

CITY OF SALISBURY

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2008

MAYOR, CITY COUNCIL, AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

Susan W. Kluttz - Mayor

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

William R. Burgin

William R. Kennedy

Mark N. Lewis

OFFICIALS

David W. Treme
City Manager

John A. Sofley, Jr.
Management Services Director

Report Prepared By

City Management Services Department

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



Introductory Section



CONTENTS

	Page
INTRODUCTORY SECTION	
Table of contents	1 - 3
Letter of transmittal	4 - 11
GFOA Certificate of Achievement	12
Organizational chart	13
List of principal officials	14
Facts and information about the City of Salisbury, North Carolina	15 - 17
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	21 - 22
MANAGEMENT'S DISCUSSION AND ANALYSIS	23 - 32
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
A-1 Statement of Net Assets	33
A-2 Statement of Activities	34
FUND FINANCIAL STATEMENTS	
A-3 Balance Sheet – Governmental Funds	36
A-4 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	37
A-5 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	38
A-6 Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund	39
A-7 Statement of Fund Net Assets – Proprietary Funds	40
A-8 Statement of Revenues, Expenses, and Changes in Funds Net Assets – Proprietary Funds	41
A-9 Statement of Cash Flows – Proprietary Funds	42
A-10 Combining Statement of Fiduciary Net Assets	43
A-11 Statement of Changes in Net Assets – Pension Trust Fund	44
Notes to financial statements	45 – 65
REQUIRED SUPPLEMENTAL INFORMATION	
A-12 Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress	69
A-13 Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions	70
SUPPLEMENTARY FINANCIAL DATA	
Combining and individual Fund financial statements and schedules	
General Fund:	
B-1 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	75 - 77

CONTENTS

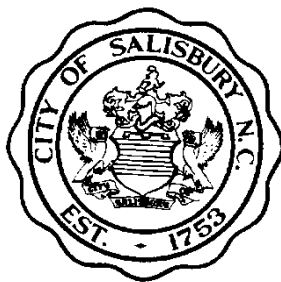
	Page
Non-Major Governmental Funds:	
C-1 Special Revenue Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	81
Proprietary Fund Types:	
D-1 Combining Balance Sheet – Proprietary Funds	85
D-2 Water and Sewer Fund – Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)	86
D-3 Water and Sewer Capital Project Fund – Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)	87
D-4 Transit Fund – Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)	88
Internal Service Funds:	
E-1 Combining Balance Sheet	91
E-2 Combining Statement of Revenues, Expenses, and Changes in Fund Balances	92
E-3 Workers’ Compensation Fund – Schedule of Revenues and Expenditures – Financial Plan and Actual (Non-GAAP)	93
E-4 Employee Health Care Fund – Schedule of Revenues and Expenditures – Financial Plan and Actual (Non-GAAP)	94
E-5 Combining Statement of Cash Flows	95
Agency Funds:	
F-1 Combining Balance Sheet	99
F-2 Statement of Changes in Assets and Liabilities	100
Other schedules:	
G-1 Property Taxes Receivable	103
G-2 Analysis of Current Tax Levy	104
 STATISTICAL SECTION	
Schedule 1 Net Assets by Component – Last Five Fiscal Years	107
Schedule 2 Changes in Net Assets - Last Five Fiscal Years	108
Schedule 3 Fund Balances of Governmental Funds - Last Ten Fiscal Years	110
Schedule 4 Changes in Fund Balances of Governmental Funds - Last Ten Fiscal Years	112
Schedule 5 Governmental Activities Tax Revenues by Source - Last Four Fiscal Years	114
Schedule 6 Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years	115
Schedule 7 Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	116
Schedule 8 Principal Property Taxpayers – Current Year and Nine Years Ago	118
Schedule 9 Property Tax Levies and Collections – Last Ten Fiscal Years	119
Schedule 10 Ratio of Outstanding Debt by Type – Last Ten Fiscal Years	120
Schedule 11 Ratio of General Bond Debt Outstanding - Last Ten Fiscal Years	122
Schedule 12 Direct and Overlapping Governmental Activities Debt	123
Schedule 13 Legal Debt Margin Information – Last Ten Fiscal Years	124
Schedule 14 Pledged Revenue Coverage – Water and Sewer Revenue Bonds – Last Nine Fiscal Years	126

CONTENTS

	Page
Schedule 15 Demographic and Economic Statistics – Last Ten Fiscal Years	127
Schedule 16 Principal Employers – Current and Nine Years Ago	128
Schedule 17 Full-time Equivalent City Government Employees by Function – Las Ten Fiscal Years	129
Schedule 18 Operating Indicators by Function – Last Ten Fiscal Years	130
Schedule 19 Capital Asset Statistics by Function – Last Ten Fiscal Years	132

COMPLIANCE SECTION

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	137
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	139
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	141
Schedule of Expenditures of Federal and State Awards	143
Notes to Schedule of Expenditures of Federal and State Awards	145
Schedule of Compliance Findings and Questioned Costs	146
Schedule of Prior Audit Findings	147



October 25, 2008

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, 2008 (FY08). We are particularly proud of the fact that this Report has been entirely prepared by the City's Management Services Department. Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the City. We believe the data is accurate in all material respects, and it is presented in a manner designed to set forth fairly the financial position and the results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The accompanying financial statements have been audited by Martin Starnes & Associates, CPAs, P.A., an independent firm of certified public accountants, and their opinion is included in the Report.

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

GENERAL

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

The 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, 2007, 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. Salisbury, like the entire United States, is in the middle of an economic downturn. Taxable retail sales in Salisbury for the twelve months ended June 30, 2008 decreased \$13.5 million (2.6%) from the prior fiscal year to \$505,848,887 as compared to the statewide average decrease of 0.27%. Taxable retail sales in Salisbury were higher in FY07 than in any fiscal year in history. Despite the decrease in taxable sales, the City's sales tax revenues actually increased 5.9% in the past fiscal year to \$5,220,704. Continuing additions to the area's retail centers and new restaurants have helped to stabilize the local economy. In the spring of 2008, construction began on a new shopping center. The shopping center has celebrated its first grand opening when Kohl's recently opened for business. The addition of Kohl's and other new stores in the future should help Salisbury and Rowan County citizens spend their tax dollars locally instead of going out of town to shop. Also, a new five-story hotel and restaurant will soon replace older structures at the City's main entrance off of Interstate 85. The local economy is still relatively strong and these new developments will help Salisbury continue to thrive in the future.

The downtown business district continues to be a thriving retail center for area merchants. The City supports and encourages the revitalization of the downtown business district that began in the early 1980's. Since that time almost \$100 million has been invested in the redevelopment of Salisbury's downtown. In the downtown area, over 93% of the first floor business and retail space is currently occupied. The past fiscal year has seen the opening of sixteen new downtown businesses and nine building renovations. The downtown area had a net increase of 49 jobs during the past fiscal year. 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.

Another reason for a positive economic outlook for our region is the construction of the new North Carolina Research Campus in neighboring Kannapolis, which is approximately 20 miles south of Salisbury. The Campus is being built on the site of a former textile mill and will house biotechnology research and development facilities of some of the state's major universities including Duke University, North Carolina State University, and the University of North Carolina. The first four buildings of the 350-acre biotech center has been completed and will open this fall. The campus will create an estimated 5,535 jobs by 2013 and is

expected to attract another 9,000 jobs to Cabarrus and Rowan Counties by 2032. The new jobs are estimated to have a total annual income of \$2.1 billion.

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

MAJOR INITIATIVES

The City of Salisbury's Council and Management team were very pleased with the results of recent citizens' surveys. Responses from those surveys showed that our citizens have a high level of satisfaction with the various services that the City provides. City Council and Management have used our citizens' comments to formulate goals and objectives for the City at the annual Future Directions and Goal Setting Conference. City management and staff have been working hard to meet those goals and take Salisbury from good to great. Areas of progress that are worth noting are the continued revitalization effort of the City's downtown area, the adoption of a new land development ordinance,, and the City's new Customer Service Initiative. Also, the various departments that make up City government continue to thrive, as evidenced by the receipt of several national, state, and local awards.

The revitalization of Salisbury's downtown area continues to surge ahead. Over two million dollars were invested into the downtown during FY08 by various public and private organizations. A walk through the downtown provides much evidence of this continued revitalization as you see cranes and various renovation projects currently underway. The City has worked with Downtown Salisbury, Inc. to bring more people to the downtown. In addition to serving as a retail center, the downtown has become a great place for events and festivals such as the Lord Salisbury Festivals, Pops at the Post, Arts on Easy Street, and the annual Blues and Jazz Festival. The City was excited to complete the South Square Streetscape Enhancement Project, which substantially changed the appearance of portions of East Fisher and South Lee Streets. This Project is already helping to transform the South Square into an arts and entertainment district. Festival street lights have been added and several new restaurants have opened in the past year. Salisbury's vibrant downtown district and its many festivals are a major reason for the increase in tourism in our area. The City's downtown revitalization effort is admired statewide, as evidenced by the receipt of several awards in the North Carolina Main Street Awards competition.

In response to the comprehensive plan of Salisbury Vision 2020, the City adopted the Land Development Ordinance of the City of Salisbury North Carolina on December 18, 2007 to take effect on January 1, 2008. This Ordinance embodies the principle of "Sustainable Growth", which is the City's principle for accommodating and maintaining population growth and economic expansion using coordinated planning and design. In adopting this ordinance, the City seeks to implement the policy recommendations from Salisbury Vision 2020, including establishing the collective vision of their Citizens for Small Town Character and Community Identity, Environmental Quality, Getting Around, Community Appearance, Historic Preservation, Downtown Salisbury, Neighborhoods, Public Safety, Housing, Economic Opportunity, and Fiscal Responsibility and Better Services.

At the Future Directions and Goal Setting Conference, City Council made creating "a culture of excellent customer service within the City organization" its number one goal. Prior to that conference much work had already been done toward developing a comprehensive customer service plan for all City employees. All of the City's employees have participated in an initial training session that introduced the City's Customer Service Initiative. Also, most of the City's employees have gone through a second round of departmental level customer service training. City employees are encouraged to continually live up to the City's customer service motto and be truly "Driven to Serve." Based on the many positive comments we are receiving from

our citizens and customers, a change in our culture is definitely underway because our employees have embraced the Customer Service Initiative.

City Council also desires to maintain quality management of the City and each of its departments. One way of validating the quality of a City department is to seek national, state, and local recognition. For the twelfth straight year, the City has been designated a Certified Local Government by the North Carolina State Historic Preservation Office for the City's work in historic preservation. The City has also been named a Tree City USA by the Arbor Day Foundation. The City's Police, Fire and Parks and Recreation Departments have received national re-accreditation. Salisbury Parks and Recreation is one of only two departments in North Carolina and one of 60 in the United States that are nationally accredited and was recently one of only five cities in the state awarded a designation of being a "Fit Community." 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

City Council and staff are moving ahead with its "Fiber to the Home" project. City Council identified Fiber to the Home as one of its six tactical goals for FY2006-07. The proposed new Enterprise Fund would put the City into the business of offering cable television, telephone and Internet services. With its fiber-optic cable, the Fiber to the Home project would provide customers with greater bandwidth, translating to much faster speeds and greater capacity for data. While this would be a big investment (an estimated \$30 million), it could assure that leading-edge communications and entertainment services will be available to our residents and businesses. The project could be a tremendous asset for economic development as businesses look to move here or maintain their presence here.

The City is looking forward to the redevelopment of the former Empire Hotel. The potential rejuvenation of the Empire Hotel has long been considered to be a keystone to the revitalization of the South Main Street area. The Hotel is an 88,000 square foot property located in the heart of the downtown, less than a block away from the recently completed South Square Streetscape Enhancement Project. Downtown Salisbury, Inc. has advertised the property and received information from seven interested development firms. DSI has narrowed the search to one developer who will soon begin a one-year feasibility study with the goal of returning the building back into an operational hotel. The redevelopment of the hotel could have a major economic impact on the City and the downtown area.

The Parks and Recreation Department will soon have a grand re-opening of the Jaycee Optimist Sports Complex. In the past year Council has award contracts for the total renovation of the park. The project includes two new softball fields, two three-on-three basketball courts, a play structure, bocce courts, horseshoe pits, a picnic area, a concession stand, and a paved walking trail around the entire complex. This project is being funded by a donation from the Robertson Family Foundation and a grant from the North Carolina Parks and Recreation Trust Fund in addition to City funds.

The City's Water and Sewer department will be extremely busy with infrastructure expansions and renovations over the next couple of years. Aging sewer infrastructure and stiffer federal and state regulations will be addressed through upgrades and additions to the Grant Creek and Town Creek Wastewater Treatment Plants. These projects, which should be completed by the fall of 2009, will upgrade obsolete facilities and provide additional treatment capacity. Also, the City and Rowan County have partnered to extend sewer service along Interstate 85 from Salisbury to southern Rowan County. This \$7.0 million project should stimulate growth and economic development along the County's primary growth corridor. In a matter unrelated to the expansion, the City will continue its due diligence in protecting its water rights with regard to the Yadkin River through participation of the re-licensing process by ALCOA for their hydropower operation.

REPORTING ENTITY

In conformity with the standards of the Governmental Accounting Standards Board, this Report includes all funds of the City, as well as its component unit. The City of Salisbury (as legally defined) is considered to be a primary government. Current governmental standards for accounting and financial reporting require inclusion of the primary government as well as its component unit in a published comprehensive annual financial report. The component unit is a legally separate entity for which the primary government is primarily financially accountable or for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

SERVICES PROVIDED

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

GOVERNMENT STRUCTURE

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

ACCOUNTING SYSTEMS AND BUDGETARY CONTROL

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

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

As a recipient of federal and state awards, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management. As a part of the City's single audit described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state awards, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for FY08 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, 2008.

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 CATEGORIES

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

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

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

FINANCIAL MANAGEMENT

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

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

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

CASH MANAGEMENT

The City's temporary idle cash is invested in interest-bearing demand deposits, certificates of deposit, obligations of the U.S. Treasury and federal agencies, banker's acceptances, commercial paper, and the North Carolina Capital Management Trust. All revenues received are deposited the same day in a consolidated interest-bearing bank account. This bank account is drawn upon to meet all payroll and payable obligations, and the City maintains in this account only as much money as is required to meet current obligations. All other idle cash is invested in instruments authorized by the General Statutes of North Carolina. The average yield on investments was 4.17% for the year ended June 30, 2008.

The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. The majority of the City's investment portfolio at June 30, 2008, 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

FY08 and the beginning of FY09 have been challenging and trying times for our City leaders, management, and staff. On March 7, 2008, a major fire broke out in a local millwork plant. The fire turned tragic as two of our firefighters were killed while fighting the blaze. The loss of these two heroes devastated all of us that work for and live in the City of Salisbury. Although the financial impact of the fire on the City is not nearly as great as the loss of two lives, our Fire Department did incur some expenses and is still in the process of replacing lost equipment. Also, as previously discussed in this transmittal letter, the national economy is in a

downtown. While we are confident that new retail stores and the continued redevelopment in the downtown will help to stabilize the local economy, our City management is preparing for leaner times ahead. With the possibility of decreased revenues due to layoffs and home foreclosures, management and staff are looking for ways to control operating and capital expenditures while continuing to assure our citizens that the City will be able to provide the quality of services that they have come to enjoy and expect.

The future continues to hold many other uncertainties as well. Federal and State mandates continue to impact local governments in all areas of operations. Nevertheless, the citizens of Salisbury have come to expect and appreciate high levels of service they enjoy. The management of the City is 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, mission, and vision to provide quality services to all of our citizens. Although, the City faces rising operational costs, our Council and management are constantly guarding against unnecessary tax and utility rate increases. All City operations are being asked to maintain their readiness to respond to our citizens even as we face the possibilities of decreasing resources. Overall, new retail in the City and sound management by our 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 Teresa P. Harris, Budget and Performance Management Manager, Mark D. Drye, Management Analyst, and Kizzy N. Lea, 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.
Management Services 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, 2007

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.



Chloe S. Cox

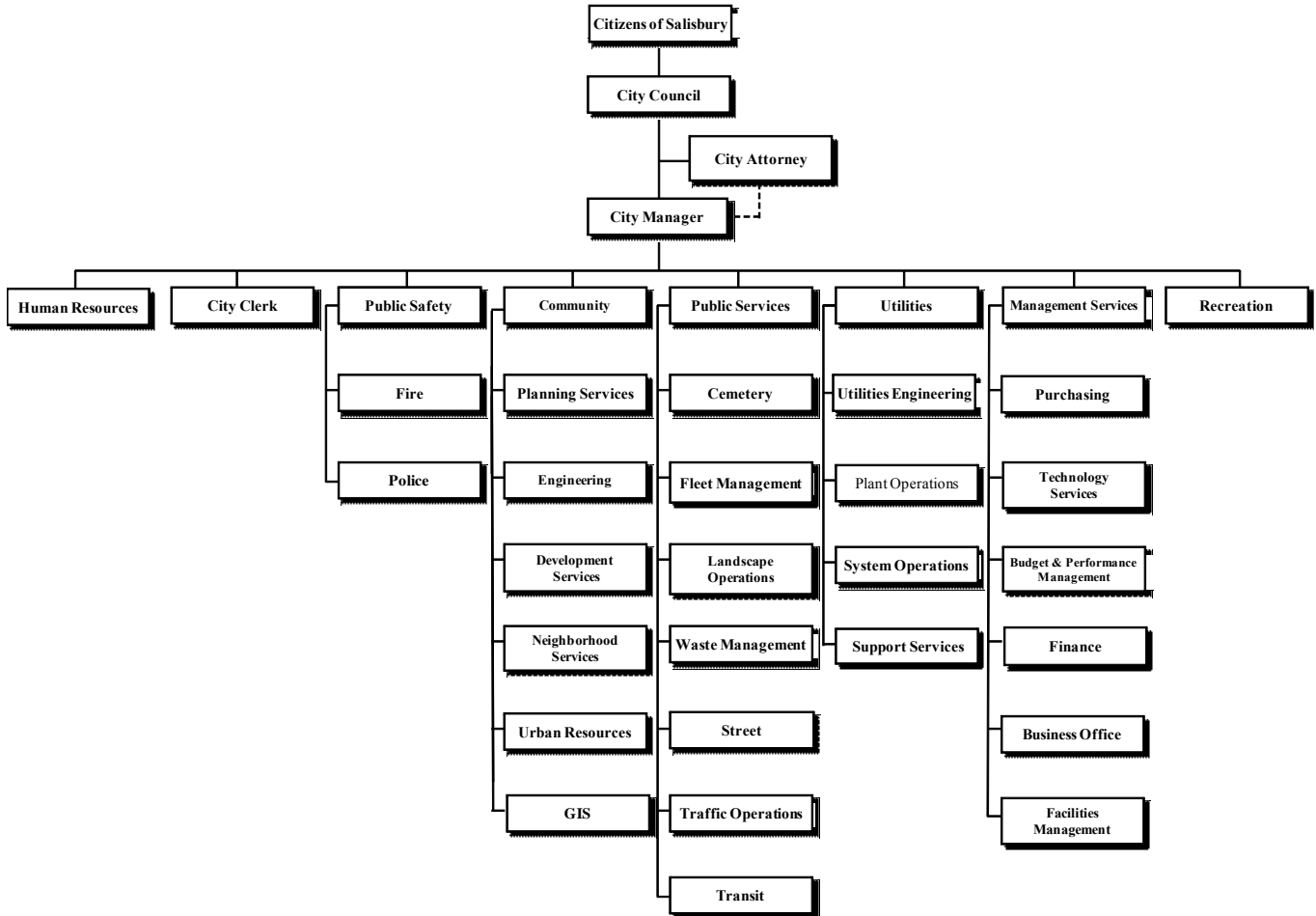
President

Jeffrey R. Emer

Executive Director

CITY OF SALISBURY

ORGANIZATIONAL CHART



CITY OF SALISBURY
LIST OF PRINCIPAL OFFICIALS

June 30, 2008

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
City Clerk	Myra B. Heard
Management Services Director	John A. Sofley, Jr.
Fire Chief	Robert A. Parnell
Land Management and Development Director	Daniel J. Mikkelson
Interim Human Resources Director	K. Joe Eagle
Police Chief	L. Mark Wilhelm
Public Services Director	Tony L. Cinquemani
Parks and Recreation Director	Gail Elder-White
Interim Utilities Director	James D. Behmer
Purchasing Agent	Dewey D. Peck
Technology Services Manager	C. Michael Crowell

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 31,024 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 Council members. The Mayor presides at City Council meetings. Also, a Mayor Pro Tem is elected by City Council members 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 production during fiscal year 2008 was 7.5 million gallons per day. The filter plant is designed for expansion as needed to 18 million gallons per day by adding pumping and settling capacity. An arterial system of distribution mains has been constructed to assure maximum fire protection to all parts of the city.

