

CITY OF SALISBURY

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2012

MAYOR, CITY COUNCIL, AND CITY OFFICIALS

MAYOR AND CITY COUNCIL

Paul B. Woodson, Jr. - Mayor

Susan W. Klutzz - Mayor Pro-tem

Margaret A. Blackwell

William R. Kennedy

William B. Miller

OFFICIALS

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City Manager

Zack Kyle
Assistant City Manager
for Human Resources

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Assistant City Manager
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November 26, 2012

The Honorable Mayor Paul B. Woodson, Jr.,
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, 2012 (FY12). We are particularly proud of the fact that this Report has been entirely prepared by the City's Business and Financial 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.

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 Business and Financial 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.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal, and should be read in conjunction with it.

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*. The auditor's reports and the Schedule of Expenditures of Federal and State awards, required as part of a single audit, are found 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. The GFOA recognizes governmental units that issue their comprehensive annual financial reports substantially in conformity with the standards of the Governmental Accounting Standards Board. 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, 2011, 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 report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting 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, has been in a period of economic uncertainty. The local economy, however, is stabilizing and looking strong. Taxable retail sales in Rowan County for the twelve months that ended June 30, 2012 increased over \$54 million (5.9%) from the prior fiscal year to \$975 million. Continuing additions to the area's retail centers and new restaurants have helped to stabilize the local economy. Construction will soon be completed on a new Courtyard by Marriott hotel. Also, within the next year, Belk, Panera Bread, Michaels, Ulta Cosmetics, Shoe Carnival, Glidden Paints, Big Lots, and several unnamed stores will be building new stores in Salisbury. Salisbury is now ranked third in the State of North Carolina in retail sales per capita. The local economy is strong, and these new developments will help Salisbury continue to thrive in the future.

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. Since the early 1980's over \$118 million have been invested in the redevelopment of Salisbury's downtown. Renovations to very visible, key buildings during the past fiscal year have kept the revitalization momentum going. In the downtown area, over 90% of the first floor business and retail space is currently occupied. The past fiscal year saw a net gain of four new downtown businesses, six building renovations, and eleven façade renovations. The Lee Street Corridor was the focus of several improvements in FY12, and the City will be doing infrastructure improvements in that area in FY13 with the help of grant funds. Also, The Rowan Salisbury School System expects to break ground on a new \$6 million, 48,000 square foot central office building in FY13. This new office building will bring over 100 school system employees downtown on a daily basis, and has already generated discussion about other potential private development such as restaurants, retail, and professional services.

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 fiscal year ended June 30, 2012, was a good year in many ways as the City Management Team has strived to maintain high levels of service while working to keep the cost of those services at a reasonable level. Each year, in February, City Council holds its Annual Goal Setting Retreat. These retreats give our Council time to reflect on the past year's challenges and successes and then establish desired objectives and set goals for achievement in the upcoming fiscal year. City management and staff have been working diligently to meet those goals and take Salisbury from good to great.

One of the objectives adopted by City Council at the Annual Goal Setting Retreat is to *provide reliable, competitive, sustainable broadband infrastructure for our community with a focus on exceeding customer expectation.* Several years ago, City Council decided to implement a Fiber-to-the-Home system. The City embarked on the largest project in our history and created a new Broadband Services Fund (brand name – Fibrant) through which the City offers cable television, telephone, and internet services. This fiber-optic cable system gives greater bandwidth, translating into much faster speeds and greater capacity for data. Fibrant brings leading-edge communications and entertainment services to the City. In terms of economic development, it will be a big plus for businesses looking to either move here or maintain their presence here. The fiber-optic system is good for public safety too. It helps to eliminate dead spots – places where the communications signals to Police car computers are weak – and improve safety for our officers and our citizens, which helps to meet another desired Council Outcome of *improving neighborhoods and safety for all areas of the City.* FY12 was the first full fiscal year that Fibrant was in business. Now that the system is established, the City has ramped up its sales efforts as it looks to establish a customer base that will lead to system profitability in the future. During FY12 the City more than doubled the number of customers, going from 960 customers at June 30, 2011 to 2,000 customers on June 30, 2012. Our customers are treated to the great, home-grown customer service as we indeed look to *exceed customers' expectation.*

Another of City Council's goals is to improve and enhance Downtown Salisbury. The revitalization of Salisbury's downtown area recently won national recognition by being named one of the Ten Great Neighborhoods for 2012 under the American Planning Association's Great Places in America program. Downtown Salisbury is only the second North Carolina neighborhood to win a Great Places award. The City has worked with Downtown Salisbury, Inc. to bring more people to the downtown area. 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. These events and festivals bring thousands of people into our downtown area. In the spring of 2012 the Salisbury Public Art Committee opened its fourth annual Salisbury Sculpture Show. Fourteen sculptures were placed throughout the downtown and citizens are enjoying finding them, as in a scavenger hunt. The Sculpture Show has garnered attention from a number of media outlets. Since 1980, \$118 million has been invested in downtown Salisbury. That has led to a net gain of 318 new businesses, over twelve hundred new jobs, and many new residential units. 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.

City Council also desires to maintain quality management of the City and in each of its departments. One way of validating the quality of a City department is to seek national, state, and local recognition. The City's Community Planning Services department and the Community Appearance Commission won national recognition and a USA Weekend Make a Difference Award for its initial BlockWork project. The BlockWork project brings residents and volunteers together for one day to do an extreme makeover for one selected City neighborhood. The initial BlockWork project was so successful that another one is planned for the fall of 2012 and twelve neighborhoods have submitted applications for this year's makeover. The City's Water and Sewer Fund recently received the Platinum Peak Performance Award from the National Association of Clean Water Agencies. The award recognizes public wastewater treatment facilities for their compliance records. The City was one of only 120 wastewater treatment plant operators in the country, and one of only four in North Carolina, to receive the Platinum Award. The award signifies five or more years of 100% National

Pollutant Discharge Elimination System permit compliance. The City's Business and Financial 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

One of the major themes at the City Council Annual Goal Setting Retreat in February 2012 was the desire to make our City a more business-friendly organization. In the upcoming fiscal year the City will establish a one-stop shop for people wanting to open or expand a business. The idea is to place everything anyone needs to open a business in one location, including permitting and privilege licenses. The City is currently renovating the first floor of the City Office Building to house the one-stop shop. The newly renovated area will include workspace for the N. C. Department of Transportation and Rowan County, which handles building inspections in Salisbury. Another development that will make the City more business friendly is that the City now has authority to issue water and sewer extension permits locally rather than developer having to obtain those permits from the State. The N.C. Department of Natural Resources and the N.C. Attorney General's office approved Salisbury's new permitting authority, which can save developers months in permitting turnaround time. So, the developers will save time and money, and projects will be completed quicker. The Council's goal to be more business-friendly is certainly coming to fruition.

The City budget for the fiscal year ended June 30, 2013 established a new Stormwater Fund. The City has been issued a National Pollutant Discharge Elimination System permit, a program authorized by the federal Clean Water Act to control water pollution by regulating sources like stormwater. Under the Clean Water Act, the U. S. Environmental Protection Agency is charged with making sure cities and towns keep stormwater pollution out of waterways. The City's new Stormwater utility will help ensure compliance with federal clean water standards. The new utility will maintain and improve the City's existing stormwater infrastructure and will be funded by fees paid by City residents and businesses.

The City will continue to move towards profitability in the new Broadband Services Fund. As with any new utility, the first year and a half has presented many challenges. In the Spring of 2012, the City hired a new General Manager who has over 24 years of management and executive experience in the cable industry. Under his direction, staff has been working diligently towards another one of City Council's goals – *renegotiate contracts and streamline operations in an effort to reduce operating costs*. Also, the City has started building out a redundancy system that will improve system reliability. Once the redundancy system and other infrastructure improvements are in place, Fibrant will become even more attractive to our residents and especially to existing business and businesses looking to relocate to Salisbury.

After years of conversation and months of serious negotiations, the City of Salisbury and Rowan County decided to consolidate their 911 emergency dispatch operations. The County is building a new 911 telecommunications center, and the timing was right for consolidation. By the end of FY13, the City will transfer eleven telecommunications positions to Rowan County. The City will save over \$500,000 per year in staffing and equipment costs after the consolidation. This consolidation should improve emergency response times, and that will help our Public Safety personnel provide even better service for our citizens and guests.

For the first time in 21 years, the City's Water and Sewer Fund will not have a rate increase in the upcoming fiscal year. Nevertheless, the City's Water and Sewer Fund remains committed to providing high quality water and wastewater services to our customers throughout Rowan County, which now includes the residents of the Town of China Grove as a result of our taking over the operations of their system in FY12. The Water and Sewer system will focus on completing a couple projects that are currently underway. Any future projects will undergo a return on investment analysis that will ensure that the projects are good investments for our ratepayers. The Water and Sewer Fund does not anticipate issuing any new debt in FY13, but will focus on paying down existing debt.

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 units are legally separate entities 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 units, Downtown Salisbury Inc. and the Salisbury Tourism and Cultural Development Commission, are reported in separate columns in the government-wide financial statements to emphasize that they are 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. In the December 2010, the City began offering cable, telephone, and internet services. 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 FY12 provided no instances of material weaknesses in the internal control structure.

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.

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.

LONG-TERM FINANCIAL PLANNING

The City of Salisbury maintains a comprehensive five-year Capital Improvement Program (CIP). The CIP is both a planning and a financial tool used to prepare for future capital needs. Currently, the City's CIP focuses on General Fund needs and Water and Sewer Fund needs. With the launch of the new Broadband Services Fund, the needs for that fund will be incorporated into the CIP in future years. The City's CIP defines a capital improvement as a major construction, repair, or additions to buildings, parks, streets, bridges, and other City facilities costing \$10,000 or more and having a useful life of more than three years.

Despite the weak economy, the City's investment in its infrastructure continues – as is evident in the City's launching of its new fiber-to-the-home utility. Salisbury is leading the way with this state-of-the-art communication and entertainment broadband system. This is the infrastructure of the future, as is evidenced by the \$7.2 billion ARRA funding to expand broadband access and adoption in communities across the United States. Also, in FY11 and FY12 the City expanded our sidewalk system in three separate areas of the City using federal grants. As mentioned earlier, our greenway will soon be expanded with the addition of the Grants Creek Greenway.

The City continues to plan for future needs related to the City's water and sewer system. In FY11 the City completed the I-85 sewer line extension. The I-85 project was joint project with Rowan County that consisted of 6 miles of gravity sewer lines that will create economic development opportunities along the I-85 corridor from Salisbury towards the southern end of Rowan County. Also, the City has completed a \$9 million renovation to our wastewater treatment plant and will soon complete the extensions to our latest annexation area.

CONCLUSION

As previously discussed in this transmittal letter, the national, state, and local economies remain unstable, but are showing signs of stabilization. While we are confident that new retail stores and the ongoing redevelopment in the downtown will help to further strengthen the local economy, our City management continues to prepare for challenging times ahead. Management and staff are always 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. We strive to continue to provide the most value and the very best customer service to the citizens of Salisbury and the customers of Salisbury-Rowan Utilities and Fibrant.

The future continues to hold many other uncertainties. Federal and State mandates impact local governments in all areas of operations, like our new Stormwater Fund. The citizens of Salisbury have come to expect and appreciate high levels of service they enjoy. 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 in these challenging times. 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.

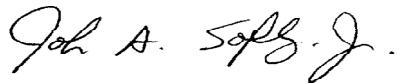
ACKNOWLEDGMENTS

We wish to thank the Mayor, City Council and the City Manager for the support and trust they have given the Business and Financial Services Department. On behalf of the team of the Business and Financial 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, Financial Services Manager, Mark D. Drye, Management Analyst, Kizzy N. Lea, Accountant, and Evans C. Ballard, Budget and Benchmarking Analyst. 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.
Assistant City Manager for Finance



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, 2011

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.



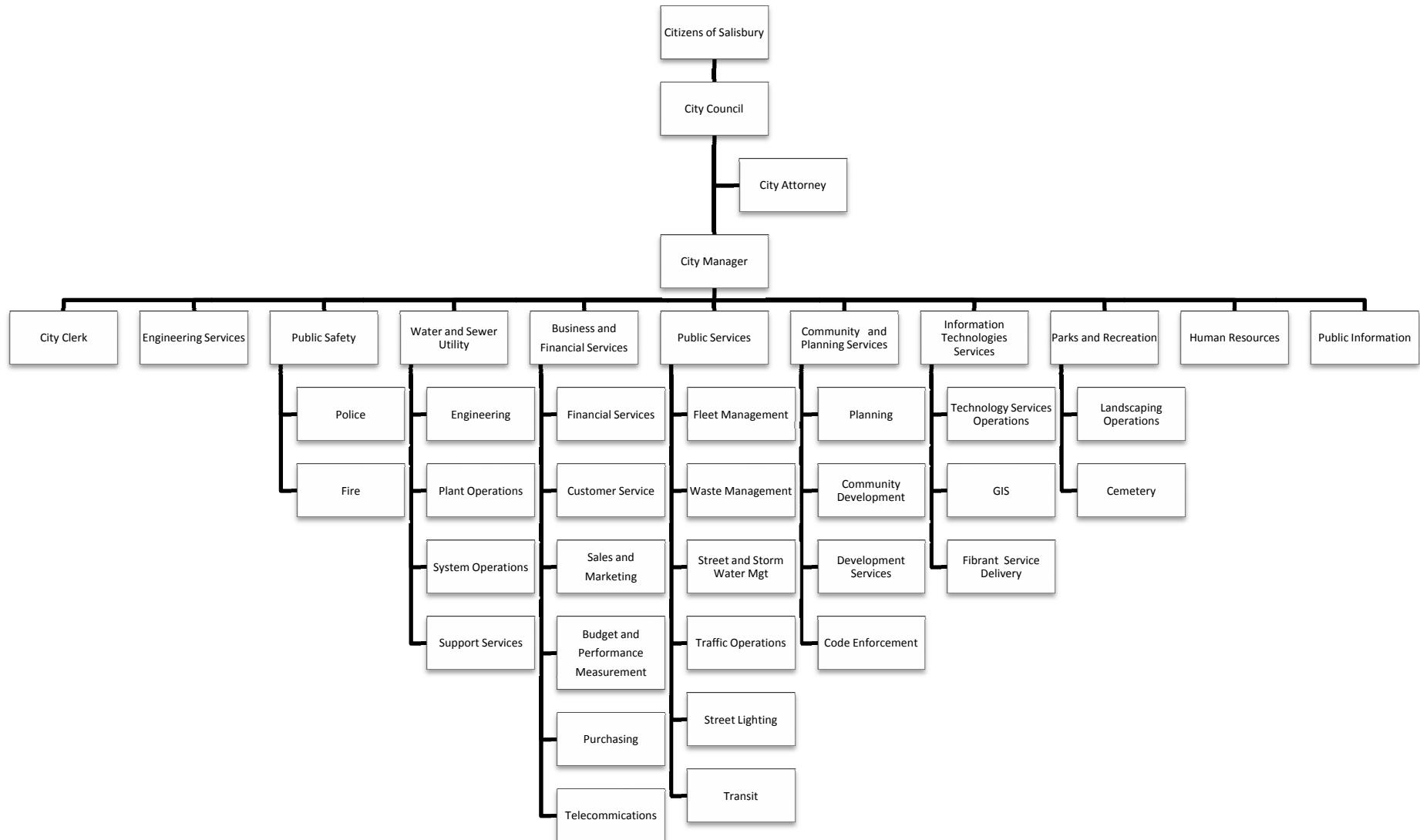
Linda C. Danison

President

Jeffrey P. Emer

Executive Director

City of Salisbury Organizational Chart



CITY OF SALISBURY

LIST OF PRINCIPAL OFFICIALS

June 30, 2012

Mayor	Paul B. Woodson, Jr
Mayor Pro Tem	Susan W. Kluttz
Council Member	Margaret A. Blackwell
Council Member	William R. Kennedy
Council Member	William B. Miller
City Manager	Douglas T. Paris, Jr.
Assistant City Manager for Finance	John A. Sofley, Jr.
Assistant City Manager for Human Resources	Zack Kyle
City Clerk	Myra B. Heard
Fire Chief	Robert A. Parnell
Engineering Director	Daniel J. Mikkelson
Community Planning Services Director	Joseph C. Morris
Police Chief	Rory B. Collins
Public Services Director	Tony L. Cinquemani
Parks and Recreation Director	Gail Elder-White
Utilities Director	James D. Behmer
Broadband Services General Manager	Mike Jury
Public Information and Communications Manager	Elaney Hasselmann

FACTS AND INFORMATION ABOUT 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 33,701 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 staff departments: Business and Financial Services, Human Resources, Fire, Police, Community Planning Services, Engineering, Public Services, Parks and Recreation, Salisbury-Rowan Utilities, and Broadband Services. 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 2012 was 8.4 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 2011 was 12.5 million gallons.

The City now offers cable television, high-speed internet, and digital telephone services through its Broadband Services Fund. Fibrant went live in December 2010 and had 2,000 customers by June 30, 2012.

Other utilities are provided by Duke Energy, Piedmont Natural Gas Company, AT & T, Windstream, 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. Additionally, these airports provide regular air passenger services to all parts of the United States via AirTran, American, Continental, Delta, United, Air Canada, Allegiant, Insel Air, Jet Blue, 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 twelve (12) 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. Also, in 2009 the Norvell Children's Theater opened. The Norvell features plays cast entirely with children and youth. Many school groups attend plays at the Norvell every year. 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 includes two (2) ball fields, basketball courts, and a walking trail that includes fitness equipment along the way. 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. The City's downtown area host many special events, including several "night outs," throughout the year featuring bands and entertainment.



Financial Section



MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S 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 units, 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, 2012, 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 82 percent, 34 percent and 54 percent respectively, of the assets, net assets and revenues of the discretely presented component units. 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. and Salisbury Tourism and Cultural Development Commission 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, 2012, 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 November 21, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Law Enforcement Officer's Special Separation Allowance and the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of City of Salisbury, North Carolina as a whole. The introductory section, combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act and is also not a required part of the basic financial statements. The combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subject 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.
November 21, 2012

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, 2012. 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 \$137,767,807 (*net assets*).
- The government's total net assets increased by \$4,680,576. The City's total assets increased by \$2,293,226. Capital assets before depreciation increased by \$11 million. The City recognized \$8.7 million in depreciation expense in FY12.
- As of the close of the current fiscal year, the City of Salisbury's governmental funds reported combined ending fund balances of \$10,578,846, an increase of \$2,085,457 from the prior year, due to the \$2 million excess of revenues over expenditures in the General Fund. In the General Fund, tax revenues and unrestricted intergovernmental revenues were \$1.3 million over budget. Approximately 45 percent of the General Fund ending fund balance, or \$4,756,506, is non-spendable or restricted.
- At the end of the current fiscal year, the amount of the General Fund balance that is Available for Appropriation in the subsequent fiscal year is \$5,929,292, or 18.13 percent of total general fund expenditures and transfers for the fiscal year, as compared to 11.02 percent in the prior year.
- The City of Salisbury's total long-term debt decreased by \$1,396,851 or 1.6%, during the current fiscal year despite assuming responsibility for \$4.1 million in debt upon taking over the water and sewer system of the Town of China Grove. The City paid off \$5.76 million of previously existing debt.
- The City's general obligation bond ratings of "A+" was reaffirmed by Standard and Poor's in April 2010 and Moody's Investors Service reaffirmed "A1" in October 2008. In November 2012, Fitch Ratings affirmed an "AA-" rating to the City's \$16 million 2010 revenue refunding bonds. Moody's assigned an "Aa3" rating to the refunding bonds. Also, in October 2008 the City's 2008 Certificates of Participation received ratings of "Aa3" from Moody's Investors Service and "A" from Standard and Poor's.

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 financial status.

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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) 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) component units. 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, broadband services, and mass transit services offered by the City of Salisbury. The final category is the component unit. The City's component units, Downtown Salisbury, Inc. and the Salisbury Tourism and Cultural Development Commission, are important to the City because they serve to promote the City and its downtown. Although legally separate from the City, Downtown Salisbury Inc.'s and the

Salisbury Tourism and Cultural Development Commission's revenues consist largely of hotel occupancy taxes, municipal service district taxes, and supplemental appropriations from the City, all 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 three categories: governmental funds, proprietary funds, and fiduciary 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, its new broadband services 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 45-69 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 73-76 of this report.

THE CITY OF SALISBURY'S NET ASSETS

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 14,706,409	\$ 12,998,120	\$ 19,441,161	\$ 21,035,119	\$ 34,147,570	\$ 34,033,239
Capital assets	45,152,633	47,363,964	155,076,941	150,686,715	200,229,574	198,050,679
Total assets	\$ 59,859,042	\$ 60,362,084	\$ 174,518,102	\$ 171,721,834	\$ 234,377,144	\$ 232,083,918
Long-term liabilities outstanding	\$ 10,964,422	\$ 12,264,711	\$ 80,370,738	\$ 80,349,807	\$ 91,335,160	\$ 92,614,518
Other liabilities	2,338,054	2,903,770	2,936,123	3,478,399	5,274,177	6,382,169
Total liabilities	\$ 13,302,476	\$ 15,168,481	\$ 83,306,861	\$ 83,828,206	\$ 96,609,337	\$ 98,996,687
Net assets:						
Invested in capital assets, net of related debt	\$ 38,522,820	\$ 39,495,804	\$ 79,246,490	\$ 74,697,761	\$ 117,769,310	\$ 114,193,565
Restricted	4,851,968	4,846,985	3,150,905	3,150,905	8,002,873	7,997,890
Unrestricted	3,181,778	850,814	8,813,846	10,044,962	11,995,624	10,895,776
Total net assets	\$ 46,556,566	\$ 45,193,603	\$ 91,211,241	\$ 87,893,628	\$ 137,767,807	\$ 133,087,231
Total liabilities and net assets	\$ 59,859,042	\$ 60,362,084	\$ 174,518,102	\$ 171,721,834	\$ 234,377,144	\$ 232,083,918

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 \$137,767,807 as of June 30, 2012, an increase of \$4,680,576 from the fiscal year ended June 30, 2011. The largest portion of the City's net assets (85.5%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, equipment, water and sewer treatment facilities, water and sewer lines, and broadband 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, \$11,995,624 (8.7%) 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 95.31%, which has decreased slightly, but not significantly, since last year.
- Sustained property tax collections despite a tax rate below revenue neutral, due to growth.
- Continued low cost of debt due to the City's excellent bond ratings.

