

CITY OF SALISBURY

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2002

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

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C. Michael Crowell – Technology Services Manager

Dewey D. Peck - Purchasing Agent

Clara A. Bost - Customer Service Supervisor



Introductory Section

CONTENTS

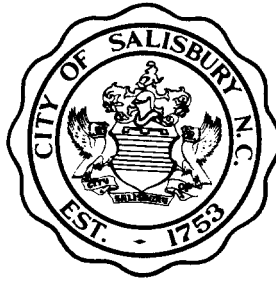
	Page
INTRODUCTORY SECTION	
Table of contents	1 - 3
Letter of transmittal	4 - 22
GFOA Certificate of Achievement	23
Organizational chart	24
List of principal officials	25
Facts and information about the City of Salisbury, North Carolina	26 - 28
 FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	31
 GENERAL PURPOSE FINANCIAL STATEMENTS	
A-1 Combined balance sheet - all fund types, account groups, and discretely presented component unit	32 - 35
A-2 Combined statement of revenues, expenditures, and changes in fund balances - all governmental fund types, and discretely presented component unit	36 - 37
A-3 Combined statement of revenues, expenditures, and changes in fund balances - budget and actual - general fund and special revenue fund	38 - 39
A-4 Combined statement of revenues, expenses, and changes in retained earnings - all proprietary funds	40
A-5 Combined statement of cash flows - all proprietary fund types	41
A-6 Statement of changes in plan net assets - pension trust fund	42
A-7 Notes to financial statements	43 - 62
 REQUIRED SUPPLEMENTAL FINANCIAL DATA	
A-8 Law enforcement officers' special separation allowance - schedule of funding progress	65
A-9 Law enforcement officers' special separation allowance - schedule of employer contributions	66
 SUPPLEMENTARY FINANCIAL DATA	
Combining and individual fund and account group financial statements and schedules	
General Fund:	
B-1 Comparative balance sheets	71
B-2 Statement of revenues, expenditures, and changes in fund balance - budget and actual	72
B-3 Statement of revenues and other financing sources - budget and actual	73
B-4 Statement of expenditures and other financing uses - budget and actual	74
Special Revenue Fund:	
C-1 Comparative balance sheets - Community Development Fund	77
C-2 Statement of revenues, expenditures, and changes in fund balance - budget and actual - Community Development Fund	78
Capital Projects Fund:	
D-1 Comparative balance sheets	81
D-2 Statement of revenues, expenditures, and changes in fund balance - budget and actual	82

CONTENTS

	Page
Enterprise Funds:	
E-1 Combining balance sheet	85
E-2 Combining statement of revenues, expenses, and changes in retained earnings	86
E-3 Combining statement of cash flows	87
Water and Sewer Fund:	
E-4 Statement of revenues and expenses - budget and actual (non-GAAP, modified accrual basis)	88
E-5 Capital projects fund - Schedule of revenues and expenses - budget and actual (non-GAAP)	89
Mass Transit Fund:	
E-6 Statement of revenues and expenses - budget and actual (non-GAAP, modified accrual basis)	90
Internal Service Funds:	
F-1 Combining balance sheet	93
F-2 Combining statement of revenues, expenses, and changes in retained earnings	94
F-3 Combining statement of cash flows	95
Workers' Compensation Fund:	
F-4 Comparative balance sheets	96
F-5 Comparative statements of revenues, expenses, and changes in retained earnings	97
F-6 Comparative statements of cash flows	98
Employee Health Care Fund:	
F-7 Comparative balance sheets	99
F-8 Comparative statements of revenues, expenses, and changes in retained earnings	100
F-9 Comparative statements of cash flows	101
Trust and Agency Funds:	
G-1 Combining balance sheet	106-107
Pension Trust Fund - Law Officers' Separation Allowance Fund	
G-2 Comparative balance sheets	108
Agency Funds:	
G-3 Combining statement of changes in assets and liabilities	109
General fixed asset account group:	
H-1 Schedule of general fixed assets by function and activity	113
Other schedules:	
I-1 Property taxes receivable	117
I-2 Analysis of current tax levy	118
I-3 Schedule of cash and investment balances	119
I-4 Schedule of interfund transfers	120

CONTENTS

	Page
STATISTICAL SECTION	
Table 1 General governmental expenditures by function - last ten fiscal years	123
Table 2 General governmental revenues by source - last ten fiscal years	124
Table 3 Tax revenue by source - last ten fiscal years	125
Table 4 Property tax levies, tax collections and credits - last ten fiscal years	126
Table 5 Assessed value of taxable property - last ten fiscal years	127
Table 6 Property tax levies and tax rates - direct and overlapping governments - last ten fiscal years	128
Table 7 Computation of direct and overlapping debt	129
Table 8 Computation of legal debt margin	130
Table 9 Schedule of principal taxpayers	131
Table 10 Ratio of annual debt service expenditures for general bonded debt to total general expenditures - last ten fiscal years	132
Table 11 Ratio of net general bonded debt to assessed value and net bonded debt per capita - last ten fiscal years	133
Table 12 Property value, construction, and bank deposits - last ten fiscal years	134
Table 13 Miscellaneous statistics	135
Table 14 Demographic statistics	136
 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>	139
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	140 - 141
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	142 - 143
Schedule of Expenditures of Federal and State Awards	144 – 145
Notes to Schedule of Expenditures of Federal and State Awards	146
Schedule of Compliance Findings and Questioned Costs	147
Schedule of Prior Audit Findings	148



October 25, 2002

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

We are pleased to submit the Comprehensive Annual Financial Report (Report) of the City of Salisbury (City) for the fiscal year ended June 30, 2002 (FY02). We are particularly proud of the fact this Report has been entirely prepared by the City's Finance Department. Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the City. We believe the data is accurate in all material respects, and it is presented in a manner designed to set forth fairly the financial position and the results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The accompanying financial statements have been audited by McGladrey & Pullen, LLP, an independent firm of certified public accountants, and their opinion is included in the Report.

GENERAL

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

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical, and compliance. The introductory section includes this transmittal letter, organizational chart, a list of principal officials, and facts and information about the City. The financial section includes the general purpose financial statements, the combining and individual fund and account group financial statements, and other schedules, as well as the auditor's opinion on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act 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.

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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, 2001, 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 two fiscal years, the effect on the City has been minimal. Gross retail sales in Salisbury for the twelve months ended June 30, 2002, increased slightly by 1.8%, or twelve million dollars, to \$678,341,604 from the prior fiscal year. Gross retail sales in Salisbury were higher in FY02 than any fiscal year in history. Total Rowan County sales were basically unchanged from the prior year, with a decrease of only one-half million dollars, to \$1,081,266,388. The City has had some recent additions to its largest retail center, which has 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 twelve months. The average unemployment rate for Rowan County over the twelve months ended June 30, 2002, was 6.1%, down slightly from 6.5% in 2001, but still up significantly from 3.8% in 2000. The average unemployment rate for the State of North Carolina was 6.4% during the same period, up from the previous year's rate of 4.3%. The county's high average unemployment rates may be somewhat skewed due to large fluctuations in the monthly totals which were attributable to temporary layoffs. In the spring of 2002, the County's largest employer began calling hundreds of laid-off employees back to work. Rowan County's unemployment rate for June 2002 was 5.7%, compared with 6.9% for the state. Other than the layoffs, the unemployment rates have been adversely affected by the closing of several local businesses, particularly in the textile industry.

In contrast to the negative economic news mentioned above, the City's downtown area continues to go against the trend of retail exodus to area malls. The downtown business district is a thriving retail center for area merchants. The City continues to support and encourage the revitalization of the downtown business district that began in the early 1980's. Since that time a total of over \$70 million has been invested in the redevelopment of Salisbury's downtown. The number of businesses operating in the downtown area increased

by three during FY02 and the quality of those businesses has enhanced the downtown retail environment. The story of downtown Salisbury is one of public-private partnerships committed to maintaining our place as one of the best downtown districts in North Carolina.

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

MAJOR INITIATIVES

The fiscal year ended June 30, 2002, was a challenging one in many ways. In February, 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. The Governor's action cost the City approximately \$1.7 million in anticipated revenue. 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 FY02. Areas worth noting were the continued progress in the City's improvement of neighborhoods and the revitalization of the downtown 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. In December 2000, 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 FY02 the City continued to assist with housing rehabilitation in the neighborhood and is currently working on plans to convert a former warehouse into a Community Center. 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. The new homes will be 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. Investment in downtown construction projects during FY02 was in excess of \$10 million. Some of the more notable projects were the renovation of a former retail store into new office space at F & M Financial Center and the re-opening of Easy Street, a pedestrian walkway connecting the Salisbury Station and Main Street. The downtown also welcomed the addition of the newly constructed 205 East Council Place, an award winning 12,000 square foot infill project. Currently, the downtown area has a first-floor occupancy rate of 95% and upper floors now house over 100 apartments.

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. In December 2001, the City's Police Department received the International Accreditation Award from the Commission on Law Enforcement Agencies, Inc. The Police Department also received an ITT Community Policing award from

the International Association of Chiefs of Police. During FY02 the City began implementing the Salisbury Vision 2020 Comprehensive Plan, a blueprint for the City's future that contains policies to guide future land development decisions. In May 2002, the North Carolina Chapter of the American Planning Association presented Salisbury the Small Community Outstanding Planning Award for Comprehensive Planning for its 2020 Plan. 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. Other future developments include the \$1.2 million renovation of the old McCanless Motor building that will house the new Waterworks Visual Arts Center. Also, various architects and planners have come together to develop ideas for the revitalization of the Lee Street Warehouse District. The City will be busy as well with the development of the Council Street Streetscape, downtown parking, and the Easy Street pedestrian walkway.

The entire state of North Carolina has been enduring a four-year long drought, and many municipalities are suffering from a severe water shortage. The City of Salisbury has an ample supply of water and is in position to help nearby drought-stricken areas. The City already provides water to four towns in Rowan County. Three other municipalities will tie in to the system in the very near future. Construction of lines to southern Rowan County began during FY02, with plans of bringing the first town on line by the fall of 2002. The other two municipalities will be added soon thereafter. Also, the City is currently constructing a new water line along the Highway 70 corridor in Rowan County to increase capacity to a power generating plant owned by Carolina Power and Light. These new lines are projected to be in service by March 2003. As part of the construction necessary to accommodate this substantial increase in water sales, the City will also be upgrading its water plant. These and other capital projects are being financed by the May 2002 issue of revenue bonds, significant contributions from Carolina Power and Light and Rowan County, and reserves of the Water and Sewer Capital Projects Fund.

The City has approved an annexation plan for an area along US 70 which will include the Westcliffe and Hendrix Estates subdivisions. The annexation helps to accomplish City Council's goals of expanding the tax base and generating new revenues. The annexation process is due to become effective July 1, 2003.

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

In 2003, the City of Salisbury and Rowan County will both celebrate the 250th anniversary of their incorporation. The mission of the planned, year-long celebration, "Rowan 250 Fest," is to educate people of all ages on Salisbury and Rowan County history and preserve a legacy for future generations. The 250 Fest should provide a boost to the local economy.

REPORTING ENTITY

This Report includes all funds, account groups, agencies, commissions, and boards which are dependent on the City or over which the City may exercise control. The City of Salisbury (as legally defined) is considered to be a primary government. Current governmental standards for accounting and financial reporting require inclusion of the primary government as well as its component unit in a published comprehensive annual financial report. The component unit is a legally separate entity for which the primary government is primarily financially accountable or for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

SERVICES PROVIDED

The City of Salisbury provides a full range of municipal services allowable under State law including law enforcement, fire protection, zoning and code enforcement, recreation centers and parks, cemeteries, street maintenance, sanitation, and water and sewer systems.

GOVERNMENT STRUCTURE

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

ACCOUNTING SYSTEMS AND BUDGETARY CONTROL

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

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

As a recipient of federal and state awards, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

As a part of the City's single audit described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state awards, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for FY02 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, 2002.

BASIS OF ACCOUNTING

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

FUND ACCOUNTING

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

FUND AND ACCOUNT GROUP CATEGORIES

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

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

Fiduciary funds are used to account for assets held by governmental units in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are purely custodial in nature and do not measure the results of operations. Pension trust funds are accounted for in essentially the same manner as proprietary funds.

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

FINANCIAL MANAGEMENT

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

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

This financial management program allows the City to achieve its goal of expanded and improved services to the citizens of Salisbury. Additionally, the City's bond rating of "A1" by Moody's Investors Service, Inc. was reaffirmed in April 2002. The City issued \$20.5 million Combined Enterprise System revenue bonds in May 2002 and Moody's Investors Services, Inc. assigned an "A2" initial underlying rating to this issue. Concurrently Fitch Ratings assigned an "A+" rating to this issue along with rating the system's \$1.8 million in outstanding parity revenue bonds "A+". This is a reflection of the City's continued sound financial condition.

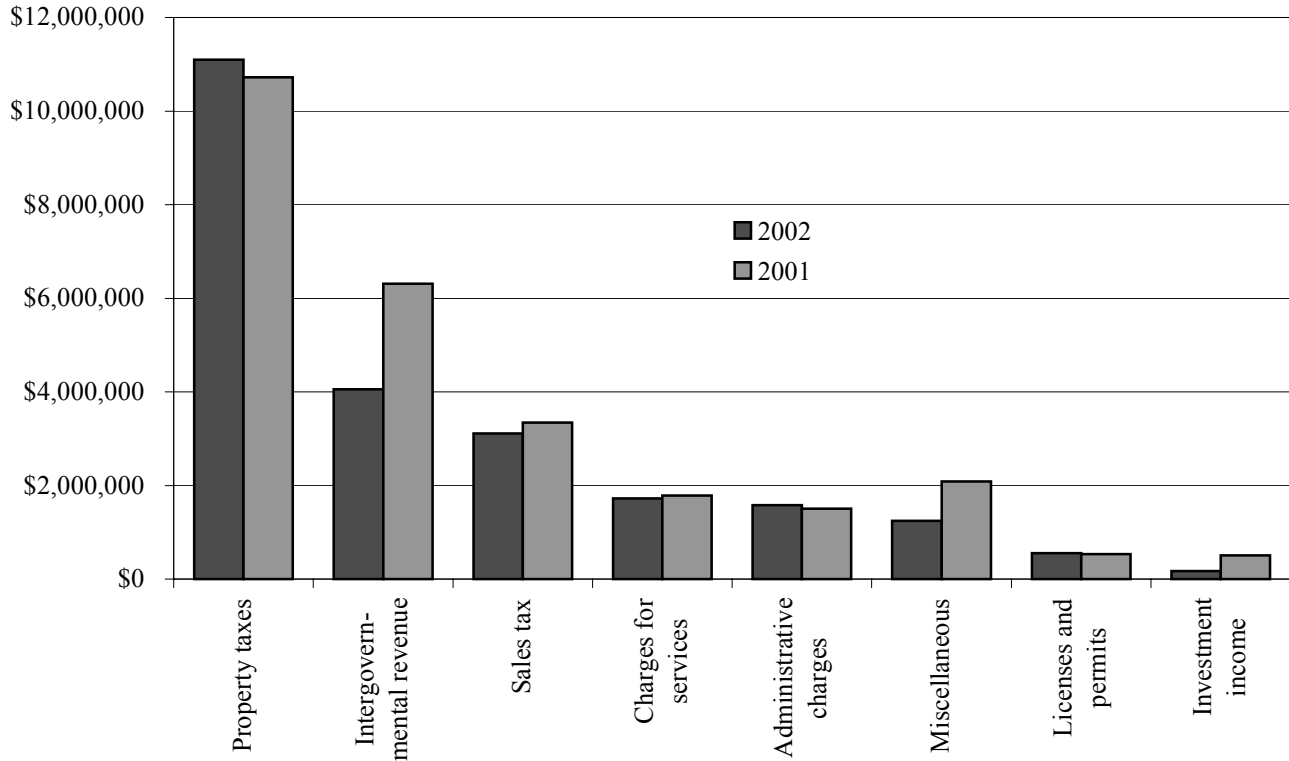
EXHIBIT 1

COMPARATIVE SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES GOVERNMENTAL FUNDS

Source	2002		Fiscal Year Ended June 30,		Increase	Percent
	Percent of Total	2002	2001	(Decrease)	(Decrease)	
Property taxes, penalties, interest, and other taxes	47.16%	\$ 11,097,422	\$ 10,720,050	\$ 377,372	3.52%	
Intergovernmental revenue	17.23%	4,055,323	6,313,050	(2,257,727)	(35.76%)	
Sales tax	13.22%	3,111,802	3,346,897	(235,095)	(7.02%)	
Charges for services	7.32%	1,721,919	1,783,086	(61,167)	(3.43%)	
Administrative charges	6.72%	1,581,000	1,505,714	75,286	5.00%	
Miscellaneous	5.28%	1,243,034	2,086,805	(843,771)	(40.43%)	
Licenses and permits	2.34%	550,831	533,554	17,277	3.24%	
Investment income	0.73%	170,968	508,696	(337,728)	(66.39%)	
Total	<u>100.00%</u>	<u>\$ 23,532,299</u>	<u>\$ 26,797,852</u>	<u>\$ (3,265,553)</u>	<u>(12.19%)</u>	

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

EXHIBIT 2
REVENUES AND OTHER FINANCING SOURCES
GOVERNMENTAL FUNDS



REVENUES - GOVERNMENTAL FUNDS

As illustrated in Exhibits 1 and 2, the \$3,265,553 (12.19%) decrease in revenues in the City's governmental funds from FY01 was primarily attributable to decreased intergovernmental revenues, sales taxes, interest income, and miscellaneous revenues.

Property Tax Revenues

In response to a sagging national and local economy and rising unemployment, Salisbury's City Council approved a budget for FY02 that left the property tax rate unchanged at 60 cents per \$100 assessed valuation. Even without an increased tax rate, total property tax revenue of the City, including prior year collections increased \$377,372 (3.52%) in FY02. This increase in revenues is the result of growth in the City's tax base due to new construction and the continued redevelopment of properties in the downtown district. The tax rate for the downtown tax district remained at sixteen (16) cents per \$100 assessed valuation. The tax receipts from the downtown district are utilized by Downtown Salisbury, Inc. for advertising and promotional activities in the district. These tax receipts are accounted for in the Municipal Service District Agency Fund and are not included in Exhibit 1.

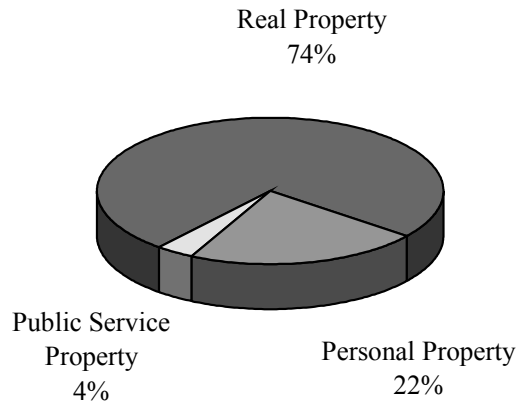
Total assessed valuation increased \$34,242,750 (1.88%) in FY02. Exhibit 3 depicts this increase by types of assessed property, while Exhibit 4 graphically illustrates the City's property tax base.

**EXHIBIT 3
ASSESSED VALUATION**

Source	2002 Percent of Total	Fiscal Year Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
		2002	2001		
Real Property	74.48%	\$ 1,381,515,869	\$ 1,337,944,798	\$ 43,571,071	3.26%
Personal Property	21.88%	405,754,659	417,818,187	(12,063,528)	(2.89%)
Public Service Property	3.64%	67,540,438	64,805,231	2,735,207	4.22%
Total	100.00%	\$ 1,854,810,966	\$ 1,820,568,216	\$ 34,242,750	1.88%

(Derived from Table 5)

**EXHIBIT 4
2001 ASSESSED VALUATION**



The percentage of current taxes collected in FY02 increased slightly from FY01. Exhibit 5 compares collections in FY02 and FY01. When all property tax collections are considered, the rate of collection increased from 98.3% during FY01 to 100.12% in FY02.

