



CITY OF SALISBURY, MARYLAND

AUDIT REPORT

JUNE 30, 2012

CITY OF SALISBURY
TABLE OF CONTENTS

	<u>PAGE</u>
ORGANIZATION	1
INDEPENDENT AUDITORS' REPORT	2 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 10
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
- Statement of Net Position	11
- Statement of Activities	12
Fund Financial Statements:	
- Balance Sheet - Governmental Funds	13
- Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	14
- Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
- Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to Statement of Activities	16
- Statement of Fund Net Position - Proprietary Funds	17
- Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	18
- Statement of Cash Flows - Proprietary Funds	19
- Statement of Net Position - Fiduciary Funds	20
- Statement of Changes in Net Position - Fiduciary Funds	21
NOTES TO FINANCIAL STATEMENTS	22 - 44
REQUIRED SUPPLEMENTARY INFORMATION	
- Budgetary Comparison Schedule - General Fund	45

CITY OF SALISBURY

TABLE OF CONTENTS

	<u>PAGE</u>
OTHER SUPPLEMENTARY INFORMATION	
General Fund:	
- Schedule of Revenue - Estimated and Actual	46 - 47
- Schedule of Expenditures Compared with Appropriations	48 - 52
Nonmajor Governmental Funds:	
- Combining Balance Sheet	53
- Combining Statement of Revenues, Expenditures and Changes in Fund Balances	54
- Statement of Revenues, Expenditures and Changes in Fund Deficit - Grant Fund	55
Nonmajor Proprietary Funds:	
- Combining Statement of Net Position	56
- Combining Statement of Revenues, Expenses and Changes in Net Position	57
Enterprise Funds:	
- Combining Statement of Revenues, Expenses and Changes in Net Position	
- Water and Sewer Fund	58
- Schedule of Revenues and Expenses - Budget and Actual	
- Water Department	59 - 60
- Sewer Department	61 - 62
- City Marina	63
- Parking Authority	64
STATISTICAL INFORMATION (UNAUDITED)	
- Schedule of Delinquent Taxes Receivable	65
- Statement of Bonded Indebtedness	66
- General Fund Revenue by Source	67
- General Fund Expenditures by Function	68
- Water and Sewer Department Operations	69
- General and Sinking Fund - Property Tax Levies and Collections	70
- General and Sinking Fund - Assessed Values and Debt Ratios	71

CITY OF SALISBURY, MARYLAND
ORGANIZATION
SERVING AS OF JUNE 30, 2012

OFFICIALS - ELECTED

Mayor	James Ireton, Jr.
President of Council	Terry Cohen
Vice President of Council	Deborah S. Campbell
Council Members	Eugenie P. Shields Laura Mitchell Tim Spies

OFFICIALS - STAFF

City Administrator	John R. Pick
Assistant City Administrator	Lore L. Chambers
City Clerk	Brenda Colegrove
Acting Director of Internal Services	Gerri L. Moore
City Solicitor	S. Mark Tilghman
Director of Public Works	Teresa Gardner
Director of Department of Building, Permits and Inspections	William Holland
Director of Neighborhood Services and Code Compliance	M. Thomas Stevenson, Jr.
Director of Community Development	Deborah J. Stam
Chief of Police	Barbara Duncan
Acting Chief of Fire Department	Rick Hoppes
Incorporated	1854

INDEPENDENT AUDITORS' REPORT

Barbacane, Thornton & Company LLP

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December 3, 2012

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Members of City Council
City of Salisbury
Salisbury, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Salisbury, Maryland, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Salisbury, Maryland, as of June 30, 2012, and the respective changes in its financial position and its cash flows, where applicable, thereof 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 our report dated December 3, 2012 on our consideration of the City of Salisbury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required

Members of City Council
City of Salisbury

supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salisbury, Maryland's financial statements as a whole. The other supplementary information and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP



City of Salisbury, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

This section of the annual financial report of the City of Salisbury (the "City") presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2012. We encourage readers to consider the discussion and analysis along with the other information in this report, including the notes to the financial statements. In this section, we have provided an overview of the basic financial statements, selected condensed financial data and highlights, and analysis of the City's financial position and changes in financial position.

FINANCIAL HIGHLIGHTS

- The City's total combined net position at June 30, 2012 was \$112,642,035. Net position of our governmental activities increased by \$1,306,634 (or 4.0 percent) while net position of our business-type activities increased by \$10,486,874 (or 15.0 percent).
- The General Fund reported revenues in excess of expenditures of \$576,512, bringing its fund balance this year to \$12,686,941.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information* and *other supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *entity-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the entity-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* and *other supplementary information* that further explain and support the information in the financial statements.

Figure A-1, Required Components of the City's Annual Financial Report

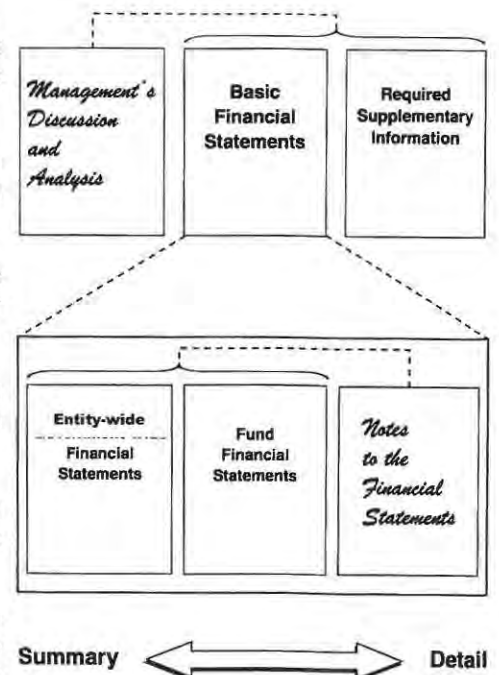


Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2, Major Features of the City's Government-wide and Fund Financial Statements

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Entity-wide Statements

The entity-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operate similar to private businesses: self insurance	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	• Statement of net position	• Balance sheet	• Statement of net position	• Statement of fiduciary net position
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses and changes in fund net position • Statement of cash flows	• Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

The two entity-wide statements report the City's net position and how it has changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The entity-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, culture and recreation, and interest on long-term debt. Property taxes and charges for services fund most of these activities. In addition, the entity-wide financial statements include the City's business-type activities, which account for services for which the City charges customers.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the entity-wide statements, additional information is provided at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

- **Proprietary funds**—Proprietary funds generally are used to account for services for which the City charges customers—either outside customers, or internal units or departments of the City. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges for customer services include: water and sewer fees, Mitchell Landing Apartment rents and Septage treatment fees. Operating expenses for enterprise funds include cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Proprietary funds provide the same type of information as shown in the entity-wide financial statements.

The City maintains the following type of enterprise funds to account for the operations of the City's business-type activities: water and sewer services and Mitchell Landing Apartments, all of which are considered to be major funds of the City, and several other nonmajor fee-supported activities.

- **Fiduciary funds**—The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the City's entity-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position was \$112.6 million.

Table A-1
CITY'S NET POSITION
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
CURRENT ASSETS:						
Cash and cash equivalents	\$ 10,741	\$ 10,617	\$ 14,632	\$ 6,735	\$ 25,373	\$ 17,352
Accounts receivable, net	4,004	3,031	2,658	2,366	6,662	5,397
Due from other governmental units	520	256	610	676	1,130	932
Other	-	-	12	24	12	24
Inventories	835	771	509	516	1,344	1,287
TOTAL CURRENT ASSETS	16,100	14,675	18,421	10,317	34,521	24,992
NONCURRENT ASSETS:						
Restricted cash	4,605	3,836	11,328	4,675	15,933	8,511
Bond issuance costs, net of amortization	170	141	91	45	261	186
Capital assets at cost	60,940	58,808	147,802	146,187	208,742	204,995
Less accumulated depreciation	(18,971)	(17,632)	(39,861)	(38,491)	(58,832)	(56,123)
TOTAL NONCURRENT ASSETS	46,744	45,153	119,360	112,416	166,104	157,569
TOTAL ASSETS	62,844	59,828	137,781	122,733	200,625	182,561
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	833	947	413	624	1,246	1,571
Bonds, notes and capital leases payable	2,551	2,746	3,613	3,429	6,164	6,175
Other	859	933	175	189	1,034	1,122
TOTAL CURRENT LIABILITIES	4,243	4,626	4,201	4,242	8,444	8,868
NONCURRENT LIABILITIES:						
Compensated absences	1,148	1,319	202	211	1,350	1,530
Post-employment benefits	8,351	5,464	2,220	1,428	10,571	6,892
Bonds, notes and capital leases payable	16,937	17,561	50,680	46,861	67,617	64,422
TOTAL NONCURRENT LIABILITIES	26,436	24,344	53,102	48,500	79,538	72,844
TOTAL LIABILITIES	30,679	28,970	57,302	52,742	87,982	81,712
NET POSITION:						
Invested in capital assets, net of related debt	22,481	20,869	53,648	57,405	76,129	78,274
Restricted	4,605	3,836	11,328	4,675	15,933	8,511
Unrestricted	5,079	6,153	15,502	7,911	20,581	14,064
TOTAL NET POSITION	\$ 32,165	\$ 30,858	\$ 80,478	\$ 69,991	\$ 112,643	\$ 100,849

Net position of the City's governmental activities increased 4.0 percent to 32.2 million due to increases in current and noncurrent assets. Net position of the City's business-type activities increased by 15 percent to \$80.5 million due to increases in current and non-current assets relating to a waste water treatment plant settlement.

The City's total revenues were \$57.7 million. A significant portion, 40.2 percent, of the City's revenue comes from property taxes. (See Figure A-3.) A portion, 36.1 percent, comes from charges for services and 6.5 percent comes from operating grants. The remaining 17.2 percent comes from miscellaneous, capital grants and investment earnings. The total cost of all programs and services was \$45.9 million.

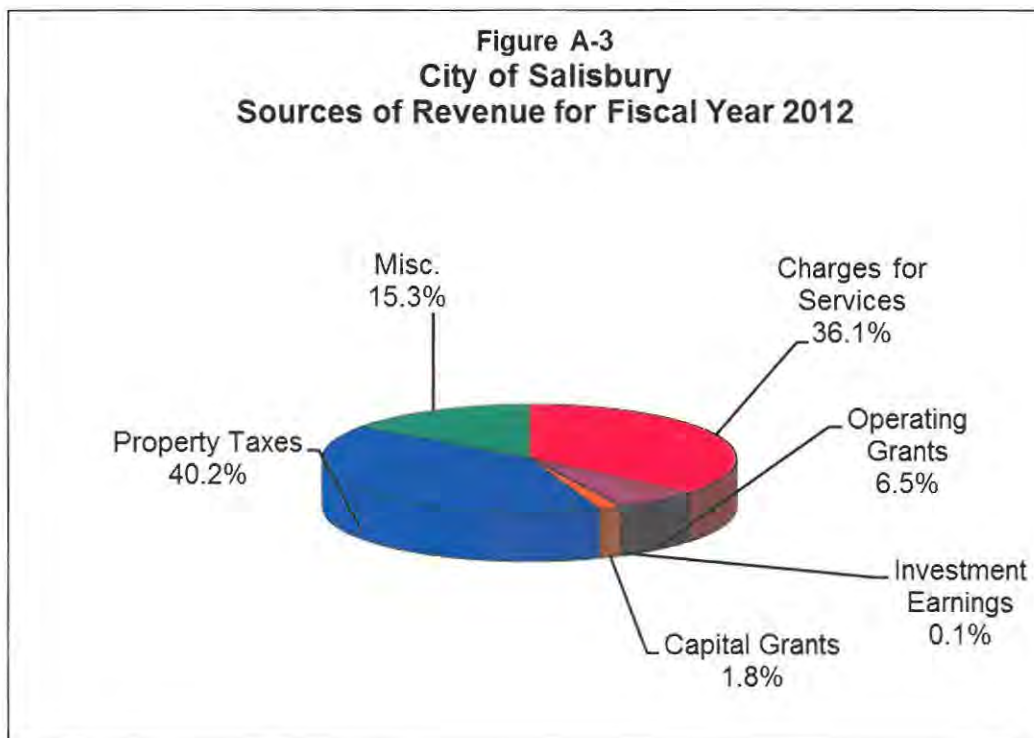


Table A-2
SOURCES OF REVENUES
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 4,471	\$ 4,260	\$ 16,378	\$ 14,859	\$ 20,849	\$ 19,119
Operating grants	3,741	3,284	-	-	3,741	3,284
Capital grants	764	409	288	2,696	1,052	3,105
General revenues/transfers:						
Taxes	23,181	22,650	-	-	23,181	22,650
Investment earnings	30	44	18	31	48	75
Operating transfers	(33)	(41)	33	41	-	-
Miscellaneous	1,221	1,025	7,599	-	8,820	1,025
TOTAL REVENUES	\$ 33,375	\$ 31,631	\$ 24,316	\$ 17,627	\$ 57,691	\$ 49,258

Table A-3 presents the cost of each of the City's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Table A-3
NET COST OF CITY FUNCTIONS
(in thousands of dollars)

	Total Cost of Services			Net Cost of Services		
	2012	2011	% Change	2012	2011	% Change
Governmental activities:						
General government	\$ 3,210	\$ 3,288	-2.4%	\$ 707	\$ 590	19.8%
Public safety	18,879	18,376	2.7%	14,529	14,453	.5%
Public works	6,533	7,058	-7.4%	4,975	6,031	-17.5%
Recreation and culture	2,043	2,095	-2.5%	1,478	1,789	-17.4%
Miscellaneous	492	480	2.5%	493	480	2.5%
Interest on long-term debt	910	971	-6.3%	910	971	-6.3%
Total governmental activities	<u>32,067</u>	<u>32,268</u>		<u>23,092</u>	<u>24,314</u>	
Business-type activities:						
Water and sewer	12,828	13,880	-7.6%	(3,011)	(2,859)	5.3%
Other	1,001	1,102	9.2%	175	286	-6.7%
Total business-type activities	<u>13,829</u>	<u>14,982</u>		<u>(2,836)</u>	<u>(2,573)</u>	
Total	<u>\$ 45,896</u>	<u>\$ 47,250</u>		<u>\$ 20,256</u>	<u>\$ 21,741</u>	

CHANGE IN NET POSITION
(in thousands of dollars)

Governmental Activities		Business-type Activities		Totals	
2012	2011	2012	2011	2012	2011
<u>\$ 1,307</u>	<u>\$ (636)</u>	<u>\$ 10,487</u>	<u>\$ 2,646</u>	<u>\$ 11,794</u>	<u>\$ 2,010</u>

Governmental Activities

Property tax rates were increased slightly due the final phase of assessable base between FY 2011 and FY 2012. The cost of all *governmental* activities this year was \$32.1 million. However, the amount that the City's taxpayers paid for these activities through taxes was only \$23.2 million. Some of the cost was paid by those who directly benefited from the programs, \$4.5 million, or by grants and contributions, \$4.5 million. The cost of general government had a .6 percent decrease between years, which can be attributed to overall cost decreases.

Business-type Activities

Revenues of the City's business-type activities were \$24.3 million in FY 2012 vs. \$17.6 million in FY 2011 (refer to Table A-2) while expenses were \$13.8 million in FY 2012 versus \$15 million in FY 2011. The revenue increase is due to the City receiving lawsuit settlement proceeds in relation to the Waste Water Treatment plant and \$1.5 million more in charges for services. Overall costs decreased by \$1.1 million to 7.7 percent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$17.4 million, \$1.7 million greater than the previous year. At year end, the general fund had a fund balance of \$12.7 million and the capital improvements fund had a fund balance of \$4.6 million. The fund balance for other governmental funds reported an ending fund balance of \$0.15 million. Revenue collections offset expenditures for the year.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. The final expenditure budget for the general fund was \$33.2 million versus an original budget of \$31.6 million. The majority of the variance is due to public safety expenditures and carry forward encumbrances from FY 2011. Actual expenditures were \$3.1 million below final budget amounts, not considering refunding debt payments. Most departments were under budget during the year. One department with a negative variance was human resources. The variance for this department was due to the healthcare reserve fund consortium annual settlement. However, overall general government expenditures had a favorable variance compared to final budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had invested \$208.7 million in a broad range of capital assets. (See Table A-4.)

Table A-4
CITY'S CAPITAL ASSETS
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals		Total %
	2012	2011	2012	2011	2012	2011	Change
Land and art	\$ 7,884	\$ 7,860	\$ 2,047	\$ 2,047	\$ 9,931	\$ 9,907	0%
Buildings and improvements	20,434	20,435	21,758	21,705	42,192	42,140	0%
Infrastructure	8,240	8,240	25,644	25,644	33,884	33,884	0%
Machinery and equipment	17,464	15,581	11,597	11,704	29,061	27,285	7%
Zoo animals	36	36	-	-	36	36	0%
Construction-in-progress	6,882	6,656	86,756	85,087	93,638	91,743	2%
Totals at historical cost	60,940	58,808	147,802	146,187	208,742	204,995	2%
Total accumulated depreciation	18,971	17,632	39,861	38,491	58,832	56,123	5%
Net capital assets	<u>\$ 41,969</u>	<u>\$ 41,176</u>	<u>\$107,941</u>	<u>\$107,696</u>	<u>\$149,910</u>	<u>\$148,872</u>	1%

The City's governmental capital purchases for fiscal year 2012 included a police phone system, police radios, three ambulances, an air light unit, street sweeper, front end loader, four police vehicles and a rapid response vessel. The business-type activities purchases were predominately for upgrades to the wastewater treatment plant, which is still under construction at year end, as well as construction of the Beaverdam Creek stabilization and Paleo Water treatment plant media replacement still under construction at year end.