CITY OF SALISBURY CHANGES IN NET ASSETS

Figure 2

	Governmental		Business-type		Total	
	Activities		Activities		2012	2011
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 6,124,990	\$ 5,512,198	\$ 26,384,053	\$ 22,883,897	\$ 32,509,043	\$ 28,396,095
Operating grants and contributions	2,140,686	2,334,124	614,416	549,621	2,755,102	2,883,745
Capital grants and contributions	97,785	912,385	5,002,523	1,725,935	5,100,308	2,638,320
General revenues:						
Property taxes	17,289,944	17,410,646	-	-	17,289,944	17,410,646
Other taxes	5,260,348	4,752,432	-	-	5,260,348	4,752,432
Intergovernmental revenue	3,463,465	3,540,146	-	-	3,463,465	3,540,146
Other	555,514	298,147	242,408	238,664	797,922	536,811
Total revenues	\$ 34,932,732	\$ 34,760,078	\$ 32,243,400	\$ 25,398,117	\$ 67,176,132	\$ 60,158,195
Expenses:						
General government	\$ 8,858,997	\$ 8,638,802	\$ -	\$ -	\$ 8,858,997	\$ 8,638,802
Public safety	12,013,621	13,065,399	-	-	12,013,621	13,065,399
Transportation	5,227,558	5,410,397	-	-	5,227,558	5,410,397
Environmental protection	1,672,367	2,372,108	-	-	1,672,367	2,372,108
Culture and recreation	2,564,518	2,852,895	-	-	2,564,518	2,852,895
Community and economic development	2,335,285	1,868,213	-	-	2,335,285	1,868,213
Education	38,107	42,342	-	-	38,107	42,342
Interest and fees on long-term debt	442,531	323,639	-	-	442,531	323,639
Water and sewer	-	-	21,501,799	21,352,837	21,501,799	21,352,837
Broadband Services	-	-	6,787,748	3,735,371	6,787,748	3,735,371
Mass transit	-	-	1,053,025	1,175,654	1,053,025	1,175,654
Total expenses	\$ 33,152,984	\$ 34,573,795	\$ 29,342,572	\$ 26,263,862	\$ 62,495,556	\$ 60,837,657
Change in net assets before transfers	\$ 1,779,748	\$ 186,283	\$ 2,900,828	\$ (865,745)	\$ 4,680,576	\$ (679,462)
Transfers	(416,785)	(416,785)	416,785	416,785	-	-
Change in net assets	\$ 1,362,963	\$ (230,502)	\$ 3,317,613	\$ (448,960)	\$ 4,680,576	\$ (679,462)
Net assets, July 1	45,193,603	45,424,105	87,893,628	88,342,588	133,087,231	133,766,693
Net assets, June 30	\$ 46,556,566	\$ 45,193,603	\$ 91,211,241	\$ 87,893,628	\$ 137,767,807	\$ 133,087,231

Governmental activities - Governmental activities increased the City's net assets by \$1,362,963, primarily due to increased sales tax revenues, increased charges for services, and reduced spending.

Business-type activities - Business-type activities increased the City's net assets by \$3,317,613. The Water and Sewer Fund's net income of \$7,259,640 was largely due to the City's takeover of the Town of China Grove's water and sewer system, which resulted in a contribution from the Town of China Grove of \$5,002,523 of assets in excess of long-term liabilities. The Broadband Services Fund completed its first full year of operations, but is still in the start up phase and lost \$4 million. The Mass Transit Fund had a gain of \$103,985.

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.

The General Fund is the chief operating fund of the City of Salisbury. As of June 30, 2012, the City's fund balance available in the General Fund was \$5,929,292, while total fund balance was \$10,568,123. City Council has determined that the City should maintain an available fund balance of 10% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting cash flow needs of the City. The City currently has an available fund balance of 18.13% of General Fund expenditures, while total fund balance represents 32.3% of the same amount.

At June 30, 2012, the governmental funds of the City of Salisbury reported a combined fund balance of \$10,578,846, a 24.55 percent increase from last year. As discussed earlier, increased revenues and reduced spending resulted in this increase.

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 \$792,275. The difference between the original budget and the final amended budget can be briefly summarized as follows:

- The City received a Staffing and Adequate Fire and Emergency Response (SAFER) grant from the US Department of Homeland Security. For the fiscal year ended June 30, 2012, the City appropriated \$183,077 of this grant for firefighters' salaries and benefits.
- The City received \$177,340 from donations and small grants for Parks and Recreation, public art, police equipment, and the Neighborhood Blockwork program.
- The City appropriated \$294,800 of available fund balance to purchase two new trolleys.

Some 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, 2012. 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 \$2,081,733 during the fiscal year ended June 30, 2012.

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 \$8,813,846. The total net assets of the Water and Sewer Fund increased by \$7,259,640. As previously mentioned, the City took over the operations of the Town of China Grove's water and sewer system, effective July 1, 2011. The City received assets valued at \$9,169,569 and assumed debt totaling \$4,167,046. The net of these was a contribution to the City in the amount of \$5,002,523. In addition to this contribution of assets, the City's Water and Sewer Fund generated net income in the amount of \$2,257,117. The total net assets of the Mass Transit Fund increased by \$103,985. The Broadband Services Fund has a net deficit of \$7,763,581. The Broadband Services Fund began selling services in December 2010, and expects a growing customer base to eliminate this deficit in future years.

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, 2012 totals \$200,229,574 (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 4.7 percent, whereas capital assets in the business-type activities increased by 2.9 percent, primarily because of the previously mentioned contribution from the Town of China Grove.

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

- Acceptance of infrastructure assets from the Town of China Grove in conjunction with the City's agreement to take over the operations of that system. The fair value of assets transferred to the City was \$9,169,569
- The City used grant funds to complete the newest phase of our greenway. The City spent \$196,950 on the greenway in the fiscal year ended June 30, 2012. The total cost of the project was \$578,958.
- Purchase of new vehicles and motorized equipment totaling \$443,867 in the General Fund and \$244,263 in the Water and Sewer Fund.

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

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 7,736,361	\$ 7,736,361	\$ 2,072,067	\$ 2,072,067	\$ 9,808,428	\$ 9,808,428
Construction in progress	-	440,831	4,510,575	3,990,741	4,510,575	4,431,572
Buildings	8,317,987	8,603,423	16,182,785	16,788,741	24,500,772	25,392,164
Improvements other than buildings	8,431,181	8,047,550	-	-	8,431,181	8,047,550
Equipment	1,274,221	1,475,506	557,901	592,970	1,832,122	2,068,476
Vehicles and motorized equipment	3,223,021	3,575,188	1,530,112	1,733,268	4,753,133	5,308,456
Infrastructure	16,169,862	17,485,105	130,223,501	125,508,928	146,393,363	142,994,033
Total	\$ 45,152,633	\$ 47,363,964	\$ 155,076,941	\$ 150,686,715	\$ 200,229,574	\$ 198,050,679

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, 2012, the City of Salisbury had total long-term debt outstanding of \$85,827,582 (not including compensated absences and other postemployment benefits). Of this, \$4,396,651 is general obligation debt backed by the full faith and credit of the City and \$32,171,040 represents bonds secured solely by specified revenue sources (i.e. revenue bonds). The City owes \$37,812,515 on various installment purchases, including \$32 million borrowed to finance the City's new Broadband Services utility.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 905,000	\$ 1,075,000	\$ 3,491,651	\$ 4,615,650	\$ 4,396,651	\$ 5,690,650
Revenue bonds	-	-	32,171,040	33,810,689	32,171,040	33,810,689
State bond loans	-	-	6,242,530	7,125,036	6,242,530	7,125,036
Capital leases	-	-	4,864,846	1,456,531	4,864,846	1,456,531
Installment purchases	5,601,226	6,637,574	32,211,289	32,131,953	37,812,515	38,769,527
HUD Section 108 loan	340,000	372,000	-	-	340,000	372,000
Total	\$ 6,846,226	\$ 8,084,574	\$ 78,981,356	\$ 79,139,859	\$ 85,827,582	\$ 87,224,433

The City of Salisbury's total outstanding debt decreased by \$1,396,851 (1.6 percent) during the past fiscal year. The City assumed responsibility for \$4.1 million debt in conjunction with the City's takeover of the Town of China Grove's water and sewer system, and refinanced some existing General Fund and Water

and Sewer Fund debt. The City paid down its outstanding debt by \$5.76 million in principal payments during the fiscal year (excluding refunding payoffs).

As mentioned in the financial highlights section of this document, the City of Salisbury received an AA-rating from Fitch Ratings and an Aa3 rating from Moody's Investor Service on its \$16 million Water and Sewer revenue refunding bonds. Also, the City has maintained its overall A+ rating from Standard and Poor's. 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 \$176,249,806.

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 while Salisbury, like the rest of the nation, continues to be in period of severe economic slowdown, some improvement is evident.

- Average unemployment in Salisbury for the fiscal year ended June 30, 2012, was 10.9%, which is down from the 11.6% unemployment of the fiscal year ended June 30, 2011. The average unemployment rate for the State of North Carolina for the past fiscal year was 10.1%, which is up slightly from 9.9% for the previous fiscal year.
- Despite the fact that unemployment remains high, retail sales in Rowan County were strong in fiscal year ended June 30, 2012. The County's sales subject to North Carolina sales taxes increased over \$54 million (5.9%) from the previous year to \$975,239,011. Although sales tax information is no longer published for Cities by the NC Department of Revenue, sales in the City have historically accounted for about two-thirds of sales in the County. The City's sales tax revenues increased \$507,916 from the previous year.
- Home sales in Rowan County were basically unchanged from the previous fiscal year. The number of homes sold dropped 17.3% during the past fiscal year and have fallen 63% over the past six fiscal years. The average sales prices for homes, approximately \$135,000, have remained stable over the same period of time.
- The occupancy rates for first floor office and retail space in the City's downtown area continues to be over 90% and redevelopment activity in the downtown is stable and strong.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2013

Governmental Activities

General Fund – The City expects that revenues for the fiscal year ending June 30, 2013 will increase about 5.4 percent, or \$1.9 million, over the prior fiscal year to \$36.2 million. The City expects revenue

from property tax collections to increase \$1,032,726. City Council increased the tax rate 2.39 cents per \$100 assessed valuation. One cent of the tax increase was for public safety, one cent was for paving and the balance was to bring the tax rate up to the revenue neutral rate after the 2011 county-wide revaluation. City Council increased the residential waste collection fee that should generate an additional \$600,000.

Expenditures in the General Fund are also expected to increase \$1.4 million, or 4.2 percent. Personnel costs will increase due to increases in health insurance cost, workers compensation, and a flat rate merit raise to each eligible employee. As mentioned above, City Council increased the tax rate for public safety and paving which increased the expenditures for those areas.

Business – Type Activities

Water and Sewer Fund - The water and sewer rates for the utility remained the same as the FY2012 rates. As with the General Fund, there will be a flat rate merit raise given to eligible employees along with increases due to the added fringe benefit costs.

Broadband Services Fund – As previously mentioned, the City launched a brand new enterprise –a Fiber to the Home system that provides leading-edge communications and entertainment services to our residents and businesses. This is one of the largest projects in the City’s history. By taking cost savings measures, the utility is striving to be cash positive within four years which will eliminate the need for interfund loans.

Mass Transit Fund – Ridership of the City’s buses is increasing due to the cost of individual transportation. The City continues to explore new ways and new routes to enhance the level of service provided. The Mass Transit Fund’s budget will remain approximately the same as the FY2012 budget, with no major increases, except for increased operating and capital costs. The City’s annual General Fund contribution to the Mass Transit Fund will slightly decrease to \$413,474.

Stormwater Fund – In FY2013, City Council implemented a Stormwater Utility to bring the City in compliance with unfunded Federal and State mandates. The fee for residential properties is \$4.25 monthly while the fee for commercial and industrial properties is structured in 5 tiers based on the ERUs of each property. The funds generated from this utility will go toward meeting the permit requirements, maintaining, operating, mapping and improving the public system. The end result will be meeting regulatory and development requirements and ultimately, maintaining compliance required by our new permit.

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 Assistant City Manager for Finance, City of Salisbury, 132 North Main Street, Salisbury, NC 28144.

A-1
CITY OF SALISBURY, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government			Component Units		
				Salisbury		
				Tourism and Cultural		
	Governmental Activities	Business-type Activities	Total	Downtown Salisbury, Inc.	Development	Commission
ASSETS						
Cash and cash equivalents	\$ 8,272,061	\$ 8,354,386	\$ 16,626,447	\$ 66,219	\$ 274,231	
Taxes receivables (net)	1,202,572	-	1,202,572	-	-	
Accrued interest receivable on taxes	127,549	-	127,549	-	-	
Accounts receivable (net)	1,382,546	4,813,010	6,195,556	4,045	-	
Interest receivable	25,970	24,313	50,283	-	-	717
Due from other governments	2,804,388	379,898	3,184,286	-	-	
Inventories	318,961	2,055,872	2,374,833	-	-	
Prepaid items	8,793	-	8,793	-	-	
Advance funding of pension obligation	14,715	-	14,715	-	-	
Deferred charges on bond refunding	47,967	-	47,967	-	-	
Real estate held for investment	-	-	-	1,108,000	-	
Restricted assets:						
Cash and cash equivalents	500,887	3,813,682	4,314,569	31,902	-	
Capital assets						
Land, improvements, and construction in progress	7,736,361	6,582,642	14,319,003	-	-	
Other capital assets, net of depreciation	37,416,272	148,494,299	185,910,571	12,901	-	
Total assets	<u>\$ 59,859,042</u>	<u>\$ 174,518,102</u>	<u>\$ 234,377,144</u>	<u>\$ 1,223,067</u>	<u>\$ 274,948</u>	
LIABILITIES						
Accounts payable and accrued expenses	\$ 1,997,548	\$ 1,292,197	\$ 3,289,745	\$ 3,025	\$ 610	
Unearned revenue	298,420	-	298,420	-	-	
Accrued interest payable	42,086	981,149	1,023,235	11,900	-	
Customer deposits	-	662,777	662,777	-	-	
Long-term liabilities:						
Due within one year	1,419,412	5,905,091	7,324,503	18,965	-	
Due in more than one year	9,545,010	74,465,647	84,010,657	1,047,116	-	
Total liabilities	<u>\$ 13,302,476</u>	<u>\$ 83,306,861</u>	<u>\$ 96,609,337</u>	<u>\$ 1,081,006</u>	<u>\$ 610</u>	
NET ASSETS						
Invested in capital assets, net of related debt	\$ 38,522,820	\$ 79,246,490	\$ 117,769,310	\$ 58,332	\$ -	
Restricted for:						
Debt service	216,413	3,150,905	3,367,318	-	-	
Stabilization by State Statute	4,340,358	-	4,340,358	-	-	717
Community Development	181,011	-	181,011	83,729	-	
Public Safety	96,733	-	96,733	-	-	
Cultural and Recreation	17,453	-	17,453	-	-	
Tourism Promotion	-	-	-	-	-	273,621
Unrestricted	<u>3,181,778</u>	<u>8,813,846</u>	<u>11,995,624</u>	<u>-</u>	<u>-</u>	
Total net assets	<u>\$ 46,556,566</u>	<u>\$ 91,211,241</u>	<u>\$ 137,767,807</u>	<u>\$ 142,061</u>	<u>\$ 274,338</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, 2012

Program Revenues

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 8,858,997	\$ 3,573,724	\$ -	\$ -
Public safety	12,013,621	432,019	537,127	-
Transportation	5,227,558	175,285	912,604	97,785
Environmental protection	1,672,367	1,408,604	-	-
Culture and recreation	2,564,518	160,059	73,034	-
Community and economic development	2,335,285	375,299	617,921	-
Education	38,107	-	-	-
Interest and fees on long-term debt	442,531	-	-	-
Total governmental activities	<u>\$ 33,152,984</u>	<u>\$ 6,124,990</u>	<u>\$ 2,140,686</u>	<u>\$ 97,785</u>
Business-type activities:				
Water and Sewer	\$ 21,501,799	\$ 23,637,076	\$ -	\$ 5,002,523
Broadband Services	6,787,748	2,621,168	-	-
Mass Transit	1,053,025	125,809	614,416	-
Total business-type activities	<u>\$ 29,342,572</u>	<u>\$ 26,384,053</u>	<u>\$ 614,416</u>	<u>\$ 5,002,523</u>
Total primary government	<u>\$ 62,495,556</u>	<u>\$ 32,509,043</u>	<u>\$ 2,755,102</u>	<u>\$ 5,100,308</u>
Component units:				
Downtown Salisbury, Inc.	\$ 380,342	\$ 67,721	\$ 98,500	\$ 76,052
Salisbury Tourism and Cultural Development Commission	243,999	-	-	-
Total Component Units	<u>\$ 624,341</u>	<u>\$ 67,721</u>	<u>\$ 98,500</u>	<u>\$ 76,052</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Sales and other taxes				
Unrestricted intergovernmental revenues				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
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 Units		
Governmental Activities	Business-type Activities	Total Primary Government	Downtown Salisbury, Inc.	Development Commission
\$ (5,285,273)	\$ -	\$ (5,285,273)	\$ -	\$ -
(11,044,475)	-	(11,044,475)	-	-
(4,041,884)	-	(4,041,884)	-	-
(263,763)	-	(263,763)	-	-
(2,331,425)	-	(2,331,425)	-	-
(1,342,065)	-	(1,342,065)	-	-
(38,107)	-	(38,107)	-	-
(442,531)	-	(442,531)	-	-
<u>\$ (24,789,523)</u>	<u>\$ -</u>	<u>\$ (24,789,523)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ 7,137,800	\$ 7,137,800	\$ -	\$ -
-	(4,166,580)	(4,166,580)	-	-
-	(312,800)	(312,800)	-	-
<u>\$ -</u>	<u>\$ 2,658,420</u>	<u>\$ 2,658,420</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (24,789,523)</u>	<u>\$ 2,658,420</u>	<u>\$ (22,131,103)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (138,069)	\$ -
-	-	-	-	(243,999)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (138,069)</u>	<u>\$ (243,999)</u>
\$ 17,289,944	\$ -	\$ 17,289,944	\$ 135,686	\$ -
5,260,348	-	5,260,348	-	299,625
3,463,465	-	3,463,465	-	-
86,424	242,408	328,832	-	-
469,090	-	469,090	(17,264)	1,675
<u>\$ 26,569,271</u>	<u>\$ 242,408</u>	<u>\$ 26,811,679</u>	<u>\$ 118,422</u>	<u>\$ 301,300</u>
<u>(416,785)</u>	<u>416,785</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 26,152,486</u>	<u>\$ 659,193</u>	<u>\$ 26,811,679</u>	<u>\$ 118,422</u>	<u>\$ 301,300</u>
\$ 1,362,963	\$ 3,317,613	\$ 4,680,576	\$ (19,647)	\$ 57,301
45,193,603	87,893,628	133,087,231	161,708	217,037
<u>\$ 46,556,566</u>	<u>\$ 91,211,241</u>	<u>\$ 137,767,807</u>	<u>\$ 142,061</u>	<u>\$ 274,338</u>

A-3
CITY OF SALISBURY, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Non-Major Fund	Total Government Funds	
			ASSETS	Funds
Cash and cash equivalents	\$ 7,427,381	\$ 7,038	\$ 7,434,419	
Taxes receivable, net	1,202,572	-	1,202,572	
Accounts receivable	1,282,786	-	1,282,786	
Interest receivable	24,740	5	24,745	
Due from other governments	2,775,112	29,276	2,804,388	
Internal balances	20,000	(20,000)	-	
Inventories	318,961	-	318,961	
Prepaid items	8,793	-	8,793	
Restricted cash and investments	511,610	-	511,610	
Total assets	<u>\$ 13,571,955</u>	<u>\$ 16,319</u>	<u>\$ 13,588,274</u>	
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,505,340	\$ 3,096	\$ 1,508,436	
Deferred revenue	<u>1,498,492</u>	<u>2,500</u>	<u>1,500,992</u>	
Total liabilities	<u>\$ 3,003,832</u>	<u>\$ 5,596</u>	<u>\$ 3,009,428</u>	
Fund balances:				
Nonspendable:				
Inventories	\$ 318,961	\$ -	\$ 318,961	
Prepaid items	8,793	-	8,793	
Restricted:				
Stabilization by State Statute	4,311,077	29,281	4,340,358	
Debt Service	216,413	-	216,413	
Community Development	181,011	-	181,011	
Public Safety	96,733	-	96,733	
Cultural and Recreation	17,453	-	17,453	
Committed:				
Capital replacement	3,587,402	-	3,587,402	
Unassigned	<u>1,830,280</u>	<u>(18,558)</u>	<u>1,811,722</u>	
Total fund balances	<u>\$ 10,568,123</u>	<u>\$ 10,723</u>	<u>\$ 10,578,846</u>	
Total liabilities and fund balances	<u>\$ 13,571,955</u>	<u>\$ 16,319</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.				45,152,633
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				127,549
Intangible asset - advance funding of pension obligation				14,715
Deferred charges on refunding				47,967
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 assets.				438,792
Liabilities for earned but deferred revenues in fund statements.				1,202,572
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				(6,846,226)
Accrued interest on long-term debt				(42,086)
Other postemployment benefits				(2,775,707)
Accrued compensated absences				(1,342,489)
Net assets of governmental activities				<u>\$ 46,556,566</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, 2012

