
Financial Section





Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council

City of Salisbury, North Carolina

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Downtown Salisbury, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina, as of June 30, 2008, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2008, on our consideration of City of Salisbury's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Martin Starnes & Associates CPAs, P.A.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Salisbury, North Carolina, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Salisbury for the fiscal year ended June 30, 2008. We encourage readers to read the information presented here in conjunction with the transmittal letter which begins on page 4 and the City's financial statements, which begin on page 33.

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Salisbury’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 69-70 of this report.

THE CITY OF SALISBURY’S NET ASSETS
Figure 1

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

As noted earlier, net assets may serve over time as one useful indicator of a government’s financial condition. The assets of the City of Salisbury exceeded liabilities by \$131,652,335 as of June 30, 2008, an increase of \$3,530,524 from the fiscal year ended June 30, 2007.

The largest portion of the City’s net assets (86.5%) reflects the City’s investment in capital assets (e.g. land, buildings, machinery, equipment, water and sewer treatment facilities, and water and sewer lines), less any related debt still outstanding that was issued to acquire or build those items. The City of Salisbury uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the City of Salisbury's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. Of the remaining net assets, \$17,819,833 (13.5%) is unrestricted.

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

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

CITY OF SALISBURY CHANGES IN NET ASSETS
Figure 2

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

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

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

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

The General Fund is the chief operating fund of the City of Salisbury. As of June 30, 2008, unreserved fund balance of the General Fund was \$4,446,572, while total fund balance for the General Fund was \$8,064,893. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 13.4 percent of total General Fund expenditures and transfers, while total fund balance represents 24.3 percent of that same amount.

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

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

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

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

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

Revenues were less than the budgeted amounts primarily because some appropriated grant funds and donations had not been earned and therefore, not received by June 30, 2008. The City had not earned these funds because the related expenditures had not been made. Therefore, these unearned grants had no effect on the General Fund's change in fund balance, which increased by \$1,192,164 during the fiscal year ended June 30, 2008.

Proprietary Funds

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The City of Salisbury's investment in capital assets for its governmental and business-type activities as of June 30, 2008 totals \$166,620,580 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles, water and sewer treatment facilities, and water and sewer lines. The City's capital assets in the governmental-type assets decreased 1.8 percent, whereas capital assets in the business-type activities increased by 4 percent.

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

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

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

Figure 3

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

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

Long-term Debt - As of June 30, 2008, the City of Salisbury had total long-term debt outstanding of \$60,188,078 (not including compensated absences). Of this, \$9,729,887 is general obligation debt backed by the full faith and credit of the City and \$31,587,521 represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 1,675,000	\$ 1,875,000	\$ 8,054,887	\$ 9,286,300	\$ 9,729,887	\$ 11,161,300
Revenue bonds	-	-	31,587,521	25,045,997	31,587,521	25,045,997
State bond loans	-	-	9,772,554	10,655,060	9,772,554	10,655,060
Capital leases	-	-	2,274,849	2,535,695	2,274,849	2,535,695
Installment purchases	6,355,267	7,228,720	-	-	6,355,267	7,228,720
HUD Section 108 loan	468,000	500,000	-	-	468,000	500,000
Total	\$ 8,498,267	\$ 9,603,720	\$ 51,689,811	\$ 47,523,052	\$ 60,188,078	\$ 57,126,772

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

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

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Salisbury is \$209,028,426.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2009

Governmental Activities

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

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

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

Business – Type Activities

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

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

REQUESTS FOR INFORMATION

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

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

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

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

CITY OF SALISBURY, NORTH CAROLINA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 8,584,267	\$ 3,889,331	\$ 10,040	\$ -
Public safety	11,855,275	464,189	235,804	96,437
Transportation	5,875,717	157,217	1,090,937	1,119,270
Environmental protection	2,203,772	1,208,241	4,592	-
Culture and recreation	2,830,610	175,416	110,095	125,000
Community and economic development	2,025,313	201,558	369,737	35,506
Education	42,342	-	-	-
Interest on long-term debt	358,688	-	-	-
Total governmental activities	<u>\$ 33,775,984</u>	<u>\$ 6,095,952</u>	<u>\$ 1,821,205</u>	<u>\$ 1,376,213</u>
Business-type activities:				
Water and sewer	\$ 19,488,977	\$ 20,463,596	\$ -	\$ 734,584
Transit	1,258,857	88,633	479,227	37,102
Total business-type activities	<u>\$ 20,747,834</u>	<u>\$ 20,552,229</u>	<u>\$ 479,227</u>	<u>\$ 771,686</u>
Total primary government	<u>\$ 54,523,818</u>	<u>\$ 26,648,181</u>	<u>\$ 2,300,432</u>	<u>\$ 2,147,899</u>
Component units:				
Downtown Salisbury, Inc.	<u>\$ 465,108</u>	<u>\$ 75,550</u>	<u>\$ 90,000</u>	<u>\$ 141,688</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Sales and other taxes				
Unrestricted intergovernmental revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets-beginning				
Net assets-ending				

