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**CITY OF SALISBURY, MARYLAND**

**AUDIT REPORT**

**JUNE 30, 2013**

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CITY OF SALISBURY

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**CITY OF SALISBURY, MARYLAND**

**ORGANIZATION**

**SERVING AS OF JUNE 30, 2013**

**OFFICIALS - ELECTED**

Mayor	James Ireton, Jr.
President of Council	Jacob Day
Vice President of Council	Laura Mitchell
Council Members	Terry Cohen Eugenie Shields Tim Spies

**OFFICIALS - STAFF**

City Administrator	John Pick
Assistant City Administrator	Lore Chambers
City Clerk	Kimberly Nichols
Director of Internal Services	Keith Cordrey
City Solicitor	S. Mark Tilghman
Acting Director of Public Works	Amanda Pollack
Director of Department of Building, Permits and Inspections	William Holland
Director of Information Technology	Bill Garrett
Director of Neighborhood Services and Code Compliance	Tom Stevenson
Director of Community Development	Deborah J. Stam
Chief of Police	Barbara Duncan
Chief of Fire Department	Rick Hoppes
Incorporated	1854

## INDEPENDENT AUDITOR'S REPORT

December 2, 2013

Members of City Council  
City of Salisbury  
Salisbury, Maryland

### Report on Financial Statements

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, Salisbury, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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, Salisbury, Maryland, as of June 30, 2013, and the respective changes in its financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As described in Note 14 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." Our opinion is not modified with respect to this matter.

### Emphasis of Matter

As discussed in Note 15 to the financial statements, the 2012 statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 11 and 46 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salisbury's basic financial statements. The other supplementary information and statistical information 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. Such information has been subjected to the auditing procedures applied in the audit of the basic

Members of City Council  
City of Salisbury

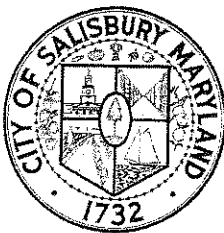
financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013 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 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* in considering the City of Salisbury's internal control over financial reporting and compliance.

*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, 2013. 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, 2013 was \$112,766,771. Net position of our governmental activities decreased by \$2,841,843 (or 8.8 percent) while net position of our business-type activities increased by \$4,746,996 (or 6.0 percent).
- The General Fund reported expenditures in excess of revenues of \$706,057, bringing its fund balance this year to \$11,980,884.

#### 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

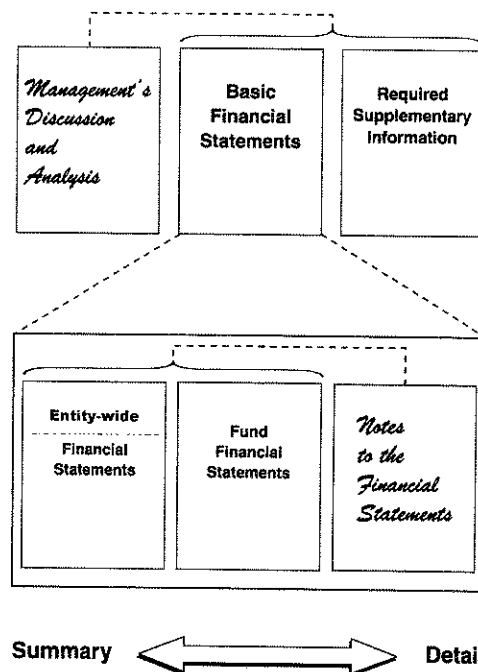


Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



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 and 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 including: 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 \$112.8 million.

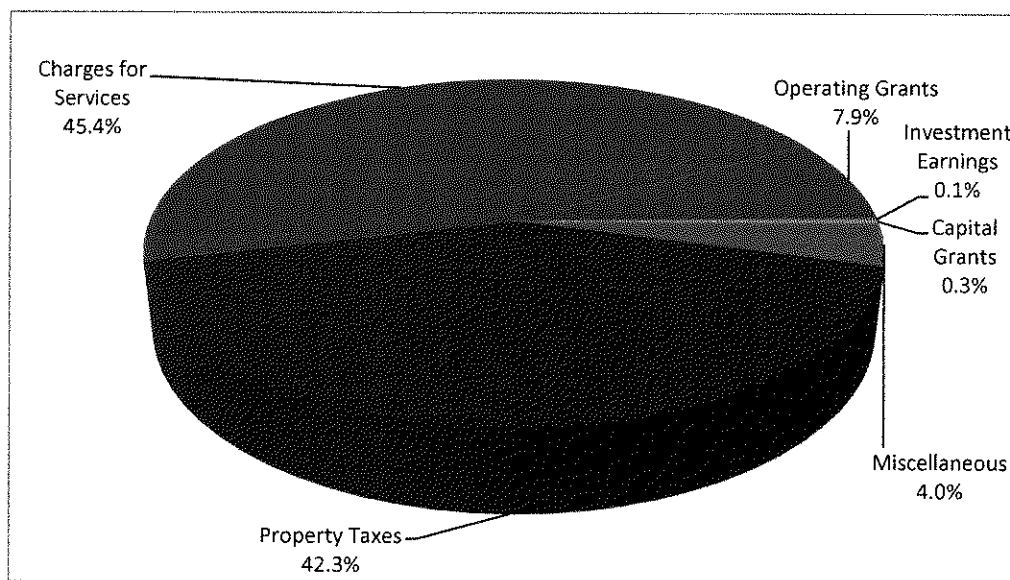
**Table A-1**  
**CITY'S NET POSITION**  
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>CURRENT ASSETS:</b>						
Cash and investment pool	\$ 10,081	\$ 10,741	\$ 17,462	\$ 14,632	\$ 27,543	\$ 25,373
Accounts receivable, net	3,339	4,004	2,786	2,658	6,125	6,662
Due from other governmental units	1,848	520	742	610	2,590	1,130
Due from other funds	194	-	(194)	-	-	-
Other	2	-	-	12	2	12
Inventories	708	835	488	509	1,196	1,344
<b>TOTAL CURRENT ASSETS</b>	<b>16,172</b>	<b>16,100</b>	<b>21,284</b>	<b>18,421</b>	<b>37,456</b>	<b>34,521</b>
<b>NONCURRENT ASSETS:</b>						
Restricted cash and investment pool	4,120	4,605	13,067	11,328	17,187	15,933
Capital assets at cost	62,091	60,940	153,118	147,802	215,209	208,742
Less accumulated depreciation	(20,733)	(18,971)	(41,373)	(39,861)	(62,106)	(58,832)
<b>TOTAL NONCURRENT ASSETS</b>	<b>45,478</b>	<b>46,574</b>	<b>124,812</b>	<b>119,269</b>	<b>170,290</b>	<b>166,104</b>
<b>TOTAL ASSETS</b>	<b>61,650</b>	<b>62,674</b>	<b>146,096</b>	<b>137,690</b>	<b>207,746</b>	<b>200,625</b>
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	1,569	833	461	413	2,030	1,246
Bonds, notes and capital leases payable	2,609	2,551	3,929	3,613	6,538	6,164
Other	664	859	46	175	710	1,034
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,842</b>	<b>4,243</b>	<b>4,436</b>	<b>4,201</b>	<b>9,278</b>	<b>8,444</b>
<b>NONCURRENT LIABILITIES:</b>						
Compensated absences	1,189	1,148	181	202	1,370	1,350
Post-employment benefits	11,440	8,351	3,041	2,220	14,481	10,571
Bonds, notes and capital leases payable	14,672	16,937	55,178	50,680	69,850	67,617
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>27,301</b>	<b>26,436</b>	<b>58,400</b>	<b>53,102</b>	<b>85,701</b>	<b>79,538</b>
<b>TOTAL LIABILITIES</b>	<b>32,143</b>	<b>30,679</b>	<b>62,836</b>	<b>57,302</b>	<b>94,979</b>	<b>87,982</b>
<b>NET POSITION:</b>						
Net investment in capital assets	24,078	22,481	52,638	53,648	76,716	76,129
Restricted	4,120	4,605	13,067	11,328	17,187	15,933
Unrestricted	1,309	4,909	17,555	15,411	18,864	20,581
<b>TOTAL NET POSITION</b>	<b>\$ 29,507</b>	<b>\$ 31,995</b>	<b>\$ 83,260</b>	<b>\$ 80,387</b>	<b>\$ 112,767</b>	<b>\$ 112,643</b>

Net position of the City's governmental activities declined 8.8 percent to \$29.5 million due to decreases in noncurrent assets, increases in current liabilities and increases in noncurrent liabilities. Net position of the City's business-type activities increased by 6.0 percent to \$83.3 million due to increases in current and non-current assets relating to a wastewater treatment plant settlement.

The City's total revenues were \$49.9 million. A significant portion, 42.3 percent, of the City's revenue comes from property and other taxes. (See Figure A-3.) A portion, 45.4 percent, comes from charges for services and 7.9 percent comes from operating grants. The remaining 4.4 percent comes from miscellaneous, capital grants and investment earnings. The total cost of all programs and services was \$48 million.

**Figure A-3**  
City of Salisbury  
Sources of Revenue for Fiscal Year 2013



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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 5,897	\$ 4,471	\$ 16,734	\$ 16,378	\$ 22,631	\$ 20,849
Operating grants	3,914	3,741	-	-	3,914	3,741
Capital grants	149	764	-	288	149	1,052
General revenues/transfers:						
Taxes	21,416	23,181	-	-	21,416	23,181
Investment earnings	29	30	36	18	65	48
Operating transfers	(43)	(33)	43	33	-	-
Miscellaneous	504	1,221	1,213	7,599	1,717	8,820
<b>TOTAL REVENUES</b>	<b>\$ 31,866</b>	<b>\$ 33,375</b>	<b>\$ 18,026</b>	<b>\$ 24,316</b>	<b>\$ 49,892</b>	<b>\$ 57,691</b>

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		
	2013	2012	% Change	2013	2012	% Change
Governmental activities:						
General government	\$ 3,223	\$ 3,210	0.4%	\$ 582	\$ 707	-17.6%
Public safety	20,011	18,879	6.09%	15,019	14,529	3.3%
Public works	7,839	6,533	20.0%	6,335	4,975	27.3%
Recreation and culture	1,969	2,043	-3.6%	1,147	1,478	-22.4%
Miscellaneous	1,023	492	108.0%	1,023	493	107.5%
Interest on long-term debt	642	910	-29.5%	642	910	-29.5%
Total governmental activities	<u>34,707</u>	<u>32,067</u>		<u>24,748</u>	<u>23,092</u>	
Business-type activities:						
Water and sewer	12,324	12,828	-3.9%	(3,603)	(3,011)	19.7%
Other	956	1,001	-4.5%	149	175	-14.9%
Total business-type activities	<u>13,280</u>	<u>13,829</u>		<u>(3,454)</u>	<u>(2,836)</u>	
Total	<u>\$ 47,987</u>	<u>\$ 45,896</u>		<u>\$ 21,294</u>	<u>\$ 20,256</u>	

CHANGE IN NET POSITION  
 (in thousands of dollars)

Governmental Activities		Business-type Activities		Totals	
2013	2012	2013	2012	2013	2012
<u>\$ (2,842)</u>	<u>\$ 1,307</u>	<u>\$ 4,747</u>	<u>\$ 10,487</u>	<u>\$ 1,905</u>	<u>\$ 11,794</u>

**Governmental Activities**

Property tax revenues were down due in part to a decline in the assessable base between FY 2013 and FY 2012. The cost of all *governmental* activities this year was \$34.7 million. However, the amount that the City's taxpayers paid for these activities through taxes was only \$21.4 million. Some of the cost was paid by those who directly benefited from the programs, \$5.9 million, or by grants and contributions, \$4.1 million. The total cost of governmental activities increased by 8.2 percent, which can be attributed largely to increases in public safety and public works.

**Business-type Activities**

Revenues of the City's business-type activities were \$18.0 million in FY 2013 vs. \$24.3 million in FY 2012 (refer to Table A-2) while expenses were \$13.3 million in FY 2013 versus \$13.8 million in FY 2012. The revenue decline is due to the City receiving lawsuit settlement proceeds in relation to the Wastewater Treatment plant of \$6.4 million more in FY 2012 than in FY 2013. Overall costs decreased by \$.5 million or 3.9 percent.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As of the end of FY 2013, the City's governmental funds reported a combined fund balance of \$17.1 million, \$.7 million less than the previous year. At year end, the general fund had a fund balance of \$12.0 million and the capital improvements fund had a fund balance of \$4.0 million. The fund balance for other governmental funds reported an ending fund balance of \$1.1 million. Revenue collections were less than expenditures for the year.