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

Salisbury's three wastewater treatment facilities serve as the area's regional wastewater utility with service expansion to the towns of Landis, China Grove, Spencer, East Spencer, Granite Quarry, and Rockwell. Total daily treatment capacity in 2006 was 12.5 million gallons.

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

TRANSPORTATION

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

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

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

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

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

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

MOTELS

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

EDUCATION

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

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

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

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

ARTS AND ENTERTAINMENT

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

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

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

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

COMMUNITY FACILITIES

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

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

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

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

Kelsey-Scott Park is a twenty-two (22) acre park located on Old Wilkesboro Road. It includes a nine-hole disc golf course, a baseball/softball field, an outdoor basketball court, and a picnic shelter. The Jaycee Sports Complex is a multi-use area that is currently under reconstruction and will include two (2) ball fields, basketball courts, and a walking trail. The Miller Recreation Center located on West Bank Street has a play structure and an indoor basketball court. The Center offers programs throughout the year.

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

SPECIAL EVENTS

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



Financial Section





Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council

City of Salisbury, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of Downtown Salisbury, Inc. which represents 100% of the assets, net assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Downtown Salisbury, Inc., is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Downtown Salisbury, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina, as of June 30, 2008, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2008, on our consideration of City of Salisbury's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control 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 considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the City of Salisbury, North Carolina. The introductory information, combining and individual fund financial statements and other schedules and the statistical tables, as well as the accompanying schedule of expenditures of Federal and State awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Martin Starnes & Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 22, 2008

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, 2008. 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 \$131,652,335 (*net assets*).
- The government's total net assets increased by \$3,530,524. The City's total assets increased by \$9,279,725 primarily due to having \$7.4 million of unspent revenue bond proceeds on hand in the Water and Sewer Fund. The increase in assets was partially offset by the payment of \$5.3 million in principal payments on the City's 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 \$8,070,870, a increase of \$1,097,583 from the prior year. Approximately 55 percent of the ending fund balance, or \$4,446,572, 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 \$4,446,572 was 13.4 percent of total general fund expenditures and transfers for the fiscal year.
- The City of Salisbury's total long-term debt increased by \$3,061,306 or 5.4% during the current fiscal year. The City issued \$8.3 million of new debt, including \$7.4 million revenue bonds for water and sewer construction, and paid off \$5.3 million of previously existing debt.
- The City's bond ratings from "A+" Standard and Poor's and "A1" from Moody's Investors Service were reaffirmed in October 2008. The City's current bond ratings from Fitch Ratings of "A+" was reaffirmed in July 2005.

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, the water and sewer system and the transit system. The fiduciary fund statements provide information about the financial relationships – like the pension trust for the City's law enforcement officers – in which the City acts solely as a trustee for the benefit of others, to whom the resources in question belong.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

Proprietary Funds – The City of Salisbury has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Salisbury uses enterprise funds to account for its water and sewer activity and for its mass transit operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the City of Salisbury. The City uses internal service funds to account for two activities – its self-insured health insurance and worker compensation insurance. Because most of the costs of these operations are attributable to governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds – The City is the trustee, or fiduciary for its Law Enforcement Officers’ Special Separation Allowance, its Boards and Commissions, the Municipal Service District, and the Town of East Spencer’s water and sewer operations. All of the City’s fiduciary activities are reported in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 43 and 44. We excluded these activities from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 45-65 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 69-70 of this report.

THE CITY OF SALISBURY’S NET ASSETS
Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 12,570,556	\$ 11,816,110	\$ 22,553,161	\$ 17,897,417	\$ 35,123,717	\$ 29,713,527
Capital assets	45,023,641	45,875,898	121,596,939	116,875,147	166,620,580	162,751,045
Total assets	<u>\$ 57,594,197</u>	<u>\$ 57,692,008</u>	<u>\$ 144,150,100</u>	<u>\$ 134,772,564</u>	<u>\$ 201,744,297</u>	<u>\$ 192,464,572</u>
Long-term liabilities outstanding	\$ 10,124,224	\$ 11,413,774	\$ 52,072,042	\$ 47,879,437	\$ 62,196,266	\$ 59,293,211
Other liabilities	2,796,098	2,825,631	5,099,598	2,223,919	7,895,696	5,049,550
Total liabilities	<u>\$ 12,920,322</u>	<u>\$ 14,239,405</u>	<u>\$ 57,171,640</u>	<u>\$ 50,103,356</u>	<u>\$ 70,091,962</u>	<u>\$ 64,342,761</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 36,525,374	\$ 36,272,178	\$ 77,307,128	\$ 73,759,751	\$ 113,832,502	\$ 110,031,929
Unrestricted	8,148,501	7,180,425	9,671,332	10,909,457	17,819,833	18,089,882
Total net assets	<u>\$ 44,673,875</u>	<u>\$ 43,452,603</u>	<u>\$ 86,978,460</u>	<u>\$ 84,669,208</u>	<u>\$ 131,652,335</u>	<u>\$ 128,121,811</u>
Total liabilities and net assets	<u>\$ 57,594,197</u>	<u>\$ 57,692,008</u>	<u>\$ 144,150,100</u>	<u>\$ 134,772,564</u>	<u>\$ 201,744,297</u>	<u>\$ 192,464,572</u>

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 \$131,652,335 as of June 30, 2008, an increase of \$3,530,524 from the fiscal year ended June 30, 2007.

The largest portion of the City’s net assets (86.5%) 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. Of the remaining net assets, \$17,819,833 (13.5%) is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.03%, which is comparable to the statewide average of 96.63%.
- Increased property tax revenues of \$1,518,834 due to economic growth and annexation.
- Continued low cost of debt due to the City's excellent bond ratings.

CITY OF SALISBURY CHANGES IN NET ASSETS

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 6,095,952	\$ 6,151,544	\$ 20,552,229	\$ 19,470,727	\$ 26,648,181	\$ 25,622,271
Operating grants and contributions	1,821,205	1,547,688	479,227	482,692	2,300,432	2,030,380
Capital grants and contributions	1,376,213	3,684,048	771,686	1,960,331	2,147,899	5,644,379
General revenues:						
Property taxes	16,755,835	15,237,001	-	-	16,755,835	15,237,001
Other taxes	5,220,704	4,928,404	-	-	5,220,704	4,928,404
Intergovernmental revenue	3,446,122	2,818,573	-	-	3,446,122	2,818,573
Other	719,006	994,204	816,163	642,765	1,535,169	1,636,969
Total revenues	<u>\$ 35,435,037</u>	<u>\$ 35,361,462</u>	<u>\$ 22,619,305</u>	<u>\$ 22,556,515</u>	<u>\$ 58,054,342</u>	<u>\$ 57,917,977</u>
Expenses:						
General government	\$ 8,584,267	\$ 7,545,934	\$ -	\$ -	\$ 8,584,267	\$ 7,545,934
Public safety	11,855,275	11,018,172	-	-	11,855,275	11,018,172
Transportation	5,875,717	5,079,652	-	-	5,875,717	5,079,652
Environmental protection	2,203,772	2,139,937	-	-	2,203,772	2,139,937
Culture and recreation	2,830,610	2,593,105	-	-	2,830,610	2,593,105
Community and economic development	2,025,313	2,094,261	-	-	2,025,313	2,094,261
Education	42,342	42,342	-	-	42,342	42,342
Interest on long-term debt	358,688	414,815	-	-	358,688	414,815
Water and sewer	-	-	19,488,977	18,636,493	19,488,977	18,636,493
Mass transit	-	-	1,258,857	1,194,223	1,258,857	1,194,223
Total expenses	<u>\$ 33,775,984</u>	<u>\$ 30,928,218</u>	<u>\$ 20,747,834</u>	<u>\$ 19,830,716</u>	<u>\$ 54,523,818</u>	<u>\$ 50,758,934</u>
Change in net assets before transfers	\$ 1,659,053	\$ 4,433,244	\$ 1,871,471	\$ 2,725,799	\$ 3,530,524	\$ 7,159,043
Transfers	(437,781)	(358,569)	437,781	358,569	-	-
Change in net assets	\$ 1,221,272	\$ 4,074,675	\$ 2,309,252	\$ 3,084,368	\$ 3,530,524	\$ 7,159,043
Net assets, July 1	43,452,603	39,377,928	84,669,208	81,584,840	128,121,811	120,962,768
Net assets, June 30	<u>\$ 44,673,875</u>	<u>\$ 43,452,603</u>	<u>\$ 86,978,460</u>	<u>\$ 84,669,208</u>	<u>\$ 131,652,335</u>	<u>\$ 128,121,811</u>

Governmental activities - Governmental activities increased the City's net assets by \$1,221,272. This increase is primarily attributable to the increase in tax revenues in the General Fund and a \$712,000 increase in infrastructure assets due to annexation and new development contributed by developers.

Business-type activities - Business-type activities increased the City's net assets by \$2,309,252. As previously mentioned, the Water and Sewer had \$7.4 million of proceeds from the sale of revenue bonds on hand at June 30, 2008. The City did repay debt principal totaling \$3.3 million in this fiscal year.

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. As of June 30, 2008, unreserved fund balance of the General Fund was \$4,446,572, while total fund balance for the General Fund was \$8,064,893. 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 13.4 percent of total General Fund expenditures and transfers, while total fund balance represents 24.3 percent of that same amount.

At June 30, 2008, the governmental funds of the City of Salisbury reported a combined fund balance of \$8,070,870, a \$1,097,583 or a 15.7 percent increase from last year. This increase in fund balance is primarily due to the increase in tax revenues coming from growth and annexation.

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

Total amendments to the General Fund increased revenues and other sources of funds and expenditures by \$1,565,612. The difference between the original budget and the final amended budget can be briefly summarized as follows:

- Additional revenues in the amount of \$696,769 were appropriated to reflect expected revenues due to the City's most recent annexation.
- A \$250,000 North Carolina Parks and Recreation Trust Fund grant was appropriated for the renovations of the Salisbury Sports Complex.
- Revenues in the amount of \$241,905 from the City's ongoing telecommunications 800 mhz re-banding project were appropriated to pay for expenses incurred in the re-banding process.

- Fund balance in the amount of \$128,846 and donations totaling \$30,441 were appropriated to pay for the City's expenses related to a major fire that occurred on March 7, 2008.
- Federal asset forfeiture and other grant funds, which are restricted for use for the Police Department, in the amount of \$130,237 were appropriated for various programs and equipment purchases.

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, 2008. 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 \$1,192,164 during the fiscal year ended June 30, 2008.

Proprietary Funds

The City of Salisbury's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Proprietary Funds at the end of the fiscal year were to \$9,671,332, a decrease of \$1,238,125. The total net assets of the Water and Sewer Fund increased by \$2,525,362, and the total net assets of the Mass Transit Fund decreased by \$216,110. Depreciation expense of \$4,093,514 in the Water and Sewer Fund and \$236,242 was a primary factor in the decreased unrestricted net assets. Other factors concerning the finances of these two funds have been addressed in the discussion of the City of Salisbury's business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The City of Salisbury's investment in capital assets for its governmental and business-type activities as of June 30, 2008 totals \$166,620,580 (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-type assets decreased 1.8 percent, whereas capital assets in the business-type activities increased by 4 percent.

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

- Expenditures on the construction of water and sewer infrastructure totaling \$8,607,990. The majority of these expenditures were incurred on projects that were still in progress as of the end of the fiscal year. The City finished three projects and capitalized \$3,912,791 in construction projects during the fiscal year.
- General infrastructure taken over via annexation and contributions from developers included streets valued at \$712,000.
- Purchase of a new vehicles totaling \$588,083 in the General Fund and \$190,136 in the Water and Sewer Fund. The City purchased other motorized equipment (motor graders, lawn mowers, etc.) for \$239,529 in the General Fund and \$179,770 in the Water and Sewer Fund.

CITY OF SALISBURY'S CAPITAL ASSETS
(net of depreciation)

Figure 3

	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Land	\$ 3,632,027	\$ 3,572,146	\$ 2,072,067	\$ 2,072,067	\$ 5,704,094	\$ 5,644,213
Construction in progress	392,846	94,600	8,559,800	3,978,576	8,952,646	4,073,176
Buildings	8,821,790	9,061,740	12,858,381	13,364,139	21,680,171	22,425,879
Improvements other than buildings	4,117,390	4,269,729	-	-	4,117,390	4,269,729
Equipment	1,172,490	1,397,856	381,112	318,411	1,553,602	1,716,267
Vehicles and motorized equipment	2,881,475	2,929,491	1,478,161	1,651,169	4,359,636	4,580,660
Infrastructure	24,005,623	24,550,336	96,247,418	95,490,785	120,253,041	120,041,121
Total	\$ 45,023,641	\$ 45,875,898	\$ 121,596,939	\$ 116,875,147	\$ 166,620,580	\$ 162,751,045

Additional information on the City's capital assets can be found in note 2.A.4. of the Basic Financial Statements.

Long-term Debt - As of June 30, 2008, the City of Salisbury had total long-term debt outstanding of \$60,188,078 (not including compensated absences). Of this, \$9,729,887 is general obligation debt backed by the full faith and credit of the City and \$31,587,521 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		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 1,675,000	\$ 1,875,000	\$ 8,054,887	\$ 9,286,300	\$ 9,729,887	\$ 11,161,300
Revenue bonds	-	-	31,587,521	25,045,997	31,587,521	25,045,997
State bond loans	-	-	9,772,554	10,655,060	9,772,554	10,655,060
Capital leases	-	-	2,274,849	2,535,695	2,274,849	2,535,695
Installment purchases	6,355,267	7,228,720	-	-	6,355,267	7,228,720
HUD Section 108 loan	468,000	500,000	-	-	468,000	500,000
Total	\$ 8,498,267	\$ 9,603,720	\$ 51,689,811	\$ 47,523,052	\$ 60,188,078	\$ 57,126,772

The City of Salisbury's total outstanding debt increased by \$3,061,306 (5.4 percent) during the past fiscal year. The City issued \$7.4 million in Water and Sewer Revenue Bonds and borrowed \$906,934 to finance a balloon payment an installment purchase agreement. The City also paid \$5,365,202 in principal payments on its new and existing debt.

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 \$209,028,426.

Additional information regarding the City of Salisbury's long-term debt can be found in Note 2.B.6 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following key indicators show that Salisbury, like the rest of the nation, is in a period of economic downturn.

- Average unemployment in Salisbury for the fiscal year ended June 30, 2008, was 6.6%, which is unchanged from a year ago. The average unemployment for the State of North Carolina for the past fiscal year was 5.08%, which is up from 4.88% for the previous fiscal year.
- Sales of items subject to North Carolina sales taxes decreased more than \$13.5 million from the prior year to \$505,848,887. This represents a 2.6% decrease in taxable sales from the prior fiscal year. Taxable sales across the state of North Carolina decreased by less than one percent.
- Home sales in Rowan County from July 2007 to June 2008 decreased by 24% from the previous year. The average sales price of homes sold in the past year decreased by 6.6%.
- On the positive side, the total value of building permits issued in Rowan County from July 1, 2007 to June 30, 2008 increased by \$18.8 million, or 8.9%, over the prior fiscal year.
- The occupancy rates for first floor office and retail space in the City's downtown area continues to be approximately 93% and redevelopment activity in the downtown is strong.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2009

Governmental Activities

General Fund – The City anticipates that revenues for the fiscal year ending June 30, 2009 will increase by \$2.5 million, or 6.9%, over the prior fiscal year. The City plans to borrow \$2 million in installment financing to pay for needed facility and parking lot improvements. Current year property taxes are projected to increase by over \$229,000, or 1.3%. Salisbury's property tax rates remain unchanged from FY08. Collections of local sales tax revenues are not expected to increase substantially due to the current economic downturn. The City does expect to collect an additional \$370,000 from increases in recycling, landfill and waste collection fees.

Expenditures in the General Fund are also expected to rise approximately 11 percent to \$37,255,116. Personnel cost in the General Fund will increase by about \$710,000 due primarily to City Council's approval of an average three percent merit raise. Health insurance and workers compensation costs will increase approximately 7.5 percent in the new fiscal year. In an effort to improve the coordination of the

various elements of code enforcement activities, the Code Services division of Land Management and Development was formed in the FY09 budget. This program includes two new positions and consolidation of other enforcement activities with an addition of \$120,000 to the General Fund budget. Council also approved the addition of three full-time positions including Telecommunications Technician, Grounds Maintenance Worker for Public Services-Cemetery and an Automotive Service Technician for Public Services-Fleet. As mentioned above, the City does anticipate borrowing \$2,000,000 in installment financing to pay for needed facility and parking lot improvements.

Business – Type Activities

Water and Sewer Fund - The water and sewer rates in the City will increase by 5.7%. After several years of declining water usage, the City has seen an increase in consumption in the last two fiscal years. The City's water plant produced an average of 7.5 million gallons per day which was an increase from 6.7 million gallons per day just two years ago. This increase in consumption helped the City to hold the rate increase to a minimal amount. Wastewater flows, however, have declined as commercial and industrial customers are finding ways to recycle and reuse water. Operating expenses, including increased personnel cost and the increase in chemical and fuel costs, will account for the majority of the rate increase. In the new fiscal year the City and Rowan County will be extending sewer lines along Interstate 85 from Salisbury to southern Rowan County through a jointly-funded \$7 million project. This project is expected to stimulate growth and economic development in Rowan County's primary growth corridor. The City issued \$7.4 million in revenue bonds in the past fiscal year to fund various wastewater treatment plant improvement projects along with improvements to the concrete apron at the reservoir basin.

Mass Transit Fund – The Mass Transit Fund plans to replace two small buses with full size buses at a cost of \$781,000. Grant funds from the State of North Carolina will pay for 90% of the cost of the new buses. The City's annual General Fund contribution to the Mass Transit Fund will be increased by \$15,600 to cover the increasing operational expenses. Personnel costs will increase due to the approved three percent merit raise and the increase in health insurance costs.

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 Management Services Director, City of Salisbury, 132 North Main Street, Salisbury, NC 28144.