The City's fiscal year 2013 capital budget consists primarily of the ongoing upgrade of the wastewater treatment plant, seven police vehicles with equipment, one ambulance and replacement of emergency responder's radios, Parkside lift station, Hampshire lift station and vacuum truck. More information about the City's capital assets is presented in the notes to the financial statements.

Long-term Debt

At year end, the City had \$73.8 million in bonds, notes and leases outstanding, an increase of \$3.2 million over the previous year. The City issued \$7.7 million for Public Improvement bonds to finance river walk repairs, East Main Street water and sewer lines, North Division Street sewer systems and the continuing construction of the upgrade to the Wastewater treatment plant. The City also issued Public Improvement Refunding Bonds Series 2011A for \$2.6 million and 2011B for \$4.8 million to refinance the 1994, 1999, 2001 and 2003 bonds in order to achieve lower interest rates and an economic gain. In addition, the City entered into an agreement with Maryland Water quality financing administration for Drinking Water Bond Series 2012A in the amount of \$1.6 million and Series 2012B for \$1.5 million for the Milford Street Elevated Water Tank. Only \$.052 million was drawn on these two debt issues in FY 2012. The City used lease financing to purchase four police vehicles, an ambulance, radios and a new phone system in FY 2012. The City is limited to a maximum general obligation bond limit of \$106 million. The City has recently issued its debt through private placement or use of loan programs with the State of Maryland; thus, it does not go to the credit rating agencies. More detailed information about the City's long-term liabilities is presented in Note 6 to the financial statements.

Table A-5
CITY'S LONG-TERM DEBT
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals		Total %
	2012	2011	2012	2011	2012	2011	Change
Leases payable	\$ 2,716	\$ 2,582	\$ 133	\$ 184	\$ 2,849	\$ 2,766	3%
Bonds payable	16,539	17,432	52,778	48,724	69,317	66,156	5%
Mortgages and notes payable	235	293	1,382	1,382	1,617	1,675	-4%
Total Bonds and Notes Payable	<u>\$ 19,488</u>	<u>\$ 20,307</u>	<u>\$ 54,293</u>	<u>\$ 50,290</u>	<u>\$ 73,783</u>	<u>\$ 70,597</u>	5%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Construction activity in the City is slowly increasing, corresponding to the overall housing market. There is still some continuing construction activity in the City, with a mixture of residential and commercial, but it is significantly below the levels seen in this decade. In FY 2012, the City collected \$185,570 in building permit revenues and in FY 2011, the City collected \$147,558 in building permit revenues, showing a slight increase in growth.
- With the slow growth in the economy, the City has received slightly more real estate tax and received more revenue in ordinary business corporation's tax in this year than last year. In addition, the City received more state shared income tax than the prior year.
- The City's final phase of reassessment for the past three years is being completed in December 2012, with the next three-year cycle starting in January 2013.
- The State of Maryland continued the revenue cuts for Highway User Taxes and Police Aid Grants for FY 2013. For the near future, the City does not expect this funding to return.
- The local (Wicomico County) unemployment rate as of September 2012 was 8.7 percent, up by 0.2 percent from a year ago. The State of Maryland has a 7.3 percent rate and the nation as a whole has a 7.8 percent unemployment rate.

The City's general operating fund spending will decrease slightly in the 2013 budget. Budgeted 2013 expenditures are \$30,732,284 compared to the final adjusted 2012 budget of \$33,182,635. The City did not raise taxes for fiscal 2013. The future revenue outlook is uncertain with the nationwide housing and employment situation showing a slow recovery in general.

Additionally, the City has limited options for generating revenue and is approaching its tax rate limit. The City also must be prepared for continued revenue reductions from State of Maryland revenue sources. As a result, the City will need to continue to limit the growth of expenses in order to stay within projected revenues and other operating resources.

As for the City's business-type activities, the water and sewer fund budget will decrease in the FY 2013. Budgeted 2013 expenditures are \$17,041,508. Sewer rates were increased for FY 2012 (18.4 percent). The City is continuing to upgrade the wastewater treatment plant, which will eventually cost around \$80 million. During fiscal year 2006, the City borrowed \$42 million related to this upgrade. The interest rate on this debt is 0.4 percent. (See Note 6 for further discussion.) The current design of the wastewater treatment plant is not operating as required. As such, the City has undertaken a corrective action plan process; estimates for additional costs related to the plant are approximately \$50 million. At this time, it is unknown how the City will finance the corrective action plan. Discussions are being held with the State of Maryland Department of Environment as well as looking at the City's borrowing capacity.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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 demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Director of Internal Services in the Finance Division, 125 North Division Street, Room 103, Salisbury, MD 21801 or visit the City's website at www.ci.salisbury.md.us.

CITY OF SALISBURY, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 10,510,818	\$ 14,620,098	\$ 25,130,916
Savings and deposits	230,379	11,756	242,135
Accounts receivable, net	4,003,789	2,658,212	6,662,001
Due from other governmental units	519,804	610,177	1,129,981
Prepaid expenses	-	12,270	12,270
Inventories	835,328	508,368	1,343,696
Total Current Assets	<u>16,100,118</u>	<u>18,420,881</u>	<u>34,520,999</u>
Noncurrent assets:			
Restricted cash and investment pool	4,604,624	11,328,064	15,932,688
Bond issuance costs, net of amortization	170,155	91,434	261,589
Construction-in-progress	6,882,000	86,756,297	93,638,297
Land and art	7,883,810	2,046,753	9,930,563
Capital assets at cost	46,174,070	58,998,573	105,172,643
Less accumulated depreciation	<u>(18,970,615)</u>	<u>(39,860,657)</u>	<u>(58,831,272)</u>
Total Noncurrent Assets	<u>46,744,044</u>	<u>119,360,464</u>	<u>166,104,508</u>
TOTAL ASSETS	<u><u>\$ 62,844,162</u></u>	<u><u>\$ 137,781,345</u></u>	<u><u>\$ 200,625,507</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 833,493	\$ 412,966	\$ 1,246,459
Due to other governmental units	3,150	-	3,150
Deposits and advance payments of taxes	632,937	24,237	657,174
Compensated absences	127,501	22,496	149,997
Accrued interest payable	95,258	128,293	223,551
Bonds, notes and capital leases payable	<u>2,551,136</u>	<u>3,612,793</u>	<u>6,163,929</u>
Total Current Liabilities	<u>4,243,475</u>	<u>4,200,785</u>	<u>8,444,260</u>
Noncurrent liabilities:			
Compensated absences	1,147,508	202,463	1,349,971
Post-employment benefits	8,351,377	2,219,986	10,571,363
Bonds, notes and capital leases payable	<u>16,937,316</u>	<u>50,680,562</u>	<u>67,617,878</u>
Total Noncurrent Liabilities	<u>26,436,201</u>	<u>53,103,011</u>	<u>79,539,212</u>
Total Liabilities	<u>30,679,676</u>	<u>57,303,796</u>	<u>87,983,472</u>
NET POSITION			
Invested in capital assets, net of related debt	22,480,813	53,647,611	76,128,424
Restricted	4,604,624	11,328,064	15,932,688
Unrestricted	<u>5,079,049</u>	<u>15,501,874</u>	<u>20,580,923</u>
Total Net Position	<u>32,164,486</u>	<u>80,477,549</u>	<u>112,642,035</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 62,844,162</u></u>	<u><u>\$ 137,781,345</u></u>	<u><u>\$ 200,625,507</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Capital Improvements Fund	Nonmajor Funds	Total
ASSETS				
Cash	\$ 9,177,169	\$ 1,713,265	\$ 176,481	\$11,066,915
Investment pool	1,522,008	2,891,359	36,832	4,450,199
Savings and deposits	230,379	-	-	230,379
Taxes receivable	2,634,028	-	-	2,634,028
Less allowance for uncollectibles	(1,110,207)	-	-	(1,110,207)
Due from other governmental units	266,043	-	253,761	519,804
Sundry accounts receivable	3,805,942	-	99,344	3,905,286
Less allowance for uncollectibles	(1,425,318)	-	-	(1,425,318)
Inventory	835,328	-	-	835,328
TOTAL ASSETS	\$15,935,372	\$ 4,604,624	\$ 566,418	\$21,106,414
LIABILITIES AND FUND BALANCES				
Liabilities:				
Cash overdraft	\$ -	\$ -	\$ 401,672	\$ 401,672
Accounts payable and accrued expenses	816,150	-	17,343	833,493
Due to other governmental units	3,150	-	-	3,150
Deposits and advance payment of taxes	632,937	-	-	632,937
Deferred revenue	1,669,939	-	-	1,669,939
Compensated absences	126,255	-	1,246	127,501
Total Liabilities	3,248,431	-	420,261	3,668,692
Fund Balances (Deficit):				
Nonspendable	835,328	-	-	835,328
Restricted	-	4,604,624	-	4,604,624
Committed	800,157	-	218,210	1,018,367
Assigned	1,259,895	-	84,571	1,344,466
Unassigned (Deficit)	9,791,561	-	(156,624)	9,634,937
Total Fund Balances	12,686,941	4,604,624	146,157	17,437,722
TOTAL LIABILITIES AND FUND BALANCES	\$15,935,372	\$ 4,604,624	\$ 566,418	\$21,106,414

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 17,437,722
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities column of the statement of net position.	41,969,265
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Refunded and new debt and issuance costs resulted in deferred charges and credits which will be amortized over the life of new debt but do not represent current rights.	170,155
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Certain revenues that do not provide current financial resources are reported as deferred revenue in the fund financial statements but are reported as revenue in the governmental activities column of the statement of activities.	1,669,939
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statements but are reported in the governmental activities column statement of net position. Those liabilities consist of:

Bonds, notes and capital leases payable	\$ (19,488,452)	
Compensated absences	(1,147,508)	
Post-employment benefits	(8,351,377)	
Accrued interest on bonds	<u>(95,258)</u>	<u>(29,082,595)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 32,164,486</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Capital Improvements Fund	Nonmajor Funds	Total
REVENUES				
Taxes	\$22,565,927	\$ -	\$ -	\$22,565,927
Other revenue	3,194,154	13,366	95	3,207,615
Intergovernmental revenues	1,523,122	753,588	2,217,495	4,494,205
Charges for services	2,496,375	-	30,696	2,527,071
TOTAL REVENUES	<u>29,779,578</u>	<u>766,954</u>	<u>2,248,286</u>	<u>32,794,818</u>
EXPENDITURES				
Current:				
General government	2,460,975	2,919	435,342	2,899,236
Public safety	16,179,756	-	-	16,179,756
Public works	4,736,209	-	1,023,471	5,759,680
Recreation and culture	1,713,690	-	-	1,713,690
Nondepartmental	492,396	-	-	492,396
Capital outlays	1,177,205	498,192	568,007	2,243,404
Debt service:				
Principal	2,153,389	-	-	2,153,389
Interest	926,794	-	-	926,794
TOTAL EXPENDITURES	<u>29,840,414</u>	<u>501,111</u>	<u>2,026,820</u>	<u>32,368,345</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(60,836)</u>	<u>265,843</u>	<u>221,466</u>	<u>426,473</u>
OTHER FINANCING SOURCES				
Operating transfers in (out)	(194,840)	-	161,386	(33,454)
Proceeds from extended term financing	781,778	-	-	781,778
Payment to refund debt	(4,598,489)	-	-	(4,598,489)
Proceeds from refunding	4,648,899	502,919	-	5,151,818
TOTAL OTHER FINANCING SOURCES	<u>637,348</u>	<u>502,919</u>	<u>161,386</u>	<u>1,301,653</u>
NET CHANGE IN FUND BALANCES	576,512	768,762	382,852	1,728,126
FUND BALANCES (DEFICIT), BEGINNING OF YEAR, RESTATED	<u>12,110,429</u>	<u>3,835,862</u>	<u>(236,695)</u>	<u>15,709,596</u>
FUND BALANCES, END OF YEAR	<u>\$12,686,941</u>	<u>\$ 4,604,624</u>	<u>\$ 146,157</u>	<u>\$17,437,722</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,728,126

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlays	\$ 2,615,633	
Disposal of fixed assets	(2,749)	
Depreciation expense	<u>(1,819,215)</u>	793,669

Bond and capital lease proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, bonds and capital leases of this amount were issued. (5,933,596)

Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year. 615,106

Governmental funds report repayment of debt principal as an expenditure. In contrast, the statement of net position treats such repayments as a reduction in long-term liabilities. 6,751,878

Some items 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. These activities consist of:

Decrease in compensated absences	171,635	
Increase in post-employment benefits	(2,886,883)	
Increase in bond issuance costs	28,623	
Decrease in accrued interest payable	<u>38,076</u>	<u>(2,648,549)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,306,634

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2012

	Enterprise Funds			
	Water and Sewer Fund	Mitchell Landing Fund	Nonmajor Funds	Total
ASSETS				
Current assets:				
Cash	\$ -	\$ 20,735	\$ -	\$ 20,735
Investment pool	19,644,842	-	376,937	20,021,779
Savings and deposits	-	11,756	-	11,756
Accounts receivable	2,626,920	5,975	25,317	2,658,212
Due from other governmental units	610,177	-	-	610,177
Prepaid expenses	12,270	-	-	12,270
Inventories	508,368	-	-	508,368
Total Current Assets	23,402,577	38,466	402,254	23,843,297
Noncurrent assets:				
Restricted cash	-	115,644	-	115,644
Restricted investment pool	11,212,420	-	-	11,212,420
Bond issuance cost, net of amortization	83,751	-	7,683	91,434
Capital assets:				
Construction-in-progress	86,756,297	-	-	86,756,297
Land	149,953	114,010	1,782,790	2,046,753
Buildings, equipment and improvements	51,643,541	1,454,319	5,900,713	58,998,573
Less accumulated depreciation	(35,626,651)	(702,443)	(3,531,563)	(39,860,657)
Total Noncurrent Assets	114,219,311	981,530	4,159,623	119,360,464
TOTAL ASSETS	\$137,621,888	\$ 1,019,996	\$ 4,561,877	\$143,203,761
LIABILITIES AND NET POSITION				
LIABILITIES				
Due in one year:				
Cash overdraft	\$ 5,334,821	\$ -	\$ 87,595	\$ 5,422,416
Accounts payable	246,571	13,002	8,547	268,120
Accrued payroll	133,707	988	10,151	144,846
Accrued interest payable	125,804	-	2,489	128,293
Provision for compensated absences	22,496	-	-	22,496
Bonds, notes and capital leases payable	3,526,441	-	86,352	3,612,793
Deposits	12,302	11,935	-	24,237
Total Current Liabilities	9,402,142	25,925	195,134	9,623,201
Due in more than one year:				
Bonds, notes and capital leases payable	48,553,927	1,381,807	744,828	50,680,562
Post-employment benefits	2,219,986	-	-	2,219,986
Provision for compensated absences	202,463	-	-	202,463
Total Noncurrent Liabilities	50,976,376	1,381,807	744,828	53,103,011
Total Liabilities	60,378,518	1,407,732	939,962	62,726,212
NET POSITION (DEFICIT)				
Invested in capital assets, net of related debt	50,842,772	(515,921)	3,320,760	53,647,611
Restricted	11,212,420	115,644	-	11,328,064
Unrestricted	15,188,178	12,541	301,155	15,501,874
Total Net Position (Deficit)	77,243,370	(387,736)	3,621,915	80,477,549
TOTAL LIABILITIES AND NET POSITION	\$137,621,888	\$ 1,019,996	\$ 4,561,877	\$143,203,761

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds			
	Water and Sewer Fund	Mitchell Landing Fund	Nonmajor Funds	Total
OPERATING REVENUES				
Charges for services	\$ 14,765,258	\$ 166,720	\$ 659,014	\$ 15,590,992
Penalties	82,074	-	-	82,074
Tapping charges and connection fees	3,850	-	-	3,850
Sundry income	174,893	-	-	174,893
Pretreatment monitoring fee	177,043	-	-	177,043
Impact fees	349,024	-	-	349,024
TOTAL OPERATING REVENUES	15,552,142	166,720	659,014	16,377,876
OPERATING EXPENSES				
Salaries	3,270,497	-	194,587	3,465,084
Personnel benefits	2,196,949	7,185	63,934	2,268,068
Professional and skilled services	2,301,472	48,738	121,548	2,471,758
Supplies	1,268,345	102,303	18,446	1,389,094
Other operating expenses	1,743,734	47,683	179,972	1,971,389
Equipment	72,357	-	-	72,357
Bad debt expense	-	10,422	-	10,422
TOTAL OPERATING EXPENSES	10,853,354	216,331	578,487	11,648,172
Operating income (loss) before depreciation	4,698,788	(49,611)	80,527	4,729,704
Depreciation	1,343,542	36,844	127,408	1,507,794
NET OPERATING INCOME (LOSS)	3,355,246	(86,455)	(46,881)	3,221,910
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	287,606	-	-	287,606
Operating transfers in	-	-	34,235	34,235
Operating transfers out	(781)	-	-	(781)
Lawsuit settlement proceeds, net	7,598,834	-	-	7,598,834
Interest income	16,368	1,713	274	18,355
Interest expense	(631,367)	-	(41,918)	(673,285)
TOTAL NONOPERATING REVENUES (EXPENSES)	7,270,660	1,713	(7,409)	7,264,964
CHANGE IN NET POSITION	3,355,246	(86,455)	(46,881)	3,221,910
NET POSITION (DEFICIT), BEGINNING OF YEAR	66,617,464	(302,994)	3,676,205	69,990,675
NET POSITION (DEFICIT), END OF YEAR	\$ 69,972,710	\$ (389,449)	\$ 3,629,324	\$ 73,212,585