	General Fund	Non-Major Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 17,263,974	\$ -	\$ 17,263,974
Unrestricted intergovernmental	8,723,813	-	8,723,813
Restricted intergovernmental	2,121,760	453,014	2,574,774
Charges for services	6,124,990	-	6,124,990
Miscellaneous	<u>574,082</u>	<u>139,498</u>	<u>713,580</u>
Total revenues	<u>\$ 34,808,619</u>	<u>\$ 592,512</u>	<u>\$ 35,401,131</u>
EXPENDITURES			
Current:			
General government	\$ 9,179,822	\$ 76,992	\$ 9,256,814
Public safety	11,692,748	-	11,692,748
Transportation	3,931,193	-	3,931,193
Environmental protection	1,637,390	-	1,637,390
Culture and recreation	2,359,866	-	2,359,866
Community and economic development	1,780,977	461,347	2,242,324
Education	38,107	-	38,107
Debt service:			
Principal	1,236,348	32,000	1,268,348
Interest and fees	<u>454,046</u>	<u>18,449</u>	<u>472,495</u>
Total expenditures	<u>\$ 32,310,497</u>	<u>\$ 588,788</u>	<u>\$ 32,899,285</u>
Surplus of revenues over expenditures	<u>\$ 2,498,122</u>	<u>\$ 3,724</u>	<u>\$ 2,501,846</u>
OTHER FINANCING SOURCES (USES)			
Transfers from (to) other funds	\$ (416,785)	\$ -	\$ (416,785)
Refunding bonds issued	905,000	-	905,000
Payment to refund bond escrow agent	<u>(904,604)</u>	<u>-</u>	<u>(904,604)</u>
Total other financing sources (Uses)	<u>\$ (416,389)</u>	<u>\$ -</u>	<u>\$ (416,389)</u>
Net change in fund balance	<u>\$ 2,081,733</u>	<u>\$ 3,724</u>	<u>\$ 2,085,457</u>
Fund balances-beginning	<u>8,486,390</u>	<u>6,999</u>	<u>8,493,389</u>
Fund balances-ending	<u>\$ 10,568,123</u>	<u>\$ 10,723</u>	<u>\$ 10,578,846</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, 2012

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

Net changes in fund balances - total governmental funds	\$ 2,085,457
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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	\$ 18,631
Changes in deferred revenue for unavailable grant reimbursements	(502,399)
Changes in accrued interest receivable on taxes	7,339
<u>Changes in advance funding of pension obligation</u>	<u>(11,032)</u> (487,461)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlay expenditures which were capitalized	\$ 817,974
<u>Depreciation expense for governmental assets</u>	<u>(3,033,573)</u> (2,215,599)

In the Statement of Activities, only the gain on the sale of assets is reported, whereas in the Governmental Funds the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance

4,328

Net revenue of Internal Service Funds determined to be Governmental Fund Type

616,381

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	\$ (905,000)
Deferred charges on bond refunding	47,967
Principal payments on long-term debt	2,143,348
<u>Decrease in accrued interest payable</u>	<u>11,601</u> 1,297,916

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 compensated absences	\$ 609,672
<u>Change in OPEB liability</u>	<u>(547,731)</u> 61,941

Total changes in net assets of governmental activities

\$ 1,362,963

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, 2012

	General Fund			Variance with Final Budget
	Original		Positive	
	Budget	Final Budget	Actual	(Negative)
Revenues:				
Taxes	\$ 16,445,682	\$ 16,445,682	\$ 17,263,974	\$ 818,292
Unrestricted intergovernmental	8,235,640	8,235,640	8,723,813	488,173
Restricted intergovernmental	2,033,317	2,311,032	2,121,760	(189,272)
Charges for services	6,233,111	6,313,108	6,124,990	(188,118)
Miscellaneous	<u>518,513</u>	<u>658,276</u>	<u>574,082</u>	<u>(84,194)</u>
Total revenues	<u>\$ 33,466,263</u>	<u>\$ 33,963,738</u>	<u>\$ 34,808,619</u>	<u>\$ 844,881</u>
Expenditures:				
Current:				
General government	\$ 9,067,191	\$ 10,233,387	\$ 9,179,822	\$ 1,053,565
Public safety	11,519,002	11,865,648	11,692,748	172,900
Transportation	4,703,559	4,057,343	3,931,193	126,150
Environmental protection	1,717,641	1,655,536	1,637,390	18,146
Cultural and recreation	2,482,558	2,453,564	2,359,866	93,698
Community and economic development	1,895,488	1,912,236	1,780,977	131,259
Education	38,107	38,107	38,107	-
Debt service:				
Principal retirement	1,246,097	1,246,097	1,236,347	9,750
Interest and fees	<u>466,183</u>	<u>466,183</u>	<u>454,047</u>	<u>12,136</u>
Total expenditures	<u>\$ 33,135,826</u>	<u>\$ 33,928,101</u>	<u>\$ 32,310,497</u>	<u>\$ 1,617,604</u>
Surplus of revenues over expenditures	<u>\$ 330,437</u>	<u>\$ 35,637</u>	<u>\$ 2,498,122</u>	<u>\$ 2,462,485</u>
Other financing sources (uses):				
Transfers to other funds	\$ (416,785)	\$ (416,785)	\$ (416,785)	\$ -
Long-term debt issued	-	-	-	-
Refunding bonds issued	-	905,000	905,000	-
Payment to refund bond escrow agent	-	(905,000)	(904,604)	396
Fund balance appropriated	<u>86,348</u>	<u>381,148</u>	<u>-</u>	<u>(381,148)</u>
Total other financing sources (uses)	<u>\$ (330,437)</u>	<u>\$ (35,637)</u>	<u>\$ (416,389)</u>	<u>\$ (380,752)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,081,733</u>	<u>\$ 2,081,733</u>
Fund balances, beginning of year			<u>8,486,390</u>	
Fund balances, end of year			<u>\$ 10,568,123</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, 2012

	Enterprise Funds				Governmental Activities	
	Water and Sewer Fund		Broadband Services Fund		Total	Internal Service Funds
	ASSETS					
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 8,340,735	\$ -	\$ 13,651	\$ 8,354,386	\$ 826,919	
Accounts receivable (net)	4,267,114	542,376	3,520	4,813,010	99,760	
Interest receivable	24,313	-	-	24,313	1,225	
Due from other governments	79,797	8,104	291,997	379,898	-	
Internal balances	5,252,901	(5,252,901)	-	-	-	
Inventories	360,967	1,686,492	8,413	2,055,872	-	
Restricted assets:						
Cash and cash equivalents	662,777	3,150,905	-	3,813,682	-	
Total current assets	<u>\$ 18,988,604</u>	<u>\$ 134,976</u>	<u>\$ 317,581</u>	<u>\$ 19,441,161</u>	<u>\$ 927,904</u>	
Noncurrent assets:						
Capital assets:						
Land	\$ 2,072,067	\$ -	\$ -	\$ 2,072,067	\$ -	
Buildings and improvements	188,938,914	25,781,994	467,924	215,188,832	-	
Equipment	7,180,858	371,178	2,016,536	9,568,572	-	
Construction in progress	4,339,057	171,518	-	4,510,575	-	
Accumulated depreciation	(73,325,240)	(891,489)	(2,046,376)	(76,263,105)	-	
Total noncurrent assets	<u>\$ 129,205,656</u>	<u>\$ 25,433,201</u>	<u>\$ 438,084</u>	<u>\$ 155,076,941</u>	<u>\$ -</u>	
Total assets	<u><u>\$ 148,194,260</u></u>	<u><u>\$ 25,568,177</u></u>	<u><u>\$ 755,665</u></u>	<u><u>\$ 174,518,102</u></u>	<u><u>\$ 927,904</u></u>	
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 852,468	\$ 398,701	\$ 41,028	\$ 1,292,197	\$ 489,112	
Interest payable	379,466	601,683	-	981,149	-	
Bonds, notes, and loans payable	4,539,143	1,330,000	-	5,869,143	-	
Compensated absences	30,033	2,818	3,097	35,948	-	
Customer deposits	662,777	-	-	662,777	-	
Total current liabilities	<u>\$ 6,463,887</u>	<u>\$ 2,333,202</u>	<u>\$ 44,125</u>	<u>\$ 8,841,214</u>	<u>\$ 489,112</u>	
Noncurrent liabilities:						
Bonds, notes, and loans payable	\$ 42,230,924	\$ 30,881,289	\$ -	\$ 73,112,213	\$ -	
Other postemployment benefits	856,956	91,911	81,034	1,029,901	-	
Compensated absences	270,305	25,356	27,872	323,533	-	
Total noncurrent liabilities	<u>\$ 43,358,185</u>	<u>\$ 30,998,556</u>	<u>\$ 108,906</u>	<u>\$ 74,465,647</u>	<u>\$ -</u>	
Total liabilities	<u><u>\$ 49,822,072</u></u>	<u><u>\$ 33,331,758</u></u>	<u><u>\$ 153,031</u></u>	<u><u>\$ 83,306,861</u></u>	<u><u>\$ 489,112</u></u>	
NET ASSETS						
Invested in capital assets, net of related debt	\$ 82,435,589	\$ (3,627,183)	\$ 438,084	\$ 79,246,490	\$ -	
Restricted for debt service	-	3,150,905	-	3,150,905	-	
Unrestricted	15,936,599	(7,287,303)	164,550	8,813,846	438,792	
Total net assets	<u><u>\$ 98,372,188</u></u>	<u><u>\$ (7,763,581)</u></u>	<u><u>\$ 602,634</u></u>	<u><u>\$ 91,211,241</u></u>	<u><u>\$ 438,792</u></u>	

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

CITY OF SALISBURY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2012

	Enterprise Funds				Governmental Activities
	Water and Sewer Fund	Broadband Services Fund	Transit Fund	Total	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 22,450,757	\$ 2,595,832	\$ 121,150	\$ 25,167,739	\$ 5,619,917
Water and sewer taps	253,750	-	-	253,750	-
Other operating revenues	932,569	25,336	4,659	962,564	-
Total operating revenues	<u>\$ 23,637,076</u>	<u>\$ 2,621,168</u>	<u>\$ 125,809</u>	<u>\$ 26,384,053</u>	<u>\$ 5,619,917</u>
OPERATING EXPENSES					
Management and administration	\$ 4,212,824	\$ 344,731	\$ 281,801	\$ 4,839,356	\$ 5,007,237
Water resources	2,125,594	-	-	2,125,594	-
Maintenance and construction	5,072,649	-	-	5,072,649	-
Wastewater collection and treatment	2,687,161	-	-	2,687,161	-
Environmental services	545,703	-	-	545,703	-
Broadband sales and marketing	-	-	-	-	-
Broadband programming	-	1,168,390	-	1,168,390	-
Broadband services	-	319,384	-	319,384	-
Broadband service delivery	-	2,616,384	-	2,616,384	-
Mass transit operations	-	-	684,353	684,353	-
Depreciation	<u>4,857,657</u>	<u>710,014</u>	<u>86,871</u>	<u>5,654,542</u>	<u>-</u>
Total operating expenses	<u>\$ 19,501,588</u>	<u>\$ 5,158,903</u>	<u>\$ 1,053,025</u>	<u>\$ 25,713,516</u>	<u>\$ 5,007,237</u>
Operating income (loss)	<u>\$ 4,135,488</u>	<u>\$ (2,537,735)</u>	<u>\$ (927,216)</u>	<u>\$ 670,537</u>	<u>\$ 612,680</u>
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	\$ 121,840	\$ 120,568	\$ -	\$ 242,408	\$ 3,701
Capital contributions	5,002,523	-	-	5,002,523	-
Interest expense	(1,880,663)	(1,549,509)	-	(3,430,172)	-
Bond issuance costs	(119,548)	(79,336)	-	(198,884)	-
Intergovernmental revenues	-	-	614,416	614,416	-
Total nonoperating revenue (expenses)	<u>\$ 3,124,152</u>	<u>\$ (1,508,277)</u>	<u>\$ 614,416</u>	<u>\$ 2,230,291</u>	<u>\$ 3,701</u>
Income (loss) before transfers	<u>\$ 7,259,640</u>	<u>\$ (4,046,012)</u>	<u>\$ (312,800)</u>	<u>\$ 2,900,828</u>	<u>\$ 616,381</u>
Transfers from other funds	<u>-</u>	<u>-</u>	<u>416,785</u>	<u>416,785</u>	<u>-</u>
Change in net assets	<u>\$ 7,259,640</u>	<u>\$ (4,046,012)</u>	<u>\$ 103,985</u>	<u>\$ 3,317,613</u>	<u>\$ 616,381</u>
Total net assets - beginning	<u>91,112,548</u>	<u>(3,717,569)</u>	<u>498,649</u>	<u>87,893,628</u>	<u>(177,589)</u>
Total net assets - ending	<u>\$ 98,372,188</u>	<u>\$ (7,763,581)</u>	<u>\$ 602,634</u>	<u>\$ 91,211,241</u>	<u>\$ 438,792</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, 2012

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer Fund	Broadband			Internal Service Funds
		Services Fund	Transit Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 22,213,965	\$ 2,229,624	\$ 118,085	\$ 24,561,674	\$ -
Cash received from interfund services provided	-	-	-	-	5,520,157
Cash paid for goods and services	(9,751,614)	(4,071,562)	(450,504)	(14,273,680)	(5,138,884)
Cash paid to or on behalf of employees for services	(5,118,038)	(643,053)	(509,441)	(6,270,532)	-
Customer deposits received	314,094	-	-	314,094	-
Customer deposits returned	(234,922)	-	-	(234,922)	-
Other receipts	932,569	25,336	4,659	962,564	-
Net cash provided (used) by operating activities	\$ 8,356,054	\$ (2,459,655)	\$ (837,201)	\$ 5,059,198	\$ 381,273
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	\$ -	\$ -	\$ 416,785	\$ 416,785	\$ -
Loans (to) from other funds	(4,058,207)	4,058,207	(8,500)	(8,500)	-
Intergovernmental revenues	-	-	442,169	442,169	-
Total cash flows provided (used) by noncapital financing activities	\$ (4,058,207)	\$ 4,058,207	\$ 850,454	\$ 850,454	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ (769,563)	\$ (171,518)	\$ -	\$ (941,081)	\$ -
Proceeds from debt issuance	7,380,000	-	-	7,380,000	-
Payments to refunded bond escrow agent	(7,289,543)	-	-	(7,289,543)	-
Debt issuance costs paid	(103,720)	-	-	(103,720)	-
Principal paid on bond maturities and equipment contracts	(4,511,171)	-	-	(4,511,171)	-
Interest paid on bond maturities and equipment contracts	(1,983,950)	(1,549,509)	-	(3,533,459)	-
Net cash provided (used) by capital and related financing activities	\$ (7,277,947)	\$ (1,721,027)	\$ -	\$ (8,998,974)	\$ -
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES					
Investment earnings	\$ 141,017	\$ 120,568	\$ -	\$ 261,585	\$ 4,454
Net increase (decrease) in cash and cash equivalents	\$ (2,839,083)	\$ (1,907)	\$ 13,253	\$ (2,827,737)	\$ 385,727
Balances-beginning of the year	11,842,595	3,152,812	398	14,995,805	441,192
Balances-end of the year	\$ 9,003,512	\$ 3,150,905	\$ 13,651	\$ 12,168,068	\$ 826,919
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 4,135,488	\$ (2,537,735)	\$ (927,216)	\$ 670,537	\$ 612,680
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	\$ 4,857,657	\$ 710,014	\$ 86,871	\$ 5,654,542	\$ -
Changes in current assets and liabilities:					
(Increase) decrease in accounts receivable	(490,542)	(366,208)	(3,065)	(859,815)	(99,760)
(Increase) decrease in inventory	(4,687)	(352,605)	-	(357,292)	-
(Increase) decrease in due from other governments	188	12,512	(145)	12,555	-
(Increase) decrease in prepaid items	-	83,849	-	83,849	-
Increase (decrease) in accounts payable and accrued liabilities	(362,736)	(38,793)	(2,256)	(403,785)	(131,647)
Increase (decrease) in compensated absences payable	(72,737)	(4,107)	(7,259)	(84,103)	-
Increase (decrease) in accrued OPEB liability	214,251	33,418	15,869	263,538	-
Increase (decrease) in customer deposits	79,172	-	-	79,172	-
Total adjustments	\$ 4,220,566	\$ 78,080	\$ 90,015	\$ 4,388,661	\$ (231,407)
Net cash provided (used) by operating activities	\$ 8,356,054	\$ (2,459,655)	\$ (837,201)	\$ 5,059,198	\$ 381,273

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, 2012

	Fiduciary Funds	
	Pension Trust	Agency Funds
	Fund	Agency Funds
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 849,802	\$ 408,142
Interest receivable	3,575	1,085
Accounts receivable	<u>-</u>	<u>280,056</u>
Total assets	<u><u>\$ 853,377</u></u>	<u><u>\$ 689,283</u></u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	<u>\$ 5,110</u>	<u>\$ 689,283</u>
Total liabilities	<u><u>\$ 5,110</u></u>	<u><u>\$ 689,283</u></u>
<u>NET ASSETS</u>		
Held in trust for participants	<u>\$ 848,267</u>	<u>\$ -</u>

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, 2012

Additions:

Employer contributions	\$ 133,670
Investment earnings	<u>7,628</u>
Total additions	<u>\$ 141,298</u>

Deductions:

Retirement payments	\$ 216,020
Total deductions	<u>\$ 216,020</u>
Net increase	\$ (74,722)
Net assets, beginning of year	<u>922,989</u>
Net assets, end of year	<u>\$ 848,267</u>

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

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 of Salisbury 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 Units

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.

The Salisbury Tourism and Cultural Development Commission was created to market Salisbury and promote tourism and cultural development. Nine board members, all of whom are appointed by the City Council, govern the Commission. The Commission's revenue sources are entirely dependent on the City Council's approval of a hotel occupancy tax. Complete financial statements for the component unit may be obtained from the unit's administrative offices at the City of Salisbury, 132 North Main Street, Salisbury, NC 28144.

Related Organization

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

B. Basis of Presentation

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. Eliminations have been made to minimize the double counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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.

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, Broadband Services Fund – used to account for the City's broadband 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 seven 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, the Town of Rockwell Garbage Fund, the Town of Granite Quarry Garbage, the Town of Spencer Garbage Fund, and the Tourism and Cultural Development Commission 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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 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 non-operating 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 registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

The City reports deferred revenue on its Governmental Funds Balance Sheet. Deferred revenues arise when potential revenue does not meet the “available” criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the governmental funds balance sheet and revenue is recognized.

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 Enterprise Capital Projects Funds, 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 its component units are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and its component units may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and its component units 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 its component units 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 its component units’ 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’s and its component units’ 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. and the Salisbury Tourism and Cultural Development Commission consider all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

3. Restricted Assets

Unexpended debt proceeds 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. Restricted assets include debt proceeds that have been set aside as Debt Service Reserves as required by bond covenants and unspent grant monies classified as Deferred Revenues. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values of January 1, 2011. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

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 and Broadband Services Fund consists 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:

Asset Class	Estimated Useful Lives
Infrastructure	25
Buildings and enterprise systems	40
Improvements	40
Vehicles	5
Furniture and equipment	10
Computer equipment	3

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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

Asset Class	Estimated Useful Lives
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 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. The City pays retiring employees their accumulated vacation leave up to 446 hours for police officers, 466 hours for firefighters, and 360 for all other employees. An employee who resigns prior to being eligible for retirement will be paid out a maximum of 240 hours of vacation leave. 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, Broadband Services 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 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, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepaid expenses – portion of fund balance that is not an available resource because it represents expenses of the subsequent fiscal year that have already been paid in the current fiscal year.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors by law.

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Debt Service – portion of fund balance that is restricted for debt service payments by certain debt covenants.

Restricted for Community Development – portion of fund balance that is restricted by revenue source for certain community development expenditures.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for expenditure in the Police Department.

Restricted for Cultural and Recreation – portion of fund balance that is restricted by revenue source for expenditures in the Parks and Recreation Department.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of City Council (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by City Council.

Committed to Capital Replacement – portion of fund balance that is committed to replacing equipment such as computers, vehicles, and other motorized equipment.

Assigned Fund Balance – portion of fund balance that the City intends to use for specific purposes.

Unassigned Fund Balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The City of Salisbury has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the City.

The City also has a minimum fund balance policy that states that the desired minimum fund balance in the General Fund is 10% of budgeted expenditures. Any portion of the General Fund Balance in excess of 10% of budgeted expenditures may be appropriated for expenditures.

F. Revenues, Expenditures, and Expenses

1. Grant Revenue

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

2. Investment Income

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

3. Inter-fund Transactions

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

G. Use of Estimates

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

Note 2. Stewardship, Compliance, and Accountability

A. Deficit in Fund Balance or Net Assets of Individual Funds

The City's Broadband Services Fund has deficit net assets of \$7,763,581. The City began implementation of its new Broadband Services system during the fiscal year ending June 30, 2009 and began offering broadband services in the fall of 2010. The fund's start-up operations were funded by proceeds from the issuance of Certificates of Participation and interest income on those proceeds. The deficit fund balance will be eliminated after the system generates sufficient sales.