**General Fund Budgetary Highlights**

Over the course of the year, the City processed budget amendments which are used to update the revised budget. The ending revised budget for expenditures in the general fund was \$33.7 million versus an Original Budget of \$31.1 million. The majority of the variance is due to a carry forward of encumbrances from FY 2012. Actual expenditures were \$2.8 million below final budget amounts. All departments were under budget during the year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2013, the City had invested \$215 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 % Change
	2013	2012	2013	2012	2013	2012	
Land and art	\$ 7,884	\$ 7,884	\$ 2,047	\$ 2,047	\$ 9,931	\$ 9,931	0%
Buildings and improvements	20,435	20,434	21,758	21,758	42,193	42,192	0%
Infrastructure	12,804	8,240	30,909	25,644	43,713	33,884	29%
Machinery and equipment	18,254	17,464	11,969	11,597	30,223	29,061	4%
Zoo animals	36	36	-	-	36	36	0%
Construction-in-progress	2,678	6,882	86,435	86,756	89,113	93,638	-5%
Totals at historical cost	62,091	60,940	153,118	147,802	215,209	208,742	3%
Total accumulated depreciation	20,733	18,971	41,373	39,861	62,106	58,832	6%
Net capital assets	<u>\$ 41,358</u>	<u>\$ 41,969</u>	<u>\$111,745</u>	<u>\$107,941</u>	<u>\$153,103</u>	<u>\$149,910</u>	2%

The City's governmental capital purchases for fiscal year 2013 included a fireman's radios, foam trailer, ambulances, rescue/rapid response vessel and 11 police vehicles. Infrastructure improvements were made to the Waverly Street storm drains and the park pedestrian bridge. The business-type activities purchases included a sewer vac truck and upgrades to the wastewater treatment plant, construction of the Beaverdam Creek Stabilization, and improvements made for portable water storage. 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 \$76.4 million in bonds, notes and leases outstanding, an increase of \$2.6 million over the previous year. The City issued \$6 million of Public Improvement bonds to finance the Waverly Drive Water Quality Inlet project, the Milford Street Water Tank and the continuing construction of the upgrade to the Wastewater treatment plant. The City used lease financing to purchase an ambulance, radios and a new sewer jet vac truck in FY 2013. The City is limited to a maximum general obligation bond limit of \$105 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 % Change
	2013	2012	2013	2012	2013	2012	
Leases payable	\$ 2,325	\$ 2,716	\$ 287	\$ 133	\$ 2,612	\$ 2,849	-8%
Bonds payable	14,755	16,537	57,438	52,778	72,193	69,315	4%
Mortgages and notes payable	201	235	1,382	1,382	1,583	1,617	-2%
Total Bonds and Notes Payable	<u>\$ 17,281</u>	<u>\$ 19,488</u>	<u>\$ 59,107</u>	<u>\$ 54,293</u>	<u>\$ 76,388</u>	<u>\$ 73,781</u>	4%

## **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. The City collected \$364,641 in building permit revenues for FY 2013 vs. \$185,570 for FY 2012, which reflects the growth in activity.
- The City received \$483,428 less real estate tax revenue in FY 2013 due to a decline in real property assessments. The total of other tax revenues were \$48,171 more in FY 2013 than FY 2012.
- The City's next three-year reassessment cycle started in January 2013.
- The State of Maryland continued the revenue cuts for Highway User Taxes for FY 2013 but budgeted substantial increases for FY 2014.
- The local (Wicomico County) unemployment rate as of August 2013 was 7.7 percent, down 1.0 percent from a year ago. The State of Maryland had a 7.0 percent rate and the nation as a whole has a 7.3 percent unemployment rate.

The City did not raise taxes for FY 2013. The City has limited options for generating revenue and is near its current tax rate limit. The City must be prepared for 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 final budget decreased from \$23.6 million in the FY 2012 to \$22.6 million in FY 2013. Sewer rates were increased in FY 2012 (18.4 percent) and were unchanged in FY 2013. The City is in the process of upgrading the Wastewater Treatment Plant ("WWTP"). After the last upgrade, the WWTP is not producing effluent at the level required by the State. As a result, the City has completed a Corrective Action Plan and Preliminary Engineering Report for the WWTP upgrades. Both documents have been approved by the State of Maryland Department of the Environment. The design of the improvements recommended in the Corrective Action Plan is underway. The City is under an Amended Consent Order from the State of Maryland, which dictates that the upgrade must be complete and the WWTP meeting effluent limits by December 31, 2017. The Amended Consent Order outlined the financing options for the WWTP, including providing Biological Nutrient Removal and Enhanced Nutrient Removal ("BNR/ENR") grants and a 0% interest State Revolving Fund loan.

## **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](http://www.ci.salisbury.md.us).

**CITY OF SALISBURY, MARYLAND**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investment pool	\$ 10,081,045	\$ 17,462,286	\$ 27,543,331
Taxes receivable, net	1,170,024	-	1,170,024
Accounts receivable, net	2,168,916	2,785,429	4,954,345
Due from other governmental units	1,847,725	742,437	2,590,162
Due from other funds	193,542	(193,542)	-
Inventories	708,383	487,363	1,195,746
Other assets	1,980		1,980
Total Current Assets	16,171,615	21,283,973	37,455,588
Noncurrent assets:			
Restricted cash	4,120,435	13,067,314	17,187,749
Construction-in-progress	2,677,919	86,435,515	89,113,434
Land and art	7,883,810	2,046,753	9,930,563
Capital assets at cost	51,529,132	64,636,126	116,165,258
Less accumulated depreciation	(20,732,614)	(41,373,408)	(62,106,022)
Total Noncurrent Assets	45,478,682	124,812,300	170,290,982
<b>TOTAL ASSETS</b>	<b>\$ 61,650,297</b>	<b>\$ 146,096,273</b>	<b>\$ 207,746,570</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,478,494	\$ 307,064	\$ 1,785,558
Unearned revenue	880	-	880
Due to other governmental units	3,150	-	3,150
Deposits and advance payments of taxes	528,155	25,747	553,902
Compensated absences	132,138	20,157	152,295
Accrued interest payable	90,465	153,946	244,411
Bonds, notes and capital leases payable	2,608,521	3,929,131	6,537,652
Total Current Liabilities	4,841,803	4,436,045	9,277,848
Noncurrent liabilities:			
Compensated absences	1,189,249	181,408	1,370,657
Post-employment benefits	11,440,277	3,041,086	14,481,363
Bonds, notes and capital leases payable	14,672,323	55,177,608	69,849,931
Total Noncurrent Liabilities	27,301,849	58,400,102	85,701,951
Total Liabilities	32,143,652	62,836,147	94,979,799
<b>NET POSITION</b>			
Net investment in capital assets	24,077,403	52,638,247	76,715,650
Restricted	4,120,435	13,067,314	17,187,749
Unrestricted	1,308,807	17,554,565	18,863,372
Total Net Position	29,506,645	83,260,126	112,766,771
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 61,650,297</b>	<b>\$ 146,096,273</b>	<b>\$ 207,746,570</b>

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

**CITY OF SALISBURY, MARYLAND  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities
	Expenses	Capital Grants and Contributions	Total	Total
<b>GOVERNMENTAL ACTIVITIES</b>				
General government	\$ 3,223,000	\$ -	\$ (581,547)	\$ (581,547)
Public safety	20,011,470	-	(15,019,049)	(15,019,049)
Public works	7,839,004	148,974	(6,335,104)	(6,335,104)
Recreation and culture	1,968,974	-	(1,146,942)	(1,146,942)
Nondepartmental	1,022,520	-	(1,022,520)	(1,022,520)
Interest on long-term debt	642,370	-	(642,370)	(642,370)
Total Governmental Activities	34,707,338	148,974	(24,747,532)	(24,747,532)
<b>BUSINESS-TYPE ACTIVITIES</b>				
Water and sewer	12,324,192	-	-	3,602,803
Other	955,780	-	-	(148,829)
Total Business-type Activities	13,279,972	-	-	3,453,974
<b>TOTAL PRIMARY GOVERNMENT</b>	\$ 47,987,310	\$ 3,913,606	(24,747,532)	(21,293,558)
<b>GENERAL REVENUES</b>				
Taxes				
Real and personal property taxes, levied for general purposes			14,454,670	14,454,670
Ordinary business corporations and utilities			5,129,244	5,129,244
State shared income tax			1,439,078	1,439,078
Other taxes			393,131	393,131
Unrestricted investment earnings			29,284	65,376
Lawsuit settlement proceeds, net			-	1,213,464
Miscellaneous			503,748	503,748
Operating transfers			(43,466)	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>			21,905,689	23,198,711
<b>CHANGE IN NET POSITION</b>			(2,841,843)	1,905,153
<b>NET POSITION, BEGINNING OF YEAR *</b>			32,348,488	110,861,618
<b>NET POSITION, END OF YEAR</b>			\$ 29,506,645	\$ 112,766,771

\* Restated. See Notes 14 and 15.

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



**CITY OF SALISBURY, MARYLAND**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2013**

	General Fund	Capital Improvements Fund	Nonmajor Funds	Total
<b>ASSETS</b>				
Cash	\$ 9,785,969	\$ -	\$ 234,100	\$10,020,069
Investment pool	695,446	-	36,935	732,381
Taxes receivable	2,532,628	-	-	2,532,628
Less allowance for uncollectibles	(1,362,604)	-	-	(1,362,604)
Due from other governmental units	369,969	-	1,477,756	1,847,725
Due from other funds	193,542	-	-	193,542
Sundry accounts receivable	4,069,453	-	111,163	4,180,616
Less allowance for uncollectibles	(2,011,700)	-	-	(2,011,700)
Inventory	708,383	-	-	708,383
Other assets	1,980	-	-	1,980
Restricted cash	158,750	1,067,191	-	1,225,941
Restricted investment pool	-	2,894,494	-	2,894,494
<b>TOTAL ASSETS</b>	<b>\$15,141,816</b>	<b>\$ 3,961,685</b>	<b>\$ 1,859,954</b>	<b>\$20,963,455</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Cash overdraft	\$ -	\$ -	\$ 671,405	\$ 671,405
Accounts payable and accrued expenses	1,409,471	-	69,023	1,478,494
Due to other governmental units	3,150	-	-	3,150
Deposits and advance payment of taxes	528,155	-	-	528,155
Compensated absences	130,926	-	1,212	132,138
<b>Total Liabilities</b>	<b>2,071,702</b>	<b>-</b>	<b>741,640</b>	<b>2,813,342</b>
Deferred Inflows of Resources				
Unavailable revenue	1,089,230	-	880	1,090,110
<b>Total Deferred Inflows of Resources</b>	<b>1,089,230</b>	<b>-</b>	<b>880</b>	<b>1,090,110</b>
Fund Balances:				
Nonspendable	708,383	-	-	708,383
Restricted	-	3,961,685	-	3,961,685
Committed	673,064	-	304,526	977,590
Assigned	1,569,809	-	812,908	2,382,717
Unassigned	9,029,628	-	-	9,029,628
<b>Total Fund Balances</b>	<b>11,980,884</b>	<b>3,961,685</b>	<b>1,117,434</b>	<b>17,060,003</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$15,141,816</b>	<b>\$ 3,961,685</b>	<b>\$ 1,859,954</b>	<b>\$20,963,455</b>

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, 2013**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 17,060,003

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. 41,358,247

Certain revenues that do not provide current financial resources are reported as unavailable revenue in the fund financial statements but are reported as revenue in the governmental activities column of the statement of activities. 1,089,230

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	\$ (17,280,844)	
Compensated absences	(1,189,249)	
Post-employment benefits	(11,440,277)	
Accrued interest on bonds	<u>(90,465)</u>	<u>(30,000,835)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 29,506,645

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, 2013**

	General Fund	Capital Improvements Fund	Nonmajor Funds	Total
<b>REVENUES</b>				
Taxes	\$21,996,832	\$ -	\$ -	\$21,996,832
Other revenue	3,548,372	3,904	104	3,552,380
Intergovernmental revenues	1,438,344	148,974	2,475,262	4,062,580
Charges for services	2,791,096	-	86,782	2,877,878
<b>TOTAL REVENUES</b>	<u>29,774,644</u>	<u>152,878</u>	<u>2,562,148</u>	<u>32,489,670</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,439,619	-	388,421	2,828,040
Public safety	16,919,858	-	-	16,919,858
Public works	4,807,675	-	1,464,578	6,272,253
Recreation and culture	1,584,511	-	-	1,584,511
Nondepartmental	1,022,520	-	-	1,022,520
Capital outlays	629,619	795,817	270,691	1,696,127
Debt service:				
Principal	2,543,272	-	-	2,543,272
Interest	647,163	-	-	647,163
<b>TOTAL EXPENDITURES</b>	<u>30,594,237</u>	<u>795,817</u>	<u>2,123,690</u>	<u>33,513,744</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(819,593)</u>	<u>(642,939)</u>	<u>438,458</u>	<u>(1,024,074)</u>
<b>OTHER FINANCING SOURCES</b>				
Operating transfers in (out)	(222,128)	-	178,662	(43,466)
Proceeds from extended term financing	335,664	-	-	335,664
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>113,536</u>	<u>-</u>	<u>178,662</u>	<u>292,198</u>
<b>NET CHANGE IN FUND BALANCES</b>	(706,057)	(642,939)	617,120	(731,876)
<b>FUND BALANCES, BEGINNING OF YEAR *</b>	<u>12,686,941</u>	<u>4,604,624</u>	<u>500,314</u>	<u>17,791,879</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$11,980,884</u>	<u>\$ 3,961,685</u>	<u>\$ 1,117,434</u>	<u>\$17,060,003</u>

\* Restated. See Note 15.

