

CITY OF SALISBURY

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2004

MAYOR, CITY COUNCIL, AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

Susan W. Kluttz - Mayor

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

William R. Burgin

William R. Kennedy

Mark N. Lewis

OFFICIALS

David W. Treme
City Manager

John A. Sofley, Jr.
Finance Director

Report Prepared By

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C. Michael Crowell - Technology Services Manager
Dewey D. Peck - Purchasing Agent
Clara A. Bost - Customer Service Supervisor



Introductory Section



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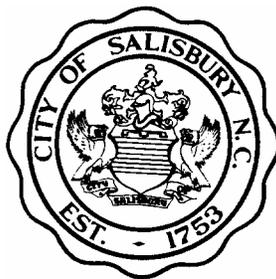
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October 29, 2004

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

We are pleased to present the Comprehensive Annual Financial Report (Report) of the City of Salisbury (City) for the fiscal year ended June 30, 2004 (FY04). We are particularly proud of the fact this Report has been entirely prepared by the City's Management Services Department. Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the City. We believe the data is accurate in all material respects, and it is presented in a manner designed to set forth fairly the financial position and the results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The accompanying financial statements have been audited by McGladrey & Pullen, LLP, an independent firm of certified public accountants, and their opinion is included in the Report.

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

GENERAL

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

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

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

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

The City's Comprehensive Annual Financial Report for the year ended June 30, 2003, was awarded a Certificate of Achievement for Excellence in Financial Reporting. A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report meets the Certificate of Achievement Program's requirements and intend to submit it to the GFOA to determine its eligibility for another certificate.

ECONOMIC CONDITION AND OUTLOOK

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

The location also allows the City to serve as a trading and distribution center for the County and portions of surrounding counties. The nation's economy has slowed in the past few years and the economy in Salisbury and Rowan County has been adversely affected. However, there are signs that the local economy is beginning to recover. Gross retail sales in Salisbury for the twelve months ended June 30, 2004, increased by \$30,203,908, or 4.5 percent from the prior fiscal year to \$706,728,302. Gross retail sales in Salisbury were higher in FY04 than any fiscal year in history. Total Rowan County sales increased slightly from the prior year, by less than one percent, to \$1,124,462,984. The City has had some recent additions to its largest retail center, which have helped to stabilize the City's retail sales.

The prevailing economic conditions have taken a toll on the region's unemployment rates. While Salisbury has typically fared well economically in comparison to many other locales, the area has not been exempt from the rise in unemployment over the past three years, which is discussed in the Management's Discussion and Analysis.

In contrast to the otherwise negative economic news, the City's downtown area continues to flourish. The downtown business district is a thriving retail center for area merchants. The City continues to support and encourage the revitalization of the downtown business district that began in the early 1980's. Since that time a total of over \$73 million has been invested in the redevelopment of Salisbury's downtown. In the downtown area, 95% of the first floor business and retail space is currently occupied. The story of downtown Salisbury is one of public-private partnerships committed to maintaining our place as one of the best downtown districts in North Carolina.

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

MAJOR INITIATIVES

The fiscal year ended June 30, 2004, was a challenging one in many ways. The City continues to feel the repercussions of permanent eliminations of certain state-shared revenues in the past two years. This revenue loss was only partially offset by revenues from an additional one-half cent sales tax and the new State hold-harmless funds. 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 FY04. Areas worth noting were the continued progress in the City's improvement of neighborhoods, downtown revitalization, and the extension of the water and sewer system service area. Also, the various departments that make up City government continue to thrive, as evidenced by the receipt of several national, state, and local awards.

The improvement of City neighborhoods and communities is one of the foremost goals that came from the City Council's Annual Future Directions and Goal Setting Conference. One of the City's key projects of the Community Development department over the past two years has been the revitalization of the Park Avenue neighborhood. The City's Park Avenue Neighborhood Plan has 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 FY04 the City completed renovations of existing historic buildings to form the Park Avenue Community Center and a grand opening was held in November 2003. In addition to the highly successful Park Avenue project, the City has been very active in 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 built eleven new houses in Jersey City. These new homes are being sold to first-time home buyers. The revitalization in the Jersey City neighborhood also is an award winner, receiving a Housing North Carolina Award that recognizes affordable housing developments that serve as models for other communities. The Jersey City project is meeting the goals of the City's Vision 2020 plan and Council goals of putting City residents in new housing and increasing the City's tax base.

The revitalization of Salisbury's downtown area continues to surge ahead. Over three million dollars was invested into the downtown during FY04 by various public and private organizations. These investments included nine general building renovations and four new facades. Salisbury's downtown notched net gains of fourteen new businesses and twenty new jobs in the past fiscal year. The City has worked with Downtown Salisbury, Inc. to bring even more people to the downtown through the creation of a new downtown Farmers Market and increasing the number of festivals held in the downtown area. The City has virtually completed a downtown streetscape enhancement project in the Council Street area. This project included sidewalk improvements, decorative street lights, and other enhancements and was funded primarily by a grant from the State of North Carolina Department of Transportation.

The entire state of North Carolina has emerged from a four-year drought. The drought left many communities, including those in the southern part of Rowan County, with concerns about potential water shortages in the event of another prolonged drought in the future. Because Salisbury has an ample supply of water, the City is in a position of being able to provide help for other municipalities. A new water line has been completed and the City is now providing water to three additional municipalities, adding to the four Rowan County towns the

City was already supplying. Also, the City completed a new emergency water line connection with the City of Statesville that could supply needed water to either city in the case of future water shortages. The additional customers serviced by these new water lines necessitated that the City expand its water treatment plant which is nearly complete. The completion of these projects and the addition of new customers will help the City to maintain reasonable water and sewer rates in the future.

City Council also desires to maintain the quality management of the City and each of its departments. One way of validating the quality of a City department is to seek national, state, and local recognition. The City received the 2004 Rowan County Employer of the Year award in recognition of the City's efforts to hire, train, and retain deserving employees. Also, the North Carolina Employment Security Commission presented the City's Human Resources department with a plaque recognizing the City's outstanding contributions to the economy through its community involvement. The City's Management Services Department continues to excel as well, winning awards for both the Annual Budget and the Comprehensive Annual Financial Report from the Government Finance Officers Association of the United States and Canada.

FUTURE DEVELOPMENTS

The City's downtown revitalization is far from complete. The Downtown Master Plan Committee recently completed a market-driven plan that will guide development for the next twenty years. Projects scheduled to begin during FY05 include the renovation of the Washington Building on North Main Street and construction of the Firehouse Urban Lofts, a new mixed-used development that will include condominiums and shops. Other future developments include the potential revitalization of the Lee Street Warehouse District. Various architects and planners have come together to develop ideas for the revitalization of this area. City Council and Downtown Salisbury have had discussions about the possible purchase and renovation of the former Empire Hotel, which is near the center of the downtown area. That renovation, along with the possible construction of a downtown Convention Center, would be major projects in the comprehensive Downtown Salisbury Master Plan.

The City's Community Development department will continue its efforts to meet Council's goals to improve the City's neighborhoods. Much of that effort in FY05 will be focused on the Jersey City neighborhood. The City will continue to renovate deteriorated houses in the neighborhood as well as build new houses for first-time home buyers. Other plans for the neighborhood include establishing a neighborhood connection to the City's greenway and improving the appearance of the neighborhood's entrance, sidewalks, and streets.

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

REPORTING ENTITY

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

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

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

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

SERVICES PROVIDED

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

GOVERNMENT STRUCTURE

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

ACCOUNTING SYSTEMS AND BUDGETARY CONTROL

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

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

As a recipient of federal and state awards, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management. As a part of the City's single audit described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state awards, as well as to determine that the City has complied

with applicable laws and regulations. The results of the City's single audit for FY04 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, 2004.

BASIS OF ACCOUNTING

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

FUND ACCOUNTING

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

FUND AND ACCOUNT GROUP CATEGORIES

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

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

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

FINANCIAL MANAGEMENT

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

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

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

CASH MANAGEMENT

The City's temporary idle cash is invested in interest-bearing demand deposits, certificates of deposit, obligations of the U.S. Treasury and federal agencies, bankers acceptances, commercial paper, and the North Carolina Capital Management Trust. All revenues received are deposited the same day in a consolidated interest-bearing bank account. This bank account is drawn upon to meet all payroll and payable obligations, and the City maintains in this account only as much money as is required to meet current obligations. All other idle cash is invested in instruments authorized by the General Statutes of North Carolina. The average yield on investments was 1.28% for the year ended June 30, 2004.

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, 2004, is classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board. The remainder of the City's investment portfolio is exempt from risk categorization because it was invested in the NC Capital Management Trust, an SEC registered mutual fund where the City is only a shareholder of a percentage of the fund and does not own any identifiable securities.

RISK MANAGEMENT

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

CONCLUSION

The City has started to overcome the effects of the slowing economy and the withholding of revenues by the Governor of North Carolina. In addition to reaping the benefits of the City's annexation that was completed in June 2003, the City has been fortunate to continue to experience growth in its revenue base from increased tax valuations during FY04. This growth has helped to reduce the effects of the loss of other revenues and assure our citizens that the City will be able to continue to provide the quality of services that they have come to expect.

The City's water and sewer utility will continue its transformation from a small municipal system to a diversified, broad-based, county-wide service provider. Partnerships with Rowan County, other municipalities in the County, and Rowan County Power, LLC have led to the extension of the City's services and the expansion of the water treatment plant. While the Water and Sewer fund has made considerable

progress toward its goal of being “the finest utility operation in the state and region,” many challenges and opportunities for improvement still exist. The City is in the process of developing a plan for the expansion and renovation of its aging wastewater infrastructure and treatment facilities. Efforts are being made to identify and eliminate storm water inflow and infiltration that cause sewer overflows and use up system capacity. Also, the City will be reviewing the protection of its utility systems by conducting an EPA-mandated Vulnerability Assessment. Despite the challenges that lie ahead, the City believes that water sales from the new distribution lines will provide sufficient revenues to stabilize water and sewer rates and keep the Water and Sewer Fund on solid ground.

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

ACKNOWLEDGMENTS

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

For the preparation of this Report, the City is especially indebted to Mark D. Drye, 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
Finance Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Salisbury,
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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

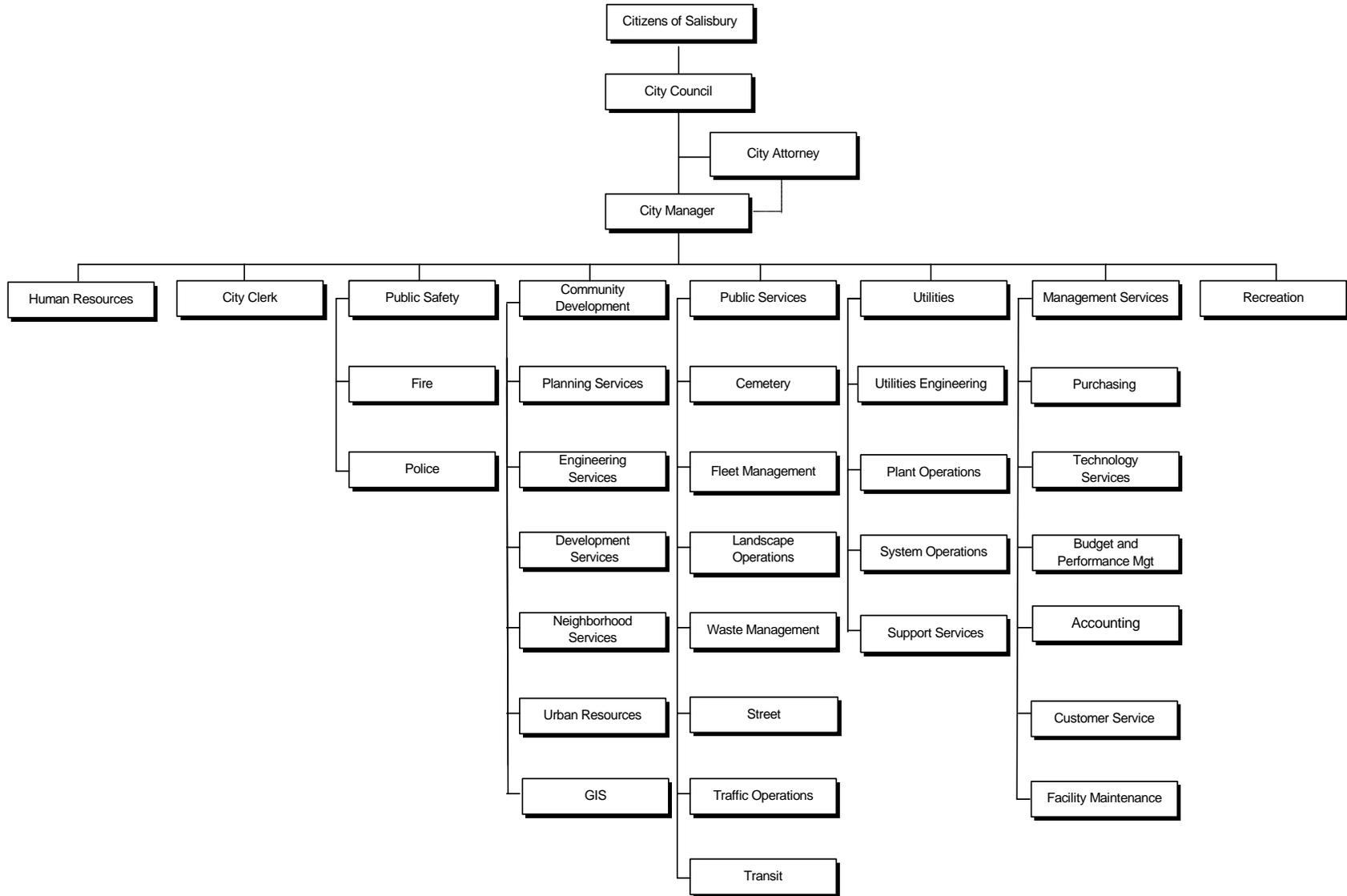


President

Executive Director

CITY OF SALISBURY

ORGANIZATIONAL CHART



CITY OF SALISBURY
LIST OF PRINCIPAL OFFICIALS

June 30, 2004

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

FACTS AND INFORMATION ABOUT THE CITY OF SALISBURY, NORTH CAROLINA

LOCATION

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

CLIMATE

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

POPULATION

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

HISTORY

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

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

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

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

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

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

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

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

GOVERNMENT

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

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

UTILITIES

Salisbury operates its own water and sewer system. The Yadkin River, which forms the northeast boundary of Rowan County, provides Salisbury with an abundant supply of good water. The average daily flow is nearly 2 billion gallons per day, and the minimum recorded one-day flow is 150 million gallons. The Salisbury water system, conventional in design and closely controlled, has a treatment capacity of 12 million gallons per day. Average daily usage during fiscal year 2004 was 6.1 million gallons per day. The filter plant is designed for expansion as needed to 18 million gallons per day by adding pumping and settling capacity. An arterial system of distribution mains has been constructed to assure maximum fire protection to all parts of the city.

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

Salisbury's four wastewater treatment facilities serve as the area's regional wastewater utility with service expansion to the towns of Landis, China Grove, East Spencer, Granite Quarry, and Rockwell. Total daily treatment capacity in 2003 was 12.5 million gallons. Average daily treatment in FY 2004 was 7.77 million gallons per day.

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

TRANSPORTATION

Salisbury, nearly the geographic and population center of North Carolina, is located on Interstate Highway 85, 42 miles from Charlotte, 52 miles from Greensboro and

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

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

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

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

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

MOTELS

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

EDUCATION

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

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

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

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

ARTS AND ENTERTAINMENT

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

The Piedmont Players, a community little theater organization, provides excellent entertainment as well as a chance to participate in both its acting and technical activities. They have completely restored the historic Meroney Theater, built in 1905, for their home. The Piedmont Players present five shows each season. In addition to these five shows, all fourth and fifth graders in the Rowan-Salisbury School System attend the theater for an annual production that is cast entirely with children. Piedmont Players has received an award at the annual North Carolina Theatre Conference for having the best community theater in the state.