Note 3. Detail Notes On All Funds

A. Assets

1. Deposits

All deposits of the City and its component units 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 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

At June 30, 2011, the City's deposits had a carrying amount of \$14,980,936 and a bank balance of \$15,625,738. Of the bank balance, \$2,276,323 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, 2012, the City's petty cash fund totaled \$8,165.

2. Investments

At June 30, 2012, the City had \$7,209,859 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAA by Standard and Poor's. The City has no policy regarding credit risk.

Interest Rate Risk – The City does not have a 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.

Concentration of Credit Risk – The City places no limit on the amount that the City may invest in any one issuer, but has no investments that exceed 5% of the City's total investments.

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, 2012</u>
General Fund:	
Taxes receivable	<u>\$ 325,000</u>
Enterprise Funds:	
Water and Sewer Fund receivables	\$ 123,000
Broadband Services Fund receivables	<u>18,500</u>
	<u>\$ 141,500</u>

4. Real estate held for investment – component unit

Downtown Salisbury, Inc. holds real estate for investment and future development. The organization had purchased the Empire Hotel for \$1,000,000 and a gift was recorded in the amount of \$1,262,000 for a total initial carrying amount of \$2,262,000, which represented its appraised value at the time. In June 2011, the hotel property was appraised for \$1,108,000. As of June 30, 2012, the carrying value of the Empire Hotel has been reduced to the most recent appraised value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

5. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,736,361	\$ -	\$ -	\$ 7,736,361
Construction in progress	<u>440,831</u>	<u>212,595</u>	<u>653,426</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 8,177,192</u>	<u>\$ 212,595</u>	<u>\$ 653,426</u>	<u>\$ 7,736,361</u>
Capital assets being depreciated:				
Buildings	\$ 11,897,156	\$ -	\$ -	\$ 11,897,156
Other improvements	11,037,756	606,329	-	11,644,085
Equipment	7,773,947	208,609	40,530	7,942,026
Vehicles and motorized equipment	13,750,166	443,867	474,328	13,719,705
Infrastructure	<u>35,634,140</u>	<u>-</u>	<u>-</u>	<u>35,634,140</u>
Total capital assets being depreciated	<u>\$ 80,093,165</u>	<u>\$ 1,258,805</u>	<u>\$ 514,858</u>	<u>\$80,837,112</u>
Less accumulated depreciation for:				
Buildings	\$ 3,293,733	\$ 285,436	\$ -	\$ 3,579,169
Other improvements	2,990,206	222,698	-	3,212,904
Equipment	6,298,441	409,688	40,324	6,667,805
Vehicles and motorized equipment	10,174,978	800,508	478,802	10,496,684
Infrastructure	<u>18,149,035</u>	<u>1,315,243</u>	<u>-</u>	<u>19,464,278</u>
Total accumulated depreciation	<u>\$ 40,906,393</u>	<u>\$ 3,033,573</u>	<u>\$ 519,126</u>	<u>\$43,420,840</u>
Total capital assets being depreciated, net	<u>\$ 39,186,772</u>	<u>\$ (1,774,768)</u>	<u>\$ (4,268)</u>	<u>\$ 37,416,272</u>
Governmental activity capital assets, net	<u>\$ 47,363,964</u>	<u>\$ (1,562,173)</u>	<u>\$ 649,158</u>	<u>\$ 45,152,633</u>

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

General government	\$ 472,665
Public safety	713,918
Transportation	1,548,752
Environmental protection	10,104
Cultural and recreational	208,218
Land management and development	<u>79,916</u>
Total depreciation expense	<u>\$ 3,033,573</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	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	3,990,741	348,316	-	4,339,057
Total capital assets not being depreciated	<u>\$ 6,062,808</u>	<u>\$ 348,316</u>	<u>\$ -</u>	<u>\$ 6,411,124</u>
Capital assets being depreciated:				
Buildings	\$ 20,966,498	\$ -	\$ -	\$ 20,966,498
Plant and distribution systems	158,782,510	9,189,906	-	167,972,416
Furniture and maintenance equipment	2,548,657	106,968	-	2,655,625
Vehicles and motorized equipment	4,342,162	244,263	61,192	4,525,233
Total capital assets being depreciated	<u>\$186,639,827</u>	<u>\$ 9,541,137</u>	<u>\$ 61,192</u>	<u>\$196,119,772</u>
Less accumulated depreciation for:				
Buildings	\$ 8,659,498	\$ 492,254	\$ -	\$ 9,151,752
Plant and distribution systems	54,463,272	3,944,483	-	58,407,755
Furniture and maintenance equipment	2,038,424	112,784	-	2,151,208
Vehicles and motorized equipment	3,351,378	308,136	44,989	3,614,525
Total accumulated depreciation	<u>\$ 68,512,572</u>	<u>\$ 4,857,657</u>	<u>\$ 44,989</u>	<u>\$ 73,325,240</u>
Total capital assets being depreciated, net	<u>\$ 118,127,255</u>	<u>\$ 4,683,480</u>	<u>\$ 16,203</u>	<u>\$ 122,794,532</u>
Water and Sewer Fund capital assets, net	<u><u>\$ 124,190,063</u></u>	<u><u>\$ 5,031,796</u></u>	<u><u>\$ 16,203</u></u>	<u><u>\$ 129,205,656</u></u>
Broadband Services Fund				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 171,518	\$ -	\$ 171,518
Capital assets being depreciated:				
Buildings	\$ 4,548,067	\$ -	\$ -	\$ 4,548,067
Plant and distribution systems	21,233,927	-	-	21,233,927
Furniture and maintenance equipment	51,546	-	-	51,546
Vehicles and motorized equipment	319,633	-	-	319,633
Total capital assets being depreciated	<u>\$ 26,153,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,153,173</u>
Less accumulated depreciation for:				
Building	\$ 66,325	\$ 113,702	\$ -	\$ 180,027
Plant and distribution systems	44,239	530,849	-	575,088
Furniture and maintenance equipment	12,618	10,309	-	22,927
Vehicles and motorized equipment	58,293	55,155	-	113,448
Total accumulated depreciation	<u>\$ 181,475</u>	<u>\$ 710,015</u>	<u>\$ -</u>	<u>\$ 891,490</u>
Total capital assets being depreciated, net	<u><u>\$ 25,971,698</u></u>	<u><u>\$ (710,015)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,261,683</u></u>
Broadband Services Fund capital assets, net	<u><u>\$ 25,971,698</u></u>	<u><u>\$ (538,497)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,433,201</u></u>
Transit Fund				
Capital assets being depreciated:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	127,112	-	-	127,112
Vehicles and motorized equipment	1,875,324	14,100	-	1,889,424
Total capital assets being depreciated	<u>\$ 2,470,360</u>	<u>\$ 14,100</u>	<u>\$ -</u>	<u>\$ 2,484,460</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	83,303	18,944	-	102,247
Vehicles and motorized equipment	1,394,179	82,026	-	1,476,205
Total accumulated depreciation	<u>\$ 1,945,406</u>	<u>\$ 100,970</u>	<u>\$ -</u>	<u>\$ 2,046,376</u>
Transit Fund capital assets, net	<u><u>\$ 524,954</u></u>	<u><u>\$ (86,870)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 438,084</u></u>
Business-type activities capital assets, net	<u><u>\$ 150,686,715</u></u>	<u><u>\$ 4,406,429</u></u>	<u><u>\$ 16,203</u></u>	<u><u>\$ 155,076,941</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Construction commitments

The City has active construction projects as of June 30, 2012. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water and Sewer Treatment Facilities	<u>\$ 4,035,057</u>	<u>\$ 311,606</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 6.45% and 4.6.41%, 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, 2012, 2011, and 2010 were \$ 1,314,556, \$1,243,340 and \$921,923, 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, 2011, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	15
Active plan members	<u>82</u>
Total	<u>97</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Summary of Significant Accounting Policies

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

Method Used to Value Investments. As noted in Note 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 \$133,670 or 4.22% 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, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment benefit increases.

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	\$ 144,453
Interest on net pension obligation	(1,287)
Adjustment to annual required contribution	1,536
Annual pension cost	\$ 144,702
Contributions made	133,670
Increase in net pension asset	\$ (11,032)
Net pension asset beginning of year	25,747
Net pension asset end of year	<u>\$ 14,715</u>

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2012	\$ 144,702	92.38%	\$ 14,715
6/30/2011	153,797	90.00%	25,747
6/30/2010	110,743	99.15%	41,150

5. Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 40 percent funded. The actuarial accrued liability for benefits was \$2,217,485, and the actuarial value of assets was \$887,070, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,330,415. The covered payroll (annual payroll of active employees covered by the plan) was \$3,237,613, and the ratio of the UAAL to the covered payroll was 40.72 percent. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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.

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 401(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, 2011 were \$1,001,214, which consisted of \$642,510 from the City and \$358,703 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, 2012, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$29,043 for the 76 firefighters employed firemen who perform firefighting duties for the City's fire department.

e. Other Post-employment Benefits

Healthcare Benefits

Plan Description: Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). The plan 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 Council may amend the benefit provisions and did so as of January 1, 2012. Employees hired after that date are not eligible to participate in the plan. A separate report was not issued for the plan. Currently, fifty-nine retirees are eligible for post-employment health benefits.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Membership of the HCB Plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

	General Employees	Firefighters	Law Enforcement Officers
Retirees and dependents receiving benefits	37	12	10
Active plan members	305	78	82
Total	<u>342</u>	<u>90</u>	<u>92</u>

Funding Policy - the City pays the full cost of coverage for the healthcare benefits paid to qualified retirees under the City's plan. Also, prior to January 1, 2012, the City's retirees could purchase coverage for their dependents at the City's group rates. As of January 1, 2012, employees can no longer purchase coverage for their dependents. The City has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution is 7.97% of annual covered payroll. For the fiscal year ended June 30, 2012, the City made payments for post-employment health benefit premiums of \$371,213. The City is self-insured for employee and retiree health care benefit. The City's contributions for employees not engaged in law enforcement and for law enforcement officers represented 2.02% and 2.09% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage. The City's obligation to contribute to the HCB Plan may be amended by the City Council.

Summary of Significant Accounting Policies - Postemployment expenditures are made from the General Fund, the Water and Sewer Fund, and the Mass Transit Fund, depending on where the employee worked prior to retirement. Those funds are maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation - The City's OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 1,177,488
Interest on net pension obligation	119,774
Adjustment to annual required contribution	<u>(114,780)</u>
Annual pension cost	\$ 1,182,482
Contributions made	<u>371,213</u>
Increase in net pension obligation	\$ 811,269
Net pension obligation beginning of year	<u>2,994,339</u>
Net pension obligation end of year	<u>\$ 3,805,608</u>

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 1,182,482	31.4%	\$ 3,805,608
2011	1,181,147	19.8%	2,994,339
2010	1,190,644	13.8%	2,046,982

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Funded Status and Funding Progress - As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for the benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$13,871,958. The covered payroll (annual payroll of active employees covered by the plan) was \$18,288,282, and the ratio of the UAAL to the covered payroll was 75.9 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investment calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 9.5 to 5.0 percent annually. The investment rate included a 3 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was 30 years.

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 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. 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, 2012, the City made contributions to the State for death benefits of \$22,248. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.09% 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

3. Deferred/Uncashed 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. Uncashed 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	\$ 284,474
Prepaid property taxes	11,446
Unavailable	
Taxes receivable, net	<u>1,202,572</u>
Total deferred revenue	<u>\$ 1,498,492</u>

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 \$163,015,989. 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. 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.

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 \$90,000 per individual and to 120% of estimated annual aggregate claims. The City also carries an excess workers' compensation policy through a commercial insurer in the amount of \$1,000,000. The City retains a \$300,000 deductible for this coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. The liability for claims is reported in the current liabilities of the internal service funds. Changes in the balances of claims liabilities during the past three years are as follows:

	Year ended <u>June 30, 2010</u>	Year ended <u>June 30, 2011</u>	Year ended <u>June 30, 2012</u>
Unpaid claims, beginning of fiscal year	\$ 573,354	\$ 541,545	\$ 583,137
Incurred claims (including IBNRs)	4,304,283	4,914,876	4,515,725
Claim payments	(4,336,092)	(4,873,284)	(4,626,275)
Unpaid claims, end of fiscal year	<u>\$ 541,545</u>	<u>\$ 583,137</u>	<u>\$ 472,587</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012 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. 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:

	Balance <u>June 30, 2012</u>
Serviced by the General Fund	
\$1,000,000 installment purchase contract for capital improvements, rate of 5.25%, issued December 2000, payable in 30 semi-annual payments of \$33,333 principal plus interest	\$ 233,333
\$906,934 installment purchase contract for financing or real estate, issued June 2008, payable in 59 monthly payments of \$6,397, and one final payment of principal in July 2013 of \$658,000	711,818
\$1,990,500 installment purchase contract for new telecommunications, equipment, rate of 2.93%, issued April 2004, payable in 18 semi-annual payments of \$110,583 principal plus interest	221,167
\$3,565,680 installment purchase contract for construction and facilities, improvements, rate of 3.83%, issued May 2006, payable in 30 semi-annual payments of \$118,856 principal plus interest	2,139,408
\$2,305,000 Certificates of Participation for facilities renovations, rate of 5.33% issued December 2008, payable in 10 annual payments of \$230,000 principal plus semi-annual interest payments	1,610,000
\$914,000 installment purchase contract to purchase fire truck, rate of 1.625%, issued June 2011, payable in 8 semi-annual payments of \$114,250 principal plus interest	685,500
	<hr/>
	\$ 5,601,226
Serviced by the Broadband Services Fund	
\$33,560,000 Certificates of Participation for construction of broadband services project, rates ranging from 3.25% to 5.625%, with an average rate of 5.33%, payable in 17 annual payments beginning in March 2013, plus interest. This debt includes \$3,024,567 for construction period interest and \$3,150,905 to establish a debt service reserve. Amount shown is net of \$1,348,711 of unamortized issuance costs.	<hr/> 32,211,289
Total Installment Purchase indebtedness	<hr/> \$ 37,812,515

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

The future minimum payments of the installment purchases as of June 30, 2012 total \$63,191,621, including \$19,288,617 of interest are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,038,163	\$ 199,640	\$ 1,330,000	\$ 1,736,594	\$ 2,368,163	\$ 1,936,234
2014	1,420,578	146,569	1,380,000	1,683,394	2,800,578	1,829,963
2015	762,879	120,428	1,440,000	1,624,744	2,202,879	1,745,172
2016	501,045	95,790	1,500,000	1,567,144	2,001,045	1,662,934
2017	467,712	76,021	1,560,000	1,503,394	2,027,712	1,579,415
2018-2022	1,410,849	115,863	9,010,000	6,314,462	10,420,849	6,430,325
2023-2027	-	-	11,695,000	3,623,918	11,695,000	3,623,918
2028-2029	-	-	5,645,000	480,656	5,645,000	480,656
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 5,601,226	\$ 754,311	\$ 33,560,000	\$ 18,534,306	\$ 39,161,226	\$ 19,288,617
Unamortized costs			(1,348,711)		(1,348,711)	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 5,601,226	\$ 754,311	\$ 32,211,289	\$ 18,534,306	\$ 37,812,515	\$ 19,288,617
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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 \$17,068,063. The future minimum lease payments at June 30, 2012 total \$5,596,616, including \$731,770 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, 2012 were as follows:

Year Ending June 30,	Capital Leases	
	Principal	Interest
2013	\$ 627,275	\$ 140,519
2014	627,275	121,326
2015	627,275	102,104
2016	627,275	82,881
2017	446,476	63,658
2018-2022	1,197,449	175,705
2023-2027	711,821	45,577
	<hr/>	<hr/>
	\$ 4,864,846	\$ 731,770
	<hr/>	<hr/>

b. 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. 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.

Advance Refunding

On April 10, 2012, the City issued \$905,000 in General Fund Refunding Bonds and \$ 830,000 in Water and Sewer Refunding Bonds with an interest rate of 1.635% to advance refund \$875,000 of outstanding General Fund debt and \$800,000 in outstanding Water and Sewer Fund debt with interest rates 4.77% and 4.40%, respectively. The net proceeds of \$1,735,000 were used to

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 April 10, 2012, the refunded bonds were considered to be defeased and the liabilities for those bonds were removed from the General Fund and 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 \$60,000. This difference represents bond issuance cost, which was expensed in the current fiscal year. The City completed the advance refunding to reduce its total debt service payments over five years by \$75,055 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$74,992.

Bonds payable at June 30, 2012 are comprised of the following individual issues:

	Balance <u>June 30, 2012</u>
Serviced by the General Fund	
\$905,000 Refunding Bonds, Series 2012, rate of 1.635% issued April 2012, maturing serially to 2017	<u>\$ 905,000</u>
Serviced by the Water and Sewer Fund	
\$12,100,000 Refunding Bonds, Series 2003, average rate of 3.43%, issued August 2003, maturing serially to 2015	2,704,237
This amount is net of unamortized issuance cost and interest of \$295,763	
\$830,000 Refunding Bonds, Series 2012, rate of 1.635% issued April 2012, maturing serially to 2017. This amount is net of unamortized issuance cost of \$42,586	<u>787,414</u> <u>\$ 3,491,651</u>
Total General Obligation Indebtedness	<u><u>\$ 4,396,651</u></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
2013	\$ 215,000	\$ 16,893	\$ 1,205,000	\$ 127,955	\$ 1,420,000	\$ 144,848
2014	215,000	11,282	1,185,000	86,133	1,400,000	97,415
2015	205,000	7,766	1,165,000	45,608	1,370,000	53,374
2016	200,000	4,414	180,000	4,496	380,000	8,910
2017	70,000	1,145	95,000	1,554	165,000	2,699
	<u>\$ 905,000</u>	<u>\$ 41,500</u>	<u>\$ 3,830,000</u>	<u>\$ 265,746</u>	<u>\$ 4,735,000</u>	<u>\$ 307,246</u>
Unamortized costs	-	-	(338,349)	-	(338,349)	-
	<u>\$ 905,000</u>	<u>\$ 41,500</u>	<u>\$ 3,491,651</u>	<u>\$ 265,746</u>	<u>\$ 4,396,651</u>	<u>\$ 307,246</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

State Bond Loans

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

	Balance
	<u>June 30, 2012</u>
\$5,000,000 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	\$ 1,250,000
\$450,120 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	112,530
\$3,000,000 State Bond Loan, average rate of 2.60%, issued November 1999 maturing serially to 2019	1,200,000
\$9,200,000 State Bond Loan, average rate of 2.60%, issued June 2000 maturing serially to 2020	<u>3,680,000</u>
Total State Bond Loans	<u><u>\$ 6,242,530</u></u>

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

Year Ending <u>June 30,</u>	Business-Type Activities	
	State Bond Loans	Interest
	Principal	
2013	\$ 882,506	\$ 173,615
2014	882,506	148,408
2015	882,506	123,201
2016	882,506	97,994
2017	882,506	72,787
2018-2020	<u>1,830,000</u>	<u>95,160</u>
	<u><u>\$ 6,242,530</u></u>	<u><u>\$ 711,165</u></u>

c. 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:

	Balance
	<u>June 30, 2012</u>
\$6,000,000 Water and Sewer Revenue Bonds, Series 2006, rate of 3.99%, issued December 2006, maturing serially to 2026	\$ 4,792,219
\$6,000,000 Water and Sewer Revenue Bonds, Series 2009, rate of 4.14%, issued October 2009, maturing serially to 2025	5,398,000
\$16,065,000 Water and Sewer Revenue Refunding Bonds, Series 2010, average rate of 3.0425%, issued November 2010, maturing original issue premium of \$57.353	15,627,353
\$6,550,000 Water Sewer Revenue Refunding Bonds, Series 2012, rate of 2.615%, issued April 2012, maturing serially to 2028, net of unamortized issuance costs of \$196,532	<u>6,353,468</u>
Total Revenue Bonds	<u><u>\$ 32,171,040</u></u>

Advance Refunding

On April 10, 2012, the City issued \$6.55 million in Water and Sewer Revenue Refunding Bonds with an interest rate of 2.615% to advance refund \$6.35 million of outstanding Water and Sewer

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Funds with an interest rate of 4.06%. The net proceeds of \$6.463 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 April 10, 2012, 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 \$199,652. This difference represents an original issue premium of \$63,503, bond issuance cost of \$86,733 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 \$2,347, as an decrease in bonds payable and is being charged to operations through the year 2028, the life of the new debt, which is the same as 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 sixteen years by \$701,154 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$572,092.

The future payments of the revenue bonds are as follows:

Year Ending June 30,	Business-Type Activities Revenue Bonds	
	Principal	Interest
2013	\$ 1,824,362	\$ 1,200,991
2014	1,837,461	1,172,310
2015	1,897,970	1,112,356
2016	1,952,904	1,059,634
2017	2,020,281	983,806
2018-2022	10,705,851	3,757,907
2023-2027	11,586,390	1,428,554
2028	<u>485,000</u>	<u>11,737</u>
	\$ 32,310,219	\$ 10,727,295
Unamortized premiums and costs	(139,179)	-
	<u><u>\$ 32,171,040</u></u>	<u><u>\$ 10,727,295</u></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 and one hundred percent (100%) for all general obligation debt. 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	Net Revenues							
	Gross Revenues (1)	Operating Expenditures(2)	Available for Revenue Bond Debt Service	Debt Service Requirements		Coverage Ratios		
				Parity Debt	All Debt	Parity Debt	All Debt	
2010	\$ 21,044,751	\$ 14,203,252	\$ 6,841,499	\$ 2,683,309	\$ 5,754,927	254.97%	118.88%	
2011	22,253,461	14,885,367	\$ 7,368,094	3,135,833	5,936,107	234.96%	124.12%	
2012	23,758,916	14,643,931	\$ 9,114,985	3,061,815	6,391,834	297.70%	142.60%	

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$42,015,000 in water and sewer system revenues bonds issued from January 1998 to April 2012. 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 \$43,037,514.

d. 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.