A-1
CITY OF SALISBURY, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			Component Unit
	Governmental	Business- type	Total	Downtown Salisbury, Inc.
ASSETS				
Cash and cash equivalents	\$ 8,762,510	\$ 11,336,342	\$ 20,098,852	\$ 31,341
Taxes receivables (net)	662,762	-	662,762	-
Accrued interest receivable on taxes	66,500	-	66,500	-
Accounts receivable (net)	500,466	3,076,726	3,577,192	1,200
Interest receivable	16,841	21,327	38,168	-
Due from other governments	2,256,900	241,574	2,498,474	-
Inventories	229,726	338,984	568,710	-
Prepaid items	28,948	-	28,948	-
Advance funding of pension obligation	45,903	-	45,903	-
Real estate held for investment	-	-	-	1,505,281
Restricted assets:				
Cash and cash equivalents	-	7,538,208	7,538,208	25,850
Capital assets				
Land, improvements, and construction in progress	4,024,873	10,631,867	14,656,740	-
Other capital assets, net of depreciation	40,998,768	110,965,072	151,963,840	15,733
Total assets	<u>\$ 57,594,197</u>	<u>\$ 144,150,100</u>	<u>\$ 201,744,297</u>	<u>\$ 1,579,405</u>
LIABILITIES				
Accounts payable and accrued expenses	\$ 2,404,250	\$ 4,050,125	\$ 6,454,375	\$ 767
Unearned revenue	347,455	-	347,455	-
Accrued interest payable	44,393	503,519	547,912	25,618
Customer deposits	-	545,954	545,954	-
Long-term liabilities:				
Due within one year	1,373,322	3,670,356	5,043,678	4,194
Due in more than one year	8,750,902	48,401,686	57,152,588	1,388,814
Total liabilities	<u>\$ 12,920,322</u>	<u>\$ 57,171,640</u>	<u>\$ 70,091,962</u>	<u>\$ 1,419,393</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 36,525,374	\$ 77,307,128	\$ 113,832,502	\$ 15,733
Restricted for:				
Capital projects	-	-	-	25,850
Unrestricted	8,148,501	9,671,332	17,819,833	118,429
Total net assets	<u><u>\$ 44,673,875</u></u>	<u><u>\$ 86,978,460</u></u>	<u><u>\$ 131,652,335</u></u>	<u><u>\$ 160,012</u></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, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 8,584,267	\$ 3,889,331	\$ 10,040	\$ -
Public safety	11,855,275	464,189	235,804	96,437
Transportation	5,875,717	157,217	1,090,937	1,119,270
Environmental protection	2,203,772	1,208,241	4,592	-
Culture and recreation	2,830,610	175,416	110,095	125,000
Community and economic development	2,025,313	201,558	369,737	35,506
Education	42,342	-	-	-
Interest on long-term debt	358,688	-	-	-
Total governmental activities	<u>\$ 33,775,984</u>	<u>\$ 6,095,952</u>	<u>\$ 1,821,205</u>	<u>\$ 1,376,213</u>
Business-type activities:				
Water and sewer	\$ 19,488,977	\$ 20,463,596	\$ -	\$ 734,584
Transit	1,258,857	88,633	479,227	37,102
Total business-type activities	<u>\$ 20,747,834</u>	<u>\$ 20,552,229</u>	<u>\$ 479,227</u>	<u>\$ 771,686</u>
Total primary government	<u>\$ 54,523,818</u>	<u>\$ 26,648,181</u>	<u>\$ 2,300,432</u>	<u>\$ 2,147,899</u>
Component units:				
Downtown Salisbury, Inc.	<u>\$ 428,102</u>	<u>\$ 43,744</u>	<u>\$ 90,000</u>	<u>\$ 88,562</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Sales and other taxes				
Unrestricted intergovernmental revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets-beginning				
Net assets-ending				

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government		Component Unit	
Governmental Activities	Business-type Activities	Total	Downtown Salisbury, Inc.
\$ (4,684,896)	\$ -	\$ (4,684,896)	\$ -
(11,058,845)	-	(11,058,845)	-
(3,508,293)	-	(3,508,293)	-
(990,939)	-	(990,939)	-
(2,420,099)	-	(2,420,099)	-
(1,418,512)	-	(1,418,512)	-
(42,342)	-	(42,342)	-
(358,688)	-	(358,688)	-
<u>\$ (24,482,614)</u>	<u>\$ -</u>	<u>\$ (24,482,614)</u>	<u>\$ -</u>
\$ -	\$ 1,709,203	\$ 1,709,203	\$ -
-	(653,895)	(653,895)	-
<u>\$ -</u>	<u>\$ 1,055,308</u>	<u>\$ 1,055,308</u>	<u>\$ -</u>
<u>\$ (24,482,614)</u>	<u>\$ 1,055,308</u>	<u>\$ (23,427,306)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (607,543)</u>
\$ 16,755,835	\$ -	\$ 16,755,835	\$ 127,712
5,220,704	-	5,220,704	-
3,446,122	-	3,446,122	-
461,939	816,163	1,278,102	-
257,067	-	257,067	444,878
(437,781)	437,781	-	-
<u>\$ 25,703,886</u>	<u>\$ 1,253,944</u>	<u>\$ 26,957,830</u>	<u>\$ 572,590</u>
\$ 1,221,272	\$ 2,309,252	\$ 3,530,524	\$ (34,953)
43,452,603	84,669,208	128,121,811	194,965
<u>\$ 44,673,875</u>	<u>\$ 86,978,460</u>	<u>\$ 131,652,335</u>	<u>\$ 160,012</u>

A-3
CITY OF SALISBURY, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

<u>ASSETS</u>	<u>General Fund</u>	<u>Non-Major Fund</u>	<u>Total Government Funds</u>
Cash and cash equivalents	\$ 7,226,379	\$ 679	\$ 7,227,058
Taxes receivable, net	662,762	-	662,762
Accounts receivable	500,466	-	500,466
Interest receivable	14,167	-	14,167
Due from other governments	2,220,139	36,736	2,256,875
Due from other fund	30,000	-	30,000
Inventories	229,726	-	229,726
Prepaid items	28,948	-	28,948
Total assets	<u>\$ 10,912,587</u>	<u>\$ 37,415</u>	<u>\$ 10,950,002</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,837,477	\$ 1,438	\$ 1,838,915
Due to other funds	-	30,000	30,000
Unearned revenue	347,455	-	347,455
Deferred revenue	662,762	-	662,762
Total liabilities	<u>\$ 2,847,694</u>	<u>\$ 31,438</u>	<u>\$ 2,879,132</u>
Fund balances:			
Reserved for:			
Encumbrances	\$ 594,875	\$ -	\$ 594,875
Inventories	229,726	-	229,726
Prepaid items	28,948	-	824,601
State statute	2,764,772	36,736	2,801,508
Unreserved, reported in:			
General Fund	4,446,572	-	4,446,572
Special Revenue Fund	-	(30,759)	(30,759)
Total fund balances	<u>\$ 8,064,893</u>	<u>\$ 5,977</u>	<u>\$ 8,070,870</u>
Total liabilities and fund balances	<u>\$ 10,912,587</u>	<u>\$ 37,415</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.			45,023,641
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			66,500
Intangible asset - advance funding of pension obligation			45,903
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 these internal service funds are included in governmental activities in the statement of net asset			972,816
Liabilities for earned but deferred revenues in fund statements.			662,762
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.			
Long-term debt			(8,498,267)
Accrued interest on long-term debt			(44,393)
Accrued compensated absences			(1,625,957)
Net assets of governmental activities			<u>\$ 44,673,875</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, 2008

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 16,731,217	\$ -	\$ 16,731,217
Unrestricted intergovernmental	8,666,826	-	8,666,826
Restricted intergovernmental	1,673,454	368,029	2,041,483
Charges for services	5,335,439	-	5,335,439
Miscellaneous	<u>1,013,434</u>	<u>82,374</u>	<u>1,095,808</u>
Total revenues	<u>\$ 33,420,370</u>	<u>\$ 450,403</u>	<u>\$ 33,870,773</u>
EXPENDITURES			
Current:			
General government	\$ 6,994,906	\$ 92,945	\$ 7,087,851
Public safety	11,591,654	-	11,591,654
Transportation	4,844,531	-	4,844,531
Environmental protection	2,198,012	-	2,198,012
Culture and recreation	3,031,619	-	3,031,619
Community and economic development	1,672,597	396,731	2,069,328
Education	42,342	-	42,342
Debt service:			
Principal	1,980,386	32,000	2,012,386
Interest	<u>341,312</u>	<u>23,308</u>	<u>364,620</u>
Total expenditures	<u>\$ 32,697,359</u>	<u>\$ 544,984</u>	<u>\$ 33,242,343</u>
Surplus (deficiency) of revenues over expenditures	<u>\$ 723,011</u>	<u>\$ (94,581)</u>	<u>\$ 628,430</u>
OTHER FINANCING SOURCES (USES)			
Transfers from (to) other funds	\$ (437,781)	\$ -	\$ (437,781)
Long-term debt issued	<u>906,934</u>	<u>-</u>	<u>906,934</u>
Total other financing sources	<u>\$ 469,153</u>	<u>\$ -</u>	<u>\$ 469,153</u>
Net change in fund balance	\$ 1,192,164	\$ (94,581)	\$ 1,097,583
Fund balances-beginning	<u>6,872,729</u>	<u>100,558</u>	<u>6,973,287</u>
Fund balances-ending	<u>\$ 8,064,893</u>	<u>\$ 5,977</u>	<u>\$ 8,070,870</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, 2008

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

Net changes in fund balances - total governmental funds	\$ 1,097,583
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	26,118
Changes in accrued interest receivable on taxes	(1,500)
Changes in advance funding of pension obligation	1,300
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	
Infrastructure contributed by developers is considered a capital contribution for the statements of activities.	1,735,087
Depreciation is recognized as an expense in the statement of	
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.	(3,299,343)
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	(906,934)
Repayment of principal on long-term debt	2,012,386
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.	
Change in long-term portion of compensated absences	(99,018)
Change in accrued interest payable	5,931
Total changes in net assets of governmental activities	<u>\$ 1,221,272</u>

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

**CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND**

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

For the Year Ended June 30, 2008

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes	\$ 15,765,644	\$ 16,104,482	\$ 16,731,217	\$ 626,735
Unrestricted intergovernmental	8,418,759	8,698,023	8,666,826	(31,197)
Restricted intergovernmental	2,907,557	3,315,806	1,673,454	(1,642,352)
Charges for services	5,503,289	5,780,229	5,335,439	(444,790)
Miscellaneous	<u>1,128,173</u>	<u>1,448,333</u>	<u>1,013,434</u>	<u>(434,899)</u>
Total revenues	<u>\$ 33,723,422</u>	<u>\$ 35,346,873</u>	<u>\$ 33,420,370</u>	<u>\$ (1,926,503)</u>
Expenditures:				
Current:				
General government	\$ 7,038,913	\$ 7,626,633	\$ 6,994,906	\$ 631,727
Public safety	11,918,022	12,430,360	11,591,654	838,706
Transportation	6,804,863	6,704,333	4,844,531	1,859,802
Environmental protection	2,092,415	2,368,189	2,198,012	170,177
Cultural and recreation	3,113,638	3,471,833	3,031,619	440,214
Community and economic development	1,614,050	1,732,850	1,672,597	60,253
Education	42,342	42,342	42,342	-
Debt service:				
Principal retirement	2,001,896	2,001,896	1,980,386	21,510
Interest and other charges	<u>353,311</u>	<u>353,311</u>	<u>341,312</u>	<u>11,999</u>
Total expenditures	<u>\$ 34,979,450</u>	<u>\$ 36,731,747</u>	<u>\$ 32,697,359</u>	<u>\$ 4,034,388</u>
Surplus (deficiency) of revenues over expenditures	<u>\$ (1,256,028)</u>	<u>\$ (1,384,874)</u>	<u>\$ 723,011</u>	<u>\$ 2,107,885</u>
Other financing sources (uses):				
Transfers to other funds	\$ (437,781)	\$ (437,781)	\$ (437,781)	\$ -
Long-term debt issued	1,134,759	1,134,759	906,934	(227,825)
Fund balance appropriated	<u>559,050</u>	<u>687,896</u>	<u>-</u>	<u>(687,896)</u>
Total other financing sources (uses)	<u>\$ 1,256,028</u>	<u>\$ 1,384,874</u>	<u>\$ 469,153</u>	<u>\$ (915,721)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,192,164</u>	<u>\$ 1,192,164</u>
Fund balances, beginning of year			<u>6,872,729</u>	
Fund balances, end of year			<u>\$ 8,064,893</u>	

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

CITY OF SALISBURY, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	<u>Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Water and Sewer Fund</u>	<u>Transit Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 11,284,021	\$ 52,321	\$ 11,336,342	\$ 1,535,452
Accounts receivable (net)	3,074,892	1,834	3,076,726	-
Interest receivable	21,327	-	21,327	2,674
Due from other governments	209,727	31,847	241,574	26
Inventories	327,510	11,474	338,984	-
Restricted assets:				
Cash and cash equivalents	7,538,208	-	7,538,208	-
Total current assets	<u>\$ 22,455,685</u>	<u>\$ 97,476</u>	<u>\$ 22,553,161</u>	<u>\$ 1,538,152</u>
Noncurrent assets:				
Capital assets:				
Land	\$ 2,072,067	\$ -	\$ 2,072,067	\$ -
Buildings and improvements	159,800,545	467,924	160,268,469	-
Equipment	7,500,417	1,349,224	8,849,641	-
Construction in progress	8,559,800	-	8,559,800	-
Accumulated depreciation	<u>(56,683,197)</u>	<u>(1,469,841)</u>	<u>(58,153,038)</u>	<u>-</u>
Total noncurrent assets	<u>\$ 121,249,632</u>	<u>\$ 347,307</u>	<u>\$ 121,596,939</u>	<u>\$ -</u>
Total assets	<u>\$ 143,705,317</u>	<u>\$ 444,783</u>	<u>\$ 144,150,100</u>	<u>\$ 1,538,152</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 3,992,772	\$ 57,353	\$ 4,050,125	\$ 565,336
Interest payable	503,519	-	503,519	-
Bonds, notes, and loans payable	3,574,798	-	3,574,798	-
Compensated absences	84,070	11,488	95,558	-
Customer deposits	545,954	-	545,954	-
Total current liabilities	<u>\$ 8,701,113</u>	<u>\$ 68,841</u>	<u>\$ 8,769,954</u>	<u>\$ 565,336</u>
Noncurrent liabilities:				
Bonds, notes, and loans payable	\$ 48,115,013	\$ -	\$ 48,115,013	\$ -
Compensated absences	252,211	34,462	286,673	-
Total noncurrent liabilities	<u>\$ 48,367,224</u>	<u>\$ 34,462</u>	<u>\$ 48,401,686</u>	<u>\$ -</u>
Total liabilities	<u>\$ 57,068,337</u>	<u>\$ 103,303</u>	<u>\$ 57,171,640</u>	<u>\$ 565,336</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	\$ 76,959,821	\$ 347,307	\$ 77,307,128	\$ -
Unrestricted	<u>9,677,159</u>	<u>(5,827)</u>	<u>9,671,332</u>	<u>972,816</u>
Total net assets	<u>\$ 86,636,980</u>	<u>\$ 341,480</u>	<u>\$ 86,978,460</u>	<u>\$ 972,816</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, 2008

	Enterprise Funds			Governmental
	Water and		Total	Internal
	Sewer Fund	Transit Fund		Service Funds
OPERATING REVENUES				
Charges for services	\$ 18,992,039	\$ 87,258	\$ 19,079,297	\$ 3,769,206
Water and sewer taps	722,110	-	722,110	-
Other operating revenues	749,447	1,375	750,822	-
Total operating revenues	<u>\$ 20,463,596</u>	<u>\$ 88,633</u>	<u>\$ 20,552,229</u>	<u>\$ 3,769,206</u>
OPERATING EXPENSES				
Management and administration	\$ 4,442,221	\$ 278,294	\$ 4,720,515	\$ 3,898,677
Water resources	1,812,589	-	1,812,589	-
Maintenance and construction	4,099,142	-	4,099,142	-
Wastewater collection and treatment	2,172,085	-	2,172,085	-
Environmental services	624,579	-	624,579	-
Depreciation	4,093,514	236,242	4,329,756	-
Mass transit operations	-	744,321	744,321	-
Total operating expenses	<u>\$ 17,244,130</u>	<u>\$ 1,258,857</u>	<u>\$ 18,502,987</u>	<u>\$ 3,898,677</u>
Operating income (loss)	<u>\$ 3,219,466</u>	<u>\$ (1,170,224)</u>	<u>\$ 2,049,242</u>	<u>\$ (129,471)</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 816,159	\$ 4	\$ 816,163	\$ 67,133
Interest expense	(2,125,271)	-	(2,125,271)	-
Bond issuance costs	(119,576)	-	(119,576)	-
Intergovernmental revenues	-	516,329	516,329	-
Total nonoperating revenue (expenses)	<u>\$ (1,428,688)</u>	<u>\$ 516,333</u>	<u>\$ (912,355)</u>	<u>\$ 67,133</u>
Income (loss) before contributions and transfers	\$ 1,790,778	\$ (653,891)	\$ 1,136,887	\$ (62,338)
Capital contributions	734,584	-	734,584	-
Transfers from other funds	-	437,781	437,781	-
Change in net assets	\$ 2,525,362	\$ (216,110)	\$ 2,309,252	\$ (62,338)
Total net assets - beginning	<u>84,111,618</u>	<u>557,590</u>	<u>84,669,208</u>	<u>1,035,154</u>
Total net assets - ending	<u>\$ 86,636,980</u>	<u>\$ 341,480</u>	<u>\$ 86,978,460</u>	<u>\$ 972,816</u>

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

CITY OF SALISBURY, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2008

	Business-Type Activities			Governmental
	Enterprise Funds			Activities
	Water and Sewer Fund	Transit Fund	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 19,732,406	\$ 86,577	\$ 19,818,983	\$ -
Cash received from interfund services provided	-	-	-	3,777,757
Cash paid for goods and services	(8,426,989)	(478,724)	(8,905,713)	(3,885,380)
Cash paid to or on behalf of employees for services	(4,556,929)	(578,282)	(5,135,211)	-
Customer deposits received	222,488	-	222,488	-
Customer deposits returned	(209,055)	-	(209,055)	-
Other receipts	749,447	1,375	750,822	-
Net cash provided (used) by operating activities	<u>\$ 7,511,368</u>	<u>\$ (969,054)</u>	<u>\$ 6,542,314</u>	<u>\$ (107,623)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	\$ -	\$ 437,781	\$ 437,781	\$ -
Intergovernmental revenues	-	547,285	547,285	-
Total cash flows provided by noncapital financing activities	<u>\$ -</u>	<u>\$ 985,066</u>	<u>\$ 985,066</u>	<u>\$ -</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	\$ (6,553,657)	\$ -	\$ (6,553,657)	\$ -
Loss on disposal of capital assets	119,389	-	119,389	-
Principal paid on bond maturities and equipment contracts	(3,352,816)	-	(3,352,816)	-
Interest paid on bond maturities and equipment contracts	(2,024,035)	-	(2,024,035)	-
Proceeds from sale of revenue bonds	7,400,000	-	7,400,000	-
Developers' contributions	684,700	-	684,700	-
Net cash used by capital and related financing activities	<u>\$ (3,726,419)</u>	<u>\$ -</u>	<u>\$ (3,726,419)</u>	<u>\$ -</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES				
Investment earnings	\$ 883,352	\$ 411	\$ 883,763	\$ 79,640
Net increase (decrease) in cash and cash equivalents	\$ 4,668,301	\$ 16,423	\$ 4,684,724	\$ (27,983)
Balances-beginning of the year	14,153,928	35,898	14,189,826	1,563,435
Balances-end of the year	<u>\$ 18,822,229</u>	<u>\$ 52,321</u>	<u>\$ 18,874,550</u>	<u>\$ 1,535,452</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 3,219,466	\$ (1,170,224)	\$ 2,049,242	\$ (129,471)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	\$ 4,093,514	\$ 236,242	\$ 4,329,756	\$ -
Changes in current assets and liabilities:				
(Increase) decrease in accounts receivable	18,257	(681)	17,576	8,551
(Increase) decrease in inventory	4,180	(11,474)	(7,294)	-
(Increase) decrease in due from other governments	(16,207)	(2,974)	(19,181)	(8)
(Increase) decrease in prepaid items	7,845	-	7,845	-
Increase (decrease) in accounts payable and accrued liabilities	150,586	(25,494)	125,092	13,305
Increase (decrease) in compensated absences payable	20,294	5,551	25,845	-
Increase (decrease) in customer deposits	13,433	-	13,433	-
Total adjustments	<u>\$ 4,291,902</u>	<u>\$ 201,170</u>	<u>\$ 4,493,072</u>	<u>\$ 21,848</u>
Net cash provided (used) by operating activities	<u>\$ 7,511,368</u>	<u>\$ (969,054)</u>	<u>\$ 6,542,314</u>	<u>\$ (107,623)</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, 2008

	Fiduciary Funds	
	Pension Trust	
	Fund	Agency Funds
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 947,020	\$ 80,445
Accounts receivable	-	103,863
Interest receivable	1,756	-
 Total assets	 \$ 948,776	 \$ 184,308
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ -	\$ 184,308
 Total liabilities	 \$ -	 \$ 184,308
 <u>NET ASSETS</u>		
Held in trust for participants	\$ 948,776	\$ -

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, 2008

Additions:	
Employer contributions	\$ 84,882
Investment earnings	<u>39,747</u>
 Total additions	 <u>\$ 124,629</u>
 Deductions:	
Retirement payments	<u>\$ 60,656</u>
 Total deductions	 <u>\$ 60,656</u>
 Net increase	 \$ 63,973
Net assets, beginning of year	<u>884,803</u>
Net assets, end of year	<u><u>\$ 948,776</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 generally accepted accounting principles 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 generally accepted accounting principles, 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, except for fiduciary 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, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – 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, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

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 fund:

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.