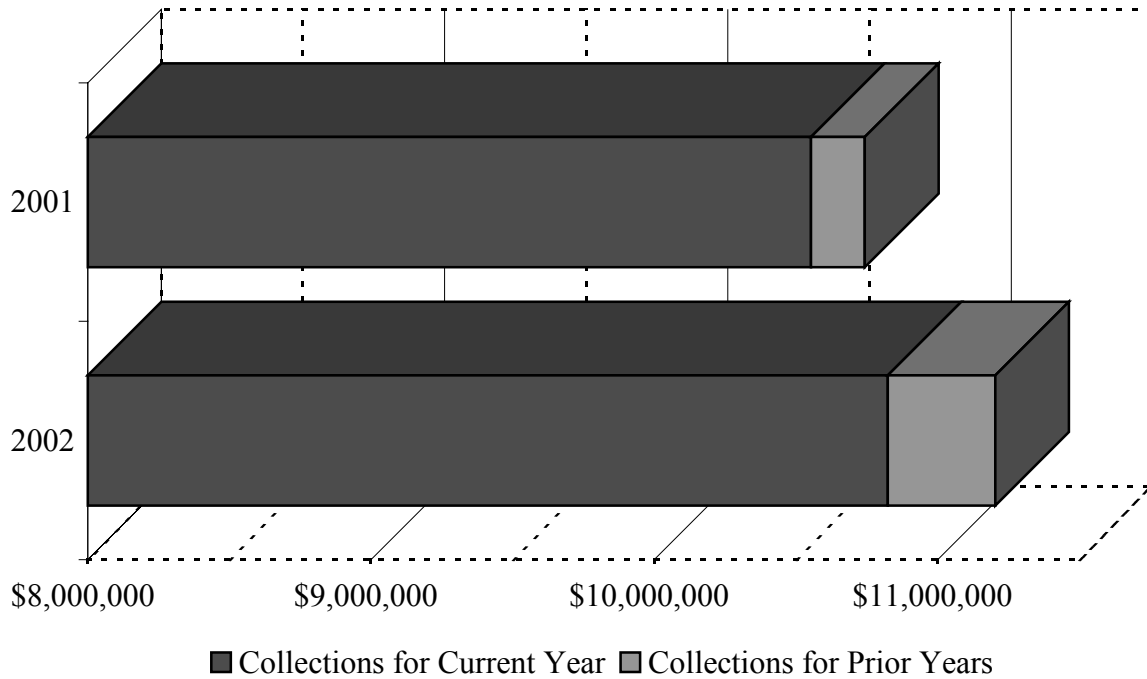
**EXHIBIT 5
TAX COLLECTIONS**

Fiscal Year Ended June 30,	Tax Levy	Percent Collected in Year of Levy	Percent of Total Collected to Tax Levy
2002	\$ 11,190,087	96.73%	100.12%
2001	\$ 10,928,747	96.56%	98.30%

(Derived from Table 4)

Exhibit 6 graphically illustrates tax collections for the two years. The collection effort continues for a ten year period, after which any uncollected amount is written off. In FY02, a total of \$20,280 was written off.

EXHIBIT 6
TOTAL TAX COLLECTIONS BY YEAR



Intergovernmental Revenue

Intergovernmental revenues, which are primarily composed of State-shared revenues, decreased \$2,257,727 (35.76%) from FY01. Reimbursements and taxes due from the State of North Carolina to municipalities were withheld by the Governor to cover the shortfall in the State’s budget. The total estimated loss to the City of Salisbury due to the Governor’s withholding of funds was \$1,686,273. Also, last year the City received an extra \$500,000 in Utilities Franchise Taxes due to correction of errors by the State.

Sales Tax

Sales tax revenue comprises 13.22% of the City's total governmental revenues. Sales tax revenue decreased \$235,095 (7.02%) from FY01 because of the slowing state and local economy.

Investment Income

Interest earned on investments is an important contributing factor in maintaining a stable tax rate. During FY02, the City’s Governmental Funds received \$170,968 of investment income. Beginning in early 2001, the Federal Reserve Board reduced short-term interest several times in an effort to rescue the nation’s slowing economy. As a result, the City’s yields on its investments have gone from over six percent to less than two percent. Therefore, investment income for FY02 decreased by \$337,728 from FY01, or 66.39%.

Other Revenues

Miscellaneous revenues, including sale of property, rental of property, donations, and other unclassified revenues, decreased \$843,771 (40.43%) in FY02. The majority of this increase is attributable to a \$796,445 decrease in recognized donations for the new Salisbury Community Park.

EXPENDITURES AND OTHER FINANCING USES - GOVERNMENTAL FUNDS

Total expenditures and other financing uses increased \$2,055,792 (7.66%) during FY02. Total expenditures and other financing uses were \$24,779,136, which is approximately \$4.27 million or 14.69% under budget. Although salaries and fringe benefit costs increased throughout the City, these increases were offset by holding the line on operational expenditures.

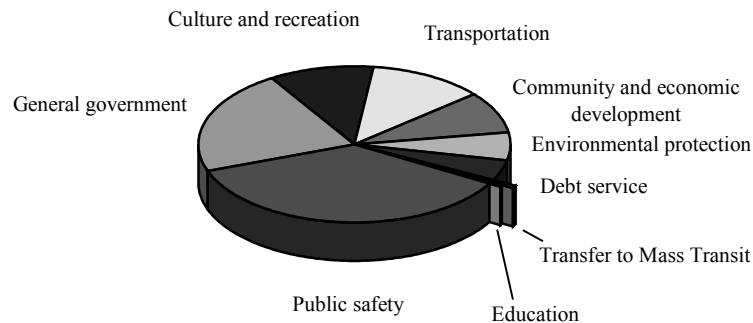
**EXHIBIT 7
COMPARATIVE SCHEDULE OF EXPENDITURES
AND OTHER FINANCING USES
GOVERNMENTAL FUNDS**

Function	2002		Fiscal Year Ended June 30,		Increase (Decrease)	Percent Increase (Decrease)
	Percent of Total		2002	2001		
Public safety	36.08%	\$ 8,941,298	\$ 8,860,001	\$ 81,297	0.92%	
General government	21.63%	5,360,451	5,336,349	24,102	0.45%	
Culture and recreation	10.76%	2,666,102	4,272,125	(1,606,023)	(37.59%)	
Transportation	12.02%	2,978,265	3,721,416	(743,151)	(19.97%)	
Community & economic development	8.75%	2,168,981	2,021,636	147,345	7.29%	
Environmental protection	5.68%	1,406,346	1,413,534	(7,188)	(0.51%)	
Debt service	4.26%	1,055,069	1,007,243	47,826	4.75%	
Transfer to Mass Transit	0.65%	160,282	160,282	-	-	
Education	0.16%	42,342	42,342	-	-	
Total	99.99%	\$ 24,779,136	\$ 26,834,928	\$ (2,055,792)	(7.66%)	

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

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

**EXHIBIT 8
EXPENDITURES AND OTHER FINANCING USES
GOVERNMENTAL FUNDS – 2002**



Public Safety

The City's Public Safety programs include police and fire protection for which expenditures increased \$81,297 (0.92%) in FY02. Total Police Department expenditures increased \$70,976 or 1.2% and Fire Department expenditures increased by \$10,321, or less than one-third of one percent from the prior year. Increases in salaries and benefits of \$357,616 for Public Safety were offset by reducing operational expenditures by \$175,491 and capital expenditures by \$99,928. The City received \$324,787 from federal grants to offset costs of equipment purchase and hiring new officers.

General Government

General government includes the expenditures of the City Council, City Manager, Finance, Purchasing, Information Technologies, Human Resources, City Office Buildings, Telecommunications, Public Services Administration, and Fleet Management. General government expenditures for FY02 increased slightly by \$24,102 (0.45%).

Culture and Recreation

Culture and recreation includes the Recreation and Landscaping departments. All the City's recreation programs, parks, recreation centers, and cultural activities and appropriations are accounted for in the Recreation Department. Culture and recreation experienced a decrease in expenditures of \$1,606,023 or 37.59% during FY02. The decrease in expenditures is attributable to less construction and renovations in FY02 than in FY01. In the prior year the Recreation Department spent \$1,068,213 on the continuing construction of the new Salisbury Community Park, as opposed to \$143,079 spent in FY02. Also, as seen in Statement D-2, expenses on other construction and renovation projects decreased by \$472,776 in FY02.

Transportation

Transportation expenditures, which include street maintenance and construction, street lighting, and traffic engineering, decreased \$743,151 (19.97%) in FY02. During FY01 the City incurred \$364,501 in special projects expenditure for items such as sidewalk installation, development of a new traffic signal system, storm drainage improvements, and development of the Salisbury Greenway. Similar expenditures in FY02 decreased by \$241,706 to \$122,795. Also, expenditures for Transportation decreased by \$376,014 from FY01.

Community and Economic Development

Expenditures during FY02 increased \$147,345 or 7.29% in the City's community and economic development programs. These programs are comprised of the City's Community Development Department, Housing and Urban Development (HUD) grant programs, Developmental Services Department, and the Plaza. The increase in expenditures for FY02 is attributable to new neighborhood revitalization projects accounted for in the City's Special Revenue Fund, which is funded primarily from the U. S. Department of Housing and Urban Development. As detailed in Statement C-1, expenditures in the Special Revenue Fund increased \$230,458 over FY01.

Environmental Protection

The City's environmental protection programs are comprised of the Solid Waste Management and Cemetery departments. Environmental protection expenditures were virtually unchanged from the prior year, with a decrease of \$7,188 or 0.51% during FY02. Expenditures for Solid Waste Management increased by less than one percent, \$4,871, while Cemetery expenditures decreased \$12,059 or 5.9%.

Debt Service

Debt service expenditures increased \$47,826, a 4.75% increase. The City's General Fund did not incur any new debt during FY02, but has borrowed funds for large projects or purchases three times since December 1999. At June 30, 2002, the City owed \$2,434,738 on installment purchase contracts. The installment purchase agreements and the City's \$2,825,000 of general obligation bonds issued for various public improvement projects show as debt outstanding in the general long-term debt account group at June 30, 2002. The bonds are backed by the full faith and taxing power of the City. The general obligation bonds and the installment purchases are being retired through the resources of the General Fund.

In addition to these bonds, the City accounts for debt issued for Water and Sewer purposes in the Water and Sewer Fund. Water and Sewer debt at June 30, 2002 includes \$16,080,000 general obligation bonds, \$15,067,590 State Clean Water bonds, and \$3,874,595 in outstanding capital leases. As discussed earlier, the City issued \$20,505,000 revenue bonds in May 2002, which brings the total outstanding revenue bonds in the Water and Sewer Fund to \$22,270,000.

Other Expenditures

The City's supplements to the Salisbury Mass Transit System and the Rowan-Salisbury School System remained unchanged from the FY01 amounts of \$160,282 and \$42,342, respectively.

FUND BALANCE - GENERAL FUND

The \$4,875,834 fund balance in the General Fund at June 30, 2002, is \$931,358 less than the June 30, 2001 balance (see Exhibits 9 & 10). As discussed earlier, the Governor of North Carolina withheld almost \$1.7 million in taxes and reimbursements due to the City. The City Manager implemented freezes on hiring, capital expenditures, and all non-essential expenditures immediately upon receiving notification of the withholdings. The City also had a reduction of its general work force, eliminating 33 positions. Because of this substantial loss of revenues, the City was forced to use part of the fund balance in the General Fund to maintain the high level of services to which our citizens have become accustomed.

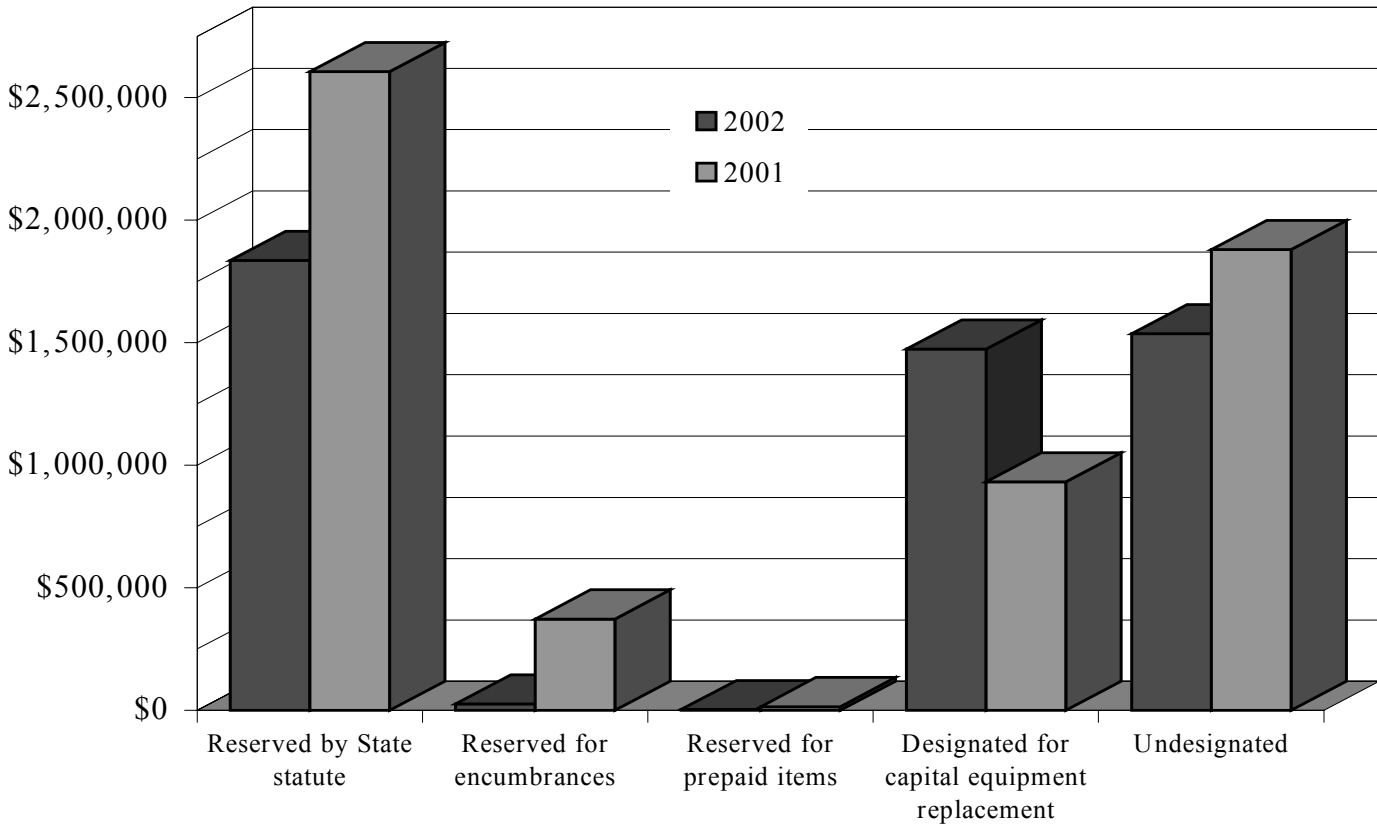
Funds available for the replacement of vehicles and other capital equipment increased \$541,354 to \$1,473,927, a 58.05% increase. The City has allowed its equipment reserve to grow in anticipation of large purchases during the fiscal year ending June 30, 2003. The portion of fund balance reserved by State statute decreased \$777,184 primarily due to a decrease in amounts due from other governments that are not offset by deferred revenues. Because of the financial woes of the State of North Carolina, the City will not be receiving over \$500,000 in inventory tax reimbursement for FY02. The amount reserved for encumbrances is composed of \$26,452 for obligations not satisfied as of the end of the fiscal year. Unrestricted and undesignated fund balance decreased by \$740,912 to \$1,536,493. If withheld revenues from the State mentioned above had been received, undesignated fund balance would have increased.

EXHIBIT 9
FUND BALANCE
GENERAL FUND

	<u>Fiscal Year Ended June 30,</u>		Increase
	<u>2002</u>	<u>2001</u>	(Decrease)
Reserved by State statute	\$ 1,835,362	\$ 2,605,848	\$ (770,486)
Reserved for encumbrances	26,452	373,121	(346,669)
Reserved for prepaid items	3,600	15,245	(11,645)
Unreserved:			
Designated for capital equipment replacement	1,473,927	932,573	541,354
Undesignated	<u>1,536,493</u>	<u>1,880,405</u>	<u>(343,912)</u>
 Total fund balance	 <u>\$ 4,875,834</u>	 <u>\$ 5,807,192</u>	 <u>\$ (931,358)</u>

(Derived from Statement B-1)

EXHIBIT 10
COMPARATIVE ANALYSIS OF FUND BALANCE



The City follows a policy of maintaining an adequate fund balance as a safeguard against unforeseen circumstances and to provide a solid foundation for the City's fiscal health. At June 30, 2002, fund balance equaled 19.76% of the General Fund's operating budget for the new fiscal year.

BONDED INDEBTEDNESS

Total outstanding general obligation debt, revenue bond debt, and State Clean Water Bonds at June 30, 2002, totaled \$56,242,590. North Carolina statutes provide that cities may maintain outstanding debt in an amount less than or equal to eight percent (8%) of assessed valuation. The current statutory debt margin for the City is \$123,170,544.

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 2.42% for the year ended June 30, 2002.

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, 2002, is exempt from risk categorization as defined by the Governmental Accounting Standards Board. All of the City's investment portfolio was invested in the NC Capital Management Trust, an SEC registered mutual fund where the City is only a shareholder of a percentage of the fund and does not own any identifiable securities.

RISK MANAGEMENT

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

REVENUE - ENTERPRISE FUNDS

Enterprise funds revenue increased by \$1,804,279 (10.91%) from the previous fiscal year (see Exhibit 11). The revenue in the Water and Sewer Fund increased by \$1,811,501 (11.23%), due mainly to increased water and sewer rates. Rate increases were necessary because of several plant closings during the past three years, which led to reduced revenues. Also, media focus on a state-wide drought has caused the City's customers to reduce their water usage, even though our water source continues to provide a sufficient amount of water to meet our customers' needs. The decrease in Water and Sewer other revenues is largely due to the decrease in interest income created by lower interest rates on investments. Revenues in the Mass Transit Fund decreased \$7,222 (1.75%). Transit fare revenues decreased slightly by \$929 (1.19%) from the prior year. Other revenues decreased \$6,293 (1.88%) due to decreased funding levels on reimbursements of expenses from federal and state governments.

EXHIBIT 11

**COMPARATIVE SCHEDULE OF REVENUES
ENTERPRISE FUNDS**

<u>Source</u>	2002		Fiscal Year Ended June 30,	Increase	Percent
	Percent of	Total			
		2002	2001	(Decrease)	(Decrease)
Water and Sewer:					
Charges for services	76.89%	\$ 14,107,131	\$ 12,037,258	\$ 2,069,873	17.20%
Capital contributions	18.70%	3,431,007	2,987,959	443,048	100.00%
Other revenues	2.20%	404,486	1,105,906	(701,420)	(63.42%)
	<u>97.79%</u>	<u>\$ 17,942,624</u>	<u>\$ 16,131,123</u>	<u>\$ 1,811,501</u>	<u>11.23%</u>
Mass Transit:					
Charges for services	0.42%	\$ 77,085	\$ 78,014	\$ (929)	(1.19%)
Other revenues	1.79%	328,581	334,874	(6,293)	(1.88%)
	<u>2.21%</u>	<u>\$ 405,666</u>	<u>\$ 412,888</u>	<u>\$ (7,222)</u>	<u>(1.75%)</u>
Total	<u>100.00%</u>	<u>\$ 18,348,290</u>	<u>\$ 16,544,011</u>	<u>\$ 1,804,279</u>	<u>10.91%</u>

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

EXPENSES - ENTERPRISE FUNDS

Enterprise expenses increased \$479,304 (3.46%) over the prior fiscal year as shown in Exhibit 12. Water and Sewer Fund expenses, including depreciation, increased \$539,366 (4.08%). Administration and operations costs increased by \$208,183 and \$90,966, respectively in FY02. These increases are the results of annual adjustments to salaries and benefits and to a large increase in sewer line repairs. Interest expense increased by \$57,595 from FY01. This increase was due to the new \$20.5 million revenue bonds that the City issued in May 2002. Mass Transit Fund expenses, including depreciation, decreased \$60,062 or 9.56%. This decrease was the result of lower vehicle maintenance costs.