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, 2013**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (731,876)

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	\$ 1,227,914	
Depreciation expense	<u>(1,838,932)</u>	(611,018)

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, capital leases of this amount were issued. (335,664)

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. Unavailable revenues increased by this amount this year. (580,709)

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. 2,543,272

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:

Increase in compensated absences	(41,741)	
Increase in post-employment benefits	(3,088,900)	
Decrease in accrued interest payable	<u>4,793</u>	<u>(3,125,848)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (2,841,843)

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

**CITY OF SALISBURY, MARYLAND**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2013**

	Enterprise Funds			Total
	Water and Sewer Fund	Mitchell Landing Fund	Nonmajor Funds	
<b>ASSETS</b>				
Current assets:				
Cash	\$ -	\$ 19,042	\$ 202	\$ 19,244
Investment pool	19,661,515	-	377,251	20,038,766
Accounts receivable	2,748,929	3,550	32,950	2,785,429
Due from other governmental units	742,437	-	-	742,437
Inventories	487,363	-	-	487,363
Total Current Assets	<u>23,640,244</u>	<u>22,592</u>	<u>410,403</u>	<u>24,073,239</u>
Noncurrent assets:				
Restricted cash	-	141,021	-	141,021
Restricted investment pool	12,926,293	-	-	12,926,293
Capital assets:				
Construction-in-progress	86,369,515	-	66,000	86,435,515
Land	149,953	114,010	1,782,790	2,046,753
Buildings, equipment and improvements	57,281,094	1,454,319	5,900,713	64,636,126
Less accumulated depreciation	(36,970,662)	(739,066)	(3,663,680)	(41,373,408)
Total Noncurrent Assets	<u>119,756,193</u>	<u>970,284</u>	<u>4,085,823</u>	<u>124,812,300</u>
<b>TOTAL ASSETS</b>	<u><b>\$143,396,437</b></u>	<u><b>\$ 992,876</b></u>	<u><b>\$ 4,496,226</b></u>	<u><b>\$148,885,539</b></u>
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES</b>				
Due in one year:				
Cash overdraft	\$ 2,595,724	\$ -	\$ -	\$ 2,595,724
Accounts payable	149,380	9,610	5,994	164,984
Accrued payroll	132,099	988	8,993	142,080
Accrued interest payable	151,808	-	2,138	153,946
Due to other funds	-	-	193,542	193,542
Provision for compensated absences	20,157	-	-	20,157
Bonds, notes and capital leases payable	3,845,722	-	83,409	3,929,131
Deposits	12,302	13,445	-	25,747
Total Current Liabilities	<u>6,907,192</u>	<u>24,043</u>	<u>294,076</u>	<u>7,225,311</u>
Due in more than one year:				
Bonds, notes and capital leases payable	53,129,463	1,381,807	666,338	55,177,608
Post-employment benefits	3,041,086	-	-	3,041,086
Provision for compensated absences	181,408	-	-	181,408
Total Noncurrent Liabilities	<u>56,351,957</u>	<u>1,381,807</u>	<u>666,338</u>	<u>58,400,102</u>
Total Liabilities	<u>63,259,149</u>	<u>1,405,850</u>	<u>960,414</u>	<u>65,625,413</u>
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	49,854,715	(552,544)	3,336,076	52,638,247
Restricted	12,926,293	141,021	-	13,067,314
Unrestricted	17,356,280	(1,451)	199,736	17,554,565
Total Net Position (Deficit)	<u>80,137,288</u>	<u>(412,974)</u>	<u>3,535,812</u>	<u>83,260,126</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><b>\$143,396,437</b></u>	<u><b>\$ 992,876</b></u>	<u><b>\$ 4,496,226</b></u>	<u><b>\$148,885,539</b></u>

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, 2013**

	Enterprise Funds			Total
	Water and Sewer Fund	Mitchell Landing Fund	Nonmajor Funds	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 14,732,066	\$ 170,984	\$ 635,967	\$ 15,539,017
Penalties	83,069	-	-	83,069
Tapping charges and connection fees	18,393	-	-	18,393
Sundry income	487,024	-	-	487,024
Pretreatment monitoring fee	184,997	-	-	184,997
Impact fees	421,446	-	-	421,446
<b>TOTAL OPERATING REVENUES</b>	<u>15,926,995</u>	<u>170,984</u>	<u>635,967</u>	<u>16,733,946</u>
<b>OPERATING EXPENSES</b>				
Salaries	3,374,110	-	205,148	3,579,258
Personnel benefits	2,301,020	5,987	77,834	2,384,841
Professional and skilled services	1,552,080	49,504	129,847	1,731,431
Supplies	1,171,438	50,997	15,185	1,237,620
Other operating expenses	1,866,396	44,537	178,486	2,089,419
Equipment	7,272	-	-	7,272
Bad debt expense	-	9,953	-	9,953
<b>TOTAL OPERATING EXPENSES</b>	<u>10,272,316</u>	<u>160,978</u>	<u>606,500</u>	<u>11,039,794</u>
Operating income before depreciation	5,654,679	10,006	29,467	5,694,152
Depreciation	1,344,011	36,623	132,117	1,512,751
<b>NET OPERATING INCOME (LOSS)</b>	<u>4,310,668</u>	<u>(26,617)</u>	<u>(102,650)</u>	<u>4,181,401</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Operating transfers in	-	-	43,466	43,466
Lawsuit settlement proceeds, net	1,213,464	-	-	1,213,464
Interest income	34,387	1,379	326	36,092
Interest expense	(707,865)	-	(19,562)	(727,427)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>539,986</u>	<u>1,379</u>	<u>24,230</u>	<u>565,595</u>
<b>CHANGE IN NET POSITION</b>	4,850,654	(25,238)	(78,420)	4,746,996
<b>NET POSITION (DEFICIT), BEGINNING OF YEAR*</b>	<u>75,286,634</u>	<u>(387,736)</u>	<u>3,614,232</u>	<u>78,513,130</u>
<b>NET POSITION (DEFICIT), END OF YEAR</b>	<u>\$ 80,137,288</u>	<u>\$ (412,974)</u>	<u>\$ 3,535,812</u>	<u>\$ 83,260,126</u>

\* Restated. See Notes 14 and 15.

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, 2013**

	Enterprise Funds			Total
	Water and Sewer Fund	Mitchell Landing Fund	Nonmajor Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers	\$15,672,726	\$ 174,919	\$ 628,334	\$16,475,979
Payments to suppliers	(6,089,013)	(164,370)	(210,363)	(6,463,746)
Payments to employees	(3,399,112)	-	(206,306)	(3,605,418)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>6,184,601</b>	<b>10,549</b>	<b>211,665</b>	<b>6,406,815</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Litigation settlement proceeds	1,213,464	-	-	1,213,464
Internal activity - payments (to) from other funds	-	-	43,466	43,466
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>1,213,464</b>	<b>-</b>	<b>43,466</b>	<b>1,256,930</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from bonds, notes and capital leases	9,203,069	-	-	9,203,069
Principal paid on bonds, notes and capital leases	(4,308,252)	-	(81,433)	(4,389,685)
Interest paid on bonds, notes and mortgages	(681,861)	-	(19,913)	(701,774)
Payments for capital acquisitions	(5,250,772)	-	(66,000)	(5,316,772)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,037,816)</b>	<b>-</b>	<b>(167,346)</b>	<b>(1,205,162)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest and dividends	34,387	1,379	326	36,092
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>34,387</b>	<b>1,379</b>	<b>326</b>	<b>36,092</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>6,394,636</b>	<b>11,928</b>	<b>88,111</b>	<b>6,494,675</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>23,597,448</b>	<b>148,135</b>	<b>289,342</b>	<b>24,034,925</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$29,992,084</b>	<b>\$ 160,063</b>	<b>\$ 377,453</b>	<b>\$30,529,600</b>
Cash (overdraft)	\$ (2,595,724)	\$ 19,042	\$ 202	\$ (2,576,480)
Investment pool	19,661,515	-	377,251	20,038,766
Restricted cash	-	141,021	-	141,021
Restricted investment pool	12,926,293	-	-	12,926,293
	<b>\$29,992,084</b>	<b>\$ 160,063</b>	<b>\$ 377,453</b>	<b>\$30,529,600</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 4,310,668	\$ (26,617)	\$ (102,650)	\$ 4,181,401
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,344,011	36,623	132,117	1,512,751
(Increase) Decrease in:				
Accounts receivables	(122,009)	2,425	(7,633)	(127,217)
Due from other governments	(132,260)	-	-	(132,260)
Prepaid expenses	12,270	-	-	12,270
Inventories	21,005	-	-	21,005
Increase (Decrease) in:				
Accounts payable	(45,182)	(3,392)	(2,553)	(51,127)
Accrued expenses	(1,608)	-	(1,158)	(2,766)
Due to other governments	-	-	193,542	193,542
Compensated absences	(23,394)	-	-	(23,394)
Post-employment benefits	821,100	-	-	821,100
Deposits	-	1,510	-	1,510
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 6,184,601</b>	<b>\$ 10,549</b>	<b>\$ 211,665</b>	<b>\$ 6,406,815</b>

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

**CITY OF SALISBURY, MARYLAND**  
**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**  
**JUNE 30, 2013**

	<u>Health Care Trust</u>	<u>Private- purpose Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>			
Cash and investment pool	\$ -	\$ 102,772	\$ 430,818
Investments	1,267,573	-	-
Accounts receivable	-	-	182,611
	<u>1,267,573</u>	<u>102,772</u>	<u>613,429</u>
Total Assets			
<b>LIABILITIES</b>			
Cash overdraft	-	187,604	-
Accounts payable	-	-	18,574
Deposits	-	-	150,672
Due to other governmental units	-	-	444,183
	<u>-</u>	<u>187,604</u>	<u>613,429</u>
Total Liabilities			
<b>NET POSITION (DEFICIT)</b>			
Restricted	<u>\$ 1,267,573</u>	<u>\$ (84,832)</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, 2013**

	<u>Health Care Trust</u>	<u>Private- purpose Trust</u>
ADDITIONS		
Interest	\$ 26,773	\$ -
Gain on sale of investments	<u>91,377</u>	<u>-</u>
TOTAL ADDITIONS	<u>118,150</u>	<u>-</u>
DEDUCTIONS		
Operating expenses	<u>3,061</u>	<u>56,305</u>
TOTAL DEDUCTIONS	<u>3,061</u>	<u>56,305</u>
CHANGE IN NET POSITION	115,089	(56,305)
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>1,152,484</u>	<u>(28,527)</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ 1,267,573</u>	<u>\$ (84,832)</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.

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.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

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

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.
- 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.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

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

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, health care trust, police-confiscated asset and bay restoration 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 net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. 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 unearned and unavailable revenue and in the presentation of expenses versus expenditures.

***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.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

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

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.

**Unavailable revenue** – Unavailable 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 unavailable 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.

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.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

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

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, 2013, all property taxes were deemed collectible and there was no allowance.

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.

All capital assets are capitalized at cost (or estimated historical costs) 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
Improvements, nonbuildings	10 - 20 years	10 - 20 years
Machinery and equipment	5 - 15 years	5 - 15 years

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

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

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 investment in capital assets consists 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.

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.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

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

*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, 2013 was \$412,974. This deficit is due to depreciation which cannot be recaptured through user charges.

Early Implementation of GASB Statements

During the current year, the City elected to early implement the provisions of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). See the restatement footnote disclosure for the restatement effects to these financial statements.

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.



CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH AND INVESTMENTS (cont'd)

Cash and deposits

At June 30, 2013, the carrying amount of the City's deposits was \$8,653,640 and the bank balance was \$7,741,507. Of the bank balance, \$932,066 was covered by federal depository insurance, and \$6,809,441 was exposed to custodial credit risk because, in accordance with Maryland State law, it was uninsured and the collateral held by the depository's agent was not in the City's name.

Investment Pool

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.

As of June 30, 2013, the City's investment pool consisted of MLGIP investments which, due to their nature, have no credit or custodial risk associated with them. The carrying value of the investment pool at June 30, 2013 was \$36,611,030.

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 70 percent equities, and 30 percent cash and equivalents and 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	\$ 124,833
Government and agency bonds	57,417
Corporate bonds	227,192
Common stock	728,737
Mutual funds	129,394
Total	<u>\$1,267,573</u>

The City did not have any individual investments that exceeded five percent of the total investment amount.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH AND INVESTMENTS (cont'd)

Investments in corporate bonds held at June 30, 2013 are as follows:

Quantity	Company	Interest Rate	Due Date
10,000	Berkshire Hathaway	1.60%	05/15/17
10,000	Berkshire Hathaway	3.20%	02/11/15
10,000	Deere Capital Corp.	2.00%	01/13/17
10,000	JPMorgan Chase & Co.	4.65%	06/01/14
10,000	Merrill Lynch & Co., Inc.	6.875%	04/25/18
10,000	PNC Funding Corp.	3.625%	02/08/15
10,000	GTE Corporation	6.84%	04/15/18
10,000	The Walt Disney Company	1.35%	08/16/16
10,000	Costco Wholesale	1.125%	12/15/17
10,000	Anheuser-Busch	4.125%	01/15/15
10,000	The Coca-Cola Company	1.50%	11/15/15
10,000	Colgate-Palmolive	3.15%	08/05/15
10,000	PepsiCo Inc.	7.90%	11/01/18
10,000	Pfizer Inc.	5.35%	03/15/15
10,000	Becton Dickinson	1.75%	11/08/16
10,000	Texas Instruments Inc.	2.375%	05/16/16
10,000	General Electric Company	5.25%	12/06/17
10,000	BP Capital Markets	3.125%	10/01/15
10,000	Occidental Petroleum	1.75%	02/15/17
15,000	Shell Int'l Finance BV	4.00%	03/21/14
10,000	Intel Corporation	1.95%	10/01/16

NOTE 4 INTERFUND RECEIVABLES AND PAYABLES

As a result of its operations, the City effects 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, 2013, appropriate due from/to other funds have been established. The General fund has the following amounts due from other funds:

Parking Fund	\$ 146,304
Marina Fund	47,238

Interfund transfers represent temporary borrowings between funds and general fund contributions to support certain enterprise activities.