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds			
	Water and Sewer Fund	Mitchell Landing Fund	Nonmajor Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$15,723,079	\$ 164,899	\$ 746,714	\$16,634,692
Payments to suppliers	(7,336,474)	(210,044)	(254,348)	(7,800,866)
Payments to employees	(4,675,329)	(16,477)	(258,521)	(4,950,327)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,711,276	(61,622)	233,845	3,883,499
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Federal and state grants received	287,606	-	-	287,606
Litigation settlement proceeds	7,598,834	-	-	7,598,834
Internal activity - payments (to) from other funds	(781)	-	34,235	33,454
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	7,885,659	-	34,235	7,919,894
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from bonds and notes	10,065,223	-	-	10,065,223
Principal paid on bonds, notes and capital leases	(6,006,262)	-	(55,700)	(6,061,962)
Interest paid on bonds, notes and mortgages	(551,659)	-	(38,484)	(590,143)
Bond issuance costs	(38,750)	-	-	(38,750)
Payments for capital acquisitions	(1,707,120)	-	(46,150)	(1,753,270)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	1,761,432	-	(140,334)	1,621,098
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends	16,368	1,713	274	18,355
NET CASH PROVIDED BY INVESTING ACTIVITIES	16,368	1,713	274	18,355
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,374,735	(59,909)	128,020	13,442,846
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,482,527	208,044	248,653	17,939,224
CASH AND CASH EQUIVALENTS, END OF YEAR	\$30,857,262	\$ 148,135	\$ 376,673	\$31,382,070
Cash	\$ -	\$ 20,735	\$ -	\$ 20,735
Savings and deposits	-	11,756	-	11,756
Investment pool	19,644,842	-	376,673	20,021,515
Restricted cash	-	115,644	-	115,644
Restricted investment pool	11,212,420	-	-	11,212,420
	\$30,857,262	\$ 148,135	\$ 376,673	\$31,382,070
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 3,355,246	\$ (86,455)	\$ (46,881)	\$ 3,221,910
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,343,542	36,844	127,408	1,507,794
Bad debts	-	10,422	-	10,422
Change in assets and liabilities:				
Receivables	170,937	(17,177)	87,700	241,460
Prepaid expenses	(12,270)	5	-	(12,265)
Inventories	199,189	-	-	199,189
Accounts payable and accrued expenses	(2,137,485)	(9,474)	65,618	(2,081,341)
Post-employment benefits	792,117	-	-	792,117
Deposits	-	4,213	-	4,213
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 3,711,276	\$ (61,622)	\$ 233,845	\$ 3,883,499

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2012

	Health Care Trust	Private- purpose Trust	Agency Funds
ASSETS			
Cash and investment pool	\$ -	\$ 102,772	\$ 315,352
Investments	1,152,484	-	-
Accounts receivable	-	-	103,344
	<u>1,152,484</u>	<u>102,772</u>	<u>418,696</u>
Total Assets			
	<u>1,152,484</u>	<u>102,772</u>	<u>418,696</u>
LIABILITIES			
Cash overdraft	-	131,299	-
Accounts payable	-	-	18,436
Deposits	-	-	144,728
Due to other governmental units	-	-	255,532
	<u>-</u>	<u>131,299</u>	<u>418,696</u>
Total Liabilities			
	<u>-</u>	<u>131,299</u>	<u>418,696</u>
NET POSITION (DEFICIT)			
Restricted	<u>\$ 1,152,484</u>	<u>\$ (28,527)</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Health Care Trust	Private- purpose Trust
ADDITIONS		
Interest	\$ 24,747	\$ 10
TOTAL ADDITIONS	<u>24,747</u>	<u>10</u>
DEDUCTIONS		
Operating expenses	2,566	54,467
Loss on sale of investments	<u>38,872</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>41,438</u>	<u>54,467</u>
CHANGE IN NET POSITION	(16,691)	(54,457)
NET POSITION, BEGINNING OF YEAR	<u>1,169,175</u>	<u>25,930</u>
NET POSITION (DEFICIT), END OF YEAR	<u><u>\$ 1,152,484</u></u>	<u><u>\$ (28,527)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF THE CITY OF SALISBURY

The City of Salisbury, Maryland (the "City") was established in 1732. The City is governed by a Mayor and a board of five Council Members elected by the voters of the City.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to local government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision of whether to include a potential component unit was made by applying the criteria set forth in the GASB standards related to component units. The basic - but not the only - criterion for including a potential component unit is the exercise of oversight responsibility by the City's elected officials. Based upon the application of these criteria, the accompanying statements include the financial transactions of the Salisbury Zoo Commission, Inc. (the "Zoo"). The operations of the Zoo are included in the general fund.

Basis of Presentation

The City's basic financial statements consist of entity-wide statements, including a statement of net position and a statement of activities; and fund financial statements, which provide a more detailed level of financial information.

ENTITY-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the City. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the City.

FUND FINANCIAL STATEMENTS

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is the general operating fund of the City. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Capital Improvements Fund - The capital improvements fund is used to account for all financial transactions related to the acquisition or construction of major capital facilities for the governmental fund type activities.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as enterprise funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's major enterprise funds are:

- **Water and Sewer Fund** - The water and sewer fund is used to account for all financial transactions, including the acquisition or construction of major capital facilities, related to the operations of the City's water and sewer services.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- Mitchell Landing Fund - The Mitchell Landing fund is used to account for all financial transactions related to the operations of the Mitchell Landing Apartments, a low-income housing project which operates under the guidelines of the Maryland Department of Housing and Community Development.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The City's fiduciary funds include the volunteer firemen service award trust (private-purpose trust), health care trust, police-confiscated asset and bay restoration funds (agency funds). These funds account for assets held by the City in a trustee capacity or as fiscal agent for individuals, private organizations, other governments and/or other funds.

Measurement Focus

Entity-wide financial statements – The entity-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net position.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the entity-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements for governmental funds.

Like the entity-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Entity-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenues - Exchange and Nonexchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means received within 60 days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, primarily include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, interest and rent.

Deferred revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements, receivables that were not collected within the available period have been reported as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures generally are recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The City Council adopts an annual budget as set forth in the City Charter. The budget is prepared on the budgetary basis of accounting consistent with GAAP, except that depreciation is not considered. The Mayor may transfer the balance of unencumbered appropriations between general classifications of expenditures within an office, department or agency. At the Mayor's request, in the last three months of the budget year, the Council may, by resolution, transfer any unencumbered appropriation balance from one office, department or agency to another. All appropriations lapse at year end.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Excess of Expenditures Over Appropriations

The following general fund functions incurred expenditures in excess of appropriations in the following amount for the year ended June 30, 2012:

Human resources	\$ 157,240
Debt payments	\$ 4,525,791

The excess of expenditures over appropriations was financed with savings in other general government areas. The debt payments were offset by proceeds from borrowings.

Cash Equivalents

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Property Taxes

Property taxes attach as an enforceable lien as of July 1. Taxes are levied on July 1 and are recognized when levied. Taxes are due and payable on or before September 30 and all unpaid taxes become delinquent October 1. Wicomico County, Maryland bills and collects property taxes for the City. Real property taxes uncollected as of 60 days after fiscal year end are considered unavailable to pay liabilities that are owed at the balance sheet date and, therefore, are included in deferred revenue. An allowance is established for delinquent personal property taxes to the extent that their collectibility is improbable. At June 30, 2012, all property taxes were deemed collectible and there was no allowance.

Receivables

All trade and taxes other than property taxes have been reduced to their estimated net realizable value and are shown net of an allowance for uncollectible accounts. Estimated uncollectible accounts are based upon historical experience rates.

Inventories

Inventory is presented at the lower of cost or market on a first-in, first-out basis and is expensed when used.

Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the entity-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the entity-wide statement of net position and in the respective funds.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$10,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not capitalized.

All reported capital assets except land, art and construction-in-progress are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

	Useful Lives	
	Governmental Activities	Business-type Activities
Land improvements	10 - 40 years	10 - 40 years
Buildings and improvements	10 - 40 years	10 - 40 years
Infrastructure	10 - 20 years	10 - 20 years
Machinery and equipment	5 - 15 years	5 - 15 years

Compensated Absences

The City accrues a liability for vested compensated absences including vacation, sick leave, compensatory time and holidays worked with various limitations on each type of compensated absence. All accrued compensated absences liabilities are recorded in the entity-wide financial statements.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the entity-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by grantors, creditors, or laws or regulations of other governments.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fund Balance Reserves and Deficit

Fund balance will be displaced in the following classification (if applicable) depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by formal action of the City Council. The Council is the highest level of decision-making authority for the City of Salisbury. Commitments may be established, modified or rescinded only through resolutions approved by the City Council.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Council has designated the Director of Internal Services the authority to assign amounts for specific purposes.

Unassigned - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Council has provided otherwise in its commitment or assignment actions.

The deficit in the Mitchell Landing Fund (major enterprise fund) as of June 30, 2012 was \$387,736. This deficit is due to depreciation which cannot be recaptured through user charges.

The Grant Fund (nonmajor governmental fund) had a deficit fund balance of \$156,624 at June 30, 2012. The deficit is due to expenditures funded by the Grant Fund that are to be funded in the future by other revenue sources.

Early Implementation of GASB Statements

During the current year, the City elected to implement GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." This new guidance affects the treatment of component units within the financial statements. The implementation of this new Statement did not have an effect on the City's current year financial statements.

During the current year, the City elected to implement GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This new guidance codifies pre-1989 standards set by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(AICPA), which are followed for proprietary fund and entity-wide reporting. The City's notes to the financial statements have been revised to reflect the level of disclosure required by the new Statement.

During the current year, the City elected to implement GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." This new guidance creates two sections to the balance sheet (deferred outflows and deferred inflows) and revises other proprietary fund, fiduciary fund and entity-wide terminology as a result of this change. The City's proprietary, fiduciary and entity-wide statements have been revised to reflect the new terminology. At June 30, 2012, the City had no deferred outflows of resources or deferred inflows of resources.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues not meeting these definitions are reported as nonoperating.

Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 CASH AND INVESTMENTS

The City maintains a cash account and an investment pool that is available for use by all funds. Each fund reports its portion of this account and pool. Additional cash and investment accounts are also held separately by several of the City's funds.

The City follows the State of Maryland laws related to types of deposits and investments, selection of depositories and collateral requirements.

Cash and deposits

At June 30, 2012, the City had deposits of \$6,242,597 (carrying value \$5,908,166). As of June 30, 2012, \$5,940,069 of the City's bank balances were adequately insured and collateralized as defined by GASB; however, \$302,528 was exposed to custodial credit risk, as those deposits were not adequately collateralized.

Investments

The City is a participant of the MLGIP, which provides all local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by PNC institutional investments. A MLGIP Advisory Committee comprised of current participants was formed to review, on a quarterly basis, the activities of the fund and to provide suggestions to enhance the pool.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH AND INVESTMENTS (cont'd)

As of June 30, 2012, the City's only investments consisted of MLGIP investments which, due to their nature, have no credit or custodial risk associated with them. The carrying value of the investments at June 30, 2012 was \$35,684,398.

Restricted Cash

Restricted cash in the governmental funds represents funds held in escrow by a local financial institution relating to the 2009, 2008, 2007, 2004 and 2003 Public Improvement Bonds. Additional restricted cash in the enterprise funds represents a replacement reserve fund for the Mitchell Landing Fund and funds held in escrow for the 2009, 2008 and 2007 Public Improvement Bonds.

Retiree Health Plan Trust

The investment policy of the City of Salisbury Health Care Trust requires that the funds be managed as a balanced account with approximately 60 percent equities and 40 percent government and corporate bonds. The investments are held at State Street Bank in the City's name. The funds are invested as follows:

Cash and equivalents	\$ 57,170
Government and agency bonds	90,789
Corporate bonds	153,446
Common stock	136,711
Mutual funds	<u>714,368</u>
Total	<u>\$1,152,484</u>

Investments in corporate bonds at June 30, 2012 are as follows:

Quantity	Company	Interest Rate	Due Date
10,000	JP Morgan & Co.	4.65%	06/01/14
10,000	Merrill Lynch & Co.	6.15%	04/25/13
10,000	Merrill Lynch & Co.	6.88%	04/25/18
10,000	PNC Funding Corp.	3.65%	02/08/15
15,000	Wells Fargo & Co.	4.38%	01/31/13
10,000	The Walt Disney Company	1.35%	08/16/16
10,000	Abbott Laboratories	2.70%	05/27/15
10,000	Colgate-Palmolive	3.15%	08/05/15
10,000	Becton Dickinson	1.75%	11/08/16
10,000	Texas Instruments Inc.	2.38%	05/16/16
10,000	General Electric Co.	5.25%	12/06/17
10,000	BP Capital Markets	3.13%	10/01/15
10,000	Berkshire Hathaway	3.20%	02/11/15
10,000	Intel Corp.	1.95%	10/01/16

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 4 **INTERFUND RECEIVABLES AND PAYABLES/TRANSFERS**

As a result of its operations, the City affects a variety of transactions between funds to finance operations and service debt. Accordingly, to the extent that certain interfund transactions have not been paid or received as of June 30, 2012, appropriate due from/to other funds have been established. There were no interfund balances outstanding as of June 30, 2012.

NOTE 5 **CAPITAL ASSETS**

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

	July 1, 2011	Additions	Deductions	Transfers	June 30, 2012
GOVERNMENTAL ACTIVITIES					
Capital assets not being depreciated:					
Land and art	\$ 7,860,260	\$ 23,550	\$ -	\$ -	\$ 7,883,810
Construction-in-progress	6,656,190	1,077,259	-	(851,449)	6,882,000
Total capital assets not being depreciated	14,516,450	1,100,809	-	(851,449)	14,765,810
Capital assets being depreciated:					
Land improvements	767,410	-	-	-	767,410
Buildings and improvements	19,667,003	-	-	-	19,667,003
Infrastructure	8,239,831	-	-	-	8,239,831
Machinery and equipment	15,581,093	1,514,824	(483,540)	851,449	17,463,826
Zoo animals	36,000	-	-	-	36,000
Total capital assets being depreciated	44,291,337	1,514,824	(483,540)	851,449	46,174,070
Accumulated depreciation	(17,632,191)	(1,819,215)	480,791	-	(18,970,615)
Total capital assets being depreciated, net	26,659,146	(304,391)	(2,749)	851,449	27,203,455
Governmental activities capital assets, net	<u>\$ 41,175,596</u>	<u>\$ 796,418</u>	<u>\$ (2,749)</u>	<u>\$ -</u>	<u>\$ 41,969,265</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 69,070
Public safety	1,080,190
Public works	477,493
Recreation and culture	192,462
Total depreciation expense	<u>\$ 1,819,215</u>

	July 1, 2011	Additions	Deductions	Transfers	June 30, 2012
BUSINESS-TYPE ACTIVITIES					
Water and Sewer Fund:					
Capital assets not being depreciated:					
Land	\$ 149,953	\$ -	\$ -	\$ -	\$ 149,953
Construction-in-progress	85,081,922	1,674,375	-	-	86,756,297
Total capital assets not being depreciated	85,231,875	1,674,375	-	-	86,906,250

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

(cont'd)	July 1, 2011	Additions	Deductions	Transfers	June 30, 2012
Capital assets being depreciated:					
Land improvements	430,636	-	-	-	430,636
Buildings and improvements	14,434,718	-	-	-	14,434,718
Infrastructure	25,579,429	-	-	-	25,579,429
Machinery and equipment	11,176,457	32,745	10,444	-	11,198,758
Total capital assets being depreciated	51,621,240	32,745	10,444	-	51,643,541
Total accumulated depreciation	(34,293,553)	(1,343,542)	(10,444)	-	(35,626,651)
Total capital assets being depreciated, net	17,327,687	(1,310,797)	-	-	16,016,890
Total Water and Sewer Capital Assets, Net	<u>\$102,559,562</u>	<u>\$ 363,578</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$102,923,140</u>