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
2013	\$ 32,000	\$ 16,993
2014	32,000	15,475
2015	32,000	13,913
2016	32,000	12,313
2017	32,000	10,672
2018-2022	166,000	27,151
2023	14,000	395
	<u>\$ 340,000</u>	<u>\$ 96,912</u>

g. Changes in Long-Term Liabilities

	June 30, 2011	Additions	Retirements	Change in Unamortized Costs	June 30, 2012	Current Portion of Balance
Governmental Activities						
General obligation bonds	\$ 1,075,000	\$ 905,000	\$ 1,075,000	\$ -	\$ 905,000	\$ 215,000
Installment purchases	6,637,574	-	1,036,348	-	5,601,226	1,038,163
Section 108 loan	372,000	-	32,000	-	340,000	32,000
Other postemployment benefits	2,227,976	547,731	-	-	2,775,707	-
Compensated absences	1,952,161	360,535	970,207	-	1,342,489	134,249
	<u>\$ 12,264,711</u>	<u>\$ 1,813,266</u>	<u>\$ 3,113,555</u>	<u>\$ -</u>	<u>\$ 10,964,422</u>	<u>\$ 1,419,412</u>
Business-type activities						
General obligation bonds	\$ 4,615,650	\$ 830,000	\$ 2,010,000	\$ 56,001	\$ 3,491,651	\$ 1,205,000
Revenue bonds	33,810,689	6,550,000	8,010,283	(179,366)	32,171,040	1,824,362
Installment purchases	32,131,953	-	-	79,336	32,211,289	1,330,000
State loans	7,125,036	-	882,506	-	6,242,530	882,506
Capital leases	1,456,531	4,167,045	758,730	-	4,864,846	627,275
Other postemployment benefits	766,363	263,538	-	-	1,029,901	-
Compensated absences	443,585	183,219	267,323	-	359,481	35,948
	<u>\$ 80,349,807</u>	<u>\$ 11,993,802</u>	<u>\$ 11,928,842</u>	<u>\$ (44,029)</u>	<u>\$ 80,370,738</u>	<u>\$ 5,905,091</u>
Total	<u><u>\$ 92,614,518</u></u>	<u><u>\$ 13,807,068</u></u>	<u><u>\$ 15,042,397</u></u>	<u><u>\$ (44,029)</u></u>	<u><u>\$ 91,335,160</u></u>	<u><u>\$ 7,324,503</u></u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

7. Accounts Payable

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 1,107,373	\$ 1,037,397
Accrued payroll and payroll liabilities	708,901	234,345
Other accrued liabilities	<u>181,274</u>	<u>20,455</u>
	<u>\$ 1,997,548</u>	<u>\$ 1,292,197</u>

C. Interfund Balances and Activity

1. Transfers to/from Other Funds

Transfers during the year ended June 30, 2012, consisted of \$416,785 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, 2012, the Broadband Services Fund owed the Water and Sewer Fund \$5,252,901 for a temporary loan to help fund services in the early stages of operations. Also, the Special Revenue Fund owed the General Fund \$20,000 for a temporary loan to cover cash needs while awaiting reimbursements of grant-funded expenditures from other governments.

D. Fund Balance/Net Assets

The following schedule provides management and citizens with information on the portion or General Fund Balance that is available for appropriation:

Total Fund Balance - General Fund	\$ 10,568,123
Less:	
Inventories	318,961
Prepaid Items	8,793
Stabilization by State Statute	<u>4,311,077</u>
Fund Balance Available for Appropriation	<u>\$ 5,929,292</u>

The outstanding encumbrances are amounts need to pay any commitments related to purchase orders and contracts that remain at year-end.

<u>Encumbrances</u>
<u>General Fund</u>
<u>\$ 208,439</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Capital Assets, Net of Related Debt

Capital assets, net of related debt at June 30, 2012, are computed as follows:

	Governmental Funds	Business-Type Funds	Total
Capital assets, net of accumulated depreciation	<u>\$ 45,152,633</u>	<u>\$ 155,076,941</u>	<u>\$ 200,229,574</u>
Less capital debt for:			
Gross debt	\$ 6,846,226	\$ 78,981,356	\$ 85,827,582
Less:			
Unspent debt proceeds	<u>(216,413)</u>	<u>(3,150,905)</u>	<u>(3,367,318)</u>
Net capital debt	<u>\$ 6,629,813</u>	<u>\$ 75,830,451</u>	<u>\$ 82,460,264</u>
Capital assets, net of related debt	<u><u>\$ 38,522,820</u></u>	<u><u>\$ 79,246,490</u></u>	<u><u>\$ 117,769,310</u></u>

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, 2012, the City reported revenues and expenditures for the payments of \$70,498 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, 2012. 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, Raleigh, NC 27603.

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. Special Item

On July 1, 2011, the Town of China Grove transferred its water and sewer system assets to the City of Salisbury. Future operation and maintenance of that system will be the responsibility of the City of Salisbury. The Town of China Grove contributed capital assets at the net book value of \$9,169,569. The City of Salisbury will pay debt payments of \$4,167,046 plus interest on behalf of the Town of China Grove via a capital lease. The net capital contribution (assets contribution less debt relief) from the Town of China Grove to the City of Salisbury was \$5,000,523.



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.
- Schedule of Funding Progress for Other Postemployment Benefits.
- Schedule of Employer Contributions for Other Postemployment Benefits.
- Notes to the Required Schedules for Other Postemployment Benefits.

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 <u>December 31,</u>	(1) Actuarial Value of Assets	Actuarial		(3) Unfunded AAL (UAAL)	(4) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (4)
		Accrued Liability (AAL)	Projected (UAAL) (2) - (1)			
2011	\$ 887,070	\$ 2,217,485	\$ 1,330,415	40.00%	\$ 3,267,613	40.72%
2010	981,661	2,147,160	1,165,499	45.72%	3,590,878	32.46%
2009	998,396	2,157,750	1,159,354	46.27%	3,695,445	31.37%
2008	958,101	1,657,377	699,276	57.81%	3,597,762	19.44%
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%

CITY OF SALISBURY, NORTH CAROLINA**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF EMPLOYER CONTRIBUTIONS****Last Six Fiscal Years**

Fiscal Year Ended <u>June 30,</u>	Annual Required Contribution	Percentage Contributed
2012	\$ 144,453	92
2011	153,652	90
2010	111,143	99
2009	99,388	96
2008	84,075	102
2007	87,266	105

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	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, closed
Remaining amortization period	19 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	5.00%
Projected salary increases*	4.25% - 7.85%
* Includes inflation at	3.00%
Cost of living adjustments	N/A

CITY OF SALISBURY, NORTH CAROLINA

OTHER POST EMPLOYMENT BENEFITS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31,	(1) Value of Assets	(2) Actuarial		(3) Unfunded AAL (UAAL)	(4) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (4)			
		Accrued							
		Actuarial	Projected Unit Credit						
2011	\$ -	\$ 13,871,958	\$ 13,871,958	0.00%	\$18,288,282	75.85%			
2010	-	12,501,550	12,501,550	0.00%	19,660,981	63.59%			
2007	-	11,949,933	11,949,933	0.00%	16,950,981	70.50%			

CITY OF SALISBURY, NORTH CAROLINA**OTHER POST EMPLOYMENT BENEFITS****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ended <u>June 30,</u>	Annual Required Contribution	Percentage Contributed
2012	\$ 1,177,488	31.5
2011	1,181,147	19.7
2010	1,190,644	13.8
2009	1,190,644	14.3

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	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	4.00%
Medical cost trend rate*	9.5% - 5.0%
Year of ultimate trend rate	2018
* Includes inflation at	3.00%

Supplementary Financial Data



General Fund

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

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUALFor the Year Ended June 30, 2012
With Comparative Actual Amounts for Year Ended June 30, 2011

	2012		2011	
	Variance with			
	Budget	Actual	(Negative)	Actual
REVENUES:				
Taxes:				
General property-current	\$ 15,607,810	\$ 16,156,059	\$ 548,249	\$ 16,291,249
General property-prior	501,000	758,967	257,967	664,449
Auto tax	221,622	217,480	(4,142)	217,121
Interest on delinquent tax	115,000	131,250	16,250	122,193
Other tax	250	218	(32)	240
	<u>\$ 16,445,682</u>	<u>\$ 17,263,974</u>	<u>\$ 818,292</u>	<u>\$ 17,295,252</u>
Unrestricted intergovernmental:				
Local option sales tax	\$ 4,752,430	\$ 5,260,348	\$ 507,918	\$ 4,752,432
Utilities franchise tax	1,600,000	1,521,568	(78,432)	1,555,079
Telecommunications sales tax	700,000	685,609	(14,391)	704,344
Video franchise fee	300,000	303,211	3,211	301,838
Wine and beer tax	44,000	146,108	102,108	142,196
State reimbursement hold harmless	725,210	709,163	(16,047)	725,210
Other	114,000	97,806	(16,194)	111,479
	<u>\$ 8,235,640</u>	<u>\$ 8,723,813</u>	<u>\$ 488,173</u>	<u>\$ 8,292,578</u>
Restricted intergovernmental:				
State street aid - Powell Bill	\$ 837,353	\$ 773,494	\$ (63,859)	\$ 895,710
ARRA-Greenway Grant	118,595	347,167	228,572	146,597
Sidewalk Grant	-	252,957	252,957	257,090
Police Grants	379,735	290,163	(89,572)	334,415
Firefighter's assistance grant	183,077	178,577	(4,500)	-
Other	792,272	279,402	(512,870)	343,552
	<u>\$ 2,311,032</u>	<u>\$ 2,121,760</u>	<u>\$ (189,272)</u>	<u>\$ 1,977,364</u>
Charges for services:				
Environmental protection	\$ 1,197,670	\$ 1,294,954	\$ 97,284	\$ 989,373
Culture and recreation	140,500	160,059	19,559	156,726
Code services fees	180,000	138,658	(41,342)	128,685
Public safety	409,788	432,019	22,231	446,473
Cemetery	135,000	113,650	(21,350)	113,450
Radio antenna and paging rentals	456,681	326,602	(130,079)	243,552
Rentals and sale of property	624,700	458,906	(165,794)	331,474
Licenses and permits	360,000	369,109	9,109	335,602
Administrative charges	2,652,777	2,652,777	-	2,608,011
Community services	144,992	175,285	30,293	141,241
Other	11,000	2,971	(8,029)	8,236
	<u>\$ 6,313,108</u>	<u>\$ 6,124,990</u>	<u>\$ (188,118)</u>	<u>\$ 5,502,823</u>

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

For the Year Ended June 30, 2012

With Comparative Actual Amounts for Year Ended June 30, 2011

	2012		2011	
	Budget	Actual	Variance with Budget Positive (Negative)	Actual
REVENUES (continued):				
Miscellaneous:				
Interest earned on investments	\$ 120,000	\$ 82,723	\$ (37,277)	\$ 87,120
Donations	425,983	166,036	(259,947)	142,363
Other	112,293	325,323	213,030	158,451
	<u>\$ 658,276</u>	<u>\$ 574,082</u>	<u>\$ (84,194)</u>	<u>\$ 387,934</u>
Total revenues	<u>\$ 33,963,738</u>	<u>\$ 34,808,619</u>	<u>\$ 844,881</u>	<u>\$ 33,455,951</u>
OTHER FINANCING SOURCES:				
Long-term debt issued	-	-	-	\$ 914,000
Refunding bonds issued	905,000	905,000	-	-
Fund balance appropriated	381,148	-	(381,148)	-
	<u>\$ 1,286,148</u>	<u>\$ 905,000</u>	<u>\$ (381,148)</u>	<u>\$ 914,000</u>
Total other financing sources	<u>\$ 35,249,886</u>	<u>\$ 35,713,619</u>	<u>\$ 463,733</u>	<u>\$ 34,369,951</u>
EXPENDITURES:				
Current:				
General government:				
City council	\$ 268,644	\$ 254,345	\$ 14,299	\$ 184,554
City administration	1,345,065	1,324,436	20,629	1,064,593
Purchasing	118,204	116,081	2,123	104,917
Human resources	920,211	918,910	1,301	867,430
Finance	1,835,668	1,815,568	20,100	1,615,556
Fleet management	1,368,878	772,469	596,409	851,452
Public services administration	228,448	223,502	4,946	228,403
Facilities Maintenance	1,136,796	1,098,868	37,928	1,199,766
Telecommunication	490,166	465,427	24,739	527,454
Information technologies	2,521,307	2,190,216	331,091	1,844,086
	<u>\$ 10,233,387</u>	<u>\$ 9,179,822</u>	<u>\$ 1,053,565</u>	<u>\$ 8,488,211</u>
Public safety:				
Police:				
Administration	\$ 853,746	\$ 839,131	\$ 14,615	\$ 444,463
Services	2,682,397	2,583,901	98,496	1,471,941
Operations	3,355,580	3,337,625	17,955	5,680,524
Fire	4,973,925	4,932,091	41,834	5,422,073
	<u>\$ 11,865,648</u>	<u>\$ 11,692,748</u>	<u>\$ 172,900</u>	<u>\$ 13,019,001</u>
Transportation:				
Traffic operations	\$ 506,102	\$ 497,975	\$ 8,127	\$ 518,462
Engineering	708,836	669,039	39,797	1,781,584
Streets	2,367,805	2,291,314	76,491	2,335,871
Street lighting	474,600	472,865	1,735	437,008
	<u>\$ 4,057,343</u>	<u>\$ 3,931,193</u>	<u>\$ 126,150</u>	<u>\$ 5,072,925</u>

CITY OF SALISBURY, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

For the Year Ended June 30, 2012

With Comparative Actual Amounts for Year Ended June 30, 2011

	2012			2011
	Budget	Actual	Variance with Budget Positive (Negative)	Actual
EXPENDITURES:				
Current (continued):				
Environmental protection:				
Solid waste management	\$ 1,416,758	\$ 1,403,237	\$ 13,521	\$ 1,551,256
Cemetery	<u>238,778</u>	<u>234,153</u>	<u>4,625</u>	<u>263,452</u>
	<u><u>\$ 1,655,536</u></u>	<u><u>\$ 1,637,390</u></u>	<u><u>\$ 18,146</u></u>	<u><u>\$ 1,814,708</u></u>
Culture and recreation:				
Landscaping	\$ 556,327	\$ 516,942	\$ 39,385	\$ 556,105
Recreation	<u>1,897,237</u>	<u>1,842,924</u>	<u>54,313</u>	<u>2,153,071</u>
	<u><u>\$ 2,453,564</u></u>	<u><u>\$ 2,359,866</u></u>	<u><u>\$ 93,698</u></u>	<u><u>\$ 2,709,176</u></u>
Community and economic development:				
Community development	\$ 767,498	\$ 671,230	\$ 96,268	\$ 894,956
Code Enforcement	<u>248,537</u>	<u>243,460</u>	<u>5,077</u>	<u>322,261</u>
The Plaza	<u>183,674</u>	<u>165,090</u>	<u>18,584</u>	<u>157,314</u>
Developmental services	<u>712,527</u>	<u>701,197</u>	<u>11,330</u>	<u>362,600</u>
	<u><u>\$ 1,912,236</u></u>	<u><u>\$ 1,780,977</u></u>	<u><u>\$ 131,259</u></u>	<u><u>\$ 1,737,131</u></u>
Education	<u>38,107</u>	<u>38,107</u>	<u>-</u>	<u>\$ 42,342</u>
Debt service:				
Principal	\$ 1,246,097	\$ 1,236,348	\$ 9,749	\$ 1,174,824
Interest and fees	<u>466,183</u>	<u>454,046</u>	<u>12,137</u>	<u>312,995</u>
	<u><u>\$ 1,712,280</u></u>	<u><u>\$ 1,690,394</u></u>	<u><u>\$ 21,886</u></u>	<u><u>\$ 1,487,819</u></u>
Total expenditures	<u><u>\$ 33,928,101</u></u>	<u><u>\$ 32,310,497</u></u>	<u><u>\$ 1,617,604</u></u>	<u><u>\$ 34,371,313</u></u>
OTHER FINANCING USES:				
Transfers to other funds	\$ (416,785)	\$ (416,785)	\$ -	\$ (416,785)
Payment to refund bond escrow agent	<u>(905,000)</u>	<u>(904,604)</u>	<u>(396)</u>	<u>-</u>
Total other financing uses	<u><u>\$ (1,321,785)</u></u>	<u><u>\$ (1,321,389)</u></u>	<u><u>\$ (396)</u></u>	<u><u>\$ (416,785)</u></u>
Total expenditures and other financing uses	<u><u>\$ 35,249,886</u></u>	<u><u>\$ 33,631,886</u></u>	<u><u>\$ 1,618,000</u></u>	<u><u>\$ 34,788,098</u></u>
Excess of revenues and other sources over (under) expenditures and other uses	<u><u>\$ -</u></u>	<u><u>\$ 2,081,733</u></u>	<u><u>\$ 2,081,733</u></u>	<u><u>\$ (418,147)</u></u>
FUND BALANCES, BEGINNING		<u><u>8,486,390</u></u>		<u><u>8,904,537</u></u>
FUND BALANCES, ENDING		<u><u>\$ 10,568,123</u></u>		<u><u>\$ 8,486,390</u></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.

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, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	2012		2011	
	Variance with			
	Budget	Actual	Positive	(Negative)
REVENUES:				
Intergovernmental:				
Federal	\$ 812,227	\$ 453,014	\$ (359,213)	\$ 629,147
Miscellaneous:				
Other	149,487	139,498	(9,989)	33,370
Total revenues	<u>\$ 961,714</u>	<u>\$ 592,512</u>	<u>\$ (369,202)</u>	<u>\$ 662,517</u>
EXPENDITURES:				
Current:				
General government	\$ 87,275	\$ 76,992	\$ 10,283	\$ 77,696
Community and economic development	823,990	461,347	362,643	529,602
Debt Service:				
Principal	32,000	32,000	-	32,000
Interest	18,449	18,449	-	19,824
Total expenditures	<u>\$ 961,714</u>	<u>\$ 588,788</u>	<u>\$ 372,926</u>	<u>\$ 659,122</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>\$ -</u>	<u>\$ 3,724</u>	<u>\$ 3,724</u>	<u>\$ 3,395</u>
FUND BALANCE, BEGINNING		<u>6,999</u>		<u>3,604</u>
FUND BALANCE, ENDING		<u>\$ 10,723</u>		<u>\$ 6,999</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.

Broadband Services Fund - to account for the provision of broadband services to the residents of the City.