Interfund transfers for the year ended June 30, 2013 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 222,128
Grant fund	87,460	-
Community development fund	91,202	-
City marina fund	23,466	-
Parking authority fund	20,000	-
<b>TOTAL</b>	<u>\$ 222,128</u>	<u>\$ 222,128</u>

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

**NOTE 5    CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2013</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital assets not being depreciated:					
Land and art	\$ 7,883,810	\$ -	\$ -	\$ -	\$ 7,883,810
Construction-in-progress	6,882,000	360,325	-	(4,564,406)	2,677,919
Total Capital Assets Not Being Depreciated	14,765,810	360,325	-	(4,564,406)	10,561,729
Capital assets being depreciated:					
Land improvements	767,410	-	-	-	767,410
Buildings and improvements	19,667,003	-	-	-	19,667,003
Improvements, non-buildings	8,239,831	-	-	4,564,406	12,804,237
Machinery and equipment	17,463,826	867,589	(76,933)	-	18,254,482
Zoo animals	36,000	-	-	-	36,000
Total Capital Assets Being Depreciated	46,174,070	867,589	(76,933)	4,564,406	51,529,132
Accumulated depreciation	<u>(18,970,615)</u>	<u>(1,838,932)</u>	<u>76,933</u>	<u>-</u>	<u>(20,732,614)</u>
Total Capital Assets Being Depreciated, Net	<u>27,203,455</u>	<u>(971,343)</u>	<u>-</u>	<u>4,564,406</u>	<u>30,796,518</u>
Governmental Activities Capital Assets, Net	<u>\$ 41,969,265</u>	<u>\$ (611,018)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,358,247</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 59,460
Public safety	1,139,762
Public works	464,922
Recreation and culture	174,788
Total depreciation expense	<u>\$ 1,838,932</u>

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>June 30, 2013</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>Water and Sewer Fund</b>					
Capital assets not being depreciated:					
Land	\$ 149,953	\$ -	\$ -	\$ -	\$ 149,953
Construction-in-progress	86,756,297	4,907,711	-	(5,294,493)	86,369,515
Total Capital Assets Not Being Depreciated	86,906,250	4,907,711	-	(5,294,493)	86,519,468
Capital assets being depreciated:					
Land improvements	430,636	-	-	-	430,636
Buildings and improvements	14,434,718	-	-	-	14,434,718
Improvements, non-buildings	25,550,215	-	-	5,294,493	30,844,708
Machinery and equipment	11,227,971	343,061	-	-	11,571,032
Total Capital Assets Being Depreciated	51,643,540	343,061	-	5,294,493	57,281,094
Accumulated depreciation	<u>(35,626,651)</u>	<u>(1,344,011)</u>	<u>-</u>	<u>-</u>	<u>(36,970,662)</u>
Total Capital Assets Being Depreciated, Net	<u>16,016,889</u>	<u>(1,000,950)</u>	<u>-</u>	<u>5,294,493</u>	<u>20,310,432</u>
Water and Sewer Fund Capital Assets, Net	<u>\$102,923,139</u>	<u>\$ 3,905,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$106,829,900</u>

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

	July 1, 2012	Additions	Deletions	Transfers	June 30, 2013
<b>Parking Authority Fund</b>					
Capital assets not being depreciated:					
Land	\$ 467,790	\$ -	\$ -	\$ -	\$ 467,790
Construction-in-progress	-	66,000	-	-	66,000
Total Capital Assets Not Being Depreciated	467,790	66,000	-	-	533,790
Capital assets being depreciated:					
Land improvements	156,704	-	-	-	156,704
Buildings and improvements	3,742,091	-	-	-	3,742,091
Improvements, non-buildings	64,800	-	-	-	64,800
Machinery and equipment	181,148	-	-	-	181,148
Total Capital Assets Being Depreciated	4,144,743	-	-	-	4,144,743
Accumulated depreciation	(2,160,518)	(112,810)	-	-	(2,273,328)
Total Capital Assets Being Depreciated, Net	1,984,225	(112,810)	-	-	1,871,415
Parking Authority Fund Capital Assets, Net	<u>\$ 2,452,015</u>	<u>\$ (46,810)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,405,205</u>
	July 1, 2012	Additions	Deletions	Transfers	June 30, 2013
<b>City Marina Fund</b>					
Capital assets not being depreciated:					
Land	\$ 1,315,000	\$ -	\$ -	\$ -	\$ 1,315,000
Total Capital Assets Not Being Depreciated	1,315,000	-	-	-	1,315,000
Capital assets being depreciated:					
Land improvements	1,418,255	-	-	-	1,418,255
Buildings and improvements	209,494	-	-	-	209,494
Other fixed assets	128,221	-	-	-	128,221
Total Capital Assets Being Depreciated	1,755,970	-	-	-	1,755,970
Accumulated depreciation	(1,371,045)	(19,307)	-	-	(1,390,352)
Total Capital Assets Being Depreciated, Net	384,925	(19,307)	-	-	365,618
City Marina Fund Capital Assets, Net	<u>\$ 1,699,925</u>	<u>\$ (19,307)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,680,618</u>

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

	July 1, 2012	Additions	Deletions	Transfers	June 30, 2013
<b>Mitchell Landing Fund</b>					
Capital assets not being depreciated:					
Land	\$ 114,010	\$ -	\$ -	\$ -	\$ 114,010
Total Capital Assets Not Being Depreciated	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	1,454,319	-	-	-	1,454,319
Accumulated depreciation	(702,443)	(36,623)	-	-	(739,066)
Total Capital Assets Being Depreciated, Net	751,876	(36,623)	-	-	715,253
Mitchell Landing Fund Capital Assets, Net	\$ 865,886	\$ (36,623)	\$ -	\$ -	\$ 829,263

The majority of the construction-in-progress relates to the completion of the Waverly Storm Drain improvements for the governmental activities, and the expansion of the wastewater treatment plant and construction of Milford Street Water Tower for the business-type activities.

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, 2013 totaled \$105,009,452. After considering general obligations including mortgages and notes outstanding of \$73,775,876, the available additional debt margin was \$31,233,576.

Long-term debt activity for the year ended June 30, 2013, was as follows:

	July 1, 2012	Additions	Retirements	June 30, 2013
<b>Governmental Activities:</b>				
General Obligation Bonds	\$ 16,537,322	\$ -	\$ 1,782,598	\$ 14,754,724
Mortgage and Notes Payable:				
State Erosion Note	5,552	-	5,552	-
Lawton Loan	229,991	-	28,749	201,242
Capital Lease Obligations	2,715,587	335,664	726,373	2,324,878
Compensated absences	1,275,009	46,378	-	1,321,387
Governmental Activities Long-term Debt	\$ 20,763,461	\$ 382,042	\$ 2,543,272	\$ 18,602,231

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

(cont'd)	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
<b>Business-type Activities:</b>				
General Obligation Bonds	\$ 52,778,677	\$ 8,914,614	\$ 4,255,387	\$ 57,437,904
Mortgage 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	132,871	288,455	134,298	287,028
Compensated absences	224,959	-	23,394	201,565
Business-type Activities Long-term Debt	<u>\$ 54,518,314</u>	<u>\$ 9,203,069</u>	<u>\$ 4,413,079</u>	<u>\$ 59,308,304</u>

The City's long-term debt consisted of the following:

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. This obligation was settled in full during the fiscal year ended June 30, 2013.

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 \$1,771,058.

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 \$2,991,200.

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, 2013, total principal of \$41,721,225 has been drawn on this facility, and the principal amount outstanding totaled \$31,531,209. 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 \$1,002,700 of the balance of the obligation is accounted for in the general fund, and the balance of \$2,462,300 is reflected in the water and sewer enterprise fund.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 6    LONG-TERM DEBT (cont'd)

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 \$390,883 of the balance of the obligation is carried in the water and sewer enterprise fund, and the balance of \$2,414,117 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 \$1,676,626 of the balance of the obligation is carried in the water and sewer enterprise fund, and the balance of \$403,374 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 final amount advanced as of June 30, 2013 is \$2,056,250. The loan is repayable in annual installments of \$145,021. There was an initial payment of \$1,000 due on August 1, 2011. Due to the reduction in principal drawn, the bonds now mature through February 1, 2026 with a reduced final payment of \$24,955. 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 \$1,765,208.

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 was 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 \$201,242.

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 nonmajor enterprise fund. The outstanding balance at year end was \$109,070.

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 \$4,554,449.

In the year ended June 30, 2012, the City issued \$2,588,000 of Public Improvement Refunding Bonds at an interest rate of 1.31 percent. 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 \$205,659 of the balance of the obligation is carried in the water and sewer enterprise fund, and the balance of \$576,341 is accounted for in the general fund.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

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. 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 \$1,129,642 of the balance of the obligation is carried in the water and sewer enterprise fund, \$640,677 is carried in the nonmajor enterprise fund and the balance of \$2,337,681 is accounted for in the general fund.

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 \$6,789,138 of the balance of the obligation is carried in the water and sewer enterprise fund, and the balance of \$474,862 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 30 years. The interest payments are due semi-annually beginning August 1, 2012. Annual principal payments are due February 1, beginning February 1, 2014. The obligation is accounted for in the water and sewer enterprise fund. The outstanding balance at year end was \$1,631,000.

In the year ended June 30, 2013, the City entered into a loan agreement with the Maryland Water Quality Financing Administration (the "Administration") in the amount of \$1,500,000. The loan is due on demand, with interest accruing at the default rate (3.74 percent) from the date of demand. The Administration shall forgive repayment of the principal amount if the City performs all of its obligations under the loan agreement. If the Administration has not demanded repayment of the principal prior to May 22, 2022, then the loan shall be deemed forgiven. This obligation is accounted for in the water and sewer enterprise fund. The outstanding balance at year end was \$1,294,434.

In the year ended June 30, 2013, the City issued \$6,041,000 of Public Improvement Bonds at an interest rate of 3.01 percent. Interest is payable semi-annually beginning July 1, 2013. The bonds mature in varying amounts beginning July 1, 2013 and continuing through July 1, 2028. The bonds are accounted for in the water and sewer enterprise fund. The outstanding balance at year end was \$6,041,000.

Principal maturities of the City's long-term debt is as follows:

Year Ending June 30,	Governmental Activities		
	Principal Maturities	Interest Maturities	Total Maturities
2014	\$ 1,667,555	\$ 514,727	\$ 2,182,282
2015	1,031,306	466,198	1,497,504
2016	1,057,726	431,494	1,489,220
2017	1,084,319	395,238	1,479,557
2018	1,119,721	358,097	1,477,818
2019-2023	6,026,430	1,179,082	7,205,512
2024-2028	2,968,909	234,915	3,203,824
	<u>\$ 14,955,966</u>	<u>\$ 3,579,751</u>	<u>\$ 18,535,717</u>



CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

Year Ending June 30,	Business-type Activities		
	Principal Maturities	Interest Maturities	Total Maturities
2014	\$ 3,846,673	\$ 844,021	\$ 4,690,694
2015	3,687,334	780,879	4,468,213
2016	3,723,076	733,585	4,456,661
2017	3,757,796	685,283	4,443,079
2018	3,780,737	636,368	4,417,105
2019-2023	20,621,004	2,429,564	23,050,568
2024-2028	16,681,068	1,155,878	17,836,946
2029-2033	747,179	64,571	811,750
2034-2038	289,879	34,411	324,290
2039-2043	1,684,965	17,590	1,702,514
	<u>\$ 58,819,711</u>	<u>\$ 7,382,150</u>	<u>\$ 66,201,861</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. These bonds bear interest at the rate of 5.25 percent per annum. These bonds 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. These 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

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (cont'd)

initially bear interest at the rate of 7.9 percent per annum. These bonds are not subject to the debt limit set forth in the City's Charter. These bonds were issued as drawdown bonds and sold to the then current owner of the property located in the prescribed development/special taxing district. These 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 \$5,155,471 with accumulated depreciation of \$1,572,565; for the water and sewer fund, the original cost is \$341,320 with accumulated depreciation of \$164,264 at June 30, 2013.

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>
2014	\$ 940,966	\$ 86,797
2015	784,636	43,271
2016	323,069	43,271
2017	280,087	43,271
2018	210,955	43,271
2019	-	43,271
Less amount representing interest	<u>(214,835)</u>	<u>(16,124)</u>
Present value of future minimum lease payments	<u>\$ 2,324,878</u>	<u>\$ 287,028</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 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 2013, 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, 2013, 2012 and 2011, payroll covered under the various state plans and contributions paid are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total payroll	\$ 14,814,161	\$ 14,257,540	\$ 14,575,751
Payroll covered under the plans	14,764,781	15,059,008	15,760,463
Contributions paid:			
City payments	2,821,683	2,966,133	3,020,738

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, 2013, there were 60 participants eligible and receiving post-retirement health care benefits at a pay-as-you-go annual cost to the City of \$256,005.