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

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

COMMUNITY FACILITIES

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

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

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

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

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

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

SPECIAL EVENTS

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



Financial Section

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Salisbury, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and for the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 27, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (pages 23 - 32) and the required supplementary information (pages 67 - 68) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salisbury, North Carolina's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As described in Note 6 to the financial statements, during the year ended June 30, 2004 City of Salisbury, North Carolina changed its method of accounting for the recognition of local option sales tax which is collected and distributed by the State of North Carolina.

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Salisbury, North Carolina, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Salisbury for the fiscal year ended June 30, 2004. We encourage readers to read the information presented here in conjunction with the transmittal letter which begins on page 4 and the City's financial statements, which begin on page 33.

FINANCIAL HIGHLIGHTS

- The assets of the City of Salisbury's governmental and business-type activities exceeded its liabilities at the close of the fiscal year by \$112,197,875 (*net assets*).
- The government's total net assets increased by \$2,275,984. This increase is primarily attributable to a decrease in total liabilities of \$3,364,011, including a \$1,470,778 decrease in long-term debt.
- As of the close of the current fiscal year, the City of Salisbury's governmental funds reported combined ending fund balances of \$5,631,039, an increase of \$237,746 in comparison with the prior year. Approximately 53 percent of this total amount, or \$2,956,660, is available in the General Fund for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund of \$2,956,660 was 10.7 percent of total general fund expenditures for the fiscal year.
- The City of Salisbury's total debt decreased by \$1,470,779 (2.42%) during the current fiscal year. The City did issue almost \$2 million of new installment purchase debt for the purpose of purchasing telecommunications equipment.
- The City's bond ratings of "A1" by Moody's Investors Service and "A+" by Standard and Poor's were reaffirmed in July 2003. Also, the most recent bond rating from Fitch Ratings was an "A+".

OVERVIEW OF THE FINANCIAL STATEMENTS

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 44-64 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

THE CITY OF SALISBURY'S NET ASSETS

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 9,137,721	\$ 7,950,263	\$ 15,575,434	\$ 22,296,891	\$ 24,713,155	\$ 30,247,154
Capital assets	37,209,414	36,223,384	115,232,166	111,597,377	152,441,580	147,820,761
Total assets	\$ 46,347,135	\$ 44,173,647	\$ 130,807,600	\$ 133,894,268	\$ 177,154,735	\$ 178,067,915
Long-term liabilities outstanding	\$ 8,511,837	\$ 6,741,960	\$ 50,901,980	\$ 54,142,635	\$ 59,413,817	\$ 60,884,595
Other liabilities	2,760,306	1,922,702	2,782,737	5,513,574	5,543,043	7,436,276
Total liabilities	\$ 11,272,143	\$ 8,664,662	\$ 53,684,717	\$ 59,656,209	\$ 64,956,860	\$ 68,320,871
Net assets:						
Invested in capital assets, net of related debt	\$ 30,380,102	\$ 30,737,822	\$ 62,840,912	\$ 54,424,878	\$ 93,221,014	\$ 85,162,700
Restricted	-	-	9,509,125	14,031,729	9,509,125	14,031,729
Unrestricted	4,694,890	4,771,163	4,772,846	5,781,452	9,467,736	10,552,615
Total net assets	\$ 35,074,992	\$ 35,508,985	\$ 77,122,883	\$ 74,238,059	\$ 112,197,875	\$ 109,747,044
Total liabilities and net assets	\$ 46,347,135	\$ 44,173,647	\$ 130,807,600	\$ 133,894,268	\$ 177,154,735	\$ 178,067,915

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Salisbury exceeded liabilities by \$112,197,875 as of June 30, 2004. The City's net assets increased by \$2,275,984 for the fiscal year ended June 30, 2004.

The largest portion of the City's net assets (83.1%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, equipment, water and sewer treatment facilities, and water and sewer lines), less any related debt still outstanding that was issued to acquire or build those items. The City of Salisbury uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Salisbury's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the City of Salisbury's net assets (8.5%) represents resources that are subject to restrictions on how they may be used, primarily for water and sewer capital projects. The remaining balance of \$9,467,736 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.78%, which is comparable to the statewide average of 97.10%.
- Increased sales tax revenues of \$850,362 due primarily to the adoption of an additional one-half cent tax.
- Increased property tax revenues of \$1,320,188 due primarily to economic growth and annexation.
- Continued low cost of debt due to the City's high bond rating.

CITY OF SALISBURY CHANGES IN NET ASSETS

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 5,044,562	\$ 4,660,367	\$ 14,548,732	\$ 14,367,853	\$ 19,593,294	\$ 19,028,220
Operating grants and contributions	1,632,833	3,187,615	372,506	372,724	2,005,339	3,560,339
Capital grants and contributions	605,851	4,990,317	2,821,330	9,927,332	3,427,181	14,917,649
General revenues:					-	-
Property taxes	12,608,225	11,220,630	-	-	12,608,225	11,220,630
Other taxes	4,232,748	3,382,414	-	-	4,232,748	3,382,414
Intergovernmental revenue	2,822,659	2,092,831	-	-	2,822,659	2,092,831
Other	359,275	279,695	1,823,513	1,315,857	2,182,788	1,595,552
Total revenues	\$ 27,306,153	\$ 29,813,869	\$ 19,566,081	\$ 25,983,766	\$ 46,872,234	\$ 55,797,635
Expenses:						
General government	\$ 5,887,422	\$ 5,975,738	\$ -	\$ -	\$ 5,887,422	\$ 5,975,738
Public safety	10,111,491	9,739,181	-	-	10,111,491	9,739,181
Transportation	4,869,631	4,313,179	-	-	4,869,631	4,313,179
Environmental protection	1,619,517	1,469,017	-	-	1,619,517	1,469,017
Culture and recreation	2,579,491	2,392,991	-	-	2,579,491	2,392,991
Community and economic development	2,386,640	2,013,771	-	-	2,386,640	2,013,771
Education	42,342	42,342	-	-	42,342	42,342
Interest on long-term debt	258,177	251,693	-	-	258,177	251,693
Water and sewer	-	-	16,179,987	15,484,513	16,179,987	15,484,513
Mass transit	-	-	661,552	629,268	661,552	629,268
Total expenses	\$ 27,754,711	\$ 26,197,912	\$ 16,841,539	\$ 16,113,781	\$ 44,596,250	\$ 42,311,693
Change in net assets before transfers	\$ (448,558)	\$ 3,615,957	\$ 2,724,542	\$ 9,869,985	\$ 2,275,984	\$ 13,485,942
Transfers	(160,282)	(160,282)	160,282	160,282	-	-
Change in net assets	\$ (608,840)	\$ 3,455,675	\$ 2,884,824	\$ 10,030,267	\$ 2,275,984	\$ 13,485,942
Net assets, July 1	35,683,832	32,228,157	74,238,059	64,207,792	109,921,891	96,435,949
Net assets, June 30	\$ 35,074,992	\$ 35,683,832	\$ 77,122,883	\$ 74,238,059	\$ 112,197,875	\$ 109,921,891

Governmental activities - Governmental activities decreased the City's net assets by \$608,840. This decrease is due primarily to recording \$2,764,589 in depreciation expense, a non-cash, non-budget expense item.

Business-type activities - Business-type activities increased the City of Salisbury's net assets by \$2,884,824. This increase is primarily due to \$2,821,330 capital contributions received from the City's partners in its various capital projects. These contributions were used to construct capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

The general fund is the chief operating fund of the City of Salisbury. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,956,660, while total fund balance for the General Fund reached \$5,809,933. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10.7 percent of total General Fund expenditures, while total fund balance represents 21 percent of that same amount.

At June 30, 2004, the governmental funds of the City of Salisbury reported a combined fund balance of \$5,631,039, a \$237,746 or 4.2 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Special Revenue Funds.

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

Total amendments to the General Fund increased revenues and expenditures by \$584,338. The difference between the original budget and the final amended budget can be briefly summarized as follows:

- Funds were appropriated for the receipt of a \$244,686 grant from the Federal Emergency Management Agency to purchase fire equipment.
- Funds were appropriated for various donations totaling \$289,752.
- Funds were appropriated for the receipt of \$41,225 from various grants that are restricted for use for the Police Department.

Revenues were less than the budgeted amounts primarily because some appropriated grant funds and donations had not been earned and therefore, not received by June 30, 2004. The City had not earned these funds because the related expenditures had not been made. Therefore, these unearned grants had no effect on the General Fund's change in fund balance, which increased by \$555,597 during the fiscal year ended June 30, 2004.

Proprietary Funds

The City of Salisbury's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$4,653,397, and those for the Mass Transit Fund amounted to \$119,449. The total growth in net assets for the Water and Sewer Fund was \$2,943,536. The net assets of the Mass Transit Fund decreased by \$58,172. Other factors

concerning the finances of these two funds have already been addressed in the discussion of the City of Salisbury's business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The City of Salisbury's investment in capital assets for its governmental and business-type activities as of June 30, 2004 totals \$152,441,580 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles, water and sewer treatment facilities, and water and sewer lines. The City's capital assets in the governmental and business-type activities increased 2.7 percent and 3.3 percent, respectively.

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

- Construction of water and sewer capital assets of \$6,151,120. The City completed several large projects including new water lines to southern Rowan County and the Highway 70 corridor in the western part of the City. Also, the City is nearing completion of a new water treatment plant.
- Purchase of new emergency telecommunications equipment for \$2,966,089.
- Purchase of various vehicles, including eighteen police cars, totaling \$756,046.

CITY OF SALISBURY'S CAPITAL ASSETS

(net of depreciation)

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 3,157,445	\$ 3,157,445	\$ 2,072,067	\$ 2,072,067	\$ 5,229,512	\$ 5,229,512
Construction in progress	109,408	-	10,638,635	30,335,894	10,748,043	30,335,894
Buildings	1,366,360	1,432,457	2,061,602	2,265,306	3,427,962	3,697,763
Improvements other than buildings	7,525,086	7,498,109			7,525,086	7,498,109
Equipment	2,501,638	294,848	746,771	349,084	3,248,409	643,932
Vehicles and motorized equipment	1,470,488	1,852,926	752,234	751,253	2,222,722	2,604,179
Infrastructure	21,078,989	21,987,599	98,960,857	75,823,773	120,039,846	97,811,372
Total	\$ 37,209,414	\$ 36,223,384	\$ 115,232,166	\$ 111,597,377	\$ 152,441,580	\$ 147,820,761

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

Long-term Debt - As of June 30, 2004, the City of Salisbury had total long-term debt outstanding of \$58,327,292. Of this, \$15,750,537 is debt backed by the full faith and credit of the City and \$20,972,259 represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

CITY OF SALISBURY'S OUTSTANDING DEBT
(not including compensated absences)

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 2,465,000	\$ 2,645,000	\$13,285,537	\$14,805,000	\$15,750,537	\$17,450,000
Revenue bonds	-	-	20,972,259	21,541,269	20,972,259	21,541,269
State bond loans	-	-	13,302,578	14,185,084	13,302,578	14,185,084
Capital leases	-	-	3,341,606	3,611,282	3,341,606	3,611,282
Installment purchases	4,364,312	2,840,562	-	-	4,364,312	2,840,562
HUD Section 108 loan	596,000	221,000	-	-	596,000	221,000
Total	\$ 7,425,312	\$ 5,706,562	\$50,901,980	\$54,142,635	\$58,327,292	\$59,849,197

The City of Salisbury's total debt decreased by \$1,521,905 (2.54%) during the past fiscal year despite issuing \$1,990,500 in installment purchase financing to purchase real estate.

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

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Salisbury is \$152,707,263.

During the fiscal year ended June 30, 2004, the City refinanced some of its existing debt to take advantage of historically low interest rates. On August 12, 2003, the City refunded \$11.9 million of Water and Sewer debt with a \$12.1 million general obligation issue. Total debt payments will be reduced by \$352,806.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- The unemployment rate for June 2004 in Rowan County was 8.0%, which is an increase from a rate of 6.4% a year ago. This average unemployment rate for the State of North Carolina was 5.5% per year. In the fall of 2003, a local textile manufacturer closed and the unemployment rates for Rowan County increased drastically. The County experienced a 10.2% average unemployment rate for the year, but the employment outlook in Rowan County has improved recently. The unemployment rate has continued to drop since June to 5.6% in August 2004. Employees who lost their jobs when the textile plant closed are finding new jobs and Rowan County's largest employer, Freightliner, has recently hired 1,000 new employees.

- The occupancy rates for first floor office and retail space in the City's downtown area is approximately 95%.
- Inflationary trends in the region compare favorably to national indices.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2005

Governmental Activities

General Fund - Property taxes, benefiting from economic growth and a tax rate increase, will lead the way to an overall 6% projected increase in General Fund revenues. Current year property taxes are projected to increase by over \$1.2 million, or 10%. The City has also implemented a new \$10 annual vehicle tax to replace reduced levels of street funding from the State of North Carolina. The City plans to finance two projects through installment purchase contracts— the \$3.5 million renovation and expansion of the Police Station and the purchase of a fire truck for \$451,000.

Expenditures in the General Fund are expected to rise approximately 6.9 percent to \$29,807,536. Personnel cost in the General Fund will increase by about \$770,000. Salisbury's City Council approved an average two percent merit raise and health insurance premiums will increase by 5%. Also, City Council approved an additional \$384,000 for market adjustments to wages for various classes of employees.

Business – Type Activities

Water and Sewer Fund - The water and sewer rates in the City will increase by 6.41%, primarily to compensate for decrease in water usage by its customers. This decrease in usage is attributable to changes in customers' usage habits that have carried over from the drought in 2002. Also, 2003 had excessive rainfall which led to decrease use of irrigation systems. The additions of new large volume customers including Progress Energy, the Town of China Grove, Town of Landis, and the City of Kannapolis have helped to offset the decreased usage of other customers to some extent, and therefore, has helped to avoid even higher rate increases. General operating expenses will increase by 6% to cover increased personnel costs, and 3% to cover increased costs of material, supplies, and other operating expenses.

Mass Transit Fund – Operating revenues and expenditures for the Mass Transit Fund are not expected to change significantly. The slight increases in personnel and maintenance costs will be offset by increased funding from federal and state grants. The City did budget and will receive four 30-foot buses with 90% of the capital costs being reimbursed by the NC Department of Transportation.