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

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

CITY OF SALISBURY, NORTH CAROLINA

WATER AND SEWER FUND

SCHEDULE OF REVENUES AND EXPENDITURES

BUDGET AND ACTUAL (NON-GAAP)

For the Fiscal Year Ended June 30, 2012

With Comparative Actual Amounts for Year Ended June 30, 2011

	2012		2011	
			Variance with Budget Positive	
	Budget	Actual	(Negative)	Actual
OPERATING REVENUES:				
Charges for services	\$ 22,500,974	\$ 22,450,757	\$ (50,217)	\$ 21,027,091
Water and sewer taps	187,000	253,750	66,750	264,338
Other operating revenues	709,000	948,772	239,772	859,501
Total operating revenues	<u>23,396,974</u>	<u>23,653,279</u>	<u>256,305</u>	<u>22,150,930</u>
OPERATING EXPENDITURES OTHER THAN DEPRECIATION:				
Management and administration	\$ 4,081,718	\$ 4,025,634	\$ 56,084	\$ 4,014,033
Water resources	2,273,190	2,132,952	140,238	2,043,797
Maintenance and construction	6,335,172	5,091,952	1,243,220	5,266,807
Wastewater collection and treatment	2,849,006	2,706,175	142,831	2,675,185
Environmental services	604,083	545,703	58,380	693,450
Total operating expenses other than depreciation	<u>\$ 16,143,169</u>	<u>\$ 14,502,416</u>	<u>\$ 1,640,753</u>	<u>\$ 14,693,272</u>
NONOPERATING REVENUES (EXPENDITURES):				
Investment earnings	\$ 41,000	\$ 40,888	\$ (112)	\$ 42,431
Capital outlay	(601,183)	(371,569)	229,614	(1,015,729)
Debt issuance costs	(105,500)	(103,720)	1,780	(325,246)
Interest expense	(2,001,950)	(1,983,949)	18,001	(1,837,211)
Net nonoperating revenues (expenditures)	<u>\$ (2,667,633)</u>	<u>\$ (2,418,350)</u>	<u>\$ 249,283</u>	<u>\$ (3,135,755)</u>
Revenues over expenditures	<u>\$ 4,586,172</u>	<u>\$ 6,732,513</u>	<u>\$ 2,146,341</u>	<u>\$ 4,321,903</u>
OTHER FINANCING SOURCES (USES):				
Payment of debt principal	\$ (4,511,172)	\$ (4,511,171)	\$ 1	\$ (4,166,579)
Refunding bonds issued	7,380,000	7,380,000	-	16,065,000
Premiums on refunding bonds	-	-	-	1,624,392
Payment to refunded bond escrow agent	(7,305,000)	(7,289,543)	15,457	(17,364,146)
Transfer to Capital Projects Fund	(150,000)	(150,000)	-	(150,000)
Total other financing sources (uses)	<u>\$ (4,586,172)</u>	<u>\$ (4,570,714)</u>	<u>\$ 15,458</u>	<u>\$ (3,991,333)</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ 2,161,799</u>	<u>\$ 2,161,799</u>	<u>\$ 330,570</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Revenues over expenditures and other financing sources (uses)	\$ 2,161,799			
Capital outlay	371,569			
Depreciation	(4,857,657)			
Loss on disposals of capital assets	(16,203)			
Bond amortization	(119,548)			
Payment of debt principal	4,511,171			
Payment to refunded bond escrow agent	7,289,543			
Proceeds from sale of refunding bonds	(7,380,000)			
Deferred debt issuance costs	103,720			
Interest income from Capital Projects Fund	80,952			
Non-cash capital contributions	5,002,523			
Transfer to Capital Projects Fund	150,000			
Increase in accrued OPEB liability	(214,251)			
Interest expense adjustment	103,286			
Vacation pay	72,736			
Change in net assets	<u>\$ 7,259,640</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, 2012**

	Project	Actual		
	Authorization	Prior Years	Current Year	Total to Date
REVENUES				
Miscellaneous				
Interest on investments	\$ 315,590	\$ 4,219,199	\$ 80,952	\$ 4,300,151
EXPENDITURES-SEWER PROJECT				
Construction	\$ 1,892,299	\$ 1,891,029	\$ 73,852	\$ 1,964,881
Engineering	<u>380,850</u>	<u>508,251</u>	<u>159,306</u>	<u>667,557</u>
Total expenditures-Sewer project	\$ 2,273,149	\$ 2,399,280	\$ 233,158	\$ 2,632,438
EXPENDITURES-WATER PROJECT				
Construction	\$ 2,802,299	\$ 942,906	\$ 107,645	\$ 1,050,551
Engineering	<u>350,850</u>	<u>648,555</u>	<u>7,513</u>	<u>656,068</u>
Total expenditures-Water project	\$ 3,153,149	\$ 1,591,461	\$ 115,158	\$ 1,706,619
Total expenditures	\$ 5,426,298	\$ 3,990,741	\$ 348,316	\$ 4,339,057
Total revenues under expenditures	\$ (5,110,708)	\$ 228,458	\$ (267,364)	\$ (38,906)
OTHER FINANCING SOURCES:				
Proceeds from sale of bonds	\$ 3,550,000	\$ 3,550,000	\$ -	\$ 3,550,000
Developer contributions	580,000	123,647	-	123,647
Contribution from Water and Sewer Fund	250,000	250,000	-	250,000
Appropriated fund balance	<u>730,708</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	\$ 5,110,708	\$ 3,923,647	\$ -	\$ 3,923,647
Unexpended revenues and receipts	\$ -	\$ 4,152,105	\$ (267,364)	\$ 3,884,741

CITY OF SALISBURY, NORTH CAROLINA

BROADBAND SERVICES FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2012

With Comparative Actual Amounts for Year Ended June 30, 2011

	2012		2011	
	Variance with Budget Positive			
	Budget	Actual	(Negative)	Actual
OPERATING REVENUES:				
Charges for services	\$ 3,920,098	\$ 2,595,832	\$ (1,324,266)	\$ 610,075
Other operating revenues	216,625	25,336	(191,289)	-
Total operating revenues	4,136,723	2,621,168	(1,515,555)	610,075
OPERATING EXPENDITURES OTHER THAN DEPRECIATION:				
Management and administration	\$ 872,499	\$ 315,421	\$ 557,078	\$ 671,539
Programming	1,736,408	1,168,390	568,018	315,656
Broadband services	355,662	319,384	36,278	650,862
Services delivery	3,331,948	2,616,384	715,564	354,259
Total operating expenses other than depreciation	\$ 6,296,517	\$ 4,419,579	\$ 1,876,938	\$ 1,992,316
NONOPERATING REVENUES (EXPENDITURES):				
Investment earnings	\$ 81,510	\$ 120,568	\$ 39,058	\$ 1,065
Capital outlay	(271,165)	(171,518)	99,647	-
Interest expense	(1,773,159)	(1,549,509)	223,650	(868,297)
Net nonoperating expenditures	\$ (1,962,814)	\$ (1,600,459)	\$ 362,355	\$ (867,232)
Revenues over (under) expenditures	\$ (4,122,608)	\$ (3,398,870)	\$ 723,738	\$ (2,249,473)
OTHER FINANCING SOURCES (USES):				
Interfund loan	\$ 3,699,795	\$ 3,398,870	\$ (300,925)	\$ 1,194,694
Fund balance appropriated	422,813	-	(422,813)	-
Total other financing sources (uses)	\$ 4,122,608	\$ 3,398,870	\$ (723,738)	\$ 1,194,694
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ _____ -	\$ _____ -	\$ _____ -	\$ (1,054,779)
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Revenues under expenditures and other financing sources (uses)	\$ _____ -			
Depreciation	(710,014)			
Increase in accrued OPEB liability	(33,418)			
Proceeds from interfund loan	(3,398,870)			
Bond amortization	(79,336)			
Vacation pay	4,108			
Change in net assets	\$ (4,046,012)			

CITY OF SALISBURY, NORTH CAROLINA

MASS TRANSIT FUND

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

For the Year Ended June 30, 2012
With Comparative Actual Amounts for Year Ended June 30, 2011

	2012		2011	
			Variance with Budget Positive (Negative)	
	Budget	Actual		Actual
OPERATING REVENUES:				
Charges for services	\$ 99,655	\$ 121,150	\$ 21,495	\$ 104,113
Other operating revenues	<u>-</u>	<u>258</u>	<u>258</u>	<u>30,018</u>
Total operating revenues	<u>\$ 99,655</u>	<u>\$ 121,408</u>	<u>\$ 21,753</u>	<u>\$ 134,131</u>
OPERATING EXPENDITURES OTHER THAN DEPRECIATION:				
Management and administration	\$ 308,352	\$ 269,562	\$ 38,790	\$ 324,594
Mass transit operations	<u>779,246</u>	<u>687,983</u>	<u>91,263</u>	<u>753,956</u>
Total operating expenditures other than depreciation	<u>\$ 1,087,598</u>	<u>\$ 957,545</u>	<u>\$ 130,053</u>	<u>\$ 1,078,550</u>
NONOPERATING REVENUES (EXPENDITURES):				
Intergovernmental	<u>\$ 571,158</u>	<u>\$ 618,817</u>	<u>\$ 47,659</u>	<u>\$ 549,621</u>
Total nonoperating revenues (expenditures)	<u>\$ 571,158</u>	<u>\$ 618,817</u>	<u>\$ 47,659</u>	<u>\$ 549,621</u>
Revenues under expenditures	<u>\$ (416,785)</u>	<u>\$ (217,320)</u>	<u>\$ 199,465</u>	<u>\$ (394,798)</u>
OTHER FINANCING SOURCES:				
Operating transfers in:				
General fund	<u>\$ 416,785</u>	<u>\$ 416,785</u>	<u>\$ -</u>	<u>\$ 416,785</u>
REVENUES OVER (UNDER) EXPENDITURES AND AND OTHER FINANCING SOURCES	<u>\$ -</u>	<u>\$ 199,465</u>	<u>\$ 199,465</u>	<u>\$ 21,987</u>
RECONCILIATION OF MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL:				
Excess of expenses over revenues, above		\$ 199,465		
Depreciation		<u>(86,871)</u>		
Increase in accrued OPEB liability		<u>(15,869)</u>		
Vacation pay		<u>7,260</u>		
Change in net assets		<u>\$ 103,985</u>		

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, 2012
With Comparative Totals at June 30, 2011

<u>ASSETS</u>	<u>Workers' Compensation</u>	<u>Employee Health Care</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
CURRENT ASSETS				
Cash and investments	\$ 384,962	\$ 441,957	\$ 826,919	\$ 441,192
Accounts receivable	-	99,760	99,760	-
Interest receivable	982	243	1,225	1,978
Total assets	<u>\$ 385,944</u>	<u>\$ 541,960</u>	<u>\$ 927,904</u>	<u>\$ 443,170</u>
<u>LIABILITIES AND FUND EQUITY</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 16,525	\$ 472,587	\$ 489,112	\$ 620,759
NET ASSETS, UNRESTRICTED	<u>369,419</u>	<u>69,373</u>	<u>438,792</u>	<u>(177,589)</u>
Total liabilities and net assets	<u>\$ 385,944</u>	<u>\$ 541,960</u>	<u>\$ 927,904</u>	<u>\$ 443,170</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, 2012
With Comparative Totals For The Year Ended June 30, 2011**

	Workers' Compensation	Employee Health Care	Totals	
			2012	2011
OPERATING REVENUES:				
Charges for services	\$ 565,767	\$ 5,054,150	\$ 5,619,917	\$ 4,850,947
OPERATING EXPENSES:				
Employee benefits	<u>491,512</u>	<u>4,515,725</u>	<u>5,007,237</u>	<u>5,289,534</u>
OPERATING INCOME	\$ 74,255	\$ 538,425	\$ 612,680	\$ (438,587)
NONOPERATING REVENUES				
Interest earned on investments	<u>2,767</u>	<u>934</u>	<u>3,701</u>	<u>7,130</u>
NET INCOME (DEFICIT)	\$ 77,022	\$ 539,359	\$ 616,381	\$ (431,457)
NET ASSETS, BEGINNING	<u>292,397</u>	<u>(469,986)</u>	<u>(177,589)</u>	<u>253,868</u>
NET ASSETS, ENDING	<u>\$ 369,419</u>	<u>\$ 69,373</u>	<u>\$ 438,792</u>	<u>\$ (177,589)</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, 2012
With Comparative Actual Amounts for Year Ended June 30, 2011

	2012		2011	
			Variance with Budget	
	Financial	Plan	Actual	Positive
OPERATING REVENUES:				
Charges for services	\$ 599,000	\$ 565,767	\$ (33,233)	\$ 583,745
OPERATING EXPENDITURES:				
Employee benefits	\$ 600,000	\$ 491,512	\$ 108,488	\$ 374,658
NONOPERATING REVENUES:				
Interest on investments	\$ 1,000	\$ 2,767	\$ 1,767	\$ 1,601
Revenues over (under) expenditures	\$ -	\$ 77,022	\$ 77,022	\$ 210,688
REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ 77,022	\$ 77,022	\$ 210,688

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, 2012
With Comparative Actual Amounts for Year Ended June 30, 2011

	2012		2011	
			Variance with Budget	
	Financial Plan	Actual	Positive (Negative)	Actual
OPERATING REVENUES:				
Charges for services	\$ 5,186,133	\$ 5,054,150	\$ (131,983)	\$ 4,267,202
OPERATING EXPENDITURES:				
Employee benefits	\$ 5,191,133	\$ 4,515,725	\$ 675,408	\$ 4,914,876
NONOPERATING REVENUES:				
Interest on investments	\$ 5,000	\$ 934	\$ (4,066)	\$ 5,529
REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ 539,359	\$ 539,359	\$ (642,145)

CITY OF SALISBURY, NORTH CAROLINA

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012
With Comparative Totals For The Year Ended June 30, 2011

	Workers' Compensation	Employee Health Care	Totals	
			2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from interfund services provided	\$ 565,767	\$ 4,954,390	\$ 5,520,157	\$ 4,850,947
Cash paid for goods and services	<u>(512,609)</u>	<u>(4,626,275)</u>	<u>(5,138,884)</u>	<u>(5,241,852)</u>
Net cash provided (used) by operating activities	<u>\$ 53,158</u>	<u>\$ 328,115</u>	<u>\$ 381,273</u>	<u>\$ (390,905)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	\$ 2,945	\$ 1,509	\$ 4,454	\$ 7,860
Net increase (decrease) in cash and cash equivalents	\$ 56,103	\$ 329,624	\$ 385,727	\$ (383,045)
Balances-beginning of the year	<u>328,859</u>	<u>112,333</u>	<u>441,192</u>	<u>824,237</u>
Balances-end of the year	<u>\$ 384,962</u>	<u>\$ 441,957</u>	<u>\$ 826,919</u>	<u>\$ 441,192</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 74,255	\$ 538,425	\$ 612,680	\$ (438,587)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in current assets and liabilities:				
(Increase) decrease in accounts receivable	-	(99,760)	(99,760)	-
(Increase) decrease in due from other government	-	-	-	8
Increase (decrease) in accounts payable and accrued liabilities	<u>(21,097)</u>	<u>(110,550)</u>	<u>(131,647)</u>	<u>47,674</u>
Net cash provided (used) by operating activities	<u>\$ 53,158</u>	<u>\$ 328,115</u>	<u>\$ 381,273</u>	<u>\$ (390,905)</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.

Rockwell Garbage Fund – to account for billings, collections, and disbursements of garbage fees billed on behalf of the Town of Rockwell.

Granite Quarry Garbage Fund – to account for billings, collections, and disbursements of garbage fees billed on behalf of the Town of Granite Quarry.

Spencer Garbage Fund – to account for billings, collections, and disbursements of garbage fees billed on behalf of the Town of Spencer.

Tourism and Cultural Development Fund – to account for monies raised through hotel occupancy taxes that the City collects from local hoteliers and then remits to the Salisbury Tourism and Cultural Development Commission.

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

COMBINING BALANCE SHEET

June 30, 2012
With Comparative Totals at June 30, 2011

	Agency							Totals		
	Municipal		East Spencer	Rockwell	Granite Quarry	Spencer	Tourism and Cultural	Development Fund	2012	2011
	Boards and Commissions	Service District								
ASSETS										
Cash and investments	\$ 2,796	\$ 3,781	\$ 397,364	\$ 440	\$ 1,644	\$ 2,117	\$ -	\$ 408,142	\$ 177,239	
Interest receivable	-	2	1,083	-	-	-	-	1,085	-	
Accounts receivable	-	6,680	232,614	6,589	16,428	17,745	-	280,056	196,564	
Total assets	<u>\$ 2,796</u>	<u>\$ 10,463</u>	<u>\$ 631,061</u>	<u>\$ 7,029</u>	<u>\$ 18,072</u>	<u>\$ 19,862</u>	<u>\$ -</u>	<u>\$ 689,283</u>	<u>\$ 373,803</u>	
LIABILITIES										
Accounts payable and accrued liabilities	<u>\$ 2,796</u>	<u>\$ 10,463</u>	<u>\$ 631,061</u>	<u>\$ 7,029</u>	<u>\$ 18,072</u>	<u>\$ 19,862</u>	<u>\$ -</u>	<u>\$ 689,283</u>	<u>\$ 373,803</u>	

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2012

	Balance			Balance
	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
<u>BOARDS AND COMMISSIONS FUND:</u>				
ASSETS				
Cash and investments	\$ 2,796	\$ -	\$ -	\$ 2,796
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ 2,796</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,796</u>
<u>MUNICIPAL SERVICE DISTRICT FUND:</u>				
ASSETS				
Cash and investments	\$ 3,828	\$ 141,594	\$ 141,641	\$ 3,781
Interest receivable	- 2	2	-	2
Accounts receivable	<u>12,094</u>	<u>138,176</u>	<u>143,590</u>	<u>6,680</u>
Total assets	<u>\$ 15,922</u>	<u>\$ 279,772</u>	<u>\$ 285,231</u>	<u>\$ 10,463</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ 15,922</u>	<u>\$ -</u>	<u>\$ 5,459</u>	<u>\$ 10,463</u>
<u>EAST SPENCER UTILITY FUND:</u>				
ASSETS				
Cash and investments	\$ 170,615	\$ 1,034,635	\$ 807,886	\$ 397,364
Interest receivable	- 2,488	2,488	1,405	1,083
Accounts receivable	<u>184,470</u>	<u>1,258,526</u>	<u>1,210,382</u>	<u>232,614</u>
Total Assets	<u>\$ 355,085</u>	<u>\$ 2,295,649</u>	<u>\$ 2,019,673</u>	<u>\$ 631,061</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ 355,085</u>	<u>\$ 275,976</u>	<u>\$ -</u>	<u>\$ 631,061</u>
<u>ROCKWELL GARBAGE FUND</u>				
ASSETS				
Cash and investments	\$ -	\$ 44,860	\$ 44,420	\$ 440
Accounts receivable	- 64,942	64,942	58,353	6,589
Total Assets	<u>\$ -</u>	<u>\$ 109,802</u>	<u>\$ 102,773</u>	<u>\$ 7,029</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 7,029</u>	<u>\$ -</u>	<u>\$ 7,029</u>
<u>GRANITE QUARRY GARBAGE FUND</u>				
ASSETS				
Cash and investments	\$ -	\$ 106,228	\$ 104,584	\$ 1,644
Accounts receivable	- 149,632	149,632	133,204	16,428
Total Assets	<u>\$ -</u>	<u>\$ 255,860</u>	<u>\$ 237,788</u>	<u>\$ 18,072</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 18,072</u>	<u>\$ -</u>	<u>\$ 18,072</u>

CITY OF SALISBURY, NORTH CAROLINA

AGENCY FUNDS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2012

(continued)

	<u>Balance</u>		<u>Balance</u>	
	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
<u>SPENCER GARBAGE FUND</u>				
ASSETS				
Cash and investments	\$ -	\$ 199,332	\$ 197,215	\$ 2,117
Accounts receivable	\$ -	\$ 255,342	\$ 237,597	\$ 17,745
Total Assets	<u>\$ -</u>	<u>\$ 454,674</u>	<u>\$ 434,812</u>	<u>\$ 19,862</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 19,862</u>	<u>\$ -</u>	<u>\$ 19,862</u>
<u>TOURISM AND CULTURAL DEVELOPMENT FUND:</u>				
ASSETS				
Cash and investments	<u>\$ -</u>	<u>\$ 299,625</u>	<u>\$ 299,625</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 299,625</u>	<u>\$ 299,625</u>	<u>\$ -</u>
<u>TOTAL AGENCY FUNDS:</u>				
ASSETS				
Cash and investments	\$ 177,239	\$ 1,826,274	\$ 1,595,371	\$ 408,142
Accrued interest	\$ -	\$ 2,490	\$ 1,405	\$ 1,085
Accounts receivable	<u>\$ 196,564</u>	<u>\$ 1,866,618</u>	<u>\$ 1,783,126</u>	<u>\$ 280,056</u>
Total assets	<u>\$ 373,803</u>	<u>\$ 3,695,382</u>	<u>\$ 3,379,902</u>	<u>\$ 689,283</u>
LIABILITIES				
Accounts payable and accrued liabilities	<u>\$ 373,803</u>	<u>\$ 620,564</u>	<u>\$ 305,084</u>	<u>\$ 689,283</u>



Other Schedules



G-1
CITY OF SALISBURY, NORTH CAROLINA
GENERAL FUND
PROPERTY TAXES RECEIVABLE
For the Year Ended June 30, 2012

Tax Year	Fiscal Year Ended	Assessed June 30	Collections		Taxes Receivable June 30, 2012	Levy Additions Year Ended June 30, 2012	Collections		Taxes Receivable June 30, 2012
			Prior to June 30, 2012	and Credits June 30, 2012			Year Ended June 30, 2012	(Note) Other Credits	
2011	2012	\$2,769,907,392				\$ 17,338,760	\$ 16,525,289	\$ -	\$ 813,471
2010	2011	2,916,307,629	\$ 17,470,299	\$ 16,668,635	\$ 801,664	194	514,798	\$ -	287,060
2009	2010	2,902,150,012	17,459,442	17,159,152	300,290	-	154,423	\$ -	145,867
2008	2009	2,889,983,197	17,334,870	17,189,578	145,292	-	59,726	\$ -	85,566
2007	2008	2,826,097,249	16,966,584	16,901,754	64,830	-	15,342	\$ -	49,488
2006	2007	2,416,776,551	15,352,505	15,316,790	35,715	-	3,516	\$ -	32,199
2005	2006	2,332,871,603	14,642,168	14,604,918	37,250	-	3,128	\$ -	34,122
2004	2005	2,205,157,905	13,758,035	13,728,281	29,754	-	2,430	\$ -	27,324
2003	2004	2,171,562,439	12,643,078	12,620,975	22,103	-	1,140	\$ -	20,963
2002	2003	1,862,739,075	11,255,315	11,221,721	33,594	-	2,082	\$ -	31,512
2001	2002	1,854,810,966	11,190,158	11,166,709	23,449	-	1,434	\$ 22,015	\$ -
			<u>\$ 148,072,454</u>	<u>\$ 129,909,878</u>	<u>\$ 1,493,941</u>	<u>\$ 17,338,954</u>	<u>\$ 17,283,308</u>	<u>\$ 22,015</u>	<u>\$ 1,527,572</u>
									<u>325,000</u>
									<u>\$ 1,202,572</u>
Less allowance for uncollectible accounts									
Ad valorem taxes receivable - net									
Reconciliation of Collections and Credits with revenues									
Revenues per Statement B-1									
General property taxes-current									
General property taxes-prior									
Auto tax									
Ad valorem tax revenue									
Discounts allowed									
Abatement of prior year taxes									
Total collections and credits									
							<u>\$ 17,283,308</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, 2012**

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
				Registered Vehicles	Registered Vehicles
ORIGINAL LEVY					
Property taxed at current year's rates	\$2,742,096,654	\$ 0.6135	\$ 16,822,671	\$ 15,981,503	\$ 841,168
Registered motor vehicles taxed at prior year's rates	65,132,062	0.5900	384,200	-	384,200
Auto registration fee			226,695	1,225	225,470
Penalties			14,189	14,189	-
TOTAL	\$2,807,228,716		\$ 17,447,755	\$ 15,996,917	\$ 1,450,838
DISCOVERY					
Current year rates	839,932		5,154	3,654	1,500
Prior years rates			118,654	118,654	-
Penalties			7,425	7,425	-
TOTAL			\$ 131,233	\$ 129,733	\$ 1,500
ABATEMENTS	<u>(38,161,256)</u>		\$ (240,228)	\$ (100,723)	\$ (139,505)
TOTAL PROPERTY VALUATION	<u>\$2,769,907,392</u>				
NET LEVY			\$ 17,338,760	\$ 16,025,927	\$ 1,312,833
Less uncollected tax at June 30, 2012			<u>813,471</u>	<u>631,685</u>	<u>181,786</u>
CURRENT YEAR'S TAXES COLLECTED			<u>\$ 16,525,289</u>	<u>\$15,394,242</u>	<u>\$1,131,047</u>
PERCENT OF CURRENT YEAR COLLECTED			<u>95.31%</u>	<u>96.06%</u>	<u>86.15%</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.