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 and Agency 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, the Town of East Spencer Utilities Fund, and the Firemens’ Memorial 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, Proprietary, and Fiduciary Fund Financial Statements – The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the Agency Funds which have no measurement focus. The government-wide, proprietary, and fiduciary fund 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. Non-exchange transactions, in which the

NOTES TO THE FINANCIAL STATEMENTS

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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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, 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 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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. Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply general revenues, followed by categorical block grants, and then by cost-reimbursement grants.

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 enterprise funds.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the General, Special Revenue, and Enterprise funds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Project Fund and Enterprise Fund Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. These appropriations continue until the project is completed. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund. All amendments 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's and Downtown Salisbury Inc.'s investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

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.

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 debt proceeds and related interest earnings of the Capital Projects Fund are classified as restricted assets in the Statement of Net Assets because their use is completely restricted for the purpose for which the debt was originally issued.

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 6th. These taxes are based on the assessed values of January 1, 2006. As allowed by State law, the City has established a

NOTES TO THE FINANCIAL STATEMENTS

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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

9. Compensated Absences

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

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

The City's liabilities for compensated absences in the governmental funds are liquidated from the General Fund and the liabilities of the enterprise funds are liquidated from the Water and Sewer Fund and the Mass Transit Fund.

10. Net Assets/Fund Balances

Net Assets – Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt, represents the portion of net assets associated with non-liquid assets less the outstanding capital asset related debt. Restricted net assets represent constraints on resources that are either internally imposed by City Council for future capital projects or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through state statute.

Fund Balances – 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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. Detail Notes On All Funds

A. Assets

1. Deposits

All deposits of the City and Downtown Salisbury, Inc. are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's and component units' agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the component unit, these deposits are considered to be held by the City's and the components' agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has deposits in banks utilizing both the Dedicated Method and the Pooling Method. The City has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of

NOTES TO THE FINANCIAL STATEMENTS

minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2008, the City's deposits had a carrying amount of \$8,019,628 and a bank balance of \$8,704,445. Of the bank balance, \$557,452 was covered by federal depository insurance and the remainder was covered by collateral held under either the Dedicated Method or the Pooling Method. At June 30, 2008, the City's petty cash fund totaled \$3,265.

2. Investments

At June 30, 2008, the City's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
JP Morgan Chase Commercial Paper	\$ 1,989,122	August 20, 2008	A1+, P1, F1+
NC Capital Management Trust-Cash Portfolio	<u>18,652,510</u>	N/A	AAAm
Total	<u>\$ 20,641,632</u>		

Interest Rate Risk – The City has no formal policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City limits its investment portfolio to maturities of less than 12 months.

Credit Risk – The City has no policy regarding credit risk. The City's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2007. The City's investment in JP Morgan Chase Commercial Paper has been rated A1+ by Moody's Investors Service and P1 by Standard and Poor's, and F1+ by Fitch Ratings.

Concentration of Credit Risk – The City places no limit on the amount that the City may invest in any one issuer. More than five percent of the City's investments are in the JP Morgan Chase Commercial Paper (9.4%).

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, 2008</u>
General Fund:	
Taxes receivable	<u>\$ 230,000</u>
Enterprise Funds:	
Utility receivables	<u>\$ 85,800</u>

NOTES TO THE FINANCIAL STATEMENTS

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2008 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,572,146	\$ 59,881	\$ -	\$ 3,632,027
Construction in progress	94,600	449,812	151,566	392,846
Total capital assets not being depreciated	<u>\$ 3,666,746</u>	<u>\$ 509,693</u>	<u>\$ 151,566</u>	<u>\$ 4,024,873</u>
Capital assets being depreciated:				
Buildings	\$ 10,225,924	\$ 8,940	\$ -	\$ 10,234,864
Other improvements	7,668,545	-	-	7,668,545
Equipment	6,249,218	540,408	923,446	5,866,180
Vehicles and motorized equipment	12,219,126	827,612	19,703	13,027,035
Infrastructure	37,585,386	712,000	-	38,297,386
Total capital assets being depreciated	<u>\$ 73,948,199</u>	<u>\$ 2,088,960</u>	<u>\$ 943,149</u>	<u>\$ 75,094,010</u>
Less accumulated depreciation for:				
Buildings	\$ 1,164,184	\$ 248,890	\$ -	\$ 1,413,074
Other improvements	3,398,816	152,339	-	3,551,155
Equipment	4,851,362	765,774	923,446	4,693,690
Vehicles and motorized equipment	9,289,635	875,628	19,703	10,145,560
Infrastructure	13,035,050	1,256,713	-	14,291,763
Total accumulated depreciation	<u>\$ 31,739,047</u>	<u>\$ 3,299,344</u>	<u>\$ 943,149</u>	<u>\$ 34,095,242</u>
Total capital assets being depreciated, net	<u>\$ 42,209,152</u>	<u>\$ (1,210,384)</u>	<u>\$ -</u>	<u>\$ 40,998,768</u>
Governmental activity capital assets, net	<u><u>\$ 45,875,898</u></u>	<u><u>\$ (700,691)</u></u>	<u><u>\$ 151,566</u></u>	<u><u>\$ 45,023,641</u></u>

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

General government	\$ 843,241
Public safety	654,234
Transportation	1,452,874
Environmental protection	150,165
Cultural and recreational	172,009
Land management and development	<u>26,822</u>
Total depreciation expense	<u><u>\$ 3,299,344</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	3,978,576	8,607,990	4,026,766	8,559,800
Total capital assets not being depreciated	<u>\$ 6,050,643</u>	<u>\$ 8,607,990</u>	<u>\$ 4,026,766</u>	<u>\$ 10,631,867</u>
Capital assets being depreciated:				
Plant and distribution systems	\$ 155,887,754	\$ 4,090,765	\$ 177,973	\$ 159,800,546
Furniture and maintenance equipment	2,920,470	129,045	37,285	3,012,230
Vehicles and motorized equipment	4,118,281	369,906	-	4,488,187
Total capital assets being depreciated	<u>\$ 162,926,505</u>	<u>\$ 4,589,716</u>	<u>\$ 215,258</u>	<u>\$ 167,300,963</u>
Less accumulated depreciation for:				
Plant and distribution systems	\$ 47,032,830	\$ 3,720,498	\$ 58,581	\$ 50,694,747
Furniture and maintenance equipment	2,609,392	64,744	37,285	2,636,851
Vehicles and motorized equipment	3,043,328	308,272	-	3,351,600
Total accumulated depreciation	<u>\$ 52,685,550</u>	<u>\$ 4,093,514</u>	<u>\$ 95,866</u>	<u>\$ 56,683,198</u>
Total capital assets being depreciated, net	<u>\$ 110,240,955</u>	<u>\$ 496,202</u>	<u>\$ 119,392</u>	<u>\$ 110,617,765</u>
Water and Sewer Fund capital assets, net	<u>\$ 116,291,598</u>	<u>\$ 9,104,192</u>	<u>\$ 4,146,158</u>	<u>\$ 121,249,632</u>
Transit Fund				
Capital assets being depreciated:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	37,057	-	-	37,057
Vehicles and motorized equipment	1,563,775	-	251,608	1,312,167
Total capital assets being depreciated	<u>\$ 2,068,756</u>	<u>\$ -</u>	<u>\$ 251,608</u>	<u>\$ 1,817,148</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	29,724	1,600	-	31,324
Vehicles and motorized equipment	987,559	234,642	251,608	970,593
	<u>\$ 1,485,207</u>	<u>\$ 236,242</u>	<u>\$ 251,608</u>	<u>\$ 1,469,841</u>
Transit Fund capital assets, net	<u>\$ 583,549</u>	<u>\$ (236,242)</u>	<u>\$ -</u>	<u>\$ 347,307</u>
Business-type activities capital assets, net	<u>\$ 116,674,595</u>	<u>\$ 8,867,950</u>	<u>\$ 4,146,158</u>	<u>\$ 121,596,939</u>

Construction commitments

The City has active construction projects as of June 30, 2008. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water and Sewer Treatment Facilities	<u>\$ 4,390,851</u>	<u>\$ 1,567,238</u>

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 4.90% and 4.86%, 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, 2008, 2007, and 2006 were \$790,428, \$828,534, and \$797,786, 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 City's CAFR includes financial statements and required supplementary information for the Separation Allowance. A separate report was not issued for the plan.

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2006, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	4
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>87</u>
Total	<u><u>91</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 \$84,882 or 2.8% 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, 2007 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 4.5% to 12.3% 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, 2007 was 23 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	\$ 84,075
Interest on net pension obligation	(3,234)
Adjustment to annual required contribution	<u>2,741</u>
Annual pension cost	\$ 83,582
Contributions made	<u>84,882</u>
Increase in net pension asset	\$ 1,300
Net pension asset beginning of year	<u>44,603</u>
Net pension asset end of year	<u><u>\$ 45,903</u></u>

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2008	\$ 83,582	101.56%	\$ 45,903
6/30/2007	86,714	104.65%	44,603
6/30/2006	100,468	107.75%	40,571

5. Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the plan was 60.6 percent funded. The actuarial accrued liability for benefits was \$1,503,627, and the actuarial value of assets was \$911,032, resulting in an unfunded actuarial accrued liability (UAAL) of \$592,595. The covered payroll (annual payroll of active employees covered by the plan) was \$3,306,677, and the ratio of the UAAL to the covered payroll was 17.92 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTES TO THE FINANCIAL STATEMENTS

c. Supplemental Retirement Income Plan

Plan Description: The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to all full-time employees of the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 01(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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: Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5 percent of each law enforcement officer's salary. In addition to this requirement, the City has elected to contribute to the Plan an amount equal to 3 percent of the monthly salary of each employee not engaged in law enforcement. All amounts contributed are vested immediately. Also, employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2008 were \$937,122, which consisted of \$605,923 from the City and \$331,199 from the employees.

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

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

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

For the fiscal year ended June 30, 2008, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$18,241 for the 78 firefighters employed firemen who perform firefighting duties for the City's fire department.

e. Other Post-employment Benefits

The City provides post-employment health care benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System), qualify for unreduced retirement benefits from the System, and have at least 15 years of creditable service with the City. The City pays the full cost of coverage for these benefits. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. Currently, thirty-seven retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2008, the City made payments for post-employment health benefit premiums of \$170,746. The City is self-insured for employee and retiree health care benefits.

2. Other 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

NOTES TO THE FINANCIAL STATEMENTS

beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to his/her death. Effective July 1, 2004, death benefits must be at least \$25,000 but cannot exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2008, the City made contributions to the State for death benefits of \$17,835. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.10% 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.

The City also provides a life and accidental death and dismemberment policy for its full-time employees in the amount of the employee's annual salary rounded up to the nearest thousand. The maximum benefit amount is \$100,000.

3. Deferred/Unearned 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. Unearned revenue in the General Fund represents grants and donations received for various projects. The balance in deferred revenue in the governmental fund statements at year end, including these items, is composed of the following elements:

	<u>General Fund</u>
Unearned	
Unspent grants and donations	\$ 345,079
Prepaid property taxes	2,376
Unavailable	
Taxes receivable, net	662,762
Total deferred revenue	\$ 1,010,217

4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides \$1,000,000 in general liability coverage, \$3,000,000 in liability coverage for law enforcement officers, and \$3,000,000 for automobile liability. In addition, the City maintains replacement cost insurance on real and personal property, including boiler and machinery, in an amount of \$137,388,988. The pool is reinsured through commercial companies for single occurrence claims against general liability, and auto liability, and property in excess of \$500,000. In accordance with G.S. 159-29, the City's employees that have access to \$100 or more of the City's funds at any given time are performance bonded. The finance officer is individually bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS

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

The City of Salisbury is not located in an area that is at a high risk of flooding. Therefore, the City has elected not to carry flood insurance.

	<u>Year ended</u> <u>June 30, 2006</u>	<u>Year ended</u> <u>June 30, 2007</u>	<u>Year ended</u> <u>June 30, 2008</u>
Unpaid claims, beginning of fiscal year	\$ 515,003	\$ 474,378	\$ 521,485
Incurred claims (including IBNRs)	3,476,954	3,499,288	3,568,061
Claim payments	<u>(3,517,579)</u>	<u>(3,452,181)</u>	<u>(3,540,711)</u>
Unpaid claims, end of fiscal year	<u>\$ 474,378</u>	<u>\$ 521,485</u>	<u>\$ 548,835</u>

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

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2008 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.

6. 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 the City's cost of \$7,898,494. The future minimum lease payments at June 30, 2008 total \$2,760,599, including \$485,750 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, 2008 were as follows:

Year Ending <u>June 30,</u>	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 267,585	\$ 94,605
2010	274,409	83,860
2011	276,324	72,745
2012	283,334	61,480
2013	240,799	50,370
2014-2018	842,398	114,570
2019-2021	<u>90,000</u>	<u>8,120</u>
	<u>\$ 2,274,849</u>	<u>\$ 485,750</u>

NOTES TO THE FINANCIAL STATEMENTS

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 in the amount of \$1,000,000, 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 in the amount of \$1,000,000, payable in thirty semi-annual installments consisting of \$33,333 principal plus interest at an effective rate of 5.25%.

Installment purchase contract from First Bank for the financing of real estate, dated June 30, 2008 in the amount of \$906,934, payable in fifty-nine monthly payments of \$6,397 and one final payment of all remaining principal plus accrued interest, which is due in July 2013. The City intends to refinance the final payment which will be approximately \$658,000.

Installment purchase contract from Wachovia Bank and Trust for the purchase of new telecommunications equipment dated April 12, 2004 in the amount of \$1,990,500, payable in eighteen semi-annual installments consisting of \$110,583 principal plus interest at an effective rate of 2.93%.

Installment purchase contract from BB&T for the purchase of Emergency 911 telecommunications equipment dated February 23, 2005 in the amount of \$191,000, payable in fifty-nine monthly installments of \$3,524 at an effective interest of 3.45%.

Installment purchase contract from Bank of America for construction and improvements of City facilities dated May 5, 2006 in the amount of \$3,565,680, payable in thirty semi-annual installments consisting of \$118,856 principal plus interest at 3.83%.

Installment purchase contract from RBC Centura for the purchase of a fire truck dated January 2, 2007 in the amount of \$674,425, payable in eight semi-annual installments consisting of \$84,303 principal plus interest at 3.57%.

The future minimum payments of the installment purchases as of June 30, 2008 total \$6,355,267, including \$1,164,695 of interest are as follows:

Year Ending June 30,	Governmental Activities	
	Installment Purchases	
	Principal	Interest
2009	\$ 897,428	\$ 225,189
2010	829,442	193,467
2011	744,825	164,929
2012	577,847	139,692
2013	579,663	118,554
2014-2018	2,012,926	275,066
2019-2021	713,136	47,798
	<u>\$ 6,355,267</u>	<u>\$ 1,164,695</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 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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2008 are comprised of the following individual issues:

	<u>Balance June 30, 2008</u>
Serviced by the General Fund	
\$3,000,000 Parks and Recreation Bonds, Series 1997, average rate of 4.77%, issued December 1997, maturing serially to 2017	\$ 1,675,000
Serviced by the Water and Sewer Fund	
\$3,250,000 Water Bonds, Series 1998, average rate of 4.40%, issued June 1998, maturing serially to 2017	1,500,000
\$12,100,000 Refunding Bonds, Series 2003, average rate of 3.43%, issued August 2003, maturing serially to 2015	
This amount is net of unamortized issuance cost and interest of \$690,113.	<u>6,554,887</u>
Total General Obligation Indebtedness	<u>\$ 9,729,887</u>

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

Year Ending June 30,	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 200,000	\$ 80,550	\$ 1,265,000	\$ 318,128	\$ 1,465,000	\$ 398,678
2010	200,000	70,950	1,245,000	277,728	1,445,000	348,678
2011	200,000	61,350	1,225,000	235,788	1,425,000	297,138
2012	200,000	51,750	1,210,000	192,387	1,410,000	244,137
2013	200,000	42,150	1,190,000	148,462	1,390,000	190,612
2014-2017	<u>675,000</u>	<u>72,600</u>	<u>2,610,000</u>	<u>179,087</u>	<u>3,285,000</u>	<u>251,687</u>
	\$ 1,675,000	\$ 379,350	\$ 8,745,000	\$ 1,351,580	\$ 10,420,000	\$ 1,730,930
Unamortized costs	<u>-</u>	<u>-</u>	<u>(690,113)</u>	<u>-</u>	<u>(690,113)</u>	<u>-</u>
	<u>\$ 1,675,000</u>	<u>\$ 379,350</u>	<u>\$ 8,054,887</u>	<u>\$ 1,351,580</u>	<u>\$ 9,729,887</u>	<u>\$ 1,730,930</u>

Advance Refunding

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

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

NOTES TO THE FINANCIAL STATEMENTS

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, 2008</u>
\$5,000,000 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	\$ 2,250,000
\$450,120 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	202,554
\$3,000,000 State Bond Loan, average rate of 2.60%, issued November 1999 maturing serially to 2019	1,800,000
\$9,200,000 State Bond Loan, average rate of 2.60%, issued June 2000 maturing serially to 2020	<u>5,520,000</u>
Total State Bond Loans	<u>\$ 9,772,554</u>

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	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 882,506	\$ 274,443
2010	882,506	249,236
2011	882,506	224,029
2012	882,506	198,822
2013	882,506	173,615
2014-2018	4,140,024	489,970
2019-2020	<u>1,220,000</u>	<u>47,580</u>
	<u>\$ 9,772,554</u>	<u>\$ 1,657,695</u>

e. Revenue Bonds

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

	<u>Balance June 30, 2008</u>
\$2,040,000 Water and Sewer Revenue Bonds, Series 1998, average rate of 4.78%, issued January 1998, maturing serially to 2018	\$ 1,250,000
\$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 \$398,787	17,241,213
\$6,000,000 Water and Sewer Revenue Bonds, Series 2006, rate of 3.99%, issued December 2006, maturing serially to 2026	5,696,308
\$7,400,000 Water and Sewer Revenue Bonds, Series 2007, rate of 4.06%, issued October 2007, maturing serially to 2028	<u>7,400,000</u>
Total Revenue Bonds	<u>\$ 31,587,521</u>

NOTES TO THE FINANCIAL STATEMENTS

The future payments of the revenue bonds are as follows:

2010	1,208,350	1,385,259
2011	1,257,749	1,335,624
2012	1,312,935	1,278,810
2013	1,373,939	1,219,523
2014-2018	7,810,816	5,143,355
2019-2023	8,869,485	3,295,878
2024-2028	8,993,327	1,070,731
	<u>\$ 31,986,308</u>	<u>\$ 16,161,473</u>
Unamortized costs	<u>(398,787)</u>	<u>-</u>
	<u>\$ 31,587,521</u>	<u>\$ 16,161,473</u>

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

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
2006	\$ 18,132,373	\$ 11,843,353	\$ 6,289,020	\$ 1,492,506	\$ 980,535	\$ 2,473,041	254.30%
2007	19,888,170	12,384,082	7,504,088	749,228	1,079,730	1,828,958	410.29%
2008	20,965,998	13,150,616	7,815,382	879,464	1,253,426	2,132,890	366.42%

- (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 only.