REQUESTS FOR INFORMATION

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

A-1
City of Salisbury, North Carolina
Statement of Net Assets
June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 6,031,266	\$ 2,358,331	\$ 8,389,597	\$ 115,753
Taxes receivables (net)	578,739	-	578,739	-
Accrued interest receivable on taxes	79,000	-	79,000	-
Accounts receivable (net)	379,678	2,234,085	2,613,763	451
Interest receivable	26,508	8,687	35,195	-
Due from other governments	1,849,366	154,098	2,003,464	-
Inventories	158,628	280,832	439,460	-
Prepaid items	1,958	-	1,958	-
Intangible asset - advance funding of pension obligation	32,578	-	32,578	-
Restricted assets:				
Cash and cash equivalents	-	10,192,574	10,192,574	-
Interest receivable	-	43,339	43,339	-
Due from other governments	-	303,488	303,488	-
Capital assets				
Land, improvements, and construction in progress	3,266,853	12,710,702	15,977,555	-
Other capital assets, net of depreciation	<u>33,942,561</u>	<u>102,521,464</u>	<u>136,464,025</u>	<u>23,742</u>
Total assets	<u>\$ 46,347,135</u>	<u>\$ 130,807,600</u>	<u>\$ 177,154,735</u>	<u>\$ 139,946</u>
LIABILITIES				
Accounts payable and accrued expenses	\$ 2,370,482	\$ 877,217	\$ 3,247,699	\$ 6,174
Unearned revenue	366,342	-	366,342	-
Accrued interest payable	23,482	458,998	482,480	-
Customer deposits	-	416,246	416,246	-
Liabilities to be paid from restricted assets	-	1,030,276	1,030,276	-
Long-term liabilities:				
Due within one year	618,937	3,213,615	3,832,552	-
Due in more than one year	<u>7,892,900</u>	<u>47,688,365</u>	<u>55,581,265</u>	<u>-</u>
Total liabilities	<u>\$ 11,272,143</u>	<u>\$ 53,684,717</u>	<u>\$ 64,956,860</u>	<u>\$ 6,174</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 30,380,102	\$ 62,840,912	\$ 93,221,014	\$ -
Restricted for:				
Capital projects	-	9,509,125	9,509,125	-
Unrestricted	<u>4,694,890</u>	<u>4,772,846</u>	<u>9,467,736</u>	<u>133,772</u>
Total net assets	<u>\$ 35,074,992</u>	<u>\$ 77,122,883</u>	<u>\$ 112,197,875</u>	<u>\$ 133,772</u>

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

City of Salisbury, North Carolina

Statement of Activities

For the Year Ended June 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
Primary government:								
Governmental Activities:								
General government	\$ 5,887,422	\$ 3,009,494	\$ 5,355	\$ -	\$ (2,872,573)	\$ -	\$ (2,872,573)	\$ -
Public safety	10,111,491	414,782	116,787	325,284	(9,254,638)	-	(9,254,638)	-
Transportation	4,869,631	40,219	904,419	169,856	(3,755,137)	-	(3,755,137)	-
Environmental protection	1,619,517	954,506	-	-	(665,011)	-	(665,011)	-
Culture and recreation	2,579,491	236,236	170,950	89,264	(2,083,041)	-	(2,083,041)	-
Community and economic development	2,386,640	389,325	435,322	21,447	(1,540,546)	-	(1,540,546)	-
Education	42,342	-	-	-	(42,342)	-	(42,342)	-
Interest on long-term debt	258,177	-	-	-	(258,177)	-	(258,177)	-
Total governmental activities	\$ 27,754,711	\$ 5,044,562	\$ 1,632,833	\$ 605,851	\$ (20,471,465)	\$ -	\$ (20,471,465)	\$ -
Business-type activities:								
Water and sewer	\$ 16,179,987	\$ 14,484,161	\$ -	\$ 2,821,330	\$ -	\$ 1,125,504	\$ 1,125,504	\$ -
Transit	661,552	64,571	372,506	-	-	(224,475)	(224,475)	-
Total business-type activities	\$ 16,841,539	\$ 14,548,732	\$ 372,506	\$ 2,821,330	\$ -	\$ 901,029	\$ 901,029	\$ -
Total primary government	\$ 44,596,250	\$ 19,593,294	\$ 2,005,339	\$ 3,427,181	\$ (20,471,465)	\$ 901,029	\$ (19,570,436)	\$ -
Component units:								
Downtown Salisbury, Inc.	\$ 340,013	\$ 12,947	\$ 67,750	\$ -	\$ -	\$ -	\$ -	\$ (259,316)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					\$ 12,608,225	\$ -	\$ 12,608,225	\$ 107,888
Sales and other taxes					4,232,748		4,232,748	-
Intergovernmental revenues					2,822,659		2,822,659	
Unrestricted investment earnings					81,428	184,999	266,427	913
Miscellaneous					277,847	1,638,514	1,916,361	14,832
Transfers					(160,282)	160,282	-	-
Total general revenues, special items, and transfers					\$ 19,862,625	\$ 1,983,795	\$ 21,846,420	\$ 123,633
Change in net assets					\$ (608,840)	\$ 2,884,824	\$ 2,275,984	\$ (135,683)
Net assets-beginning					35,683,832	74,238,059	109,921,891	269,455
Net assets-ending					\$ 35,074,992	\$ 77,122,883	\$ 112,197,875	\$ 133,772

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

A-3
City of Salisbury, North Carolina
Balance Sheet
Governmental Funds
June 30, 2004

	General	Non-Major Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 5,300,374	\$ 182,265	\$ 5,482,639
Taxes receivable, net	578,739	-	578,739
Accounts receivable	367,799	11,879	379,678
Interest receivable	24,531	-	24,531
Due from other governments	1,840,984	8,382	1,849,366
Due from other fund	360,424	-	360,424
Inventories	158,628	-	158,628
Prepaid items	1,958	-	1,958
	<u>\$ 8,633,437</u>	<u>\$ 202,526</u>	<u>\$ 8,835,963</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,878,423	\$ 20,996	\$ 1,899,419
Due to other funds	-	360,424	360,424
Deferred revenue	945,081	-	945,081
	<u>\$ 2,823,504</u>	<u>\$ 381,420</u>	<u>\$ 3,204,924</u>
Fund balances:			
Reserved for:			
Encumbrances	\$ 98,949	\$ -	\$ 98,949
Inventories	158,628	-	158,628
Prepaid items	1,958	-	1,958
State statute	2,593,738	194,155	2,787,893
Unreserved, General Fund	2,956,660	-	2,956,660
Unreserved, reported in:			
Capital Projects Fund	-	(373,049)	(373,049)
	<u>\$ 5,809,933</u>	<u>\$ (178,894)</u>	<u>\$ 5,631,039</u>
Total liabilities and fund balances	<u>\$ 8,633,437</u>	<u>\$ 202,526</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	37,209,414
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Accrued interest receivable from taxes	79,000
Intangible asset - advance funding of pension obligation	32,578
Internal service funds are used by management to charge the costs of certain activities, such as self insurance for health care and workers compensation, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	79,541
Liabilities for earned but deferred revenues in fund statements.	578,739
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	(8,535,319)
Net assets of governmental activities	<u>\$ 35,074,992</u>

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

City of Salisbury, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 16,749,950	\$ -	\$ 16,749,950
Intergovernmental	4,811,970	407,340	5,219,310
Charges for services	4,362,101	-	4,362,101
Miscellaneous	<u>505,044</u>	<u>389,325</u>	<u>894,369</u>
Total revenues	<u>\$ 26,429,065</u>	<u>\$ 796,665</u>	<u>\$ 27,225,730</u>
EXPENDITURES			
Current:			
General government	\$ 7,784,039	\$ 158,560	\$ 7,942,599
Public safety	9,756,930	338,725	10,095,655
Transportation	3,600,475	-	3,600,475
Environmental protection	1,671,908	-	1,671,908
Culture and recreation	2,559,219	9,155	2,568,374
Community and economic development	1,391,586	983,076	2,374,662
Education	42,342	-	42,342
Debt service:			
Principal	646,750	-	646,750
Interest	<u>250,437</u>	<u>-</u>	<u>250,437</u>
Total expenditures	<u>\$ 27,703,686</u>	<u>\$ 1,489,516</u>	<u>\$ 29,193,202</u>
Deficiency of revenues over expenditures	<u>\$ (1,274,621)</u>	<u>\$ (692,851)</u>	<u>\$ (1,967,472)</u>
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	\$ (160,282)	\$ -	\$ (160,282)
Proceeds from issuance of long-term debt	<u>1,990,500</u>	<u>375,000</u>	<u>2,365,500</u>
Total other financing sources	<u>\$ 1,830,218</u>	<u>\$ 375,000</u>	<u>\$ 2,205,218</u>
Net change in fund balance	\$ 555,597	\$ (317,851)	\$ 237,746
Fund balances-beginning	<u>5,254,336</u>	<u>138,957</u>	<u>5,393,293</u>
Fund balances (deficit)-ending	<u>\$ 5,809,933</u>	<u>\$ (178,894)</u>	<u>\$ 5,631,039</u>

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

City of Salisbury, North Carolina

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

For the Year Ended June 30, 2004

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

Net changes in fund balances - total governmental funds	\$ 237,746
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Changes in deferred revenue for property tax revenues	63,723
Changes in deferred revenue for franchise tax revenues	(476,290)
Changes in accrued interest receivable on taxes	27,300
Changes in advance funding of pension obligation	32,578
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	3,595,677
Infrastructure contributed by developers is considered a capital contribution for the statements of activities.	168,000
Depreciation is recognized as an expense in the statement of activities.	(2,764,589)
Internal service funds are used by management to charge costs of certain activities, such as self-insurance for health care and workers compensation, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.	297,690
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.	
Issuance of long-term debt	(2,365,500)
Repayment of principal on long-term debt	646,750
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(51,127)
Change in accrued interest payable	(7,740)
Loss on disposal of assets	(13,058)
Total changes in net assets of governmental activities	<u>\$ (608,840)</u>

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

A-6

City of Salisbury, North Carolina
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2004

	General Fund			Variance with
	Original			Final Budget
	Budget	Final Budget	Actual	Positive (Negative)
Revenues:				
Taxes	\$ 16,568,241	\$ 16,568,241	\$ 16,749,950	\$ 181,709
Intergovernmental	4,849,762	5,135,673	4,811,970	(323,703)
Charges for services	4,489,018	4,489,018	4,362,101	(126,917)
Miscellaneous	1,003,722	1,302,149	505,044	(797,105)
Total revenues	<u>\$ 26,910,743</u>	<u>\$ 27,495,081</u>	<u>\$ 26,429,065</u>	<u>\$ (1,066,016)</u>
Expenditures:				
Current:				
General government	\$ 7,440,615	\$ 8,016,615	\$ 7,784,039	\$ 232,576
Public safety	9,826,583	10,156,794	9,756,930	399,864
Transportation	4,646,312	4,160,012	3,600,475	559,537
Environmental protection	1,724,195	1,752,195	1,671,908	80,287
Cultural and recreation	2,507,565	2,636,334	2,559,219	77,115
Community and economic development	1,546,508	1,803,166	1,391,586	411,580
Education	42,342	42,342	42,342	-
Debt service:				
Principal retirement	815,094	651,394	646,750	4,644
Interest and other charges	337,854	252,554	250,437	2,117
Total expenditures	<u>\$ 28,887,068</u>	<u>\$ 29,471,406</u>	<u>\$ 27,703,686</u>	<u>\$ 1,767,720</u>
Deficiency of revenues over expenditures	<u>\$ (1,976,325)</u>	<u>\$ (1,976,325)</u>	<u>\$ (1,274,621)</u>	<u>\$ 701,704</u>
Other financing sources (uses):				
Transfers to other funds	\$ (160,282)	\$ (160,282)	\$ (160,282)	\$ -
Proceeds from installment financing	1,990,500	1,990,500	1,990,500	-
Fund balance appropriated	146,107	146,107	-	(146,107)
Total other financing sources (uses)	<u>\$ 1,976,325</u>	<u>\$ 1,976,325</u>	<u>\$ 1,830,218</u>	<u>\$ (146,107)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 555,597</u>	<u>\$ 555,597</u>
Fund balances, beginning of year			5,254,336	
Fund balances, end of year			<u>\$ 5,809,933</u>	

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

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City of Salisbury, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Enterprise Funds			Governmental Activities
	Water and Sewer Fund	Transit Fund	Total	Internal Service Funds
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 2,241,617	\$ 116,714	\$ 2,358,331	\$ 548,627
Accounts receivable (net)	2,231,775	2,310	2,234,085	-
Interest receivable	8,223	464	8,687	1,977
Due from other governments	89,099	64,999	154,098	-
Inventories	280,832	-	280,832	-
Total current assets	<u>\$ 4,851,546</u>	<u>\$ 184,487</u>	<u>\$ 5,036,033</u>	<u>\$ 550,604</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	\$ 10,192,574	\$ -	\$ 10,192,574	\$ -
Due from other governments	303,488	-	303,488	-
Interest receivable	43,339	-	43,339	-
Total restricted assets	<u>\$ 10,539,401</u>	<u>\$ -</u>	<u>\$ 10,539,401</u>	<u>\$ -</u>
Capital assets:				
Land	\$ 2,072,067	\$ -	\$ 2,072,067	\$ -
Buildings and improvements	136,935,323	467,924	137,403,247	-
Equipment	6,437,470	754,189	7,191,659	-
Construction in progress	10,638,635	-	10,638,635	-
Accumulated depreciation	(40,861,472)	(1,211,970)	(42,073,442)	-
Net capital assets	<u>\$ 115,222,023</u>	<u>\$ 10,143</u>	<u>\$ 115,232,166</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 125,761,424</u>	<u>\$ 10,143</u>	<u>\$ 125,771,567</u>	<u>\$ -</u>
Total assets	<u><u>\$ 130,612,970</u></u>	<u><u>\$ 194,630</u></u>	<u><u>\$ 130,807,600</u></u>	<u><u>\$ 550,604</u></u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 812,179	\$ 65,038	\$ 877,217	\$ 471,063
Liabilities payable from restricted assets	1,030,276	-	1,030,276	-
Interest payable	458,998	-	458,998	-
Current maturities of long-term debt	3,213,615	-	3,213,615	-
Customer deposits	416,246	-	416,246	-
Total current liabilities	<u>\$ 5,931,314</u>	<u>\$ 65,038</u>	<u>\$ 5,996,352</u>	<u>\$ 471,063</u>
Noncurrent liabilities:				
Bonds payable	\$ 44,617,867	\$ -	\$ 44,617,867	\$ -
Capital leases payable	3,070,498	-	3,070,498	-
Total noncurrent liabilities	<u>\$ 47,688,365</u>	<u>\$ -</u>	<u>\$ 47,688,365</u>	<u>\$ -</u>
Total liabilities	<u><u>\$ 53,619,679</u></u>	<u><u>\$ 65,038</u></u>	<u><u>\$ 53,684,717</u></u>	<u><u>\$ 471,063</u></u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	\$ 62,830,769	\$ 10,143	\$ 62,840,912	\$ -
Restricted	9,509,125	-	9,509,125	-
Unrestricted	4,653,397	119,449	4,772,846	79,541
Net assets of business-type activities	<u>\$ 76,993,291</u>	<u>\$ 129,592</u>	<u>\$ 77,122,883</u>	<u>\$ 79,541</u>
Total liabilities and net assets	<u><u>\$ 130,612,970</u></u>	<u><u>\$ 194,630</u></u>	<u><u>\$ 130,807,600</u></u>	<u><u>\$ 550,604</u></u>

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

City of Salisbury, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

For the Year Ended June 30, 2004

	Enterprise Funds			Governmental Activities
	Water and Sewer Fund	Transit Fund	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 14,484,161	\$ 64,571	\$ 14,548,732	\$ 3,498,244
Water and sewer taps	648,609	-	648,609	-
Other operating revenues	<u>902,563</u>	<u>3,811</u>	<u>906,374</u>	<u>-</u>
Total operating revenues	<u>\$ 16,035,333</u>	<u>\$ 68,382</u>	<u>\$ 16,103,715</u>	<u>\$ 3,498,244</u>
OPERATING EXPENSES				
Management and administration	\$ 3,581,201	\$ 138,362	\$ 3,719,563	\$ 3,205,108
Water resources	1,363,626	-	1,363,626	-
Maintenance and construction	3,377,751	-	3,377,751	-
Wastewater collection and treatment	1,886,360	-	1,886,360	-
Environmental services	487,988	-	487,988	-
Depreciation	3,390,138	7,607	3,397,745	-
Mass transit operations	<u>-</u>	<u>515,583</u>	<u>515,583</u>	<u>-</u>
Total operating expenses	<u>\$ 14,087,064</u>	<u>\$ 661,552</u>	<u>\$ 14,748,616</u>	<u>\$ 3,205,108</u>
Operating income (loss)	<u>\$ 1,948,269</u>	<u>\$ (593,170)</u>	<u>\$ 1,355,099</u>	<u>\$ 293,136</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 183,329	\$ 1,670	\$ 184,999	\$ 4,554
Interest expense	(1,973,347)	-	(1,973,347)	-
Bond issuance costs	(119,576)	-	(119,576)	-
Proceeds from sale of refunding bonds	83,531	-	83,531	-
Intergovernmental revenues	<u>-</u>	<u>372,506</u>	<u>372,506</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>\$ (1,826,063)</u>	<u>\$ 374,176</u>	<u>\$ (1,451,887)</u>	<u>\$ 4,554</u>
Income (loss) before contributions and transfers	\$ 122,206	\$ (218,994)	\$ (96,788)	\$ 297,690
Capital contributions	2,821,330	-	2,821,330	-
Transfers from other funds	<u>-</u>	<u>160,282</u>	<u>160,282</u>	<u>-</u>
Change in net assets	\$ 2,943,536	\$ (58,712)	\$ 2,884,824	\$ 297,690
Total net assets - beginning	<u>74,049,755</u>	<u>188,304</u>	<u>74,238,059</u>	<u>(218,149)</u>
Total net assets - ending	<u>\$ 76,993,291</u>	<u>\$ 129,592</u>	<u>\$ 77,122,883</u>	<u>\$ 79,541</u>