Contents	Pages
Financial Trends	118-125
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	126-131
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	
Debt Capacity	132-138
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.	
Demographic and Economic Information	139-140
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.	
Operating Information	141-145
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.	

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 Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 30,737,822	\$ 30,380,102	\$ 31,657,961	\$ 32,777,082
Restricted	-	-	-	-
Unrestricted	<u>4,771,163</u>	<u>4,694,890</u>	<u>5,411,922</u>	<u>6,600,846</u>
Total Governmental net assets	<u><u>\$ 35,508,985</u></u>	<u><u>\$ 35,074,992</u></u>	<u><u>\$ 37,069,883</u></u>	<u><u>\$ 39,377,928</u></u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 54,424,878	\$ 62,840,912	\$ 71,848,222	\$ 72,574,520
Restricted	-	-	-	-
Unrestricted	<u>19,813,181</u>	<u>14,281,971</u>	<u>9,921,167</u>	<u>9,010,320</u>
Total business-type net assets	<u><u>\$ 74,238,059</u></u>	<u><u>\$ 77,122,883</u></u>	<u><u>\$ 81,769,389</u></u>	<u><u>\$ 81,584,840</u></u>
Primary government				
Invested in capital assets, net of related debt	\$ 85,162,700	\$ 93,221,014	\$ 103,506,183	\$ 105,351,602
Restricted	-	-	-	-
Unrestricted	<u>24,584,344</u>	<u>18,976,861</u>	<u>15,333,089</u>	<u>15,611,166</u>
Total primary government net assets	<u><u>\$109,747,044</u></u>	<u><u>\$112,197,875</u></u>	<u><u>\$118,839,272</u></u>	<u><u>\$120,962,768</u></u>

2007	2008	2009	2010	2011	2012
\$ 36,272,178	\$ 36,525,374	\$ 37,816,470	\$ 38,831,003	\$ 39,495,804	\$ 38,522,820
-	-	216,413	591,581	4,846,985	4,851,968
<u>7,180,425</u>	<u>8,148,501</u>	<u>7,691,236</u>	<u>6,001,521</u>	<u>850,814</u>	<u>3,181,778</u>
<u><u>\$ 43,452,603</u></u>	<u><u>\$ 44,673,875</u></u>	<u><u>\$ 45,724,119</u></u>	<u><u>\$ 45,424,105</u></u>	<u><u>\$ 45,193,603</u></u>	<u><u>\$ 46,556,566</u></u>
\$ 73,759,751	\$ 77,307,128	\$ 75,728,506	\$ 76,682,748	\$ 74,697,761	\$ 79,246,490
-	-	3,150,905	3,150,905	3,150,905	3,150,905
<u>10,909,457</u>	<u>9,671,332</u>	<u>9,586,249</u>	<u>8,508,935</u>	<u>10,044,962</u>	<u>8,813,846</u>
<u><u>\$ 84,669,208</u></u>	<u><u>\$ 86,978,460</u></u>	<u><u>\$ 88,465,660</u></u>	<u><u>\$ 88,342,588</u></u>	<u><u>\$ 87,893,628</u></u>	<u><u>\$ 91,211,241</u></u>
\$110,031,929	\$113,832,502	\$113,544,976	\$115,513,751	\$114,193,565	\$117,769,310
-	-	3,367,318	3,742,486	7,997,890	8,002,873
<u>18,089,882</u>	<u>17,819,833</u>	<u>17,277,485</u>	<u>14,510,456</u>	<u>10,895,776</u>	<u>11,995,624</u>
<u><u>\$128,121,811</u></u>	<u><u>\$131,652,335</u></u>	<u><u>\$134,189,779</u></u>	<u><u>\$133,766,693</u></u>	<u><u>\$133,087,231</u></u>	<u><u>\$137,767,807</u></u>

Schedule 2

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses					
Governmental activities:					
General government	\$ 5,975,738	\$ 5,887,422	\$ 6,575,855	\$ 6,620,291	\$ 7,545,934
Public safety	9,739,181	10,111,491	10,444,970	10,559,567	11,018,172
Transportation	4,313,179	4,869,631	4,659,387	5,718,272	5,079,652
Environmental protection	1,469,017	1,619,517	1,653,027	1,785,667	2,139,937
Culture and recreation	2,392,991	2,579,491	2,566,970	2,637,583	2,593,105
Community and economic development	2,013,771	2,386,640	2,099,674	2,260,752	2,094,261
Education	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
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>
Business-type activities:					
Water and Sewer	\$ 15,484,513	\$ 16,179,987	\$ 17,063,018	\$ 18,131,596	\$ 18,636,493
Broadband Services					
Mass Transit	629,268	661,552	817,899	977,470	1,194,223
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>
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>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 2,854,620	\$ 3,009,494	\$ 3,185,185	\$ 3,207,322	\$ 3,796,433
Public safety	410,211	414,782	416,920	473,190	459,350
Transportation	125,244	40,219	52,545	139,704	127,207
Environmental protection	946,998	954,506	966,049	981,344	1,156,391
Culture and recreation	162,916	236,236	251,084	164,896	167,781
Community and economic development	160,377	389,325	310,430	504,285	444,382
Operating grants and contributions	3,187,615	1,632,833	2,007,717	1,943,637	1,547,688
Capital grants and contributions	<u>4,990,317</u>	<u>605,851</u>	<u>2,150,557</u>	<u>2,406,145</u>	<u>3,684,048</u>
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>
Business-type activities:					
Charges for services:					
Water and Sewer	\$ 14,301,184	\$ 14,484,161	\$ 15,342,078	\$ 17,789,555	\$ 19,384,892
Broadband Services	-	-	-	-	-
Mass Transit	66,669	64,571	64,225	80,372	85,835
Operating grants and contributions	372,724	372,506	405,706	452,326	482,692
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>
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>
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>
Net (expense)/revenue					
Governmental activities	\$ (13,359,614)	\$ (20,471,465)	\$ (19,007,760)	\$ (20,101,163)	\$ (19,544,938)
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>
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>
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
Sales and other taxes	3,382,414	4,232,748	4,410,547	4,755,926	4,928,404
Intergovernmental revenues	1,932,454	2,822,659	2,848,989	2,731,869	2,818,573
Unrestricted investment earnings	88,655	81,428	176,287	379,137	544,213
Miscellaneous	351,418	277,847	151,030	175,357	449,991
Transfers	(160,282)	(160,282)	(173,570)	(213,118)	(358,569)
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>
Business-type activities:					
Investment earnings	\$ 363,091	\$ 184,999	\$ 231,288	\$ 342,961	\$ 642,765
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>
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>
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>
Change in Net Assets					
Governmental activities	\$ 3,455,675	\$ (608,840)	\$ 1,994,891	\$ 2,308,045	\$ 4,074,675
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>
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>

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

2008	2009	2010	2011	2012
\$ 8,584,267	\$ 7,607,018	\$ 9,000,546	\$ 8,638,802	\$ 8,858,997
11,855,275	12,600,709	12,781,599	13,065,399	12,013,621
5,875,717	4,870,333	5,720,250	5,410,397	5,227,558
2,203,772	2,459,565	1,903,354	2,372,108	1,672,367
2,830,610	2,934,389	2,977,724	2,852,895	2,564,518
2,025,313	1,938,878	1,861,576	1,868,213	2,335,285
42,342	42,342	42,342	42,342	38,107
358,688	449,945	365,136	323,639	442,531
<u>\$ 33,775,984</u>	<u>\$ 32,903,179</u>	<u>\$ 34,652,527</u>	<u>\$ 34,573,795</u>	<u>\$ 33,152,984</u>
\$ 19,488,977	\$ 19,961,739	\$ 20,703,446	\$ 21,352,837	\$ 21,501,799
230,474	828,584	3,735,371	6,787,748	
1,258,857	1,347,215	1,217,603	1,175,654	1,053,025
<u>\$ 20,747,834</u>	<u>\$ 21,539,428</u>	<u>\$ 22,749,633</u>	<u>\$ 26,263,862</u>	<u>\$ 29,342,572</u>
<u>\$ 54,523,818</u>	<u>\$ 54,442,607</u>	<u>\$ 57,402,160</u>	<u>\$ 60,837,657</u>	<u>\$ 62,495,556</u>
\$ 3,889,331	\$ 3,343,256	\$ 3,543,676	\$ 3,528,014	\$ 3,573,724
464,189	456,266	433,727	446,473	432,019
157,217	148,212	129,223	141,241	175,285
1,208,241	1,549,055	1,221,279	1,102,823	1,408,604
175,416	165,332	153,833	156,726	160,059
201,558	209,970	134,399	136,921	375,299
1,821,205	1,710,521	2,507,060	2,334,124	2,140,686
1,376,213	986,905	759,641	912,385	97,785
<u>\$ 9,293,370</u>	<u>\$ 8,569,517</u>	<u>\$ 8,882,838</u>	<u>\$ 8,758,707</u>	<u>\$ 8,363,461</u>
\$ 20,463,596	\$ 20,738,138	\$ 21,353,577	\$ 22,139,692	\$ 23,637,076
-	-	-	610,074	2,621,168
88,633	105,874	109,235	134,131	125,809
479,227	507,040	509,046	549,621	614,416
<u>771,686</u>	<u>722,209</u>	<u>-</u>	<u>1,725,935</u>	<u>5,002,523</u>
<u>\$ 21,803,142</u>	<u>\$ 22,073,261</u>	<u>\$ 21,971,858</u>	<u>\$ 25,159,453</u>	<u>\$ 32,000,992</u>
<u>\$ 31,096,512</u>	<u>\$ 30,642,778</u>	<u>\$ 30,854,696</u>	<u>\$ 33,918,160</u>	<u>\$ 40,364,453</u>
\$ (24,482,614)	\$ (24,333,662)	\$ (25,769,689)	\$ (25,815,088)	\$ (24,789,523)
1,055,308	533,833	(777,775)	(1,104,409)	2,658,420
<u>\$ (23,427,306)</u>	<u>\$ (23,799,829)</u>	<u>\$ (26,547,464)</u>	<u>\$ (26,919,497)</u>	<u>\$ (22,131,103)</u>
\$ 16,755,835	\$ 17,162,719	\$ 17,379,089	\$ 17,410,646	\$ 17,289,944
5,220,704	4,732,043	4,526,014	4,752,432	5,260,348
3,446,122	3,251,711	3,494,579	3,540,146	3,463,465
461,939	244,222	109,254	99,759	86,424
257,067	446,592	351,058	198,388	469,090
(437,781)	(453,381)	(390,319)	(416,785)	(416,785)
<u>\$ 25,703,886</u>	<u>\$ 25,383,906</u>	<u>\$ 25,469,675</u>	<u>\$ 25,584,586</u>	<u>\$ 26,152,486</u>
\$ 816,163	\$ 499,986	\$ 264,384	\$ 238,664	\$ 242,408
437,781	453,381	390,319	416,785	416,785
<u>\$ 1,253,944</u>	<u>\$ 953,367</u>	<u>\$ 654,703</u>	<u>\$ 655,449</u>	<u>\$ 659,193</u>
<u>\$ 26,957,830</u>	<u>\$ 26,337,273</u>	<u>\$ 26,124,378</u>	<u>\$ 26,240,035</u>	<u>\$ 26,811,679</u>
\$ 1,221,272	\$ 1,050,244	\$ (300,014)	\$ (230,502)	\$ 1,362,963
2,309,252	1,487,200	(123,072)	(448,960)	3,317,613
<u>\$ 3,530,524</u>	<u>\$ 2,537,444</u>	<u>\$ (423,086)</u>	<u>\$ (679,462)</u>	<u>\$ 4,680,576</u>

Schedule 3

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

	Fiscal Year				
	2003	2004	2005	2006	2007
General Fund					
Reserved	\$ 2,230,658	\$ 2,853,273	\$ 3,588,992	\$ 3,873,682	\$ 3,334,316
Unreserved	<u>3,023,678</u>	<u>2,956,660</u>	<u>3,195,428</u>	<u>3,310,681</u>	<u>3,538,413</u>
Nonspendable					
Restricted					
Committed					
Unassigned					
Total General Fund	<u><u>\$ 5,254,336</u></u>	<u><u>\$ 5,809,933</u></u>	<u><u>\$ 6,784,420</u></u>	<u><u>\$ 7,184,363</u></u>	<u><u>\$ 6,872,729</u></u>
All other governmental funds					
Reserved	\$ 129,802	\$ 20,261	\$ 36,819	\$ 523,350	\$ 7,724
Unreserved, reported in:					
Special revenue funds	-	173,894	60,125	182,446	92,834
Capital projects funds	<u>9,155</u>	<u>(373,049)</u>	<u>(753,745)</u>	<u>-</u>	<u>-</u>
Restricted					
Total all other governmental funds	<u><u>\$ 138,957</u></u>	<u><u>\$ (178,894)</u></u>	<u><u>\$ (656,801)</u></u>	<u><u>\$ 705,796</u></u>	<u><u>\$ 100,558</u></u>

Presentation changed in 2011 with the implementation of GASB Statement No. 54.

2008	2009	2010	2011	2012
\$ 3,618,321	\$ 4,426,599	\$ 4,405,420	\$ -	\$ -
<u>4,446,572</u>	<u>4,514,032</u>	<u>4,499,117</u>		
		319,844	327,754	
		4,839,986	4,822,687	
		2,811,084	3,587,402	
		<u>515,476</u>	<u>1,830,280</u>	
<u>\$ 8,064,893</u>	<u>\$ 8,940,631</u>	<u>\$ 8,904,537</u>	<u>\$ 8,486,390</u>	<u>\$ 10,568,123</u>
 \$ 36,736	\$ 81,400	\$ 31,427	\$ -	\$ -
(30,759)	(76,713)	(27,823)	-	-
<u>-</u>	<u>2,035,631</u>	<u>382,328</u>		
		<u>6,999</u>	<u>10,723</u>	
<u>\$ 5,977</u>	<u>\$ 2,040,318</u>	<u>\$ 385,932</u>	<u>\$ 6,999</u>	<u>\$ 10,723</u>

Schedule 4

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues					
Taxes	\$ 11,197,550	\$ 12,517,710	\$ 13,786,408	\$ 14,523,959	\$ 15,152,988
Licenses and permits	551,498	538,560	589,274	574,669	473,488
Intergovernmental	9,379,967	9,451,550	9,266,863	9,851,051	9,592,656
Charges for services	2,257,355	2,080,488	2,216,314	2,248,157	2,490,586
Investment earnings	86,796	76,874	161,387	331,121	410,322
Miscellaneous	534,802	817,495	757,105	942,243	602,044
Administrative charges	<u>1,660,050</u>	<u>1,743,053</u>	<u>1,711,559</u>	<u>2,070,628</u>	<u>2,275,159</u>
Total revenues	<u>\$ 25,668,018</u>	<u>\$ 27,225,730</u>	<u>\$ 28,488,910</u>	<u>\$ 30,541,828</u>	<u>\$ 30,997,243</u>
Expenditures					
General government	\$ 4,704,820	\$ 7,942,599	\$ 6,201,936	\$ 6,198,248	\$ 6,604,904
Public safety	9,850,071	10,095,655	10,717,282	13,692,442	13,235,698
Transportation	4,117,773	3,600,475	3,636,014	4,613,922	4,143,049
Environmental protection	1,561,086	1,671,908	1,902,570	1,801,115	1,994,245
Culture and recreation	2,195,856	2,568,374	2,495,888	2,601,386	2,590,253
Economic and physical development	3,002,561	2,374,662	2,074,433	2,227,480	2,269,786
Education	42,342	42,342	42,342	42,342	42,342
Debt service					
Principal	774,176	646,750	630,890	666,950	954,857
Interest and fees	260,553	250,437	308,405	287,965	394,837
Issuance fees					
Total expenditures	<u>\$ 26,509,238</u>	<u>\$ 29,193,202</u>	<u>\$ 28,009,760</u>	<u>\$ 32,131,850</u>	<u>\$ 32,229,971</u>
Excess of revenues over (under) expenditures	<u>\$ (841,220)</u>	<u>\$ (1,967,472)</u>	<u>\$ 479,150</u>	<u>\$ (1,590,022)</u>	<u>\$ (1,232,728)</u>
Other financing sources (uses)					
Transfers out	\$ (160,282)	\$ (160,282)	\$ (173,570)	\$ (213,118)	\$ (358,569)
Section 108 loans	221,000	375,000	-	-	-
Refunding bonds issued					
Payment to refund bond escrow agent					
Installment purchase financing	<u>1,000,000</u>	<u>1,990,500</u>	<u>191,000</u>	<u>3,565,680</u>	<u>674,425</u>
Total other financing sources (uses)	<u>\$ 1,060,718</u>	<u>\$ 2,205,218</u>	<u>\$ 17,430</u>	<u>\$ 3,352,562</u>	<u>\$ 315,856</u>
Net change in fund balances	<u>\$ 219,498</u>	<u>\$ 237,746</u>	<u>\$ 496,580</u>	<u>\$ 1,762,540</u>	<u>\$ (916,872)</u>
Total capital expenditures included above	\$ 2,326,603	\$ 3,486,270	\$ 1,755,532	\$ 1,629,005	\$ 3,982,859
Debt services as a percentage of noncapital expenditures	4.3%	3.5%	3.6%	3.1%	4.8%

2008	2009	2010	2011	2012
\$ 16,731,217	\$ 16,960,723	\$ 17,121,590	\$ 17,295,252	\$ 17,263,974
413,940	393,755	420,876	335,602	369,109
10,708,309	10,489,900	10,637,419	10,899,089	11,298,587
2,503,642	2,941,277	2,640,751	2,559,210	3,103,104
394,806	197,380	98,466	92,629	82,763
701,002	642,012	496,933	334,184	630,817
2,417,857	2,536,683	2,554,510	2,608,011	2,652,777
<u>\$ 33,870,773</u>	<u>\$ 34,161,730</u>	<u>\$ 33,970,545</u>	<u>\$ 34,123,977</u>	<u>\$ 35,401,131</u>
\$ 7,087,851	\$ 7,392,264	\$ 9,208,823	\$ 8,869,055	\$ 9,256,814
11,591,654	11,800,925	12,654,815	13,103,690	11,692,748
4,844,531	4,969,657	4,729,571	5,072,925	3,931,193
2,198,012	2,269,806	1,804,449	1,814,708	1,637,390
3,031,619	3,148,062	2,814,908	2,709,176	2,359,866
2,069,328	1,934,441	2,339,095	2,266,733	2,242,324
42,342	42,342	42,342	42,342	38,107
2,012,386	1,129,427	1,296,442	1,206,824	1,268,348
364,620	350,909	380,261	332,819	472,495
	65,437	-	-	-
<u>\$ 33,242,343</u>	<u>\$ 33,103,270</u>	<u>\$ 35,270,706</u>	<u>\$ 35,418,272</u>	<u>\$ 32,899,285</u>
\$ 628,430	\$ 1,058,460	\$ (1,300,161)	\$ (1,294,295)	\$ 2,501,846
\$ (437,781)	\$ (453,381)	\$ (390,319)	\$ (416,785)	\$ (416,785)
-	-	-	-	-
			905,000	
			(904,604)	
<u>906,934</u>	<u>2,305,000</u>	<u>-</u>	<u>914,000</u>	<u>-</u>
\$ 469,153	\$ 1,851,619	\$ (390,319)	\$ 497,215	\$ (416,389)
<u>\$ 1,097,583</u>	<u>\$ 2,910,079</u>	<u>\$ (1,690,480)</u>	<u>\$ (797,080)</u>	<u>\$ 2,085,457</u>
\$ 1,735,087	\$ 3,218,811	\$ 3,772,963	\$ 3,789,327	\$ 817,974
7.5%	5.2%	5.3%	4.9%	5.4%

Schedule 5

CITY OF SALISBURY
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
Last Ten 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	14,580,037	4,755,926	1,863,690	21,199,653
2007	15,237,001	4,928,404	2,029,281	22,194,686
2008	16,755,835	5,220,704	2,533,067	24,509,606
2009	17,162,719	4,732,043	2,493,549	24,388,311
2010	17,379,089	4,526,014	2,542,211	24,447,314
2011	17,410,646	4,752,432	2,561,261	24,724,339
2012	17,289,944	5,260,348	2,510,388	25,060,680

* 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	
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
2009	0.5900	0.1600	0.5950	1.3450
2010	0.5900	0.1600	0.5950	1.3450
2011	0.5900	0.1600	0.5950	1.3450
2012	0.6135	0.1750	0.6225	1.4110

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	
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
2009	1,313,367,427	997,804,691	201,392,686	331,012,807	63,736,172
2010	1,302,210,389	1,030,493,844	173,246,565	354,549,352	60,768,581
2011	1,305,076,616	1,040,773,194	177,902,351	352,153,335	61,255,822
2012	1,226,933,424	971,771,009	180,575,459	352,447,978	59,819,853

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.