	July 1, 2011	Additions	Deductions	Transfers	June 30, 2012
Parking Authority Fund					
Capital assets not being depreciated:					
Land	\$ 467,790	\$ -	\$ -	\$ -	\$ 467,790
Construction-in-progress	5,220	46,150	-	(51,370)	-
Total capital assets not being depreciated	473,010	46,150	-	(51,370)	467,790
Capital assets being depreciated:					
Land improvements	156,704	-	-	-	156,704
Buildings and improvements	3,690,721	-	-	51,370	3,742,091
Infrastructure	64,800	-	-	-	64,800
Machinery and equipment	181,148	-	-	-	181,148
Total capital assets being depreciated	4,093,373	-	-	51,370	4,144,743
Total accumulated depreciation	(2,052,417)	(108,101)	-	-	(2,160,518)
Total capital assets being depreciated, net	2,040,956	(108,101)	-	51,370	1,984,225
Total Parking Authority Capital Assets, Net	<u>\$ 2,513,966</u>	<u>\$ (61,951)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,452,015</u>

	July 1, 2011	Additions	Deductions	Transfers	June 30, 2012
Septage Treatment Fund					
Capital assets being depreciated:					
Machinery and equipment	\$ 128,292	\$ -	\$ (128,292)	\$ -	\$ -
Less accumulated depreciation:					
Machinery and equipment	(128,292)	-	128,292	-	-
Total Septage Treatment Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 5 **CAPITAL ASSETS** (cont'd)

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>June 30, 2012</u>
City Marina Fund					
Capital assets not being depreciated:					
Land	\$ 1,315,000	\$ -	\$ -	\$ -	\$ 1,315,000
Total capital assets not being depreciated	<u>1,315,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,315,000</u>
Capital assets being depreciated:					
Land improvements	1,418,255	-	-	-	1,418,255
Buildings and improvements	209,494	-	-	-	209,494
Machinery and equipment	128,221	-	-	-	128,221
Total capital assets being depreciated	<u>1,755,970</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,755,970</u>
Total accumulated depreciation	<u>(1,351,738)</u>	<u>(19,307)</u>	<u>-</u>	<u>-</u>	<u>(1,371,045)</u>
Total capital assets being depreciated, net	<u>404,232</u>	<u>(19,307)</u>	<u>-</u>	<u>-</u>	<u>384,925</u>
Total City Marina Capital Assets, Net	<u>\$ 1,719,232</u>	<u>\$ (19,307)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,699,925</u>
	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>June 30, 2012</u>
Mitchell Landing Fund					
Capital assets not being depreciated:					
Land	\$ 114,010	\$ -	\$ -	\$ -	\$ 114,010
Capital assets being depreciated:					
Land improvements	7,862	-	-	-	7,862
Buildings and improvements	1,357,052	-	-	-	1,357,052
Machinery and equipment	89,405	-	-	-	89,405
Total capital assets being depreciated	<u>1,454,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,454,319</u>
Total accumulated depreciation	<u>(665,599)</u>	<u>(36,844)</u>	<u>-</u>	<u>-</u>	<u>(702,443)</u>
Total capital assets being depreciated, net	<u>788,720</u>	<u>(36,844)</u>	<u>-</u>	<u>-</u>	<u>751,876</u>
Total Mitchell Landing Capital Assets, Net	<u>\$ 902,730</u>	<u>\$ (36,844)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 865,886</u>

The majority of the construction-in-progress relates to the improvements of Waverly Drive storm drain for the governmental activities and the expansion of the waste water treatment plant for the business-type activities. See Note 11 for additional information regarding commitments at year end.

NOTE 6 **LONG-TERM DEBT**

The City's charter provides that total bonded or other indebtedness of the City payable from its general tax revenues shall at no time exceed the total of four percent of the assessed valuation of all real property and 10 percent of the assessed valuation of all personal and corporate property subject to taxation by the City. The legal debt limit permitted at June 30, 2012 totaled \$106,186,783. After considering general obligations, including mortgages and notes outstanding of \$75,273,073, including the amounts still available to draw on the 2012 debt (see below for discussion), the available additional debt margin was \$32,174,254.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

Long-term debt activity for the year ended June 30, 2012, was as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
GOVERNMENTAL ACTIVITIES				
General obligation bonds:				
\$30,029,434 originally issued with interest rates ranging from 2% to 4.625%	\$ 17,432,337	\$ 5,151,818	\$ (6,046,833)	\$ 16,537,322
Mortgages and notes payable:				
State Erosion Control Note - Riverwalk				
\$345,280 originally issued without interest	23,039	-	(23,039)	-
State Erosion Control Note				
\$83,280 originally issued without interest	11,104	-	(5,552)	5,552
Lawton Loan				
\$258,740 originally issued without interest	258,740	-	(28,749)	229,991
Capital lease obligations	2,581,514	781,778	(647,705)	2,715,587
Compensated absences, current portion				
\$127,501	1,464,559	-	(189,550)	1,275,009
Governmental Activities Long-term Debt	\$ 21,771,293	\$ 5,933,596	\$ (6,941,428)	\$ 20,763,461
BUSINESS-TYPE ACTIVITIES				
General obligation bonds:				
\$78,814,217 originally issued with interest rates ranging from 0.4% to 4.09%	\$ 48,723,881	\$ 10,065,223	\$ (6,010,427)	\$ 52,778,677
Mortgages and notes payable:				
Department of Housing and Community Development - Mitchell Landing Project - No interest or principal due while project serves as low-income rental housing	1,381,807	-	-	1,381,807
Capital lease obligations	184,406	-	(51,535)	132,871
Compensated absences, current portion				
\$22,496	234,758	-	(9,799)	224,959
Business-type Activities Long-term Debt	\$ 50,524,852	\$ 10,065,223	\$ 6,071,761	\$ 54,518,314

In the year ended June 30, 1998, the City obligated itself to pay to the DNR the amount of \$83,280. The loan is repayable in 15 annual installments of \$5,552. There is no interest on this obligation, which is accounted for in the general fund. The outstanding balance at year end was \$5,552.

In the year ended June 30, 2003, the City obligated itself to pay to MDE the amount of \$3,163,361 at an annual interest rate of 0.4 percent for wastewater treatment plant upgrades and expansion. Interest is payable semi-annually beginning August 1, 2003, and principal is payable annually beginning February 1, 2005 until the principal amount of the bond has been paid. The general obligation bond is accounted for in the water and sewer enterprise fund. The outstanding balance at year end was \$1,928,240.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

In the year ended June 30, 2004, the City issued \$5,318,000 of Public Improvement Bonds at interest rates from 2.0 percent to 4.625 percent. Interest is payable semi-annually beginning November 1, 2004. The bonds mature in varying amounts beginning May 1, 2005 and continuing through May 1, 2024. This obligation is accounted for in the general fund. The outstanding balance at year end was \$3,278,200.

In the year ended June 30, 2006, the City obligated itself to pay to MDE the amount of \$42,009,341 at an annual interest rate of 0.4 percent for wastewater treatment plant upgrades and expansion. Interest is payable semi-annually beginning February 1, 2006, and principal is payable annually beginning February 1, 2009 until the principal amount of the bond has been paid. The general obligation bond is accounted for in the water and sewer enterprise fund. As of June 30, 2012, total principal of \$41,721,225 has been drawn, and the principal amount outstanding totaled \$33,585,516. Future maturity requirements below are based on the full obligation.

In the year ended June 30, 2007, the City issued \$4,950,000 of Public Improvement Bonds at an interest rate of 4.03 percent. Interest is payable semi-annually beginning October 1, 2007. The bonds mature beginning April 1, 2008 and continuing through April 1, 2027. The amount of \$1,072,000 of the balance of the obligation is accounted for in the general fund, and the balance of \$2,640,500 is reflected in the water and sewer enterprise fund.

In the year ended June 30, 2008, the City issued \$3,605,000 of Public Improvement Bonds at an interest rate of 4.09 percent. Interest is payable semi-annually beginning August 1, 2008. The bonds mature beginning February 1, 2009 and continuing through February 1, 2028. The amount of \$414,564 of the balance of the obligation is carried in the enterprise fund, and the balance of \$2,560,445 is accounted for in the general fund.

In the year ended June 30, 2010, the City issued \$2,600,000 of Public Improvement Bonds at an interest rate of 3.78 percent. Interest is payable semi-annually beginning May 1, 2010. The bonds mature beginning November 1, 2010 and continuing through November 1, 2024. The amount of \$1,816,617 of the balance of the obligation is carried in the enterprise fund, and the balance of \$436,716 is accounted for in the general fund.

In the year ended June 30, 2010, the City obligated itself to pay to MDE the amount of \$2,756,400. The loan is repayable in annual installments of \$145,021. There was an initial payment of \$1,000 due on August 1, 2011. The bonds mature through February 1, 2030. There is no interest on this obligation, which is accounted for in the water and sewer enterprise fund. The outstanding balance at year end was \$2,610,379.

In the year ended June 30, 2010, the City entered into a loan agreement with the Maryland Energy Administration ("MEA") for its Jane E. Lawton Conservation Loan Program ("JELLP") for the amount of \$258,740. There is no interest on this loan. The first principal payment is due 13 months after the first draw on the loan, and the loan matures September 2019. The loan is accounted for in the general fund. The outstanding balance at year end was \$229,991.

In the year ended June 30, 2011, the City entered into a loan agreement with MEA for JELLP for the amount of \$142,800 at an interest rate of 2.5 percent. Interest is payable semi-annually beginning March 1, 2012. The bonds mature in varying amounts beginning March 1, 2012 and continuing through July 15, 2017. This obligation is accounted for in the parking authority nonmajor enterprise fund. The outstanding balance at year end was \$131,696.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

In the year ended June 30, 2011, the City issued \$5,050,000 of Public Facilities Refunding Bonds at an interest rate of 3.35 percent. Interest is payable semi-annually beginning October 1, 2011. The bonds mature in varying amounts beginning October 1, 2011 and continuing through October 1, 2026. This obligation is accounted for in the general fund. The outstanding balance at year end was \$4,806,306.

In the year ended June 30, 2012, the City issued \$2,588,000 of Public Improvement Refunding Bonds at an interest rate of 1.13 percent. The bonds refunded outstanding general obligation bonds of 1994 and 1999. Interest is payable semi-annually beginning June 1, 2012. The bonds mature in varying amounts beginning June 1, 2012 and continuing through June 1, 2014. The amount of \$476,814 of the balance of the obligation is carried in the water and sewer enterprise fund, and the balance of \$1,329,186 is accounted for in the general fund. This current refunding was undertaken to reduce total debt payments and resulted in an economic gain of \$103,108.

In the year ended June 30, 2012, the City issued \$4,828,000 of Public Improvement Refunding Bonds at an interest rate of 2.39 percent. The bonds refunded outstanding bonds series of 2001 and 2003A. Interest is payable semi-annually beginning June 1, 2012. The bonds mature in varying amounts beginning June 1, 2012 and continuing through June 1, 2023. The amount of \$1,932,450 of the balance of the obligation is carried in the water and sewer enterprise fund, and the balance of \$2,551,550 is accounted for in the general fund. This current refunding was undertaken to reduce total debt payments and resulted in an economic gain of \$192,350.

In the year ended June 30, 2012, the City issued \$7,693,000 of Public Improvement Bonds at an interest rate of 2.52 percent. Interest is payable semi-annually beginning May 1, 2012. The bonds mature in varying amounts beginning May 1, 2013 and continuing through May 1, 2027. The amount of \$7,190,081 of the balance of the obligation is carried in the water and sewer enterprise fund, and the balance of \$502,919 is accounted for in the capital improvements fund.

In the year ended June 30, 2012, the City entered into a Tax exempt loan agreement with MDE in the amount of \$1,631,000 at a rate of .90 percent for thirty years. The interest payments are due semi-annually beginning August 1, 2012. Annual principal payments are due February 1, beginning February 1, 2012. The obligation is accounted for in the water and sewer enterprise fund. As of June 30, 2012, total principal of \$51,820 has been drawn on this facility, and the principal amount outstanding totaled \$51,820.

Year Ending June 30,	Governmental Activities		Total Maturities
	Principal Maturities	Interest Maturities	
2013	\$ 1,816,897	\$ 553,813	\$ 2,370,710
2014	1,666,140	508,805	2,174,945
2015	1,031,307	464,137	1,495,444
2016	1,057,726	429,593	1,487,319
2017	1,084,320	393,584	1,477,904
2018-2022	5,897,226	1,418,569	7,315,795
2023-2027	4,094,448	404,529	4,498,977
2028-2030	124,801	15,138	139,939
	<u>\$ 16,772,865</u>	<u>\$ 4,188,168</u>	<u>\$ 20,961,033</u>

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

Year Ending June 30,	Business-type Activities		Total Maturities
	Principal Maturities	Interest Maturities	
2013	\$ 3,555,230	\$ 694,483	\$ 4,249,713
2014	3,562,087	637,109	4,199,196
2015	3,335,527	597,079	3,932,606
2016	3,356,614	559,477	3,916,091
2017	3,381,899	521,508	3,903,407
2018-2022	17,158,202	2,028,466	19,186,668
2023-2027	16,118,685	1,031,495	17,150,180
2028-2030	2,310,433	109,133	2,419,566
	<u>\$ 52,778,677</u>	<u>\$ 6,178,750</u>	<u>\$ 58,957,427</u>

Conduit Debt

In the year ended June 30, 2007, the City issued Special Obligation Bonds (Villages at Aydelotte Farm Project), Series 2007, in the amount of \$9,775,000, payable solely from and secured by a pledge of certain tax increment revenues and special tax revenues. These bonds are secured in the first instance by the proceeds of tax collections attributable to the increase in the assessed value of real property located in a prescribed development district over the original taxable value of such real property, as determined in accordance with the Maryland Tax Increment Financing Act. To the extent such tax increment revenues are insufficient, proceeds of special taxes levied on and collected from the taxable parcels within a prescribed special taxing district will be used to pay debt service. The full faith and credit and unlimited taxing power of the City have not been pledged to pay these bonds. These bonds are payable over 30 years, with semi-annual interest payments on each July 1 and January 1, starting July 1, 2007; and principal payments on July 1 in the years 2012 to 2036, inclusive, with a final principal and interest payment on January 1, 2037. The bonds bear interest at the rate of 5.25 percent per annum and are not subject to the debt limit set forth in the City's Charter. These bonds were issued with the expectation that interest thereon shall be excludable from gross income of the holders thereof for federal income tax purposes.

In the year ended June 30, 2007, the City issued Special Obligation Bonds (Village at Salisbury Lake Project), Series 2007, in the amount of \$15,000,000, payable solely from and secured by a pledge of certain tax increment revenues and special tax revenues. These bonds are secured in the first instance by the proceeds of tax collections attributable to the increase in the assessed value of real property located in a prescribed development district over the original taxable value of such property, as determined in accordance with the Maryland Tax Increment Financing Act. To the extent such tax increment revenues are insufficient, proceeds of special taxes levied on and collected from the taxable parcels within a prescribed special taxing district will be used to pay debt service. The full faith and credit and unlimited taxing power of the City have not been pledged to pay these bonds. The bonds are payable over 30 years, with semi-annual interest payments on July 1 and January 1, starting July 1, 2012 (or such earlier date as the bonds are converted and remarketed); and principal payments on July 1 in the years 2013 to 2036, inclusive, with a final principal and interest payment on January 1, 2037. These bonds initially bear interest at the rate of 7.9 percent per annum and are not subject to the debt limit set forth in the City's Charter. The bonds were issued as drawdown bonds and sold to the current owner of the property at that time, located in the prescribed development/special taxing district.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

The bonds are subject to conversion and reoffering if certain conditions set forth in the Indenture of Trust relating to such bonds are met. Until any such conversion and reoffering, the bond holder will advance proceeds of the bonds to pay project costs. Until any such conversion and reoffering (and, potentially, even thereafter), interest on such bonds will be includable in gross income of the holders thereof for federal income tax purposes.

Capital Leases

The City has entered into leases for the acquisition of various machinery and equipment, which are classified as capital leases. Accordingly, the present value of future minimum lease payments and the related assets have been recorded in the appropriate fund.

The original cost of assets acquired under these capital leases for the general fund is \$4,698,313 with accumulated depreciation of \$970,096; for the water and sewer fund, the original cost is \$341,320 with accumulated depreciation of \$130,132 at June 30, 2012.

Following is a summary of total future minimum lease payments for all capital leases:

<u>Year Ending June 30,</u>	<u>General</u>	<u>Water and Sewer</u>
2013	\$ 734,239	\$ 57,563
2014	719,762	43,526
2015	719,762	43,526
2016	373,439	-
2017	260,487	-
2018-2022	210,954	-
Amount representing interest	<u>(323,056)</u>	<u>(11,744)</u>
Present value of future minimum lease payments	<u>\$ 2,715,587</u>	<u>\$ 132,871</u>

NOTE 7 PENSION PLANS

Plan Description

Generally, all regular employees of the City participate in the State of Maryland Employees Retirement and Pension Systems ("Employees' Systems"). Law enforcement officers and firefighters employed by the City generally participate in the State of Maryland Law Enforcement Officers Pension Systems ("LEOPS"). Starting in fiscal year 2005, the City's fire department was enabled to participate in LEOPS. Both the Employees' Systems and LEOPS (collectively, the "Systems") are cost-sharing multiple-employer public retirement systems sponsored by the Maryland State Retirement and Pensions Systems and created by the Maryland General Assembly. The Maryland State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the systems. That report may be obtained by writing to the Office of Legislative Audits, State Office Building, 301 West Preston Street, Baltimore, Maryland, 21201.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLANS (cont'd)

Participants in the Systems may retire with full benefits after 30 years of service regardless of age or at various ages with specified years of eligibility service for reduced benefits. Annual service retirement allowances are paid monthly to retired members in accordance with allowance options selected based on average final compensation. Participants terminating in the retirement system prior to specified retirement age are refunded their accumulated contributions plus earned interest or may defer receipt of accumulated contributions until age 60. Participants and their beneficiaries may also be eligible for disability and death benefits based on years of creditable service and average final compensation.