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

A-9
City of Salisbury, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Business-Type Activities			Governmental
	Enterprise Funds			Activities
	Water and			Internal
	Sewer Fund	Transit Fund	Total	Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 15,024,688	\$ 63,713	\$ 15,088,401	\$ -
Cash received from interfund services provided	-	-	-	3,498,244
Cash paid for goods and services	(7,800,047)	(167,932)	(7,967,979)	(3,136,822)
Cash paid to or on behalf of employees for services	(4,024,268)	(467,451)	(4,491,719)	-
Customer deposits received	211,469	-	211,469	-
Customer deposits returned	(164,113)	-	(164,113)	-
Other receipts	877,708	3,811	881,519	-
Net cash provided (used) by operating activities	<u>\$ 4,125,437</u>	<u>\$ (567,859)</u>	<u>\$ 3,557,578</u>	<u>\$ 361,422</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	\$ -	\$ 160,282	\$ 160,282	\$ -
Intergovernmental revenues	-	369,667	369,667	-
Total cash flows provided by noncapital financing activities	<u>\$ -</u>	<u>\$ 529,949</u>	<u>\$ 529,949</u>	<u>\$ -</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	\$ (8,085,355)	\$ -	\$ (8,085,355)	\$ -
Principal paid on bond maturities and equipment contracts	(3,439,954)	-	(3,439,954)	-
Interest paid on bond maturities and equipment contracts	(2,038,017)	-	(2,038,017)	-
Proceeds from sale of refunding bonds	83,531	-	83,531	-
Bond issuance costs	(78,050)	-	(78,050)	-
Capital contributions	2,607,911	-	2,607,911	-
Net cash used by capital and related financing activities	<u>\$ (10,949,934)</u>	<u>\$ -</u>	<u>\$ (10,949,934)</u>	<u>\$ -</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES				
Investment earnings	\$ 204,021	\$ 1,774	\$ 205,795	\$ 3,040
Net increase (decrease) in cash and cash equivalents	\$ (6,620,476)	\$ (36,136)	\$ (6,656,612)	\$ 364,462
Balances-beginning of the year	19,054,667	152,850	19,207,517	184,165
Balances-end of the year	<u>\$ 12,434,191</u>	<u>\$ 116,714</u>	<u>\$ 12,550,905</u>	<u>\$ 548,627</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1,948,269	\$ (593,170)	\$ 1,355,099	\$ 293,136
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	\$ 3,390,138	\$ 7,607	\$ 3,397,745	-
Non-cash contributions	(24,855)	-	(24,855)	-
Changes in current assets and liabilities:				
(Increase) decrease in accounts receivable	(108,082)	(858)	(108,940)	-
(Increase) decrease in inventory	(57,708)	-	(57,708)	-
(Increase) decrease in due from other governments	26,130	-	26,130	-
Increase (decrease) in accounts payable and accrued liabilities	(1,095,811)	18,562	(1,077,249)	68,286
Increase in customer deposits	47,356	-	47,356	-
Total adjustments	<u>\$ 2,177,168</u>	<u>\$ 25,311</u>	<u>\$ 2,202,479</u>	<u>\$ 68,286</u>
Net cash provided (used) by operating activities	<u>\$ 4,125,437</u>	<u>\$ (567,859)</u>	<u>\$ 3,557,578</u>	<u>\$ 361,422</u>

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

City of Salisbury, North Carolina
Combining Statement of Net Assets
Fiduciary Funds
June 30, 2004

	Fiduciary Funds	
	Pension Trust	
	Fund	Agency Funds
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 586,350	\$ 59,255
Accounts receivable	-	156,985
Interest receivable	2,439	13
Total assets	\$ 588,789	\$ 216,253
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ -	\$ 216,253
Total liabilities	\$ -	\$ 216,253
<u>NET ASSETS</u>		
Held in trust for participants	\$ 588,789	\$ -
Total liabilities and net assets	\$ 588,789	\$ 216,253

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

City of Salisbury, North Carolina
Statement of Changes in Net Assets
Pension Trust Fund
For the Year Ended June 30, 2004

Additions:	
Employer contributions	\$ 87,743
Investment earnings	<u>6,616</u>
Total additions	<u>\$ 94,359</u>
Deductions:	
Retirement payments	<u>\$ 12,094</u>
Total deductions	<u>\$ 12,094</u>
Net increase	\$ 82,265
Net assets, beginning of year	<u>506,524</u>
Net assets, end of year	<u><u>\$ 588,789</u></u>

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

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Discretely Presented Component Unit

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

Related Organization

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

B. Basis of Presentation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

The City reports the following major governmental fund:

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

The City reports the following non-major governmental funds:

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

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

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

The City reports the following other fund types:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

government-wide and proprietary funds financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered vehicles on behalf of all municipalities and special tax districts in the county, including the City of Salisbury. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 2003 through February 2004 apply to the fiscal year ended June 30, 2004. 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, 2004 because they are intended to finance the City's operations during the 2005 fiscal year.

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

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

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the General, Special Revenue, and Enterprise funds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Project Fund and Enterprise Fund Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. These appropriations continue until the project is completed. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds.

NOTES TO THE FINANCIAL STATEMENTS

Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the City Council. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the City Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities and Fund Equity

1. Deposits and Investments

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

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values of January 1, 2003. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

NOTES TO THE FINANCIAL STATEMENTS

6. Inventories and Prepaid Items

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

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

7. Capital Assets

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

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

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

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

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

8. Long-Term Obligations

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while

NOTES TO THE FINANCIAL STATEMENTS

discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

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

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

10. Net Assets/Fund Balances

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

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

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

The governmental fund types classify fund balances as follows:

Reserved:

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

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

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

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

Unreserved:

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

NOTES TO THE FINANCIAL STATEMENTS

F. Revenues, Expenditures, and Expenses

1. Grant Revenue

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

2. Investment Income

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

3. Inter-fund Transactions

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

G. Use of Estimates

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

Note 2. Stewardship, Compliance and Accountability

A. Deficit Fund Balance or Retained Earnings of Individual Funds

The City's Capital Projects Fund has a net deficit of \$373,049. The City has incurred expenses related to the expansion of its Police Department facilities. However, as of June 30, 2004, the planned installment purchase financing had not been completed. These planning and design expenses are being funded through short-term loans from the General Fund.

Note 3. Detail Notes On All Funds

A. Assets

1. Deposits

Total cash and investments were composed as follows:

Cash on hand	\$	2,540
Cash in demand deposits		100,945
Certificates of Deposit		8,338,296
Investments		10,785,995
		<u>\$ 19,227,776</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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

At June 30, 2004, the City's deposits had a carrying amount of \$8,439,241 and a bank balance of \$8,623,162. Of the bank balance, \$703,460 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 \$115,753, all of which was covered by federal depository insurance.

2. Investments

The investments of the City are categorized to give an indication of the level of custodial risk assumed by the City at year-end. Category A includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category B includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the City's name. Category C includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the City's name. At year end, the City had no investments which would be classified as Category B or C. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the City does not own any identifiable securities, but is a shareholder of a percentage of the fund. At June 30, 2004, Downtown Salisbury, Inc. did not own any investments. At June 30, 2004, the City's investments were as follows:

	<u>Category A</u>	Reported <u>Value</u>	Fair <u>Value</u>
Commercial Paper	\$ 3,471,133	\$ 3,471,133	\$ 3,471,133
U.S. Government Securities	2,470,561	2,470,561	2,470,561
	<u>\$ 5,941,694</u>	\$ 5,941,694	\$ 5,941,694
North Carolina Capital Management Trust:			
Cash Portfolio		4,844,301	4,844,301
		<u>\$ 10,785,995</u>	<u>\$ 10,785,995</u>

3. Receivables - Allowances for Doubtful Accounts

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

<u>Fund</u>	<u>June 30, 2004</u>
General Fund:	
Taxes receivable	\$ 250,000
Enterprise Funds:	
Utility receivables	<u>52,000</u>
Total	<u>\$ 302,000</u>

NOTES TO THE FINANCIAL STATEMENTS

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2004 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,157,445	\$ -	\$ -	\$ 3,157,445
Construction in progress	-	109,408	-	109,408
Total capital assets not being depreciated	<u>\$ 3,157,445</u>	<u>\$ 109,408</u>	<u>\$ -</u>	<u>\$ 3,266,853</u>
Capital assets being depreciated:				
Buildings	\$ 2,307,684	\$ -	\$ -	\$ 2,307,684
Other improvements	10,203,219	229,613	11,525	10,421,307
Equipment	3,724,309	2,721,039	234,987	6,210,361
Vehicles and motorized equipment	9,644,445	535,617	74,097	10,105,965
Infrastructure	30,522,486	168,000	-	30,690,486
Total capital assets being depreciated	<u>\$ 56,402,143</u>	<u>\$ 3,654,269</u>	<u>\$ 320,609</u>	<u>\$ 59,735,803</u>
Less accumulated depreciation for:				
Buildings	\$ 875,227	\$ 66,097		\$ 941,324
Other improvements	2,705,110	202,636	11,525	2,896,221
Equipment	3,429,461	508,002	228,740	3,708,723
Vehicles and motorized equipment	7,791,519	911,244	67,286	8,635,477
Infrastructure	8,534,887	1,076,610	-	9,611,497
Total accumulated depreciation	<u>\$ 23,336,204</u>	<u>\$ 2,764,589</u>	<u>\$ 307,551</u>	<u>\$ 25,793,242</u>
Total capital assets being depreciated, net	<u>\$ 33,065,939</u>	<u>\$ 889,680</u>	<u>\$ 13,058</u>	<u>\$ 33,942,561</u>
Governmental activity capital assets, net	<u><u>\$ 36,223,384</u></u>	<u><u>\$ 999,088</u></u>	<u><u>\$ 13,058</u></u>	<u><u>\$ 37,209,414</u></u>

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

General government	\$ 618,506
Public safety	574,670
Transportation	1,289,228
Environmental protection	63,742
Cultural and recreational	190,409
Land management and development	28,034
Total depreciation expense	<u><u>\$ 2,764,589</u></u>

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 2,072,067	\$ -	\$ -	\$ 2,072,067
Construction in progress	30,335,894	6,151,120	25,848,379	10,638,635
Total capital assets not being depreciated	<u>\$ 32,407,961</u>	<u>\$ 6,151,120</u>	<u>\$ 25,848,379</u>	<u>\$ 12,710,702</u>
Capital assets being depreciated:				
Plant and distribution systems	\$ 111,086,944	\$ 25,848,379	\$ -	\$ 136,935,323
Furniture and maintenance equipment	2,485,187	660,986	-	3,146,173
Vehicles and motorized equipment	3,070,869	220,428	-	3,291,297
Total capital assets being depreciated	<u>\$ 116,643,000</u>	<u>\$ 26,729,793</u>	<u>\$ -</u>	<u>\$ 143,372,793</u>
Less accumulated depreciation for:				
Plant and distribution systems	\$ 32,997,865	\$ 2,914,999	\$ -	\$ 35,912,864
Furniture and maintenance equipment	2,153,853	255,692	-	2,409,545
Vehicles and motorized equipment	2,319,616	219,447	-	2,539,063
Total accumulated depreciation	<u>\$ 37,471,334</u>	<u>\$ 3,390,138</u>	<u>\$ -</u>	<u>\$ 40,861,472</u>
Total capital assets being depreciated, net	<u>\$ 79,171,666</u>	<u>\$ 23,339,655</u>	<u>\$ -</u>	<u>\$ 102,511,321</u>
Water and Sewer Fund capital assets, net	<u>\$ 111,579,627</u>	<u>\$ 29,490,775</u>	<u>\$ 25,848,379</u>	<u>\$ 115,222,023</u>
Transit Fund				
Capital assets being depreciated:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	29,057	-	-	29,057
Vehicles and motorized equipment	725,132	-	-	725,132
Total capital assets being depreciated	<u>\$ 1,222,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,222,113</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	11,307	7,607	-	18,914
Vehicles and motorized equipment	725,132	-	-	725,132
	<u>\$ 1,204,363</u>	<u>\$ 7,607</u>	<u>\$ -</u>	<u>\$ 1,211,970</u>
Transit Fund capital assets, net	<u>\$ 17,750</u>	<u>\$ (7,607)</u>	<u>\$ -</u>	<u>\$ 10,143</u>
Business-type activities capital assets, net	<u>\$ 111,597,377</u>	<u>\$ 29,483,168</u>	<u>\$ 25,848,379</u>	<u>\$ 115,232,166</u>

Construction commitments

The City has active construction projects as of June 30, 2004. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water and Sewer Treatment Facilities	<u>\$ 10,525,996</u>	<u>\$ 4,008,914</u>

NOTES TO THE FINANCIAL STATEMENTS

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.64%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Salisbury are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2004, 2003, and 2002 were \$714,372, \$691,652, and \$704,628, respectively. The contributions made by the City equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

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

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2003, the Separation Allowance's membership consisted of:

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

2. Summary of Significant Accounting Policies

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

NOTES TO THE FINANCIAL STATEMENTS

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

3. Contributions

North Carolina statutes require the City to provide these retirement benefits. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$87,743, or 3.02% 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, 2003 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9% to 9.8% per year. Item (b) included an inflation adjustment of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2003 was 27 years.

4. Annual Pension Cost and Net Pension Asset

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

Annual required contribution	\$ 87,696
Interest on net pension obligation	(2,318)
Adjustment to annual required contribution	<u>1,754</u>
Annual pension cost	\$ 87,132
Contributions made	<u>87,743</u>
Decrease in net pension asset	\$ 611
Net pension asset beginning of year	<u>31,967</u>
Net pension asset end of year	<u><u>\$ 32,578</u></u>

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2004	\$87,696	100.70%	\$32,578
6/30/2003	92,754	95.92%	31,967
6/30/2002	86,122	102.01%	35,753

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy: Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5 percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

NOTES TO THE FINANCIAL STATEMENTS

Contributions for the year ended June 30, 2004 were \$184,885, which consisted of \$145,927 from the City and \$38,958 from the law enforcement officers.

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

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

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

For the fiscal year ended June 30, 2004, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$27,284 for the 66 employed firemen who perform firefighting duties for the City's fire department.

e. Other Post-employment Benefits

The City of Salisbury has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefits may not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2004, the City made contributions to the State for death benefits of \$17,429. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.11% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

2. Deferred Revenue

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

NOTES TO THE FINANCIAL STATEMENTS

	<u>General Fund</u>
Unearned	
Unspent grants and donations	\$ 307,893
Prepaid property taxes	58,449
Unavailable	
Taxes receivable, net	578,739
Total deferred revenue	\$ 945,081

3. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides general liability coverage to \$1,000,000 as well as \$1,000,000 for automobile liability. In addition, the City maintains replacement cost insurance on real and personal property, including boiler and machinery, in an amount of \$102,598,817. The City also provides coverage for employee dishonesty in the amount of \$100,000 and fidelity insurance of the Finance Director's office for \$100,000. The pool is reinsured through commercial companies for single occurrence claims against property, general liability, and auto liability in excess of \$300,000.