EXHIBIT 12

**COMPARATIVE SCHEDULE OF EXPENSES
ENTERPRISE FUNDS**

<u>Function</u>	2002		Fiscal Year Ended June 30,	Increase	Percent
	Percent of	Total			
		2002	2001	(Decrease)	(Decrease)
Water and Sewer:					
Administration	18.04%	\$ 2,583,947	\$ 2,375,764	\$ 208,183	8.76%
Operations	44.33%	6,350,807	6,259,841	90,966	1.45%
Interest	12.77%	1,828,819	1,771,224	57,595	3.25%
Depreciation	20.90%	2,993,351	2,810,729	182,622	6.50%
	<u>96.04%</u>	<u>\$ 13,756,924</u>	<u>\$ 13,217,558</u>	<u>\$ 539,366</u>	<u>4.08%</u>
Mass Transit:					
Administration	0.80%	\$ 114,082	\$ 135,322	\$ (21,240)	(15.70%)
Services	3.12%	447,310	461,354	(14,044)	(3.04%)
Depreciation	0.05%	6,494	31,272	(24,778)	(79.23%)
	<u>3.96%</u>	<u>\$ 567,886</u>	<u>\$ 627,948</u>	<u>\$ (60,062)</u>	<u>(9.56%)</u>
Total	<u>100.00%</u>	<u>\$ 14,324,810</u>	<u>\$ 13,845,506</u>	<u>\$ 479,304</u>	<u>3.46%</u>

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

FUND EQUITY - ENTERPRISE FUNDS

Water and Sewer Fund equity, as shown in Exhibit 13, increased by \$4,185,700 while the Mass Transit Fund equity decreased by \$1,938 during FY02. The Water and Sewer Fund equity increase was primarily due to the amount of capital contributed from the City's corporate and governmental partners on several large construction projects. Prior to FY01, these revenues were recorded as contributed capital. With the adoption of Governmental Accounting Standards Board Statement Number 33, contributions from other entities are now recorded as revenues. The decrease in Mass Transit fund equity was considerably less than in prior years due to the decrease in operational costs.

EXHIBIT 13

FUND EQUITY ENTERPRISE FUNDS

	2002	2001	Increase (Decrease)
Water and Sewer:			
Contributed capital	\$ 32,023,460	\$ 32,023,460	\$ -
Retained earnings	31,975,377	27,789,677	4,185,700
	\$ 63,998,837	\$ 59,813,137	\$ 4,185,700
Mass Transit:			
Contributed capital	\$ 1,490,621	\$ 1,490,621	\$ -
Retained earnings	(1,281,666)	(1,279,728)	(1,938)
	\$ 208,955	\$ 210,893	\$ (1,938)
Total fund equity	\$ 64,207,792	\$ 60,024,030	\$ 4,183,762

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

INTERNAL SERVICE FUNDS

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

The City is self-insured for workers' compensation claims with an excess policy. The Workers' Compensation Fund is used to account for monies provided by the City and interest earnings on those monies to provide funds for major workers' compensation claims. The City incurred \$197,180 in claims during the year, which required the use of City funds but not our excess policy. FY02 claims increased \$78,298 from the prior year. The City maintains a constant vigilant effort to hold costs to a minimum through the City's active development of risk reduction activities. These include reviewing employee accident reports, employee accident prevention training, employee health awareness activities, and newsletters to employees.

The City also is self-insured for its employee health care policy. Premiums are established for the various classes (individual, parent-child, and family) of health care annually. The City deposits its contribution together with the amounts withheld from employees' compensation into the Employee Health Care Fund monthly. All claims for benefits under the City's health care policy are paid from this Fund. The City also maintains specific stop loss coverage of \$60,000 per employee annually and an aggregate stop loss of 120% in excess of anticipated claims. During the year, the City incurred no excess benefit claims where the specific stop loss was applied. Claims for the year were \$335,978 (15.15%) higher than last year. The Fund strives to

maintain a balance in excess of the incurred but not reported claims estimate. However, as of June 30, 2002, cash and investment balances were less than the incurred but not reported claims estimate.

FIDUCIARY FUNDS

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

A municipal service district was established in Salisbury in 1986 together with a non-profit company named Downtown Salisbury, Inc. to administer the disbursement of funds received by the district. The City levies a tax rate of sixteen cents per \$100 assessed valuation on this special tax district. The Municipal Service District Fund is used to account for the collection of this tax and the remittance of it to Downtown Salisbury, Inc. During the year, the City remitted \$105,398 to Downtown Salisbury, Inc. from the Municipal Service District Fund.

The Boards and Commissions Fund is used to accumulate and disburse funds earned by the Community Appearance Commission and the Tree Board. At June 30, 2002, they had a balance of \$1,774 available for their use.

The Law Officers' Special Separation Allowance Fund was established to account for the pension activities mandated by State statute under the Law Enforcement Officers' Special Separation Allowance. The Fund accounts for contributions made by the City to provide for pension benefits, interest earnings on these monies, and the disbursement of pension amounts. During FY02, the City paid \$18,759 in pension benefits. The City conducts an actuarial review of the Plan on an annual basis and adjusts the required contributions to the Fund at the beginning of each fiscal year.

CONCLUSION

Because of the slowing economy and the withholding of revenues by the Governor of North Carolina, FY02 was indeed a very challenging year financially for the City of Salisbury. The City has been fortunate to continue to experience rates of growth in its revenue base from taxable valuation during FY02. 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 28 million gallons per day. New water distribution lines will be built along the Highway 70 corridor to serve new industry. More than half of the cost of these two projects is being funded through a public/private agreement with a new industrial customer on the Highway 70 corridor. Recently the State of North Carolina has requested that Salisbury consider being a "donor" community for other municipalities that have been severely impacted by the two-year drought. This would require even more new construction to establish new connections between Salisbury and other cities. The City believes that the water sales along these new distribution lines will provide sufficient revenues to stabilize the water and sewer rates and place the Water and Sewer Fund on solid ground.

The future holds many uncertainties. Federal and State mandates continue to severely press local governments in all areas of operations. The citizens of Salisbury have come to expect and appreciate the high

level of service they enjoy. The management of the City is necessarily charged with managing its resources in the best possible manner to deliver those services at a cost citizens will agree to bear. As long as revenue growth rates do not decline unexpectedly; the costs of providing services do not escalate more rapidly than in previous years; and the City continues to evaluate all existing and potential revenue options, including annexations, we can accomplish this task. It will not be easy, but few challenges are. All City operations are being asked to contribute to the focused effort to maintain our ability and readiness to respond to our citizens. We have made it happen before, and we will make it happen again. Overall, continued growth and policy adjustments that have been initiated by City Council will continue to provide the City a stable financial position from which we may serve the citizens of Salisbury for years to come.

ACKNOWLEDGMENTS

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

For the preparation of this Report, the City is especially indebted to Myra B. Heard, Finance Specialist, Mark D. Drye, Productivity Analyst, and Renee A. Pierson, Accountant. Without their assistance, this Report could not have been prepared on a timely basis.

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

Respectfully submitted,

John A. Sofley, Jr.
Finance Director

S. Wade Furches
Accounting Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Salisbury,
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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.

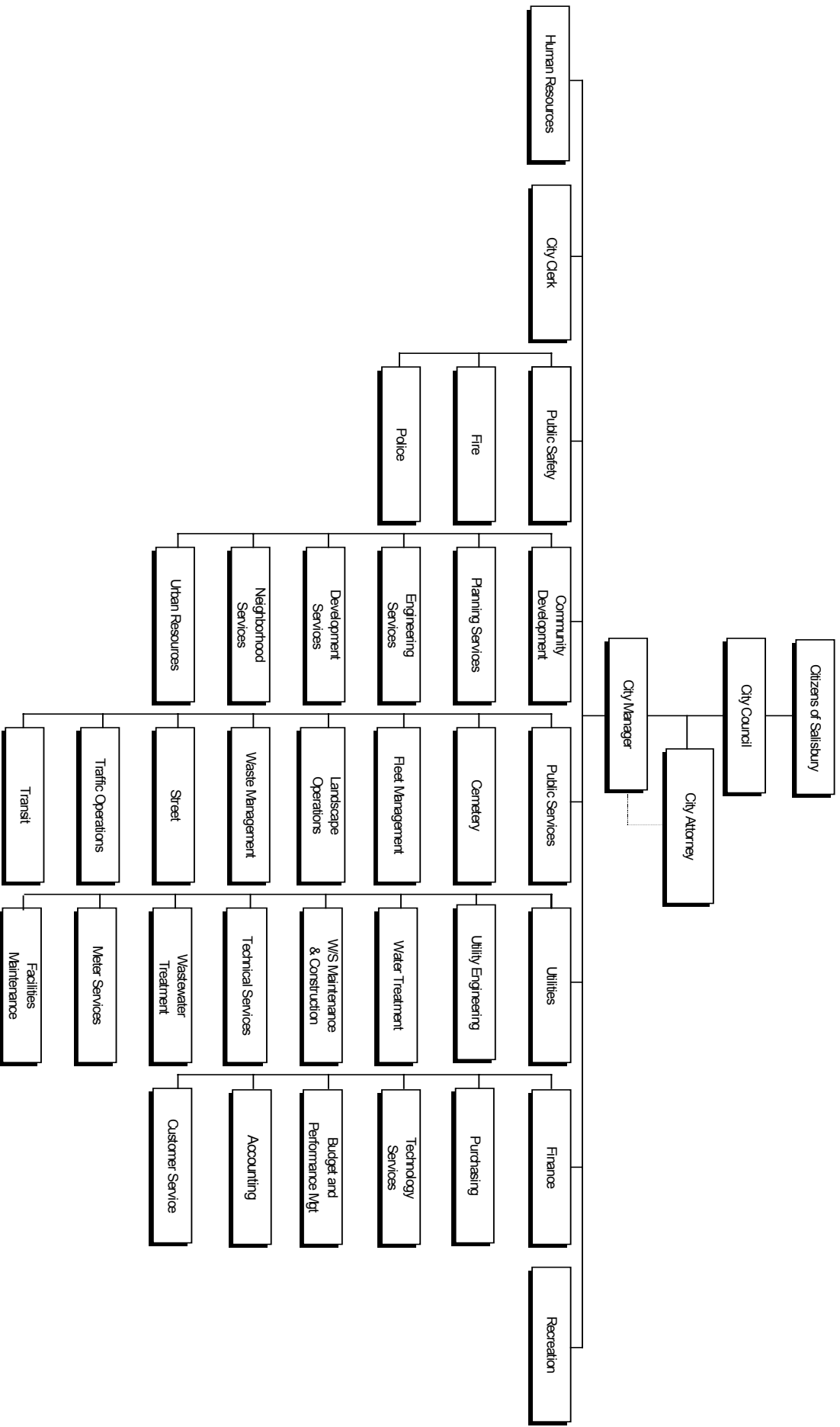


Imelda Brewer
President

Jeffrey L. Esser
Executive Director

CITY OF SALISBURY

ORGANIZATIONAL CHART



CITY OF SALISBURY
LIST OF PRINCIPAL OFFICIALS

June 30, 2002

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
City Clerk	Swanetta B. Fink
Finance Director	John A. Sofley, Jr.
Fire Chief	Samuel I. Brady
Interim Land Management and Development Director	Daniel J. Mikkelson
Technology Services Manager	C. Michael Crowell
Human Resources Director	Melissa H. Taylor
Police Chief	M. Chris Herring
Public Services Director	Vernon E. Sherrill
Purchasing Agent	Dewey D. Peck
Recreation Director	Gail Elder-White
Utilities Director	John C. Vest
Assistant Utilities Director	H. Matthias Bernhardt

FACTS AND INFORMATION ABOUT THE CITY OF SALISBURY, NORTH CAROLINA

LOCATION

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

CLIMATE

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

POPULATION

The population of the City of Salisbury has increased steadily during the past decade. This is due to both annexations and internal growth stimulated by the local economy. Population currently is estimated to be 26,559 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 180 million gallons. The Salisbury water system, conventional in design and closely controlled, has a treatment capacity of 12 million gallons per day. Average daily usage during 2001 was 6.2 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 three smaller towns in the County; Spencer, East Spencer, and Granite Quarry, and has been extended to a number of industrial sites well beyond the city limits. Additionally, Salisbury operates and maintains the well system for the Town of Rockwell. The water supply meets all federal and State quality requirements. Salisbury's water is fluoridated on a continuing basis. Salisbury's two wastewater treatment facilities serve as the area's regional wastewater utility with service expansion to the towns of Landis, China Grove, East Spencer, Granite Quarry, and Rockwell. Total daily treatment capacity in 2002 was 12.5 million gallons. Average daily treatment in FY 2002 was 6.2 million gallons per day.

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

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

TRANSPORTATION

Salisbury, nearly the geographic and population center of North Carolina, is located on Interstate Highway 85, 42 miles from Charlotte, 53 miles from Greensboro and 38 miles from Winston-Salem. It is the crossroads of I-85, U.S. 29, 52, 70, 601 and N.C. 150. Over 3 million people live within 90 miles of Salisbury, 1.5 million within 55 miles and 60% of the population of the United States within an overnight truck haul. The seaports of Wilmington, Morehead City, Charleston, and Norfolk are less than a one-day truck haul away.

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

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

Bus service is provided by Carolina Trailways and Greyhound with daily arrivals and departures. Their service also includes parcel shipments. Local bus service is provided by the City's Transit System.

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

MOTELS

An ideal area for small conventions, Salisbury has eleven (11) motels, with over 1,028 rooms, and two (2) bed and breakfast establishments in our historic district.

EDUCATION

Salisbury is home to two (2) colleges and a technical college. Catawba College has thirty (30) buildings comprising a physical plant unsurpassed in the East for a college of this size and style. It has a total enrollment of 1,300 Liberal Arts Co-ed students and is affiliated with the United Church of Christ. Catawba College was founded in Newton, North Carolina in 1851, and opened in Salisbury in 1925.

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

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

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

ARTS AND ENTERTAINMENT

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

The Piedmont Players, a community little theater organization, provides excellent entertainment as well as a chance to participate in both its acting and technical activities. They have completely restored the historic Meroney Theater, built in 1905. This theater provides a home for the Players and other performing artists.

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

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

COMMUNITY FACILITIES

Salisbury is served daily by The Salisbury Post. Four (4) radio stations provide for local programming. Although there are no local television stations, WBTV operates a satellite newsroom located in Salisbury. Local reception

provides coverage of all major networks in addition to cable television facilities.

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

The new Salisbury Community Park celebrated its Grand Opening in the spring of 2001. Completed projects at the 314 acre Community Park include baseball/softball fields and soccer fields. Current construction in process includes a concession and restroom area, an 8.5 acre lake, walking trails and more baseball/softball fields.

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

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

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

SPECIAL EVENTS

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

Financial Section

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the City of Salisbury, North Carolina (the "City"), as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Downtown Salisbury, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Salisbury, North Carolina as of June 30, 2002, and the results of its operations and its cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2002, on our consideration of City of Salisbury's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Salisbury, North Carolina. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

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

Greensboro, North Carolina
August 28, 2002

McGladrey & Pullen, LLP
is an independent member
firm of RSM International,
an affiliation of independent
accounting and consulting firms.

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

June 30, 2002

<u>ASSETS AND OTHER DEBIT</u>	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency
Cash and investments	\$ 4,495,137	\$ 65,691	\$ 54,312	\$ 2,358,578	\$ 184,405	\$ 453,274
Taxes receivable (net of allowance for uncollectibles)	491,800	-	-	-	-	5,289
Accounts receivable (net of allowance for uncollectibles)	583,123	2,830	-	2,464,696	-	116,315
Interest receivable	11,340	-	-	4,716	594	1,166
Due from other governments	1,576,415	1,618	-	52,624	-	-
Inventories	-	-	-	174,974	-	-
Prepaid items	3,600	-	-	-	-	-
Restricted assets:						
Cash and investments	-	-	-	25,607,172	-	-
Accounts receivable	-	-	-	220,557	-	-
Interest receivable	-	-	-	23,027	-	-
Due from other governments	-	-	-	-	-	-
Fixed assets	-	-	-	129,364,007	-	-
Accumulated depreciation	-	-	-	(35,904,819)	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-
Total assets and other debit	<u>\$ 7,161,415</u>	<u>\$ 70,139</u>	<u>\$ 54,312</u>	<u>\$ 124,365,531</u>	<u>\$ 184,999</u>	<u>\$ 576,044</u>

<u>Account Groups</u>		Totals Primary Government	Component Unit	Totals Reporting Entity	
<u>General Fixed Assets</u>	<u>General Long- term Debt</u>	<u>(Memorandum Only)</u>	<u>Downtown Salisbury, Inc.</u>	<u>(Memorandum Only) 2002</u>	<u>(Memorandum Only) 2001</u>
\$ -	\$ -	\$ 7,611,397	\$ 164,200	\$ 7,775,597	\$ 8,518,370
-	-	497,089	-	497,089	499,140
-	-	3,166,964	1,417	3,168,381	2,648,759
-	-	17,816	-	17,816	32,264
-	-	1,630,657	-	1,630,657	2,033,820
-	-	174,974	-	174,974	173,744
-	-	3,600	-	3,600	15,245
-	-	25,607,172	13,222	25,620,394	8,528,918
-	-	220,557	-	220,557	38,449
-	-	23,027	-	23,027	5,719
-	-	-	-	-	2,882,460
28,238,941	-	157,602,948	241,477	157,844,425	150,542,963
-	-	(35,904,819)	(74,288)	(35,979,107)	(34,032,460)
<u>-</u>	<u>6,244,607</u>	<u>6,244,607</u>	<u>-</u>	<u>6,244,607</u>	<u>6,953,551</u>
<u>\$ 28,238,941</u>	<u>\$ 6,244,607</u>	<u>\$ 166,895,988</u>	<u>\$ 346,028</u>	<u>\$ 167,242,016</u>	<u>\$ 148,840,942</u>

(continued)

CITY OF SALISBURY, NORTH CAROLINA

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

June 30, 2002

LIABILITIES, EQUITY AND OTHER CREDIT	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency
LIABILITIES						
Accounts payable and accrued liabilities	\$ 1,165,987	\$ 1,337	\$ -	\$ 586,055	\$ 436,094	\$ 152,576
Interest payable	-	-	-	356,141	-	-
Liabilities payable from restricted assets				2,124,107		
Current maturities of long-term debt	-	-	-	2,645,818	-	-
Deferred revenue	1,119,594	-	-	-	-	-
Customer deposits	-	-	-	323,971	-	-
Long-term debt	-	-	-	54,121,647	-	-
Total liabilities	\$ 2,285,581	\$ 1,337	\$ -	\$ 60,157,739	\$ 436,094	\$ 152,576
EQUITY AND OTHER CREDIT						
Investment in general fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributed capital	-	-	-	33,514,081	-	-
Retained earnings (deficit)	-	-	-	30,693,711	(251,095)	-
Fund balances:						
Reserved by State statute	1,735,362	4,448	-	-	-	1,163
Reserved for encumbrances	26,452	-	-	-	-	-
Reserved for prepaid items	3,600	-	-	-	-	-
Reserved for employees' pension benefits	-	-	-	-	-	422,305
Unreserved:						
Designated for capital equipment replacement	1,473,927	-	-	-	-	-
Designated for subsequent year's expenditures	-	64,354	54,312	-	-	-
Undesignated	1,636,493	-	-	-	-	-
Total equity and other credit	\$ 4,875,834	\$ 68,802	\$ 54,312	\$ 64,207,792	\$ (251,095)	\$ 423,468
Total liabilities, equity and other credit	\$ 7,161,415	\$ 70,139	\$ 54,312	\$ 124,365,531	\$ 184,999	\$ 576,044

See Notes to Financial Statements.

