	-	(2,139,466)	-	(2,139,466)	-
Community and economic development	2,013,771	-	778,721	-	(1,235,050)	-	(1,235,050)	-
Education	42,342	-	-	-	(42,342)	-	(42,342)	-
Interest on long-term debt	251,693	-	-	-	(251,693)	-	(251,693)	-
Total governmental activities	\$ 26,197,912	\$ 2,288,441	\$ 3,187,615	\$ 4,990,317	\$ (15,731,539)	\$ -	\$ (15,731,539)	\$ -
Business-type activities:								
Water and sewer	\$ 15,484,513	\$ 14,301,184	\$ -	\$ 9,927,332	\$ -	\$ 8,744,003	\$ 8,744,003	\$ -
Transit	629,268	66,669	372,724	-	-	(189,875)	(189,875)	-
Total business-type activities	\$ 16,113,781	\$ 14,367,853	\$ 372,724	\$ 9,927,332	\$ -	\$ 8,554,128	\$ 8,554,128	\$ -
Total primary government	\$ 42,311,693	\$ 16,656,294	\$ 3,560,339	\$ 14,917,649	\$ (15,731,539)	\$ 8,554,128	\$ (7,177,411)	\$ -
Component units:								
Downtown Salisbury, Inc.	\$ 275,665	\$ 16,799	\$ 78,261	\$ -	\$ -	\$ -	\$ -	\$ (180,605)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					\$ 11,220,630	\$ -	\$ 11,220,630	\$ 92,996
Sales and other taxes					3,382,414		3,382,414	-
Licenses and permits					551,498		551,498	
Intergovernmental revenues					2,092,831		2,092,831	
Unrestricted investment earnings					88,655	363,091	451,746	1,924
Miscellaneous					351,418	952,766	1,304,184	12,617
Administrative charges					1,660,050		1,660,050	
Transfers					(160,282)	160,282	-	-
Total general revenues, special items, and transfers					\$ 19,187,214	\$ 1,476,139	\$ 20,663,353	\$ 107,537
Change in net assets					\$ 3,455,675	\$ 10,030,267	\$ 13,485,942	\$ (73,068)
Net assets-beginning					32,053,310	64,207,792	96,261,102	342,523
Net assets-ending					\$ 35,508,985	\$ 74,238,059	\$ 109,747,044	\$ 269,455

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

## City of Salisbury, North Carolina

Balance Sheet  
Governmental Funds

June 30, 2003

	<u>General</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,204,171	\$ 9,523	\$ 4,213,694
Taxes receivable, net	515,016	-	515,016
Accounts receivable	566,780	2,706	569,486
Interest receivable	18,947	-	18,947
Due from other governments	2,104,853	287,039	2,391,892
Prepaid items	4,900	-	4,900
Total assets	<u>\$ 7,414,667</u>	<u>\$ 299,268</u>	<u>\$ 7,713,935</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,057,624	\$ 160,311	\$ 1,217,935
Deferred revenue	1,277,554	-	1,277,554
Total liabilities	<u>\$ 2,335,178</u>	<u>\$ 160,311</u>	<u>\$ 2,495,489</u>
Fund balances:			
Reserved for:			
Encumbrances	\$ 11,468	\$ -	\$ 11,468
Prepaid items	4,900	-	4,900
State statute	2,214,290	129,802	2,344,092
Unreserved, General Fund	2,848,831	-	2,848,831
Unreserved, reported in:			
Capital Projects Fund	-	9,155	9,155
Total fund balances	<u>\$ 5,079,489</u>	<u>\$ 138,957</u>	<u>\$ 5,218,446</u>
Total liabilities and fund balances	<u>\$ 7,414,667</u>	<u>\$ 299,268</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$ 36,223,384
Other current assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	51,700
Internal service funds are used by management to charge the costs of certain activities, such as self insurance for health care and workers compensation, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	(218,149)
Liabilities for earned but deferred revenues in fund statements.	991,306
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(6,757,702)
Net assets of governmental activities	<u>\$ 35,508,985</u>

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

**City of Salisbury, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 14,579,428	\$ -	\$ 14,579,428
License and permits	551,498	-	551,498
Intergovernmental	5,219,368	778,721	5,998,089
Charges for services	2,257,355	-	2,257,355
Miscellaneous	461,015	160,583	621,598
Administrative charges	1,660,050	-	1,660,050
Total revenues	<u>\$ 24,728,714</u>	<u>\$ 939,304</u>	<u>\$ 25,668,018</u>
<b>EXPENDITURES</b>			
Current:			
General government	\$ 4,595,907	\$ 108,913	\$ 4,704,820
Public safety	9,850,071	-	9,850,071
Transportation	4,117,773	-	4,117,773
Environmental protection	1,561,086	-	1,561,086
Culture and recreation	2,150,494	45,362	2,195,856
Community and economic development	2,012,375	990,186	3,002,561
Education	42,342	-	42,342
Debt service:			
Principal	774,176	-	774,176
Interest	260,553	-	260,553
Total expenditures	<u>\$ 25,364,777</u>	<u>\$ 1,144,461</u>	<u>\$ 26,509,238</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (636,063)</u>	<u>\$ (205,157)</u>	<u>\$ (841,220)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to other funds	\$ (160,282)	\$ -	\$ (160,282)
Proceeds from issuance of long-term debt	1,000,000	221,000	1,221,000
Total other financing sources (uses)	<u>\$ 839,718</u>	<u>\$ 221,000</u>	<u>\$ 1,060,718</u>
Net change in fund balance	\$ 203,655	\$ 15,843	\$ 219,498
Fund balances-beginning	4,875,834	123,114	4,998,948
Fund balances-ending	<u>\$ 5,079,489</u>	<u>\$ 138,957</u>	<u>\$ 5,218,446</u>

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

## City of Salisbury, North Carolina

**Reconciliation of Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities**

**For the Year Ended June 30, 2003**

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

Net changes in fund balances - total governmental funds	\$ 219,498
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Changes in deferred revenue for property tax revenues	23,616
Changes in deferred revenue for franchise tax revenues	40,774
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	1,988,035
Infrastructure contributed by developers is considered a capital contribution for the statements of activities.	4,048,516
Depreciation is recognized as an expense in the statement of activities.	(2,407,630)
Internal service funds are used by management to charge costs of certain activities, such as self-insurance for health care and workers compensation, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.	32,945
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.	
Issuance of long-term debt	(1,221,000)
Repayment of principal on long-term debt	774,176
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	-
Compensated absences	(50,529)
Change in accrued interest payable	8,860
Loss on disposal of assets	(1,586)
	<hr/>
Total changes in net assets of governmental activities	<u>\$ 3,455,675</u>

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

A-6

City of Salisbury, North Carolina  
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2003

	General Fund			
	Original			Variance with
	Budget	Final Budget	Actual	Final Budget Over (Under)
Revenues:				
Taxes	\$ 14,604,651	\$ 15,012,759	\$ 14,579,428	\$ (433,331)
License and permits	565,202	565,202	551,498	(13,704)
Intergovernmental	6,189,770	6,321,469	5,219,368	(1,102,101)
Charges for services	2,110,336	2,110,336	2,257,355	147,019
Miscellaneous	629,895	886,463	461,015	(425,448)
Administrative charges	1,660,050	1,660,050	1,660,050	-
Total revenues	<u>\$ 25,759,904</u>	<u>\$ 26,556,279</u>	<u>\$ 24,728,714</u>	<u>\$ (1,827,565)</u>
Expenditures:				
Current:				
General government	\$ 5,557,784	\$ 4,875,371	\$ 4,595,907	\$ (279,464)
Public safety	9,628,485	10,155,582	9,850,071	(305,511)
Transportation	4,295,971	5,209,021	4,117,773	(1,091,248)
Environmental protection	1,404,162	1,571,362	1,561,086	(10,276)
Cultural and recreation	2,374,687	2,440,328	2,150,494	(289,834)
Community and economic development	1,545,879	2,338,279	2,012,375	(325,904)
Education	42,342	42,342	42,342	-
Debt service:				
Principal retirement	770,279	774,279	774,176	(103)
Interest and other charges	251,435	260,835	260,553	(282)
Total expenditures	<u>\$ 25,871,024</u>	<u>\$ 27,667,399</u>	<u>\$ 25,364,777</u>	<u>\$ (2,302,622)</u>
Revenues over (under) expenditures	<u>\$ (111,120)</u>	<u>\$ (1,111,120)</u>	<u>\$ (636,063)</u>	<u>\$ 475,057</u>
Other financing sources (uses):				
Transfers to other funds	\$ (160,282)	\$ (160,282)	\$ (160,282)	\$ -
Capital lease obligations issued	-	1,000,000	1,000,000	-
Fund balance appropriated	271,402	271,402	-	(271,402)
Total other financing sources (uses)	<u>\$ 111,120</u>	<u>\$ 1,111,120</u>	<u>\$ 839,718</u>	<u>\$ (271,402)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,655</u>	<u>\$ 203,655</u>
Fund balances, beginning of year			4,875,834	
Fund balances, end of year			<u>\$ 5,079,489</u>	

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

A-7  
**City of Salisbury, North Carolina**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2003**

	<b>Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Water and Sewer Fund</b>	<b>Transit Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b><u>ASSETS</u></b>				
Current assets:				
Cash and cash equivalents	\$ 3,068,286	\$ 152,850	\$ 3,221,136	\$ 184,165
Accounts receivable (net)	2,123,693	1,452	2,125,145	-
Interest receivable	11,605	568	12,173	463
Due from other governments	115,229	62,160	177,389	-
Inventories	223,124	-	223,124	-
Total current assets	<u>\$ 5,541,937</u>	<u>\$ 217,030</u>	<u>\$ 5,758,967</u>	<u>\$ 184,628</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	\$ 15,986,381	\$ -	\$ 15,986,381	\$ -
Due from other governments	490,894	-	490,894	-
Interest receivable	60,649	-	60,649	-
Total restricted assets	<u>\$ 16,537,924</u>	<u>\$ -</u>	<u>\$ 16,537,924</u>	<u>\$ -</u>
Capital assets:				
Land	\$ 2,072,067	\$ -	\$ 2,072,067	\$ -
Buildings and improvements	111,086,944	467,924	111,554,868	-
Equipment	5,556,056	754,189	6,310,245	-
Construction in progress	30,335,894	-	30,335,894	-
Accumulated depreciation	(37,471,334)	(1,204,363)	(38,675,697)	-
Net capital assets	<u>\$ 111,579,627</u>	<u>\$ 17,750</u>	<u>\$ 111,597,377</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 128,117,551</u>	<u>\$ 17,750</u>	<u>\$ 128,135,301</u>	<u>\$ -</u>
Total assets	<u>\$ 133,659,488</u>	<u>\$ 234,780</u>	<u>\$ 133,894,268</u>	<u>\$ 184,628</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,907,990	\$ 46,476	\$ 1,954,466	\$ 402,777
Liabilities payable from restricted assets	2,506,195	-	2,506,195	-
Interest payable	523,669	-	523,669	-
Current maturities of long-term debt	3,012,182	-	3,012,182	-
Deferred revenue	160,354	-	160,354	-
Customer deposits	368,890	-	368,890	-
Total current liabilities	<u>\$ 8,479,280</u>	<u>\$ 46,476</u>	<u>\$ 8,525,756</u>	<u>\$ 402,777</u>
Noncurrent liabilities:				
Bonds payable	\$ 47,788,847	\$ -	\$ 47,788,847	\$ -
Capital leases payable	3,341,606	-	3,341,606	-
Total noncurrent liabilities	<u>\$ 51,130,453</u>	<u>\$ -</u>	<u>\$ 51,130,453</u>	<u>\$ -</u>
Total liabilities	<u>\$ 59,609,733</u>	<u>\$ 46,476</u>	<u>\$ 59,656,209</u>	<u>\$ 402,777</u>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	\$ 54,407,128	\$ 17,750	\$ 54,424,878	\$ -
Restricted	16,537,924	-	16,537,924	-
Unrestricted	3,104,703	170,554	3,275,257	(218,149)
Net assets of business-type activities	<u>\$ 74,049,755</u>	<u>\$ 188,304</u>	<u>\$ 74,238,059</u>	<u>\$ (218,149)</u>
Total liabilities and net assets	<u>\$ 133,659,488</u>	<u>\$ 234,780</u>	<u>\$ 133,894,268</u>	<u>\$ 184,628</u>