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government		Component Unit	
Governmental Activities	Business-type Activities	Total	Downtown Salisbury, Inc.
\$ (4,684,896)	\$ -	\$ (4,684,896)	\$ -
(11,058,845)	-	(11,058,845)	-
(3,508,293)	-	(3,508,293)	-
(990,939)	-	(990,939)	-
(2,420,099)	-	(2,420,099)	-
(1,418,512)	-	(1,418,512)	-
(42,342)	-	(42,342)	-
(358,688)	-	(358,688)	-
<u>\$ (24,482,614)</u>	<u>\$ -</u>	<u>\$ (24,482,614)</u>	<u>\$ -</u>
\$ -	\$ 1,709,203	\$ 1,709,203	\$ -
-	(653,895)	(653,895)	-
<u>\$ -</u>	<u>\$ 1,055,308</u>	<u>\$ 1,055,308</u>	<u>\$ -</u>
<u>\$ (24,482,614)</u>	<u>\$ 1,055,308</u>	<u>\$ (23,427,306)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (157,870)</u>
\$ 16,755,835	\$ -	\$ 16,755,835	\$ 127,712
5,220,704	-	5,220,704	-
3,446,122	-	3,446,122	-
461,939	816,163	1,278,102	-
257,067	-	257,067	(4,795)
(437,781)	437,781	-	-
<u>\$ 25,703,886</u>	<u>\$ 1,253,944</u>	<u>\$ 26,957,830</u>	<u>\$ 122,917</u>
\$ 1,221,272	\$ 2,309,252	\$ 3,530,524	\$ (34,953)
43,452,603	84,669,208	128,121,811	194,965
<u>\$ 44,673,875</u>	<u>\$ 86,978,460</u>	<u>\$ 131,652,335</u>	<u>\$ 160,012</u>

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

<u>ASSETS</u>	<u>General Fund</u>	<u>Non-Major Fund</u>	<u>Total Government Funds</u>
Cash and cash equivalents	\$ 7,226,379	\$ 679	\$ 7,227,058
Taxes receivable, net	662,762	-	662,762
Accounts receivable	500,466	-	500,466
Interest receivable	14,167	-	14,167
Due from other governments	2,220,139	36,736	2,256,875
Due from other fund	30,000	-	30,000
Inventories	229,726	-	229,726
Prepaid items	28,948	-	28,948
Total assets	<u>\$ 10,912,587</u>	<u>\$ 37,415</u>	<u>\$ 10,950,002</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,837,477	\$ 1,438	\$ 1,838,915
Due to other funds	-	30,000	30,000
Unearned revenue	347,455	-	347,455
Deferred revenue	662,762	-	662,762
Total liabilities	<u>\$ 2,847,694</u>	<u>\$ 31,438</u>	<u>\$ 2,879,132</u>
Fund balances:			
Reserved for:			
Encumbrances	\$ 594,875	\$ -	\$ 594,875
Inventories	229,726	-	229,726
Prepaid items	28,948	-	824,601
State statute	2,764,772	36,736	2,801,508
Unreserved, reported in:			
General Fund	4,446,572	-	4,446,572
Special Revenue Fund	-	(30,759)	(30,759)
Total fund balances	<u>\$ 8,064,893</u>	<u>\$ 5,977</u>	<u>\$ 8,070,870</u>
Total liabilities and fund balances	<u>\$ 10,912,587</u>	<u>\$ 37,415</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			45,023,641
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Accrued interest receivable from taxes			66,500
Intangible asset - advance funding of pension obligation			45,903
Internal service funds are used by management to charge the costs of certain activities, such as self insurance for health care and workers compensation, to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the statement of net asset			972,816
Liabilities for earned but deferred revenues in fund statements.			662,762
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.			
Long-term debt			(8,498,267)
Accrued interest on long-term debt			(44,393)
Accrued compensated absences			(1,625,957)
Net assets of governmental activities			<u>\$ 44,673,875</u>