<u>Account Groups</u>		<u>Totals Primary Government</u>	<u>Component Unit</u>	<u>Totals Reporting Entity</u>	
<u>General Fixed Assets</u>	<u>General Long-term Debt</u>	<u>(Memorandum Only)</u>	<u>Downtown Salisbury, Inc.</u>	<u>(Memorandum Only) 2002</u>	<u>(Memorandum Only) 2001</u>
\$ -	\$ -	\$ 2,342,049	\$ 3,505	\$ 2,345,554	\$ 2,958,823
-	-	356,141	-	356,141	220,860
-	-	2,124,107	-	2,124,107	246,425
-	-	2,645,818	-	2,645,818	2,493,518
-	-	1,119,594	-	1,119,594	728,443
-	-	323,971	-	323,971	276,439
-	6,244,607	60,366,254	-	60,366,254	43,740,735
<u>\$ -</u>	<u>\$ 6,244,607</u>	<u>\$ 69,277,934</u>	<u>\$ 3,505</u>	<u>\$ 69,281,439</u>	<u>\$ 50,665,243</u>
\$ 28,238,941	\$ -	\$ 28,238,941	\$ 167,189	\$ 28,406,130	\$ 31,091,617
-	-	33,514,081	-	33,514,081	33,514,081
-	-	30,442,616	-	30,442,616	26,462,905
-	-	1,740,973	-	1,740,973	2,612,546
-	-	26,452	-	26,452	373,121
-	-	3,600	-	3,600	15,245
-	-	422,305	-	422,305	345,435
-	-	1,473,927	-	1,473,927	932,573
-	-	118,666	-	118,666	432,148
-	-	1,636,493	175,334	1,811,827	2,396,028
<u>\$ 28,238,941</u>	<u>\$ -</u>	<u>\$ 97,618,054</u>	<u>\$ 342,523</u>	<u>\$ 97,960,577</u>	<u>\$ 98,175,699</u>
<u>\$ 28,238,941</u>	<u>\$ 6,244,607</u>	<u>\$ 166,895,988</u>	<u>\$ 346,028</u>	<u>\$ 167,242,016</u>	<u>\$ 148,840,942</u>

CITY OF SALISBURY, NORTH CAROLINA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
AND DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
REVENUES:			
Taxes	\$ 14,209,224	\$ -	\$ -
License and permits	550,831	-	-
Intergovernmental	3,697,107	358,216	-
Charges for services	1,721,919	-	-
Miscellaneous	1,035,380	365,071	13,551
Administrative charges	1,581,000	-	-
Total revenues	<u>\$ 22,795,461</u>	<u>\$ 723,287</u>	<u>\$ 13,551</u>
EXPENDITURES:			
Current:			
General government	\$ 5,258,666	\$ 101,785	\$ -
Public safety	8,941,298	-	-
Transportation	2,978,265	-	-
Environmental protection	1,406,346	-	-
Culture and recreation	2,411,392	-	254,710
Community and economic development	1,473,159	695,822	-
Education	42,342	-	-
Debt service:			
Principal	764,467	-	-
Interest	290,602	-	-
Total expenditures	<u>\$ 23,566,537</u>	<u>\$ 797,607</u>	<u>\$ 254,710</u>
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass Transit	160,282	-	-
Total expenditures and other financing uses	<u>\$ 23,726,819</u>	<u>\$ 797,607</u>	<u>\$ 254,710</u>
NET DECREASE IN FUND BALANCE	\$ (931,358)	\$ (74,320)	\$ (241,159)
FUND BALANCE, BEGINNING	<u>5,807,192</u>	<u>143,122</u>	<u>295,471</u>
FUND BALANCE, ENDING	<u><u>\$ 4,875,834</u></u>	<u><u>\$ 68,802</u></u>	<u><u>\$ 54,312</u></u>

See Notes to Financial Statements.

Totals Primary Government (Memorandum Only)	Downtown Salisbury, Inc.	Totals Reporting Entity (Memorandum Only)
\$ 14,209,224	\$ 92,203	\$ 14,301,427
550,831	-	550,831
4,055,323	61,884	4,117,207
1,721,919	-	1,721,919
1,414,002	48,825	1,462,827
1,581,000	-	1,581,000
<u>\$ 23,532,299</u>	<u>\$ 202,912</u>	<u>\$ 23,735,211</u>
\$ 5,360,451	\$ -	\$ 5,360,451
8,941,298	-	8,941,298
2,978,265	-	2,978,265
1,406,346	-	1,406,346
2,666,102	-	2,666,102
2,168,981	249,368	2,418,349
42,342	-	42,342
764,467	-	764,467
290,602	-	290,602
<u>\$ 24,618,854</u>	<u>\$ 249,368</u>	<u>\$ 24,868,222</u>
<u>160,282</u>	<u>-</u>	<u>160,282</u>
<u>\$ 24,779,136</u>	<u>\$ 249,368</u>	<u>\$ 25,028,504</u>
\$ (1,246,837)	\$ (46,456)	\$ (1,293,293)
<u>6,245,785</u>	<u>388,979</u>	<u>6,634,764</u>
<u>\$ 4,998,948</u>	<u>\$ 342,523</u>	<u>\$ 5,341,471</u>

CITY OF SALISBURY, NORTH CAROLINA

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

GENERAL FUND AND SPECIAL REVENUE FUND

For the Year Ended June 30, 2002

	General Fund		
	Actual	Budget	Actual Over (Under) Budget
REVENUES:			
Taxes	\$ 14,209,224	\$ 14,677,869	\$ (468,645)
License and permits	550,831	520,580	30,251
Intergovernmental	3,697,107	6,850,220	(3,153,113)
Charges for services	1,721,919	1,650,355	71,564
Miscellaneous	1,035,380	1,573,523	(538,143)
Administrative charges	1,581,000	1,581,000	-
Total revenues	\$ 22,795,461	\$ 26,853,547	\$ (4,058,086)
OTHER FINANCING SOURCES:			
Fund balance appropriated	-	663,524	(663,524)
Total revenues and other financing sources	\$ 22,795,461	\$ 27,517,071	\$ (4,721,610)
EXPENDITURES:			
Current:			
General government	\$ 5,258,666	\$ 6,112,336	\$ (853,670)
Public safety	8,941,298	9,370,651	(429,353)
Transportation	2,978,265	4,648,007	(1,669,742)
Environmental protection	1,406,346	1,422,230	(15,884)
Culture and recreation	2,411,392	2,928,392	(517,000)
Community and economic development	1,473,159	1,776,686	(303,527)
Education	42,342	42,342	-
Debt service:			
Principal	764,467	765,278	(811)
Interest	290,602	290,867	(265)
Total expenditures	\$ 23,566,537	\$ 27,356,789	\$ (3,790,252)
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass transit	160,282	160,282	-
Total expenditures and other financing uses	\$ 23,726,819	\$ 27,517,071	\$ (3,790,252)
NET DECREASE IN FUND BALANCE	\$ (931,358)	\$ -	\$ (931,358)
FUND BALANCE, BEGINNING	5,807,192		
FUND BALANCE, ENDING	\$ 4,875,834		

See Notes to Financial Statements.

Special Revenue Fund			Totals Memorandum Only		
		Actual Over (Under)			Actual Over (Under)
Actual	Budget	Budget	Actual	Budget	Budget
\$ -	\$ -	\$ -	\$ 14,209,224	\$ 14,677,869	\$ (468,645)
-	-	-	550,831	520,580	30,251
358,216	819,108	(460,892)	4,055,323	7,669,328	(3,614,005)
-	-	-	1,721,919	1,650,355	71,564
365,071	347,936	17,135	1,400,451	1,921,459	(521,008)
-	-	-	1,581,000	1,581,000	-
\$ 723,287	\$ 1,167,044	\$ (443,757)	\$ 23,518,748	\$ 28,020,591	\$ (4,501,843)
-	51,947	(51,947)	-	715,471	(715,471)
\$ 723,287	\$ 1,218,991	\$ (495,704)	\$ 23,518,748	\$ 28,736,062	\$ (5,217,314)
\$ 101,785	\$ 103,200	\$ (1,415)	\$ 5,360,451	\$ 6,215,536	\$ (855,085)
-	-	-	8,941,298	9,370,651	(429,353)
-	-	-	2,978,265	4,648,007	(1,669,742)
-	-	-	1,406,346	1,422,230	(15,884)
-	-	-	2,411,392	2,928,392	(517,000)
695,822	1,115,791	(419,969)	2,168,981	2,892,477	(723,496)
-	-	-	42,342	42,342	-
-	-	-	764,467	765,278	(811)
-	-	-	290,602	290,867	(265)
\$ 797,607	\$ 1,218,991	\$ (421,384)	\$ 24,364,144	\$ 28,575,780	\$ (4,211,636)
-	-	-	160,282	160,282	-
\$ 797,607	\$ 1,218,991	\$ (421,384)	\$ 24,524,426	\$ 28,736,062	\$ (4,211,636)
\$ (74,320)	\$ -	\$ (74,320)	(1,005,678)	\$ -	\$ (1,005,678)
143,122			5,950,314		
\$ 68,802			\$ 4,944,636		

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

ALL PROPRIETARY FUNDS

For the Year Ended June 30, 2002

	Proprietary Fund Type		Totals	
	Enterprise	Internal	(Memorandum Only)	
		Service	2002	2001
OPERATING REVENUES:				
Charges for services	\$ 14,184,216	\$ 2,541,902	\$ 16,726,118	\$ 14,452,379
Total operating revenues	<u>\$ 14,184,216</u>	<u>\$ 2,541,902</u>	<u>\$ 16,726,118</u>	<u>\$ 14,452,379</u>
OPERATING EXPENSES:				
Management and administration	\$ 2,698,029	\$ -	\$ 2,698,029	\$ 2,511,086
Water resources	4,119,717	-	4,119,717	3,970,313
Maintenance and distribution	2,231,090	-	2,231,090	2,289,528
Depreciation	2,999,845	-	2,999,845	2,842,001
Mass transit operations	447,310	-	447,310	461,354
Employee benefits	-	2,750,515	2,750,515	2,336,239
Total operating expenses	<u>\$ 12,495,991</u>	<u>\$ 2,750,515</u>	<u>\$ 15,246,506</u>	<u>\$ 14,410,521</u>
OPERATING INCOME (LOSS)	<u>\$ 1,688,225</u>	<u>\$ (208,613)</u>	<u>\$ 1,479,612</u>	<u>\$ 41,858</u>
NONOPERATING REVENUES (EXPENSES):				
Interest earned on investments	\$ 340,680	\$ 4,562	\$ 345,242	\$ 703,290
Intergovernmental	320,555	-	320,555	307,260
Miscellaneous revenues	71,832	-	71,832	440,814
Interest expense	(1,828,819)	-	(1,828,819)	(1,771,224)
Net nonoperating revenues (expenses)	<u>\$ (1,095,752)</u>	<u>\$ 4,562</u>	<u>\$ (1,091,190)</u>	<u>\$ (319,860)</u>
INCOME (LOSS) BEFORE CAPITAL				
CONTRIBUTIONS AND OPERATING TRANSFERS	<u>\$ 592,473</u>	<u>\$ (204,051)</u>	<u>\$ 388,422</u>	<u>\$ (278,002)</u>
CAPITAL CONTRIBUTIONS	<u>\$ 3,431,007</u>	<u>\$ -</u>	<u>\$ 3,431,007</u>	<u>\$ 2,987,959</u>
OPERATING TRANSFERS IN:				
General Fund	<u>160,282</u>	<u>-</u>	<u>160,282</u>	<u>160,282</u>
NET INCOME (LOSS)	<u>\$ 4,183,762</u>	<u>\$ (204,051)</u>	<u>\$ 3,979,711</u>	<u>\$ 2,870,239</u>
RETAINED EARNINGS (DEFICIT), BEGINNING	<u>26,509,949</u>	<u>(47,044)</u>	<u>26,462,905</u>	<u>23,592,666</u>
RETAINED EARNINGS (DEFICIT), ENDING	<u><u>\$ 30,693,711</u></u>	<u><u>\$ (251,095)</u></u>	<u><u>\$ 30,442,616</u></u>	<u><u>\$ 26,462,905</u></u>

See Notes to Financial Statements.

CITY OF SALISBURY, NORTH CAROLINA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Year Ended June 30, 2002

	Proprietary Fund Type		Totals	
	Internal		(Memorandum Only)	
	Enterprise	Service	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,688,225	\$ (208,613)	\$ 1,479,612	\$ 41,858
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	2,999,845	-	2,999,845	2,842,001
Loss on disposal of fixed assets	148,575	-	148,575	7,933
Other receipts	71,832	-	71,832	440,814
Change in assets and liabilities:				
(Increase) decrease in accounts and interest receivable	(617,039)	(476)	(617,515)	178,258
(Increase) decrease in inventory	(1,230)	-	(1,230)	91,604
(Increase) decrease due from other governments	2,872,460	-	2,872,460	232,018
Increase (decrease) in accounts and interest payable and accrued liabilities	1,907,852	103,207	2,011,059	(1,068,910)
Increase (decrease) in customer deposits	47,532	-	47,532	93,450
Net cash provided by (used for) operating activities	<u>\$ 9,118,052</u>	<u>\$ (105,882)</u>	<u>\$ 9,012,170</u>	<u>\$ 2,859,026</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	\$ 320,555	\$ -	\$ 320,555	\$ 307,260
Operating transfer from general fund	160,282	-	160,282	160,282
Net cash provided by noncapital financing activities	<u>\$ 480,837</u>	<u>\$ -</u>	<u>\$ 480,837</u>	<u>\$ 467,542</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuing bonds	\$ 19,980,280	\$ -	\$ 19,980,280	\$ 3,849,091
Interest paid on bonds	(1,693,538)	-	(1,693,538)	(1,771,224)
Disposition of assets	-	-	-	4,607
Acquisition of capital assets	(11,188,720)	-	(11,188,720)	(4,071,841)
Principal paid on bonds	(2,493,518)	-	(2,493,518)	(2,484,943)
Capital contributed by developers	3,431,007	-	3,431,007	266,195
Net cash provided by (used for) capital and related financing activities	<u>\$ 8,035,511</u>	<u>\$ -</u>	<u>\$ 8,035,511</u>	<u>\$ (4,208,115)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investment securities	\$ 340,680	\$ 4,562	\$ 345,242	\$ 703,290
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	\$ 17,975,080	\$ (101,320)	\$ 17,873,760	\$ (178,257)
CASH AND CASH EQUIVALENTS, BEGINNING				
	<u>9,990,670</u>	<u>285,725</u>	<u>10,276,395</u>	<u>10,454,652</u>
CASH AND CASH EQUIVALENTS, ENDING				
	<u>\$ 27,965,750</u>	<u>\$ 184,405</u>	<u>\$ 28,150,155</u>	<u>\$ 10,276,395</u>

See Notes to Financial Statements.

CITY OF SALISBURY, NORTH CAROLINA
STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
For the Year Ended June 30, 2002
With Comparative Totals for the Year Ended June 30, 2001

	<u>2002</u>	<u>2001</u>
ADDITIONS:		
Employer contributions	\$ 87,849	\$ 56,101
Investment income:		
Interest	<u>7,677</u>	<u>18,953</u>
Total additions	<u>\$ 95,526</u>	<u>\$ 75,054</u>
DEDUCTIONS:		
Employee benefits	<u>\$ 17,746</u>	<u>\$ 24,036</u>
Total deductions	<u>\$ 17,746</u>	<u>\$ 24,036</u>
NET INCREASE	\$ 77,780	\$ 51,018
PLAN NET ASSETS		
Beginning of year	<u>345,688</u>	<u>294,670</u>
End of year	<u>\$ 423,468</u>	<u>\$ 345,688</u>

See Notes to Financial Statements.

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Discretely Presented Component Unit

Downtown Salisbury, Inc. was created to serve the interests of merchants and property owners in the downtown Salisbury area. 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 at the unit's administrative offices.

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

Related Organization

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

B. Basis of Presentation - Fund Accounting

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

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

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

General Fund - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary

NOTES TO FINANCIAL STATEMENTS

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

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

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

Proprietary Funds include the following fund types:

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

The City recognizes assets of nonexchange transactions in the period when the underlying transactions occur, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered vehicles on behalf of all municipalities and special tax districts in the county, including the City of Salisbury. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 2001 through February 2002 apply to the fiscal year ended June 30, 2002. 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, 2002 because they are intended to finance the City's operations during the 2003 fiscal year.

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as deferred revenues.

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

NOTES TO FINANCIAL STATEMENTS

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

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

The Proprietary Fund and Pension Trust Fund are presented in the financial statements on the accrual basis. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period when incurred. In converting the enterprise funds from the modified accrual basis to the accrual basis, the changes required are adjustments for unpaid vacation pay, depreciation, capital expenditures, payments of principal on outstanding debt, and unpaid interest. As permitted by accounting principles generally accepted in the United States of America, the City has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations and Pension Trust Fund.

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

D. Budgetary Data

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

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

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

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer appropriations between functional areas; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. During the fiscal year there were twenty-eight (28) supplemental appropriations.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds, and enterprise funds.

NOTES TO FINANCIAL STATEMENTS

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

As required by State law [G.S. 159-26(d)], the City maintains encumbrance accounts which are considered to be "budgetary accounts". Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the balance sheet and will be charged against the subsequent year's budget. At June 30, 2002, \$26,452 of open purchase orders and contracts were outstanding in the General Fund.

E. Deposits and Investments

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

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

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

F. Cash and Cash Equivalents

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

G. Restricted Assets

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

H. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values of January 1, 2001. As allowed by State law, the City has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

NOTES TO FINANCIAL STATEMENTS

I. Allowances for Doubtful Accounts

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

J. Inventories and Prepaid Items

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

K. Fixed Assets

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

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The monetary criterion used to determine whether a capital asset should be reported as a Fixed Asset on the City's balance sheet is known as the "capitalization threshold." During the fiscal year ended June 30, 2002, the City increased its capitalization threshold for equipment from \$500 to \$5,000. Accordingly, all individual capital assets purchased in prior years that had an original cost of less than \$5,000 have been eliminated from the balance sheets in these financial statements.

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

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

L. Long-Term Debt

For governmental fund types, bond issuance costs are recognized during the current period. Bond proceeds are reported as other financing sources. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. For the proprietary funds types, material bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Material issuance costs are reported as deferred charges.

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

NOTES TO FINANCIAL STATEMENTS

M. Compensated Absences

The Personnel Policy of the City provides that each employee in a regular full time position shall earn annual vacation leave at the rate of 12 to 21 days per calendar year, based on years of service, with such leave being fully vested when earned. Employees may accrue up to 30 days with less than seven years service, and 45 days with seven or more years of employment. Accumulated unpaid vacation is accrued in proprietary funds (using the accrual basis of accounting). Only the current portion is accrued in governmental funds (using the modified accrual basis of accounting). At June 30, 2002, accumulated earned vacation and salary related payments amounted to \$1,313,158 for the governmental funds and \$285,382 for the proprietary funds. Of the governmental funds' liability, \$328,290 is recognized as an accrued liability in the General Fund. The balance of \$984,868 is recognized in the general long-term debt account group while the liabilities of the enterprise funds are recognized as accrued liabilities in the funds themselves.

The City's Personnel Policy also provides for an unlimited accumulation of sick leave at the rate of one day per month. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no liability has been reported for unpaid accumulated sick leave.