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, Croff-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 2013 was \$4,373,000. The City funded the Trust with a health care rebate of \$900,000 in fiscal 2009. In fiscal year 2013, 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	\$ 10,571,363
Annual Required Contribution	4,373,000
Interest on net OPEB obligation	423,000
Amortization of net OPEB obligation	(476,000)
Contributions	<u>(410,000)</u>
Total Net OPEB Obligation at End of Year	<u>\$ 14,481,363</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	189.84%
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. Medical trends are based on Society of Actuaries Long-term Medical Trend Model. The initial rate is 8.5 percent in 2011, decreasing gradually. The rate in 2050 is 5.4 percent. The ultimate rate is 4.6 percent and is achieved in 2099. 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, 2013.

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2013, the City had infrastructure projects yet to be completed. The commitments and amounts completed are as follows:

Governmental Activities:	<u>Project Amount</u>	<u>Completed as of 06/30/2013</u>	<u>Commitments</u>
Beaverdam Creek Stabilization	\$ 845,192	\$ 841,548	\$ 3,644

In addition, the City has incurred costs totaling \$1,836,371 for governmental activities project costs that were not under a formal contract as of June 30, 2013.

Business-type Activities:	<u>Project Amount</u>	<u>Completed as of 06/30/2013</u>	<u>Commitments</u>
Waverly Drive Water Quality Inlet	\$ 98,600	\$ 29,115	\$ 69,485
Water Storage – Milford Street	177,350	148,636	28,714
Milford Street Elevated Water Tank	3,482,000	3,273,000	209,000
WWTP Upgrade	84,933,644	81,597,562	3,336,082
Park Water Treatment Plant Improvement	949,420	41,840	907,580
Caustic Chemical Storage Feed Building	1,324,400	22,538	1,301,862
Parking Garage Traffic Membrane	68,055	66,000	2,055
Totals	<u>\$ 91,033,469</u>	<u>\$ 85,178,691</u>	<u>\$ 5,854,778</u>

In addition, the City has incurred costs totaling \$1,256,824 for business-type activities project costs that were not under a formal contract as of June 30, 2013.

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES (cont'd)

As of June 30, 2013, the City has settled a number of lawsuits with engineers and other defendants totaling \$2,531,515, of which \$1,318,051 was paid to attorneys representing the City and \$1,213,464 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, 2013, fund balances are composed of the following:

	General Fund	Capital Improvements Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:				
Inventory	\$ 708,383	\$ -	\$ -	\$ 708,383
Restricted				
Capital improvements	-	3,961,685	-	3,961,685
Committed:				
Health care	663,030	-	-	663,030
General impact	10,034	-	-	10,034
Curb, gutter and sidewalk	-	-	90,311	90,311
Trash container sales and demolition	-	-	214,215	214,215
Assigned:				
Grants	-	-	743,067	743,067
Encumbrances	1,569,809	-	-	1,569,809
Community development	-	-	69,841	69,841
Unassigned	9,029,628	-	-	9,029,628
<b>Total Fund Balances</b>	<b>\$11,980,884</b>	<b>\$ 3,961,685</b>	<b>\$ 1,117,434</b>	<b>\$ 17,060,003</b>

CITY OF SALISBURY, MARYLAND  
NOTES TO FINANCIAL STATEMENTS

NOTE 14 RESTATEMENT

The City has decreased its July 1, 2012 net position by \$261,589 due to the effects of implementing GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," which requires bond issuance costs to be expensed when incurred. Net position in the Governmental Activities was reduced by \$170,155 while net position in the Business-type Activities was reduced by \$91,434.

NOTE 15 PRIOR PERIOD ADJUSTMENT

During the current year, the City discovered an error in recording the balances of its construction-in-progress escrow in the water and sewer fund. The escrow account was overstated by \$1,924,993. In addition, the City discovered an error while reconciling its accounts payable balance in the water and sewer fund. The accounts payable balance was overstated by \$52,008. These errors resulted in a decrease to the beginning net position of the water and sewer fund of \$1,872,985.

The City also discovered an error in recording grant receivables in the grant fund and the community development fund. Receivables were understated by \$345,620 and \$8,536, respectively. These errors resulted in an increase to the beginning fund balance of the nonmajor fund of \$354,156.

NOTE 16 SUBSEQUENT EVENTS

The City has evaluated all subsequent events through December 2, 2013, 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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RESOURCES (INFLOWS):</b>				
Tax revenue	\$22,971,592	\$22,459,642	\$21,996,832	\$ (462,810)
Other revenue	2,430,646	2,579,185	3,548,372	969,187
Charges for services	2,646,981	2,761,750	2,791,096	29,346
Other sources - fund balance appropriated	1,892,887	2,471,694	-	(2,471,694)
Intergovernmental revenues	1,635,192	1,441,812	1,438,344	(3,468)
<b>AMOUNTS AVAILABLE FOR APPROPRIATION</b>	<u>31,577,298</u>	<u>31,714,083</u>	<u>29,774,644</u>	<u>(1,939,439)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
<b>General government</b>				
City council	79,725	79,725	75,838	3,887
City clerk	137,699	138,317	128,139	10,178
Mayor's office	611,845	719,965	652,257	67,708
Finance	439,065	491,883	451,140	40,743
Purchasing	211,412	217,977	200,884	17,093
City attorney	215,000	261,000	237,207	23,793
Information services	238,639	239,170	198,184	40,986
Human resources	122,440	135,774	129,106	6,668
Planning and zoning	164,803	167,033	164,803	2,230
Municipal buildings	154,135	167,628	132,195	35,433
Poplar Hill	15,550	15,735	12,880	2,855
<b>Public safety</b>				
Police and traffic control	10,193,292	11,059,355	10,407,790	651,565
Fire	6,109,593	6,248,464	6,173,770	74,694
Buildings, permits and inspections	348,692	348,885	339,759	9,126
Neighborhood services and code compliance	581,305	608,104	601,423	6,681
<b>Public works</b>				
Supervision and engineering	1,637,628	2,401,464	1,330,200	1,071,264
Roadways	752,373	830,939	684,001	146,938
Highway lighting	864,304	880,287	879,481	806
Street cleaning	95,596	99,194	89,032	10,162
Waste collection and disposal	1,454,355	1,479,894	1,148,473	331,421
Recycling	162,766	168,409	162,518	5,891
Fleet maintenance	481,526	483,415	422,986	60,429
Carpenter shop	123,346	123,346	117,719	5,627
<b>Recreation and culture</b>				
Municipal zoo	1,322,481	1,330,658	1,188,902	141,756
Park maintenance	394,330	458,019	395,609	62,410
<b>Nondepartmental</b>	614,645	1,032,802	1,022,520	10,282
<b>TOTAL CHARGES TO APPROPRIATION</b>	<u>27,585,453</u>	<u>30,246,350</u>	<u>27,403,802</u>	<u>2,842,548</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>3,991,845</u>	<u>1,467,733</u>	<u>2,370,842</u>	<u>903,109</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	(223,219)	(223,219)	(222,128)	1,091
Proceeds from extended term financing	-	400,000	335,664	(64,336)
Debt payments	(3,244,628)	(3,190,724)	(3,190,435)	289
<b>TOTAL OTHER FINANCING USES</b>	<u>(3,467,847)</u>	<u>(3,013,943)</u>	<u>(3,076,899)</u>	<u>(62,956)</u>
<b>NET CHANGE IN FUND BALANCE</b>	523,998	(1,546,210)	(706,057)	840,153
<b>FUND BALANCE, BEGINNING OF YEAR, RESTATED</b>	<u>12,686,941</u>	<u>12,686,941</u>	<u>12,686,941</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$13,210,939</u>	<u>\$11,140,731</u>	<u>\$11,980,884</u>	<u>\$ 840,153</u>

**OTHER SUPPLEMENTARY INFORMATION**

## General Fund

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF REVENUE - ESTIMATED AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Final Budget	Actual	Variance Positive (Negative)
<b>Taxes</b>			
Real property	\$ 14,980,734	\$ 14,497,306	\$ (483,428)
Personal property	39,633	32,778	(6,855)
Ordinary business corporations and utilities	5,137,534	5,129,244	(8,290)
Payments in lieu of tax	371,589	377,272	5,683
Admissions and amusement	290,000	393,131	103,131
State shared income tax	1,484,576	1,439,078	(45,498)
<b>Total taxes</b>	<u>22,304,066</u>	<u>21,868,809</u>	<u>(435,257)</u>
Interest and penalties on delinquent taxes	155,576	128,023	(27,553)
<b>Total Taxes, Interest and Penalties</b>	<u>22,459,642</u>	<u>21,996,832</u>	<u>(462,810)</u>
<b>Other revenue</b>			
Amusement licenses	4,500	4,595	95
Billboard licenses	21,000	20,970	(30)
Building and inspection permits	147,500	364,641	217,141
Business licenses	150,250	161,883	11,633
Franchise fees	493,600	385,955	(107,645)
Landlord licenses	425,000	392,487	(32,513)
Parking fines and meter collections	85,200	63,049	(22,151)
Plumbing licenses and permits	20,000	53,776	33,776
Street-breaking permits	1,875	725	(1,150)
Towing companies	1,500	3,450	1,950
Other miscellaneous permits	17,000	31,317	14,317
School zone camera fines	184,000	703,114	519,114
Municipal infraction violations	38,000	45,153	7,153
Interest on investment of idle funds	9,000	29,284	20,284
Insurance proceeds	-	32,627	32,627
Donations	300,000	242,964	(57,036)
Zoo commission	321,013	609,013	288,000
Zoo reimbursements	191,785	179,218	(12,567)
Sale of maps, codes and documents	1,600	3,783	2,183
Bad debt collections	12,000	19,627	7,627
Other miscellaneous receipts	154,362	200,741	46,379
<b>Total Other Revenue</b>	<u>2,579,185</u>	<u>3,548,372</u>	<u>969,187</u>

Continued on next page.

**CITY OF SALISBURY, MARYLAND  
SCHEDULE OF REVENUE - ESTIMATED AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Charges for services			
Administrative fees	242,541	242,041	(500)
Ambulance call fees	1,568,000	1,711,020	143,020
Advertising	50	1,819	1,769
Filing fees	-	140	140
Garbage disposal fees	703,959	679,527	(24,432)
Inspection fees	38,100	46,246	8,146
Plan review fees	20,000	18,747	(1,253)
Police alarm systems	70,000	48,213	(21,787)
Fire motor vehicles calls	22,500	-	(22,500)
Weed removal	95,500	43,193	(52,307)
Zoning appeal and housing board appeal fees	1,100	150	(950)
Total Charges for Services	<u>2,761,750</u>	<u>2,791,096</u>	<u>29,346</u>
Other sources			
Current surplus available	<u>2,471,694</u>	<u>-</u>	<u>(2,471,694)</u>
Intergovernmental			
State of Maryland			
Police protection	318,000	317,385	(615)
Enterprise zone	80,000	82,535	2,535
Highway user	225,310	232,626	7,316
Wicomico County			
Financial corporations	18,302	18,302	-
Fire department	600,200	581,000	(19,200)
Room tax	200,000	206,496	6,496
Total Intergovernmental	<u>1,441,812</u>	<u>1,438,344</u>	<u>(3,468)</u>
Total Revenues	<u>31,714,083</u>	<u>29,774,644</u>	<u>(1,939,439)</u>
Other Financing Sources			
Capital lease proceeds	<u>400,000</u>	<u>335,664</u>	<u>(64,336)</u>
Total Other Financing Sources	<u>400,000</u>	<u>335,664</u>	<u>(64,336)</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u><u>\$ 32,114,083</u></u>	<u><u>\$ 30,110,308</u></u>	<u><u>\$ (2,003,775)</u></u>

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>General Government</b>				
City council				
Salaries	\$ 52,000	\$ 52,417	\$ 52,417	\$ -
Personnel benefits	20,003	19,586	17,833	1,753
Other operating expenses	7,722	7,722	5,588	2,134
	<u>79,725</u>	<u>79,725</u>	<u>75,838</u>	<u>3,887</u>
City clerk				
Salaries	83,798	83,798	83,749	49
Personnel benefits	35,477	35,477	29,206	6,271
Other operating expenses	18,424	17,501	15,184	2,317
Capital outlays	-	1,541	-	1,541
	<u>137,699</u>	<u>138,317</u>	<u>128,139</u>	<u>10,178</u>
Mayor's office				
Salaries	241,116	244,116	243,127	989
Personnel benefits	76,505	76,505	74,112	2,393
Other operating expenses	77,040	182,160	155,505	26,655
Community promotion	217,184	217,184	179,513	37,671
	<u>611,845</u>	<u>719,965</u>	<u>652,257</u>	<u>67,708</u>
Elections				
Other operating expenses	58,908	58,908	56,986	1,922
	<u>58,908</u>	<u>58,908</u>	<u>56,986</u>	<u>1,922</u>
City attorney				
Professional services	215,000	261,000	237,207	23,793
	<u>215,000</u>	<u>261,000</u>	<u>237,207</u>	<u>23,793</u>
Internal services - finance				
Salaries	236,111	239,111	222,900	16,211
Personnel benefits	101,578	101,578	91,871	9,707
Other operating expenses	65,655	108,981	94,158	14,823
Independent audit	35,721	42,213	42,211	2
	<u>439,065</u>	<u>491,883</u>	<u>451,140</u>	<u>40,743</u>
Internal services - purchasing				
Salaries	127,440	127,440	127,340	100
Personnel benefits	47,956	47,956	47,774	182
Other operating expenses	34,516	41,081	24,270	16,811
Capital outlays	1,500	1,500	1,500	-
	<u>211,412</u>	<u>217,977</u>	<u>200,884</u>	<u>17,093</u>
Internal services - human resources				
Salaries	55,371	55,271	55,271	-
Personnel benefits	56,319	60,577	57,546	3,031
Other operating expenses	10,750	19,926	16,289	3,637
	<u>122,440</u>	<u>135,774</u>	<u>129,106</u>	<u>6,668</u>

Continued on next page.