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

CITY OF SALISBURY, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

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

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

CITY OF SALISBURY, NORTH CAROLINA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

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

Net changes in fund balances - total governmental funds	\$ 1,097,583
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Changes in deferred revenue for property tax revenues	26,118
Changes in accrued interest receivable on taxes	(1,500)
Changes in advance funding of pension obligation	1,300
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as	
Infrastructure contributed by developers is considered a capital contribution for the statements of activities.	1,735,087
Depreciation is recognized as an expense in the statement of	712,000
Internal service funds are used by management to charge costs of certain activities, such as self-insurance for health care and workers compensation, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.	(3,299,343)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.	(62,338)
Issuance of long-term debt	(906,934)
Repayment of principal on long-term debt	2,012,386
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in long-term portion of compensated absences	(99,018)
Change in accrued interest payable	5,931
Total changes in net assets of governmental activities	<u>\$ 1,221,272</u>

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

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

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

For the Year Ended June 30, 2008

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

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

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

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

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

CITY OF SALISBURY, NORTH CAROLINA

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

For the Year Ended June 30, 2008

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

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

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

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

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

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

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

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

CITY OF SALISBURY, NORTH CAROLINA
STATEMENT OF CHANGES IN NET ASSETS
PENSION TRUST FUND
For the Year Ended June 30, 2008

Additions:	
Employer contributions	\$ 84,882
Investment earnings	<u>39,747</u>
 Total additions	 <u>\$ 124,629</u>
 Deductions:	
Retirement payments	<u>\$ 60,656</u>
 Total deductions	 <u>\$ 60,656</u>
 Net increase	 \$ 63,973
Net assets, beginning of year	<u>884,803</u>
Net assets, end of year	<u><u>\$ 948,776</u></u>

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

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Discretely Presented Component Unit

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

Related Organization

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

B. Basis of Presentation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

The City reports the following major governmental fund:

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

The City reports the following non-major governmental fund:

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

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

The City reports the following other fund types:

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

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

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

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements – The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the Agency Funds which have no measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the

NOTES TO THE FINANCIAL STATEMENTS

City gives (or receives) value without directly receiving (or giving) equal value, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered vehicles on behalf of all municipalities and special tax districts in the county, including the City of Salisbury. For motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as deferred revenues. Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply general revenues, followed by categorical block grants, and then by cost-reimbursement grants.

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

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the General, Special Revenue, and Enterprise funds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Project Fund and Enterprise Fund Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. These appropriations continue until the project is completed. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the City Council. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the City Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities and Fund Equity

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the City and Downtown Salisbury, Inc. to invest in obligations of the United States or obligations fully guaranteed, both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The City's and Downtown Salisbury Inc.'s investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values of January 1, 2006. As allowed by State law, the City has established a

NOTES TO THE FINANCIAL STATEMENTS

schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventories and Prepaid Items

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

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

7. Capital Assets

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

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

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

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

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

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the

NOTES TO THE FINANCIAL STATEMENTS

straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

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

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

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

10. Net Assets/Fund Balances

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

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

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

The governmental fund types classify fund balances as follows:

Reserved:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Unreserved:

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

F. Revenues, Expenditures, and Expenses

1. Grant Revenue

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

2. Investment Income

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

3. Inter-fund Transactions

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

G. Use of Estimates

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

Note 2. Detail Notes On All Funds

A. Assets

1. Deposits

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

2. Investments

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

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

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

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

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

3. Receivables - Allowances for Doubtful Accounts

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

<u>Fund</u>	<u>June 30, 2008</u>
General Fund:	
Taxes receivable	<u>\$ 230,000</u>
Enterprise Funds:	
Utility receivables	<u>\$ 85,800</u>

NOTES TO THE FINANCIAL STATEMENTS

4. Capital Assets

Primary Government

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

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

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

General government	\$ 843,241
Public safety	654,234
Transportation	1,452,874
Environmental protection	150,165
Cultural and recreational	172,009
Land management and development	<u>26,822</u>
Total depreciation expense	<u><u>\$ 3,299,344</u></u>