Funding Policy

During fiscal year 2012, the State Personnel and Pensions Article required active members to contribute to the Systems at the rate of six percent for LEOPS and seven percent for Non-LEOPS of their covered salary.

Employer's Payroll and Contributions Under the Plan

The employer's current year payroll for the years ended June 30, 2012, 2011 and 2010 covered under the various state plans and contributions paid are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total payroll	\$ 14,257,540	\$ 14,574,751	\$ 15,562,921
Payroll covered under the plans	15,059,008	15,760,463	15,740,191
Contributions paid:			
City payments	2,966,133	3,020,738	2,551,348

NOTE 8 POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described above, the City provides limited post-retirement health care benefits as approved by the City Council to all retirees (and their dependents) who are eligible to retire under the State Retirement System and, as of July 1, 2007, those who have worked for the City for a minimum of 10 years.

Subject to the above, the employee may retire and retain health insurance coverage until the retiree reaches the age of 65. During this period, the City will pay 30 percent and 50 percent, respectively, of the retiree's health insurance premium for employees who retired prior to and after July 1, 2002.

For the year ended June 30, 2012, there were 51 participants eligible and receiving post-retirement health care benefits at a pay-as-you-go cost to the City of \$196,399.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 8 POST-RETIREMENT HEALTH CARE BENEFITS (cont'd)

Plan Description

During the year ended June 30, 2007, Wicomico County and the Board of Education jointly set up the "Retiree Health Insurance Plan Trust of the Board of Education of Wicomico County and Wicomico County." A Board of Trustees (the "Board") oversees the trust. In June 2009, the City of Salisbury joined the trust and the trust was renamed "Amended Retiree Health Plan Trust for the Wicomico County Board of Education and Wicomico County and the City of Salisbury" (the "Trust").

The plan is an agent multiple-employer plan with combined administrative functions for efficiency, and each agent employer remains responsible for financing benefits of its own individual plan. Each agent employer also remains individually responsible for its own separate actuarial valuations, and expenses and obligations are measured like those of sole employers. The assets of the three entities are segregated within the Trust.

The assets of the Trust are managed by an investment manager, Croft-Leominster, Inc., under a formal investment policy. The Board meets quarterly to review investment performance. The investment manager provides a fiscal year performance report to the Board. Questions regarding performance should be directed to the Plan Administrator. The plan does not issue a stand-alone financial report.

Funding Policy

The City has chosen to continue to pay current retiree medical payments from the General Fund. Therefore, the Trust will fund each year, to the extent appropriate, the Annual Required Contribution ("ARC").

The City contracted for an actuarial study which determined that the ARC for fiscal year 2012 was \$4,045,000. The City funded the Trust with a health care rebate of \$900,000 in fiscal 2009. In fiscal year 2012, the City did not fund the Trust but recorded the associated liability.

Annual OPEB Cost and Net OPEB Obligation

The City's OPEB cost (expense) is the ARC, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation.

Net OPEB obligation at beginning of year	\$ 6,892,363
Annual Required Contribution	4,045,000
Interest on net OPEB obligation	276,000
Amortization of net OPEB obligation	(300,000)
Contributions	(342,000)
Total Net OPEB Obligation at End of Year	<u>\$10,571,363</u>

The annual OPEB cost and the net OPEB obligation are determined on the basis of annual contributions.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 8 POST-RETIREMENT HEALTH CARE BENEFITS (cont'd)

Schedule of Funding

The schedule of funding progress of OPEB is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ 1,169,000	\$35,004,000	\$33,835,000	3.34%	\$14,574,751	232.15%
7/1/2009	\$ 900,000	\$25,765,000	\$24,865,000	3.49%	\$15,562,921	159.77%
7/1/2008	\$ -	\$20,513,000	\$20,513,000	0.00%	\$15,213,210	134.84%

Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information but included in the notes to financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Summary of Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on a substantive plan as understood by the employer and the plan members; and include the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point, and any known changes in the plan going forward.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit method, with linear proration to assumed benefit commencement, was used. The actuarial assumptions included an investment return for discounted liabilities of 6.0 percent. Mortality calculations were done using the RP 2000 Combined Healthy Table and the RP 2000 Combined Disabled Table.

NOTE 9 DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The deferred amounts are invested in various annuity contracts.

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 9 DEFERRED COMPENSATION PLAN (cont'd)

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of plan participants and their beneficiaries and are not subject to the claims of the City's general creditors.

The City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

NOTE 10 SERVICE AWARD TRUST

The City has a Volunteer Firemen Service Award Trust, which was established to accumulate funds for the City Volunteer Firemen's Retirement. The maximum monthly benefit per individual is \$500 upon retirement, and the retirement age is 60. The transactions of the Service Award Trust have been reported as an expendable trust fund in the fiduciary fund types. The trust has assets of \$102,772 as of June 30, 2012.

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2012, the City had infrastructure projects yet to be completed. The commitments and amounts completed to date are as follows:

	Project Amount	Completed as of 06/30/2012	Commitments
Governmental Activities:			
Beaverdam Creek Stabilization	\$ 884,229	\$ 812,843	\$ 71,386
Waverly Drive Storm Drain	4,800,000	3,989,058	810,942
Totals	<u>\$ 5,684,229</u>	<u>\$ 4,801,901</u>	<u>\$ 882,328</u>

In addition, the City has incurred costs totaling \$2,080,099 for governmental activities project costs that were not under a formal contract as of June 30, 2012.

	Project Amount	Completed as of 06/30/2012	Commitments
Business-type Activities:			
Scenic Drive Lift Station	\$ 381,999	\$ 371,050	\$ 10,949
Naylor Mill Road Lift Station	2,625,139	1,924,993	700,146
Paleo Water Potable Water Storage	2,371,600	2,334,324	37,276
Water Storage - Milford Street	100,516	90,360	10,156
WWTP Upgrade	80,152,519	74,689,496	5,463,023
Totals	<u>\$ 85,631,773</u>	<u>\$ 79,410,223</u>	<u>\$ 6,221,550</u>

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES (cont'd)

In addition, the City has incurred costs totaling \$7,346,074 for business-type activities project costs that were not under a formal contract as of June 30, 2012.

As of June 30, 2012, the City has settled a number of lawsuits with engineers and other defendants totaling \$10,725,000, of which \$3,126,166 was paid to attorneys representing the City and \$7,598,834 was recorded as other nonoperating revenue in the water and sewer fund.

NOTE 12 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 has joined together with other municipalities in the State to form the Local Government Insurance Trust ("LGIT"), a public entity risk pool currently operating as a common risk management and insurance program for member municipalities. The City pays an annual premium to LGIT for its building and contents, commercial general liability, environmental liability, business automobile and excess liability coverage. The agreement for formation of the LGIT provides that it will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for liability claims. The City continues to carry separate commercial insurance for its workers' compensation and health insurance coverage. Settled claims resulting from the above risks have not exceeded coverage in any of the past three fiscal years.

Under the terms of the agreement, LGIT deficits may be funded by additional assessments against participating municipalities, levied at the trustees' discretion.

NOTE 13 FUND BALANCES

As of June 30, 2012, fund balances are composed of the following:

	General Fund	Capital Improvements Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:				
Inventory	\$ 835,328	\$ -	\$ -	\$ 835,328
Restricted:				
Capital improvements	-	4,604,624	-	4,604,624
Committed:				
Health care	790,132	-	-	790,132
General impact	10,025	-	-	10,025
Curb, gutter and sidewalk	-	-	90,790	90,790
Trash container sales and demolition	-	-	127,420	127,420
Assigned:				
Encumbrances	1,259,895	-	-	1,259,895
Community development	-	-	84,571	84,571
Unassigned (Deficit)	9,791,561	-	(156,624)	9,634,937
Total Fund Balances	<u>\$12,686,941</u>	<u>\$ 4,604,624</u>	<u>\$ 146,157</u>	<u>\$ 17,437,722</u>

CITY OF SALISBURY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

NOTE 14 PRIOR PERIOD RESTATEMENT

As of June 30, 2011, the unassigned general fund balance has been increased by \$1,182,382 to correct the balance of deferred revenue which had been previously recorded as a bad debt expense. The adjustment had no effect on governmental net position.

NOTE 15 SUBSEQUENT EVENTS

The City has evaluated all subsequent events through December 3, 2012, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SALISBURY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
RESOURCES (INFLOWS):				
Tax revenue	\$22,971,592	\$22,971,592	\$22,565,927	\$ (405,665)
Other revenue	2,430,646	2,804,154	3,194,154	390,000
Charges for services	2,646,981	2,648,181	2,496,375	(151,806)
Other sources-fund balance appropriated	1,892,887	1,425,485	-	(1,425,485)
Intergovernmental revenues	1,635,192	1,635,192	1,523,122	(112,070)
AMOUNTS AVAILABLE FOR APPROPRIATION	31,577,298	31,484,604	29,779,578	(1,705,026)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government				
City council	80,247	80,247	74,109	6,138
City clerk	146,660	147,985	130,183	17,802
Mayor's office	573,333	577,593	534,859	42,734
Finance	426,733	549,598	452,300	97,298
Purchasing	211,736	212,479	199,702	12,777
City attorney	175,750	295,750	251,884	43,866
Information services	202,510	215,256	170,594	44,662
Human resources	135,975	136,179	293,419	(157,240)
Planning and zoning	166,468	168,698	163,789	4,909
Municipal buildings	156,500	205,172	167,750	37,422
Poplar Hill	23,200	27,610	22,386	5,224
Public safety				
Police and traffic control	10,452,567	10,704,206	9,841,247	862,959
Fire	6,771,126	7,142,761	6,601,761	541,000
Buildings, permits and inspections	356,593	356,785	322,818	33,967
Neighborhood services and code compliance	590,347	643,471	591,135	52,336
Public works				
Supervision and engineering	1,601,498	1,758,964	1,050,069	708,895
Roadways	647,231	920,716	721,780	198,936
Highway lighting	855,975	884,916	830,921	53,995
Street cleaning	356,808	369,724	281,485	88,239
Waste collection and disposal	1,162,059	1,198,965	1,128,420	70,545
Recycling	163,524	171,338	158,603	12,735
Fleet maintenance	488,484	499,607	442,798	56,809
Carpenter shop	125,765	128,031	122,133	5,898
Recreation and culture				
Municipal zoo	1,322,430	1,346,291	1,328,842	17,449
Park maintenance	458,193	481,564	384,848	96,716
Nondepartmental	610,690	611,008	492,396	118,612
TOTAL CHARGES TO APPROPRIATION	28,262,402	29,834,914	26,760,231	3,074,683
EXCESS OF REVENUES OVER EXPENDITURES	3,314,896	1,649,690	3,019,347	1,369,657
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(179,158)	(194,840)	(194,840)	-
Proceeds from extended term financing	-	792,000	781,778	(10,222)
Debt proceeds	-	-	4,648,899	4,648,899
Debt payments	(3,136,119)	(3,152,881)	(7,678,672)	(4,525,791)
TOTAL OTHER FINANCING USES	(3,315,277)	(2,555,721)	(2,442,835)	112,886
NET CHANGE IN FUND BALANCE	(381)	(906,031)	576,512	1,482,543
FUND BALANCE, BEGINNING OF YEAR, RESTATED	12,110,429	12,110,429	12,110,429	-
FUND BALANCE, END OF YEAR	\$12,110,048	\$11,204,398	\$12,686,941	\$ 1,482,543

OTHER SUPPLEMENTARY INFORMATION

General Fund

CITY OF SALISBURY, MARYLAND
SCHEDULE OF REVENUE - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Taxes			
Real property	\$ 15,438,526	\$ 15,295,177	\$ (143,349)
Personal property	60,000	52,817	(7,183)
Ordinary business corporations and utilities	5,365,000	5,069,158	(295,842)
Payments in lieu of tax	358,066	362,359	4,293
Admissions and amusement	155,000	328,726	173,726
State shared income tax	1,470,000	1,280,775	(189,225)
Total taxes	<u>22,846,592</u>	<u>22,389,012</u>	<u>(457,580)</u>
Interest and penalties on delinquent taxes	125,000	176,915	51,915
Total Taxes, Interest and Penalties	<u>22,971,592</u>	<u>22,565,927</u>	<u>(405,665)</u>
Other revenue			
Amusement licenses	4,500	4,740	240
Billboard licenses	22,516	19,423	(3,093)
Building and inspection permits	140,000	185,570	45,570
Business licenses	150,100	153,309	3,209
Franchise fees	335,600	354,840	19,240
Landlord licenses	348,880	424,145	75,265
Parking fines and meter collections	85,100	66,766	(18,334)
Plumbing licenses and permits	20,000	20,482	482
Street-breaking permits	1,750	2,300	550
Towing companies	1,800	4,725	2,925
Other miscellaneous permits	16,550	31,721	15,171
School zone camera fines	-	177,008	177,008
Municipal infraction violations	35,000	31,876	(3,124)
Interest on investment of idle funds	19,000	26,868	7,868
Insurance proceeds	95,220	288,367	193,147
Donations	707,379	500,229	(207,150)
Damages to city property	100	-	(100)
Zoo commission	305,313	328,144	22,831
Zoo reimbursements	192,185	176,698	(15,487)
Sale of maps, codes and documents	3,000	1,672	(1,328)
Sale of fixed assets	150,000	-	(150,000)
Bad debt collections	10,000	103,186	93,186
Other miscellaneous receipts	160,161	292,085	131,924
Total Other Revenue	<u>2,804,154</u>	<u>3,194,154</u>	<u>390,000</u>

Continued on next page.

CITY OF SALISBURY, MARYLAND
SCHEDULE OF REVENUE - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Charges for services			
Administrative fees	270,081	201,811	(68,270)
Ambulance call fees	1,450,000	1,388,944	(61,056)
Advertising	100	25	(75)
Garbage disposal fees	689,200	681,280	(7,920)
Inspection fees	38,200	58,853	20,653
Plan review fees	20,000	18,319	(1,681)
Police alarm systems	70,000	75,455	5,455
Weed removal	107,500	75,338	(32,162)
Zoning appeal and housing board appeal fees	3,100	(3,650)	(6,750)
Total Charges for Services	<u>2,648,181</u>	<u>2,496,375</u>	<u>(151,806)</u>
Other sources			
Current surplus available	<u>1,425,485</u>	<u>-</u>	<u>(1,425,485)</u>
Intergovernmental			
State of Maryland			
Police protection	318,000	317,385	(615)
Enterprise zone	55,000	78,992	23,992
Transportation	96,000	-	(96,000)
Highway user	347,690	343,849	(3,841)
Wicomico County			
Financial corporations	18,302	18,302	-
Fire department	600,200	572,000	(28,200)
Room tax	200,000	192,594	(7,406)
Total Intergovernmental	<u>1,635,192</u>	<u>1,523,122</u>	<u>(112,070)</u>
Total Revenues	<u>31,484,604</u>	<u>29,779,578</u>	<u>(1,705,026)</u>
Other Financing Sources			
Debt proceeds	-	4,648,899	4,648,899
Proceeds from extended term financing	792,000	781,778	(10,222)
Total Other Financing Sources	<u>792,000</u>	<u>5,430,677</u>	<u>4,638,677</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 32,276,604</u>	<u>\$ 35,210,255</u>	<u>\$ 2,933,651</u>

CITY OF SALISBURY, MARYLAND
SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
General Government				
City council				
Salaries	\$ 52,000	\$ 52,000	\$ 52,000	\$ -
Personnel benefits	20,447	20,447	16,713	3,734
Other operating expenses	7,800	7,800	5,396	2,404
	<u>80,247</u>	<u>80,247</u>	<u>74,109</u>	<u>6,138</u>
City clerk				
Salaries	94,861	96,577	80,039	16,538
Personnel benefits	33,189	33,024	36,825	(3,801)
Other operating expenses	18,610	18,384	13,319	5,065
	<u>146,660</u>	<u>147,985</u>	<u>130,183</u>	<u>17,802</u>
Mayor's office				
Salaries	235,501	236,474	236,474	-
Personnel benefits	81,156	80,182	73,556	6,626
Other operating expenses	54,900	66,861	60,677	6,184
Community promotion	201,776	194,076	164,152	29,924
	<u>573,333</u>	<u>577,593</u>	<u>534,859</u>	<u>42,734</u>
City attorney				
Professional services	175,750	295,750	251,884	43,866
	<u>175,750</u>	<u>295,750</u>	<u>251,884</u>	<u>43,866</u>
Internal services - finance				
Salaries	230,545	201,054	194,389	6,665
Personnel benefits	93,788	94,508	83,684	10,824
Other operating expenses	69,010	136,730	140,530	(3,800)
Capital outlays	-	83,416	-	83,416
Independent audit	33,390	33,890	33,697	193
	<u>426,733</u>	<u>549,598</u>	<u>452,300</u>	<u>97,298</u>
Internal services - purchasing				
Salaries	124,748	125,907	125,906	1
Personnel benefits	49,826	48,667	48,148	519
Other operating expenses	37,162	37,905	25,648	12,257
	<u>211,736</u>	<u>212,479</u>	<u>199,702</u>	<u>12,777</u>
Internal services - human resources				
Salaries	62,670	60,393	56,067	4,326
Personnel benefits	62,285	60,271	228,564	(168,293)
Other operating expenses	11,020	15,515	8,788	6,727
	<u>135,975</u>	<u>136,179</u>	<u>293,419</u>	<u>(157,240)</u>

Continued on next page.