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>General Government (cont'd)</b>				
Information services				
Salaries	98,477	98,477	90,999	7,478
Personnel benefits	36,710	36,710	31,835	4,875
Other operating expenses	77,952	97,976	75,350	22,626
Capital outlays	25,500	6,007	-	6,007
	<u>238,639</u>	<u>239,170</u>	<u>198,184</u>	<u>40,986</u>
City and county - joint activities				
Planning and zoning	164,803	167,033	164,803	2,230
	<u>164,803</u>	<u>167,033</u>	<u>164,803</u>	<u>2,230</u>
Municipal buildings				
Other operating expenses	154,135	167,628	132,195	35,433
	<u>154,135</u>	<u>167,628</u>	<u>132,195</u>	<u>35,433</u>
Poplar Hill Mansion	15,550	15,735	12,880	2,855
<b>Total General Government</b>	<u>2,449,221</u>	<u>2,693,115</u>	<u>2,439,619</u>	<u>253,496</u>
<b>Public Safety</b>				
Police services				
Salaries	4,928,162	5,534,166	5,444,570	89,596
Personnel benefits	3,035,141	2,938,561	2,661,007	277,554
Other operating expenses	1,009,667	1,056,488	929,571	126,917
Capital outlays	194,500	310,327	267,221	43,106
	<u>9,167,470</u>	<u>9,839,542</u>	<u>9,302,369</u>	<u>537,173</u>
Police communications				
Salaries	253,021	290,571	275,776	14,795
Personnel benefits	90,345	96,718	89,472	7,246
Other operating expenses	61,075	72,789	46,666	26,123
Capital outlays	-	37,904	-	37,904
	<u>404,441</u>	<u>497,982</u>	<u>411,914</u>	<u>86,068</u>
Animal control				
Salaries	72,048	72,048	69,400	2,648
Personnel benefits	37,293	36,843	35,239	1,604
Other operating expenses	86,728	87,178	83,335	3,843
Capital outlays	-	-	-	-
	<u>196,069</u>	<u>196,069</u>	<u>187,974</u>	<u>8,095</u>
<b>Total Police Department</b>	<u>9,767,980</u>	<u>10,533,593</u>	<u>9,902,257</u>	<u>631,336</u>

Continued on next page.



**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Public Safety (cont'd)</b>				
Traffic control				
Salaries	211,281	211,031	206,749	4,282
Personnel benefits	98,186	99,666	96,375	3,291
Other operating expenses	101,845	120,929	108,646	12,283
Capital outlays	14,000	94,136	93,763	373
	<u>425,312</u>	<u>525,762</u>	<u>505,533</u>	<u>20,229</u>
Fire department				
Firefighting				
Salaries	3,117,997	3,064,649	3,042,238	22,411
Personnel benefits	1,676,922	1,691,637	1,665,379	26,258
Other operating expenses	821,511	988,509	988,432	77
Capital outlays	340,000	349,091	335,663	13,428
	<u>5,956,430</u>	<u>6,093,886</u>	<u>6,031,712</u>	<u>62,174</u>
Volunteer firemen				
Personnel benefits	150,025	144,975	132,687	12,288
Other operating expenses	3,138	9,603	9,371	232
	<u>153,163</u>	<u>154,578</u>	<u>142,058</u>	<u>12,520</u>
Total Fire Department	<u>6,109,593</u>	<u>6,248,464</u>	<u>6,173,770</u>	<u>74,694</u>
Buildings, permits and inspections				
Salaries	239,410	240,084	240,028	56
Personnel benefits	87,776	87,476	78,774	8,702
Other operating expenses	21,506	21,325	20,957	368
	<u>348,692</u>	<u>348,885</u>	<u>339,759</u>	<u>9,126</u>
Neighborhood services and code compliance				
Salaries	349,502	350,714	347,546	3,168
Personnel benefits	120,452	120,852	120,796	56
Other operating expenses	111,351	136,538	133,081	3,457
	<u>581,305</u>	<u>608,104</u>	<u>601,423</u>	<u>6,681</u>
<b>Total Public Safety</b>	<u>17,232,882</u>	<u>18,264,808</u>	<u>17,522,742</u>	<u>742,066</u>
<b>Department of Public Works</b>				
Supervision and engineering				
Salaries	604,682	637,864	568,503	69,361
Personnel benefits	233,096	233,155	219,902	13,253
Other operating expenses	799,850	1,530,445	518,599	1,011,846
Capital outlays	-	-	23,196	(23,196)
	<u>1,637,628</u>	<u>2,401,464</u>	<u>1,330,200</u>	<u>1,071,264</u>

Continued on next page.

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Department of Public Works (cont'd)</b>				
Roadways				
Salaries	333,743	349,743	284,168	65,575
Personnel benefits	148,810	148,810	130,400	18,410
Other operating expenses	219,820	282,386	252,624	29,762
Capital outlays	50,000	50,000	16,809	33,191
	<u>752,373</u>	<u>830,939</u>	<u>684,001</u>	<u>146,938</u>
Highway lighting				
Other operating expenses	864,304	880,287	879,481	806
	<u>864,304</u>	<u>880,287</u>	<u>879,481</u>	<u>806</u>
Sanitation				
Street cleaning				
Salaries	53,060	46,060	43,350	2,710
Personnel benefits	26,556	24,306	20,253	4,053
Other operating expenses	15,980	28,828	25,429	3,399
Capital outlays	-	-	-	-
	<u>95,596</u>	<u>99,194</u>	<u>89,032</u>	<u>10,162</u>
Waste collection and disposal				
Salaries	296,195	305,972	269,947	36,025
Personnel benefits	133,960	131,026	124,291	6,735
Other operating expenses	739,200	757,896	727,500	30,396
Capital outlays	285,000	285,000	26,735	258,265
	<u>1,454,355</u>	<u>1,479,894</u>	<u>1,148,473</u>	<u>331,421</u>
Recycling				
Salaries	89,215	89,252	88,850	402
Personnel benefits	46,936	46,936	45,969	967
Other operating expenses	26,615	32,221	27,699	4,522
	<u>162,766</u>	<u>168,409</u>	<u>162,518</u>	<u>5,891</u>
Total Sanitation	<u>1,712,717</u>	<u>1,747,497</u>	<u>1,400,023</u>	<u>347,474</u>
Fleet maintenance				
Salaries	205,768	205,768	198,387	7,381
Personnel benefits	91,766	91,766	82,515	9,251
Other operating expenses	183,992	185,881	142,084	43,797
	<u>481,526</u>	<u>483,415</u>	<u>422,986</u>	<u>60,429</u>
Carpenter shop				
Salaries	67,206	68,506	68,328	178
Personnel benefits	30,940	31,347	30,438	909
Other operating expenses	25,200	23,493	18,953	4,540
Capital outlays	-	-	-	-
	<u>123,346</u>	<u>123,346</u>	<u>117,719</u>	<u>5,627</u>
<b>Total Department of Public Works</b>	<u>5,571,894</u>	<u>6,466,948</u>	<u>4,834,410</u>	<u>1,632,538</u>

Continued on next page.

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF EXPENDITURES COMPARED WITH APPROPRIATIONS -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Recreation and Culture</b>				
Municipal zoo				
Salaries	746,361	731,861	677,558	54,303
Personnel benefits	208,791	208,791	184,757	24,034
Other operating expenses	367,329	390,006	326,587	63,419
	<u>1,322,481</u>	<u>1,330,658</u>	<u>1,188,902</u>	<u>141,756</u>
Park maintenance				
Salaries	178,462	178,090	175,071	3,019
Personnel benefits	88,384	88,755	85,850	2,905
Other operating expenses	127,484	191,174	134,688	56,486
Capital outlays	-	-	-	-
	<u>394,330</u>	<u>458,019</u>	<u>395,609</u>	<u>62,410</u>
<b>Total Recreation and Culture</b>	<u>1,716,811</u>	<u>1,788,677</u>	<u>1,584,511</u>	<u>204,166</u>
<b>Nondepartmental</b>				
Insurance				
Health care claims	-	518,000	517,849	151
Insurance	609,694	473,484	470,495	2,989
	<u>609,694</u>	<u>991,484</u>	<u>988,344</u>	<u>3,140</u>
Miscellaneous				
Personnel benefits	-	36,045	31,015	5,030
Other operating expenses	4,951	4,951	3,161	1,790
Mayor's contingency	-	322	-	322
	<u>4,951</u>	<u>41,318</u>	<u>34,176</u>	<u>7,142</u>
<b>Total Nondepartmental</b>	<u>614,645</u>	<u>1,032,802</u>	<u>1,022,520</u>	<u>10,282</u>
<b>Debt Payments</b>				
Principal redemption	2,362,873	2,341,690	2,543,272	(201,582)
Interest	881,755	849,034	647,163	201,871
<b>Total Debt Payments</b>	<u>3,244,628</u>	<u>3,190,724</u>	<u>3,190,435</u>	<u>289</u>
<b>TOTAL EXPENDITURES</b>	<u>30,830,081</u>	<u>33,437,074</u>	<u>30,594,237</u>	<u>2,842,837</u>
<b>Other Financing Uses</b>				
Transfer to other funds	223,219	223,219	222,128	1,091
<b>Total Other Financing Uses</b>	<u>223,219</u>	<u>223,219</u>	<u>222,128</u>	<u>1,091</u>
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$31,053,300</u>	<u>\$33,660,293</u>	<u>\$30,816,365</u>	<u>\$ 2,843,928</u>

## **Nonmajor Governmental Funds**

**CITY OF SALISBURY, MARYLAND  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	Special Revenue Funds				
	Curb, Gutter and Sidewalk Fund	Grant Fund	Reimbursement Fund	Community Development Fund	Total
<b>ASSETS</b>					
Cash	\$ 36,579	-	\$ 137,020	\$ 60,501	\$ 234,100
Investment pool	31,202	2,665	2,835	233	36,935
Accounts receivable	22,530	1,477,756	74,679	13,954	1,588,919
<b>TOTAL ASSETS</b>	<b>\$ 90,311</b>	<b>\$ 1,480,421</b>	<b>\$ 214,534</b>	<b>\$ 74,688</b>	<b>\$ 1,859,954</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Cash overdraft	\$ -	\$ 671,405	-	-	\$ 671,405
Accounts payable	-	65,069	319	3,635	69,023
Compensated absences	-	-	-	1,212	1,212
<b>Total Liabilities</b>	<b>-</b>	<b>736,474</b>	<b>319</b>	<b>4,847</b>	<b>741,640</b>
<b>Deferred Inflows of Resources:</b>					
Unavailable revenue - grants	-	880	-	-	880
<b>Fund Balances:</b>					
Committed	90,311	-	214,215	-	304,526
Assigned	-	743,067	-	69,841	812,908
<b>Total Fund Balances</b>	<b>90,311</b>	<b>743,067</b>	<b>214,215</b>	<b>69,841</b>	<b>1,117,434</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 90,311</b>	<b>\$ 1,480,421</b>	<b>\$ 214,534</b>	<b>\$ 74,688</b>	<b>\$ 1,859,954</b>

**CITY OF SALISBURY, MARYLAND  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds					Total
	Curb, Gutter and Sidewalk Fund	Grant Fund	Reimbursement Fund	Community Development Fund	-	
<b>REVENUES</b>						
Fees	\$ -	-	\$ 86,782	-	\$ 86,782	
Earnings on investments	61	-	13	30	104	
Grant revenues	-	2,201,339	-	273,923	2,475,262	
<b>TOTAL REVENUES</b>	<u>61</u>	<u>2,201,339</u>	<u>86,795</u>	<u>273,953</u>	<u>2,562,148</u>	
<b>EXPENDITURES</b>						
Salaries	-	511,134	-	108,255	619,389	
Personnel benefits	-	226,408	-	33,828	260,236	
Professional and skilled services	-	-	-	35,837	35,837	
Supplies	-	-	-	4,572	4,572	
Other operating expenses	540	726,496	-	205,929	932,965	
Capital outlays	-	270,691	-	-	270,691	
<b>TOTAL EXPENDITURES</b>	<u>540</u>	<u>1,734,729</u>	<u>-</u>	<u>388,421</u>	<u>2,123,690</u>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(479)</u>	<u>466,610</u>	<u>86,795</u>	<u>(114,468)</u>	<u>438,458</u>	
<b>OTHER FINANCING SOURCES</b>						
Operating transfers in	-	87,460	-	91,202	178,662	
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>-</u>	<u>87,460</u>	<u>-</u>	<u>91,202</u>	<u>178,662</u>	
<b>NET CHANGE IN FUND BALANCES</b>	<u>(479)</u>	<u>554,070</u>	<u>86,795</u>	<u>(23,266)</u>	<u>617,120</u>	
<b>FUND BALANCES, BEGINNING OF YEAR, RESTATED</b>	<u>90,790</u>	<u>188,997</u>	<u>127,420</u>	<u>93,107</u>	<u>500,314</u>	
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 90,311</u>	<u>\$ 743,067</u>	<u>\$ 214,215</u>	<u>\$ 69,841</u>	<u>\$ 1,117,434</u>	