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

**City of Salisbury, North Carolina**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2003**

	<b>Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Water and Sewer Fund</b>	<b>Transit Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 14,301,184	\$ 66,669	\$ 14,367,853	\$ 2,994,849
Water and sewer taps	266,247	-	266,247	-
Other operating revenues	<u>439,882</u>	<u>-</u>	<u>439,882</u>	<u>-</u>
Total operating revenues	<u>\$ 15,007,313</u>	<u>\$ 66,669</u>	<u>\$ 15,073,982</u>	<u>\$ 2,994,849</u>
<b>OPERATING EXPENSES</b>				
Management and administration	\$ 3,250,328	\$ 120,930	\$ 3,371,258	\$ 2,963,762
Water resources	1,216,993	-	1,216,993	-
Maintenance and construction	3,067,331	-	3,067,331	-
Wastewater collection and treatment	2,017,878	-	2,017,878	-
Environmental services	469,505	-	469,505	-
Depreciation	2,998,350	5,072	3,003,422	-
Mass transit operations	<u>-</u>	<u>503,266</u>	<u>503,266</u>	<u>-</u>
Total operating expenses	<u>\$ 13,020,385</u>	<u>\$ 629,268</u>	<u>\$ 13,649,653</u>	<u>\$ 2,963,762</u>
Operating income (loss)	<u>\$ 1,986,928</u>	<u>\$ (562,599)</u>	<u>\$ 1,424,329</u>	<u>\$ 31,087</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	\$ 360,399	\$ 2,692	\$ 363,091	\$ 1,859
Interest expense	(2,443,139)	-	(2,443,139)	-
Bond issuance costs	(20,989)	-	(20,989)	-
Intergovernmental revenues	-	372,724	372,724	-
Miscellaneous revenues	<u>240,387</u>	<u>6,250</u>	<u>246,637</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>\$ (1,863,342)</u>	<u>\$ 381,666</u>	<u>\$ (1,481,676)</u>	<u>\$ 1,859</u>
Income (loss) before contributions and transfers	\$ 123,586	\$ (180,933)	\$ (57,347)	\$ 32,946
Capital contributions	9,927,332	-	9,927,332	-
Transfers from other funds	<u>-</u>	<u>160,282</u>	<u>160,282</u>	<u>-</u>
Change in net assets	\$ 10,050,918	\$ (20,651)	\$ 10,030,267	\$ 32,946
Total net assets - beginning	<u>63,998,837</u>	<u>208,955</u>	<u>64,207,792</u>	<u>(251,095)</u>
Total net assets - ending	<u>\$ 74,049,755</u>	<u>\$ 188,304</u>	<u>\$ 74,238,059</u>	<u>\$ (218,149)</u>

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

**A-9**  
**City of Salisbury, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2003**

	<b>Business-Type Activities</b>			<b>Governmental</b>
	<b>Enterprise Funds</b>			<b>Activities</b>
	<b>Water and</b>			<b>Internal</b>
	<b>Sewer Fund</b>	<b>Transit Fund</b>	<b>Total</b>	<b>Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 14,849,997	\$ 68,480	\$ 14,918,477	\$ -
Cash received from interfund services provided	-	-	-	2,994,849
Cash paid for goods and services	(4,894,101)	(141,169)	(5,035,270)	(2,997,079)
Cash paid to or on behalf of employees for services	(3,866,113)	(484,642)	(4,350,755)	-
Customer deposits received	174,414	-	174,414	-
Customer deposits returned	(129,495)	-	(129,495)	-
Other operating revenues	439,882	-	439,882	-
Net cash provided (used) by operating activities	<u>\$ 6,574,584</u>	<u>\$ (557,331)</u>	<u>\$ 6,017,253</u>	<u>\$ (2,230)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	\$ -	\$ 160,282	\$ 160,282	\$ -
Intergovernmental revenues	-	363,188	363,188	-
Non-operating revenues	240,387	6,250	246,637	-
Total cash flows from noncapital financing activities	<u>\$ 240,387</u>	<u>\$ 529,720</u>	<u>\$ 770,107</u>	<u>\$ -</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	\$ (21,007,040)	\$ (22,822)	\$ (21,029,862)	\$ -
Principal paid on bond maturities and equipment contracts	(2,645,818)	-	(2,645,818)	-
Interest paid on bond maturities and equipment contracts	(2,275,611)	-	(2,275,611)	-
Capital contributions	10,087,686	-	10,087,686	-
Net cash provided (used) by capital and related financing activities	<u>\$ (15,840,783)</u>	<u>\$ (22,822)</u>	<u>\$ (15,863,605)</u>	<u>\$ -</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment earnings	\$ 315,431	\$ 2,581	\$ 318,012	\$ 1,990
Net increase (decrease) in cash and cash equivalents	\$ (8,710,381)	\$ (47,852)	\$ (8,758,233)	\$ (240)
Balances-beginning of the year	27,765,048	200,702	27,965,750	184,405
Balances-end of the year	<u>\$ 19,054,667</u>	<u>\$ 152,850</u>	<u>\$ 19,207,517</u>	<u>\$ 184,165</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 1,986,928	\$ (562,599)	\$ 1,424,329	\$ 31,087
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>				
Depreciation	\$ 2,998,350	\$ 5,072	\$ 3,003,422	-
Changes in assets and liabilities:			-	-
(Increase) decrease in accounts receivable	282,566	1,811	284,377	-
(Increase) decrease in inventory	(48,150)	-	(48,150)	-
(Increase) in due from other governments	(60,055)	-	(60,055)	-
Increase (decrease) in accounts payable and accrued liabilities	1,370,026	(1,615)	1,368,411	(33,317)
Increase in customer deposits	44,919	-	44,919	-
Total adjustments	<u>\$ 4,587,656</u>	<u>\$ 5,268</u>	<u>\$ 4,592,924</u>	<u>\$ (33,317)</u>
Net cash provided (used) by operating activities	<u>\$ 6,574,584</u>	<u>\$ (557,331)</u>	<u>\$ 6,017,253</u>	<u>\$ (2,230)</u>

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

**City of Salisbury, North Carolina**  
**Combining Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2003**

	<b>Fiduciary Funds</b>		
	<b>Pension Trust</b>		
	<b>Fund</b>	<b>Agency Funds</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 504,562	\$ 99,542	\$ 604,104
Taxes receivable (net)	-	4,336	4,336
Accounts receivable	-	136,102	136,102
Interest receivable	1,962	9	1,971
	<u>506,524</u>	<u>239,989</u>	<u>746,513</u>
Total assets	<u>\$ 506,524</u>	<u>\$ 239,989</u>	<u>\$ 746,513</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ 1,516	\$ 1,516
Deferred revenues	-	4,336	4,336
Customer deposits	-	28,332	28,332
	<u>-</u>	<u>34,184</u>	<u>34,184</u>
Total liabilities	<u>\$ -</u>	<u>\$ 34,184</u>	<u>\$ 34,184</u>
<b><u>NET ASSETS</u></b>			
Held in trust for participants	<u>\$ 506,524</u>	<u>\$ 205,805</u>	<u>\$ 712,329</u>
Total liabilities and net assets	<u>\$ 506,524</u>	<u>\$ 239,989</u>	<u>\$ 746,513</u>

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

## A-11

**City of Salisbury, North Carolina**  
**Statement of Changes in Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2003**

	<b>Pension Trust</b>		
	<b>Fund</b>	<b>Agency Funds</b>	<b>Total</b>
<b>Additions:</b>			
Employer contributions	\$ 88,968	\$ -	\$ 88,968
Charges for services		879,537	879,537
Property taxes	-	92,955	92,955
Investment earnings	7,558	272	7,830
<b>Total additions</b>	<b>\$ 96,526</b>	<b>\$ 972,764</b>	<b>\$ 1,069,290</b>
<b>Deductions:</b>			
Retirement payments	\$ 13,470	\$ -	\$ 13,470
Water purchases	-	648,333	648,333
Systems maintenance	-	17,887	17,887
Management fees	-	127,377	127,377
Distributions to agency	-	94,223	94,223
<b>Total deductions</b>	<b>\$ 13,470</b>	<b>\$ 887,820</b>	<b>\$ 901,290</b>
<b>Net increase</b>	<b>\$ 83,056</b>	<b>\$ 84,944</b>	<b>\$ 168,000</b>
Net assets, beginning of year	423,468	120,861	544,329
<b>Net assets, end of year</b>	<b>\$ 506,524</b>	<b>\$ 205,805</b>	<b>\$ 712,329</b>

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

# CITY OF SALISBURY, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

#### Discretely Presented Component Unit

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

#### Related Organization

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

#### B. Basis of Presentation

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party

## NOTES TO THE FINANCIAL STATEMENTS

receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

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

The City reports the following non-major governmental funds:

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

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

The City reports the following major enterprise funds:

Water and Sewer Fund – This fund is used to account for the City’s water and sewer operations.

Mass Transit Fund – This fund is used to account for the City’s mass transit system operations.

The City reports the following other fund types:

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

Fiduciary Funds – Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets which are reported using accounting principles similar to proprietary funds. The City’s fiduciary funds are presented in the fiduciary fund financial statements by type (pension trust fund and agency). Since by definition these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

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

Government-wide and Proprietary Fund Financial Statements – The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary funds financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value

## NOTES TO THE FINANCIAL STATEMENTS

without directly receiving (or giving) equal value, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

The City considers all revenues available if they are collected within 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 2002 through February 2003 apply to the fiscal year ended June 30, 2003. 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, 2003 because they are intended to finance the City's operations during the 2004 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.

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

### D. Budgetary Data

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

## NOTES TO THE FINANCIAL STATEMENTS

### E. Assets, Liabilities and Fund Equity

#### 1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the City and Downtown Salisbury, Inc. to invest in obligations of the United States or obligations fully guaranteed, both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

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

#### 2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. Downtown Salisbury, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

#### 3. Restricted Assets

The 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.

#### 4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values of January 1, 2002. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

#### 5. Allowances for Doubtful Accounts

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

NOTES TO THE FINANCIAL STATEMENTS

6. Inventories and Prepaid Items

The inventories of the City's Water and Sewer Fund consist of materials and supplies held for subsequent use. The inventories are valued at cost, on a first-in, first-out basis, which approximates market. The costs of these inventories are recorded as expenditures when used rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

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

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

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

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

<u>Asset Class</u>	<u>Useful Lives</u>
Furniture and equipment	10
Trolleys	7

8. Long-Term Obligations

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Compensated Absences

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

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

### 10. Net Assets/Fund Balances

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

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

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

The governmental fund types classify fund balances as follows:

#### Reserved:

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

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

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

#### Unreserved:

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.

### F. Revenues, Expenditures, and Expenses

#### 1. Grant Revenue

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

NOTES TO THE FINANCIAL STATEMENTS

2. Investment Income

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

3. Inter-fund Transactions

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

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Stewardship, Compliance and Accountability

A. 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, 2003.

B. Excess of Expenditures Over Appropriations

There were no expenditures in excess of appropriated amounts for the fiscal year ended June 30, 2003.