CITY OF SALISBURY, MARYLAND
SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
General Government (cont'd)				
Information services				
Salaries	92,931	94,112	86,500	7,612
Personnel benefits	27,304	27,133	23,713	3,420
Other operating expenses	55,630	67,366	60,381	6,985
Capital outlays	26,645	26,645	-	26,645
	<u>202,510</u>	<u>215,256</u>	<u>170,594</u>	<u>44,662</u>
City and county - joint activities				
Planning and zoning	166,468	168,698	163,789	4,909
	<u>166,468</u>	<u>168,698</u>	<u>163,789</u>	<u>4,909</u>
Municipal buildings				
Other operating expenses	156,500	205,172	167,750	37,422
	<u>156,500</u>	<u>205,172</u>	<u>167,750</u>	<u>37,422</u>
Poplar Hill Mansion	23,200	27,610	22,386	5,224
Total General Government	<u>2,299,112</u>	<u>2,616,567</u>	<u>2,460,975</u>	<u>155,592</u>
Public Safety				
Police services				
Salaries	5,123,051	5,216,282	5,097,246	119,036
Personnel benefits	2,991,816	2,905,232	2,579,098	326,134
Other operating expenses	955,076	1,038,233	849,864	188,369
Capital outlays	106,000	140,199	104,100	36,099
	<u>9,175,943</u>	<u>9,299,946</u>	<u>8,630,308</u>	<u>669,638</u>
Police communications				
Salaries	273,697	281,416	265,564	15,852
Personnel benefits	127,782	122,263	85,975	36,288
Other operating expenses	61,692	70,118	52,298	17,820
Capital outlays	108,000	178,816	178,212	604
	<u>571,171</u>	<u>652,613</u>	<u>582,049</u>	<u>70,564</u>
Animal control				
Salaries	71,157	69,697	66,087	3,610
Personnel benefits	36,125	35,586	31,989	3,597
Other operating expenses	83,687	85,487	81,325	4,162
	<u>190,969</u>	<u>190,770</u>	<u>179,401</u>	<u>11,369</u>
Total Police Department	<u>9,938,083</u>	<u>10,143,329</u>	<u>9,391,758</u>	<u>751,571</u>

Continued on next page.

CITY OF SALISBURY, MARYLAND
SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Safety (cont'd)				
Traffic control				
Salaries	205,124	207,913	206,313	1,600
Personnel benefits	87,815	87,026	83,590	3,436
Other operating expenses	101,545	145,938	159,586	(13,648)
Capital outlays	120,000	120,000	-	120,000
	<u>514,484</u>	<u>560,877</u>	<u>449,489</u>	<u>111,388</u>
Fire department				
Firefighting				
Salaries	3,020,740	3,074,937	2,977,659	97,278
Personnel benefits	1,733,310	1,764,188	1,731,755	32,433
Other operating expenses	833,557	935,829	857,911	77,918
Capital outlays	1,037,000	1,210,086	894,893	315,193
	<u>6,624,607</u>	<u>6,985,040</u>	<u>6,462,218</u>	<u>522,822</u>
Volunteer firemen				
Personnel benefits	143,075	151,432	116,899	34,533
Other operating expenses	3,444	6,289	22,644	(16,355)
	<u>146,519</u>	<u>157,721</u>	<u>139,543</u>	<u>18,178</u>
Total Fire Department	<u>6,771,126</u>	<u>7,142,761</u>	<u>6,601,761</u>	<u>541,000</u>
Buildings, permits and inspections				
Salaries	241,643	238,266	221,280	16,986
Personnel benefits	92,286	95,662	82,651	13,011
Other operating expenses	22,664	22,857	18,887	3,970
	<u>356,593</u>	<u>356,785</u>	<u>322,818</u>	<u>33,967</u>
Neighborhood services and code compliance				
Salaries	343,708	344,130	337,550	6,580
Personnel benefits	136,194	135,772	123,232	12,540
Other operating expenses	110,445	163,569	130,353	33,216
	<u>590,347</u>	<u>643,471</u>	<u>591,135</u>	<u>52,336</u>
Total Public Safety	<u>18,170,633</u>	<u>18,847,223</u>	<u>17,356,961</u>	<u>1,490,262</u>
Department of Public Works				
Supervision and engineering				
Salaries	545,074	562,818	554,110	8,708
Personnel benefits	265,044	251,399	229,691	21,708
Other operating expenses	791,380	944,747	266,268	678,479
	<u>1,601,498</u>	<u>1,758,964</u>	<u>1,050,069</u>	<u>708,895</u>

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CITY OF SALISBURY, MARYLAND
SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Department of Public Works (cont'd)				
Roadways				
Salaries	275,348	282,282	278,876	3,406
Personnel benefits	149,563	142,629	128,058	14,571
Other operating expenses	222,320	348,805	180,325	168,480
Capital outlays	-	147,000	134,521	12,479
	<u>647,231</u>	<u>920,716</u>	<u>721,780</u>	<u>198,936</u>
Highway lighting				
Other operating expenses	855,975	884,916	830,921	53,995
	<u>855,975</u>	<u>884,916</u>	<u>830,921</u>	<u>53,995</u>
Sanitation				
Street cleaning				
Salaries	79,102	75,602	66,933	8,669
Personnel benefits	41,276	41,276	33,171	8,105
Other operating expenses	11,430	27,846	21,143	6,703
Capital outlays	225,000	225,000	160,238	64,762
	<u>356,808</u>	<u>369,724</u>	<u>281,485</u>	<u>88,239</u>
Waste collection and disposal				
Salaries	283,202	298,816	294,133	4,683
Personnel benefits	156,057	145,943	136,581	9,362
Other operating expenses	722,800	754,206	697,706	56,500
	<u>1,162,059</u>	<u>1,198,965</u>	<u>1,128,420</u>	<u>70,545</u>
Recycling				
Salaries	88,171	90,940	88,785	2,155
Personnel benefits	50,548	50,279	46,877	3,402
Other operating expenses	24,805	30,119	22,941	7,178
	<u>163,524</u>	<u>171,338</u>	<u>158,603</u>	<u>12,735</u>
Total Sanitation	<u>1,682,391</u>	<u>1,740,027</u>	<u>1,568,508</u>	<u>171,519</u>
Fleet maintenance				
Salaries	192,519	198,295	190,039	8,256
Personnel benefits	111,473	105,697	85,973	19,724
Other operating expenses	184,492	195,615	166,786	28,829
	<u>488,484</u>	<u>499,607</u>	<u>442,798</u>	<u>56,809</u>
Carpenter shop				
Salaries	57,864	68,545	65,921	2,624
Personnel benefits	42,701	31,636	30,538	1,098
Other operating expenses	25,200	27,850	25,674	2,176
	<u>125,765</u>	<u>128,031</u>	<u>122,133</u>	<u>5,898</u>
Total Department of Public Works	<u>5,401,344</u>	<u>5,932,261</u>	<u>4,736,209</u>	<u>1,196,052</u>

Continued on next page.

CITY OF SALISBURY, MARYLAND
SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Recreation and Culture				
Municipal zoo				
Salaries	723,881	724,332	707,093	17,239
Personnel benefits	231,777	231,326	211,754	19,572
Other operating expenses	366,772	390,633	409,995	(19,362)
	<u>1,322,430</u>	<u>1,346,291</u>	<u>1,328,842</u>	<u>17,449</u>
Park maintenance				
Salaries	189,432	183,038	164,801	18,237
Personnel benefits	107,652	106,046	89,009	17,037
Other operating expenses	118,109	149,480	92,483	56,997
Capital outlays	43,000	43,000	38,555	4,445
	<u>458,193</u>	<u>481,564</u>	<u>384,848</u>	<u>96,716</u>
Total Recreation and Culture	<u>1,780,623</u>	<u>1,827,855</u>	<u>1,713,690</u>	<u>114,165</u>
Nondepartmental				
Insurance				
Insurance	605,187	605,187	488,909	116,278
	<u>605,187</u>	<u>605,187</u>	<u>488,909</u>	<u>116,278</u>
Miscellaneous				
Personnel benefits	2,000	2,000	-	2,000
Other operating expenses	3,500	3,500	3,487	13
Mayor's contingency	3	321	-	321
	<u>5,503</u>	<u>5,821</u>	<u>3,487</u>	<u>2,334</u>
Total Nondepartmental	<u>610,690</u>	<u>611,008</u>	<u>492,396</u>	<u>118,612</u>
Debt Payments				
Principal redemption	2,168,982	2,200,938	2,153,389	47,549
Interest	967,137	951,943	926,794	25,149
Total Debt Payments	<u>3,136,119</u>	<u>3,152,881</u>	<u>3,080,183</u>	<u>72,698</u>
TOTAL EXPENDITURES	<u>31,398,521</u>	<u>32,987,795</u>	<u>29,840,414</u>	<u>3,147,381</u>
Other Financing Uses				
Transfer to other funds	179,158	194,840	194,840	-
Payment to refund debt	-	-	4,598,489	(4,598,489)
Total Other Financing Uses	<u>179,158</u>	<u>194,840</u>	<u>4,793,329</u>	<u>(4,598,489)</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$31,577,679</u>	<u>\$33,182,635</u>	<u>\$34,633,743</u>	<u>\$ (1,451,108)</u>

Nonmajor Governmental Funds

CITY OF SALISBURY, MARYLAND
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds				
	Curb, Gutter and Sidewalk Fund	Grant Fund	Reimbursement Fund	Community Development Fund	Total
ASSETS					
Cash	\$ 36,983	\$ -	\$ 53,570	\$ 85,928	\$ 176,481
Investment pool	31,142	2,665	2,822	203	36,832
Accounts receivable	22,665	253,761	71,179	5,500	353,105
TOTAL ASSETS	\$ 90,790	\$ 256,426	\$ 127,571	\$ 91,631	\$ 566,418
LIABILITIES AND FUND BALANCES					
Liabilities:					
Cash overdraft	\$ -	\$ 401,672	\$ -	\$ -	\$ 401,672
Accounts payable	-	11,378	151	5,814	17,343
Compensated absences	-	-	-	1,246	1,246
Total Liabilities	-	413,050	151	7,060	420,261
Fund Balances (Deficit):					
Committed	90,790	-	127,420	-	218,210
Assigned	-	-	-	84,571	84,571
Unassigned (Deficit)	-	(156,624)	-	-	(156,624)
Total Fund Balances (Deficit)	90,790	(156,624)	127,420	84,571	146,157
TOTAL LIABILITIES AND FUND BALANCES	\$ 90,790	\$ 256,426	\$ 127,571	\$ 91,631	\$ 566,418

CITY OF SALISBURY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue Funds				Total
	Curb, Gutter and Sidewalk Fund	Grant Fund	Reimbursement Fund	Community Development Fund	
REVENUES					
Fees	\$ -	\$ -	\$ 30,696	\$ -	\$ 30,696
Earnings on investments	42	-	9	44	95
Grant revenues	-	1,808,503	-	408,992	2,217,495
TOTAL REVENUES	<u>42</u>	<u>1,808,503</u>	<u>30,705</u>	<u>409,036</u>	<u>2,248,286</u>
EXPENDITURES					
Salaries	-	395,538	-	104,553	500,091
Personnel benefits	-	170,267	-	27,750	198,017
Supplies	-	-	-	26,189	26,189
Other operating expenses	-	443,326	14,340	276,850	734,516
Capital outlays	-	568,007	-	-	568,007
TOTAL EXPENDITURES	<u>-</u>	<u>1,577,138</u>	<u>14,340</u>	<u>435,342</u>	<u>2,026,820</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>42</u>	<u>231,365</u>	<u>16,365</u>	<u>(26,306)</u>	<u>221,466</u>
OTHER FINANCING SOURCES					
Operating transfers in	-	88,672	-	72,714	161,386
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>88,672</u>	<u>-</u>	<u>72,714</u>	<u>161,386</u>
NET CHANGE IN FUND BALANCES	<u>42</u>	<u>320,037</u>	<u>16,365</u>	<u>46,408</u>	<u>382,852</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>90,748</u>	<u>(476,661)</u>	<u>111,055</u>	<u>38,163</u>	<u>(236,695)</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 90,790</u>	<u>\$ (156,624)</u>	<u>\$ 127,420</u>	<u>\$ 84,571</u>	<u>\$ 146,157</u>

CITY OF SALISBURY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND DEFICIT -
GRANT FUND
FOR THE YEAR ENDED JUNE 30, 2012

REVENUES	
Federal	\$ 1,022,016
State	696,458
County	1,894
Others	88,135
TOTAL REVENUES	<u>1,808,503</u>
EXPENDITURES	
Federal	
Salaries	156,895
Personnel benefits	76,791
Operating expenses	107,313
Capital outlays	568,007
State	
Salaries	209,358
Personnel benefits	79,582
Operating expenses	330,432
County	
Salaries	12,864
Personnel benefits	6,879
Other	
Salaries	16,421
Personnel benefits	7,015
Operating expenses	5,581
TOTAL EXPENDITURES	<u>1,577,138</u>
EXCESS OF REVENUES UNDER EXPENDITURES	231,365
OTHER FINANCING SOURCES	
Operating transfers in	88,672
TOTAL OTHER FINANCING SOURCES	<u>88,672</u>
NET CHANGE IN FUND BALANCE	320,037
FUND DEFICIT, BEGINNING OF YEAR	<u>(476,661)</u>
FUND DEFICIT, END OF YEAR	<u><u>\$ (156,624)</u></u>

Nonmajor Proprietary Funds

CITY OF SALISBURY, MARYLAND
COMBINING STATEMENT OF NET POSITION - NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2012

	Enterprise Funds			
	Septage Treatment Fund	City Marina Fund	Parking Authority Fund	Total
ASSETS				
Current assets:				
Investment pool	\$ -	\$ 2,183	\$ 374,754	\$ 376,937
Accounts receivable	-	24,718	599	25,317
Total Current Assets	-	26,901	375,353	402,254
Noncurrent assets:				
Bond issuance cost, net of amortization	-	-	7,683	7,683
Capital assets				
Land	-	1,315,000	467,790	1,782,790
Buildings, equipment and improvements	-	1,755,970	4,144,743	5,900,713
Less accumulated depreciation	-	(1,371,045)	(2,160,518)	(3,531,563)
Total Noncurrent Assets	-	1,699,925	2,459,698	4,159,623
TOTAL ASSETS	\$ -	\$ 1,726,826	\$ 2,835,051	\$ 4,561,877
LIABILITIES AND NET POSITION				
LIABILITIES				
Due in one year:				
Cash overdraft	\$ -	\$ 46,632	\$ 40,963	\$ 87,595
Accounts payable	-	5,070	3,477	8,547
Accrued payroll	-	2,441	7,710	10,151
Accrued interest payable	-	-	2,489	2,489
Bonds, notes and capital leases payable	-	-	86,352	86,352
Total Current Liabilities	-	54,143	140,991	195,134
Due in more than one year:				
Bonds, notes and capital leases payable	-	-	744,828	744,828
Total Noncurrent Liabilities	-	-	744,828	744,828
Total Liabilities	-	54,143	885,819	939,962
NET POSITION (DEFICIT)				
Invested in capital assets net of related debt	-	1,699,925	1,620,835	3,320,760
Unrestricted (Deficit)	-	(27,242)	328,397	301,155
Total Net Position	-	1,672,683	1,949,232	3,621,915
TOTAL LIABILITIES AND NET POSITION	\$ -	\$ 1,726,826	\$ 2,835,051	\$ 4,561,877

CITY OF SALISBURY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds			
	Septage Treatment Fund	City Marina Fund	Parking Authority Fund	Total
OPERATING REVENUES				
Charges for services	\$ -	\$ 81,317	\$ 577,697	\$ 659,014
TOTAL OPERATING REVENUES	<u>-</u>	<u>81,317</u>	<u>577,697</u>	<u>659,014</u>
OPERATING EXPENSES				
Salaries	-	14,447	180,140	194,587
Personnel benefits	-	5,152	58,782	63,934
Professional and skilled services	-	1,046	120,502	121,548
Supplies	-	14,684	3,762	18,446
Other expenses	-	40,031	139,941	179,972
TOTAL OPERATING EXPENSES	<u>-</u>	<u>75,360</u>	<u>503,127</u>	<u>578,487</u>
OPERATING INCOME BEFORE DEPRECIATION	-	5,957	74,570	80,527
Depreciation	<u>-</u>	<u>19,307</u>	<u>108,101</u>	<u>127,408</u>
NET OPERATING LOSS	<u>-</u>	<u>(13,350)</u>	<u>(33,531)</u>	<u>(46,881)</u>
NONOPERATING REVENUES (EXPENSES)				
Transfers in	781	13,454	20,000	34,235
Interest income	-	-	274	274
Interest expense	-	-	(41,918)	(41,918)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>781</u>	<u>13,454</u>	<u>(21,644)</u>	<u>(7,409)</u>
CHANGE IN NET POSITION	781	104	(55,175)	(54,290)
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>(781)</u>	<u>1,672,579</u>	<u>2,004,407</u>	<u>3,676,205</u>
NET POSITION, END OF YEAR	<u>\$ -</u>	<u>\$ 1,672,683</u>	<u>\$ 1,949,232</u>	<u>\$ 3,621,915</u>