N. Fund Equity

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

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

The governmental fund types classify fund balances as follows:

Reserved:

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

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

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

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

Unreserved:

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

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

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

NOTES TO FINANCIAL STATEMENTS

O. Totals (Memorandum Only) Columns

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

P. Comparative Data

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

R. Use of Estimates

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

Note 2. Stewardship, Compliance and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

There were no material violations of finance-related legal and contractual provisions for the fiscal year ended June 30, 2002.

B. Excess of Expenditures Over Appropriations

There were no expenditures in excess of appropriated amounts for the fiscal year ended June 30, 2002.

C. Deficit Fund Balance or Retained Earnings of Individual Funds

The City's Mass Transit Fund had a retained earnings deficit of \$1,281,666 at June 30, 2002. The deficit is offset with \$1,490,621 of contributed capital, which results in a net fund equity in the Mass Transit Fund of \$208,955 at June 30, 2002. The City's Workers' Compensation and Employee Health Care Internal Service Funds had retained deficits of \$16,650 and \$234,445. The deficit in the Health Care Fund is the result of reporting an estimated amount of claims that have been incurred but not yet reported in the amount of \$403,990.

Note 3. Detail Notes On All Funds And Account Groups

A. Cash and Investments

Total cash and investments were composed as follows:

Cash on hand	\$	2,340
Cash in demand deposits		2,148,203
Money market accounts		54,312
Certificates of Deposit		4,113,352
Investments		26,900,362
	\$	<u>33,218,569</u>

NOTES TO FINANCIAL STATEMENTS

All deposits of the City and Downtown Salisbury, Inc. are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's and component units' agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the component unit, these deposits are considered to be held by the City's and the components' agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial 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, 2002, the City's deposits had a carrying amount of \$6,315,866 and a bank balance of \$7,809,437. Of the bank balance, \$561,831 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 \$139,024, all of which was covered by federal depository insurance. Downtown Salisbury, Inc. also held \$38,398 in a short-term money market fund which was neither insured by federal depository insurance nor collateralized by securities.

B. Investments

The investments of the City are categorized to give an indication of the level of custodial risk assumed by the City at year-end. Category 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 counterparty'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 counterparty, or by its trust department or agent but not in the City's name. At year end, the City had no investments which would be classified as Category 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, 2002, Downtown Salisbury, Inc. did not own any investments. At June 30, 2002, the City's investments were as follows:

	Reported	Fair
	Value	Value
U.S. Government Agencies	\$ 1,959,607	\$ 1,959,607
Bankers Acceptances	991,540	991,540
	<u>\$ 2,951,147</u>	<u>\$ 2,951,147</u>
North Carolina Capital Management Trust:		
Cash Portfolio	<u>23,949,215</u>	<u>23,949,215</u>
	<u>\$ 26,900,362</u>	<u>\$ 26,900,362</u>

State statutes authorize the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina (NC), local government or public authority in NC; savings certificates, investment certificates or shares or deposits in savings and loan associations organized in NC or federal savings and loan associations who have their principal office in NC; obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, and the United States Postal Service; the North Carolina Capital Management Trust, an SEC

NOTES TO FINANCIAL STATEMENTS

registered mutual fund established and administered by the State Treasurer; Certificates of Deposit issued by banks either organized under NC laws or having their principal office in NC; prime quality commercial paper and bankers acceptance bearing the highest grade of at least one nationally known rating service and not one below that by another nationally known rating service; and repurchase agreements.

C. Ad Valorem Taxes Receivable

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

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

D. Receivable - Allowances for Doubtful Accounts

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

General Fund:		
Allowance for uncollectible property taxes receivable		\$ 215,000
Enterprise Fund:		
Water and Sewer Fund		
Allowance for uncollectible utility receivables		52,000
Agency Fund:		
Municipal Service District Fund		
Allowance for uncollectible property taxes receivable		2,000

E. Fixed Assets

A summary of changes in general fixed assets follows:

	Balances June 30, 2001	Decrease Due To Change In Capitalization Threshold	Restated Balances June 30, 2001	Additions	Retirements	Transfers	Balances June 30, 2002
<u>By Type:</u>							
Land	\$ 2,959,719	\$ 889	\$ 2,958,830	\$ 198,615			\$ 3,157,445
Buildings and improvements	9,274,986	54,610	9,220,376	78,333		1,892,950	11,191,659
Equipment	16,723,768	3,352,112	13,371,656	606,537	426,924		13,551,269
Construction in progress	1,859,788	-	1,859,788	371,730	-	(1,892,950)	338,568
Total general fixed assets	<u>\$ 30,818,261</u>	<u>\$ 3,407,611</u>	<u>\$ 27,410,650</u>	<u>\$ 1,255,215</u>	<u>\$ 426,924</u>	<u>\$ -</u>	<u>\$ 28,238,941</u>

NOTES TO FINANCIAL STATEMENTS

	Balances June 30, 2001	Decrease Due To Change In Capitalization Threshold	Restated Balances June 30, 2001	Additions	Retirements	Transfers	Balances June 30, 2002
By Function							
General government	\$ 5,749,701	\$ 698,011	\$ 5,051,690	\$ 320,843	\$ 286,914	\$ 15,283	\$ 5,100,902
Public safety	7,485,574	1,852,312	5,633,262	136,195	104,150	(5,237)	5,660,070
Transportation	4,640,370	416,944	4,223,426	131,472	14,912	(1,890)	4,338,096
Environmental protection	899,985	64,725	835,260		1,635	(1,576)	832,049
Culture and recreation	7,773,459	297,124	7,476,335	468,090	8,673	(6,580)	7,929,172
Land management and development	4,269,172	78,495	4,190,677	198,615	10,640	-	4,378,652
Total general fixed assets	<u>\$ 30,818,261</u>	<u>\$ 3,407,611</u>	<u>\$ 27,410,650</u>	<u>\$ 1,255,215</u>	<u>\$ 426,924</u>	<u>\$ -</u>	<u>\$ 28,238,941</u>
Funding Source							
Assets purchased prior to FY86							
from undetermined sources	\$ 2,888,591	\$ 940,696	\$ 1,947,895	\$ -	\$ 422,263	\$ -	\$ 1,525,632
General Fund	27,304,651	2,279,719	25,024,932	1,255,215	4,661	-	26,275,486
Special Revenue	625,019	187,196	437,823	-	-	-	437,823
Total general fixed assets	<u>\$ 30,818,261</u>	<u>\$ 3,407,611</u>	<u>\$ 27,410,650</u>	<u>\$ 1,255,215</u>	<u>\$ 426,924</u>	<u>\$ -</u>	<u>\$ 28,238,941</u>

Reconciliation of additions	
Capital outlay expenditures	\$ 883,485
Capital Project Fund expenditures	<u>371,730</u>
	<u>\$1,255,215</u>

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

A summary of enterprise fund fixed assets at June 30, 2002, follows:

	Fixed Assets	Accumulated Depreciation	Net
Water and Sewer Fund:			
Land	\$ 2,072,067	\$ -	\$ 2,072,067
Buildings and improvements	108,548,110	30,333,382	78,214,728
Equipment	5,539,837	4,296,093	1,243,744
Construction in progress	11,928,649	-	11,928,649
Total Water and Sewer Fund	<u>\$ 128,088,663</u>	<u>\$ 34,629,475</u>	<u>\$ 93,459,188</u>
Mass Transit Fund:			
Buildings and improvements	\$ 467,924	\$ 467,924	\$ -
Equipment	807,420	807,420	-
Total Mass Transit Fund	<u>\$ 1,275,344</u>	<u>\$ 1,275,344</u>	<u>\$ -</u>
	<u>\$ 129,364,007</u>	<u>\$ 35,904,819</u>	<u>\$ 93,459,188</u>

As of June 30, 2002, Downtown Salisbury, Inc. held property and equipment with a net book value of \$167,189.

F. Deferred Revenue

As discussed in Note 3C, property taxes receivable that are measurable but not available are recorded as taxes receivable and as deferred revenue. Likewise, prepaid property taxes or privilege licenses have not met the recognition criteria and are recorded as deferred revenue. Other deferred revenue in the General Fund

NOTES TO FINANCIAL STATEMENTS

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, 2002. The balance in deferred revenue at year end, including these items, is composed of the following elements:

	General Fund
Taxes receivable, net	\$ 491,800
Prepaid property taxes	75,074
Receivables from other government	435,516
Unspent grants and donations	117,204
Total deferred revenue	\$ 1,119,594

G. Long-Term Debt

A summary of changes in long-term debt follows:

	June 30,2001	Additions	Retirements	Unamortized Discounts	June 30,2002
General long-term debt:					
General obligation bonds	\$ 3,025,000	\$ -	\$ 200,000	\$ -	\$ 2,825,000
Installment purchases	2,999,206	-	564,468	-	2,434,738
Compensated absences	929,345	55,524	-	-	984,869
	\$ 6,953,551	\$ 55,524	\$ 764,468	\$ -	\$ 6,244,607
Enterprise fund:					
General obligation bonds	\$ 17,360,000	\$ -	\$ 1,280,000	\$ -	\$ 16,080,000
Revenue bonds	1,835,000	20,505,000	70,000	524,720	21,745,280
State loans	15,950,096	-	882,506	-	15,067,590
Capital leases	4,135,606	-	261,011	-	3,874,595
	\$ 39,280,702	\$ 20,505,000	\$ 2,493,517	\$ 524,720	\$ 56,767,465
Total	\$ 46,234,253	\$ 20,560,524	\$ 3,257,985	\$ 524,720	\$ 63,012,072

The City had general obligation bonds in the General Fund Long-Term Debt Account Group for public improvements dated January 1, 1992. The bonds were issued for improvements to the City's parks and recreation areas and for sidewalk and parking facilities. These bonds were fully paid as of February 2002.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

Year Ending June 30,	General Obligation Bonds		Installment Purchases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 180,000	\$ 136,020	\$ 590,241	\$ 115,453	\$ 770,241	\$ 251,473
2004	180,000	127,210	470,686	85,630	650,686	212,840
2005	200,000	118,400	165,771	67,484	365,771	185,884
2006	190,000	108,650	170,514	59,192	360,514	167,842
2007	200,000	99,550	175,484	50,674	375,484	150,224
Thereafter	1,875,000	469,400	862,042	157,156	2,737,042	626,556
	<u>\$ 2,825,000</u>	<u>\$ 1,059,230</u>	<u>\$ 2,434,738</u>	<u>\$ 535,589</u>	<u>\$ 5,259,738</u>	<u>\$ 1,594,819</u>

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

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

	Balance June 30, 2002
\$2,040,000 Water and Sewer Revenue Bonds, Series 1998, average rate of 4.78%, issued January 1998, maturing serially to 2018	\$ 1,765,000
\$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 \$524,720.	<u>19,980,280</u>
	<u>\$ 21,745,280</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 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	
2000	\$ 12,050,171	\$ 8,968,739	\$ 3,081,432	\$ 337,506	\$ 354,327	\$ 691,833	445.40%
2001	12,715,931	8,635,605	4,080,326	952,506	577,160	1,529,666	266.75%
2002	14,401,251	8,934,754	5,466,497	952,506	620,085	1,572,591	347.61%

(1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.

(2) Total operating expenses exclusive of depreciation.

(3) Parity debt includes revenue bonds and N. C. State Clean Water Bonds only.

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

	Balance June 30, 2002
Sanitary Sewer Series 1989, average rate of 6.5245%, issued July 1989, maturing serially to 2008	\$ 575,000
Sanitary Sewer Series 1992, average rate of 6.10%, issued January 1992, maturing serially to 2011	600,000
Refunding Bonds, Series 1993, average rate of 4.186%, issued November 1993, maturing serially to 2008	1,605,000
Water and Sewer Bonds, Series 1995, average rate of 5.2756%, issued November 1995, maturing serially to 2015	10,350,000
Water Bonds, Series 1997, average rate of 4.74%, issued December 1997, maturing serially to 2008	400,000
Water Bonds, Series 1998, average rate of 4.4%, issued June 1998, maturing serially to 2017	<u>2,550,000</u>
	<u>\$ 16,080,000</u>

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

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

	Balance June 30, 2002
State Bond Loan, average rate of 5.3%, issued November 1997, maturing serially to 2017	\$ 3,750,000
State Bond Loan, average rate of 5.3%, issued November 1997, maturing serially to 2017	337,590
State Bond Loan, average rate of 2.6%, issued November 1999, maturing serially to 2019	2,700,000
State Bond Loan, average rate of 2.6%, issued June 2000, maturing serially to 2020	<u>8,280,000</u>
	<u>\$ 15,067,590</u>

NOTES TO FINANCIAL STATEMENTS

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, 2002 total \$5,150,135, including \$1,275,540 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

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

Year Ending June 30,	Bonds		Capital Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 2,382,506	\$ 2,155,723	\$ 263,312	\$ 158,108	\$ 2,645,818	\$ 2,313,831
2004	2,742,506	2,247,854	269,676	147,763	3,012,182	2,395,617
2005	2,767,506	2,135,106	271,109	137,071	3,038,615	2,272,177
2006	2,787,506	2,021,350	270,612	126,307	3,058,118	2,147,657
2007	2,802,506	1,905,197	264,190	115,559	3,066,696	2,020,756
Thereafter	39,935,060	15,790,490	2,535,696	590,732	42,470,756	16,381,222
	<u>\$ 53,417,590</u>	<u>\$ 26,255,720</u>	<u>\$ 3,874,595</u>	<u>\$ 1,275,540</u>	<u>\$ 57,292,185</u>	<u>\$ 27,531,260</u>

The City had a legal debt margin of \$123,170,544 at June 30, 2002.

H. Pension Cost

1. 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, 2002, 2001, and 2000 were \$704,628, \$672,596, and \$646,814, respectively. The contributions made by the City equaled the required contributions for each year.

2. Law Enforcement Officers' Special Separation Allowance

A. Plan Description

The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 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

NOTES TO FINANCIAL STATEMENTS

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, 2001, 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>84</u>
Total	<u><u>85</u></u>

B. Summary of Significant Accounting Policies

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

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

C. Contributions

North Carolina statutes require the City to provide these retirement benefits. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$87,849, or 2.92% 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, 2001 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 payroll on a closed basis. The remaining amortization period at December 31, 2001 was 29 years.

D. Annual Pension Cost and Net Pension Asset

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

Annual required contribution	\$ 86,797
Interest on net pension obligation	(2,467)
Adjustment to annual required contribution	<u>1,792</u>
Annual pension cost	\$ 86,122
Contributions made	<u>87,849</u>
Increase in net pension asset	\$ 1,727
Net pension asset beginning of year	<u>34,026</u>
Net pension asset end of year	<u><u>\$ 35,753</u></u>

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2002	\$86,122	102.01%	\$35,753
6/30/2001	47,989	117.13%	34,026
6/30/2000	50,109	110.89%	25,823

3. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy: Article 12E of G.S. Chapter 143 requires that the City contribute each month an amount equal to 5 percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2002 were \$185,322, which consisted of \$150,391 from the City and \$34,931 from the law enforcement officers.

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

Plan Description: The State of North Carolina contributes, on behalf of the City of Salisbury, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the fund. That report may be obtained by writing to the Office of the State Controller, 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, 2002, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$17,333 for the 66 employed firemen who perform firefighting duties for the City's fire department.

I. Other Postemployment Benefits

In addition to providing pension benefits, the City of Salisbury has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefits may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and

NOTES TO FINANCIAL STATEMENTS

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, 2002, the City made contributions to the State for death benefits of \$19,655. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.13% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

J. Contributed Capital

Grants, entitlement, and shared revenues restricted for the acquisition of or construction of capital assets were recorded as contributed capital prior to the implementation of GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As required by GASB Statement 33, the City has begun recognizing capital contributions from external sources as revenue in the current year rather than as contributed capital. The following is a summary of changes in contributed capital for the year ended June 30, 2002:

	Water and Sewer Fund	Mass Transit Fund	Total Enterprise Fund
Beginning balance: July 1, 2001 and			
Ending balance: June 30, 2002	\$ 32,023,460	\$ 1,490,621	\$ 33,514,081

K. Water and Sewer Fund - Restricted Assets

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

A summary of these assets and related liabilities restricted for specific purposes at June 30, 2002, follows:

Cash and investments	\$ 25,607,172
Accounts receivable	220,557
Interest receivable	23,027
Accounts payable	2,124,107
Customer deposits	323,971

Note 4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides general liability coverage to \$1,000,000 as well as \$1,000,000 for automobile liability. In addition, the City maintains replacement cost insurance on 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.

NOTES TO FINANCIAL STATEMENTS

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, 2000	Year ended June 30, 2001	Year ended June 30, 2002
Unpaid claims, beginning of fiscal year	\$ 285,726	\$ 275,337	\$ 325,376
Incurred claims (including IBNRs)	1,902,494	2,212,357	2,553,335
Claim payments	(1,912,883)	(2,162,318)	(2,474,721)
Unpaid claims, end of fiscal year	\$ 275,337	\$ 325,376	\$ 403,990

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.

Note 5. Enterprise Funds - Segment Information

The City maintains two enterprise funds that provide water, sewer, and mass transit services. Segment information for the year ended June 30, 2002 is as follows:

	Water and Sewer Fund	Mass Transit Fund	Totals
Operating revenues	\$ 14,107,131	\$ 77,085	\$ 14,184,216
Depreciation expense	2,993,351	6,494	2,999,845
Operating income (loss)	2,179,026	(490,801)	1,688,225
Operating grants	-	320,555	320,555
Operating transfers in	-	160,282	160,282
Net income (loss)	4,185,700	(1,938)	4,183,762
Total assets	124,108,485	257,046	124,365,531
Fixed assets, net	93,459,188	-	93,459,188
Fixed asset additions	11,188,720	-	11,188,720
Net working capital	934,648	208,955	1,143,603
Long-term debt, net of unamortized issuance costs	57,767,465	-	57,767,465
Retained earnings (deficit)	31,975,377	(1,281,666)	30,693,711
Contributed capital	32,023,460	1,490,621	33,514,081
Total equity	63,998,837	208,955	64,207,792

Note 6. Joint Venture

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints an additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing

NOTES TO FINANCIAL STATEMENTS

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, 2002, the City reported revenues and expenditures for the payments of \$58,285 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, 2002. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

Note 7. Commitments and Contingencies

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

At June 30, 2002, the City has \$9,320 in uncompleted construction contracts in the General Fund that are included in the reservation of fund balance for encumbrances. In addition, the City has \$14,595,580 in uncompleted construction contracts in the Water and Sewer Fund.

Note 8. Pending GASB Statements

At June 30, 2002, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the City. The statements that will impact the City are GASB Statements Nos. 34, 37, and 38. GASB Statement No. 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 2000, will be effective for the City for the year ending June 30, 2003. This Statement imposes new standards of financial reporting. Financial managers will be required to provide a management's discussion and analysis (MD&A) that gives readers an analysis of the City's overall financial position and results of the previous year's operations. The titles and formats of the financial statements will change significantly. Governmental units will continue to provide budgetary information in their reports; however, under this Statement, they will be required to provide the government's original budget as well as the final budget and actual results. Management has not yet completed its assessment of this Statement; however, it will have a significant effect on the overall financial statement presentation. GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – For State and Local Governments Omnibus*, issued in June, 2001 clarifies certain aspects of Statement No. 34. GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in June, 2001 modifies existing disclosure requirements.