C. Deficit Fund Balance or Retained Earnings of Individual Funds

The City's Employee Health Care Internal Service Fund has a net deficit of \$256,716. This deficit is the result of reporting an estimated amount of claims that have been incurred but not yet reported in the amount of \$395,460.

Note 3. Detail Notes On All Funds

A. Assets

1. Deposits

Total cash and investments were composed as follows:

Cash on hand	\$	2,340
Cash in demand deposits		1,126,119
Money market accounts		14,349
Certificates of Deposit		8,196,347
Investments		14,870,325
	\$	<u>24,209,480</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

NOTES TO THE FINANCIAL STATEMENTS

held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the component unit, these deposits are considered to be held by the City's and the components' agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has deposits in banks utilizing both the Dedicated Method and the Pooling Method.

At June 30, 2003, the City's deposits had a carrying amount of \$9,336,815 and a bank balance of \$9,421,010. Of the bank balance, \$714,449 was covered by federal depository insurance and the remainder was covered by collateral held under either the Dedicated Method or the Pooling Method. The carrying amount of deposits and the bank balance for Downtown Salisbury, Inc. was \$125,188, all of which was covered by federal depository insurance.

2. 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 A 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 B includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the City's name. Category C includes uninsured and unregistered investments for which the securities are held by the counter-party, 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 B or C. 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, 2003, Downtown Salisbury, Inc. did not own any investments. At June 30, 2003, the City's investments were as follows:

	<u>Category A</u>	<u>Reported Value</u>	<u>Fair Value</u>
Commercial Paper	<u>\$ 3,970,555</u>	\$ 3,970,555	\$ 3,970,555
North Carolina Capital Management Trust:			
Cash Portfolio		<u>10,899,770</u>	<u>10,899,770</u>
		<u>\$ 14,870,325</u>	<u>\$ 14,870,325</u>

3. Receivables - Allowances for Doubtful Accounts

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

<u>Fund</u>	<u>June 30, 2003</u>
General Fund:	
Taxes receivable	\$ 225,000
Enterprise Funds:	
Utility receivables	<u>47,000</u>
Total	<u>\$ 272,000</u>

NOTES TO THE FINANCIAL STATEMENTS

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2003, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 3,157,445	\$ -	\$ -	\$ 3,157,445
Construction in progress	338,568		338,568	-
Total capital assets not being depreciated	<u>\$ 3,496,013</u>	<u>\$ -</u>	<u>\$ 338,568</u>	<u>\$ 3,157,445</u>
<b>Capital assets being depreciated:</b>				
Buildings	\$ 1,306,315	\$ 1,001,369	\$ -	\$ 2,307,684
Other improvements	9,885,344	338,568	20,693	10,203,219
Equipment	3,808,121	106,927	190,739	3,724,309
Vehicles and motorized equipment	9,743,148	790,318	889,021	9,644,445
Infrastructure	26,473,970	4,048,516	-	30,522,486
Total capital assets being depreciated	<u>\$ 51,216,898</u>	<u>\$ 6,285,698</u>	<u>\$ 1,100,453</u>	<u>\$ 56,402,143</u>
<b>Less accumulated depreciation for:</b>				
Buildings	\$ 823,108	\$ 52,119	\$ -	\$ 875,227
Other improvements	2,514,482	211,321	20,693	2,705,110
Equipment	3,328,253	290,361	189,153	3,429,461
Vehicles and motorized equipment	7,547,756	876,573	632,810	7,791,519
Infrastructure	7,557,631	977,256	-	8,534,887
Total accumulated depreciation	<u>\$ 21,771,230</u>	<u>\$ 2,407,630</u>	<u>\$ 842,656</u>	<u>\$ 23,336,204</u>
Total capital assets being depreciated, net	<u>\$ 29,445,668</u>	<u>\$ 3,878,068</u>	<u>\$ 257,797</u>	<u>\$ 33,065,939</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 32,941,681</u>	<u>\$ 3,878,068</u>	<u>\$ 596,365</u>	<u>\$ 36,223,384</u>

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

General government	\$ 1,331,577
Public safety	548,583
Transportation	252,359
Environmental protection	43,058
Cultural and recreational	217,242
Land management and development	14,811
Total depreciation expense	<u>\$ 2,407,630</u>

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities</b>				
<b>Water and Sewer Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,072,067	\$ -	\$ -	\$ 2,072,067
Construction in progress	11,928,649	21,114,477	2,707,232	30,335,894
Total capital assets not being depreciated	<u>\$ 14,000,716</u>	<u>\$ 21,114,477</u>	<u>\$ 2,707,232</u>	<u>\$ 32,407,961</u>
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	\$ 108,548,110	\$ 2,665,346	\$ 126,512	\$ 111,086,944
Furniture and maintenance equipment	2,573,656	8,600	97,069	2,485,187
Vehicles and motorized equipment	2,966,181	451,566	346,878	3,070,869
Total capital assets being depreciated	<u>\$ 114,087,947</u>	<u>\$ 3,125,512</u>	<u>\$ 570,459</u>	<u>\$ 116,643,000</u>
<b>Less accumulated depreciation for:</b>				
Plant and distribution systems	\$ 30,333,382	\$ 2,709,289	\$ 44,806	\$ 32,997,865
Furniture and maintenance equipment	2,164,778	86,144	97,069	2,153,853
Vehicles and motorized equipment	2,131,315	202,918	14,617	2,319,616
Total accumulated depreciation	<u>\$ 34,629,475</u>	<u>\$ 2,998,351</u>	<u>\$ 156,492</u>	<u>\$ 37,471,334</u>
Total capital assets being depreciated, net	<u>\$ 79,458,472</u>	<u>\$ 127,161</u>	<u>\$ 413,967</u>	<u>\$ 79,171,666</u>
<b>Water and Sewer Fund capital assets, net</b>	<u>\$ 93,459,188</u>	<u>\$ 21,241,638</u>	<u>\$ 3,121,199</u>	<u>\$ 111,579,627</u>
<b>Transit Fund</b>				
<b>Capital assets being depreciated:</b>				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	6,235	22,822	-	29,057
Vehicles and motorized equipment	801,185	-	76,053	725,132
Total capital assets being depreciated	<u>\$ 1,275,344</u>	<u>\$ 22,822</u>	<u>\$ 76,053</u>	<u>\$ 1,222,113</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	6,235	5,072	-	11,307
Vehicles and motorized equipment	801,185	-	76,053	725,132
	<u>\$ 1,275,344</u>	<u>\$ 5,072</u>	<u>\$ 76,053</u>	<u>\$ 1,204,363</u>
<b>Transit Fund capital assets, net</b>	<u>\$ -</u>	<u>\$ 17,750</u>	<u>\$ -</u>	<u>\$ 17,750</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 93,459,188</u>	<u>\$ 21,259,388</u>	<u>\$ 3,121,199</u>	<u>\$ 111,597,377</u>

Construction commitments

The City has active construction projects as of June 30, 2003. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water and Sewer Treatment Facilities	<u>\$ 30,335,894</u>	<u>\$ 3,365,736</u>

NOTES TO THE FINANCIAL STATEMENTS

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.64%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Salisbury are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2003, 2002, and 2001 were \$691,652, \$704,628, and \$672,596, respectively. The contributions made by the City equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

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

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2002, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>81</u>
Total	<u><u>82</u></u>

2. Summary of Significant Accounting Policies

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

NOTES TO THE FINANCIAL STATEMENTS

*Method Used to Value Investments.* As noted in Note 1E previously, cash and investments are held in a single central depository with each fund owning a pro-rata share. Therefore, cash and investments are essentially demand deposits and are considered to be cash and cash equivalents. Investments are reported at cost which approximates market.

3. Contributions

North Carolina statutes require the City to provide these retirement benefits. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$88,968, or 3.05% 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, 2002 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9% to 9.8% per year. Item (b) included an inflation adjustment of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2002 was 28 years.

4. Annual Pension Cost and Net Pension Asset

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

Annual required contribution	\$ 93,425
Interest on net pension obligation	(2,592)
Adjustment to annual required contribution	<u>1,921</u>
Annual pension cost	\$ 92,754
Contributions made	<u>88,968</u>
Decrease in net pension asset	\$ (3,786)
Net pension asset beginning of year	<u>35,753</u>
Net pension asset end of year	<u><u>\$ 31,967</u></u>

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2003	\$92,754	95.92%	\$31,967
6/30/2002	86,122	102.01%	35,753
6/30/2001	47,898	117.13%	34,026

c. 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.

## NOTES TO THE FINANCIAL STATEMENTS

*Funding Policy:* Article 12E of G.S. Chapter 143 requires the City to 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, 2003 were \$181,830, which consisted of \$146,072 from the City and \$35,758 from the law enforcement officers.

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

*Plan Description:* The State of North Carolina contributes, on behalf of the City of Salisbury, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy:* Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

For the fiscal year ended June 30, 2003, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$27,284 for the 66 employed firemen who perform firefighting duties for the City's fire department.

### e. Other Post-employment Benefits

The City 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 payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2003, the City made contributions to the State for death benefits of \$16,917. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.11% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

## 2. Deferred Revenue

As discussed in Note 1C, property taxes receivable that are measurable but not available are recorded as taxes receivable and as deferred revenue. Likewise, prepaid property taxes or privilege licenses have not met the recognition criteria and are recorded as deferred revenue. Other deferred revenue in the General Fund represents grants and donations received for the construction of the new Salisbury Community Park and other projects that have not yet been spent for those purposes as of June 30, 2003. The balance in deferred revenue at year end, including these items, is composed of the following elements:

NOTES TO THE FINANCIAL STATEMENTS

	General Fund
Unearned	
Unspent grants and donations	\$ 227,966
Prepaid property taxes	58,282
Unavailable	
Taxes receivable, net	515,016
Receivables from other government	476,290
Total deferred revenue	\$ 1,277,554

3. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides 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 real and personal property, including boiler and machinery, in an amount of \$92,372,624. Other replacement cost property insurance includes coverage for electronic equipment in the amount of \$1,323,611, automobile physical damage insurance for \$10,088,178, 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 \$3,000,000 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:

	Year ended June 30, 2001	Year ended June 30, 2002	Year ended June 30, 2003
Unpaid claims, beginning of fiscal year	\$ 275,337	\$ 325,376	\$ 403,990
Incurred claims (including IBNRs)	2,212,357	2,553,335	2,777,841
Claim payments	(2,162,318)	(2,474,721)	(2,786,371)
Unpaid claims, end of fiscal year	\$ 325,376	\$ 403,990	\$ 395,460

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 THE FINANCIAL STATEMENTS

4. Claims, Judgments, and Contingent Liabilities

At June 30, 2003 the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

5. Long-Term Obligations

a. Capital Leases

The City has entered into various agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates on these agreements range from 3.385% to 5.6%. The City has recorded water and sewer assets related to these leases at their fair value of \$7,898,494. The future minimum lease payments at June 30, 2003 total \$4,728,716, including \$1,117,433 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

The future minimum lease obligations as of June 30, 2003 were as follows:

Year Ending June 30,	Capital Leases	
	Principal	Interest
2004	\$ 269,676	\$ 147,763
2005	271,109	137,071
2006	270,612	126,307
2007	264,190	115,559
2008	260,846	104,983
2009-2013	1,342,451	363,060
2014-2018	842,399	114,570
2019-2021	90,000	8,120
	<u>\$ 3,611,283</u>	<u>\$ 1,117,433</u>

b. Installment Purchases

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

Installment purchase contract for capital improvements and acquisition of facilities from Wachovia Bank and Trust, dated December 20, 1996, payable in fourteen 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 from First Union National Bank for the purchase of a fire truck, dated June 29, 2000, payable in eight semi-annual installments of \$83,448 at an effective interest rate of 5.20%.