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$35,945,000 in water and sewer system revenues bonds issued from January 1998 to October 2007. Proceeds from the bonds provided financing for various water and sewer system capital projects. The bonds are payable solely from water and sewer customer net revenues and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$48,147,781.

f. HUD Section 108 Loan

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

NOTES TO THE FINANCIAL STATEMENTS

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
	2009	\$ 32,000
2010	32,000	21,099
2011	32,000	19,824
2012	32,000	18,449
2013	32,000	16,993
2014-2018	160,000	61,368
2019-2023	148,000	18,550
	<u>\$ 468,000</u>	<u>\$ 178,555</u>

g. Changes in Long-Term Liabilities

	June 30, 2007	Additions	Retirements	Change in Unamortized Costs	June 30, 2008	Current Portion of Balance
Governmental Activities						
General obligation bonds	\$ 1,875,000	\$ -	\$ 200,000	\$ -	\$ 1,675,000	\$ 200,000
Installment purchases	7,228,720	906,934	1,780,387	-	6,355,267	897,428
Section 108 loan	500,000	-	32,000	-	468,000	32,000
Compensated absences	1,810,054	1,030,067	1,214,164	-	1,625,957	243,894
	<u>\$ 11,413,774</u>	<u>\$ 1,937,001</u>	<u>\$ 3,226,551</u>	<u>\$ -</u>	<u>\$ 10,124,224</u>	<u>\$ 1,373,322</u>
Business-type activities						
General obligation bonds	\$ 9,286,300	\$ -	\$ 1,330,000	\$ 98,587	\$ 8,054,887	\$ 1,265,000
Revenue bonds	25,045,997	7,400,000	879,465	20,989	31,587,521	1,159,707
State loans	10,655,060	-	882,506	-	9,772,554	882,506
Capital leases	2,535,695	-	260,846	-	2,274,849	267,585
Compensated absences	356,385	209,595	183,749	-	382,231	95,558
	<u>\$ 47,879,437</u>	<u>\$ 7,609,595</u>	<u>\$ 3,536,566</u>	<u>\$ 119,576</u>	<u>\$ 52,072,042</u>	<u>\$ 3,670,356</u>
Total	<u>\$ 59,293,211</u>	<u>\$ 9,546,596</u>	<u>\$ 6,763,117</u>	<u>\$ 119,576</u>	<u>\$ 62,196,266</u>	<u>\$ 5,043,678</u>

7. Accounts Payable

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

	Governmental Activities	Business-type Activities
Accounts payable	\$ 1,312,133	\$ 3,796,165
Accrued payroll and payroll liabilities	1,026,469	253,960
Other accrued liabilities	65,648	-
	<u>\$ 2,404,250</u>	<u>\$ 4,050,125</u>

C. Interfund Balances and Activity

1. Transfers to/from Other Funds

Transfers during the year ended June 30, 2008, consisted of \$437,781 that was transferred from the General Fund to the Mass Transit Fund to cover the City's share of the operational expenses of the Mass Transit Fund.

2. Due To/Due From Other Funds

At June 30, 2008, the Special Revenue Fund owed the General Fund \$30,000 for a temporary loan to cover cash needs while awaiting reimbursements of grant-funded expenditures from other governments.

Note 3. 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, 2008, the City reported revenues and expenditures for the payments of \$26,156 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, 2008. 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 323 West Jones Street, Suite 401, Farmville, NC 27828.

Note 4. Commitments and Contingencies

The City has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Note 5. Pronouncements Issued But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2008 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 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."
- GASB Statement Number 51, "Accounting and Financial Reporting for Intangible Assets."



Required Supplemental Financial Data

This section contains additional information required by accounting principles generally accepted in the United States of America.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.

CITY OF SALISBURY, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Last Six Fiscal Years

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2)	(3)	Funded Ratio (1) / (2)	(4) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (4)
		Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAL) (2) - (1)			
2007	\$ 911,032	\$ 1,503,627	\$ 592,595	60.59%	\$ 3,306,677	17.92%
2006	832,627	1,253,054	420,427	66.45%	3,147,324	13.36%
2005	746,287	1,220,368	474,081	61.15%	3,043,907	15.57%
2004	636,417	1,214,344	577,927	52.41%	2,940,751	19.65%
2003	543,886	1,185,007	641,121	45.90%	2,980,664	21.51%
2002	462,990	982,204	519,214	47.14%	2,715,519	19.12%

CITY OF SALISBURY, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Six Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$ 84,075	102
2007	87,266	105
2006	100,962	108
2005	104,153	100
2004	87,696	101
2003	93,425	95

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	12/31/2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	23 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	7.25%
Projected salary increases*	4.5% - 12.3%
* Includes inflation at	3.75%
Cost of living adjustments	N/A

Supplementary Financial Data



General Fund

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

B-1
CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

	<u>2008</u>		Variance with Budget Positive (Negative)	<u>2007</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
REVENUES:				
Taxes:				
General property-current	\$ 15,432,182	\$ 15,951,173	\$ 518,991	\$ 14,502,024
General property-prior	377,000	458,427	81,427	363,194
Auto tax	215,000	236,064	21,064	207,395
Interest on delinquent tax	80,000	85,333	5,333	80,028
Other tax	300	220	(80)	347
	<u>\$ 16,104,482</u>	<u>\$ 16,731,217</u>	<u>\$ 626,735</u>	<u>\$ 15,152,988</u>
Unrestricted intergovernmental:				
Local option sales tax	5,503,803	5,220,704	(283,099)	4,928,404
Utilities franchise tax	1,459,380	1,564,305	104,925	1,294,288
Telecommunications sales tax	600,000	703,275	103,275	621,344
Video franchise fee	250,000	265,487	15,487	113,649
Wine and beer tax	132,006	141,112	9,106	132,122
State reimbursement hold harmless	575,548	588,024	12,476	630,549
Other	177,286	183,919	6,633	153,828
	<u>\$ 8,698,023</u>	<u>\$ 8,666,826</u>	<u>\$ (31,197)</u>	<u>\$ 7,874,184</u>
Restricted intergovernmental:				
State street aid - Powell Bill	\$ 1,023,275	\$ 1,088,187	\$ 64,912	\$ 932,401
Other	2,292,531	585,267	(1,707,264)	319,547
	<u>\$ 3,315,806</u>	<u>\$ 1,673,454</u>	<u>\$ (1,642,352)</u>	<u>\$ 1,251,948</u>
Charges for services:				
Environmental protection	\$ 1,108,793	\$ 1,093,556	\$ (15,237)	\$ 1,017,681
Culture and recreation	180,000	175,416	(4,584)	167,781
Public safety	454,104	464,189	10,085	442,550
Cemetery	150,000	114,685	(35,315)	138,710
Radio antenna and paging rentals	579,673	212,222	(367,451)	190,679
Rentals and sale of property	294,716	272,348	(22,368)	253,154
Licenses and permits	387,446	413,940	26,494	473,488
Administrative charges	2,417,857	2,417,857	-	2,275,159
Community services	155,000	157,217	2,217	168,518
Other	52,640	14,009	(38,631)	111,513
	<u>\$ 5,780,229</u>	<u>\$ 5,335,439</u>	<u>\$ (444,790)</u>	<u>\$ 5,239,233</u>
Miscellaneous:				
Interest earned on investments	\$ 390,000	\$ 394,806	\$ 4,806	\$ 410,322
Donations	755,103	446,285	(308,818)	98,763
Other	303,230	172,343	(130,887)	184,788
	<u>\$ 1,448,333</u>	<u>\$ 1,013,434</u>	<u>\$ (434,899)</u>	<u>\$ 693,873</u>
Total revenues	<u>\$ 35,346,873</u>	<u>\$ 33,420,370</u>	<u>\$ (1,926,503)</u>	<u>\$ 30,212,226</u>

B-1
CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
For the Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

	2008		Variance with Budget Positive (Negative)	2007
	Budget	Actual		Actual
OTHER FINANCING SOURCES:				
Long-term debt issued	\$ 1,134,759	\$ 906,934	\$ (227,825)	\$ 674,425
Fund balance appropriated	687,896	-	(687,896)	-
Total other financing sources	\$ 1,822,655	\$ 906,934	\$ (915,721)	\$ 674,425
Total revenues and other financing sources	\$ 37,169,528	\$ 34,327,304	\$ (2,842,224)	\$ 30,886,651
EXPENDITURES:				
Current:				
General government:				
City council	\$ 168,226	\$ 144,163	\$ 24,063	\$ 133,157
City administration	908,790	884,997	23,793	854,459
Purchasing	135,120	132,277	2,843	130,109
Human resources	723,784	657,923	65,861	691,971
Finance	1,353,758	1,311,254	42,504	1,251,897
Fleet management	887,380	879,178	8,202	809,857
Public services administration	375,135	371,041	4,094	269,941
Facilities Maintenance	650,114	635,688	14,426	569,773
Telecommunication	719,964	291,943	428,021	328,446
Information technologies	1,704,362	1,686,442	17,920	1,475,086
	\$ 7,626,633	\$ 6,994,906	\$ 631,727	\$ 6,514,696
Public safety:				
Police:				
Administration	\$ 527,981	\$ 478,257	\$ 49,724	\$ 612,048
Services	1,445,080	1,296,992	148,088	1,294,699
Operations	5,682,208	5,308,660	373,548	4,501,452
Fire	4,775,091	4,507,745	267,346	5,176,104
	\$ 12,430,360	\$ 11,591,654	\$ 838,706	\$ 11,584,303
Transportation:				
Traffic operations	\$ 499,771	\$ 493,392	\$ 6,379	\$ 525,518
Engineering	2,381,066	685,809	1,695,257	657,872
Streets	3,462,109	3,305,353	156,756	2,610,972
Street lighting	361,387	359,977	1,410	348,687
	\$ 6,704,333	\$ 4,844,531	\$ 1,859,802	\$ 4,143,049
Environmental protection:				
Solid waste management	\$ 2,113,311	\$ 1,955,581	\$ 157,730	\$ 1,774,579
Cemetery	254,878	242,431	12,447	219,666
	\$ 2,368,189	\$ 2,198,012	\$ 170,177	\$ 1,994,245

B-1
CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
For the Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

	<u>2008</u>		Variance with Budget Positive (Negative)	<u>2007</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
EXPENDITURES:				
Current (continued):				
Culture and recreation:				
Landscaping	\$ 679,292	\$ 658,566	\$ 20,726	\$ 655,842
Recreation	<u>2,792,541</u>	<u>2,373,053</u>	<u>419,488</u>	<u>1,934,411</u>
	<u>\$ 3,471,833</u>	<u>\$ 3,031,619</u>	<u>\$ 440,214</u>	<u>\$ 2,590,253</u>
Community and economic development:				
Community development	\$ 1,022,664	\$ 1,034,523	\$ (11,859)	\$ 968,858
The Plaza	205,600	204,459	1,141	197,424
Developmental services	<u>504,586</u>	<u>433,615</u>	<u>70,971</u>	<u>436,365</u>
	<u>\$ 1,732,850</u>	<u>\$ 1,672,597</u>	<u>\$ 60,253</u>	<u>\$ 1,602,647</u>
Education	<u>\$ 42,342</u>	<u>\$ 42,342</u>	<u>\$ -</u>	<u>\$ 42,342</u>
Debt service:				
Principal	\$ 2,001,896	\$ 1,980,386	\$ 21,510	\$ 922,857
Interest	<u>353,311</u>	<u>341,312</u>	<u>11,999</u>	<u>370,668</u>
	<u>\$ 2,355,207</u>	<u>\$ 2,321,698</u>	<u>\$ 33,509</u>	<u>\$ 1,293,525</u>
Total expenditures	<u>\$ 36,731,747</u>	<u>\$ 32,697,359</u>	<u>\$ 4,034,388</u>	<u>\$ 29,765,060</u>
OTHER FINANCING USES:				
Transfers to other funds	<u>\$ 437,781</u>	<u>\$ 437,781</u>	<u>\$ -</u>	<u>\$ 1,433,225</u>
Total expenditures and other financing uses	<u>\$ 37,169,528</u>	<u>\$ 33,135,140</u>	<u>\$ 4,034,388</u>	<u>\$ 31,198,285</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 1,192,164</u>	<u>\$ 1,192,164</u>	<u>\$ (311,634)</u>
FUND BALANCES, BEGINNING		<u>6,872,729</u>		<u>7,184,363</u>
FUND BALANCES, ENDING		<u>\$ 8,064,893</u>		<u>\$ 6,872,729</u>



Non Major Governmental Fund

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.

C-1

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, 2008

With Comparative Actual Amounts for the Year Ended June 30, 2007

	2008		Variance with Budget Positive (Negative)	2007
	Budget	Actual		Actual
REVENUES:				
Intergovernmental:				
Federal	\$ 759,591	\$ 368,029	\$ (391,562)	\$ 466,524
Miscellaneous:				
Other	75,000	82,374	7,374	265,104
Total revenues	<u>\$ 834,591</u>	<u>\$ 450,403</u>	<u>\$ (384,188)</u>	<u>\$ 731,628</u>
EXPENDITURES:				
Current:				
General government	\$ 105,248	\$ 92,945	\$ 12,303	\$ 90,208
Community and economic development	674,035	396,731	277,304	667,139
Debt Service:				
Principal	32,000	32,000	-	32,000
Interest	23,308	23,308	-	24,169
Total expenditures	<u>\$ 834,591</u>	<u>\$ 544,984</u>	<u>\$ 289,607</u>	<u>\$ 813,516</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>\$ -</u>	<u>\$ (94,581)</u>	<u>\$ (94,581)</u>	<u>\$ (81,888)</u>
FUND BALANCE, BEGINNING		<u>100,558</u>		<u>182,446</u>
FUND BALANCE, ENDING		<u>\$ 5,977</u>		<u>\$ 100,558</u>



Proprietary Fund Types

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

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

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

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

D-1
City of Salisbury, North Carolina
Combining Balance Sheet
Proprietary Funds
June 30, 2008

	Water and Sewer Fund	Water and Sewer Capital Projects Fund	Transit Fund	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 4,046,935	\$ 7,237,086	\$ 52,321	\$ 11,336,342
Accounts receivable (net)	3,025,008	49,884	1,834	3,076,726
Interest receivable	7,379	13,948	-	21,327
Due from other governments	156,348	53,379	31,847	241,574
Inventories	327,510	-	11,474	338,984
Restricted assets:				
Cash and cash equivalents	-	7,538,208	-	7,538,208
Total current assets	<u>\$ 7,563,180</u>	<u>\$ 14,892,505</u>	<u>\$ 97,476</u>	<u>\$ 22,553,161</u>
Noncurrent assets:				
Capital assets:				
Land	\$ 2,072,067	\$ -	\$ -	\$ 2,072,067
Buildings and improvements	159,800,545	-	467,924	160,268,469
Equipment	7,500,417	-	1,349,224	8,849,641
Construction in progress	8,559,800	-	-	8,559,800
Accumulated depreciation	<u>(56,683,197)</u>	<u>-</u>	<u>(1,469,841)</u>	<u>(58,153,038)</u>
Total noncurrent assets	<u>\$ 121,249,632</u>	<u>\$ -</u>	<u>\$ 347,307</u>	<u>\$ 121,596,939</u>
Total assets	<u>\$ 128,812,812</u>	<u>\$ 14,892,505</u>	<u>\$ 444,783</u>	<u>\$ 144,150,100</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 626,409	\$ 3,366,363	\$ 57,353	\$ 4,050,125
Interest payable	503,519	-	-	503,519
Bonds, notes, and loans payable	3,574,798	-	-	3,574,798
Compensated absences	84,070	-	11,488	95,558
Customer deposits	545,954	-	-	545,954
Total current liabilities	<u>\$ 5,334,750</u>	<u>\$ 3,366,363</u>	<u>\$ 68,841</u>	<u>\$ 8,769,954</u>
Noncurrent liabilities:				
Bonds, notes, and loans payable	\$ 48,115,013	\$ -	\$ -	\$ 48,115,013
Compensated absences	252,211	-	34,462	286,673
Total noncurrent liabilities	<u>\$ 48,367,224</u>	<u>\$ -</u>	<u>\$ 34,462</u>	<u>\$ 48,401,686</u>
Total liabilities	<u>\$ 53,701,974</u>	<u>\$ 3,366,363</u>	<u>\$ 103,303</u>	<u>\$ 57,171,640</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	\$ 76,959,821	\$ -	\$ 341,480	\$ 77,301,301
Restricted	-	7,538,208	-	7,538,208
Unrestricted	<u>(1,848,983)</u>	<u>3,987,934</u>	<u>-</u>	<u>2,138,951</u>
Total net assets	<u>\$ 75,110,838</u>	<u>\$ 11,526,142</u>	<u>\$ 341,480</u>	<u>\$ 86,978,460</u>
Total liabilities and net assets	<u>\$ 128,812,812</u>	<u>\$ 14,892,505</u>	<u>\$ 444,783</u>	<u>\$ 144,150,100</u>

D-2
CITY OF SALISBURY, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

	<u>2008</u>		Variance with Budget Positive (Negative)	<u>2007</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
OPERATING REVENUES:				
Charges for services	\$ 18,030,207	\$ 18,992,039	\$ 961,832	\$ 17,912,180
Water and sewer taps	396,100	722,110	326,010	478,546
Other operating revenues	989,623	873,017	(116,606)	1,038,277
Total operating revenues	<u>19,415,930</u>	<u>20,587,166</u>	<u>1,171,236</u>	<u>19,429,003</u>
OPERATING EXPENDITURES OTHER THAN DEPRECIATION:				
Management and administration	\$ 4,442,452	\$ 4,442,221	\$ 231	\$ 4,380,803
Water resources	1,821,062	1,809,780	11,282	1,687,430
Maintenance and construction	4,240,782	4,085,348	155,434	3,689,969
Wastewater collection and treatment	2,180,425	2,168,395	12,030	2,176,528
Environmental services	624,544	624,579	(35)	575,880
Total operating expenses other than depreciation	<u>\$ 13,309,265</u>	<u>\$ 13,130,323</u>	<u>\$ 178,942</u>	<u>\$ 12,510,610</u>
NONOPERATING REVENUES (EXPENDITURES):				
Investment earnings	\$ 91,000	\$ 191,011	\$ 100,011	\$ 152,087
Developers' contributions	-	-	-	7,500
Capital outlay	(618,515)	(562,948)	55,567	(464,730)
Interest expense	(2,024,285)	(2,024,035)	250	(1,919,006)
Net nonoperating revenues	<u>\$ (2,551,800)</u>	<u>\$ (2,395,972)</u>	<u>\$ 155,828</u>	<u>\$ (2,224,149)</u>
Revenues over expenditures	<u>\$ 3,554,865</u>	<u>\$ 5,060,871</u>	<u>\$ 1,506,006</u>	<u>\$ 4,694,244</u>
OTHER FINANCING SOURCES (USES):				
Payment of debt principal	\$ (3,352,815)	\$ (3,352,816)	\$ (1)	\$ (3,300,924)
Transfer to Capital Projects Fund	(250,000)	(250,000)	-	(550,000)
Fund balance appropriated	47,950	-	(47,950)	-
Total other financing sources (uses)	<u>\$ (3,554,865)</u>	<u>\$ (3,602,816)</u>	<u>\$ (47,951)</u>	<u>\$ (3,850,924)</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ 1,458,055</u>	<u>\$ 1,458,055</u>	<u>\$ 843,320</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Revenues over expenditures and other financing sources (uses)		\$ 1,458,055		
Capital outlay		562,948		
Depreciation		(4,093,514)		
Loss on disposals of capital assets		(119,389)		
Bond amortization		(119,576)		
Payment of debt principal		3,352,816		
Interest income from Capital Projects Fund		625,148		
Capital contributions in Capital Project Fund		734,584		
Transfer to Capital Projects Fund		250,000		
Interest expense adjustment		(101,236)		
Inventories		(4,180)		
Vacation pay		(20,294)		
Change in net assets		<u>\$ 2,525,362</u>		