Less:	Total Actual and Taxable	Total Direct	Assessed Value as a Percentage of
Tax Exempt	Assessed Value	Tax Rate	Actual Value
Real Property			
\$ 10,688,772	\$ 1,862,724,937	\$ 0.6000	100.00%
11,202,095	2,171,421,479	0.5800	100.00%
11,665,820	2,205,157,905	0.6150	100.00%
12,910,161	2,332,871,603	0.6150	100.00%
13,143,378	2,416,776,551	0.6250	100.00%
16,258,111	2,826,097,249	0.5900	100.00%
17,330,586	2,889,983,197	0.5900	100.00%
19,118,719	2,902,150,012	0.5900	100.00%
20,853,689	2,916,307,629	0.5900	100.00%
21,640,331	2,769,907,392	0.6135	100.00%

Schedule 8

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

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Food Lion, Inc.	\$ 149,084,140	1	5.38%	\$ 75,936,895	1	4.08%
AKZO Nobel	32,706,767	2	1.18%			
Norandal USA	30,102,551	3	1.09%	27,077,213	3	1.45%
Duke Energy Corporation	24,841,606	4	0.90%	23,011,627	6	1.24%
Centro Heritage Innes Street, LLC	22,881,304	5	0.83%	25,931,831	5	1.39%
Henkel Corporation	17,768,798	6	0.64%			
Salisbury Mall, Ltd.	15,284,637	7	0.55%	16,311,458	8	0.88%
Wal-Mart Stores	12,983,572	8	0.47%			
Piedmont Natural Gas	13,448,965	9	0.49%	12,697,008	9	0.68%
General Electric	12,270,297		0.44%			
Bellsouth Telephone				20,077,797	7	1.08%
BCR Salisbury LLC				28,712,405	2	1.54%
Livingstone College				10,316,666	10	0.55%
ICI Americas				26,467,409	4	1.42%
Totals	<u>\$ 331,372,637</u>		<u>11.96%</u>	<u>\$ 266,540,309</u>		<u>14.31%</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
2003	\$ 11,255,233	\$ 10,892,049	96.77%	\$ 331,672	\$ 11,223,721	99.72%
2004	12,642,260	12,235,549	96.78%	385,748	12,621,297	99.83%
2005	13,758,035	13,420,155	97.54%	310,556	13,730,711	99.80%
2006	14,642,168	14,239,283	97.25%	368,763	14,608,046	99.77%
2007	15,353,108	14,885,545	96.95%	435,364	15,320,909	99.79%
2008	16,966,584	16,463,376	97.03%	453,720	16,917,096	99.71%
2009	17,334,870	16,646,171	96.03%	603,133	17,249,304	99.51%
2010	17,459,442	16,675,302	95.51%	638,273	17,313,575	99.16%
2011	17,470,493	16,668,635	95.41%	514,798	17,183,433	98.36%
2012	17,338,760	16,525,289	95.31%	-	16,525,289	95.31%

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	Installment Purchases	Revenue Bonds	State Loans
2003	\$ 2,645,000	\$ 2,840,562	221,000	\$ 14,805,000		\$ 21,541,269	\$ 14,185,084
2004	2,465,000	4,364,312	596,000	13,285,537		20,972,259	13,302,578
2005	2,265,000	4,156,422	564,000	11,934,124		20,383,247	12,420,072
2006	2,075,000	7,277,152	532,000	10,592,712		19,774,236	11,537,566
2007	1,875,000	7,228,720	500,000	9,286,300		25,045,997	10,655,060
2008	1,675,000	6,355,267	468,000	8,054,887		31,587,521	9,772,554
2009	1,475,000	7,762,840	436,000	6,888,474	31,973,281	30,448,803	8,890,048
2010	1,275,000	6,698,398	404,000	5,742,062	32,052,617	35,261,442	8,007,542
2011	1,075,000	6,637,574	372,000	4,615,650	32,131,953	33,810,689	7,125,036
2012	905,000	5,601,226	340,000	3,491,651	32,211,289	32,171,040	6,242,530

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.

Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
\$ 3,611,283	\$ 59,849,198	10.92%	\$ 2,122
3,341,606	58,327,292	10.54%	2,068
3,070,497	54,793,362	9.78%	1,940
2,799,885	54,588,551	9.19%	1,867
2,535,695	57,126,772	8.95%	1,864
2,274,849	60,188,078	8.56%	1,940
2,007,264	89,881,710	12.34%	2,866
1,732,856	91,173,917	12.81%	2,826
1,456,531	87,224,433	11.43%	2,586
4,864,846	85,827,582	10.99%	2,547

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
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
2009	1,475,000	6,888,474	8,363,474	0.29%			267
2010	1,275,000	5,742,062	7,017,062	0.24%			217
2011	1,075,000	4,615,650	5,690,650	0.20%			169
2012	905,000	3,491,651	4,396,651	0.16%			130

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, 2012**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes: Rowan County	\$ 97,736,259	23.99%	\$ 23,446,084
City of Salisbury direct debt			<u>6,846,226</u>
Total direct and overlapping debt			<u>\$ 30,292,310</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**

	2003	2004	2005	2006
Debt limit	\$ 149,017,995	\$ 173,713,718	\$ 176,412,632	\$ 187,662,541
Total net debt applicable to limit	<u>23,901,845</u>	<u>21,006,455</u>	<u>19,226,043</u>	<u>22,744,749</u>
Legal debt margin	<u>\$ 125,116,150</u>	<u>\$ 152,707,263</u>	<u>\$ 157,186,589</u>	<u>\$ 164,917,792</u>
Total net debt applicable to the limit as a percentage of debt limit	16.04%	12.09%	10.90%	12.12%

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.

2007	2008	2009	2010	2011	2012
\$ 194,393,594	\$ 227,388,429	\$ 232,585,103	\$ 233,701,498	\$ 234,972,905	\$ 223,323,818
<u>20,925,715</u>	<u>18,360,003</u>	<u>50,981,225</u>	<u>47,500,933</u>	<u>45,916,708</u>	<u>47,074,012</u>
<u><u>\$ 173,467,879</u></u>	<u><u>\$ 209,028,426</u></u>	<u><u>\$ 181,603,878</u></u>	<u><u>\$ 186,200,565</u></u>	<u><u>\$ 189,056,197</u></u>	<u><u>\$ 176,249,806</u></u>

10.76%	8.07%	21.92%	20.33%	19.54%	21.08%
--------	-------	--------	--------	--------	--------

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 2,769,907,392
Add back: exempt real property	<u>21,640,331</u>
Total assessed value	\$ 2,791,547,723
Debt Limit (8% of total assessed value)	223,323,818
Debt applicable to limit:	
General obligation bonds	4,396,651
Capitalized lease and installment purchase obligations	<u>42,677,361</u>
Legal debt margin	<u><u>\$ 176,249,806</u></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 Ratios	
				Parity Debt	All Debt	Parity Debt	All Debt
2003	\$ 15,297,190	\$ 10,022,035	\$ 5,275,155	\$ 2,405,500	\$ 5,088,957	219.30%	103.66%
2004	16,218,662	10,696,926	5,521,736	2,892,846	5,413,301	190.88%	102.00%
2005	16,841,357	10,952,357	5,889,000	2,868,321	5,192,745	205.31%	113.41%
2006	18,132,373	11,843,353	6,289,020	1,610,535	5,094,339	390.49%	123.45%
2007	19,888,170	12,384,082	7,504,088	1,828,958	5,208,347	410.29%	144.08%
2008	20,965,998	13,150,616	7,815,382	2,132,890	5,478,090	366.42%	142.67%
2009	20,968,062	13,521,208	7,446,854	2,592,000	5,687,303	287.30%	130.94%
2010	21,044,751	14,203,262	6,841,489	2,683,309	5,754,927	254.96%	118.88%
2011	22,253,461	14,885,367	7,368,094	3,135,833	5,936,107	234.96%	124.12%
2012	23,758,916	14,643,931	9,114,985	3,061,815	6,391,834	297.70%	142.60%

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	Per Capita Personal Income			Unemployment Rate
		Personal Income	Per Capita Personal Income	Median Age	
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	703,003,840	22,660	38.1	6.6%
2009	31,358	728,336,587	23,227	38.3	10.3%
2010	32,263	711,888,741	22,065	38.5	12.7%
2011	33,732	762,910,045	22,617	38.7	11.6%
2012	33,701	781,264,147	23,182	38.9	10.9%

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	2012			2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Rowan/Salisbury School System	3,074	1	15.76%	2,375	1	13.19%
W. G. (Bill) Hefner VA Medical Center	1,795	2	9.21%	1,300	3	7.22%
Food Lion	1,498	3	7.68%	2,035	2	11.31%
Rowan Regional Medical Center	849	4	4.35%	1,250	4	6.94%
Rowan County	723	5	3.71%	655	5	3.64%
Pimont Correctional Institute	450	6	2.31%	450	6	2.50%
City of Salisbury	446	7	2.29%	440	7	2.44%
Rowan-Cabarrus Community College	386	8	1.98%			
Catawba College	225	9	1.15%			0.00%
Lutheran Services for the Aging	214	10	1.10%	280	9	1.56%
Wal-Mart			0.00%	335	8	1.86%
Fieldcrest Cannon						0.00%
Cone Mills						0.00%
Telespectrum Worldwide, Inc.						
Total	9,660		49.54%	9,385		52.43%

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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government:										
City administration	6	7	7	7	8	9	9	9	9	10
Human resources	6	6	6	6	5	4	5	6	6	6
Finance	15	17	18	17	17	19	19	19	26	24
Fleet management	11	11	10	11	11	11	12	11	10	11
Public services administration	3	4	4	3	4	4	3	3	3	3
Facilities Maintenance	5	5	5	6	6	7	7	8	9	9
Information technologies	7	8	8	8	8	10	11	9	8	8
Public safety:										
Police:										
Officers	78	78	78	81	76	83	84	83	79	79
Civilians	20	21	20	22	20	20	18	17	21	19
Fire:										
Firefighters	66	65	67	68	74	76	73	76	76	75
Civilians	1	2	1	1	1	1	1	1	1	1
Transportation:										
Traffic operations	8	8	8	8	7	7	7	7	7	7
Engineering	4	5	7	6	6	7	7	7	5	4
Streets	25	26	24	27	27	29	30	30	24	27
Environmental protection:										
Solid waste management	14	15	18	16	15	15	12	11	10	10
Cemetery	4	4	3	4	5	5	5	4	6	4
Culture and recreation:										
Landscaping	13	12	12	12	14	11	12	11	10	6
Recreation	27	31	30	31	30	25	24	25	19	20
Community and economic development:										
Community planning services	6	6	6	6	7	7	11	7	8	5
Developmental services	5	4	5	5	5	4	3	3	2	5
Code Enforcement										3
Water and Sewer	89	91	89	89	83	83	86	92	90	89
Broadband Services							2	8	13	18
Mass Transit	12	12	12	13	13	13	12	10	8	11
	<u>425</u>	<u>438</u>	<u>438</u>	<u>447</u>	<u>442</u>	<u>450</u>	<u>453</u>	<u>457</u>	<u>453</u>	<u>454</u>

Source: City Human Resources Department.

Schedule 18

CITY OF SALISBURY
OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

Function	2003	2004	2005	2006
Police				
Calls resulting in a dispatch	37,316	36,213	34,904	34,556
Part I crimes reported (most serious)	1,948	1,860	2,785	2,527
Fire				
Total Fire Department responses	3,030	3,141	3,242	3,715
Value of fire loss	\$ 539,300	\$ 222,095	\$ 709,917	\$ 1,934,950
Streets				
Street miles maintained (lane miles)	308	311	317	321
Miles resurfaced (lanes miles)	5.0	11.5	10.4	14.8
Sanitation				
Refuse collected (tons per 1,000 population)	310	304	302	316
Recyclables collected (tons per 1,000 population)	72	73	66	58
Culture and recreation				
Program participations (per 1,000 population)	6,741	6,107	5,205	5,567
Water				
Utility accounts	15,641	15,797	15,954	15,996
New water connections	340	240	305	497
Average daily water consumption (millions of gallons per day)	6.2	6.1	6.1	5.7
Wastewater				
Average daily sewage treatment (thousands of gallons)	-	-	-	7.5

Sources: Various government departments.

2007	2008	2009	2010	2011	2012
36,091	40,442	41,261	35,447	34,673	31,668
2,371	2,862	2,636	1,189	2,359	2,346
3,979	4,237	4,263	4,097	4,074	4,402
\$ 596,235	\$ 4,789,550	\$ 1,027,072	\$ 521,600	\$ 901,650	\$ 1,886,379
321	340	340	347	344	345
9.8	10.5	4.0	4.8	6.3	6.0
301	297	303	300	291	282
51	54	44	40	29	30
4,218	5,392	4,230	4,531	4,219	3,353
16,691	16,750	17,100	17,500	18,000	21,500
464	522	399	110	84	1,862
7.4	7.9	7.7	7.9	8.4	8.7
7.8	8.49	7.67	7.91	7.67	7.1

Schedule 19

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

Function	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Public safety						
Police:						
Stations	1	1	1	1	1	1
Patrol units	78	78	78	81	84	88
Fire:						
Fire stations	3	3	3	3	4	4
Fire apparatus	10	10	10	10	11	14
Highways and streets						
Streets (miles)	154.16	154.34	158.85	160.83	169.18	170.00
Culture and recreation						
Parks acreage	455	505	505	505	505	506
Parks	15	15	15	15	15	16
Recreation centers	4	4	4	4	4	4
Tennis courts	2	2	2	2	2	2
Water and Sewer Utility						
Utility customers	15,641	15,797	15,954	15,996	16,691	16,120
Miles of water lines	380	402	402	405	405	405
Miles of sewer lines	390	391	391	393	393	393
Water treatment capacity (millions of gallons per day)	12.0	12.0	12.0	24.0	24.0	24.0
Sewage treatment capacity (millions of gallons per day)	12.5	12.5	12.5	12.5	12.5	12.5

Sources: Various city departments.

2009	2010	2011	2012
1 88	1 88	1 88	1 88
4 14	4 14	4 14	4 14
170.00	170.50	170.50	170.50
520 16 4 2	520 16 4 2	520 16 4 2	520 16 4 2
16,750 405 393	17,200 405 393	18,000 405 393	21,500 405 393
24.0	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, 2012, which collectively comprises the City of Salisbury's basic financial statements and have issued our report thereon dated November 21, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of Downtown Salisbury, Inc., as described in our report on the City of Salisbury's financial statements. The financial statements of Downtown Salisbury, Inc. and Salisbury Tourism and Cultural Development Commission were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Salisbury is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 an instance of noncompliance or other matter, identified in the accompanying Schedule of Findings and Questioned Costs as item 2012-01, that is required to be reported under *Government Auditing Standards*.

The City of Salisbury's responses to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Salisbury's response and; accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Martin Starnes & Associates, CPAs, P.A." The signature is cursive and fluid, with "Martin Starnes" on the top line, a small ampersand between them, and "Associates, CPAs, P.A." on the bottom line.

Martin Starnes & Associates, CPAs, P.A.
November 21, 2012

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance With Requirements That Could Have a Direct and Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act

Independent Auditors' Report

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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, 2012.

Internal Control Over Compliance

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

A handwritten signature in black ink that reads "Martin Starnes & Associates, CPAs, P.A." The signature is fluid and cursive, with "Martin Starnes" on the top line, a small ampersand, and "Associates, CPAs, P.A." on the bottom line.

Martin Starnes & Associates, CPAs, P.A.
November 21, 2012

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance With Requirements That Could Have a Direct and Material Effect On 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

Independent Auditors' Report

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 applicable sections of OMB Circular A-133 and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012. 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, 2012.

Internal Control Over Compliance

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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.

A handwritten signature in black ink that reads "Martin Starnes & Associates, CPAs, P.A." The signature is fluid and cursive, with "Martin Starnes" on the top line, a small ampersand, and "Associates, CPAs, P.A." on the bottom line.

Martin Starnes & Associates, CPAs, P.A.
November 21, 2012

CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	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	\$ 79,125	\$ -	\$ -
Entitlement Program	14.218	B-04-MC-37-0015	23,957	-	-
Entitlement Program	14.218	B-08-MC-37-0015	7,400	-	-
Entitlement Program	14.218	B-09-MC-37-0015	56,167	-	-
Entitlement Program	14.218	B-10-MC-37-0015	77,066	-	-
Entitlement Program	14.218	B-11-MC-37-0015	55,686	-	139,102
			<u>\$ 299,401</u>	<u>\$ -</u>	<u>\$ 139,102</u>
Pass-through N.C. Department of Housing Finance Agency HOME Program	14.239	R-90-SG-37-0117	<u>\$ 150,285</u>	<u>\$ -</u>	<u>\$ -</u>
Total U.S. Department of Housing And Urban Development			<u>\$ 449,686</u>	<u>\$ -</u>	<u>\$ 139,102</u>
U.S. DEPARTMENT OF HOMELAND SECURITY					
Staffing for Adequate Fire and Emergency Response (SAFER) Grant	97.044	EMW-2010-FH-00580	<u>\$ 178,577</u>	<u>\$ -</u>	<u>\$ 17,799</u>
U.S. DEPARTMENT OF JUSTICE					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
ARRA - COPS Hiring Recovery Program	16.710	2009-RK-WX-0581	<u>\$ 213,343</u>	<u>\$ -</u>	<u>\$ -</u>
National Institute of Justice					
Bureau of Justice Assistance					
Direct Program:					
ARRA - Justice Assistance Grant	16.592	2009-SB-B9-2977	<u>\$ 40,827</u>	<u>\$ -</u>	<u>\$ -</u>
Justice Assistance Grant	16.592	2009-DJ-BX-1074	682	-	-
Justice Assistance Grant	16.592	2010-DJ-BX-1451	34,915	-	-
			<u>\$ 76,424</u>	<u>\$ -</u>	<u>\$ -</u>
Total U.S. Department of Justice			<u>\$ 289,767</u>	<u>\$ -</u>	<u>\$ -</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2012
(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 (continued)					
Ozone Days-Free Transit Service	20.205-1	440063.1	\$ 4,452	\$ -	\$ -
Formula Grants for Other than Urbanized Areas					
Urban Mass Transportation Grants					
Administration	20.509	36233.25.13.1	\$ 115,797	\$ 7,237	\$ 142,099
Operating	20.509	36233.25.13.2	122,427	-	553,528
Capital	20.509	36233.25.13.3	13,165	1,646	1,646
			\$ 251,389	\$ 8,883	\$ 697,273
Total U.S. Department of Transportation			\$ 518,170	\$ 8,883	\$ 775,937
U.S. DEPARTMENT OF INTERIOR					
National Park Service					
Pass-through N.C. Department of Cultural Resources					
Historic Preservation Fund	15.904		\$ 15,000	\$ -	\$ -
TOTAL ASSISTANCE - FEDERAL PROGRAMS			\$ 1,451,200	\$ 8,883	\$ 932,838
STATE GRANTS:					
CASH PROGRAMS					
N.C. DEPARTMENT OF TRANSPORTATION					
Powell Bill	N/A		\$ -	\$ 944,701	\$ -
State Maintenance Assistance for					
Transit Systems	N/A	04-CTP-003	\$ -	\$ 205,765	\$ -
Governor's Highway Safety Program -					
Salisbury Police Department grant	N/A	52012.16.27	\$ -	\$ 925	\$ -
Total N. C. Department of Transportation			\$ -	\$ 1,151,391	\$ -
N.C. DEPARTMENT OF CULTURAL RESOURCES					
Historic Preservation Fund	N/A		\$ -	\$ 15,000	\$ -
TOTAL ASSISTANCE - STATE PROGRAMS			\$ -	\$ 1,166,391	\$ -
TOTAL ASSISTANCE			\$ 1,451,200	\$ 1,175,274	\$ 932,838

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2012

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, 2012

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?	<input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No
• Significant deficiency(ies)	<input type="checkbox"/>	Yes <input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted	<input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No

Federal Awards

Internal control over major program:		
• Material weakness(es) identified?	<input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No
• Significant deficiency(ies)	<input type="checkbox"/>	Yes <input checked="" type="checkbox"/> 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>
16.710	ARRA – COPs Hiring Recovery Program
14.218	CDBG Entitlement Program Grants Cluster
20.509	Urban Mass Transportation Grants

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?	<input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No
• Significant deficiency(ies)	<input type="checkbox"/>	Yes <input checked="" type="checkbox"/> 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

CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

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

Finding 2012-01

Criteria: Management should have a system of controls in place to reduce the likelihood that violations of General Statutes occur and go undetected.

Condition: At the end of the current year, the Broadband Services Fund were operating in a deficit (deficit net assets).

Context: While reviewing the client's draft of the financial statements, we noted the condition described above.

Effect: The City was in violation of North Carolina General Statutes.

Cause: Revenues and transfers in were not sufficient to cover total expenditures incurred in these funds.

Recommendation: Implement stringent budgetary preparation controls, as well as monitoring controls, to prevent a deficit in fund balance from reoccurring

Name of Contact Person: John A. Sofley, Jr.

Managements Response: Management concurs with the condition noted above. Management also adds that procedures have been put in place to monitor the condition noted above. Management also wishes to note that the Broadband Services Fund is a relatively new fund and additional customers are being added on a continual basis. Management fully expects that future revenues will eliminate the deficit fund balance.

Section III. Federal Award Findings and Questioned Costs

None Reported.

Section IV. State Award Findings and Questioned Costs

None Reported.

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2012

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

Finding 2011-01 – Repeated as 2012-01 for the Broadband Services Fund and corrected for the Employee Health Care Fund.