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 2,072,067	\$ -	\$ -	\$ 2,072,067
Construction in progress	3,978,576	8,607,990	4,026,766	8,559,800
Total capital assets not being depreciated	<u>\$ 6,050,643</u>	<u>\$ 8,607,990</u>	<u>\$ 4,026,766</u>	<u>\$ 10,631,867</u>
Capital assets being depreciated:				
Plant and distribution systems	\$ 155,887,754	\$ 4,090,765	\$ 177,973	\$ 159,800,546
Furniture and maintenance equipment	2,920,470	129,045	37,285	3,012,230
Vehicles and motorized equipment	4,118,281	369,906	-	4,488,187
Total capital assets being depreciated	<u>\$ 162,926,505</u>	<u>\$ 4,589,716</u>	<u>\$ 215,258</u>	<u>\$ 167,300,963</u>
Less accumulated depreciation for:				
Plant and distribution systems	\$ 47,032,830	\$ 3,720,498	\$ 58,581	\$ 50,694,747
Furniture and maintenance equipment	2,609,392	64,744	37,285	2,636,851
Vehicles and motorized equipment	3,043,328	308,272	-	3,351,600
Total accumulated depreciation	<u>\$ 52,685,550</u>	<u>\$ 4,093,514</u>	<u>\$ 95,866</u>	<u>\$ 56,683,198</u>
Total capital assets being depreciated, net	<u>\$ 110,240,955</u>	<u>\$ 496,202</u>	<u>\$ 119,392</u>	<u>\$ 110,617,765</u>
Water and Sewer Fund capital assets, net	<u>\$ 116,291,598</u>	<u>\$ 9,104,192</u>	<u>\$ 4,146,158</u>	<u>\$ 121,249,632</u>
Transit Fund				
Capital assets being depreciated:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	37,057	-	-	37,057
Vehicles and motorized equipment	1,563,775	-	251,608	1,312,167
Total capital assets being depreciated	<u>\$ 2,068,756</u>	<u>\$ -</u>	<u>\$ 251,608</u>	<u>\$ 1,817,148</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	29,724	1,600	-	31,324
Vehicles and motorized equipment	987,559	234,642	251,608	970,593
	<u>\$ 1,485,207</u>	<u>\$ 236,242</u>	<u>\$ 251,608</u>	<u>\$ 1,469,841</u>
Transit Fund capital assets, net	<u>\$ 583,549</u>	<u>\$ (236,242)</u>	<u>\$ -</u>	<u>\$ 347,307</u>
Business-type activities capital assets, net	<u>\$ 116,674,595</u>	<u>\$ 8,867,950</u>	<u>\$ 4,146,158</u>	<u>\$ 121,596,939</u>

Construction commitments

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

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

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.90% and 4.86%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Salisbury are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were \$790,428, \$828,534, and \$797,786, respectively. The contributions made by the City equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

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

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

Retirees and beneficiaries currently receiving benefits	4
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>87</u>
Total	<u><u>91</u></u>

2. Summary of Significant Accounting Policies

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

NOTES TO THE FINANCIAL STATEMENTS

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

3. Contributions

North Carolina statutes require the City to provide these retirement benefits. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$84,882 or 2.8% of annual covered payroll. There were no contributions made by employees. The City’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid by the General Fund.

The annual required contribution for the current year was determined as part of the December 31, 2007 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Item (b) included an inflation adjustment of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2007 was 23 years.

4. Annual Pension Cost and Net Pension Asset

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

Annual required contribution	\$ 84,075
Interest on net pension obligation	(3,234)
Adjustment to annual required contribution	<u>2,741</u>
Annual pension cost	\$ 83,582
Contributions made	<u>84,882</u>
Increase in net pension asset	\$ 1,300
Net pension asset beginning of year	<u>44,603</u>
Net pension asset end of year	<u><u>\$ 45,903</u></u>

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

5. Funded Status and Funding Progress

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

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

NOTES TO THE FINANCIAL STATEMENTS

c. Supplemental Retirement Income Plan

Plan Description: The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to all full-time employees of the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 01(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy: Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5 percent of each law enforcement officer's salary. In addition to this requirement, the City has elected to contribute to the Plan an amount equal to 3 percent of the monthly salary of each employee not engaged in law enforcement. All amounts contributed are vested immediately. Also, employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2008 were \$937,122, which consisted of \$605,923 from the City and \$331,199 from the employees.