CITY OF SALISBURY, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECTS FUND

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

From Inception and for the Year Ended June 30, 2008

	Project Authorization	Actual		
		Prior Years	Current Year	Total to Date
REVENUES				
Miscellaneous				
Interest on investments	\$ 919,016	\$ 3,237,053	\$ 625,148	\$ 3,862,201
EXPENDITURES-SEWER PROJECT				
Construction	\$ 10,083,123	\$ 1,107,246	\$ 6,158,967	\$ 7,266,213
Engineering	2,169,753	1,231,491	510,285	1,741,776
Total expenditures-Sewer project	\$ 12,252,876	\$ 2,338,737	\$ 6,669,252	\$ 9,007,989
EXPENDITURES-WATER PROJECT				
Construction	\$ 4,980,143	\$ 1,365,063	\$ 1,778,213	\$ 3,143,276
Engineering	1,212,281	274,776	160,525	435,301
Total expenditures-Water project	\$ 6,192,424	\$ 1,639,839	\$ 1,938,738	\$ 3,578,577
Total expenditures	\$ 18,445,300	\$ 3,978,576	\$ 8,607,990	\$ 12,586,566
Total revenues under expenditures	\$ (17,526,284)	\$ (741,523)	\$ (7,982,842)	\$ (8,724,365)
OTHER FINANCING SOURCES:				
Proceeds from sale of bonds	\$ 13,961,700	\$ 6,000,000	\$ 7,400,000	\$ 13,400,000
Developer contributions	3,314,584	2,051,729	734,584	2,786,313
Contribution from Water and Sewer Fund	250,000	-	250,000	250,000
Total other financing sources	\$ 17,526,284	\$ 8,051,729	\$ 8,384,584	\$ 16,436,313
Unexpended revenues and receipts	\$ -	\$ 7,310,206	\$ 401,742	\$ 7,711,948

CITY OF SALISBURY, NORTH CAROLINA

MASS TRANSIT FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)For the Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

	2008		2007	
	Budget	Actual	Variance with Budget Positive (Negative)	Actual
OPERATING REVENUES:				
Charges for services	\$ 75,500	\$ 87,258	\$ 11,758	\$ 79,166
Other operating revenues	-	1,375	1,375	6,669
Total operating revenues	\$ 75,500	\$ 88,633	\$ 13,133	\$ 85,835
OPERATING EXPENDITURES OTHER THAN DEPRECIATION:				
Management and administration	\$ 276,559	\$ 276,802	\$ (243)	\$ 248,497
Mass transit operations	717,983	740,262	(22,279)	714,221
Total operating expenditures other than depreciation	\$ 994,542	\$ 1,017,064	\$ (22,522)	\$ 962,718
NONOPERATING REVENUES (EXPENDITURES):				
Intergovernmental	\$ 568,259	\$ 516,329	\$ (51,930)	\$ 519,794
Interest on investments	500	4	(496)	846
Capital outlay	(8,286)	-	8,286	(8,000)
Total nonoperating revenues (expenditures)	\$ 560,473	\$ 516,333	\$ (44,140)	\$ 512,640
Revenues under expenditures	\$ (358,569)	\$ (412,098)	\$ (53,529)	\$ (364,243)
OTHER FINANCING SOURCES:				
Operating transfers in:				
General fund	\$ 358,569	\$ 437,781	\$ 79,212	\$ 358,569
REVENUES OVER (UNDER) EXPENDITURES AND AND OTHER FINANCING SOURCES				
	\$ -	\$ 25,683	\$ 25,683	\$ (5,674)
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of expenses over revenues, above		\$ 25,683		
Depreciation		(236,242)		
Vacation pay		(5,551)		
Change in net assets		\$ (216,110)		

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, 2008

With Comparative Totals at June 30, 2007

<u>ASSETS</u>	<u>Workers'</u> <u>Compensation</u>	<u>Employee</u> <u>Health Care</u>	<u>Totals</u>	
			<u>2008</u>	<u>2007</u>
CURRENT ASSETS				
Cash and investments	\$ 370,183	\$ 1,165,269	\$ 1,535,452	\$ 1,563,435
Accounts receivable	-	-	-	8,551
Interest receivable	718	1,956	2,674	15,181
Due from other government	-	26	26	18
Total assets	<u>\$ 370,901</u>	<u>\$ 1,167,251</u>	<u>\$ 1,538,152</u>	<u>\$ 1,587,185</u>
<u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 16,501	\$ 548,835	\$ 565,336	\$ 552,031
NET ASSETS	<u>354,400</u>	<u>618,416</u>	<u>972,816</u>	<u>1,035,154</u>
Total liabilities and net assets	<u>\$ 370,901</u>	<u>\$ 1,167,251</u>	<u>\$ 1,538,152</u>	<u>\$ 1,587,185</u>

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2008
With Comparative Totals For The Year Ended June 30, 2007

	Workers' Compensation	Employee Health Care	Totals	
			2008	2007
OPERATING REVENUES:				
Charges for services	\$ 52,000	\$ 3,717,206	\$ 3,769,206	\$ 4,035,162
OPERATING EXPENSES:				
Employee benefits	<u>330,616</u>	<u>3,568,061</u>	<u>3,898,677</u>	<u>3,684,529</u>
OPERATING INCOME	\$ (278,616)	\$ 149,145	\$ (129,471)	\$ 350,633
NONOPERATING REVENUES				
Interest earned on investments	<u>21,978</u>	<u>45,155</u>	<u>67,133</u>	<u>80,502</u>
NET INCOME (DEFICIT)	\$ (256,638)	\$ 194,300	\$ (62,338)	\$ 431,135
NET ASSETS, BEGINNING	<u>611,038</u>	<u>424,116</u>	<u>1,035,154</u>	<u>604,019</u>
NET ASSETS, ENDING	<u>\$ 354,400</u>	<u>\$ 618,416</u>	<u>\$ 972,816</u>	<u>\$ 1,035,154</u>

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

SCHEDULE OF REVENUES AND EXPENDITURES
FINANCIAL PLAN AND ACTUAL (NON-GAAP)

For the Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

	2008		2007	
	Financial Plan	Actual	Variance with Budget Positive (Negative)	Actual
OPERATING REVENUES:				
Charges for services	\$ 51,900	\$ 52,000	\$ 100	\$ 355,600
OPERATING EXPENDITURES:				
Employee benefits	\$ 156,000	\$ 330,616	\$ (174,616)	\$ 185,241
NONOPERATING REVENUES:				
Interest on investments	\$ 12,000	\$ 21,978	\$ 9,978	\$ 25,881
Revenues over (under) expenditures	\$ (92,100)	\$ (256,638)	\$ (164,538)	\$ 196,240
OTHER FINANCING SOURCES:				
Appropriated fund balance	\$ 92,100	\$ -	\$ (92,100)	\$ -
Total other financing sources	\$ 92,100	\$ -	\$ (92,100)	\$ -
REVENUES AND OTHER FINANCING SOURCES				
SOURCES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ (256,638)</u>	<u>\$ (256,638)</u>	<u>\$ 196,240</u>

CITY OF SALISBURY, NORTH CAROLINA
EMPLOYEE HEALTH CARE INTERNAL SERVICE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
FINANCIAL PLAN AND ACTUAL (NON-GAAP)

For the Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

	2008		2007	
	Financial Plan	Actual	Variance with Budget Positive (Negative)	Actual
OPERATING REVENUES:				
Charges for services	<u>\$ 3,973,846</u>	<u>\$ 3,717,206</u>	<u>\$ (256,640)</u>	<u>\$ 3,679,562</u>
OPERATING EXPENDITURES:				
Employee benefits	<u>\$ 4,013,846</u>	<u>\$ 3,568,061</u>	<u>\$ 445,785</u>	<u>\$ 3,499,288</u>
NONOPERATING REVENUES:				
Interest on investments	<u>\$ 40,000</u>	<u>\$ 45,155</u>	<u>\$ 5,155</u>	<u>\$ 54,621</u>
Revenues over expenditures	<u>\$ -</u>	<u>\$ 194,300</u>	<u>\$ 194,300</u>	<u>\$ 234,895</u>

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2008

With Comparative Totals For The Year Ended June 30, 2007

	Workers' Compensation	Employee Health Care	Totals	
			2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from interfund services provided	\$ 52,000	\$ 3,725,757	\$ 3,777,757	\$ 4,026,611
Cash paid for goods and services	<u>(344,661)</u>	<u>(3,540,719)</u>	<u>(3,885,380)</u>	<u>(3,634,840)</u>
Net cash provided (used) by operating activities	<u>\$ (292,661)</u>	<u>\$ 185,038</u>	<u>\$ (107,623)</u>	<u>\$ 391,771</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	<u>\$ 26,771</u>	<u>\$ 52,869</u>	<u>\$ 79,640</u>	<u>\$ 70,503</u>
Net increase (decrease) in cash and cash equivalents	\$ (265,890)	\$ 237,907	\$ (27,983)	\$ 462,274
Balances-beginning of the year	<u>636,073</u>	<u>927,362</u>	<u>1,563,435</u>	<u>1,101,161</u>
Balances-end of the year	<u>\$ 370,183</u>	<u>\$ 1,165,269</u>	<u>\$ 1,535,452</u>	<u>\$ 1,563,435</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ (278,616)	\$ 149,145	\$ (129,471)	\$ 350,633
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in current assets and liabilities:				
(Increase) decrease in accounts receivable	-	8,551	8,551	(8,551)
(Increase) decrease in due from other government	-	(8)	(8)	(18)
Increase (decrease) in accounts payable and accrued liabilities	<u>(14,045)</u>	<u>27,350</u>	<u>13,305</u>	<u>49,707</u>
Net cash provided (used) by operating activities	<u>\$ (292,661)</u>	<u>\$ 185,038</u>	<u>\$ (107,623)</u>	<u>\$ 391,771</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.

Firemen's Relief Fund – to account for monies donated to help families of two firefighters who died in a fire on March 7, 2008.

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

COMBINING BALANCE SHEET

June 30, 2008

With Comparative Totals at June 30, 2007

	Agency				Totals	
	Boards and Commissions	Municipal Service District	East Spencer Utility Fund	Firemen's Memorial Fund	2008	2007
<u>ASSETS</u>						
Cash and investments	\$ 4,781	\$ 999	\$ 66,019	\$ 8,646	\$ 80,445	\$ 56,994
Accounts receivable	<u>-</u>	<u>3,432</u>	<u>100,431</u>	<u>-</u>	<u>103,863</u>	<u>113,718</u>
Total assets	<u>\$ 4,781</u>	<u>\$ 4,431</u>	<u>\$ 166,450</u>	<u>\$ 8,646</u>	<u>\$ 184,308</u>	<u>\$ 170,712</u>
<u>LIABILITIES</u>						
Accounts payable and accrued liabilities	<u>\$ 4,781</u>	<u>\$ 4,431</u>	<u>\$ 166,450</u>	<u>\$ 8,646</u>	<u>\$ 184,308</u>	<u>\$ 170,712</u>

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<u>BOARDS AND COMMISSIONS FUND:</u>				
ASSETS				
Cash and investments	\$ 4,781	\$ -	\$ -	\$ 4,781
LIABILITIES				
Accounts payable and accrued liabilities	\$ 4,781	\$ -	\$ -	\$ 4,781
<u>MUNICIPAL SERVICE DISTRICT FUND:</u>				
ASSETS				
Cash and investments	\$ 1,178	\$ 127,556	\$ 127,735	\$ 999
Accounts receivable	3,641	-	209	3,432
Total assets	\$ 4,819	\$ 127,556	\$ 127,944	\$ 4,431
LIABILITIES				
Accounts payable and accrued liabilities	\$ 4,819	\$ -	\$ 388	\$ 4,431
<u>EAST SPENCER UTILITY FUND:</u>				
ASSETS				
Cash and investments	\$ 51,035	\$ 904,456	\$ 889,472	\$ 66,019
Accounts receivable	110,077	-	9,646	100,431
Total Assets	\$ 161,112	\$ 904,456	\$ 899,118	\$ 166,450
LIABILITIES				
Accounts payable and accrued liabilities	\$ 161,112	\$ 5,338	\$ -	\$ 166,450
<u>FIRMEN'S MEMORIAL FUND:</u>				
ASSETS				
Cash and investments	\$ -	\$ 39,242	\$ 30,596	\$ 8,646
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 8,646	\$ -	\$ 8,646
<u>TOTAL AGENCY FUNDS:</u>				
ASSETS				
Cash and investments	\$ 56,994	\$ 1,071,254	\$ 1,047,803	\$ 80,445
Accounts receivable	113,718	-	9,855	103,863
Total assets	\$ 170,712	\$ 1,071,254	\$ 1,057,658	\$ 184,308
LIABILITIES				
Accounts payable and accrued liabilities	\$ 170,712	\$ 13,984	\$ 388	\$ 184,308

Other Schedules



G-1
CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND
PROPERTY TAXES RECEIVABLE
For the Year Ended June 30, 2008

Tax Year	Fiscal Year Ended June 30	Assessed Valuation *	Taxes Levied Prior to June 30, 2007	Collections and Credits Prior to June 30, 2007	Taxes Receivable June 30, 2007	Levy Additions Year Ended June 30, 2008	Collections and Credits Year Ended June 30, 2008	(Note) Other Credits	Taxes Receivable June 30, 2008
2007	2008	\$2,826,097,249				\$ 16,966,505	\$ 16,463,376		\$ 503,129
2006	2007	2,416,776,551	\$ 15,352,130	\$ 14,885,545	\$ 466,585	375	364,215		102,745
2005	2006	2,332,871,603	14,642,134	14,513,008	129,126		52,801		76,325
2004	2005	2,205,157,905	13,758,035	13,701,446	56,589		17,568		39,021
2003	2004	2,171,562,439	12,643,078	12,608,924	34,154		5,844		28,310
2002	2003	1,862,739,075	11,255,315	11,206,964	48,351		5,074		43,277
2001	2002	1,854,810,966	11,190,158	11,156,911	33,247		5,384		27,863
2000	2001	1,820,568,216	10,937,764	10,907,836	29,928		3,471		26,457
1999	2000	1,764,727,945	10,160,220	10,135,251	24,969		2,166		22,803
1998	1999	1,482,452,065	9,213,038	9,188,847	24,191		1,359		22,832
1997	1998	1,382,140,359	8,002,570	7,983,066	19,504		536	18,968	-
			<u>\$ 117,154,442</u>	<u>\$ 116,287,798</u>	<u>\$ 866,644</u>	<u>\$ 16,966,880</u>	<u>\$ 16,921,794</u>	<u>\$ 18,968</u>	<u>\$ 892,762</u>
									<u>230,000</u>
									<u>\$ 662,762</u>
Reconciliation of Collections and Credits with revenues									
Revenues per Statement B-1									
							\$ 15,951,173		
							458,427		
							<u>236,064</u>		
							\$ 16,645,664		
							117,523		
							<u>158,607</u>		
							<u>\$ 16,921,794</u>		

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

CITY OF SALISBURY, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY

For the Year Ended June 30, 2008

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	ORIGINAL LEVY				
Property taxed at current year's rates	\$2,773,930,817	\$0.590	\$ 16,366,202	\$15,547,176	\$ 819,026
Registered motor vehicles taxed at prior year's rates	69,727,300	0.625	435,807		435,807
Auto registration fee			245,806	2,439	243,367
Penalties			10,871	10,871	
TOTAL	\$2,843,658,117		\$ 17,058,686	\$15,560,486	\$ 1,498,200
DISCOVERY					
Current year rates	2,786,889		16,443	15,444	999
Prior years rates			11,729	11,729	
Penalties			2,646	2,646	
TOTAL			\$ 30,818	\$ 29,819	\$ 999
ABATEMENTS	(20,347,757)		\$ (122,999)	\$ (88,544)	\$ (34,455)
TOTAL PROPERTY VALUATION	<u>\$2,826,097,249</u>				
NET LEVY			\$ 16,966,505	\$15,501,761	\$ 1,464,744
Less uncollected tax at June 30, 2008			<u>503,129</u>	<u>309,733</u>	<u>193,396</u>
CURRENT YEAR'S TAXES COLLECTED			<u>\$ 16,463,376</u>	<u>\$15,192,028</u>	<u>\$1,271,348</u>
PERCENT OF CURRENT YEAR COLLECTED			<u>97.03%</u>	<u>98.00%</u>	<u>86.80%</u>

Statistical Section

This part of the City of Salisbury’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

<u>Contents</u>	Pages
<p>Financial Trends</p> <p>These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.</p>	<p>107-113</p>
<p>Revenue Capacity</p> <p>These schedules contain information to help the reader assess the factors affecting the City’s ability to generate its property and sales taxes.</p>	<p>114-119</p>
<p>Debt Capacity</p> <p>These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future.</p>	<p>120-126</p>
<p>Demographic and Economic Information</p> <p>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place and to help make comparisons over time and with other governments.</p>	<p>127-128</p>
<p>Operating Information</p> <p>These schedules contain information about the City’s operations and resources to help the reader understand how the City’s financial information relates to the services the City provides and the activities it performs.</p>	<p>129-133</p>

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Schedule 1

**CITY OF SALISBURY
NET ASSETS BY COMPONENT
Last Six Fiscal Years
(accrual basis of accounting)**

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities						
Invested in capital assets, net of related debt	\$ 30,737,822	\$ 30,380,102	\$ 31,657,961	\$ 32,777,082	\$ 36,272,178	\$ 36,525,374
Unrestricted	<u>4,771,163</u>	<u>4,694,890</u>	<u>5,411,922</u>	<u>6,600,846</u>	<u>7,180,425</u>	<u>8,148,501</u>
Total Governmental activities net assets	<u>\$ 35,508,985</u>	<u>\$ 35,074,992</u>	<u>\$ 37,069,883</u>	<u>\$ 39,377,928</u>	<u>\$ 43,452,603</u>	<u>\$ 44,673,875</u>
Business-type activities						
Invested in capital assets, net of related debt	\$ 54,424,878	\$ 62,840,912	\$ 71,848,222	\$ 72,574,520	\$ 73,759,751	\$ 77,301,301
Unrestricted	<u>19,813,181</u>	<u>14,281,971</u>	<u>9,921,167</u>	<u>9,010,320</u>	<u>10,909,457</u>	<u>9,671,332</u>
Total business-type activities net assets	<u>\$ 74,238,059</u>	<u>\$ 77,122,883</u>	<u>\$ 81,769,389</u>	<u>\$ 81,584,840</u>	<u>\$ 84,669,208</u>	<u>\$ 86,972,633</u>
Primary government						
Invested in capital assets, net of related debt	\$ 85,162,700	\$ 93,221,014	\$ 103,506,183	\$ 105,351,602	\$ 110,031,929	\$ 113,826,675
Unrestricted	<u>24,584,344</u>	<u>18,976,861</u>	<u>15,333,089</u>	<u>15,611,166</u>	<u>18,089,882</u>	<u>17,819,833</u>
Total primary government net assets	<u>\$109,747,044</u>	<u>\$ 112,197,875</u>	<u>\$ 118,839,272</u>	<u>\$ 120,962,768</u>	<u>\$ 128,121,811</u>	<u>\$ 131,646,508</u>