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

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

NOTES TO THE FINANCIAL STATEMENTS

The future minimum payments of the installment purchases as of June 30, 2003, including \$595,447 of interest are as follows:

Year Ending June 30,	Governmental Activities Installment Purchases	
	Principal	Interest
2004	\$ 466,750	\$ 122,877
2005	165,771	106,984
2006	186,917	98,612
2007	226,008	88,618
2008	1,113,765	63,196
2009-2013	514,684	101,847
2014-2016	166,667	13,313
	<u>\$ 2,840,562</u>	<u>\$ 595,447</u>

c. General Obligation Indebtedness

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

Bonds payable at June 30, 2003 are comprised of the following individual issues:

	Balance June 30, 2003
Serviced by the General Fund:	
\$373,000 Public Improvement Bonds, Series 1993, average rate of 4.85%, issued November 1993, maturing serially to 2004	\$ 40,000
\$355,000 Public Improvement Bonds, Series 1995, average rate of 5.28%, issued November 1995, maturing serially to 2006	105,000
\$3,000,000 Parks and Recreation Bonds, Series 1997, average rate of 4.77%, issued December 1997, maturing serially to 2017	2,500,000
Subtotal	<u>\$ 2,645,000</u>
Serviced by the Water and Sewer Fund:	
\$1,500,000 Sanitary Sewer Bonds, Series 1989, average rate of 6.52%, issued July 1989, maturing serially to 2008	\$ 475,000
\$1,100,000 Sanitary Sewer Bonds, Series 1992, average rate of 6.10%, issued January 1992, maturing serially to 2011	550,000
\$3,400,000 Refunding Bonds, Series 1992, average rate of 4.20%, issued November 1993, maturing serially to 2008	1,280,000
\$13,650,000 Water and Sewer Bonds, Series 1993, average rate of 5.28%, issued November 1995, maturing serially to 2015	9,800,000
\$700,000 Water Bonds, Series 1997, average rate of 4.74%, issued December 1997, maturing serially to 2008	325,000
\$3,250,000 Water Bonds, Series 1998, average rate of 4.40%, issued June 1998, maturing serially to 2017	2,375,000
Subtotal	<u>\$ 14,805,000</u>
Total General Obligation Indebtedness	<u>\$ 17,450,000</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 180,000	\$ 127,210	\$ 1,270,000	\$ 756,173
2005	200,000	118,400	1,275,000	693,045
2006	190,000	108,650	1,275,000	629,603
2007	200,000	99,550	1,270,000	565,955
2008	200,000	90,050	1,215,000	502,518
2009-2013	1,000,000	306,750	5,875,000	1,584,249
2014-2017	675,000	72,600	2,625,000	224,250
	<u>\$ 2,645,000</u>	<u>\$ 923,210</u>	<u>\$ 14,805,000</u>	<u>\$ 4,955,793</u>

Subsequent event – Advance Refunding

On August 12, 2003, the City issued \$12.1 million in general obligation Water and Sewer Refunding Bonds with an interest rate of 3.43% to advance refund \$11.9 million of outstanding Water and Sewer Funds with interest rates ranging from 5.28% to 6.52%. The net proceeds of \$11.9 million were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, as of August 12, 2003, the refunded bonds are considered to be defeased and the liabilities for those bonds were removed from the Water and Sewer Fund.

The City completed the advance refunding to reduce its total debt service payments over the next twelve years by \$352,806 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$309,359.

d. State Bond Loans

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

	Balance <u>June 30, 2003</u>
\$5,000,000 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	\$ 3,500,000
\$450,120 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	315,084
\$3,000,000 State Bond Loan, average rate of 2.60%, issued November 1999 maturing serially to 2019	2,550,000
\$9,200,000 State Bond Loan, average rate of 2.60%, issued June 2000 maturing serially to 2020	<u>7,820,000</u>
Total State Bond Loans	<u>\$ 14,185,084</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Year Ending June 30,	Business-Type Activities	
	State Bond Loans	
	Principal	Interest
2004	\$ 882,506	\$ 400,477
2005	882,506	375,270
2006	882,506	350,063
2007	882,506	324,857
2008	882,506	299,650
2019-2013	4,412,530	1,120,443
2014-2018	4,140,024	489,970
2019-2020	1,220,000	47,580
	<u>\$ 14,185,084</u>	<u>\$ 3,408,310</u>

e. Revenue Bonds

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

	Balance June 30, 2003
\$2,040,000 Water and Sewer Revenue Bonds, Series 1998, average rate of 4.78%, issued January 1998, maturing serially to 2018	\$ 1,690,000
\$20,505,000 Water and Sewer Revenue Bonds, Series 2002, average rate of 3.66%, issued May 2002, maturing serially to 2027	
The amount is net of unamortized issuance costs of \$503,731	19,851,269
Total Revenue Bonds	<u>\$ 21,541,269</u>

The future payments of the revenue bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Revenue Bonds	
	Principal	Interest
2004	\$ 590,000	\$ 1,019,863
2005	610,000	1,000,545
2006	630,000	980,534
2007	650,000	958,331
2008	675,000	934,226
2009-2013	3,820,000	4,302,823
2014-2018	4,770,000	3,262,807
2019-2023	5,160,000	2,084,000
2024-2027	5,140,000	658,000
	<u>\$ 22,045,000</u>	<u>\$ 15,201,129</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
2001	\$ 12,715,931	\$ 8,635,605	\$ 4,080,326	\$ 952,506	\$ 577,160	\$ 1,529,666	266.75%
2002	14,401,251	8,934,754	5,466,497	952,506	620,085	1,572,591	347.61%
2003	15,297,190	10,022,035	5,275,155	1,107,506	1,297,994	2,405,500	219.30%

- (1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.  
 (2) Total operating expenses exclusive of depreciation.  
 (3) Parity debt includes revenue bonds and N. C. State Clean Water Bonds only.

f. HUD Section 108 loan

The City has been approved for and is currently drawing funds on loan from the U. S. Department of Housing and Urban Development pursuant to Section 108 of Title I of the Community Development Act of 1974. The loan is being used to renovate two historic structures to form the Park Avenue Community Center. The City will borrow a total of \$596,000 under this loan, and as of June 30, 2003, had drawn \$221,000 of that amount. This Section 108 loan will be serviced by the City's Special Revenue Fund.

g. Changes in Long-Term Liabilities

	June 30,2002	Additions	Retirements	Change in Unamortized Costs	June 30,2003	Amounts due Within One Year
<b>Governmental Activities</b>						
General obligation bonds	\$ 2,825,000	\$ -	\$ 180,000	\$ -	\$ 2,645,000	\$ 180,000
Installment purchases	2,434,738	1,000,000	594,176	-	2,840,562	466,750
Section 108 loan	-	221,000	-	-	221,000	-
Compensated absences	984,869	50,529	-	-	1,035,398	-
	<u>\$ 6,244,607</u>	<u>\$ 1,271,529</u>	<u>\$ 774,176</u>	<u>\$ -</u>	<u>\$ 6,741,960</u>	<u>\$ 646,750</u>
<b>Business-type activities</b>						
General obligation bonds	\$ 16,080,000	\$ -	\$ 1,275,000	\$ -	\$ 14,805,000	\$ 1,270,000
Revenue bonds	21,745,280	-	225,000	20,989	21,541,269	590,000
State loans	15,067,590	-	882,506	-	14,185,084	882,506
Capital leases	3,874,595	-	263,312	-	3,611,283	269,679
	<u>\$ 56,767,465</u>	<u>\$ -</u>	<u>\$ 2,645,818</u>	<u>\$ 20,989</u>	<u>\$ 54,142,636</u>	<u>\$ 3,012,185</u>
<b>Total</b>	<u>\$ 63,012,072</u>	<u>\$ 1,271,529</u>	<u>\$ 3,419,994</u>	<u>\$ 20,989</u>	<u>\$ 60,884,596</u>	<u>\$ 3,658,935</u>

6. Accounts Payable

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

	Governmental Activities	Business-type Activities
Accounts payable	\$ 937,544	\$ 1,579,543
Accrued payroll and payroll liabilities	650,415	374,923
Other accrued liabilities	32,753	-
	<u>\$ 1,620,712</u>	<u>\$ 1,954,466</u>

NOTES TO THE FINANCIAL STATEMENTS

C. Revenues, Expenditures and Expenses

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

For the fiscal year ended June 30, 2003, the City of Salisbury has recognized on-behalf of payments for pension contributions made by the state as a revenue and an expenditure of \$27,284 for the 66 employed firefighters who perform firefighting duties for the City's fire department. The employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Note 4. Joint Venture

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints an additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2003, the City reported revenues and expenditures for the payments of \$62,295 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, 2003. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

Note 5. Commitments and Contingencies

The City participates in a number of federal and State of North Carolina awards. For the fiscal year ended June 30, 2003, these awards were subject to audit in accordance with *Government Auditing Standards* and the provisions of OMB Circular A-133 and the State Single Audit Implementation Act. The amounts, if any, of expenditures which may be disallowed by the granting agencies resulting from this and other audits cannot be determined at this time, although the City expects they would be immaterial.

Note 6. Change in Accounting Principles

On July 1, 2002, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. In addition to the required Management's Discussion and Analysis, the City restated prior year's governmental activities net assets (formerly reported as fund balance) in the following amounts to convert to a full accrual basis of accounting:

Governmental fund balance per June 30, 2002 financial statements:

General Fund	\$ 4,875,834	
Special Revenue Funds	68,802	
Capital Project Fund	54,312	\$ 4,998,948
	<hr/>	
Assets reported in General Fixed Asset Account Group	\$ 28,238,941	
Infrastructure assets recognized prior to June 30, 2002	26,473,970	
Accumulated depreciation as of June 30, 2002	(21,771,230)	32,941,681
	<hr/>	
Liabilities reported in General Long-Term Debt Account Group		(6,244,607)
Deferred revenue for property tax receivables at June 30, 2002		491,800
Internal service fund assets and liabilities for governmental activities		(251,095)
Other items		116,583
		<hr/>
Total net assets as of July 1, 2002		\$ 32,053,310
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# **Required Supplemental Financial Data**

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## 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)			
2002	\$ 462,990	\$ 982,204	\$ 519,214	47.14%	\$ 2,715,519	19.12%
2001	382,392	944,593	562,201	40.48%	2,958,255	19.00%
2000	315,640	862,184	546,544	36.61%	2,793,421	19.57%
1999	266,673	456,933	190,260	58.36%	2,434,327	7.82%
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%

**CITY OF SALISBURY, NORTH CAROLINA**  
**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**Last Six Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2003	\$ 93,425	95%
2002	86,797	102
2001	47,368	118
2000	49,733	112
1999	51,401	104
1998	46,376	115

**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	12/31/2002
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	28 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

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# Supplementary Financial Data