**CITY OF SALISBURY, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**GRANT FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

REVENUES	
Federal	\$ 886,882
State	1,285,360
Others	29,097
TOTAL REVENUES	<u>2,201,339</u>
EXPENDITURES	
Federal	
Salaries	86,647
Personnel benefits	44,576
Operating expenses	94,554
Capital outlays	199,229
State	
Salaries	408,033
Personnel benefits	173,726
Operating expenses	605,319
Capital outlays	71,462
Other	
Salaries	16,454
Personnel benefits	8,106
Operating expenses	26,623
TOTAL EXPENDITURES	<u>1,734,729</u>
EXCESS OF REVENUES UNDER EXPENDITURES	466,610
OTHER FINANCING SOURCES	
Operating transfers in	87,460
TOTAL OTHER FINANCING SOURCES	<u>87,460</u>
NET CHANGE IN FUND BALANCE	554,070
FUND BALANCE, BEGINNING OF YEAR, RESTATED	<u>188,997</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 743,067</u></u>

## **Nonmajor Proprietary Funds**



**CITY OF SALISBURY, MARYLAND**  
**COMBINING STATEMENT OF NET POSITION - NONMAJOR PROPRIETARY FUNDS**  
**JUNE 30, 2013**

	Enterprise Funds		Total
	City Marina Fund	Parking Authority Fund	
<b>ASSETS</b>			
Current assets:			
Cash	\$ 202	\$ -	\$ 202
Investment pool	2,183	375,068	377,251
Accounts receivable	26,510	6,440	32,950
Total Current Assets	<u>28,895</u>	<u>381,508</u>	<u>410,403</u>
Noncurrent assets:			
Capital assets			
Construction-in-progress	-	66,000	66,000
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	(1,390,352)	(2,273,328)	(3,663,680)
Total Noncurrent Assets	<u>1,680,618</u>	<u>2,405,205</u>	<u>4,085,823</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,709,513</u></u>	<u><u>\$ 2,786,713</u></u>	<u><u>\$ 4,496,226</u></u>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Due in one year:			
Accounts payable	\$ 1,269	\$ 4,725	\$ 5,994
Accrued payroll	1,483	7,510	8,993
Accrued interest payable	-	2,138	2,138
Due to General Fund	47,238	146,304	193,542
Bonds, notes and capital leases payable	-	83,409	83,409
Total Current Liabilities	<u>49,990</u>	<u>244,086</u>	<u>294,076</u>
Due in more than one year:			
Bonds, notes and capital leases payable	-	666,338	666,338
Total Noncurrent Liabilities	<u>-</u>	<u>666,338</u>	<u>666,338</u>
Total Liabilities	<u>49,990</u>	<u>910,424</u>	<u>960,414</u>
<b>NET POSITION (DEFICIT)</b>			
Net investment in capital assets	1,680,618	1,655,458	3,336,076
Unrestricted (Deficit)	(21,095)	220,831	199,736
Total Net Position	<u>1,659,523</u>	<u>1,876,289</u>	<u>3,535,812</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 1,709,513</u></u>	<u><u>\$ 2,786,713</u></u>	<u><u>\$ 4,496,226</u></u>

## **Enterprise Funds**

**CITY OF SALISBURY, MARYLAND**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -**  
**NONMAJOR PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Enterprise Funds		Total
	City Marina Fund	Parking Authority Fund	
<b>OPERATING REVENUES</b>			
Charges for services	\$ 61,910	\$ 574,057	\$ 635,967
<b>TOTAL OPERATING REVENUES</b>	<u>61,910</u>	<u>574,057</u>	<u>635,967</u>
<b>OPERATING EXPENSES</b>			
Salaries	20,540	184,608	205,148
Personnel benefits	4,585	73,249	77,834
Professional and skilled services	818	129,029	129,847
Supplies	12,390	2,795	15,185
Other expenses	40,896	137,590	178,486
<b>TOTAL OPERATING EXPENSES</b>	<u>79,229</u>	<u>527,271</u>	<u>606,500</u>
<b>OPERATING INCOME (LOSS) BEFORE DEPRECIATION</b>	(17,319)	46,786	29,467
Depreciation	<u>19,307</u>	<u>112,810</u>	<u>132,117</u>
<b>NET OPERATING LOSS</b>	<u>(36,626)</u>	<u>(66,024)</u>	<u>(102,650)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Transfers in	23,466	20,000	43,466
Interest income	-	326	326
Interest expense	<u>-</u>	<u>(19,562)</u>	<u>(19,562)</u>
<b>TOTAL NONOPERATING REVENUES</b>	<u>23,466</u>	<u>764</u>	<u>24,230</u>
<b>CHANGE IN NET POSITION</b>	(13,160)	(65,260)	(78,420)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,672,683</u>	<u>1,941,549</u>	<u>3,614,232</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 1,659,523</u>	<u>\$ 1,876,289</u>	<u>\$ 3,535,812</u>

**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, 2013**

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 4,145,562	\$ 10,586,504	\$ 14,732,066
Penalties	22,163	60,906	83,069
Tapping charges and connection fees	10,923	7,470	18,393
Sundry income	323,444	163,580	487,024
Pretreatment monitoring fee	-	184,997	184,997
Impact fees	208,159	213,287	421,446
<b>TOTAL OPERATING REVENUES</b>	<u>4,710,251</u>	<u>11,216,744</u>	<u>15,926,995</u>
<b>OPERATING EXPENSES</b>			
Salaries	1,307,388	2,066,722	3,374,110
Personnel benefits	825,139	1,475,881	2,301,020
Professional and skilled services	361,314	1,190,766	1,552,080
Supplies	576,367	595,071	1,171,438
Other operating expenses	535,543	1,330,853	1,866,396
Equipment	2,949	4,323	7,272
<b>TOTAL OPERATING EXPENSES</b>	<u>3,608,700</u>	<u>6,663,616</u>	<u>10,272,316</u>
<b>OPERATING INCOME BEFORE DEPRECIATION</b>	1,101,551	4,553,128	5,654,679
Depreciation	<u>501,232</u>	<u>842,779</u>	<u>1,344,011</u>
<b>NET OPERATING INCOME</b>	<u>600,319</u>	<u>3,710,349</u>	<u>4,310,668</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Lawsuit settlement proceeds	-	1,213,464	1,213,464
Interest income	17,037	17,350	34,387
Interest expense	(93,412)	(614,453)	(707,865)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(76,375)</u>	<u>616,361</u>	<u>539,986</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 523,944</u>	<u>\$ 4,326,710</u>	4,850,654
<b>NET POSITION, BEGINNING OF YEAR</b>			<u>75,286,634</u>
<b>NET POSITION, END OF YEAR</b>			<u>\$ 80,137,288</u>

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL**  
**ENTERPRISE FUND - WATER DEPARTMENT**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Inspection fees	\$ 10,000	\$ 10,000	\$ 20,322	\$ 10,322
Water sales	4,368,509	4,368,509	4,125,240	(243,269)
Penalties	20,000	20,000	22,163	2,163
Tapping charges and connection fees	-	-	10,923	10,923
Interest earned	2,000	2,000	17,037	15,037
Water income - sundry	141,330	295,306	323,444	28,138
Impact fees	700,000	700,000	208,159	(491,841)
Current surplus available	-	42,249	-	(42,249)
<b>TOTAL REVENUES</b>	<b>5,241,839</b>	<b>5,438,064</b>	<b>4,727,288</b>	<b>(710,776)</b>
<b>EXPENSES</b>				
<b>Engineering</b>				
Salaries	276,874	276,874	237,573	39,301
Personnel benefits	115,696	122,108	112,087	10,021
Professional and skilled services	288,320	471,808	33,132	438,676
Supplies	36,455	36,521	30,959	5,562
Other operating expenses	32,100	32,100	27,940	4,160
Equipment	40,000	40,000	-	40,000
<b>Total Engineering</b>	<b>789,445</b>	<b>979,411</b>	<b>441,691</b>	<b>537,720</b>
<b>Billing and collection</b>				
Salaries	84,613	84,613	79,503	5,110
Personnel benefits	31,775	33,833	30,875	2,958
Professional and skilled services	47,125	46,511	38,811	7,700
Supplies	25,100	26,814	26,650	164
Other operating expenses	19,620	18,520	13,800	4,720
<b>Total Billing and Collection</b>	<b>208,233</b>	<b>210,291</b>	<b>189,639</b>	<b>20,652</b>
<b>Water treatment</b>				
Salaries	461,352	470,531	459,948	10,583
Personnel benefits	225,205	232,111	339,065	(106,954)
Professional and skilled services	225,159	317,217	172,565	144,652
Supplies	450,481	1,002,993	352,386	650,607
Other operating expenses	365,950	366,489	304,139	62,350
Equipment	585,000	622,771	-	622,771
<b>Total Water Treatment</b>	<b>2,313,147</b>	<b>3,012,112</b>	<b>1,628,103</b>	<b>1,384,009</b>

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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Distribution and storage				
Salaries	516,424	518,269	432,353	85,916
Personnel benefits	205,208	216,397	301,608	(85,211)
Professional and skilled services	46,959	74,276	40,419	33,857
Supplies	161,703	157,673	166,372	(8,699)
Other operating expenses	41,928	41,928	71,570	(29,642)
Total Distribution and Storage	<u>972,222</u>	<u>1,008,543</u>	<u>1,012,322</u>	<u>(3,779)</u>
Administration				
Salaries	95,900	98,032	98,011	21
Personnel benefits	37,317	44,560	41,504	3,056
Professional and skilled services	84,224	87,064	76,387	10,677
Other operating expenses	151,411	151,411	118,094	33,317
Equipment	12,750	12,750	2,949	9,801
Total Administration	<u>381,602</u>	<u>393,817</u>	<u>336,945</u>	<u>56,872</u>
Debt payments				
Principal redemption	302,974	317,314	-	317,314
Interest	274,216	261,316	93,412	167,904
Total Debt Payments	<u>577,190</u>	<u>578,630</u>	<u>93,412</u>	<u>485,218</u>
 TOTAL EXPENSES	 <u>5,241,839</u>	 <u>6,182,804</u>	 <u>3,702,112</u>	 <u>2,480,692</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	-	(744,740)	1,025,176	1,769,916
Depreciation	-	-	501,232	(501,232)
CHANGE IN NET POSITION	<u>\$ -</u>	<u>\$ (744,740)</u>	<u>\$ 523,944</u>	<u>\$ 1,268,684</u>

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL**  
**ENTERPRISE FUND - SEWER DEPARTMENT**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Sewer charges	\$ 10,848,259	\$ 10,848,259	\$ 10,145,658	\$ (702,601)
Sewer charges - urban services	466,000	466,000	440,846	(25,154)
Penalties	60,000	60,000	60,906	906
Tapping charges and connection fees	-	-	7,470	7,470
Pretreatment monitoring fees	190,500	190,500	184,997	(5,503)
Interest earned	2,000	2,000	17,350	15,350
Sewer income - sundry	13,688	167,664	163,580	(4,084)
Impact fees	217,426	217,426	213,287	(4,139)
Lawsuit settlement proceeds	-	-	1,213,464	1,213,464
Debt proceeds	625,000	625,000	-	(625,000)
Current surplus available	1,366,020	1,431,972	-	(1,431,972)
<b>TOTAL REVENUES</b>	<b>13,788,893</b>	<b>14,008,821</b>	<b>12,447,558</b>	<b>(1,561,263)</b>
<b>EXPENSES</b>				
<b>Engineering</b>				
Salaries	420,944	420,969	382,865	38,104
Personnel benefits	169,843	179,728	203,177	(23,449)
Professional and skilled services	12,250	289,988	52,528	237,460
Supplies	37,661	45,965	30,575	15,390
Other operating expenses	38,805	38,805	35,463	3,342
Equipment	300,000	691,249	-	691,249
<b>Total Engineering</b>	<b>979,503</b>	<b>1,666,704</b>	<b>704,608</b>	<b>962,096</b>
<b>Billing and collection</b>				
Salaries	135,510	135,910	135,826	84
Personnel benefits	52,136	55,253	100,322	(45,069)
Professional and skilled services	10,135	10,135	635	9,500
Supplies	1,000	1,000	921	79
Other operating expenses	25,100	25,194	25,130	64
<b>Total Billing and Collection</b>	<b>223,881</b>	<b>227,492</b>	<b>262,834</b>	<b>(35,342)</b>
<b>Wastewater treatment</b>				
Salaries	1,087,183	1,089,418	971,935	117,483
Personnel benefits	481,406	506,562	761,329	(254,767)
Professional and skilled services	937,847	1,393,433	809,075	584,358
Supplies	1,035,756	2,127,174	508,147	1,619,027
Other operating expenses	1,133,866	1,241,485	1,035,707	205,778
Equipment	325,000	357,522	4,323	353,199
<b>Total Wastewater Treatment</b>	<b>5,001,058</b>	<b>6,715,594</b>	<b>4,090,516</b>	<b>2,625,078</b>

Continued on next page.