The City also maintains commercial liability insurance of \$1,000,000 for its public officials and \$3,000,000 for law enforcement professional liability. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

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

	<u>Year ended June 30, 2002</u>	<u>Year ended June 30, 2003</u>	<u>Year ended June 30, 2004</u>
Unpaid claims, beginning of fiscal year	\$ 325,376	\$ 403,990	\$ 395,460
Incurred claims (including IBNRs)	2,553,335	2,777,841	2,887,730
Claim payments	(2,474,721)	(2,786,371)	(2,824,060)
Unpaid claims, end of fiscal year	\$ 403,990	\$ 395,460	\$ 459,130

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. Claims, Judgments, and Contingent Liabilities

At June 30, 2004 the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

5. Long-Term Obligations

a. Capital Leases

The City has entered into various agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates on these agreements range from 3.385% to 5.6%. The City has recorded water and sewer assets related to these leases at their fair value of \$7,898,494. The future minimum lease payments at June 30, 2003 total \$4,311,276, including \$969,670 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

The future minimum lease obligations as of June 30, 2004 were as follows:

Year Ending June 30,	Capital Leases	
	Principal	Interest
2005	\$ 271,109	\$ 137,071
2006	270,612	126,307
2007	264,190	115,559
2008	260,846	104,983
2009	267,585	94,605
2010-2014	1,315,665	309,285
2015-2019	651,599	78,960
2020-2021	40,000	2,900
	<u>\$ 3,341,606</u>	<u>\$ 969,670</u>

b. Installment Purchases

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

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

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

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

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

The future minimum payments of the installment purchases as of June 30, 2004, including \$749,484 of interest are as follows:

NOTES TO THE FINANCIAL STATEMENTS

Year Ending June 30,	Governmental Activities	
	Installment Purchases	
	Principal	Interest
2005	\$ 386,937	\$ 163,679
2006	408,084	148,742
2007	447,174	132,348
2008	1,334,932	100,450
2009	407,316	63,692
2010-2014	1,279,869	135,245
2015-2016	100,000	5,328
	<u>\$ 4,364,312</u>	<u>\$ 749,484</u>

c. General Obligation Indebtedness

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

Bonds payable at June 30, 2004 are comprised of the following individual issues:

	<u>Balance June 30, 2004</u>
Serviced by the General Fund:	
\$355,000 Public Improvement Bonds, Series 1995, average rate of 5.28%, issued November 1995, maturing serially to 2006	\$ 65,000
\$3,000,000 Parks and Recreation Bonds, Series 1997, average rate of 4.77%, issued December 1997, maturing serially to 2017	<u>2,400,000</u>
Subtotal	<u>\$ 2,465,000</u>
Serviced by the Water and Sewer Fund:	
\$13,650,000 Water and Sewer Bonds, Series 1993, average rate of 5.28%, issued November 1995, maturing serially to 2015	\$ 560,000
\$700,000 Water Bonds, Series 1997, average rate of 4.74%, issued December 1997, maturing serially to 2008	250,000
\$3,250,000 Water Bonds, Series 1998, average rate of 4.40%, issued June 1998, maturing serially to 2017	2,200,000
\$12,100,000 Refunding Bonds, Series 2003, average rate of 3.43%, issued August 2003, maturing serially to 2015	
This amount is net of unamortized issuance cost and interest	<u>10,275,537</u>
Subtotal	<u>\$ 13,285,537</u>
Total General Obligation Indebtedness	<u>\$ 15,750,537</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 200,000	\$ 118,400	\$ 1,450,000	\$ 489,578
2006	190,000	108,650	1,440,000	436,115
2007	200,000	99,550	1,405,000	401,052
2008	200,000	90,050	1,330,000	360,915
2009	200,000	80,550	1,265,000	318,128
2010-2014	1,000,000	258,750	6,045,000	958,158
2015-2017	475,000	40,050	1,435,000	75,294
	<u>\$ 2,465,000</u>	<u>\$ 796,000</u>	<u>\$ 14,370,000</u>	<u>\$ 3,039,240</u>

Advance Refunding

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

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,183,050. This difference represents bond issuance cost of \$157,772 and the present value of future interest payments to be made by the escrow agent. This difference is reported in the accompanying financial statements, net of the current year's amortization of \$98,587, as a deduction from bonds payable and is being charged to operations through the year 2015, the life of the new debt, which is shorter than the life of the refunded debt, using the straight-line method which approximates the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next twelve years by \$352,806 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$309,359.

d. State Bond Loans

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

	<u>Balance June 30, 2004</u>
\$5,000,000 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	\$ 3,250,000
\$450,120 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	292,578
\$3,000,000 State Bond Loan, average rate of 2.60%, issued November 1999 maturing serially to 2019	2,400,000
\$9,200,000 State Bond Loan, average rate of 2.60%, issued June 2000 maturing serially to 2020	<u>7,360,000</u>
Total State Bond Loans	<u>\$ 13,302,578</u>

NOTES TO THE FINANCIAL STATEMENTS

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

Year Ending June 30,	Business-Type Activities	
	State Bond Loans	
	Principal	Interest
2005	\$ 882,506	\$ 375,270
2006	882,506	350,063
2007	882,506	324,857
2008	882,506	299,650
2009	882,506	274,443
2010-2014	4,412,530	994,108
2015-2019	3,867,518	373,282
2020	610,000	15,860
	<u>\$ 13,302,578</u>	<u>\$ 3,007,533</u>

e. Revenue Bonds

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

	Balance June 30, 2004
\$2,040,000 Water and Sewer Revenue Bonds, Series 1998, average rate of 4.78%, issued January 1998, maturing serially to 2018	\$ 1,610,000
\$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 \$482,741	<u>19,362,259</u>
Total Revenue Bonds	<u>\$ 20,972,259</u>

The future payments of the revenue bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Revenue Bonds	
	Principal	Interest
2005	\$ 610,000	\$ 1,000,545
2006	630,000	980,534
2007	650,000	958,331
2008	675,000	934,226
2009	700,000	907,728
2010-2014	3,990,000	4,132,575
2015-2019	4,835,000	3,040,327
2020-2024	5,420,000	1,826,000
2025-2027	3,945,000	401,000
	<u>\$ 21,455,000</u>	<u>\$ 14,181,266</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond	Debt Service Requirements (3)			Coverage
			Debt Service	Principal	Interest	Total	
2002	\$ 14,401,251	\$ 8,934,754	\$ 5,466,497	\$ 952,506	\$ 620,085	\$ 1,572,591	347.61%
2003	15,297,190	10,022,035	5,275,155	1,107,506	1,297,994	2,405,500	219.30%
2004	15,756,122	10,696,926	5,059,196	1,472,506	1,420,340	2,892,846	174.89%

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

f. HUD Section 108 Loan

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

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

Year Ending June 30,	Governmental Activities HUD Section 108 Loan	
	Principal	Interest
	2005	\$ 32,000
2006	32,000	24,833
2007	32,000	24,169
2008	32,000	23,308
2009	32,000	22,272
2010-2014	160,000	91,840
2015-2019	160,000	53,180
2020-2023	116,000	11,264
	<u>\$ 596,000</u>	<u>\$ 276,171</u>

g. Changes in Long-Term Liabilities

	June 30,2003	Additions	Retirements	Change in Unamortized Costs	June 30,2004	Current Portion of Balance
Governmental Activities						
General obligation bonds	\$ 2,645,000	\$ -	\$ 180,000	\$ -	\$ 2,465,000	\$ 200,000
Installment purchases	2,840,562	1,990,500	466,750	-	4,364,312	386,937
Section 108 loan	221,000	375,000	-	-	596,000	32,000
Compensated absences	1,035,398	51,127	-	-	1,086,525	-
	<u>\$ 6,741,960</u>	<u>\$ 2,416,627</u>	<u>\$ 646,750</u>	<u>\$ -</u>	<u>\$ 8,511,837</u>	<u>\$ 618,937</u>
Business-type activities						
General obligation bonds	\$ 14,805,000	\$ 12,100,000	\$ 12,535,000	\$ (1,084,463)	\$ 13,285,537	\$ 1,450,000
Revenue bonds	21,541,269	-	590,000	20,990	20,972,259	610,000
State loans	14,185,084	-	882,506	-	13,302,578	882,506
Capital leases	3,611,283	-	269,677	-	3,341,606	271,109
	<u>\$ 54,142,636</u>	<u>\$ 12,100,000</u>	<u>\$ 14,277,183</u>	<u>\$ (1,063,473)</u>	<u>\$ 50,901,980</u>	<u>\$ 3,213,615</u>
Total	<u>\$ 60,884,596</u>	<u>\$ 14,516,627</u>	<u>\$ 14,923,933</u>	<u>\$ (1,063,473)</u>	<u>\$ 59,413,817</u>	<u>\$ 3,832,552</u>

NOTES TO THE FINANCIAL STATEMENTS

6. Accounts Payable

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 1,427,924	\$ 396,958
Accrued payroll and payroll liabilities	902,022	480,259
Other accrued liabilities	40,536	-
	<u>\$ 2,370,482</u>	<u>\$ 877,217</u>

C. Revenues, Expenditures and Expenses

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

For the fiscal year ended June 30, 2004, the City of Salisbury has recognized on-behalf of payments for pension contributions made by the state as a revenue and an expenditure of \$21,685 for the 66 employed firefighters who perform firefighting duties for the City's fire department. The employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Note 4. Joint Venture

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints an additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2004, the City reported revenues and expenditures for the payments of \$56,025 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2004. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

Note 5. Commitments and Contingencies

The City participates in a number of federal and State of North Carolina awards. For the fiscal year ended June 30, 2004, these awards were subject to audit in accordance with *Government Auditing Standards* and the provisions of OMB Circular A-133 and the State Single Audit Implementation Act. The amounts, if any, of expenditures which may be disallowed by the granting agencies resulting from this and other audits cannot be determined at this time, although the City expects they would be immaterial.

Note 6. Change in Accounting Estimate

During the fiscal year ended June 30, 2004, the State of North Carolina changed the distribution method for local option sales taxes that it collects on behalf of local governments. These taxes are now distributed on a monthly rather than quarterly basis. Distribution of taxes on sales for the month of June 2004 is scheduled for September 15, 2004.

In accordance with GASB Statement No. 33, all of these items are considered to be revenues as of June 30, 2004. The City has decided to consider revenues to be available for payment of current year-end liabilities

NOTES TO THE FINANCIAL STATEMENTS

if collected within 90 days after year-end, other than property taxes. The City had previously considered only revenues collected within 60 days of year-end as available.

Management's estimate of sales taxes has changed to more accurately reflect all amounts due to the City through June 30, 2004. The September 15, 2004 distribution of these taxes are included in the estimate of sales taxes receivable and recognized as revenues for the 2004 fiscal year. If this policy had been in effect for the 2003 fiscal year, ending net assets of the Governmental Activities would have been \$35,902,401 and fund balance of the General Fund would have been \$5,472,905, which is \$218,569 higher than was previously reported.

Note 7. Pronouncements Issued But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2004 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City.

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

Additionally, the Governmental Accounting Standards Board issued Statement Number 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement Number 3" and Statement Number 44, "Economic Condition Reporting: The Statistical Section" which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report (CAFR).

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) Actuarial Accrued Liability (AAL) Projected Unit Credit	(3) Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) / (2)	(4) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (4)
2003	\$ 543,886	\$ 1,185,007	\$ 641,121	45.90%	\$ 2,980,664	21.51%
2002	462,990	982,204	519,214	47.14%	2,715,519	19.12%
2001	382,392	944,593	562,201	40.48%	2,958,255	19.00%
2000	315,640	862,184	546,544	36.61%	2,793,421	19.57%
1999	266,673	456,933	190,260	58.36%	2,434,327	7.82%
1998	222,945	448,747	225,802	49.68%	2,404,793	9.39%

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
2003	\$ 93,425	95%
2002	86,797	102
2001	47,368	118
2000	49,733	112
1999	51,401	104
1998	46,376	115

Notes to the Required Schedules:

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

Valuation date	12/31/2003
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	27 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.

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CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

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

For the Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004		Variance with Budget Positive (Negative)	2003
	Budget	Actual		Actual
REVENUES:				
Taxes:				
General property-current	\$ 11,983,380	\$ 12,146,132	\$ 162,752	\$ 10,810,649
General property-prior	314,000	302,065	(11,935)	322,685
Interest on delinquent tax	50,000	69,005	19,005	63,680
Local option sales tax	4,220,261	4,232,240	11,979	3,381,878
Other tax	600	508	(92)	536
	<u>\$ 16,568,241</u>	<u>\$ 16,749,950</u>	<u>\$ 181,709</u>	<u>\$ 14,579,428</u>
Intergovernmental:				
Federal	\$ 872,912	\$ 559,958	\$ (312,954)	\$ 2,052,075
State	4,244,761	4,234,161	(10,600)	3,060,453
Local	18,000	17,851	(149)	106,840
	<u>\$ 5,135,673</u>	<u>\$ 4,811,970</u>	<u>\$ (323,703)</u>	<u>\$ 5,219,368</u>
Charges for services:				
Environmental protection	\$ 866,155	\$ 837,306	\$ (28,849)	\$ 821,403
Culture and recreation	189,830	153,836	(35,994)	162,916
Public safety	430,365	414,782	(15,583)	410,211
Cemetery	135,000	117,200	(17,800)	125,595
Radio antenna and paging rentals	105,960	196,479	90,519	198,586
Rentals and sale of property	335,648	238,266	(97,382)	413,400
Licenses and permits	570,507	538,560	(31,947)	551,498
Administrative charges	1,743,053	1,743,053	-	1,660,050
Community services	112,500	122,619	10,119	125,244
	<u>\$ 4,489,018</u>	<u>\$ 4,362,101</u>	<u>\$ (126,917)</u>	<u>\$ 4,468,903</u>
Miscellaneous:				
Interest earned on investments	\$ 135,771	\$ 76,874	\$ (58,897)	\$ 86,590
Donations	1,027,034	318,323	(708,711)	183,384
Other	139,344	109,847	(29,497)	191,041
	<u>\$ 1,302,149</u>	<u>\$ 505,044</u>	<u>\$ (797,105)</u>	<u>\$ 461,015</u>
Total revenues	<u>\$ 27,495,081</u>	<u>\$ 26,429,065</u>	<u>\$ (1,066,016)</u>	<u>\$ 24,728,714</u>
OTHER FINANCING SOURCES:				
Proceeds from installment financing	\$ 1,990,500	\$ 1,990,500	\$ -	\$ 1,000,000
Fund balance appropriated	146,107	-	(146,107)	-
Total other financing sources (uses)	<u>\$ 2,136,607</u>	<u>\$ 1,990,500</u>	<u>\$ (146,107)</u>	<u>\$ 1,000,000</u>
Total revenues and other financing sources	<u>\$ 29,631,688</u>	<u>\$ 28,419,565</u>	<u>\$ (1,212,123)</u>	<u>\$ 25,728,714</u>

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CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