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# General Fund

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

**B-1**

**CITY OF SALISBURY, NORTH CAROLINA**

**GENERAL FUND**

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

**For the Year Ended June 30, 2003**

**With Comparative Actual Amounts for Year Ended June 30, 2002**

	2003		2002	
			Actual Over	
			(Under)	
	Budget	Actual	Budget	Actual
REVENUES:				
Taxes:				
General property-current	\$ 11,175,585	\$ 10,810,649	\$ (364,936)	\$ 10,659,092
General property-prior	319,000	322,685	3,685	383,080
Interest on delinquent tax	50,000	63,680	13,680	54,677
Local option sales tax	3,467,374	3,381,878	(85,496)	3,111,802
Other tax	800	536	(264)	573
	\$ 15,012,759	\$ 14,579,428	\$ (433,331)	\$ 14,209,224
Licenses and permits:				
Privilege licenses	\$ 351,600	\$ 336,313	\$ (15,287)	\$ 340,268
Franchises	213,602	215,185	1,583	210,563
	\$ 565,202	\$ 551,498	\$ (13,704)	\$ 550,831
Intergovernmental:				
Federal	\$ 2,144,392	\$ 2,052,075	\$ (92,317)	\$ 330,479
State	4,061,187	3,060,453	(1,000,734)	3,212,383
Local	115,890	106,840	(9,050)	154,245
	\$ 6,321,469	\$ 5,219,368	\$ (1,102,101)	\$ 3,697,107
Charges for services:				
Environmental protection	\$ 822,491	\$ 821,403	\$ (1,088)	\$ 818,109
Culture and recreation	183,340	162,916	(20,424)	169,318
Public safety	417,210	410,211	(6,999)	315,693
Cemetery	150,000	125,595	(24,405)	137,476
Radio antenna and paging rentals	82,800	198,586	115,786	248,491
Rentals and sale of property	329,140	413,400	84,260	505,546
Community services	125,355	125,244	(111)	139,086
	\$ 2,110,336	\$ 2,257,355	\$ 147,019	\$ 2,333,719
Miscellaneous:				
Interest earned on investments	\$ 181,500	\$ 86,590	\$ (94,910)	\$ 157,414
Donations	586,605	183,384	(403,221)	207,898
Other	118,358	191,041	72,683	58,268
	\$ 886,463	\$ 461,015	\$ (425,448)	\$ 423,580
Administrative charges:				
Interfund revenues	\$ 1,660,050	\$ 1,660,050	-	\$ 1,581,000
Total revenues	\$ 26,556,279	\$ 24,728,714	\$ (1,827,565)	\$ 22,795,461
OTHER FINANCING SOURCES:				
Proceeds from installment financing	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -
Fund balance appropriated	271,402	-	(271,402)	-
Total other financing sources (uses)	\$ 1,271,402	\$ 1,000,000	\$ (271,402)	\$ -
Total revenues and other financing sources	\$ 27,827,681	\$ 25,728,714	\$ (2,098,967)	\$ 22,795,461

**B-1**

**CITY OF SALISBURY, NORTH CAROLINA**

**GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**

**For the Year Ended June 30, 2003**

**With Comparative Actual Amounts for Year Ended June 30, 2002**

	2003		2002	
	Budget	Actual	Actual Over (Under) Budget	Actual
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government:				
City council	\$ 95,033	\$ 78,457	\$ (16,576)	\$ 95,557
City manager's office	598,353	582,788	(15,565)	741,076
Purchasing	129,945	129,361	(584)	162,498
Human resources	497,538	495,647	(1,891)	490,576
Finance	973,561	944,273	(29,288)	907,918
Fleet management	862,738	712,635	(150,103)	886,323
Public services administration	176,076	175,069	(1,007)	169,114
City office buildings	290,225	286,690	(3,535)	310,978
Telecommunication	260,387	216,580	(43,807)	390,333
Information technologies	991,515	974,407	(17,108)	1,104,293
	<u>\$ 4,875,371</u>	<u>\$ 4,595,907</u>	<u>\$ (279,464)</u>	<u>\$ 5,258,666</u>
Public safety:				
Police:				
Administration	\$ 451,647	\$ 431,365	\$ (20,282)	\$ 476,510
Services	1,295,363	1,223,314	(72,049)	1,473,407
Operations	4,104,095	3,935,223	(168,872)	3,865,452
Fire	4,304,477	4,260,169	(44,308)	3,125,929
	<u>\$ 10,155,582</u>	<u>\$ 9,850,071</u>	<u>\$ (305,511)</u>	<u>\$ 8,941,298</u>
Transportation:				
Traffic engineering	\$ 416,885	\$ 415,676	\$ (1,209)	\$ 413,145
Engineering	1,755,687	868,163	(887,524)	447,982
Streets	2,729,449	2,530,442	(199,007)	1,814,985
Street lighting	307,000	303,492	(3,508)	302,153
	<u>\$ 5,209,021</u>	<u>\$ 4,117,773</u>	<u>\$ (1,091,248)</u>	<u>\$ 2,978,265</u>
Environmental protection:				
Solid waste management	\$ 1,379,869	\$ 1,378,096	\$ (1,773)	\$ 1,215,310
Cemetery	191,493	182,990	(8,503)	191,036
	<u>\$ 1,571,362</u>	<u>\$ 1,561,086</u>	<u>\$ (10,276)</u>	<u>\$ 1,406,346</u>
Culture and recreation:				
Landscaping	\$ 591,176	\$ 581,145	\$ (10,031)	\$ 619,764
Recreation	1,849,152	1,569,349	(279,803)	1,791,628
	<u>\$ 2,440,328</u>	<u>\$ 2,150,494</u>	<u>\$ (289,834)</u>	<u>\$ 2,411,392</u>
Community and economic development:				
Community development	\$ 1,789,911	\$ 1,494,972	\$ (294,939)	\$ 960,057
The Plaza	187,316	179,831	(7,485)	156,782
Developmental services	361,052	337,572	(23,480)	356,320
	<u>\$ 2,338,279</u>	<u>\$ 2,012,375</u>	<u>\$ (325,904)</u>	<u>\$ 1,473,159</u>

**B-1**

**CITY OF SALISBURY, NORTH CAROLINA**

**GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**

**For the Year Ended June 30, 2003**

**With Comparative Actual Amounts for Year Ended June 30, 2002**

	2003		2002	
			Actual Over (Under)	
	Budget	Actual	Budget	Actual
EXPENDITURES :				
Current (continued):				
Education	\$ 42,342	\$ 42,342	\$ -	\$ 42,342
Debt service:				
Principal	\$ 774,279	\$ 774,176	\$ (103)	\$ 764,467
Interest	260,835	260,553	(282)	290,602
	\$ 1,035,114	\$ 1,034,729	\$ (385)	\$ 1,055,069
Total expenditures	\$ 27,667,399	\$ 25,364,777	\$ (2,302,623)	\$ 23,566,537
OTHER FINANCING USES:				
Transfers to other funds	\$ 160,282	\$ 160,282	\$ -	\$ 160,282
Total expenditures and other financing uses	\$ 27,827,681	\$ 25,525,059	\$ (2,302,623)	\$ 23,726,819
Excess of revenues and other uses over expenditures and other sources	\$ -	\$ 203,655	\$ 203,656	\$ (931,358)
FUND BALANCES, BEGINNING		4,875,834		5,807,192
FUND BALANCES, ENDING		\$ 5,079,489		\$ 4,875,834



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# **Non Major Governmental Funds**

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

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

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

**June 30, 2003**

<u>ASSETS</u>	<u>Special Revenue</u> <u>Fund</u>	<u>Capital</u> <u>Projects Fund</u>	<u>Total</u>
Cash and investments	\$ 368	\$ 9,155	\$ 9,523
Accounts receivable	2,706	-	2,706
Due from other governments	<u>287,039</u>	<u>-</u>	<u>287,039</u>
Total assets	<u>\$ 290,113</u>	<u>\$ 9,155</u>	<u>\$ 299,268</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 160,311	\$ -	\$ 160,311
Total liabilities	<u>\$ 160,311</u>	<u>\$ -</u>	<u>\$ 160,311</u>
FUND EQUITY			
Fund balances:			
Reserved by State statute	\$ 129,802	\$ -	\$ 129,802
Unreserved:			
Designated for subsequent year's expenditures	<u>-</u>	<u>9,155</u>	<u>9,155</u>
Total fund equity	<u>\$ 129,802</u>	<u>\$ 9,155</u>	<u>\$ 138,957</u>
Total liabilities and fund equity	<u>\$ 290,113</u>	<u>\$ 9,155</u>	<u>\$ 299,268</u>

## CITY OF SALISBURY, NORTH CAROLINA

## ALL NON-MAJOR GOVERNMENTAL FUNDS

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

For the Year Ended June 30, 2003

With Comparative Actual Amounts for the Year Ended June 30, 2002

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
REVENUES:			
Intergovernmental	\$ 778,721	\$ -	\$ 778,721
Miscellaneous:	<u>160,378</u>	<u>205</u>	<u>160,583</u>
Total revenues	<u>\$ 939,099</u>	<u>\$ 205</u>	<u>\$ 939,304</u>
EXPENDITURES:			
General government	\$ 108,913	\$ -	\$ 108,913
Cultural and recreational	-	45,362	45,362
Community and economic development	<u>990,186</u>	<u>-</u>	<u>990,186</u>
Total expenditures	<u>\$ 1,099,099</u>	<u>\$ 45,362</u>	<u>\$ 1,144,461</u>
OTHER FINANCING SOURCES			
Proceeds from Section 108 loan	<u>\$ 221,000</u>	<u>\$ -</u>	<u>\$ 221,000</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ 61,000	\$ (45,157)	\$ 15,843
FUND BALANCE, BEGINNING	<u>68,802</u>	<u>54,312</u>	<u>123,114</u>
FUND BALANCE, ENDING	<u><u>\$ 129,802</u></u>	<u><u>\$ 9,155</u></u>	<u><u>\$ 138,957</u></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, 2003  
With Comparative Actual Amounts for the Year Ended June 30, 2002

	2003		2002	
	Budget	Actual	Actual Over (Under) Budget	Actual
REVENUES:				
Intergovernmental:				
Federal	\$ 961,892	\$ 778,721	\$ (183,171)	\$ 358,216
Miscellaneous:				
Interest earned on investments	-	1	1	3
Other	155,000	160,377	5,377	365,068
Total revenues	\$ 1,116,892	\$ 939,099	\$ (177,793)	\$ 723,287
EXPENDITURES:				
Current:				
General government	\$ 115,800	\$ 108,913	\$ (6,887)	\$ 101,785
Community and economic development	1,651,092	990,186	(660,906)	695,822
Total expenditures	\$ 1,766,892	\$ 1,099,099	\$ (667,793)	\$ 797,607
OTHER FINANCING SOURCES				
Proceeds from Section 108 loan	\$ 650,000	\$ 221,000	\$ (429,000)	
NET INCREASE (DECREASE) IN FUND BALANCE	\$ -	\$ 61,000	\$ 61,000	\$ (74,320)
FUND BALANCE, BEGINNING		68,802		143,122
FUND BALANCE, ENDING		\$ 129,802		\$ 68,802

## 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, 2003

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES:				
Miscellaneous				
Interest earned on investments	\$ 36,750	\$ 36,508	\$ 205	\$ 36,713
EXPENDITURES:				
Culture and recreation	\$ 1,036,750	\$ 982,196	\$ 45,362	\$ 1,027,558
Total revenues under expenditures	\$ (1,000,000)	\$ (945,688)	\$ (45,157)	\$ (990,845)
OTHER FUNDING SOURCES				
Proceeds from issuance of debt	1,000,000	1,000,000	-	1,000,000
NET INCREASE (DECREASE) IN FUND BALANCE	\$ -	\$ 54,312	\$ (45,157)	\$ 9,155
FUND BALANCE, BEGINNING			54,312	
FUND BALANCE, ENDING			\$ 9,155	

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# **Proprietary Fund Types**

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

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

**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.

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CITY OF SALISBURY, NORTH CAROLINA

WATER AND SEWER FUND

STATEMENT OF REVENUES AND EXPENSES  
BUDGET AND ACTUAL (NON-GAAP)