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

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

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

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

e. Other Post-employment Benefits

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

2. Other Employment Benefits

The City of Salisbury has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The

NOTES TO THE FINANCIAL STATEMENTS

beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to his/her death. Effective July 1, 2004, death benefits must be at least \$25,000 but cannot exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2008, the City made contributions to the State for death benefits of \$17,835. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.10% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

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

3. Deferred/Unearned Revenue

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

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

4. Risk Management

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2008 the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

6. Long-Term Obligations

a. Capital Leases

The City has entered into various agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates on these agreements range from 3.385% to 5.6%. The City has recorded water and sewer assets related to these leases at the City's cost of \$7,898,494. The future minimum lease payments at June 30, 2008 total \$2,760,599, including \$485,750 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

The future minimum lease obligations as of June 30, 2008 were as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

b. Installment Purchases

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

Installment purchase contract for capital improvements and facilities renovations from BB&T Leasing Corporation, dated December 29, 1999 in the amount of \$1,000,000, payable in twenty semi-annual installments of \$63,332 at an effective interest rate of 4.73%.

Installment purchase contract from Bank of America for construction and capital improvements of facilities, dated December 22, 2000 in the amount of \$1,000,000, payable in thirty semi-annual installments consisting of \$33,333 principal plus interest at an effective rate of 5.25%.

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

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

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

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

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

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

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

c. General Obligation Indebtedness

The City's general obligation bonds serviced by the governmental funds were issued for the acquisition and improvement of parks and recreation facilities. Those general obligation bonds issued to finance the construction of facilities in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund.

NOTES TO THE FINANCIAL STATEMENTS

All general obligation bonds are collateralized by the full faith, credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2008 are comprised of the following individual issues:

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

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

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

Advance Refunding

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

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

NOTES TO THE FINANCIAL STATEMENTS

d. State Bond Loans

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

	Balance <u>June 30, 2008</u>
\$5,000,000 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	\$ 2,250,000
\$450,120 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	202,554
\$3,000,000 State Bond Loan, average rate of 2.60%, issued November 1999 maturing serially to 2019	1,800,000
\$9,200,000 State Bond Loan, average rate of 2.60%, issued June 2000 maturing serially to 2020	<u>5,520,000</u>
Total State Bond Loans	<u>\$ 9,772,554</u>

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

Year Ending June 30,	Business-Type Activities	
	State Bond Loans	
	Principal	Interest
2009	\$ 882,506	\$ 274,443
2010	882,506	249,236
2011	882,506	224,029
2012	882,506	198,822
2013	882,506	173,615
2014-2018	4,140,024	489,970
2019-2020	<u>1,220,000</u>	<u>47,580</u>
	<u>\$ 9,772,554</u>	<u>\$ 1,657,695</u>

e. Revenue Bonds

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

	Balance <u>June 30, 2008</u>
\$2,040,000 Water and Sewer Revenue Bonds, Series 1998, average rate of 4.78%, issued January 1998, maturing serially to 2018	\$ 1,250,000
\$20,505,000 Water and Sewer Revenue Bonds, Series 2002, average rate of 3.66%, issued May 2002, maturing serially to 2027 The amount is net of unamortized issuance costs of \$398,787	17,241,213
\$6,000,000 Water and Sewer Revenue Bonds, Series 2006, rate of 3.99%, issued December 2006, maturing serially to 2026	5,696,308
\$7,400,000 Water and Sewer Revenue Bonds, Series 2007, rate of 4.06%, issued October 2007, maturing serially to 2028	<u>7,400,000</u>
Total Revenue Bonds	<u>\$ 31,587,521</u>

NOTES TO THE FINANCIAL STATEMENTS

The future payments of the revenue bonds are as follows:

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

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

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

- (1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.
- (2) Total operating expenses exclusive of depreciation.
- (3) Parity debt includes revenue bonds only.

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

f. HUD Section 108 Loan

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

NOTES TO THE FINANCIAL STATEMENTS

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

Year Ending June 30,	Governmental Activities HUD Section 108 Loan	
	Principal	Interest
	2009	\$ 32,000
2010	32,000	21,099
2011	32,000	19,824
2012	32,000	18,449
2013	32,000	16,993
2014-2018	160,000	61,368
2019-2023	148,000	18,550
	<u>\$ 468,000</u>	<u>\$ 178,555</u>

g. Changes in Long-Term Liabilities

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

7. Accounts Payable

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

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

NOTES TO THE FINANCIAL STATEMENTS

C. Interfund Balances and Activity

1. Transfers to/from Other Funds

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

2. Due To/Due From Other Funds

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

Note 3. Joint Venture

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints an additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2008, the City reported revenues and expenditures for the payments of \$26,156 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2008. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Farmville, NC 27828.

Note 4. Commitments and Contingencies

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

Note 5. Pronouncements Issued But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2008 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City.

- GASB Statement Number 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans."
- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."
- GASB Statement Number 51, "Accounting and Financial Reporting for Intangible Assets."