Required Supplemental Financial Data



CITY OF SALISBURY, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Last Six Fiscal Years

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2)	(3)	Funded Ratio (1) / (2)	(4) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (4)
		Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAL) (2) - (1)			
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%
1996	141,175	380,118	238,943	37.14%	2,169,850	11.01%

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Six Fiscal Years

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2002	\$ 86,797	102%
2001	47,368	118
2000	49,733	112
1999	51,401	104
1998	46,376	115
1997	43,984	100

Notes to the Required Schedules:

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

Valuation date	12/31/2001
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	29 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	7.25%
Projected salary increases*	5.9% - 9.8%
* Includes inflation at	3.75%
Cost of living adjustments	N/A

Supplementary Financial Data

General Fund

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

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

COMPARATIVE BALANCE SHEETS

June 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Cash and investments	\$ 4,495,137	\$ 5,849,399
Taxes receivable (net of allowance for uncollectible)	491,800	496,666
Accounts receivable	583,123	616,934
Interest receivable	11,340	4,079
Due from other governments	1,576,415	1,984,835
Prepaid items	<u>3,600</u>	<u>15,245</u>
Total assets	<u>\$ 7,161,415</u>	<u>\$ 8,967,158</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,165,987	\$ 2,031,523
Deferred revenue	<u>1,119,594</u>	<u>1,128,443</u>
Total liabilities	<u>\$ 2,285,581</u>	<u>\$ 3,159,966</u>
FUND EQUITY		
Fund balances:		
Reserved by State statute	\$ 1,735,362	\$ 2,205,848
Reserved for encumbrances	26,452	373,121
Reserved for prepaid items	3,600	15,245
Unreserved:		
Designated for capital equipment replacement	1,473,927	932,573
Undesignated	<u>1,636,493</u>	<u>2,280,405</u>
Total fund equity	<u>\$ 4,875,834</u>	<u>\$ 5,807,192</u>
Total liabilities and fund equity	<u>\$ 7,161,415</u>	<u>\$ 8,967,158</u>

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

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

For the Year Ended June 30, 2002

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

	2002		2001	
	Actual	Budget	Actual Over (Under) Budget	Actual
REVENUES:				
Taxes	\$ 14,209,224	\$ 14,677,869	\$ (468,645)	\$ 14,066,947
License and permits	550,831	520,580	30,251	533,554
Intergovernmental	3,697,107	6,850,220	(3,153,113)	6,000,285
Charges for services	1,721,919	1,650,355	71,564	1,783,086
Miscellaneous	1,035,380	1,573,523	(538,143)	2,220,080
Administrative charges	1,581,000	1,581,000	-	1,505,714
Total revenues	<u>\$ 22,795,461</u>	<u>\$ 26,853,547</u>	<u>\$ (4,058,086)</u>	<u>\$ 26,109,666</u>
OTHER FINANCING SOURCES:				
Fund balance appropriated	\$ -	\$ 663,524	\$ (663,524)	\$ -
Total revenues and other financing sources	<u>\$ 22,795,461</u>	<u>\$ 27,517,071</u>	<u>\$ (4,721,610)</u>	<u>\$ 26,109,666</u>
EXPENDITURES:				
Current:				
General government	\$ 5,258,666	\$ 6,112,336	\$ (853,670)	\$ 5,301,158
Public safety	8,941,298	9,370,651	(429,353)	8,860,001
Transportation	2,978,265	4,648,007	(1,669,742)	3,582,241
Environmental protection	1,406,346	1,422,230	(15,884)	1,413,534
Culture and recreation	2,411,392	2,928,392	(517,000)	3,544,639
Community and economic development	1,473,159	1,776,686	(303,527)	1,489,678
Education	42,342	42,342	-	42,342
Debt service:				
Principal	764,467	765,278	(811)	707,050
Interest	290,602	290,867	(265)	300,193
Total expenditures	<u>\$ 23,566,537</u>	<u>\$ 27,356,789</u>	<u>\$ (3,790,252)</u>	<u>\$ 25,240,836</u>
OTHER FINANCING USES:				
Operating transfers to other funds:				
Mass transit	160,282	160,282	-	160,282
Total expenditures and other financing uses	<u>\$ 23,726,819</u>	<u>\$ 27,517,071</u>	<u>\$ (3,790,252)</u>	<u>\$ 25,401,118</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ (931,358)	\$ -	\$ (931,358)	\$ 708,548
FUND BALANCE, BEGINNING	<u>5,807,192</u>			<u>5,098,644</u>
FUND BALANCE, ENDING	<u>\$ 4,875,834</u>			<u>\$ 5,807,192</u>

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

For the Year Ended June 30, 2002

	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>
REVENUES:			
Taxes:			
General property-current	\$ 10,659,092	\$ 10,922,142	\$ (263,050)
General property-prior	383,080	319,131	63,949
Interest on delinquent tax	54,677	50,000	4,677
Local option sales tax	3,111,802	3,385,796	(273,994)
Other tax	573	800	(227)
	<u>\$ 14,209,224</u>	<u>\$ 14,677,869</u>	<u>\$ (468,645)</u>
Licenses and permits:			
Privilege license	\$ 340,268	\$ 333,120	\$ 7,148
Franchises	210,563	187,460	23,103
	<u>\$ 550,831</u>	<u>\$ 520,580</u>	<u>\$ 30,251</u>
Intergovernmental:			
Federal	\$ 330,479	\$ 641,738	\$ (311,259)
State	3,212,383	6,045,611	(2,833,228)
Local	154,245	162,871	(8,626)
	<u>\$ 3,697,107</u>	<u>\$ 6,850,220</u>	<u>\$ (3,153,113)</u>
Charges for services:			
Supportive court services	\$ 31,222	\$ 28,623	\$ 2,599
Community services	139,086	142,020	(2,934)
Culture and recreation	169,318	211,000	(41,682)
Environmental protection	818,109	848,649	(30,540)
Public safety	564,184	420,063	144,121
	<u>\$ 1,721,919</u>	<u>\$ 1,650,355</u>	<u>\$ 71,564</u>
Miscellaneous:			
Interest earned on investments	\$ 157,414	\$ 450,550	\$ (293,136)
Insurance proceeds	50,747	25,000	25,747
Rentals and sale of property	505,546	521,063	(15,517)
Other	321,673	576,910	(255,237)
	<u>\$ 1,035,380</u>	<u>\$ 1,573,523</u>	<u>\$ (538,143)</u>
Administrative charges:			
Interfund revenues	\$ 1,581,000	\$ 1,581,000	\$ -
Total revenues	<u>\$ 22,795,461</u>	<u>\$ 26,853,547</u>	<u>\$ (4,058,086)</u>
OTHER FINANCING SOURCES:			
Fund balance appropriated	\$ -	\$ 663,524	\$ (663,524)
Total revenues and other financing sources	<u>\$ 22,795,461</u>	<u>\$ 27,517,071</u>	<u>\$ (4,721,610)</u>

B-4
CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL
For the Year Ended June 30, 2002

EXPENDITURES:	<u>Actual</u>	<u>Budget</u>	<u>Actual Over (Under) Budget</u>
Current:			
General government:			
City council	\$ 95,557	\$ 101,610	\$ (6,053)
City manager's office	741,076	744,676	(3,600)
Purchasing	162,498	168,190	(5,692)
Human resources	490,576	597,998	(107,422)
Finance	907,918	948,837	(40,919)
Fleet management	886,323	1,298,759	(412,436)
Public services administration	169,114	178,523	(9,409)
City office buildings	310,978	397,175	(86,197)
Telecommunication	390,333	549,222	(158,889)
Information technologies	<u>1,104,293</u>	<u>1,127,346</u>	<u>(23,053)</u>
	<u>\$ 5,258,666</u>	<u>\$ 6,112,336</u>	<u>\$ (853,670)</u>
Public safety:			
Police:			
Administration	\$ 476,510	\$ 531,778	\$ (55,268)
Services	1,473,407	1,535,552	(62,145)
Operations	3,865,452	4,116,934	(251,482)
Fire	<u>3,125,929</u>	<u>3,186,387</u>	<u>(60,458)</u>
	<u>\$ 8,941,298</u>	<u>\$ 9,370,651</u>	<u>\$ (429,353)</u>
Transportation:			
Traffic engineering	\$ 413,145	\$ 443,006	\$ (29,861)
Engineering	447,982	1,862,295	(1,414,313)
Streets	1,814,985	2,035,706	(220,721)
Street lighting	<u>302,153</u>	<u>307,000</u>	<u>(4,847)</u>
	<u>\$ 2,978,265</u>	<u>\$ 4,648,007</u>	<u>\$ (1,669,742)</u>
Environmental protection:			
Solid waste management	\$ 1,215,310	\$ 1,228,834	\$ (13,524)
Cemetery	<u>191,036</u>	<u>193,396</u>	<u>(2,360)</u>
	<u>\$ 1,406,346</u>	<u>\$ 1,422,230</u>	<u>\$ (15,884)</u>
Culture and recreation:			
Landscaping	\$ 619,764	\$ 652,034	\$ (32,270)
Recreation	<u>1,791,628</u>	<u>2,276,358</u>	<u>(484,730)</u>
	<u>\$ 2,411,392</u>	<u>\$ 2,928,392</u>	<u>\$ (517,000)</u>
Community and economic development:			
Community development	\$ 960,057	\$ 1,197,137	\$ (237,080)
The Plaza	156,782	217,773	(60,991)
Developmental services	<u>356,320</u>	<u>361,776</u>	<u>(5,456)</u>
	<u>\$ 1,473,159</u>	<u>\$ 1,776,686</u>	<u>\$ (303,527)</u>
Education	<u>\$ 42,342</u>	<u>\$ 42,342</u>	<u>\$ -</u>
Debt service:			
Principal	\$ 764,467	\$ 765,278	\$ (811)
Interest	<u>290,602</u>	<u>290,867</u>	<u>(265)</u>
	<u>\$ 1,055,069</u>	<u>\$ 1,056,145</u>	<u>\$ (1,076)</u>
Total expenditures	<u>\$ 23,566,537</u>	<u>\$ 27,356,789</u>	<u>\$ (3,790,252)</u>
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass transit	<u>160,282</u>	<u>160,282</u>	<u>-</u>
Total expenditures and other financing uses	<u>\$ 23,726,819</u>	<u>\$ 27,517,071</u>	<u>\$ (3,790,252)</u>

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenues that are legally restricted to expenditures for particular purposes. The City has one special revenue fund.

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

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

June 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Cash and investments	\$ 65,691	\$ 163,363
Accounts receivable	2,830	84
Due from other governments	<u>1,618</u>	<u>6,361</u>
Total assets	<u>\$ 70,139</u>	<u>\$ 169,808</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 1,337</u>	<u>\$ 26,686</u>
Total liabilities	<u>\$ 1,337</u>	<u>\$ 26,686</u>
 FUND EQUITY		
Fund balances:		
Reserved by State statute	\$ 4,448	\$ 6,445
Unreserved:		
Designated for subsequent year's expenditures	<u>64,354</u>	<u>136,677</u>
Total fund equity	<u>\$ 68,802</u>	<u>\$ 143,122</u>
 Total liabilities and fund equity	 <u>\$ 70,139</u>	 <u>\$ 169,808</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, 2002
With Comparative Actual Amounts for the Year Ended June 30, 2001

	2002		2001	
	Actual	Budget	Actual Over (Under) Budget	Actual
REVENUES:				
Intergovernmental:				
Federal	\$ 358,216	\$ 819,108	\$ (460,892)	\$ 272,765
Miscellaneous:				
Interest earned on investments	3	-	3	357
Other	<u>365,068</u>	<u>347,936</u>	<u>17,132</u>	<u>345,844</u>
Total revenues	<u>\$ 723,287</u>	<u>\$ 1,167,044</u>	<u>\$ (443,757)</u>	<u>\$ 618,966</u>
Appropriated fund balance	<u>\$ -</u>	<u>\$ 51,947</u>	<u>\$ (51,947)</u>	<u>\$ -</u>
Total revenues	<u>\$ 723,287</u>	<u>\$ 1,218,991</u>	<u>\$ (495,704)</u>	<u>\$ 618,966</u>
EXPENDITURES:				
Current:				
General government	\$ 101,785	\$ 103,200	\$ (1,415)	\$ 35,191
Community and economic development	<u>695,822</u>	<u>1,115,791</u>	<u>(419,969)</u>	<u>531,958</u>
Total expenditures	<u>\$ 797,607</u>	<u>\$ 1,218,991</u>	<u>\$ (421,384)</u>	<u>\$ 567,149</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ (74,320)	<u>\$ -</u>	<u>\$ (74,320)</u>	\$ 51,817
FUND BALANCE, BEGINNING	<u>143,122</u>			<u>91,305</u>
FUND BALANCE, ENDING	<u>\$ 68,802</u>			<u>\$ 143,122</u>

Capital Projects Fund

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

CITY OF SALISBURY, NORTH CAROLINA

CAPITAL PROJECTS FUND

COMPARATIVE BALANCE SHEETS

June 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Cash and investments	\$ 54,312	\$ 295,471
Total assets	<u>\$ 54,312</u>	<u>\$ 295,471</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
FUND EQUITY		
Fund Balances:		
Unreserved:		
Designated for subsequent year's expenditures	\$ 54,312	\$ 295,471
Total fund equity	<u>\$ 54,312</u>	<u>\$ 295,471</u>
Total liabilities and fund equity	<u>\$ 54,312</u>	<u>\$ 295,471</u>

CITY OF SALISBURY, NORTH CAROLINA

CAPITAL PROJECTS FUND

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

From Inception and for the Year Ended June 30, 2002

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES:				
Miscellaneous				
Interest earned on investments	\$ 36,750	\$ 22,957	\$ 13,551	\$ 36,508
EXPENDITURES:				
Culture and recreation	\$ 1,036,750	\$ 727,486	\$ 254,710	\$ 982,196
Total revenues under expenditures	\$ (1,000,000)	\$ (704,529)	\$ (241,159)	\$ (945,688)
OTHER FUNDING SOURCES				
Proceeds from issuance of debt	1,000,000	1,000,000	-	1,000,000
NET INCREASE (DECREASE) IN FUND BALANCE	\$ -	\$ 295,471	\$ (241,159)	\$ 54,312
FUND BALANCE, BEGINNING			295,471	
FUND BALANCE, ENDING			\$ 54,312	

Enterprise Funds

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

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

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

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

CITY OF SALISBURY, NORTH CAROLINA
ENTERPRISE FUNDS
COMBINING BALANCE SHEET

June 30, 2002

With Comparative Totals at June 30, 2001

<u>ASSETS</u>	<u>Water</u>		<u>Totals</u>	
	<u>and Sewer</u>	<u>Mass Transit</u>	<u>2002</u>	<u>2001</u>
CURRENT ASSETS				
Cash and investments	\$ 2,157,876	\$ 200,702	\$ 2,358,578	\$ 1,500,916
Accounts receivable (net of allowance for uncollectible)	2,461,433	3,263	2,464,696	2,023,976
Interest receivable	4,259	457	4,716	27,813
Due from other governments	-	52,624	52,624	42,624
Inventories	174,974	-	174,974	173,744
Total current assets	<u>\$ 4,798,542</u>	<u>\$ 257,046</u>	<u>\$ 5,055,588</u>	<u>\$ 3,769,073</u>
RESTRICTED ASSETS				
Cash	25,607,172	-	25,607,172	8,489,754
Accounts receivable	220,557	-	220,557	38,449
Interest receivable	23,027	-	23,027	5,719
Due from other governments	-	-	-	2,882,460
Total restricted assets	<u>\$ 25,850,755</u>	<u>\$ -</u>	<u>\$ 25,850,755</u>	<u>\$ 11,416,382</u>
FIXED ASSETS				
Land	\$ 2,072,067	\$ -	\$ 2,072,067	\$ 2,074,567
Buildings and improvements	108,548,110	467,924	109,016,034	96,033,757
Equipment	5,539,837	807,420	6,347,257	7,274,032
Construction in progress	11,928,649	-	11,928,649	14,020,184
Less accumulated depreciation	<u>(34,629,475)</u>	<u>(1,275,344)</u>	<u>(35,904,819)</u>	<u>(33,983,654)</u>
Total fixed assets	<u>\$ 93,459,188</u>	<u>\$ -</u>	<u>\$ 93,459,188</u>	<u>\$ 85,418,886</u>
Total assets	<u>\$ 124,108,485</u>	<u>\$ 257,046</u>	<u>\$ 124,365,531</u>	<u>\$ 100,604,341</u>
<u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 537,964	\$ 48,091	\$ 586,055	\$ 555,885
Interest payable	356,141	-	356,141	220,860
Current maturities of long-term debt	2,645,818	-	2,645,818	2,493,518
Customer deposits	323,971	-	323,971	276,439
Liabilities payable from restricted assets	<u>2,124,107</u>	<u>-</u>	<u>2,124,107</u>	<u>246,425</u>
Total current liabilities	<u>\$ 5,988,001</u>	<u>\$ 48,091</u>	<u>\$ 6,036,092</u>	<u>\$ 3,793,127</u>
LONG-TERM DEBT				
Bonds payable	\$ 50,510,364	\$ -	\$ 50,510,364	\$ 32,912,590
Capital leases payable	3,611,283	-	3,611,283	3,874,594
Total long term-debt	<u>\$ 54,121,647</u>	<u>\$ -</u>	<u>\$ 54,121,647</u>	<u>\$ 36,787,184</u>
FUND EQUITY				
Contributed capital	\$ 32,023,460	\$ 1,490,621	\$ 33,514,081	\$ 33,514,081
Retained earnings (deficit)	<u>31,975,377</u>	<u>(1,281,666)</u>	<u>30,693,711</u>	<u>26,509,949</u>
Total fund equity	<u>\$ 63,998,837</u>	<u>\$ 208,955</u>	<u>\$ 64,207,792</u>	<u>\$ 60,024,030</u>
Total liabilities and fund equity	<u>\$ 124,108,485</u>	<u>\$ 257,046</u>	<u>\$ 124,365,531</u>	<u>\$ 100,604,341</u>

CITY OF SALISBURY, NORTH CAROLINA

ENTERPRISE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGSFor the Year Ended June 30, 2002
With Comparative Totals For The Year Ended June 30, 2001

	Water		Totals	
	and Sewer	Mass Transit	2002	2001
OPERATING REVENUES:				
Charges for services	\$ 14,107,131	\$ 77,085	\$ 14,184,216	\$ 12,115,272
OPERATING EXPENSES:				
Management and administration	\$ 2,583,947	\$ 114,082	\$ 2,698,029	\$ 2,511,086
Water resources	4,119,717	-	4,119,717	3,970,313
Maintenance and distribution	2,231,090	-	2,231,090	2,289,528
Depreciation	2,993,351	6,494	2,999,845	2,842,001
Mass transit operations	-	447,310	447,310	461,354
Total operating expenses	\$ 11,928,105	\$ 567,886	\$ 12,495,991	\$ 12,074,282
OPERATING INCOME (LOSS)	\$ 2,179,026	\$ (490,801)	\$ 1,688,225	\$ 40,990
NONOPERATING REVENUES (EXPENSES):				
Interest earned on investments	\$ 336,598	\$ 4,082	\$ 340,680	\$ 692,706
Intergovernmental	-	320,555	320,555	307,260
Miscellaneous revenues	67,888	3,944	71,832	440,814
Interest expense	(1,828,819)	-	(1,828,819)	(1,771,224)
Net nonoperating revenues (expenses)	\$ (1,424,333)	\$ 328,581	\$ (1,095,752)	\$ (330,444)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	\$ 754,693	\$ (162,220)	\$ 592,473	\$ (289,454)
CAPITAL CONTRIBUTIONS	\$ 3,431,007	\$ -	\$ 3,431,007	\$ 2,987,959
OPERATING TRANSFERS IN:				
General Fund	-	\$ 160,282	\$ 160,282	\$ 160,282
NET INCOME (LOSS)	\$ 4,185,700	\$ (1,938)	\$ 4,183,762	\$ 2,858,787
RETAINED EARNINGS (DEFICIT), BEGINNING	27,789,677	(1,279,728)	26,509,949	23,651,162
RETAINED EARNINGS (DEFICIT), ENDING	\$ 31,975,377	\$ (1,281,666)	\$ 30,693,711	\$ 26,509,949