For the Fiscal Year Ended June 30, 2003

With Comparative Actual Amounts for Year Ended June 30, 2002

	2003		2002	
	Budget	Actual	Actual Over (Under) Budget	Actual
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 14,416,650	\$ 14,301,184	\$ (115,466)	\$ 13,372,522
Water and sewer taps	188,700	266,247	77,547	325,697
Other operating revenues	313,140	439,882	126,742	408,912
Total operating revenues	<u>14,918,490</u>	<u>15,007,313</u>	<u>88,823</u>	<u>14,107,131</u>
<b>OPERATING EXPENSES OTHER THAN DEPRECIATION:</b>				
Management and administration	\$ 3,250,498	\$ 3,250,328	\$ (170)	\$ 2,583,947
Water resources	1,226,158	1,224,721	(1,437)	1,880,171
Maintenance and construction	3,098,421	3,097,958	(463)	2,182,196
Wastewater collection and treatment	2,025,643	2,025,606	(37)	1,773,835
Environmental services	470,400	469,505	(895)	482,613
Total operating expenses other than depreciation	<u>\$ 10,071,120</u>	<u>\$ 10,068,118</u>	<u>\$ (3,002)</u>	<u>\$ 8,902,762</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	\$ 45,000	\$ 56,576	\$ 11,576	\$ 101,986
Miscellaneous revenues	275,640	240,387	(35,253)	67,888
Capital contributions	-	-	-	224,838
Interest expense	(2,313,832)	(2,275,611)	(38,221)	(1,693,538)
Net nonoperating revenues	<u>\$ (1,993,192)</u>	<u>\$ (1,978,648)</u>	<u>\$ (14,544)</u>	<u>\$ (1,298,826)</u>
Income from operations	<u>\$ 2,854,178</u>	<u>\$ 2,960,547</u>	<u>\$ 106,369</u>	<u>\$ 3,905,543</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Capital outlay	\$ (208,360)	\$ (114,533)	\$ (93,827)	\$ (483,809)
Payment of debt principal	(2,645,818)	(2,645,818)	-	(2,493,518)
Total other financing sources (uses)	<u>\$ (2,854,178)</u>	<u>\$ (2,760,351)</u>	<u>\$ (93,827)</u>	<u>\$ (2,977,327)</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>\$ -</u>	<u>\$ 200,196</u>	<u>\$ 200,196</u>	<u>\$ 928,216</u>
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:</b>				
Excess of revenues over expenses		\$ 200,196		
Capital outlay		114,533		
Depreciation		(2,998,350)		
Bond amortization		(20,989)		
Payment of debt principal		2,645,818		
Interest income from Capital Projects Fund		303,823		
Capital contributions in Capital Project Fund		9,927,332		
Interest expense		(167,528)		
Inventories		48,150		
Vacation pay		(2,067)		
Change in net assets		<u>\$ 10,050,918</u>		

## 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, 2003

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
<b>REVENUES</b>				
Miscellaneous				
Interest on investments	\$ -	\$ 1,903,882	\$ 303,823	\$ 2,207,705
<b>EXPENSES-SEWER PROJECT</b>				
Construction	\$ 864,328	\$ 505,314	\$ 455,016	\$ 960,330
Engineering	611,220	114,998	57,281	172,279
Total expenses-Sewer project	\$ 1,475,548	\$ 620,312	\$ 512,297	\$ 1,132,609
<b>EXPENSES-WATER PROJECT</b>				
Construction	\$ 33,628,188	\$ 7,955,300	\$ 19,171,686	\$ 27,126,986
Engineering	5,013,001	3,349,830	1,391,815	4,741,645
Total expenses-Water project	\$ 38,641,189	\$ 11,305,130	\$ 20,563,501	\$ 31,868,631
Total expenses	\$ 40,116,737	\$ 11,925,442	\$ 21,075,798	\$ 33,001,240
Total revenues under expenses	\$ (40,116,737)	\$ (10,021,560)	\$ (20,771,975)	\$ (30,793,535)
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of bonds	\$ 20,530,513	\$ 20,381,279	\$ -	\$ 20,381,279
Lease Purchase Revenues	-	-	-	-
Developer contributions	15,417,445	3,452,954	9,927,332	13,380,286
Operating transfers from water and sewer fund	99,536	99,536	-	99,536
Appropriated fund balance	4,069,243	-	-	-
Total other financing sources	\$ 40,116,737	\$ 23,933,769	\$ 9,927,332	\$ 33,861,101
Unexpended revenues and receipts	\$ -	\$ 13,912,209	\$ (10,844,643)	\$ 3,067,566

## CITY OF SALISBURY, NORTH CAROLINA

## MASS TRANSIT FUND

STATEMENT OF REVENUES AND EXPENSES  
BUDGET AND ACTUAL (NON-GAAP)

For the Year Ended June 30, 2003  
With Comparative Actual Amounts for Year Ended June 30, 2002

	2003		2002	
	Budget	Actual	Actual Over (Under) Budget	Actual
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 89,500	\$ 66,669	\$ (22,831)	\$ 77,085
<b>OPERATING EXPENSES OTHER THAN DEPRECIATION:</b>				
Management and administration	\$ 121,315	\$ 120,106	\$ (1,209)	\$ 114,082
Mass transit operations	504,189	503,266	(923)	440,981
Total operating expenses other than depreciation	\$ 625,504	\$ 623,372	\$ (2,132)	\$ 555,063
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Intergovernmental	\$ 382,722	\$ 372,724	\$ (9,998)	\$ 320,555
Interest on investments	4,000	2,692	(1,308)	4,082
Miscellaneous revenues	12,000	6,250	(5,750)	3,944
Total nonoperating revenues	\$ 398,722	\$ 381,666	\$ (17,056)	\$ 328,581
Loss from operations	\$ (137,282)	\$ (175,037)	\$ (37,755)	\$ (149,397)
<b>OTHER FINANCING SOURCES (USES):</b>				
Capital outlay	\$ (23,000)	\$ (22,822)	\$ 178	\$ -
Operating transfers in:				
General fund	160,282	160,282	-	160,282
Total other financing sources (uses)	\$ 137,282	\$ 137,460	\$ 178	\$ 160,282
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>\$ -</u>	<u>\$ (37,577)</u>	<u>\$ (37,577)</u>	<u>\$ 10,885</u>
<b>RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:</b>				
Excess of expenses over revenues, above		\$ (37,577)		
Depreciation		(5,072)		
Capital outlay		22,822		
Vacation pay		(824)		
Change in net assets		<u>\$ (20,651)</u>		



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# **Internal Service Funds**

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

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

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

## CITY OF SALISBURY, NORTH CAROLINA

## INTERNAL SERVICE FUNDS

## COMBINING BALANCE SHEET

June 30, 2003

With Comparative Totals at June 30, 2002

<u>ASSETS</u>	<u>Workers'</u> <u>Compensation</u>	<u>Employee</u> <u>Health Care</u>	<u>Totals</u>	
			<u>2003</u>	<u>2002</u>
CURRENT ASSETS				
Cash and investments	\$ 44,377	\$ 139,788	\$ 184,165	\$ 184,405
Interest receivable	<u>223</u>	<u>240</u>	<u>463</u>	<u>594</u>
Total assets	<u>\$ 44,600</u>	<u>\$ 140,028</u>	<u>\$ 184,628</u>	<u>\$ 184,999</u>
<u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 6,033	\$ 396,744	\$ 402,777	\$ 436,094
NET ASSETS (DEFICIT)	<u>38,567</u>	<u>(256,716)</u>	<u>(218,149)</u>	<u>(251,095)</u>
Total liabilities and net assets	<u>\$ 44,600</u>	<u>\$ 140,028</u>	<u>\$ 184,628</u>	<u>\$ 184,999</u>

## CITY OF SALISBURY, NORTH CAROLINA

## INTERNAL SERVICE FUNDS

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

For the Year Ended June 30, 2003  
With Comparative Totals For The Year Ended June 30, 2002

	Workers' Compensation	Employee Health Care	Totals	
			2003	2002
OPERATING REVENUES:				
Charges for services	\$ 240,005	\$ 2,754,844	\$ 2,994,849	\$ 2,541,902
OPERATING EXPENSES:				
Employee benefits	<u>185,921</u>	<u>2,777,841</u>	<u>2,963,762</u>	<u>2,750,515</u>
OPERATING INCOME (LOSS)	\$ 54,084	\$ (22,997)	\$ 31,087	\$ (208,613)
NONOPERATING REVENUES				
Interest earned on investments	<u>1,133</u>	<u>726</u>	<u>1,859</u>	<u>4,562</u>
NET INCOME (LOSS)	\$ 55,217	\$ (22,271)	\$ 32,946	\$ (204,051)
NET ASSETS (DEFICIT), BEGINNING	<u>(16,650)</u>	<u>(234,445)</u>	<u>(251,095)</u>	<u>(47,044)</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ 38,567</u>	<u>\$ (256,716)</u>	<u>\$ (218,149)</u>	<u>\$ (251,095)</u>

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# Capital Assets

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## CITY OF SALISBURY, NORTH CAROLINA

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
BY FUNCTION AND ACTIVITY

As Of June 30, 2003

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Infrastructure</u>	<u>Equipment</u>	<u>Total</u>
GENERAL GOVERNMENT:					
City Administration	\$ -	\$ -	\$ -	\$ 25,396	\$ 25,396
Human Resources	-	-	-	5,203	5,203
Information Technologies	-	45,711	-	723,144	768,855
Finance	-	-	-	136,772	136,772
City Hall	256,671	2,159,097	-	75,576	2,491,344
Telecommunications	24,820	84,966	-	1,247,948	1,357,734
Public Services Administration	-	10,259	-	-	10,259
Fleet Management	-	18,405	-	220,415	238,820
	<u>\$ 281,491</u>	<u>\$ 2,318,438</u>	<u>\$ -</u>	<u>\$ 2,434,454</u>	<u>\$ 5,034,383</u>
PUBLIC SAFETY:					
Police	\$ -	\$ 267,277	\$ -	\$ 2,069,754	\$ 2,337,031
Fire	223,684	371,389	-	3,074,501	3,669,574
	<u>\$ 223,684</u>	<u>\$ 638,666</u>	<u>\$ -</u>	<u>\$ 5,144,255</u>	<u>\$ 6,006,605</u>
TRANSPORTATION:					
Traffic Engineering	\$ -	\$ -	\$ -	\$ 465,266	\$ 465,266
Engineering	-	66,774	-	612,165	678,939
Streets	-	166,805	30,522,486	2,550,632	33,239,923
	<u>\$ -</u>	<u>\$ 233,579</u>	<u>\$ 30,522,486</u>	<u>\$ 3,628,063</u>	<u>\$ 34,384,128</u>
ENVIRONMENTAL PROTECTION:					
Cemetery	\$ -	\$ 10,320	\$ -	\$ 125,830	\$ 136,150
Solid Waste Management	-	-	-	831,075	831,075
	<u>\$ -</u>	<u>\$ 10,320</u>	<u>\$ -</u>	<u>\$ 956,905</u>	<u>\$ 967,225</u>
CULTURE AND RECREATION:					
Landscaping	\$ 164,546	\$ 71,163	\$ -	\$ 553,888	\$ 789,597
Recreation	1,716,402	4,880,791	-	610,232	7,207,425
	<u>\$ 1,880,948</u>	<u>\$ 4,951,954</u>	<u>\$ -</u>	<u>\$ 1,164,120</u>	<u>\$ 7,997,022</u>
LAND MANAGEMENT AND DEVELOPMENT:					
Development Services	\$ -	\$ -	-	\$ 12,776	\$ 12,776
Community Development	771,322	1,118,108	-	13,141	1,902,571
The Plaza	-	3,239,838	-	15,040	3,254,878
	<u>\$ 771,322</u>	<u>\$ 4,357,946</u>	<u>\$ -</u>	<u>\$ 40,957</u>	<u>\$ 5,170,225</u>
<b>TOTAL CAPITAL ASSETS</b>	<u><u>\$ 3,157,445</u></u>	<u><u>\$ 12,510,903</u></u>	<u><u>\$ 30,522,486</u></u>	<u><u>\$ 13,368,754</u></u>	<u><u>\$ 59,559,588</u></u>

