
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 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, 2007, which collectively comprises the City of Salisbury's basic financial statements, and have issued our report thereon dated November 14, 2007. We did not audit the financial statements of Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for Downtown Salisbury, Inc., is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Downtown Salisbury, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Martin Starnes & Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
November 14, 2007



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

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

Compliance

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2007. 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, 2007.

Internal Control Over Compliance

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

Martin Starnes + Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
November 14, 2007



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

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

Compliance

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2007. 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, 2007.

Internal Control Over Compliance

The management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

Martin Starnes & Associates CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
November 14, 2007

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2007

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
FEDERAL GRANTS:					
CASH PROGRAMS					
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-03-MC-37-0015	\$ 3,231	\$ -	\$ -
Entitlement Program	14.218	B-04-MC-37-0015	2,560		
Entitlement Program	14.218	B-05-MC-37-0015	117,359		
Entitlement Program	14.218	B-06-MC-37-0015	<u>414,558</u>	<u>-</u>	<u>-</u>
			<u>\$ 537,708</u>	<u>\$ -</u>	<u>\$ -</u>
Pass-through N.C. Department of Housing Finance Agency HOME Program	14.239	R-90-SG-37-0117	<u>\$ 49,789</u>	<u>\$ -</u>	<u>\$ 226,019</u>
Total U.S. Department of Housing And Urban Development			<u>\$ 587,497</u>	<u>\$ -</u>	<u>\$ 226,019</u>
U.S. DEPARTMENT OF JUSTICE					
Office of Justice Programs:					
Office of Community Oriented Policing Services					
Direct Program:					
COPS Methamphetamine Initiative Grant	16.710	2005-CK-WX-0655	<u>\$ 56,064</u>	<u>\$ -</u>	<u>\$ -</u>
Bureau of Justice Assistance					
Direct Program:					
Local Law Enforcement Block Grant	16.592	2004-LB-BX-1189	\$ 4,511	\$ -	\$ 501
Byrne Memorial Justice Assistance Grant	16.592	2005-DJ-BX-1469	10,500		
Gang Resistance Education and Training Grant	16.592	2006-JV-FX-0077	<u>4,209</u>	<u>-</u>	<u>468</u>
			<u>\$ 19,220</u>	<u>\$ -</u>	<u>\$ 969</u>
Pass-through N.C. Department of Crime Control and Public Safety:					
Project SAFE Neighborhoods Grant	16.609	080-1-03-001-BB-137	\$ 30,464	\$ -	\$ -
MDNC Salisbury PSN-Anti-Gang Grant	16.609	080-1-06-001-BJ-054	10,500	-	-
			<u>\$ 40,964</u>	<u>\$ -</u>	<u>\$ -</u>
Total U.S. Department of Justice			<u>\$ 116,248</u>	<u>\$ -</u>	<u>\$ 969</u>

CITY OF SALISBURY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2007

(Continued)

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantors' Number</u>	<u>Federal Direct & Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION					
Pass-through N.C. Department of Transportation:					
SAFETEA Streetscape Enhancement Grant	20.205	E-4949	\$ 97,897	\$ -	\$ 24,474
Urban Mass Transportation Grants					
Capital	20.507	36233.25.8.1	\$ 47,389	\$ 5,924	\$ 5,925
Urban Mass Transportation Grants					
Administration	20.507	36233.25.8.1	\$ 126,498	\$ 7,906	\$ 114,093
Operating	20.507	36233.25.8.1	127,257	-	535,726
			<u>\$ 253,755</u>	<u>\$ 7,906</u>	<u>\$ 649,819</u>
Total U.S. Department of Transportation			\$ 399,041	\$ 13,830	\$ 680,218
TOTAL ASSISTANCE - FEDERAL PROGRAMS			<u>\$ 1,102,786</u>	<u>\$ 13,830</u>	<u>\$ 907,206</u>
STATE GRANTS:					
CASH PROGRAMS					
N.C. DEPARTMENT OF TRANSPORTATION					
Powell Bill	N/A		\$ -	\$ 940,704	\$ -
State Maintenance Assistance for					
Transit Systems	N/A	04-CTP-003	\$ -	\$ 204,820	\$ -
Total N. C. Department of Transportation			\$ -	\$ 1,145,524	\$ -
TOTAL ASSISTANCE - STATE PROGRAMS			\$ -	\$ 1,145,524	\$ -
TOTAL ASSISTANCE			<u>\$ 1,102,786</u>	<u>\$ 1,159,354</u>	<u>\$ 907,206</u>

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2007

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, 2007

Section I. Summary of auditor's results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported

Noncompliance material to financial statements noted Yes No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses(es)? Yes None Reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.507	Urban Mass Transportation Grants
14.218	CDBG Entitlement Program

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

Auditee qualified as low-risk auditee? Yes No

State Awards

Internal control over major State programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses(es)? Yes None Reported

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

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

Identification of major State program: Powell Bill

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

Section III. Federal Award Findings and Questioned Costs
None.

Section IV. State Award Findings and Questioned Costs
None.

CITY OF SALISBURY, NORTH CAROLINA
SCHEDULE OF COMPLIANCE FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

There were no prior year audit findings.