Schedule 2

**CITY OF SALISBURY
CHANGES IN NET ASSETS
Last Six Fiscal Years
(accrual basis of accounting)**

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses						
Governmental activities:						
General government	\$ 5,975,738	\$ 5,887,422	\$ 6,575,855	\$ 6,620,291	\$ 7,545,934	\$ 8,584,267
Public safety	9,739,181	10,111,491	10,444,970	10,559,567	11,018,172	11,855,275
Transportation	4,313,179	4,869,631	4,659,387	5,718,272	5,079,652	5,875,717
Environmental protection	1,469,017	1,619,517	1,653,027	1,785,667	2,139,937	2,203,772
Culture and recreation	2,392,991	2,579,491	2,566,970	2,637,583	2,593,105	2,830,610
Community and economic development	2,013,771	2,386,640	2,099,674	2,260,752	2,094,261	2,025,313
Education	42,342	42,342	42,342	42,342	42,342	42,342
Interest on long-term debt	251,693	258,177	306,022	297,212	414,815	358,688
Total governmental activities expenses	<u>\$ 26,197,912</u>	<u>\$ 27,754,711</u>	<u>\$ 28,348,247</u>	<u>\$ 29,921,686</u>	<u>\$ 30,928,218</u>	<u>\$ 33,775,984</u>
Business-type activities:						
Water and Sewer	\$ 15,484,513	\$ 16,179,987	\$ 17,063,018	\$ 18,131,596	\$ 18,636,493	\$ 19,488,977
Mass Transit	629,268	661,552	817,899	977,470	1,194,223	1,258,857
Total business-type activities	<u>\$ 16,113,781</u>	<u>\$ 16,841,539</u>	<u>\$ 17,880,917</u>	<u>\$ 19,109,066</u>	<u>\$ 19,830,716</u>	<u>\$ 20,747,834</u>
Total primary governmental expenses	<u>\$ 42,311,693</u>	<u>\$ 44,596,250</u>	<u>\$ 46,229,164</u>	<u>\$ 49,030,752</u>	<u>\$ 50,758,934</u>	<u>\$ 54,523,818</u>
Program Revenues						
Governmental activities:						
Charges for services:						
General government	\$ 2,854,620	\$ 3,009,494	\$ 3,185,185	\$ 3,207,322	\$ 3,796,433	\$ 3,889,331
Public safety	410,211	414,782	416,920	473,190	459,350	464,189
Transportation	125,244	40,219	52,545	139,704	127,207	157,217
Environmental protection	946,998	954,506	966,049	981,344	1,156,391	1,208,241
Culture and recreation	162,916	236,236	251,084	164,896	167,781	175,416
Community and economic development	160,377	389,325	310,430	504,285	444,382	201,558
Operating grants and contributions	3,187,615	1,632,833	2,007,717	1,943,637	1,547,688	1,821,205
Capital grants and contributions	4,990,317	605,851	2,150,557	2,406,145	3,684,048	1,376,213
Total governmental activities program revenues	<u>\$ 12,838,298</u>	<u>\$ 7,283,246</u>	<u>\$ 9,340,487</u>	<u>\$ 9,820,523</u>	<u>\$ 11,383,280</u>	<u>\$ 9,293,370</u>

Business-type activities:						
Charges for services:						
Water and Sewer	\$ 14,301,184	\$ 14,484,161	\$ 15,342,078	\$ 17,789,555	\$ 19,384,892	\$ 20,463,596
Mass Transit	66,669	64,571	64,225	80,372	85,835	88,633
Operating grants and contributions	372,724	372,506	405,706	452,326	482,692	479,227
Capital grants and contributions	<u>9,927,332</u>	<u>2,821,330</u>	<u>5,040,339</u>	<u>43,765</u>	<u>1,960,331</u>	<u>771,686</u>
Total business-type activities						
program revenues	<u>\$ 24,667,909</u>	<u>\$ 17,742,568</u>	<u>\$ 20,852,348</u>	<u>\$ 18,366,018</u>	<u>\$ 21,913,750</u>	<u>\$ 21,803,142</u>
Total primary governmental						
program revenues	<u>\$ 37,506,207</u>	<u>\$ 25,025,814</u>	<u>\$ 30,192,835</u>	<u>\$ 28,186,541</u>	<u>\$ 33,297,030</u>	<u>\$ 31,096,512</u>
Net (expense)/revenue						
Governmental activities	\$ (13,359,614)	\$ (20,471,465)	\$ (19,007,760)	\$ (20,101,163)	\$ (19,544,938)	\$ (24,482,614)
Business-type activities	<u>8,554,128</u>	<u>901,029</u>	<u>2,971,431</u>	<u>(743,048)</u>	<u>2,083,034</u>	<u>1,055,308</u>
Total primary governmental net expense	<u>\$ (4,805,486)</u>	<u>\$ (19,570,436)</u>	<u>\$ (16,036,329)</u>	<u>\$ (20,844,211)</u>	<u>\$ (17,461,904)</u>	<u>\$ (23,427,306)</u>
General Revenues and Other Changes in						
Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 11,220,630	\$ 12,608,225	\$ 13,589,368	\$ 14,580,037	\$ 15,237,001	\$ 16,755,835
Sales and other taxes	3,382,414	4,232,748	4,410,547	4,755,926	4,928,404	5,220,704
Intergovernmental revenues	1,932,454	2,822,659	2,848,989	2,731,869	2,818,573	3,446,122
Unrestricted investment earnings	88,655	81,428	176,287	379,137	544,213	461,939
Miscellaneous	351,418	277,847	151,030	175,357	449,991	257,067
Transfers	<u>(160,282)</u>	<u>(160,282)</u>	<u>(173,570)</u>	<u>(213,118)</u>	<u>(358,569)</u>	<u>(437,781)</u>
Total governmental activities	<u>\$ 16,815,289</u>	<u>\$ 19,862,625</u>	<u>\$ 21,002,651</u>	<u>\$ 22,409,208</u>	<u>\$ 23,619,613</u>	<u>\$ 25,703,886</u>
Business-type activities:						
Investment earnings	\$ 363,091	\$ 184,999	\$ 231,288	\$ 342,961	\$ 642,765	\$ 816,163
Miscellaneous	952,766	1,638,514	1,270,217	2,420	-	-
Transfers	<u>160,282</u>	<u>160,282</u>	<u>173,570</u>	<u>213,118</u>	<u>358,569</u>	<u>437,781</u>
Total business-type activities	<u>\$ 1,476,139</u>	<u>\$ 1,983,795</u>	<u>\$ 1,675,075</u>	<u>\$ 558,499</u>	<u>\$ 1,001,334</u>	<u>\$ 1,253,944</u>
Total primary government	<u>\$ 18,291,428</u>	<u>\$ 21,846,420</u>	<u>\$ 22,677,726</u>	<u>\$ 22,967,707</u>	<u>\$ 24,620,947</u>	<u>\$ 26,957,830</u>
Change in Net Assets						
Governmental activities	\$ 3,455,675	\$ (608,840)	\$ 1,994,891	\$ 2,308,045	\$ 4,074,675	\$ 1,221,272
Business-type activities	<u>10,030,267</u>	<u>2,884,824</u>	<u>4,646,506</u>	<u>(184,549)</u>	<u>3,084,368</u>	<u>2,309,252</u>
Total primary government	<u>\$ 13,485,942</u>	<u>\$ 2,275,984</u>	<u>\$ 6,641,397</u>	<u>\$ 2,123,496</u>	<u>\$ 7,159,043</u>	<u>\$ 3,530,524</u>

Note: The City began to report accrual information for governmental activities when it implemented GASB 34 in fiscal year 2003.

Schedule 3

**CITY OF SALISBURY
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	Fiscal Year				
	1999	2000	2001	2002	2003
General Fund					
Reserved	\$ 2,219,400	\$ 2,341,068	\$ 2,594,214	\$ 1,765,414	\$ 2,230,658
Unreserved	<u>2,148,845</u>	<u>3,117,576</u>	<u>3,212,978</u>	<u>3,110,420</u>	<u>3,023,678</u>
Total General Fund	<u>\$ 4,368,245</u>	<u>\$ 5,458,644</u>	<u>\$ 5,807,192</u>	<u>\$ 4,875,834</u>	<u>\$ 5,254,336</u>
 All other governmental funds					
Reserved	\$ 83,228	\$ 8,486	\$ 6,445	\$ 4,448	\$ 129,802
Unreserved, reported in:					
Special revenue funds	78,309	82,819	136,677	64,354	-
Capital projects funds	<u>644,039</u>	<u>132,912</u>	<u>295,471</u>	<u>54,312</u>	<u>9,155</u>
Total all other governmental funds	<u>\$ 805,576</u>	<u>\$ 224,217</u>	<u>\$ 438,593</u>	<u>\$ 123,114</u>	<u>\$ 138,957</u>

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 2,853,273	\$ 3,588,992	\$ 3,873,682	\$ 3,334,316	\$ 3,618,321
<u>2,956,660</u>	<u>3,195,428</u>	<u>3,310,681</u>	<u>3,538,413</u>	<u>4,446,572</u>
<u>\$ 5,809,933</u>	<u>\$ 6,784,420</u>	<u>\$ 7,184,363</u>	<u>\$ 6,872,729</u>	<u>\$ 8,064,893</u>
\$ 20,261	\$ 36,819	\$ 523,350	\$ 7,724	\$ 36,736
173,894	60,125	182,446	92,834	-
<u>(373,049)</u>	<u>(753,745)</u>	<u>-</u>	<u>-</u>	<u>(30,759)</u>
<u>\$ (178,894)</u>	<u>\$ (656,801)</u>	<u>\$ 705,796</u>	<u>\$ 100,558</u>	<u>\$ 5,977</u>

Schedule 4

**CITY OF SALISBURY
CHANGES OF FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	Fiscal Year				
	1999	2000	2001	2002	2003
Revenues					
Taxes	\$ 8,969,699	\$ 10,128,466	\$ 10,720,050	\$ 11,097,422	\$ 11,197,550
Licenses and permits	466,325	441,422	533,554	550,831	551,498
Intergovernmental	8,399,306	9,048,723	9,659,947	7,167,125	9,379,967
Charges for services	2,032,202	2,030,877	2,307,975	2,227,465	2,257,355
Investment earnings	341,132	319,773	508,696	170,968	86,796
Miscellaneous	794,554	682,966	1,561,916	737,488	534,802
Administrative charges	1,299,875	1,519,860	1,505,714	1,581,000	1,660,050
Total revenues	<u>\$ 22,303,093</u>	<u>\$ 24,172,087</u>	<u>\$ 26,797,852</u>	<u>\$ 23,532,299</u>	<u>\$ 25,668,018</u>
Expenditures					
General government	\$ 4,856,896	\$ 5,418,892	\$ 5,336,349	\$ 5,360,451	\$ 4,704,820
Public safety	8,113,842	8,938,838	8,860,001	8,941,298	9,850,071
Transportation	3,237,416	3,094,241	3,721,416	2,978,265	4,117,773
Environmental protection	1,470,108	1,394,724	1,413,534	1,406,346	1,561,086
Culture and recreation	3,271,023	2,850,649	4,272,125	2,666,102	2,195,856
Economic and physical development	1,932,935	2,521,984	2,021,636	2,168,981	3,002,561
Education	42,342	42,342	42,342	42,342	42,342
Debt service					
Principal	532,214	586,081	707,050	764,467	774,176
Interest	251,248	250,804	300,193	290,602	260,553
Total expenditures	<u>\$ 23,708,024</u>	<u>\$ 25,098,555</u>	<u>\$ 26,674,646</u>	<u>\$ 24,618,854</u>	<u>\$ 26,509,238</u>
Excess of revenues over (under) expenditures	<u>\$ (1,404,931)</u>	<u>\$ (926,468)</u>	<u>\$ 123,206</u>	<u>\$ (1,086,555)</u>	<u>\$ (841,220)</u>
Other financing sources (uses)					
Transfers out	\$ (160,282)	\$ (160,282)	\$ (160,282)	\$ (160,282)	\$ (160,282)
Section 108 loans	-	-	-	-	221,000
Installment purchase financing	-	1,595,790	1,000,000	-	1,000,000
Total other financing sources (uses)	<u>\$ (160,282)</u>	<u>\$ 1,435,508</u>	<u>\$ 839,718</u>	<u>\$ (160,282)</u>	<u>\$ 1,060,718</u>
Net change in fund balances	<u>\$ (1,565,213)</u>	<u>\$ 509,040</u>	<u>\$ 962,924</u>	<u>\$ (1,246,837)</u>	<u>\$ 219,498</u>
Total capital expenditures included above	\$ 3,707,604	\$ 3,375,175	\$ 3,325,887	\$ 1,255,215	\$ 2,326,603
Debt services as a percentage of noncapital expenditures	3.9%	3.9%	4.3%	4.5%	4.3%

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 12,517,710	\$ 13,786,408	\$ 14,523,959	\$ 15,152,988	\$ 16,731,217
538,560	589,274	574,669	473,488	413,940
9,451,550	9,266,863	9,851,051	9,592,656	10,708,309
2,080,488	2,216,314	2,248,157	2,490,586	2,503,642
76,874	161,387	331,121	410,322	394,806
817,495	757,105	942,243	602,044	701,002
<u>1,743,053</u>	<u>1,711,559</u>	<u>2,070,628</u>	<u>2,275,159</u>	<u>2,417,857</u>
<u>\$ 27,225,730</u>	<u>\$ 28,488,910</u>	<u>\$ 30,541,828</u>	<u>\$ 30,997,243</u>	<u>\$ 33,870,773</u>
\$ 7,942,599	\$ 6,201,936	\$ 6,198,248	\$ 6,604,904	\$ 7,087,851
10,095,655	10,717,282	13,692,442	13,235,698	11,591,654
3,600,475	3,636,014	4,613,922	4,143,049	4,844,531
1,671,908	1,902,570	1,801,115	1,994,245	2,198,012
2,568,374	2,495,888	2,601,386	2,590,253	3,031,619
2,374,662	2,074,433	2,227,480	2,269,786	2,069,328
42,342	42,342	42,342	42,342	42,342
646,750	630,890	666,950	954,857	2,012,386
<u>250,437</u>	<u>308,405</u>	<u>287,965</u>	<u>394,837</u>	<u>364,620</u>
<u>\$ 29,193,202</u>	<u>\$ 28,009,760</u>	<u>\$ 32,131,850</u>	<u>\$ 32,229,971</u>	<u>\$ 33,242,343</u>
<u>\$ (1,967,472)</u>	<u>\$ 479,150</u>	<u>\$ (1,590,022)</u>	<u>\$ (1,232,728)</u>	<u>\$ 628,430</u>
\$ (160,282)	\$ (173,570)	\$ (213,118)	\$ (358,569)	\$ (437,781)
375,000	-	-	-	-
<u>1,990,500</u>	<u>191,000</u>	<u>3,565,680</u>	<u>674,425</u>	<u>906,934</u>
<u>\$ 2,205,218</u>	<u>\$ 17,430</u>	<u>\$ 3,352,562</u>	<u>\$ 315,856</u>	<u>\$ 469,153</u>
<u>\$ 237,746</u>	<u>\$ 496,580</u>	<u>\$ 1,762,540</u>	<u>\$ (916,872)</u>	<u>\$ 1,097,583</u>
\$ 3,486,270	\$ 1,755,532	\$ 1,629,005	\$ 3,982,859	\$ 1,735,087
3.5%	3.6%	3.1%	4.8%	7.5%

Schedule 5

CITY OF SALISBURY
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
Last Six Fiscal Years
(accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Utilities Franchise Tax *	Total
2003	\$ 11,220,630	\$ 3,382,414	\$ 1,879,808	\$ 16,482,852
2004	12,608,225	4,232,748	2,306,834	19,147,807
2005	13,589,368	4,306,693	1,886,178	19,782,239
2006	14,523,959	4,755,926	1,863,690	21,143,575
2007	15,152,988	4,928,404	2,029,281	22,110,673
2008	16,731,217	5,220,704	2,533,067	24,484,988

* Includes Telecommunications taxes and Video Franchise Fees.

Schedule 6

**CITY OF SALISBURY
PROPERTY TAX RATES
Direct and Overlapping Governments
Last Ten Fiscal Years**

Fiscal Year	City Direct Rate	Overlapping Rates		Total Direct & Overlapping Rates
		Municipal Service District	Rowan County	
1999	0.6200	0.1600	0.6375	1.4175
2000	0.5700	0.1600	0.6350	1.3650
2001	0.6000	0.1600	0.6350	1.3950
2002	0.6000	0.1600	0.6350	1.3950
2003	0.6000	0.1600	0.6350	1.3950
2004	0.5800	0.1600	0.6300	1.3700
2005	0.6150	0.1600	0.6300	1.4050
2006	0.6150	0.1600	0.6300	1.4050
2007	0.6250	0.1600	0.6300	1.4150
2008	0.5900	0.1600	0.5950	1.3450

Source: Rowan County Tax Assessor.

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

Tax rates for the City and the Municipal Service District may be adjusted by City Council.

Overlapping rates are those of local and county governments that apply to property owners within the City of Salisbury. Not all overlapping rates apply to all Salisbury property owners; for example, although the County property tax rates apply to all city property owners, the Municipal Service District rates apply only to property owners in the downtown area of Salisbury, which accounts for approximately 3 percent of the total assessed property valuation.

Schedule 7

**CITY OF SALISBURY
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 Last Ten Fiscal Years**

Fiscal Year Ended June 30	Real Property		Personal Property		Public Service Companies
	Residential Property	Commercial Property	Motor Vehicles	Other	
1999	\$ 567,540,387	\$ 473,603,246	\$159,836,839	\$ 231,451,569	\$ 57,889,345
2000	728,108,768	569,377,920	153,386,870	252,240,340	67,811,348
2001	762,717,104	585,247,128	161,220,823	254,357,661	64,805,231
2002	789,423,038	597,292,462	165,098,479	242,724,452	67,482,463
2003	804,305,286	606,716,922	161,818,125	235,755,742	64,817,634
2004	974,241,834	726,060,709	163,148,412	253,884,469	65,288,150
2005	993,670,143	748,068,340	165,961,939	247,661,995	61,461,308
2006	1,033,163,052	766,165,600	180,632,571	304,196,940	61,623,601
2007	1,062,656,530	807,518,731	180,085,538	321,667,603	57,991,527
2008	1,278,010,578	979,777,296	203,330,301	321,212,171	60,025,014

Source: Rowan County Tax Assessor.

Note: Property in the county is reassessed once every four years. The county assesses property at 100 percent of actual value for all types and personal property. Tax rates are per \$100 of assessed value.

<u>Less:</u> <u>Tax Exempt</u> <u>Real Property</u>	<u>Total Actual</u> <u>and Taxable</u> <u>Assessed</u> <u>Value</u>	<u>Total</u> <u>Direct</u> <u>Tax</u> <u>Rate</u>	<u>Assessed</u> <u>Value as a</u> <u>Percentage of</u> <u>Actual Value</u>
\$ 7,869,321	\$ 1,482,452,065	\$ 0.620	100.00%
7,765,292	1,763,159,954	0.570	100.00%
7,779,731	1,820,568,216	0.600	100.00%
7,209,928	1,854,810,966	0.600	100.00%
10,688,772	1,862,724,937	0.600	100.00%
11,202,095	2,171,421,479	0.580	100.00%
11,665,820	2,205,157,905	0.615	100.00%
12,910,161	2,332,871,603	0.615	100.00%
13,143,378	2,416,776,551	0.625	100.00%
16,258,111	2,826,097,249	0.590	100.00%

Schedule 8

**CITY OF SALISBURY
PRINCIPAL PROPERTY TAXPAYERS
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>2008</u>			<u>1999</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
Food Lion, Inc.	\$ 148,410,543	1	5.25%	\$ 60,284,203	1	4.07%
ICI Americas	30,923,939	2	1.09%	19,610,837	6	1.32%
Centro Heritage Innes Street, LLC	24,387,623	3	0.86%	13,538,272	10	0.91%
Duke Energy Corporation	23,121,459	4	0.82%	23,850,862	5	1.61%
Norandal USA	22,840,711	5	0.81%	26,611,488	2	1.80%
Rowan Regional Medical Center	18,325,254	6	0.65%			
Bellsouth Telephone	14,965,875	7	0.53%	17,202,134	7	1.16%
Salisbury Mall, Ltd.	14,584,123	8	0.52%	14,138,096	9	0.95%
Wal-Mart Stores	14,143,271	9	0.59%			
BRC Salisbury LLC	13,890,706	10	0.49%	25,125,268	3	1.69%
Ball Metal Beverage Container				15,978,861	8	1.08%
Cone Mills Corporation				24,028,372	4	1.62%
Totals	<u>\$ 325,593,504.00</u>		<u>11.61%</u>	<u>\$ 240,368,393</u>		<u>16.21%</u>

Source: Rowan County Tax Assessor

Schedule 9

**CITY OF SALISBURY
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Total Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1999	\$ 9,213,038	\$ 8,926,885	96.89%	\$ 263,321	\$ 9,190,206	99.75%
2000	10,160,220	10,007,793	98.50%	129,624	10,137,417	99.78%
2001	10,937,764	10,553,137	96.48%	358,170	10,911,307	99.76%
2002	11,190,158	10,823,799	96.73%	338,496	11,162,295	99.75%
2003	11,255,233	10,892,049	96.77%	319,989	11,212,038	99.62%
2004	12,642,260	12,235,549	96.78%	379,219	12,614,768	99.78%
2005	13,758,035	13,420,155	97.54%	298,859	13,719,014	99.72%
2006	14,642,134	14,239,283	97.25%	326,526	14,565,809	99.48%
2007	15,353,108	14,885,545	96.95%	364,215	15,249,760	99.33%
2008	16,966,505	16,463,376	97.03%	-	16,463,376	97.03%

Schedule 10

**CITY OF SALISBURY
RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years**

Fiscal Year	Governmental Activities			Business-type Activities			
	General Obligation Bonds	Installment Purchases	Section 108 Loan	General Obligation Bonds	Revenue Bonds	State Loans	Capital Leases
1999	\$ 3,425,000	\$ 1,296,547	-	\$ 19,935,000	\$ 1,970,000	\$ 4,905,108	\$ 3,207,588
2000	3,225,000	2,506,256	-	18,645,000	1,905,000	12,983,511	3,008,789
2001	3,025,000	2,999,206	-	17,360,000	1,835,000	15,950,096	4,135,606
2002	2,825,000	2,434,738	-	16,080,000	21,745,280	15,067,590	3,874,595
2003	2,645,000	2,840,562	\$ 221,000	14,805,000	21,541,269	14,185,084	3,611,283
2004	2,465,000	4,364,312	596,000	13,285,537	20,972,259	13,302,578	3,341,606
2005	2,265,000	4,156,422	564,000	11,934,124	20,383,247	12,420,072	3,070,497
2006	2,075,000	7,277,152	532,000	10,592,712	19,774,236	11,537,566	2,799,885
2007	1,875,000	7,228,720	500,000	9,286,300	25,045,997	10,655,060	2,535,695
2008	1,675,000	6,355,267	468,000	8,054,887	31,587,521	9,772,554	2,274,849

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
See Schedule 15 for personal income and population data.