## CITY OF SALISBURY, NORTH CAROLINA

CHANGES IN CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
BY FUNCTION AND ACTIVITY

As Of June 30, 2003

	<u>June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2003</u>
GENERAL GOVERNMENT:				
City Administration	\$ 40,456	\$ -	\$ 15,060	\$ 25,396
Human Resources	5,203	-	-	5,203
Information Technologies	836,247	24,414	91,806	768,855
Finance	136,772	-	-	136,772
City Hall	2,491,344	-	-	2,491,344
Telecommunications	1,313,191	44,543	-	1,357,734
Public Services Administration	10,259	-	-	10,259
Fleet Management	267,430	65,396	94,006	238,820
	<u>\$ 5,100,902</u>	<u>\$ 134,353</u>	<u>\$ 200,872</u>	<u>\$ 5,034,383</u>
PUBLIC SAFETY:				
Police	\$ 2,447,722	\$ 96,784	\$ 207,475	\$ 2,337,031
Fire	3,212,348	581,841	124,615	3,669,574
	<u>\$ 5,660,070</u>	<u>\$ 678,625</u>	<u>\$ 332,090</u>	<u>\$ 6,006,605</u>
TRANSPORTATION:				
Traffic Engineering	\$ 465,266	\$ -	\$ -	\$ 465,266
Engineering	691,715	-	12,776	678,939
Streets	29,655,085	4,108,516	523,678	33,239,923
	<u>\$ 30,812,066</u>	<u>\$ 4,108,516</u>	<u>\$ 536,454</u>	<u>\$ 34,384,128</u>
ENVIRONMENTAL PROTECTION:				
Cemetery	\$ 136,150	\$ -	\$ -	\$ 136,150
Solid Waste Management	695,899	135,176	-	831,075
	<u>\$ 832,049</u>	<u>\$ 135,176</u>	<u>\$ -</u>	<u>\$ 967,225</u>
CULTURE AND RECREATION:				
Landscaping	\$ 936,630	\$ -	\$ 147,033	\$ 789,597
Recreation	6,992,542	214,883	-	7,207,425
	<u>\$ 7,929,172</u>	<u>\$ 214,883</u>	<u>\$ 147,033</u>	<u>\$ 7,997,022</u>
LAND MANAGEMENT AND DEVELOPMENT:				
Development Services	\$ 11,607	\$ 12,776	\$ 11,607	\$ 12,776
Community Development	1,067,625	1,001,369	166,423	1,902,571
The Plaza	3,299,420	-	44,542	3,254,878
	<u>\$ 4,378,652</u>	<u>\$ 1,014,145</u>	<u>\$ 222,572</u>	<u>\$ 5,170,225</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>\$ 54,712,911</u>	<u>\$ 6,285,698</u>	<u>\$ 1,439,021</u>	<u>\$ 59,559,588</u>

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## **Other Schedules**

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## CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND  
PROPERTY TAXES RECEIVABLE

For the Year Ended June 30, 2003

<u>Tax Year</u>	<u>Fiscal Year Ended June 30</u>	<u>Assessed Valuation *</u>	<u>Taxes Levied Prior to June 30, 2002</u>	<u>Levy Additions Year Ended June 30, 2003</u>	<u>Collections and Credits Prior to June 30, 2002</u>	<u>Taxes Receivable June 30, 2002</u>	<u>Collections and Credits Year Ended June 30, 2003</u>	<u>(Note) Other Credits</u>	<u>Taxes Receivable June 30, 2003</u>
2002	2003	\$ 1,862,724,937	-	\$ 11,255,029	-	-	\$ 10,892,049	\$ -	\$ 362,980
2001	2002	1,854,810,966	11,190,087	8,135	10,823,799	366,288	253,282	-	113,006
2000	2001	1,820,568,216	10,937,764		10,837,628	100,136	37,628	-	62,508
1999	2000	1,764,727,945	10,160,220		10,112,750	47,470	8,458	-	39,012
1998	1999	1,482,452,065	9,213,038		9,167,827	45,211	9,135	-	36,076
1997	1998	1,382,140,359	8,002,560		7,972,929	29,631	2,085	-	27,546
1996	1997	1,318,874,568	7,759,356		7,729,282	30,074	1,384	-	28,690
1995	1996	1,280,584,979	7,449,694		7,423,692	26,002	971	-	25,031
1994	1995	1,146,945,499	7,234,332		7,205,140	29,192	634	-	28,558
1993	1994	1,151,692,595	6,741,761		6,724,407	17,354	745	-	16,609
1992	1993	1,106,253,503	6,389,077		6,373,635	15,442	142	(15,300)	-
			<u>\$ 85,077,889</u>	<u>\$ 11,263,164</u>	<u>\$ 84,371,089</u>	<u>\$ 706,800</u>	<u>\$ 11,206,513</u>	<u>\$ (15,300)</u>	<u>\$ 740,016</u>
									<u>225,000</u>
									<u>\$ 515,016</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, 2003

	<u>City Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
ORIGINAL LEVY					
Property taxed at current year's rates	\$ 1,800,477,605	\$ 0.600	\$ 10,802,893	\$ 10,221,435	\$ 581,458
Registered motor vehicles taxed at prior year's rates	69,167,206	0.600	415,003		415,003
Penalties			14,875	14,875	
TOTAL	\$ 1,869,644,811		\$ 11,232,771	\$ 10,236,310	\$ 996,461
DISCOVERY					
Prior years taxes			58,567	58,567	
Penalties			9,190	9,190	
TOTAL			\$ 67,757	\$ 67,757	\$ -
ABATEMENTS	(6,919,874)		\$ (45,499)	\$ (25,034)	\$ (20,465)
TOTAL PROPERTY VALUATION	<u>\$ 1,862,724,937</u>				
NET LEVY			\$ 11,255,029	\$ 10,279,033	\$ 975,996
Less uncollected tax at June 30, 2002			362,980	241,420	121,560
CURRENT YEAR'S TAXES COLLECTED			<u>\$ 10,892,049</u>	<u>\$ 10,037,613</u>	<u>\$ 854,436</u>
PERCENT OF CURRENT YEAR COLLECTED			<u>96.77%</u>	<u>97.65%</u>	<u>87.55%</u>

G-3

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF CASH AND INVESTMENT BALANCES

June 30, 2003

CASH AND INVESTMENTS IN THE FORM OF:

Cash:

Cash on hand	\$	2,340	
In demand deposits		1,126,119	
Money market		14,349	
Certificate of deposit		<u>8,196,347</u>	
	\$		9,339,155

Investments:

North Carolina Capital Management Trust			10,899,770
Commercial paper			<u>3,970,555</u>

TOTAL CASH AND INVESTMENTS \$ 24,209,480

DISTRIBUTION BY FUNDS:

General	\$	4,204,171
Special revenue		368
Capital projects		9,155
Enterprise		19,207,517
Internal service		184,165
Trust and agency		<u>604,104</u>

TOTAL DISTRIBUTION BY FUNDS \$ 24,209,480

## CITY OF SALISBURY, NORTH CAROLINA

## SCHEDULE OF INTERFUND TRANSFERS

For the Year Ended June 30, 2003

<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>

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# Statistical Section

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**Table 1**

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

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>General Government</b>	<b>Public Safety</b>	<b>Transportation</b>	<b>Environmental Protection</b>	<b>Culture and Recreation</b>	<b>Community and Economic Development</b>	<b>Education</b>	<b>Debt Service</b>	<b>Total</b>
2003	\$ 4,704,820	\$9,850,071	\$ 4,117,773	\$ 1,561,086	\$ 2,195,856	\$ 3,002,561	\$ 42,342	\$1,034,729	\$26,509,238
2002	5,360,451	8,941,298	2,978,265	1,406,346	2,666,102	2,168,981	42,342	1,055,069	26,674,646
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

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

**Table 2**

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

**Last Ten Fiscal Years**

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

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

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

<b>Fiscal Year Ended June 30,</b>	<b>Total Taxes</b>	<b>General Property Taxes</b>	<b>Sales Taxes</b>	<b>Other Taxes</b>
2003	\$ 14,579,428	\$ 11,197,014	\$ 3,381,878	\$ 536
2002	14,209,224	11,096,849	3,111,802	573
2001	14,066,947	10,719,438	3,346,897	612
2000	13,331,647	10,127,787	3,203,181	679
1999	12,060,778	8,968,909	3,091,079	816
1998	10,812,490	7,964,079	2,847,595	816
1997	10,039,452	7,445,338	2,593,133	981
1996	9,575,016	7,276,360	2,298,427	229
1995	9,272,844	7,155,829	2,114,118	2,897
1994	8,764,206	6,597,031	2,167,122	53

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

**Table 4**

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

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Tax Year</b>	<b>Total Current Year Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Taxes Collected</b>	<b>Total Tax Collections</b>	<b>Ratio of Total Tax Collections to Tax Levy</b>	<b>Outstanding Delinquent Taxes</b>	<b>Ratio of Delinquent Taxes to Tax Levy</b>
2003	2002	\$ 11,255,029	\$ 10,892,049	96.77%	\$ 11,206,513	99.57%	\$ 740,016	6.57%
2002	2001	11,190,087	10,823,799	96.73%	11,203,868	100.12%	706,800	6.32%
2001	2000	10,928,747	10,553,137	96.56%	10,743,443	98.30%	731,666	6.69%
2000	1999	10,228,809	10,007,793	97.84%	10,314,522	100.84%	561,060	7.09%
1999	1998	9,271,351	8,926,885	96.28%	9,164,917	98.85%	657,781	6.91%
1998	1997	8,059,604	7,815,549	96.97%	8,110,009	100.63%	557,299	7.71%
1997	1996	7,797,861	7,519,419	96.43%	7,741,174	99.27%	601,439	7.62%
1996	1995	7,529,260	7,265,209	96.49%	7,446,494	98.90%	573,838	7.00%
1995	1994	7,298,360	7,074,231	96.93%	7,308,248	100.14%	510,636	7.89%
1994	1993	6,785,288	6,555,776	96.62%	6,755,716	99.56%	535,378	8.13%

**Table 5**

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

**Last Ten Fiscal Years**

<b>Fiscal Year Ended June 30,</b>	<b>Real Property</b>	<b>Personal Property</b>	<b>Public Service Property</b>	<b>Total</b>
2003	\$ 1,399,477,044	\$ 398,430,259	\$ 64,817,634	\$ 1,862,724,937
2002	1,381,515,869	405,754,659	67,540,438	1,854,810,966
2001	1,337,944,798	417,818,187	64,805,231	1,820,568,216
2000	1,287,042,497	409,874,134	67,811,314	1,764,727,945
1999	1,042,366,457	382,196,263	57,889,345	1,482,452,065
1998	967,242,955	357,072,088	57,825,316	1,382,140,359
1997	933,861,596	328,554,542	56,458,430	1,318,874,568
1996	922,430,180	299,703,247	58,451,552	1,280,584,979
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

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

**Table 6**

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

**Last Ten Fiscal Years**

<b>Tax Levies</b>					
<b>City of Salisbury</b>					
<b>Fiscal Year</b>	<b>Municipal Service</b>		<b>Total</b>	<b>Rowan County</b>	
	<b>General Fund</b>	<b>District Fund</b>			
2003	\$ 11,255,029	\$ 90,170	\$ 11,345,199	\$	51,720,546
2002	11,190,087	89,403	11,279,490		49,584,717
2001	10,928,747	89,403	11,018,150		47,994,399
2000	10,151,282	77,527	10,228,809		46,804,751
1999	9,205,214	66,137	9,271,351		38,247,341
1998	7,993,286	66,318	8,059,604		36,540,706
1997	7,731,552	66,309	7,797,861		33,990,225
1996	7,449,694	79,566	7,529,260		34,729,278
1995	7,234,332	64,028	7,298,360		28,820,177
1994	6,741,761	43,527	6,785,288		25,236,094
<b>Tax Rates</b>					
2003	.600	.16	.760		.6350
2002	.600	.16	.760		.6350
2001	.600	.16	.760		.6350
2000	.570	.16	.730		.6350
1999	.620	.16	.780		.6375
1998	.575	.16	.735		.6375
1997	.575	.16	.735		.6375
1996	.575	.16	.735		.6375
1995	.625	.17	.795		.6500
1994	.585	.11	.695		.6000

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

Source: Rowan County Tax Collector.