Enterprise Funds

CITY OF SALISBURY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
ENTERPRISE FUND - WATER AND SEWER FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 4,251,299	\$10,513,959	\$14,765,258
Penalties	23,110	58,964	82,074
Tapping charges and connection fees	3,850	-	3,850
Sundry income	170,330	4,563	174,893
Pretreatment monitoring fee	-	177,043	177,043
Impact fees	100,697	248,327	349,024
TOTAL OPERATING REVENUES	<u>4,549,286</u>	<u>11,002,856</u>	<u>15,552,142</u>
OPERATING EXPENSES			
Salaries	1,265,136	2,005,361	3,270,497
Personnel benefits	775,676	1,421,273	2,196,949
Professional and skilled services	521,645	1,779,827	2,301,472
Supplies	578,194	690,151	1,268,345
Other operating expenses	531,647	1,212,087	1,743,734
Equipment	8,366	63,991	72,357
TOTAL OPERATING EXPENSES	<u>3,680,664</u>	<u>7,172,690</u>	<u>10,853,354</u>
OPERATING INCOME BEFORE DEPRECIATION	868,622	3,830,166	4,698,788
Depreciation	<u>498,457</u>	<u>845,085</u>	<u>1,343,542</u>
NET OPERATING INCOME	<u>370,165</u>	<u>2,985,081</u>	<u>3,355,246</u>
NONOPERATING REVENUES (EXPENSES)			
Federal and state grants	176,742	110,864	287,606
Transfers out	-	(781)	(781)
Lawsuit settlement proceeds	-	7,598,834	7,598,834
Interest income	8,096	8,272	16,368
Interest expense	(130,716)	(500,651)	(631,367)
TOTAL NONOPERATING REVENUES	<u>54,122</u>	<u>7,216,538</u>	<u>7,270,660</u>
CHANGE IN NET POSITION	<u>\$ 424,287</u>	<u>\$10,201,619</u>	10,625,906
NET POSITION, BEGINNING OF YEAR			<u>66,617,464</u>
NET POSITION, END OF YEAR			<u>\$77,243,370</u>

CITY OF SALISBURY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Inspection fees	\$ 10,000	\$ 10,000	\$ 73,925	\$ 63,925
Water sales	4,368,509	4,368,509	4,177,374	(191,135)
Penalties	20,000	20,000	23,110	3,110
Tapping charges and connection fees	-	-	3,850	3,850
Interest earned	5,000	5,000	8,096	3,096
Water income - sundry	159,350	159,350	170,330	10,980
Grants	-	-	176,742	176,742
Impact fees	267,887	267,887	100,697	(167,190)
Current surplus available	-	389,952	-	(389,952)
TOTAL REVENUES	4,830,746	5,220,698	4,734,124	(486,574)
EXPENSES				
Engineering				
Salaries	249,863	253,734	242,396	11,338
Personnel benefits	118,016	114,942	102,133	12,809
Professional and skilled services	130,820	354,075	141,535	212,540
Supplies	33,594	34,024	28,365	5,659
Other operating expenses	30,130	32,818	28,372	4,446
Equipment	-	2,100	2,100	-
Total Engineering	562,423	791,693	544,901	246,792
Billing and collection				
Salaries	80,021	76,089	76,089	-
Personnel benefits	32,064	29,271	28,700	571
Professional and skilled services	43,100	46,896	41,518	5,378
Supplies	24,100	26,157	25,142	1,015
Other operating expenses	17,805	19,420	11,359	8,061
Total Billing and Collection	197,090	197,833	182,808	15,025
Water treatment				
Salaries	489,353	460,066	432,946	27,120
Personnel benefits	214,811	214,413	320,304	(105,891)
Professional and skilled services	211,654	335,947	225,933	110,014
Supplies	454,496	963,057	355,377	607,680
Other operating expenses	379,795	371,759	309,888	61,871
Equipment	35,000	80,456	206	80,250
Total Water Treatment	1,785,109	2,425,698	1,644,654	781,044

Continued on next page.

CITY OF SALISBURY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Distribution and storage				
Salaries	501,958	504,872	389,972	114,900
Personnel benefits	238,931	236,542	283,142	(46,600)
Professional and skilled services	49,559	64,679	38,623	26,056
Supplies	163,830	163,293	169,310	(6,017)
Other operating expenses	38,698	44,141	38,732	5,409
Equipment	25,000	32,094	6,060	26,034
Total Distribution and Storage	<u>1,017,976</u>	<u>1,045,621</u>	<u>925,839</u>	<u>119,782</u>
Administration				
Salaries	104,095	127,605	123,733	3,872
Personnel benefits	45,406	43,375	41,397	1,978
Professional and skilled services	93,907	93,907	74,036	19,871
Other operating expenses	138,223	138,223	143,296	(5,073)
Total Administration	<u>381,631</u>	<u>403,110</u>	<u>382,462</u>	<u>20,648</u>
Debt payments				
Principal redemption	455,239	460,925	-	460,925
Interest	224,177	216,097	130,716	85,381
Total Debt Payments	<u>679,416</u>	<u>677,022</u>	<u>130,716</u>	<u>546,306</u>
 TOTAL EXPENSES	 <u>4,623,645</u>	 <u>5,540,977</u>	 <u>3,811,380</u>	 <u>1,729,597</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	207,101	(320,279)	922,744	1,243,023
Depreciation	<u>-</u>	<u>-</u>	<u>498,457</u>	<u>(498,457)</u>
CHANGE IN NET POSITION	<u>\$ 207,101</u>	<u>\$ (320,279)</u>	<u>\$ 424,287</u>	<u>\$ 744,566</u>

CITY OF SALISBURY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - SEWER DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Sewer charges	\$ 10,848,259	\$ 10,848,259	\$ 10,064,296	\$ (783,963)
Sewer charges - urban services	300,000	300,000	449,663	149,663
Penalties	45,000	45,000	58,964	13,964
Pretreatment monitoring fees	162,859	162,859	177,043	14,184
Interest earned	5,000	5,000	8,272	3,272
Sewer income - sundry	21,000	21,000	4,563	(16,437)
Impact fees	828,644	828,644	248,327	(580,317)
Grants	-	-	110,864	110,864
Lawsuit settlement proceeds	-	3,582,798	7,598,834	4,016,036
TOTAL REVENUES	12,210,762	15,793,560	18,720,826	2,927,266
EXPENSES				
Engineering				
Salaries	389,518	384,388	380,357	4,031
Personnel benefits	168,807	161,232	181,920	(20,688)
Professional and skilled services	89,750	325,521	19,818	305,703
Supplies	37,170	38,088	28,654	9,434
Other operating expenses	40,405	42,839	36,850	5,989
Equipment	510,000	455,240	63,991	391,249
Total Engineering	1,235,650	1,407,308	711,590	695,718
Billing and collection				
Salaries	136,580	128,861	128,850	11
Personnel benefits	54,201	49,814	96,767	(46,953)
Professional and skilled services	1,385	13,896	5,363	8,533
Supplies	1,000	1,000	1,000	-
Other operating expenses	24,520	24,209	26,646	(2,437)
Total Billing and Collection	217,686	217,780	258,626	(40,846)
Wastewater treatment				
Salaries	1,088,344	1,010,875	924,676	86,199
Personnel benefits	503,507	500,075	750,420	(250,345)
Professional and skilled services	797,324	1,258,601	744,479	514,122
Supplies	1,134,756	2,107,011	599,199	1,507,812
Other operating expenses	1,248,715	1,279,197	901,840	377,357
Equipment	-	16,234	-	16,234
Total Wastewater Treatment	4,772,646	6,171,993	3,920,614	2,251,379

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CITY OF SALISBURY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - SEWER DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Maintenance and repair				
Salaries	\$ 370,451	\$ 371,928	\$ 355,607	\$ 16,321
Personnel benefits	194,121	189,495	294,421	(104,926)
Professional and skilled services	174,669	265,948	205,286	60,662
Supplies	63,700	55,242	54,444	798
Other operating expenses	65,750	66,850	54,058	12,792
Total Maintenance and Repair	868,691	949,463	963,816	(14,353)
Pretreatment monitoring				
Salaries	96,561	96,610	80,586	16,024
Personnel benefits	37,940	37,892	49,346	(11,454)
Professional and skilled services	12,750	15,050	14,140	910
Supplies	9,950	7,497	6,854	643
Other operating expenses	5,577	5,730	5,214	516
Total Pretreatment Monitoring	162,778	162,779	156,140	6,639
Administration				
Salaries	111,938	139,937	135,285	4,652
Personnel benefits	53,981	49,546	48,399	1,147
Professional and skilled services	599,676	4,572,426	790,741	3,781,685
Other operating expenses	211,384	211,384	187,479	23,905
Total Administration	976,979	4,973,293	1,161,904	3,811,389
Debt payments				
Principal redemption	3,256,888	3,261,456	-	3,261,456
Interest	926,546	924,372	500,651	423,721
Total Debt Payments	4,183,434	4,185,828	500,651	3,685,177
Transfers				
Transfers out	-	-	781	(781)
Total Transfers	-	-	781	(781)
TOTAL EXPENSES	12,417,864	18,068,444	7,674,122	10,394,322
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	(207,102)	(2,274,884)	11,046,704	13,321,588
Depreciation	-	-	845,085	(845,085)
CHANGE IN NET POSITION	\$ (207,102)	\$ (2,274,884)	\$ 10,201,619	\$ 12,476,503

CITY OF SALISBURY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - CITY MARINA
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Slip rentals	\$ 45,000	\$ 45,000	\$ 47,146	\$ 2,146
Electric fees	10,000	10,000	7,998	(2,002)
Gas sales	20,000	20,000	25,805	5,805
Miscellaneous	700	700	368	(332)
TOTAL OPERATING REVENUES	<u>75,700</u>	<u>75,700</u>	<u>81,317</u>	<u>5,617</u>
OPERATING EXPENSES				
Salaries	19,117	16,617	14,447	2,170
Personnel benefits	8,962	6,457	5,152	1,305
Professional and skilled services	5,200	18,616	1,046	17,570
Supplies	7,125	9,320	14,684	(5,364)
Other services and charges	48,750	48,820	40,031	8,789
TOTAL OPERATING EXPENSES	<u>89,154</u>	<u>99,830</u>	<u>75,360</u>	<u>24,470</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	(13,454)	(24,130)	5,957	30,087
Depreciation	<u>-</u>	<u>-</u>	<u>19,307</u>	<u>(19,307)</u>
NET OPERATING LOSS	(13,454)	(24,130)	(13,350)	10,780
NONOPERATING REVENUES				
Operating transfer in	13,454	13,454	13,454	-
TOTAL NONOPERATING REVENUES	<u>13,454</u>	<u>13,454</u>	<u>13,454</u>	<u>-</u>
CHANGE IN NET POSITION	<u>\$ -</u>	<u>\$ (10,676)</u>	<u>\$ 104</u>	<u>\$ 10,780</u>

CITY OF SALISBURY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - PARKING AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Parking permits, fines, state grants, meters and Park 'n Shop	\$ 673,280	\$ 673,280	\$ 571,446	\$ (101,834)
Rent and other	6,000	6,000	6,251	251
Current surplus available	32,207	32,207	-	(32,207)
TOTAL OPERATING REVENUES	<u>711,487</u>	<u>711,487</u>	<u>577,697</u>	<u>(133,790)</u>
OPERATING EXPENSES				
Salaries	186,756	186,103	180,140	5,963
Personnel benefits	64,381	64,834	58,782	6,052
Professional and skilled services	153,288	173,539	120,502	53,037
Supplies	8,700	8,920	3,762	5,158
Other services and charges	163,424	163,624	139,941	23,683
Capital outlays	49,000	52,317	-	52,317
TOTAL OPERATING EXPENSES	<u>625,549</u>	<u>649,337</u>	<u>503,127</u>	<u>146,210</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	85,938	62,150	74,570	12,420
Depreciation	-	-	108,101	(108,101)
NET OPERATING INCOME (LOSS)	85,938	62,150	(33,531)	(95,681)
NONOPERATING REVENUES (EXPENSES)				
Operating transfer in	20,000	20,000	20,000	-
Interest income	700	700	274	(426)
Interest expense	(106,638)	(106,638)	(41,918)	64,720
TOTAL NONOPERATING EXPENSES	<u>(85,938)</u>	<u>(85,938)</u>	<u>(21,644)</u>	<u>64,294</u>
CHANGE IN NET POSITION	<u>\$ -</u>	<u>\$ (23,788)</u>	<u>\$ (55,175)</u>	<u>\$ (31,387)</u>

STATISTICAL INFORMATION

CITY OF SALISBURY, MARYLAND

**SCHEDULE OF DELINQUENT TAXES RECEIVABLE (UNAUDITED)
JUNE 30, 2012**

Levy Year	Total	General Fund		
		Real Property	Personal Property	Corporations
2012	\$ 890,456	\$ 584,765	\$ 2,794	\$ 302,897
2011	329,812	47,744	4,297	277,771
2010	302,266	51,256	3,638	247,372
2009	292,033	63,910	1,778	226,345
2008	174,725	64,214	3,011	107,500
2007 and prior	644,736	265,350	34,530	344,856
	2,634,028	1,077,239	50,048	1,506,741
Less allowance for uncollectibles	(1,110,207)	-	(45,106)	(1,065,101)
	<u>\$ 1,523,821</u>	<u>\$ 1,077,239</u>	<u>\$ 4,943</u>	<u>\$ 441,640</u>

NOTE: Included in the above are deferred taxes of \$486,890.

CITY OF SALISBURY, MARYLAND

**STATEMENT OF BONDED INDEBTEDNESS (UNAUDITED)
JUNE 30, 2012**

Description of Bonds and Purpose of Issue	Interest		Bond Maturities	Date Issued	Authorized Total Issue	Outstanding June 30, 2012	Requirements to June 30, 2013		Payable At
	Rate (Percent)	Dates Payable					Principal	Interest	
General obligation bonds									
Water Quality Bond of 2003	0.40	F & A1	8/1/03-8/1/24	4/17/2003	3,163,361	1,928,239	157,182	15,548	MD Dept Enviroment
Public Improvement Bond of 2004	2.0-4.6	M & N1	5/1/05-5/1/24	4/22/2004	5,318,000	3,278,200	287,000	143460	M & T Bank
Water Quality Bond of 2005	0.40	F & A1	2/1/09-2/1/28	9/29/2005	41,721,225	33,585,525	2,054,307	251,575	MD Water Quality Fin.
Public Improvement Bonds of 2007	4.03	A & O1	4/1/08-4/1/27	4/12/2007	4,950,000	3,712,500	247,500	149,614	Suntrust Leasing Corp.
Public Improvement Bonds of 2008	4.09	F & A1	2/1/09-2/1/28	1/22/2008	3,605,000	2,975,000	170,000	121,678	Suntrust Equip. & Leasing Corp.
Public Improvement Bonds of 2009	3.78	M & N1	5/1/10-5/1/25	11/6/2009	2,600,000	2,253,334	173,333	83,065	Hebron Savings Bank
Maryland Water Quality Bond (ARRA)	-	A & F1	8/1/11-2/1/30	12/4/2009	2,756,400	2,610,379	145,021	-	MD Water Quality Fin.
Maryland Energy Administration	-	S & M1	9/1/11-3/1/13	12/4/2009	258,740	229,991	28,749	-	MD Water Quality Fin.
Maryland Energy Administration	2.50	J & J1	1/1/11-7/1/16	8/23/2010	142,800	131,696	22,626	3,152	MD Water Quality Fin.
Refinance Public Improvement Bond	3.35	A & O1	10/1/11-10/1/26	10/4/2010	5,050,000	4,806,306	251,857	156,793	Bank of America
Public Improvements Refunding Bond, Series 2011A	1.31	J & DA1	12/13/11-6/1/14	12/13/2011	2,588,000	1,806,000	1,024,000	11,829	Sun Trust Bank
Public Improvements Refunding Bond, Series 2011B	2.39	J & DA1	12/13/11-6/1/23	12/13/2011	4,828,000	4,484,000	376,000	53,584	Sun Trust Bank
2012 Public Improvement Bond	2.52	M & N1	5/3/12-6/30/27	5/3/2012	7,693,000	7,693,000	429,000	96,932	Sun Trust Bank
Series 2012A Maryland Water Quality Financing Administraction Drinking Water Bond	0.90	A & F1	5/22/12-2/1/43	5/22/2012	1,631,000	51,820	-	6,747	MD Water Quality Fin.
Series 2012B Maryland Water Quality Financing Administraction Drinking Water Bond	-	A & F1	5/22/12-2/1/43	5/22/2012	1,500,000	-	-	-	MD Water Quality Fin.
						<u>\$69,545,990</u>	<u>\$ 5,366,575</u>	<u>\$ 1,093,977</u>	