<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
\$ 34,739,243	7.16%	1,297
42,273,556	8.32%	1,537
45,304,908	9.08%	1,712
62,027,203	12.14%	2,335
59,849,198	10.92%	2,122
58,327,292	10.54%	2,068
54,793,362	9.78%	1,940
54,588,551	9.19%	1,867
57,126,772	8.95%	1,864
60,188,078	9.09%	1,940

Schedule 11

**CITY OF SALISBURY
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years**

Fiscal Year	Governmental General Obligation Bonds	Business-type General Obligation Bonds	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
1999	\$ 3,425,000	\$ 19,935,000	\$ 23,360,000	1.58%	872
2000	3,225,000	18,645,000	21,870,000	1.24%	795
2001	3,025,000	17,360,000	20,385,000	1.12%	770
2002	2,825,000	16,080,000	18,905,000	1.02%	712
2003	2,645,000	14,805,000	17,450,000	0.94%	619
2004	2,465,000	13,285,537	15,750,537	0.73%	559
2005	2,265,000	11,934,124	14,199,124	0.64%	503
2006	2,075,000	10,592,712	12,667,712	0.54%	433
2007	1,875,000	9,286,300	11,161,300	0.46%	364
2008	1,675,000	8,054,887	9,729,887	0.34%	314

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
See Schedule 15 for population data.

Schedule 12

**CITY OF SALISBURY
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of June 30, 2008**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes: Rowan County	\$ 84,745,444	24.77%	\$ 20,989,746
City of Salisbury direct debt			<u>8,498,267</u>
Total direct and overlapping debt			<u><u>\$ 29,488,013</u></u>

Sources: Assessed value data used to estimate applicable percentages and outstanding debt data provided by Rowan County Finance Department.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Salisbury. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Schedule 13

**CITY OF SALISBURY
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Debt limit	\$ 118,596,165	\$ 141,052,796	\$ 145,645,457	\$ 148,384,877
Total net debt applicable to limit	<u>27,864,135</u>	<u>27,385,044</u>	<u>27,518,771</u>	<u>25,214,433</u>
Legal debt margin	<u>\$ 90,732,030</u>	<u>\$ 113,667,752</u>	<u>\$ 118,126,686</u>	<u>\$ 123,170,444</u>
Total net debt applicable to the limit as a percentage of debt limit	23.49%	19.41%	18.89%	16.99%

Note: Under state finance law, the City of Salisbury's outstanding general obligation debt should not exceed 8 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 149,017,995	\$ 173,713,718	\$ 176,412,632	\$ 187,662,541	\$ 194,393,594	\$ 227,388,429
<u>23,901,845</u>	<u>21,006,455</u>	<u>19,226,043</u>	<u>22,744,749</u>	<u>20,925,715</u>	<u>18,360,003</u>
<u>\$ 125,116,150</u>	<u>\$ 152,707,263</u>	<u>\$ 157,186,589</u>	<u>\$ 164,917,792</u>	<u>\$ 173,467,879</u>	<u>\$ 209,028,426</u>
16.04%	12.09%	10.90%	12.12%	10.76%	8.07%

Legal Debt Margin Calculation for Fiscal Year 2008

Assessed value	\$ 2,826,097,249
Add back: exempt real property	<u>16,258,111</u>
Total assessed value	\$ 2,842,355,360
Debt Limit (8% of total assessed value)	227,388,429
Debt applicable to limit:	
General obligation bonds	9,729,887
Capitalized lease and installment purchase obligations	<u>8,630,116</u>
Legal debt margin	<u>\$ 209,028,426</u>

Schedule 14

**CITY OF SALISBURY
PLEDGED REVENUE COVERAGE - WATER AND SEWER REVENUE BONDS
Last Ten Fiscal Years**

Fiscal Year	Gross Revenues	Operating Expenditures	Net Revenues Available	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1999	\$ 12,182,228	\$ 8,536,338	\$ 3,645,890	\$ 342,506	\$ 372,041	\$ 714,547	510.24%
2000	12,050,171	8,968,739	3,081,432	337,506	354,327	691,833	445.40%
2001	12,715,931	8,635,605	4,080,326	952,506	577,160	1,529,666	266.75%
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	16,218,662	10,696,926	5,521,736	1,472,506	1,420,340	2,892,846	190.88%
2005	16,841,357	10,952,357	5,889,000	1,492,506	1,375,815	2,868,321	205.31%
2006	18,132,373	11,843,353	6,289,020	630,000	980,535	1,610,535	390.49%
2007	19,888,170	12,384,082	7,504,088	749,228	1,079,730	1,828,958	410.29%
2008	20,965,998	13,150,616	7,815,382	879,464	1,253,426	2,132,890	366.42%

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Gross revenues include total operating revenues plus investment earnings exclusive of revenue bond investment earnings.

Operating expenses above is equal to total operating expenses exclusive of depreciation.

For fiscal years prior to 2006 parity debt service requirements included revenue bonds and N. C. Clean Water Bonds. Beginning in 2006 parity debt includes only revenue bonds.

Schedule 15

**CITY OF SALISBURY
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population	Personal Income	Per Capita Personal Income	Median Age	Unemployment Rate
1999	26,792	\$ 485,390,664	\$ 18,117	36.5	3.4%
2000	27,500	508,392,500	18,487	36.7	3.8%
2001	26,462	499,179,168	18,864	36.9	6.5%
2002	26,559	511,021,719	19,241	37.1	5.7%
2003	28,199	547,991,167	19,433	37.3	5.7%
2004	28,199	553,433,574	19,626	37.3	9.0%
2005	28,249	560,036,425	19,825	37.5	6.0%
2006	29,239	594,136,480	20,320	37.7	5.8%
2007	30,642	638,211,576	20,828	37.9	6.6%
2008	31,024	662,322,069	21,349	38.1	6.6%

Sources: Population data provided by Office of State Management and Budget. Personal income, per capital income, and median age data are based on the latest census with estimated fluctuations for non-census years. Unemployment rates are provided by the NC Employment Security Commission.

Schedule 16

**CITY OF SALISBURY
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago**

Employer	2008			1999		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Rowan/Salisbury School System	3,455	1	17.72%	2,400	1	13.33%
Food Lion	2,330	2	11.95%	2,100	2	11.67%
W. G. (Bill) Hefner VA Medical Center	1,730	3	8.87%	1,300	3	7.22%
Rowan Regional Medical Center	1,250	4	6.41%	1,100	4	6.11%
Rowan County	745	5	3.82%	650	6	3.61%
City of Salisbury	455	6	2.33%	425	9	2.36%
Piedmont Correctional Institute	450	7	2.31%	450	8	2.50%
Wal-Mart	320	8	1.64%	400	10	2.22%
Rowan-Cabarrus Community College	310	9	1.59%			
Lutheran Services for the Aging	280	10	1.44%			
Fieldcrest Cannon				1,000	5	5.56%
Cone Mills				485	7	3.23%
Total	11,325		58.08%	10,310		57.82%

Note: Information was taken from annual reports published by the Rowan County Chamber of Commerce of the largest employers in Rowan County.

Schedule 17

**CITY OF SALISBURY
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years**

Function	Full-time Equivalent Employees as of June 30									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government:										
City administration	6	7	7	6	6	7	7	7	8	9
Human resources	5	5	6	6	6	6	6	6	5	4
Finance	16	16	17	18	15	17	18	17	17	19
Fleet management	12	13	12	12	11	11	10	11	11	11
Public services administration	3	3	3	3	3	4	4	3	4	4
Facilities Maintenance	4	4	4	3	5	5	5	6	6	7
Information technologies	8	8	8	8	7	8	8	8	8	10
Public safety:										
Police:										
Officers	76	78	79	81	78	78	78	81	76	83
Civilians	18	19	20	21	20	21	20	22	20	20
Fire:										
Firefighters	64	63	64	66	66	65	67	68	74	76
Civilians	2	2	3	3	1	2	1	1	1	1
Transportation:										
Traffic operations	7	8	8	8	8	8	8	8	7	7
Engineering	4	5	5	5	4	5	7	6	6	7
Streets	28	27	26	26	25	26	24	27	27	29
Environmental protection:										
Solid waste management	14	15	16	15	14	15	18	16	15	15
Cemetery	4	4	4	4	4	4	3	4	5	5
Culture and recreation:										
Landscaping	14	13	14	14	13	12	12	12	14	11
Recreation	25	27	30	29	27	31	30	31	30	25
Community and economic development:										
Community development	10	12	9	7	6	6	6	6	7	7
Developmental services	5	4	5	5	5	4	5	5	5	4
Water and Sewer	86	84	84	89	89	91	89	89	83	83
Mass Transit	11	10	11	12	12	12	12	13	13	13
	<u>422</u>	<u>427</u>	<u>435</u>	<u>441</u>	<u>425</u>	<u>438</u>	<u>438</u>	<u>447</u>	<u>442</u>	<u>450</u>

Schedule 18

**CITY OF SALISBURY
OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years**

Function	Fiscal Year			
	1999	2000	2001	2002
Police				
Calls resulting in a dispatch	30,374	45,806	47,374	40,582
Part I crimes reported (most serious)	2,222	2,148	2,070	1,538
Fire				
Total Fire Department responses	2,339	2,641	2,794	2,922
Value of fire loss	\$ 1,853,214	\$ 2,326,589	\$ 752,200	\$ 1,635,340
Streets				
Street miles maintained (lane miles)	294	294	294	294
Miles resurfaced (lanes miles)	15.7	14.0	16.0	9.6
Sanitation				
Refuse collected (tons per 1,000 population)	328	317	319	323
Recyclables collected (tons per 1,000 population)	51	65	38	86
Culture and recreation				
Program participations (per 1,000 population)	N/A	N/A	N/A	N/A
Water				
Utility customers	13,000	13,500	15,000	15,000
New water connections	N/A	N/A	439	566
Average daily water consumption (millions of gallons per day)	7.7	6.7	6.2	6.2
Wastewater				
Average daily sewage treatment (thousands of gallons)	-	-	-	-

Sources: Various government departments.

2003	2004	2005	2006	2007	2008
37,316	36,213	34,904	34,556	36,091	40,442
1,948	1,860	2,785	2,527	2,371	2,862
3,030	3,141	3,242	3,715	3,979	4,237
\$ 539,300	\$ 222,095	\$ 709,917	\$ 1,934,950	\$ 596,235	\$ 4,789,550
308	311	317	321	321	340
5.0	11.5	10.4	14.8	9.8	10.5
310	304	302	316	301	297
72	73	66	58	51	54
6,741	6,107	5,205	5,567	4,218	5,392
15,641	15,797	15,954	15,996	16,691	16,750
340	240	305	497	464	522
6.2	6.1	6.1	5.7	7.4	7.9
-	-	-	7.5	7.8	8.49

Schedule 19

**CITY OF SALISBURY
CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years**

Function	Fiscal Year					
	1999	2000	2001	2002	2003	2004
Public safety						
Police:						
Stations	1	1	1	1	1	1
Patrol units	76	78	79	81	78	78
Fire:						
Fire stations	3	3	3	3	3	3
Fire apparatus	8	9	9	9	10	10
Highways and streets						
Streets (miles)	145.60	146.40	147.11	147.86	154.16	154.34
Culture and recreation						
Parks acreage	455	455	455	455	455	505
Parks	15	15	15	15	15	15
Recreation centers	4	4	4	4	4	4
Tennis courts	2	2	2	2	2	2
Water and Sewer Utility						
Utility customers	13,000	13,500	15,000	15,000	15,641	15,797
Miles of water lines	440	445	450	450	450	476
Miles of sewer lines	470	475	477	482	482	483
Water treatment capacity (millions of gallons per day)	12.0	12.0	12.0	12.0	12.0	12.0
Sewage treatment capacity (millions of gallons per day)	12.5	12.5	12.5	12.5	12.5	12.5

Sources: Various city departments.

2005	2006	2007	2008
1	1	1	1
78	81	84	88
3	3	4	4
10	10	11	14
158.85	160.83	169.18	170.00
505	505	505	506
15	15	15	16
4	4	4	4
2	2	2	2
15,954	15,996	16,691	16,120
476	480	480	480
483	485	485	485
12.0	24.0	24.0	24.0
12.5	12.5	12.5	12.5



Compliance Section





Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregated remaining fund information of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2008, which collectively comprises the City of Salisbury's basic financial statements and have issued our report thereon dated October 22, 2008. We did not audit the financial statements of Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for Downtown Salisbury, Inc., is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Downtown Salisbury, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Salisbury's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Salisbury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Martin Starnes & Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 22, 2008



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

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

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

Compliance

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Salisbury, North Carolina's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

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

In our opinion, the City of Salisbury, North Carolina complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Martin Starnes + Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.

October 22, 2008



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

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

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

Compliance

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2008. The City of Salisbury's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury, North Carolina's compliance based on our audit.

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

In our opinion, the City of Salisbury, North Carolina complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2008.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Martin Starnes + Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 22, 2008

CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
FEDERAL GRANTS:					
CASH PROGRAMS					
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-03-MC-37-0015	\$ 9,259	\$ -	\$ -
Entitlement Program	14.218	B-06-MC-37-0015	19,215		
Entitlement Program	14.218	B-07-MC-37-0015	239,487	-	82,375
			<u>\$ 267,961</u>	<u>\$ -</u>	<u>\$ 82,375</u>
Pass-through N.C. Department of Housing					
Finance Agency HOME Program	14.239	R-90-SG-37-0117	\$ 100,068	\$ -	\$ 94,581
Total U.S. Department of Housing And Urban Development			<u>\$ 368,029</u>	<u>\$ -</u>	<u>\$ 176,956</u>
U.S. DEPARTMENT OF JUSTICE					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
COPS Methamphetamine Initiative Grant	16.710	2005-CK-WX-0655	\$ 19,187	\$ -	\$ -
Bureau of Justice Assistance					
Direct Program:					
Byrne Memorial Justice Assistance Grant	16.592	2005-DJ-BX-1469	\$ 14,653	\$ -	\$ -
Gang Resistance Education and Training Grant	16.592	2006-JV-FX-0077	4,151	-	461
			<u>\$ 18,804</u>	<u>\$ -</u>	<u>\$ 461</u>
Pass-through N.C. Department of Crime					
Control and Public Safety:					
Project SAFE Neighborhoods Grant	16.609	080-1-03-001-BB-137	\$ 41,962	\$ -	\$ -
MDNC Salisbury PSN-Anti-Gang Grant	16.609	080-1-06-001-BJ-054	11,524	-	-
			<u>\$ 53,486</u>	<u>\$ -</u>	<u>\$ -</u>
Total U.S. Department of Justice			<u>\$ 91,477</u>	<u>\$ -</u>	<u>\$ 461</u>

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2008

(Continued)

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
U.S. DEPARTMENT OF TRANSPORTATION					
Pass-through N.C. Department of Transportation:					
SAFETEA Streetscape Enhancement Grant	20.205	E-4949	\$ 407,270	\$ -	\$ 231,153
CMAQ - Ozone Transportation Grant	20-205	C-4905	\$ 11,280	\$ -	\$ -
National Highway Traffic Safety Administration					
Governor's Highway Safety Program	20.614	K8-08-02-35	\$ 7,273	\$ -	\$ -
Governor's Highway Safety Program	20.614	PT-08-03-03-04	8,316	-	2,772
			<u>\$ 15,589</u>	<u>\$ -</u>	<u>\$ 2,772</u>
Urban Mass Transportation Grants					
Administration	20.509	36233.25.9.1	\$ 129,657	\$ 8,104	\$ 139,041
Operating	20.509	36233.25.9.2	134,104	-	571,231
Capital	20.509	36233.25.9.3	26,614	3,327	3,326
Facility	20.509	36233.25.9.9	1,328	166	166
			<u>\$ 291,703</u>	<u>\$ 11,597</u>	<u>\$ 713,764</u>
Total U.S. Department of Transportation			<u>\$ 725,842</u>	<u>\$ 11,597</u>	<u>\$ 947,689</u>
TOTAL ASSISTANCE - FEDERAL PROGRAMS			<u>\$ 1,185,348</u>	<u>\$ 11,597</u>	<u>\$ 1,125,106</u>
STATE GRANTS:					
CASH PROGRAMS					
N.C. DEPARTMENT OF TRANSPORTATION					
Powell Bill	N/A		\$ -	\$ 1,088,187	\$ -
State Maintenance Assistance for					
Transit Systems	N/A	04-CTP-003	\$ -	\$ 209,138	\$ -
Total N. C. Department of Transportation			<u>\$ -</u>	<u>\$ 1,297,325</u>	<u>\$ -</u>
N.C. DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES					
N.C. Parks and Recreation Trust Fund					
Sports Complex Renovation	N/A	2006-488	\$ -	\$ 180,471	\$ 250,000
Division of Pollution Prevention and Environmental Assistance					
Recycling Bins Grant	N/A	H07049	\$ -	\$ 4,523	\$ 817
Total N. C. Department of Environment and Natural Resources			<u>\$ -</u>	<u>\$ 184,994</u>	<u>\$ 250,817</u>
TOTAL ASSISTANCE - STATE PROGRAMS			<u>\$ -</u>	<u>\$ 1,482,319</u>	<u>\$ 250,817</u>
TOTAL ASSISTANCE			<u>\$ 1,185,348</u>	<u>\$ 1,493,916</u>	<u>\$ 1,375,923</u>

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2008

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 FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

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
- Significant deficiency(ies) 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
- Significant deficiency(ies) 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>
20.509	Urban Mass Transportation Grants
14.218	CDBG Entitlement Program
14.239	Finance Agency HOME Program
20-205	SAFETEA Streetscape Enhancement Grant

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

Auditee qualified as low-risk auditee? _____ Yes No

State Awards

Internal control over major State programs:

- Material weakness(es) identified? _____ Yes No
- Significant deficiency(ies) 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
SCHEDULE OF COMPLIANCE FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

There were no prior year audit findings.