CITY OF SALISBURY, NORTH CAROLINA

ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2002

With Comparative Totals for the Year Ended June 30, 2001

	Water		Totals	
	and Sewer	Mass Transit	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 2,179,026	\$ (490,801)	\$ 1,688,225	\$ 40,990
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	2,993,351	6,494	2,999,845	2,842,001
Loss on disposal of fixed assets	142,957	5,618	148,575	7,933
Other receipts	67,888	3,944	71,832	440,814
Change in assets and liabilities:				
(Increase) decrease in accounts and interest receivable	(617,520)	481	(617,039)	178,065
(Increase) decrease in inventory	(1,230)	-	(1,230)	91,604
(Increase) decrease due from other governments	2,882,460	(10,000)	2,872,460	232,018
Increase (decrease) in accounts and interest payable and accrued liabilities	1,903,294	4,558	1,907,852	(1,125,267)
Increase in customer deposits	47,532	-	47,532	93,450
Net cash provided by (used for) operating activities	<u>\$ 9,597,758</u>	<u>\$ (479,706)</u>	<u>\$ 9,118,052</u>	<u>\$ 2,801,608</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	\$ -	\$ 320,555	\$ 320,555	\$ 307,260
Operating transfer from general fund	-	160,282	160,282	160,282
Net cash provided by noncapital financing activities	<u>\$ -</u>	<u>\$ 480,837</u>	<u>\$ 480,837</u>	<u>\$ 467,542</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuing long-term debt	\$ 19,980,280	\$ -	\$ 19,980,280	\$ 3,849,091
Interest paid on bonds	(1,693,538)	-	(1,693,538)	(1,771,224)
Disposition of capital assets	-	-	-	4,607
Acquisition of capital assets	(11,188,720)	-	(11,188,720)	(4,071,841)
Principal paid on bonds	(2,493,518)	-	(2,493,518)	(2,484,943)
Capital contributions	3,431,007	-	3,431,007	266,195
Net cash provided by (used for) capital and related financing activities	<u>\$ 8,035,511</u>	<u>\$ -</u>	<u>\$ 8,035,511</u>	<u>\$ (4,208,115)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES				
Interest received on investment securities	\$ 336,598	\$ 4,082	\$ 340,680	\$ 692,706
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	\$ 17,969,867	\$ 5,213	\$ 17,975,080	\$ (246,259)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>9,795,181</u>	<u>195,489</u>	<u>9,990,670</u>	<u>10,236,929</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 27,765,048</u>	<u>\$ 200,702</u>	<u>\$ 27,965,750</u>	<u>\$ 9,990,670</u>

CITY OF SALISBURY, NORTH CAROLINA

WATER AND SEWER FUND

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

For the Year Ended June 30, 2002

With Comparative Actual Amounts for Year Ended June 30, 2001

	2002		2001	
	Actual	Budget	Actual Over (Under) Budget	Actual
OPERATING REVENUES:				
Charges for services	\$ 14,107,131	\$ 13,405,533	\$ 701,598	\$ 12,037,258
OPERATING EXPENSES OTHER THAN DEPRECIATION:				
Management and administration	\$ 2,583,947	\$ 2,620,415	\$ (36,468)	\$ 2,375,764
Water resources	4,136,619	4,132,173	4,446	3,970,313
Maintenance and distribution	2,182,196	2,323,338	(141,142)	2,248,188
Total operating expenses other than depreciation	\$ 8,902,762	\$ 9,075,926	\$ (173,164)	\$ 8,594,265
NONOPERATING REVENUES (EXPENSES):				
Interest on investments	\$ 101,986	\$ 50,000	\$ 51,986	\$ 141,548
Miscellaneous revenues	67,888	181,510	(113,622)	424,817
Capital contributions	224,838	132,157	92,681	2,912,173
Interest expense	(1,693,538)	(1,681,298)	(12,240)	(1,786,727)
Net nonoperating revenues	\$ (1,298,826)	\$ (1,317,631)	\$ 18,805	\$ 1,691,811
Income from operations	\$ 3,905,543	\$ 3,011,976	\$ 893,567	\$ 5,134,804
OTHER FINANCING SOURCES (USES):				
Capital outlay	\$ (483,809)	\$ (530,904)	\$ 47,095	\$ (4,782,602)
Payment of debt principal	(2,493,518)	(2,507,602)	14,084	(2,484,943)
Proceeds from capital leases	-	-	-	1,374,254
Retained earnings appropriated	-	26,530	(26,530)	-
Total other financing sources (uses)	\$ (2,977,327)	\$ (3,011,976)	\$ 34,649	\$ (5,893,291)
EXCESS OF EXPENSES OVER REVENUES	\$ 928,216	\$ -	\$ 928,216	\$ (758,487)
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of expenses over revenues	\$ 928,216			
Capital outlay	483,809			
Depreciation	(2,993,351)			
Payment of debt principal	2,493,518			
Interest income from Capital Projects Fund	234,612			
Capital contributions in Capital Project Fund	3,206,169			
Interest expense	(135,281)			
Inventories	1,230			
Vacation pay	(33,222)			
NET INCOME	\$ 4,185,700			

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, 2002

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES				
Miscellaneous				
Interest on investments	\$ -	\$ 1,669,270	\$ 234,612	\$ 1,903,882
EXPENSES-SEWER PROJECT				
Construction	\$ 9,255,030	\$ 8,240,683	\$ 386,281	\$ 8,626,964
Engineering	1,969,369	1,570,905	60,065	1,630,970
Total expenses-Sewer project	\$ 11,224,399	\$ 9,811,588	\$ 446,346	\$ 10,257,934
EXPENSES-WATER PROJECT				
Construction	\$ 35,539,563	\$ 1,735,521	\$ 8,054,268	\$ 9,789,789
Engineering	5,623,222	1,724,733	2,204,297	3,929,030
Total expenses-Water project	\$ 41,162,785	\$ 3,460,254	\$ 10,258,565	\$ 13,718,819
Total expenses	\$ 52,387,184	\$ 13,271,842	\$ 10,704,911	\$ 23,976,753
Total revenues under expenses	\$ (52,387,184)	\$ (11,602,572)	\$ (10,470,299)	\$ (22,072,871)
OTHER FINANCING SOURCES				
Proceeds from sale of bonds	\$ 30,035,085	\$ 10,235,085	\$ 19,980,280	\$ 30,215,365
Developer contributions	15,236,643	75,786	3,206,169	3,281,955
Operating transfers from water and sewer fund	50,000	50,000	-	50,000
Appropriated fund balance	7,065,456	-	-	-
Total other financing sources	\$ 52,387,184	\$ 10,360,871	\$ 23,186,449	\$ 33,547,320
Unexpended revenues and receipts	\$ -	\$ (1,241,701)	\$ 12,716,150	\$ 11,474,449

CITY OF SALISBURY, NORTH CAROLINA

MASS TRANSIT FUND

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
(NON-GAAP, MODIFIED ACCRUAL BASIS)For the Year Ended June 30, 2002
With Comparative Actual Amounts for Year Ended June 30, 2001

	2002		2001	
	Actual	Budget	Actual Over (Under) Budget	Actual
OPERATING REVENUES:				
Charges for services	\$ 77,085	\$ 82,000	\$ (4,915)	\$ 78,014
OPERATING EXPENSES OTHER THAN DEPRECIATION:				
Management and administration	\$ 114,082	\$ 115,735	\$ (1,653)	\$ 135,322
Mass transit operations	440,981	458,272	(17,291)	460,310
Total operating expenses other than depreciation	\$ 555,063	\$ 574,007	\$ (18,944)	\$ 595,632
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental	\$ 320,555	\$ 327,125	\$ (6,570)	\$ 307,260
Interest on investments	4,082	-	4,082	11,617
Miscellaneous revenues	3,944	12,000	(8,056)	15,997
Total nonoperating revenues	\$ 328,581	\$ 339,125	\$ (10,544)	\$ 334,874
Loss from operations	\$ (149,397)	\$ (152,882)	\$ 3,485	\$ (182,744)
OTHER FINANCING SOURCES (USES):				
Capital outlay	\$ -	\$ (7,400)	\$ 7,400	\$ (1,500)
Operating transfers in:				
General fund	160,282	160,282	-	160,282
Total other financing sources (uses)	\$ 160,282	\$ 152,882	\$ 7,400	\$ 158,782
EXCESS OF REVENUES OVER EXPENSES	\$ 10,885	\$ -	\$ 10,885	\$ (23,962)
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of revenues over expenses, above	\$ 10,885			
Depreciation	(6,494)			
Vacation pay	(6,329)			
NET LOSS	\$ (1,938)			

Internal Service Funds

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

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

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

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING BALANCE SHEET

June 30, 2002

With Comparative Totals at June 30, 2001

<u>ASSETS</u>	<u>Workers'</u> <u>Compensation</u>	<u>Employee</u> <u>Health Care</u>	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
CURRENT ASSETS				
Cash and investments	\$ 15,141	\$ 169,264	\$ 184,405	\$ 285,725
Interest receivable	313	281	594	118
	<u>15,454</u>	<u>169,545</u>	<u>184,999</u>	<u>285,843</u>
Total assets				
	<u>\$ 15,454</u>	<u>\$ 169,545</u>	<u>\$ 184,999</u>	<u>\$ 285,843</u>
<u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 32,104	\$ 403,990	\$ 436,094	\$ 332,887
FUND EQUITY				
Retained earnings (deficit)	(16,650)	(234,445)	(251,095)	(47,044)
	<u>15,454</u>	<u>169,545</u>	<u>184,999</u>	<u>285,843</u>
Total liabilities and fund equity				
	<u>\$ 15,454</u>	<u>\$ 169,545</u>	<u>\$ 184,999</u>	<u>\$ 285,843</u>

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGSFor the Year Ended June 30, 2002
With Comparative Totals For The Year Ended June 30, 2001

	Workers' Compensation	Employee Health Care	Totals	
			2002	2001
OPERATING REVENUES:				
Charges for services	\$ 69,790	\$ 2,472,112	\$ 2,541,902	\$ 2,337,107
OPERATING EXPENSES:				
Employee benefits	<u>197,180</u>	<u>2,553,335</u>	<u>2,750,515</u>	<u>2,336,239</u>
OPERATING INCOME (LOSS)	\$ (127,390)	\$ (81,223)	\$ (208,613)	\$ 868
NONOPERATING REVENUES				
Interest earned on investments	<u>4,266</u>	<u>296</u>	<u>4,562</u>	<u>10,584</u>
NET INCOME (LOSS)	\$ (123,124)	\$ (80,927)	\$ (204,051)	\$ 11,452
RETAINED EARNINGS (DEFICIT), BEGINNING	<u>106,474</u>	<u>(153,518)</u>	<u>(47,044)</u>	<u>(58,496)</u>
RETAINED EARNINGS (DEFICIT), ENDING	<u>\$ (16,650)</u>	<u>\$ (234,445)</u>	<u>\$ (251,095)</u>	<u>\$ (47,044)</u>

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2002

With Comparative Totals for the Year Ended June 30, 2001

	Workers'	Employee	Totals	
			2002	2001
	Compensation	Health Care		
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ (127,390)	\$ (81,223)	\$ (208,613)	\$ 868
Change in assets and liabilities:				
(Increase) decrease in interest receivable	(225)	(251)	(476)	193
Increase in accounts payable	24,593	78,614	103,207	56,357
Net cash provided by (used for) operating activities	\$ (103,022)	\$ (2,860)	\$ (105,882)	\$ 57,418
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES				
Interest received on investment securities	\$ 4,266	\$ 296	\$ 4,562	\$ 10,584
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (98,756)	\$ (2,564)	\$ (101,320)	\$ 68,002
CASH AND CASH EQUIVALENTS, BEGINNING	113,897	171,828	285,725	217,723
CASH AND CASH EQUIVALENTS, ENDING	\$ 15,141	\$ 169,264	\$ 184,405	\$ 285,725

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

June 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
CURRENT ASSETS		
Cash and investments	\$ 15,141	\$ 113,897
Interest receivable	<u>313</u>	<u>88</u>
Total assets	<u>\$ 15,454</u>	<u>\$ 113,985</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 32,104	\$ 7,511
FUND EQUITY		
Retained earnings	<u>(16,650)</u>	<u>106,474</u>
Total liabilities and fund equity	<u>\$ 15,454</u>	<u>\$ 113,985</u>

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

For the Year Ended June 30, 2002
With Comparative Totals For The Year Ended June 30, 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES:		
Charges for services	\$ 69,790	\$ 69,790
OPERATING EXPENSES:		
Employee benefits	<u>197,180</u>	<u>118,882</u>
OPERATING LOSS	\$ (127,390)	\$ (49,092)
NONOPERATING REVENUES		
Interest earned on investments	<u>4,266</u>	<u>9,219</u>
NET LOSS	\$ (123,124)	\$ (39,873)
RETAINED EARNINGS, BEGINNING	<u>106,474</u>	<u>146,347</u>
RETAINED EARNINGS (DEFICIT), ENDING	<u>\$ (16,650)</u>	<u>\$ 106,474</u>

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

For the Year Ended June 30, 2002
With Comparative Totals for the Year Ended June 30, 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (127,390)	\$ (49,092)
Change in assets and liabilities:		
(Increase) decrease in interest receivable	(225)	91
Increase in accounts payable	<u>24,593</u>	<u>6,318</u>
Net cash used for operating activities	\$ (103,022)	\$ (42,683)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest received on investment securities	<u>4,266</u>	<u>9,219</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (98,756)	\$ (33,464)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>113,897</u>	<u>147,361</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 15,141</u>	<u>\$ 113,897</u>

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

June 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
CURRENT ASSETS		
Cash and investments	\$ 169,264	\$ 171,828
Interest receivable	<u>281</u>	<u>30</u>
Total assets	<u>\$ 169,545</u>	<u>\$ 171,858</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 403,990	\$ 325,376
FUND DEFICIT		
Retained deficit	<u>(234,445)</u>	<u>(153,518)</u>
Total liabilities and fund equity	<u>\$ 169,545</u>	<u>\$ 171,858</u>

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

For the Year Ended June 30, 2002
With Comparative Totals For The Year Ended June 30, 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES:		
Charges for services	\$ 2,472,112	\$ 2,267,317
OPERATING EXPENSES:		
Employee benefits	<u>2,553,335</u>	<u>2,217,357</u>
OPERATING INCOME (LOSS)	\$ (81,223)	\$ 49,960
NONOPERATING REVENUES		
Interest earned on investments	<u>296</u>	<u>1,365</u>
NET INCOME (LOSS)	\$ (80,927)	\$ 51,325
RETAINED DEFICIT, BEGINNING	<u>(153,518)</u>	<u>(204,843)</u>
RETAINED DEFICIT, ENDING	<u>\$ (234,445)</u>	<u>\$ (153,518)</u>

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

For the Year Ended June 30, 2002
With Comparative Totals for the Year Ended June 30, 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (81,223)	\$ 49,960
Change in assets and liabilities:		
(Increase) decrease in interest receivable	(251)	102
Increase (decrease) in accounts payable	<u>78,614</u>	<u>50,039</u>
Net cash provided by (used for) operating activities	\$ (2,860)	\$ 100,101
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Interest received on investment securities	<u>296</u>	<u>1,365</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (2,564)	\$ 101,466
CASH AND CASH EQUIVALENTS, BEGINNING	<u>171,828</u>	<u>70,362</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 169,264</u>	<u>\$ 171,828</u>



Trust and Agency Funds

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

PENSION TRUST FUND

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

AGENCY FUNDS

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

Municipal Service District Fund - to account for tax receipts of the Municipal Service District which the City receives from the County and remits to the Downtown Salisbury, Inc.

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



CITY OF SALISBURY, NORTH CAROLINA

TRUST AND AGENCY FUNDS

COMBINING BALANCE SHEET

June 30, 2002

With Comparative Totals at June 30, 2001

	<u>Pension Trust</u>		<u>Agency</u>	
	<u>Law Officers'</u>			
<u>ASSETS</u>	<u>Separation</u>	<u>Boards and</u>	<u>Municipal</u>	<u>East Spencer</u>
	<u>Allowance</u>	<u>Commissions</u>	<u>Service District</u>	<u>Utility Fund</u>
Cash and investments	\$ 422,305	\$ 1,774	\$ 1,273	\$ 27,922
Taxes receivable (net allowance for uncollectible)	-	-	5,289	-
Accounts receivable	-	-	18	116,297
Interest receivable	<u>1,163</u>	<u>-</u>	<u>3</u>	<u>-</u>
Total assets	<u>\$ 423,468</u>	<u>\$ 1,774</u>	<u>\$ 6,583</u>	<u>\$ 144,219</u>
<u>LIABILITIES AND FUND EQUITY</u>				
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 1,774</u>	<u>\$ 6,583</u>	<u>\$ 144,219</u>
FUND EQUITY				
Fund Balances:				
Reserved by State statute	\$ 1,163	\$ -	\$ -	\$ -
Reserved for employees' pension benefits	<u>422,305</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund equity	<u>\$ 423,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities and fund equity	<u>\$ 423,468</u>	<u>\$ 1,774</u>	<u>\$ 6,583</u>	<u>\$ 144,219</u>

<u>Totals</u>	
<u>2002</u>	<u>2001</u>
\$ 453,274	\$ 348,673
5,289	2,474
116,315	-
<u>1,166</u>	<u>254</u>
<u>\$ 576,044</u>	<u>\$ 351,401</u>
<u>\$ 152,576</u>	<u>\$ 5,713</u>
\$ 1,163	\$ 253
<u>422,305</u>	<u>345,435</u>
<u>\$ 423,468</u>	<u>\$ 345,688</u>
<u>\$ 576,044</u>	<u>\$ 351,401</u>

CITY OF SALISBURY, NORTH CAROLINA
PENSION TRUST FUND
LAW OFFICERS' SEPARATION ALLOWANCE FUND
COMPARATIVE BALANCE SHEETS
June 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Cash and investments	\$ 422,305	\$ 345,435
Interest receivable	<u>1,163</u>	<u>253</u>
Total assets	<u>\$ 423,468</u>	<u>\$ 345,688</u>
 <u>FUND EQUITY</u>		
FUND EQUITY		
Fund balances:		
Reserved by State statute	\$ 1,163	\$ 253
Reserved for employees' pension benefits	<u>422,305</u>	<u>345,435</u>
Total fund equity	<u>\$ 423,468</u>	<u>\$ 345,688</u>

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2002

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
<u>BOARDS AND COMMISSIONS FUND:</u>				
ASSETS				
Cash and investments	\$ 2,093	\$ -	\$ 319	\$ 1,774
LIABILITIES				
Accounts payable and accrued liabilities	\$ 2,093	\$ -	\$ 319	\$ 1,774
<u>MUNICIPAL SERVICE DISTRICT FUND:</u>				
ASSETS				
Cash and investments	\$ 1,145	\$ 128	\$ -	\$ 1,273
Taxes receivable (net of allowance for uncollectible)	2,474	2,815	-	5,289
Accounts receivable	-	18	-	18
Interest receivable	1	2	-	3
Total assets	\$ 3,620	\$ 2,963	\$ -	\$ 6,583
LIABILITIES				
Accounts payable and accrued liabilities	\$ 3,620	\$ 2,963	\$ -	\$ 6,583
<u>EAST SPENCER UTILITY FUND:</u>				
ASSETS				
Cash and investments	\$ -	\$ 27,922	\$ -	\$ 27,922
Accounts Receivable	-	116,297	-	116,297
Total Assets	\$ -	\$ 144,219	\$ -	\$ 144,219
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 144,219	\$ -	\$ 144,219
<u>TOTAL AGENCY FUNDS:</u>				
ASSETS				
Cash and investments	\$ 3,238	\$ 28,050	\$ 319	\$ 30,969
Taxes receivable (net of allowance for uncollectible)	2,474	2,815	-	5,289
Accounts receivable	-	116,315	-	116,315
Interest receivable	1	2	-	3
Total assets	\$ 5,713	\$ 147,182	\$ 319	\$ 152,576
LIABILITIES				
Accounts payable and accrued liabilities	\$ 5,713	\$ 147,182	\$ 319	\$ 152,576