For the Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004		Variance with Budget Positive (Negative)	2003
	Budget	Actual		Actual
EXPENDITURES:				
Current:				
General government:				
City council	\$ 106,713	\$ 97,255	\$ 9,458	\$ 78,457
City administration	681,679	672,331	9,348	582,788
Purchasing	156,229	128,894	27,335	129,361
Human resources	548,853	525,423	23,430	495,647
Finance	1,073,139	1,042,162	30,977	944,273
Fleet management	760,335	758,839	1,496	712,635
Public services administration	230,992	229,458	1,534	175,069
City office buildings	382,738	377,759	4,979	286,690
Telecommunication	2,680,194	2,664,920	15,274	216,580
Information technologies	1,395,743	1,286,998	108,745	974,407
	<u>\$ 8,016,615</u>	<u>\$ 7,784,039</u>	<u>\$ 232,576</u>	<u>\$ 4,595,907</u>
Public safety:				
Police:				
Administration	\$ 561,326	\$ 494,573	\$ 66,753	\$ 431,365
Services	1,482,821	1,409,098	73,723	1,223,314
Operations	4,399,925	4,251,326	148,599	3,935,223
Fire	3,712,722	3,601,933	110,789	4,260,169
	<u>\$ 10,156,794</u>	<u>\$ 9,756,930</u>	<u>\$ 399,864</u>	<u>\$ 9,850,071</u>
Transportation:				
Traffic operations	\$ 460,304	\$ 450,871	\$ 9,433	\$ 415,676
Engineering	1,228,490	720,033	508,457	868,163
Streets	2,162,378	2,123,163	39,215	2,530,442
Street lighting	308,840	306,408	2,432	303,492
	<u>\$ 4,160,012</u>	<u>\$ 3,600,475</u>	<u>\$ 559,537</u>	<u>\$ 4,117,773</u>
Environmental protection:				
Solid waste management	\$ 1,524,597	\$ 1,449,351	\$ 75,246	\$ 1,378,096
Cemetery	227,598	222,557	5,041	182,990
	<u>\$ 1,752,195</u>	<u>\$ 1,671,908</u>	<u>\$ 80,287</u>	<u>\$ 1,561,086</u>
Culture and recreation:				
Landscaping	\$ 574,610	\$ 571,601	\$ 3,009	\$ 581,145
Recreation	2,061,724	1,987,618	74,106	1,569,349
	<u>\$ 2,636,334</u>	<u>\$ 2,559,219</u>	<u>\$ 77,115</u>	<u>\$ 2,150,494</u>
Community and economic development:				
Community development	\$ 1,119,994	\$ 754,858	\$ 365,136	\$ 1,494,972
The Plaza	279,244	274,225	5,019	179,831
Developmental services	403,928	362,503	41,425	337,572
	<u>\$ 1,803,166</u>	<u>\$ 1,391,586</u>	<u>\$ 411,580</u>	<u>\$ 2,012,375</u>

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CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

For the Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004		Variance with	2003
			Budget	
	Budget	Actual	(Negative)	Actual
EXPENDITURES :				
Current (continued):				
Education	\$ 42,342	\$ 42,342	\$ -	\$ 42,342
Debt service:				
Principal	\$ 651,394	\$ 646,750	\$ 4,644	\$ 774,176
Interest	252,554	250,437	2,117	260,553
	\$ 903,948	\$ 897,187	\$ 6,761	\$ 1,034,729
Total expenditures	\$ 29,471,406	\$ 27,703,686	\$ 1,767,720	\$ 25,364,777
OTHER FINANCING USES:				
Transfers to other funds	\$ 160,282	\$ 160,282	\$ -	\$ 160,282
Total expenditures and other financing uses	\$ 29,631,688	\$ 27,863,968	\$ 1,767,720	\$ 25,525,059
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ 555,597	\$ 555,597	\$ 203,655
FUND BALANCES, BEGINNING		5,254,336		5,050,681
FUND BALANCES, ENDING		\$ 5,809,933		\$ 5,254,336



Non Major Governmental Funds

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

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

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

June 30, 2004

<u>ASSETS</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Cash and investments	\$ 182,265	\$ -	\$ 182,265
Accounts receivable	11,879	-	11,879
Due from other governments	<u>8,382</u>	<u>-</u>	<u>8,382</u>
Total assets	<u>\$ 202,526</u>	<u>\$ -</u>	<u>\$ 202,526</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 8,371	\$ 12,625	\$ 20,996
Due to other funds	<u>-</u>	<u>360,424</u>	<u>360,424</u>
Total liabilities	<u>\$ 8,371</u>	<u>\$ 373,049</u>	<u>\$ 381,420</u>
FUND EQUITY			
Fund balances:			
Reserved by State statute	\$ 194,155	\$ -	\$ 194,155
Unreserved:			
Undesignated	<u>-</u>	<u>(373,049)</u>	<u>(373,049)</u>
Total fund equity (deficit)	<u>\$ 194,155</u>	<u>\$ (373,049)</u>	<u>\$ (178,894)</u>
Total liabilities and fund equity	<u>\$ 202,526</u>	<u>\$ -</u>	<u>\$ 202,526</u>

CITY OF SALISBURY, NORTH CAROLINA

ALL NON-MAJOR GOVERNMENTAL FUNDS

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

For the Year Ended June 30, 2004

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
REVENUES:			
Intergovernmental	\$ 407,340	\$ -	\$ 407,340
Miscellaneous:	<u>389,325</u>	<u>-</u>	<u>389,325</u>
Total revenues	<u>\$ 796,665</u>	<u>\$ -</u>	<u>\$ 796,665</u>
EXPENDITURES:			
General government	\$ 124,236	\$ 34,324	\$ 158,560
Public safety	-	338,725	338,725
Culture and recreation	-	9,155	9,155
Community and economic development	<u>983,076</u>	<u>-</u>	<u>983,076</u>
Total expenditures	<u>\$ 1,107,312</u>	<u>\$ 382,204</u>	<u>\$ 1,489,516</u>
OTHER FINANCING SOURCES			
Proceeds from Section 108 loan	<u>\$ 375,000</u>	<u>\$ -</u>	<u>\$ 375,000</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ 64,353	\$ (382,204)	\$ (317,851)
FUND BALANCE, BEGINNING	<u>129,802</u>	<u>9,155</u>	<u>138,957</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 194,155</u>	<u>\$ (373,049)</u>	<u>\$ (178,894)</u>

CITY OF SALISBURY, NORTH CAROLINA

SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT

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

For the Year Ended June 30, 2004
With Comparative Actual Amounts for the Year Ended June 30, 2003

	2004		Variance with Budget Positive (Negative)	2003
	Budget	Actual		Actual
REVENUES:				
Intergovernmental:				
Federal	\$ 712,583	\$ 407,340	\$ (305,243)	\$ 778,721
Miscellaneous:				
Other	388,000	389,325	1,325	160,378
Total revenues	<u>\$ 1,100,583</u>	<u>\$ 796,665</u>	<u>\$ (303,918)</u>	<u>\$ 939,099</u>
EXPENDITURES:				
Current:				
General government	\$ 125,000	\$ 124,236	\$ 764	\$ 108,913
Community and economic development	1,350,583	983,076	367,507	990,186
Total expenditures	<u>\$ 1,475,583</u>	<u>\$ 1,107,312</u>	<u>\$ 368,271</u>	<u>\$ 1,099,099</u>
OTHER FINANCING SOURCES				
Proceeds from Section 108 loan	<u>\$ 375,000</u>	<u>\$ 375,000</u>	<u>\$ -</u>	<u>\$ 221,000</u>
NET INCREASE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 64,353</u>	<u>\$ 64,353</u>	<u>\$ 61,000</u>
FUND BALANCE, BEGINNING		<u>129,802</u>		<u>68,802</u>
FUND BALANCE, ENDING		<u>\$ 194,155</u>		<u>\$ 129,802</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, 2004

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES:				
Miscellaneous				
Interest earned on investments	\$ 36,750	\$ 36,713	\$ -	\$ 36,713
EXPENDITURES:				
Culture and recreation	\$ 1,036,750	\$ 1,027,558	\$ 9,155	\$ 1,036,713
General government	100,000	-	34,324	34,324
Public safety	3,465,680	-	338,725	338,725
Total expenditures	\$ 4,602,430	\$ 1,027,558	\$ 382,204	\$ 1,409,762
Total revenues under expenditures	\$ (4,565,680)	\$ (990,845)	\$ (382,204)	\$ (1,373,049)
OTHER FUNDING SOURCES				
Proceeds from issuance of debt	4,565,680	1,000,000	-	1,000,000
NET INCREASE (DECREASE) IN FUND BALANCE	\$ -	\$ 9,155	\$ (382,204)	\$ (373,049)
FUND BALANCE, BEGINNING			9,155	
FUND DEFICIT, ENDING			\$ (373,049)	

Proprietary Fund Types

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

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

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

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

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CITY OF SALISBURY, NORTH CAROLINA

WATER AND SEWER FUND

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

For the Fiscal Year Ended June 30, 2004

With Comparative Actual Amounts for Year Ended June 30, 2003

	2004		Variance with Budget Positive (Negative)	2003
	Budget	Actual		Actual
OPERATING REVENUES:				
Charges for services	\$ 15,734,261	\$ 14,484,161	\$ (1,250,100)	\$ 14,301,184
Water and sewer taps	192,474	648,609	456,135	266,247
Other operating revenues	<u>353,002</u>	<u>902,563</u>	<u>549,561</u>	<u>439,882</u>
Total operating revenues	<u>16,279,737</u>	<u>16,035,333</u>	<u>(244,404)</u>	<u>15,007,313</u>
OPERATING EXPENSES OTHER THAN DEPRECIATION:				
Management and administration	\$ 3,592,338	\$ 3,581,201	\$ 11,137	\$ 3,250,328
Water resources	1,421,641	1,354,247	67,394	1,224,721
Maintenance and construction	3,418,403	3,416,701	1,702	3,097,958
Wastewater collection and treatment	1,917,535	1,886,360	31,175	2,025,606
Environmental services	<u>506,256</u>	<u>487,988</u>	<u>18,268</u>	<u>469,505</u>
Total operating expenses other than depreciation	<u>\$ 10,856,173</u>	<u>\$ 10,726,497</u>	<u>\$ 129,676</u>	<u>\$ 10,068,118</u>
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	\$ 53,000	\$ 30,411	\$ (22,589)	\$ 56,576
Miscellaneous revenues	519,189	352,208	(166,981)	240,387
Interest expense	<u>(2,195,789)</u>	<u>(2,038,017)</u>	<u>157,772</u>	<u>(2,275,611)</u>
Net nonoperating revenues	<u>\$ (1,623,600)</u>	<u>\$ (1,655,398)</u>	<u>\$ (31,798)</u>	<u>\$ (1,978,648)</u>
Income from operations	<u>\$ 3,799,964</u>	<u>\$ 3,653,438</u>	<u>\$ (146,526)</u>	<u>\$ 2,960,547</u>
OTHER FINANCING SOURCES (USES):				
Capital outlay	\$ (1,081,008)	\$ (1,015,339)	\$ 65,669	\$ (114,533)
Payment of debt principal	(3,442,182)	(3,439,954)	2,228	(2,645,818)
Payment to refunded bond escrow agent	(12,100,000)	(12,094,519)	5,481	(2,645,818)
Proceeds from sale of refunding bonds	12,100,000	12,100,000	-	-
Retained earnings appropriated	<u>723,226</u>	<u>-</u>	<u>(723,226)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (3,799,964)</u>	<u>\$ (4,449,812)</u>	<u>\$ (649,848)</u>	<u>\$ (5,406,169)</u>
EXCESS OF EXPENSES OVER REVENUES	<u>\$ -</u>	<u>\$ (796,374)</u>	<u>\$ (796,374)</u>	<u>\$ (2,445,622)</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of expenses over revenues		\$ (796,374)		
Capital outlay		1,015,339		
Depreciation		(3,390,138)		
Bond amortization		(119,576)		
Payment of debt principal		3,439,954		
Payment to refunded bond escrow agent		12,094,519		
Proceeds from sale of refunding bonds		(12,016,469)		
Interest income from Capital Projects Fund		152,918		
Capital contributions in Capital Project Fund		2,469,122		
Interest expense adjustment		64,670		
Inventories		57,708		
Vacation pay		<u>(28,137)</u>		
Change in net assets		<u>\$ 2,943,536</u>		

CITY OF SALISBURY, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECTS FUND

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

From Inception and for the Year Ended June 30, 2004

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES				
Miscellaneous				
Interest on investments	\$ -	\$ 2,207,705	\$ 152,918	\$ 2,360,623
EXPENSES-SEWER PROJECT				
Construction	\$ 2,843,604	\$ 531,944	\$ 419,055	\$ 950,999
Engineering	635,914	73,660	141,451	215,111
Total expenses-Sewer project	\$ 3,479,518	\$ 605,604	\$ 560,506	\$ 1,166,110
EXPENSES-WATER PROJECT				
Construction	\$ 32,092,418	\$ 25,232,929	\$ 5,003,868	\$ 30,236,797
Engineering	5,050,732	4,497,361	430,548	4,927,909
Total expenses-Water project	\$ 37,143,150	\$ 29,730,290	\$ 5,434,416	\$ 35,164,706
Total expenses	\$ 40,622,668	\$ 30,335,894	\$ 5,994,922	\$ 36,330,816
Total revenues under expenses	\$ (40,622,668)	\$ (28,128,189)	\$ (5,842,004)	\$ (33,970,193)
OTHER FINANCING SOURCES				
Proceeds from sale of bonds	\$ 19,143,829	\$ 19,143,829	\$ -	\$ 19,143,829
Developer contributions	15,678,408	13,209,286	2,469,122	15,678,408
Appropriated fund balance	5,800,431	-	-	-
Total other financing sources	\$ 40,622,668	\$ 32,353,115	\$ 2,469,122	\$ 34,822,237
Unexpended revenues and receipts	\$ -	\$ 4,224,926	\$ (3,372,882)	\$ 852,044

CITY OF SALISBURY, NORTH CAROLINA

MASS TRANSIT FUND

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

For the Year Ended June 30, 2004
With Comparative Actual Amounts for Year Ended June 30, 2003

	2004		Variance with Budget Positive (Negative)	2003
	Budget	Actual		Actual
OPERATING REVENUES:				
Charges for services	\$ 80,000	\$ 64,571	\$ (15,429)	\$ 66,669
OPERATING EXPENSES OTHER THAN DEPRECIATION:				
Management and administration	\$ 163,533	\$ 138,362	\$ 25,171	\$ 120,106
Mass transit operations	523,106	507,490	15,616	503,266
Total operating expenses other than depreciation	\$ 686,639	\$ 645,852	\$ 40,787	\$ 623,372
NONOPERATING REVENUES (EXPENSES):				
Intergovernmental	\$ 1,479,738	\$ 372,506	\$ (1,107,232)	\$ 372,724
Interest on investments	2,400	1,670	(730)	2,692
Miscellaneous revenues	8,000	3,811	(4,189)	6,250
Total nonoperating revenues	\$ 1,490,138	\$ 377,987	\$ (1,112,151)	\$ 381,666
Income (loss) from operations	\$ 883,499	\$ (203,294)	\$ (1,086,793)	\$ (175,037)
OTHER FINANCING SOURCES (USES):				
Capital outlay	\$ (1,190,693)	\$ -	\$ 1,190,693	\$ (22,822)
Appropriated fund balance	146,912	-	(146,912)	-
Operating transfers in:				
General fund	160,282	160,282	-	160,282
Total other financing sources (uses)	\$ (883,499)	\$ 160,282	\$ 1,043,781	\$ 137,460
EXCESS OF EXPENSES OVER REVENUES	\$ -	\$ (43,012)	\$ (43,012)	\$ (37,577)
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of expenses over revenues, above		\$ (43,012)		
Depreciation		(7,607)		
Vacation pay		(8,093)		
Change in net assets		\$ (58,712)		



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, 2004
With Comparative Totals at June 30, 2003

<u>ASSETS</u>	<u>Workers'</u>	<u>Employee</u>	<u>Totals</u>	
	<u>Compensation</u>	<u>Health Care</u>	<u>2004</u>	<u>2003</u>
CURRENT ASSETS				
Cash and investments	\$ 19,942	\$ 528,685	\$ 548,627	\$ 184,165
Interest receivable	<u>140</u>	<u>1,837</u>	<u>1,977</u>	<u>463</u>
Total assets	<u>\$ 20,082</u>	<u>\$ 530,522</u>	<u>\$ 550,604</u>	<u>\$ 184,628</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 11,933	\$ 459,130	\$ 471,063	\$ 402,777
NET ASSETS (DEFICIT)	<u>8,149</u>	<u>71,392</u>	<u>79,541</u>	<u>(218,149)</u>
Total liabilities and net assets	<u>\$ 20,082</u>	<u>\$ 530,522</u>	<u>\$ 550,604</u>	<u>\$ 184,628</u>