**Table 7**

**CITY OF SALISBURY, NORTH CAROLINA  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT<sup>(1)</sup>**

**For the Year Ended June 30, 2003**

	<b>Net General Obligation Debt <u>Outstanding</u></b>	<b>Percentage Applicable to City of <u>Salisbury</u></b>	<b>City of Salisbury's <u>Share of Debt</u></b>
City of Salisbury	\$ 2,645,000	100.00%	\$ 2,645,000
Rowan County <sup>(2)</sup>	2,940,000	22.91%	<u>673,554</u>
Total direct and overlapping debt			<u>\$ 3,318,554</u>

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

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

**Table 8**

**CITY OF SALISBURY, NORTH CAROLINA  
COMPUTATION OF LEGAL DEBT MARGIN  
For the Year Ended June 30, 2003**

ASSESSED VALUE		\$ 1,862,724,937
		X <u>          .08</u>
Debt limit 8 percent of assessed value		\$ 149,017,995
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 17,450,000	
Total capitalized lease and installment purchase obligations	<u>6,451,845</u>	
Total amount of debt applicable to debt limit		<u>23,901,845</u>
LEGAL DEBT MARGIN		<u>\$ 125,116,150</u>

**Table 9****CITY OF SALISBURY, NORTH CAROLINA****SCHEDULE OF PRINCIPAL TAXPAYERS****For the Year Ended June 30, 2003**

<u>Business</u>	<u>Type of Enterprise</u>	<u>2002 Assessed Valuation</u>	<u>Percentage Value of Total</u>
Food Lion, Inc.	Commercial	\$ 75,936,895	4.08%
Belle Realty Co.	Real Estate	28,712,405	1.54%
Norandal USA	Industrial	27,077,213	1.45%
Indopco/ICI Americas	Industrial	26,467,409	1.42%
Heritage Realty Limited Partnership	Real Estate	25,931,831	1.39%
Duke Energy Corp.	Utility	23,011,627	1.24%
Bellsouth Telephone	Communication	20,077,797	1.08%
Salisbury Mall Ltd.	Commercial	16,311,458	0.88%
Piedmont Natural Gas	Utility	12,697,008	0.68%
Livingstone College	College	<u>10,316,666</u>	<u>0.55%</u>
Totals		<u>\$ 266,540,309</u>	<u>14.31%</u>

**Table 10**

**CITY OF SALISBURY, NORTH CAROLINA**

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

**Last Ten Fiscal Years**

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

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

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

**Last Ten Fiscal Years**

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

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

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

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

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

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

**Table 13**

**CITY OF SALISBURY, NORTH CAROLINA**

**MISCELLANEOUS STATISTICS**

**June 30, 2003**

Date Established	1753
Form of Government	Council/Manager
Area	18.84 Sq. Miles
Miles of Streets	154.16
Fire Protection:	
Number of Stations	3
Number of Firefighters	66
Number of Office Personnel	0
Police Protection:	
Number of Stations	1
Number of Police Officers	74
Number of Auxiliary Police Officers	8
Number of Civilians	21
Water and Sewer Utility:	
Number of Utility Customers	15,000
Average Daily Consumption	6.2 Million Gallons
Miles of Water lines	450
Miles of Sewer lines	482
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	413
Permanent Part-Time	3
Temporary Full-Time	19
Temporary Part-Time	24

**Table 14**

**CITY OF SALISBURY, NORTH CAROLINA**

**DEMOGRAPHIC STATISTICS**

**For the Year Ended June 30, 2003**

<b>Fiscal Year</b>	<b>Population Estimate<sup>(1)</sup></b>	<b>Per Capita Income<sup>(2)</sup></b>	<b>Median Age<sup>(3)</sup></b>	<b>Unemployment Rate<sup>(4)</sup></b>
2003	28,199	\$19,433	37.3	5.7%
2002	26,559	\$19,241	37.3	5.7%
2001	26,462	18,864	37.1	6.5
2000	27,500	23,634	38.8	3.8
1999	26,792	22,509	38.7	3.4
1998	26,884	21,631	38.5	3.0
1997	26,177	20,787	38.3	2.9
1996	24,543	19,976	38.1	3.6
1995	25,444	19,165	37.9	3.8
1994	24,072	17,600	37.7	3.3

Sources:

<sup>(1)</sup> 2002-2003 and 1993-2000; North Carolina Office of State Planning  
2001; U. S, Census

<sup>(2)</sup> 2002 and 1996-2000; City of Salisbury Planning Division (estimate)  
2001; U. S, Census  
1993-95; State Library-Office of State Planning Statistical Database

<sup>(3)</sup> 2002 and 1993-2000; City of Salisbury Planning Division (estimate)  
2001; U. S, Census

<sup>(4)</sup> N.C. Employment Security Commission  
Note: Figures are for Rowan County

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# **Compliance Section**

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# McGladrey & Pullen

Certified Public Accountants

**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  
City of Salisbury, North Carolina

We have audited the basic financial statements of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
August 30, 2003

# McGladrey & Pullen

Certified Public Accountants

## **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  
City of Salisbury, North Carolina

### ***Compliance***

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2003. 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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, 2003.

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

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
August 30, 2003

**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  
City of Salisbury, North Carolina

***Compliance***

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2003. 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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, 2003.

***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 solely for the information of management, members of City Council, other within the organization, 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.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
August 30, 2003

**CITY OF SALISBURY, NORTH CAROLINA**

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

**Year Ended June 30, 2003**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
<b>FEDERAL GRANTS:</b>					
<b>CASH PROGRAMS</b>					
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>					
Direct Program:					
Assistance to Firefighters Grant	83.554	EMW-2002-FG-01216	\$ 520,035	\$ -	\$ 56,101
Passed-through N. C. Department of Crime Control and Public Safety					
Federal Emergency Management Disaster Assistance	83.544	FEMA-1448-DR-NC	\$ 831,394	\$ 269,866	\$ -
Total Federal Emergency Management Agency			\$ 1,351,429	\$ 269,866	\$ 56,101
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-00-MC-37-0015	\$ 179,756	\$ -	\$ -
Entitlement Program	14.218	B-01-MC-37-0015	\$ 79,977		
Entitlement Program	14.218	B-02-MC-37-0015	458,407	-	-
			\$ 718,140	\$ -	\$ -
Community Development Block Grants					
Section 108 Loan Guarantees	14.248	B-00-MC-37-0015	\$ 221,000	\$ -	\$ -
Pass-through N.C. Department of Housing Finance Agency HOME Program	14.239	R-90-SG-37-0117	\$ 88,397	\$ -	\$ 71,562
Total U.S. Department of Housing And Urban Development			\$ 1,027,537	\$ -	\$ 71,562
<b>U.S. DEPARTMENT OF JUSTICE</b>					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
COPS Fast	16.710	95-CF-WX-3853	\$ 38,596	\$ -	\$ 39,881
COPS in Schools	16.710	2000-SH-WX-0245	35,802	-	-
COPS More	16.710	2001-CM-WX-0272	36,081	-	36,726
			\$ 110,479	\$ -	\$ 76,607
Bureau of Justice Assistance					
Direct Program:					
Local Law Enforcement Block Grant	16.592	2001-LB-BX-2345	\$ 23,600	\$ -	\$ 2,622
Total U.S. Department of Justice			\$ 134,079	\$ -	\$ 79,229

**CITY OF SALISBURY, NORTH CAROLINA**

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

**Year Ended June 30, 2003  
(Continued)**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantors' Number</u>	<u>Federal Direct &amp; Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>					
Urban Mass Transportation Grants					
Capital	20.507	9.9052051	\$ -	\$ 21,453	\$ 2,384
Urban Mass Transportation Grants					
Administration	20.507	9.9046050	\$ 76,641	\$ 16,906	\$ 19,160
Operating	20.507	9.9042650	97,441	-	365,564
			<u>\$ 174,082</u>	<u>\$ 16,906</u>	<u>\$ 384,724</u>
Highway Planning and Construction					
Passed-through N. C. Department of Transportation Transportation Enhancement Program	20.205	E-4551	\$ 377,521	\$ -	\$ 221,719
Total U.S. Department of Transportation			<u>\$ 551,603</u>	<u>\$ 38,359</u>	<u>\$ 608,827</u>
TOTAL ASSISTANCE - FEDERAL PROGRAMS			<u>\$ 3,064,648</u>	<u>\$ 308,225</u>	<u>\$ 815,719</u>
<b>STATE GRANTS:</b>					
<b>CASH PROGRAMS</b>					
<b>N.C. DEPARTMENT OF TRANSPORTATION</b>					
Powell Bill	N/A		\$ -	\$ 880,207	\$ -
State Maintenance Assistance for Transit Systems	N/A	9.9051123	\$ -	\$ 160,282	\$ -
Traffic Opticom Grant	N/A	9.8091468	\$ -	\$ 44,245	\$ -
Total N. C. Department of Transportation			<u>\$ -</u>	<u>\$ 1,084,734</u>	<u>\$ -</u>
TOTAL ASSISTANCE - STATE PROGRAMS			<u>\$ -</u>	<u>\$ 1,084,734</u>	<u>\$ -</u>
TOTAL ASSISTANCE			<u>\$ 3,064,648</u>	<u>\$ 1,392,959</u>	<u>\$ 815,719</u>

**CITY OF SALISBURY, NORTH CAROLINA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Year Ended June 30, 2003**

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**1. General**

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

**CITY OF SALISBURY, NORTH CAROLINA**  
**SCHEDULE OF COMPLIANCE FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2003**

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

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes     No
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes     None Reported

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

Federal Award

Internal control over major program:

- Material weakness(es) identified? \_\_\_\_\_ Yes     No
- Reportable condition(s) identified that are not considered to be material weaknesses(es)? \_\_\_\_\_ Yes     None Reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program.</u>
14.218	Community Development Block Grant
83.544	Federal Emergency Management Assistance
83.554	Assistance to Firefighters Grant
20.205	Highway Planning and Construction

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

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

State Awards

Internal control over major State programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes     No
- Reportable condition(s) identified that are not considered to be material weaknesses(es)? \_\_\_\_\_ Yes     None Reported

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

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

Identification of major programs: Department of Transportation, Powell Bill

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

None reported.

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

None.

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

None.

**CITY OF SALISBURY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2003**

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There were no prior year audit findings.