General Fixed Asset Account Group

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

H-1

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY

As Of June 30, 2002

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Equipment</u>	<u>Total</u>
GENERAL GOVERNMENT:				
City Administration	\$ -	\$ -	\$ 40,456	\$ 40,456
Human Resources	-	-	5,203	5,203
Information Technologies	-	45,711	790,536	836,247
Finance	-	-	123,349	123,349
Purchasing	-	-	13,423	13,423
City Hall	256,671	2,159,097	75,576	2,491,344
Telecommunications	24,820	84,966	1,203,405	1,313,191
Public Services Administration	-	10,259	-	10,259
Fleet Management	-	39,098	228,332	267,430
	<u>\$ 281,491</u>	<u>\$ 2,339,131</u>	<u>\$ 2,480,280</u>	<u>\$ 5,100,902</u>
PUBLIC SAFETY:				
Police	\$ -	\$ 267,277	\$ 2,180,445	\$ 2,447,722
Fire	223,684	371,389	2,617,275	3,212,348
	<u>\$ 223,684</u>	<u>\$ 638,666</u>	<u>\$ 4,797,720</u>	<u>\$ 5,660,070</u>
TRANSPORTATION:				
Traffic Engineering	\$ -	\$ -	\$ 465,266	\$ 465,266
Engineering	-	66,774	624,941	691,715
Streets	-	166,805	3,014,310	3,181,115
	<u>\$ -</u>	<u>\$ 233,579</u>	<u>\$ 4,104,517</u>	<u>\$ 4,338,096</u>
ENVIRONMENTAL PROTECTION:				
Cemetery	\$ -	\$ 10,320	\$ 125,830	\$ 136,150
Solid Waste Management	-	-	695,899	695,899
	<u>\$ -</u>	<u>\$ 10,320</u>	<u>\$ 821,729</u>	<u>\$ 832,049</u>
CULTURE AND RECREATION:				
Landscaping	\$ 164,546	\$ 71,164	\$ 700,920	\$ 936,630
Recreation	1,716,402	4,714,367	561,773	6,992,542
	<u>\$ 1,880,948</u>	<u>\$ 4,785,531</u>	<u>\$ 1,262,693</u>	<u>\$ 7,929,172</u>
LAND MANAGEMENT AND DEVELOPMENT:				
Development Services	\$ -	\$ -	\$ 11,607	\$ 11,607
Community Development	771,322	283,162	13,141	1,067,625
The Plaza	-	3,239,838	59,582	3,299,420
	<u>\$ 771,322</u>	<u>\$ 3,523,000</u>	<u>\$ 84,330</u>	<u>\$ 4,378,652</u>
TOTAL GENERAL FIXED ASSETS	<u><u>\$ 3,157,445</u></u>	<u><u>\$ 11,530,227</u></u>	<u><u>\$ 13,551,269</u></u>	<u><u>\$ 28,238,941</u></u>



Other Schedules

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

For the Year Ended June 30, 2002

Tax Year	Fiscal Year Ended	Assessed Valuation *	Taxes Levied Prior to June 30, 2001	Levy Additions Year Ended June 30, 2002	Collections and Credits Prior to June 30, 2001	Taxes Receivable June 30, 2001	Collections and Credits Year Ended June 30, 2002	(Note) Other Credits	Taxes Receivable June 30, 2002	
										June 30
2001	2002	\$ 1,854,810,966	-	\$ 11,190,087	-	-	\$ 10,823,799	\$ -	\$ 366,288	
2000	2001	1,820,568,216	10,928,747	9,017	10,553,137	375,610	284,491	-	100,136	
1999	2000	1,764,727,945	10,160,220		10,080,475	79,745	32,275	-	47,470	
1998	1999	1,482,452,065	9,213,038		9,152,289	60,749	15,538	-	45,211	
1997	1998	1,382,140,359	8,002,560		7,960,448	42,112	12,481	-	29,631	
1996	1997	1,318,874,568	7,759,356		7,717,517	41,839	11,765	-	30,074	
1995	1996	1,280,584,979	7,449,694		7,412,425	37,269	11,267	-	26,002	
1994	1995	1,146,945,499	7,234,332		7,193,857	40,475	11,283	-	29,192	
1993	1994	1,151,692,595	6,741,761		6,724,039	17,722	368	-	17,354	
1992	1993	1,106,253,503	6,389,077		6,373,423	15,654	212	-	15,442	
1991	1992	1,084,365,929	6,009,850		5,989,359	20,491	389	(20,102)		
			<u>\$ 79,888,635</u>		<u>\$ 11,199,104</u>		<u>\$ 79,156,969</u>		<u>\$ 731,666</u>	
										<u>\$ 11,203,868</u>
										<u>\$ (20,102)</u>
										<u>\$ 706,800</u>
										<u>215,000</u>
										<u>\$ 491,800</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, 2002

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
ORIGINAL LEVY					
Property taxed at current year's rates	\$ 1,802,268,311	\$ 0.600	\$ 10,813,610	\$ 10,224,822	\$ 588,788
Registered motor vehicles taxed at prior year's rates	72,200,159	0.600	433,201		433,201
Penalties			25,284	25,284	
TOTAL	\$ 1,874,468,470		\$ 11,272,095	\$ 10,250,106	\$ 1,021,989
DISCOVERY					
Prior years taxes			29,849	29,849	
Penalties			6,878	6,878	
TOTAL			\$ 36,727	\$ 36,727	\$ -
ABATEMENTS	(19,657,504)		\$ (118,735)	\$ (89,274)	\$ (29,461)
TOTAL PROPERTY VALUATION	\$ 1,854,810,966				
NET LEVY			\$ 11,190,087	\$ 10,197,559	\$ 992,528
Less uncollected tax at June 30, 2002			366,288	244,190	122,098
CURRENT YEAR'S TAXES COLLECTED			\$ 10,823,799	\$ 9,953,369	\$ 870,430
PERCENT OF CURRENT YEAR COLLECTED			96.73%	97.61%	87.70%

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

June 30, 2002

CASH AND INVESTMENTS IN THE FORM OF:

Cash:

Cash on hand	\$ 2,340	
In demand deposits	2,148,203	
Money market	54,312	
Certificate of deposit	<u>4,113,352</u>	
		\$ 6,318,207

Investments:

North Carolina Capital Management Trust	23,949,215
Government agency discount note	1,959,607
Bankers acceptance	<u>991,540</u>

TOTAL CASH AND INVESTMENTS \$ 33,218,569

DISTRIBUTION BY FUNDS:

General	\$ 4,495,137
Special revenue	65,691
Capital projects	54,312
Enterprise	27,965,750
Internal service	184,405
Trust and agency	<u>453,274</u>

TOTAL DISTRIBUTION BY FUNDS \$ 33,218,569

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF INTERFUND TRANSFERS

For the Year Ended June 30, 2002

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

Statistical Section

Table 1

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

Fiscal Year	Last Ten Fiscal Years									
	General Government	Public Safety	Transportation	Environmental Protection	Culture and Recreation	Economic Development	Education	Debt Service	Total	Community and
Ended June 30,	General Government	Public Safety	Transportation	Environmental Protection	Culture and Recreation	Economic Development	Education	Debt Service	Total	Community and
2002	\$ 5,360,451	\$8,941,298	\$ 2,978,265	\$ 1,406,346	\$ 2,666,102	\$ 2,168,981	\$ 42,342	\$1,055,069	\$24,618,854	
2001	5,336,349	8,860,001	3,721,416	1,413,534	4,272,125	2,021,636	42,342	1,007,243	26,674,646	
2000	5,418,892	8,938,838	3,094,241	1,394,724	2,850,649	2,521,984	42,342	836,885	25,098,555	
1999	4,856,896	8,113,842	3,237,416	1,470,108	3,271,023	1,932,935	42,342	783,462	23,708,024	
1998	4,403,617	6,900,177	3,047,455	1,331,161	3,931,369	2,219,221	42,342	617,008	22,492,350	
1997	3,610,184	7,735,362	3,868,084	1,291,270	2,130,301	1,351,865	42,342	981,853	21,011,261	
1996	3,925,599	6,457,849	2,733,043	1,272,247	1,728,392	1,280,196	42,341	591,422	18,031,089	
1995	3,233,167	6,190,774	2,288,917	1,896,681	1,358,848	1,826,750	42,342	401,797	17,239,276	
1994	2,580,372	5,600,225	2,992,610	1,416,739	1,285,814	1,362,305	38,573	1,010,646	16,287,284	
1993	2,860,671	5,110,480	2,401,666	1,740,467	1,238,830	1,483,384	38,573	524,880	15,398,951	

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

Table 2

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

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes	Licenses and Permits	Inter- governmental	Miscellaneous	Charges for Services	Administrative Charges	Total
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
1993	8,223,294	258,612	4,589,949	774,537	1,071,117	750,500	15,668,009

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

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

Fiscal Year Ended June 30,	Total Taxes	General Property Taxes	Sales Taxes	Other Taxes
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
1993	8,223,294	6,255,598	1,966,150	1,546

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

Table 4

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

Last Ten Fiscal Years

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

Table 5

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

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Property	Personal Property	Public Service Property	Total
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
1993	780,869,808	277,134,662	48,249,033	1,106,253,503

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

Table 6

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

Last Ten Fiscal Years

Tax Levies					
City of Salisbury					
Fiscal Year	Municipal Service			Total	Rowan County
	General Fund	District Fund			
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	
1993	6,389,077	47,155	6,436,232	23,859,704	
Tax Rates					
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	
1993	.575	.11	.685	.5600	

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

Source: Rowan County Tax Collector.

Table 7

**CITY OF SALISBURY, NORTH CAROLINA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT⁽¹⁾**

For the Year Ended June 30, 2002

	Net General Obligation Debt <u>Outstanding</u>	Percentage Applicable to City of <u>Salisbury</u>	City of Salisbury's <u>Share of Debt</u>
City of Salisbury	\$ 2,825,000	100.00%	\$ 2,825,000
Rowan County ⁽²⁾	30,225,000	23.60%	<u>7,133,100</u>
Total direct and overlapping debt			<u>\$ 9,958,100</u>

⁽¹⁾ Based on assessed valuation.

⁽²⁾ Net debt and assessed valuation figures provided by Rowan County

Table 8

**CITY OF SALISBURY, NORTH CAROLINA
COMPUTATION OF LEGAL DEBT MARGIN
For the Year Ended June 30, 2002**

ASSESSED VALUE		\$ 1,854,810,966
		X <u> .08</u>
Debt limit 8 percent of assessed value		\$ 148,384,877
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 18,905,000	
Total capitalized lease obligation	<u>6,309,333</u>	
		<u>25,214,333</u>
LEGAL DEBT MARGIN		<u>\$ 123,170,544</u>

Table 9

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF PRINCIPAL TAXPAYERS

For the Year Ended June 30, 2002

<u>Business</u>	<u>Type of Enterprise</u>	<u>2001 Assessed Valuation</u>	<u>Percentage Value of Total</u>
Food Lion, Inc.	Commercial	\$ 72,643,728	3.92%
Indopco/ICI Americas	Industrial	34,280,762	1.85%
Belle Realty Co.	Real Estate	30,169,342	1.63%
Norandal USA	Industrial	25,686,913	1.38%
Duke Energy Corp.	Utility	23,602,453	1.27%
Heritage Realty Limited Partnership	Real Estate	23,618,090	1.27%
Bellsouth Telephone	Communication	18,845,089	1.02%
Salisbury Mall Ltd.	Commercial	15,478,117	0.83%
Livingstone College	College	11,908,700	0.64%
General Electric	Industrial	<u>11,231,575</u>	<u>0.61%</u>
Totals		<u>\$ 267,464,769</u>	<u>14.42%</u>

Table 10

CITY OF SALISBURY, NORTH CAROLINA

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

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Principal	Interest	Total Debt Service	Total General Expenditures⁽¹⁾	Ratio of Debt Service to Total General Expenditures
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
1993	25,000	16,467	41,467	15,398,951	0.27

⁽¹⁾ Includes General, Special Revenue, and Capital Project Funds.

Table 11

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

Fiscal Year Ended	Population ⁽¹⁾	Assessed Value	Last Ten Fiscal Years			Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
			Gross Bonded Debt ⁽²⁾	Debt Payable From Enterprise Revenues	Net Bonded Debt		
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
1993	23,916	1,106,253,503	7,100,000	6,875,000	225,000	0.02%	9.41

⁽¹⁾ Source: North Carolina Office of State Planning

⁽²⁾ Includes all long-term general obligation debt

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

Fiscal Year Ended June 30	Total Assessed Valuation	Commercial Construction^(a)		Residential Construction^(a)		Bank Deposits
		Number of Units	Value	Number of Units	Value	
2002	\$ 1,854,810,966	26	\$ 21,142,500	240	\$ 30,618,254	\$ N/A ^(b)
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
1993	1,106,253,503	30	24,184,900	91	6,849,700	1,007,363,000

^(a) City of Salisbury, Developmental Services Department

^(b) Information not available at time of printing

Table 13

CITY OF SALISBURY, NORTH CAROLINA

MISCELLANEOUS STATISTICS

June 30, 2002

Date Established	1753
Form of Government	Council/Manager
Area	17.82 Sq. Miles
Miles of Streets	147.86
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	80
Number of Auxiliary Police Officers	7
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	420
Permanent Part-Time	5
Temporary Full-Time	18
Temporary Part-Time	19

Table 14

CITY OF SALISBURY, NORTH CAROLINA

DEMOGRAPHIC STATISTICS

For the Year Ended June 30, 2002

Fiscal Year	Population Estimate⁽¹⁾	Per Capita Income⁽²⁾	Median Age⁽³⁾	Unemployment Rate⁽⁴⁾
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
1993	23,916	16,841	37.5	3.9

Sources:

- (1) 2002 and 1993-2000; North Carolina Office of State Planning
2001; U. S, Census
- (2) 2002 and 1996-2000; City of Salisbury Planning Division (estimate)
2001; U. S, Census
1993-95; State Library-Office of State Planning Statistical Database
- (3) 2002 and 1993-2000; City of Salisbury Planning Division (estimate)
2001; U. S, Census
- (4) N.C. Employment Security Commission
Note: Figures are for Rowan County

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
GOVERNMENT AUDITING STANDARDS**

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

We have audited the general purpose financial statements of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated August 28, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We did not audit the financial statements of Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Downtown Salisbury, Inc. is based solely on the report of the other auditors.

Compliance

As part of obtaining reasonable assurance about whether the City of Salisbury's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Greensboro, North Carolina
August 28, 2002

**INDEPENDENT AUDIROR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

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

Compliance

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2002. The City of Salisbury's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

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

In our opinion, the City of Salisbury complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

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.

McGladrey & Pullen, LLP
is an independent member
firm of RSM International,
an affiliation of independent
accounting and consulting firms.

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

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

Greensboro, North Carolina
August 28, 2002

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

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

Compliance

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2002. The City of Salisbury's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

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

In our opinion, the City of Salisbury complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

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

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

Greensboro, North Carolina
August 28, 2002

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2002

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantors' Number</u>	<u>Federal Direct & Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
FEDERAL GRANTS:					
CASH PROGRAMS					
U.S. ENVIRONMENTAL PROTECTION AGENCY					
Pass-through N.C. Department of Environment, Health and Natural Resources N.C. Clean Water Loans Bond Program	66.458	E-SRF-T-96/97-0079	\$ 7,636,000	\$ 1,564,000	\$ -
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-00-MC-37-0015	\$ 93,052	\$ -	\$ -
Entitlement Program	14.218	B-01-MC-37-0015	417,331	-	-
			<u>\$ 510,383</u>	<u>\$ -</u>	<u>\$ -</u>
Pass-through N.C. Department of Housing Finance Agency HOME Program					
	14.239	R-90-SG-37-0117	\$ 130,472	\$ -	\$ 156,752
Total U.S. Department of Housing And Urban Development			<u>\$ 640,855</u>	<u>\$ -</u>	<u>\$ 156,752</u>
U.S. DEPARTMENT OF JUSTICE					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
COPS Fast	16.710	95-CF-WX-3853	\$ 132,846	\$ -	\$ 81,558
COPS in Schools	16.710	2000-SH-WX-0245	32,409	-	-
COPS More	16.710	2001-CM-WX-0272	110,340	-	36,726
			<u>\$ 275,595</u>	<u>\$ -</u>	<u>\$ 118,284</u>
Bureau of Justice Assistance					
Direct Program:					
Local Law Enforcement Block Grant	16.592	2000-LB-VX-4779	\$ 25,435	\$ -	\$ 2,856
Local Law Enforcement Block Grant	16.592	2001-LB-VX-2345	23,757	-	2,640
			<u>\$ 49,192</u>	<u>\$ -</u>	<u>\$ 5,496</u>
Total U.S. Department of Justice			<u>\$ 324,787</u>	<u>\$ -</u>	<u>\$ 123,780</u>

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

**Year Ended June 30, 2002
(Continued)**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
U.S. DEPARTMENT OF TRANSPORTATION					
Urban Mass Transportation Grants					
Capital	20.507	9.9052051	\$ -	\$ 4,652	\$ 517
Urban Mass Transportation Grants					
Administration	20.507	9.9041983	\$ 71,741	\$ 16,305	\$ 20,653
Operating	20.507	9.9042824	92,512	-	327,997
			<u>\$ 164,253</u>	<u>\$ 16,305</u>	<u>\$ 348,650</u>
Total U.S. Department of Transportation			<u>\$ 164,253</u>	<u>\$ 20,957</u>	<u>\$ 349,167</u>
TOTAL ASSISTANCE - FEDERAL PROGRAMS			<u>\$ 8,765,895</u>	<u>\$ 1,584,957</u>	<u>\$ 629,699</u>
STATE GRANTS:					
CASH PROGRAMS					
N.C. DEPARTMENT OF TRANSPORTATION					
Powell Bill	N/A		\$ -	\$ 928,647	\$ -
State Maintenance Assistance for					
Transit Systems	N/A	9.9051123	\$ -	\$ 135,345	\$ -
Total N. C. Department of Transportation			<u>\$ -</u>	<u>\$ 1,063,992</u>	<u>\$ -</u>
N.C. DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES					
Division of Waste Management					
N. C. Leaking Petroleum Underground Storage Tank Removal Clean-up Fund	N/A	17640	\$ -	\$ 42,084	\$ 74,995
N.C. DEPARTMENT OF CRIME CONTROL AND PUBLIC SAFETY					
Division of Governor's Crime Commission					
Go-4-It	N/A	080-1-00-P01-J-043	\$ -	\$ 35,458	\$ -
TOTAL ASSISTANCE - STATE PROGRAMS			<u>\$ -</u>	<u>\$ 1,141,534</u>	<u>\$ 74,995</u>
TOTAL ASSISTANCE			<u>\$ 8,765,895</u>	<u>\$ 2,726,491</u>	<u>\$ 704,694</u>

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2002

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 general purpose financial statements.

2. Loans Outstanding

The City of Salisbury, North Carolina has the following loan balance outstanding at June 30, 2002. This loan balance outstanding also includes the federal and state expenditures reported on the attached schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Amount Outstanding</u>
N. C. Clean Water Loan Bond Program	66.458	E-SRF-T-96/97-0079	\$ 8,280,000

CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF COMPLIANCE FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2002

Section I. Summary of auditor's results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted Yes No

Federal Award

Internal control over major program:

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

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

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

Identification of major program:

CFDA Number
14.218

Name of Federal Program
Community Development Block Grant

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

Auditee qualified as low-risk auditee? Yes No

State Awards

Internal control over major State programs:

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

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

Any audit findings disclosed that are required to be reported in accordance State Single Audit Implementation Program Yes No

Identification of major programs: Department of Transportation, Powell Bill

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

None reported.

CITY OF SALISBURY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2002

There were no prior year audit findings.