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

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

For the Year Ended June 30, 2004
With Comparative Totals For The Year Ended June 30, 2003

	Workers' Compensation	Employee Health Care	Totals	
			2004	2003
OPERATING REVENUES:				
Charges for services	\$ 285,217	\$ 3,213,027	\$ 3,498,244	\$ 2,994,849
OPERATING EXPENSES:				
Employee benefits	<u>317,378</u>	<u>2,887,730</u>	<u>3,205,108</u>	<u>2,963,762</u>
OPERATING INCOME (LOSS)	\$ (32,161)	\$ 325,297	\$ 293,136	\$ 31,087
NONOPERATING REVENUES				
Interest earned on investments	<u>1,743</u>	<u>2,811</u>	<u>4,554</u>	<u>1,859</u>
NET INCOME (LOSS)	\$ (30,418)	\$ 328,108	\$ 297,690	\$ 32,946
NET ASSETS (DEFICIT), BEGINNING	<u>38,567</u>	<u>(256,716)</u>	<u>(218,149)</u>	<u>(251,095)</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ 8,149</u>	<u>\$ 71,392</u>	<u>\$ 79,541</u>	<u>\$ (218,149)</u>

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2004
With Comparative Totals For The Year Ended June 30, 2003

	<u>Workers'</u> <u>Compensation</u>	<u>Employee</u> <u>Health Care</u>	<u>Totals</u>	
			<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from interfund services provided	\$ 285,217	\$ 3,213,027	\$ 3,498,244	\$ 2,994,849
Cash paid for goods and services	<u>(311,478)</u>	<u>(2,825,344)</u>	<u>(3,136,822)</u>	<u>(2,997,079)</u>
Net cash provided (used) by operating activities	<u>\$ (26,261)</u>	<u>\$ 387,683</u>	<u>\$ 361,422</u>	<u>\$ (2,230)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	<u>\$ 1,826</u>	<u>\$ 1,214</u>	<u>\$ 3,040</u>	<u>\$ 1,990</u>
Net increase (decrease) in cash and cash equivalents	\$ (24,435)	\$ 388,897	\$ 364,462	\$ (240)
Balances-beginning of the year	<u>44,377</u>	<u>139,788</u>	<u>184,165</u>	<u>184,405</u>
Balances-end of the year	<u>\$ 19,942</u>	<u>\$ 528,685</u>	<u>\$ 548,627</u>	<u>\$ 184,165</u>



Agency Funds

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

AGENCY FUNDS

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

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

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

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

COMBINING BALANCE SHEET

June 30, 2004

With Comparative Totals at June 30, 2003

	Agency			Totals	
	Boards and Commissions	Municipal Service District	East Spencer Utility Fund	2004	2003
<u>ASSETS</u>					
Cash and investments	\$ 2,219	\$ 550	\$ 56,486	\$ 59,255	\$ 99,542
Accounts receivable	-	4,589	152,396	156,985	140,438
Interest receivable	-	13	-	13	9
Total assets	<u>\$ 2,219</u>	<u>\$ 5,152</u>	<u>\$ 208,882</u>	<u>\$ 216,253</u>	<u>\$ 239,989</u>
<u>LIABILITIES</u>					
LIABILITIES					
Accounts payable and accrued liabilities	<u>\$ 2,219</u>	<u>\$ 5,152</u>	<u>\$ 208,882</u>	<u>\$ 216,253</u>	<u>\$ 239,989</u>

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2004

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>
<u>BOARDS AND COMMISSIONS FUND:</u>				
ASSETS				
Cash and investments	\$ 4,236	\$ -	\$ 2,017	\$ 2,219
LIABILITIES				
Accounts payable and accrued liabilities	\$ 4,236	\$ -	\$ 2,017	\$ 2,219
<u>MUNICIPAL SERVICE DISTRICT FUND:</u>				
ASSETS				
Cash and investments	\$ 289	\$ 261	\$ -	\$ 550
Accounts receivable	4,336	253	-	4,589
Interest receivable	9	4	-	13
Total assets	\$ 4,634	\$ 518	\$ -	\$ 5,152
LIABILITIES				
Accounts payable and accrued liabilities	\$ 4,634	\$ 518	\$ -	\$ 5,152
<u>EAST SPENCER UTILITY FUND:</u>				
ASSETS				
Cash and investments	\$ 95,017	\$ -	\$ 38,531	\$ 56,486
Accounts receivable	136,102	16,294	-	152,396
Total Assets	\$ 231,119	\$ 16,294	\$ 38,531	\$ 208,882
LIABILITIES				
Accounts payable and accrued liabilities	\$ 231,119	\$ 16,294	\$ 38,531	\$ 208,882
<u>TOTAL AGENCY FUNDS:</u>				
ASSETS				
Cash and investments	\$ 99,542	\$ 261	\$ 40,548	\$ 59,255
Accounts receivable	140,438	16,547	-	156,985
Interest receivable	9	4	-	13
Total assets	\$ 239,989	\$ 16,812	\$ 40,548	\$ 216,253
LIABILITIES				
Accounts payable and accrued liabilities	\$ 239,989	\$ 16,812	\$ 40,548	\$ 216,253

Capital Assets



CITY OF SALISBURY, NORTH CAROLINA

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

As Of June 30, 2004

	Land	Buildings and Improvements	Infrastructure	Equipment, Vehicles and Motorized Equipment	Total
GENERAL GOVERNMENT:					
City Administration	\$ -	\$ -	\$ -	\$ 25,396	\$ 25,396
Human Resources	-	-	-	5,203	5,203
Information Technologies	-	110,578	-	888,038	998,616
Finance	-	-	-	142,422	142,422
City Office Buildings	256,671	2,179,532	-	75,576	2,511,779
Telecommunications	24,820	84,966	-	3,642,820	3,752,606
Public Services Administration	-	10,259	-	18,264	28,523
Fleet Management	-	18,405	-	484,840	503,245
	<u>\$ 281,491</u>	<u>\$ 2,403,740</u>	<u>\$ -</u>	<u>\$ 5,282,559</u>	<u>\$ 7,967,790</u>
PUBLIC SAFETY:					
Police	\$ -	\$ 255,752	\$ -	\$ 2,077,998	\$ 2,333,750
Fire	223,684	371,389	-	3,149,123	3,744,196
	<u>\$ 223,684</u>	<u>\$ 627,141</u>	<u>\$ -</u>	<u>\$ 5,227,121</u>	<u>\$ 6,077,946</u>
TRANSPORTATION:					
Traffic Engineering	\$ -	\$ -	\$ -	\$ 465,266	\$ 465,266
Engineering	-	66,774	-	630,793	697,567
Streets	-	166,805	30,690,486	2,555,632	33,412,923
	<u>\$ -</u>	<u>\$ 233,579</u>	<u>\$ 30,690,486</u>	<u>\$ 3,651,691</u>	<u>\$ 34,575,756</u>
ENVIRONMENTAL PROTECTION:					
Cemetery	\$ -	\$ 10,320	\$ -	\$ 134,455	\$ 144,775
Solid Waste Management	-	-	-	920,048	920,048
	<u>\$ -</u>	<u>\$ 10,320</u>	<u>\$ -</u>	<u>\$ 1,054,503</u>	<u>\$ 1,064,823</u>
CULTURE AND RECREATION:					
Landscaping	\$ 164,546	\$ 71,163	\$ -	\$ 554,211	\$ 789,920
Recreation	1,716,402	5,045,538	-	593,897	7,355,837
	<u>\$ 1,880,948</u>	<u>\$ 5,116,701</u>	<u>\$ -</u>	<u>\$ 1,148,108</u>	<u>\$ 8,145,757</u>
LAND MANAGEMENT AND DEVELOPMENT:					
Development Services	\$ -	\$ -	\$ -	\$ 12,776	\$ 12,776
Community Development	771,322	1,118,108	-	13,500	1,902,930
The Plaza	-	3,239,838	-	15,040	3,254,878
	<u>\$ 771,322</u>	<u>\$ 4,357,946</u>	<u>\$ -</u>	<u>\$ 41,316</u>	<u>\$ 5,170,584</u>
TOTAL CAPITAL ASSETS	<u><u>\$ 3,157,445</u></u>	<u><u>\$ 12,749,427</u></u>	<u><u>\$ 30,690,486</u></u>	<u><u>\$ 16,405,298</u></u>	<u><u>\$ 63,002,656</u></u>

CITY OF SALISBURY, NORTH CAROLINA

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

As Of June 30, 2004

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2004</u>
GENERAL GOVERNMENT:				
City Administration	\$ 25,396	\$ -	\$ -	\$ 25,396
Human Resources	5,203	-	-	5,203
Information Technologies	768,855	237,573	7,812	998,616
Finance	136,772	5,650	-	142,422
City Hall	2,491,344	20,435	-	2,511,779
Telecommunications	1,357,734	2,418,536	23,664	3,752,606
Public Services Administration	10,259	18,264	-	28,523
Fleet Management	238,820	264,425	-	503,245
	<u>\$ 5,034,383</u>	<u>\$ 2,964,883</u>	<u>\$ 31,476</u>	<u>\$ 7,967,790</u>
PUBLIC SAFETY:				
Police	\$ 2,337,031	\$ 464,789	\$ 468,070	\$ 2,333,750
Fire	3,669,574	99,344	24,722	3,744,196
	<u>\$ 6,006,605</u>	<u>\$ 564,133</u>	<u>\$ 492,792</u>	<u>\$ 6,077,946</u>
TRANSPORTATION:				
Traffic Engineering	\$ 465,266	\$ -	\$ -	\$ 465,266
Engineering	678,939	25,586	6,958	697,567
Streets	33,239,923	173,000	-	33,412,923
	<u>\$ 34,384,128</u>	<u>\$ 198,586</u>	<u>\$ 6,958</u>	<u>\$ 34,575,756</u>
ENVIRONMENTAL PROTECTION:				
Cemetery	\$ 136,150	\$ 26,786	\$ 18,161	\$ 144,775
Solid Waste Management	831,075	88,973	-	920,048
	<u>\$ 967,225</u>	<u>\$ 115,759</u>	<u>\$ 18,161</u>	<u>\$ 1,064,823</u>
CULTURE AND RECREATION:				
Landscaping	\$ 789,597	\$ 18,588	\$ 18,265	\$ 789,920
Recreation	7,207,425	164,747	16,335	7,355,837
	<u>\$ 7,997,022</u>	<u>\$ 183,335</u>	<u>\$ 34,600</u>	<u>\$ 8,145,757</u>
LAND MANAGEMENT AND DEVELOPMENT:				
Development Services	\$ 12,776	\$ -	\$ -	\$ 12,776
Community Development	1,902,571	13,500	13,141	1,902,930
The Plaza	3,254,878	-	-	3,254,878
	<u>\$ 5,170,225</u>	<u>\$ 13,500</u>	<u>\$ 13,141</u>	<u>\$ 5,170,584</u>
TOTAL CAPITAL ASSETS	<u>\$ 59,559,588</u>	<u>\$ 4,040,196</u>	<u>\$ 597,128</u>	<u>\$ 63,002,656</u>

Other Schedules



H-1

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND
PROPERTY TAXES RECEIVABLE

For the Year Ended June 30, 2004

Tax Year	Fiscal Year Ended June 30	Assessed Valuation *	Taxes Levied Prior to June 30, 2003	Levy Additions Year Ended June 30, 2004	Collections and Credits Prior to June 30, 2003	Taxes Receivable June 30, 2003	Collections and Credits Year Ended June 30, 2004	(Note) Other Credits	Taxes Receivable June 30, 2004
2003	2004			\$ 12,642,260			\$ 12,235,549		\$ 406,711
2002	2003	2,171,421,479	11,255,029	63	10,892,049	362,980	219,417		143,626
2001	2002	1,854,810,966	11,190,087	71	11,077,081	113,006	54,433		58,644
2000	2001	1,820,568,216	10,937,764		10,875,256	62,508	16,471		46,037
1999	2000	1,764,727,945	10,160,220		10,121,208	39,012	4,664		34,348
1998	1999	1,482,452,065	9,213,038		9,176,962	36,076	1,368		34,708
1997	1998	1,382,140,359	8,002,560		7,975,014	27,546	1,279		26,267
1996	1997	1,318,874,568	7,759,356		7,730,666	28,690	1,265		27,425
1995	1996	1,280,584,979	7,449,694		7,424,663	25,031	1,447		23,584
1994	1995	1,146,945,499	7,234,332		7,205,774	28,558	1,169		27,389
1993	1994	1,151,692,595	6,741,761		6,725,152	16,609	553	16,056	-
			<u>\$ 89,943,841</u>	<u>\$ 12,642,394</u>	<u>\$ 89,203,825</u>	<u>\$ 740,016</u>	<u>\$ 12,537,615</u>	<u>\$ 16,056</u>	<u>\$ 828,739</u>
									<u>250,000</u>
									<u>\$ 578,739</u>

Less allowance for uncollectible accounts

Ad valorem taxes receivable - net

* 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.

H-2

CITY OF SALISBURY, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY

For the Year Ended June 30, 2004

	<u>City Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
ORIGINAL LEVY					
Property taxed at current year's rates	\$ 2,115,720,031	\$ 0.580	\$ 12,271,179	\$ 11,689,177	\$ 582,002
Registered motor vehicles taxed at prior year's rates	68,937,347	0.600	413,624		413,624
Penalties			11,486	11,486	
TOTAL	\$ 2,184,657,378		\$ 12,696,289	\$ 11,700,663	\$ 995,626
DISCOVERY					
Current year rates	1,276,978		7,407	6,277	1,130
Prior years rates			18,704	18,704	
Penalties			4,817	4,817	
TOTAL			\$ 30,928	\$ 29,798	\$ 1,130
ABATEMENTS	<u>(14,512,877)</u>		<u>(84,957)</u>	<u>(64,658)</u>	<u>(20,299)</u>
TOTAL PROPERTY VALUATION	<u>\$ 2,171,421,479</u>				
NET LEVY			\$ 12,642,260	\$ 11,665,803	\$ 976,457
Less uncollected tax at June 30, 2004			406,711	292,639	114,072
CURRENT YEAR'S TAXES COLLECTED			<u>\$ 12,235,549</u>	<u>\$ 11,373,164</u>	<u>\$ 862,385</u>
PERCENT OF CURRENT YEAR COLLECTED			<u>96.78%</u>	<u>97.49%</u>	<u>88.32%</u>

H-3

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF CASH AND INVESTMENT BALANCES

June 30, 2004

CASH AND INVESTMENTS IN THE FORM OF:

Cash:

Cash on hand	\$	2,540	
In demand deposits		100,945	
Certificates of deposit		<u>8,338,296</u>	
	\$		8,441,781

Investments:

North Carolina Capital Management Trust			4,844,301
Government agency discount notes			2,470,561
Commercial paper			<u>3,471,133</u>

TOTAL CASH AND INVESTMENTS \$ 19,227,776

DISTRIBUTION BY FUNDS:

General	\$	5,300,374
Special revenue		182,265
Enterprise		12,550,905
Internal service		548,627
Trust and agency		<u>645,605</u>