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL**  
**ENTERPRISE FUND - SEWER DEPARTMENT**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Maintenance and repair				
Salaries	394,015	397,069	384,035	13,034
Personnel benefits	193,438	203,278	303,717	(100,439)
Professional and skilled services	174,893	227,145	122,558	104,587
Supplies	58,700	56,017	45,124	10,893
Other operating expenses	67,680	67,680	60,243	7,437
Equipment	290,000	290,000	-	290,000
Total Maintenance and Repair	<u>1,178,726</u>	<u>1,241,189</u>	<u>915,677</u>	<u>325,512</u>
Pretreatment monitoring				
Salaries	98,019	98,019	75,858	22,161
Personnel benefits	34,019	35,707	59,538	(23,831)
Professional and skilled services	16,750	16,500	16,404	96
Supplies	9,950	10,837	10,304	533
Other operating expenses	5,577	5,215	3,698	1,517
Total Pretreatment Monitoring	<u>164,315</u>	<u>166,278</u>	<u>165,802</u>	<u>476</u>
Administration				
Salaries	120,713	123,769	116,203	7,566
Personnel benefits	26,571	41,310	47,798	(6,488)
Professional and skilled services	1,751,882	1,850,083	189,566	1,660,517
Other operating expenses	209,383	209,383	170,612	38,771
Equipment	12,750	12,750	-	12,750
Total Administration	<u>2,121,299</u>	<u>2,237,295</u>	<u>524,179</u>	<u>1,713,116</u>
Debt payments				
Principal redemption	3,236,752	3,373,242	-	3,373,242
Interest	883,359	745,429	614,453	130,976
Total Debt Payments	<u>4,120,111</u>	<u>4,118,671</u>	<u>614,453</u>	<u>3,504,218</u>
TOTAL EXPENSES	<u>13,788,893</u>	<u>16,373,223</u>	<u>7,278,069</u>	<u>9,095,154</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	-	(2,364,402)	5,169,489	7,533,891
Depreciation	-	-	842,779	(842,779)
CHANGE IN NET POSITION	<u>\$ -</u>	<u>\$ (2,364,402)</u>	<u>\$ 4,326,710</u>	<u>\$ 6,691,112</u>



**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL**  
**ENTERPRISE FUND - CITY MARINA**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Slip rentals	\$ 45,000	\$ 45,000	\$ 36,588	\$ (8,412)
Electric fees	10,000	10,000	4,604	(5,396)
Gas sales	22,000	22,000	20,234	(1,766)
Miscellaneous	400	400	484	84
<b>TOTAL OPERATING REVENUES</b>	<u>77,400</u>	<u>77,400</u>	<u>61,910</u>	<u>(15,490)</u>
<b>OPERATING EXPENSES</b>				
Salaries	31,420	31,420	20,540	10,880
Personnel benefits	8,071	8,071	4,585	3,486
Professional and skilled services	1,500	3,272	818	2,454
Supplies	11,125	14,794	12,390	2,404
Other services and charges	48,750	48,750	40,896	7,854
<b>TOTAL OPERATING EXPENSES</b>	<u>100,866</u>	<u>106,307</u>	<u>79,229</u>	<u>27,078</u>
<b>OPERATING LOSS BEFORE DEPRECIATION</b>				
	(23,466)	(28,907)	(17,319)	11,588
Depreciation	-	-	19,307	(19,307)
<b>NET OPERATING LOSS</b>	(23,466)	(28,907)	(36,626)	(7,719)
<b>NONOPERATING REVENUES</b>				
Operating transfer in	23,466	23,466	23,466	-
<b>TOTAL NONOPERATING REVENUES</b>	<u>23,466</u>	<u>23,466</u>	<u>23,466</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ -</u>	<u>\$ (5,441)</u>	<u>\$ (13,160)</u>	<u>\$ (7,719)</u>

**CITY OF SALISBURY, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL**  
**ENTERPRISE FUND - PARKING AUTHORITY**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Parking permits, fines, state grants, meters and Park 'n Shop	\$ 697,000	\$ 697,000	\$ 567,019	\$ (129,981)
Rent and other	6,500	6,500	7,038	538
Current surplus available	21,684	35,178	-	(35,178)
<b>TOTAL OPERATING REVENUES</b>	<u>725,184</u>	<u>738,678</u>	<u>574,057</u>	<u>(164,621)</u>
<b>OPERATING EXPENSES</b>				
Salaries	188,604	188,604	184,608	3,996
Personnel benefits	62,246	75,740	73,249	2,491
Professional and skilled services	150,863	168,475	129,029	39,446
Supplies	8,200	8,049	2,795	5,254
Other services and charges	165,904	166,484	137,590	28,894
Capital outlays	66,000	66,000	-	66,000
<b>TOTAL OPERATING EXPENSES</b>	<u>641,817</u>	<u>673,352</u>	<u>527,271</u>	<u>146,081</u>
<b>OPERATING INCOME BEFORE DEPRECIATION</b>				
	83,367	65,326	46,786	(18,540)
Depreciation	-	-	112,810	(112,810)
<b>NET OPERATING INCOME (LOSS)</b>	83,367	65,326	(66,024)	(131,350)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Operating transfer in	20,000	20,000	20,000	-
Interest income	250	250	326	76
Interest expense	(103,617)	(103,617)	(19,562)	84,055
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>(83,367)</u>	<u>(83,367)</u>	<u>764</u>	<u>84,131</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ -</u>	<u>\$ (18,041)</u>	<u>\$ (65,260)</u>	<u>\$ (47,219)</u>

## STATISTICAL INFORMATION

**CITY OF SALISBURY, MARYLAND**

**SCHEDULE OF DELINQUENT TAXES RECEIVABLE (UNAUDITED)  
JUNE 30, 2013**

<u>Levy Year</u>	<u>Total</u>	<u>General Fund</u>		
		<u>Real Property</u>	<u>Personal Property</u>	<u>Corporations</u>
2013	\$ 604,354	\$ 268,625	\$ 1,929	\$ 333,800
2012	284,047	43,757	711	239,579
2011	295,541	44,273	2,998	248,270
2010	289,105	50,146	3,347	235,612
2009 and prior	<u>1,059,581</u>	<u>375,242</u>	<u>36,031</u>	<u>648,308</u>
	2,532,628	782,043	45,016	1,705,569
Less allowance for uncollectibles	<u>(1,362,604)</u>	<u>-</u>	<u>(43,118)</u>	<u>(1,319,486)</u>
	<u>\$ 1,170,025</u>	<u>\$ 782,043</u>	<u>\$ 1,899</u>	<u>\$ 386,083</u>

NOTE: Included in the above are deferred taxes of \$490,833.

**CITY OF SALISBURY, MARYLAND**  
**STATEMENT OF BONDED INDEBTEDNESS (UNAUDITED)**  
**JUNE 30, 2013**

Description of Bonds and Purpose of Issue	Interest		Bond Maturities	Date Issued	Authorized Total Issue	Outstanding June 30, 2013	Requirements to June 30, 2014		Payable At
	Rate (Percent)	Dates Payable					Principal	Interest	
<b>General Obligation Bonds</b>									
Water Quality Bond of 2003	0.40	F & A1	8/1/03-8/1/24	4/17/2003	3,163,361	\$ 1,771,058	\$ 157,811	\$ 14,919	MD Dept. Environment
Public Improvement Bond of 2004	2.0-4.6	M & N1	5/1/05-5/1/24	4/22/2004	5,318,000	2,991,200	301,200	132,696	M & T Bank
Water Quality Bond of 2005	0.40	F & A1	2/1/09-2/1/28	9/29/2005	41,721,225	31,531,209	2,062,525	225,237	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	3,465,000	247,500	139,640	Suntrust Leasing Corp.
Public Improvement Bonds of 2008	4.09	F & A1	2/1/09-2/1/28	1/22/2008	3,605,000	2,805,000	175,000	114,725	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	2,080,000	173,333	76,422	Hebron Savings Bank
Maryland Water Quality Bond (ARRA)	0	A & F1	8/1/11-2/1/30	12/4/2009	2,056,250	1,765,208	145,021	-	MD Water Quality Fin.
Maryland Energy Administration	0	S & M1	9/1/11-3/1/13	12/4/2009	258,740	201,242	28,749	-	MD Water Quality Fin.
Maryland Energy Administration	2.50	J & J1	1/1/11-7/1/16	8/23/2010	142,800	109,070	23,195	2,583	MD Water Quality Fin.
Refinance Public Improvement Bond	3.35	A & O1	10/1/11-10/1/26	10/4/2010	5,050,000	4,554,449	260,295	148,214	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	782,000	782,000	10,244	Suntrust Bank
Public Improvements Refunding Bond, Series 2011B	2.39	J & DA1	12/13/11-6/1/23	12/13/2011	4,828,000	4,108,000	385,000	98,181	Suntrust Bank
2012 Public Improvement Bond	2.52	M & N1	5/3/12-6/30/27	5/3/2012	7,693,000	7,264,000	439,000	183,053	Suntrust Bank
Series 2012A Maryland Water Quality Financing Administration Drinking Water Bond	0.90	A & F1	5/22/12-2/1/43	5/22/2012	1,631,000	1,631,000	47,600	18,474	MD Water Quality Fin.
Series 2012B Maryland Water Quality Financing Administration Drinking Water Bond	0	A & F1	5/22/12-2/1/43	5/22/2012	1,500,000	1,294,434	-	-	MD Water Quality Fin.
Public Improvement Bonds of 2013	3.01	J & J1	12/5/12-6/30/29	12/5/2012	6,041,000	6,041,000	286,000	190,662	Suntrust Bank
						<u>\$ 72,393,870</u>	<u>\$ 5,514,228</u>	<u>\$ 1,355,050</u>	

CITY OF SALISBURY, MARYLAND

GENERAL FUND REVENUE BY SOURCE (UNAUDITED)  
FIVE YEARS ENDED JUNE 30, 2013

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	
2013	\$ 20,164,623	67.72%	\$ 1,439,078	4.83%	\$ 1,094,247	3.68%	\$ 1,033,844	3.47%	\$ 811,316	2.72%	\$ 29,284	0.10%	\$ 1,911,414	6.42%	\$ 3,290,838	11.05%	\$ 29,774,644	100.00%	\$ 1,007,473	
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	

CITY OF SALISBURY, MARYLAND

GENERAL FUND EXPENDITURES BY FUNCTION (UNAUDITED)  
FIVE YEARS ENDED JUNE 30, 2013

Fiscal Year Ended June 30	General Government	Department of Public Works							Miscellaneous & Transfers	Total
		Police	Fire	Other Safety	Supervision & Engineering	Highways	Sanitation	Recreation		
2013	\$ 2,439,617 7.92%	\$ 9,902,257 32.13%	\$ 6,173,771 20.03%	\$ 941,182 3.05%	\$ 1,835,733 5.96%	\$ 1,563,482 5.07%	\$ 1,940,728 6.30%	\$ 1,584,513 5.14%	\$ 4,435,082 14.39%	\$30,816,365 100.00%
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%	1,713,690 4.95%	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%	1,712,040 5.08%	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%	1,790,812 5.75%	3,907,620 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%	1,732,924 5.55%	3,735,856 11.98%	31,196,108 100.00%

**CITY OF SALISBURY, MARYLAND**  
**WATER AND SEWER DEPARTMENT OPERATIONS (UNAUDITED)**  
**FIVE YEARS ENDED JUNE 30, 2013**

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
2013	\$ 4,125,240	\$ 602,048	\$ 10,586,504	\$ 1,861,054	\$ 17,174,846	\$ 1,851,757	\$ 10,225,483	\$ 46,877	\$ 707,821	\$ 1,344,011	\$ 12,324,192
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

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, 2013

Fiscal Year Ended June 30	Assessable Basis	Total General Sinking Tax Levy	Current Tax Collections	Percent of		Total Tax Collections	Total Collections as a Percent of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Current Levy
				Levy Collected in Year of Levy	Delinquent Tax Collections				
2013	\$ 2,228,304,647	\$ 23,207,089	\$ 19,411,466	83.64%	\$ 380,515	\$ 19,791,981	85.28%	\$ 2,045,252	8.81%
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%

CITY OF SALISBURY, MARYLAND

GENERAL AND SINKING FUND - ASSESSED VALUES AND DEBT RATIOS (UNAUDITED)  
 FIVE YEARS ENDED JUNE 30, 2013

Fiscal Year Ended June 30	Real Property		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
	Full and Partial Year	Personal Property	Ordinary	Corporations	Railroads and Utilities							
2013	\$1,963,683,547	\$2,029,930	\$206,407,060	\$ 56,184,110	\$2,228,304,647	\$73,775,676	0.0331	\$105,009,452	\$ 31,233,776	\$ 6,869,278	\$ 42,296,670	0.162
2012	1,988,451,318	2,513,100	216,668,130	47,306,070	2,254,938,618	69,545,990	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	69,159,538	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	67,471,893	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	66,092,298	0.0264	109,052,333	42,960,035	5,462,516	42,729,346	0.128