CITY OF SALISBURY, MARYLAND

GENERAL FUND REVENUE BY SOURCE (UNAUDITED)
FIVE YEARS ENDED JUNE 30, 2012

Fiscal Year Ended June 30	Property Taxes		Local Income Taxes		State Shared Taxes		Licenses and Permits		Fines and Forfeitures		Revenues from Use of Money and Property		Revenue from Other Agencies		Service Charges and other		Total		Surplus Appropriated	
2012	\$ 20,956,426	70.37 %	\$ 1,280,775	4.30 %	\$ 1,106,407	3.72 %	\$ 846,415	2.84 %	\$ 275,650	0.93 %	\$ 26,868	0.09 %	\$ 1,605,123	5.39 %	\$ 3,681,914	12.36 %	\$29,779,578	100.00 %	\$	160,087
2011	20,780,382	72.27	1,378,956	4.80	765,918	2.66	715,197	2.49	139,420	0.48	37,142	0.13	1,533,721	5.33	3,404,221	11.84	28,754,957	100.00		294,894
2010	21,546,160	71.60	1,537,197	5.11	856,110	2.84	663,585	2.21	109,267	0.36	37,697	0.13	1,640,400	5.45	3,703,987	12.31	30,094,403	100.00		225,520
2009	20,256,196	66.98	1,673,627	5.53	2,004,180	6.63	862,143	2.85	105,234	0.35	169,970	0.56	1,776,385	5.87	3,392,935	11.22	30,240,670	100.00		1,622,353
2008	19,553,399	64.66	1,863,022	6.16	2,224,103	7.35	1,037,604	3.43	104,544	0.35	374,410	1.24	1,826,485	6.04	3,256,356	10.77	30,239,923	100.00		1,280,950

CITY OF SALISBURY, MARYLAND

GENERAL FUND EXPENDITURES BY FUNCTION (UNAUDITED)
FIVE YEARS ENDED JUNE 30, 2012

Fiscal Year Ended June 30	General Government	Department of Public Works						Miscellaneous & Transfers	Total
		Police	Fire	Other Safety	Supervision & Engineering	Highways	Sanitation		
2012	\$2,460,975 7.11 %	\$9,841,247 28.42 %	\$6,601,761 19.06 %	\$ 913,953 2.64 %	\$1,050,069 3.03 %	\$1,552,701 4.48 %	\$2,133,439 6.16 %	\$8,365,908 24.16 %	\$34,633,743 100.00 %
2011	2,464,686 7.31	9,207,336 27.32	5,935,498 17.61	1,261,180 3.74	1,139,470 3.38	1,529,516 4.54	2,101,673 6.24	8,344,885 24.77	33,696,284 100.00
2010	2,254,947 7.24	9,368,939 30.08	7,364,032 23.65	1,384,845 4.45	2,053,826 6.59	1,596,292 5.13	1,421,251 4.56	3,907,520 12.55	31,142,564 100.00
2009	2,455,685 7.87	9,567,265 30.67	7,168,672 22.98	1,437,948 4.61	1,926,123 6.17	1,437,823 4.61	1,733,812 5.56	3,735,856 11.98	31,196,108 100.00
2008	2,468,488 8.68	9,366,404 32.93	5,590,087 19.65	1,363,544 4.79	2,154,483 7.57	1,402,172 4.93	1,651,054 5.80	2,940,585 10.34	28,446,239 100.00

CITY OF SALISBURY, MARYLAND
WATER AND SEWER DEPARTMENT OPERATIONS (UNAUDITED)
FIVE YEARS ENDED JUNE 30, 2012

Fiscal Year Ended June 30	Revenue				Expenses						
	Water Charges	Other Water	Sewer Charges	Other Sewer	Total	Surplus Appropriated	Operations	Capital Outlay	Debt Service	Depreciation	Total
2012	\$4,177,374	\$ 271,215	\$10,513,959	\$ 240,570	\$15,203,118	\$ 1,366,020	\$10,780,997	\$ 72,357	\$ 631,367	\$ 1,343,542	\$12,828,263
2011	4,233,585	331,592	9,069,181	409,182	14,043,540	-	11,548,409	2,732	748,161	1,581,080	13,880,382
2010	4,223,870	175,918	7,935,888	220,396	12,556,072	1,287,628	10,409,485	52,340	670,243	1,574,494	12,706,562
2009	3,821,506	292,905	7,075,001	287,400	11,476,812	2,868,598	10,070,820	89,809	622,396	1,553,952	12,336,977
2008	3,516,762	417,906	6,607,152	247,717	10,789,537	3,100,587	8,649,418	6,778	541,292	1,564,896	10,762,384

In addition, debt service only includes interest expense (no principal payments).

CITY OF SALISBURY, MARYLAND

GENERAL AND SINKING FUND - PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED)
FIVE YEARS ENDED JUNE 30, 2012

Fiscal Year Ended June 30	Assessable Basis	Total General Sinking Tax Levy	Current Tax Collections	Percent of Levy Collected in Year of Levy	Delinquent Tax Collections	Collections	Total Collections as a Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
2012	\$2,254,938,618	\$21,721,757	\$20,246,098	93.21 %	\$ 169,030	\$20,415,128	93.98 %	\$ 2,179,002	10.03 %
2011	2,330,729,348	22,506,548	20,373,256	90.52	45,267	20,418,523	90.72	2,088,025	9.28
2010	2,501,327,556	23,929,701	19,529,112	81.61	1,770,553	21,299,665	89.01	1,731,542	7.24
2009	2,300,114,378	22,307,156	19,672,764	88.19	342,121	20,014,885	89.72	804,170	3.60
2008	2,079,779,681	20,663,791	18,735,024	90.67	608,198	19,343,222	96.84	918,478	4.44

CITY OF SALISBURY, MARYLAND

GENERAL AND SINKING FUND - ASSESSED VALUES AND DEBT RATIOS (UNAUDITED)
FIVE YEARS ENDED JUNE 30, 2012

Fiscal Year Ended June 30	Real Property Full and Partial Year	Assessed Values				General Obligation Debt and Notes Payable	Ratio G.O. Debt to Assessed Values	Legal Debt Limit	Legal Debt Margin	Total G.O. Debt Service	Total Expenditures General Fund and Water & Sewer	Ratio G.O. Debt Service to Total Expenditures
		Personal Property	Corporations									
			Ordinary	Railroads and Utilities	Total							
2012	\$1,988,451,318	\$2,513,100	\$ 216,668,130	\$47,306,070	\$2,254,938,618	0.0308	\$ 106,186,783	\$36,640,793	\$6,627,172	\$42,037,310	0.158	
2011	2,050,805,168	2,058,140	229,984,250	47,881,790	2,330,729,348	0.0297	110,024,625	40,865,087	6,298,863	42,085,103	0.150	
2010	2,219,277,746	2,697,220	230,973,950	48,378,640	2,501,327,556	0.0274	116,976,091	49,504,198	5,719,527	43,243,226	0.132	
2009	2,015,985,078	2,966,990	228,511,610	52,650,700	2,300,114,378	0.0264	109,052,333	42,960,035	5,462,516	42,729,346	0.128	
2008	1,782,450,011	3,215,350	230,495,480	63,618,840	2,079,779,681	0.0307	101,030,967	30,507,028	5,758,606	38,169,578	0.151	

CITY OF SALISBURY, MARYLAND
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2012

CITY OF SALISBURY

TABLE OF CONTENTS

	<u>PAGE</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1 - 2
Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	3 - 5
Schedule of Expenditures of Federal Awards	6 - 7
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Recommendations	9 - 12

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

December 3, 2012

Members of City Council
City of Salisbury
Salisbury, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Salisbury, Maryland as of and for the year ended June 30, 2012, which collectively comprise the City of Salisbury's basic financial statements, and have issued our report thereon dated December 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting, described as items #08-4 and #12-1 in the accompanying schedule of findings

Members of City Council
City of Salisbury

and recommendations, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Salisbury's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Salisbury, Salisbury, Maryland, in a separate letter dated December 3, 2012.

The City of Salisbury, Maryland's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the City of Salisbury, Maryland's response and, accordingly, we express no opinion on it.

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


BARBACANE, THORNTON & COMPANY LLP

REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

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December 3, 2012

Members of City Council
City of Salisbury
Salisbury, Maryland

Compliance

We have audited the compliance of the City of Salisbury, Salisbury, Maryland with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City of Salisbury's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury's compliance based on our audit.

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

As described in item #11-1 in the accompanying schedule of findings and recommendations, the City of Salisbury did not comply with requirements regarding reporting that is applicable to its CDBG Entitlement Grant Cluster. Compliance with such requirement is necessary, in our opinion, for the City of Salisbury to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Salisbury complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Salisbury is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Salisbury's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and recommendations as item #11-1 to be a significant deficiency.

The City of Salisbury's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the City of Salisbury's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Salisbury as of and for the year ended June 30, 2012 and have issued our report thereon dated (to be determined). Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Salisbury's basic financial statements. The accompanying Schedule

Members of City Council
City of Salisbury

of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

CITY OF SALISBURY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<u>GRANTOR/PROGRAM</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Grant/Loan Number</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>				
Passed through Maryland Department of the Environment				
ARRA - Naylor Lift Station	I	66.458	WQSL08-515-23L	\$ 177,449
Capitalization Grant for State Revolving Fund	I	66.458	WQ05-319-23L	53,971
Total CFDA #66.458				<u>231,420</u>
Passed through National Fish Wildlife Foundation	I	66.466	0603.11.029465	27,044
Total Environmental Protection Agency				<u>258,464</u>
<u>U.S. Dept of Housing and Urban Development</u>				
City of Salisbury Acquisition and Demolition	D	14.218	B-05-MC-24-0015	13,157
SNHS Owner Occupied Housing Rehab	D	14.218	B-09-MC-24-0015	50,079
SNHS Housing Counseling Service	D	14.218	B-09-MC-24-0015	9,043
Low/Mod Neighborhood Sidewalk Creation	D	14.218	B-09-MC-24-0015	7,177
Nuisance Officer	D	14.218	B-10-MC-24-0015	30,694
Trash Containment	D	14.218	B-10-MC-24-0015	12,000
Salisbury Neighborhood Housing Service-Principal Write down	D	14.218	B-10-MC-24-0015	15,000
Coty Cox Flood Relief	D	14.218	B-11-MC-24-0015	46,150
Demolition Fund	D	14.218	B-11-MC-24-0015	33,650
Total CFDA #14.218				<u>216,949</u>
ARRA - HPR Program	D	14.257	2009-HPRP-BOS-9	5,512
Total Dept of Housing and Urban Development				<u>222,461</u>
Passed through Maryland Department of Housing and Community Development				
Emergency Shelter Grant	I	14.231	11-ESGBOS	10,899
Emergency Shelter Grant	I	14.231	12-ESGBOS	17,474
Total CFDA #14.231				<u>28,373</u>
Total U.S. Department of HUD				<u>250,834</u>

Continued on next page.

CITY OF SALISBURY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<u>GRANTOR/PROGRAM</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Grant/Loan Number</u>	<u>Expenditures</u>
U.S. Department of Justice				
(cont'd)				
Passed through Maryland Bureau of Justice Assistance				
ARRA - COPS Hiring Recovery Program	I	16.710	2009RKWX0410	233,687
Total CFDA #16.710				<u>233,687</u>
Justice Assistance Grant	I	16.738	BJAG 2009-DJ-DX-1432	20,792
Justice Assistance Grant	I	16.738	BJAG-2009-SB-B9-3327	12,239
Edward Byrne Memorial Justice Assistant Grant	I	16.738	2011-DJ-BX-3198	4,790
Total CFDA #16.738				<u>37,821</u>
Total U.S. Department of Justice				<u>271,508</u>
U.S. Department of Energy				
ARRA - Energy Efficiency and Conservation Block Grant Program	D	81.128	DE-FOA-0000013	7,851
Total U.S. Department of Energy				<u>7,851</u>
U.S. Department of Homeland Security-FEMA				
Port Security Grant Program	D	97.116	2009-PU-RI-0375	568,719
Total U.S. Department of Homeland Security				<u>568,719</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 1,357,376</u>

Source Code:

D = Direct Federal Funding
I = Indirect Federal Funding

CITY OF SALISBURY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SINGLE AUDIT REPORTING ENTITY

The City of Salisbury's single audit reporting entity is consistent with the reporting entity used for the City of Salisbury's financial statements.

NOTE B BASIS OF ACCOUNTING

All expenditures included in the Schedule of Expenditures of Federal Awards are presented on the basis that expenditures are reported to the respective federal grantor agencies. Accordingly, certain expenditures are recorded when paid, and certain other expenditures are recorded when the federal obligation is determined.

**SCHEDULE OF
FINDINGS AND RECOMMENDATIONS**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Financial Statements

Unqualified

• Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
• Significant deficiency(ies) identified?	<u> X </u> Yes	<u> </u> None reported
• Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None reported

Qualified

 X Yes No

Name of Federal Program or Cluster

CDBG/Entitlement Grants Cluster

Port Security Grant Program

\$ 300,000

 Yes X No

CITY OF SALISBURY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

FUND DEFICIT

08-4 Finding

As of June 30, 2008, the City's Grant Fund, Community Development Fund and Septage Treatment Fund had a deficit fund balance. The deficit was attributed to the use of monies from the City's pooled bank accounts that were not allocated to the appropriate fund. The City is responsible for demonstrating fiscal responsibility for all funds and fund types.

We recommended that the City implement procedures to ensure that, on a regular basis, someone is reviewing the activity in all City funds to ensure that they are being properly administered and funded. In addition, the City needed to implement a plan to fund the existing deficit and prevent future deficits from occurring.

Status

During our current year audit, we noted that the City's Grant Fund and Mitchell Landing Fund continued to report deficit fund balances as of June 30, 2012. The City closed out the Septage Treatment Fund, thereby eliminating fund deficits. This finding is still applicable for the current year.

Corrective Action Plan

The City will continue to explore avenues to resolve fund deficits.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

12-1 Collateralization of Cash

Finding

As part of our confirmation process for auditing cash and collateralization of cash, it was reported to us that at June 30, 2012, the City had funds which were not collateralized in the amount of \$302,528. Upon further inquiry with the client and the third party custodian, there appeared to be a breakdown in communication of the collateral and no formal procedure internally to ensure that any reporting from custodians of collateral be reviewed and reported to appropriate banking officials.

Recommendation

We recommend that the City document a procedure for obtaining, reviewing and appropriate follow up for any funds on deposit which require collateralization. This procedure should incorporate monthly review of collateral in the City's name, at a minimum, to ensure that public funds on deposit are protected from loss at all times.

CITY OF SALISBURY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Corrective Action Plan

Management will work to develop trading and monitoring procedures.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

11-1 FORM SF-425 REPORTING

Condition

During our prior year audit of the CDBG Entitlement Grant Cluster, we noted that Form SF-425 is applicable for the City but was not filed as required.

Criteria

According to OMB Circular A-133 Part III, Form SF-425 is required to be filed quarterly.

Effect

By not filing the proper forms, there is no way of ensuring that federal funds are not drawn prematurely; that no funds are being kept on hand in excess of three days' needs and that the City is taking steps to reduce excess cash balances.

Cause

The City was unaware of its requirement to file Form SF-425.

Recommendation

We recommended that the City review the OMB Circular A-133 for CFDA #14.218 yearly and understand all of its reporting requirements.

Status

During our current year audit, we noted that the City did not file Form SF-425 for each of the four quarters during the fiscal year ended June 30, 2012. Standard Form 272 was filed for quarters two, three and four of the fiscal year, but no report was filed for the first quarter. This finding is still applicable for the current year.

CITY OF SALISBURY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Corrective Action Plan

Management has completed Form SF-425 for the most recent quarter, which ran from July 1, 2012 to September 30, 2012. The City will continue to complete and submit this form each quarter.

11-2 SUBRECIPIENT MONITORING

Condition

During our prior year audit of the CDBG Entitlement Grant Cluster, we noted that the City failed to ensure that the required subrecipient audits were complete, if applicable.

Criteria

According to the OMB Circular A-133, it is the responsibility of the pass-through entity to ensure that the required subrecipient audits were completed if necessary. It is also the responsibility of the pass-through entity to validate whether or not an audit is required under the Single Audit Act.

Effect

By not ensuring subrecipients are having audits conducted, possible noncompliance or illegal acts by the subrecipient may go unreported.

Cause

The City was unaware of its requirements of subrecipient monitoring.

Recommendation

We recommended that the City develop an appropriate system that would allow it to track all of its subrecipients and all of the requirements noted in OMB Circular A-133.

Status

During our current year audit, we noted that the City developed a tracking spreadsheet to utilize for monitoring the annual audits of subrecipient agencies. The spreadsheet tracks the date of requests for audit copies, the date that copies of the audit report are received, the individual responsible for review of the audit reports, whether a Single Audit is required and, if such an audit is required, that it was submitted to the Federal Audit Clearinghouse. This finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.