TOTAL DISTRIBUTION BY FUNDS \$ 19,227,776

H-4

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF INTERFUND TRANSFERS

For the Year Ended June 30, 2004

<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⁾**

Last Ten Fiscal Years

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

⁽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
2004	\$ 16,749,950	\$ 538,560	\$ 5,219,310	\$ 894,369	\$ 2,080,488	\$ 1,743,053	\$ 27,225,730
2003	14,579,428	551,498	5,998,089	621,598	2,257,355	1,660,050	25,668,018
2002	14,209,224	550,831	4,055,323	1,414,002	1,721,919	1,581,000	23,532,299
2001	14,066,947	533,554	6,313,050	2,595,501	1,783,086	1,505,714	26,797,852
2000	13,331,647	441,422	5,845,542	1,488,094	1,545,522	1,519,860	24,172,087
1999	12,060,778	466,325	5,308,227	1,647,201	1,520,687	1,299,875	22,303,093
1998	10,812,490	427,718	5,022,098	1,173,299	1,416,622	1,207,500	20,059,727
1997	10,039,452	433,327	5,597,640	1,587,559	1,211,586	1,150,000	20,019,564
1996	9,575,016	365,826	4,711,430	1,364,885	1,035,203	1,073,975	18,126,335
1995	9,272,844	368,109	4,269,171	1,127,032	947,717	1,018,735	17,003,608

⁽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
2004	\$ 16,749,950	\$ 12,517,202	\$ 4,232,240	\$ 508
2003	14,579,428	11,197,014	3,381,878	536
2002	14,209,224	11,096,849	3,111,802	573
2001	14,066,947	10,719,438	3,346,897	612
2000	13,331,647	10,127,787	3,203,181	679
1999	12,060,778	8,968,909	3,091,079	816
1998	10,812,490	7,964,079	2,847,595	816
1997	10,039,452	7,445,338	2,593,133	981
1996	9,575,016	7,276,360	2,298,427	229
1995	9,272,844	7,155,829	2,114,118	2,897

⁽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 June 30,	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
2004	2003	\$ 12,642,260	\$ 12,235,549	96.78%	\$ 12,537,615	99.17%	\$ 828,739	6.56%
2003	2002	11,255,029	10,892,049	96.77%	11,206,513	99.57%	740,016	6.57%
2002	2001	11,190,087	10,823,799	96.73%	11,203,868	100.12%	706,800	6.32%
2001	2000	10,928,747	10,553,137	96.56%	10,743,443	98.30%	731,666	6.69%
2000	1999	10,228,809	10,007,793	97.84%	10,314,522	100.84%	561,060	7.09%
1999	1998	9,271,351	8,926,885	96.28%	9,164,917	98.85%	657,781	6.91%
1998	1997	8,059,604	7,815,549	96.97%	8,110,009	100.63%	557,299	7.71%
1997	1996	7,797,861	7,519,419	96.43%	7,741,174	99.27%	601,439	7.62%
1996	1995	7,529,260	7,265,209	96.49%	7,446,494	98.90%	573,838	7.00%
1995	1994	7,298,360	7,074,231	96.93%	7,308,248	100.14%	510,636	7.89%

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
2004	\$ 1,686,507,911	\$ 419,625,418	\$ 65,288,150	\$ 2,171,421,479
2003	1,399,477,044	398,430,259	64,817,634	1,862,724,937
2002	1,381,515,869	405,754,659	67,540,438	1,854,810,966
2001	1,337,944,798	417,818,187	64,805,231	1,820,568,216
2000	1,287,042,497	409,874,134	67,811,314	1,764,727,945
1999	1,042,366,457	382,196,263	57,889,345	1,482,452,065
1998	967,242,955	357,072,088	57,825,316	1,382,140,359
1997	933,861,596	328,554,542	56,458,430	1,318,874,568
1996	922,430,180	299,703,247	58,451,552	1,280,584,979
1995	809,239,122	288,959,801	48,746,576	1,146,945,499

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			
2004	\$ 12,642,260	\$ 90,170	\$ 12,732,430	\$ 56,623,124	
2003	11,255,029	90,170	11,345,199	51,720,546	
2002	11,190,087	89,403	11,279,490	49,584,717	
2001	10,928,747	89,403	11,018,150	47,994,399	
2000	10,151,282	77,527	10,228,809	46,804,751	
1999	9,205,214	66,137	9,271,351	38,247,341	
1998	7,993,286	66,318	8,059,604	36,540,706	
1997	7,731,552	66,309	7,797,861	33,990,225	
1996	7,449,694	79,566	7,529,260	34,729,278	
1995	7,234,332	64,028	7,298,360	28,820,177	
Tax Rates					
2004	.580	.16	.740	.6300	
2003	.600	.16	.760	.6350	
2002	.600	.16	.760	.6350	
2001	.600	.16	.760	.6350	
2000	.570	.16	.730	.6350	
1999	.620	.16	.780	.6375	
1998	.575	.16	.735	.6375	
1997	.575	.16	.735	.6375	
1996	.575	.16	.735	.6375	
1995	.625	.17	.795	.6500	

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, 2004

	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	\$ 2,465,000	100.00%	\$ 2,465,000
Rowan County ⁽²⁾	58,605,000	23.17%	<u>13,578,779</u>
Total direct and overlapping debt			<u>\$ 16,043,779</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, 2004**

ASSESSED VALUE		\$ 2,171,421,479
		X <u> .08</u>
Debt limit 8 percent of assessed value		\$ 173,713,718
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 15,750,537	
Less water general obligation debt	(2,450,000)	
Total capitalized lease and installment purchase obligations	<u>7,705,918</u>	
		<u>21,006,455</u>
LEGAL DEBT MARGIN		<u>\$ 152,707,263</u>

Table 9

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF PRINCIPAL TAXPAYERS

For the Year Ended June 30, 2004

<u>Business</u>	<u>Type of Enterprise</u>	<u>2003 Assessed Valuation</u>	<u>Percentage Value of Total</u>
Food Lion, Inc.	Commercial	\$ 96,857,552	4.46%
Belle Realty Co.	Real Estate	27,876,801	1.28%
Heritage Realty Limited Partnership	Real Estate	27,314,405	1.26%
ICI Americas	Industrial	26,871,138	1.24%
Norandal USA	Industrial	26,068,831	1.20%
Duke Energy Corp.	Utility	24,028,775	1.11%
Bellsouth Telephone	Communication	19,018,181	0.88%
Salisbury Mall Ltd.	Commercial	15,043,674	0.69%
Rowan Regional Medical Center	Hospital	12,877,293	0.59%
FHD 4, LLC	Real Estate	<u>11,547,489</u>	<u>0.53%</u>
Totals		<u>\$ 287,504,139</u>	<u>13.24%</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
2004	\$ 646,750	\$ 250,437	\$ 897,187	\$ 29,193,202	3.07 %
2003	774,176	260,553	1,034,729	26,509,238	3.90
2002	764,467	290,602	1,055,069	24,618,854	4.29
2001	707,050	300,193	1,007,243	26,674,646	3.78
2000	586,081	250,804	836,885	25,098,555	3.33
1999	532,214	251,248	783,462	23,708,024	3.30
1998	417,200	199,808	617,008	22,492,350	2.74
1997	867,964	113,889	981,853	21,011,261	4.67
1996	504,210	87,212	591,422	18,031,089	3.28
1995	345,717	56,080	401,797	17,239,276	2.33

⁽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

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Population⁽¹⁾	Assessed Value	Gross Bonded Debt⁽²⁾	Debt Payable		Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				From Enterprise Revenues	Net Bonded Debt		
2004	28,199	\$ 2,171,421,479	\$ 15,750,537	\$ 13,285,537	\$ 2,465,000	0.11%	\$ 87.41
2003	28,199	1,862,724,937	17,450,000	14,805,000	2,645,000	0.14%	93.80
2002	26,559	1,854,810,966	18,905,000	16,080,000	2,825,000	0.15%	106.37
2001	26,462	1,820,568,216	20,385,000	17,360,000	3,025,000	0.17%	114.31
2000	27,500	1,763,159,954	21,870,000	18,645,000	3,225,000	0.18%	117.27
1999	26,792	1,482,452,065	23,360,000	19,935,000	3,425,000	0.23%	127.84
1998	26,884	1,382,140,359	24,860,000	21,235,000	3,625,000	0.26%	134.84
1997	26,177	1,314,039,114	19,055,000	18,330,000	725,000	0.06%	27.70
1996	24,543	1,280,584,979	20,200,000	19,375,000	825,000	0.06%	33.61
1995	25,444	1,146,945,499	6,755,000	6,220,000	535,000	0.05%	21.03

⁽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	
2004	\$ 2,171,421,479	41	\$ 11,734,534	175	\$ 18,038,307	N/A
2003	1,862,724,937	19	11,363,500	195	21,796,726	1,190,201,000
2002	1,854,810,966	26	21,142,500	240	30,618,254	1,222,828,000
2001	1,820,568,216	35	17,230,344	242	21,918,930	1,161,275,000
2000	1,763,159,954	46	28,855,510	264	26,182,209	1,087,668,000
1999	1,482,452,065	66	13,265,850	261	30,996,550	1,067,149,000
1998	1,382,140,359	35	37,851,200	198	29,092,935	1,031,749,000
1997	1,314,039,114	28	25,472,369	149	18,103,685	1,031,185,000
1996	1,280,584,979	33	24,172,109	202	16,241,270	973,835,000
1995	1,146,945,499	43	6,752,768	173	10,436,842	987,406,000

^(a) City of Salisbury, Developmental Services Department

Table 13

CITY OF SALISBURY, NORTH CAROLINA

MISCELLANEOUS STATISTICS

June 30, 2004

Date Established	1753
Form of Government	Council/Manager
Area	18.85 Sq. Miles
Miles of Streets	154.34
Fire Protection:	
Number of Stations	3
Number of Firefighters	65
Number of Office Personnel	1
Police Protection:	
Number of Stations	1
Number of Police Officers	79
Number of Auxiliary Police Officers	5
Number of Civilians	22
Water and Sewer Utility:	
Number of Utility Customers	15,300
Average Daily Consumption	6.1 Million Gallons
Miles of Water lines	476
Miles of Sewer lines	483
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	505
Employees:	
Full-Time	428
Permanent Part-Time	2
Temporary Full-Time	16
Temporary Part-Time	28

Table 14**CITY OF SALISBURY, NORTH CAROLINA****DEMOGRAPHIC STATISTICS****For the Year Ended June 30, 2004**

Fiscal Year	Population Estimate⁽¹⁾	Per Capita Income⁽²⁾	Median Age⁽³⁾	Unemployment Rate⁽⁴⁾
2004	28,199	\$19,626	37.5	10.2%
2003	28,199	19,433	37.3	5.7%
2002	26,559	19,241	37.3	5.7%
2001	26,462	18,864	37.1	6.5
2000	27,500	23,634	38.8	3.8
1999	26,792	22,509	38.7	3.4
1998	26,884	21,631	38.5	3.0
1997	26,177	20,787	38.3	2.9
1996	24,543	19,976	38.1	3.6
1995	25,444	19,165	37.9	3.8

Sources:

- ⁽¹⁾ 2002-2003 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



McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

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

We have audited the basic financial statements of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

Compliance and Other Matters

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

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

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 27, 2004

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

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

Compliance

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Salisbury's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

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

In our opinion, the City of Salisbury complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 27, 2004

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Compliance With Requirements Applicable to Each Major
State Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133 and the State Single Audit Implementation Act**

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

Compliance

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2004. The City of Salisbury's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

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

In our opinion, the City of Salisbury complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2004.

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 caused by error or fraud that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 27, 2004

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2004

<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					
FEDERAL EMERGENCY MANAGEMENT AGENCY					
Department of Homeland Security					
Direct Program:					
Assistance to Firefighters Grant	97.044	EMW-2003-FG-06278	\$ 159,479	\$ -	\$ 17,720
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-00-MC-37-0015	\$ 2,951	\$ -	\$ -
Entitlement Program	14.218	B-01-MC-37-0015	28,860		
Entitlement Program	14.218	B-02-MC-37-0015	18,715		
Entitlement Program	14.218	B-03-MC-37-0015	419,409	-	-
			<u>\$ 469,935</u>	<u>\$ -</u>	<u>\$ -</u>
Community Development Block Grants					
Section 108 Loan Guarantees	14.248	B-00-MC-37-0015	\$ 375,000	\$ -	\$ -
Pass-through N.C. Department of Housing Finance Agency HOME Program					
	14.239	R-90-SG-37-0117	\$ 174,182	\$ -	\$ 88,195
Total U.S. Department of Housing And Urban Development			<u>\$ 1,019,117</u>	<u>\$ -</u>	<u>\$ 88,195</u>
U.S. DEPARTMENT OF JUSTICE					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
COPS in Schools	16.710	2000-SH-WX-0245	\$ 7,132	\$ -	\$ -
COPS More	16.710	2001-CM-WX-0272	36,009	-	9,569
			<u>\$ 43,141</u>	<u>\$ -</u>	<u>\$ 9,569</u>
Bureau of Justice Assistance					
Direct Program:					
Local Law Enforcement Block Grant	16.592	2001-LB-BX-2345	\$ 16,750	\$ -	\$ 2,031
Local Law Enforcement Block Grant	16.592	2002-LB-BX-2090	15,370	-	2,523
Local Law Enforcement Block Grant	16.592	2003-LB-BX-1189	2,670	-	298
			<u>\$ 34,790</u>	<u>\$ -</u>	<u>\$ 4,852</u>
Total U.S. Department of Justice			<u>\$ 77,931</u>	<u>\$ -</u>	<u>\$ 14,421</u>

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

**Year Ended June 30, 2004
(Continued)**

<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>
U.S. DEPARTMENT OF TRANSPORTATION					
Pass-through N.C. Department of Transportation:					
Urban Mass Transportation Grants					
Administration	20.507	36233.25.5.1	\$ 96,780	\$ 6,049	\$ 18,147
Operating	20.507	36233.25.5.2	<u>109,394</u>	<u>-</u>	<u>387,853</u>
			<u>\$ 206,174</u>	<u>\$ 6,049</u>	<u>\$ 406,000</u>
Highway Planning and Construction					
Passed-through N. C. Department of Transportation					
Transportation Enhancement Program	20.205	E-4551	<u>\$ 169,856</u>	<u>\$ -</u>	<u>\$ 99,757</u>
Total U.S. Department of Transportation			<u>\$ 376,030</u>	<u>\$ 6,049</u>	<u>\$ 505,757</u>
TOTAL ASSISTANCE - FEDERAL PROGRAMS			<u>\$ 1,632,557</u>	<u>\$ 6,049</u>	<u>\$ 626,093</u>
STATE GRANTS:					
CASH PROGRAMS					
N.C. DEPARTMENT OF TRANSPORTATION					
Powell Bill	N/A		<u>\$ -</u>	<u>\$ 842,430</u>	<u>\$ -</u>
State Maintenance Assistance for					
Transit Systems	N/A	04-CTP-003	<u>\$ -</u>	<u>\$ 160,282</u>	<u>\$ -</u>
Total N. C. Department of Transportation			<u>\$ -</u>	<u>\$ 1,002,712</u>	<u>\$ -</u>
N.C. DEPARTMENT OF ENVIRONMENT & NATURAL RESOURCES					
Division of Parks and Recreation					
2003 Recreational Trails Program	N/A	03M14	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>
N.C. DEPARTMENT OF CRIME CONTROL & PUBLIC SAFETY					
Division of Governor's Crime Commission					
Project SAFE Neighborhoods Resource Coordinator		080-1-03-001-2-137	<u>\$ -</u>	<u>\$ 6,882</u>	<u>\$ -</u>
TOTAL ASSISTANCE - STATE PROGRAMS			<u>\$ -</u>	<u>\$ 1,059,594</u>	<u>\$ -</u>
TOTAL ASSISTANCE			<u>\$ 1,632,557</u>	<u>\$ 1,065,643</u>	<u>\$ 626,093</u>

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2004

1. General

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

CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF COMPLIANCE FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

Section I. Summary of auditor's results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted Yes No

Federal Awards

Internal control over major program:

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

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.248	CDBG Section 108 Loan Program
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee? Yes No

State Awards

Internal control over major State programs:

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

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

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

Identification of major State program: Powell Bill

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

Section III. Federal Award Findings and Questioned Costs
None.

Section IV. State Award Findings and Questioned Costs
None.

CITY OF SALISBURY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2004

There were no prior year audit findings.